

**NATO UNCLASSIFIED**

26 November 2018

**DOCUMENT**  
C-M(2018)0057-AS1

**IBAN AUDIT ON THE 2017 FINANCIAL STATEMENTS OF THE INTERNATIONAL  
MILITARY STAFF (IMS) AND NATO DEFENSE COLLEGE (NDC)**

**ACTION SHEET**

On 23 November 2018, under the silence procedure, the Council noted the IBAN report on the 2017 financial statements of the IMS and NDC attached to C-M(2018)0057, endorsed the related RPPB report, and agreed to the public disclosure of the report, the IBAN audits and associated 2017 financial statements of the IMS and NDC.

(Signed) Jens Stoltenberg  
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2018)0057

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6 November 2018

**DOCUMENT**  
C-M(2018)0057  
**Silence Procedure ends:**  
**23 Nov 2018 15:30**

**IBAN AUDIT ON THE 2017 FINANCIAL STATEMENTS OF THE INTERNATIONAL  
MILITARY STAFF (IMS) AND NATO DEFENSE COLLEGE (NDC)**

**Note by the Secretary General**

1. I attach the International Board of Auditors for NATO (IBAN) reports on the audits of the 2017 financial statements of the International Military Staff (IMS) and the NATO Defense College (NDC). The IBAN audits produced unqualified opinions on both the financial statements and compliance for the IMS and NDC.
2. The IBAN reports have been reviewed by the Resource Policy and Planning Board (RPPB) (see Annex 1).
3. I do not believe this issue requires further discussion. Therefore, **unless I hear to the contrary by 15:30 hours on Friday, 23 November 2018**, I shall assume the Council noted the IBAN report on the 2017 financial statements of the IMS and NDC, endorsed the related RPPB report, and agreed to the public disclosure of this report, the IBAN audits and associated 2017 financial statements of the IMS and NDC.

(Signed) Jens Stoltenberg

1 Annex  
1 Enclosure

Original: English

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-1-



**IBAN AUDIT ON THE 2017 FINANCIAL STATEMENTS OF THE INTERNATIONAL  
MILITARY STAFF (IMS) AND NATO DEFENSE COLLEGE (NDC)**

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

References:

A. IBA-A(2018)0046	IBAN Audit on the 2017 Financial Statements of the IMS
B. IBA-A(2018)0057	IBAN Audit on the 2017 Financial Statements of the NDC
C. AC/335-N(2018)0036	Handling of the 2017 Financial Statement audit reports
D. C-M(2015)0025	NATO Financial Regulations (NFR)
E. BC-D(2017)0199-FINAL	NFR / FRP Lessons Learned Review
F. PO(2015)0052	Wales Summit tasker on transparency and accountability
G. BC-D(2015)0260-REV1	Financial Rules and Procedures (FRP)

**BACKGROUND**

1. This report by the RPPB addresses the IBAN audits of the 2017 financial statements of the IMS and the NDC. The IBAN audits set out unqualified opinions on the financial statements and on compliance for both NATO entities (references A and B).
2. In accordance with the handling arrangements agreed by the RPPB (reference C) these audit reports have been grouped together into a single overarching RPPB report.

**DISCUSSION**

3. The common and recurring theme in each of the audit reports was the observation that further progress is needed in both of the NATO bodies concerned towards implementation of the NFRs (reference D), particularly those articles relating to risk management, internal control, and internal audit. This observation superseded the very similar and only prior year observation for both NATO entities. The IBAN recognises 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. The RPPB is aware that the challenges in this regard have featured prominently in the lessons learned exercise that the Budget Committee (BC) completed in April 2018 (reference E). 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.
4. With regard to the audits of the financial statements of the IMS and the NDC, the RPPB is pleased to note that the IMS risk management coordinator has made progress preparing an entity-wide risk management policy and the NDC has made progress developing a register of risks existing throughout the organization. The RPPB recognises the progress and level of commitment both the IMS and NDC have shown, and realises this effort will continue to mature over 2018.
5. The RPPB notes the IMS indicated the level of detail and documentation necessary to meet its Committee of Sponsoring Organisations of the Treadway Commission (COSO) framework implementation and completion of an internal audit requires additional manning

resources not currently available. The IMS has stated that additional resources will be 'used as appropriate by the IMS as they become available'. The RPPB strongly endorses the view of the BC (reference E) that adopting COSO should not become too dogmatic or pose significant compulsory requirements on NATO bodies. COSO is deliberately flexible and the heads of NATO bodies must continue to use their judgment to develop an internal control system that is designed to provide reasonable (not absolute) assurance to the achievement of its objectives.

6. Generally, both the IMS and NDC agreed with the IBAN's recommendations; however, the IMS did not agree with the IBAN recommendation to improve the IMS' Statement of Internal Control (SIC) by including more specific areas of improvement and avoiding broad explanations. The IMS believes its SIC is compliant with the FRPs (reference D).

## **CONCLUSIONS**

7. The IBAN issued unqualified audit opinions on the 2017 financial statements of the IMS and the NDC. The theme in each of the audit reports was the observation that some progress is being made in both of the NATO bodies concerned towards implementation of the NFRs and the RPPB 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.

8. The RPPB concludes that adopting COSO as an internal control framework should not become too dogmatic or pose significant compulsory requirements on NATO bodies. Heads of NATO bodies must continue to use their judgment to develop an internal control system that is designed to provide reasonable (not absolute) assurance to the achievement of its objectives.

9. While respecting the independence and forward-leaning perspective of the IBAN, the RPPB believe the 2017 IMS SIC meets the requirements of FRP XII(3) (reference D); however, the RPPB expects the IMS to expand with specificity over instances of non-compliance with NFRs and FRPs if instances are identified.

## **RECOMMENDATIONS**

10. The RPPB recommends that the Council:

10.1. note the IBAN reports at references A and B;

10.2. endorse the conclusions at paragraphs 7-9; and,

10.3. agree to the public disclosure of this report, the IBAN audits and the associated 2017 financial statements of the IMS and NDC in line with the agreed policy in reference F.



NORTH ATLANTIC TREATY ORGANIZATION  
ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD  
INTERNATIONAL BOARD OF AUDITORS  
COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES

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IBA-A(2018)0046  
29 May 2018

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

cc: Director General, International Military Staff  
Financial Controller, International Military Staff  
Chairman, Resource Policy and Planning Board (RPPB)  
Branch Head, Plans and Policy Branch, NATO Office of Resources (NOR)  
Private Office Registry

Subject: ***International Board of Auditors for NATO (Board) Auditor's Report and Letter of Observations and Recommendations on the financial audit of the International Military Staff (IMS) incorporating the NATO Standardisation Office (NSO) and the Outreach Activities Financial Statements for the year ended 31 December 2017 – IBA-AR(2018)0005***

The Board submits herewith its approved Auditor's Report (Annex 2) and Letter of Observations and Recommendations (Annex 3) with a Summary Note for distribution to the Council (Annex 1).

The Board's report sets out an unqualified opinion on the Financial Statements of the International Military Staff (IMS) and on compliance for financial year 2017.

Yours sincerely,

Hervé-Adrien Metzger  
Chairman

Attachment: As stated above.



**Summary Note for the Council by the International Board of Auditors for NATO  
on the audit of the financial statements of the  
International Military Staff (IMS) incorporating  
the NATO Standardisation Office (NSO) and Outreach Activities  
for the year ended 31 December 2017**

**Introduction**

The International Military Staff (IMS) is the core the military staff in NATO HQ. It is the executive body of the Military Committee (MC), NATO's senior military authority. The role of the IMS is to provide strategic military advice and staff support for the MC. The IMS is also tasked with ensuring that the policies and decisions of the MC are implemented by the appropriate NATO bodies.

The other component parts of the IMS Financial Statements are:

- The NATO Standardisation Office (NSO) which is 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 IMS Outreach which includes partnership activities with nations in North Africa (Mediterranean Dialogue), the Middle-East (Istanbul Cooperation Initiative), and with Afghanistan, Iraq, Pakistan and the African Union (Other Military Cooperation).

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 and Outreach Activities for the year ended 31 December 2017 were EUR 25.2 million.

The Board issued an unqualified opinion on the financial statements and on compliance for the year ended 31 December 2017.

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. Improvements required in the area of 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.

29 May 2018

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

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

**INTERNATIONAL MILITARY STAFF (IMS), INCORPORATING  
THE NATO STANDARDISATION OFFICE (NSO),  
AND OUTREACH ACTIVITIES**

**FOR THE YEAR ENDED 31 DECEMBER 2017**



**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) and Outreach Activities which comprised the Statement of Financial Position as at 31 December 2017, 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 Budget Execution Statement for the year ended 31 December 2017.

*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), incorporating the IMS, the NATO Standardisation Office (NSO) and Outreach Activities as of 31 December 2017, 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*

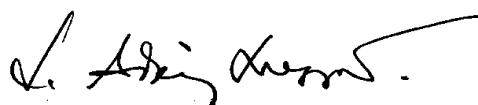
In addition to the responsibility to express an opinion on the financial statements described above, our responsibility includes expressing an opinion on whether the financial transactions and information reflected in the financial statements are, in all material respects, in compliance with the NATO 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, 29 May 2018



Hervé-Adrien Metzger  
Chairman

29 May 2018

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**LETTER OF OBSERVATIONS AND RECOMMENDATIONS**

**FOR THE INTERNATIONAL MILITARY STAFF (IMS),  
THE NATO STANDARDISATION OFFICE (NSO),  
AND OUTREACH ACTIVITIES**

**FOR THE YEAR ENDED 31 DECEMBER 2017**

## **Introduction**

The International Board of Auditors for NATO (Board) audited the International Military Staff (IMS) Financial Statements for the year ended 31 December 2017, (IMSTAM(FC)-0014-2018, dated 15 March 2018), and issued an unqualified opinion on the financial statements and on compliance.

## **Observations and Recommendations**

During the audit, the Board had one observation which did not impact our audit opinion:

1. Improvements required in the area of internal control, risk management and internal audit.

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

## **1. IMPROVEMENTS REQUIRED IN THE AREA OF INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT.**

### **Reasoning**

1.1 According to the NATO Financial Regulations (NFRs) Article 11, the Heads of NATO bodies shall ensure effective, efficient and economical risk management procedures are in place to support the achievement of objectives as set by the Nations.

1.2 Article XI of the NATO Financial Rules and Procedures (FRPs) states that the Financial Controller will be responsible for financial risk management including the establishment of financial risk management standards and an appropriate Internal Control framework to be reviewed by the Internal Control Officer. In addition, periodically, Internal Audit shall monitor and evaluate the effectiveness of the organization's risk management processes.

1.3 NFRs Article 12 requires that the Heads of NATO bodies shall ensure the necessary internal management functions are in place to support effective internal control and internal control activities shall include periodic assessment and review of the risk and the sound functioning of the internal control system. In order to meet the desired internal control standards the Financial Controller shall establish a system of internal financial and budgetary control, embracing all aspects of financial management.

1.4 Article XII of the NATO FRPs stipulates the elements to be included in the Statement of Internal Control, which is part of the financial statements.

1.5 As mentioned in the Statement of Internal Control, IMS assesses its system of internal control using the five key components of the COSO framework.

### **Observations**

#### *Risk Management*

1.6 The IMS Executive Coordinator (EXCO) was appointed as the Risk Management Coordinator and a risk register covering all divisions of the IMS was created and closely monitored by Executive Management Board. However, there is still no entity-wide risk management policy in place (incl. financial risk management) which is essential in order to ensure and clearly demonstrate that effective, efficient and economical risk management procedures are in place. Because of the lack of an entity-wide risk management policy, we noted that, for example, roles and responsibilities are not clarified and risk appetite and risk tolerance limits were not set.

#### *Internal Controls*

1.7 Within the IMS Financial Controller's responsibility, a system of internal financial and budgetary control is operating through policies, procedures and standing instructions at IMS. Nevertheless, no formal mapping of critical processes, associated risks and

existing internal controls has been performed. Absence of the above mentioned mapping increases the likelihood of not “spotting” potential vulnerabilities and does not allow to evaluate the nature and extent of risks, and to manage them efficiently, effectively and economically. Documentation of specific internal control and risk management 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.

