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

**NATO UNCLASSIFIED**

3 January 2018

**DOCUMENT**  
C-M(2017)0072-AS1

**IBAN AUDITS ON THE 2016 FINANCIAL STATEMENTS OF ALLIED COMMAND  
TRANSFORMATION (ACT), THE INTERNATIONAL MILITARY STAFF (IMS), THE  
NATO DEFENCE COLLEGE (NDC) AND THE SCIENCE AND TECHNOLOGY  
ORGANISATION (STO)**

**ACTION SHEET**

On 3 January 2018, under the silence procedure, the Council noted the IBAN report on the 2016 financial statements and agreed to the public disclosure of this report, the IBAN audits and the associated 2016 financial statements of ACT, the IMS, the NDC and the STO.

(Signed) Jens Stoltenberg  
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2017)0072.

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18 December 2017

**DOCUMENT**  
C-M(2017)0072  
**Silence Procedure ends:**  
**3 Jan 2018 17:30**

**IBAN AUDITS ON THE 2016 FINANCIAL STATEMENTS OF ALLIED COMMAND TRANSFORMATION (ACT), THE INTERNATIONAL MILITARY STAFF (IMS), THE NATO DEFENSE COLLEGE (NDC) AND THE SCIENCE AND TECHNOLOGY ORGANISATION (STO)**

**Note by the Secretary General**

1. I attach the International Board of Auditors for NATO (IBAN) reports on the audit of the 2016 financial statements of Allied Command Transformation (ACT), the International Military Staff (IMS), the NATO Defense College (NDC) and the Science and Technology Organisation (STO). The IBAN audits set out unqualified opinions on both the financial statements and on compliance for all four NATO entities.
2. The IBAN reports has been reviewed by the Resource Policy and Planning Board (RPPB) (see Annex).
3. I do not believe that this matter requires discussion in the Council. Consequently, unless I hear to the contrary by **17:30 hrs on Wednesday 3 January 2018**, I shall assume that the Council has noted the IBAN report on the 2016 financial statements and agreed to the public disclosure of this report, the IBAN audits and the associated 2016 financial statements of ACT, the IMS, the NDC and the STO.

(Signed) Jens Stoltenberg

1 Annex  
8 Enclosures

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## IBAN AUDITS ON THE 2016 FINANCIAL STATEMENTS OF ACT, THE IMS, THE STO AND THE NDC

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

#### References:

- A. IBA-AR(2017)06 - IBAN audit on the 2016 financial statements of ACT
- B. IBA-AR(2017)09 - IBAN audit on the 2016 financial statements of the IMS
- C. IBA-AR(2017)16 - IBAN audit on the 2016 financial statements of the STO
- D. IBA-AR(2017)10 - IBAN audit on the 2016 financial statements of the NDC
- E. C-M(2015)0025 - NATO Financial Regulations (NFRs)
- F. C-M(2012)0046 - STO Charter
- G. PO(2013)0154 - Representation Allowance process

#### Introduction

1. This report by the RPPB addresses the IBAN audits of the 2016 financial statements of Allied Command Transformation (ACT), the International Military Staff (IMS), the Science and Technology Organisation (STO) and the NATO Defense College (NDC). The IBAN audits set out unqualified opinions on both the financial statements and on compliance for all four NATO entities (references A-D).

#### Discussion

2. Implementation of the NFRs: The main common theme in each of the audit reports was the observation that some progress is being made in each of the NATO bodies concerned towards implementation of the NFRs (reference E), particularly those articles relating to Internal Control, Risk Management and Internal Audit. The IBAN recognise that these particular NATO Bodies (like others) are still in the process of dealing with the implementation of the complex and wide ranging requirements of the NFRs and the RPPB is aware that the challenges in this regard have featured prominently in the lessons learned exercise that is currently underway in the Budget Committee. The RPPB underlines the need to ensure that strengthening internal control and risk management in accordance with the NFRs is the responsibility of the Head of NATO body and not solely within the remit of Financial Controllers.

3. The Board notes the IBAN observation with regards the activity of ACT's Internal Audit in performing "external" audits of the NATO School Oberammergau and other non-NATO bodies such as the Centres of Excellence. It also notes the formal response of S/ACT that these areas will be examined as part of the overall Command Structure Review and that other alternative audit options will also be explored.

4. With regards the audit of the financial statements of the IMS, the Board is pleased to note that a risk management coordinator has been appointed to oversee the adoption of divisional risk registers and an IMS-wide risk management policy which reflects the fact that this area (as in some areas of the NFRs) have implications that go more broadly than just the remit of the Financial Controller.

5. The Board notes the particular governance arrangements of the STO made up of three executive bodies in accordance with the provision of the STO Charter (reference F) but agrees with the IBAN that more could be done to work together to gain efficiencies and to share best practice in developing risk management procedures.

6. The IBAN also found again that ACT continues to lack a complete asset register and that this observation has been outstanding since 2013. The Board notes that ACT will implement an updated, standardised property accounting procedure and that work will also commence on implementing property registers at the ACT headquarters and each of the ACT sub-commands.

7. Representation Allowances (RA): The IBAN had observations in respect of the application of RA at ACT and STO. The Board welcomes the commitment of the ACT Financial Controller that measures have been taken to ensure that there is no repeat of the instance highlighted by the IBAN where legal obligations were incurred in excess of the RA budget.

8. The Board notes the explanation put forward by ACT in response to the IBAN observation that ACT corporate credit cards should not be used for RA. The Board recognises that ACT have implemented a new, more stringent system for the management of RA that is in line with the spirit and intent of the Council agreed guidelines (reference G). The Board believes that the appropriate checks and balances are in place to support the practical approach taken by ACT.

9. In their audit of the STO financial statements the IBAN identified the need for improvements in the authorisation and control of RA but these observations have not been agreed in the formal comments from the STO. The formal comments, supported by an intervention from the Legal Adviser of the IMS, have been reviewed by the IBAN but they have not changed their position. It is unfortunate that it was not possible to resolve this divergence of opinions beforehand but on this occasion the Board believes that the hosting of national representatives by the Chief Scientist (albeit in their capacity within the governance function of the STB) is not outside the scope or spirit of the guidelines on RA. The Board does though invite the STO to ensure that the guidelines and implementing instructions on RA and hospitality expenses are properly adhered to.

10. HR improvements: The RPPB notes that the IBAN raised a number of technical points regarding HR issues at the Centre for Maritime Research and Experimentation (CMRE) and that these have been accepted in the formal comments by the STO. While respecting the independence of the IBAN, the Board is not convinced that these issues, and the other IBAN observation on related party disclosures, necessarily met the threshold for reporting and believes that such routine matters may have been adequately addressed via a management letter from the IBAN to the STO management.

## Conclusions

11. The IBAN have issued unqualified audit opinions on the 2016 financial statements of ACT, the IMS, the STO and the NDC. The main common theme in each of the audit reports was the observation that some progress is being made in each of the NATO bodies concerned towards implementation of the NFRs and the Board recognises that further work is underway. The RPPB takes this opportunity to underline the need to ensure that



strengthening internal control and risk management in accordance with the NFRs is the responsibility of the Head of NATO body and not solely within the remit of Financial Controllers.

12. With regards the IBAN observations related to RA, the RPPB regrets that it was not possible for the IBAN, ACT and STO to settle their differences of opinion. The RPPB believes that the appropriate checks and balances are in place to support the practical approach taken by ACT and that the hosting of national representatives by the Chief Scientist (albeit in their capacity within the governance function of the STB) is not outside the scope or spirit of the guidelines on RA.

13. Finally, while respecting the independence of the IBAN, the RPPB is not convinced that the HR related issues and the related party declarations highlighted by the IBAN necessarily met the threshold for reporting and believes that such routine matters may have been adequately addressed via a management letter from the IBAN to STO management.

### **Recommendations**

14. The RPPB recommends that Council:

- a) note the IBAN reports at references A-D;
- b) note the conclusions at paragraphs 11-13; and,
- c) agree to the public disclosure of this report, the IBAN audits and the associated 2016 financial statements of ACT, the IMS, STO and NDC in line with the agreed policy in PO(2015)0052).

**Summary Note for Council  
by the International Board of Auditors for NATO (Board)  
on the audit of the Consolidated Financial Statements of the  
Allied Command Transformation (ACT)  
for the year ended 31 December 2016**

The International Board of Auditors for NATO (Board) audited the the Allied Command Transformation (ACT) Consolidated Financial Statements for the year ended 31 December 2016, which consists of four main entities: ACT HQ, Joint Warfare Centre (JWC), Joint Force Training Centre (JFTC) and Joint Analysis and Lessons Learned Centre (JALLC). ACT is responsible to the NATO Military Committee for overall recommendations on NATO transformation. ACT explores concepts, promotes doctrine development, and conducts research experiments. It also supports Allied Command Operations (ACO) in developing and conducting exercises to train Allied and Partner forces in NATO combined and joint operations.

The total expenditure of ACT in 2016 amounted to approximately EUR 137.2 million.

The Board issued an unqualified opinion on the ACT Consolidated Financial Statements and on compliance for the year ended 31 December 2016.

During the audit, the Board identified 3 observations and the related recommendations (Annex 3). These observations and recommendations do not impact the audit opinion.

The main findings were:

1. Some progress being made to achieve compliance with the NATO Financial Regulations, particularly those articles on Internal Control, Risk Management and Internal Audit.
2. Instances of non-compliance in respect to Representation Allowances.
3. Internal Control over Property Safeguarding and Accounting needs improvement.

The Board also followed up on the status of observations from previous years' audits and noted that 2 were settled, 1 was partially settled, 3 superseded by current year observations, and 2 remained outstanding.

The Auditor's Report (Annex 2) and the Letter of Observations and Recommendations (Annex 3) were issued to the Supreme Allied Commander Transformation (SACT) whose comments have been included (Annex 4).

30 June 2017

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

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

**ALLIED COMMAND TRANSFORMATION**

**(ACT)**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

**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 consolidated financial statements of the Allied Command Transformation (ACT), which comprised the Statement of Financial Position as at 31 December 2016, and the Statement of Financial Performance, Statement of Net Assets/Equity and Cashflow Statement for the year then ended, and Notes to the Financial Statements, including a Statement of Accounting Policies. The Board also audited the Budget Execution Statements for the year ended 31 December 2016.

*Management's Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

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

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, due to fraud or error. In making those risk assessments, internal control relevant to the entity's preparation and presentation of financial statements is considered in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. An audit also includes evaluating the appropriateness of accounting policies used, the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

*Opinion on Financial Statements*

In our opinion, the financial statements present fairly, in all material respects, the financial position of ACT as of 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with the NATO Accounting Framework.

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

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

*Auditor's Responsibility*

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

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

*Opinion on Compliance*

In our opinion, in all material respects the financial transactions and information reflected in the financial statements are in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

Brussels, 30 June 2017



Lyn Sachs  
Chairman

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**LETTER OF OBSERVATIONS AND RECOMMENDATIONS**

**FOR THE ALLIED COMMAND TRANSFORMATION**

**(ACT)**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

## **Introduction**

The International Board of Auditors for NATO (Board) audited the ACT Consolidated Financial Statements for the year ended 31 December 2016, and issued an unqualified opinion on the financial statements of ACT and on compliance for financial year 2016.

## **Observations and Recommendations**

During the audit, the Board identified 3 observations and provided 8 recommendations. These observations and recommendations do not impact the audit opinion. They are summarised herein:

1. Some progress being made to achieve compliance with the NATO Financial Regulations, particularly those articles on Internal Control, Risk Management and Internal Audit.
2. Instances of non-compliance in respect to Representation Allowances.
3. Internal Control over Property Safeguarding and Accounting needs improvement.

The Board also followed up on the status of observations from previous years' audits and noted that 2 were settled, 1 partially settled, 3 superseded by current year observations, and 2 remained outstanding.

The Board also issued a Management Letter (reference IBA-AML(2017)02) to the Supreme Allied Commander Transformation (SACT) with observations for management's attention.

**OBSERVATIONS AND RECOMMENDATIONS****1. SOME PROGRESS BEING MADE TO ACHIEVE COMPLIANCE WITH THE NATO FINANCIAL REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT****Reasoning**

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

1.2 The revised NFRs are more explicit than the previous version in the areas of Risk Management (Article 11), Internal Control (Article 12), Internal Audit (Article 13) and the establishment of an Audit Advisory Panel (Article 16). They require the establishment of effective, efficient and economical risk management procedures, that there are necessary management functions in place to support effective internal control, and that NATO bodies have access to a permanent, adequately resourced, internal audit function that is compliant with internationally accepted Internal Auditing Standards. They also require the establishment of an Audit Advisory Panel. Furthermore, Article 3 requires, as a demonstration of responsibility and accountability, that both the annual Financial Statements and Statements of Internal Control be signed by both the NATO Head of Body and Financial Controller; and Article 25 authorizes the commitment of budgetary credits for goods and services to be rendered during the financial year.

1.3 The revised NFRs provide an opportunity for NATO bodies to solidify and codify their overall internal control frameworks, including risk management. They also provide internal audit functions 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. Importantly they also required a robust control environment in place around the preparation of Financial Statements to ensure the quality and accuracy of the financial information is of the highest standard as it is now publicly available.

**Observation**

1.4 The Board found that ACT has continued to make some progress towards achieving full compliance with all of the revised NFRs, but that more steps are still needed. This result, though, is not unexpected considering that the more detailed FRPs, which were required by Article 4 of the revised NFRs, were not approved until the end of February 2016. Furthermore, these changes to the NFRs are significant, and the Board understands that some time is needed to implement them properly. It is expected that



doing so will increase the likelihood that the benefits accruing to ACT will be real, rather than it just being an exercise to demonstrate compliance with the revised NFRs.

1.5 As a result, 2016 continues to be a transition year for ACT. The Board expects compliance to be achieved in 2017. It has again 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 2016 as a result of these observations.

1.6 The Board reports the status of the following areas:

Article 3 Responsibility and Accountability

1.6.1 The Board found that both the Head of NATO body and the Financial Controller signed the ACT Financial Statements.

Article 11 Risk Management and Article 12 Internal Control

1.6.2 The Board found that ACT has recently formally adopted The Committee of Sponsoring Organisations of the Treadway Commission (COSO) Framework as their Internal Control Framework. COSO includes a risk management element. A number of other NATO bodies, including ACO and NCIO, have also adopted COSO. The adoption of a specific and internationally recognised framework, one that is also being adopted by other NATO bodies, is an important step forward.

1.6.3 Since COSO has only recently been adopted by ACT, the important work of assessing and documenting specific internal control and risk management procedures remains to be completed. The Board expects to see more demonstrative progress on this in the coming year. Such documentation is essential in order to ensure and to clearly demonstrate to others that a complete system of internal control and risk management is in place. Until this assessment and documentation is completed, the Board will not be in a position to state that there is a full system of internal control, including risk management, in place that is in accordance with Articles 11 and 12 of the revised NFRs.

Article 13 Internal Audit

1.6.4 The Board found that ACT Internal Audit has not yet fully evaluated, throughout the organisation, the risk exposures and the effectiveness of internal controls in managing risk within the governance, operations and information systems as required by Article 13. Part of the reason for this is that ACT, as already stated earlier, has not yet documented their internal control and risk management procedures.

1.6.5 The Board also found, though, delays in the current Internal Audit Plan running from October 2016 to September 2017. These delayed audits include several which are essential to the internal control framework and financial management, including budgetary controls, procurement and travel.

1.6.6 In addition, the Board also found that ACT Internal Audit continues to perform 'external' audits on the NATO School Oberammergau and a number of NATO Centres of Excellence each year. Such 'external' audits are normally not under the purview of an internal audit function. Furthermore, these entities being audited are not part of ACT, and the Centres of Excellence are not even NATO bodies. The Board continues to question whether using ACT's Internal Audit for these 'external' audits is the best use of this limited resource.

Article 16 Audit Advisory Panel

1.6.7 The Board found that ACT established an Audit Advisory Panel as required by Article 16 in 2016. It has been convened three times as of the date of our audit, and the ACT Chief of Staff is actively leading the panel.

Article 25 Commitments, Contract Authority and Carry Forward

1.6.8 The Board found that JWC continued to enter into some commitments for goods and services to be rendered during the following financial year, not the current financial year. The amount of such commitments is NOK 1.7 million, or about EUR 191,000.

1.6.9 In order to justify these carry forwards, JWC referred to Article XXV, paragraph 17, of the NATO Financial Rules and Procedures (FRP), which states:

*"In order to facilitate the receipt of goods and services requiring delivery early in the financial year for operational reasons, Financial Controllers may commit current year appropriations for goods and services receivable by the end of February in the following financial year, provided that the total amount remains no more than 1% of the entity's budget. Individual commitments will not be more than EUR 20,000".*

JWC was the only ACT command to use this article of the FRPs to justify carryforwards.

1.6.10 The Board does not have any particular views in respect to the level of flexibility in the FRPs. However, it finds that the NFRs do not provide for such flexibility. As a result, the FRPs go beyond what is actually allowed in the NFRs. As a matter of principle, this situation should be resolved.

## Recommendations

1.7 The Board recommends that:

- a) ACT perform a systematic and detailed assessment and documentation of its internal control and risk management procedures to support compliance with its recently approved internal control framework, COSO. This includes ensuring that it fully embeds its entity-wide risk management policy throughout the organisation and that risk registers are developed and employed throughout all ACT departments and operations.

- b) ACT Internal Audit fully evaluate internal control and risk management throughout ACT, and that this work be clearly documented so as to be able to conclude as to ACT's compliance against COSO.
- c) ACT Internal Audit fully focus its limited resources on the internal auditing of ACT and not on performing 'external' audits of the NATO School Oberammergau and non-NATO bodies such as the Centres of Excellence.
- d) Council ensure that the NFRs and FRPs are aligned in respect to the level of flexibility allowed when carrying forward current year budget credits for goods and services that are expected to be rendered during the following financial year, not the current financial year. This should be taken into account during the revised NFRs lessons learned exercise expected to be completed in 2017.

## **2. INSTANCES OF NON-COMPLIANCE IN RESPECT TO REPRESENTATION ALLOWANCES**

### **Reasoning**

2.1 A specific amount is approved each year as a Representation Allowance. HQ SACT SOP 1110, *Guidance on the Representation Allowance*, states that the purpose of the Representation Allowance is to help meet the reasonable representational expenses of certain designated high officials in NATO whose positions entail responsibility for establishing and maintaining relationships of value to ACT.

### **Observation**

2.2 The Board found that approximately USD 2,600 of protocol gifts were purchased in November 2016. However, the amount of remaining 2016 Representation Allowance funds was insufficient to cover this legal obligation, thereby exceeding the budget. As a result, it was necessary to pay for this 2016 purchase with 2017 Representation Allowance funding.

2.3 The Board found that advances are continuing, in effect, to be provided to the recipients because they are allowed to use an ACT credit card to pay for expenses. If expenses are subsequently disallowed by the Financial Controller, the expenses would have already been charged on the ACT credit card, and a reimbursement would have to be sought from the recipient.

### **Recommendation**

2.4 The Board recommends that ACT:

- Ensure that there are adequate controls in place in order to prevent incurring expenses which exceed the annual budget.

- Provide representation allowance funds to participants only on a reimbursable basis after Financial Controller approval. As a result, ACT credit cards should not be used for representation allowance expenditures.

### **3. INTERNAL CONTROL OVER PROPERTY SAFEGUARDING AND ACCOUNTING NEEDS IMPROVEMENT**

#### **Reasoning**

3.1 Article 12 of the NFRs, *Internal Control*, places a responsibility on Commanders to ensure the necessary internal management functions are in place to support effective internal control, designed to provide reasonable assurance. Article 12.1 of the NFRs stipulates that one of the objectives of a NATO Body is to safeguard assets and verify the accuracy and reliability of accounting data and records. According to Article 12.2 of the NFRs, the Financial Controller shall establish and maintain comprehensive accounting records of all assets and liabilities.

#### **Observation**

3.2 The Board found again that ACT HQ continues to lack a complete and holistic asset register. This observation has been outstanding since 2013. As noted previously, individual sections maintain their own property databases, but there are no consistent controls on the assets and registers. The Board recommended the need for a central register. During the current audit, the Board found that ACT HQ has initiated the creation of a centralised property register, which would gather information on all the property owned by ACT HQ. At the same time, it was found that the register is not complete (for example, not all items of furniture is included).

#### **Recommendation**

3.3 The Board recommends that ACT implement, as soon as possible, standard property accounting operating procedures throughout ACT. It should also finalise, as soon as possible, a centralised property register at ACT HQ as well as property registers at each of the subcommands (JWC, JFTC and JALLC). These registers need to be properly controlled at the appropriate level and regular property counts should be performed to keep the registers accurate and reliable, and to reduce the risk of error or fraud.

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

The Board reviewed the status of the observations and recommendations arising from its previous audits. The observations and their status are summarised in the table below.

OBSERVATION/RECOMMENDATION	ACTION TAKEN	STATUS
<p><b>(1) ACT FY 2015</b>  <b>IBA-AR(2016)06, section 3</b>  <b>Internal control over property safeguarding and accounting needs improvement</b></p> <p><b>Board's recommendation</b>  The Board recommends that ACT HQ implement standard property accounting operating procedures throughout ACT, and that a central register of such property be maintained at each location (ACT HQ, JWC, JFTC and JALLC) and be properly controlled at the appropriate level.</p>	See current year observation 3.	Observation <b>Superseded by current year observation 3.</b>
<p><b>(2) ACT FY 2015</b>  <b>IBA-AR(2016)06, section 2</b>  <b>Lack of Compliance with new regulations on Representation Allowances</b></p> <p><b>Board's recommendation</b>  The Board recommends that ACT comply with their internal guidelines on Representation Allowance and PO(2013)0154 in that Representation Allowance expenditures are reimbursed only after the presentation of documentation supporting entitlement rather than being charged to an ACT credit card.</p>	See current year observation 2.	Observation <b>Superseded by current year observation 2.</b>
<p><b>(3) ACT FY 2014</b>  <b>IBA-AR(2016)15, section 1</b>  <b>Service Level Agreement needs to be established with the Joint Electronic Warfare Core Staff (JEWCS)</b></p> <p><b>Board's recommendation</b>  The Board recommends ACT to clearly define and set the requirements for the services needed from JEWCS in coordination with ACO and IMS. Based on the services needed, the Board recommends ACT to continue the work to establish and agree an SLA with the JEWCS.</p>	The Board found that ACT had an SLA in place for 2015.	Observation <b>Settled.</b>

OBSERVATION/RECOMMENDATION	ACTION TAKEN	STATUS
<p><b>(4) ACT FY 2014</b>  <b>IBA-AR(2016)15, section 2</b>  <b>Timing of funding provided to the Centre for Maritime Research and Experimentation does not reflect the progress of services being received</b></p> <p><b>Board's recommendation</b>  The Board recommends that for 2015 CMRE funding, consideration should be given by ACT to adjusting the payment profile to more accurately reflect the progress of the services being received.</p>	<p>The Board found that funding for 2016 has been reduced due to budget constraints. This reduction has begun to reduce the front-loading of funding to CMRE.</p>	<p>Observation  <b>Partially Settled.</b></p>
<p><b>(5) ACT FY 2014</b>  <b>IBA-AR(2016)15, section 3</b>  <b>Internal control weaknesses identified in Financial Accounting and Reporting Procedures</b></p> <p><b>Board's recommendation</b>  As in the prior year, the Board again recommends ACT to improve its verification procedures of the figures and other information in the financial statements. This should include identifying a person independent of the financial statement preparation process who can perform a review of the financial statements.</p>	<p>The Board again found mistakes in the financial and disclosure note information presented in draft financial statements and which were corrected.</p>	<p>Observation  <b>Outstanding.</b></p>
<p><b>(6) ACT FY 2014</b>  <b>IBA-AR(2016)15, section 4</b>  <b>Lack of Internal Audit Reporting</b></p> <p><b>Board's recommendation</b>  The Board recommends that from 1 January 2015, all results of all audit outputs should be communicated with a written report and at the end of the calendar year an Annual Report be produced for presentation to the Chief of Staff.</p>	<p>See current year observation 1.</p>	<p>Observation  <b>Superseded by current year observation 1.</b></p>
<p><b>(7) ACT FY 2013</b>  <b>IBA-AR(2014)16, section 3</b>  <b>No process in place to identify related party relationships and transactions</b></p> <p><b>Board's recommendation</b>  The Board recommends that ACT and the subcommands initiate procedures whereby certain members of key management and staff are asked to sign declarations of interest attesting to the fact that they don't have any related party relationships or transactions, or reporting those that they do have.</p>	<p>On 23 March 2017, a policy note was implemented at ACT for the declaration statement on related party disclosures and conflicts of interest and those key management personnel were required to return their declaration to the Financial Controller not later than 7 April 2017. The Board has reviewed the declarations and no issues have been found.</p>	<p>Observation  <b>Settled.</b></p>

OBSERVATION/RECOMMENDATION	ACTION TAKEN	STATUS
<p>(8) ACT FY 2013 IBA-AR(2014)16, section 5 Confirmation of year-end assets and liabilities outstanding between NATO entities</p> <p><b>Board's recommendation</b> The Board recommends ACT, as from 2014, to confirm the outstanding asset and liability balances it has with other NATO bodies as part of the preparation of the financial statements.</p>	<p>The Board found that requests were made to the other NATO bodies to confirm balances but the information was not always consistent. ACT continues to adopt unofficial channels and processes in place to ensure balances with ACO and NCIA at ACT HQ are agreed. However, this was not fully done at JWC, JFTC and JALLC. The Board believes it is important to continue obtaining confirmations directly from the NATO bodies to confirm asset and liability balances, and recommends that it become a more formal and consistent process across ACT in the future.</p>	<p>Observation <b>Outstanding.</b></p>

**SUPREME ALLIED COMMANDER TRANSFORMATION  
FORMAL COMMENTS ON ANNEX 3  
OF THE LETTER OF OBSERVATIONS AND RECOMMENDATIONS**

**OBSERVATION 1:**

**SOME PROGRESS BEING MADE TO ACHIEVE COMPLIANCE WITH THE NATO FINANCIAL REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT**

**PARA. 1.7a):**

***Comment of the Supreme Allied Commander Transformation (SACT)***

*The Command agree with the recommendation.*

*The process of assessing and documenting internal control and risk management processes, within the Command, is ongoing. As stated, in the 2016 Governance Statement, the Command's aim is to have fundamentally completed this process by the end of 2017. The implementation of this process is being led by the Command's Strategic Management Branch (STRATMAN).*

**PARA. 1.7b):**

***Comment of the Supreme Allied Commander Transformation (SACT)***

*The Command agrees with the recommendation.*

*This work is progressing and an interim evaluation of the Command's status will be presented to the AAP at its July 2017 meeting.*

**PARA. 1.7c):**

***Comment of the Supreme Allied Commander Transformation (SACT)***

*The Command Non-Concurs with the recommendation.*

*The decision to use the Command's internal auditor to undertake "external audits" has been taken by the Command's senior management. And, the Command does recognise that the external audit role, carried out by the ACT auditor, who is, by background, an experienced external auditor, is not a normal use of this resource.*

*However, the Command considers that the use of the ACT auditor resource as an integral part of the Command's duty to ensure, in the absence of any other available audit resources, that, as much as possible, financial governance is maintained in organisations that are important to ACT and the wider NATO.*



*In this respect, the Command sees COEs as an essential and integral part of NATO's wider framework and, as such, are key contributors to the transformation of the alliance.*

*However, the Command does recognise, particularly in light of the new requirements and responsibilities placed on internal audit, that the current audit resources and work allocation, are overdue for review and evaluation. That is why the Command will be undertaking a fundamental review, of its audit resources, as part of its overall Command Structure Review, which will commence, in earnest, in 2018.*

*And, one of the strategic areas for examination will be the desirability and/or feasibility of continuing with the current arrangements.*

### **Board's position**

It is the responsibility of the Nations participating in these non-NATO entities to determine the appropriate external audit arrangements and not ACT. The Board therefore reiterates its position that ACT Internal Audit fully focus its limited resources on the internal auditing of ACT.

In addition, the audit coverage provided by ACT Internal Audit on the entities is very low due to the very large number of such entities.

### **OBSERVATION 2: INSTANCES OF NON-COMPLIANCE IN RESPECT TO REPRESENTATION ALLOWANCES**

#### **PARA. 2.6:**

#### ***Comment of the Supreme Allied Commander Transformation (SACT)***

*Partially-concur with the recommendation.*

*ACT acknowledges that the significant controls that have been put in place to ensure we are in compliance with Representation Allowance policies did not prevent the expense that exceeded the annual budget. The ACT Financial Controller has already taken measures to ensure this cannot be repeated.*

*In respect of the credit card that SACT uses to make purchases when travelling overseas, this is issued and controlled by the staff of the ACT Financial Controller, who have independent, real time access to spending activity. As with the other official credit cards, the option to withdraw cash has been disabled. The credit card provided to SACT is used for RA purchases within the strict guidelines contained in the ACT policy. Transactions are then reviewed on a 100% basis by the Internal Review Officer who would report any discrepancy to the ACT Financial Controller. The credit card is therefore a tool to facilitate the procurement of items that are correctly charged*

*to the RA budget line. Since many of these purchases are in foreign currency, the credit card has the added advantage of not incurring excessive transaction charges. For background, the Representation Allowance for ACT is embedded in a USD budget and purchases are often made in foreign currencies such as Euro.*

**Board's position**

The Board reiterates its position.

**OBSERVATION 3:  
INTERNAL CONTROL OVER PROPERTY SAFEGUARDING AND ACCOUNTING  
NEEDS IMPROVEMENT****PARA. 3.3:*****Comment of the Supreme Allied Commander Transformation (SACT)***

*Concur with the recommendation.*

*ACT will implement an updated, standardised property accounting procedure. Work will also commence on implementing controlled property registers at HQ SACT and each of the sub-Commands.*

**FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS*****Comment of the Supreme Allied Commander Transformation (SACT)***

*ACT management is pleased to note that several of the prior years' observations were settled. In relation to those that remain outstanding, action has been taken as follows:*

***Timing of funding provided to the CMRE:*** ACT is pleased to see that the IBAN recognises this issue has been partially settled but will continue to critically address the milestone payments for the Programme of Work in future years.

***Internal control weaknesses identified in Financial Accounting and Reporting procedures:*** ACT management will continue to improve the verification procedures for the 2017 process

***Confirmation of year end assets and liabilities outstanding between NATO entities:*** ACT formalised the approach with ACO to confirm balances for the 2016 financial statements. However, it is recognised that the approach with NCIA also needs to be formalised and should also include assets and liabilities from JWC, JFTC and JALLC.



**NORTH ATLANTIC TREATY ORGANISATION**  
**ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD**  
HEADQUARTERS, SUPREME ALLIED COMMANDER TRANSFORMATION  
7857 BLANDY ROAD, SUITE 100  
NORFOLK, VIRGINIA, 23551-2490



7000 TSC MBX 0010/FC-49-17/ TT-170352/Ser: NU0253(INV)

TO: Mrs Lyn Sachs, Chairwoman, International Board of Auditors  
for NATO

SUBJECT: 2016 Annual Financial Statements for the ACT Group of  
Budgets

DATE: 30 March 2017

REFERENCE: A. NATO Financial Regulations, Article 3

1. In accordance with Reference A, I herewith forward the Annual Financial Statements for the Allied Command Transformation Group of Budgets for the Financial Year 2016.

2. I consider that the financial information contained in the Statements agrees with the Allied Command Transformation financial records, and shows the position at the end of the financial year in respect of each of the items listed in Article 34 of the NATO Financial Regulations NFRs).

3. For these 2016 Financial Statements, ACT has met the timeline set out in the new NFRs. This states that Financial Statements are to be produced by 31 March. ACT have also worked closely with the International Board of Auditors for NATO (IBAN) on ensuring they could conclude their audit of all ACT sites by this date.

Denis Mercier  
General, French Air Force  
Supreme Allied Commander Transformation

Peter E. Dahl  
Financial Controller  
Allied Command Transformation

ENCLOSURE

1. 2016 ACT Financial Statements

DISTRIBUTION:

External: -

Action:

Chairwoman, IBAN  
Budget Committee Secretariat

Information:

Commander JWC  
Commander JFTC  
Commander JALLC  
SACTREPEUR

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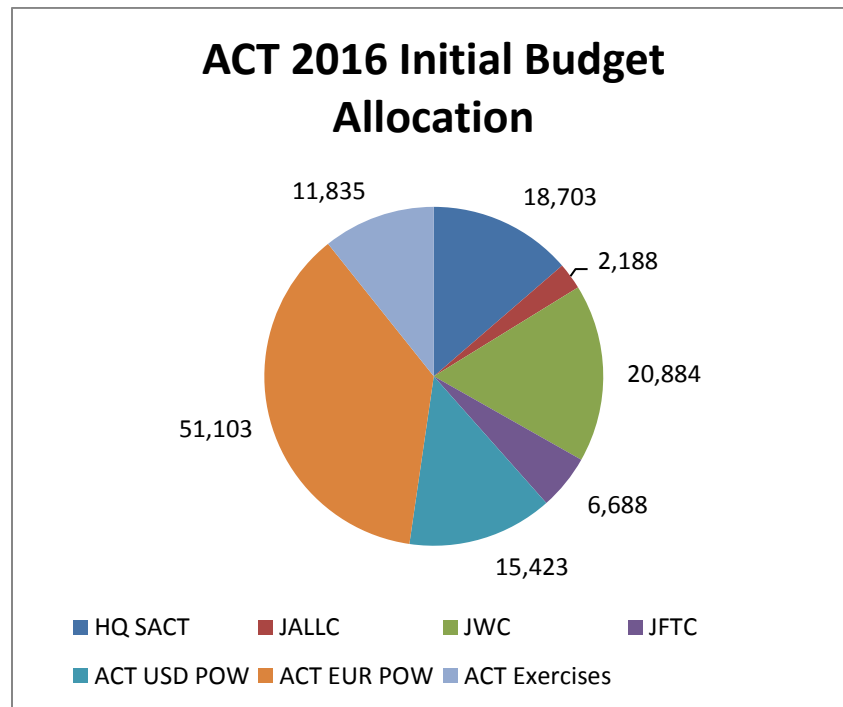
## **FINANCIAL CONTROLLER'S FOREWORD AND REPORT ON THE 2016 ACT FINANCIAL STATEMENTS**

1. The Allied Command Transformation (ACT) Annual Financial Statements for the ACT Group of Budgets cover the period of 1 January 2016 to 31 December 2016 and have been prepared in accordance with the NATO Financial Regulations (NFRs), as well as International Public Sector Accounting Standards (IPSAS) as decided in 2002 by the North Atlantic Council (NAC) and subsequently modified by their decision to introduce the NATO Adapted Framework.

2. These Financial Statements should be read in conjunction with the ACT Annual Report and together, both documents provide visibility to the Nations on how ACT executed its 2016 programme, committed its resources, and contributed to Alliance Capabilities in accordance with the NATO Military Authorities (NMA) Strategic Priorities and Objectives (SPO). The format follows Military Committee (MC) guidance and seeks to ensure that ACT's work is totally transparent.

### **FINANCIAL SUMMARY**

3. On January 1, 2016, ACT was awarded a budget of €126.827M (based on January 2015 exchange rates). During the course of the year this was reduced by a further €2.135M to €124.691M as uncommitted funds were identified as a result of the implementation of the new NATO Financial Regulations (NFRs), delays in the delivery of CIS-related capability development programmes and changes in certain 2016 exercise specifications.



4. As at 31 December 2016 ACT had committed €121.773M or 97.7% of the total final awarded budget. This results in ACT lapsing approximately €2.918M.

%	2014	2015	2016
ACT Budget Execution	98.0	95.0	97.7

Figure 12: ACT budget execution expressed in % of the total amount from 2014 to 2016

5. The 2016 ACT Budget was constructed in the summer of 2015 using the “old” commitment policy of the previous NFRs, in which budgetary credits were executed on the date of commitment rather than the date of service delivery. In enforcing this change to the NFRs, ACT was unable to fully translate the 2016 awarded commitment budget to an accrual accounting. The resultant under-execution of some budget lines allowed ACT to apply those credits to programs which had been screened and validated by the Budget Committee (BC) but were unfunded as a result of budget reductions imposed on ACT (such as funding for eligible NATO Force Structure participation in certification exercises). Further under-execution was a result of the inability of one of ACT’s key suppliers (NCIA) to fully execute the original planned program. The combination of these two factors generated and under-execution of €2.135M which was returned to the Nations in October 2016 for possible re-distribution.

6. During the final trimester of 2016, late changes to the resource requirements for TRIDENT JUNCTURE, the cancellation of RAMSTEIN DUST, and the re-alignment of contracts at the Joint Force Training Centre (JFTC) in accordance with the new NFRs generated further under-execution. ACT also experienced the effect of a strong US Dollar against European currencies which resulted in reduced travel costs and a reduced level of reimbursement to the Allied Rapid Reaction Corps (ARCC). As noted above, this resulted in a final lapsing of approximately €2.918M of the final approved budget of €124.692M. Of these funds, ACT sought and received approval from the Budget Committee to carry forward €1.294M into 2017 to be applied against the delayed Deployable CIS concept development and exercise scenario development.

7. An examination of budget commitment and expenditure by input category indicates that 22.12% was expended on Chapter 71 (Personnel Costs); 77.70% was expended on Chapter 72 (Contractual Supplies and Services); and only 0.19% (was expended on Chapter 73 (Capital Investment). The commitment pattern is consistent with expenditure in previous years.

## **SACT COMMANDER’S INTENT**

8. Global instability, together with challenges such as cyber threats and attacks, hybrid warfare, and insecurity created by state and non-state actors, have compelled the Alliance to increase its pace of adaptation. From a military perspective, the complexity and uncertainty of the strategic environment and the growing challenges to the Alliance’s technological edge, require us to change our mind-set and the way we conduct warfare.

The Alliance must make the right decisions today if it is to remain credible and relevant now and in the future

9. In this context, ACT works towards strengthening NATO's Defence and Deterrence Posture to ensure it remains ready, responsive and able to fulfil the Alliance's three core tasks: Collective Defence, Crisis Management, and Cooperative Security.

10. ACT focuses its efforts on supporting and improving today's operational capability; while simultaneously developing and shaping requirements for the future, and continuously bridging the two. Through innovative thinking and experimentation, advanced exercises and constant engagement with partners and stakeholders, ACT delivers its best military advice to NATO Nations to support them in the preparation of their future capabilities, in the most transparent and rigorous cost-efficient way.

11. The Annual Report describes significant transformational activities executed by ACT during 2016 against each of these objectives

## **WAY AHEAD**

12. SACT's intent is to continue pursuing a dynamic transformational agenda that represents the best balance between the pressing need to enhance the Alliance's responsiveness and the strategic requirement to focus ACT's effort on safeguarding the long-term military relevance of the Alliance. This balance of effort is the key to ensure an effective and sustainable ACT role as a fundamental contributor to preserve NATO's ability to perform its core tasks now and in the future.

13. In the longer term, ACT will remain committed to ensuring that NATO's transformation is directed to guarantee the Alliance's relevance and credibility within a constantly evolving geostrategic environment. As a result, ACT will pursue its transformational agenda, with the limitation imposed by a scenario of economy constraints, retaining the adequate balance between the need to enhance the Alliance's responsiveness and readiness, as well as the strategic requirement to preserve the Alliance state-of-art.

## **NATO ADAPTED ACCOUNTING FRAMEWORK**

14. The NATO Adapted Accounting Framework was endorsed by the NAC on 14 February 2013 and applies to all NATO Reporting Entities. This is an adapted version of IPSAS as issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants. The Accounting Framework for NATO was developed to provide minimum requirements for financial reporting for all NATO Reporting Entities. This Framework formed the basis of ACT financial statements since then and ACT achieved unqualified audit opinions from the IBAN. ACT continues to apply the NAC endorsed Accounting Framework to these 2016 Consolidated Financial Statements.



## REPORT ON THE STATEMENTS

15. These financial statements incorporate the accounting records of the ACT Headquarters, as well as those of the subordinate Commands within the ACT Budget Group. They have been consolidated under my direction to provide a true and fair view of the financial activities of ACT during financial year 2016.



PETER E. DAHL  
Financial Controller  
Allied Command Transformation

## GOVERNANCE STATEMENT

### **The Scope of Responsibility**

As Supreme Allied Commander Transformation, I am responsible for maintaining a sound system of internal control that supports the achievement of the Command's policies, aims and objectives. These are articulated in my Strategic Plan and my Strategic Direction and Guidance.

