

	NATO	NORTH ATLANTIC COUNCIL
	OTAN	CONSEIL DE L'ATLANTIQUE NORD

NATO UNCLASSIFIED

03 January 2019

DOCUMENT
C-M(2018)0070-AS1

**IBAN AUDIT ON THE 2017, 2016 AND 2015 FINANCIAL STATEMENTS OF NATO
MUNITIONS SAFETY INFORMATION ANALYSIS CENTRE**

ACTION SHEET

On 21 December 2018, under the silence procedure, the Council noted the IBAN reports on the 2017, 2016 and 2015 financial statements of MSIAC attached to C-M(2018)0070, endorsed the RPPB report, and agreed to the public disclosure of the report, the IBAN audit reports and associated 2017, 2016 and 2015 financial statements of MSIAC.

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2018)0070.

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14 December 2018

DOCUMENT

C-M(2018)0070

Silence Procedure ends:

21 Dec 2018 15:30

**IBAN AUDIT ON THE 2017, 2016 AND 2015 FINANCIAL STATEMENTS OF NATO
MUNITIONS SAFETY INFORMATION ANALYSIS CENTRE**

Note by the Secretary General

1. I attach the International Board of Auditors for NATO (IBAN) reports on the audits of the 2017, 2016 and 2015 financial statements of NATO Munitions Safety Information Analysis Centre (MSIAC). The IBAN audits of MSIAC produced an unqualified opinion on the financial statements and a qualified opinion on compliance for 2017 and qualified opinions on both the financial statements and compliance for 2016 and 2015.
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, 21 December 2018**, I shall assume the Council noted the IBAN reports on the 2017, 2016 and 2015 financial statements of MSIAC, endorsed the RPPB report, and agreed to the public disclosure of this report, the IBAN audit reports and associated 2017, 2016 and 2015 financial statements of MSIAC.

(Signed) Jens Stoltenberg

1 Annex
1 Enclosure
1 Appendix

Original: English

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**IBAN AUDIT ON THE 2017, 2016 AND 2015 FINANCIAL STATEMENTS OF NATO
MUNITIONS SAFETY INFORMATION ANALYSIS CENTRE (MSIAC)**

Report by the Resource Policy and Planning Board (RPPB)

References:

A. IBA-A(2018)0125	IBAN Audit on the 2017 Financial Statements of MSIAC
B. IBA-A(2018)0037	IBAN Audit on the 2016 Financial Statements of MSIAC
C. IBA-A(2018)0036	IBAN Audit on the 2015 Financial Statements of MSIAC
D. CM(2015)0025	NATO Financial Regulations (NFRs)
E. PO(2018)0491	Functional Review of the NATO Headquarters
F. PO(2015)0052	Wales Summit tasker on transparency and accountability

INTRODUCTION

1. This report covers the audits of the 2017, 2016 and 2015 financial statements of MSIAC submitted by the IBAN (reference A to C) which set out an unqualified opinion on the financial statements and a qualified opinion on compliance for financial year 2017, and qualified opinions on the financial statements and compliance for financial years 2016 and 2015.

OBSERVATIONS

2. 2017 Audit Report: The IBAN found that significant progress was made by MSIAC in 2017: no new observations were identified by IBAN and two of the four observations from previous years were settled.

3. The prior year observation that was not settled in 2017 and resulted in the compliance qualification was that MSIAC continues to use a “management reserve fund” which is not in compliance with the NFRs. The IBAN found that uncommitted appropriations had been retained¹ without a clearly identified purpose; to be used in case of emergency funding needs instead of being lapsed. The IBAN recommended that if the MSIAC Steering Committee believed that such a management reserve fund was necessary that they should make a request to Council for a deviation from Articles 24.2 and 29.3 of the NFRs (reference D). The MSIAC Steering Committee supports the principle of such a management reserve. The Financial Controller plans to request the deviation in 2019 and expects the observation to be settled in the same year. Refer to the Action Plan at Appendix I for more information.

4. The second observation, which did not impact the IBAN’s audit opinion, was that improvements are needed in the areas of risk management, internal control and internal audit. The Financial Controller is continuing to develop a complete risk matrix for its operations, and MSIAC will adopt a risk management policy and an internal control framework by the end of 2019. However, the Financial Controller does not expect full compliance with the NFRs in the areas of risk management, internal control and internal audit until the end of 2020. Refer to the Action Plan at Appendix I for more information.

¹ Value of retained uncommitted appropriations at fiscal year-end 2017 and 2016 was €474,000 and €840,000 respectively.

5. 2016 and 2015 Audit Reports: The IBAN did not identify any new observations in its audit on the 2016 financial statements. The audit opinion on the 2016 restated financial statements was qualified due to the lack of reliability and comparability of the 2015 financial data included in the 2016 financial statements. Four observations remained outstanding and two of these continued to impact the audit opinion on compliance.

5.1. During the audit on the 2015 financial statements the IBAN made six observations; one of which affected the audit opinion on both the financial statements and on compliance; four observations impacted the audit opinion on compliance; and one observation did not impact either audit opinion.

5.2. The main problem the IBAN encountered during the audit on the 2015 financial statements, and the observation that impacted the audit opinion on the financial statements and on compliance, was material weaknesses in internal controls over financial reporting. The weaknesses resulted in an incorrectly presented Budget Execution Statement and Cash Flow Statement, unsupported balances related to Cash and Other Current Liabilities, and the lack of justification related to an accounting policy change.

5.3. The specific accounting issues identified on the 2015 financial statements were taken into account by the International Staff, Office of Financial Controller (IS OFC) and adjusted accordingly in the 2016 financial statements. The issues identified by the IBAN were largely due to challenges encountered during the first months of use of the Enterprise Resource Planning (ERP) system.

5.4. The IBAN identified three observations that impacted the audit opinion on compliance on the 2015 financial statements. Firstly, the financial statements were not issued within the timeframe required in the NATO Financial Regulations. The 2016 financial statements were also issued late, but in 2017 this observation was settled. Secondly, the required statement of internal control (SIC) was not issued with the 2015 financial statements; this observation was settled as a SIC was issued with the 2016 financial statements. Thirdly, the IBAN found the IS did not perform monthly reconciliations of cash balances between the accounting system and bank statements during 2015; this continued to be an audit observation and a basis for qualification on compliance on the 2016 financial statements, but was settled in 2017.

5.5. Additionally, the IBAN found significant delays in providing required information for the conduct of the audit. This observation did not impact the audit opinion.

DISCUSSION

6. The RPPB is pleased with the progress made by MSIAC from 2015 to 2017. The IS OFC has come a long way: implementing the ERP system, training and recruiting the appropriate staff, and effectively updating the financial reporting processes. The RPPB notes the improvements made in several areas in comparison with the weaknesses outlined in the audits on the 2015 and 2016 financial statements (reference B and C).

7. MSIAC is a multi-national NATO entity which must abide by the NFRs. Deviations from the NFRs are subject to approval by the Council. The RPPB recalls that Council has endorsed similar requests from the governing bodies of FORACS², NAGSMO³, NAPMO⁴, and the NSPO⁵, and expects to receive the MSIAC deviation request by March 2019. The RPPB, however, raised their concern with approving NFR deviations in perpetuity.

8. The RPPB also notes that MSIAC still has work to do to comply with the NFRs on internal control, risk management and internal audit and expects progress towards compliance to continue.

CONCLUSIONS

9. The issues identified by the IBAN in their audit on the 2015 and 2016 financial statements of MSIAC were primarily due to challenges involved in ERP implementation and persistent staffing issues in the Office of the Financial Controller. The challenges associated with the ERP implementation were steadily addressed. No new audit issues were identified by the IBAN in its audits of the 2016 and 2017 financial statements and both sets of financial statements were found to be fairly stated.

10. With respect to the IBAN's finding on MSIAC's "management reserve fund", the RPPB encourages MSIAC to either request a deviation from the NFRs or restrict currency holdings to the minimum required to meet forecasted payments prior to receipt of the following contribution instalment prior to the 2018 audit.

RECOMMENDATIONS

11. The RPPB recommends the Council:

11.1. note the IBAN reports (reference A, B and C);

11.2. note the concern of approving NFR deviations in perpetuity;

11.3. endorse the conclusions at paragraphs 9 and 10; and

11.4. approve the public disclosure of this report, the IBAN audit reports and the associated 2015, 2016 and 2017 financial statements of the MSIAC.

² C-M(2018)0032

³ C-M(2017)0011

⁴ PO(2015)0751

⁵ C-M(2017)0048

Action Plan to Remediate Outstanding Observations

1. The action plan provides details of the status of the outstanding observations reflected in the IBAN audit report (reference A). Management has assessed each observation as Open, In progress or Closed based on the following definitions:

- 1.1. Open – Management is reviewing how best to address the observation or will address the observation at a later date.
- 1.2. In progress – Management is actively working to resolve the observation and has made progress in resolving the issue.
- 1.3. Settled – Management considers the observation satisfactorily closed or considers it is unable to take further corrective action.

IBAN Opinion Impact & Observation	Action Plan	Current Assessment	Resolution Timeline
<i>Compliance impact</i> Use of a management reserve fund not in compliance with the revised NFRs.	The Steering Committee has noted the Board's recommendation. At the NATO MSIAC Steering Committee March 2016 (SC23), the Committee reaffirmed that they consider the continued provision of a reserve to be essential to the operation of the MSIAC Project. This reserve includes joining fees paid by incoming member nations to contribute to the products and services developed over the 25 years of MSIAC operations. As such it is used to contribute to future costs associated with MSIAC operations. A five year plan is agreed yearly and incrementally reduces this fund to target levels agreed by the MSIAC SC. Application for a deviation from the revised NFRs will be sought, in a similar way to what was done for the NATO FORACS office.	In progress	Early 2019

IBAN Opinion Impact & Observation	Action Plan	Current Assessment	Resolution Timeline
<i>No impact on opinion</i> Improvements required in the area of Risk Management, internal Controls and internal Audit.	The OFC is developing a complete risk matrix for its operations which will, therefore, also apply to MSIAC. MSIAC will address and formalise with OFC the adoption of a risk management policy and of an internal control framework. Additional information can be found at PO(2018)0491. MSIAC will issue a risk management policy, select an internal control framework, assess and document the system of internal control and risk management procedures, and improve internal audit activities.	Open	End 2019, but timeline to be linked to the outcome of the Functional Review



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)0125
30 October 2018

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

Cc: Chairman, MSIAC Steering Committee
Project Manager, MSIAC
Financial Controller, International Staff (IS)
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 Munitions Safety Information Analysis Center (MSIAC) Financial Statements for the year ended 31 December 2017 – IBA-AR(2018)0030***

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 MSIAC and a qualified opinion 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 Restated Financial Statements of the
Munitions Safety Information Analysis Centre (MSIAC)
for the year ended 31 December 2017**

The Munitions Safety Information Analysis Center (MSIAC) provides a focal point within NATO to assist national and NATO munitions development programmes. The MSIAC project is directed and administered by a Steering Committee and a Project Manager. Budget authorisations for the year 2017 (including brought forward) amounted to EUR 1.87 million while budget expenses amounted to EUR 1.73 million.

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

During the audit, the Board did not make any observations other than those identified during the follow up of the prior year's observations.

In the follow up on the status of the observations from its previous year's audit the Board noted that two observations remained outstanding and two were settled. One observation continue to be the basis for the audit qualification on compliance (see Annex 3).

The Auditor's Report (Annex 2) and the Letter of Observations and Recommendations (Annex 3) were issued to the MSIAC and the International Staff whose comments have been included, see the Appendix to Annex 3.

26 October 2018

INTERNATIONAL BOARD OF AUDITORS FOR NATO

**AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF
MUNITIONS SAFETY INFORMATION ANALYSIS CENTRE
(MSIAC)**

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 Munitions Safety Information Analysis Centre (MSIAC), which comprised the Statement of Financial Position as at 31 December 2017, the Statement of Financial Performance, Statement of Changes in Net Assets and Cash Flow Statement for the year then ended and a summary of significant accounting policies and other explanatory notes. The Board also audited the Statement of Budgetary Operations 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 authorised 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 the Financial Statements

In our opinion, the financial statements present fairly, in all material respects, the financial position of MSIAC as at 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 qualified opinion.

Basis for Qualified Opinion on Compliance

We found that MSIAC at 31 December 2017 held EUR 474 thousands of Accumulated Surpluses. These Accumulated Surpluses are to be used in cases of emergency funding needs, and are a reserve. Such a reserve does not comply with Articles 24.2 and 29.3 of the NATO Financial Regulations, which require, respectively, that appropriations which have not been committed shall lapse at the end of the financial year, and that each contribution instalment shall be calculated to restrict total currency holdings to the minimum to meet forecast payments prior to receipt of the following contribution instalment.

Qualified Opinion on Compliance

In our opinion, except for the matters described above in the *Basis for Qualified Opinion on Compliance* paragraph, in all material respects the financial transactions and information reflected in the financial statements of MSIAC are in compliance with the

NATO Financial Regulations and the NATO Civilian Personnel Regulations.

Brussels, 26 October 2018

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

Hervé-Adrien Metzger
Chairman

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**ANNEX 3
IBA-AR(2018)0030**

26 October 2018

INTERNATIONAL BOARD OF AUDITORS FOR NATO

**LETTER OF OBSERVATIONS AND RECOMMENDATIONS
FOR THE MUNITIONS SAFETY INFORMATION ANALYSIS CENTRE
(MSIAC)
FOR THE YEAR ENDED 31 DECEMBER 2017**

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Introduction

The International Board of Auditors for NATO (Board) audited the Munitions Safety Information Analysis Centre (MSIAC) Financial Statements for the year ended 31 December 2017 and issued an unqualified opinion on the financial statements and a qualified opinion on compliance.

Observations and Recommendations

During the audit, the Board made no observations.

The Board followed up on the status of observations and recommendations from previous years' audits and found that two observations were settled and two remain outstanding. One observation continue to be the basis for the audit qualification on compliance.

The Board also issued a Management Letter (reference IBA-AML(2018)0017) with the follow up on the status of previous years' observation for the management's attention.

This Letter of Observations and Recommendations was formally cleared with the MSIAC and the International Staff and the formal comments are included in the Appendix (Annex 3).

FOLLOW-UP OF PREVIOUS YEAR'S OBSERVATIONS

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

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p>(1) MSIAC FY 2015 IBA-AR(2018)0001, paragraph 1</p> <p>USE OF A MANAGEMENT RESERVE FUND NOT IN COMPLIANCE WITH THE REVISED NATO FINANCIAL REGULATIONS (NFRS)</p> <p>Board's recommendation The Board recommends that MSIAC comply with Article 29.3 of the NFRs and restrict currency holdings to the minimum to meet forecast payments prior to receipt of the following contribution instalment. Alternatively, if the MSIAC Steering Committee continues to believe that such a management reserve is necessary, a request for deviation from Articles 24.2 and 29.3 of the NFRs should be made to Council.</p>	<p>The amount in the reserve fund decreased from EUR 840 thousands to EUR 474 thousands. Nevertheless, it is still not in compliance with the NFRs, and continues to be a basis for qualification on compliance.</p> <p>We were informed that MSIAC intends to seek a deviation from the revised NFRs.</p>	<p>Observation Outstanding.</p>
<p>(2) MSIAC FY 2015 IBA-AR(2018)0001, paragraph 4</p> <p>NO REGULAR RECONCILIATION OF BANK BALANCES</p> <p>Board's recommendation The Board recommends performing and documenting regular monthly cash reconciliations, which will help to identify misstatements (if any) on a timely basis. This should include signatures of the preparer and the reviewer.</p>	<p>Monthly bank reconciliations were performed in 2017.</p>	<p>Observation Settled.</p>
<p>(3) MSIAC FY 2015 IBA-AR(2018)0001, paragraph 5</p> <p>MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING</p> <p>Board's recommendation The Board recommends that MSIAC:</p> <p>a) Establish robust internal procedures which would define responsibilities, requirements and controls for the preparation of the financial statements in order to ensure that they are free of material misstatements and other errors or omissions.</p> <p>b) Report in the Statement of Financial Position</p>	<p>IS Office of Financial Control introduced more effective controls relating to the production of its financial statements. As a result, we did not find any material misstatements and other errors or omissions.</p>	<p>Observation Settled.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
only the assets and liabilities which are supported by appropriate evidence and to retain supporting documentation for audit purposes. c) Improve internal controls over financial reporting to ensure that all expenses are being recorded in the financial statements in the correct accounting period.	Assets and liabilities in the Statement of Financial Position were supported and properly documented. Internal controls were improved and expenses recorded in the correct accounting period.	
<p>(4) MSIAC FY 2015 IBA-AR(2018)0001, paragraph 6</p> <p>EFFORTS TO ACHIEVE COMPLIANCE WITH THE REVISED NATO FINANCIAL REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT</p> <p>Board's recommendation The Board recommends that MSIAC:</p> <p>a) Issues a risk management policy and that risk registers are developed and employed.</p> <p>b) As required by FRP XII 3) (e), chooses a specific internal control framework that it will use to assess its system of internal control. The assessment is required by Article 12 of the NFRs. Since other NATO entities, including ACT and NAPMA, have already adopted COSO as their internal control framework, and it is a framework that can be used by entities of all sizes, MSIAC should consider adopting COSO as their internal control framework.</p> <p>c) In coordination with the International Staff where applicable, begins the 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>d) Through outsourcing if considered to be more cost effective, ensure internal audit activities are evaluating MSIAC risk management and internal control.</p>	<p>a) No specific risk management policy has yet been set up, however, an operational risk register exists.</p> <p>b) No internal control framework has yet been chosen.</p> <p>c) No assessment and documentation of the system of internal control and risk management procedure was done in 2017.</p> <p>d) No internal audit activities covering risk management and internal controls were performed in 2017.</p>	Observation Outstanding.

**MUNITIONS SAFETY INFORMATION ANALYSIS CENTRE (MSIAC) AND
INTERNATIONAL STAFF (IS) FORMAL COMMENTS
ON THE LETTER OF OBSERVATIONS AND RECOMMENDATIONS AND
THE INTERNATIONAL BOARD OF AUDITORS (BOARD) POSITIONS**

FOLLOW-UP OF PREVIOUS YEAR'S OBSERVATIONS

(1) MSIAC FY 2015

IBA-AR(2018)0001, paragraph 1

**USE OF A MANAGEMENT RESERVE FUND NOT IN COMPLIANCE WITH THE
REVISED NATO FINANCIAL REGULATIONS (NFRS)**

Formal comment of the MSIAC and the IS

The Steering Committee has noted the Board's recommendation. At the NATO MSIAC Steering Committee March 2016 (SC23), the Committee reaffirmed that they consider the continued provision of a reserve to be essential to the operation of the MSIAC Project. This reserve includes joining fees paid by incoming member nations to contribute to the products and services developed over the 25 years of MSIAC operations. As such it is used to contribute to future costs associated with MSIAC operations. A five year plan is agreed yearly and incrementally reduces this fund to target levels agreed by the MSIAC SC.

Application for a deviation from the revised NFRs will be sought, in a similar way to what was done for the NATO FORACS office.

(4) MSIAC FY 2015

IBA-AR(2018)0001, paragraph 6

**EFFORTS TO ACHIEVE COMPLIANCE WITH THE REVISED NATO FINANCIAL
REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL,
RISK MANAGEMENT AND INTERNAL AUDIT**


Formal comment of the MSIAC and the IS

Agreed. The operational risk register is regularly reviewed by the Steering Committee. The OFC is developing a complete risk matrix for its operations which will, therefore, also apply to MSIAC. MSIAC will address and formalise with OFC the adoption of a risk management policy and of an internal control framework. For what concerns internal audit, MSIAC benefits from the IS internal audit activity since all the administrative, human, financial support it gets is provided by NATO-IS which is subject to internal audit by the IS Internal Audit Service. Other internal audit activities would have to take into account the cost benefit considering the relatively small size of the MSIAC budget.