1.8 The Statement of Internal Control does not include any specific areas of improvement of the system of internal control and an assessment of the possible impact of these weaknesses on IMS as required by the FRPs Article 12.

#### *Internal audit*

1.9 No internal audit activities in order to evaluate risk exposures and the effectiveness of internal controls in managing risk within the organization’s governance, operations and information systems were performed as of the date of this report. The IMS considers having such an assessment only after the Risk Management arrangements are fully established. However, the Board believes the results of an internal audit will be useful irrespective of the level of maturity of the risk management system.

### **Recommendations**

1.10 The Board recommends IMS to:

- a) prepare an entity-wide risk management policy, including financial risk management, applicable throughout the organization,
- b) document the internal controls and associated risks in place for main processes within IMS operations and assess the compliance with the framework chosen,
- c) improve the disclosure of information in the Statement of Internal Controls to ensure compliance with the FRPs Article 12, and
- d) conduct an internal audit, through outsourcing if considered more appropriate, that fully evaluates the effectiveness of the system of internal control and risk management throughout the IMS.

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

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

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p><b>(1) IMS FY 2016</b> IBA-AR(2017)09, paragraph 1</p> <p><b>SOME PROGRESS BEING MADE TO ACHIEVE COMPLIANCE WITH THE NATO FINANCIAL REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT</b></p> <p><b>Board's recommendation</b></p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	See current year observation.	Observation <b>Superseded by current year observation.</b>

**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 recommendations Paragraph 1.10******Response to recommendation 1.10(a) Agreed.***

*The IMS Executive Coordinator (EXCO) has been appointed as the NFR Article 11 Risk Management coordinator. An external consultant has been engaged to assist in the preparation of an entity-wide risk management policy. Risk Management policies will be developed and implemented over the course of 2018 and 2019.*

***Response to recommendation 1.10(b) Partly Agreed.***

*The FRP requirement is that the IMS Statement of Internal Control (SIC) should include: an evaluation of the system of internal control (FRP XII.3d); and a reference to the internal control framework used for the assessment (FRP XII.3e). The IMS SIC contains such an evaluation <sup>(1)</sup>, and the internal control framework chosen to make that assessment <sup>(2)</sup> was COSO.*

*A more extensive use of COSO requires additional resources. In the context of NFR Article 12, the Budget Committee has stated <sup>(3)</sup> that 'dedicated personnel' and 'manning adjustments' should be part of adaptations to the NATO Command Structure'. The additional resources for Article 12 will be used as appropriate by the IMS as they become available.*

*Moreover, the Budget Committee also state <sup>(4)</sup> that they 'do not expect the IBAN to use COSO as a form of qualification'.*

**Board's Position**

The Board retain its position that documentation of specific internal control and risk management 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.

***Response to recommendation 1.10(c) Not agreed.***

*The requirement of FRP XII.3f is for the IMS Statement of Internal Control (SIC) to include "areas of improvement in the system of internal control and an*

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<sup>1</sup> IMS Financial Statements FY 2017 IMSTAM(FC)-0010-2018, pages 3-5.

<sup>2</sup> Consistent with the prior year IBAN observation that "the IMS choose a specific internal control framework that it will use to assess its systems of internal control" IBA-AR(2017)09 para. 1.

<sup>3</sup> BC-D(2017)0199-REV4, page 1-2.

<sup>4</sup> BC-DS(2017)0060 para 3.1.



*assessment of the possible impact of these weaknesses". The IBAN suggest that areas for improvement are not mentioned or assessed in the SIC. This is not correct.*

*For example, the IMS SIC states that "a number of observations were raised by the IBAN in relation to risk management, internal audit, and the use of COSO to assess internal control". The SIC also contains the assessment of the IMS Director General and the Financial Controller that: "no significant issues regarding financial or operational matters were raised in 2017". Overall, systems were "reasonably adequate and effective".*

*The IMS SIC is therefore compliant with FRP XII.3f.*

### **Board's Position**

The Board maintains its recommendation as the areas of improvement mentioned in the IMS SIC are not specific but broadly explained. Further, in relation to full compliance with the new NFRs and FRPs, the SIC mentions that the *"scale of the challenge is significant"* without referring to specific areas where IMS is not yet compliant with the new NFRs and FRPs. In addition it is not clear how the assessment of the possible impacts of these weaknesses is conducted and resulted in a conclusion that the systems were reasonably adequate and effective.

### **Response to recommendation 1.10(d) Agreed.**

*The IMS will further promote internal audit activities, and recognises 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.*

### **General Comments**

*The year 2018 will see the IMS establish itself in the New NATO HQ. The move to the new HQ takes place alongside the implementation of the new IMS structure, Peacetime Establishment, and operational responsibilities.*

*In the meanwhile, the Council invited the Secretary General to undertake a Functional Review of NATO Headquarters. The IMS will participate actively in this effort. The review will be accomplished in three phases. The Head of State and Governments will be briefed during the next summit with a planned execution (third and last phase) in 2019, just in time for Alliance 70th anniversary.*

*The year 2018 and especially 2019 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 by the end of 2019. Compliance with IBAN recommendations should therefore be seen in this context.*



INTERNATIONAL MILITARY STAFF  
ETAT-MAJOR MILITAIRE INTERNATIONAL



15<sup>th</sup> March 2018

IMSTAM(FC)-0014-2018

M. Herve Adrien Metzger

CHAIR, INTERNATIONAL BOARD OF AUDITORS FOR NATO (IBAN)

**INTERNATIONAL MILITARY STAFF (IMS) FINANCIAL STATEMENTS 2017**

1. Please find attached the 2017 International Military Staff (IMS) Financial Statements, issued in accordance with NATO Financial Regulation (NFR) Article 35.1.
2. I can confirm that, in accordance with NFR Financial Rules and Procedures (FRP) XXXV (4), the IMS can agree to public disclosure of these Financial Statements.
3. Notwithstanding the above, as stated in C-M(2012)0041, public disclosure of IBAN Audit Reports is a matter for Council decision, based upon the recommendation of the RPPB. Decisions are informed by the NATO policy on public disclosure of documents (C-M(2008)0116).
4. The IBAN Audit Report covering these Financial Statements has not been issued, but should be presented to Council no later than 31<sup>st</sup> August 2018 (NFR 15.2). As such, the IMS is not yet in a position to anticipate any potential representations that may be made to the RPPB, regarding the Audit Report.
5. The IMS therefore reserves its position on public disclosure of the eventual IBAN Audit Report.

A handwritten signature in black ink, appearing to read 'Bontinck'.

P. BONTINCK  
BELCV  
Financial Controller  
International Military Staff &  
Science and Technology Organisation

Enclosure:

1. IMS Financial Statements FY 2017

Copy To: DIRECTOR NSO, MA DG IMS, FC, RECORDS

Action Officer: Mr S. Lee, Finance Principal IMS, (4593)

# **INTERNATIONAL MILITARY STAFF (IMS) FINANCIAL STATEMENTS 2017**

**Incorporating  
IMS (301), NSO (302) and Outreach (501)**



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## IMS Statement on Internal Control FY 2017

The Director General, International Military Staff (IMS), exercises overall responsibility for IMS Risk Management and Internal Control systems, in accordance with Articles 11.1 and 12.1 of the NATO Financial Regulations (NFRs).

The IMS 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 12.2).

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 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 2017 and up to the date of these Financial Statements.

The systems of Risk Management and Internal Financial Control are designed to manage and minimise 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.

The Risk Management and Financial Control processes at the IMS provide a network of internal controls that can be assessed using the five key components of the COSO<sup>1</sup> Framework:

### Control Environment

The culture and ethical values of the overall control environment are established by senior management. Measures for the promotion of ethical values include: IMS participation in the NATO-wide 'Building Integrity' Initiative; the promulgation of the NATO Code of Conduct to all IMS staff; and a disclosures on any senior management related party transactions in our annual financial statements.

Oversight is provided by the NATO Military Committee (MC), supported by various sub-committees, who routinely scrutinise IMS Senior Management reports on strategic operational matters.

On Financial matters, interim Budgetary Execution Reports are presented to, and reviewed by, the NATO Budget Committee three times a year. In addition, IMS financial requirements comprising the yearly budget proposals are screened and reviewed by the Nations at various oversight fora.

The overall structure of the IMS was recently reviewed by a panel of military experts in support of the Military Committee, and was re-established under by the authority of the NATO Secretary General in May 2016. The structure incorporates clearly defined responsibilities and authorities in the pursuit of operational objectives.

### Risk Assessment

The Director General has appointed a Risk Management coordinator in accordance with NFR Article 11. The IMS Executive Management Board regularly monitors actions

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<sup>1</sup> Committee of Sponsoring Organisations of the Treadway Commission.



mitigating the significant risks identified. Risk Management processes continue to be developed, with the assistance of an external consultant.

#### Control Activities

The IMS operates a 'Tasker Tracker' mechanism: The mechanism uses software to launch, monitor and control ongoing progress towards management's operational requirements, in accordance with deadlines and operational priorities.

In the financial domain, the IMS accounting system - 'FinS' - has built-in approval workflows and controls, together with audit trails. The controls are designed in order that transactions are recorded consistently, accurately and in accordance with the NFRs.

IMS leadership is supported by an Executive Management Board meeting routinely to review internal processes and to inform decision making.

#### Information and Communication

IMS internal communications are enhanced by strong reporting lines, based on military principles. The IMS has an extensive Standard Operating Policy (IMSSOP 6) on the management of information and communications. This provides for effective communications in pursuit of operational objectives.

Communication also provides for the effective functioning of internal control. The Audit Advisory Panel, for example, reports to the Director General.

The IMS also communicates externally on matters affecting the functioning of internal control. Mechanisms include the Statement of Internal Control, comprising part of the Financial Statements, which is released to the general public. External Audits include examinations of internal controls and compliance with authorities. The results of these audits are circulated outside to the IMS in order to be discussed by various oversight authorities, and for disclosure to the general public.

#### Monitoring

An outsourced Internal Audit service provider is engaged on a periodic basis, to undertake on behalf of the IMS Financial Controller. The IMS is also subject to annual external audits from the International Board of Auditors for NATO (IBAN).

Recommendations and observations arising from audits are assessed by the Audit Advisory Panel reporting to the Director General. The results are then assessed by the Executive Management Board, who initiate any appropriate actions.

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 was the first full financial year under the new NFR/FRP framework.


The Director General of the IMS, and the Financial Controller, have a collective responsibility for reviewing the effectiveness of the system of internal control. Our review is informed by the above five COSO components, and by the work of IMS Senior Managers, External Audits, and Internal Audits.

No significant issues regarding financial or operational matters were raised in 2017. The IBAN External Audit of the 2016 Financial Statements - undertaken in 2017 - 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 the use of the COSO framework as a means to assess internal control.

Overall, we are satisfied that the Risk Management and Internal Financial Control systems in operation across the IMS during the year 2017 were reasonably adequate and effective.

The year 2017 was the first full year under the new NFR/FRP regime. The IMS continues to work towards full compliance with the new NFRs and FRPs. However, as noted by the Nations<sup>2</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>2</sup> C-M(2016)0077 paragraph 5.2 dated 12<sup>th</sup> December 2016.