As ACT Financial Controller, I have responsibility for safeguarding the Nations' common funds and assets, in accordance with the responsibilities assigned to me in the NATO Financial Regulations.

### **The Purpose of the System of Internal Control**

The system of internal control is designed to manage risk at a reasonable level rather than eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The Command's system of internal control is based on an ongoing process to identify, and prioritise, the principle risks to the achievement of the Command's policies, aims and objectives, to evaluate the nature and extent of those risks being realized, and to manage them effectively, efficiently and economically.

A system of internal control has been in place, throughout the Command, during the year ended 31 December 2016 and up to the date of publication of these Consolidated Financial Statements; this accords with the Nations' guidance.

This process has been enhanced, during 2016, by the creation of the ACT Audit Advisory Panel (AAP), which comprises senior members of the Command, under the Chairmanship of the ACT Chief of Staff.

The AAP's remit is to advise on the adequacy of audit arrangements and on the implications of assurances provided in respect of risk management and internal control systems within the Command.

### **Capacity to Handle Risk**

Risk management must be embedded into the corporate planning and programme management systems. We recognize that the Command has some way to go in achieving this. However, we are pleased to report that progress is being made in establishing this culture change within ACT.

During 2017, this progress will see a solidifying of ACT's approach to risk management through identifying and assessing risks to achieving objectives and determining risk response strategies and control activities.

## **GOVERNANCE STATEMENT**

Starting in 2016, key members of staff have participated in training courses, led by a private sector provider, to better review the risk management process and its aims and objectives, and aid its successful implementation, within the Command. These courses will be continued, and expanded, during 2017, to include flag and general officer participation.

The Command see this training as an important part of risk management awareness, so as to enable us to further challenge our views on risk, and to ensure that corporate risks have been captured and addressed throughout the year.

By undertaking this training, the Command expects, by the end of 2017, to have a good understanding of the principals of risk management. Our aim is to ensure that:

- Our budgetary systems are fit for purpose so that they are effectively tied to the budget and resource allocation management and reporting process.
- The Command's top level management Boards are effectively reviewing periodic and annual financial reports so that they are in a good position to manage financial performance against forecasts and possible risks.
- Meaningful targets exist to measure financial in year management and other performance areas.
- Effective project management disciplines are in place.
- The Command's key risks are identified, regularly reviewed and actions are being taken to mitigate the effects of any of these risks impacting the Command.

### **The Risk and Control Framework**

The following governance processes were established, or adopted, during 2016.

- The annual audit programme of work was reviewed and approved by the AAP.
- A financial risk matrix is under development. When completed, this will provide clarity and aid prioritization of risks, at both the corporate and lower levels, and be used as a model for other registers which will define the risk appetite throughout the Command. These will be reviewed and approved by the AAP.

The review role of the AAP is key, to this process, so as to allow the Command's management to have the ability to better monitor near or emerging risks and, where possible, agree and put in place risk mitigation actions.

## GOVERNANCE STATEMENT

We see the successful implementation of this process, by the end of 2017, as a challenge for the Command. But we consider that this is essential to achieving ACT's Campaign Plan and strategic objectives as well as contributing to NATO's overarching themes of defence, deterrence and projecting stabilisation.

We are responsible for reviewing the effectiveness of the Command's systems of internal control. As such, we are committed to a policy of continuous improvement, of our procedures, regulations and internal processes, so as to provide a comprehensive and relevant process of risk management, compliance and assurance.

We have therefore formally adopted the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework as our internal control framework model. This model has also been adopted by ACO, and other NATO bodies.

Our Resources and Management Directorate has been tasked with educating the Command on the COSO framework, and its adoption.

### Review of Effectiveness

We are responsible for reviewing the effectiveness of the systems of internal control that support the achievement of the Command's policies, aims and objectives, as set out by the Nations.

Our review of the effectiveness of these systems is informed by the work of our Budget Holders and Fund Managers, and comments made by our external auditors.

We have a responsibility for the development and maintenance of the Command's internal control framework.

In particular this includes ensuring that:

- Governance processes are operating in an efficient and effective manner.
- Comprehensive budget management systems exist, which are linked to NATO's resource management process.
- There are regular reviews, by the Command's management boards, to monitor and manage budget activity and financial performance.

In addition, the Command's Code of Conduct is specifically designed to ensure that all members of staff are conscious of their individual responsibilities.

**NATO UNCLASSIFIED**  
**GOVERNANCE STATEMENT**

As in the past, we will continue to ensure that:

- Qualified officials are assigned to the financial positions reflected in the Command's internal organisation.
- The tasks and responsibilities of those officials are clearly reflected in the relevant job descriptions.
- Formal delegation of authority for financial matters is in place.
- Effective controls are in place, areas of concern are being highlighted and where necessary, effective remedial action is undertaken.



Denis Mercier  
General, French Air Force  
Allied Command Commander Transformation



Peter E Dahl  
Financial Controller  
Supreme Allied Transformation

**ACT CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**FOR THE YEAR ENDING 31 DECEMBER 2016**  
**(EUR)**

<b>ASSETS</b>	<b>Notes</b>	<b>2016</b>	<b>2015</b>
<b>Current Assets</b>			
<i>Cash and Cash Equivalents</i>	2	62,698,494	45,278,308
<i>Receivables</i>	3	5,305,521	30,505,466
<i>Prepayments</i>	4	591,498	1,126,028
<b>Non-Current Assets</b>			
<i>Property, Plant &amp; Equipment</i>	5	25,322,653	14,918,130
<b>TOTAL ASSETS</b>		<u>93,918,166</u>	<u>91,827,932</u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
<i>Payables</i>	6	26,795,094	22,420,822
<i>Deferred Revenue</i>	7	8,784,674	26,056,213
<i>Advance Contributions</i>	8	32,873,543	28,343,714
<i>Other Advances</i>	9	142,202	89,053
<b>TOTAL LIABILITIES</b>		<u>68,595,512</u>	<u>76,909,802</u>
<b>NET ASSETS</b>			
Capital contributions		26,818,886	15,473,344
Accumulated surpluses/(deficits)		<u>(1,496,233)</u>	<u>(555,214)</u>
Total net assets / equity*	10	<u>25,322,653</u>	<u>14,918,130</u>

\*total net assets / equity is equal to the total of PP&E shown under Non-Current Assets

**ACT STATEMENT OF CHANGES IN NET ASSETS / EQUITY  
FOR THE YEAR ENDING 31 DECEMBER 2016  
(EUR)**

		<b>Capital Contributions</b>	<b>Accumulated Surplus / Deficit</b>	<b>Total</b>
Balance as at 01 January 16		15,473,344	(555,214)	14,918,130
<b>Additional capital contributed by nations in 2016</b>				
<i>Property, Plant &amp; Equipment</i>	11,345,542			
	<hr/>			
<b>Changes in net assets / equity for the year</b>		11,345,542		<hr/> 11,345,542
<i>surplus / deficit for the period</i>			(941,019)	
Balance as at 31 December 16		<hr/> <hr/> 26,818,886	<hr/> <hr/> (1,496,233)	<hr/> <hr/> 25,322,653

**ACT CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE  
FOR THE YEAR ENDING 31 DECEMBER 2016  
(EUR)**

	Notes	2016	2015
<b>REVENUE</b>			
<i>Revenue</i>	11	129,939,929	144,219,067
<i>Other revenue</i>	12	6,378,906	8,313,016
<i>Financial revenue</i>	13	73,693	146,592
<b>Total Operating Revenue</b>		<u>136,392,529</u>	<u>152,678,675</u>
<b>OPERATING EXPENSES</b>			
<i>Personnel</i>	14	28,551,172	29,188,481
<i>Contractual Supplies and Services</i>	14	100,582,905	114,221,984
<i>Capital and Investments</i>	14	801,191	433,610
<i>Depreciation charges</i>	5/14	941,019	555,214
<i>Other Expenses</i>	14/16	6,379,659	8,313,016
<i>Finance costs</i>	14/17	77,601	521,885
<b>Total Operating Expenses</b>		<u>137,333,548</u>	<u>153,234,190</u>
<b>NET SURPLUS/(DEFICIT) FOR THE YEAR</b>		<u><u>(941,019)</u></u>	<u><u>(555,514)</u></u>



**ACT CONSOLIDATED CASHFLOW STATEMENT  
FOR THE YEAR ENDING 31 DECEMBER 2016  
(EUR)**

	2016	2015
<b>Cash Flow from Operating Activities</b>		
Surplus (deficit)	(941,019)	(555,215)
<b>Non-cash movements</b>		
depreciation charges	941,019	555,214
Increase (decrease) in payables	4,374,272	5,137,704
Increase (decrease) in current liabilities	(12,688,562)	(68,829)
deferred revenue	(188,120)	-
Decrease / (Increase) in receivables	25,199,945	(7,067,692)
Decrease / (Increase) in Current Assets	534,530	(17,666,287)
(Increase)/decrease in Inventories	0	0
	18,173,084	(19,109,890)
<b>Extraordinary Item</b>	0	-
<b>Net cash flow from operating activities</b>	17,232,066	(19,665,105)
Receipts from sale of investments	0	0
Purchase of PPE	188,120	0
<b>Net cash flow from investing activities</b>	188,120	0
<b>Cash flows from financing activities</b>		
Receipts from borrowings	0	0
Repayment of borrowings	0	0
<b>Net cash flows from financing activities</b>	0	0
<b>Net increase (decrease) in cash and cash equivalents</b>	17,420,185	(19,665,105)
<b>Effect of exchange rate changes on cash and cash equivalents on translation</b>		
<b>Cash and cash equivalents at beginning of period</b>	45,278,308	64,943,413
<b>Cash and cash equivalents at end of period</b>	62,698,494	45,278,308

NATO UNCLASSIFIED

ACT CONSOLIDATED BUDGET EXECUTION STATEMENT FOR  
THE YEAR ENDING 31 DECEMBER 2016

ALL FIGURES SHOWN IN THE APPROVED BUDGET CURRENCY

Budgets presented in  
approved Currency

## 201 Budget - SACT HQ

	Initial Authorisation (BA1)	Movements	1st Mid Year Authorisation (BA2)	Movements	2nd Mid Year Authorisation (BA3)	Movements	Final Authorisation	Net Commitment	Actual Expenses	Total Commitment/Spend	Carry Forward	Lapse
<b>2016</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	19,503,520	0	19,503,520	269,330	19,772,850	(467,530)	19,305,320	7,839	19,163,292	19,171,132	7,839	134,188
Contractual Supplies & Services	3,521,906	(765,611)	2,756,295	77,999	2,834,294	910,425	3,744,719	876,387	2,522,184	3,398,571	876,387	346,148
Capital Investments	0	0	-	315,000	315,000	0	315,000	0	209,767	209,767	0	105,233
2016 Total	23,025,426	(765,611)	22,259,815	662,329	22,922,144	442,895	23,365,039	884,227	21,895,243	22,779,470	884,227	585,569
<b>2015</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	67,897	0	67,897	0	67,897	0	67,897	0	37,769	37,769	0	30,128
Contractual Supplies & Services	955,185	0	955,185	0	955,185	0	955,185	0	792,431	792,431	0	162,753
2015 Total	1,023,081	0	1,023,081	0	1,023,081	0	1,023,081	0	830,200	830,200	0	192,881
<b>2014</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	6,250	0	6,250	0	6,250	0	6,250	0	416	416	0	5,834
Contractual Supplies & Services	251,786	0	251,786	0	251,786	0	251,786	0	31,116	31,116	0	220,670
Capital Investments		0		0		0		0	0	0	0	0
2014 Total	258,036	0	258,036	0	258,036	0	258,036	0	31,532	31,532	0	226,504
<b>Budget 201 Grand Total</b>	<b>24,306,543</b>	<b>(765,611)</b>	<b>23,540,932</b>	<b>662,329</b>	<b>24,203,261</b>	<b>442,895</b>	<b>24,646,156</b>	<b>884,227</b>	<b>22,756,975</b>	<b>23,641,202</b>	<b>884,227</b>	<b>1,004,955</b>

Budgets presented in approved Currency	Initial Authorisation (BA1)	Movements	1st Mid Year Authorisation (BA2)	Movements	2nd Mid Year Authorisation (BA3)	Movements	Final Authorisation	Net Commitment	Actual Expenses	Total Commitment/Spend	Carry Forward	Lapse
<b>257 Budget - ACT USD Programme of Work</b>												
<b>2016</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	595,803	(2,799)	593,004	0	593,004	(12,500)	580,504	0	504,289	504,289	0	76,215
Contractual Supplies & Services	18,391,490	106,894	18,498,384	(984,201)	17,514,183	(189,132)	17,325,051	859,157	16,047,556	16,906,713	859,157	418,338
2016 Total	18,987,293	104,095	19,091,388	(984,201)	18,107,187	(201,632)	17,905,555	859,157	16,551,845	17,411,002	859,157	494,553
<b>2015</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	54,795	0	54,795	0	54,795	0	54,795	0	43,955	43,955	0	10,840
Contractual Supplies & Services	4,057,991	0	4,057,991	0	4,057,991	0	4,057,991	422,194	3,037,757	3,459,951	422,194	598,039
2015 Total	4,112,786	0	4,112,786	0	4,112,786	0	4,112,786	422,194	3,081,712	3,503,907	422,194	608,879
<b>2014</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	15,983	0	15,983	0	15,983	0	15,983	0	0	0	0	15,983
Contractual Supplies & Services	1,183,234	0	1,183,234	0	1,183,234	0	1,183,234	0	814,734	814,734	0	368,500
2014 Total	1,199,217	0	1,199,217	0	1,199,217	0	1,199,217	0	814,734	814,734	0	384,483
<b>Budget 257 Grand Total</b>	<b>24,299,296</b>	<b>104,095</b>	<b>24,403,391</b>	<b>(984,201)</b>	<b>23,419,190</b>	<b>(201,632)</b>	<b>23,217,558</b>	<b>1,281,352</b>	<b>20,448,291</b>	<b>21,729,643</b>	<b>1,281,352</b>	<b>1,487,915</b>

Budgets presented in  
approved Currency

Initial Authorisation (BA1)	Movements	1st Mid Year Authorisation (BA2)	Movements	2nd Mid Year Authorisation (BA3)	Movements	Final Authorisation	Net Commitment	Actual Expenses	Total Commitment/Spend	Carry Forward	Lapse
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**252 Budget - Joint Analysis and Lessons Learned Centre**

2016	€	€	€	€	€	€	€	€	€	€	€	
Personnel	1,542,977	0	1,542,977	(14,420)	1,528,557	(16,000)	1,512,557	0	1,403,281	1,403,281	0	109,276
Contractual Supplies & Services	645,667	0	645,667	14,420	660,087	16,000	676,087	0	602,637	602,637	0	73,450
2016 Total	2,188,644	0	2,188,644	0	2,188,644	0	2,188,644	0	2,005,918	2,005,918	0	182,726
2015	€	€	€	€	€	€	€	€	€	€	€	
Personnel	12,551	0	12,551	0	12,551	0	12,551	0	12,402	12,402	0	149
Contractual Supplies & Services	38,059	0	38,059	0	38,059	0	38,059	0	36,040	36,040	0	2,019
2015 Total	50,610	0	50,610	0	50,610	0	50,610	0	48,442	48,442	0	2,168
Budget 252 Grand Total	2,239,254	0	2,239,254	0	2,239,254	0	2,239,254	0	2,054,360	2,054,360	0	184,894

**258 Budget - ACT Euro Programme of Work**

2016	€	€	€	€	€	€	€	€	€	€	€	
Personnel	0	2,273	2,273	0	2,273	0	2,273	0	910	910	0	1,363
Contractual Supplies & Services	51,030,720	542,411	51,573,131	187,356	51,760,487	319,814	52,080,301	1,548,468	50,351,213	51,899,682	1,548,468	180,619
Capital Investments	72,346	(72,346)	0	0		0				0	0	0
2016 Total	51,103,066	472,338	51,575,404	187,356	51,762,760	319,814	52,082,574	1,548,468	50,352,123	51,900,592	1,548,468	181,983
2015	€	€	€	€	€	€	€	€	€	€	€	€
Personnel	20	0	20	0	20	0	20	0	20	20	0	0
Contractual Supplies & Services	3,767,614	0	3,767,614	0	3,767,614	0	3,767,614	52,992	3,646,128	3,699,120	52,992	68,493
2015 Total	3,767,634	0	3,767,634	0	3,767,634	0	3,767,634	52,992	3,646,148	3,699,140	52,992	68,493
2014	€	€	€	€	€	€	€	€	€	€	€	€
Contractual Supplies & Services	686,119	0	686,119	0	686,119	0	686,119	0	591,657	591,657	0	94,461
2014 Total	686,119	0	686,119	0	686,119	0	686,119	0	591,657	591,657	0	94,461
Budget 258 Grand Total	55,556,818	472,338	56,029,156	187,356	56,216,512	319,814	56,536,326	1,601,460	54,589,929	56,191,390	1,601,460	344,937

Budgets presented in  
approved Currency**259 Budget - ACT Exercise Budget**

	Initial Authorisation (BA1)	Movements	1st Mid Year Authorisation (BA2)	Movements	2nd Mid Year Authorisation (BA3)	Movements	Final Authorisation	Net Commitment	Actual Expenses	Total Commitment/Spend	Carry Forward	Lapse
<b>2016</b>	€	€	€	€	€	€	€	€	€	€	€	€
Personnel	115,500	25,500	141,000	(59,000)	82,000	4,462	86,462	0	43,497	43,497	0	42,965
Contractual Supplies & Services	11,719,050	(49,000)	11,670,050	(515,500)	11,154,550	(591,777)	10,562,773	0	10,208,756	10,208,756	0	354,017
2016 Total	11,834,550	(23,500)	11,811,050	(574,500)	11,236,550	(587,315)	10,649,235	0	10,252,253	10,252,253	0	396,982
<b>2015</b>	€	€	€	€	€	€	€	€	€	€	€	€
Personnel	0	0	0	0	0	0	0	0	(36,799)	(36,799)	0	36,799
Contractual Supplies & Services	0	0	0	0	0	0	0	0	(464,436)	(464,436)	0	464,436
2015 Total	0	0	0	0	0	0	0	0	(501,235)	(501,235)	0	501,235
<b>2014</b>	€	€	€	€	€	€	€	€	€	€	€	€
Personnel	0	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	0	0	0	0	0	0	0	0	(94,236)	(94,236)	0	94,236
2014 Total	0	0	0	0	0	0	0	0	(94,236)	(94,236)	0	94,236
<b>2013</b>	€	€	€	€	€	€	€	€	€	€	€	€
Personnel	0	0	0	0	0	0	0	0	(3,729)	(3,729)	0	3,729
Contractual Supplies & Services	0	0	0	0	0	0	0	0	(671,012)	(671,012)	0	671,012
2013 Total	0	0	0	0	0	0	0	0	(674,741)	(674,741)	0	674,741
<b>Budget 259 Grand Total</b>	<b>11,834,550</b>	<b>(23,500)</b>	<b>11,811,050</b>	<b>(574,500)</b>	<b>11,236,550</b>	<b>(587,315)</b>	<b>10,649,235</b>	<b>0</b>	<b>8,982,042</b>	<b>8,982,042</b>	<b>0</b>	<b>1,667,193</b>



Budgets presented in approved Currency		Initial Authorisation (BA1)	Movements	1st Mid-Year Authorisation (BA2)	Movements	2nd Mid-Year Authorisation (BA3)	Movements	Final Authorisation	Net Commitment	Actual Expenses	Total Commitment/Spend	Carry Forward	Lapse
<b>255 Budget - Joint Warfare Centre</b>													
<b>2016</b>		NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK
Personnel		80,614,559	0	80,614,559	(3,528,000)	77,086,559	(1,455,034)	75,631,525	132,553	75,399,737	75,532,289	132,553	99,236
Contractual Supplies & Services		107,474,406	0	107,474,406	(5,722,000)	101,752,406	1,155,034	102,907,440	11,458,552	90,744,077	102,202,629	11,458,552	704,811
Capital Investments		0	0	0	250,000	250,000	300,000	550,000	0	499,244	499,244	0	50,756
2016 Total		188,088,965	0	188,088,965	(9,000,000)	179,088,965	0	179,088,965	11,591,105	166,643,057	178,234,162	11,591,105	854,803
<b>2015</b>		NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK
Personnel		1,422,690	0	1,422,690	0	1,422,690	0	1,422,690	3,729	957,789	961,518	3,729	461,172
Contractual Supplies & Services		10,990,014	0	10,990,014	0	10,990,014	0	10,990,014	1,211,202	9,084,366	10,295,569	1,211,202	694,445
Capital Investments		216,521	0	216,521	0	216,521	0	216,521	0	216,521	216,521	0	0
2015 Total		12,629,225	0	12,629,225	0	12,629,225	0	12,629,225	1,214,931	10,258,676	11,473,608	1,214,931	1,155,617
<b>2014</b>		NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK
Personnel		0	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services		247,039	0	247,039	0	247,039	0	247,039	0	243,997	243,997	0	3,043
2014 Total		247,039	0	247,039	0	247,039	0	247,039	0	243,997	243,997	0	3,043
<b>Budget 255 Grand Total</b>		<b>200,965,229</b>	<b>0</b>	<b>200,965,229</b>	<b>(9,000,000)</b>	<b>191,965,229</b>	<b>0</b>	<b>191,965,229</b>	<b>12,806,036</b>	<b>177,145,730</b>	<b>189,951,767</b>	<b>12,806,036</b>	<b>2,013,462</b>

Budgets presented in  
approved Currency

	Initial Authorisation (BA1)	Movements	1st Mid-Year Authorisation (BA2)	Movements	2nd Mid-Year Authorisation (BA3)	Movements	Final Authorisation	Net Commitment	Actual Expenses	Total Commitment/Spend	Carry Forward	Lapse
<b>256 Budget Joint Forces Training Centre</b>												
<b>2016</b>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>
Personnel	5,649,333	0	5,649,333	(433,376)	5,215,957	(350,400)	4,865,557	0	4,804,283	4,804,283	0	61,275
Contractual Supplies & Services	23,165,512	381,241	23,546,753	(1,666,624)	21,880,129	(2,269,600)	19,610,529	638,012	18,140,887	18,778,899	638,012	831,630
Capital Investments	0	0		0		0				0	0	0
2016 Total	28,814,845	381,241	29,196,086	(2,100,000)	27,096,086	(2,620,000)	24,476,086	638,012	22,945,170	23,583,181	638,012	892,905
<b>2015</b>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>
Personnel	12,000	0	12,000	0	12,000	0	12,000	0	(2,482)	(2,482)	0	14,482
Contractual Supplies & Services	2,184,639	0	2,184,639	0	2,184,639	0	2,184,639	0	1,941,992	1,941,992	0	242,647
Capital Investments	431,000	0	431,000	0	431,000	0	431,000	307,500	82,476	389,976	307,500	41,024
2015 Total	2,627,639	0	2,627,639	0	2,627,639	0	2,627,639	307,500	2,021,986	2,329,486	307,500	298,153
<b>2014</b>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>
Personnel		0		0		0		0		0	0	0
Contractual Supplies & Services	163,835	0	163,835	0	163,835	0	163,835	0	162,787	162,787	0	1,048
2014 Total	163,835	0	163,835	0	163,835	0	163,835	0	162,787	162,787	0	1,048
<b>Budget 256 Grand Total</b>	<b>31,606,319</b>	<b>381,241</b>	<b>31,987,560</b>	<b>(2,100,000)</b>	<b>29,887,560</b>	<b>(2,620,000)</b>	<b>27,267,560</b>	<b>945,512</b>	<b>25,129,943</b>	<b>26,075,455</b>	<b>945,512</b>	<b>1,192,106</b>



Allied Command Transformation  
Notes to the Financial Statements  
For the year ended 31 December 2016  
All amounts stated in Thousands of Euros (€'000), unless otherwise stated

## NOTES TO THE ACCOUNTS

### 1. Significant Accounting Policies

#### 1.1 Basis of preparation

The financial statements of Allied Command Transformation (ACT) have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS) and based on International Financial Reporting Standards (IFRS/IAS), as adopted by the North Atlantic Council (NAC) in 2002. In 2013, the NAC adopted an adaptation to IPSAS to better suit the specific requirements of the Alliance and an associated NATO accounting framework, applicable for financial reporting periods beginning on 1 January 2013. The application of the adaptation to IPSAS and the associated NATO accounting framework has had no material impact on the disclosures or on the amounts recognised in the ACT financial statements.

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

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

In accordance with Article 2.1 of the NFRs, the financial year of ACT is 1 January to 31 December.

#### 1.2 Accounting estimates and judgments

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

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

#### 1.3 Changes in Accounting Policy and Standards (if applicable)

The same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria set in IPSAS 3. For the 2016 financial statements, the accounting policies have been applied consistently throughout the reporting period.

The impacts of any other change to the entity accounting policy have been identified in the notes under the appropriate headings.

#### 1.4 Changes in pronouncements

Some new standards, alignments of standards and interpretations were issued or became effective for the financial years beginning on 1 January 20XX but have not been applied by the entity in preparing the financial statements. None of these are expected to have a significant effect on the financial statements of the entity. (If applicable)

IPSAS	Name	Effective date for periods beginning on or after
<b>IPSAS 21</b>	<b>Impairment of non-cash generating assets</b>	<b>1 January 2016</b>
<b>IPSAS 26</b>	<b>Impairment of cash generating assets</b>	<b>1 January 2016</b>

#### 1.5 Foreign currency

These financial statements are presented in Euro, which is NATO's reporting currency. The functional currency of each ACT Headquarter (HQ) is detailed below under "Consolidation" and data from each HQ is converted into Euro to facilitate the consolidation process. Foreign currency transactions are translated into the functional currency of the HQ at the NATO exchange rates prevailing at the date of the transaction.

ACT HQs that have a functional currency other than Euro are translated into the reporting currency. All assets and liabilities of such entities at year-end were translated using the NATO exchange rates that were applicable at 31 December 2016. Revenue and expenses were translated using an average of the NATO exchange rates applicable during the reporting period. Unrealised gains and losses resulting from the translation of statements in currencies other than Euro are recognised in the Statement of Financial Position.

#### 1.6 Consolidation

The consolidated financial statements include the financial results of the controlling entity and its controlled entities. Inter-entity balances and transactions have been eliminated in consolidation.

Controlled entities which are consolidated into the financial statements are listed below.

<b>Name</b>	<b>Location</b>	<b>Functional Currency</b>
HQ SACT	Norfolk, Virginia, USA	Euro and US Dollar
JALLC	Lisbon, Portugal	Euro
JFTC	Bydgoszcz, Poland	Polish Zloty
JWC	Stavanger, Norway	Norwegian Kroner

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

#### 1.7 Services in-kind

In these financial statements, services in kind are not recognised.

#### 1.8 Financial Instruments disclosure/presentation

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. ACT uses only non-derivative financial instruments

## NATO UNCLASSIFIED

as part of its normal operations. These financial instruments include cash and cash equivalents, accounts receivable, liabilities and loans between NATO entities.

### 1.9 Cash and cash equivalents

Cash and cash equivalents include cash on hand, petty cash, current bank accounts, deposits held with banks, and other short-term investments (with a maturity of three months or less).

### 1.10 Short-term investments

These are short-term investments (with a maturity of more than three and less than twelve months).

### 1.11 Receivables

Receivables are stated at net realisable value, after provision for doubtful and uncollectible debts. It can also include amounts due by other NATO entities and nations.

Contribution receivables are recognised when a call for contribution has been issued to the member nations. No allowance for impairment loss is recorded with respect to member nations' assessed contributions receivable except for exceptional and agreed technical reasons (if applicable).

### 1.12 Property, Plant and Equipment (PP&E)

PP&E with the exception of land are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost of the assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of PP&E is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of PP&E is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of financial performance.

PP&E categories are listed in the table below:

Category	Threshold	Depreciation	Method
Land	€200,000	N/A	N/A
Buildings	€200,000	40 years	Straight-line
Other infrastructure	€200,000	40 years	Straight-line
Installed equipment	€30,000	10 years	Straight-line
Machinery	€30,000	10 years	Straight-line
Vehicles	€10,000	5 years	Straight-line
Mission equipment	€50,000	3 years	Straight-line
Furniture	€30,000	10 years	Straight-line
Communications	€50,000	3 years	Straight-line
Automated information systems	€50,000	3 years	Straight-line

In accordance with the NAC approved Accounting Framework and the ACT policy on accounting for PP&E, consolidated entities will consider PP&E acquired before 01 January 2013 as fully expensed. PP&E held prior to 01 January 2013, and not previously recognized as an asset, are disclosed in the table below:

<b>PP&amp;E category</b>	<b>Approximate number of items</b>	<b>Location of asset</b>	<b>comments</b>
Buildings	1 geographical HQ location	HQ SACT, Norfolk, Virginia	Buildings were either provided free of charge or fully expensed prior to 01 January 2013. Includes installed equipment.
Buildings	1 geographical HQ location	JWC, Stavanger, Norway	
Buildings	1 geographical HQ location	JFTC, Bydgoszcz Poland	
Buildings	1 geographical HQ location	JALLC, Lisbon, Portugal	
Vehicles	9	HQ SACT, Norfolk, Virginia	All vehicles held at the HQs were purchased prior to 01 January 2013 and have been fully expensed in the year of purchase.
Vehicles	21	JWC, Stavanger, Norway	
Vehicles	7	JFTC, Bydgoszcz Poland	
Vehicles	4	JALLC, Lisbon, Portugal	

During 2016, ACT staff conducted a thorough analysis of all purchases made during the year to establish if any fell within the categories and capitalisation thresholds detailed in the table above.

In addition to expenditure on vehicles and minor machinery, the major construction project to at HQ SACT in Norfolk was completed during 2016. This resulted in the occupation of the new building for the National Liaison Representatives (NLR), as well as completion of other work on the main HQ SACT building. These building projects were separately funded by NSIP with the United States acting as Host Nation. Upon completion the assets were handed over to ACT and has been recorded as PP&E in these 2016 financial statements. A similar instance was recognised for the furniture that was installed in the NLR office accommodation.

### 1.13 Leases

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

All other leases are classified as operating leases.

Rental payable under lease contract are recognised as an expense in the statement of financial performance on a straight line basis over the lease term. (if applicable). As at 31 December 2016, ACT had the following non-cancellable leases at the JFTC Headquarters.

Item	Period of lease	Start date	Monthly lease cost	Balance on lease as at 31 Dec 16
Vehicle - car	5 years	Jan-16	€708	€33.9k
Vehicle - car	5 years	Jan-16	€708	€33.9k
Vehicle - truck	5 years	Jan-16	€723	€34.7k

#### 1.14 Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful lives, and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An intangible asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss, arising on the disposal or retirement of an intangible asset, is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the statement of financial performance.

#### 1.15 Payables

Payables (including amounts due to other NATO entities) are amounts due to third parties for goods and services received that remain unpaid as of the reporting date. They are recognised at their fair value. This includes estimates of accrued obligations for goods and services received at year-end but not yet invoiced.

#### 1.16 Deferred Revenue

Deferred revenue represents income/contributions from member nations and/or third parties that have been called for current or prior years' budgets and that have not yet been recognised as revenue.

#### 1.17 Advances

Advances are income/contributions from member nations/third parties called or received related to future years' budgets.

#### 1.18 Employee benefits

ACT's employees participate in one of the two NATO pensions funds: the Coordinated Pension Scheme or the Defined Contribution Pension Scheme (DCPS) administered by NATO and the Retirees Medical Claims Fund (RMCF). The assets and liabilities for these pension schemes are accounted for centrally at NATO Headquarters and therefore are not recognised in these financial statements. Note 15 below refers.

#### 1.19 Provisions

Provisions are recognised when ACT has a legal or constructive obligation as a result of past event, and where it is probable that an outflow of resources will be required to settle the obligation, and where a reliable estimate of the amount of the obligation can be made. If the effect is material, provisions are determined by discounting the expected future cash flows to their present value.

**1.20 Net Assets**

Net assets represent the residual interest in the assets of the entity after deducting its liabilities. NATO entities perform their activities on a no-profit / no loss basis globally over the reporting period. However, this does not prohibit the realisation of operating surplus or deficit in the financial reporting period.

**1.21 Revenue and expense recognition****Revenue**

Revenue comprises contributions from Member Nations and income from other customers to fund ACT's budgets. It is recognised in the year when these contributions are used for their intended purpose as envisioned by ACT's budgets. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably. Unused contributions and other revenue that relate to future periods are deferred accordingly.

Interest income is accrued on a time-basis, by reference to the principal outstanding and at the effective interest rate applicable. Bank interest earned and accrued as of 31 December 2016; exchange rate revenue due to transactions in foreign currency; and realised exchange rate revenue are recognised as financial revenue.

**Finance costs**

Bank charges and exchange rate losses due to transactions in foreign currency are recognised as finance costs.

**1.22 Surplus or deficit for the period**

In accordance with entity accounting policies entity revenue is recognised up to the amount of the matching expenses.

**1.23 Trust Funds**

ACT controls a number of specific Trust Funds referred to in Note 2 below. NATO recognises an asset when it controls access to the asset and gains economic benefit or service potential but matches this to an equal liability. ACT does not recognise any expenditure or revenue in relation to the Trust Funds in its statement of financial performance which it does not control.

**1.24 Cash-flow statement**

The cash flow statement is prepared using the indirect method and the format follows the layout provided by IPSAS 2 (Cash flow statement).

**2. Cash and cash equivalents**

Cash and cash equivalents consist of cash held on deposit in financial institutions in instant access accounts.

	2016	2015
Total Euro Accounts	39,741	23,278
Total non-Euro Accounts	22,957	22,000
	<u>62,698</u>	<u>45,278</u>

All non-Euro denominated currencies were converted to Euros using the NATO spot exchange rate for applicable currencies in the Statement of Financial Position as at 31

December 2016. The Euro account includes an amount of €108k which represents the remainder of funds deposited by nations contributing to a Voluntary National Contribution Fund (VNCF) operated by HQ SACT. The funds are being used to provide training during 2016 for weapons inspector teams from NATO nations, as well as Partnership for Peace (PfP) countries. Deposits were also received by ACT during 2016 in relation to another VNCF for a Commander's Counter-Marauding Terrorist Course and these amounted to €40k. However, these funds were all expensed during 2016.

The cash holdings are significantly higher than the previous year, which is a result of all nations settling their cash call contributions by the end of 2016. In the previous year, ACT carried a €16.7m receivable for cash call contributions

Deposits are partly held in interest-bearing current bank accounts in immediately available funds. Current bank accounts are held in Euro, US Dollar, Polish Zloty and Norwegian Kroner. Funds are held in highly reliable non-interest and interest-bearing bank accounts.

### 3. Receivables

	2016	2015
Receivables	5,306	13,788
Contributions receivables from nations	0	16,718
	<u>5,306</u>	<u>30,506</u>

As at 31 December 2016, ACT had received full settlement of the 2<sup>nd</sup> 2016 cash call. There was a significant reduction in receivables during 2016. This relates to a small number of invoices raised by HQ SACT to other NATO entities in late 2015 being settled in early 2016.

The receivables include €1.8m for invoices that still need to be prepared at the end of the financial year. The majority of this amount relates to invoices raised at the year end to recognise revenue corresponding to expenditure against delegated budgets from other NATO entities. These receivables were cleared in a timely manner in the following year. It is necessary to show the receivable in these financial statements under the matching concept as the expense has been recognised.

### 4. Prepayments

The following prepayments were recorded:

	2016	2015
Prepayments to 3rd Party Suppliers	591	905

Prepayments to third party suppliers relate to payments made in advance of goods or services rendered, which will reflect terms and conditions of a contract or agreement. Such prepayments are offset against final payments upon receipt of a final invoice.

## 5. Property, plant and equipment

	Installed					
	Buildings	Equipment	Furniture	Vehicles	Machinery	Total
	EUR	EUR	EUR	EUR	EUR	EUR
<b>Balance at 1 January 2016</b>	12,236,574	1,998,667	1,238,103	0	0	15,473,344
Additions	10,253,648	746,596	157,178	139,500	48,619	11,345,542
Disposals						
Revaluation						
<b>Balance at 31 December 2016</b>	<b>22,490,222</b>	<b>2,745,263</b>	<b>1,395,281</b>	<b>139,500</b>	<b>48,619</b>	<b>26,818,886</b>
<b>Accumulated depreciation</b>						
Balance at 1 January 2016	280,421	161,300	113,493	-	-	555,214
Depreciation expense	561,930	227,838	146,730	3,281	1,239	941,019
<b>Balance at 31 December 2016</b>	<b>842,351</b>	<b>389,138</b>	<b>260,223</b>	<b>3,281</b>	<b>1,239</b>	<b>1,496,233</b>
<b>Net book value</b>						
Balance at 1 January 2016	11,956,152	1,837,367	1,124,611			14,918,130
<b>Balance at 31 December 2016</b>	<b>21,647,871</b>	<b>2,356,125</b>	<b>1,135,058</b>	<b>136,219</b>	<b>47,380</b>	<b>25,322,653</b>

The depreciation charge for the year was €941k

## 6. Accounts Payable

Accounts Payable is detailed below:

	2016	2015
Suppliers	8,556	8,891
Staff Members	140	108
Non-Consolidated NATO Entities	14,875	11,279
Governments	3,219	1,798
Other payables	5	5
	<u>26,795</u>	<u>22,081</u>

The Accounts Payable in relation to Non-Consolidated NATO entities has increased significantly but this is primarily because of end of year accruals. A number of services were received for which ACT had yet to receive an invoice and so consequently these are reflected in the end of financial year payable position.

Payables include invoices received that have not been settled, as well as accruals recognised at the reporting date.



**7. Deferred revenue**

	<b>2016</b>	<b>2015</b>
Budget related	7,842	25,291
NSIP related	835	551
Other sources	108	214
	<u>8,785</u>	<u>26,056</u>

Deferred revenue includes budget credits carried forward which have been committed following a legal and contractual obligation entered into with a supplier but for which the goods and services have not yet been received. The corresponding charges will be incurred after the reporting date. For the financial year ending 31 December 2016, €8m was attributable to BC Unearned Revenue, with an additional €943k attributable to Other Unearned Revenue. The majority of this (€835k) relates to NSIP, with the remaining balance (€108k) relating to the Trust Funds operated by HQ SACT (see Note 2 above).

The significant reduction in deferred revenue is a direct result of the changes to NATO Financial Regulations that nations introduced from 01 May 2015. The reduction of flexibility to carry forward credits into the following year resulted in efforts to ensure receipt of deliverables by 31 December 2016. The resultant increase in accruals corresponds to an increase in execution rates and therefore recognition of revenue.

**8. Advances Contributions**

	<b>2016</b>	<b>2015</b>
Advance Contributions	32,874	28,344

Advance Contributions correspond to cash called from the Nations for the following financial year and represent approximately 25% of the total ACT budget allocation. ACT received full settlement of the 2<sup>nd</sup> 2016 cash call and therefore all the advance contributions due from nations for the following financial year (2017).

**9. Other advances**

	<b>2016</b>	<b>2015</b>
Other Advances	142	89

Other advances correspond to cash received from external entities against which future payment will be offset. The amount for 2016 relates to cash received at the JALLC from a non-consolidated NATO entity. This will be reduced during 2017 as invoices are received and paid.

**10. Net assets**

	<b>2016</b>	<b>2015</b>
Capital contributions	26,819	15,473
Accumulated surpluses/(deficits)	(1,496)	(555)
Total net assets / equity	<u>25,323</u>	<u>14,918</u>

Net assets relate to PP&E recognised by ACT, less depreciation charges accumulated in the current and prior years. The PP&E recognised was not necessarily purchased by ACT, as it includes assets that ACT has assumed control of through their use. Note 5 above details PP&E holdings and the associated depreciation charges.

**11. Revenue**

The revenue recognition is matched with expenses against the entity budgets. Contributions from nations are booked as an advance under deferred revenue and subsequently recognised as revenue when it is earned.