NATO MSIAC
FINANCIAL STATEMENTS
Financial Year 2017

Annexes:

- 1 Statement of Financial Position
- 2 Statement of Financial Performance
- 3 Cash Flow Statement
- 4 Statement of Changes in Net Assets
- 5 Statement of Budget Execution
as of 31 December 2017
- 6 Statement of Budget Execution
as of 31 December 2016
- 7 Explanatory notes to the financial statements



Dr. M. SHARP
Project Manager MSIAC



S. CHAGNOT
Financial Controller NATO-IS

NATO MSIAC
Statement of financial position

As at 31 December 2017

(in EUR)

	Notes	Current Year 2017	Prior Year 2016	Variance CY - PY
Assets				
Current assets				
Cash and cash equivalents	3 & 4	1,284,597.90	1,517,655.56	-233,057.66
Short term investments	3	0.00	0.00	0.00
Receivables	5	7,060.73	168,717.50	-161,656.77
Prepayments	6	388.18	5,065.48	-4,677.30
Other current assets	6	0.00	0.00	0.00
Inventories	7			0.00
		1,292,046.81	1,691,438.54	-399,391.73
Non-current assets				
Receivables	5	0.00	0.00	0.00
Property, plant & equipment	8	0.00	0.00	0.00
Intangible assets	8	0.00	0.00	0.00
Other non-current assets		0.00	0.00	0.00
		0.00	0.00	0.00
Total assets		1,292,046.81	1,691,438.54	-399,391.73
Liabilities				
Current liabilities				
Payables	9	684,014.48	700,204.06	-16,189.58
Deferred revenue	10	5,369.65	4,300.00	1,069.65
Advances	11	0.00	0.00	0.00
Short term provisions	12	0.00	0.00	0.00
Other current liabilities	13	128,732.61	146,637.98	-17,905.37
		818,116.74	851,142.04	-33,025.30
Non-current liabilities				
Payables	14	0.00	0.00	0.00
Long term provisions	14	0.00	0.00	0.00
Non Current Deferred revenue	14	0.00	0.00	0.00
Other non-current liabilities	14	0.00	0.00	0.00
		0.00	0.00	0.00
Total liabilities		818,116.74	851,142.04	-33,025.30
Net assets				
Capital assets				
Reserves				
Accumulated surplus / (deficit)		473,930.07	840,296.50	-366,366.43
Total net assets/ equity	15	0.00	0.00	0.00

NATO MSIAC
Statement of financial performance

As at 31 December 2017

(in EUR)

	Notes	Current Year 2017	Prior Year 2016	Variance CY - PY
Revenue	16			
Non exchange revenue		1,737,278.93	1,655,956.64	81,322.29
Exchange revenue		0.00	0.00	0.00
Other revenue		0.00	225.06	-225.06
Financial revenue		0.00	3,346.52	-3,346.52
Total revenue		1,737,278.93	1,659,528.22	77,750.71
Expenses	17			
Personnel		1,290,874.23	1,207,902.10	82,972.13
Contractual supplies and services		442,000.39	448,054.54	-6,054.15
Depreciation and amortization		0.00	0.00	0.00
Impairment		0.00	0.00	0.00
Provisions		0.00	0.00	0.00
Other expenses		1,585.34	0.00	1,585.34
Finance costs		2,818.97	3,571.58	-752.61
Total expenses		1,737,278.93	1,659,528.22	77,750.71
Surplus/(Deficit) for the period		0.00	0.00	0.00

NATO MSIAC **Statement of cash flow**

As at 31 December 2017

	(in EUR)	
	<u>2017</u>	<u>2016</u>
Cash flow from operating activities		
Surplus/(Deficit)		
Non-cash movements		
Depreciation/ Amortisation		
Impairment		
Use of Cash Reserves	-366,366.43	-114,690.62
Increase/(decrease) in payables	-16,189.58	-197,554.75
Increase/ (decrease) in other current liabilities	-16,835.72	65,233.89
Increase/ (decrease) in provisions		0.00
(Gains)/losses on sale of property, plant and equipment		0.00
Decrease/ (Increase) in other current assets	4,677.30	-4,344.17
Decrease/ (Increase) in receivables	161,656.77	-154,450.52
Decrease/ (Increase) in other non-current assets		
Net cash flow from operating activities	<u>-233,057.66</u>	<u>-405,806.17</u>
Cash flow from investing activities		
Purchase of property plant and equipment / Intangible assets		
Proceeds from sale of property plant and equipment		
Net cash flow from investing activities	<u>0.00</u>	<u>0.00</u>
Cash flow from financing activities		
Net cash flow from financing activities	<u>0.00</u>	<u>0.00</u>
Net increase/(decrease) in cash and cash equivalents	<u>-233,057.66</u>	<u>-405,806.17</u>
 Cash and cash equivalent at the beginning of the period	 <u>1,517,655.56</u>	 <u>1,923,461.73</u>
Cash and cash equivalent at the end of the period	<u>1,284,597.90</u>	<u>1,517,655.56</u>

NATO MSIAC
Statement of Change in Net Assets/Equity

As at 31 December 2017

(in EUR)

Balance at the beginning of the period 2015	954,987.12
Changes in accounting policy	
Restated balance	
Net gains/(losses) recognised directly in net assets/equity	
Exchange difference on translating foreign operations	
Gain on property revaluation	
Use of Cash Reserves	-114,690.62
Surplus/(deficit) for the period	
Change in net assets/equity for the year ended 2016	840,296.50
Balance at the beginning of the period 2016	840,296.50
Changes in accounting policy	
Restated balance	
Net gains/(losses) recognised directly in net assets/equity	
Exchange difference on translating foreign operations	
Gain on property revaluation	
Use of Cash Reserves	-366,366.43
Surplus/(deficit) for the period	
Change in net assets/equity for the year ended 2017	473,930.07
Balance at the end of the period 2017	473,930.07

NATO MSIAC
Statement of Budget Execution
as at 31 December 2017

(Amounts in euro)	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Final budget	Actuals	Carry forward	Lapsed
Budget 2017										
Chapter 1	1,436,000		1,436,000		1,436,000		1,436,000	1,412,323	5,125	18,552
Chapter 2	427,100		427,100		427,100		427,100	316,414	245	110,441
Chapter 3	-		-		-		-			-
Chapter 4	-		-		-		-			-
Total FY 2017	1,863,100	-	1,863,100	-	1,863,100	-	1,863,100	1,728,738	5,370	128,993
Budget 2016										
Chapter 1	-		-		-		-			-
Chapter 2	4,300		4,300		4,300		4,300	4,137	-	163
Chapter 3	-		-		-		-			-
Total FY 2016	4,300	-	4,300	-	4,300	-	4,300	4,137	-	163
Budget 2015										
Chapter 1										
Chapter 2										
Chapter 3										
Total FY 2015	-	-	-	-	-	-	-	-	-	-
Total all budgets	1,867,400	-	1,867,400	-	1,867,400	-	1,867,400	1,732,875	5,370	129,156

NATO MSIAC
Statement of Budget Execution
as at 31 December 2016

(Amounts in euro)	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Final budget	Actuals	Carry forward	Lapsed
Budget 2016										
Chapter 1	1,340,900	6,000	1,346,900		1,346,900		1,346,900	1,289,830	-	57,070
Chapter 2	369,675	-6,000	363,675		363,675		363,675	355,091	4,300	4,284
Chapter 3	-		-		-		-			-
Chapter 4	-		-		-		-			-
Total FY 2016	1,710,575	-	1,710,575	-	1,710,575	-	1,710,575	1,644,921	4,300	61,354
Budget 2015										
Chapter 1	7,860		7,860		7,860		7,860	5,464		2,396
Chapter 2	7,355		7,355		7,355		7,355	1,272	-	6,083
Chapter 3	-		-		-		-			-
Total FY 2015	15,215	-	15,215	-	15,215	-	15,215	6,735	-	8,479
Budget 2014										
Chapter 1										
Chapter 2	2,247		2,247		2,247		2,247			2,247
Chapter 3										
Total FY 2014	2,247	-	2,247	-	2,247	-	2,247	-	-	2,247
Total all budgets	1,728,037	-	1,728,037	-	1,728,037	-	1,728,037	1,651,657	4,300	72,080

**EXPLANATORY NOTES TO MSIAC
2017 FINANCIAL STATEMENTS****NOTE 1: GENERAL INFORMATION**

At the October 1990 Conference of National Armaments Directors (CNAD) meeting, the MOU establishing NATO Insensitive Munitions Information Centre (NIMIC) as a Project Office under CNAD was signed. The project transitioned to cover the wider aspects of Munition Safety in 2004 becoming the Munitions Safety Information Analysis Centre (MSIAC)

MSIAC is a member nations' funded and directed NATO Project office. Its goal is to help nations reduce and eliminate the risk to personnel and materiel from explosive incidents associated with own munitions. To help nations realise this goal, the project exchanges and analyses information and technology related to munition safety. MSIAC plays a central role in facilitating member nation's efforts to safely store, design, develop, procure and use safer munitions.

At the end of 2017, MSIAC had twelve participating countries: Australia, Belgium, Canada, Finland, France, Germany, Italy, the Netherlands, Norway, Spain, Sweden, the United Kingdom and the United States.

The MSIAC Steering Committee (one representative per member nation) is the governing body of the MSIAC. Steering Committee members are nominated by their respective national authorities.

For administrative purposes only, MSIAC is attached to the Defence Investment Division of the IS.

The participating countries pay all operational and administrative costs relating to the Project office, in accordance with an agreed cost-sharing formula.

NOTE 2: ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below.

Declaration of Conformity

The MSIAC financial statements have been prepared in accordance with NATO Financial Regulations (NFR), the Financial Rules and Procedures (FRP) and the NATO Accounting Framework, which is an adapted version of the International Public Sector Accounting Standards (IPSAS).

Basis of Preparation

These financial statements have been prepared on a going-concern basis. The assumption is that MSIAC is a going concern and will continue in operation and meet its objectives and obligations for the foreseeable future.

The financial year is from 1 January to 31 December.

The amounts shown in these financial statements are presented in EUR.

MSIAC applied IPSAS 9 Revenue from exchange transactions and IPSAS 23 Revenue from non-exchange transactions.

The following IPSAS have no material effect on the 2017 MSIAC financial statements:

IPSAS 5: Borrowing Costs

IPSAS 6: Consolidated and Separate Financial

IPSAS 7: Investments in Associates.
 IPSAS 8: Interests in Joint Ventures
 IPSAS 10: Financial Reporting in Hyperinflationary Economies
 IPSAS 11: Construction Contracts
 IPSAS 16: Investment Property
 IPSAS 21: Impairment of non-cash generating assets
 IPSAS 26: Impairment of Cash-Generating Assets
 IPSAS 27: Agriculture
 IPSAS 32: Service Concession Arrangements: Grantor

Changes in accounting policy

None to report.

Reclassification of Financial Statements of Previous Years

A minor change has been done in the presentation of the Budget Execution Statement in order to avoid any confusion concerning the carry-forward amounts: the column previously named Commitment has been taken away and the related amounts appear now under the column Carry-Forward.

Advances to staff (essentially related to education allowance) were classified as Other Current Assets and are now classified as Prepayments as from 2016 in consideration of the fact that these are the advances on future staff benefits.

Use of Estimates

In accordance with generally accepted accounting principles, the financial statements include amounts based on estimates and assumptions by management, according to the most reliable information available, judgement and assumptions. Estimates include accrued revenue and expenses. Actual results could differ from those estimates. Changes in estimates are reflected in the period in which they become known.

Foreign Currency Transactions

The MSIAC budget is authorized and managed in EUR so contributions called are made in EUR. Foreign currency transactions as required are accounted for at the NATO exchange rates prevailing on the date of the transactions. Monetary assets and liabilities at year-end which were denominated in foreign currencies were converted into EUR using the NATO rates of exchange applicable at year end.

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 Performance.

MSIAC does not have any unrealised gains and losses resulting from the translation of statements.

Financial Risks

MSIAC uses only non-derivative financial instruments as part of its normal operations. These financial instruments include cash, bank accounts and deposit accounts.

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

The organisation is exposed to a variety of financial risks, including foreign exchange risk, credit risk, currency risk, liquidity risk and interest rate risk.

a. Foreign currency exchange risk

The exposure to foreign currency risk is limited as the majority of the NATO-MSIAC's expenditures are made in EUR, the currency of its budget. The current bank accounts are held in EURO.

b. Credit risk

NATO MSIAC incurs credit risks from cash and cash equivalent held with banks and from receivables.

The maximum exposure as at year end is equal to the total amount of bank balances, short term deposits and receivables. There is very limited credit risk associated with the realization of these elements.

Concerning cash and cash equivalent NATO MSIAC credit risk is managed by holding current bank accounts and short term highly liquid deposits that are readily convertible to a known amount of cash held with ING Bank (Belgium) which has the following short term credit ratings:

ING Bank Credit Ratings as at 22/02/2018

	Fitch	Moody's	S&P
Short term	F1	NA	A2

The MSIAC outstanding accounts receivable are managed by maintaining control procedures over receivables. Most cash receivables are due from Participating Nations, which are considered credit worthy.

c. Liquidity risk

The liquidity risk, also referred to as funding risk, is based on the assessment as to whether the Organisation will encounter difficulties in meeting its obligations associated with financial liabilities. A liquidity risk could arise from a short term liquidity requirement. There is a very limited exposure to liquidity risk because of the funding mechanism which guarantees contributions in relation to the approved budgets. Some limited risk could be due to the accuracy of budget forecasts. However, past history shows that this process results in surpluses and the budgetary rules provide for revised budgets.

d. Interest rate risk

Except for certain cash and cash equivalent balances, MSIAC's financial assets and liabilities do not have associated interest rates. MSIAC is restricted from entering into borrowings and investments, and, therefore, there is an insignificant interest rate risk. Interest earned is not a budgetary resource but contributes to the surplus owed to Nations. In case of negative interest rates, these are added to the amounts called from Participating Nations.

Current Assets

a. Cash and cash equivalents

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

b. Funds Managed for Third Parties

Funds managed on behalf of third parties are held in cash and are presented as a liability. They are accounted for when cash is effectively received.

c. Receivables

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

Contributions receivable are recognised when a call for contribution has been issued to the funding nations. No allowance for loss is recorded with respect to Member countries' assessed contributions receivable.

d. Prepayments

A prepayment is a payment in advance of the period to which it pertains and is mainly in respect of an advance payment made to a third party. This item may include advances made to staff in accordance with Civilian Personnel Regulations (such as advances on salary or on education allowance).

e. Inventories

As mentioned above, NATO's adaptations of IPSAS were spelled out in C-M(2013)0039 of July 2013, which included IPSAS 12 Inventories. It is described as follows:

Control of NATO Inventories was refined with a set of 10 criteria to be used in assessing the level of control of an asset. A positive response on six of the criteria will lead to the asset being capitalised in the Financial Statements if it is above the capitalisation threshold. This is applied from January, 2013.

Criteria that may indicate control of an asset
The act of purchasing the asset carried out (or resulted from instructions given) by the NATO Reporting Entity.
The legal title is in the name of the NATO Reporting Entity.
The asset is physically located on the premises or locations used by the NATO Reporting Entity.
The asset is physically used by staff employed by the NATO Reporting Entity or staff working under the NATO Reporting Entity's instructions.
The fact that the NATO Reporting Entity can decide on an alternative use of the asset.
The fact that the NATO Reporting Entity can decide to sell or to dispose the asset.
The fact that the NATO Reporting Entity, if it has to remove or destroy the asset, can take the decision to replace it.
The fact that a representative of the NATO Reporting Entity regularly inspects the asset to determine its current condition.
The fact that the asset is used in achieving the objectives of the NATO Reporting Entity.
The fact that the asset will be retained by the NATO Reporting Entity at the end of the activity.

Capitalisation thresholds relevant to the financial statement are as follow:

Category	Threshold	Basis
Consumables	€50,000	Per location/warehouse
Spare Parts	€50,000	Per location/warehouse
Ammunition	€50,000	Per location/warehouse
Strategic stocks	€50,000	Per location/warehouse

The MSIAC will capitalise inventory which it controls in its financial statements. Where there is a conflict between more than one NATO Reporting Entity as to the control of inventory, only the end-user entity will report the inventory in its financial statements, based on reliable information provided by the NATO services provider entity as defined in individual agreements between the two entities.

The MSIAC will include transportation costs involved in bringing the inventories to their present location and condition in the initial valuation of inventory. These costs will be measured on the actual cost of transportation per item of inventory or by using an apportionment of the global transportation costs of

bringing the inventories to their present location and condition across all inventory items in the period. Transportation costs involved in the subsequent movement of inventory which brings them into operational use will not be included in the value of inventory. The method of measuring these costs will be disclosed.

The MSIAC may consider inventory acquired prior to 1 January 2013 as fully expensed.

For inventory held prior to the 1 January 2013, and not previously recognized as an asset, the MSIAC will provide a brief description of inventory held within their inventory recording systems in the notes to the financial statements. Such disclosure will include as a minimum the types of inventories held, locations where inventories are held and the approximate number of items held per asset category.

Where this adaptation conflicts with another requirement of IPSAS this adaptation shall apply. For the remainder, IPSAS 12 shall apply.

The MSIAC assesses inventories under IPSAS 12. 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. The materiality will be assessed each year.

In consideration of the above thresholds, MSIAC currently has no inventory.

Non-current assets - Fixed assets (Property, Plant & Equipment and Intangible Assets)

a. Property, Plant & Equipment

As mentioned above, NATO's adaptations of IPSAS were spelled out in C-M(2013)0039 of July 2013, which included IPSAS 17 Property Plant and Equipment.

Control of NATO PPE was refined with a set of 10 criteria to be used in assessing the level of control of an asset – they are the same as mentioned above under Inventory. A positive response on six of the criteria will lead to the asset being capitalised in the Financial Statements if it is above the capitalisation threshold. This is applied from January, 2013.

Capitalisation thresholds relevant to the financial statement are as follow:

Category	Threshold	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	€ 30,000	10 years	Straight line
Machinery	€ 30,000	10 years	Straight line
Vehicles	€ 10,000	5 years	Straight line
Aircraft	€200,000	Dependent on type	Straight line
Vessels	€200,000	Dependent on type	Straight line
Mission equipment	€ 50,000	3 years	Straight line
Furniture	€ 30,000	10 years	Straight line
Communications	€ 50,000	3 years	Straight line
Automated information systems	€ 50,000	3 years	Straight line

The MSIAC considers PPE acquired prior to 1 January 2013 as fully expensed. However, existing accounting policies will continue to be applied for any PPE assets already capitalized prior to 1 January 2013. For PPE upgraded after 1 January 2013, only the portion related to the modification will be capitalized.

In consideration of the above thresholds, MSIAC currently has no PPE.

b. Intangible Assets

As mentioned above, NATO's adaptations of IPSAS were spelled out in C-M(2013)0039 of July 2013, which included IPSAS 31 Intangible Assets. It is described as follows:

Control of NATO Intangible Assets was refined with a set of 10 criteria to be used in assessing the level of control of an asset – they are the same as mentioned above under Inventory. A positive response on six of the criteria will lead to the asset being capitalised in the Financial Statements if it is above the capitalisation threshold. This is applied from January, 2013.