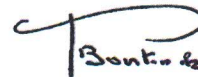
## INTRODUCTION TO THE 2017 IMS FINANCIAL STATEMENTS

1. The International Military Staff (IMS), is the core Military Staff in NATO HQ. It is the executive body of the Military Committee (MC), NATO's senior military authority.
2. The role of the IMS is to provide the strategic military advice and staff support for the MC, which advises the North Atlantic Council, NATO's principal political decision making body, on military aspects of policy, operations, and transformation within the Alliance. The IMS also ensures that NATO decisions and policies on military matters are implemented by the appropriate NATO military bodies.
3. The IMS Financial Statements 2017 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 three budgets covering the: IMS (Budget Code 301); NATO Standardization Office (NSO, BC 302); and Outreach (BC 501). 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 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

**IMS**  
**STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017**  
(in euro)

		<u>2017</u>	<u>2016</u>
<b>ASSETS</b>			
<b>Current Assets</b>	Notes		
Cash and Cash Equivalents	3	7,124,357	15,057,262
Receivables	4	2,690,584	1,548,465
Prepayments	5	803,074	763,817
		<u>10,618,016</u>	<u>17,369,544</u>
<b>Non-current Assets</b>			
Property Plant and Equipment	6	71,065	112,013
Intangible assets	6	167,769	247,681
		<u>238,834</u>	<u>359,695</u>
<b>TOTAL ASSETS</b>		<u><b>10,856,850</b></u>	<u><b>17,729,238</b></u>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Payables	7	2,957,164	8,751,665
Deferred revenue	8	7,660,852	8,617,878
		<u>10,618,016</u>	<u>17,369,544</u>
<b>Non-current Liabilities</b>			
Provisions	9	238,834	359,695
<b>TOTAL LIABILITIES</b>		<u><b>10,856,850</b></u>	<u><b>17,729,238</b></u>

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**IMS**  
**STATEMENT OF FINANCIAL PERFORMANCE AS AT 31 DECEMBER 2017**  
(in euro)

		<u>2017</u>	<u>2016</u>
	Notes		
<b>Revenue</b>			
Revenue	10a	24,777,448	25,879,740
Financial Revenue	10b	4,732	8,127
Other revenue	10c	120,860	117,995
<b>Total Revenue</b>		<u>24,903,041</u>	<u>26,005,861</u>
 <b>Expenses</b>			
Personnel	11a	(16,589,625)	(20,944,574)
Contractual supplies and services	11b	(8,187,823)	(4,935,166)
Capital and investments budgeting	11c	-	-
Depreciation and amortization	11d	(120,860)	(117,995)
Finance costs	11e	(4,732)	(8,127)
<b>Total Expenses</b>		<u>(24,903,041)</u>	<u>(26,005,861)</u>
 <b>Surplus/(Deficit) for the period</b>	12	<u>0</u>	<u>0</u>

IMS  
CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

	31/12/2017 Euro	31/12/2016 Euro
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<i>Surplus/Deficit</i>	-	-
<b>Non-cash movements</b>		
Depreciation	120,860	117,995
Increase /(decrease) in payables	(5,794,502)	6,665,812
Increase/ (decrease) in other current liabilities	(957,026)	(4,322,625)
Decrease/ (Increase) in receivables	(1,142,119)	(82,986)
(Gains)/losses on sale of property, plant and equipment	-	-
(Gains)/losses on transfer of property, plant and equipment	-	-
Decrease/ (Increase) in other current assets	(39,257)	61,400
Increase/ (decrease) in Long-Term provisions	(120,860)	(43,592)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>(7,932,904)</b>	<b>2,396,004</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property plant and equipment	-	(74,403)
Proceeds from sale of property plant and equipment		
Cash Advances	-	-
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>-</b>	<b>(74,403)</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>
	31/12/17 Euro	31/12/16 Euro
Year-end cash on hand and balances with banks	7,124,357	15,057,262
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 no payments were made to purchase property, plant and equipment .

**IMS**  
**STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 31**  
**DECEMBER 2017**

	Capital assets	Reserves	Accumulated surplus/deficit	Total
<b>Balance at 31 December 2016</b>	-	-	-	-
Changes in accounting policy	-	-	-	-
<b>Restated balance</b>	-	-	-	-
Net gains/(losses) recognised directly in net assets/equity	-	-	-	-
Exchange difference on translating foreign operations	-	-	-	-
Gain on property revaluation	-	-	-	-
Surplus/(deficit) for the period	-	-	-	-
<b>Change in net assets/equity for the year ended 2017</b>	-	-	-	-
<b>Balance at 31 December 2017</b>	-	-	-	-

## NOTES

### Note 1: Significant Accounting Policies

#### *A. Basis of preparation*

The Financial Statements 2017 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<sup>1</sup>. The financial statements comply with the financial requirements of the NATO Financial Regulations (NFRs)<sup>2</sup> and the associated Financial Rules and Procedures (FRPs)<sup>3</sup> as well as with the IMS 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.

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.

<sup>1</sup> C-M(2016)0023

<sup>2</sup> C-M(2015)0025

<sup>3</sup> BC-D(2015)0260-REV1

*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 2017 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*

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 IMS Financial Statements 2017: IPSAS 26 (Impairment of Cash-Generating Assets), IPSAS 27 (Agriculture). The following IPSAS have no material effect on the financial statements: IPSAS 5, IPSAS 10, IPSAS 11, IPSAS 16, IPSAS 18 and IPSAS 32.

Several new IPSAS became effective 1<sup>st</sup> January 2017: IPSAS 34 (Separate Financial Statements) and IPSAS 35 (Consolidated Statements) both superseded IPSAS 6; IPSAS 36 (Investments in Joint Ventures) superseded IPSAS 7; and IPSAS 37 (Joint Arrangements) superseded IPSAS 8. In addition, IPSAS 38 (Disclosure of interests in other entities) revises disclosure requirements previously covered by IPSAS 6, 7 and 8. None of these new IPSAS standards have a material impact on the presentation of the IMS Financial Statements.

IPSAS 39 (Employer benefits) becomes effective January 1<sup>st</sup> 2018 and will replace IPSAS 25. IPSAS 40 (Public Sector Combinations) will become effective January 1<sup>st</sup> 2019. Neither has been adopted by the IMS for the 2017 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 2017. 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 2017. 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 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). In these financial statements, services in kind are recognized neither as revenue nor as an asset.

### *H. Financial instruments*

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

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

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

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

The maximum exposure as at 31 December 2017 is equal to the total amount of bank balances, short-term deposits, and receivables disclosed in the Statement of Financial Position. If receivables are considered uncollectible, they are adequately provided for. There is a very limited credit risk associated with the realization of these instruments.

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

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

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

## *I. Leases*

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

All other leases are classified as operating leases.

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

## *J. Assets – Current Asset*

The entity holds the following types of current assets.

### *a. Cash and Cash Equivalents*

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

### *b. Receivables*

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

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

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

### *c. Inventories*

IPSAS 12 defines inventories, establishes measurement requirements under the historical costs system and establishes disclosure requirements. The IMS assessment is that inventory is immaterial both in value and in terms of the nature of the items held. Consumable inventory items are therefore fully expensed on receipt"

### *d. Prepayments*

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

## *K. Non Current Assets*

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

### *a. Financial Assets*

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

*b. Property, plant and equipment.*

## Basic Principles:

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

For assets acquired on or after 1 January 2013 the NATO Accounting Framework<sup>1</sup> 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.

<sup>1</sup> CM (2016)0023

Post 1 January 2013, the NATO Accounting Framework 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*

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*

The following employee benefits are considered for accounting treatment:

- 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 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 2017, exchange rate revenue due to transactions in foreign currency and realized exchange rate revenue in accordance with the entity Policy IPSAS 4 - Effect of the foreign exchange rate - are recognized as financial revenue.

#### *b. Expenses*

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

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

#### *P. Surplus or Deficit for the Period*

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

#### *Q. Trust Funds*

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

#### *R. 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.

## Note 2: Accounting Judgements and Estimates

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

**Notes to the Statement of Financial Position**

## Note 3 : Cash and Cash Equivalents

	31-Dec-17	31-Dec-16
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	6,445,811	12,810,222
Current Bank Accounts NATO Iraq Trust	280,305	1,360,263
Cash Equivalents	372,041	860,577
<b>Total Cash and Cash Equivalents</b>	<b>7,124,357</b>	<b>15,057,262</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. Deposits are held in interest bearing bank accounts in immediately available funds. Cash holdings are largely determined by the timing of receipts from the nations, which arrive in two instalments, generally in April and December. The timely arrival of the 2017 call allowed outstanding payables to be liquidated before the end of year closure procedures.

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. There is a maximum threshold of 1 MEUR imposed by the banks on saving accounts.

## Note 4 : Receivables

	31-Dec-17	31-Dec-16
Contribution Receivable		
Calls for contribution receivables	300,000	0
<b>Total Contribution Receivables</b>	<b>300,000</b>	<b>0</b>
Receivables from Non-Consolidated NATO Entities		
Receivable from STO common funded entities	2,300,000	1,500,000
<b>Total Receivables from Non-Consolidated NATO Entities</b>	<b>2,300,000</b>	<b>1,500,000</b>
Other Receivables/Recoverables		
VAT Receivable	9,534	0
Receivables Financial Results	11,287	1,991
Accrued Revenue	9,909	1,540
Receivables from Third Parties	59,855	16,452
<b>Total Other Receivables/Recoverables</b>	<b>90,584</b>	<b>20,015</b>
<b>Total Receivables</b>	<b>2,690,584</b>	<b>1,548,465</b>



## a. Receivables from contributions

For technical reasons the amount was not claimed with the Second Call for Contributions 2017. It will be claimed with the 2018 Call.

## b. Receivables from Non-Consolidated NATO Entities

The amount is a temporary cash loan to the STO common funded entities due to delays in the Second Call for Contributions.

## c. Other Receivables

The Financial Results receivable of EUR 11,287 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 mostly of travel for the civil budget funded members of the Senior Executive Group (SEG) team EUR 9,446. The rest is bank interest that is earned in 2017, but for which the cash is received in 2018.

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

## Note 5: Prepayments and Miscellaneous Assets

	31-Dec-17	31-Dec-16
Non-Assigned Expenditures	139,030	100,817
Advances and Prepayments to suppliers	664,044	663,000
<b>Total Prepayments and Miscellaneous Assets</b>	<b>803,074</b>	<b>763,817</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 2017-2018 (€ 98,325). The remainder includes vehicle insurance and airplane tickets for missions starting in 2018.

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 EUR 663,000. 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 is applied for the Non-Current Assets acquired after 2013. 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 2017 and all subsequent changes to arrive at the closing balance are disclosed below:

	Furniture	Transport Equipment	Installed Equipment	Software	Totals
Opening Balance	-	108,958	3,055	247,681	359,695
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Depreciation/Amortization	-	40,168	780	79,912	120,860
<b>Closing Balance</b>	<b>-</b>	<b>68,790</b>	<b>2,275</b>	<b>167,769</b>	<b>238,834</b>
Gross Carrying Amount	9,193	358,880	7,800	360,630	736,503
Accumulated Depreciation	9,193	290,090	5,525	192,861	497,669
<b>Net Carrying Amount</b>	<b>-</b>	<b>68,790</b>	<b>2,275</b>	<b>167,769</b>	<b>238,834</b>

- Transport equipment includes the staff motor vehicles of the IMS and the NSO.
- Installed equipment includes a machine that is used for binding in the IMS Registry Services.
- Software includes internally developed bespoke assets for the requirements of the NHQC3S.

More details are included in Annex 2.

#### Note 7: Payables

	31-Dec-17	31-Dec-16
Payables to Suppliers	607,215	6,562,440
Accruals	2,348,607	2,188,239
<b>Total Payable to Suppliers</b>	<b>2,955,822</b>	<b>8,750,679</b>
Payables to Staff Members	1,342	987
Other Payables	0	0
<b>Total Other Payables</b>	<b>1,342</b>	<b>987</b>
<b>Total Payables</b>	<b>2,957,164</b>	<b>8,751,665</b>

- Payables to suppliers includes routine invoices that, due to the end of year closure procedures are paid in the beginning of 2018. The significant decrease is explained by the timely arrival of the Second Call for contributions 2017.

The main components of the accruals are the IMS POW EUR 1,449,928, the NCIA SLA EUR 554,857 and outreach activities EUR 34,583.