The following key revenue items are presented:

<b>Recognised Revenue</b>	<b>2016</b>	<b>2015</b>
Assessment Calls/Contributions	129,063	143,770
NSIP Revenue	715	349
Other income	162	100
	<u>129,940</u>	<u>144,219</u>

An analysis of ACT's cash receipts from Nations' is as follows:

	<b>Euro '000</b>	<b>USD '000</b>	<b>NOK '000</b>	<b>PLN '000</b>
Cash Receipt by currency during 2016	63,446	35,316	176,822	26,366
Amount in Euros (for comparison only)	63,446	31,810	19,088	6,036

**12. Other revenue**

This consists of reimbursable activity within ACT, which is comprised of two elements: activity undertaken between entities within the ACT consolidation group (inter-entity) and activity undertaken between the ACT group and a 3rd party (reimbursable). The inter-entity activity has been eliminated from the ACT consolidated accounts. That is to say that Revenue and Expenditure has only been recorded once in the accounts and not by both consolidating entities. In addition, the end of year asset and liability position between consolidating entities has also been balanced and eliminated.

With regard to 3rd party reimbursable activity some €6.4m of activity has been undertaken during 2016.

### 13. Financial revenue

Financial revenue relates to interest earned on deposits during the financial year.

### 14. Expenses

The expenditure shown in the Statement of Financial Performance has been calculated after charging the following main elements:

	2016	2015
<b>Chapter 1</b>		
Salaries & associated costs	27,399	26,611
Consultants	94	1,396
Training	706	820
Other	352	362
<b>TOTAL</b>	<b>28,551</b>	<b>29,189</b>

<b>Chapter 2</b>		
General support and Utility costs	6,663	8,906
Contractors	48,219	51,086
Travel and subsistence	11,377	18,493
AIS Support	30,127	28,658
Mission equipment costs	70	99
Communications	223	1,383
Training	3,897	5,597
R&D supplies	7	0
<b>TOTAL</b>	<b>100,583</b>	<b>114,222</b>

<b>Capital &amp; Investments (Chapter 3 &amp; NSIP)</b>		
AIS Capital & Investment	86	66
Communications Capital Investment	0	27
Building Infrastructures	0	7
Land & Structures	0	24
NSIP	704	286
Other	11	23
<b>TOTAL</b>	<b>801</b>	<b>434</b>

Expenses relating to contractors are reflected in Chapter 2 and reflects the Budget Committee guidance set out in paragraph 2.2.3 of MBC-M(2010)0039. A significant part of this category of expenditure is with the CMRE. In 2016, ACT incurred €23.9m of expenditure relating to contractor services provided by CMRE. The other significant amount expensed by ACT in relation to contractor costs were payments made to NCIA for the Programme of Work. In 2016, these amounted to €11.3m.

The reduction in travel expenditure over the prior year was due to 2015 recording expenditure for the participation in the LIVEX, Trident Juncture exercise; the participation of external HQs in TRIDENT Joust; in NOBLE JUMP and the deployment costs for 3 HQs in TRIDENT Jaguar. These were not standard travel costs as these covered expenditure for the transportation of multiple HQs to exercise locations. As

such the figure reported in 2016 for travel is reflects a normalised situation. Capital and Investments include charges against Chapter 3 amounting to €285k, less capitalised expenditure of €188k. The Budget Execution Statement shows the actual expenditure against the budgets, before removal of capitalised items.

## 15. Staff resources

a) Analysis of staff costs - the aggregate staff costs, including grants and allowances paid, are detailed below.

	2016	2015
Salaries of Civilian Staff	17,476	17,239
Allowances of Civilian Staff	4,870	4,852
Contributions to Health Insurance (c)	3,479	3,128
Contributions to Pension Funds (d)	1,278	1,165
	<u>27,103</u>	<u>26,384</u>

b) Analysis of staff numbers - the number of full-time equivalent persons employed as at 31 December 2016 was:

	HQ SACT	JWC	JFTC	JALLC
Military	480	168	85	37
Civilian	113	55	14	9
Temporary Civilian	4	0	0	8
Reimbursable Civilians	0	0	1	1
Local Wage Rate (LWR)	0	10	0	0
Total	<u>597</u>	<u>233</u>	<u>100</u>	<u>55</u>

Voluntary National Contributions	31	2	3	4
Partnership for Peace (PfP)	4	1	2	0
Overages in addition to VNC	1	3	0	0

c) Health Insurance - all civilian members of ACT are members of the NATO Health Insurance Scheme, providing sickness, maternity, accident, disablement and death benefits to staff members, their spouses and children. Staff members pay contributions of approximately 4% to 9% of gross salary, which are matched by contributions paid by ACT. For 2016 ACT contributions totalled €3.479m.

d) Contributions to Pension Funds

**The NATO Defined Contribution Pension Scheme:** came into effect on 1 July 2005 and provides for the communal investment of contributions in respect of civilian staff of ACT accorded international status under the NATO Charter. Staff pay contributions equivalent to 8% of their monthly basic salary, and ACT pays a 12% contribution. The

assets and liabilities for this scheme are accounted for centrally at NATO Headquarters, located in Brussels, Belgium and are not recognised in these financial statements.

**The NATO Coordinated Pension Scheme:** staff members make contributions representing 9.5% of their monthly salary.

Contributions are expensed during the year in which the services are rendered and represent the total pension obligation for ACT. Total pension contributions of ACT across the 3 schemes outlined above totalled €1,278k during 2016.

### **Untaken Leave**

NATO regulations allow civilian staff to carry forward untaken leave days to the following year. The regulation stipulates that any days carried forward must be taken by 30 April of the following year or the leave days are forfeited. Carry forward beyond this date is only approved by the Human Resources Branch in exceptional circumstances. At the end of 2016, ACT civilian staff across all Headquarters carried forward 1,870 leave days. In monetary terms, this equates to approximately €803k but ACT has a policy of not making an actual financial payment to staff in lieu of this. ACT staff either take the untaken leave by 30 April of the following year or lose the days, unless exceptionally allowed to extend. In view of this policy, and the fact that the vast majority of days are taken by 30 April of the following year (the balance was less than 800 days as at 31 March 17), ACT does not recognise a liability in these financial statements.

## **16. Other expenses**

Other expenses consists of reimbursable activity within ACT, which is comprised of two elements: activity undertaken between entities within the ACT consolidation group (inter-entity) and activity undertaken between the ACT group and a 3rd party (reimbursable). The inter-entity activity has been eliminated from the ACT consolidated accounts. That is to say that Revenue and Expenditure has only been recorded once in the accounts and not by both consolidating entities. In addition, the end of year asset and liability position between consolidating entities has also been balanced and eliminated. The only other expense is a small write off of an outstanding receivable amounting to less than €1k.

## **17. Finance costs**

This includes the sum of exchange rate gains and losses (€45k), as well as bank charges incurred by ACT entities for normal business transactions (€32k).

## 18. Related Party Transactions

### Controlled Entities:

ACT controls the following reporting entities:

- Joint Warfare Centre (JWC)
- Joint Force Training Centre (JFTC)
- Joint Analysis and Lessons Learned Centre (JALLC)

NATO is an organisation set up under the 1948 Washington Treaty. Those countries that were or have become parties to the Convention, the Member Nations, are regarded as related parties. ACT, as one of the two NATO Strategic Commands, has, during the year, had various material transactions with these Member Nations.

### Key Management Personnel

Under IPSAS 20 Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial and operating decisions. IPSAS 20 requires the disclosure of the existence of related party relationships, where control exists, and the disclosure of information about entities and its related parties. This information is required for accountability purposes and to facilitate a better understanding of the financial position and performance of the reporting entity.

No related party disclosure is made in these financial statements as key management personnel have no significant party relationships that could affect the operation of this reporting entity. The Key Management Personnel are defined as senior members of the Command Group, who together constitute the Management Board of ACT. Remuneration received by individuals has been in accordance with an individual's national military pay scale or in accordance NATO published salary scales. During the period, no key managerial staff or other related parties has undertaken any material transactions that could affect the operation of this reporting entity.

In addition to the key management personnel of the Command Group, ACT has implemented several controls on staff who are involved in the contract award process to ensure that no related party factors could influence this procedure. All key management personnel are in the process of being asked to sign a related party disclosure document. This will be in place prior to publication of the audit report into the 2016 ACT Consolidated Financial Statements.

## 19. Representation allowance

Representation Funds are provided to SACT by the Nations' Permanent Representatives to NATO for use at his discretion. These funds are allocated in USD to the HQ SACT 257 budget but all numbers have been converted to Euro for the purpose of these financial statements.

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SACT allocates these funds to his subordinate Commanders, as he considers reasonable. For 2016 the Representation Funds allocated to SACT, and subsequently delegated, were as follows:

Entity	2016 Allocation (Eur)
HQ SACT	37,304
JWC	4,204
JFTC	1,233
JALLC	709
<b>TOTAL</b>	<b>43,450</b>

The previous year, ACT published a revised Directive governing the revised processes to cover the operation of Representation Funds. The use of these funds is monitored on a monthly basis through the office of the Financial Controller and they are also subject to annual audit by the IBAN.

During the course of 2016, all funds were expended across ACT.

## 20. Budget Execution Statement Overview

Exchange Rates applicable to Budget Execution Statement:

Year	Initial Authorisation	Mid-Yr Authorisation	Final Authorisation	Net Commitment	Actual Expenses	Carry Forward
2016	Jan 15 <sup>1</sup>	Jan 15	Jan 15	Dec 16 <sup>2</sup>	Ave 16 <sup>3</sup>	Dec 16
2015/14	Dec 14 <sup>4</sup>	Dec 14	Dec 15	Dec 16 <sup>2</sup>	Ave 16 <sup>3</sup>	Dec 16
<sup>1</sup> Rate used in 2016 Budget authorisation <sup>2</sup> Rate used to revalue outstanding commitments at year end prior to rolling forward to 2017 <sup>3</sup> Rate used in determining expenditure throughout the year <sup>4</sup> Rate used to bring forward commitments remaining at year end 2015						

Expenditure Reconciliation: Budget Execution Statement / Statement of Financial Performance. IPSAS 24 requires a reconciliation of Budget Execution Statement data with the expenses recorded in the Statement of Financial Performance. The expenditure data is in the currency of the budget and then translated using an average exchange rate for the year.

**Financial Expenditure recorded in Budget Execution Statements (BES):**

Budget 201	20,498	
Budget 252	2,054	
Budget 255	19,123	
Budget 256	5,753	
Budget 257	18,419	
Budget 258	54,590	
Budget 259	8,982	
		<hr/>
		129,419

**Expenditure recorded in Statement of Financial Performance:**

Chapter 71	28,551	
Chapter 72	100,583	
Chapter 73	285	
		<hr/>
Total Expenditure equal to BES		129,419
Less capitalised expenditure (PP&E)		(188)
NSIP expenditure		704
Depreciation charges		941
Other Expenses		6,380
Finance Costs		78
		<hr/>
Total Expenditure in Statement of Financial Performance		137,434

IPSAS 24. This Standard requires reconciliation between Budget Execution Statements and actual amounts presented in the financial statements where the financial statement and budget are not prepared on a comparable basis. Whilst the table above reconciles the actual expenses recorded in ACT's Budget Execution Statements and the Statement of Financial Performance, the remainder of the Budget Execution Statements is prepared using a different basis.

The Statements of Financial Position, Financial Performance, Changes in Net Assets and Statement of Cash Flow are prepared on a full accrual basis, whereas the Budget Execution Statements, apart from "actual expenses," are prepared on a commitment accounting basis. Significant budgetary transfers are detailed in the table below.

**Budgetary Lapses**

Lapses recorded on the Budget Execution Statement have a value of €4.933m. This figure is generated as a direct result of the exchange rates. Lapses occur in the original currency in which the budget was approved by the BC.



Budget Code	Budget Currency	Value of Lapse in Budget Currency					Value of Lapse in Euro (Average Rate of Exchange)
		(figures shown as complete amounts)					
		2013	2014	2015	2016	Total	
201	USD		227	193	586	1,006	906
252	EUR		0	2	183	185	185
255	NOK		3	1,156	855	2,014	217
256	PLN		1	298	893	1,192	273
257	USD		384	609	495	1,488	1,340
258	EUR		94	69	182	345	345
259	EUR	675	94	501	397	1,667	1,667
							4,933

## 21. Statement of Budgetary Transfers

In accordance with the NATO Financial Regulations (NFRV Article 26) budgetary transfers are recorded on the face of the accounts. All transfers were executed between budgets at the January 2016 rate of exchange. The totality of transfers undertaken in 2016 do not breach the authorised Budget Authority outlined in in BC-BA(2016)003 dated 14 November 2016.

In order to comply with the requirements of IPSAS 24 the significant budgetary transfers are detailed in the table below:

Budget Code	Currency	Initial Budget	Final Budget	Gross Transfer	Individual Transfers	% of total transfers	Comment
201 -HQ SACT	USD	23,025	23,565	539	(590)	-109%	Transfer of SEE and STRE overhead costs to euro BUD 258
					369	68%	Surplus reallocated to Civ Pers from BUD 257
					315	58%	BC approved trf for CH 73 from BUD 257
					(185)	-34%	Transfer for Reset IM BUD 257
					687	127%	Surplus reallocated overhead utilities from BUD 256
					(80)	-15%	Overhead to travel and travel admin BUD 257
					58	11%	Overhead to printshop from BUD 257
					(35)	-6%	others
					<u>539</u>	<u>100%</u>	
255 - JWC	NOK	188,089	179,089	(9,000)	(4,000)	44%	Surplus in PE consultants and travel reallocated to Management Board approved projects
					(5,000)	56%	Surplus returned to Nations
					<u>(9,000)</u>	<u>100%</u>	

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256 - JFTC	PLN	28,815	24,476	(4,339)	(2,405)	55%	Surplus reallocated overhead utilities BUD 201
					(2,100)	48%	Surplus reallocated to Management Board approved projects
					(215)	5%	Frozen funds returned to Nations
					101	-2%	Transfer for BRCY 16 Mobile Team
					280	-6%	Transfer for ETEE FS Serial 7, CIS not covered by SLA, to BUD 256
					(4,338)	100%	
257 - HQ SACT POW	USD	18,987	17,906	(1,082)	(105)	10%	Transfer of SEE and STRE overhead costs to euro BUD 258
					(369)	34%	Surplus reallocated to Civ Pers BUD 201
					(315)	29%	BC approved trf for CH 73 BUD 201
					185	-17%	Transfer for Reset IM from BUD 201
					80	-7%	Overhead to travel and travel admin from BUD 201
					147	-14%	Transfer for C2DS OLCM TACTICS contract from BUD 258
					(58)	5%	Overhead to printshop BUD 201
					(40)	4%	Surplus reallocated to Management Board approved projects
					(49)	5%	CAPDEV delegation to SEE BUD 258
					(84)	8%	C2DS trf to realign deliverables in correct budget BUD 258
					(400)	37%	Transfer for Special Carry Forward BC-DS(2016)0058 BUD 258
					(185)	17%	Surplus funds returned to Nations
					110	-10%	others
					(1,082)	100%	
258 - HQ SACT POW	EUR	51,103	52,083	980	479	49%	Transfer of SEE and STRE overhead costs to euro from BUD 201
					135	14%	Transfer of SEE and STRE overhead costs to euro from BUD 257
					437	45%	Surplus reallocated to Management Board approved projects from BUD 256
					(65)	-7%	Transfer for ETEE FS Serial 7, CIS not covered by SLA, to BUD 256
					(120)	-12%	Transfer for C2DS OLCM TACTICS contract BUD 257
					(27)	-3%	Surplus reallocated to Management Board approved projects
					325	33%	Transfer for Special Carry Forward BC-DS(2016)0058 from BUD 257
					(200)	-20%	Surplus funds returned to Nations
					(103)	-10%	Frozen funds returned to Nations
					40	4%	CAPDEV delegation to SEE from BUD 257
					68	7%	C2DS trf to realign deliverables in correct budget from BUD 257
					10	1%	others
					980	100%	

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259 - Exercises	EUR	11,835	10,649	(1,186)	503	-42%	Surplus reallocated to Management Board approved projects
					(70)	6%	Carry forward of contracts BC-DS(2016)0048
					(1,078)	91%	Surplus funds returned to Nations
					(500)	42%	Surplus funds returned to Nations for NCIA and ACO regularization
					(42)	4%	others
					(1,186)	100%	

## 22. STATEMENT OF CREDITS CARRIED FORWARD

As required by the NATO Financial Regulations, credits committed and carried forward are separately disclosed by budget and by year in the Budget Execution Statements.

BUD 255, Special Carry Forward for GEO products for SKOLKAN3 and OCCASUS scenario development, CAX JTLS test, BC endorsed, BC-DS(2016)0227, NOK 8.73M

BUD 258, Special Carry Forward approved by BC-DS(2016)0048 for DCIS COI and Cyber Concepts, €325K

## 23. MORALE & WELFARE ACTIVITIES

Under the NAC approved NATO Accounting Accounting Framework implemented with effect from 01 January 2013, NATO entities should capture financial information in support of morale and welfare activities by way of a note disclosure to the financial statements and not consolidated in the financial statements.

In accordance with NATO reference documents PO(97)98 and MBC-DS(97)23, the consolidated 2016 Annual Report on MWA activity within the ACT Budget Group, has been submitted to the Budget Committee.

## 24. STATEMENT OF WRITE-OFF

A summary table of write off is attached at Annex A to these financial statements. A full statement will be sent under separate cover to the Budget Committee.

## 25. Statement of Performance and Position per entity

The tables on the following pages show the Statements of Position and Performance of the ACT Headquarters that are part of the consolidated group. There is also a table showing the entries made on consolidation.

For the year ended 31 December 2016  
Amounts in EUR

## STATEMENT OF FINANCIAL POSITION PER HEADQUARTER

	HQ SACT			JWC			JFTC		
	2016	2015	Difference	2016	2015	Difference	2016	2015	Difference
<b>Current Assets</b>									
Total Cash & Cash Equivalents	51,364,409	39,629,323	11,735,087	8,435,665	2,503,264	5,932,401	1,341,259	1,986,915	(645,656)
Receivables	3,624,133	30,603,562	(26,979,429)	896,436	656,425	240,012	2,572,137	197,442	2,374,695
Total Advances & Prepayments	377,594			296,312	211,032		35,655	9,522	
<b>Non-Current Assets</b>									
Property, Plant & Equipment	25,322,653	14,918,130	10,404,523	0	0	0	0	0	0
<b>Total Assets</b>	<u>80,688,789</u>	<u>85,151,014</u>	<u>(4,839,819)</u>	<u>9,628,414</u>	<u>3,370,720</u>	<u>6,172,413</u>	<u>3,949,051</u>	<u>2,193,879</u>	<u>1,729,039</u>
<b>Liabilities</b>									
Payables	24,232,516	19,911,943	4,320,573	3,076,050	1,453,060	1,622,990	1,266,874	918,743	348,130
Deferred Revenue	4,847,834	22,326,548	(17,478,714)	1,531,444	1,568,341	(36,897)	1,115,341	1,275,136	(159,795)
Advance Contributions	26,285,786	27,994,393	(1,708,608)	5,020,921	349,320	4,671,600	1,566,837	0	1,566,837
Other Advances	0	0	0	0	0	0	0	0	0
<b>Total Liabilities</b>	<u>55,366,136</u>	<u>70,232,884</u>	<u>(14,866,748)</u>	<u>9,628,414</u>	<u>3,370,721</u>	<u>6,257,693</u>	<u>3,949,051</u>	<u>2,193,879</u>	<u>1,755,172</u>
<b>Net Assets</b>									
Capital Contributions	26,818,886	15,473,344	11,345,542	0	0	0	0	0	0
Accumulated surplus (defecit)	(1,496,233)	(555,214)	(941,019)	0	0	0	0	0	0
<b>Total assets / equity</b>	<u>25,322,653</u>	<u>14,918,130</u>	<u>10,404,523</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

For the year ended 31 December 2016  
Amounts in EUR

## STATEMENT OF FINANCIAL PERFORMANCE PER HEADQUARTER

	HQ SACT			JWC			JFTC		
	2016	2015	Difference	2016	2015	Difference	2016	2015	Difference
Total Revenue	105,779,487	119,520,049	(13,740,562)	19,166,461	23,174,681	(4,008,220)	8,272,828	8,789,270	(516,442)
Total Expenses	106,720,506	120,075,263	(13,354,757)	19,166,461	23,174,681	(4,008,220)	8,272,828	8,789,270	(516,442)
End of Year Result	<u>(941,019)</u>	<u>(555,214)</u>	<u>(385,805)</u>	<u>0</u>	<u>(0)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

	JALLC			NSIP			Consolidation Eliminations	Published 2016
	2016	2015	Difference	2016	2015	Difference		
Total Revenue	2,458,270	3,289,991	(831,721)	715,483	21,792	693,691	(11,458,604)	136,392,529
Total Expenses	2,458,270	3,289,991	(831,721)	715,483	21,792	693,691	(11,458,604)	137,333,548
End of Year Result	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(941,019)</u>

Note: Inter entity revenue and expenses have been removed from the originating entity (mainly HQ SACT) and are shown at the subordinate level. IPSAS 18 applies.

## Statement of Position

## Statement of Performance

	Inter-Entity Eliminations		Inter Entity Eliminations
<b>Assets</b>		<b>Revenue</b>	
<b>Current Assets</b>			
Cash and Cash Equivalents	28,728	Operating revenue	10,483,269
Receivables	(2,430,562)	Inter Entity Revenue	975,336
Advance to Consolidated Entity	(150,000)		
<b>Total Current Assets</b>	<u>(2,551,834)</u>	<b>Total Revenue</b>	<u>11,458,604</u>
<b>Liabilities</b>		<b>Expenses</b>	
Payables	2,576,723	Inter Entity Expenses	(11,458,604)
Unearned Revenue	(24,889)		
<b>Total Liabilities</b>	<u>2,551,834</u>	<b>Total Expenses</b>	<u>(11,458,604)</u>
<b>Net Assets</b>	<u><u>0</u></u>		

## Annex A

### ACT Write off Report of International Property 2016

Command	Headquarters property	Original cost (in currency)	Number of RoS	comments
HQ SACT	Equipment	USD 223,691	7	Obsolete and no longer required for use at ACT
JFTC	Equipment	PLN 590,242	52	3 vehicles and equipment beyond economical repair
JFTC	Furniture	PLN 54,569	11	beyond economical use
JWC	Equipment	NOK 3,635,548	169	beyond economical repair
JWC	Furniture	NOK 339,685	40	beyond economical use
JWC	Miscellaneous	NOK 106,719	18	beyond economical repair
JALLC	Furniture	€5,313	5	beyond economical use
JALLC	Equipment	€986	5	beyond economical repair

**NATO UNCLASSIFIED**

**ANNEX 1**

**Summary Note for the Council by the International Board of Auditors for NATO  
on the audit of the financial statements of the  
NATO International Military Staff (IMS),  
the NATO Standardisation Office (NSO),  
the IMS Budget Group – Partnership for Peace (PfP),  
the Mediterranean Dialogue (MD), the Istanbul Cooperation Initiative (ICI)  
and Other Military Cooperation (OMC)  
for the year ended 31 December 2016**

**Introduction**

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

The component parts of the IMS Financial Statements are:

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

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

The total final authorisations of the IMS, NSO, PfP, MD, ICI and OMC for the year ended 31 December 2016 were EUR 26 million.

The Board issued an unqualified opinion on the financial statements and on compliance for the year ended 31 December 2016.



During the audit, the Board made one observation and provided one recommendation. This finding is in the Letter of Observations and Recommendations (Annex 3).

The main finding is summarised below:

1. Further steps are required towards full compliance with the revised NATO Financial Regulations on Internal Control, particularly those Articles on Internal Control, Risk Management and Internal Audit.

The Board also followed up on the status of observations from its previous years' audit. These findings and status are summarised in the follow-up section of the Letter of Observations and Recommendations (Annex 3).

For the IMS's Formal Comments and the Board's positions, see the Appendix (Annex 3). The IMS generally agrees with the Board's observations. The detailed formal comments provide further information to the reader, but do not change the Board's observations or recommendations. Where appropriate, the Board has provided positions to some of the formal comments.

22 August 2017

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

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

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

**FOR THE YEAR ENDED 31 DECEMBER 2016**



**REPORT OF THE INTERNATIONAL BOARD OF AUDITORS  
FOR NATO TO THE NORTH ATLANTIC COUNCIL****Report on the Financial Statements**

The International Board of Auditors for NATO (Board) audited the accompanying financial statements of the International Military Staff (IMS), incorporating the IMS, the NATO Standardisation Office (NSO), Partnership for Peace (PfP), the Mediterranean Dialogue (MD), the Istanbul Cooperation Initiative (ICI) and the Other Military Cooperation (OMC) which comprised the Statement of Financial Position as at 31 December 2016, and the Statement of Financial Performance, Statement of Changes in Net Assets and Cash Flow Statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies. The Board also audited the Statement of Budget Execution for the year ended 31 December 2016.

*Management's Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

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

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, due to fraud or error. In making those risk assessments, internal control relevant to the entity's preparation and presentation of financial statements is considered in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. An audit also includes evaluating the appropriateness of accounting policies used, the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



*Opinion on Financial Statements*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the International Military Staff (IMS), the NATO Standardisation Office (NSO), Partnership for Peace (PfP), the Mediterranean Dialogue (MD), the Istanbul Cooperation Initiative (ICI) and the Other Military Cooperation (OMC) as of 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with the NATO Accounting Framework.

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

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

*Auditor's Responsibility*

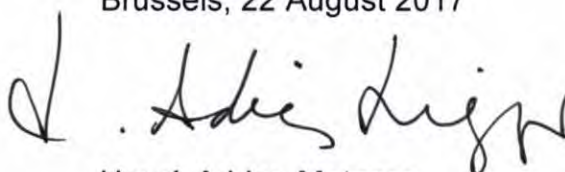
In addition to the responsibility to express an opinion on the financial statements described above, our responsibility includes expressing an opinion on whether the financial transactions and information reflected in the financial statements are, in all material respects, in compliance with the NATO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

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

*Opinion on Compliance*

In our opinion, in all material respects the financial transactions and information reflected in the financial statements are in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations

Brussels, 22 August 2017



Hervé-Adrien Metzger  
Chairman

22 August 2017

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**LETTER OF OBSERVATIONS AND RECOMMENDATIONS**

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

**FOR THE YEAR ENDED 31 DECEMBER 2016**



## **Introduction**

The International Board of Auditors for NATO (Board) audited the International Military Staff (IMS) Financial Statements for the year ended 31 December 2016, (IMSTAM(FC)-0010-2017, dated 30 March 2017), and issued an unqualified opinion on the financial statements and an unqualified opinion on compliance.

## **Observations and Recommendations**

During the audit, the Board identified one observation and provided one recommendation.

The observation is summarised below:

1. Some progress being made to achieve full compliance with the revised NATO Financial Regulations, particularly those Articles on Internal Control, Risk Management and Internal Audit.

The Board also followed up on the status of observations from the previous year's audit and noted that one was superseded by the current year observation and one was settled.

This Letter of Observations and Recommendations was formally cleared with the IMS, and the formal comments are included, with the Board's position on those comments where necessary (Appendix, Annex 3).



## 1. SOME PROGRESS BEING MADE TO ACHIEVE COMPLIANCE WITH THE NATO FINANCIAL REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT

### Reasoning

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

1.2 The revised NFRs are more explicit than the previous version in the areas of Risk Management (Article 11), Internal Control (Article 12), Internal Audit (Article 13) and the establishment of an Audit Advisory Panel (Article 16). They require the establishment of effective, efficient and economical risk management procedures, that there are necessary management functions in place to support effective internal control, and that NATO bodies have access to a permanent, adequately resourced, internal audit function that is compliant with internationally accepted Internal Auditing Standards. They also require the establishment of an Audit Advisory Panel. Furthermore, Article 3 requires, as a demonstration of responsibility and accountability, that both the annual Financial Statements and Statements of Internal Control be signed by both the NATO Head of Body and Financial Controller; and Article 25 authorizes the commitment of budgetary credits for goods and services to be rendered during the financial year.

1.3 The revised NFRs provide an opportunity for NATO bodies to solidify and codify their overall internal control frameworks, including risk management. They also provide internal audit functions 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. Importantly they also required a robust control environment in place around the preparation of Financial Statements to ensure the quality and accuracy of the financial information is of the highest standard as it is now publicly available.

### Observations

1.4 The Board found that the IMS has continued to make some progress towards achieving compliance with the revised NFRs, but some important steps are still needed.

1.5 This result, though, is not unexpected considering that the more detailed FRPs, which were required by Article 4 of the revised NFRs, were not approved until the end of February 2016. Furthermore, these changes to the NFRs are significant, and the Board understands that some time is needed to implement them properly. It is expected that in doing so will increase the likelihood that the benefits accruing to the IMS will be real, rather than just being an exercise to demonstrate compliance with the revised NFRs.



1.6 As a result, the IMS continues to be in a transition year in 2016. The Board expects compliance to be achieved in 2017. It has again 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 2016 as a result of these observations

1.7 The Board reports the status of the following areas:

Article 11 Risk Management

1.7.1 The Board found that the IMS had organised a workshop and a seminar on Risk Management. However, there is still no risk management policy, nor risk registers developed for the other IMS divisions except for the one developed in 2015 for the Office of the Financial Controller. The Board expects to see a risk management policy and more demonstrative progress on this in the coming year. Risk management policy and relevant documentation is essential in order to ensure and to clearly demonstrate to others that effective, efficient and economical risk management procedures are in place. Until the IMS develops a documented risk management policy and procedures, the Board will not be in a position to state that there is a system of risk management, in place that is in accordance with Article 11 of the revised NFRs.

1.7.2 The Office of the Financial Controller (OFC) developed, with the help of the NATO Communications and Information Agency (NCIA) Internal Audit, a risk register that identifies risks relevant to its department (OFC) only. The risk register developed, identifies risks relevant to the financial department, stating the controls in place without setting risk tolerance limits nor suggesting actions in case the risk is realised. In addition, the Board found in 2016 there were no risk registers developed for any of the other Divisions within the IMS, or for the IMS overall.

Article 12 Internal Control

1.7.3 Article 12 of the NFRs requires a periodic assessment and review of the risk and the sound functioning of the internal control system. FRP XII 3) (e) requires the Statement on Internal Control to make reference to the internal control framework used for the assessment.

1.7.4 The Board found that the IMS has not formally adopted a specific internal control framework that it will use to assess the system of internal control in place as required by FRP XII. A number of other NATO bodies, including ACO, ACT, NCIO, NETMA and NAPMA, have adopted The Committee of Sponsoring Organisations of the Treadway Commission (COSO) Framework. The adoption of a specific framework by these NATO bodies is an important step forward. It is essential in order to ensure and to clearly demonstrate to others that a complete system of internal control and risk management is in place. Until the IMS adopts a specific internal control framework, and completes its documentation, the Board will not be in a position to state that there is a full system of internal control in place that is in accordance with Article 12 of the revised NFRs.



Article 13 Internal Audit

1.7.5 As allowed under Article 13, the IMS engaged NCIA Internal Audit to assess the appropriateness of procedures in place for two specific areas: 1.) Budget process: efficiency and effectiveness of operations performed by the OFC, and 2.) The OFC Risk Assessment, including the development of an OFC risk register and OFC Internal Audit Plan for 2015-2017. There were also internal reviews performed in 2016 by the OFC related to the financial operations of a specific IMS office abroad and related to Morale and Welfare activities.

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

Article 16 Audit Advisory Panel

1.7.7 The Board found that the IMS established an Audit Advisory Panel as required by Article 16 in 2016.

**Recommendations**

1.8 The Board recommends that the:

- a) As required by FRP XII 3) (e), the IMS choose a specific internal control framework that it will use to assess its system of internal control. The assessment is required by Article 12 of the NFRs. Since other NATO entities, including ACO and ACT, have already adopted COSO as their internal control framework, and it is a framework that can be used by entities of all sizes, the IMS should consider adopting COSO as their internal control framework.
- b) The IMS continues its on-going work of assessing and documenting the system of internal control and risk management procedures to support compliance with NFR Articles 11 and 12, FRPs XI and XII, and the internal control framework that it chooses.
- c) The IMS prepare an entity-wide risk management policy throughout the organisation and that risk registers are developed and employed throughout all the IMS departments and operations in order to comply with the NFR Article 11 requirement to identify and evaluate key risks.
- d) As required by NFR Article 13 and FRP XIII, the IMS performs internal audit activities, through outsourcing if considered more cost effective, that fully evaluates internal control and risk management throughout the IMS, and that this work be clearly documented so as to be able to conclude as to the IMS's compliance against the NFRs and FRPs.



**FOLLOW-UP OF PREVIOUS YEAR'S OBSERVATIONS**

The Board reviewed the status of the observations and recommendations arising from a previous year's audit. The observation and its status are summarised in the table below.

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p><b>IMS 2015 FS audit report – IBA-AR(2016)04</b></p> <p><b>1. FURTHER STEPS ARE REQUIRED TO ACHIEVE FULL COMPLIANCE WITH THE REVISED NATO FINANCIAL REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT</b></p> <p><b>1.8 The Board recommends that the:</b></p> <p>a) IMS prepare an entity-wide risk management policy and that risk registers are developed and employed throughout all of the IMS departments and operations. In the Board's opinion, this should be coordinated to ensure consistent treatment across NATO Bodies.</p> <p>b) IMS develop a specific, internationally accepted, Internal Control Framework, and that there be a systematic and detailed documentation of internal control procedures supporting the framework. In the Board's opinion, this should be coordinated to ensure consistent treatment across NATO Bodies.</p> <p>c) IMS, through outsourcing if considered to be more cost effective, ensure internal audit activities are evaluating risk management and internal control throughout the the IMS, not just the OFC.</p> <p>d) IMS establishes an Audit Advisory Panel.</p>	<p>The Board noted that the IMS has established an Audit Advisory Panel but there is progress to be made to achieve compliance with the NATO Financial Regulations related to the articles on Internal Control, Risk Management and Internal Audit.</p>	<p>Observation <b>Superseded by current year observation 1.</b></p>
<p><b>IMS 2015 FS audit report – IBA-AR(2016)04</b></p> <p><b>2. SOME REPRESENTATION ALLOWANCE EXPENSES WERE NOT SUPPORTED BY VOUCHERS, AND ADVANCE FUNDING HAD BEEN PROVIDED BUT REPAYMENT HAD NOT YET BEEN SOUGHT</b></p> <p><b>2.5 The Board recommends that the:</b></p> <p>a) IMS ensure their internal guidelines on Representation Allowance be consistent with PO(2013)0154 in that there are no advances given and Representation Allowance expenditures are reimbursed only after the presentation of documentation supporting entitlement.</p> <p>b) IMS request repayment of the unsupported expenses from the beneficiary.</p>	<p>The IMS is not currently providing advances to the Representation Allowances recipients, and the Board in 2017 was provided with the supporting invoice for the 2015 representation allowance unsupported expense.</p>	<p>Observation <b>Settled.</b></p>



**INTERNATIONAL MILITARY STAFF (IMS) FORMAL COMMENTS ON THE  
LETTER OF OBSERVATIONS AND RECOMMENDATIONS AND THE  
INTERNATIONAL BOARD OF AUDITORS (BOARD) POSITIONS*****IMS's Formal Comments to recommendation Paragraph 1.8******Response to items 1.8(a) and 1.8(b)***

*Partly Agreed.*

*The IMS recognizes the continued IBAN interest in promoting the use of control frameworks across NATO. However, it should be noted that the "control framework" concept is not contained or mentioned in the NATO Council approved NATO Financial Regulations (NFRs). As such, there is no mandatory requirement from NATO Council stating that all NATO Bodies should adopt a control framework.*

*However, the control framework concept has been introduced into the new Financial Rules and Procedures (FRPs) as approved by the Budget Committee (BC) in 2016. The FRPs cover the NATO Bodies reporting to the BC, including the IMS.*

*Different approaches to control frameworks are possible, including the adaptation of existing mechanisms. The IBAN are promoting the "COSO" Framework. However, the costs of COSO compliance are likely to be substantial. In response to concerns about the potential costs, the BC agreed <sup>(1)</sup> that further deliberations on the requirement and purpose of a control framework should take place.*

*Given that FRPs are a BC responsibility, and that the BC has decided to review the requirement for a control framework, it would be premature at this stage for the IMS to invest resources into a COSO framework. The IMS will therefore await the outcome of the BC review and in the meantime continue to work towards full compliance with Articles 11 and 12 of the Council approved NFRs.*

*In the meantime it should be noted that the IMS already has a well-established system of internal control comprising many different elements. These include: ongoing scrutiny of objectives and outturns by the Executive Management Board; approval workflows and controls built-in to the IMS 'Oracle' Financial System; and extensively documented and well- promulgated IMS Standard Operating Procedures (SOPs).*

**Board's position**

The Board maintains its recommendations.

The Board supports the Budget Committee approved requirement in the revised FRPs to select an internal control framework against which NATO bodies will use

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<sup>(1)</sup> BC-D(2017)0116, Annex 1 Para 8. (Decision Sheet not issued as at date of this letter).



to assess their systems of internal control. Such frameworks are designed to be used by entities of all sizes, and it is advisable that a common internal control framework be used for all NATO bodies to increase efficiency and effectiveness.

**Response to item 1.8(c)**

*Agreed*

*The IMS Executive Coordinator (EXCO) has been appointed as the NFR Article 11 Risk Management coordinator. The EXCO will oversee adoption of divisional risk registers, and an IMS-wide risk management policy.*

**Response to item 1.8(d)**

*Agreed*

*The IMS will further promote internal audit activities, and recognizes the NFR Article 13.1 requirement that Internal Audit should assess the IMS Risk Management arrangements established in support of Article 11. However, such an assessment can only take place when our Article 11 Risk Management arrangements have been established.*

**IMS's General Comments**

*The year 2018 will see the IMS establish itself in the New NATO HQ. The move to the new HQ will take place alongside the implementation of the new IMS structure, Peacetime Establishment, and operational responsibilities. For example, the revised working arrangements include co-location and integration of certain IMS elements with the IS in the New NATO HQ.*

*The year 2018 should therefore be seen as a transition period. IMS progress toward full compliance is, to an extent, dependent on IMS operations reaching a steady state. Compliance with NFRs and FRPs should therefore be seen in this context.*

# **INTERNATIONAL MILITARY STAFF (IMS) FINANCIAL STATEMENTS 2016**

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



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## NATO UNCLASSIFIED

**Statement on Internal Control FY 2016**

1. The DGIMS exercises overall responsibility for the maintenance of a sound system of Risk Management and Internal Control, in accordance with Articles 11.1 and 12.1 of the NATO Financial Regulations (NFRs).
2. The IMS Financial Controller (FC), on behalf of DGIMS, is responsible for financial risk management, and for establishing financial risk management standards (NFR Financial Rules and Procedures XI.3 and XI.4). In addition, the FC is responsible for the system of internal financial and budgetary control (NFR 12.2).
3. The systems of Risk Management and Internal Financial Control are based on an on-going process designed to identify the principal risks to the achievement of IMS policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 December 2016 and up to the date of these Financial Statements.
4. The systems of Risk Management and Internal Financial Control are designed to manage and reduce - rather than entirely eliminate - risk at the IMS. Risk Management and Internal Financial Controls can therefore provide only a reasonable, but not absolute, assurance of effectiveness. The risks addressed at the IMS include risks to: IMS operational aims and objectives; compliance with the NFRs; the reliability of financial information; and the safeguarding of assets.
5. The systems of Risk Management and Financial Control provide an internal control framework which includes the following elements:
  - a. Senior Managers and Finance Officials regularly scrutinize operational and financial performance;
  - b. Policies, rules, and procedures governing, operational and financial activities are extensively documented and promulgated;
  - c. Staff working throughout the IMS are suitably qualified and trained. This includes having a sound understanding of their responsibilities in accordance with IMS Standard Operating Procedures and NATO Financial Regulations;
  - d. The usage of a common accounting system, FinS, having built-in approval workflows and controls together with audit trails, ensures that transactions are recorded consistently and accurately based on the Military Budget Chart of Accounts;
  - e. Administrative tasks are 'outsourced' to the NATO International Staff (IS) where practical. This is also a measure of efficiency as it avoids the duplication of services. The tasks of guarding the premises, operating and maintaining the facilities, arranging for utilities, and administering entitlements and processing payrolls for civilian personnel are carried out by the relevant services of the IS. The IMS relies in the first instance, on the internal review of these services as conducted by the IS;

## NATO UNCLASSIFIED

- f. Three times a year, interim Budgetary Execution Reports are presented to, and reviewed by, the Budget Committee;
- g. On a periodic basis, Internal Audit Service providers are asked to perform audits on behalf of the IMS Financial Controller; and
- h. Recommendations and observations arising from external audits and internal audits are acted upon appropriately and promptly.
6. The recently revised NATO Financial Regulations (NFRs) and Financial Rules and Procedures (FRPs), are important pillars of the IMS internal control framework. The NFRs were endorsed by the Nations in May 2015, and the FRPs were approved by the Budget Committee in February 2016. As such, 2017 will be the first full financial year under the new NFR/FRP framework.
7. DGIMS has the responsibility for reviewing the effectiveness of the systems of internal control. Assistance on financial matters is provided by the Financial Controller. Reviews are informed by the work of IMS Senior Managers, External Audits, and Internal Audits.
8. No significant issues regarding financial or operational matters were raised in 2016. The IBAN External Audit of the 2015 Financial Statements - undertaken in 2016 - resulted in an unqualified opinion. However, a number of observations were raised by the IBAN in relation to compliance with the recently revised NFRs. The IBAN made recommendations concerning risk management policies, internal audit and control, and the creation of an Audit Advisory Panel.
9. The IMS engaged in 2016 an external consultant to begin the process of developing enhanced Risk Management procedures, working towards full compliance with the new NFRs and FRPs. Overall, the IMS is satisfied that the Risk Management and Internal Financial Control systems in operation across the IMS during the year 2016 were reasonably adequate and effective.
10. The process of review and improvement will continue into 2017. However, as noted by the Nations<sup>1</sup> 'the scale of the challenge is significant' and 'it could take until Financial Year 2018 for NATO Bodies to be in full compliance'.