NATO Intangible Assets Capitalisation Thresholds - MSIAC will capitalise each intangible asset item above the following agreed NATO thresholds:

Category	Threshold	Depreciation life	Method
Computer software (commercial off the shelf)	€50,000	4 years	Straight line
Computer software (bespoke)	€50,000	10 years	Straight line
Computer database	€50,000	4 years	Straight line
Integrated system	€50,000	4 years	Straight line

MSIAC will capitalise all controlled intangible assets above the NATO Intangible Asset Capitalisation Threshold. For anything below the threshold, the MSIAC will have the flexibility to expense specific items.

MSIAC will capitalise integrated systems and include research, development, implementation and can include both software and hardware elements. But the MSIAC will not capitalise the following types of intangible assets in their financial statements:

- rights of use (air, land and water);
- landing rights;
- airport gates and slots;
- historical documents; and,
- publications

MSIAC will capitalise other types of intangible assets acquired after 1 January 2013 including:

- Copyright
- Intellectual Property Rights
- Software development

MSIAC may consider Intangible Assets acquired prior to 1 January 2013 as fully expensed.

MSIAC will report controlled Intangible assets in its financial statements. Where there is a conflict between more than one NATO Reporting Entity as to the control of intangible assets, only the end-use entity will capitalise the intangible asset in its financial statements based on reliable information provided by the NATO services provider entity as defined in individual agreements between the two entities.

For intangible assets held prior to the 1 January 2013, and not previously recognized as an asset, MSIAC will provide a brief description of intangible assets held in its intangible asset recording systems in the notes to the financial statements. Such disclosure will include as a minimum the types of intangible held, locations where intangible assets are held and the approximate number of items held per asset category.

If an intangible asset is upgraded after 1 January 2013, only the portion related to the modification will be capitalised.

Where this adaptation conflicts with another requirement of IPSAS this adaptation will apply. For the remainder, IPSAS 31 shall apply. This adaptation is effective for financial reporting periods beginning on 1 January 2013.

In consideration of the above thresholds, MSIAC has no Intangible Assets.

Non-Current Assets other than PPE

There are none.

Current Liabilities

a. Payables

Payables are amounts due to third parties, including Participating Nations, based on goods received or services provided that remain unpaid. These include estimates of accrued obligations to third parties for goods and services received but not yet invoiced. Amounts due to Participating Nations in the context of their budget contributions are booked under Other Current Liabilities.

b. Advances and Unearned revenue

Advances are contributions received related to future year's budgets. Funds are called in advance of their need because MSIAC has no capital that would allow it to pre-finance any of its activities.

Unearned revenue represents participating nations contributions which have been called for current budgets but that have not yet been recognised as revenue in the absence of any related budgetary expenditure.

c. Other Current Liabilities

Amounts corresponding to the current budgetary surplus (lapsed credits + net interests + miscellaneous income) are considered a liability towards the Participating Nations. The settlement does not follow the normal accounts payable process, since the standard approach is to return them to Participating Nations via a deduction of the following year's call for budget contributions. This liability is therefore classified under Other Current Liabilities.

This item may include other liabilities that do not result from the standard procure to pay process, such as miscellaneous transactions to be regularized between entities managed by the IS Office of Financial Control.

Non-Current Liabilities

The MSIAC has no non-current liabilities.

Net Assets

Net Assets correspond to MSIAC's Project Accumulated Surplus. Project Accumulated Surplus relates to funds resulting from past years' contributions by MSIAC member Nations in excess of budget execution that the Steering Committee decided not to redistribute to the member nations but keep for the needs of MSIAC. It is held at the direction of the Steering Committee.

Revenue Recognition

Revenue comprises contributions from Member Nations.

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. 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 recognises a liability until the condition is fulfilled.

Contributions to be called from Member Nations, based on the budget they approved, are initially recorded as unearned revenue liabilities. They are recognised as revenue in the statement of financial performance when such contributions are used for their intended purpose as envisioned in the approved Budget.

Transformational adjustments were made in calculating earned revenue and expenses in the Statement of Financial Performance.

Segment Reporting

A segment is a distinguishable activity or group of activities for which it is appropriate to separately report financial information. There is no segment in MSIAC.

Statement of Financial position

NOTE 3: CASH AND CASH EQUIVALENTS – SHORT TERM INVESTMENTS

The current bank accounts are held in EUR. Deposits are held in interest-bearing bank accounts, immediately available.

cash (in EUR)	2017	2016
Cash at bank	1,284,597.90	1,517,541.97
Petty cash	-	113.59
Total	1,284,597.90	1,517,655.56

There were no short term investments.

NOTE 4: FUNDS MANAGED FOR THIRD PARTIES

MSIAC does not manage funds for third parties.

NOTE 5: ACCOUNTS RECEIVABLE

Receivables (in EUR)	2017	2016
Budgetary contributions	-	168,000.00
Others	7,060.73	717.50
Total	7,060.73	168,717.50

Contributions receivable from member nations are funds requested from the Nations to finance the current year MSIAC budget. An amount of 7,060.73 at year end 2017 was receivable from the insurer providing social security.

NOTE 6: PREPAYMENTS and OTHER CURRENT ASSETS

Prepayments and Other Current Assets relate to miscellaneous amounts due to the Project Office in relation to services to be received in the following years and advances made to staff in relation to benefits of the following year (essentially advances to staff for education allowances or for travel, etc.).

(in EUR)	2017	2016
Prepayments to Suppliers	388.18	-
Prepayments to Staff	-	5,065.48
Other Current Assets	-	-
Total	388.18	5,065.48

NOTE 7: INVENTORIES

Nothing to report, inventories are not considered material.

NOTE 8: NON-CURRENT ASSETS

MSIAC has registered no non-current assets.

NOTE 9: ACCOUNTS PAYABLE

Payables and accrued expenses may be to commercial suppliers, staff, other NATO bodies or MSIAC member Nations.

Payable to suppliers relates to goods and services for which an invoice has been received, checked, and queued for payment but for which payment was still pending at year-end.

Accrued expenses correspond to the estimated accrual obligation to third parties for goods and services received but not yet invoiced.

Payables (in EUR)	2017	2016
Suppliers	14,639.31	16,473.39
Personnel	95.67	400.33
Member Nations	650,869.50	683,330.34
Accrued expenses/Education	-	-
Accruals	18,410.00	-
Total	684,014.48	700,204.06

Payable to nations

A payable of EUR 650,869.50 (EUR 683,330.34 at year-end 2016) is in relation to the reimbursable salaries and represents the amount due to the United States (US) for one civilian staff member who is paid directly by the US government. This amount remains to be regularised.

NOTE 10: DEFERRED REVENUE**Deferred Revenue**

Deferred revenue corresponds to contributions called for the current year or before (received or receivable) that MSIAC intends to use for its initial purpose, but for which corresponding goods or services could not be received in the course of the current budget year but will be incurred after the end of the reporting period. If these amounts carried forward are not spent by the end of the second year following the year for which they were approved, these funds lapse, unless a specific decision is taken by member nations for a further carry-forward.

There were no appropriations subject to a special carry-forward.

NOTE 11: ADVANCES

No advances are called in the context of the standard call for contributions process applicable to MSIAC.

NOTE 12: SHORT TERM PROVISIONS

There were no short term provisions.

NOTE 13: OTHER CURRENT LIABILITIES

Other Current Liabilities include the Current Year Budget Surplus. Amounts corresponding to the current year budgetary surplus (lapsed credits + net interests + miscellaneous income) are considered a liability towards the Participating Nations. The settlement does not follow the standard accounts payable process, since the surplus is to be returned to Participating Nations via a deduction of the following year's call for budget contributions. To date, the agreed practice of the MSIAC Steering Committee has been to add these amounts to the Project Accumulated Surplus (see note on Net Assets).

Current Year Budget Surplus		
(amounts in EUR)	2017	2016
Lapsed Appropriations	129,155.73	72,080.09
Net Financial Income	- 2,783.40	78.24
Miscellaneous Income	1,360.28	
Others	1,000.00	74,479.65
Total	128,732.61	146,637.98

This item also included, for 2016, transactions relating to MSIAC, funded and allocated in accordance with its budget but for which payments were executed in the NATO International Staff bank accounts. These transactions were regularised in 2017 (EUR 74,479.65).

NOTE 14: NON-CURRENT LIABILITIES AND LONG TERM UNEARNED REVENUE

The long term unearned revenue is unearned revenue in relation to net carrying amounts of Property, Plant and Equipment and intangible assets. Revenue is recognised over the estimated life cycle of the Property, plant and equipment and the intangible assets.

There are no non-current liabilities.

NOTE 15: NET ASSETS

Net Assets correspond to MSIAC's Project Accumulated Surplus.

Project Accumulated Surplus relates to funds resulting from past contributions by MSIAC member Nations in excess of budget execution that the Steering Committee decided not to redistribute to the member nations but keep for the needs of MSIAC. This reserve includes joining fees paid by incoming member nations to contribute to the products and services developed over the 25 years of MSIAC operations. It is held at the direction of the Steering Committee. The Steering Committee may use these funds to contribute to future costs associated with MSIAC operations, or in case of emergency funding needs for the Project. The growth in accumulated surplus over previous years reflects more Nations entering the Project but zero growth in Project staff. A five year plan is agreed yearly and incrementally reduces this fund to target levels agreed by the MSIAC Steering Committee. At the Steering Committee meeting October 2017, the nations agreed to a target range between EUR 650K and EUR 1M.

(in EUR)	2017	2016
Cumulated Surplus beginning of the year	840,296.50	954,987.12
+ Lapses from previous year	72,080.09	166,040.40
+ Net Financial Income (Interest, Bank Fees) previous year	- 3,346.52	1,868.19
+ Miscellaneous Income previous year	-	- 24.21
- Surplus allocated to current year budget	- 435,100.00	- 282,575.00
Cumulated Surplus end of the year	473,930.07	840,296.50

Statement of Financial Performance

NOTE 16: 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.

Revenue from member Nations' budgetary contributions is considered as non-exchange revenue in consideration of the fact that the shares are equal. Non-exchange revenue is matched with expenses stemming from budget execution.

NOTE 17: EXPENSES

Wages, Salaries and Employee Benefits

The personnel costs include all civilian personnel expenses as well as other non-salary related expenses in support of funded activities. They also include expenses for salaries and emoluments for approved NATO permanent civilian positions and temporary personnel, for other salary related and non-related allowances including overtime, medical examinations, recruitment, installation and removal, and for contracted consultants and training.

Supplies and Consumables Used

This item also includes expenses attributed to Capital Expenses from a budget perspective, if they do not meet the criteria of PPE or Intangible Assets.

NOTE 18: BUDGET INFORMATION

NATO MSIAC Budget

Presently, the NATO MSIAC Budget is not publicly available.

The actual amounts referred to by IPSAS 24 ("amounts that result from execution of the budget") are expenses incurred during the execution of the budget and appearing under the heading "Actuals" in the Budget Execution Statement.

Presentation of budget information in the financial statements

An analysis of the budget execution for the current and the previous year is provided in Annex 5. The MSIAC budget execution compares the budget's authorized credits and the actual amounts committed and expended.

The MSIAC budget classification is based on the economic nature of the expenses broken down into three chapters as follows:

- Chapter I : Personnel Expenses
- Chapter II : Operating Expenses
- Chapter III : Capital Costs

The MSIAC Budget is prepared for the same period (1 January to 31 December) and encompasses the same entity as these financial statements.

Changes to the budgetary regulations were introduced by the North Atlantic Council in 2015 in approving a new set of NATO Financial Regulations. The new NATO Financial Regulations were made applicable to the 2015 budget year as from 1 May 2015. They have in particular instilled an accruals based approach to budget preparation and budget execution, whereas before the approach was largely commitment and cash based.

Despite a stronger emphasis on the principle of annual budgets, the approved and executed budget cannot be considered as fully accruals-based, since the new regulations allow for a number of exceptions, such as carrying forward commitments for goods and services that were expected to be delivered in the course of the year but for various reasons were not, or authority given to the member Nations to allow for special carry forward of appropriations unused at year-end.

The MSIAC budget is prepared and executed as follows:

- 1) The commitment of appropriations is the advance acceptance and recording of the financial consequence resulting from a legal obligation incurred during the financial year. As a consequence appropriations are allocated, and commitments are approved, for goods, services and works to be delivered at a later stage. Commitments are settled when the service is rendered or goods delivered as is the case for expenses under accrual accounting.
- 2) Unliquidated commitments at year end normally lapse. However, if they are supported by a legal obligation and correspond to goods or services that could not be received during the course of the year for specific reasons, they may be carried forward and added to the budget of the following financial year. Uncommitted appropriations may be subject of a special carry forward to the following year if a specific agreement is given by the Steering Committee. Outstanding commitments can be carried forward for two years. As a consequence, the services or goods received may relate to a commitment of appropriations from previous years' budgets. The carry-forward should be justified by a reason for which the services or goods could not be received in the course of the year. In addition, in accordance with Financial Regulations, member Nations may agree to a further carry-forward of commitments that were already carried forward twice.
- 3) Commitments, because they are an advance acceptance, and because payments cannot be made above approved appropriations levels, typically include an estimation factor and are (if only slightly) higher than the actual amount eventually paid. This results in commitments being higher than the actual expenses and in appropriations eventually lapsing.
- 4) Commitments are only made in respect of expenses relating to the initial purpose of the commitment. Commitments for capital expenditures are normally made in the year during which the purchase order is issued. In accrual accounting, the related costs would not appear in the Statement of Financial Performance but in the Balance Sheet and only upon reception of the works, goods or services. Conversely, there is no budgetary commitment of appropriations for non-cash flow transactions such as capital depreciation or provisions which would normally appear in the Statement of Financial Performance under accrual accounting.
- 5) On an exceptional basis, the Steering Committee may approve the carry-forward of credits without any prior legal commitment, for instance for projects at their initiation stage or planned expenditures. In accrual accounting there would be no expense recorded.
- 6) The balance of unused budgetary appropriations (not committed) lapses and is returned to Participating Nations at year-end. Lapses may include cases where a project was eventually not completed or started, and therefore lead to no expense.

Reconciliation between Budget Execution and Statement of Financial Performance

Reconciliation of Budget Execution to Financial Performance		
BUDGET EXECUTION		2017
Total Budget (including carried-forward from previous year)	(a)	1,867,400.00
Credits Carried Forward in Following Year	(b)	5,369.65
Lapsed Appropriations	(c)	129,155.73
Budget Execution Expenses	(d) = (a-b-c)	1,732,874.62
RECONCILIATION		
Financial Performance Expenses (total)	(e)	1,737,278.93
Other net expenses (financial and miscellaneous)	(f)	4,404.31
Increase in Non-Current Assets	(g)	0.00
Other Elements	(h)	0.00
Sub-Total	(i)=(e-f+g+h)	1,732,874.62
Difference to Budget Expenses	(d-i)	0.00

Budget execution

The MSIAC budget execution for the current and previous year is shown at Annex 5 and Annex 6 respectively, which compares the budget's authorized appropriations and the actual amounts committed and expended.

Credits are transferred under the authority delegated to the NATO-IS Financial Controller by the NATO Financial Regulations and Financial Rules and Procedures.

Reconciliation between Budget and Calls for Contributions

The funding of the budget is made of a call for contributions, carried over credits and a part of previous years' surplus. There is one call for contribution per year, which is usually issued at the beginning of the year. No advances are called for the following financial year.

Participating Nations' contributions are assessed based on a share value of EUR 84,000. Nine Nations have one share and four have two shares.

As directed by the Steering Committee, the calls covered EUR 1,428,000 in 2017 and in 2016.

The table below reconciles the approved budget and the sources of funding.

amounts in EUR	2017	2016
Initial Budget	1,863,100.00	1,710,575.00
Revised Budget	-	-
Total Annual Budget	1,863,100.00	1,710,575.00
Advance called previous year	-	-
Call in current year	1,428,000.00	1,428,000.00
Total Cash Calls	1,428,000.00	1,428,000.00
Use of Previous Year's Surplus	-	-
Use of Project Accumulated Surplus	435,100.00	282,575.00
Other Funding Sources	435,100.00	282,575.00
Total Funding	1,863,100.00	1,710,575.00

NOTE 19: WRITE-OFFS

Nothing to report.

NOTE 20: LEASES

MSIAC does not have any financial leases.

NOTE 21: RESTRICTIONS ON FIXED ASSETS

There are no restrictions on fixed assets.

NOTE 22: CONTINGENT LIABILITIES

There have been no contingent liabilities identified that would be expected to result in a material obligation.

NOTE 23: CONTINGENT ASSETS

Nothing to report

NOTE 24: EMPLOYEE DISCLOSURE

Accounting for employee benefits is accounting for any liability in relation to all forms of consideration given by an entity in exchange of service rendered by employees.

It should be noted that the NATO-IS is managing centrally three pension programmes, namely the Defined Benefit Pension Scheme (DBS), the Provident Fund and the Defined Contribution Pension Scheme (DCPS) as well as the Retirees Medical Claims Fund (RMCF), covering staff employed by all NATO bodies. NATO-wide financial statements are issued by NATO-IS Office of Financial Control for the three Pension Schemes and the RMCF, therefore, no related assets or liabilities are recognised in these financial statements.

For 2017, MSIAC had an approved Personnel Establishment of 10 positions funded by the MSIAC budget (10 for 2016).

End 2017, 8 staff members (7 in 2016) participated in the Defined Contribution Pension Scheme (DCPS) administered by NATO. The DCPS provides that the MSIAC budget makes a 12 percent monthly matching contribution to the staff members' contributions for current service. End 2017, 2 other employees (2 in 2016) participated in NATO's Defined Benefit Pension Scheme (DBPS): a deduction of 9.5% of their salaries is made and contributed to the annual financing of this Plan. In addition, the MSIAC budget makes a monthly matching contribution of 19% to the DBPS. Consequently, the MSIAC

has neither DBPS nor DCPS liabilities for its staff members. These contributions are expensed during the year in which the services are rendered and represent the total pension obligation of the entity.

		2017	2016
Provident Fund	Staff	-	-
	Employer	-	-
	Total	-	-
Co-ordinated Pension Scheme	Staff	12,032.76	11,670.96
	Employer	24,065.52	23,341.92
	Total	36,098.28	35,012.88
Defined Contribution Pension Scheme	Staff	65,379.62	58,926.98
	Employer	77,434.65	70,796.50
	Total	142,814.27	129,723.48
TOTAL	Staff	77,412.38	70,597.94
	Employer	101,500.17	94,138.42
	Total	178,912.55	164,736.36

End 2017, one staff member was employed on a reimbursable basis with an agreement between NATO-IS and the United States (same for 2016). The individual is remunerated and accrues pension rights under the United States pension scheme.

Untaken leave by MSIAC staff is not considered material.

NOTE 25: KEY MANAGEMENT PERSONNEL

The MSIAC Steering Committee (one representative per member nation) is the governing body of the MSIAC. Steering Committee members are nominated by their respective national authorities. They are paid on the basis of applicable national pay scales. The Steering Committee members do not receive from MSIAC or NATO any additional remuneration for Steering Committee responsibilities or access to benefits.

The key management personnel of the MSIAC Office consists of the Project Manager established post (A5). The Project Manager is responsible for the overall operational management of MSIAC.

There are no other remunerations or benefits to key management personnel or their family members.

NOTE 26: RELATED PARTIES

Key management personnel have no significant party relationships that could affect the operation of the MSIAC Office.

In 2017, NATO International Staff charged MSIAC an amount of EUR 82,181.02 for administrative support costs (EUR 63,650.26 in 2016) and EUR 27,404.53 for common operating costs (EUR 27,656.70 in 2016). In addition, the International Staff charges an annual rent for office space occupied in Building Z (EUR 36,125.62 in 2017 and in 2016).