- Other Payables

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

## Note 8: Deferred Revenue and Advance Contributions

	31-Dec-17	31-Dec-16
Deferred Revenue		
Deferred Revenue (See also Note 10)	192,685	872,216
Deferred Revenue Trust Funds	280,305	328,418
Advanced Contributions for next FY	6,500,000	6,500,000
<b>Total Deferred Revenue</b>	<b>6,972,990</b>	<b>7,700,634</b>
Liabilities from Lapses	588,235	502,623
Liabilities from Operational Results	61,098	86,171
Liabilities from Financial Results	0	0
Liabilities from Budget Decreases	38,530	328,450
<b>Total Liabilities Nations</b>	<b>687,862</b>	<b>917,244</b>
<b>Total Deferred Revenue and Advance Contributions</b>	<b>7,660,852</b>	<b>8,617,878</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 2018 and represent 25% of the provisional BA1 for 2018.

b. The Liabilities to Nations are appropriations that have not been spent or miscellaneous income that are due to the Nations.

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

Operational results consist of two elements. The major component is the accrual write-off (EUR 50,304), where the final invoice was lower than the estimated amount at the end of the previous fiscal year. The Liabilities from Operational Results include also the miscellaneous income (EUR 10,794), which is mostly related to a cost reimbursable project with the NCIA.

The Liabilities from Budget Decreases include a transfers out of IMS budget authorizations, in favour of the STO common funded budget. It is a liability as it was not taken into account in the 2<sup>nd</sup> Call for Contribution 2017, 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.

## Note 9: Non – Current Liabilities

Represents the Net Carrying amount of PP&E and Intangible Assets as of 31st December 2017. 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	290,090	5,525	192,861	497,669
<b>Net Carrying Amount</b>	<b>-</b>	<b>68,790</b>	<b>2,275</b>	<b>167,769</b>	<b>238,834</b>

**Notes to the Statement of Financial Performance**

## Note 10: Revenue

	31-Dec-17	31-Dec-16
Revenue from Contributions	24,777,448	25,879,740
Financial Revenue	4,732	8,127
Revenue for Depreciation	120,860	117,995
<b>Total Revenue (See also Note 10)</b>	<b>24,903,041</b>	<b>26,005,861</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) and Outreach (501).

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 2017, finance costs were in excess of revenue by EUR 11,287. 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 2017 for the annual budgets are recognized as budget operating revenue in the fiscal year. The remaining balance is deferred revenue for the funds that are carried forward to future years, payables for the annual budgets credits that are lapsed, payables for budget decreases and receivables for budget increases.

	31-Dec-17	31-Dec-16
<b>Deferred revenue opening balance</b>		<b>872,216</b>
Contributions called for 2017		
Call 1 FC(CC)(2017)0012(MB-01)	19,217,882	
Call 2 FC(CC)(2017)0012(MB-02)	5,940,960	
Total Contributions Called	<b>25,158,842</b>	
Budget expenses in 2017	<b>(24,777,448)</b>	
Lapses	<b>(588,235)</b>	
Budget increases	-	
Budget decreases	<b>(472,690)</b>	
<b>Deferred revenue Closing Balance</b>	<b>192,685</b>	

## Note 11: Expenses

	31-Dec-17	31-Dec-16
Personnel	16,589,625	20,944,574
Contractual Supplies and Services	8,187,823	4,935,166
Capital and Investments	0	0
Depreciation and Amortization	120,860	117,995
Finance Cost	4,732	8,127
<b>Total Expenses</b>	<b>24,903,041</b>	<b>26,005,861</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-17	31-Dec-16
Employee Benefits	10,005,489	9,295,989
IMS POW	5,468,341	6,489,371
Admin Bill	-	3,952,820
Consultants and Contractors	406,493	412,540
MOUS	206,041	293,684
Outreach	233,895	336,307
Recruitment and Separation	37,666	48,027
Training	88,717	91,202
Other Costs	142,984	24,634
<b>Total Expenses</b>	<b>16,589,625</b>	<b>20,944,574</b>

The decrease in personnel expenses (Chapter 1) is explained by the different treatment of the services provided by the NATO IS. As of 2017 they charged to Chapter 2 following a Service Level Agreement approach.

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

	31-Dec-17	31-Dec-16
CIS	1,963,534	1,960,394
Outreach	934,595	1,476,652
Utilities, Maintenance and Furniture	4,666,950	731,652
Travel and Hospitality	573,967	604,240
Rent/Lease	-	61,538
Office Supplies and Reference		
Materials	48,469	36,291
Services	308	64,399
<b>Total Expenses</b>	<b>8,187,823</b>	<b>4,935,166</b>

## 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 3 rental/lease contracts in 2017 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 2013-003/005 for copiers for a period of 4 years with a yearly cost of 6,333 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 2017.

d. The depreciation/amortization for 2017 calculated on a straight line basis and summarized below:

	Furniture	Transport Equipment	Installed Equipment	Software	<b>Totals</b>
Depreciation/Amortization 2017	-	40,168	780	79,912	<b>120,860</b>
Depreciation/Amortization 2016	-	37,039	780	80,176	<b>117,995</b>

e. Finance costs are recognised to the extent that they are covered by financial revenue (EUR 4,732, Note 10b). However, actual total finance costs in 2017 were EUR 16,019. The shortfall of EUR 11,287 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 STO due to delays in the second Call for Contributions (Note 4). In addition, a transfer of budgetary allocations was made under the Financial Controllers authority, from the IMS to the STO (Note 8).

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.

Note 14: Employee disclosure

### Peacetime Establishment (PE)

	Total Approved PE - IMS	Filled Positions - IMS	Total Approved PE - NSO	Filled Positions - NSO
Civilians (MBC)	85	80	16	15
Military	318	277	26	22
Voluntary National Contribution (VNC)	22	8		
National Manpower Overage (NMO)	27	23		
Host Nation	3	1		
PFP	8	5	2	1
Local Wage Rate (LWR)	1	1		
Civilians (CBC)	10	6		
Legacy post (LEG)	20	5		
Twinned posts (TP)*	4	4	2	2

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-17	31-Dec-16
Employee Benefits	9,589,077	8,938,295
Providend Fund	-	-
DCPS	416,413	357,695
<b>Total Expenses</b>	<b>10,005,489</b>	<b>9,295,989</b>

## Untaken Leave

The Balance of untaken leave at the end of 2017 was 71 days for NSO, and 350 days for IMS. The associated values are EUR 16,857 and EUR 67,635 respectively.

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 2017, 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 2017 three senior IMS officials received Representation Allowances totalling EUR 29,471.

#### Note 16 Write Off

In 2017 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<sup>1</sup> 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 2017 amounted to approximately 600KEUR. Each year a detailed financial report covering MWA transactions is submitted to the Budget Committee.

<sup>1</sup> C-M(2013)0039 and CM (2016)0023

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)2017</b>												
Chapter 1	12,815,710	1,223,579	14,039,289	(3,700)	14,035,589	(75,198)	13,960,391	192,685	13,722,757	13,915,442	192,685	44,948
Chapter 2	8,749,020	(1,248,579)	7,500,441	3,700	7,504,141	(397,492)	7,106,649	-	6,852,215	6,852,215	-	254,435
Chapter 3	-	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>21,564,730</b>	<b>(25,000)</b>	<b>21,539,730</b>	<b>-</b>	<b>21,539,730</b>	<b>(472,690)</b>	<b>21,067,040</b>	<b>192,685</b>	<b>20,574,972</b>	<b>20,767,657</b>	<b>192,685</b>	<b>299,383</b>
<b>BUDGET 302 (NSO)2017</b>												
Chapter 1	1,725,419	151,000	1,876,419	-	1,876,419	53,093	1,929,512	-	1,929,512	1,929,512	-	0
Chapter 2	789,693	(191,000)	598,693	-	598,693	(53,093)	545,600	-	545,041	545,041	-	559
<b>TOTAL</b>	<b>2,515,112</b>	<b>(40,000)</b>	<b>2,475,112</b>	<b>-</b>	<b>2,475,112</b>	<b>(0)</b>	<b>2,475,112</b>	<b>-</b>	<b>2,474,553</b>	<b>2,474,553</b>	<b>-</b>	<b>559</b>
<b>BUDGET 501 (OTRCH)2017</b>												
Chapter 1	185,760	-	185,760	-	185,760	-	185,760	-	65,141	65,141	-	120,619
Chapter 2	1,358,240	-	1,358,240	(400,000)	958,240	-	958,240	-	790,567	790,567	-	167,673
<b>TOTAL</b>	<b>1,544,000</b>	<b>-</b>	<b>1,544,000</b>	<b>(400,000)</b>	<b>1,144,000</b>	<b>-</b>	<b>1,144,000</b>	<b>-</b>	<b>855,707</b>	<b>855,707</b>	<b>-</b>	<b>288,293</b>
<b>TOTAL FY2017</b>	<b>25,623,842</b>	<b>(65,000)</b>	<b>25,558,842</b>	<b>(400,000)</b>	<b>25,158,842</b>	<b>(472,690)</b>	<b>24,686,152</b>	<b>192,685</b>	<b>23,905,232</b>	<b>24,097,917</b>	<b>192,685</b>	<b>588,235</b>
<b>BUDGET 301 (IMS)2016</b>												
Chapter 1	3,180	-	3,180	-	3,180	-	3,180	-	3,180	3,180	-	-
<b>TOTAL</b>	<b>3,180</b>	<b>-</b>	<b>3,180</b>	<b>-</b>	<b>3,180</b>	<b>-</b>	<b>3,180</b>	<b>-</b>	<b>3,180</b>	<b>3,180</b>	<b>-</b>	<b>-</b>
<b>TOTAL FY2016</b>	<b>3,180</b>	<b>-</b>	<b>3,180</b>	<b>-</b>	<b>3,180</b>	<b>-</b>	<b>3,180</b>	<b>-</b>	<b>3,180</b>	<b>3,180</b>	<b>-</b>	<b>-</b>
<b>BUDGET 301 (IMS)2015</b>												
Chapter 1	869,036	-	869,036	-	869,036	-	869,036	-	869,036	869,036	-	-
<b>TOTAL</b>	<b>869,036</b>	<b>-</b>	<b>869,036</b>	<b>-</b>	<b>869,036</b>	<b>-</b>	<b>869,036</b>	<b>-</b>	<b>869,036</b>	<b>869,036</b>	<b>-</b>	<b>-</b>
<b>TOTAL FY2015</b>	<b>869,036</b>	<b>-</b>	<b>869,036</b>	<b>-</b>	<b>869,036</b>	<b>-</b>	<b>869,036</b>	<b>-</b>	<b>869,036</b>	<b>869,036</b>	<b>-</b>	<b>-</b>
<b>TOTAL ALL BUDGETS</b>	<b>26,496,058</b>	<b>(65,000)</b>	<b>26,431,058</b>	<b>(400,000)</b>	<b>26,031,058</b>	<b>(472,690)</b>	<b>25,558,368</b>	<b>192,685</b>	<b>24,777,448</b>	<b>24,970,133</b>	<b>192,685</b>	<b>588,235</b>

The budget covers the financial year from 1 January 2017 to 31 December 2017 and includes the following budgets: 301 (IMS), 302 (NSO) and 501 (Outreach). As per BC-DS(2016)0036, paragraph 4.8 starting with the 2017 Budget Submission the IMS Outreach Programmes (previously Partnership for Peace (BC504), Mediterranean Dialogue (BC 508), Istanbul Cooperation Initiative (BC 514) and Other Military Cooperation (BC 524) are identified under a single budget, with budget code 501.