Jan Broeks  
Lieutenant General, Royal Netherlands Army  
Director General  
International Military Staff



Peter Bontinck  
Financial Controller  
International Military Staff

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<sup>1</sup> C-M(2016)0077 Paragraph 5.2 dated 12<sup>th</sup> December 2016.



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**INTRODUCTION TO THE 2016 IMS FINANCIAL STATEMENTS**

1. The International Military Staff (IMS), is the core Military Staff in NATO HQ. The IMS works in coordination with the Nations, Strategic Commands (SCs), the International Staff (IS) and other bodies.
2. The role of the IMS is to provide the best possible strategic military advice and staff support for the Military Committee (MC). It is responsible for preparing assessments and studies on NATO military issues, identifying areas of strategic and operational interest, and proposing courses of action. Its work enables the Military Representatives of the Alliance's 28 member countries to deal with issues rapidly and effectively, ensuring that the MC provides the North Atlantic Council (NAC) - NATO's principal political decision-making body - with consensus-based advice on all military aspects of policy, operations and transformation within the Alliance.
3. The IMS Financial Statements 2016 have been produced in accordance with the NATO Accounting Framework. This Accounting Framework is based on International Public Sector Accounting Standards (IPSAS), as adapted by NATO under C-M(2013)0039. The NATO Financial Regulations (NFRs) were amended by the Nations in May 15 (C-M(2015)0025), and the associated Financial Rules and Procedures (FRPs) were approved by the Budget Committee in Feb 16 (BC-D(2015)0260-REV1). The Financial Statements are presented in the improved common layout applying the RPPB Notice AC/335-N(2015)0088 dated 11 December 2015.
4. The expenses were charged over six budgets covering the: IMS (Budget Code 301); NATO Standardization Office (NSO, BC 302); Partnership for Peace (PfP, BC 504); Mediterranean Dialogue (MD, BC 508); Istanbul Cooperation Initiative (ICI, BC 514); and Other Military Cooperation (OMC, BC 524). The Statements also cover the NATO Iraq Trust Fund.
5. The Financial Statements reflect the financial position, the financial performance, the budget execution, the cash flow and the change in net assets for the year. Notes disclose the significant variations and changes, following the materiality principle. The statements also take into account relevant comments made by the IBAN during their audits of prior years.
6. The IMS Financial Controller (FC) is also the FC of the Science and Technology Organization (STO) and the NATO Defence College (NDC). The IMS, STO and NDC are therefore related parties under a common Financial Controller.
7. In order to efficiently and effectively execute its budget the IMS has instructed the NDC and the STO to undertake certain outreach activities which are accounted for as Reimbursable Activities. Subject to the provisions of the applicable IPSAS, the revenue and expenditure made through the reimbursable budgets are fully accounted for in the IMS

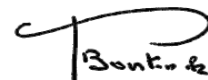
## NATO UNCLASSIFIED

financial statements with corresponding entries in the separate NDC and STO financial statements.

8. As the NATO Accounting Framework is continuously evolving, compliance is a dynamic process that requires staff to keep updating their knowledge. Also it requires that the accounting tools are suitably maintained and, when appropriate, upgraded. An on-going challenge is that NATO Entities undertake financial reporting in a consistent way. Therefore the IMS FC, maintains a dialogue with the other NATO Entities and plays a full part in the NATO Accounting Working Group and the Working Group of Financial Controllers. The IMS FC remains committed to developing its Financial Reporting expertise and producing Financial Statements fully compliant with the applicable standards and instructions as issued by Nations. The IMS FC will also continue to work openly and constructively with the IBAN.



Jan Broeks  
Lieutenant General, Royal Netherlands Army  
Director General  
International Military Staff



Peter Bontinck  
Financial Controller  
International Military Staff

## NATO UNCLASSIFIED

**IMS**  
**STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016**  
(in euro)

		<u>2016</u>	<u>2015</u>
<b>ASSETS</b>			
<b>Current Assets</b>	Notes		
Cash and Cash Equivalents	3	15,057,262	12,735,660
Receivables	4	1,548,465	1,465,480
Prepayments	5	763,817	825,216
		<u>17,369,544</u>	<u>15,026,356</u>
<b>Non-current Assets</b>			
Property Plant and Equipment	6	112,013	112,110
Intangible assets	6	247,681	291,177
		<u>359,695</u>	<u>403,287</u>
<b>TOTAL ASSETS</b>		<u><b>17,729,238</b></u>	<u><b>15,429,643</b></u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Payables	7	8,751,665	2,085,854
Deferred revenue	8	8,617,878	12,940,503
		<u>17,369,544</u>	<u>15,026,356</u>
<b>Non-current Liabilities</b>			
Provisions	9	359,695	403,287
<b>TOTAL LIABILITIES</b>		<u><b>17,729,238</b></u>	<u><b>15,429,643</b></u>

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**IMS**  
**STATEMENT OF FINANCIAL PERFORMANCE AS AT 31 DECEMBER 2016**  
(in euro)

		<u>2016</u>	<u>2015</u>
	Notes		
<b>Revenue</b>			
Revenue	10a	25,879,740	23,523,540
Financial Revenue	10b	8,127	11,597
Other revenue	10c	117,995	76,104
<b>Total Revenue</b>		<u>26,005,861</u>	<u>23,611,241</u>
<b>Expenses</b>			
Personnel	11a	(20,944,574)	(18,344,201)
Contractual supplies and services	11b	(4,935,166)	(5,179,340)
Capital and investments budgeting	11c	-	-
Depreciation and amortization	11d	(117,995)	(76,104)
Finance costs	11e	(8,127)	(11,597)
<b>Total Expenses</b>		<u>(26,005,861)</u>	<u>(23,611,241)</u>
<b>Surplus/(Deficit) for the period</b>	12	<u>0</u>	<u>0</u>

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**IMS**  
**CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016**

	31/12/2016 Euro	31/12/2015 Euro
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<i>Surplus/Deficit</i>	-	-
<b>Non-cash movements</b>		
Depreciation	117,995	76,104
Increase /(decrease) in payables	6,665,812	(167,545)
Increase/ (decrease) in other current liabilities	(4,322,625)	(183,671)
Decrease/ (Increase) in receivables	(82,986)	(1,337,474)
(Gains)/losses on sale of property, plant and equipment	-	-
(Gains)/losses on transfer of property, plant and equipment	-	-
Decrease/ (Increase) in other current assets	61,400	193,809
Increase/ (decrease) in Long-Term provisions	(43,592)	270,364
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>2,396,004</b>	<b>(1,148,413)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property plant and equipment	(74,403)	(346,468)
Proceeds from sale of property plant and equipment	-	-
Cash Advances	-	-
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(74,403)</b>	<b>(346,468)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from borrowings	-	-
Repayment of borrowings	-	-
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>-</b>	<b>-</b>
	31/12/16 Euro	31/12/15 Euro
Year-end cash on hand and balances with banks	15,057,262	12,735,660
Short term investments	-	-

**Notes to the Cash Flow Statement***Cash and Cash Equivalents*

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

*Property, Plant and Equipment*

During the period, payments of EUR 74,403 were made to purchase non current assets.

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**IMS**  
**STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 31**  
**DECEMBER 2016**

	Capital assets	Reserves	Accumulated surplus/deficit	Total
<b>Balance at 31 December 2015</b>	-	-	-	-
Changes in accounting policy	-	-	-	-
<b>Restated balance</b>	-	-	-	-
Net gains/(losses) recognised directly in net assets/equity	-	-	-	-
Exchange difference on translating foreign operations	-	-	-	-
Gain on property revaluation	-	-	-	-
Surplus/(deficit) for the period	-	-	-	-
<b>Change in net assets for the year ended 31 December 2016</b>	-	-	-	-
<b>Balance at 31 December 2016</b>	-	-	-	-

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**NOTES**

## Note 1: Significant Accounting Policies

*A. Basis of preparation*

The Financial Statements 2016 have been produced in accordance with the NATO Accounting Framework. This Accounting Framework is based on International Public Sector Accounting Standards (IPSAS), as adapted by NATO under C-M(2016)0023 dated 21 April 2016. The NATO Financial Regulations were amended by the Nations in May 2015 (C-M(2015)0025), and the associated Financial Rules and Procedures (FRPs) were approved by the Budget Committee in February 2016 (BCD(2015)0260-REV1). The Financial Statements are presented in the improved common layout applying the RPPB Notice AC/335-N(205)0088 dated 11 December 2015.

The financial statements have been prepared on a going-concern basis. The final implementation during 2016 of the IMS Peacetime Establishment (PE) review did not change the core mission of the IMS – support to the Military Committee.

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

The financial statements cover the period from the 1st January to 31 December.

*B. Accounting estimates and judgements*

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

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

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*C. Changes in accounting policy and standards*

The same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria set in IPSAS 3. For the 2016 financial statements, the accounting policies have been applied consistently throughout the reporting period.

The impacts of any other change to the entity accounting policy have been identified in the notes under the appropriate headings.

*D. Changes in pronouncements*

The following IPSAS are not relevant for the IMS Financial Statements 2016: IPSAS 26 - Impairment of Cash-Generating Assets, IPSAS 27 – Agriculture. The following IPSAS have no material effect on the financial statements: IPSAS 5, IPSAS 6, IPSAS 7, IPSAS 8, IPSAS 10, IPSAS 11, IPSAS 16, IPSAS 18, and IPSAS 32.

Six new IPSAS pronouncements were issued in 2015 or 2016 covering: IPSAS 34 Separate Financial Statements; IPSAS 35 - Consolidated Financial Statements; IPSAS 36 - Investments in Associates and Joint Ventures; IPSAS 37 - Joint Arrangements; and IPSAS 38 - Disclosure of Interests in Other Entities; and IPSAS 39 Employee Benefits.

The standards are effective for annual financial statements covering periods beginning on or after 1 January 2017. They have not been applied in preparation of the 2016 Financial Statements. The new standards are not expected to have a material impact on the presentation of the Financial Statements.

*E. Foreign currency transactions*

The functional and reporting currency used throughout these Financial Statements is the Euro (€). Foreign currency transactions are accounted for at the NATO exchange rates prevailing on the date of the transactions. Monetary assets and liabilities at year-end which were denominated in foreign currencies are assessed for materiality and if material are translated into Euro using the NATO rates of exchange applicable as at 31 December 2016. Realised and unrealised gains and losses resulting from the settlement of such transactions and from the revaluation at the reporting dates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Financial Position and Performance. An assessment was made of all assets and liabilities in foreign currencies as of 31 December 2016. The amount of unrealised losses is negligible and deemed immaterial.

*F. Consolidation*

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

While Morale & Welfare activities are under the control of the head of the NATO body, in accordance with the NATO Accounting Framework, they have not been consolidated into



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these financial statements. A separate activity report as required by the NFRs is submitted to the Military Budget Committee.

### *G. Services in Kind*

The IMS received services in-kind in the form of military personnel provided by the NATO nations. Such personnel are assigned to specific, military positions on the Peacetime Establishments (PE) of the IMS (reference Note 14).

### *H. Financial instruments*

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

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

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

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

The maximum exposure as at 31 December 2016 is equal to the total amount of bank balances, short-term deposits, and receivables disclosed in the Statement of Financial Position. If receivables are considered uncollectible, they are adequately provided for. There is a very limited credit risk associated with the realization of these instruments.

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

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

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

### *I. Leases*

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

All other leases are classified as operating leases.

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

### *J. Assets – Current Asset*

The entity holds the following types of current assets.

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*a. Cash and Cash Equivalents*

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

*b. Receivables*

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

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

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

*c. Inventories*

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

*d. Prepayments*

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

*K. Non Current Assets*

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

*a. Financial Assets*

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

*b. Property, plant and equipment.*

Basic Principles:

- All property, plant and equipment is stated at historical cost less accumulated depreciation and any recognized impairment loss;
- No external evaluator to set values for assets;
- The capitalization threshold has been set at € 5,000 per item unless specifically stated otherwise;
- No grouping of assets;

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- Depreciation is calculated on a straight-line basis; however the depreciable life of an asset is dependent on the particular category it is in.
- Full depreciation in the month of acquisition, and nil in the month of disposal.
- As an accounting principle, land cannot be depreciated.

For assets acquired on or after 1 January 2013 the NATO Accounting Framework as stated in CM (2016)0023 is applied. For legacy assets the policy that was in force up to and including 31 December 2012 is applied.

The major differences are summarised in the following table:

	<b>Before 31<sup>st</sup> December 2012</b>	<b>After 1<sup>st</sup> of January 2013</b>
Recognition Criteria	IPSAS	IPSAS as adapted by CM (2016)0023
Useful Life	As in C-M (2013)0039, except for vehicles (7 years), Communications and CIS (4 years), Networks (10 years)	As in CM (2016)0023
Thresholds	€5,000 per item except for land and buildings (€100,000)	€5,000 per item except for land and buildings (€200,000)

*c. Impairment*

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

*d. Intangible Assets.*

Prior to 31 December 2012, intangibles were reviewed on a case by case basis against IPSAS 31 requirements. The IMS had no intangibles that met the criteria for capitalization up to 31 December 2012.

Post 1 January 2013, the NATO Accounting Framework as stated in CM (2016)0023 is applied, with the main difference being the recognition criteria. Based on the nature of the business the only potential intangible assets that the IMS might have are in the software category. It has been determined that the useful life of such software is 4 years and that they are amortized on a straight line basis. In general software is considered to be internally developed, however an assessment is made for each individual case to determine whether the asset can be considered as acquired off the shelf.

*L. Current liabilities*

*a. Payables*

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

*b. Deferred revenue and Advances.*

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

*c. Employee Benefits – Post Employment benefits*

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

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

Defined Contribution plans

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

Defined Benefit plan

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

Continued Medical Coverage

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

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

*M. Non-Current Liabilities*

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

Provisions are recognized when the entity has a legal or constructive obligation as a result of past event, and where it is probable that an outflow of resources will be required

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to settle the obligation, and where a reliable estimate of the amount of the obligation can be made.

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

*b. Contingent Liabilities*

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly in the control of the entity. A contingent liability is not recognised as a liability because it is yet to be confirmed whether there is a present obligation that could lead to a possible outflow of resources or a sufficiently reliable estimate of the obligation cannot be made.

*N. Net Assets*

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

*O. Revenue and expense recognition*

*a. Revenue*

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

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

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

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

Bank interests earned and accrued as of 31 December 2016, exchange rate revenue due to transactions in foreign currency and realized exchange rate revenue in accordance with the entity Policy IPSAS 4 - Effect of the foreign exchange rate - are recognized as financial revenue.

*b. Expenses*

Budgetary expenses are recognized when occurred. Accruing of expenses is based on the concept of accruing when goods and services are received. Bank charges, exchange

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rate losses due to transactions in foreign currency and realized exchange rate losses are recognized as financial expenses.

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

*P. Surplus or Deficit for the Period*

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

*Q. Trust Funds*

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

*R. Other Issues – Related Party Disclosures*

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

Note 2: Accounting Judgements and Estimates

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

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**Notes to the Statement of Financial Position**

## Note 3 : Cash and Cash Equivalents

	31-Dec-16	31-Dec-15
Petty Cash and Advances		
Petty Cash	1,200	1,200
Advances	25,000	25,000
<b>Total Petty Cash and Advances</b>	<b>26,200</b>	<b>26,200</b>
Current Bank Accounts IMS	12,810,222	3,544,935
Current Bank Accounts NATO Iraq Trust	1,360,263	1,707,536
Cash Equivalents	860,577	7,456,990
<b>Total Cash and Cash Equivalents</b>	<b>15,057,262</b>	<b>12,735,660</b>

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

b. Current Bank Accounts are held in euros. Deposits are partly held in interest-bearing current bank accounts in immediately available funds. The accounts reflect the situation on the bank statements. Cash holdings are determined by the timing of the receipt of national contributions. Calls are issued simultaneously for the budgets of all NATO Bodies. Typically 25% of funds are received in advance of the year, with the remaining 75% in March or April of the current year. The second Call 2016 was received on the 27<sup>th</sup> of December 2016.

c. Cash Equivalents are held in euros and is the money invested on a short term deposit or business account. For cash and cash equivalents, there are restrictions on their use. The decrease is explained by the maximum threshold of 1 MEUR imposed by the banks on saving accounts.

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## Note 4 : Receivables

	31-Dec-16	31-Dec-15
Receivables Budget Increases		
Transfers from OMC to PfP	28,450	
<b>Total Receivables Budget Increases</b>	<b>28,450</b>	<b>140,000</b>
Receivables from Non-Consolidated NATO Entities		
Receivable from CSO	1,500,000	1,100,000
<b>Total Receivables from Non-Consolidated NATO Entities</b>	<b>1,500,000</b>	<b>1,100,000</b>
Other Receivables/Recoverables		
Receivables from Staff Members	32	158
Receivables Financial Results	1,991	0
Accrued Revenue	1,540	8,130
Receivables from Third Parties	16,452	217,192
<b>Total Other Receivables/Recoverables</b>	<b>20,015</b>	<b>225,480</b>
<b>Total Receivables</b>	<b>1,548,465</b>	<b>1,465,480</b>

a. Receivables Budget Increases

Reflect the actual execution on the Outreach frameworks.

b. Receivables from Non-Consolidated NATO Entities

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

c. Other Receivables

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

The Financial Results receivable of EUR 1,991 represents the extent to which financial expenses (Note 11e), were in excess of financial revenue (Note 10b). The shortfall is a receivable from the Nations.

Accrued revenue consists of bank interest that is earned in 2016, but for which the cash is received in 2017. The decrease is explained by the lower interest rates and the restrictions on term deposit accounts.

The Receivables from third parties includes several small invoices for procurement and services on behalf of third parties.



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## Note 5 : Prepayments and Miscellaneous Assets

	31-Dec-16	31-Dec-15
Non-Assigned Expenditures	100,817	135,359
Advances and Prepayments to suppliers	663,000	689,857
<b>Total Prepayments and Miscellaneous Assets</b>	<b>763,817</b>	<b>825,216</b>

a. The account "Non-Assigned Expenditures" is used for temporary posting of expenditures, which cannot be assigned yet to the appropriate expenditure account because they belong to the next fiscal year. The most significant element is the instalments for education allowances that staff members have asked to cover the entire school year 2016-2017 (€ 90,938.43). The remainder includes airplane tickets for missions starting in 2017 as well as vehicle insurance for the same year.

b. Advances and Prepayments are mainly in respect of advance payments made to suppliers and other entities. The account includes the contractually agreed Working Capital deposit at the NCIA for the IMS POW. It is reviewed yearly and adjusted according to the expected requirements for the year.

## Note 6: Non-Current Assets

As of 1st of January 2013 an IPSAS adaption is applicable according to C-M (2013)0039 and CM (2016)0023. This policy was applied for the Non-Current Assets acquired in 2016. The policy that was in place up to and including 31 December 2012 applies for property plant and equipment acquired prior to 2013.

Opening balances have been calculated as of 1 January 2016 and all subsequent changes to arrive at the closing balance are disclosed below:

	Furniture	Transport	Installed	Software	Totals
	Equipment	Equipment	Equipment		
Opening Balance	-	108,275	3,835	291,177	403,287
Additions	-	37,723	-	36,680	74,403
Disposals	-	-	-	-	-
Depreciation	-	37,039	780	80,176	117,995
<b>Closing Balance</b>	<b>-</b>	<b>108,958</b>	<b>3,055</b>	<b>247,681</b>	<b>359,695</b>
Gross Carrying Amount	9,193	358,880	7,800	360,630	736,503
Accumulated Depreciation	9,193	249,922	4,745	112,949	376,808
<b>Net Carrying Amount</b>	<b>-</b>	<b>108,958</b>	<b>3,055</b>	<b>247,681</b>	<b>359,695</b>

a. The assets included under the furniture category are used for storing servers and other similar items.

b. Transport equipment includes the staff motor vehicles of the IMS and the NSO. One new vehicles was recognized in 2016.

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c. Installed equipment includes a machine that is used for binding in the IMS Registry Services.

d. Software includes internally developed bespoke assets for the requirements of the NHQC3S. Major upgrades to existing software packages were recognized in 2016.

More details are included in Annex 2.

## Note 7: Payables

	31-Dec-16	31-Dec-15
Payables to Suppliers	6,562,440	58,243
Accruals	2,188,239	2,025,198
<b>Total Payable to Suppliers</b>	<b>8,750,679</b>	<b>2,083,440</b>
Payables to Staff Members	987	1,023
Other Payables	0	1,390
<b>Total Other Payables</b>	<b>987</b>	<b>2,413</b>
 <b>Total Payables</b>	 <b>8,751,665</b>	 <b>2,085,854</b>

a. Payables to suppliers includes routine invoices that, due to the very late arrival of the Second Call for contributions 2016 (27<sup>th</sup> of December 2016), remained unpaid until January 2017. The amounts mostly relate to HQ services provided by the NATO International Staff.

The accruals have been split over two accounts. Account 231900 (€2,156,915) is the default AP accrual account used in the accounting system. The main components of the accruals are the IMS POW, the NCIA SLA and outreach activities.

The assessed accruals have been charged to account 231950 (€31,324) in order to make the distinction at month end reconciliation between the sub ledger and general ledger. They include mostly education allowance and overtime for the IMS and NSO staff members.

b. Other Payables

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

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## Note 8: Deferred Revenue and Advance Contributions

	31-Dec-16	31-Dec-15
Deferred Revenue		
Deferred Revenue (See also Note 10)	872,216	4,243,780
Deferred Revenue Trust Funds	328,418	1,906,279
Advanced Contributions for next FY	6,500,000	6,100,000
<b>Total Deferred Revenue</b>	<b>7,700,634</b>	<b>12,250,059</b>
Liabilities from Lapses	<b>502,623</b>	<b>90,540</b>
Liabilities from Operational Results	<b>86,171</b>	<b>86,959</b>
Liabilities from Financial Results	<b>0</b>	<b>29,901</b>
Liabilities from Budget Decreases		
Transfers IMS to ACO	300,000	
Transfers OMC to PfP	28,450	
<b>Total Liabilities from Budget Decreases</b>	<b>328,450</b>	<b>483,045</b>
<b>Total Deferred Revenue and Advance Contributions</b>	<b>8,617,878</b>	<b>12,940,503</b>

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

The deferred revenue for trust funds is the corresponding liability for the cash received by nations to fund the NATO-Iraq Trust Fund. It also includes the accrued bank interest and bank charges. See also Annex 3.

The Advanced Contributions are called for FY 2017 and represent 25% of the provisional BA1 for 2017.

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

c. The Liabilities from Operational Results include the miscellaneous income (€ 29,499), which is mostly related to a US FMS Programme and the 2016 NCIA Service Level Agreement.

Additionally the accrual write-off (€ 56,672) i.e. where the invoice turned out to be lower than the estimated accrual amount, has been posted here. In accordance with IMS Budget Group policy the amount is shown separately for reason of clarity. It is accounted for by type, cost share, budget and year. All listed accrual write-off are related to FY 2016.

d. The Liabilities from Budget Decreases are the transfers out of IMS budget authorizations, in favour of ACO budgets. It is a liability as it was not taken into account in the 2<sup>nd</sup> Call for Contribution 2016, i.e. after BA3. Amounts became available for transfer due to the postponement of O&M expenditures and lower than expected spending on outreach activities and travel.

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## Note 9: Non – Current Liabilities (Depreciation Reserve)

Represents the Net Carrying amount of PP&E and Intangible Assets as of 31st December 2016. Similarly to the Current Deferred revenue it is owed to Nations, because the corresponding expenses have not been incurred yet. The liability is decreased with the annual depreciation/amortization and increased with any new acquisitions. A summary is provided below.

	Furniture	Transport Equipment	Installed Equipment	Software	Totals
Gross Carrying Amount	9,193	358,880	7,800	360,630	736,503
Accumulated Depreciation	9,193	249,922	4,745	112,949	376,808
<b>Net Carrying Amount</b>	<b>-</b>	<b>108,958</b>	<b>3,055</b>	<b>247,681</b>	<b>359,695</b>

**Notes to the Statement of Financial Performance**

## Note 10: Revenue

	31-Dec-16	31-Dec-15
Revenue from Contributions	25,879,740	23,523,540
Financial Revenue	8,127	11,597
Revenue for Depreciation	117,995	76,104
<b>Total Revenue (See also Note 10)</b>	<b>26,005,861</b>	<b>23,611,241</b>

a. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably. Contributions when called are booked as an advance under deferred revenue and subsequently recognised as revenue when it is earned. All revenue is recognised as revenue from exchange transactions and is matched with the incurred expenses against the International Military Staff Budget (301), NATO Standardisation Office Budget (302), Partnership for Peace Budget (504), Mediterranean Dialogue Budget (508), the Istanbul Cooperation Initiative Budget (514) and the Other Military Cooperation Budget (524).

b. Financial Revenue represents bank interest and realised currency gains. Financial Revenue is used to cover finance costs to the extent possible (Note 11e). However, in 2016, finance costs were in excess of revenue by EUR 1,991. The balance is recognised as a receivable from the Nations (Note 4c).

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

**Reconciliation between Budget Revenue and Deferred Revenue.**

The table below explains to what extent the deferred revenue from previous years and the net calls made in 2016 for the annual budgets are recognized as budget operating revenue in the fiscal year. The remaining balance is deferred revenue for the funds that are carried forward to future years, payables for the annual budgets credits that are lapsed, payables for budget decreases and receivables for budget increases.

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	31-Dec-16	31-Dec-15
<b>Deferred revenue opening balance</b>		<b>4,243,780</b>
Contributions called for 2016		
Call 1 FC(CC)(2016)0012(MB-01) - GERMANY	17,538,902	
Call 2 FC(CC)(2016)0012(MB-02) - GERMANY	5,846,300	
Total Contributions Called	<b>23,385,202</b>	
Budget expenses in 2016	<b>(25,954,143)</b>	
Lapses	<b>(502,623)</b>	
Budget increases	<b>28,450</b>	
Budget decreases	<b>(328,450)</b>	
<b>Deferred revenue Closing Balance</b>	<b>872,216</b>	

## Note 11: Expenses

	31-Dec-16	31-Dec-15
Personnel	20,944,574	18,344,201
Contractual Supplies and Services	4,935,166	5,179,340
Capital and Investments	0	0
Depreciation and Amortization	117,995	76,104
Finance Cost	8,127	11,597
<b>Total Expenses</b>	<b>26,005,861</b>	<b>23,611,241</b>

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

	31-Dec-16	31-Dec-15
Employee Benefits	9,295,989	9,228,061
IMS POW	6,489,371	4,423,098
Admin Bill	3,952,820	3,824,921
Consultants and Contractors	412,540	164,518
MOUS	293,684	254,660
Outreach	336,307	278,055
Recruitment and Separation	48,027	32,118
Training	91,202	90,620
Other Costs	24,634	48,150
<b>Total Expenses</b>	<b>20,944,574</b>	<b>18,344,201</b>

The increase in personnel expenses (Chapter 1) is explained by the significantly improved execution rates on the IMS POW as well as one time consultant requirements mainly for Phase one of the NATO Command Structure review.

b. Contractual Supplies and Services (Chapter 2) are expenses required for administrative support to the Military Committee. Includes expenses for general administrative overheads, and the maintenance costs of buildings/grounds, communications and information systems, transportation, travel expenses,

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representation/hospitality and miscellaneous expenses. The expenses are further broken down in the following table:

	31-Dec-16	31-Dec-15
CIS	1,960,394	2,059,519
Outreach	1,476,652	1,502,055
Utilities,Maintenance and Furniture	731,652	798,767
Travel and Hospitality	604,240	614,394
Rent/Lease	61,538	62,867
Office Supplies and Reference		
Materials	36,291	87,964
Services	64,399	53,774
<b>Total Expenses</b>	<b>4,935,166</b>	<b>5,179,340</b>

The expenses have decreased due to postponement of O&M expenditures because of the move to the new NATO HQ.

### Operating Leases

Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term and are included in Contractual Supplies and Services expenses.

The IMS has 4 rental/lease contracts in 2016 that have been classified as operating leases as they do not transfer substantially all the risks and rewards incidental to ownership. The classification has been based on the fact that the ownership is not transferred by the end of the lease term, the lease term is not for the majority of the item's estimated economic life and the leases do not contain a bargain purchase option. This approach is reviewed every year.

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

- Contracts IMS 2013-003/004/005 for copiers for a period of 3 years with a yearly cost of 60,265 EUR;

- Contract IMS 2012-004 for an armored vehicle signed January 2013 for a period of 4 years, with a yearly cost of 54,000 EUR;

c. Capital and Investments expenditures on the statement of financial performance are items with a value above EUR 5,000 but which do not meet the control recognition criteria for assets. There were no such items in 2016.

d. The depreciation/amortization for 2016 calculated on a straight line basis and summarized below:

	Furniture	Transport Equipment	Installed Equipment	Software	Totals
Depreciation/Amortization 2016	-	37,039	780	80,176	<b>117,995</b>
Depreciation/Amortization 2015	-	42,551	780	32,773	<b>76,104</b>

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e. Finance costs are recognised to the extent that they are covered by financial revenue (EUR 8,127, Note 10b). However, actual total finance costs in 2016 were EUR 10,118. The shortfall of EUR 1,991 represents a receivable from the Nations (Note 4c). Finance costs include bank charges and realised exchange rate losses.

## Note 12: Surplus or deficit for the Period

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

## Note 13: Related Parties

The key management personnel includes: the DG IMS, Directors, and Heads of Independent Offices. They are all rotated, typically every three years, and with the exception of the Financial Controller, have only management oversight of routine operating and maintenance activities. The detailed work related to these tasks tends to be undertaken by staff officers. The IMS Financial Controller is also the Financial Controller of the Science and Technology Organisation (STO) and the NATO Defence College (NDC). The IMS, STO and NDC are therefore related parties under a common Financial Controller. A related party transaction is recognised as a receivable: a temporary cash loan was made to the CSO due to delays in the second Call for Contributions (Note 4).

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

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

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

- The appropriate staffs, drawing on their professional competence, lead on carrying out the related day-to-day tasks rather than key personnel;
- There is segregation of duties for example requirements definition is separate from the procurement and contracting function, and also a number internal actors are involved in staffing an issue for key personnel decision(s);
- Maximum use is made of competition including advertising via the NATO website;
- Documentation trails are maintained for all decisions and there are compliance checks against the relevant NATO regulations;
- The Internal Audit Service undertakes periodic independent reviews.

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## Note 14: Employee disclosure

**Peacetime Establishment (PE)**

	Total Approved PE - IMS	Filled Positions - IMS	Total Approved PE - NSO	Filled Positions - NSO
Civilians	85	81	18	16
Military	328	282	27	22
Voluntary National Contribution (VNC)	20	19	0	
Non Ceiling Posts	65	61	2	2
Local Wage Rate (LWR)		1		

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

**Employee Benefits**

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

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

Certain employees participate in the Defined Contribution Pension Scheme (DCPS) administered by NATO. Contributions to these Plans are limited to matching the employees' contributions for current service. Other employees participate in NATO's Defined Pension Scheme; a portion of their salaries is deducted and contributed to the annual financing of this Plan. These contributions are expensed during the year in which the services are rendered and represent the total pension obligation of the entity. The assets and liabilities for the NATO's Defined Benefit Pension Scheme and the RMCf are accounted for centrally at NATO Headquarters by the International Staff and therefore are not recognised in these financial statements. Employee Benefits are summarised in the following table.

	31-Dec-16	31-Dec-15
Employee Benefits	8,938,295	8,898,750
Providend Fund	-	2,975
DCPS	357,695	326,336
<b>Total Expenses</b>	<b>9,295,989</b>	<b>9,228,061</b>

**Untaken Leave**

The Balance of untaken leave at the end of 2016 was 30 days for NSO, and 424 days for IMS. The associated values are EUR 7,500 and EUR 82,000 respectively.



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No accrual entries are made, as the amounts are not material, and any adjustments would be largely offset by compensating entries in the subsequent year.

There are management procedures in place in the IMS and NSO, ensuring that all leave is taken before 30<sup>th</sup> April the following year. Only in exceptional circumstances the outstanding balance is allowed to be carried forward; however it is forfeited if not taken by 31<sup>st</sup> of October. Normally at final departure there is no compensation for leave not taken, unless it has not been possible to take the leave entitlement due to supporting a Council approved operation/mission, or an extended period of sick leave. However that compensation does not exceed 15 days for the first 5 years of service, increased by one additional day for each year of service thereafter up to a maximum of 30 days. Measures are also taken to ensure that all staff takes their leave before their date of departure. The efficiency of these measures was proven in 2016, when no leave was paid at final departure.

#### Note 15 Representation Allowance

Representation Allowance is available to certain designated NATO high officials whose position entails responsibility for maintaining relationships of value to NATO. Representation Allowance can be used to complement national funds and is made available to support social events and catering. In 2016 three senior IMS officials received Representation Allowances totalling EUR 31,697.

#### Note 16 Write Off

In 2016 there are no write-offs that meet the disclosure criteria in the NATO Financial Regulations (Art. 17).

#### Note 17: MWA Activities

The regulation of MWAs is governed by PO(97)98 and MBC-DS(97)0023. In accordance with the NATO Accounting Framework (C-M(2013)0039 and CM (2016)0023), MWAs will not be consolidated into NATO entity Financial Statements.

MWA within the IMS Budget Group consists mainly of the provision of rationed items and fuel, and language training services. Total expenditures on MWA in 2016 amounted to approximately 600KEUR. Each year a detailed financial report covering MWA transactions is submitted to the Budget Committee.

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ANNEX 1  
Budget execution statement

	Initial Budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments	Expenses	Total Spent	Carry Forward	Lapsed
EURO												
<b>BUDGET 301 (IMS)2016</b>												
Chapter 1	15,191,137	220,000	15,411,137	-	15,411,137	95,927	15,507,064	3,180	15,397,336	15,400,516	3,180	106,548
Chapter 2	4,170,908	(100,000)	4,070,908	(2,723)	4,068,185	(395,927)	3,672,258	-	3,432,963	3,432,963	-	239,295
Chapter 3	35,000	-	35,000	2,723	37,723	-	37,723	-	37,723	37,723	-	-
<b>TOTAL</b>	<b>19,397,045</b>	<b>120,000</b>	<b>19,517,045</b>	<b>(0)</b>	<b>19,517,045</b>	<b>(300,000)</b>	<b>19,217,045</b>	<b>3,180</b>	<b>18,868,021</b>	<b>18,871,201</b>	<b>3,180</b>	<b>345,844</b>
<b>BUDGET 302 (NSO)2016</b>												
Chapter 1	2,261,094	(90,000)	2,171,094	-	2,171,094	9,956	2,181,050	-	2,170,734	2,170,734	-	10,317
Chapter 2	196,599	(30,000)	166,599	-	166,599	(9,956)	156,643	-	149,725	149,725	-	6,918
<b>TOTAL</b>	<b>2,457,693</b>	<b>(120,000)</b>	<b>2,337,693</b>	<b>-</b>	<b>2,337,693</b>	<b>(0)</b>	<b>2,337,693</b>	<b>-</b>	<b>2,320,458</b>	<b>2,320,458</b>	<b>-</b>	<b>17,235</b>
<b>BUDGET 504 (PFP)2016</b>												
Chapter 1	84,360	-	84,360	(7,100)	77,260	(18,677)	58,583	-	58,581	58,581	-	3
Chapter 2	614,640	-	614,640	7,100	621,740	47,127	668,867	-	666,513	666,513	-	2,354
<b>TOTAL</b>	<b>699,000</b>	<b>-</b>	<b>699,000</b>	<b>-</b>	<b>699,000</b>	<b>28,450</b>	<b>727,450</b>	<b>-</b>	<b>725,093</b>	<b>725,093</b>	<b>-</b>	<b>2,357</b>
<b>BUDGET 508 (MD)2016</b>												
Chapter 1	72,930	-	72,930	(5,800)	67,130	(16,780)	50,350	-	14,768	14,768	-	35,582
Chapter 2	401,070	-	401,070	8,900	409,970	16,780	426,750	-	409,997	409,997	-	16,753
<b>TOTAL</b>	<b>474,000</b>	<b>-</b>	<b>474,000</b>	<b>3,100</b>	<b>477,100</b>	<b>-</b>	<b>477,100</b>	<b>-</b>	<b>424,764</b>	<b>424,764</b>	<b>-</b>	<b>52,336</b>
<b>BUDGET 514 (ICI)2016</b>												
Chapter 1	31,100	-	31,100	(3,100)	28,000	-	28,000	-	12,010	12,010	-	15,990
Chapter 2	39,900	-	39,900	-	39,900	-	39,900	-	8,145	8,145	-	31,755
<b>TOTAL</b>	<b>71,000</b>	<b>-</b>	<b>71,000</b>	<b>(3,100)</b>	<b>67,900</b>	<b>-</b>	<b>67,900</b>	<b>-</b>	<b>20,155</b>	<b>20,155</b>	<b>-</b>	<b>47,745</b>
<b>BUDGET 524 (OMC)2016</b>												
Chapter 1	71,260	-	71,260	(4,000)	67,260	(28,915)	38,345	-	15,582	15,582	-	22,763
Chapter 2	215,204	-	215,204	4,000	219,204	465	219,669	-	218,894	218,894	-	775
<b>TOTAL</b>	<b>286,464</b>	<b>-</b>	<b>286,464</b>	<b>-</b>	<b>286,464</b>	<b>(28,450)</b>	<b>258,014</b>	<b>-</b>	<b>234,475</b>	<b>234,475</b>	<b>-</b>	<b>23,539</b>
<b>TOTAL FY2016</b>	<b>23,385,202</b>	<b>-</b>	<b>23,385,202</b>	<b>(0)</b>	<b>23,385,202</b>	<b>(300,000)</b>	<b>23,085,202</b>	<b>3,180</b>	<b>22,592,967</b>	<b>22,596,147</b>	<b>3,180</b>	<b>489,055</b>

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EURO	Initial Budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments	Expenses	Total Spent	Carry Forward	Lapsed
<b>BUDGET 301 (IMS)2015</b>												
Chapter 1	3,436,160	-	3,436,160	-	3,436,160	-	3,436,160	869,036	2,555,055	3,424,091	869,036	12,069
Chapter 2	1,364	-	1,364	-	1,364	-	1,364	-	1,364	1,364	-	0
Chapter 3	-	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>3,437,524</b>	<b>-</b>	<b>3,437,524</b>	<b>-</b>	<b>3,437,524</b>	<b>-</b>	<b>3,437,524</b>	<b>869,036</b>	<b>2,556,419</b>	<b>3,425,455</b>	<b>869,036</b>	<b>12,069</b>
<b>BUDGET 302 (NSO)2015</b>												
Chapter 2	-	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>112,470</b>	<b>-</b>	<b>112,470</b>	<b>-</b>	<b>112,470</b>	<b>-</b>	<b>112,470</b>	<b>-</b>	<b>112,092</b>	<b>112,092</b>	<b>-</b>	<b>378</b>
<b>BUDGET 504 (PFP)2015</b>												
Chapter 1	3,000	-	3,000	-	3,000	-	3,000	-	3,000	3,000	-	-
Chapter 2	27,713	-	27,713	-	27,713	-	27,713	-	26,846	26,846	-	867
<b>TOTAL</b>	<b>30,713</b>	<b>-</b>	<b>30,713</b>	<b>-</b>	<b>30,713</b>	<b>-</b>	<b>30,713</b>	<b>-</b>	<b>29,846</b>	<b>29,846</b>	<b>-</b>	<b>867</b>
<b>BUDGET 508 (MD)2015</b>												
Chapter 1	9,450	-	9,450	-	9,450	-	9,450	-	9,450	9,450	-	-
Chapter 2	12,556	-	12,556	-	12,556	-	12,556	-	12,556	12,556	-	-
<b>TOTAL</b>	<b>22,006</b>	<b>-</b>	<b>22,006</b>	<b>-</b>	<b>22,006</b>	<b>-</b>	<b>22,006</b>	<b>-</b>	<b>22,006</b>	<b>22,006</b>	<b>-</b>	<b>-</b>
<b>BUDGET 514 (ICI)2015</b>												
Chapter 2	-	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>BUDGET 524 (OMC)2015</b>												
Chapter 1	5,663	-	5,663	-	5,663	-	5,663	-	5,663	5,663	-	-
Chapter 2	8,419	-	8,419	-	8,419	-	8,419	-	8,166	8,166	-	254
<b>TOTAL</b>	<b>14,083</b>	<b>-</b>	<b>14,083</b>	<b>-</b>	<b>14,083</b>	<b>-</b>	<b>14,083</b>	<b>-</b>	<b>13,829</b>	<b>13,829</b>	<b>-</b>	<b>254</b>
<b>TOTAL FY2015</b>	<b>3,616,796</b>	<b>-</b>	<b>3,616,796</b>	<b>-</b>	<b>3,616,796</b>	<b>-</b>	<b>3,616,796</b>	<b>869,036</b>	<b>2,734,192</b>	<b>3,603,228</b>	<b>869,036</b>	<b>13,568</b>
<b>BUDGET 301 (IMS)2014</b>												
Chapter 1	626,984	-	626,984	-	626,984	-	626,984	-	626,984	626,984	-	-
<b>TOTAL</b>	<b>626,984</b>	<b>-</b>	<b>626,984</b>	<b>-</b>	<b>626,984</b>	<b>-</b>	<b>626,984</b>	<b>-</b>	<b>626,984</b>	<b>626,984</b>	<b>-</b>	<b>-</b>
<b>BUDGET 302 (NSO)2014</b>												
Chapter 1	-	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>BUDGET 524 (OMC)2014</b>												
Chapter 2	-	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL FY2014</b>	<b>626,984</b>	<b>-</b>	<b>626,984</b>	<b>-</b>	<b>626,984</b>	<b>-</b>	<b>626,984</b>	<b>-</b>	<b>626,984</b>	<b>626,984</b>	<b>-</b>	<b>-</b>
<b>TOTAL ALL BUDGETS</b>	<b>27,628,982</b>	<b>-</b>	<b>27,628,982</b>	<b>(0)</b>	<b>27,628,982</b>	<b>(300,000)</b>	<b>27,328,982</b>	<b>872,216</b>	<b>25,954,143</b>	<b>26,826,359</b>	<b>872,216</b>	<b>502,623</b>

## NATO UNCLASSIFIED

The budget covers the financial year from 1 January 2016 to 31 December 2016 and includes the following budgets: 301 (IMS), 302 (NSO), 504 (PFP), 508 (MD), 514 (ICI), 524 (OMC).