List of acronyms:

BC-	Budget Committee
CNAD	Conference of National Armaments Directors
DI	Defence Investment Division
ERP	Enterprise Resource Planning
IPSAS	International Public Sector Accounting Standards
IS	International Staff
MOU	Memorandum of Understanding
MSIAC	Munitions Safety Information Analysis Centre
NIMIC	NATO Insensitive Munitions Information Centre
PPE	Property, Plant and Equipment



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)0037
29 May 2018

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

Cc: Chairman, MSIAC Steering Committee
Project Manager, MSIAC
Financial Controller, International Staff (IS)
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 Munitions Safety Information Analysis Center (MSIAC) Restated Financial Statements for the year ended 31 December 2016 – IBA-AR(2018)0002***

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 a qualified opinion on the Restated Financial Statements of the MSIAC and on compliance for financial year 2016.

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 Restated Financial Statements of the
Munitions Safety Information Analysis Centre (MSIAC)
for the year ended 31 December 2016**

The Munitions Safety Information Analysis Center (MSIAC) provides a focal point within NATO to assist national and NATO munitions development programmes. The MSIAC project is directed and administered by a Steering Committee and a Project Manager. Budget authorisations for the year 2016 (including brought forward) amounted to EUR 1.73 million while budget expenses amounted to EUR 1.65 million.

The Board issued a qualified opinion on the MSIAC Restated Financial Statements and on compliance for the year ended 31 December 2016.

During the audit, the Board did not make any observations other than those identified during the follow up of the prior year's observations.

In the follow up on the status of the observations from its previous year's audit the Board noted that four observations remained outstanding and two were settled. Two observations continue to be the basis for the audit qualification on compliance and one observation impacts the audit opinion on the 2016 restated financial statements (see Annex 3).

The Auditor's Report (Annex 2) and the Letter of Observations and Recommendations (Annex 3) were issued to the International Staff whose comments have been included, see the Appendix to Annex 3.

29 May 2018

INTERNATIONAL BOARD OF AUDITORS FOR NATO

**AUDITOR'S REPORT ON THE RESTATED FINANCIAL STATEMENTS OF
MUNITIONS SAFETY INFORMATION ANALYSIS CENTRE**

(MSIAC)

FOR THE YEAR ENDED 31 DECEMBER 2016

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

The International Board of Auditors for NATO (Board) audited the accompanying restated financial statements of Munitions Safety Information Analysis Centre (MSIAC), which comprised the Statement of Financial Position as at 31 December 2016, the Statement of Financial Performance, Statement of Changes in Net Assets and Cash Flow Statement for the year then ended and a summary of significant accounting policies and other explanatory notes. The Board also audited the Statement of Budgetary Operations for the year ended 31 December 2016.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the NATO Accounting Framework and the requirements of the NATO Financial Regulations as authorised 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 restated 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 qualified opinion.

Basis for Qualified Opinion on the restated Financial Statements

The comparative 2015 information included in the 2016 restated financial statements is the same as was issued in the 2015 financial statements. We issued a qualified audit opinion on those 2015 financial statements, and as a result, the audit opinion on the 2016 restated financial statements is qualified due to the lack of reliability and comparability of the 2015 comparative information.

Qualified Opinion on the restated Financial Statements

In our opinion, except for the effects and possible effects of the matters described in the section Basis for Qualified Opinion on the restated Financial Statements, the restated financial statements present fairly, in all material respects, the financial position of MSIAC as of 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with the NATO Accounting Framework.

Report on Compliance

Management's Responsibility for Compliance

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

Auditor's Responsibility

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

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

Basis for Qualified Opinion on Compliance

We found that MSIAC at 31 December 2016 held EUR 840,000 of Project Accumulated Surpluses. These Project Accumulated Surpluses are to be used in cases of emergency funding needs, and are a management reserve. Such a management reserve does not comply with Articles 24.2 and 29.3 of the NATO Financial Regulations, which require, respectively, that appropriations which have not been committed shall lapse at the end of

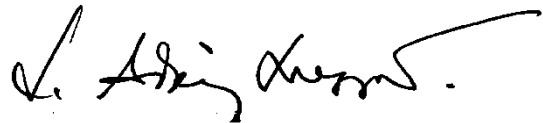
the financial year, and that each contribution instalment shall be calculated to restrict total currency holdings to the minimum to meet forecast payments prior to receipt of the following contribution instalment.

We found that bank balances were not being reconciled during 2016. This represents a material weakness in internal control over financial reporting.

Qualified Opinion on Compliance

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

Brussels, 29 May 2018

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

Hervé-Adrien Metzger
Chairman

NATO UNCLASSIFIED

**ANNEX 3
IBA-AR(2018)0002**

29 May 2018

INTERNATIONAL BOARD OF AUDITORS FOR NATO

**LETTER OF OBSERVATIONS AND RECOMMENDATIONS
FOR THE MUNITIONS SAFETY INFORMATION ANALYSIS CENTRE
(MSIAC)**

FOR THE YEAR ENDED 31 DECEMBER 2016

NATO UNCLASSIFIED

Introduction

The International Board of Auditors for NATO (Board) audited the Munitions Safety Information Analysis Centre (MSIAC) restated Financial Statements for the year ended 31 December 2016 and issued a qualified opinion on those financial statements and on compliance.

Observations and Recommendations

During the audit, the Board identified a number of material inconsistencies, errors and omissions in the 2016 Financial Statements. Based on the Board's findings, MSIAC restated the Financial Statements for 2016 on 31 January 2018.

During the audit, the Board did not identify any current year observations other than those identified during the follow-up of the prior year's observations. The Board found that four observations remained outstanding and two observations were settled. Two observations continue to be the basis for the audit qualification on compliance and one observation impacts the audit opinion on the 2016 restated financial statements.

The Board also issued a Management Letter (reference IBA-AML(2018)0002) with four observations.

FOLLOW-UP OF PREVIOUS YEAR'S OBSERVATIONS

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

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p>(1) MSIAC FY 2015 IBA-AR(2018)0001, paragraph 1</p> <p>USE OF A MANAGEMENT RESERVE FUND NOT IN COMPLIANCE WITH THE REVISED NATO FINANCIAL REGULATIONS (NFRS)</p> <p>Board's recommendation The Board recommends that MSIAC comply with Article 29.3 of the NFRs and restrict currency holdings to the minimum to meet forecast payments prior to receipt of the following contribution instalment. Alternatively, if the MSIAC Steering Committee continues to believe that such a management reserve is necessary, a request for deviation from Articles 24.2 and 29.3 of the NFRs should be made to Council.</p>	<p>The amount in the reserve fund decreased from EUR 955,000 to EUR 840,000. Nevertheless, it is still not in compliance with the NFRs, and continues to be a basis for qualification on compliance.</p> <p>The Board understands that MSIAC intends to seek a deviation from the revised NFRs.</p>	<p>Observation Outstanding.</p>
<p>(2) MSIAC FY 2015 IBA-AR(2018)0001, paragraph 2</p> <p>LATE ISSUANCE OF FINANCIAL STATEMENTS</p> <p>Board's recommendation The Board recommends that MSIAC submit future financial statements by 31 March, the deadline defined in the NFRs.</p>	<p>The 2016 MSIAC initial Financial Statements were received by the Board on 31 March 2017, respecting the requirement of the NFRs.</p>	<p>Observation Settled.</p>
<p>(3) MSIAC FY 2015 IBA-AR(2018)0001, paragraph 3</p> <p>NO ISSUANCE OF STATEMENT OF INTERNAL CONTROL</p> <p>Board's recommendation The Board recommends that MSIAC provide the Board with the signed Statement of Internal Control at the time of the issuance of the financial statements.</p>	<p>A Statement of Internal Control, signed by the Project Manager and the Financial Controller, was issued for MSIAC for 2016 on 31 March 2017.</p>	<p>Observation Settled.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p>(4) MSIAC FY 2015 IBA-AR(2018)0001, paragraph 4</p> <p>NO REGULAR RECONCILIATION OF BANK BALANCES</p> <p>Board's recommendation The Board recommends performing and documenting regular monthly cash reconciliations, which will help to identify misstatements (if any) on a timely basis. This should include signatures of the preparer and the reviewer.</p>	<p>No monthly bank reconciliations were done during 2016, and this continues to be a basis for qualification on compliance.</p> <p>However, a year-end 2016 reconciliation was done before the issuance of the 2016 financial statements.</p>	<p>Observation Outstanding.</p>
<p>(5) MSIAC FY 2015 IBA-AR(2018)0001, paragraph 5</p> <p>MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING</p> <p>Board's recommendation The Board recommends that MSIAC:</p> <p>a) Establish robust internal procedures which would define responsibilities, requirements and controls for the preparation of the financial statements in order to ensure that they are free of material misstatements and other errors or omissions.</p> <p>b) Report in the Statement of Financial Position only the assets and liabilities which are supported by appropriate evidence and to retain supporting documentation for audit purposes.</p> <p>c) Improve internal controls over financial reporting to ensure that all expenses are being recorded in the financial statements in the correct accounting period.</p>	<p>The Board found that improvements were made in financial reporting in 2016. However, there continues to be inconsistencies and errors in the restated 2016 financial statements, and as a result, further improvements are still needed. For example, accrued liabilities were understated by approximately EUR 16,200. The comparative 2015 information disclosed in the Notes 5, 6, 9 of the restated financial statements do not match the face of the financial statements. Also a carry forward balance of EUR 4,300 was incorrectly disclosed as payable instead of deferred revenue.</p> <p>Furthermore, the comparative 2015 information included in the 2016 restated financial statements was the same as that issued in the 2015 financial statements. Since the Board issued a qualified audit opinion on those 2015 financial statements, the audit opinion on the 2016 restated financial statements is</p>	<p>Observation Outstanding.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
	qualified due to the lack of reliability and comparability of the 2015 comparative information.	
<p>(6) MSIAC FY 2015 IBA-AR(2018)0001, paragraph 6</p> <p>EFFORTS TO ACHIEVE COMPLIANCE WITH THE REVISED NATO FINANCIAL REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT</p> <p>Board's recommendation The Board recommends that MSIAC:</p> <p>a) Issues a risk management policy and that risk registers are developed and employed.</p> <p>b) As required by FRP XII 3) (e), chooses a specific internal control framework that it will use to assess its system of internal control. The assessment is required by Article 12 of the NFRs. Since other NATO entities, including ACT and NAPMA, have already adopted COSO as their internal control framework, and it is a framework that can be used by entities of all sizes, MSIAC should consider adopting COSO as their internal control framework.</p> <p>c) In coordination with the International Staff where applicable, begins the 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>d) Through outsourcing if considered to be more cost effective, ensure internal audit activities are evaluating MSIAC risk management and internal control.</p>	<p>For 2016 audit, there were no changes in procedures with regards to internal control, risk management and internal audit.</p>	<p>Observation Outstanding.</p>

**INTERNATIONAL STAFF (IS) FORMAL COMMENTS ON THE
LETTER OF OBSERVATIONS AND RECOMMENDATIONS AND THE
INTERNATIONAL BOARD OF AUDITORS (BOARD) POSITIONS**

FOLLOW-UP OF PREVIOUS YEAR'S OBSERVATIONS

**OBSERVATION 4:
NO REGULAR RECONCILIATION OF BANK BALANCES**

Formal comment of the International Staff

The recommendation is agreed. The process of performing regular reconciliations to the general ledger in addition to the previous reconciliations between the bank statements and the cash management module of the ERP has been introduced in 2017.

**OBSERVATION 5:
MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

Formal comment of the International Staff

The revised 2016 financial statements did not revise 2015 data, however, where possible in the notes, comparable data for 2015 was provided. This is explicitly mentioned as a footnote to each table in Notes 5, 6 and 9 and in a specific paragraph under "Changes in Accounting Policy". We believe this is in the interest of the reader and mitigates the limitations due to the fact that 2015 was not restated.

**OBSERVATION 6:
EFFORTS TO ACHIEVE COMPLIANCE WITH THE REVISED NFRs, PARTICULARLY
THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL
AUDIT**

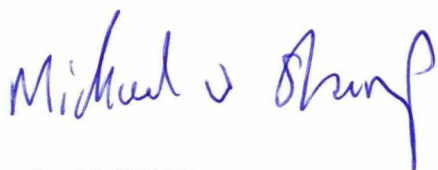
Formal comment of the International Staff

Agreed.

NATO MSIAC
FINANCIAL STATEMENTS
Financial Year 2016

Annexes:

- 1 Statement of financial position
- 2 Statement of financial performance
- 3 Cash flow statement
- 4 Changes in net assets/equity
- 5 Statement of budget execution
- 6 Explanatory notes to the financial statements



Dr. M. SHARP
Project Manager MSIAC



S. CHAGNOT
Financial Controller NATO-IS

NATO MSIAC
Statement of financial position

As at 31 December 2016

				(in EUR)
	Notes	Current Year	Prior Year	Variance
		2016	2015	CY - PY
Assets				
Current assets				
Cash and cash equivalents	3 & 4	1,517,655.56	1,923,461.73	-405,806.17
Short term investments	3			0.00
Receivables	5	168,717.50	14,266.98	154,450.52
Prepayments	6	0.00	721.31	-721.31
Other current assets	6	5,065.48		5,065.48
Inventories	7			0.00
		1,691,438.54	1,938,450.02	-247,011.48
Non-current assets				
Receivables	5			0.00
Property, plant & equipment	8			0.00
Intangible assets	8			0.00
Other non-current assets				0.00
		0.00	0.00	0.00
Total assets		1,691,438.54	1,938,450.02	-247,011.48
Liabilities				
Current liabilities				
Payables	9	704,504.06	902,058.81	-197,554.75
Deferred revenue	10	0.00	17,461.73	-17,461.73
Advances	11		8,000.00	-8,000.00
Short term provisions	12			0.00
Other current liabilities	13	146,637.98	55,942.36	90,695.62
		851,142.04	983,462.90	-132,320.86
Non-current liabilities				
Payables	14			0.00
Long term provisions	14			0.00
Non Current Deferred revenue	14			0.00
Other non-current liabilities	14			0.00
		0.00	0.00	0.00
Total liabilities		851,142.04	983,462.90	-132,320.86
Net assets				
Capital assets				
Reserves				
Accumulated surplus / (deficit)		840,296.50	954,987.12	-114,690.62
Total net assets/ equity	15	0.00	0.00	0.00

NATO MSIAC
Statement of financial performance

As at 31 December 2016

(in EUR)				
	Notes	Current Year	Prior Year	Variance
		2016	2015	CY - PY
Revenue	16			
Non exchange revenue		1,655,956.64	1,536,208.56	119,748.08
Exchange revenue				0.00
Other revenue		225.06	0.00	225.06
Financial revenue		3,346.52	0.00	3,346.52
Total revenue		1,659,528.22	1,536,208.56	123,319.66
Expenses	17			
Personnel		1,207,902.10	1,157,192.63	50,709.47
Contractual supplies and services		448,054.54	379,015.93	69,038.61
Depreciation and amortization				0.00
Impairment				0.00
Provisions				0.00
Other expenses		0.00		0.00
Finance costs		3,571.58		3,571.58
Total expenses		1,659,528.22	1,536,208.56	123,319.66
Surplus/(Deficit) for the period		0.00	0.00	0.00

NATO MSIAC Statement of cash flow

As at 31 December 2016

	(in EUR)	
	2016	2015
Cash flow from operating activities		
Surplus/(Deficit)	0.00	0.00
Non-cash movements		
Depreciation/ Amortisation		
Impairment		
Use of Cash reserves	-114,690.62	-124,401.53
Increase /(decrease) in payables	-197,554.75	259,503.09
Increase/ (decrease) in other current liabilities	65,233.89	42,332.97
Increase/ (decrease) in provisions		0.00
(Gains)/losses on sale of property, plant and equipment		0.00
Decrease/ (Increase) in other current assets	-4,344.17	4,531.12
Decrease/ (Increase) in receivables	-154,450.52	236,527.91
Decrease/ (increase) in other non-current assets		47,110.12
Net cash flow from operating activities	-405,806.17	465,603.68
Cash flow from investing activities		
Purchase of property plant and equipment / Intangible assets		
Proceeds from sale of property plant and equipment		
Net cash flow from investing activities	0.00	0.00
Cash flow from financing activities		
Net cash flow from financing activities	0.00	0.00
Net increase/(decrease) in cash and cash equivalents	-405,806.17	465,603.68
Cash and cash equivalent at the beginning of the period	1,923,461.73	1,457,858.05
Cash and cash equivalent at the end of the period	1,517,655.56	1,923,461.73

NATO MSIAC
Statement of Change in Net Assets/Equity

As at 31 December 2016

(amounts in EUR)

Balance at the end of the period 2014	1,079,388.65
Changes in accounting policy	
Restated balance	
Net gains/(losses) recognised directly in net assets/equity	
Exchange difference on translating foreign operations	
Gain on property revaluation	
Use of Cash Reserves	-124,401.53
Surplus/(deficit) for the period	0.00
Change in net assets/equity for the year ended 2015	-124,401.53
Balance at the end of the period 2015	954,987.12
Changes in accounting policy	
Restated balance	
Net gains/(losses) recognised directly in net assets/equity	
Exchange difference on translating foreign operations	
Gain on property revaluation	
Use of Cash Reserves	-114,690.62
Surplus/(deficit) for the period	0.00
Change in net assets/equity for the year ended 2016	-114,690.62
Balance at the end of the period 2016	840,296.50

NATO MSIAC
Statement of Budget Execution
as at 31 December 2016

(Amounts in euro)	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Final budget	Commitments	Expenses	Total spent	Carry forward	Lapsed
Budget 2016												
Chapter 1	1,340,900.00	6,000.00	1,346,900.00		1,346,900.00		1,346,900.00	0.00	1,289,829.91	1,289,829.91		57,070.09
Chapter 2	369,675.00	(6,000.00)	363,675.00		363,675.00		363,675.00	4,300.00	355,091.31	359,391.31		4,283.69
Chapter 3	-		-		-		-			-		-
Chapter 4	0.00		0.00		0.00		0.00			-		0.00
Total	1,710,575.00	0.00	1,710,575.00	0.00	1,710,575.00	0.00	1,710,575.00	4,300.00	1,644,921.22	1,649,221.22	0.00	61,353.78
Total FY 2016	1,710,575.00	0.00	1,710,575.00	0.00	1,710,575.00	0.00	1,710,575.00	4,300.00	1,644,921.22	1,649,221.22	0.00	61,353.78
Budget 2015												
Chapter 1	7,860.06		7,860.06		7,860.06		7,860.06	0.00	5,463.86	5,463.86		2,396.20
Chapter 2	7,354.77		7,354.77		7,354.77		7,354.77	0.00	1,271.56	1,271.56		6,083.21
Chapter 3	-		-		-		-	-		-		-
Total	15,214.83	0.00	15,214.83	0.00	15,214.83	0.00	15,214.83	0.00	6,735.42	6,735.42	0.00	8,479.41
Total FY 2015	15,214.83	0.00	15,214.83	0.00	15,214.83	0.00	15,214.83	0.00	6,735.42	6,735.42	0.00	8,479.41
Budget 2014												
Chapter 1			0.00		0.00		0.00			-		-
Chapter 2	2,246.90		2,246.90		2,246.90		2,246.90			-		2,246.90
Chapter 3			0.00		0.00		0.00			-		-
Total	2,246.90	0.00	2,246.90	0.00	2,246.90	0.00	2,246.90	0.00	0.00	0.00	0.00	2,246.90
Total FY 2014	2,246.90	0.00	2,246.90	0.00	2,246.90	0.00	2,246.90	0.00	0.00	0.00	0.00	2,246.90
Total all budgets	1,728,036.73	0.00	1,728,036.73	0.00	1,728,036.73	0.00	1,728,036.73	4,300.00	1,651,656.64	1,655,956.64	0.00	72,080.09

**EXPLANATORY NOTES TO MSIAC
2016 FINANCIAL STATEMENTS****NOTE 1: GENERAL INFORMATION**

At the October 1990 Conference of National Armaments Directors (CNAD) meeting, the MOU establishing NATO Insensitive Munitions Information Centre (NIMIC) as a Project Office under CNAD was signed. The project transitioned to cover the wider aspects of Munition Safety in 2004 becoming the Munitions Safety Information Analysis Centre (MSIAC)

MSIAC is a member nations' funded and directed NATO Project office. Its goal is to help nations reduce, and eliminate, the risk to personnel and materiel from explosive incidents associated with own munitions. To help nations realise this goal, the project exchanges and analyses information and technology related to munition safety. MSIAC plays a central role in facilitating member nation's efforts to safely store, design, develop, procure and use safer munitions.