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 2017 budget was reviewed by the Budget Committee and issued with BC-BA(2017)0001. Similarly the 2017 revised authorizations BA 2 and BA3 were issued in BC-BA(2017)0002 and BC-BA(2017)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	24,903,041	24,777,448	(125,593)
Personnel	16,589,625	16,589,625	-
Contractual Supplies and Services	8,187,823	8,187,823	-
Capital and Investments	-	-	-
Depreciation Expense	120,860	-	120,860
Finance Cost	4,732	-	4,732
Difference			<b>0</b>

## ANNEX 2

### IMS Non Current Asset Register

NATO UNCLASSIFIED

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	Net Book Value
Furniture	RAYONNAGE	04-Mar-04		9,192.50	-	-	9,192.50	10	9,192.50	-	9,192.50	-	9,192.50	-
<b>Total - Furniture</b>				<b>9,192.50</b>	<b>-</b>	<b>-</b>	<b>9,192.50</b>		<b>9,192.50</b>	<b>-</b>	<b>9,192.50</b>	<b>-</b>	<b>9,192.50</b>	<b>-</b>
Transport Equipment	AUDI A6	20-Apr-07		22,876.29	-	-	22,876.29	5	22,876.29	-	22,876.29	-	22,876.29	-
Transport Equipment	VW PASSAT COMFORTLINE	30-Dec-07		19,638.76	-	-	19,638.76	5	19,638.76	-	19,638.76	-	19,638.76	-
Transport Equipment	VW PASSAT COMFORTLINE	30-Jun-08		20,043.20	-	-	20,043.20	5	20,043.20	-	20,043.20	-	20,043.20	-
Transport Equipment	VOLSWAGEN TRANSPORTER MLM	30-Mar-09		17,858.02	-	-	17,858.02	5	17,858.02	-	17,858.02	-	17,858.02	-
Transport Equipment	SKODA SUPERB	26-Jun-09		22,953.63	-	-	22,953.63	5	22,953.63	-	22,953.63	-	22,953.63	-
Transport Equipment	SKODA SUPERB	26-Jun-09		22,953.63	-	-	22,953.63	5	22,953.63	-	22,953.63	-	22,953.63	-
Transport Equipment	BMW 520D	16-May-11		29,758.00	-	-	29,758.00	5	24,089.79	4,251.14	28,340.93	-	28,340.93	1,417.07
Transport Equipment	FORD MINIVAN	19-Sep-11		19,995.00	-	-	19,995.00	5	15,234.24	2,856.42	18,090.66	-	18,090.66	1,904.34
Transport Equipment	Mercedes 200 CDI	24-Apr-12		30,624.00	-	-	30,624.00	5	20,780.54	4,374.85	25,155.39	-	25,155.39	5,468.61
Transport Equipment	Mercedes 200 CDI	24-Apr-12		30,624.00	-	-	30,624.00	5	20,780.54	4,374.85	25,155.39	-	25,155.39	5,468.61
Transport Equipment	DUTY CAR FOR NATO MLM	06-Mar-14		32,496.10	-	-	32,496.10	5	18,414.45	6,499.22	24,913.67	-	24,913.67	7,582.43
Transport Equipment	NLO KYIV DUTY CAR	29-Jul-14		28,819.38	-	-	28,819.38	5	14,409.67	5,763.87	20,173.54	-	20,173.54	8,645.84
Transport Equipment	FORD TOURNEO CUSTOM TREND 300	06-Feb-15		22,517.55	-	-	22,517.55	5	8,631.72	4,503.51	13,135.23	-	13,135.23	9,382.32
Transport Equipment	JAGUAR XF 2.0 D	02-Nov-16		37,722.72	-	-	37,722.72	5	1,257.42	7,544.54	8,801.96	-	8,801.96	28,920.76
<b>Total - Transport Equipment</b>				<b>358,880.28</b>	<b>-</b>	<b>-</b>	<b>358,880.28</b>		<b>249,921.90</b>	<b>40,168.40</b>	<b>290,090.30</b>	<b>-</b>	<b>290,090.30</b>	<b>68,789.98</b>
Installed Equipment	BINDING MACHINE	31-Dec-10		7,800.00	-	-	7,800.00	10	4,745.00	780.00	5,525.00	-	5,525.00	2,275.00
<b>Total - Installed Equipment</b>				<b>7,800.00</b>	<b>-</b>	<b>-</b>	<b>7,800.00</b>		<b>4,745.00</b>	<b>780.00</b>	<b>5,525.00</b>	<b>-</b>	<b>5,525.00</b>	<b>2,275.00</b>
Software	ADat-P 3	10-Jul-15		210,000.00	-	-	210,000.00	4	78,750.00	52,500.00	131,250.00	-	131,250.00	78,750.00
Software	SMIR Online	13-Nov-15		28,750.00	-	-	28,750.00	4	8,385.41	7,187.50	15,572.91	-	15,572.91	13,177.09
Software	TDL CaT	22-Oct-15		121,880.00	-	-	121,880.00	4	25,813.35	20,224.56	46,037.91	-	46,037.91	75,842.09
<b>Total - Software</b>				<b>360,630.00</b>	<b>-</b>	<b>-</b>	<b>360,630.00</b>		<b>112,948.76</b>	<b>79,912.06</b>	<b>192,860.82</b>	<b>-</b>	<b>192,860.82</b>	<b>167,769.18</b>
<b>TOTALS</b>				<b>736,502.78</b>	<b>-</b>	<b>-</b>	<b>736,502.78</b>		<b>376,808.16</b>	<b>120,860.46</b>	<b>497,668.62</b>	<b>-</b>	<b>497,668.62</b>	<b>238,834.16</b>

## ANNEX 3

### NATO-Iraq Trust Fund Status as of 31<sup>st</sup> December 2017

[illegible]

**NOTE:** The expenses in 2017 were for one NRCC course in the NATO Defence College in Rome. The funds available are the cash as of 31<sup>st</sup> of December 2017.



NORTH ATLANTIC TREATY ORGANIZATION  
ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD  
INTERNATIONAL BOARD OF AUDITORS  
COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES

**NATO UNCLASSIFIED**



IBA-A(2018)0057  
18 June 2018

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

Cc: Commandant, NATO Defense College (NDC)  
Financial Controller, International Military Staff (IMS)  
Chairman, Resource Policy & Planning Board (RPPB)  
Branch Head, Plans and Policy Branch, NATO Office of Resources (NOR)  
Private Office Registry

Subject: ***International Board of Auditors for NATO (Board) Auditor's Report and Letter of Observations and Recommendations on the audit of the NATO Defense College Financial Statements for the year ended 31 December 2017 – IBA-AR(2018)0006***

The Board submits herewith its approved Auditor's Report (Annex 2) and Letter of Observations and Recommendations (Annex 3) with a Summary Note for distribution to the Council (Annex1).

The Board's report sets out an unqualified opinion on the Financial Statements of the NATO Defense College, and on compliance for financial year 2017.

Yours sincerely,

Hervé-Adrien Metzger  
Chairman

Attachments: As stated above.



**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 2017**

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 2017 were EUR 9.027 million.

The Board issued an unqualified opinion on the NDC Financial Statements and on compliance for the year ended 31 December 2017.

During the audit, the Board made one observation and provided recommendations related to the improvements required in the area of Internal Control, Risk Management and Internal Audit. These findings are in the Letter of Observations and Recommendations (Annex 2).

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.

The Board also issued a management letter (IBA-AML(2018)0004) to NDC management with matters identified for their attention.

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



18 June 2018

**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 2017**

**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 2017, 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 2017.

*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 2017, 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, 18 June 2018

A handwritten signature in blue ink, appearing to read 'H. Metzger', with a long horizontal stroke extending to the right.

Hervé-Adrien Metzger  
Chairman

18 June 2018

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**LETTER OF OBSERVATIONS AND RECOMMENDATIONS**

**FOR THE NATO DEFENSE COLLEGE (NDC)**

**FOR THE YEAR ENDED 31 DECEMBER 2017**

## **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 2017 were EUR 9.027 million.

The Board issued an unqualified opinion on the NDC Financial Statements and on compliance for the year ended 31 December 2017.

## **Observation and Recommendations**

During the audit, the Board made one observation which did not impact our audit opinion:

The observation is summarised below:

1. Improvements required in the area of 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.

**1. IMPROVEMENTS REQUIRED IN THE AREA OF INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT**

**Reasoning**

1.1 According to the NATO Financial Regulations (NFRs) Article 11, the Heads of NATO bodies shall ensure effective, efficient and economical risk management procedures are in place to support the achievement of objectives as set by the Nations.

1.2 Article XI of the NATO Financial Rules and Procedures (FRPs) states that the Financial Controller will be responsible for financial risk management including the establishment of financial risk management standards and an appropriate Internal Control framework to be reviewed by the Internal Control Officer. In addition, periodically, Internal Audit shall monitor and evaluate the effectiveness of the organization's risk management processes.

1.3 NFRs Article 12 requires that the Heads of NATO bodies shall ensure the necessary internal management functions are in place to support effective internal control and internal control activities shall include periodic assessment and review of the risk and the sound functioning of the internal control system. In order to meet the desired internal control standards the Financial Controller shall establish a system of internal financial and budgetary control, embracing all aspects of financial management.

1.4 Article XII of the NATO FRPs stipulates the elements to be included in the Statement of Internal Control, which is part of the financial statements.

**Observations**

*Risk Management*

1.5 The Board found that the NDC have made some progress in this area. However, there is still no entity-wide risk management policy in place (incl. financial risk management) which is essential in order to ensure and to clearly demonstrate to others that effective, efficient and economical risk management procedures are in place. Because of the lack of an entity-wide risk management policy, we noted that, for example, roles and responsibilities are not clarified and risk appetite and risk tolerance limits have not been set.

1.6 The NDC developed, with the help of the NATO Communications and Information Agency (NCIA) Internal Audit, a risk register that identifies risks relevant to each department. During 2017, the NDC has actively worked on further developing and populating the risk register with risk identified throughout all of the NDC including risks connected to factors of different operational and financial nature.

### *Internal Control*

1.7 As mentioned in the Statement of Internal Control, NDC assesses its system of internal control using the five key components of the COSO framework.

1.8 Within the financial controller's responsibility, a system of internal financial and budgetary control is operating through policies, procedures and standing instructions at NDC. Nevertheless, no formal mapping of critical processes, associated risks and existing internal controls has been performed. Absence of the abovementioned mapping increases the likelihood of not "spotting" potential vulnerabilities and does not allow to evaluate the nature and extent of risks and to manage them efficiently, effectively and economically. Documentation of specific internal control and risk management 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.

1.9 The Statement of Internal Control does not include any specific areas of improvement of the system of internal control and an assessment of the possible impact of these weaknesses in NDC as required by the FRPs Article 12.

### *Internal Audit*

1.10 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. The Internal Audit, among other things, commented on the absence of a Strategic Plan including goals and objectives and the need to eliminate stovepipe structures across the organization. The Board notes that actions have been taken by NDC, among others in the Commandant's Direction & Guidance for year 2018.

1.11 The above efforts to engage an Internal Audit is a good start. However, it cannot yet be stated that the NDC has undertaken internal audit activities to fully evaluate, throughout the organization, the risk exposures and the effectiveness of internal controls in managing risk within the governance, operations and information systems as required by Article 13.

### **Recommendations**

1.12 The Board recommends NDC to:

- a) prepare and formally approve an entity-wide risk management policy, including financial risk management, applicable throughout the organization;
- b) continue to develop and improve the risk register ensuring all risks throughout the organization is captured in it;

- c) improve the disclosure of information in the Statement of Internal Controls to ensure compliance with the FRPs Article 12;
- d) document the internal controls and associated risks in place for the main processes within NDC operations and assess the compliance with the framework chosen; and
- e) conduct internal audit activities, through outsourcing if considered more appropriate, that fully evaluates the effectiveness of the system of internal control and risk management throughout the NDC.