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

As required by the NATO Financial Regulations and the FRPs the credits carried forward are presented in the Budget Execution Statement. They represent the unexpended balances at year end for which there is a legal liability or a Budget Committee decision and are equal to the closing Deferred Revenue (see also Note 7).

The initial 2016 budget was reviewed by the Budget Committee and issued with BC-BA(2016)0001-REV1. Similarly the 2016 revised authorizations BA 2 and BA3 were issued in BC-BA(2016)0002 and BC-BA(2016)0003.

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

	Financial Performance	Budget	Difference
Total Expenses	26,005,861	25,954,143	(51,719)
Personnel	20,944,574	20,981,254	(36,680)
Contractual Supplies and Services	4,935,166	4,935,166	-
Capital and Investments	-	37,723	(37,723)
Depreciation Expense	117,995	-	117,995
Finance Cost	8,127	-	8,127
Difference			<b>0</b>

NATO UNCLASSIFIED  
ANNEX 2  
IMS Non Current Asset Register

Asset Category	AssetDescription	Date Placed In Service	Retirement Date	Beginning Balance	Additions	Cost Retired	Net Cost	Useful life	Accum Depr/ Amort	Current Depr/ Amort	Total Depr/Amort	Retired Depr/Amort	Net Depr/Amort
Furniture	RAYONNAGE	4-Mar-04		9,193	-	-	9,193	10	9,193	-	9,193	-	9,193
<b>Total - Furniture</b>				<b>9,193</b>	<b>-</b>	<b>-</b>	<b>9,193</b>		<b>9,193</b>	<b>-</b>	<b>9,193</b>	<b>-</b>	<b>9,193</b>
Transport Equipment	AUDI A6	20-Apr-07		22,876	-	-	22,876	5	22,876	-	22,876	-	22,876
Transport Equipment	VW PASSAT COMFORTLINE	30-Dec-07		19,639	-	-	19,639	5	19,639	-	19,639	-	19,639
Transport Equipment	VW PASSAT COMFORTLINE	30-Jun-08		20,043	-	-	20,043	5	20,043	-	20,043	-	20,043
Transport Equipment	VOLSWAGEN TRANSPORTER MLM	30-Mar-09		17,858	-	-	17,858	5	17,433	425	17,858	-	17,858
Transport Equipment	SKODA SUPERB	26-Jun-09		22,954	-	-	22,954	5	21,587	1,366	22,954	-	22,954
Transport Equipment	SKODA SUPERB	26-Jun-09		22,954	-	-	22,954	5	21,587	1,366	22,954	-	22,954
Transport Equipment	BMW 520D	16-May-11		29,758	-	-	29,758	5	19,839	4,251	24,090	-	24,090
Transport Equipment	FORD MINIVAN	19-Sep-11		19,995	-	-	19,995	5	12,378	2,856	15,234	-	15,234
Transport Equipment	Mercedes 200 CDI	24-Apr-12		30,624	-	-	30,624	5	16,406	4,375	20,781	-	20,781
Transport Equipment	Mercedes 200 CDI	24-Apr-12		30,624	-	-	30,624	5	16,406	4,375	20,781	-	20,781
Transport Equipment	DUTY CAR FOR NATO MLM	6-Mar-14		32,496	-	-	32,496	5	11,915	6,499	18,414	-	18,414
Transport Equipment	NLO KYV DUTY CAR	29-Jul-14		28,819	-	-	28,819	5	8,646	5,764	14,410	-	14,410
Transport Equipment	FORD TOURNEO CUSTOM TREND 300	6-Feb-15		22,518	-	-	22,518	5	4,128	4,504	8,632	-	8,632
Transport Equipment	JAGUAR XF 2.0 D	2-Nov-16		-	37,723	-	37,723	5	-	1,257	1,257	-	1,257
<b>Total - Transport Equipment</b>				<b>321,158</b>	<b>37,723</b>	<b>-</b>	<b>358,880</b>		<b>212,883</b>	<b>37,039</b>	<b>249,922</b>	<b>-</b>	<b>249,922</b>
Installed Equipment	BINDING MACHINE	31-Dec-10		7,800	-	-	7,800	10	3,965	780	4,745	-	4,745
<b>Total - Installed Equipment</b>				<b>7,800</b>	<b>-</b>	<b>-</b>	<b>7,800</b>		<b>3,965</b>	<b>780</b>	<b>4,745</b>	<b>-</b>	<b>4,745</b>
Software	ADat-P 3	10-Jul-15		210,000	-	-	210,000	4	26,250	52,500	78,750	-	78,750
Software	SMIR Online	13-Nov-15		28,750	-	-	28,750	4	1,198	7,188	8,385	-	8,385
Software	TDL CaT	22-Oct-15		85,200	36,680	-	121,880	4	5,325	20,488	25,813	-	25,813
<b>Total - Software</b>				<b>323,950</b>	<b>36,680</b>	<b>-</b>	<b>360,630</b>		<b>32,773</b>	<b>80,176</b>	<b>112,949</b>	<b>-</b>	<b>112,949</b>
<b>TOTALS</b>				<b>662,100</b>	<b>74,403</b>	<b>-</b>	<b>736,503</b>		<b>258,813</b>	<b>117,995</b>	<b>376,808</b>	<b>-</b>	<b>376,808</b>

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ANNEX 3  
NATO-Iraq Trust Fund Status as of 31<sup>st</sup> December 2016

FISCAL YEAR	IN COUNTRY COURSES	OUT OF COUNTRY COURSES			TOTAL
	EXPENSES	EXPENSES	SLOTS OFFERED	SLOTS TAKEN	
2005	€133,235	€1,494,235	123	200	€1,627,470
2006	€966,684	€1,355,890	444	253	€2,322,574
2007	€745,024	€1,230,390	223	197	€1,975,414
2008	€2,900,068	€1,105,880	230	208	€4,005,948
2009	€200,557	€1,263,332	220	208	€1,463,889
2010	€218,647	€1,737,842	412	336	€1,956,489
2011	€44,135	€1,733,875	468	420	€1,778,010
2012	€0	23,366	23	15	€23,366
2013	€0	176,359	42	42	€176,359
2014	€0	10,340			€10,340
2015		301,817	62	62	€301,817
2016		1,565,362	340	268	€1,565,362
<b>TOTAL</b>	<b>€5,208,350</b>	<b>€11,998,688</b>			<b>€17,207,038</b>
<b>NATO-IRAQ TRUST FUND STATUS AS OF 31 DEC 2016</b>					
<b>FUND DONATED</b>					<b>€17,176,421</b>
<b>INTEREST EARNED (net of finance costs)</b>					<b>€359,035</b>
<b>FUND USED</b>					<b>€17,207,038</b>
<b>FUND AVAILABLE</b>					<b>€328,418</b>

**NOTE:** The expenses in 2016 were for 16 Iraq tailored combat tactical and operational training courses in Jordan (EUR 1,5 M) and one NRCC course in the NATO Defence College in Rome (EUR 70 K). The funds available are the cash as of 31<sup>st</sup> of December 2016 (EUR 1,3 M) minus the outstanding payables (EUR 1 M).

**NATO UNCLASSIFIED**

**ANNEX 1**

**Summary Note for Council  
by the International Board of Auditors for NATO (Board)  
on the audit of the financial statements of the NATO Defense College (NDC)  
for the year ended 31 December 2016**

The International Board of Auditors for NATO (Board) audited the NATO Defense College (NDC), which is responsible for organising courses and other programmes designed to prepare selected officers and officials for important NATO and NATO-related appointments, and to disseminate awareness of NATO initiatives and interests. The total expenses for the NDC for the year ended 31 December 2016 were EUR 10.07 million.

The Board issued an unqualified opinion on the NDC Financial Statements and on compliance for the year ended 31 December 2016.

During the audit, the Board made one observation and provided recommendations related to the lack of full compliance with the revised articles on Internal Control, Risk Management, Internal Audit and the Audit Advisory Panel in the NATO Financial Regulations. These findings are in the Letter of Observations and Recommendations (Annex 3).

The Board also followed up on the status of observations from the previous year's audit and noted that one was superseded by the current year observation and one was settled.

The Board also issued a management letter (IBA-AML(2017)06) to NDC management with matters identified for their attention.

For NDC Formal Comments see the Letter of Observations and Recommendations (Annex 3).

**NATO UNCLASSIFIED**

**ANNEX 2  
IBA-AR(2017)10**

22 August 2017

**INTERNATIONAL BOARD OF AUDITORS FOR NATO  
AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF  
THE NATO DEFENSE COLLEGE  
(NDC)  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**NATO UNCLASSIFIED**



**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 NATO Defense College, which comprised the Statement of Financial Position as at 31 December 2016, and the Statement of Financial Performance, Statement of Changes in Net Assets/Equity and the Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The Board also audited the Statement of the Budget Execution for the year ended 31 December 2016.

*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. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

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

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, due to fraud or error. In making those risk assessments, internal control relevant to the entity's preparation and presentation of financial statements is considered in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. An audit also includes evaluating the appropriateness of accounting policies used, the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



*Opinion on Financial Statements*

In our opinion, the financial statements present fairly, in all material respects, the financial position of NATO Defense College as of 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with the NATO Accounting Framework.

**Report on Compliance**

*Management's Responsibility for Compliance*

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

*Auditor's Responsibility*

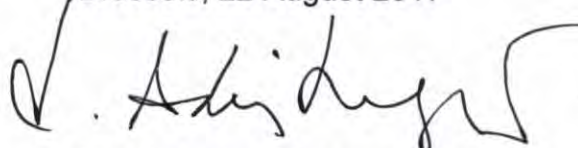
In addition to the responsibility to express an opinion on the financial statements described above, our responsibility includes expressing an opinion on whether the financial transactions and information reflected in the financial statements are, in all material respects, in compliance with the NATO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

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

*Opinion on Compliance*

In our opinion, in all material respects, the financial transactions and information reflected in the financial statements are in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

Brussels, 22 August 2017



Hervé-Adrien Metzger  
Chairman

**NATO UNCLASSIFIED**

**ANNEX 3  
IBA-AR(2017)10**

22 August 2017

**INTERNATIONAL BOARD OF AUDITORS FOR NATO  
LETTER OF OBSERVATIONS AND RECOMMENDATIONS  
FOR THE NATO DEFENSE COLLEGE (NDC)  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**NATO UNCLASSIFIED**



## **Introduction**

The International Board of Auditors for NATO (Board) audited the NATO Defense College (NDC), which is responsible for organising courses and other programmes designed to prepare selected Officers and Officials for important NATO and NATO-related appointments, and to disseminate awareness of NATO initiatives and interests. The total expenses for the NDC for the year ended 31 December 2016 were EUR 10.07 million.

The Board issued an unqualified opinion on the NDC Financial Statements and on compliance for the year ended 31 December 2016.

## **Observation and Recommendations**

During the audit, the Board identified one observation and provided one recommendation.

The observation is summarised below:

1. Some progress being made to achieve full compliance with the revised NATO Financial Regulations, particularly those Articles on Internal Control, Risk Management, Internal Audit and the Audit Advisory Panel.

The Board also followed up on the status of observations from the previous year's audit and noted that one was superseded by the current year observation and one was settled.



**1. SOME PROGRESS BEING MADE TO ACHIEVE COMPLIANCE WITH THE NATO FINANCIAL REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT**

**Reasoning**

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

1.2 The revised NFRs are more explicit than the previous version in the areas of Risk Management (Article 11), Internal Control (Article 12), Internal Audit (Article 13) and the establishment of an Audit Advisory Panel (Article 16). They require the establishment of effective, efficient and economical risk management procedures, that there are necessary management functions in place to support effective internal control, and that NATO bodies have access to a permanent, adequately resourced, internal audit function that is compliant with internationally accepted Internal Auditing Standards. They also require the establishment of an Audit Advisory Panel. Furthermore, Article 3 requires, as a demonstration of responsibility and accountability, that both the annual Financial Statements and Statements of Internal Control be signed by both the NATO Head of Body and Financial Controller; and Article 25 authorizes the commitment of budgetary credits for goods and services to be rendered during the financial year.

1.3 The revised NFRs provide an opportunity for NATO bodies to solidify and codify their overall internal control frameworks, including risk management. They also provide internal audit functions 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. Importantly they also required a robust control environment in place around the preparation of Financial Statements to ensure the quality and accuracy of the financial information is of the highest standard as it is now publicly available.

**Observations**

1.4 The Board found that the NDC has continued to make progress towards achieving compliance with the revised NFRs, but some important steps are still needed.

1.5 This result, though, is not unexpected considering that the more detailed FRPs, which were required by Article 4 of the revised NFRs, were not approved until the end of February 2016. Furthermore, these changes to the NFRs are significant, and the Board understands that some time is needed to implement them properly. It is expected that



in doing so will increase the likelihood that the benefits accruing to the NDC will be real, rather than just being an exercise to demonstrate compliance with the revised NFRs.

1.6 As a result, 2016 continues to be a transition year for the NDC. The Board expects compliance to be achieved in 2017. It has again 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 2016 as a result of these observations

1.7 The Board reports the status of the following areas:

Article 11 Risk Management

1.7.1 The Board found that the NDC had organised a workshop and a seminar on Risk Management. However, there is still no detailed risk management policy. The Board expects to see a risk management policy and more demonstrative progress on this in the coming year. Risk management policy and relevant documentation is essential in order to ensure and to clearly demonstrate to others that effective, efficient and economical risk management procedures are in place. Until the NDC develops a documented risk management policy and procedures, the Board will not be in a position to state that there is a system of risk management, in place that is in accordance with Article 11 of the revised NFRs.

1.7.2 The NDC developed, with the help of the NATO Communications and Information Agency (NCIA) Internal Audit, a risk register that identifies risks relevant to its department. As a next step, NDC should define clear mitigation actions and the deadline for the implementation of mitigating actions.

Article 12 Internal Control

1.7.3 Article 12 of the NFRs requires a periodic assessment and review of the risk and the sound functioning of the internal control system. FRP XII 3) (e) requires the Statement on Internal Control to make reference to the internal control framework used for the assessment.

1.7.4 The Board found that the IMS Budget Group, including the NDC, has not formally adopted a specific internal control framework that it will use to assess the system of internal control in place as required by FRPXII. A number of other NATO bodies, including the Allied Command Operations, the Allied Command Transformation, the NATO Communications and Information Organisation, the NATO EF2000 and Tornado Development, Production and Logistics Management Agency and the NATO Airborne Early Warning and Control Programme Management Agency, have adopted the Committee of Sponsoring Organisations of the Treadway Commission Framework (COSO). The adoption of a specific framework by these NATO bodies is an important step forward. It is essential in order to ensure and to clearly demonstrate to others that a complete system of internal control and risk management is in place. Until the NDC



adopts a specific internal control framework, and completes its documentation, the Board will not be in a position to state that there is a full system of internal control in place that is in accordance with Article 12 of the revised NFRs.

Article 13 Internal Audit

1.7.5 As allowed under Article 13, the NDC engaged NCIA Internal Audit to assess the adequacy of the system of internal control over the overall Organisation Performance processes implemented at NDC and more specifically the strategic planning process and the performance assessment process.

1.7.6 The above efforts related were a start. However, it cannot yet be stated that the NDC has undertaken internal audit activities to fully evaluate, throughout the organisation, the risk exposures and the effectiveness of internal controls in managing risk within the governance, operations and information systems as required by Article 13.

Article 16 Audit Advisory Panel

1.7.7 The Board found that NDC established an Audit Advisory Panel as required by Article 16 in 2016. It has been convened one time as of the date of our audit, and the NDC Financial Controller Delegate is participating in the panel.

1.7.8 In accordance with Article 16 of the new NATO Financial Regulations the Audit Advisory Panel (AAP), established at the NDC to provide "assurance to the Head of NATO body on the effectiveness of Risk Management and Internal Control systems and the transparency of external reporting processes. The AAP which should be constituted, operate and report in line with best international standards and practices, tailored where appropriate, and as agreed by the relevant governing body.

1.7.9 While looking at the best international standards and practices the Board noted that members of the AAP, in performing their duties, shall not seek or receive instructions from any other party. They shall not hold any position or engage in any activity that could impair their independence, in fact or perception.

1.7.10 However, when looking at the composition of the AAP, the Board found that an International Military Staff (IMS) Office of the Financial Controller delegate, in addition to the IMS Financial Controller, is participating in the AAP as the external member. The Board's opinion is that this is not in accordance with the requirement of having an external member considering that this individual reports to the IMS Financial Controller.

**Recommendations**

1.8 The Board recommends that the:

- NDC choose a specific internal control framework that it will use to assess its system of internal control. Since other NATO entities, including ACO and ACT,



have already adopted COSO as their internal control framework, and it is a framework that can be used by entities of all sizes, the NDC should consider adopting COSO as their internal control framework.

- NDC continues on-going work of assessing and documenting the system of internal control and risk management procedures to support compliance with the NFRs, FRPs and the internal control framework that it chooses.
- NDC prepares an entity-wide risk management policy throughout the organisation and that risk registers are developed and employed throughout all the NDC departments and operations.
- NDC performs internal audit activities, through outsourcing if considered more cost effective, that fully evaluates internal control and risk management throughout the NDC, and that this work be clearly documented so as to be able to conclude as to the NDC's compliance against the NFRs and FRPs.
- The AAP should be composed of an external member that does not report to the IMS Financial Controller.

#### **NDC's Formal Comments**

*The NDC concurs in principle with the 1<sup>st</sup> and 2<sup>nd</sup> recommendations about promoting an internal control framework. However, the adoption of an internationally recognized internal control framework, such as the COSO, raises concerns regarding the possible human and financial resource implications for a small organization such as the NDC. In line with the IMS position, the NDC, as part of the IMS Budget Group and, as such, having a common Financial Controller, considers it premature to invest resources in a COSO framework. Pending further Budget Committee deliberations on the requirement and purpose of a control framework, the NDC will rely on the well-established internal control mechanisms such as approval workflows, with built-in controls that are extensively documented in the IMS/NDC Financial System, as well as internal Regulations and Standard Operating Procedures;*

*The NDC concurs with the other three recommendations.*

#### **Board's Position**

The Board supports the Budget Committee approved requirement in the revised FRPs to select an internal control framework against which NATO bodies will use to assess their systems of internal control. Such frameworks are designed to be used by entities of all sizes, and it is advisable that a common internal control framework be used for all NATO bodies to increase efficiency and effectiveness.



**FOLLOW-UP OF PREVIOUS YEAR'S OBSERVATIONS**

The Board reviewed the status of the observations and recommendations arising from a previous year's audit. The observation and its status are summarised in the table below.

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p><b>NDC 2015 FS AUDIT REPORT – IBA-AR(2016)08</b></p> <p><b>1. LACK OF FULL COMPLIANCE WITH THE REVISED ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT IN THE NATO FINANCIAL REGULATIONS</b></p> <p><b>1.8 The Board recommends that the:</b></p> <ul style="list-style-type: none"> <li>NDC prepare an entity-wide risk management policy and that risk registers are developed and employed throughout all of the Colleges departments and operations. This should be coordinated to ensure consistent treatment across NATO Bodies.</li> <li>NDC should choose a specific, internationally accepted, Internal Control Framework, and that there be a systematic and detailed documentation of internal control procedures supporting the framework. This should be coordinated to ensure consistent treatment across NATO Bodies.</li> <li>NDC, through outsourcing if considered to be more cost effective, extend internal audit activities.</li> <li>NDC establishes an Audit Advisory Panel.</li> <li>NDC comply with Article 3 of the NFRs in that both the NDC Commandant and the IMS Financial Controller sign the Statement on Internal Control.</li> </ul>	<p>The Board noted that the NDC has established an Audit Advisory Panel but there is progress to be made to achieve compliance with the NATO Financial Regulations related to the articles on Internal Control, Risk Management and Internal Audit.</p>	<p>Observation <b>Superseded by current year observation 1.</b></p>
<p><b>NDC 2015 FS AUDIT REPORT – IBA-AR(2016)08</b></p> <p><b>2. DEROGATION FROM PROCUREMENT RULES</b></p> <p><b>2.5 The Board recommends that:</b></p> <p>The NDC applies competitive bidding requirements for all purchases as required, and if necessary, accept sole source process based on the decision by the Financial Controller.</p>	<p>Competitive bidding has been applied, or further action is fully documented in all procurement files.</p>	<p>Observation <b>Settled.</b></p>

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

## **2016**



Presented by: Mr. Vincenzo Distefano, ITACV  
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## STATEMENT OF INTERNAL CONTROL

The Commandant of the NDC has responsibility under Section III of the NATO Financial Regulations (NFRs) for maintaining a sound system of Risk Management and Internal Control that supports the achievement of the organisation's policies, aims and objectives, set by NATO, whilst safeguarding funds and assets in accordance with the assigned responsibilities.

The NDC Financial Controller is responsible for financial risk management, and for establishing financial risk management standards (NFR Financial Rules and Procedures XI.3 and XI.4). In addition, the Financial Controller is responsible for the system of internal financial and budgetary control (NFR 11.2).

The systems of Risk Management and Internal Financial Control are based on an on-going process designed to identify the principal risks to the achievement NDC policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 December 2016 and up to the date of these Financial Statements.

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

The main elements of the Risk and Control frameworks are designed to ensure that:

- qualified officials are assigned to the financial positions as prescribed by the NFRs;
- the tasks and responsibilities of those officials are clearly reflected in the relevant Job Descriptions;
- formal delegation of authority for financial matters is in place;
- specific procedures (SOPs and ToRs) are in place to adapt NATO financial rules to local circumstances;
- audits from the International Board of Auditors for NATO (IBAN), Internal Auditors appointed by the IMS, and audits from internal NDC agents are carried out regularly, and the results and findings are brought to our attention; and
- regular scrutiny of financial and other performance monitoring data is undertaken by NDC Managers and Finance Officials.

The recently revised NATO Financial Regulations (NFRs), and Financial Rules and Procedures (FRPs) are important pillars of the NDC internal control framework. The NFRs were endorsed by the Nations in May 2015, and the FRPs were approved by the Budget Committee in February 2016. As such, 2017 will be the first full financial year under the new NFR/FRP framework.

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

Internal audits during 2016 did not raise any particular area of attention. The IBAN External Audit of the 2015 Financial Statements - undertaken in 2016 - resulted in an unqualified opinion. However, a number of observations were raised by the IBAN in relation to compliance with the recently revised NFRs. The IBAN made recommendations concerning risk management policies, internal audit and control, and the creation of an Audit Advisory Panel.


The NDC is taking steps to address the IBAN observations, and in late 2015, the IMS engaged an Internal Audit service provider to begin the process of developing enhanced Risk Management and Financial Control procedures, in response to the new NFRs and FRPs. This process will continue into 2017. However, as noted by the Nations<sup>1</sup> 'the scale of the challenge is significant' and 'it could take until Financial Year 2018 for NATO bodies to be in full compliance'.

Overall we are satisfied that the control systems in operation at the NDC during the year were reasonably adequate and effective.



Christine WHITECROSS  
Lieutenant General, CAN AF  
Commandant, NATO Defense College

Rome, 09 March 2017



Peter BONTINCK  
BEL CV, Financial Controller,  
NATO Defense College

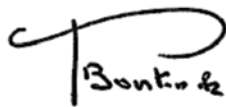
Brussels, 28 February 2017

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<sup>1</sup> C-M(2016)0077 paragraph 5.2 dated 12<sup>th</sup> December 2016.

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

1. The NATO Defense College's (NDC) mission and organisation is formally established under the document MC 123/9 (Final). The mission is to contribute to the effectiveness and cohesion of the Alliance by serving as the cornerstone of Alliance education, playing a strong role in public outreach efforts, acting as a forum of excellence for transatlantic security studies and conducting research projects contributing to the identification and analysis of issues important for the Alliance.
2. The IMS Budget Group covers a number of budgets and entities linked together for financial management purposes by a Financial Controller. The IMS Financial Controller is also the Financial Controller of the Science and Technology Organisation (STO). The STO and IMS are therefore related parties under a common Financial Controller.
3. These Financial Statements are specific to the NDC. The NDC statements reflect the financial position, the financial performance, the budget execution, the cash flow and the change in net assets for the reporting period. Notes provide further disclosures on key transactions following the materiality principle. The financial statements have been prepared primarily using the FinS accounting software, where the NDC has a separate set of financial books. The statements cover the execution of the main NDC budget code 303, and include the elements of Outreach budgets for which the NDC has operational control.
4. The Financial Statements 2016 have been produced in accordance with the NATO Accounting Framework. This Accounting Framework is based on International Public Sector Accounting Standards (IPSAS), as adapted by NATO under C-M(2016)0023. The Financial Statements are also produced in accordance with the NATO Financial Regulations and presented in the improved common layout applying the RPPB Notice AC/335-N(205)0088 dated 11 December 2015.
5. As the NATO Accounting Framework is continuously evolving, compliance is a dynamic process that requires staff to keep updating their knowledge. Also it requires that the accounting tools are suitably maintained and, when appropriate, upgraded. An on-going challenge is that NATO entities undertake financial reporting in a consistent way. Therefore the NDC, through the IMS FC and his Office, maintains a dialogue with the other NATO entities and plays a full part in the NATO Accounting Working Group and the Working Group of Financial Controllers. The NDC remains committed to developing its Financial Reporting expertise and producing Financial Statements fully compliant with the applicable standards and instructions as issued by Nations. The NDC will also continue to work openly and constructively with the IBAN.



Peter BONTINCK  
BELCV - Financial Controller  
International Military Staff &  
Science and Technology Organisation

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

As at 31 December 2016

(in EUR)

	<u>2016</u>	<u>2015</u>	<i>Comments</i>
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and Cash Equivalents			
Cash Accounts	32,441	10,110	Note 1-a
Petty Cash and Advances	1,500	1,500	Note 1-b
Current Bank Accounts	2,582,620	2,583,314	Note 1-c
<b>Total Cash and Cash Equivalents</b>	<b>2,616,561</b>	<b>2,594,924</b>	
Receivables			
Receivables from non-consolidated NATO Entities	44,772	126,974	Note 2-a
Receivables from Staff Members	-	14,555	Note 2-b
Receivables from Governments/Governmental Agencies	10,000	-	Note 2-c
Receivable Financial Result BC 28 N	10,948	15,711	Note 2-d
<b>Total Receivables</b>	<b>65,720</b>	<b>157,241</b>	
Advances and other Current Assets			
Advances - Non Assigned Expenditures	4,150	16,014	Note 3
<b>Total Advances and other Current Assets</b>	<b>4,150</b>	<b>16,014</b>	
<b>Non-Current Assets</b>			
Fixed Assets - Property, Plant & Equipment			
Fixed Assets	16,803,722	16,570,034	Note 4-a
Fixed Assets Accumulated Depreciation	(3,832,976)	(3,686,268)	Note 4-b
<b>Total Fixed Assets - Property, Plant &amp; Equipment</b>	<b>12,970,746</b>	<b>12,883,766</b>	
<b>TOTAL ASSETS</b>	<b>15,657,177</b>	<b>15,651,944</b>	
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Payables			
Payable to Suppliers	(14,784)	(36,967)	Note 6-a
Inventory AP Accrual	(349,389)	(256,468)	Note 6-b
<b>Total Payables</b>	<b>(364,174)</b>	<b>(293,435)</b>	
Unearned Revenue & Advance Contributions			
Unearned Revenue BC 303	-	(318,184)	Note 7-a
Liability Operational Result	(21,845)	(2,832)	Note 7-b
Liability Financial Result	-	-	Note 7-c
Liability Lapses BC 303	(50,412)	(51,999)	Note 7-d
BC Advance Contributions	(2,250,000)	(2,100,000)	Note 7-e
Advance Contributions National borne costs	-	(1,729)	Note 7-f
<b>Total Unearned Revenue &amp; Advance Contributions</b>	<b>(2,322,257)</b>	<b>(2,474,744)</b>	
<b>Non-Current Liabilities</b>			
Long-term Provisions			
Property, Plant & Equipment	(12,970,746)	(12,883,766)	Note 8
<b>Total Long-term Provisions</b>	<b>(12,970,746)</b>	<b>(12,883,766)</b>	
<b>TOTAL LIABILITIES</b>	<b>(15,657,177)</b>	<b>(15,651,944)</b>	
<b>TOTAL NET ASSETS/EQUITY</b>	<b>0</b>	<b>0</b>	



Christine WHITECROSS  
Lieutenant General, CANAF  
Commandant



Vincenzo DISTEFANO  
ITACV  
Financial Controller (Delegated)

# NATO DEFENSE COLLEGE STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 31 December 2016

(in EUR)

	<u>2016</u>	<u>2015</u>	<i>Comments</i>
<b>OPERATING PERFORMANCE</b>			
<b>Revenue</b>			
Revenue from BCode 303 Operating Activities	(8,577,263)	(8,310,710)	Note 9-a
Revenue from Non-BCode 303 Operating Activities	(1,136,975)	(1,198,283)	Note 9-b
Financial Revenue	(1,145)	(2,973)	Note 9-c
Revenue Recognition from PP & E	(361,730)	(372,827)	Note 9-d
<b>Total Revenue</b>	<b><u>(10,077,113)</u></b>	<b><u>(9,884,794)</u></b>	
<b>Expenses</b>			
BCode 303 Expenses			
Personnel	5,599,198	5,463,509	Note 10-a-1
Contractual Supplies and Services	2,963,665	2,665,466	Note 10-a-2
Capital and Investments Budgeting	14,400	181,736	Note 10-a-3
<b>Total BCode 303 Expenses</b>	<b><u>8,577,263</u></b>	<b><u>8,310,710</u></b>	
Non-BCode 303 Expenses			
Personnel	112,990	122,403	Note 10-b-1
Contractual Supplies and Services	1,023,985	1,075,881	Note 10-b-2
Capital and Investments Budgeting	-	-	Note 10-b-3
<b>Total Non-BCode 303 Expenses</b>	<b><u>1,136,975</u></b>	<b><u>1,198,283</u></b>	
Finance Costs	1,145	2,973	Note 10-c
Depreciation PP & E	361,730	372,827	Note 10-d
<b>Total Expenses</b>	<b><u>10,077,113</u></b>	<b><u>9,884,794</u></b>	
<b>SURPLUS / DEFICIT FOR THE PERIOD</b>	<b><u>0</u></b>	<b><u>0</u></b>	Note 11



# **NATO DEFENSE COLLEGE STATEMENT OF CASH FLOWS**

for the year ended 31 December 2016

(in EUR)

	<u>2016</u>	<u>2015</u>	<i>Comments</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<i>Surplus/Deficit from ordinary activities</i>	-	-	
<b>Non-cash movements</b>			
Depreciation / Amortization	361,730	372,827	Note 10-d
<u>Increase</u> - (Decrease) in payables	70,739	(73,669)	
Increase - (Decrease) in other current liabilities	(152,487)	(384,986)	
(Increase) - <u>Decrease</u> in receivables	91,521	62,287	
(Increase) - <u>Decrease</u> in other current assets	11,864	(9,291)	
(Increase) - <u>Decrease</u> in Long-term Provisions	86,980	(110,819)	Note 4
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<u>470,348</u>	<u>(143,651)</u>	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property plant and equipment	(448,711)	(262,009)	Note 4
Proceeds from sale of property plant and equipment	-	-	
Proceeds from sale of investments	-	-	
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<u>(448,711)</u>	<u>(262,009)</u>	
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings	3,300,000	3,000,000	Note 1-c
Repayment of borrowings	(3,300,000)	(3,000,000)	
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	-	-	
<b>Net <u>Increase</u> - (Decrease) in cash and cash equivalents</b>	<u>21,637</u>	<u>(405,659)</u>	
Cash and cash equivalents at the beginning of the period	<u>2,594,924</u>	<u>3,000,583</u>	Note 1
Cash and cash equivalents at the end of the period	<u>2,616,561</u>	<u>2,594,924</u>	Note 1

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

for the year ended 31 December 2016

(in EUR)

	Capital contributions	Reserves	Accumulated surplus/(deficit)	Total
<b>Balance at the beginning of the period 2015</b>	0	0	0	0
Changes in accounting policy				
<b>Restated balance</b>	0	0	0	0
Exchange difference on translating foreign operations				
Gain / (losses) on property revaluation				
Net gain / (losses) recognized directly in net assets/equity				
Surplus / (deficit) for the period				
<b>Change in net assets/equity for the year ended 2015</b>	0	0	0	0
<b>Balance at the beginning of the period 2016</b>	0	0	0	0
Changes in accounting policy				
<b>Restated balance</b>	0	0	0	0
Exchange difference on translating foreign operations				
Gain / (losses) on property revaluation				
Net gain / (losses) recognized directly in net assets/equity				
Surplus / (deficit) for the period				
<b>Change in net assets/equity for the year ended 2016</b>	0	0	0	0
<b>Balance at the end of the period 2016</b>	0	0	0	0

**NATO DEFENSE COLLEGE**  
**STATEMENT OF THE BUDGET EXECUTION AS AT 31 DECEMBER 2016 AND FOR THE YEAR ENDED**  
 (Annex as per the NFRs para 34)

Budget Currency EURO	Initial Budget	Transfers	BA-2	Transfers	BA-3	Transfers	Final Budget	Commitm ents	Expenses	Total Spent	Carry Forward	Lapsed
BUDGET 303 - 2016												
Chapter 1	5,545,334	0	5,545,334	0	5,545,334	19,600	5,564,934	0	5,558,673	5,558,673	0	6,261
Chapter 2	2,903,067	(20,300)	2,882,767	(48,410)	2,834,357	(60,939)	2,773,418	0	2,743,228	2,743,228	0	30,191
Chapter 3	309,800	20,300	330,100	48,410	378,510	41,339	419,849	0	419,849	419,849	0	0
TOTAL FY 2016	8,758,201	0	8,758,201	0	8,758,201	(0)	8,758,201	0	8,721,749	8,721,749	0	36,452
BUDGET 303 - 2015												
Chapter 1	42,174	(169)	42,005	0	42,005	0	42,005	0	39,905	39,905	0	2,100
Chapter 2	268,260	169	268,429	0	268,429	0	268,429	0	258,949	258,949	0	9,480
Chapter 3	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL FY 2015	310,434	0	310,434	0	310,434	0	310,434	0	298,854	298,854	0	11,580
BUDGET 303 - 2014												
Chapter 1	3,000	0	3,000	0	3,000	0	3,000	0	620	620	0	2,380
Chapter 2	4,750	0	4,750	0	4,750	0	4,750	0	4,750	4,750	0	0
Chapter 3	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL FY 2014	7,750	0	7,750	0	7,750	0	7,750	0	5,370	5,370	0	2,380
GRAND TOTAL BUDGET 303 ALL FYs												
	9,076,385	0	9,076,385	0	9,076,385	(0)	9,076,385	0	9,025,974	9,025,974	0	50,412

Expenses are recognized / recorded on an accrual basis

## **A. Accounting Policies**

### ***Accounting Period***

These Financial Statements are based on the accounting records of the NATO Defense College (NDC) as of 31 December 2016. In accordance with Article 2 of the NATO Financial Regulations (NFRs), the financial year at the NDC begins on 01 January and ends on 31 December of the year.

### ***Reporting Currency***

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

### ***Basis of Preparation***

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

### ***Financial Reporting Framework***

The Financial Statements 2016 have been produced in accordance with the NATO Accounting Framework. This Accounting Framework is based on International Public Sector Accounting Standards (IPSAS), as adapted by NATO under C-M(2016)0023 dated 21 April 2016. The NATO Financial Regulations were amended by the Nations in May 2015 (C-M(2015)0025), and the associated Financial Rules and Procedures (FRPs) were approved by the Budget Committee in February 2016 (BCD(2015)0260-REV1). The Financial Statements are presented in the improved common layout applying the RPPB Notice AC/335-N(205)0088 dated 11 December 2015.

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

The Cash Flow Statement is prepared using the indirect method and the format follows the layout provided by IPSAS 2 (Cash flow Statements).

No accounting standard has been adopted earlier than the application date as stated in the IPSAS standards. The following IPSAS are not relevant for the NDC Financial Statements 2016: IPSAS 26 - Impairment of Cash-Generating Assets, IPSAS 27 - Agriculture. The following IPSAS have no material effect on the financial statements: IPSAS 5, IPSAS 6, IPSAS 7, IPSAS 8, IPSAS 10, IPSAS 11, IPSAS 16 and IPSAS 18 and IPSAS 32.

The following IPSAS pronouncements issued in 2015 will be applicable for the annual financial statements after 1 January 2017: IPSAS 34 - Separate Financial Statements; IPSAS 35 - Consolidated Financial Statements; IPSAS 36 - Investments in Associates and Joint Ventures; IPSAS 37 - Joint Arrangements; and IPSAS 38 - Disclosure of Interests in Other Entities. These standards are not expected to have a material impact on the presentation of the NDC Financial Statements.