At the end of 2016, MSIAC had twelve participating countries: Australia, Belgium, Canada, Finland, France, Germany, Italy, The Netherlands, Norway, Spain, Sweden, the United Kingdom and the United States. The Republic of Korea was approved for membership at the end of 2013.

The MSIAC Steering Committee (one representative per member nation) is the governing body of the MSIAC. Steering Committee members are nominated by their respective national authorities.

For administrative purposes only, MSIAC is attached to the Defence Investment Division of the IS.

The participating countries pay all operational and administrative costs relating to the Project office, in accordance with an agreed cost-sharing formula.

NOTE 2: ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below.

Declaration of Conformity

The MSIAC financial statements have been prepared in accordance with NATO Financial Regulations (NFR), the Financial Rules and Procedures (FRP) and the NATO Accounting Framework, which is an adapted version of the International Public Sector Accounting Standards (IPSAS).

Basis of Preparation

These financial statements have been prepared on a going-concern basis. The assumption is that MSIAC is a going concern and will continue in operation and meet its objectives and obligations for the foreseeable future.

The financial year is from 1 January to 31 December.

The amounts shown in these financial statements are presented in EUR

MSIAC applied IPSAS 9 Revenue from exchange transactions and IPSAS 23 Revenue from non-exchange transactions.

The following IPSAS have no material effect on the 2015 MSIAC financial statements:

IPSAS 5: Borrowing Costs

IPSAS 6: Consolidated and Separate Financial

IPSAS 7: Investments in Associates.

IPSAS 8: Interests in Joint Ventures
 IPSAS 10: Financial Reporting in Hyperinflationary Economies
 IPSAS 11: Construction Contracts
 IPSAS 16: Investment Property
 IPSAS 21: Impairment of non-cash generating assets
 IPSAS 26: Impairment of Cash-Generating Assets
 IPSAS 27: Agriculture
 IPSAS 32: Service Concession Arrangements: Grantor

Changes in accounting policy

Up until 2015, amounts due to member Nations as lapsed credits in the context of the execution of the MSIAC budget were reported as Payables. As from 2016, this liability towards the contributing Nations is classified as Other Current Liabilities in consideration of the fact that the settlement does not follow the normal accounts payable process, since the standard approach as provided by the NATO Financial Rules and Procedures is to return them to contributing nations via a deduction of the following year's call for budget contributions.

Advances to staff (essentially related to education allowance) were classified as Receivables up to 2015, and are classified under Other Current Assets in 2016.

The 2015 financial statements were not restated nor reclassified and therefore a complete comparability of data may not be possible. However, wherever possible data comparable to that of 2016 is disclosed (see Notes 5 and 9).

Reclassification of Financial Statements of Previous Years

There are no changes to report.

Use of Estimates

In accordance with generally accepted accounting principles, the financial statements include amounts based on estimates and assumptions by management, according to the most reliable information available, judgement and assumptions. Estimates include accrued revenue and expenses. Actual results could differ from those estimates. Changes in estimates are reflected in the period in which they become known.

Foreign Currency Transactions

The MSIAC budget is authorized and managed in EUR so contributions called are made in EUR. Foreign currency transactions as required are accounted for at the NATO exchange rates prevailing on the date of the transactions. Monetary assets and liabilities at year-end which were denominated in foreign currencies were converted into EUR using the NATO rates of exchange applicable at 31 December 2015.

Realised and unrealised gains and losses resulting from the settlement of such transactions and from the revaluation at the reporting dates of monetary assets, and liabilities denominated in foreign currencies are recognised in the Statement of Financial Performance.

MSIAC does not have any unrealised gains and losses resulting from the translation of statements.

Financial Risks

MSIAC uses only non-derivative financial instruments as part of its normal operations. These financial instruments include cash, bank accounts and deposit accounts.

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

The organisation is exposed to a variety of financial risks, including foreign exchange risk, credit risk, currency risk, liquidity risk and interest rate risk.

a. Foreign currency exchange risk

The exposure to foreign currency risk is limited as the majority of the NATO-MSIAC's expenditures are made in EUR, the currency of its budget. The current bank accounts are held in EURO.

b. Credit risk

NATO-MSIAC incurs credit risks from cash and cash equivalent held with banks and from receivables.

The maximum exposure as at 31 December 2015 is equal to the total amount of bank balances, short term deposits and receivables. There is very limited credit risk associated with the realization of these elements.

Concerning cash and cash equivalent NATO MSIAC credit risk is managed by holding current bank accounts and short term highly liquid deposits that are readily convertible to a known amount of cash held with ING Bank (Belgium) which has the following short term credit ratings:

ING Bank Credit Ratings as at 07/02/2017

	Fitch	Moody's	S&P
Short term	F1	NA	A2

The MSIAC outstanding accounts receivable are managed by maintaining control procedures over receivables. Most cash receivables are due from NATO member nations, which are considered credit worthy.

c. Liquidity risk

The liquidity risk, also referred to as funding risk, is based on the assessment as to whether the Organisation will encounter difficulties in meeting its obligations associated with financial liabilities. A liquidity risk could arise from a short term liquidity requirement. There is a very limited exposure to liquidity risk because of the funding mechanism which guarantees contributions in relation to the approved budgets. Some limited risk could be due to the accuracy of budget forecasts. However, past history shows that this process results in surpluses and the budgetary rules provide for revised budgets.

d. Interest rate risk

Except for certain cash and cash equivalent balances, MSIAC's financial assets and liabilities do not have associated interest rates. MSIAC is restricted from entering into borrowings and investments, and, therefore, there is an insignificant interest rate risk. Interest earned is not a budgetary resource but contributes to the surplus owed to Nations.

Current Assets

a. Cash and cash equivalents

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

b. Funds Managed for Third Parties

Funds managed on behalf of third parties are held in cash and are presented as a liability. They are accounted for when cash is effectively received. They are represented as a separate item in the cash flow statement of the entity in order to avoid any confusion.

c. Receivables

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

Contributions receivable are recognised when a call for contribution has been issued to the funding nations. No allowance for loss is recorded with respect to Member countries' assessed contributions receivable.

d. Prepayments

A prepayment is a payment in advance of the period to which it pertains and is mainly in respect of an advance payment made to a third party.

e. Inventories

As mentioned above, NATO's adaptations of IPSAS were spelled out in C-M(2013)0039 of July 2013, which included IPSAS 12 Inventories. It is described as follows:

Control of NATO Inventories was refined with a set of 10 criteria to be used in assessing the level of control of an asset. A positive response on six of the criteria will lead to the asset being capitalised in the Financial Statements if it is above the capitalisation threshold. This is applied from January, 2013.

Criteria that may indicate control of an asset	
The act of purchasing the asset carried out (or resulted from instructions given) by the NATO Reporting Entity.	
The legal title is in the name of the NATO Reporting Entity.	
The asset is physically located on the premises or locations used by the NATO Reporting Entity.	
The asset is physically used by staff employed by the NATO Reporting Entity or staff working under the NATO Reporting Entity's instructions.	
The fact that the NATO Reporting Entity can decide on an alternative use of the asset.	
The fact that the NATO Reporting Entity can decide to sell or to dispose the asset.	
The fact that the NATO Reporting Entity, if it has to remove or destroy the asset, can take the decision to replace it.	
The fact that a representative of the NATO Reporting Entity regularly inspects the asset to determine its current condition.	
The fact that the asset is used in achieving the objectives of the NATO Reporting Entity.	
The fact that the asset will be retained by the NATO Reporting Entity at the end of the activity.	

Capitalisation thresholds relevant to the financial statement are as follow:

Category	Threshold	Basis
Consumables	€50,000	Per location/warehouse
Spare Parts	€50,000	Per location/warehouse
Ammunition	€50,000	Per location/warehouse
Strategic stocks	€50,000	Per location/warehouse

The MSIAC will capitalise inventory which it controls in its financial statements. Where there is a conflict between more than one NATO Reporting Entity as to the control of inventory, only the end-user entity will report the inventory in its financial statements, based on reliable information provided by the NATO services provider entity as defined in individual agreements between the two entities.

The MSIAC will include transportation costs involved in bringing the inventories to their present location and condition in the initial valuation of inventory. These costs will be measured on the actual cost of transportation per item of inventory or by using an apportionment of the global transportation costs of bringing the inventories to their present location and condition across all inventory items in the period.

Transportation costs involved in the subsequent movement of inventory which brings them into operational use will not be included in the value of inventory. The method of measuring these costs will be disclosed.

The MSIAC may consider inventory acquired prior to 1 January 2013 as fully expensed.

For inventory held prior to the 1 January 2013, and not previously recognized as an asset, the MSIAC will provide a brief description of inventory held within their inventory recording systems in the notes to the financial statements. Such disclosure will include as a minimum the types of inventories held, locations where inventories are held and the approximate number of items held per asset category.

Where this adaptation conflicts with another requirement of IPSAS this adaptation shall apply. For the remainder, IPSAS 12 shall apply.

The MSIAC assesses inventories under IPSAS 12. 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. The materiality will be assessed each year.

In consideration of the above thresholds, MSIAC currently has no inventory.

Non-current assets - Fixed assets (Property, Plant & Equipment and Intangible Assets)

a. Property, Plant & Equipment

As mentioned above, NATO's adaptations of IPSAS were spelled out in C-M(2013)0039 of July 2013, which included IPSAS 17 Property Plant and Equipment.

Control of NATO PPE was refined with a set of 10 criteria to be used in assessing the level of control of an asset – they are the same as mentioned above under Inventory. A positive response on six of the criteria will lead to the asset being capitalised in the Financial Statements if it is above the capitalisation threshold. This is applied from January, 2013.

Capitalisation thresholds relevant to the financial statement are as follow:

Category	Threshold	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	€ 30,000	10 years	Straight line
Machinery	€ 30,000	10 years	Straight line
Vehicles	€ 10,000	5 years	Straight line
Aircraft	€200,000	Dependent on type	Straight line
Vessels	€200,000	Dependent on type	Straight line
Mission equipment	€ 50,000	3 years	Straight line
Furniture	€ 30,000	10 years	Straight line
Communications	€ 50,000	3 years	Straight line
Automated information systems	€ 50,000	3 years	Straight line

The MSIAC considers PPE acquired prior to 1 January 2013 as fully expensed. However, existing accounting policies will continue to be applied for any PPE assets already capitalized prior to 1 January 2013. For PPE upgraded after 1 January 2013, only the portion related to the modification will be capitalized.

In consideration of the above thresholds, MSIAC currently has no PPE.

b. Intangible Assets

As mentioned above, NATO's adaptations of IPSAS were spelled out in C-M(2013)0039 of July 2013, which included IPSAS 31 Intangible Assets. It is described as follows:

Control of NATO Intangible Assets was refined with a set of 10 criteria to be used in assessing the level of control of an asset – they are the same as mentioned above under Inventory. A positive response on six of the criteria will lead to the asset being capitalised in the Financial Statements if it is above the capitalisation threshold. This is applied from January, 2013.

NATO Intangible Assets Capitalisation Thresholds - MSIAC will capitalise each intangible asset item above the following agreed NATO thresholds:

Category	Threshold	Depreciation life	Method
Computer software (commercial off the shelf)	€50,000	4 years	Straight line
Computer software (bespoke)	€50,000	10 years	Straight line
Computer database	€50,000	4 years	Straight line
Integrated system	€50,000	4 years	Straight line

MSIAC will capitalise all controlled intangible assets above the NATO Intangible Asset Capitalisation Threshold. For anything below the threshold, the MSIAC will have the flexibility to expense specific items.

MSIAC will capitalise integrated systems and include research, development, implementation and can include both software and hardware elements. But the MSIAC will not capitalise the following types of intangible assets in their financial statements:

- rights of use (air, land and water);
- landing rights;
- airport gates and slots;
- historical documents; and,
- publications

MSIAC will capitalise other types of intangible assets acquired after 1 January 2013 including:

- Copyright
- Intellectual Property Rights
- Software development

MSIAC may consider Intangible Assets acquired prior to 1 January 2013 as fully expensed.

MSIAC will report controlled Intangible assets in its financial statements. Where there is a conflict between more than one NATO Reporting Entity as to the control of intangible assets, only the end-use entity will capitalise the intangible asset in its financial statements based on reliable information provided by the NATO services provider entity as defined in individual agreements between the two entities.

For intangible assets held prior to the 1 January 2013, and not previously recognized as an asset, MSIAC will provide a brief description of intangible assets held in its intangible asset recording systems in the notes to the financial statements. Such disclosure will include as a minimum the types of intangible held, locations where intangible assets are held and the approximate number of items held per asset category.

If an intangible asset is upgraded after 1 January 2013, only the portion related to the modification will be capitalised.

Where this adaptation conflicts with another requirement of IPSAS this adaptation will apply. For the remainder, IPSAS 31 shall apply. This adaptation is effective for financial reporting periods beginning on 1 January 2013.

In consideration of the above thresholds, MSIAC has no Intangible Assets.

Non-Current Assets Other Than PPE

There are none.

Current Liabilities

a. Payables

Payables are amounts due to third parties, including contributing Nations, based on goods received or services provided that remain unpaid. These include estimates of accrued obligations to third parties for goods and services received but not yet invoiced.

b. Advances and Unearned revenue

Advances are contributions received related to future year's budgets. Funds are called in advance of their need because MSIAC has no capital that would allow it to pre-finance any of its activities.

Unearned revenue represents participating nations contributions which have been called for current budgets but that have not yet been recognised as revenue in the absence of any related budgetary expenditure.

c. Other Current Liabilities

Amounts corresponding to the current budgetary surplus (lapsed credits + net interests + miscellaneous income) are considered a liability towards the contributing nations. The settlement does not follow the normal accounts payable process, since the standard approach is to return them to contributing nations via a deduction of the following year's call for budget contributions. This liability is therefore classified under Other Current Liabilities.

This item may include other liabilities that do not result from the standard procure to pay process, such as miscellaneous transactions to be regularized between entities managed by the IS Office of Financial Control.

Non-Current Liabilities

The MSIAC has no non-current liabilities.

Net Assets

Net Assets correspond to MSIAC's Project Accumulated Surplus. Project Accumulated Surplus relates to funds resulting from past years' contributions by MSIAC member Nations in excess of budget execution that the Steering Committee decided not to redistribute to the member nations but keep for the needs of MSIAC. It is held at the direction of the Steering Committee.

Revenue Recognition

Revenue comprises contributions from Member Nations.

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. 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 recognises a liability until the condition is fulfilled.

Contributions to be called from Member Nations, based on the budget they approved, are initially recorded as unearned revenue liabilities. They are recognised as revenue in the statement of financial performance when such contributions are used for their intended purpose as envisioned in the approved Budget.

Transformational adjustments were made in calculating earned revenue and expenses in the Statement of Financial Performance.

Segment Reporting

A segment is a distinguishable activity or group of activities for which it is appropriate to separately report financial information. There is no segment in MSIAC.

Statement of Financial position

NOTE 3: CASH AND CASH EQUIVALENTS

The current bank accounts are held in EUR. Deposits are held in interest-bearing bank accounts, immediately available.

cash (in EUR)	2016	2015
Cash at bank	1,517,541.97	1,923,405.49
Petty cash	113.59	56.24
Total	1,517,655.56	1,923,461.73

NOTE 4: FUNDS MANAGED FOR THIRD PARTIES

MSIAC does not manage funds for third parties.

NOTE 5: ACCOUNTS RECEIVABLE

Receivables (in EUR)	2016	2015*
Budgetary contributions	168,000.00	8,000.00
Others	717.50	149.94
Total	168,717.50	8,149.94

*2015 data is provided for comparability purposes but may not match the face of financial statements since they were not restated.

Contributions receivable from member nations are funds requested from the Nations to finance the current year MSIAC budget. There is one call for contribution per year, which is usually issued at the beginning of the year. No advances are called for the following financial year.

NOTE 6: PREPAYMENTS and OTHER CURRENT ASSETS

Other Current Assets and Prepayments relate to miscellaneous amounts due to the Project Office in relation to services to be delivered in the following years (essentially advances to staff for education allowances or for travel, etc.).

(in EUR)	2016	2015*
Other Current Assets	5,065.48	6,117.04
Total	5,065.48	6,117.04

*2015 data is provided for comparability purposes but may not match the face of financial statements since they were not restated.

NOTE 7: INVENTORIES

Nothing to report, inventories are not considered material.

NOTE 8: NON-CURRENT ASSETS

MSIAC has registered no non-current assets.

NOTE 9: ACCOUNTS PAYABLE

Payables and accrued expenses may be to commercial suppliers, staff, other NATO bodies or MSIAC member Nations.

Payable to suppliers relates to goods and services for which an invoice has been received, checked, and queued for payment but for which payment was still pending at year-end.

Accrued expenses correspond to the estimated accrual obligation to third parties for goods and services received but not yet invoiced.

Payables (in EUR)	2016	2015*
Suppliers	16,473.39	159,940.37
Personnel	400.33	-
Member Nations	683,330.34	555,124.54
Accrued expenses/Education	-	-
Accruals	4,300.00	19,085.31
Total	704,504.06	734,150.22

*2015 data is provided for comparability purposes but may not match the face of financial statements since they were not restated.

Payable to nations

A payable of EUR 683,330.34 (EUR 555,124.54 at year-end 2015) is in relation to the reimbursable salaries and represents the amount due to the United States (US) for one civilian staff member who is paid directly by the US government. This amount remains to be regularised.

NOTE 10: DEFERRED REVENUE**Unearned Revenue**

Unearned revenue corresponds to contributions called for the current year or before (received or receivable) that MSIAC intends to use for its initial purpose, but for which corresponding expenditures will be incurred after the end of the reporting period. If the funds are not spent by the end of the second year following the year for which they were approved, these funds lapse, unless a specific decision is taken by member nations for a further carry-forward. Unearned Revenue may also include committed appropriations for which the service is expected to be delivered by end February of the following year.

NOTE 11: ADVANCES

No advances are called in the context of the standard call for contributions process applicable to MSIAC.

NOTE 12: SHORT TERM PROVISIONS

There are no short term provisions.

NOTE 13: OTHER CURRENT LIABILITIES

Other Current Liabilities include the Current Year Budget Surplus. Amounts corresponding to the current year budgetary surplus (lapsed credits + net interests + miscellaneous income) are considered a liability towards the contributing nations. The settlement does not follow the standard accounts payable process, since the surplus is to be returned to contributing nations via a deduction of the following year's call for budget contributions. To date, the agreed practice of the MSIAC Steering Committee has been to add these amounts to the Project Accumulated Surplus (see note on Net Assets). Lapsed appropriations amounted to EUR 72,080.09 in 2016 (EUR 166,040.40 in 2015).

Current Year Budget Surplus	
(amounts in EUR)	2016
Lapsed Appropriations	72,080.09
Net Financial Income	78.24
Miscellaneous Income	-
Total	72,158.33

This item also includes transactions relating to MSIAC, funded and allocated in accordance with its budget but for which payments were executed in the NATO International Staff bank accounts. These transactions are pending regularisation (EUR 74,479.65).