**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>(1) NDC FY 2016</b>  <b>IBA-AR(2017)10, paragraph 1</b></p> <p><b>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>Board's recommendation</b></p> <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>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.</li> <li>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.</li> <li>The AAP should be composed of an external member that does not report to the IMS Financial Controller.</li> </ul>		<p>Observation  <b>Superseded by current year observation 1.</b></p>

**NATO DEFENSE COLLEGE (NDC) FORMAL COMMENTS ON THE  
LETTER OF OBSERVATIONS AND RECOMMENDATIONS AND THE  
INTERNATIONAL BOARD OF AUDITORS (BOARD) POSITIONS**

**OBSERVATION 1:  
IMPROVEMENTS REQUIRED IN THE AREA OF INTERNAL CONTROL, RISK  
MANAGEMENT AND INTERNAL AUDIT**

***Formal comment of the NATO Defense College***

*The NDC concurs, in principle, with the Observations and Recommendations regarding Risk Management, Internal Control and Internal Audit.*

*The development of a Strategic Plan, and in parallel, an organizational revision supported by a thorough Business Process Mapping will be the key challenges for the NDC for the years 2018 and 2019, which should be considered a transition period. Compliance with IBAN recommendations should therefore be seen in this context.*



INTERNATIONAL MILITARY STAFF  
ETAT-MAJOR MILITAIRE INTERNATIONAL



23 March 2018

IMSTAM(FC)-0006-2018

M. Herve Adrien Metzger

CHAIR, INTERNATIONAL BOARD OF AUDITORS FOR NATO (IBAN)

**NATO DEFENSE COLLEGE (NDC) FINANCIAL STATEMENTS 2017**

1. Please find attached the 2017 NATO Defense College Financial Statements, issued in accordance with NATO Financial Regulation (NFR) Article 35.1.
2. I can confirm that, in accordance with NFR Financial Rules and Procedures XXXV 4), the NDC can agree to public disclosure of these Financial Statements.
3. Notwithstanding the above, as stated in C-M(2012)0041, public disclosure of IBAN Audit Reports is a matter for Council decision, based upon the recommendation of the RPPB. Decisions are informed by the NATO policy on public disclosure of documents (C-M(2008)0116).
4. The IBAN Audit Report covering these Financial Statements has not been issued, but should be presented to Council no later than 31<sup>st</sup> August 2017 (NFR 15.2). As such, the NDC is not yet in a position to anticipate any potential representations that may be made to the RPPB, regarding the contents of the the Audit Report.
5. The NDC therefore reserves its position on public disclosure of the eventual IBAN Audit Report.

A handwritten signature in black ink, appearing to read 'P. Bontinck'.

P. BONTINCK  
BELCV  
Financial Controller  
International Military Staff &  
Science and Technology Organisation

Enclosure:

1. NDC Financial Statements 2017

Copy To: COMMANDANT NDC, HEAD OF FINANCE NDC, FC, RECORDS

Action Officer: Mr S. LEE, Finance Principal IMS (4593),

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

## **2017**



Presented by: Mr. Vincenzo Distefano, ITACV  
Head Budget and Finance Branch

Via Giorgio Pelosi, 1  
00143 Rome  
ITALY

**Telephone:** +39 06 50525 400  
**Fax:** +39 06 50525 788  
**e-mail:** v.distefano@ndc.nato.int

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## **NDC Statement on Internal Control FY 2017**

The Commandant of the NATO Defense College (NDC), 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).

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 12.2).

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 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 2017 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: NDC operational aims and objectives; compliance with the NFRs; the reliability of financial information; and the safeguarding of assets.

The Risk Management and Financial Control processes at the NDC provide a network of internal controls that can be assessed using the five key components of the COSO<sup>1</sup> Framework:

### Control Environment

The culture and ethical values of the overall control environment are established by senior management. The promotion of ethical values includes; NDC participation in the NATO-wide 'Building Integrity' Initiative; the promulgation of the NATO Code of Conduct to all NDC staff; and a disclosures on any senior management related party transactions in our annual financial statements.

Oversight is provided by the NATO Military Committee (MC), its various sub-committees, who routinely scrutinize NDC Senior Management reports on strategic operational matters.

On Financial matters, interim Budgetary Execution Reports are presented to, and reviewed by, the NATO Budget Committee three times a year. In addition, NDC financial requirements comprising the yearly budget proposals are screened and reviewed by the Nations at various oversight fora.

The overall mission and structure of the NDC was recently reviewed by the Military Committee, resulting into a revised "Policy Guidance for the NATO Defense College" (Document MC 123/9) noted by the North Atlantic Council (NAC) in July 2016.

### Risk Assessment

The NDC continues to develop internal Risk Management policies and procedures. Risk Management will be undertaken throughout all staff Divisions, and will be implemented with the assistance of an external consultant.

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<sup>1</sup> Committee of Sponsoring Organizations of the Treadway Commission.

Control Activities

The NDC, through its Command Group (CG) and “Commandant Update Brief” (CUB) monitors and controls ongoing progress towards management’s operational requirements, in accordance with deadlines and operational priorities.

In the financial domain, the NDC accounting system -‘FinS’- has built-in approval workflows and controls, together with audit trails. The controls are designed in order that transactions are recorded consistently, accurately and in accordance with the NFRs.

Information and Communication

NDC internal communications are enhanced by strong reporting lines, based on military principles. The NDC has a Standard Operating Procedure (SOP 97) for a secure user access to Communication & Information resources. This provides for effective communications in pursuit of operational objectives.

Communication also provides for the effective functioning of internal control. The Audit Advisory Panel, for example, reports directly to the Commandant.

The NDC also communicates externally on matters affecting the functioning of internal control. Mechanisms include the Statement of Internal Control, comprising part of the Financial Statements, which is released to the general public. External Audits include examinations of internal controls and compliance with authorities. The results of these audits are circulated outside to the NDC to be discussed by various oversight authorities, and for disclosure to the general public.

Monitoring

An outsourced Internal Audit service provider is engaged on a periodic basis, to undertake on behalf of the Financial Controller. The NDC is also subject to annual external audits from the International Board of Auditors for NATO (IBAN).

Recommendations and observations arising from audits are assessed by the Audit Advisory Panel reporting to the Commandant. The results are then assessed, and appropriate actions initiated, in accordance with the provisions of NFRs Article 16.

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 was the first full financial year under the new NFR/FRP framework.

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

No significant issues regarding financial or operational matters were raised in 2017. The IBAN External Audit of the 2016 Financial Statements -undertaken in 2017- 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, the Audit Advisory Panel, and the use of the COSO framework as a means to assess internal control.

Overall, we are satisfied that the Risk Management and Internal Financial Control systems in operation across the NDC during the year 2017 were reasonably adequate and effective.

The year 2017 was the first full year under the new NFR/FRP regime. The NDC continues to work towards full compliance with the new NFRs and FRPs. However, as noted by the Nations<sup>2</sup> 'the scale of the challenge is significant' and 'it could take until Financial Year 2018 for NATO bodies to be in full compliance'.



Christine Whitecross,  
Lieutenant General, Royal Canadian Air Force,  
Commandant,  
NATO Defense College



Peter Bontinck,  
Financial Controller:  
NATO Defense College;  
International Military Staff;  
Science and Technology Organisation

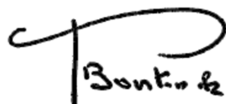
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<sup>2</sup> C-M(2016)0077 paragraph 5.2 dated 12<sup>th</sup> December 2016.



### **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 2017 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 2017

(in EUR)

	Notes	2017	2016	Comments
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and Cash Equivalents				
Cash Accounts	1-a	27,960	32,441	Note 1-a
Petty Cash and Advances	1-b	1,500	1,500	Note 1-b
Current Bank Accounts	1-c	3,051,992	2,582,620	Note 1-c
<b>Total Cash and Cash Equivalents</b>		<b>3,081,452</b>	<b>2,616,561</b>	
Receivables				
Receivables from non-consolidated NATO Entities	2-a	26,722	44,772	Note 2-a
Receivables from Governments/Governmental Agencies	2-b	30,145	10,000	Note 2-b
Receivable Financial Result BC 28/29 N	2-c	8,632	10,948	Note 2-c
<b>Total Receivables</b>		<b>65,499</b>	<b>65,720</b>	
Advances and other Current Assets				
Advances - Non Assigned Expenditures	3	4,339	4,150	Note 3
<b>Total Advances and other Current Assets</b>		<b>4,339</b>	<b>4,150</b>	
<b>Non-Current Assets</b>				
Fixed Assets - Property, Plant & Equipment				
Fixed Assets	4-a	16,952,875	16,803,722	Note 4-a
Fixed Assets Accumulated Depreciation	4-b	(4,038,020)	(3,832,976)	Note 4-b
<b>Total Fixed Assets - Property, Plant &amp; Equipment</b>		<b>12,914,855</b>	<b>12,970,746</b>	
<b>TOTAL ASSETS</b>		<b>16,066,144</b>	<b>15,657,177</b>	
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Payables				
Payable to Suppliers	6-a	(63,104)	(14,784)	Note 6-a
Payable Accruals	6-b	(550,832)	(349,389)	Note 6-b
Payable Budget Decrease thru IYR BC 28/29 N	6-c	(65,000)	-	Note 6-c
<b>Total Payables</b>		<b>(678,936)</b>	<b>(364,174)</b>	
Unearned Revenue & Advance Contributions				
Unearned Revenue BC 303	7-a	-	-	Note 7-a
Liability Operational Result	7-b	(3,971)	(21,845)	Note 7-b
Liability Financial Result	7-c	-	-	Note 7-c
Liability Lapses BC 303	7-d	(217,101)	(50,412)	Note 7-d
BC Advance Contributions	7-e	(2,250,000)	(2,250,000)	Note 7-e
Advance Contributions National borne costs	7-f	(1,281)	-	Note 7-f
<b>Total Unearned Revenue &amp; Advance Contributions</b>		<b>(2,472,353)</b>	<b>(2,322,257)</b>	
<b>Non-Current Liabilities</b>				
Long-term Provisions				
Property, Plant & Equipment	8	(12,914,855)	(12,970,746)	Note 8
<b>Total Long-term Provisions</b>		<b>(12,914,855)</b>	<b>(12,970,746)</b>	
<b>TOTAL LIABILITIES</b>		<b>(16,066,144)</b>	<b>(15,657,177)</b>	
<b>TOTAL NET ASSETS/EQUITY</b>		<b>0</b>	<b>0</b>	



Chris WHITECROSS  
Lieutenant General, CANAF  
Commandant



Vincenzo DISTEFANO  
ITACV  
Financial Controller (Delegated)

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

for the year ended 31 December 2017  
(in EUR)

	<i>Notes</i>	<u>2017</u>	<u>2016</u>	<i>Comments</i>
<b>OPERATING PERFORMANCE</b>				
<b>Revenue</b>				
Revenue from BCode 303 Operating Activities	9-a	(7,897,510)	(8,577,263)	Note 9-a
Revenue from Non-BCode 303 Operating Activities	9-b	(725,686)	(1,136,975)	Note 9-b
Revenue from Financial Activity	9-c	(555)	(1,145)	Note 9-c
Revenue Recognition from PP & E	9-d	(402,964)	(361,730)	Note 9-d
<b>Total Revenue</b>		<b><u>(9,026,715)</u></b>	<b><u>(10,077,113)</u></b>	
<b>Expenses</b>				
BCode 303 Expenses				
Personnel	10-a-1	5,367,068	5,599,198	Note 10-a-1
Contractual Supplies and Services	10-a-2	2,506,711	2,963,665	Note 10-a-2
Capital and Investments Budgeting	10-a-3	23,731	14,400	Note 10-a-3
<b>Total BCode 303 Expenses</b>		<b><u>7,897,510</u></b>	<b><u>8,577,263</u></b>	
Non-BCode 303 Expenses				
Personnel	10-b-1	65,191	112,990	Note 10-b-1
Contractual Supplies and Services	10-b-2	660,495	1,023,985	Note 10-b-2
Capital and Investments Budgeting	10-b-3	-	-	Note 10-b-3
<b>Total Non-BCode 303 Expenses</b>		<b><u>725,686</u></b>	<b><u>1,136,975</u></b>	
Financial Expenses	10-c	555	1,145	Note 10-c
Depreciation PP & E	10-d	402,964	361,730	Note 10-d
<b>Total Expenses</b>		<b><u>9,026,715</u></b>	<b><u>10,077,113</u></b>	
<b>SURPLUS / DEFICIT FOR THE PERIOD</b>	11	<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 2017  
(in EUR)