### ***Changes in Accounting Policy***

There have been no changes to NDC accounting policies in 2016.

### *Foreign Currency Transactions*

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

Realized gains and losses resulting from the settlement of such transactions are recognized in the Statement of Financial Performance. The NDC has neither monetary assets nor liability at-year-end nor unrealized gains and losses denominated in foreign currencies.

### *Consolidation*

Consolidated Financial Statements include the financial results of the controlling entity and its controlled entities. When consolidation occurs, inter-entity balances and transactions are eliminated.

However, the NDC as separate NATO Body with its own legal entity and operational and geographical independence does not consolidate its Financial Statements with any other bodies in IMS Budget Group (BG). Moreover, consistent with the NATO Accounting Framework and IPSAS 6 - Adapted therein, any Morale and Welfare Activities are not consolidated.

### *Services In-Kind*

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

### *Assets – Current Assets*

The entity holds the following types of current assets:

#### ***a. Cash and Cash Equivalents***

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

#### ***b. Receivables***

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

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

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

#### ***c. Inventories***

IPSAS 12 defines inventories, establishes measurement requirements under the historical costs system and establishes disclosure requirements. The NDC assesses inventories under IPSAS 12 and the outcome of this assessment is that the value of the inventories is immaterial both in value and in terms of the nature of the items held. Consequently, inventory is fully expensed on receipt. This is the same approach as in the Financial Statements 2013 but this policy will be reviewed each fiscal year for changes in materiality.

**d. Prepayments**

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

**Assets – Non-Current Assets**

In this category, the NDC is reporting all assets invested for more than 12 months or receivable beyond 12 months from the closing date of the Financial Statements.

**a. Financial Assets**

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

**b. Property, Plant and Equipment**

Basic Principles:

- Buildings are offered to be used by the NDC by the MOD Italy. The amounts shown represent the historic cost as provided by the MOD Italy and will be revalued in case any relevant information is received from the MOD Italy;
- All other property, plant and equipment are stated at historical cost less accumulated depreciation and any recognized impairment loss;
- No external evaluator to set values for assets;
- The capitalization threshold has been set at € 5,000 unless specifically stated otherwise;
- No grouping of assets;
- Depreciation is calculated on a straight-line basis;
- Full depreciation / amortization in the month of acquisition, and nil in the month of disposal.
- As an accounting principle, land cannot be depreciated. The land value shown represents its fair value after internal investigation.

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

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

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

**Capitalization Thresholds.**

Taking account of the above mentioned control criteria, and the guidance in IPSAS 17, the IMS (including the NSA) and NDC shall capitalize each item of PPE above the following thresholds and apply the stated depreciation life below:

Category	Threshold – per item (no grouping)	Depreciation life	Method
Land	€ 200,000	N/A	N/A
Buildings	€ 200,000	40 years	Straight line
Other infrastructure	€ 200,000	40 years	Straight line
Installed equipment (e.g. airco)	€ 5,000	10 years	Straight line
Machinery	€ 5,000	10 years	Straight line
Vehicles	€ 5,000	5 years	Straight line
Mission equipment	€ 5,000	3 years	Straight line
Furniture	€ 5,000	10 years	Straight line

Communications (e.g. networks; PABX)	€ 5,000	3 years	Straight line
Automated information systems	€ 5,000	3 years	Straight line

### ***Impairment of tangible assets***

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

### ***c. Intangible Assets***

The NDC had no intangibles acquired post 1 January 2016 that met the criteria for capitalization under the NATO Accounting Framework.

### ***d. Leases (IPSAS 13)***

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rental payments under such leases are charged to the Statement of Financial Performance on straight-line basis.

## ***Liabilities – Current Liabilities***

### ***a. Payables***

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

### ***b. Unearned Revenue and Advances***

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

Contributions called for following-year budgets are recorded as advances.

### ***c. Employee benefits***

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

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

### **Defined Contribution plans**

Certain employees were members of the Provident Fund up to 2013. Certain employees are members of the NATO-wide Defined Contribution Pension Scheme (DCPS). The assets of the plans are held separately from those of NDC in funds under the control of independent trustees or an Administrator. The NDC is required to contribute a specified percentage of payroll costs to the DCPS to fund the benefits. Payments to the DCPS are recognized as an expense when employees have rendered service entitling them to the contributions. The only obligation of NDC with respect to the DCPS is to make the specified contributions.

### Defined Benefit plans

Certain employees who have joined NATO before 1 July 2005 are members of the NATO Coordinated Pension Scheme, which is a funded defined benefit plan. Under the plans and upon completion of 10 years employment with NATO, the employees are entitled to retirement benefits of 2% per year of service of final basic salary on attainment of a retirement age of 60. No other post-retirement benefits are provided to these employees. Staff members whose length of service is not sufficient to entitle them to a retirement pension are eligible for a leaving allowance.

The assets and liability for the NATO's Defined Benefit Plan and the Retirees Medical Contribution Fund (RMCF) are accounted for centrally at NATO Headquarters by the International Staff and therefore are not recognized in these financial statements.

### *Liabilities - Non-Current Liabilities*

#### ***Provisions - Including Long-term Provisions for PP & E***

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

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

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

#### ***Contingent Liabilities***

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly in the control of the entity. A contingent liability is not recognized as a liability because it is yet to be confirmed whether there is a present obligation that could lead to a possible outflow of resources or a sufficiently reliable estimate of the obligation cannot be made.

### *Net Assets*

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

### *Revenue and Expense Recognition*

#### ***a. Revenue***

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

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

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

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



Bank interests earned as of 31 December 2016, exchange rate revenue due to transactions in foreign currency and realized exchange rate revenue in accordance with the entity Policy IPSAS 4 - Effect of the foreign exchange rate - are recognized as financial revenue.

***b. Expenses***

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

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

***Surplus or Deficit for the Period***

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

***Other Issues – Related Party Disclosure (IPSAS 20)***

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

**B. Significant Accounting Judgments and Estimates**

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

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

## C. Notes to Statement of Financial Position

### Assets – Current Assets

#### 1. Cash and Cash Equivalents

	31-Dec-2016	31-Dec-2015
a. Cash Accounts	32,441	10,110
b. Petty Cash and Advances	1,500	1,500
c. Current Bank Accounts in Euros	2,582,620	2,583,314
<b>Total</b>	<b>2,616,561</b>	<b>2,594,924</b>

**a. Cash** is normally the money invested on a short term deposit or business account. For cash and cash equivalents, there are restrictions on their use.

**b. Petty Cash** holdings is a small amount of cash (1,500 EUR) kept in the NATO Defense College P&C to pay minor expenses. Two credit cards are available for other purchases and travel tickets through the internet.

**c. Current Bank Accounts** are held in Euro. The accounts reflect the situation reconciled with the bank statements as at 31 December 2016.

Short-term Loans, to cover the cash requirements during the period between the contributions, received from the IMS totalling 3.3 MEUR, were refunded before the end of FY 2016.

#### 2. Accounts Receivable

	31-Dec-2016	31-Dec-2015
a. Receivables from NATO Entities	44,772	126,974
b. Receivables from Staff Members	0	14,555
c. Receivables from Governments / Gov. Agencies	10,000	0
d. Receivable Financial Result BC 28N	10,948	15,711
<b>Total</b>	<b>65,720</b>	<b>157,241</b>

##### **a. Receivables from NATO Entities**

The Receivables from NATO Entities at year-end 2016 reflect the following:

- Invoice to NATO IMS for the reimbursement of the expenses paid for (accrued) against the Outreach (ZNC/504-508-514-524) Budgets 2016 (€ 42,982);
- Invoices to NATO Liaison Committee for the reimbursement of the travel expenses paid for Staff to participate to meetings (€ 1,413);
- Invoice to the PfP Consortium for the reimbursement of the expenses paid for the subsidization of a Partner's participation to the Conference of Commandants 2016 (€ 377)

##### **b. Receivables from Staff Members**

There are no receivables from Staff Members

##### **c. Receivables from Governments / Governmental Agencies**

This receivable amount represents the contribution of the Institute for Strategic Research of the French Military School (Ecole militaire) for the co-organization of a Seminar in December 2016.

**d. Receivable Financial Result BC 28 N**

Financial Result is the difference between financial revenues and financial expenses. For 2016 the expenses were higher than the revenues. See also Note 7c.

**3. Prepayments and Miscellaneous Assets**

Prepayments are mainly in respect of advance payments to be finally settled in FY 2017.

	31-Dec-2016	31-Dec-2015
Advances - Non Assigned Expenditures	4,150	16,014
<b>Total</b>	<b>4,150</b>	<b>16,014</b>

- Various advance procurement and deposits for 2017 travel and other services related to 2017 NDC activities such as the Kiev Week and the Conference of Commandants.

**Assets - Non-current Assets****4. Property, Plant and Equipment**

	31-Dec-2016	31-Dec-2015
a. Fixed Assets	16,803,722	16,570,034
b. Accumulated Depreciation	-3,832,976	-3,686,268
<b>Total</b>	<b>12,970,746</b>	<b>12,883,766</b>

For the FY 2016 only items that meet the capitalization threshold of EUR 5,000 are included here. Opening balances have been calculated as of 1 January 2016 and all subsequent changes to arrive at the closing balance are disclosed below. The deletions refer to assets entirely depreciated at 31 December 2015, thus having zero value at 1 January 2016.

Changes in Property, Plant and Equipment and related depreciation for the year were as follows:

	AIS and Communication Systems	Furniture	Machinery	Installed Equipment	Land	Building	Totals
Gross Book Value (31 Dec 2015)	170,321.65	26,960.65	66,580.00	1,649,170.92	7,718,220.00	6,938,780.49	16,570,033.71
Deletions (31 Dec 2015 / 1 Jan 2016)	-31,181.00	0.00	0.00	-183,840.93	0.00	0.00	-215,021.93
<b>Gross Book Value (1 Jan 2016)</b>	<b>139,140.65</b>	<b>26,960.65</b>	<b>66,580.00</b>	<b>1,465,329.99</b>	<b>7,718,220.00</b>	<b>6,938,780.49</b>	<b>16,355,011.78</b>
Accumulated Depreciation (31 Dec 2015)	-108,226.11	-18,872.46	-23,676.67	-790,226.68	0.00	-2,745,266.00	-3,686,267.91
Deletions (31 Dec 2015 / 1 Jan 2016)	31,181.00	0.00	0.00	183,840.93	0.00	0.00	215,021.93
<b>Accumulated Depreciation (1 Jan 2016)</b>	<b>-77,045.11</b>	<b>-18,872.46</b>	<b>-23,676.67</b>	<b>-606,385.75</b>	<b>0.00</b>	<b>-2,745,266.00</b>	<b>-3,471,245.98</b>
Net Book Value (1 Jan 2016)	62,095.54	8,088.20	42,903.33	858,944.24	7,718,220.00	4,193,514.48	12,883,765.80
Additions in 2016	11,347.00	0.00	8,970.00	428,393.66	0.00	0.00	448,710.66
Disposal in 2016	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Depreciation in 2016	-29,503.76	-2,696.07	-7,405.50	-148,655.36	0.00	-173,469.51	-361,730.19
<b>Net Book Value (31 Dec 2016)</b>	<b>43,938.79</b>	<b>5,392.13</b>	<b>44,467.83</b>	<b>1,138,682.55</b>	<b>7,718,220.00</b>	<b>4,020,044.97</b>	<b>12,970,746.27</b>
Gross Book Value (31 Dec 2016)	150,487.65	26,960.65	75,550.00	1,893,723.65	7,718,220.00	6,938,780.49	16,803,722.44
Accumulated Depreciation (31 Dec 2016)	-106,548.86	-21,568.52	-31,082.17	-755,041.10	0.00	-2,918,735.52	-3,832,976.16
<b>Net Book Value (31 Dec 2016)</b>	<b>43,938.79</b>	<b>5,392.13</b>	<b>44,467.83</b>	<b>1,138,682.55</b>	<b>7,718,220.00</b>	<b>4,020,044.97</b>	<b>12,970,746.27</b>

## 5. Intangible Assets

The NDC owns no intangible assets.

## Liabilities – Current Liabilities

### 6. Payables

	31-Dec-2016	31-Dec-2015
a. Payables to Suppliers	14,784	36,967
b. Accruals	349,389	256,468
<b>Total</b>	<b>364,174</b>	<b>293,435</b>

#### *a. Payables to Suppliers*

Payables to Suppliers include invoices received from suppliers but not yet settled (€ 8,387). There is also an amount of 6,397 EUR to be refunded to the previous Cleaning Company pending the presentation of the necessary documentation.

#### *b. Accruals*

Accounts payable Accrued include goods and services received from suppliers but not yet billed/invoiced as of 31 December 2016. Some are based on estimates.

### 7. Unearned Revenue and Advances

	31-Dec-2016	31-Dec-2015
a. Unearned Revenue BCode 303	0	318,184
b. Liabilities from Operational Result	21,845	2,832
c. Liabilities from Financial Result	0	0
d. Liabilities from Lapsed Budget Authorization	50,412	51,999
e. BC Advance Contributions	2,250,000	2,100,000
f. Advance Contributions National borne costs	0	1,729
<b>Total</b>	<b>2,322,257</b>	<b>2,474,744</b>

#### *a. Unearned Revenue and Advances*

Unearned Revenue consists of contributions and other transfers received or receivable, but for which corresponding charges will be incurred after the reporting date (carry-forward credits). No 2016 credits are carried-forward to 2017.

It is accounted for by type, cost-share, budget and year in accordance with the IMS Budget Group policy.

#### *b. Liabilities from Operational Results*

In accordance with the IMS Budget Group policy, the Liabilities from Operational Results are shown separately for reasons of clarity. They are composed of miscellaneous income generated by reimbursements and include the accrual write-off for previous years where the final invoice was lower than the estimated accrued amount.

a.	FY 2013	2,180
b.	FY 2014	14,920
c.	FY 2015	4,745
<b>Total</b>		<b>21,845</b>

Accruals write-off refers to various minor discrepancies between accrued and finally billed services of those FYs.

**c. Liabilities from Financial Results**

The Liabilities from Financial Results are, after offsetting the expenses, the net amount of bank interest received, bank charges and realized gains and losses generated during 2016, which is negative. In this respect the NDC liability is NIL, whilst the negative amount of € 10,948 is reported as "Receivable Financial Results BC 28 N" (see Note 2-e).

In accordance with the IMS Budget Group policy, the amount is shown separately for reason of clarity. Details are provided in the following table:

	31-Dec-2016	31-Dec-2015
i. Gross Bank Interest	285	2,939
ii. Realized exchange rate Gains	860	34
<b>Gross Amount due to the Nations</b>	<b>1,145</b>	<b>2,973</b>
iii. Bank Charges	-5,101	-7,353
iv. Realized exchange rate Losses	-6,991	-5,647
v. Rounding Account	-0	-5,684
<b>Total Financial Expenses</b>	<b>-12,093</b>	<b>-18,684</b>
<b>Total to be paid by the Nations</b>	<b>-10,948</b>	<b>-15,711</b>

The decrease of the gross interest derives of the global economic situation whilst the decrease of bank charges is the result of the agreement with a new bank which has been more intensively used.

The realized exchange rate losses compared to the one of last year confirms the continuation of fluctuation between the weekly NATO and the daily bank exchange rates.

**d. Liabilities from Lapses**

The lapses from budget authorizations are broken down as follows:

i.	FY 2014	2,380
ii.	FY 2015	11,580
iii.	FY 2016	36,452
	<b>Total</b>	<b>50,412</b>

The lapses are mainly generated due to the application of the new NFRs-FRPs, which in an extent do not allow carry-forwarding of credits into the next FY.

**e. Advance Contribution**

The advance Contribution is called to cover the beginning of Fiscal Year 2017 until the arrival of the 1<sup>st</sup> Contribution and represents the 25% of the 2016 Budget Authorization 3 rounded to the nearest 100 KEUR.

**f. Advance Contributions for National borne costs**

In 2016 there were no National borne costs thus no Advance Contributions have been received.

**Liabilities – Non-Current Liabilities****8. Long-term provisions: PP&E and Intangible Assets**

Revenue is recognized incrementally and equally with the depreciation.

The provision is the counterpart of the PP&E Assets Net Value.

## D. Notes to Statement of Financial Performance

### 9. Revenue

The revenue recognition is matched with the recognition of expenses against the entity budgets.

Contributions when called are booked as an advance under unearned revenue and subsequently recognized as revenue when earned.

The revenue recognition is matched with the recognition of expenses against the NDC budget (303). For the IMS Reimbursable Budgets (ZNC-504/508/514/524), revenues are recorded when the invoices are sent to the IMS for reimbursement every quarter.

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

	31-Dec-2016	31-Dec-2015
a. Revenue from BCode 303 Operating Activities	8,577,263	8,310,710
b. Revenue from Non-BCode 303 Operating Activities	1,136,975	1,198,283
c. Financial Revenue	1,145	2,973
d. Revenue for Depreciation	361,730	372,827
<b>Total</b>	<b>10,077,113</b>	<b>9,884,794</b>

#### ***a. Revenue from BCode 303 Operating Activities***

The revenue recognition is matched with the recognition of expenses exclusively against the NATO Defense College Budget (303). **The amount is net of the capitalized PP&E.** (See Note 10a).

#### ***b. Revenue from Non-BCode 303 Operating Activities***

The revenue is the total from NATO/Other Entities and Nations matched with the recognition of expenses (See Note 10b) for several activities such as:

- Outreach/Cooperation activities (PfP, MED, ICI and OMC) - 1,099,546 EUR
- Reimbursable Activities and National borne expenses - 37,429 EUR.

**Field Study expenses paid for on behalf of Nations are not included** (see the NON-BCode 303/Reimbursable Budget Execution Statement) since the NDC acts as a "Procurement Agent" for those services i.a.w. IPSAS 9, Paragraph 12 - Revenue from Exchange Transactions.

#### ***c. Financial Revenue***

The Financial Revenue consists of the bank interest earned and realized exchange rate gains and is recognized up to the amount of financial expenses incurred (See Note 7c and 10c).

#### ***d. Revenue for Depreciation***

The revenue is matched to the depreciation in order to match revenue earned with the consumption of the Assets which is in line with the Accrual Accounting assumption in IPSAS 1 and the income method described in IAS 20 (see Note 4 and 10d).

### **Reconciliation between Revenue and Unearned Revenue**

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



<b>Unearned Revenue Opening Balance 01-Jan-2016</b>	<b>318,184</b>
a. Contributions called for the year 2016	
1 <sup>st</sup> - FC(CC)(2016)0012(MB-01)- Funds received from Italy	6,568,651
2 <sup>nd</sup> - FC(CC)(2016)0012(MB-02)- Funds received from Italy	2,189,550
Total Contributions called	8,758,201
b. Revenue earned in 2016 (Budget Execution including Chapter 73)	-9,025,974
c. Rounding	0
d. Lapses 31-Dec-2016	-50,412
<b>Unearned Revenue Closing Balance 31-Dec-2016</b>	<b>0</b>

## 10. Expenses

Expenses are recognized by nature within the following groups:

		31-Dec-2016	31-Dec-2015
<b>a. BCode 303 Expenses</b>			
	FY 2016	5,558,673	0
1. Personnel	FY 2015	39,905	5,359,388
	FY 2014	620	104,120
<b>Sub-Total Ch.71</b>		<b>5,599,198</b>	<b>5,463,509</b>
	FY 2016	2,708,936	0
2. Contractual Supplies and Services	FY 2015	249,979	2,491,364
	FY 2014	4,750	162,369
	FY 2013	0	11,733
<b>Sub-Total Ch.72</b>		<b>2,963,665</b>	<b>2,665,466</b>
	FY 2016	14,400	0
3. Capital and Investment	FY 2015	0	36,106
	FY 2014	0	145,630
<b>Sub-Total Ch.73</b>		<b>14,400</b>	<b>181,736</b>
<b>Total BCode 303 Expenses (Chapters)</b>		<b>8,577,263</b>	<b>8,310,710</b>
	Sub-Total FY 2016	8,282,009	0
	Sub-Total FY 2015	289,884	7,886,858
	Sub-Total FY 2014	5,370	412,120
	Sub-Total FY 2013	0	11,733
<b>Total BCode 303 Expenses (Fiscal Years)</b>		<b>8,577,263</b>	<b>8,310,710</b>
<b>b. Non-BCode 303/Reimbursable Expenses</b>			
1. Personnel		112,990	122,403
2. Contractual Supplies and Services		1,023,985	1,075,881
3. Capital and Investment		0	0
<b>Total Non-BCode 303/Reimbursable Expenses</b>		<b>1,136,975</b>	<b>1,198,283</b>
<b>c. Finance Costs</b>		<b>1,145</b>	<b>2,973</b>
<b>d. Depreciation Expenses</b>		<b>361,730</b>	<b>372,827</b>
<b>Total</b>		<b>10,077,113</b>	<b>9,884,794</b>

### a. BCode 303 Expenses

These expenses are funded exclusively through the BCode 303 Budget. See Part H for Capital & Investments reconciliation.

**a.1. Personnel**

All civilian Personnel expenses as well as other non-salary related expenses, in support of common funded activities, include expenses for salaries and emoluments for approved NATO permanent civilian positions and temporary personnel; other salary related and non-related allowances, such as overtime; medical examinations; recruitment; installation; removal expenses etc. About the Employee Benefits see Part F.

**a.2. Contractual Supplies and Services**

Contractual Supplies and Services expenses required for administrative support to the NDC. Includes expenses for general administrative overheads, and the maintenance costs of buildings/grounds, communications and information systems, transportation, travel expenses, representation/hospitality and miscellaneous expenses. Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term and are included in Contractual Supplies and Services expenses.

**a.3. Capital and Investments**

Capital and Investment expenses costing more than 50% of level A of EFL, including only the non-capitalized expenditures.

**b. Non-Budget Code 303/Reimbursable Expenses**

These expenses are funded through various sources to include the IMS Cooperation/Outreach Budgets (504-508-514-524), which are treated as Reimbursable Budgets. Other portions are funded as reimbursable costs from other NATO and Partner Entities for several activities. Field Study expenses paid on behalf of Nations are not included.

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

**b.1. Personnel**

Personnel costs refer to Experts, Lecturers, Interpreters and Language Teachers. No Salary related charges in the Outreach Budgets.

**b.2. Contractual Supplies and Services**

Supplies and Services refer to transport, subsidization and other organizational costs.

**b.3. Capital and Investments**

No Capital/Investments in the Outreach Budgets.

**c. Finance costs**

Finance costs (total 12,093 EUR) include bank charges, realized exchange rate losses and rounding/corrections as detailed in note 7c. They are matched to the financial revenue (1,145 EUR). The difference (-10,948 EUR) is reported as "Receivable" in the Statement of Financial Position (See Note 2-d).

**d. Depreciation expenses of the period**

	31-Dec-2016	31-Dec-2015
a. AIS	29,504	41,119
b. Furniture	2,696	2,696
c. Machinery	7,406	6,658
d. Installed Equipment	148,655	148,884
e. Land	0	0
f. Buildings	173,470	173,470
<b>Total</b>	<b>361,730</b>	<b>372,827</b>

**11. Surplus or Deficit for the Period**

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

## E. Related Parties Disclosure

Under IPSAS 20, Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial and operating decisions. IPSAS 20 requires the disclosure of the existence of related party relationships, where control exists, and the disclosure of information about transactions between the entity and its related parties. This information is required for accountability purposes and to facilitate a better understanding of the financial position and performance of the reporting entity.

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

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

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

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

- the appropriate staffs, drawing on their professional competence, lead on carrying out the related day-to-day tasks rather than key personnel;
- there is segregation of duties e.g. requirements definition is separate from the procurement and contracting function, and also a number of internal actors are involved in staffing an issue for key personnel decision(s);
- maximum use is made of competition including advertising via the NDC website;
- documentation trails are maintained for all decisions and there are compliance checks against the relevant NATO regulations;
- periodic Internal Audits are conducted independently upon instructions by the IMS FC being also the NDC FC.

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

During the year, the NDC entered into material transactions with other NATO entities outside the IMS Budget Group, as set out below:

Party	Nature of relationship	Transaction	2016 Expenses
NCIA	NATO Entity	Purchases of Software Licenses	61,069
NCIA	NATO Entity	Data connection	7,784
NATO IS	NATO Entity	Consultancy on Personnel issues	1,705
NATO IS	NATO Entity	PMIS – Annual contribution	1,490
NATO IS	NATO Entity	NED Programme 2016	9,000

## F. Employee Disclosure

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

**Peacetime Establishment (PE)**

	<b>Authorized PE *</b>	<b>Filled Positions</b>
Civilians	53	53
Military (IMP)	52	43
Consultants**	-	-
National Manpower Overage	1	1
Voluntary National Contribution (VNC)	-	3
Host Nation	32	29
Partnership Posts	4	1
Civilians (CBC)	-	-
LWR	-	-
<b>Total</b>	<b>142</b>	<b>130</b>

\* NDC PE is governed by the MC-500/2 change 4 dated Jul 2015.

\*\* Consultants are not included since their number is variable as reported to the NDMC.

**Employee Benefits**

The costs in Chapter 71 are for staff members hired under the NATO Civilian Personnel Regulations. The figures represent the costs of personnel including basic salary, allowances, insurance and pension plan contributions.

	<b>31-Dec-2016</b>	<b>31-Dec-2015</b>
a. Employee benefits	4,277,428	4,056,987
b. Provident Fund	0	0
c. DCPS	203,353	190,364
<b>Total</b>	<b>4,480,781</b>	<b>4,247,351</b>

Different pension plans are applicable to employees in the NDC; defined benefit plan, and defined contribution plan. All pension plans are centrally managed by NATO HQ and are therefore not included in the NDC Financial Statements. Contributions to the plans are expensed when occurred.

**Representation Allowance**

The NDC Budget 2016 included an amount of 4,317 EUR as Representation allowance for the entire FY 2016. Only 2,041 EUR (47.28%) was used to settle transactions to cover social events (mainly hosted meals in the Commandant's residence etc.) and was accounted for and documented in expenses.

**Untaken Leave**

The untaken leave at the end of 2016 is 414.5 days (the days were 527 at the end of 2015). Since the estimated amount involved (€ 71,430) is not material (less than 1% of the budget), no adjusting entry has been recorded for untaken leave. The NDC has taken measures to ensure all leave is taken by 30 April of the following year in accordance with NATO Civilian Personnel Regulations (CPRs). Leave is only paid on exceptional circumstances and in 2016 no such has been paid.

## G. Financial Instruments Disclosure/Presentation

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

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

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

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

The maximum exposure as at 31 December 2016 is equal to the total amount of bank balances, short-term deposits, and receivables disclosed in the Statement of Financial Position. Receivables considered uncollectible are adequately provided for. There is a very limited credit risk associated with the realization of these instruments.

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

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

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

## H. Comparison of Budget Execution and Statement of Financial Performance

### Budget Execution

The Budget Execution Statement shows the budget allocations and their execution status for the fiscal year 2016 including the credits carried-forward from 2014 and 2015 for the budget 303 (NDC).

There are two budget execution statements, one for the BCode 303 NDC Budget and another one for all reimbursable budgets (ZNC/504 (PfP) - 508 (MD) - 514 (ICI) - 524(OMC)), reimbursable expenses (Z01 and MC4) and multinational budgets for the Field Study program (FSP).

The initial budget was reviewed by the Budget Committee and issued in BA1: BC-BA(2016)0001-REV1 dated 12 February 2016. Similarly, the 2016 revised authorizations were issued in BA2: BC-BA(2016)0002 dated 13 July 2016 and BA3: BC-BA(2016)0003 dated 14 November 2016.

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

Additionally no credits have been carried forward thus the closing Unearned Revenue is zero (see also Note 9).

The following elements are disclosed in the Budget Execution Statement on the face of the Financial Statements:

- The original and final budget;
- The actual amounts expended and carried forward;
- The lapsed amounts.

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

	<b>Statement of Financial Performance</b>	<b>Budget Execution Statement</b>	<b>Difference</b>
a. Personnel (Chapter 71)	5,599,198	5,599,198	0
b. Contractual Supplies and Services (Chapter 72)	2,963,665	3,006,927	-43,262
c. Capital & Investments (Chapter 73)	14,400	419,849	-405,449
<b>Total</b>	<b>8,577,263</b>	<b>9,025,974</b>	<b>-448,711</b>

As shown above, the expenses in Chapters 72 and 73 of the Budget Execution Statement and the corresponding expenses in the Statement of Financial Performance diverge due to the inclusion of the capitalized expenditures (new items) in the Budget Execution Statement. (See note 4 and 10).

**Statement of Credits Carried-Forward**

Due to the new NFRs/FRPs there are no credits have been carried forward of the BC 303 and the Non-BCode 303 Budgets.

**Statement of Transfers**

In accordance with the NATO Financial Regulations (NFR Art. 26), all the changes between the initial and the final budget, which were due to reallocations, were either authorized by the BC or by the Financial Controller in accordance with the NFRs for inter and intra-budget transfers.

<b>Transfers IN – Transfers OUT</b>	<b>NDC Budget 2016</b>	<b>NDC Budget 2015</b>
a. Chapter 71 – Personnel	19,600	-169
b. Chapter 72 – Contractual Supplies and Services	-129,649	169
c. Chapter 73 – Capital and Investment	110,049	0
<b>Total</b>	<b>0</b>	<b>0</b>

**I. Write-Off**

In accordance with the NATO Financial Regulations (NFR Art. 17), an annual summary of property and cash written-off in 2016 is annexed to the annual financial statements at the following table

<b>Items (Quantity)</b>	<b>Purchased in</b>	<b>Net Book value</b>	<b>Total cost</b>	<b>Report of Survey</b>	<b>Reason for write-off</b>
Furniture (8)	1998 → 2011	58	851	03/2016	Beyond state of repair. No more serviceable
Mission Equipment (4)	2002 → 2013	0	7,449	01-03-06/2016	
CIS (53)	1982 → 2016	1,469	24,540	01-02-04-05/2016	
Library (322)	1950 → 2015	0	1,970	LKC 01-02/2016	Missing-Damaged-Destroyed
<b>Total</b>		<b>1,527</b>	<b>34,810</b>		



## J. Operating Lease

The NDC has 1 rental/lease contract which started in 2013 that has been classified as cancelable operating leases as it does not transfer substantially all the risks and rewards incidental to ownership. The classification has been based on the fact that the ownership is not transferred by the end of the lease term, the lease term is not for the major part of the asset's economic life and the leases do not contain a bargain purchase option. This approach is reviewed every year. The rental/lease Contract NDC 02/2013 for copiers signed in December 2013 for a period of 5 years with a yearly cost of 40,879 EUR is included in Chapter 72 expenses (see Note 10.a.2.).

## K. Morale & Welfare Activity

Morale & Welfare Activity (MWA) is conducted at the NATO Defense College on a relatively limited scale. The majority of transactions refer to Petrol products, Rationed items and a small Shop offering mementoes and other few items.

In accordance with the new IPSAS Accounting Framework (C-M(2016)0023 dated 21 April 2016), there is no need to consolidate the MWA into the Entity's Financial Statements. An annual MWA report, including the NDC relevant information, is issued by the IMS for Budget Committee screening and assessment.

**NATO DEFENSE COLLEGE**  
**STATEMENT OF NON BCode 303 / REIMBURSABLE BUDGET EXECUTION AS AT 31 DECEMBER 2016**  
**AND FOR THE YEAR ENDED**

Budget Currency EURO	Initial Budget	Transfers Adjustments	Final Budget	Commitments	Expenses	Total Spent	Lapsed
<b>REIMBURSABLE BUDGETS</b>							
BUDGET ZNC (504 - PfP (IMS))*	490,000	(34,316)	455,684	0	455,684	455,684	0
BUDGET ZNC (508 - MD (IMS))*	370,000	(13,218)	356,782	0	356,782	356,782	0
BUDGET ZNC (514 - ICI (IMS))*	50,000	(31,147)	18,853	0	18,853	18,853	0
BUDGET ZNC (524 - OMC (IMS))*	240,000	(37,738)	202,262	0	202,262	202,262	0
<b>TOTAL 2016</b>	<b>1,150,000</b>	<b>(116,420)</b>	<b>1,033,580</b>	<b>0</b>	<b>1,033,580</b>	<b>1,033,580</b>	<b>0</b>
BUDGET ZNC (504 - PfP (IMS))*	30,713	(292)	30,421	0	30,421	30,421	0
BUDGET ZNC (508 - MD (IMS))*	22,006	(320)	21,686	0	21,686	21,686	0
BUDGET ZNC (514 - ICI (IMS))*	0	0	0	0	0	0	0
BUDGET ZNC (524 - OMC (IMS))*	14,083	(224)	13,859	0	13,859	13,859	0
<b>TOTAL 2015</b>	<b>66,802</b>	<b>(836)</b>	<b>65,966</b>	<b>0</b>	<b>65,966</b>	<b>65,966</b>	<b>0</b>
<b>TOTAL REIMBURSABLE BUDGETS</b>	<b>1,216,802</b>	<b>(117,256)</b>	<b>1,099,546</b>	<b>0</b>	<b>1,099,546</b>	<b>1,099,546</b>	<b>0</b>
TOTAL BUDGET ZNC (504 - PfP (IMS))*	520,713	(34,608)	486,105	0	486,105	486,105	0
TOTAL BUDGET ZNC (508 - MD (IMS))*	392,006	(13,538)	378,468	0	378,468	378,468	0
TOTAL BUDGET ZNC (514 - ICI (IMS))*	50,000	(31,147)	18,853	0	18,853	18,853	0
TOTAL BUDGET ZNC (524 - OMC (IMS))*	254,083	(37,962)	216,121	0	216,121	216,121	0
<b>TOTAL REIMBURSABLE BUDGETS</b>	<b>1,216,802</b>	<b>(117,256)</b>	<b>1,099,546</b>	<b>0</b>	<b>1,099,546</b>	<b>1,099,546</b>	<b>0</b>

(\*) According to the IMS Directives, since PfP, MD, ICI and OMC are reimbursable budgets, the accrued and carried forward amounts are shown in both IMS and NDC books.

Expenses are recognized / recorded on an accrual basis

<b>REIMBURSABLE EXPENSES</b>							
BUDGET Z01 (REIMBURSABLE EXPENSES)	35,700	0	35,700	0	35,700	35,700	0
<b>TOTAL 2016</b>	<b>35,700</b>	<b>0</b>	<b>35,700</b>	<b>0</b>	<b>35,700</b>	<b>35,700</b>	<b>0</b>
BUDGET MC4 (NATIONAL BORNE EXPENSES)	1,729	0	1,729	0	1,729	1,729	0
<b>TOTAL 2015</b>	<b>1,729</b>	<b>0</b>	<b>1,729</b>	<b>0</b>	<b>1,729</b>	<b>1,729</b>	<b>0</b>
<b>TOTAL REIMBURSABLE EXPENSES</b>	<b>37,429</b>	<b>0</b>	<b>37,429</b>	<b>0</b>	<b>37,429</b>	<b>37,429</b>	<b>0</b>
<b>GRAND TOTAL ALL NON BCode303 / REIMBURSABLE BUDGETS AND EXPENSES</b>	<b>1,254,231</b>	<b>(117,256)</b>	<b>1,136,975</b>	<b>0</b>	<b>1,136,975</b>	<b>1,136,975</b>	<b>0</b>

<b>MULTINATIONAL</b>							
BUDGET FS1 (EUROPEAN PERSPECTIVES - SC 128)	164,859	0	164,859	0	164,859	164,859	0
BUDGET FS2 (TRANSATLANTIC LINK - SC 128)	201,674	0	201,674	0	201,674	201,674	0
BUDGET FS3 (REGIONAL APPROACH - SC 128)	168,190	0	168,190	0	168,190	168,190	0
BUDGET FS4 (EUROPEAN PERSPECTIVES - SC 129)	135,038	0	135,038	0	135,038	135,038	0
BUDGET FS5 (TRANSATLANTIC LINK - SC 129)	142,607	0	142,607	0	142,607	142,607	0
BUDGET FS6 (REGIONAL APPROACH - SC 129)	161,153	0	161,153	0	161,153	161,153	0
<b>TOTAL 2016</b>	<b>973,520</b>	<b>0</b>	<b>973,520</b>	<b>0</b>	<b>973,520</b>	<b>973,520</b>	<b>0</b>
<b>TOTAL MULTINATIONAL - FIELD STUDY BUDGETS</b>	<b>973,520</b>	<b>0</b>	<b>973,520</b>	<b>0</b>	<b>973,520</b>	<b>973,520</b>	<b>0</b>

**NATO UNCLASSIFIED**

**ANNEX 1**

**Summary Note for Council  
by the International Board of Auditors for NATO (Board)  
on the audit of the Financial Statements of the  
Science and Technology Organisation (STO)  
for the year ended 31 December 2016**

The Board audited the Science and Technology Organisation (STO), which became a NATO body on 1 July 2012. Its mission is to help position the Nations' and NATO's Science and Technology investments as a strategic enabler of the knowledge and technology advantage for the defence and security posture of NATO nations and partner Nations.

The STO comprises three executive bodies: the STO Office of the Chief Scientist (OCS) located in Brussels, Belgium, under the authority of the Chief Scientist; the STO Collaboration Support Office (CSO) located in Neuilly-sur-seine, France, under the authority of its Director; and the STO Centre for Maritime Research and Experimentation (CMRE) located in La Spezia, Italy, under the authority of its Director.

The Board issued an unqualified opinion on the STO Financial Statements and an unqualified opinion on compliance for the year ended 31 December 2016.

During the audit, the Board reported the Board reported the four observations and made eleven recommendations:

1. Efforts to achieve compliance with the NATO Financial Regulations, particularly those articles on internal control, risk management and internal audit.
2. Improvements needed in the control environment of the Centre for Maritime Research and Experimentation (CMRE) Human Resources.
3. Improvements needed in the authorisation and control of representation allowances.
4. No related party declarations obtained from the STB.

The formal comments of the STO to these observations and recommendations have been included in the Appendix to the Letter of Observations and Recommendations (Annex 3).

The STO partially agreed with the Board's recommendations one related to risk management and internal control framework, agreed with the Board's observations and related recommendations two and four and disagreed with the Board's observation and related recommendations three.

The Board also followed up on the status of the observations from the previous year's audit and found that three recommendations have been settled, two were partially settled and one remains outstanding.

22 August 2017

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

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

**THE SCIENCE AND TECHNOLOGY ORGANISATION**

**(STO)**

**FOR THE YEAR ENDED 31 DECEMBER 2016**



**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 Science and Technology Organisation (STO), which comprised the Statement of Financial Position as at 31 December 2016, the Statement of Financial Performance, Statement of Changes in Net Equity and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The Board also audited the Statements of Budget Execution of the Office of the Chief Scientist and the Collaboration Support Office included in Annex of the Financial Statements.

*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. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

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

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, due to fraud or error. In making those risk assessments, internal control relevant to the entity's preparation and presentation of financial statements is considered in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. An audit also includes evaluating the appropriateness of accounting policies used, the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



*Opinion on Financial Statements*

In our opinion, the Financial Statements present fairly, in all material respects, the financial position of STO as of 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with the NATO Accounting Framework.

**Report on Compliance**

*Management's Responsibility for Compliance*

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

*Auditor's Responsibility*

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

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

*Opinion on Compliance*

In our opinion, in all material respects the financial transactions and information reflected in the financial statements are in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

*Other Matters*

The Board draws the attention of the reader to the Observation 2 of the Letter of Observations and Recommendations where control weaknesses have been found in the management of Human Resources in the Centre for Maritime Research and



Experimentation (CMRE) in 2016 and early 2017 that should be closely monitored and improved. The Board's opinion is not modified as a result of this matter.

Brussels, 22 August 2017

A handwritten signature in black ink, appearing to read 'Hervé-Adrien Metzger', with a long horizontal flourish extending to the right.

Hervé-Adrien Metzger  
Chairman

22 August 2017

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**LETTER OF OBSERVATIONS AND RECOMMENDATIONS  
FOR THE SCIENCE AND TECHNOLOGY ORGANISATION**

**(STO)**

**FOR THE YEAR ENDED 31 DECEMBER 2016**

## **Introduction**

The International Board of Auditors for NATO (Board) audited the Science and Technology Organisation (STO) Financial Statements for the year ended 31 December 2016, and issued an unqualified opinion on the financial statements and on compliance.