NOTE 14: NON-CURRENT LIABILITIES AND LONG TERM UNEARNED REVENUE

The long term unearned revenue is unearned revenue in relation to net carrying amounts of Property, Plant and Equipment and intangible assets. Revenue is recognised over the estimated life cycle of the Property, plant and equipment and the intangible assets.

There are no non-current liabilities.

NOTE 15: NET ASSETS

Net Assets correspond to MSIAC's Project Accumulated Surplus.

Project Accumulated Surplus relates to funds resulting from past contributions by MSIAC member Nations in excess of budget execution that the Steering Committee decided not to redistribute to the member nations but keep for the needs of MSIAC. It is held at the direction of the Steering Committee. The Steering Committee may use these funds in case of emergency funding needs for the Project. This Accumulated Surplus originates from previous years' budgetary and financial operations of the MSIAC. The growth in accumulated surplus over previous years reflects more Nations entering the Project but zero growth in Project staff. Over the mid-term the Steering Committees' intent is to keep 5-6 shares worth of reserve funding.

(in EUR)	2016	2015
Cumulated Surplus beginning of the year	954,987.12	1,079,388.65
+ Lapses from previous year	166,040.40	118,811.37
+ Net Financial Costs (Interest, Bank Fees) previous year	1,868.19	1,987.10
+ Miscellaneous Income previous year	- 24.21	-
- Surplus allocated to current year budget	- 282,575.00	- 245,200.00
Cumulated Surplus end of the year	840,296.50	954,987.12

Statement of Financial Performance

NOTE 16: 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.

Revenue from member Nations' budgetary contributions is considered as non-exchange revenue in consideration of the fact that the shares are equal. Non-exchange revenue is matched with expenses stemming from budget execution.

NOTE 17: EXPENSES

Wages, Salaries and Employee Benefits

The personnel costs include all civilian personnel expenses as well as other non-salary related expenses in support of funded activities. They also include expenses for salaries and emoluments for

approved NATO permanent civilian positions and temporary personnel, for other salary related and non-related allowances including overtime, medical examinations, recruitment, installation and removal, and for contracted consultants and training.

Supplies and Consumables Used

This item also includes expenses attributed to Capital Expenses from a budget perspective, if they do not meet the criteria of PPE or Intangible Assets (EUR 38,000 in 2015).

NOTE 18: BUDGET INFORMATION

NATO MSIAC Budget

Presently, the NATO MSIAC Budget is not publicly available.

The actual amounts referred to by IPSAS 24 ("amounts that result from execution of the budget") are considered to be the commitment of credits.

Presentation of budget information in the financial statements

An analysis of the budget execution for the current and the previous year is provided in Annex5. The MSIAC budget execution compares the budget's authorized credits and the actual amounts committed and expended.

The MSIAC budget classification is based on the economic nature of the expenses broken down into three chapters as follows:

Chapter I : Personnel Expenses
Chapter II : Operating Expenses
Chapter III : Capital Costs

The MSIAC Budget is prepared for the same period (1 January to 31 December) and encompasses the same entity as these financial statements.

Changes to the budgetary regulations were introduced by the North Atlantic Council in 2015 in approving a new set of NATO Financial Regulations. The new NATO Financial Regulations were made applicable to the 2015 budget year as from 1 May 2015. They have in particular instilled an accruals based approach to budget preparation and budget execution, whereas before the approach was largely commitment and cash based.

Despite a stronger emphasis on the principle of annual budgets, the approved and executed budget cannot be considered as accruals-based, since the new regulations allow for a number of exceptions, such as carrying forward commitments for goods and services that were expected to be delivered in the course of the year but for various reasons were not, or authority given to the member Nations to allow for special carry forward of appropriations unused at year-end.

The budget execution for 2015 may contain flaws since (a) the budget was prepared and approved in 2014 before the new Financial Regulations were formally approved and (b) two sets of regulations were in force during 2015, with the new ones as from 1 May 2015. In addition, commitments that were carried-forward from previous years into 2015 had been approved and were executed in accordance with the old rules.

The MSIAC budget is prepared and executed as follows:

- 1) The commitment of appropriations is the advance acceptance and recording of the financial consequence resulting from a legal obligation incurred during the financial year. As a consequence appropriations are allocated, and commitments are approved, for goods, services

and works to be delivered at a later stage. Commitments are settled when the service is rendered or goods delivered as is the case for expenses under accrual accounting.

- 2) Unliquidated commitments are carried forward and added to the budget of the following financial year in relation to an existing legal commitment or if a special agreement is given by the Steering Committee. They correspond to services not received or goods not delivered, at year-end, for specific circumstances. Outstanding commitments can be carried forward for two years. As a consequence, the services or goods received may relate to a commitment of appropriations from previous years' budgets. The carry-forward should be justified by a reason for which the services or goods could not be received in the course of the year. In addition, in accordance with Financial Regulations, member Nations may agree to a further carry-forward of commitments that were already carried forward twice.
- 3) Commitments, because they are an advance acceptance, and because payments cannot be made above approved appropriations levels, typically include an estimation factor and are (if only slightly) higher than the actual amount eventually paid. This results in commitments being higher than the actual expenses and in appropriations eventually lapsing.
- 4) Commitments are only made in respect of expenses relating to the initial purpose of the commitment. Commitments for capital expenditures are normally made in the year during which the purchase order is issued. In accrual accounting, the related costs would not appear in the Statement of Financial Performance but in the Balance Sheet and only upon reception of the works, goods or services. Conversely, there is no budgetary commitment of appropriations for non-cash flow transactions such as capital depreciation or provisions which would normally appear in the Statement of Financial Performance under accrual accounting.
- 5) On an exceptional basis, the Steering Committee may approve the carry-forward of credits without any prior legal commitment, for instance for projects at their initiation stage or planned expenditures. In accrual accounting there would be no expense recorded.
- 6) The balance of unused budgetary appropriations (not committed) lapses and is returned to Contributing Nations at year-end. Lapses may include cases where a project was eventually not completed or started, and therefore lead to no expense.

Reconciliation between Budget Execution and Statement of Financial Performance

amounts in EUR	2016
Total Expenditure Statement of Financial Performance	1,659,528.22
PP&E Acquisition, and Depreciation	-
Financial Costs	- 3,571.58
Miscellaneous (Income)	-
Budget Execution Total Expenses	1,655,956.64

Budget execution

The MSIAC budget execution for the current and previous year is shown at Annex 5 and Annex 6 respectively, which compares the budget's authorized appropriations and the actual amounts committed and expended.

Credits are transferred under the authority delegated to the NATO-IS Financial Controller by the NATO Financial Regulations and Financial Rules and Procedures.

Reconciliation between Budget and Calls for Contributions

The funding of the budget is made of a call for contributions, carried over credits and a part of previous years' surplus. There is one call for contribution per year, which is usually issued at the beginning of the year. No advances are called for the following financial year.

As directed by the Steering Committee, the calls covered EUR 1,428,000.

The table below reconciles the approved budget and the sources of funding.

amounts in EUR	2016	2015
Initial Budget	1,710,575.00	1,673,200.00
Revised Budget	-	-
Total Annual Budget	1,710,575.00	1,673,200.00
Advance called previous year	-	-
Call in current year	1,428,000.00	1,428,000.00
Total Cash Calls	1,428,000.00	1,428,000.00
Use of Previous Year's Surplus	-	-
Use of Project Accumulated Surplus	282,575.00	245,200.00
Other Funding Sources	282,575.00	245,200.00
Total Funding	1,710,575.00	1,673,200.00

NOTE 19: WRITE-OFFS

Nothing to report.

NOTE 20: LEASES

MSIAC does not have any financial leases.

NOTE 21: RESTRICTIONS ON FIXED ASSETS

There are no restrictions on fixed assets.

NOTE 22: CONTINGENT LIABILITIES

There have been no contingent liabilities identified that would be expected to result in a material obligation.

NOTE 23: CONTINGENT ASSETS

Nothing to report

NOTE 24: EMPLOYEE DISCLOSURE

Accounting for employee benefits is accounting for any liability in relation to all forms of consideration given by an entity in exchange of service rendered by employees.

It should be noted that the NATO-IS is managing centrally three pension programmes, namely the Defined Benefit Pension Scheme (DBS), the Provident Fund and the Defined Contribution Pension Scheme (DCPS) as well as the Retirees Medical Claims Fund (RMCF), covering staff employed by all NATO bodies. NATO-wide financial statements are issued by NATO-IS Office of Financial Control for the three Pension Schemes and the RMCF, therefore, no related assets or liabilities are recognised in these financial statements.

For 2016, MSIAC had an approved Personnel Establishment of 10 positions funded by the MSIAC budget (10 for 2015).

End 2016, 7 staff members (6 in 2015) participated in the Defined Contribution Pension Scheme (DCPS) administered by NATO. The DCPS provides that the MSIAC budget makes a 12 percent

monthly matching contribution to the staff members' contributions for current service. End 2016, 2 other employees (2 in 2015) participated in NATO's Defined Benefit Pension Scheme (DBPS): a deduction of 9.5% of their salaries is made and contributed to the annual financing of this Plan. In addition, the MSIAC budget makes a monthly matching contribution of 19% to the DBPS. Consequently, the MSIAC has neither DBPS nor DCPS liabilities for its staff members. These contributions are expensed during the year in which the services are rendered and represent the total pension obligation of the entity.

End 2016, one staff member was employed on a reimbursable basis with an agreement between NATO-IS and the United States (same for 2015). The individual is remunerated and accrues pension rights under the United States pension scheme.

Untaken leave by MSIAC staff is not considered material.

NOTE 25: KEY MANAGEMENT PERSONNEL

The MSIAC Steering Committee (one representative per member nation) is the governing body of the MSIAC. Steering Committee members are nominated by their respective national authorities. They are paid on the basis of applicable national pay scales. The Steering Committee members do not receive from MSIAC or NATO any additional remuneration for Steering Committee responsibilities or access to benefits.

The key management personnel of the MSIAC Office consists of the Project Manager established post (A5). The Project Manager is responsible for the overall operational management of MSIAC.

There are no other remunerations or benefits to key management personnel or their family members.

NOTE 26: RELATED PARTIES

Key management personnel have no significant party relationships that could affect the operation of the MSIAC Office.

In 2016, NATO International Staff charged MSIAC an amount of EUR 63,650.26 for administrative support costs (EUR 60,395 in 2015) and EUR 27,656.70 for common operating costs (EUR 29,673.21 in 2015). In addition, the International Staff charges an annual rent for office space occupied in Building Z (EUR 36,125.62 in 2016 and in 2015).

* * * * *

List of acronyms:

BC-	Budget Committee
CNAD	Conference of National Armaments Directors
DI	Defence Investment Division
ERP	Enterprise Resource Planning
IPSAS	International Public Sector Accounting Standards
IS	International Staff
MOU	Memorandum of Understanding
MSIAC	Munitions Safety Information Analysis Centre
NIMIC	NATO Insensitive Munitions Information Centre
PPE	Property, Plant and Equipment



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)0036
29 May 2018

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

Cc: Chairman, MSIAC Steering Committee
Project Manager, MSIAC
Financial Controller, International Staff (IS)
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 Munitions Safety Information Analysis Center (MSIAC) Financial Statements for the year ended 31 December 2015 – IBA-AR(2018)0001***

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 a qualified opinion on the Financial Statements of the MSIAC and on compliance for financial year 2015.

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
Munitions Safety Information Analysis Centre (MSIAC)
for the year ended 31 December 2015**

The Munitions Safety Information Analysis Center (MSIAC) provides a focal point within NATO to assist national and NATO munitions development programmes. The MSIAC project is directed and administered by a Steering Committee and a Project Manager. Budget authorizations for the year 2015 (including brought forward) amounted to EUR 1.72 million while budget expenses amounted to EUR 1.55 million.

The Board issued a qualified opinion on the MSIAC Financial Statements and on compliance for the year ended 31 December 2015.

During the audit, the Board made six observations and provided recommendations. These findings are in the Letter of Observations and Recommendations (Annex 3).

The main findings are listed below. Observations 1 to 4 impact the audit opinion on compliance and observation 5 impacts the audit opinion on the financial statements and on compliance. Observation 6 does not impact the audit opinion.

1. Use of a management reserve fund not in compliance with the revised NFRs.
2. Late issuance of financial statements.
3. No issuance of Statement of Internal Control.
4. No regular reconciliation of bank balances.
5. Material weaknesses in internal control over financial reporting.
6. Efforts to achieve compliance with the revised NATO Financial Regulations (NFRs), particularly those articles on internal control, risk management and internal audit.

The Board also followed up on the status of the observations from its previous year's audit and noted that they were superseded by the current year's observations (see Annex 3).

The Auditor's Report (Annex 2) and the Letter of Observations and Recommendations (Annex 3) were issued to the International Staff whose comments have been included, see the Appendix to Annex 3.

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**ANNEX 2
IBA-AR(2018)0001**

29 May 2018

INTERNATIONAL BOARD OF AUDITORS FOR NATO

**AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF
MUNITIONS SAFETY INFORMATION ANALYSIS CENTRE
(MSIAC)**

FOR THE YEAR ENDED 31 DECEMBER 2015

NATO UNCLASSIFIED

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

The International Board of Auditors for NATO (Board) audited the accompanying financial statements of the Munitions Safety Information Analysis Centre (MSIAC), which comprised the statement of financial position as at 31 December 2015, and the statement of financial performance, statement of changes in net assets/equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The Board also audited the statement of budget execution for the year ended 31 December 2015.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the NATO Accounting Framework and the requirements of the NATO Financial Regulations as authorised 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 qualified opinion.

Basis for Qualified Opinion on the Financial Statements

We found that the Budget Execution Statement was incorrectly presented. Further, material balances under Cash and Other Current Liabilities were unsupported as well as the Cash Flow Statement was incorrectly presented. Finally, Accumulated Surplus was reported under Net Assets whereas it was reported under Payables in 2014. This is a change in accounting policy and the reasons justifying the change were not provided to us or disclosed in the notes to the financial statements. Further details are provided in observation 6 in the Letter of Observations and Recommendations accompanying this report.

Qualified Opinion on Financial Statements

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

Report on Compliance*Management's Responsibility for Compliance*

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

Auditor's Responsibility

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

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

Basis for Qualified Opinion on Compliance

We found that MSIAC at 31 December 2015 held EUR 955 thousand of Project Accumulated Surpluses. These Project Accumulated Surpluses are to be used in cases of emergency funding needs, and are a management reserve. Such a management reserve does not comply with Articles 24.2 and 29.3 of the NFRs, which require, respectively, that appropriations which have not been committed shall lapse at the end of the financial year, and that each contribution instalment shall be calculated to restrict total currency holdings to the minimum to meet forecast payments prior to receipt of the following contribution instalment.

The NFRs require the financial statements to be submitted for audit to us by the Financial Controller not later than 31 March following the end of the financial year. The MSIAC financial statements for the year ended 31 December 2015 were not submitted until 20 July 2016. The NFRs also require the Statement of Internal Control to be signed annually by the Head of NATO Body and the Financial Controller. No Statement of Internal Control was issued for 2015.

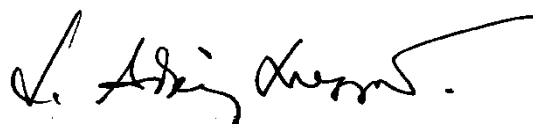
The NFRs require the establishment of a system of internal control. We found material weaknesses in internal control over financial reporting at MSIAC. Material misstatements and other errors were identified by us during the audit which had not been prevented or detected by internal controls over financial reporting.

Finally, we also found that bank balances were not being reconciled during 2015. This represents a material weakness in internal control over financial reporting.

Qualified Opinion on Compliance

In our opinion, except for the matters described above in the *Basis for Qualified Opinion on Compliance* paragraph, in all material respects the financial transactions and information reflected in the financial statements of MSIAC are in compliance with the NFRs 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 MUNITIONS SAFETY INFORMATION ANALYSIS CENTRE

(MSIAC)

FOR THE YEAR ENDED 31 DECEMBER 2015

Introduction

The International Board of Auditors for NATO (Board) audited the Munitions Safety Information Analysis Centre (MSIAC) Financial Statements for the year ended 31 December 2015, and issued a qualified opinion on the financial statements and on compliance.

Observations and Recommendations

During the audit, the Board made 6 observations.

Four observations impact the audit opinion on compliance:

1. Use of a management reserve fund not in compliance with the revised NFRs.
2. Late issuance of financial statements.
3. No issuance of Statement of Internal Control.
4. No regular reconciliation of bank balances.

One observation impacts the audit opinion on the financial statements and on compliance:

5. Material weaknesses in internal control over financial reporting.

One observation do not impact the audit opinions:

6. Efforts to achieve compliance with the revised NATO Financial Regulations (NFRs), particularly those articles on internal control, risk management and internal audit.

The Board also followed up on the status of two outstanding observations from its previous year's audit and found that both were superseded by current year observations.

The Board also issued a Management Letter (reference IBA-AML(2018)0002) with four observations.

OBSERVATION AND RECOMMENDATION**1. USE OF A MANAGEMENT RESERVE FUND NOT IN COMPLIANCE WITH THE REVISED NFRs****Reasoning**

1.1 Article 24.2 of the revised NFRs requires that appropriations which have not been committed shall lapse at the end of the financial year. Article 25.6 of the revised NFRs states that the finance committee if empowered by the governing body may agree, before 31 December, to a special carry forward of uncommitted appropriations for a clearly identified purpose following receipt by 1 December of a special request with suitable justification. Furthermore, Article 29.3 of the revised NFRs requires that each contribution instalment shall be calculated to restrict total currency holdings to the minimum to meet forecast payments prior to receipt of the following contribution instalment.

Observation

1.2 The Board found that MSIAC, as at 31 December 2015, held EUR 955,000 of Project Accumulated Surpluses. The Project Accumulated Surpluses were to be used in cases of emergency funding needs and not for a clearly identified purpose (i.e., management reserve). The accumulated surplus consists mainly of lapsed credits that are added yearly to the balances. The Board found that due to the accumulated surplus, the total currency holdings exceed the minimum balance needed until the next call for contributions is received as required by Article 29.3 of the revised NFRs.

Recommendation

1.3 The Board recommends that MSIAC comply with Article 29.3 of the NFRs and restrict currency holdings to the minimum to meet forecast payments prior to receipt of the following contribution instalment. Alternatively, if the MSIAC Steering Committee continues to believe that such a management reserve is necessary, a request for deviation from Articles 24.2 and 29.3 of the NFRs should be made to the North Atlantic Council (Council).

2. LATE ISSUANCE OF FINANCIAL STATEMENTS**Reasoning**

2.1 Article 35 of the NFRs states that: *“An annual financial statement for each NATO body, consolidated where applicable and appropriate, shall be submitted for audit to the International Board of Auditors for NATO by the Financial Controller not later than 31 March following the end of the financial year.”*

Observation

2.2 The 2015 MSIAC Financial Statements were not received by the Board until 20 July 2016, almost four months later than required by the NFRs. This does not enable the Board to properly plan and carry out financial statement audits and to report its results to the Council on a timely basis. This also limits, in part, the usefulness of the financial statements.

Recommendation

2.3 The Board recommends that MSIAC submit future financial statements by 31 March, the deadline defined in the NFRs.

3. NO ISSUANCE OF STATEMENT OF INTERNAL CONTROL

Reasoning

3.1 According to Article 3 of the NFRs, paragraphs 3.1 and 3.2, the Head of NATO Body is responsible and accountable for sound financial management and shall put in place the necessary governance arrangements to ensure and maintain this. This shall include, but is not limited to, the establishment and maintenance of financial governance, resource management practices, internal controls and financial information systems to achieve the efficient and effective use of resources. The adherence to the above is confirmed annually by signature of the financial statements and the Statement of Internal Control. Both documents should be signed by the Head of the NATO Body and the Financial Controller.