	<u>2017</u>	<u>2016</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	402,964	361,730	Note 10-d
<u>Increase</u> - (Decrease) in payables	314,763	70,739	
<u>Increase</u> - (Decrease) in other current liabilities	150,096	(152,487)	
(Increase) - <u>Decrease</u> in receivables	221	91,521	
<u>(Increase)</u> - Decrease in other current assets	(189)	11,864	
<u>(Increase)</u> - Decrease in Long-term Provisions	(55,891)	86,980	Note 4
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<u>811,964</u>	<u>470,348</u>	
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property plant and equipment	(347,073)	(448,711)	Note 4
Proceeds from sale of property plant and equipment	-	-	
Proceeds from sale of investments	-	-	
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>	<u>(347,073)</u>	<u>(448,711)</u>	
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings	800,000	3,300,000	Note 1-c
Repayment of borrowings	(800,000)	(3,300,000)	
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>	-	-	
<b>Net <u>Increase</u> - (Decrease) in cash and cash equivalents</b>	<u>464,891</u>	<u>21,637</u>	
Cash and cash equivalents at the beginning of the period	<u>2,616,561</u>	<u>2,594,924</u>	Note 1
Cash and cash equivalents at the end of the period	<u>3,081,452</u>	<u>2,616,561</u>	Note 1

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

for the year ended 31 December 2017

(in EUR)

	Capital contributions	Reserves	Accumulated surplus/(deficit)	Total
<b>Balance at the beginning of the period 2017</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 2017</b>	0	0	0	0
<b>Balance at the beginning of the period 2017</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 2017</b>	0	0	0	0
<b>Balance at the end of the period 2017</b>	0	0	0	0

**NATO DEFENSE COLLEGE**  
**STATEMENT OF THE BUDGET EXECUTION AS AT 31 DECEMBER 2017 AND FOR THE YEAR ENDED**  
(Annex as per the NFRs para 34.4)

Budget Currency EURO	ADJ1-17	MAY-17		AUG-17		ADJ3-17		Commitments	Expenses	Total Spent	Carry Forward	Lapsed
	Initial Budget BA-1	Transfers	BA-2	Transfers	BA-3	Transfers	Final Budget					
BUDGET 303 - 2017												
Chapter 1	5,699,165	0	5,699,165	(255,000)	5,444,165	0	5,444,165	0	5,367,068	5,367,068	0	77,097
Chapter 2	3,073,519	(50,000)	3,023,519	(238,785)	2,784,734	(114,247)	2,670,487	0	2,530,484	2,530,484	0	140,004
Chapter 3	359,000	0	359,000	(61,215)	297,785	49,247	347,032	0	347,032	347,032	0	0
TOTAL FY 2017	9,131,684	(50,000)	9,081,684	(555,000)	8,526,684	(65,000)	8,461,684	0	8,244,583	8,244,583	0	217,101
BUDGET 303 - 2016												
Chapter 1	0	0	0	0	0	0	0	0	0	0	0	0
Chapter 2	0	0	0	0	0	0	0	0	0	0	0	0
Chapter 3	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL FY 2016	0	0	0	0	0	0	0	0	0	0	0	0
BUDGET 303 - 2015												
Chapter 1	0	0	0	0	0	0	0	0	0	0	0	0
Chapter 2	0	0	0	0	0	0	0	0	0	0	0	0
Chapter 3	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL FY 2015	0	0	0	0	0	0	0	0	0	0	0	0
GRAND TOTAL BUDGET 303 ALL FYs												
	9,131,684	(50,000)	9,081,684	(555,000)	8,526,684	(65,000)	8,461,684	0	8,244,583	8,244,583	0	217,101

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 2017. 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 2017 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 2017: IPSAS 26 - Impairment of Cash-Generating Assets, IPSAS 27 - Agriculture. The following IPSAS have no material effect on the financial statements: IPSAS 5, IPSAS 10, IPSAS 11, IPSAS 16 IPSAS 18 and IPSAS 32.

Several new IPSAS became effective 1<sup>st</sup> January 2017: IPSAS 34 (Separate Financial Statements) and IPSAS 35 (Consolidated Statements) both superseded IPSAS 6; IPSAS 36 (Investments in Joint Ventures) superseded IPSAS 7; and IPSAS 37 (Joint Arrangements) superseded IPSAS 8. In addition IPSAS 38 (Disclosure of interests in other entities) revises disclosure requirements previously covered by IPSAS 6, 7 and 8. None of these new IPSAS standards have a material impact on the presentation of the NDC Financial Statements.

IPSAS 39 (Employer benefits) becomes effective 1<sup>st</sup> January 2018 and will replace IPSAS 25. IPSAS 40 (Public Sector Combinations) will become effective 1<sup>st</sup> January 2019. Neither has not been adopted by the NDC for the 2017 Financial Statements.

### *Changes in Accounting Policy*

There have been no changes to NDC accounting policies in 2017.

### *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 2017 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. 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 2017, 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-2017	31-Dec-2016
a. Cash Accounts	27,960	32,441
b. Petty Cash and Advances	1,500	1,500
c. Current Bank Accounts in Euros	3,051,992	2,582,620
<b>Total</b>	<b>3,081,452</b>	<b>2,616,561</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. Three 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 2017.

Short-term Loans, to cover the cash requirements during the period between the contributions, received from the IMS totalling 800 KEUR, were refunded before the end of FY 2017.

#### 2. Accounts Receivable

	31-Dec-2017	31-Dec-2016
a. Receivables from NATO Entities	26,722	44,772
b. Receivables from Governments / Gov. Agencies	30,145	10,000
c. Receivable Financial Result BC 28/29N	8,632	10,948
<b>Total</b>	<b>65,499</b>	<b>65,720</b>

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

The Receivables from NATO Entities at year-end 2017 reflect the following:

- Invoice to NATO IMS for the reimbursement of the expenses paid for (accrued) against the Outreach (ZNC/501) Budget 2017 (€ 20,033);
- Invoices to ALLIANZ WORLDWIDE CARE for the reimbursement of the Extended Sick leave expenses paid for an NDC Staff Member (€ 4,587);
- Invoice to NDC Field Study account for the reimbursement of the incremental travel expenses paid for the participation of the Spouses to the Regional Field Study of the Senior Course 131 (€ 2,101);

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

- Invoice to the Institute for Strategic Research of the French Military School (ISREM) for the co-organization of a Seminar in December 2017 (€ 7,500);
- Deposits paid to the Field Study account for the participation to the Regional Field Study of the Subsidized Course Members of the Senior Course 131 (€ 21,000);
- Reimbursable advance for the procurement of the books for the English Refresher Course of the Senior Course 132 (€ 1,645).

##### **c. Receivable Financial Result BC 28/29 N**

Financial Result is the difference between financial revenues and financial expenses. For 2017 the expenses were higher than the revenues. See also Note 7-c.

### 3. Prepayments and Miscellaneous Assets

Prepayments are mainly in respect of advance payments to be finally settled in FY 2018.

	31-Dec-2017	31-Dec-2016
Advances - Non Assigned Expenditures	4,339	4,150
<b>Total</b>	<b>4,339</b>	<b>4,150</b>

- Non assigned procurement of one air ticket for 2018 travel (€ 139);
- Advance deposit for the participation of 2 Staff Members at the Regional Field Study of the Senior Course 131 (€ 4,200).

### Assets - Non-current Assets

#### 4. Property, Plant and Equipment

	31-Dec-2017	31-Dec-2016
a. Fixed Assets	16,952,875	16,803,722
b. Accumulated Depreciation	-4,038,020	-3,832,976
<b>Total</b>	<b>12,914,855</b>	<b>12,970,746</b>

For the FY 2017 only items that meet the capitalization threshold of EUR 5,000 are included here. Opening balances have been calculated as of 1 January 2017 and all subsequent changes to arrive at the closing balance are disclosed below. The deletions refer to assets entirely depreciated at 31 December 2016, thus having zero value at 1 January 2017.

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 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
Deletions (31 Dec 2016 / 1 Jan 2017)	-70,756.05	0.00	0.00	-127,164.00	0.00	0.00	-197,920.05
Gross Book Value (1 Jan 2017)	79,731.60	26,960.65	75,550.00	1,766,559.65	7,718,220.00	6,938,780.49	16,605,802.39
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
Deletions (31 Dec 2016 / 1 Jan 2017)	70,756.05	0.00	0.00	127,164.00	0.00	0.00	197,920.05
Accumulated Depreciation (1 Jan 2017)	-35,792.81	-21,568.52	-31,082.17	-627,877.10	0.00	-2,918,735.52	-3,635,056.11
Net Book Value (1 Jan 2017)	43,938.79	5,392.13	44,467.83	1,138,682.55	7,718,220.00	4,020,044.97	12,970,746.27
Additions in 2017	77,785.00	0.00	0.00	160,372.40	0.00	108,915.46	<b>347,072.86</b>
Disposal in 2017	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Depreciation in 2017	-36,954.01	-2,696.07	-7,555.00	-181,154.92	0.00	-174,604.05	<b>-402,964.04</b>
Net Book Value (31 Dec 2017)	84,769.78	2,696.07	36,912.83	1,117,900.03	7,718,220.00	3,954,356.38	12,914,855.09
Gross Book Value (31 Dec 2017)	157,516.60	26,960.65	75,550.00	1,926,932.05	7,718,220.00	7,047,695.95	<b>16,952,875.25</b>
Accumulated Depreciation (31 Dec 2017)	-72,746.82	-24,264.59	-38,637.17	-809,032.02	0.00	-3,093,339.56	<b>-4,038,020.16</b>
Net Book Value (31 Dec 2017)	84,769.78	2,696.07	36,912.83	1,117,900.03	7,718,220.00	3,954,356.38	<b>12,914,855.09</b>

### 5. Intangible Assets

The NDC owns no intangible assets.

**Liabilities – Current Liabilities****6. Payables**

	<b>31-Dec-2017</b>	<b>31-Dec-2016</b>
a. Payables to Suppliers	63,104	14,784
b. Payable Accruals	550,832	349,389
c. Payable Budget Decrease thru IYR BC 28/29N	65,000	0
<b>Total</b>	<b>678,936</b>	<b>364,174</b>

***a. Payables to Suppliers***

Payables to Suppliers include invoices received from suppliers but not yet settled (€ 63,104).

***b. Payable Accruals***

Accounts payable Accrued include goods and services received from suppliers but not yet billed/invoiced as of 31 December 2017. Some are based on estimates.

***c. Payable Budget Decrease through IYR BC 28/29N***

Decrease of the Budget due to IMS FC's authorization of an inter-budget transfer within the IMS BG (IMSTAM(FC)-0036-2017 dated 24 November 2017). This amount will be returned to the Nations with the 2<sup>nd</sup> Contribution Call of 2018.

**7. Unearned Revenue and Advances**

	<b>31-Dec-2017</b>	<b>31-Dec-2016</b>
a. Unearned Revenue BCode 303	0	0
b. Liabilities from Operational Result	3,971	21,845
c. Liabilities from Financial Result	0	0
d. Liabilities from Lapsed Budget Authorization	217,101	50,412
e. BC Advance Contributions	2,250,000	2,250,000
f. Advance Contributions National borne costs	1,281	0
<b>Total</b>	<b>2,472,353</b>	<b>2,322,257</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 2017 credits are carried-forward into 2018.

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 comprise opening accruals of 3,971 EUR where the final invoice was lower than the estimated accrued amount.

***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 2017, which is negative. In this respect the NDC liability is NIL, whilst the negative amount of € 8,632 is reported as "Receivable Financial Results BC 28/29N" (see Note 2-c).

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-2017	31-Dec-2016
i. Gross Bank Interest	65	285
ii. Realized exchange rate Gains	490	860
<b>Total Financial Revenues</b>	<b>555</b>	<b>1,145</b>
iii. Bank Charges	-5,679	-5,101
iv. Realized exchange rate Losses	-3,506	-6,991
v. Rounding Account	-2	-0
<b>Total Financial Expenses</b>	<b>-9,187</b>	<b>-12,093</b>
<b>Total to be paid by the Nations</b>	<b>-8,632</b>	<b>-10,948</b>

The decrease of the gross interest derives of the global economic situation.

The realized exchange rate loss compared to the one of last year are lower and 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 2017	217,101
	<b>Total</b>	<b>217,101</b>

Lapses represent budget allocations which were not translated into legal obligations (commitments) and executed, during the year.