## **Observations and Recommendations**

During the audit, the Board reported the four observations below and made eleven recommendations:

1. Efforts to achieve compliance with the NATO Financial Regulations, particularly those articles on internal control, risk management and internal audit.
2. Improvements needed in the control environment of the Centre for Maritime Research and Experimentation (CMRE) Human Resources.
3. Improvements needed in the authorisation and control of representation allowances.
4. No related party declarations obtained from the STB.

The Board also followed up on the status of the observations from the previous year's audit and found that three recommendations have been settled, two were partially settled and one remains outstanding.



**OBSERVATIONS AND RECOMMENDATIONS****1. EFFORTS TO ACHIEVE COMPLIANCE WITH THE NATO FINANCIAL REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT****Reasoning**

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

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

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

**Observations**

1.4 The Board found that STO has continued to make some progress towards achieving compliance with the revised NFRs, but some important steps are still needed. The Board also found that the STO executive bodies are often working independently of



each other in this respect and that more could be done to work together to gain efficiencies in the process and to learn from each other.

1.5 This result, though, is not unexpected considering that the more detailed FRPs, which were required by Article 4 of the revised NFRs, were not approved until 16 March 2017. Furthermore, these changes to the NFRs are significant, and the Board understands that some time is needed to implement them properly. It is expected that in doing so will increase the likelihood that the benefits accruing to the STO will be real, rather than just being an exercise to demonstrate compliance with the revised NFRs.

1.6 As a result, 2016 continues to be a transition year for STO. The Board expects compliance to be achieved in 2017. It has again 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 2016 as a result of these observations.

1.7 The Board reports the status of the following areas:

Article 3 Responsibility and Accountability

1.7.1 The Board found that both the NATO Chief Scientist and the STO Financial Controller signed the Statement of Internal Control and the financial statements.

Article 11 Risk Management

1.7.2 The Board found that CMRE (an executive body of STO) was provided with a risk assessment and internal audit plan 2016 prepared by NATO Communications and Information Agency (NCIA) Internal Audit and delivered in December 2016.

1.7.3 The Board found that the Collaboration Support Office (CSO), an executive body of STO, independent from CMRE, developed a risk register and risk management procedures in accordance with the methodology Management of Risk. This was done independently from CMRE.

1.7.4 The Board found that the Office of the Chief Scientist (OCS), an executive body of STO, is still in the process of documenting a Risk Management policy and procedures. The Board expects to see a risk management policy and more progress on this in the coming year. This should be part of a coordinated STO-wide effort.

1.7.5 The Board found STO, as a single reporting entity, still needs to develop a Risk Management policy and relevant documentation at STO level is essential in order to ensure and to clearly demonstrate to others that efficient, effective and economic risk management procedures are in place. Until the STO develops a documented risk management policy and procedures, the Board will not be in the position to state that there is a system or risk management, in place that is in accordance with Article 11 of the revised NFRs.



Article 12 Internal Control

1.7.6 Article 12 of the NFRs requires a periodic assessment and review of the risk and the sound functioning of the internal control system. FRP XII 3) (e) requires the Statement on Internal Control to make a reference to the internal control framework used for the assessment.

1.7.7 The Board found that STO has not yet formally adopted a specific Internal Control Framework to be used to assess the system of internal control in place as required by FRP XII. A number of other NATO bodies, including the Allied Command Operations, the Allied Command Transformation, the NATO Communications and Information Organisation, NATO EF 2000 and Tornado Development, Production and Logistics Management Agency and the NATO Airborne Early Warning and Control Programme Management Agency, have adopted the Committee of Sponsoring Organisations of the Treadway Commission (COSO) Framework. The adoption of a specific framework by these NATO bodies is an important step forward. It is essential in order to ensure and to clearly demonstrate to others that a complete system of internal control and risk management is in place. Until the STO adopts a specific internal control framework, and completes its documentation, the Board will not be in a position to state that there is a full system of internal control in place that is in accordance with Article 12 of the revised NFRs.

Article 13 Internal Audit

1.7.8 The Board found that CMRE requested NCIA Internal Audit to support Internal Audit activities for CMRE with effective support as from 2016 in the following areas: 1) Control self-assessment workshop for the financial year which has been delivered during the second half of 2016, and 2) Audit fieldwork activities informed by the above exercise to be performed during the second half of 2017.

1.7.9 The above efforts only relate specifically to CMRE. The CSO has decided not to request such a support in 2016. As a result, it cannot yet be stated that the STO has undertaken internal audit activities to fully evaluate, throughout the organisation, the risk exposures and the effectiveness of internal controls in managing risk within the governance, operations and information systems as required by Article 13.

Article 16 Audit Advisory Panel

1.7.10 The Board found that the STO updated the terms of reference of the Finance and Audit Sub-Group in the document ref. Annex 16-02 to AC/323-N(2012)0006 in order to comply with the provisions of Article 16 of the revised NFRs.



## **Recommendations**

1.8 The Board recommends that the STO:

- a) Issues an entity-wide risk management policy and that risk registers are developed and employed throughout all of STO entities and operations,
- b) As required by FRP XII 3) (e), chooses a specific internal control framework that it will use to assess its system of internal control. The assessment is required by Article 12 of the NFRs. Since other NATO entities, including ACO and ACT, have already adopted COSO as their internal control framework, and it is a framework that can be used by entities of all sizes, the STO should consider adopting COSO as their internal control framework.
- c) Continues its on-going work of assessing and documenting the system of internal control and risk management procedures to support compliance with NFR Articles 11 and 12, FRPs XI and XII, and the internal control framework that it chooses.
- d) Through outsourcing if considered to be more cost effective, ensures internal audit activities are evaluating risk management and internal control throughout the STO.

## **2. CMRE - IMPROVEMENTS TO BE DONE IN THE CONTROL ENVIRONMENT OF HUMAN RESOURCES**

### **Reasoning**

2.1 The organisation chart is the basic document which clarifies the roles and responsibilities of all staff within the organisation. As such, it shall be up to date to present the actual roles and responsibilities of the staff.

2.2 In accordance with Article 44 of the CPRs, NATO International Staff Civilians who are entitled to an expatriation allowance can benefit from an additional leave in their home country as clarified in Article 38.1(b) that is the address provided when joining or another address considering all valid justification.

2.3 The CPRs Article, which is the reference for remuneration of personnel within NATO bodies, refers to retroactive effect of additional allowances and remunerations only for extra-duty allowances under the provisions of Article 32.3. The retroactive change of a position is not an efficient, effective and economical use of funds.



## Observations

2.4 The Board found that the Organisational Chart of CMRE has not been updated since 2015, while some roles and responsibilities have been reassigned amongst CMRE personnel. The responsibilities of the Head of Personnel and Administration have been transferred to the Head of Procurement and Contracting, who receives additional allowances for this, while the Head of Personnel and Administration remains employed by the CMRE.

2.5 The Board also found neither an official approved request nor evidence of the spouse's ties to the new home leave address for changing a home leave address.

2.6 Additionally, The Board found two cases of retroactive promotion which does not comply with the CPRs:

- a) For the first case, the Board found that a consultant employed on 1 September 2016 as a Research Fellow was retroactively promoted to Visiting Scientist on 16 December 2016. The related increase in staff expenses is EUR 8,577.
- b) For the second case, the Board found that in May 2017, a position was reclassified from grade B-5 to B-6 with retroactive effect as from January 2017. The staff member will also benefit from a step increase in July 2017.

## Recommendations

2.7 The Board recommends to clarify the roles and responsibilities of the acting and former Head of Personnel and Administration.

2.8 The Board recommends that CMRE issue an Office Notice in which it clearly defines the supporting documents to be provided in order to justify any change of home leave address.

2.9 The Board recommends that CMRE complies with the CPRs and set procedures to ensure equal treatment of promotions and ensure an efficient, effective and economical use of resources.

## 3. IMPROVEMENTS NEEDED IN THE AUTHORISATION AND CONTROL OF REPRESENTATION ALLOWANCES

### Reasoning

3.1 Following instructions reported in the representation allowance policy (ref. document PO(2013)0154 and related guidelines applicable in 2016), the representation



allowances are audited by the Board who shall ensure that the procedure is correctly applied and gives its final approval for the representation allowances.

3.2 The General principle and procedures set in the representation allowance process requires the following:

- a) The process will be handled by the Financial Controllers.
- b) The supporting documentation is kept by Financial Controllers for all expense justification.
- c) The Board will consider the amounts to be allowed or disallowed, based on evidence provided by the Financial Controller.

3.3 CMRE is entitled to hospitality expenses, while the CMRE Director is entitled to representation allowance.

3.4 Financial Controllers check against the guidelines issued by the Secretary General which states the representation allowances (RA) are not intended for hosting NATO staff.

3.5 While applicable guidelines for the representation allowances in 2016 states that "external to NATO means out of a different budget", the revised guidelines issued in December 2016 (ref. DC(2016)0100) and applicable in 2017 clarifies (paragraph 2.4) that "RA is not intended for the hosting of NATO personnel working in the same NATO body as the recipient of RA".

### **Observations**

3.6 Referring to the STO Charter, the Board understands that CSO, OCS and CMRE are executive bodies of STO. The Charter supports, though, that STO is one NATO body. It issues consolidated STO financial statements, including CSO, OCS and CMRE, signed by one Financial Controller and the NATO Chief Scientist who is also the Head of OCS as per the same Charter. However, the Board found that representation allowances for dinners between STO staff including the Director of CSO, the Chief Scientist, and the STO Financial Controller have been claimed for reimbursement. The Board is of the opinion that this is not an appropriate use of representation allowance.

3.7 The Board found that all CMRE RA have been reclassified as hospitality, leading to an error in the note G of the 2016 STO Financial Statements. The RA for CMRE amounts to EUR 1,067.

3.8 The Board found that the former Chief Scientist claimed a RA for a working lunch with Science and Technology Board members that were part of the selection panel for the next Chief Scientist. We consider that this is not a networking event, but an

operational event as part of the operational decision on STO management. As such, we do not concur with the reimbursement of this expense of EUR 130.50.

### **Recommendations**

3.9 The Board recommends that undue RA are reimbursed to each STO executive bodies.

3.10 The Board recommends that as from 2017, no RA will be reimbursed for meetings between STO personnel, including STB members.

## **4. NO RELATED PARTY DECLARATIONS OBTAINED FROM THE STB**

### **Reasoning**

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

### **Observation**

4.2 The Board found that the members of the governing bodies did not provide a specific statement of disclosure of Related Parties transactions.

### **Recommendation**

4.3 STO should fully comply 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



**FOLLOW-UP OF PREVIOUS YEAR'S OBSERVATIONS**

The Board reviewed the status of the observation and recommendation arising from the previous audits. The observations and their status are summarised in the table below.

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p><b>2015 STO Audit Report</b> <b>IBA-AR(2016)68</b> <b>Further steps are required to achieve full compliance with the revised NATO financial regulations, particularly those articles on internal control, risk management and internal audit</b></p> <p><b>Recommendations</b></p> <p>1.5 The Board recommends that:</p> <p>a) STO prepare an entity-wide risk management policy and that risk registers are developed and employed throughout all of STO entities and operations. In the Board's opinion, this should be coordinated to ensure consistent treatment across NATO Bodies.</p> <p>b) STO develop a specific, internationally accepted, Internal Control Framework, and that there be a systematic and detailed documentation of internal control procedures supporting the framework. In the Board's opinion, this should be coordinated to ensure that a common framework is chosen across NATO Bodies.</p> <p>c) STO, through outsourcing if considered to be more cost effective, ensure internal audit activities are evaluating risk management and internal control throughout the STO.</p> <p>d) STO establishes an Audit Advisory Panel.</p>	<p>See current year Observation 1.</p>	<p>Observation <b>Superseded by current year Observation 1.</b></p>
<p><b>2014 STO Audit Report</b> <b>IBA-AR(2015)36</b> <b>Improvements needed to management accounting by project</b></p> <p><b>Recommendation</b></p> <p>1.1) The Board recommends that CMRE develop a methodology that will allow it to determine the costs per project, including the allocation of overhead costs to individual projects. This will allow for the determination of surplus or deficit by project, and provide management with information</p>	<p>The Board found that, in 2016, the CMRE initiated a process to begin allocating costs to its different projects. While this process is not yet mature, nor linked to the financial accounting</p>	<p>Observation <b>Outstanding.</b></p>



OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
that is useful in managing the business.	system, it can begin to help the CMRE to identify issues as they move to a more mature model that would eventually become integrated into a financial accounting system.	
<b>2014 STO Audit Report</b> <b>IBA-AR(2015)36</b> <b>CMRE – Fixed Assets Not Sufficiently Labelled</b>  <b>Recommendation</b>  2) The Board recommends CMRE to develop a tagging or recognition system which would allow an automatic linkage with the accounting registry and aid in the follow-up of the use of the assets.		Observation <b>Settled.</b>

**SCIENCE AND TECHNOLOGY ORGANIZATION (STO) FORMAL COMMENTS ON THE  
LETTER OF OBSERVATIONS AND RECOMMENDATIONS AND THE  
INTERNATIONAL BOARD OF AUDITORS (BOARD) POSITIONS**

**OBSERVATION 1:**

**EFFORTS TO ACHIEVE COMPLIANCE WITH THE NATO FINANCIAL REGULATIONS,  
PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND  
INTERNAL AUDIT**

***STO's Formal Comments to recommendations Paragraph 1.8 a) on Risk Management  
Policy (Article 11 of the NFR)***

***Partly agree***

*We note with satisfaction the recognition of the IBAN of the work already undertaken by the CMRE and the CSO. However, concerning the OCS, taking into account the limited number of personnel of this Executive Body (6 people in total), we are of the opinion that documenting a Risk Management in the OCS might not add the expected potential value.*

*The STO does not agree that they have not yet developed a documented Risk Management Policy. Indeed, the Terms of Reference of the STB Finance & Audit Sub-Group (FASG), document AC/323-D(2017)0005 (INV), already covers related activities such as corporate governance systems, effectiveness of internal control systems, internal audit function and provide advice to the Science and Technology Board (STB).*

*Nonetheless, in response to the new NFRs, the STO is committed to preparing an entity wide Risk Management Policy. However, the three Executive Bodies of the STO all have separate business models and have sizes of their PE ranging from 6 to 45 and to 155 individuals. Developing one 'organization-wide' risk management policy, having risk registers developed and employed throughout all of the STO entities and operations (already the case in CSO and CMRE), might represent an (unrealistic) administrative burden to a smaller entity like the OCS.*

*In addition, the risk registers that are applicable for an in-house laboratory with research infrastructure (i.e. CMRE) are very different from those apropos to an information coordination agent (i.e. CSO) and a small staff office (i.e. OCS). Although the general overall policy will likely be common, risk registers must be tuned to the organization's core functions in order to be effective.*

*We will of course first seek advice from the STB, the Head of Financial Reporting Policy (HFRP) and Nations in the Budget Committee.*



## Board's Position

The Board maintains its position that there be one risk management policy for all of STO. Of course, how each STO Executive Body implements the policy may differ depending on their size and complexity.

### **STO's Formal Comments to recommendations Paragraph 1.8 b) on Internal Control Framework and Paragraph 1.8 c) on risk management (Article 12 of the NFR)**

#### ***Partly agree***

*The new control framework was introduced into the NATO Financial Rules and Procedures (NFRs) as approved by the Budget Committee. These regulations cover the NATO Bodies reporting to the Budget Committee such as the OCS and CSO (not CMRE).*

*These NFRs do not contain any requirement to adopt an 'international control framework' such as COSO. In any case, any potential choice of an internal control framework should be first endorsed by the STB explaining amongst others the financial and manpower resources needed. We would also seek the advice of the HFRP.*

*Moreover, as already explained above, the STO is composed of three separate Executive Bodies, each with specific business model, making it extremely difficult, almost impossible, and time consuming for small entities, to document the system of internal control (administrative layer to be absorbed, further diverting the scarce financial and personnel resources and driving them further away from their primary mission).*

*Concerning 'Risk Management', the two main 'biggest STO Entities' have already taken the initiative to arrange for a Risk Assessment (and the CMRE with an internal audit plan). The CSO, as a smaller entity, followed the same approach and has already developed a risk Management methodology. By doing so, they increased the overall effectiveness and efficiency of both entities, identifying key risks, evaluating the nature and implementing controls to mitigate the risks (as prescribed by Article 11 of the NFRs and FRP XI).*

## Board's Position

The Board maintains its position. The Board supports the Budget Committee approved requirement in the revised FRPs to select an internal control framework against which NATO bodies will use to assess their systems of internal control. Such frameworks are



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designed to be used by entities of all sizes, and it is advisable that a common internal control framework be used for all NATO bodies to increase efficiency and effectiveness. Of course, how each body demonstrates compliance to the framework may differ depending on their size and complexity.

**OBSERVATION 2:**

**CMRE - IMPROVEMENTS TO BE DONE IN THE CONTROL ENVIRONMENT OF HUMAN RESOURCES**

***STO's Formal Comments***

***Agree***

*We will work with the CMRE and recognize that there might be scope for clarifying responsibilities within the HR department, avoiding conflicts of interest and amending the Organizational Chart accordingly.*

**OBSERVATION 3:**

**IMPROVEMENTS NEEDED IN THE AUTHORISATION AND CONTROL OF REPRESENTATION ALLOWANCES**

***STO's Formal Comments***

***Not agree***

***a. General observations***

*The PO(2016)0154 is the driving document dealing with Representation Allowance (RA). The other document, quoted in Par 3.5, DC(2016)0100 dated 20 December 2016, could ipso facto not be applicable for the RA when representing the STO Consolidated Financial Statements for the year ending 31 December 2016 (subject to this IBAN report).*

*Moreover, while PO(2016)0154 is applicable NATO-wide, this seems not the case for the DC(2016)0100 mentioned by the IBAN. The two Strategic Military Commands, users of large amounts of Representation and Hospitality Funds, are not mentioned in this DC document. IBAN should also note that NO Financial Controller was mentioned as final addressee in the DC document.*

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*In their observations, IBAN stated that the STO should be considered as one NATO Body. Taking into account the definition of NATO Body, legal advice was requested taking into account the appropriate wording of the Charter. Please find attached the final legal interpretation quoting the exact wording to be used in such an IBAN audit report. STO should not be seen as 'one' NATO Body and the language to use can be found in the conclusion of this legal advice. If desired, we can of course also request legal advice from the Office of the Secretary General.*

*IBAN should also be aware that the Financial Statements are signed by the STO Financial Controller and the Chief Scientist in his capacity of the Chairman of the Science and Technology Board, as stipulated in Annex 2, Par 1.2a) of the Charter of the STO (not, as unfortunately stated by IBAN 'signed by the Head of the OCS).*

*Consolidated financial statement must firstly be submitted to the Science and Technology Board and the IBAN (Article 25.1 of this same charter). The STB approves the consolidated annual financial statements and the report of the heads of the executive bodies. (Article 25.3).*

**b. Responses to Recommendations 3.11 and 3.12**

**Not Agree**

*As explained in Par 5.a, the STO shall not be considered as one NATO Body. Moreover, the Science and Technology Board Members are to be considered as Representatives of their respective Nations and Government (Article 16.5 and Annex 1 of the Charter). They report to NAC. Therefore, they are ipso facto external' to NATO. Indeed; the Governance of the STO is vested in this Science and Technology Board. We also consulted the Financial Controllers of the IS, NCIA and NSPA. They confirmed the use of RA when an ASG, DASG or General Manager is inviting Ambassadors or National Representative of their Boards.*

**Board's Position**

The Board reviewed the STO formal comments, including the legal advice obtained from the IMS Legal Adviser, and maintains its position.

In addition, the STO reference made to PO(2016)0154 should be PO(2013)0154.

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**OBSERVATION 4:  
NO RELATED PARTY DECLARATIONS OBTAINED FROM THE STB**

***STO's Formal Comments***

***Agree***

*We will seek advice how other Organizations (NCIA, NSPA) are dealing with related party transactions of 29 Board Members (representing their country).*

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Financial Statements of the

## **NATO SCIENCE AND TECHNOLOGY ORGANIZATION**

31 December 2016



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## Executive Summary

The role of NATO Science and Technology (S&T) is to cover basic and applied research broadly in the engineering, physical, information, human, medical and social sciences, and to deliver a range of products and services essential to NATO and NATO Nations. They are:

- Supporting the core tasks of the Alliance as set out in the NATO Strategic Concept;
- Supporting technological and knowledge advantages, thereby being a critical force multiplier;
- Providing the evidence-base to support informed decision-making; and
- Helping to mitigate evolving threats and risks, including supporting public diplomacy.

The STO is composed of the Science and Technology Board (STB); three Executive Bodies; and Scientific and technical committees.

Governance of the STO is vested in the STB which reports to the NAC through the Military Committee and the Conference of National Armaments Directors (CNAD). Leadership of the STO is exercised by the Chief Scientist through his roles as Chair of the STB and Senior scientific advisor to NATO leadership.

The three executive bodies of the STO are:

- a. The Office of the Chief Scientist (OCS), located within NATO Headquarters, Brussels, provides executive and administrative support to the NATO Chief Scientist in fulfilling his/her roles as the Chair of the Science & Technology Board (STB) and the Senior Scientific Advisor at NATO Headquarters.
- b. The S&T Collaboration Support Office (CSO), located in Neuilly sur Seine, Paris, provides the executive and administrative support to the collaborative S&T activities conducted through the STO level 2 committees and level 3 working groups.
- c. The Centre for Maritime Research and Experimentation (CMRE) located in La Spezia, Italy, organizes and conducts scientific research and technology development and delivers innovative and field-tested S&T solutions to address the defence and security needs of the Alliance.

In accordance with the STO Charter, the Chief Scientist, supported by STO Financial Controller (FC), shall submit to the STB and IBAN consolidated financial statements<sup>1</sup> in accordance with the NATO Accounting Framework <sup>2</sup> (as based on International Public Sector Accounting Standards (IPSAS)), and NATO Financial Regulations.

The STB shall approve the consolidated annual financial statements taking into account the audit report of the International Board of Auditors for NATO (IBAN) and the comments of the STB Finance and Audit Sub-Group (FASG).

These consolidated Financial Statements for the STO cover the period from 1 January 2016 to 31 December 2016.

The Financial Statements reflect the financial position, the financial performance, the budget execution, the cash flow and the change in net assets for the reporting period. Notes provide further

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<sup>1</sup> C-M(2012)0046 Annex 1 para 25.1

<sup>2</sup> C-M(2013)0039 and C-M(2016)0023



disclosures on key transactions following the materiality principle and where appropriate, segmented reporting.

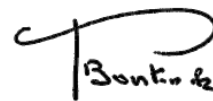
The Financial Statements have been prepared primarily using the data from the FinS accounting software, in which each executive body is represented with a separate set of financial books / balancing segment.

The STO, finalizing its transition phase, pursues full compliance. It remains committed to developing its Financial Reporting expertise and to producing fully compliant Financial Statements in accordance with the applicable standards, and any instructions issued by Nations, e.g. from the NATO Resource Policy and Planning Board. It also remains dedicated to continue to work openly and constructively with the IBAN.

Conditions for success need to be met. Staff needs to maintain up-to-date knowledge as the NATO Accounting Framework and IPSAS standards are continuously evolving, accounting tools need to be suitably maintained and, when appropriate, upgraded and NATO Bodies should undertake financial reporting in a consistent way. The STO will therefore continue to maintain a dialogue with the other NATO Bodies and to play a full part in the Accounting Working Group and the Working Group of Financial Controllers.



Dr Thomas Killion  
NATO Chief Scientist  
Chairman, NATO Science and Technology Board



Peter Bontinck  
Financial Controller  
Science and Technology Organisation

## Statement of Internal Control

The Chief Scientist and Chairman of the Science and Technology Board (STB), together with the Directors of the Centre for Maritime Research and Experimentation (CMRE) and the Collaborative Support Office (CSO), as Heads of the three Executive Bodies of the STO, collectively exercise overall responsibility for the maintenance of a sound system of Risk Management and Internal Control, in accordance with Articles 11.1 and 12.1 of the NATO Financial Regulations (NFRs).

The STO Financial Controller is responsible for financial risk management, and for establishing financial risk management standards (NFR Financial Rules and Procedures XI.3 and XI.4). In addition, the Financial Controller is responsible for the system of internal financial and budgetary control (NFR 11.2).

The systems of Risk Management and Internal Financial Control are based on an on-going process designed to identify the principal risks to the achievement of STO policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 December 2016 and up to the date of these Financial Statements.

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

The systems of Risk Management and Internal Financial Control provide an internal control framework which includes the following elements:

- a. Following NATO corporate governance principles<sup>3</sup>, the Science & Technology Board (STB) is routinely informed about risks affecting the STO, via the work of the Finance and Audit Sub-Group (FASG), and a number of the Science and Technology (S&T) sub-groups and committees. The key roles of the FASG are to assess the activities of the STO Executive Bodies, and provide advice and recommendations to the STB in support of Financial Management, Financial Planning and Execution, and Audit. The key role of the various S&T sub-groups and committees are to provide on-going reporting to the STB on operational and technical matters.
- b. Senior Managers and Finance Officials regularly scrutinise operational and financial activities;
- c. The STB and the Budget Committee periodically scrutinise in-year financial execution;
- d. Policies, rules, and procedures governing technical, operational and financial activities are extensively documented and promulgated;
- e. Suitably qualified staff are employed throughout the financial system, to help ensure that staff have a sound understanding of their responsibilities as set out in the NATO Financial Regulations (NFR) and the policies promulgated by the STB;
- f. The usage of a common accounting system, FinS, having built-in approval workflows and controls together with audit trails, ensures that transactions are recorded consistently and accurately based on the Military Budget Chart of Accounts;

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<sup>3</sup> C-M(2005)0087

- g. Internal Audit Service providers are commissioned on an occasional basis by the STO Financial Controller and the STB; and
- h. Recommendations and observations arising from external audits and internal audits are acted upon promptly.

The recently revised NATO Financial Regulations (NFRs), and Financial Rules and Procedures (FRPs) are important pillars of the STO internal control framework. The NFRs were endorsed by the Nations in May 2015, and the FRPs were approved by the Budget Committee in February 2016. As such, 2017 will be the first full financial year under the new NFR/FRP framework.

As Chairman of the STB, and Financial Controller, we also have collective responsibility for reviewing the effectiveness of the system of internal control. Our review is informed by the work of STO Senior Managers, External Audits, Internal Audits, and the work of various sub-committees reporting to the STB, including the Finance and Audit Sub-Group (FASG).

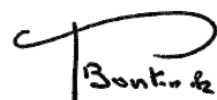
The work of the FASG, and the work of various technical sub-groups during 2016, did not raise any significant matters for attention regarding operational or technical matters. The IBAN External Audit of the 2015 Financial Statements - undertaken in 2016 - resulted in an unqualified opinion. However, a number of observations were raised by the IBAN in relation to compliance with the recently revised NFRs. The IBAN made recommendations concerning risk management policies, internal audit and control, and the creation of an Audit Advisory Panel.

Overall, we are satisfied that the Risk Management and Internal Financial Control systems in operation across the STO during the year 2016 were reasonably adequate and effective.

Moreover, in 2016, the STO engaged an external consultant and an Internal Audit Service provider to begin the process of developing enhanced Risk Management and Financial Control procedures, working towards full compliance with the new NFRs and FRPs. This process will continue into 2017. However, as noted by the Nations<sup>4</sup> 'the scale of the challenge is significant' and 'it could take until Financial Year 2018 for NATO bodies to be in full compliance'.



Dr Thomas Killion  
NATO Chief Scientist  
Chairman, NATO Science and Technology Board



Peter Bontinck  
Financial Controller  
Science and Technology Organisation

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<sup>4</sup> C-M(2016)0077 paragraph 5.2 dated 12<sup>th</sup> December 2016.

## Statement 1 – STO Consolidated Statement of Financial Position

as at 31 December 2016  
(in EUR)

		<u>2016</u>	<u>2015</u>
	Notes		
<b>Assets</b>			
<b><i>Current assets</i></b>			
Cash and cash equivalents	1	9,230,057	11,215,363
Receivables	2	7,186,817	5,880,575
Prepayments	3	635,158	595,126
		<u>17,052,032</u>	<u>17,691,064</u>
<b><i>Non-current assets</i></b>			
Property, plant & equipment	4	3,242,684	1,278,645
		<u>3,242,684</u>	<u>1,278,645</u>
<b>Total assets</b>		<u>20,294,716</u>	<u>18,969,709</u>
<b>Liabilities</b>			
<b><i>Current liabilities</i></b>			
Payables	5	2,516,048	2,224,002
Deferred revenue	6	23,441	364,456
Advances	7	3,168,632	2,591,456
Credit facilities	8	1,500,000	1,100,000
Provisions		-	200,490
Other current liabilities	9	233,159	156,047
		<u>7,441,280</u>	<u>6,636,451</u>
<b><i>Non-current liabilities</i></b>			
Deferred revenue	10	338,979	185,745
		<u>338,979</u>	<u>185,745</u>
<b>Total liabilities</b>		<u>7,780,259</u>	<u>6,822,196</u>
Surplus/Deficit	11	366,944	364,926
Retained earnings	12	12,147,513	11,782,587
<b>Total net assets</b>		<u>12,514,457</u>	<u>12,147,513</u>
<b>Total net assets and liabilities</b>		<u>20,294,716</u>	<u>18,969,709</u>

## Statement 2 – STO Consolidated Statement of Financial Performance

for the year ended 31 December 2016  
(in EUR)

	<u>2016</u>	<u>2015</u>
Notes		
<b>Revenue</b>	<sup>13</sup>	
Revenue	33,340,123	34,651,097
Financial revenue	48,941	99,017
<b>Total revenue</b>	<u>33,389,064</u>	<u>34,750,114</u>
<b>Expenses</b>	<sup>14</sup>	
Personnel	19,980,503	20,224,721
Contractual supplies and services	12,289,803	13,640,083
Depreciation and amortization	715,947	470,114
Finance costs	35,867	50,270
<b>Total expenses</b>	<u>33,022,120</u>	<u>34,385,188</u>
<b>Surplus/(Deficit) for the period</b>	<sup>15</sup> <u>366,944</u>	<u>364,926</u>



## Statement 3 – STO Consolidated Statement of Cash Flow

(in EUR)

	2016	2015
<b>Cash flow from operating activities</b>		
Surplus/(Deficit)	366,944	364,926
<b>Non-cash movements</b>		
Depreciation/ Amortisation	715,947	470,114
Increase /(decrease) in payables	292,045	360,101
Increase/ (decrease) in other current liabilities	313,274	551,701
Increase/ (decrease) in provisions	(47,256)	(456,422)
Decrease/ (Increase) in other-current assets	(40,032)	(135,399)
Decrease/ (Increase) in receivables	(1,306,242)	(3,300,346)
<b>Net cash flow from operating activities</b>	<u>294,680</u>	<u>(2,145,325)</u>
<b>Cash flow from investing activities</b>		
Purchase of property plant and equipment / Intangible assets	<u>(2,679,986)</u>	<u>(1,073,717)</u>
<b>Net cash flow from investing activities</b>	<u>(2,679,986)</u>	<u>(1,073,717)</u>
<b>Cash flow from financing activities</b>	400,000	1,100,000
<b>Net cash flow from financing activities</b>	<u>400,000</u>	<u>1,100,000</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<u>(1,985,306)</u>	<u>(2,119,042)</u>
<b>Cash and cash equivalent at the beginning of the period</b>	<u>11,215,363</u>	<u>13,334,405</u>
<b>Cash and cash equivalent at the end of the period</b>	<u>9,230,057</u>	<u>11,215,363</u>

## Statement 4 – STO Consolidated Statement of Change in Net Assets

for the year ended 31 December 2016  
(in EUR)

	Commitments / Legal Obligations	Depreciation Reserve	Vessels Reserve	Net Equity Fund	General Reserve	Total
<b>Balance at the end of the period 2014</b>				3,500,000	4,456,063	7,956,063
Changes in accounting policy	3,151,482	675,042	-			3,826,524
<b>Restated balance</b>	3,151,482	675,042	-	3,500,000	4,456,063	11,782,587
Net gains/(losses) recognised directly in net assets/equity						
Exchange difference on translating foreign operations						
Gain on property revaluation						
Surplus/(deficit) for the period	(2,343,948)	417,858	4,853,000	-	(2,561,984)	364,926
<b>Change in net assets/equity for the year ended 2015</b>	(2,343,948)	417,858	4,853,000	-	(2,561,984)	364,926
<b>Balance at the end of the period 2015</b>	807,534	1,092,900	4,853,000	3,500,000	1,894,079	12,147,513
Changes in accounting policy						
<b>Restated balance</b>	807,534	1,092,900	4,853,000	3,500,000	1,894,079	12,147,513
Net gains/(losses) recognised directly in net assets/equity						
Exchange difference on translating foreign operations						
Gain on property revaluation						
Surplus/(deficit) for the period	767,658	1,810,805	(3,244,054)	-	1,032,535	366,944
<b>Change in net assets/equity for the year ended 2016</b>	767,658	1,810,805	(3,244,054)	-	1,032,535	366,944
<b>Balance at the end of the period 2016</b>	1,575,192	2,903,705	1,608,946	3,500,000	2,926,614	12,514,457

## NOTES TO THE STO CONSOLIDATED FINANCIAL STATEMENTS

### A. ACCOUNTING POLICIES

#### Basis for Preparation

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

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

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

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

In accordance with Article 2.1 of the NFRs, the financial year of the STO is 1 January to 31 December.

The STO includes the Centre for Maritime Research and Experimentation (CMRE), the Collaboration Support Office (CSO) and the Office of the Chief Scientist (OCS).

#### Accounting estimates and judgments

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

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

## Changes in pronouncements

The following IPSAS are not relevant for the STO Financial Statements 2016: IPSAS 26 - Impairment of Cash-Generating Assets, IPSAS 27 – Agriculture. The following IPSAS have no material effect on the financial statements: IPSAS 5, IPSAS 6, IPSAS 7, IPSAS 8, IPSAS 10, IPSAS 11, IPSAS 16, IPSAS 18, and IPSAS 32.

Six new IPSAS pronouncements were issued in 2015 or 2016 covering: IPSAS 34 Separate Financial Statements; IPSAS 35 - Consolidated Financial Statements; IPSAS 36 - Investments in Associates and Joint Ventures; IPSAS 37 - Joint Arrangements; and IPSAS 38 - Disclosure of Interests in Other Entities; and IPSAS 39 Employee Benefits.

The standards are effective for annual financial statements covering periods beginning on or after 1 January 2017. They have not been applied by the STO in preparing the Financial Statements for 2016. The new standards are not expected to have a material impact on the presentation of the STO Financial Statements.

## Foreign Currency Transactions

These financial statements are presented in Euros, which is the STO's functional and reporting currency. Foreign currency transactions are translated into Euro at the NATO exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at year-end are translated into Euro using the NATO exchange rates applicable at 31 December 2016. Resulting realized and unrealized gains and losses are recognized in the Statement of Financial Performance.

## Consolidation

According to the Article 25 of the Charter of the NATO Science and Technology Organization, the Chief Scientist, supported by the STO Financial Controller, shall submit to the STB and the International Board of Auditors for NATO (IBAN) Consolidated Annual Financial Statements. When consolidation occurs, inter-entity balances and transactions are eliminated between consolidated entities.

## Services In-Kind

The STO received services in-kind in the form of military personnel provided by the NATO nations. Such personnel are assigned to specific, military positions on the personnel establishments of the executive bodies and / or provided as voluntary contributions. In addition, military personnel crew the research vessels ALLIANCE and LEONARDO. In these Financial Statement, services in kind are recognized neither as revenue nor as an asset.

## Financial Instruments disclosure/presentation

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

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

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

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

The maximum exposure as at 31 December 2016 is equal to the total amount of bank balances, short-term deposits, and receivables disclosed in the Statement of Financial Position. There is a very limited credit risk associated with the realization of these instruments. Receivables considered uncollectible are adequately provided for.

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

**Liquidity risk:** The liquidity risk is based on the assessment whether the organization will encounter difficulties in meeting its obligations associated with financial liabilities.

For CSO & OCS there is a very limited exposure to liquidity risk because of the budget funding mechanism that guarantees contributions in relation to approved budgets. The limited risks are primarily the validity of forecasts that result in the calls for contributions. For CMRE liquidity risk is minimized by the cash available in the Net Equity Fund (NEF) and by the policy of requiring pre-payments & stage payments from customers.

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

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument.



## Assets

### *a. Cash and Cash Equivalents*

Cash and cash equivalents include petty cash, current bank accounts, deposits held with banks, other short-term investments (with a maturity of three months or less).

### *b. Short-term investments*

Short-term investments are with a maturity of more than three and less than twelve months.

### *c. Receivables*

Receivables are stated at net realisable value, which approximates fair value, after provision for doubtful and uncollectible debts. It can also include amounts due from other NATO entities and/or staff members.

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

### *d. Inventories*

IPSAS 12 defines inventories, establishes measurement requirements under the historical costs system, and establishes disclosure requirements. The STO assesses inventories under IPSAS 12 and the outcome of this assessment is that the value of the inventories is immaterial both in value and in terms of the nature of the items held. Consequently, inventory is fully expensed on receipt.

### *e. Prepayments*

Prepayments are mainly in respect of advance payments made to third parties.

### *f. Property, Plant and Equipment (PP&E)*

Property, plant and equipment with the exception of land are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised so as to write off the cost of the assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effect that in the estimates is accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is

recognised in the statement of financial performance.

PP&E categories are listed in the table below:

Category	Threshold	Depreciation life	Method
Land	200,000	N/A	N/A
Buildings	200,000	40	Straight line
Other infrastructure	200,000	40	Straight line
Installed equipment	30,000	10	Straight line
Machinery	30,000	10	Straight line
Vehicles	10,000	5	Straight line
Aircraft	200,000	Dependent on type	Straight line
Vessels	200,000	Dependent on type	Straight line
Mission equipment	50,000	3	Straight line
Furniture	30,000	10	Straight line
Communications	50,000	3	Straight line
Automated information systems	50,000	3	Straight line

In accordance with the NATO Accounting Framework, PP&E acquired prior to 1 January 2013 have been fully expensed and the STO's policy has followed not grouping of assets.

***g. Leases***

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

All other leases are classified as operating leases.

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

***h. Intangible Assets***

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful lives, and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An intangible asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss, arising on the disposal or retirement of an intangible asset, is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the statement of financial performance.

Category	Threshold	Depreciation life	Method
Computer software (commercial off the shelf)	€50,000	4 years	Straight line
Computer software (bespoke)	€50,000	10 years	Straight line
Computer database	€50,000	4 years	Straight line
Integrated system	€50,000	4 years	Straight line

*i. Impairment of tangible and intangible assets*

At the end of each accounting period, the entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated, being the greater of the asset's fair value less costs to sell and value in use. Impairment losses, if any, are recognised in the statement of financial performance.

## Liabilities

*a. Payables*

Payables (including amounts due to other NATO entities) are amounts due to third parties for goods and services received that remain unpaid as of the reporting date. They are recognised at their fair value. This includes estimates of accrued obligations for goods and services received at year-end but not yet invoiced.

*b. Deferred Revenue*

For the common-funded entities, CSO and OCS, deferred revenue represents contributions from Nations that have been called for current or prior year budgets but for which corresponding charges will be incurred after the reporting period.

For CSO and OCS, revenue is recognized incrementally and equally with the depreciation expenses. The reserve for depreciation is the counterpart of the PP&E and Intangible Assets Net Book Value.

For CMRE, deferred revenue represents revenue from customers for current or prior year activities for which goods have not been delivered / services have not been rendered at year-end.

*c. Advances*

For CSO and OCS, advances are income or contributions from member nations or third parties called or received related to future year budgets.

For CMRE, advances from customers are either cash received as working capital or result from advance billings to customers where the rate of expenditure has fallen behind the agreed payment milestones.

*d. Provisions*

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

*e. Employee benefits*

The STO employees participate in one of the three NATO pensions funds: the Provident Fund, the Coordinated Pension Scheme or the Defined Contribution Pension Scheme (DCPS). The STO also contributes to the Retirees' Medical Claims Fund (RMCF) that is a reserve to ensure that sufficient resources are available for the years to come to enable NATO to meet its obligations under Art. 51.2 of the Civilian Personnel Regulations (CPRs).