Observation

3.2 A Statement of Internal Control, signed by the Project Manager and the Financial Controller, was not issued for MSIAC for 2015.

Recommendation

3.3 The Board recommends that MSIAC provide the Board with the signed Statement of Internal Control at the time of issuance of the financial statements.

4. NO REGULAR RECONCILIATION OF BANK BALANCES

Reasoning

4.1 According to paragraph VI 4) (c) of the NATO Financial Rules and Procedures (FRPs), the Financial Controller shall ensure that all accounts are reconciled and verified on a regular basis, and all activities with financial implications, including multinational and non-appropriated fund activities, controlled by periodic inspection.

Observation

4.2 The Board found that the International Staff's Office of Financial Control did not perform monthly reconciliations of cash balances between the accounting system and bank statements for 2015. Monthly reconciliations can only be performed after all bank transactions have been recorded and reconciled in the New Enterprise Resource Planning (ERP). This did not happen because there were a significant amount of unreconciled and unprocessed bank transactions in the ERP in 2015.

Recommendation

4.3 The Board recommends that MSIAC perform and document regular monthly cash reconciliations, which will help to identify misstatements (if any) on a regular basis in accordance with the FRPs. This should include signatures of the preparer and the reviewer.

5. MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Reasoning

5.1 The NFRs require the Financial Controller to exercise the responsibility of budgeting, accounting and reporting activities of the NATO entity. This includes being responsible for the financial internal control system established, and for the preparation of the financial statements in accordance with the NATO Accounting Framework.

Observations

5.2 The Board found the following material misstatements or unsupported balances:

- a) The detailed listing of payables does not reconcile with the balance reported in the Statement of Financial Position. This is made up of a number of differences which net to EUR 16,480. The Board made inquiries about these differences but did not receive a reply.
- b) A negative balance of EUR 45,011 was booked in the accounting system to cash for which the Board did not receive supporting documentation.
- c) The Budget Execution Statement was incorrectly presented. The amounts disclosed as the initial budget per chapter were incorrect and did not agree to the initial approved budget. Further, no budget transfers were disclosed although transfers of at least EUR 74,629 should have been reported between Chapter 1 and Chapter 2 to cover the reported expenditure. Also, no carry forwards are reported in the budget execution statement, although there were carry forwards of EUR 15,217.

- d) The balances presented in the Cash Flow Statement did not reconcile with the balances in the Statement of Financial Position and Statement of Financial Performance as should be the case. For instance, the increase in payable was reported as EUR 259,503 in the Cash Flow Statement, whereas it was EUR 296,445 according to the Statement of Financial Position. Also, a net deficit was reported in the Cash Flow Statement as EUR 124,401, whereas the Statement of Financial Performance presents a zero net surplus/deficit. Similar differences were found in Other Current and Non-Current liabilities. The Board made inquiries as to the difference in the net deficit, which also is shown in the Statement of Changes in Net Assets, but no explanation could be provided by MSIAC or the IS.
- e) The Statement of Changes in Net Assets did not present comparative 2014 balances as required by the NATO Accounting Framework.
- f) The project accumulated surplus was reported under Net Assets, whereas it was reported under payables in 2014. This is a change in accounting policy and the reasons for it were not disclosed in the notes to the financial statements, which is required by the NATO Accounting Framework. The Board inquired as to the reasons for the change, but did not receive a reply.
- g) Other current liabilities were reported for an amount of EUR 55,942 and for which no supporting documentation was provided.
- h) The testing of supplies and consumables expenses revealed that some transactions related to 2016 were reported as expenses in 2015. This means that expenses were overstated by EUR 19,520.
- i) Numerous other immaterial misstatements were also found in receivables, advances and prepayments.

Recommendations

5.3 The Board recommends that MSIAC:

- a) Establish robust internal procedures which would define responsibilities, requirements and controls for the preparation of the financial statements in order to ensure that they are free of material misstatements and other errors or omissions.
- b) Report in the Statement of Financial Position only the assets and liabilities which are supported by appropriate evidence and to retain supporting documentation for audit purposes.
- c) Improve internal controls over financial reporting to ensure that all expenses

are being recorded in the financial statements in the correct accounting period.

6. EFFORTS TO ACHIEVE COMPLIANCE WITH THE REVISED NFRs, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT

Reasoning

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

6.2 The revised NFRs are more explicit than the previous version in the areas of Risk Management (Article 11), Internal Control (Article 12), Internal Audit (Article 13) and the establishment of an Audit Advisory Panel (Article 16). They require the establishment of effective, efficient and economical risk management procedures, that there are necessary management functions in place to support effective internal control, and that NATO bodies have access to a permanent, adequately resourced, internal audit function that is compliant with internationally accepted Internal Auditing Standards. They also require the establishment of an Audit Advisory Panel. Article 25 authorises the commitment of budgetary credits for goods and services to be rendered during the financial year.

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

Observations

6.4 The Board found that MSIAC made limited progress towards achieving compliance with the revised NFRs.

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

6.6 As a result, 2015 continues to be a transition year for MSIAC. The Board expects compliance to be achieved in 2017. It has again chosen to report on the progress against certain of these revised Articles of the NFRs, and to make recommendations against that progress. The compliance audit opinion will not be impacted in 2015 as a result of these observations.

6.7 The Board reports the status of the following areas:

Article 11 Risk Management

6.7.1 The Board found that MSIAC has a risk management process which focuses on operational risks. Financial risk management standards have not been established yet. Therefore MSIAC's risk register does not incorporate financial risks.

Article 12 Internal Control

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

6.7.3 The Board found that MSIAC has not yet formally adopted a specific Internal Control Framework to be used to assess the system of internal control in place as required by FRP XII. A number of other NATO bodies, including the Allied Command Operations, the Allied Command Transformation, the NATO Communications and Information Organisation, the NATO EF 2000 and Tornado Development, Production and Logistics Management Agency and the NATO Airborne Early Warning and Control Programme Management Agency, have adopted the Committee of Sponsoring Organisations of the Treadway Commission (COSO) Framework. The adoption of a specific framework by these NATO bodies is an important step forward. It is essential in order to ensure and to clearly demonstrate to others that a complete system of internal control and risk management is in place. Until MSIAC adopts a specific internal control framework, and completes its documentation and assessment of its internal control system against it, the Board will not be in a position to state that there is a full system of internal control in place that is in accordance with Article 12 of the revised NFRs.

Article 13 Internal Audit

6.7.4 The Board found that no internal audit activities were performed related to MSIAC. As a result, it cannot yet be stated that MSIAC has undertaken internal audit activities to fully evaluate, throughout the organisation, the risk exposures and the effectiveness of internal controls in managing risk within the governance, operations and information systems as required by Article 13.

Article 16 Audit Advisory Panel

6.7.5 The Board found that the IS Audit Advisory Panel serves as the panel for MSIAC. A first meeting of this panel occurred in the last quarter of 2017.

Recommendations

6.8 The Board recommends that MSIAC:

- a) Issue a risk management policy and that risk registers are developed and employed.
- b) As required by FRP XII 3) (e), chooses a specific internal control framework that it will use to assess its system of internal control. The assessment is required by Article 12 of the NFRs. Since other NATO entities, including ACT and NAPMA, have already adopted COSO as their internal control framework, and it is a framework that can be used by entities of all sizes, MSIAC should consider adopting COSO as their internal control framework.
- c) In coordination with the IS where applicable, begins the work of assessing and documenting the system of internal control and risk management procedures to support compliance with NFR Articles 11 and 12, FRPs XI and XII, and the internal control framework that it chooses.
- d) Through outsourcing if considered to be more cost effective, ensure internal audit activities are evaluating MSIAC risk management and internal control.

FOLLOW-UP OF PREVIOUS YEAR'S OBSERVATIONS

The Board reviewed the status of the observation and recommendation arising from previous year's audits. This observation and its status is summarised in the table below.

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p>(1) MSIAC FY 2014 IBA-AR(2015)38, paragraph 1</p> <p>DELAY IN ISSUING THE 2014 FINANCIAL STATEMENTS</p> <p>Board's recommendation The Board recommended that the preparation, review and publication of the financial statements be completed by the required deadline of the NFRs.</p>	<p>The 2015 financial statements were issued on 20 July 2016, not respecting the deadline of 31 March in the NFRs.</p>	<p>Observation Superseded by the current year observation 2.</p>
<p>(2) MSIAC FT 2014 IBA-AR(2015)38, paragraph 2</p> <p>EXCESS IN THE RESERVE FUND LEVEL</p> <p>Board's recommendation The Board found that the amount in the Reserve Fund at 31 December 2014 was EUR 1.079 million, representing an increase of EUR 157 thousand as compared to the prior year. This level corresponds to almost thirteen shares, which is in excess of the level that was established as appropriate for the Reserve Fund by the SC.</p> <p>The Board recommended that the Reserve Fund should be kept within the five share limit (EUR 420,000) level that was decided by the Steering Committee.</p>	<p>In the 2015 financial statements, the Reserve Fund at year-end amounted to EUR 954,987.</p>	<p>Observation Superseded by the current year observation 1.</p>

**INTERNATIONAL STAFF (IS) FORMAL COMMENTS ON THE
LETTER OF OBSERVATIONS AND RECOMMENDATIONS AND THE
INTERNATIONAL BOARD OF AUDITORS (BOARD) POSITIONS**

**OBSERVATION 1:
USE OF A MANAGEMENT RESERVE FUND NOT IN COMPLIANCE WITH THE
REVISED NFRs**

Formal comment of the International Staff

The Steering Committee notes the Board's recommendation. At the NATO MSIAC Steering Committee March 2016 (SC23), the Committee reaffirmed that they consider the continued provision of a reserve to be essential to the operation of the MSIAC Project. This reserve includes joining fees paid by incoming member nations to contribute to the products and services developed over the 25 years of MSIAC operations. As such it is used to contribute to future costs associated with MSIAC operations. A five year plan is agreed yearly and incrementally reduces this fund to target levels agreed by the MSIAC SC. At the Steering Committee meeting October 2017 (SC26), the nations agreed to a target range between 1M and 650k.

Application for a deviation from the revised NFRs will be sought.

**OBSERVATION 2:
LATE ISSUANCE OF FINANCIAL STATEMENTS**

Formal comment of the International Staff

Agreed. The 2016 financial statements were issued on time.

**OBSERVATION 3:
NO ISSUANCE OF STATEMENT OF INTERNAL CONTROL**

Formal comment of the International Staff

Agreed. A Statement of Internal Control was issued for 2016.

**OBSERVATION 4:
NO REGULAR RECONCILIATION OF BANK BALANCES**

Formal comment of the International Staff

The recommendation is agreed. The process of performing regular reconciliations to the general ledger in addition to the previous reconciliations between the bank statements and the cash management module of the ERP has been introduced in 2017.

**OBSERVATION 5:
MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

Formal comment of the International Staff

Agreed.

**OBSERVATION 6:
EFFORTS TO ACHIEVE COMPLIANCE WITH THE REVISED NFRs, PARTICULARLY
THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL
AUDIT**

Formal comment of the International Staff

Agreed. The risk register is regularly reviewed by the Steering Committee. MSIAC will formalise the adoption of COSO as its internal control framework. For what concerns internal audit, MSIAC benefits from the IS internal audit activity since all the administrative, human, financial support it gets is provided by NATO-IS which is subject to internal audit by the IS Internal Audit Service. Other internal audit activities would have to take into account the cost benefit considering the relatively small size of the MSIAC budget.

NATO MSIAC
FINANCIAL STATEMENTS AS AT 31/12/2015
FINANCIAL YEAR 2015

Annexes :

- 1 Statement of financial position
- 2 Statement of financial performance
- 3 Cash flow statement
- 4 Changes in net assets/equity
- 5 Budget execution 2015
- 6 Budget execution 2014
- 7 Explanatory notes to the financial statements

NATO MSIAC
STATEMENT OF FINANCIAL POSITION
As at 31 December 2015

(All amounts in Euro)				
	Notes	Current Year	Prior Year	Variance
		2015	2014	CY - PY
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents	3 & 4	1,923,461.73	1,457,858.05	465,603.68
Short Term Investments	3	-	-	-
Receivables	5	14,266.98	244,000.00	-229,733.02
Prepayments	6	721.31	7,516.20	-6,794.89
Other Current Assets	6	-	4,531.12	-4,531.12
Inventories	7	-	-	-
Total Current Assets		1,938,450.02	1,713,905.37	224,544.65
NON CURRENT ASSETS				
Receivables	5	-	-	-
Property, Plant and Equipment	8	-	-	-
Other Non-current Assets	8	-	-	-
Total Non-Current Assets		-	-	-
TOTAL ASSETS		1,938,450.02	1,713,905.37	224,544.65
LIABILITIES				
Current Liabilities				
Payables	9	902,058.81	605,114.14	296,944.67
Deferred Revenue	10	17,461.73	21,274.16	3,812.43
Advances	11	8,000.00	8,000.00	-
Short Term Provisions	12	-	-	-
Other Current Liabilities	13	55,942.36	128.42	55,813.94
Total Current Liabilities		983,462.90	634,516.72	348,946.18
NON CURRENT ASSETS				
Long Term Provisions	14	0.00	0.00	0.00
Non Current Deferred Revenue	14	0.00	0.00	0.00
Other Non Current Liabilities	14	0.00	0.00	0.00
Total Non Current Assets		0.00	0.00	0.00
TOTAL LIABILITIES		983,462.90	634,516.72	348,946.18
NET ASSETS	15	954,987.12	1,079,388.65	-124,401.53

NATO MSIAC
STATEMENT OF FINANCIAL PERFORMANCE
As at 31 December 2015

(All amounts in EUR)				
	Notes	Current Year	Prior Year	Variance
		31-Dec-15	31-Dec-14	CY - PY
Revenue	16			
Revenue from non-exchange transactions		1,536,208.56	1,390,292.78	145,915.78
Financial Revenue		0.00	4,531.12	-4,531.12
Other revenue		0.00	0.00	0.00
Total Revenue		1,536,208.56	1,394,823.90	141,384.66
Expenses	17			
Wages, salaries and employee benefits		1,157,192.63	1,170,480.50	-13,287.87
Supplies and consumables used		379,015.93	219,812.28	159,203.65
Financial Costs		0.00	2,544.02	-2,544.02
Other expenses (interest to be reimbursed to nations)		0.00	1,987.10	-1,987.10
Total Expenses		1,536,208.56	1,394,823.90	141,384.66
Surplus/Deficit for the period		0.00	0.00	0.00

NATO MSIAC
Statement of cash flow

As at 31 December 2015

	(All amounts in euros)
	2015
	2014
Cash flow from operating activities	465,603.68
Surplus/(Deficit)	-124,401.53
Non-cash movements	0.00
Depreciation/ Amortisation	0.00
Impairment	0.00
Increase /(decrease) in payables	259,503.09
Increase/ (decrease) in other current liabilities	-92,603.43
Increase/ (decrease) in provisions	20,749.16
(Gains)/losses on sale of property, plant and equipment	0.00
Increase/ (decrease) in other current assets	0.00
Decrease/ (Increase) in receivables	4,531.12
Increase/ (decrease) in other NON current liabilities	-586.62
Net cash flow from operating activities	236,527.91
	590,005.21
Cash flow from investing activities	-61,792.19
Purchase of property plant and equipment / Intangible assets	0.00
Proceeds from sale of property plant and equipment	0.00
Net cash flow from investing activities	0.00
Cash flow from financing activities	0.00
Net cash flow from financing activities	0.00
Net increase/(decrease) in cash and cash equivalents	0.00
	465,603.68
	-61,792.19
Cash and cash equivalent at the beginning of the period	1,457,858.05
Cash and cash equivalent at the end of the period	1,519,650.24
	1,923,461.73
	1,457,858.05

NATO MSIAC

STATEMENT OF CHANGES IN NET ASSETS AS AT 31/12/2015

(in EUR)

	Accumulated surpluses/(deficits)
Balance at 31 December 2014	1,079,388.65
Net gains (losses) recognized directly in net assets/equity	-124,401.53
Currency translation differences	0.00
Surplus on property revaluation	0.00
Surplus (deficit) for the period	0.00
Net for the period	-124,401.53
Balance at 31 December 2015	954,987.12

(1) fixed assets in progress

NATO MSIAC
Statement of Budget Execution as at 31 December 2015

(amounts in euro)	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Final budget	Commitments	Expenses	Total spent	Carry	Lapsed
MSIAC												
Chapter 1	1,312,646.30	-	1,312,646.30	-	1,312,646.30	-	1,312,646.30	7,860.06	1,158,678.39	1,166,538.45	-	146,107.85
Chapter 2	360,553.70	-	360,553.70	-	360,553.70	-	360,553.70	7,354.77	333,367.23	340,722.00	-	19,831.70
Chapter 3	-	-	-	-	-	-	-	-	-	-	-	-
Total FY 2015	1,673,200.00	-	1,673,200.00	-	1,673,200.00	-	1,673,200.00	15,214.83	1,492,045.62	1,507,260.45	-	165,939.55
MSIAC												
Chapter 1	5,777.04	-	5,777.04	-	5,777.04	-	5,777.04	-	5,777.04	5,777.04	-	-
Chapter 2	2,753.65	-	2,753.65	-	2,753.65	-	2,753.65	2,246.90	385.90	2,632.80	-	120.85
Chapter 3	38,000.00	-	38,000.00	-	38,000.00	-	38,000.00	-	38,000.00	38,000.00	-	-
Total FY 2014	46,530.69	-	46,530.69	-	46,530.69	-	46,530.69	2,246.90	44,162.94	46,409.84	-	120.85
MSIAC												
Chapter 1	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 2	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 3	-	-	-	-	-	-	-	-	-	-	-	-
Total FY 2013	-	-	-	-	-	-	-	-	-	-	-	-
Total MSIAC	1,719,730.69	-	1,719,730.69	-	1,719,730.69	-	1,719,730.69	17,461.73	1,536,208.56	1,553,670.29	-	166,060.40

NATO MSIAC

Statement of Budget Execution for Financial Year 2014

n = 2014

(en EUR / in EUR)