#### ***e. Advance Contribution***

The advance Contribution is called to cover the beginning of Fiscal Year 2018 until the arrival of the 1<sup>st</sup> Contribution and represents approximately the 25% of the 2017 Budget Authorization 3.

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

In 2017 National borne costs were received from the former Yugoslav Republic of Macedonia<sup>1</sup>, representing the 20% of the subsidization costs for 1 Course Member, because this Country is eligible for 80% subsidization.

### **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.

<sup>1</sup> Turkey recognizes the Republic of Macedonia with its constitutional name

## 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 Outreach Budget (ZNC-501), 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-2017	31-Dec-2016
a. Revenue from BCode 303 Operating Activities	7,897,510	8,577,263
b. Revenue from Non-BCode 303 Operating Activities	725,686	1,136,975
c. Revenue from Financial Activity	555	1,145
d. Revenue for Depreciation	402,964	361,730
<b>Total</b>	<b>9,026,715</b>	<b>10,077,113</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 10-a).

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

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

- Outreach/Cooperation activities (PfP, MED, ICI and OMC) - 654,249 EUR
- Reimbursable Activities and National borne expenses - 71,437 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. Revenue from Financial Activity***

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 7-c and 10-c).

#### ***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 10-d).

### **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-2017</b>		<b>0</b>
a.	Contributions called for the year detailed by call	
	1 <sup>st</sup> - FC(CC)(2017)0012 (MB-01) - Funds received from Italy	6,848,763
	2 <sup>nd</sup> - FC(CC)(2017)0012 (MB-02) - Funds received from Italy	1,677,921
	Total Contributions called	8,526,684
b.	Revenue earned in 2017 (Budget Execution including Chapter 73)	-8,244,583
c.	Assessment call for next year – Decrease of the Budget Authorization	-65,000
d.	Lapses 31/12/2017	-217,101
<b>Unearned Revenue Closing Balance 31-Dec-2017</b>		<b>0</b>

## 10. Expenses

Expenses are recognized by nature within the following groups:

		31-Dec-2017	31-Dec-2016
<b>a.</b>	<b>BCode 303 Expenses</b>		
	FY 2017	5,367,068	5,558,673
1. Personnel	FY 2016	0	39,905
	FY 2015	0	620
	<b>Sub-Total Ch.71</b>	<b>5,367,068</b>	<b>5,463,509</b>
	FY 2017	2,506,711	2,708,936
2. Contractual Supplies and Services	FY 2016	0	249,979
	FY 2016	0	4,750
	<b>Sub-Total Ch.72</b>	<b>2,506,711</b>	<b>2,963,665</b>
	FY 2017	23,731	14,400
3. Capital and Investment	FY 2016	0	0
	FY 2015	0	0
	<b>Sub-Total Ch.73</b>	<b>23,731</b>	<b>14,400</b>
	<b>Total BCode 303 Expenses (Chapters)</b>	<b>7,897,510</b>	<b>8,577,263</b>
	Sub-Total FY 2017	7,897,510	8,282,009
	Sub-Total FY 2016	0	289,884
	Sub-Total FY 2015	0	5,370
	<b>Total BCode 303 Expenses (Fiscal Years)</b>	<b>7,897,510</b>	<b>8,577,263</b>
<b>b.</b>	<b>Non-BCode 303/Reimbursable Expenses</b>		
	1. Personnel	65,191	112,990
	2. Contractual Supplies and Services	660,495	1,023,985
	3. Capital and Investment	0	0
	<b>Total Non-BCode 303/Reimbursable Expenses</b>	<b>725,686</b>	<b>1,136,975</b>
<b>c.</b>	<b>Financial Expenses</b>	<b>555</b>	<b>1,145</b>
<b>d.</b>	<b>Depreciation Expenses</b>	<b>402,964</b>	<b>361,730</b>
	<b>Total</b>	<b>9,095,015</b>	<b>10,077,113</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 Budget 501 (PfP-MD-ICI-OMC), which is treated as Reimbursable Budget. Other portions are funded as Reimbursable Expenses from other NATO Entities, Partner Entities and Trust Fund for several activities.

Field Study expenses paid on behalf of Nations are not included.

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

**b.1. Personnel**

Personnel costs refer to Experts, Lecturers, Interpreters and Language Teachers. No Salary related credits are included in the Outreach Budget.

**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 are included in the Outreach Budget.

**c. Financial Expenses**

Finance costs (total 9,187 EUR) include bank charges, realized exchange rate losses and rounding/corrections as detailed in Note 7-c. They are matched to the financial revenue (555 EUR). The difference (-8,632 EUR) is reported as "Receivable" in the Statement of Financial Position (See Note 2-c).

**d. Depreciation expenses of the period**

	31-Dec-2017	31-Dec-2016
a. AIS	36,954	29,504
b. Furniture	2,696	2,696
c. Machinery	7,555	7,406
d. Installed Equipment	181,155	148,655
e. Land	0	0
f. Buildings	174,604	173,470
<b>Total</b>	<b>402,964</b>	<b>361,730</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 (Ref note 1-c and note 6-g).

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 transactions with other NATO entities outside the IMS Budget Group, as set out below:

Party	Nature of relationship	Transaction	2017 Expenses
NCIA	NATO Entity	Purchases of Software Licenses	61,125
NCIA	NATO Entity	NS service restoration	4,187
NATO IS	NATO Entity	PMIS – Annual contribution	2,112
NATO IS	NATO Entity	NED Program 2017	4,000

## 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	52
Military (IMP)	52	44
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-2017</b>	<b>31-Dec-2016</b>
a. Employee benefits	4,178,809	4,277,428
b. Provident Fund	0	0
c. DCPS	217,488	203,353
<b>Total</b>	<b>4,396,297</b>	<b>4,480,781</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**

Representation Allowance is allocated to high level officials having the responsibility to establish and maintain relationships of value with external individuals. The 2017 budget allocation was 4,317 EUR. However, no Representation Allowance claims were made against the 2017 budget.

**Untaken Leave**

The untaken leave at the end of 2017 is 373 days (the days were 414.5 at the end of 2016). Since the estimated amount involved (€ 63,659) 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 2018 (the following year) in accordance with NATO Civilian Personnel Regulations (CPRs). Leave is only paid on exceptional circumstances and in 2017 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 2017 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 2017. There were no credits carried-forward from 2015 and 2016 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/501 (PFP, MD, ICI, OMC), reimbursable expenses (Z01, N04 and MC4) and multinational budgets for the Field Study program (FSP) of the Senior Course curriculum.

The initial budget was reviewed by the Budget Committee and issued in BA1: BC-BA(2017)0001 dated 20 December 2016. Similarly, the 2017 revised authorizations were issued in BA2: BC-BA(2017)0002 dated 28 June 2017 and BA3: BC-BA(2017)0003 dated 25 October 2017.

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)	5,367,068	5,367,068	0
b. Contractual Supplies and Services (Chapter 72)	2,506,711	2,530,484	-23,772
c. Capital & Investments (Chapter 73)	23,731	347,032	-323,301
<b>Total</b>	<b>7,897,510</b>	<b>8,244,583</b>	<b>-347,073</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/additions) 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 2017</b>	<b>NDC Budget 2016</b>
a. Chapter 71 – Personnel	-255,000	19,600
b. Chapter 72 – Contractual Supplies and Services	-403,032	-129,649
c. Chapter 73 – Capital and Investment	-11,968	110,049
<b>Total</b>	<b>-670,000</b>	<b>0</b>

**I. Write-Off**

In accordance with the NATO Financial Regulations (NFR Art. 17), an annual summary of property written-off in 2017 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 (28)	1967 → 2010	0	5,154	03-06/2017	Beyond state of repair. No longer serviceable
Mission/Mess Items (577)	1996 → 2011	0	3,038	05-06/2017	
CIS (97)	1996 → 2013	0	164,574	01-02-04/2017	
<b>Total</b>		<b>0</b>	<b>172,766</b>		

In 2017 no cash was written-off.

**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 2017 AND FOR THE YEAR ENDED**

Budget Currency EURO	Initial Budget	Transfers Adjustments	Final Budget	Commit ments	Expenses	Total Spent	Lapsed
	ADJ13-17	ADJ13-17	ADJ13-17	ADJ13-17	ADJ13-17		
<b>REIMBURSABLE BUDGETS</b>							
BUDGET ZNC (501/IMS - PIP)*	490,000	(251,914)	238,086	0	238,086	238,086	0
BUDGET ZNC (501/IMS - MD)*	290,000	(51,744)	238,256	0	238,256	238,256	0
BUDGET ZNC (501/IMS - ICI)*	130,000	(116,976)	13,024	0	13,024	13,024	0
BUDGET ZNC (501/IMS - OMC)*	240,000	(75,116)	164,884	0	164,884	164,884	0
<b>TOTAL 2017</b>	<b>1,150,000</b>	<b>(495,751)</b>	<b>654,249</b>	<b>0</b>	<b>654,249</b>	<b>654,249</b>	<b>0</b>
<b>TOTAL REIMBURSABLE BUDGETS</b>	<b>1,150,000</b>	<b>(495,751)</b>	<b>654,249</b>	<b>0</b>	<b>654,249</b>	<b>654,249</b>	<b>0</b>
(*) According to the IMS Directives, since Budget 501 (Outreach PIP, MD, ICI and OMC) is reimbursable, 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 N04 (TRUST FUNDS)	55,568	0	55,568	0	55,568	55,568	0
<b>TOTAL 2017</b>	<b>55,568</b>	<b>0</b>	<b>55,568</b>	<b>0</b>	<b>55,568</b>	<b>55,568</b>	<b>0</b>
BUDGET Z01 (REIMBURSABLE EXPENSES)	11,650	0	11,650	0	11,650	11,650	0
<b>TOTAL 2017</b>	<b>11,650</b>	<b>0</b>	<b>11,650</b>	<b>0</b>	<b>11,650</b>	<b>11,650</b>	<b>0</b>
BUDGET MC4 (NATIONAL BORNE EXPENSES)	4,219	0	4,219	0	4,219	4,219	0
<b>TOTAL 2017</b>	<b>4,219</b>	<b>0</b>	<b>4,219</b>	<b>0</b>	<b>4,219</b>	<b>4,219</b>	<b>0</b>
<b>TOTAL REIMBURSABLE EXPENSES</b>	<b>71,437</b>	<b>0</b>	<b>71,437</b>	<b>0</b>	<b>71,437</b>	<b>71,437</b>	<b>0</b>
<b>TOTAL NON-BCODE 303 REIMBURSABLE ACTIVITIES</b>	<b>1,221,437</b>	<b>(495,751)</b>	<b>725,686</b>	<b>0</b>	<b>725,686</b>	<b>725,686</b>	<b>0</b>
<b>MULTINATIONAL</b>							
BUDGET FS1 (EUROPEAN PERSPECTIVES - SC 130)	121,943	0	121,943	0	121,943	121,943	0
BUDGET FS2 (TRANSATLANTIC LINK - SC 130)	157,549	0	157,549	0	157,549	157,549	0
BUDGET FS3 (REGIONAL APPROACH - SC 130)	111,470	0	111,470	0	111,470	111,470	0
BUDGET FS4 (EUROPEAN PERSPECTIVES - SC 131)	162,361	0	162,361	0	162,361	162,361	0
BUDGET FS5 (TRANSATLANTIC LINK - SC 131)	203,348	0	203,348	0	203,348	203,348	0
BUDGET FS6 (REGIONAL APPROACH - SC 131)	162,029	0	162,029	0	162,029	162,029	0
<b>TOTAL 2017</b>	<b>918,700</b>	<b>0</b>	<b>918,700</b>	<b>0</b>	<b>918,700</b>	<b>918,700</b>	<b>0</b>
<b>TOTAL MULTINATIONAL - FIELD STUDY BUDGETS</b>	<b>918,700</b>	<b>0</b>	<b>918,700</b>	<b>0</b>	<b>918,700</b>	<b>918,700</b>	<b>0</b>