DCPS and Provident Fund: The STO contributes a specified percentage of payroll costs to the DCPS and Provident Fund for future benefits. In addition to the employer's contribution, a portion of the employees' salaries is deducted and contributed to the DCPS or Provident Fund. These contributions are recognised as an expense during the year the services are rendered and represent the total pension obligation of the STO.

Coordinated Pension Scheme: Employees who have joined NATO before 1 July 2005 are members of the NATO Coordinated Pension Scheme which is a funded defined benefit plan. Under the plans and upon completion of 10 years employment with NATO, the employees are entitled to retirement benefits of 2% per year of service of final basic salary on attainment of a retirement age of 60. This represents the total pension obligation of the STO, the future liabilities being transferred to NATO.

The assets and liabilities for the above NATO's pension schemes and the RMCF are accounted for centrally at NATO Headquarters and therefore are not recognised in these financial statements.

## Net Assets

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

NATO entities perform their activities on a no-profit / no loss basis globally over the reporting period. However, this does not prohibit the realisation of operating surplus or deficit in the financial reporting period.

## Revenue and Expense Recognition

### *a. Revenue*

Revenue comprises contributions from Member Nations and income from customers to fund STO's activities. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably.

For common-funded bodies (CSO and OCS), revenue is recognised in the year when these appropriated funds are used for their intended purpose as envisioned for STO's programmes. Unused contributions and other revenue that relate to future periods are deferred accordingly.

For CMRE, revenue is recognised as goods and services are delivered to customers.

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

Bank interests earned and accrued as of 31 December 2016, exchange rate revenue due to transactions in foreign currency and realised exchange rate revenue in accordance with the entity Policy IPSAS 4 – Effect of the foreign exchange rate are recognised as financial revenue.

### *b. Expenses*

Expenses are recognized when occurred. Accruing of expenses is based on the concept of accruing when goods and services are received.

Bank charges, exchange rate losses due to transactions in foreign currency and realised exchange rate losses are recognised as finance costs.

## Surplus or Deficit for the Period

For CSO and OCS, common-funded entities, revenue is recognised up to the amount of the matching expenses, in accordance with STO's accounting policies. Any resulting surplus is recorded as a current liability (see note 9). This amount represents a liability owed to the funding nations that is deducted from the contributions called in the subsequent year.

For CMRE, the surplus or deficit of the period is recognized when services are rendered.

## Cash-flow statement

The cash flow statement is prepared using the indirect method and the format follows the layout provided by IPSAS 2 (Cash flow statement).



## B. NOTES TO THE STATEMENT OF FINANCIAL POSITION

### 1. Cash and cash equivalents

		(in euro)		
		2016	2015	Variance
Petty Cash		6,128	8,618	(2,490)
Bank accounts	EUR	8,582,215	10,658,408	(2,076,193)
	GBP	6,315	7,345	(1,030)
	USD	635,399	540,992	94,407
<b>Total</b>		<b>9,230,057</b>	<b>11,215,363</b>	<b>(1,985,306)</b>

Bank accounts are held in highly liquid non-interest and interest-bearing bank accounts.

Current bank accounts are held in EUR, GBP and USD. Balances have been converted to the reporting currency at the NATO exchange rates at 31 December 2016.

### 2. Receivables

		(in euro)		
		2016	2015	Variance
Contributions receivable from Nations		3,171,042	2,546,410	624,632
Receivable from non consolidated NATO entities		2,235,865	1,345,936	889,929
Prepaid Allow ances		198,661	37,221	161,440
Receivable from Governments		566,769	1,036,697	(469,928)
Invoices to be established		907,843	526,737	381,106
VAT Recoverable from Government		95,263	252,576	(157,313)
Receivable for financial result		5,970	980	4,990
Receivable from Third Parties		3,306	1,506	1,800
Other Receivables		906	5,556	(4,650)
Prepaid Expenses		1,192	126,956	(125,764)
<b>Total</b>		<b>7,186,817</b>	<b>5,880,575</b>	<b>1,306,242</b>

#### *Contributions receivable from Nations*

These are the 2016 2<sup>nd</sup> Call for Contributions and the advance for 2017 to be received in the early 2017 for CSO (EUR 2,796,280) and OCS (EUR 374,761).

***Receivable non-consolidated NATO entities***

Significant receivables from NATO Entities at year-end 2016 include CMRE Invoices to NATO HQ SACT for the 2016 Programme of Work (EUR 2,148,081).

***Prepaid allowances***

These are prepaid allowances to staff members, receivables from staff members, such as short-term loans and salaries to be reimbursed. Collections are assured through payroll withholding.

***Receivable from Governments***

This relates to CMRE invoices for services rendered in 2016 to customer Nations (EUR 566,769).

***Invoices to be established***

This relates to services that have been provided to CMRE customers including European Community Consortia Projects (EUR 193,196), but for which the related invoices have not been issued at the end of the reporting period.

***VAT recoverable from Government***

This is the Value Added Tax (VAT) paid by the CSO that is subject to reimbursements from the Host Nation (EUR 95,263).

***Receivable for financial result***

The Receivable for Financial Result is, for the common-funded entities (CSO and OCS), the net amount of bank interest received, bank charges and realized gains and losses generated during 2016. The deficit of financial revenue has been transferred to the receivable for financial results for an amount of EUR 5,970.

As the CMRE is customer-funded, there is no offsetting of financial revenue and expenses and the financial result has been reported as a gain of EUR 13,074. This results mainly from gain on exchange rates.

***Prepaid expenses***

This item relates to the Ship Management contract for the management of the vessel NRV Alliance. The Ship Management Company receives an advance from CMRE and makes trial balance reconciliations that reflect prepayments, accruals and petty cash transactions.

The variance in prepayments to the Ship Management Company is due to the major upkeep and dry-docking of the NRV Alliance that took place in 2016. At the conclusion of this activity, the majority of the prepaid expenses had been liquidated.

### 3. Prepayments

Prepayments are mainly in respect of advance payments provided to the Ship Management Company (EUR 459,943), for crew salaries, stores, insurance and spare parts.

In addition, STO entities have maintenance contracts that cross fiscal year. The amount associated with future fiscal year is recorded as a prepayment.

### 4. Property, Plant and Equipment

	(in euro)				
	<b>Mission Equipment</b>	<b>AIS Equipement</b>	<b>Installed Equipment</b>	<b>Working in progress</b>	<b>Total</b>
Gross Book Value (31 Dec 2015)	1,023,610	285,432	403,997	368,799	2,081,838
Deletions (31 Dec 2015)					
<b>Gross Book Value (1 Jan 2016)</b>	<b>1,023,610</b>	<b>285,432</b>	<b>403,997</b>	<b>368,799</b>	<b>2,081,838</b>
Accumulated Depreciation (31 Dec 2015)	(674,283)	(95,144)	(33,766)		(803,193)
<b>Accumulated Depreciation (1 Jan 2016)</b>	<b>(674,283)</b>	<b>(95,144)</b>	<b>(33,766)</b>	<b>-</b>	<b>(803,193)</b>
<b>Net Book Value (1 Jan 2016)</b>	<b>349,327</b>	<b>190,288</b>	<b>370,231</b>	<b>368,799</b>	<b>1,278,645</b>
Additions in 2016	225,777	-	2,278,457	175,752	2,679,986
Disposal in 2016					
Depreciation in 2016	(361,822)	(95,144)	(258,981)		(715,947)
<b>Net Book Value (31 Dec 2016)</b>	<b>213,282</b>	<b>95,144</b>	<b>2,389,707</b>	<b>544,551</b>	<b>3,242,684</b>
<b>Gross Book Value (31 Dec 2016)</b>	<b>1,249,387</b>	<b>285,432</b>	<b>2,682,454</b>	<b>544,551</b>	<b>4,761,824</b>
<b>Accumulated Depreciation (31 Dec 2016)</b>	<b>(1,036,105)</b>	<b>(190,288)</b>	<b>(292,747)</b>		<b>(1,519,140)</b>
<b>Net Book Value (31 Dec 2016)</b>	<b>213,282</b>	<b>95,144</b>	<b>2,389,707</b>	<b>544,551</b>	<b>3,242,684</b>

#### **CMRE Property Plant & Equipment**

##### Mission Equipment:

- PHINS (an inertial navigation system providing position, true heading, attitude, speed, depth and heave) pack for Autonomous Underwater Vehicles (AUVs)
- Muscle energy station

##### Installed Equipment

- New Electrical substation
- Multibeam sonar system for vessel NRV Alliance
- HVAC system for the main server room
- New electrical system in the main server room

##### Work in progress

- Very Low Frequency Synthetic Aperture Sonar (VLFSAS) Receiver and Projector prototype
- Muscle energy station

### **CSO Property Plant & Equipment**

#### **Installed Equipment**

- Renovation of Staff room facility and building facade.

#### **Work in progress**

- Facility renovation
- Assets purchased prior to the implementation of the NATO Accounting Framework

### **STO - Assets purchased prior to the implementation of the NATO Accounting Framework**

CSO owns one staff car and other IT equipment (software) purchased before 1 January 2013.

CMRE also has about 100 assets that were purchased prior to the implementation of the NATO accounting framework (01 Jan 2013).

- *Vessels (custodian is Headquarter, Supreme Allied Command Transformation HQ SACT)*
  - *The NRV Alliance*
  - *The CRV Leonardo*
- *IT Equipment*
  - *Disaster recovery*
  - *Satellite communication system*
  - *Various workstations and servers*
- *Mission Equipment*
  - *Multiple types of autonomous vehicles*
  - *Towed acoustics arrays*
  - *Multiple types of sonar*
- *Vehicles*
  - *Cars*
  - *Fork lift*
- *Machinery*
  - *Industrial shredding machine*
- *Installed Equipment*
  - *Air condition systems for the new and old building*
  - *Uninterrupted Power Supply (UPS) systems*
  - *TV closed circuit system*

### **CMRE Premises**

CMRE is located in La Spezia (Italy) on the Italian Navy compound, Centro Supporto e Sperimentazione Navale (CSSN). The majority of the premises are provided by the Host Nation (HN) at no cost to CMRE.

### **CSO Premises**

The Collaboration Support Office (CSO) is located in Neuilly-sur-Seine, France. The premises are provided by the Host Nation (HN). The CSO pays a nominal annual charge for use of the facilities. Extensions and significant upgrades have been added to the existing facilities. Those done prior to 1 January 2013 have been fully expensed in accordance with the NATO Accounting Framework.

### **OCS Premises**

The OCS is hosted in the NATO headquarters in Brussels. The premises are provided at no cost to the OCS.

## **5. Payables**

	(in euro)		
	2016	2015	Variance
Payables to Suppliers	1,045,643	608,485	437,158
Accruals for Goods and Services	819,833	1,615,517	(795,684)
Accruals for Untaken Leave	650,572	-	650,572
<b>Total</b>	<b>2,516,048</b>	<b>2,224,002</b>	<b>292,046</b>

### **Payables to Suppliers**

This includes invoices received from suppliers but not yet settled.

### **Accruals**

Accrued expenses are accounted for goods and services received from suppliers but for which invoices have not been received at 31 December 2016.

The improvement of timeliness of year-end procurement resulted in an increase in receipt of goods & invoices and a shift from accruals to payables compared to 2015.

The CMRE untaken annual leave is recognized as a short-term employee benefit where these benefits are expected to be settled wholly before 12 months after the end of the annual reporting period in which the employees render the related employment service. Untaken annual leave is measured on an undiscounted basis using remuneration rates in force on the last day of the reporting period.

## **6. Deferred revenue**

The deferred revenue at year-end 2016 corresponds to commitments not fully delivered at 31 December 2016 due to delays from contractors unable to fulfil their deliveries as planned (EUR 23,441 for CSO).

Following a change in the NATO Financial Regulations, the deferred revenue is lower at 31 December 2016 than at 31 December 2015. There are only limited carry-forward at the end of 2016, for the most part due to partial delivery or slippage in delivery at the end of 2016.



## 7. Advances

	(in euro)		
	2016	2015	Variance
From customers	1,383,441	951,303	432,138
Contributions	1,750,000	1,608,961	141,039
Other	35,191	31,192	3,999
<b>Total</b>	<b>3,168,632</b>	<b>2,591,456</b>	<b>577,176</b>

### ***From Customers***

At year-end 2016, CMRE advances from customers amount to EUR 1,383,441. This includes amounts pre-financed by European Community Consortia for CMRE projects valued at EUR 662,959 and EUR 391,589 by ACT related to a 2016 POW project that has been delayed into 2017.

### ***Contributions***

These advances correspond to cash called from the Nations for the following financial year. They represent approximately 25% of the provisional total budget allocation. This mechanism is applicable to the common-funded organizations (CSO and OCS).

At year-end 2016, the advances amount to EUR 1,750,000. This includes the advances for CSO EUR 1,500,000 and OCS EUR 250,000.

### ***Other***

This amount consists mainly of advances for future S&T activities, including EUR 15,690 VNC Funds, and EUR 17,000 invoiced to ACT for cost-shared events including ITEC 2017.

## 8. Credit Facilities

The credit facilities are loans received from IMS to bridge the cash shortage due to the late payment of the CSO 2016 2<sup>nd</sup> call for contributions.

## 9. Other current liabilities

	(in euro)		
	2016	2015	Variance
Liabilities from Lapsed Budget Authorization	102,789	50,276	52,513
Liabilities from Operational Result	30,370	17,261	13,109
Liabilities from Financial Result	-	3,555	(3,555)
Liabilities from Excess Contributions	100,000	84,955	15,045
<b>Total</b>	<b>233,159</b>	<b>156,047</b>	<b>77,112</b>

### ***Liabilities from Lapsed Budget Authorisations 2016***

For the common-funded entities (CSO and OCS), the Liabilities from Lapsed Budget Authorisation are mainly due to real costs below estimates in the execution of the STO Program of Work, as well as in the operation and maintenance area.

Lapses from budget authorizations are unspent balances from the 2016 budget and from the 2015 and 2014 budgets carried-forward into 2016.

### ***Liabilities from Operational Results***

The Liabilities from Operational Results are applicable to the common-funded organizations (CSO and OCS).

They are mostly composed of miscellaneous revenues and written-off accruals from previous years where the final invoice was lower than the estimated accrued amount.

### ***Liabilities from Excess Contributions***

For the Common Funded Organizations, contributions are called based on the approval annual budget. If during the course of the execution year, the approved budget is reduced, the amount called will exceed the authorization budget. The excess amount (EUR 100,000 for OCS) is owed to the Nations.

## 10. Deferred revenue

For the common-funded entities (CSO and OCS), this provision represents, the net book value (NBV) of PP&E at 31 December 2016. The provision is decreased with the annual depreciation expense and increased with any new acquisition.

For CMRE the NBV balance is booked in the Net Equity.

## 11. Result for the period

The 2016 result for the period is a surplus of EUR 366,944.

## 12. Accumulated Surplus

The STO Charter<sup>5</sup> states that the governing board may establish a Net Equity Fund to facilitate the CMRE operations. The fund was established to provide liquidity for projects, to act as a buffer for project gains and losses, and to be a source of funds for investments.

Reserve	Commitments / Legal Obligations	Depreciation Reserve	Vessels Reserve	Net Equity Fund	General Reserve	Total
<b>Net Equity 31st December 2015</b>	<b>807,534</b>	<b>1,092,900</b>	<b>4,853,000</b>	<b>3,500,000</b>	<b>1,894,079</b>	<b>12,147,513</b>
Net change in Vessels Reserve			(3,944,054)			(3,944,054)
Net change in PPE		1,810,805				1,810,805
Net Change in CCF	767,658					767,658
Surplus for the year 2016			700,000		1,032,535	1,732,535
<b>Net Equity 31st December 2016</b>	<b>1,575,192</b>	<b>2,903,705</b>	<b>1,608,946</b>	<b>3,500,000</b>	<b>2,926,614</b>	<b>12,514,457</b>

### Commitments

The reserve for commitments represents the value of orders for goods and services placed in one fiscal year, but not received and invoiced until the following fiscal year(s).

### Net Book Value (NBV)

The balance for the NBV represents the reserve for future depreciation.

### Vessels

In 2016, NRV Alliance underwent a comprehensive vessel modification programme and a full dry-docking at a cost of EUR 3,994,054. The balance of EUR 908,946 has been retained in the reserve to complete renovation of the communications systems and to pay any remaining contract termination costs associated with the previous vessel operations and maintenance contract. An additional EUR 700,000 has been allocated to the reserve to fund a scheduled, minor upkeep and dry docking period in 2018.

### Net Equity Fund (NEF)

As provided for in Article 23 of the STO Charter, the STB has established a Net Equity Fund (NEF) for the CMRE to provide liquidity for its projects and to act as a buffer for project gains and losses.

<sup>5</sup> STO Charter (C-M(2012)0046) articles 23.3 and 24.1

## C. NOTES TO STATEMENT OF FINANCIAL PERFORMANCE

### 13. Revenue

	(in euro)		
	2016	2015	Variance
Revenue from Contributions	6,325,270	5,955,158	370,112
Revenue from Services	27,014,417	28,686,959	(1,672,542)
Revenue from Reimbursable budget	436	8,980	(8,544)
Financial Revenue	48,941	99,017	(50,076)
<b>Total</b>	<b>33,389,064</b>	<b>34,750,114</b>	<b>(1,361,050)</b>

#### *Revenue from Contributions*

For CSO and OCS, contributions, when called, are booked as an advance under deferred revenue and subsequently recognized as revenue when earned. Revenue is recognized up to the amount of the matching expenses.

#### *Revenue from Services*

The revenue from services is the value of work completed and delivered during the year, under the customer-funded business model (CMRE).

#### *Revenues from Reimbursable budget*

This relates to the CSO Partnership for Peace (PfP) budget for reimbursable activities from 2015 budget. Starting from 2016 the PfP/MD are funded and paid directly by IMS.

### 14. Expenses

	(in euro)		
Category	2016	2015	Variance
Personnel	19,980,503	20,224,721	(244,218)
Supplies and Services	12,049,605	13,202,015	(1,152,410)
Capital and Investments	240,198	438,068	(197,870)
Depreciation	715,947	470,114	245,833
Financial Costs	35,867	50,270	(14,403)
<b>Total</b>	<b>33,022,120</b>	<b>34,385,188</b>	<b>(1,363,068)</b>

#### *Personnel*

Personnel expenses for the period include salaries and emoluments for civilian employees and temporary personnel and consultants, other salary-related and non-related allowances, such as

overtime, medical examinations, and the cost of recruitment, installation, household goods removal, and training.

### **Supplies and Services**

Supplies and Services include expenses required for STO activities: general administrative costs, maintenance costs of buildings/grounds, communications and information systems, transportation, travel expenses, representation/hospitality and miscellaneous expenses. Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term and are included as Contractual Supplies and Services expenses.

### **Capital and Investments**

Capital and Investments are reported as expenses. Capital and Investments which exceed the capitalisation thresholds are capitalized as PP&E and depreciated.

## **15. Surplus or Deficit for the Period**

In 2016, STO generated a surplus of EUR 366,944 which is the result of CMRE operations. Surpluses and deficits for the period are credited or debited to the CMRE Net Equity Fund as described above in note 12.

For the common-funded entities (CSO and OCS), the operating revenue is recognized up to the amount of the matching expenses. The financial revenue and the miscellaneous revenue, after offsetting the related expenses, are booked as liabilities to / receivable from Nations. Therefore they generate no surplus or deficit.



## D. CONTINGENT LIABILITIES

Contingent Liabilities have been determined under the criteria set out in IPSAS 19 and are based on the realistic and prudent estimates of the expenditure required to settle future legal obligations.

CMRE is a defendant in a case submitted to the NATO Appeals Tribunal by a former employee. The former employee is seeking financial compensation. The CMRE is not aware that the claim is substantiated and will defend the case. The case is expected to be heard in May 2017. As at the date of these Financial Statements, there is a possibility of a future obligation. However, the CMRE assessment is that no compensation will be awarded.

The Italian authorities have recently re-issued a claim to the CMRE for contributions to the Italian National Health System. The claim covers all NATO entities in Italy, and dates back to the 1980's. The NATO HQ legal service are aware of this matter, and the claims are suspended pending resolution of the issue between NATO and Italy. The CMRE is not aware that the claim will be substantiated, and can make no estimate as to when this case will be resolved. As at the date of these Financial Statements, there is a possibility of a future obligation, but this cannot be measured reliably. The CMRE assessment is that no settlement will be made.

## E. SEGMENT REPORTING

In accordance with IPSAS 18, the STO discloses financial statement information about distinguishable activities of its consolidated reporting entities. A 'segment' is a distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information. IPSAS 18 distinguishes two types of 'segments':

- 'Service segments' refer to a distinguishable component of an entity that is engaged in providing related outputs or achieving particular operating objectives consistent with the overall mission of each entity; and
- 'Geographical segments' are a distinguishable component of an entity that is engaged in providing outputs or achieving particular operating objectives within a specific geographical area.

The STO is segmented into three executive bodies as provided in the STO Charter: CSO, CMRE and OCS.

The segment reporting includes the Statement of Financial Position, Performance and Budget Execution. For CMRE the Budget Execution Statement is omitted because the entity is customer funded.

**COLLABORATIVE SUPPORT OFFICE  
STATEMENT OF FINANCIAL POSITION**



as at 31 December 2016  
(in EUR)

		<u>2016</u>	<u>2015</u>
	Notes		
<b>Assets</b>			
<b><i>Current assets</i></b>			
Cash and cash equivalents	1	397,197	215,603
Receivables	2	2,956,297	2,819,371
Prepayments	3	18,582	34,098
		<u>3,372,076</u>	<u>3,069,072</u>
<b><i>Non-current assets</i></b>			
Property, plant & equipment	4	338,979	185,745
		<u>338,979</u>	<u>185,745</u>
<b>Total assets</b>		<u>3,711,055</u>	<u>3,254,817</u>
<b>Liabilities</b>			
<b><i>Current liabilities</i></b>			
Payables	5	267,235	106,518
Deferred revenue	6	23,441	364,456
Advances	7	1,535,191	1,431,192
Credit facilities	8	1,500,000	1,100,000
Provisions		-	-
Other current liabilities	9	46,209	66,906
		<u>3,372,076</u>	<u>3,069,072</u>
<b><i>Non-current liabilities</i></b>			
Deferred revenue	10	338,979	185,745
		<u>338,979</u>	<u>185,745</u>
<b>Total liabilities</b>		<u>3,711,055</u>	<u>3,254,817</u>
Surplus/Deficit	11	-	-
Retained earnings	12	-	-
<b>Total net assets</b>		<u>-</u>	<u>-</u>
<b>Total net assets and liabilities</b>		<u>3,711,055</u>	<u>3,254,817</u>

**COLLABORATIVE SUPPORT OFFICE  
STATEMENT OF PERFORMANCE**



for the year ended 31 December 2016  
(in EUR)

		<b>2016</b>	<b>2015</b>
	Notes		
<b>Revenue</b>	13		
Revenue		5,624,915	5,199,635
Financial revenue		9,583	11,388
<b>Total revenue</b>		<b>5,634,498</b>	<b>5,211,023</b>
<b>Expenses</b>	14		
Personnel		4,150,280	4,082,142
Contractual supplies and services		1,448,461	1,104,225
Depreciation and amortization		26,174	13,268
Finance costs		9,583	11,388
<b>Total expenses</b>		<b>5,634,498</b>	<b>5,211,023</b>
<b>Surplus/(Deficit) for the period</b>	15	<b>-</b>	<b>-</b>

**CENTRE FOR MARITIME RESEARCH & EXPERIMENTATION**  
**STATEMENT OF FINANCIAL POSITION**



as at 31 December 2016  
(in EUR)

		<u>2016</u>	<u>2015</u>
	Notes		
<b>Assets</b>			
<b><i>Current assets</i></b>			
Cash and cash equivalents	1	8,803,189	10,728,534
Receivables	2	3,854,411	3,060,155
Prepayments	3	573,741	533,232
		<u>13,231,341</u>	<u>14,321,921</u>
<b><i>Non-current assets</i></b>			
Property, plant & equipment	4	2,903,705	1,092,900
		<u>2,903,705</u>	<u>1,092,900</u>
<b>Total assets</b>		<u>16,135,046</u>	<u>15,414,821</u>
<b>Liabilities</b>			
<b><i>Current liabilities</i></b>			
Payables	5	2,237,148	2,115,515
Deferred revenue	6	-	-
Advances	7	1,383,441	951,303
Credit facilities	8	-	-
Provisions		-	200,490
Other current liabilities	9	-	-
		<u>3,620,589</u>	<u>3,267,308</u>
<b><i>Non-current liabilities</i></b>			
Deferred revenue	10	-	-
		<u>-</u>	<u>-</u>
<b>Total liabilities</b>		<u>3,620,589</u>	<u>3,267,308</u>
Surplus/Deficit	11	366,944	364,926
Retained earnings	12	12,147,513	11,782,587
<b>Total net assets</b>		<u>12,514,457</u>	<u>12,147,513</u>
<b>Total net assets and liabilities</b>		<u>16,135,046</u>	<u>15,414,821</u>

**CENTRE FOR MARITIME RESEARCH & EXPERIMENTATION  
STATEMENT OF PERFORMANCE**



for the year ended 31 December 2016  
(in EUR)

		<u>2016</u>	<u>2015</u>
	Notes		
<b>Revenue</b>	13		
Revenue		27,014,416	28,686,959
Financial revenue		39,358	87,193
<b>Total revenue</b>		<u>27,053,774</u>	<u>28,774,152</u>
<b>Expenses</b>	14		
Personnel		15,172,970	15,431,874
Contractual supplies and services		10,797,803	12,482,060
Depreciation and amortization		689,773	456,846
Finance costs		26,284	38,446
<b>Total expenses</b>		<u>26,686,830</u>	<u>28,409,226</u>
<b>Surplus/(Deficit) for the period</b>	15	<u>366,944</u>	<u>364,926</u>



OFFICE OF THE CHIEF SCIENTIST  
STATEMENT OF FINANCIAL POSITION



as at 31 December 2016  
(in EUR)

		<u>2016</u>	<u>2015</u>
	Notes		
<b>Assets</b>			
<b><i>Current assets</i></b>			
Cash and cash equivalents	1	29,671	271,226
Receivables	2	376,109	1,048
Prepayments	3	42,835	27,796
		<u>448,615</u>	<u>300,070</u>
<b><i>Non-current assets</i></b>			
Property, plant & equipment	4	-	-
		<u>-</u>	<u>-</u>
<b>Total assets</b>		<u>448,615</u>	<u>300,070</u>
<b>Liabilities</b>			
<b><i>Current liabilities</i></b>			
Payables	5	11,665	1,969
Deferred revenue	6	-	-
Advances	7	250,000	208,961
Credit facilities	8	-	-
Provisions		-	-
Other current liabilities	9	186,950	89,140
		<u>448,615</u>	<u>300,070</u>
<b><i>Non-current liabilities</i></b>			
Deferred revenue	10	-	-
		<u>-</u>	<u>-</u>
<b>Total liabilities</b>		<u>448,615</u>	<u>300,070</u>
Surplus/Deficit	11	-	-
Retained earnings	12	-	-
<b>Total net assets</b>		<u>-</u>	<u>-</u>
<b>Total net assets and liabilities</b>		<u>448,615</u>	<u>300,070</u>

OFFICE OF THE CHIEF SCIENTIST  
STATEMENT OF PERFORMANCE



for the year ended 31 December 2016  
(in EUR)

		<u>2016</u>	<u>2015</u>
	Notes		
<b>Revenue</b>	13		
Revenue		700,792	764,503
Financial revenue		-	436
<b>Total revenue</b>		<u>700,792</u>	<u>764,939</u>
<b>Expenses</b>	14		
Personnel		657,253	710,705
Contractual supplies and services		43,539	53,798
Depreciation and amortization		-	-
Finance costs		-	436
<b>Total expenses</b>		<u>700,792</u>	<u>764,939</u>
<b>Surplus/(Deficit) for the period</b>	15	<u>-</u>	<u>-</u>

## F. RELATED PARTIES DISCLOSURE

The key management personnel of the STO have no significant known related party relationships that could affect the operation of the STO. However, the STO Financial Controller is also the Financial Controller of the NATO Defence College (NDC) and the International Military Staff (IMS). The STO, IMS and NDC are therefore related parties under a common Financial Controller (ref. note8).

STO key management personnel and S&T Board Members are remunerated in accordance with the applicable NATO or National pay scales.

Key management personnel include the following officials:

Office of the Chief Scientist	<ul style="list-style-type: none"> <li>NATO Chief Scientist</li> </ul>
Centre for Maritime Research and Experimentation	<ul style="list-style-type: none"> <li>CMRE Director</li> <li>CMRE Chief Operating Officer &amp; Deputy Director</li> </ul>
Collaborative Support Office	<ul style="list-style-type: none"> <li>CSO Director</li> <li>CSO Deputy Director</li> </ul>

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

### Compensation of key management personnel

S&T Board members receive no remuneration from NATO. Board Members do not receive any additional remuneration or access to preferential benefits from NATO for their Board responsibilities, such as the entitlement to receive loans.

STO's key management personnel are remunerated in accordance with the published NATO salary scales. The compensation consists of basic salary, various allowances, health insurance, pension plan and other benefits as agreed with each Host Nation.

	2016	2015
Basic salaries	513,764	546,921
Allowances	90,028	99,346
Post-employment benefits	61,652	65,630
Employer's contribution to Insurance	69,945	78,099
<b>Total</b>	<b>735,389</b>	<b>789,996</b>

The change from 2015 to 2016 is due to a partially filled position at CMRE (Deputy Director).

## G. EMPLOYEE DISCLOSURE

STO employees are remunerated in accordance with the published NATO salary scales. The compensation consists of basic salary, various allowances, health insurance, pension plan and other benefits as agreed with each Host Nation.

Compensation is exempt from income tax in accordance with NATO Treaties. STO is not liable for retirement benefits.

### STO Workforce

The personnel establishments (PE) of the STO entities are shown above. For OCS, CSO, and the CMRE military component, the personnel establishment is fixed annually.

Personnel Establishment	PE - Authorized			PE - Filled		
	Mil	Civ	Total	Mil	Civ	Total
CSO	14	36	50	11	32	43
OCS	4	6	10	2	6	8
CMRE - Customer Funded positions	9	-	9	7	-	7
<b>International Manpower Ceiling</b>	<b>27</b>	<b>42</b>	<b>69</b>	<b>20</b>	<b>38</b>	<b>58</b>
CMRE - Customer Funded positions		174	174		142	142
Voluntary National Contributions	-	-	-	1	2	3
<b>Total</b>	<b>27</b>	<b>216</b>	<b>243</b>	<b>21</b>	<b>182</b>	<b>203</b>

The CMRE civilian workforce is set annually by the governance board based on the anticipated workload. The figure above reflects the number of filled positions on 31 December 2016.

### Employee Benefits

These are costs for staff members hired under the NATO Civilian Personnel Regulations. The figures represent the costs of personnel including basic salary, allowances, insurance and pension plan contributions.

### Representation Allowance

Three STO officials received Representation Allowances totalling EUR 9,601. This allowance is paid to those senior officials whose positions entail responsibilities for establishing and maintaining relationships of value for their organisation. <sup>6</sup>

<sup>6</sup> PO(2013)0154 dated 27 March 2013

	2016
	(in euro)
OCS	2,885
CSO	6,716
CMRE	.
<b>Total</b>	<b>9,601</b>

The representation allowance was used to settle transactions to cover social events and for rental supplement (CSO).

### Untaken Leave

NATO civilian staff earn 2.5 days of leave for each month worked. Untaken leave at year-end may be carried-over to the following year and used until 30 April.

The STO has taken measures to ensure all leave is taken by 30 April of the following year. Exceptionally, annual leave not taken by 31 October following the year in which it was accrued shall be forfeited (NCPR 42.3.6).

The balance of untaken leave as of 31 December 2016 is shown below:

	2016
	(in days)
OCS	27
CSO	255
CMRE	2,006
<b>Total</b>	<b>2,288</b>



## H. WRITE OFF and DONATIONS

In accordance with the NATO Financial Regulations (NFRs Art. 17.1 and 17.4), a global statement of amounts written-off and donations shall be reported in the annual financial statements.

During 2016, CSO wrote-off property with an original value of 17K EUR and a Net Book Value of nil:

Items	Purchased in	Purchasing cost	Net book value at 31-Dec-2016	Reason for write-off
Car Peugeot 206 SW	2003	15,116	-	Parts broken down / beyond economic repair
Dishwasher Siemens	2006	584	-	
Fridge-Freezer Whirlpool	2008	1,523	-	
<b>Total</b>		<b>17,223</b>	<b>-</b>	

During 2016, CMRE wrote-off property with an original value of 3.7M EUR and a Net Book Value of nil:

Items (Quantity)	Purchased in	Purchasing cost	Net book value at 31-Dec-2016	Reason for write-off
18	1984 to 2010	1,231,133	-	- Beyond economical repair
15	1987 to 2009	1,633,563	-	- Obsolete
1	1993	759,625	-	- Obsolete, replaced during dry-dock
1	2012	99,049	-	- Lost at sea during operations
<b>Total</b>		<b>3,723,370</b>	<b>-</b>	

## **I. EVENTS AFTER REPORTING DATE**

Under IPSAS 14.5 (Events after the reporting date) reporting entities are required to disclose any event, both favourable and unfavourable, which occurs between the reporting date and the date when the financial statements are authorized for issue. STO's reporting date is the 31 Dec 2016. On the date of signing of these accounts there has been no material event, favourable or unfavourable incurred between the Statement of Financial Position date and the date when the Financial Statements have been authorized for issue that would have impacted these statements.

## **J. MORALE & WELFARE ACTIVITY**

Morale and Welfare Activities (MWA) such as sport, community service, retail and concessionary activities are conducted by the CSO and CMRE. The OCS participates in the services and activities of NATO Headquarters.

In accordance with the NATO Accounting Framework, IPSAS 6 (Adapted) NATO Reporting Entities shall not consolidate MWA and / or Staff Association activities into their respective financial statements. The STO follows this practice and reports on the financial viability of MWA.

## ANNEX - TO THE NOTES TO THE FINANCIAL STATEMENTS

### Budget execution statement

The basis used for the budget and actual numbers in the budget execution statement is the commitment basis and is therefore different to the accrual basis used to prepare these financial statements. The budget presents the cash requirements for planned payments in the areas (chapters) of personnel, operation and maintenance, investment and reinforcement staff.

Reconciliation of actual budget amounts per the budget execution statement to actual expenses per the statement of financial performance:

<b>CSO</b>	
	(in euro)
<b>Expenses</b>	<b>Actuals</b>
Personnel	4,150,280
Supplies and Services	1,603,824
Capital and Investments	24,045
<b>Total Expenses as per Budget Execution</b>	<b>5,778,149</b>
Property Plant and Equipment capitalized (Recognition from Capital and Investments)	(179,408)
Depreciation	26,174
Financial Costs	9,583
<b>Total Expenses as per Financial Performance</b>	<b>5,634,498</b>
<b>OCS</b>	
	(in euro)
<b>Expenses</b>	<b>Actuals</b>
Personnel	657,253
Supplies and Services	43,539
Capital and Investments	
<b>Total Expenses as per Budget Execution</b>	<b>700,792</b>
Property Plant and Equipment capitalized (Recognition from Capital and Investments)	
Depreciation	
Financial Costs	-
<b>Total Expenses as per Financial Performance</b>	<b>700,792</b>

## Statement of transfers

In accordance with the NATO Financial Regulations (NFRs Art. 26), all the changes between the initial and the final budget, which were due to reallocations, were either authorized by the BC or by the Financial Controller in accordance with the NFRs for inter and intra-budget transfers. All transfers of approved appropriation shall be recorded in the financial statements.

### OCS Budget Transfers

EURO	Initial Budget	Transfers	Final Budget
<b>Budget 907 (OCS) 2016</b>			
Chapter 71	787,041	(100,000)	687,041
Chapter 72	100,492	-	100,492
Chapter 73	-	-	-
<b>TOTAL</b>	<b>887,533</b>	<b>(100,000)</b>	<b>787,533</b>

### CSO Budget Transfers

EURO	Initial Budget	Transfers	Final Budget
<b>Budget 908 (CSO) 2016</b>			
Chapter 71	4,140,905	(15,215)	4,125,690
Chapter 72	1,260,840	42,170	1,303,010
Chapter 73	51,000	(26,955)	24,045
<b>TOTAL</b>	<b>5,452,745</b>	<b>-</b>	<b>5,452,745</b>

## Budget Execution

EURO  
BUDGET 907 (OCS)2016

OFFICE OF CHIEF SCIENTIST											
STATEMENT OF BUDGET EXECUTION AS AT 31 DECEMBER 2016											
Initial Budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments	Expenses	Total Spent	Carry Forward	Lapsed
787,041	-	787,041	-	787,041	(100,000)	687,041	-	657,253	657,253	-	29,788
100,492	-	100,492	-	100,492	-	100,492	-	43,539	43,539	-	56,953
-	-	-	-	-	-	-	-	-	-	-	-
887,533	-	887,533	-	887,533	(100,000)	787,533	-	700,792	700,792	-	86,741



COLLABORATIVE SUPPORT OFFICE  
STATEMENT OF BUDGET EXECUTION AS OF 31 DECEMBER 2016

EURO  
BUDGET 908 (CSO) 2016

	Initial Budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments	Expenses	Total Spent	Carry-Forward	Lapsed
Chapter 71	4,140,905	-	4,140,905	3,700	4,144,605	(18,915)	4,125,690	-	4,125,628	4,125,628	-	62
Chapter 72	1,260,840	-	1,260,840	26,300	1,287,140	15,870	1,303,010	23,441	1,279,569	1,303,010	23,441	-
Chapter 73	51,000	-	51,000	(30,000)	21,000	3,045	24,045	-	24,045	24,045	-	-
<b>TOTAL</b>	<b>5,452,745</b>	<b>-</b>	<b>5,452,745</b>	<b>-</b>	<b>5,452,745</b>	<b>-</b>	<b>5,452,745</b>	<b>23,441</b>	<b>5,429,242</b>	<b>5,452,683</b>	<b>23,441</b>	<b>62</b>

BUDGET 908 (CSO) 2015

Chapter 71	27,908	-	-	-	-	-	27,908	-	24,652	24,652	-	3,256
Chapter 72	328,610	-	-	-	-	-	328,610	-	319,063	319,063	-	9,547
Chapter 73	-	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>356,518</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>356,518</b>	<b>-</b>	<b>343,715</b>	<b>343,715</b>	<b>-</b>	<b>12,803</b>

BUDGET 908 (CSO) 2014

Chapter 71	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 72	7,938	-	-	-	-	-	7,938	-	4,756	4,756	-	3,182
Chapter 73	-	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>7,938</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,938</b>	<b>-</b>	<b>4,756</b>	<b>4,756</b>	<b>-</b>	<b>3,182</b>

TOTAL BUDGET 908 (CSO)

<b>5,817,201</b>	<b>-</b>	<b>5,452,745</b>	<b>-</b>	<b>5,452,745</b>	<b>-</b>	<b>5,817,201</b>	<b>23,441</b>	<b>5,777,713</b>	<b>5,801,154</b>	<b>23,441</b>	<b>16,047</b>
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BUDGET 504 (PfP) 2015

Chapter 71	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 72	702	-	-	-	702	(266)	436	-	436	436	-	-
<b>TOTAL</b>	<b>702</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>702</b>	<b>(266)</b>	<b>436</b>	<b>-</b>	<b>436</b>	<b>436</b>	<b>-</b>	<b>-</b>

TOTAL ZNC (Reimbursable) 2015

<b>702</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>702</b>	<b>(266)</b>	<b>436</b>	<b>-</b>	<b>436</b>	<b>436</b>	<b>-</b>	<b>-</b>
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## Statement of Credits Carried-Forward

As required by the NATO Financial Regulations the credits carried forward are presented in the Budget Execution Statement. They represent the unexpended balances at year end for which there is a legal liability and are equal to the closing Deferred Revenue.

Commitments	(in euro)		
	2016	2015	Variance
Entity			
CSO	23,441	364,456	(341,015)
OCS	-	-	
<b>Total</b>	<b>23,441</b>	<b>364,456</b>	<b>(341,015)</b>

The CSO's figures are related to CIS projects planned to be finalized by the end of the year, but due to slippage in delivery, it has been carried forward.