CHAPTER Article		BUDGET AUTHORISATIONS			COMMITMENTS	EXPENDITURES	BUDGETARY SURPLUS	
		BUDGET (ref.)	AUTHORIZED TRANSFERS	ADJUSTED CREDITS			Credits carried forward to n+1	Lapsed credits
		MSIAC(SC)DS/18						
		(1)	(2)	(3) = (1)+(2)	(4)	(5)	(6) = (4) - (5)	(7) = (3) - (4)
I.	PERSONNEL COSTS							
01.01.01	Basic salaries	700,000.00	0.00	700,000.00	682,601.53	682,601.53	0.00	17,398.47
01.01.02	Allowances	334,000.00	0.00	334,000.00	315,503.73	315,503.73	0.00	18,496.27
01.01.07	Medical examinations	200.00	0.00	200.00	54.00	54.00	0.00	146.00
01.02	Other personnel expenses	50,000.00	0.00	50,000.00	32,715.43	32,715.43	0.00	17,284.57
01.04	Administrative support	58,000.00	0.00	58,000.00	56,225.87	56,225.87	0.00	1,774.13
01.05	Consultants + Temps	137,000.00	-37,150.00	99,850.00	89,156.98	83,379.94	5,777.04	10,693.02
	Financial year n	1,279,200.00	-37,150.00	1,242,050.00	1,176,257.54	1,170,480.50	5,777.04	65,792.46
	Carried forward:							
	Financial year n-1	3,515.80	0.00	3,515.80	3,515.80	3,515.80	0.00	0.00
	Financial year n-2	0.00	0.00	0.00	0.00	0.00	0.00	0.00
		1,282,715.80	-37,150.00	1,245,565.80	1,179,773.34	1,173,996.30	5,777.04	65,792.46
II.	COMMON OPERATING COSTS							
02.01	Missions	74,500.00	-1,000.00	73,500.00	63,331.40	62,916.60	414.80	10,168.60
02.02	supplies	6,000.00	1,000.00	7,000.00	6,166.26	5,585.22	581.04	833.74
02.03	Communications	14,250.00	0.00	14,250.00	13,588.00	13,307.60	280.40	662.00
02.05	Buildings	70,000.00	-2,250.00	67,750.00	66,218.48	66,218.48	0.00	1,531.52
02.06	Representation	5,000.00	0.00	5,000.00	4,696.02	4,520.75	175.27	303.98
02.07	Library, information	3,000.00	2,250.00	5,250.00	5,039.81	5,039.81	0.00	210.19
02.08	Technical supp & equip	22,000.00	0.00	22,000.00	5,904.30	5,904.30	0.00	16,095.70
02.09	Miscellaneous and Unforeseen	15,000.00	0.00	15,000.00	0.00	0.00	0.00	15,000.00
	Financial year n	209,750.00	0.00	209,750.00	164,944.27	163,492.76	1,451.51	44,805.73
	Carried forward:							
	Financial year n-1	7,365.92	0.00	7,365.92	6,840.92	6,840.92	0.00	525.00
	Financial year n-2	0.00	0.00	0.00	0.00	0.00	0.00	0.00
		217,115.92	0.00	217,115.92	171,785.19	170,333.68	1,451.51	45,330.73
III.	CAPITAL COSTS							
03.01	Technical expenses	33,000.00	37,150.00	70,150.00	63,055.38	23,753.24	39,302.14	7,094.62
03.02	Equipment	400.00	0.00	400.00	0.00	0.00	0.00	400.00
	Financial year n	33,400.00	37,150.00	70,550.00	63,055.38	23,753.24	39,302.14	7,494.62
	Carried forward:							
	Financial year n-1	343.98	0.00	343.98	150.42	150.42	0.00	193.56
	Financial year n-2	0.00	0.00	0.00	0.00	0.00	0.00	0.00
		33,743.98	37,150.00	70,893.98	63,205.80	23,903.66	39,302.14	7,688.18
	GRAND TOTAL							
	Financial year n	1,522,350.00	0.00	1,522,350.00	1,404,257.19	1,357,726.50	46,530.69	118,092.81
	Carried forward:							
	Financial year n-1	11,225.70	0.00	11,225.70	10,507.14	10,507.14	0.00	718.56
	Financial year n-2	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	GRAND TOTAL	1,533,575.70	0.00	1,533,575.70	1,414,764.33	1,368,233.64	46,530.69	118,811.37

**EXPLANATORY NOTES TO MSIAC
2015 FINANCIAL STATEMENTS****NOTE 1: GENERAL INFORMATION**

At the October 1990 Conference of National Armaments Directors (CNAD) meeting, the MOU establishing NATO Insensitive Munitions Information Centre (NIMIC) as a Project Office under CNAD was signed. The project transitioned to cover the wider aspects of Munition Safety in 2004 becoming the Munitions Safety Information Analysis Centre (MSIAC)

MSIAC is a member nations' funded and directed NATO Project office. Its goal is to help nations reduce, and eliminate, the risk to personnel and materiel from explosive incidents associated with own munitions. To help nations realise this goal, the project exchanges and analyses information and technology related to munition safety. MSIAC plays a central role in facilitating member nation's efforts to safely store, design, develop, procure and use safer munitions.

At the end of 2014, MSIAC had twelve participating countries: Australia, Belgium, Canada, Finland, France, Germany, Italy, The Netherlands, Norway, Spain, Sweden, the United Kingdom and the United States. The Republic of Korea was approved for membership at the end of 2013.

The MSIAC Steering Committee (one representative per member nation) is the governing body of the MSIAC. Steering Committee members are nominated by their respective national authorities.

For administrative purposes only, MSIAC is attached to the Defence Investment Division of the IS.

The participating countries pay all operational and administrative costs relating to the Project office, in accordance with an agreed cost-sharing formula.

NOTE 2: ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below.

Declaration of Conformity

The MSIAC financial statements have been prepared in accordance with NATO Financial Regulations (NFR), the Financial Rules and Procedures (FRP) and the NATO Accounting Framework, which is an adapted version of the International Public Sector Accounting Standards (IPSAS).

Basis of Preparation

These financial statements have been prepared on a going-concern basis. The assumption is that MSIAC is a going concern and will continue in operation and meet its objectives and obligations for the foreseeable future.

The financial year is from 1 January to 31 December.

The amounts shown in these financial statements are presented in EUR

MSIAC applied IPSAS 9 Revenue from exchange transactions and IPSAS 23 Revenue from non-exchange transactions.

The following IPSAS have no material effect on the 2015 MSIAC financial statements:

IPSAS 5: Borrowing Costs

IPSAS 6: Consolidated and Separate Financial

ANNEX 7 to
FC(2016))081

7-2

IPSAS 7: Investments in Associates.
IPSAS 8: Interests in Joint Ventures
IPSAS 10: Financial Reporting in Hyperinflationary Economies
IPSAS 11: Construction Contracts
IPSAS 16: Investment Property
IPSAS 21: Impairment of non-cash generating assets
IPSAS 26: Impairment of Cash-Generating Assets
IPSAS 27: Agriculture
IPSAS 32: Service Concession Arrangements: Grantor

Changes in accounting policy

As from reporting year 2015, the cash-flow statement is presented using the indirect method when in the past it was done using the direct method. This change was required in order to adopt the recommended common layout structure approved by NATO end 2015 (AC/335-N(2015)0088).

Below is the cash-flow statement concerning 2014 presented using the direct method.

		2014
CASH FLOW FROM OPERATING ACTIVITIES		
RECEIPTS		
	Contributions	1,208,000.00
	Financial Revenue	7,358.64
	Others	3,390.15
	TOTAL	1,218,748.79
PAYMENTS		
	Personnel Costs	(1,043,508.73)
	Operating Costs	(229,155.29)
	Miscellaneous Payments	(5,282.54)
	Financial Costs	(2,594.42)
	TOTAL	(1,280,540.98)
NET CASH FLOW FROM OPERATING ACTIVITIES		(61,792.19)
CASH FLOW FROM INVESTING ACTIVITIES		
RECEIPTS		
PAYMENTS		
NET CASH FLOW FROM INVESTING ACTIVITIES		0.00
CASH FLOW FROM FINANCIAL ACTIVITIES		
RECEIPTS		
PAYMENTS		
NET CASH FLOW FROM FINANCING ACTIVITIES		0.00
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(61,792.19)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		1,519,650.24
CASH AND CASH EQUIVALENTS AT END OF PERIOD		1,457,858.05

Reclassification of Financial Statements of Previous Years

A reclassification of elements of the statement of financial position and of the budget execution report were required in order to adopt the recommended common layout structure approved by NATO end 2015 (AC/335-N(2015)0088). This reclassification did not result in any material change in the presentation and major accounting classes are not affected.

Use of Estimates

In accordance with generally accepted accounting principles, the financial statements include amounts based on estimates and assumptions by management, according to the most reliable information available, judgement and assumptions. Estimates include accrued revenue and expenses. Actual results could differ from those estimates. Changes in estimates are reflected in the period in which they become known.

Foreign Currency Transactions

The MSIAC budget is authorized and managed in EUR so contributions called are made in EUR. Foreign currency transactions as required are accounted for at the NATO exchange rates prevailing on the date of the transactions. Monetary assets and liabilities at year-end which were denominated in foreign currencies were converted into EUR using the NATO rates of exchange applicable at 31 December 2015.

Realised and unrealised gains and losses resulting from the settlement of such transactions and from the revaluation at the reporting dates of monetary assets, and liabilities denominated in foreign currencies are recognised in the Statement of Financial Performance.

MSIAC does not have any unrealised gains and losses resulting from the translation of statements.

Financial Risks

MSIAC uses only non-derivative financial instruments as part of its normal operations. These financial instruments include cash, bank accounts and deposit accounts.

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

The organisation is exposed to a variety of financial risks, including foreign exchange risk, credit risk, currency risk, liquidity risk and interest rate risk.

a. Foreign currency exchange risk

The exposure to foreign currency risk is limited as the majority of the NATO-MSIAC's expenditures are made in EUR, the currency of its budget. The current bank accounts are held in EURO.

b. Credit risk

NATO-MSIAC incurs credit risks from cash and cash equivalent held with banks and from receivables.

The maximum exposure as at 31 December 2015 is equal to the total amount of bank balances, short term deposits and receivables. There is very limited credit risk associated with the realization of these elements.

Concerning cash and cash equivalent NATO MSIAC credit risk is managed by holding current bank accounts and short term highly liquid deposits that are readily convertible to a known amount of cash held with ING Bank (Belgium) which has the following short term credit ratings:

ING Bank	Credit Ratings as at 29/03/2016		
	Fitch	Moody's	S&P
Short term	F1	P1	A1

The MSIAC outstanding accounts receivable are managed by maintaining control procedures over receivables. Most cash receivables are due from NATO member nations, which are considered credit worthy.

c. Liquidity risk

The liquidity risk, also referred to as funding risk, is based on the assessment as to whether the Organisation will encounter difficulties in meeting its obligations associated with financial liabilities. A liquidity risk could arise from a short term liquidity requirement. There is a very limited exposure to liquidity risk because of the funding mechanism which guarantees contributions in relation to the approved budgets. Some limited risk could be due to the accuracy of budget forecasts. However, past history shows that this process results in surpluses and the budgetary rules provide for revised budgets.

d. Interest rate risk

Except for certain cash and cash equivalent balances, MSIAC's financial assets and liabilities do not have associated interest rates. MSIAC is restricted from entering into borrowings and investments, and, therefore, there is an insignificant interest rate risk. Interest earned is not a budgetary resource but contributes to the surplus owed to Nations.

Current Assets

a. Cash and cash equivalents

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

b. Funds Managed for Third Parties

Funds managed on behalf of third parties are held in cash and are presented as a liability. They are accounted for when cash is effectively received. They are represented as a separate item in the cash flow statement of the entity in order to avoid any confusion.

c. Receivables

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

Contributions receivable are recognised when a call for contribution has been issued to the funding nations. No allowance for loss is recorded with respect to Member countries' assessed contributions receivable.

d. Prepayments

A prepayment is a payment in advance of the period to which it pertains and is mainly in respect of an advance payment made to a third party.

e. Inventories

As mentioned above, NATO's adaptations of IPSAS were spelled out in C-M(2013)0039 of July 2013, which included IPSAS 12 Inventories. It is described as follows:

Control of NATO Inventories was refined with a set of 10 criteria to be used in assessing the level of control of an asset. A positive response on six of the criteria will lead to the asset being capitalised in the Financial Statements if it is above the capitalisation threshold. This is applied from January, 2013.

Criteria that may indicate control of an asset
The act of purchasing the asset carried out (or resulted from instructions given) by the NATO Reporting Entity.
The legal title is in the name of the NATO Reporting Entity.
The asset is physically located on the premises or locations used by the NATO Reporting Entity.
The asset is physically used by staff employed by the NATO Reporting Entity or staff working under the NATO Reporting Entity's instructions.
The fact that the NATO Reporting Entity can decide on an alternative use of the asset.
The fact that the NATO Reporting Entity can decide to sell or to dispose the asset.
The fact that the NATO Reporting Entity, if it has to remove or destroy the asset, can take the decision to replace it.
The fact that a representative of the NATO Reporting Entity regularly inspects the asset to determine its current condition.
The fact that the asset is used in achieving the objectives of the NATO Reporting Entity.
The fact that the asset will be retained by the NATO Reporting Entity at the end of the activity.

Capitalisation thresholds relevant to the financial statement are as follow:

Category	Threshold	Basis
Consumables	€50,000	Per location/warehouse
Spare Parts	€50,000	Per location/warehouse
Ammunition	€50,000	Per location/warehouse
Strategic stocks	€50,000	Per location/warehouse

The MSIAC will capitalise inventory which it controls in its financial statements. Where there is a conflict between more than one NATO Reporting Entity as to the control of inventory, only the end-user entity will report the inventory in its financial statements, based on reliable information provided by the NATO services provider entity as defined in individual agreements between the two entities.

The MSIAC will include transportation costs involved in bringing the inventories to their present location and condition in the initial valuation of inventory. These costs will be measured on the actual cost of transportation per item of inventory or by using an apportionment of the global transportation costs of bringing the inventories to their present location and condition across all inventory items in the period. Transportation costs involved in the subsequent movement of inventory which brings them into operational use will not be included in the value of inventory. The method of measuring these costs will be disclosed.

The MSIAC may consider inventory acquired prior to 1 January 2013 as fully expensed.

For inventory held prior to the 1 January 2013, and not previously recognized as an asset, the MSIAC will provide a brief description of inventory held within their inventory recording systems in the notes to the financial statements. Such disclosure will include as a minimum the types of inventories held, locations where inventories are held and the approximate number of items held per asset category.

Where this adaptation conflicts with another requirement of IPSAS this adaptation shall apply. For the remainder, IPSAS 12 shall apply.

The MSIAC assesses inventories under IPSAS 12. 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. The materiality will be assessed each year.

In consideration of the above thresholds, MSIAC currently has no inventory.

Non-current assets - Fixed assets (Property, Plant & Equipment and Intangible Assets)**a. Property, Plant & Equipment**

As mentioned above, NATO's adaptations of IPSAS were spelled out in C-M(2013)0039 of July 2013, which included IPSAS 17 Property Plant and Equipment.

Control of NATO PPE was refined with a set of 10 criteria to be used in assessing the level of control of an asset – they are the same as mentioned above under Inventory. A positive response on six of the criteria will lead to the asset being capitalised in the Financial Statements if it is above the capitalisation threshold. This is applied from January, 2013.

Capitalisation thresholds relevant to the financial statement are as follow:

Category	Threshold	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	€ 30,000	10 years	Straight line
Machinery	€ 30,000	10 years	Straight line
Vehicles	€ 10,000	5 years	Straight line
Aircraft	€200,000	Dependent on type	Straight line
Vessels	€200,000	Dependent on type	Straight line
Mission equipment	€ 50,000	3 years	Straight line
Furniture	€ 30,000	10 years	Straight line
Communications	€ 50,000	3 years	Straight line
Automated information systems	€ 50,000	3 years	Straight line

The MSIAC considers PPE acquired prior to 1 January 2013 as fully expensed. However, existing accounting policies will continue to be applied for any PPE assets already capitalized prior to 1 January 2013. For PPE upgraded after 1 January 2013, only the portion related to the modification will be capitalized.

In consideration of the above thresholds, MSIAC currently has no PPE.

b. Intangible Assets

As mentioned above, NATO's adaptations of IPSAS were spelled out in C-M(2013)0039 of July 2013, which included IPSAS 31 Intangible Assets. It is described as follows:

Control of NATO Intangible Assets was refined with a set of 10 criteria to be used in assessing the level of control of an asset – they are the same as mentioned above under Inventory. A positive response on six of the criteria will lead to the asset being capitalised in the Financial Statements if it is above the capitalisation threshold. This is applied from January, 2013.

NATO Intangible Assets Capitalisation Thresholds - MSIAC will capitalise each intangible asset item above the following agreed NATO thresholds:

Category	Threshold	Depreciation life	Method
Computer software (commercial off the shelf)	€50,000	4 years	Straight line
Computer software (bespoke)	€50,000	10 years	Straight line
Computer database	€50,000	4 years	Straight line
Integrated system	€50,000	4 years	Straight line

MSIAC will capitalise all controlled intangible assets above the NATO Intangible Asset Capitalisation Threshold. For anything below the threshold, the MSIAC will have the flexibility to expense specific items.

MSIAC will capitalise integrated systems and include research, development, implementation and can include both software and hardware elements. But the MSIAC will not capitalise the following types of intangible assets in their financial statements:

- rights of use(air, land and water);
- landing rights;
- airport gates and slots;
- historical documents; and,
- publications

MSIAC will capitalise other types of intangible assets acquired after 1 January 2013 including:

- Copyright
- Intellectual Property Rights
- Software development

MSIAC may consider Intangible Assets acquired prior to 1 January 2013 as fully expensed.

MSIAC will report controlled Intangible assets in its financial statements. Where there is a conflict between more than one NATO Reporting Entity as to the control of intangible assets, only the end-use entity will capitalise the intangible asset in its financial statements based on reliable information provided by the NATO services provider entity as defined in individual agreements between the two entities.

For intangible assets held prior to the 1 January 2013, and not previously recognized as an asset, MSIAC will provide a brief description of intangible assets held in its intangible asset recording systems in the notes to the financial statements. Such disclosure will include as a minimum the types of intangible held, locations where intangible assets are held and the approximate number of items held per asset category.

If an intangible asset is upgraded after 1 January 2013, only the portion related to the modification will be capitalised.

Where this adaptation conflicts with another requirement of IPSAS this adaptation will apply. For the remainder, IPSAS 31 shall apply. This adaptation is effective for financial reporting periods beginning on 1 January 2013.

In consideration of the above thresholds, MSIAC has no Intangible Assets.

Non-Current Assets Other Than PPE

There are none.

Current Liabilities

a. Payables

Payables are amounts due to third parties, based on goods received or services provided that remain unpaid. These include estimates of accrued obligations to third parties for goods and services received but not yet invoiced.

b. Advances and Unearned revenue

Advances are contributions received related to future year's budgets. Funds are called in advance of their need because MSIAC has no capital that would allow it to pre-finance any of its activities.

Unearned revenue represents participating nations contributions which have been called for current budgets but that have not yet been recognised as revenue in the absence of any related budgetary expenditure.

Non-Current Liabilities

The MSIAC has no non-current liabilities.

Revenue Recognition

Revenue comprises contributions from Member Nations.

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. 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 recognises a liability until the condition is fulfilled.

Contributions to be called from Member Nations, based on the budget they approved, are initially recorded as unearned revenue liabilities. They are recognised as revenue in the statement of financial performance when such contributions are used for their intended purpose as envisioned in the approved Budget.

Transformational adjustments were made in calculating earned revenue and expenses in the Statement of Financial Performance.

Segment Reporting

A segment is a distinguishable activity or group of activities for which it is appropriate to separately report financial information. There is no segment in MSIAC.

Statement of Financial position

NOTE3: CASH AND CASH EQUIVALENTS

The current bank accounts are held in EUR. Deposits are held in interest-bearing bank accounts, immediately available.

Considering the various interest rates paid on the various types of bank accounts, most funds were placed in the short-term account as of 31 December 2015.

NOTE 4: FUNDS MANAGED FOR THIRD PARTIES

MSIAC does not manage funds for third parties.

NOTE 5: ACCOUNTS RECEIVABLE

Contributions receivable from member nations are funds requested from the Nations to finance the MSIAC budget. The call for contribution was issued on 25 February 2015 (FC(CC)(2015)0003(MSC-01)).

At year-end 2015, an amount of EUR 8,000 was outstanding in relation to payment of a budgetary contribution pending regularisation of an overpayment of similar amount in 2014. At year-end 2014, outstanding budgetary contributions relating to previous financial years amounted to EUR 84,000.

Other Receivables relate to miscellaneous amounts due to the Project (e.g. essentially advances to staff for education allowances etc.).

NOTE 6: PREPAYMENTS

Corresponds to services to be delivered in the following years (typically travel expenses).

NOTE 7: INVENTORIES

Nothing to report, inventories are not considered material.

NOTE 8: NON-CURRENT ASSETS

MSIAC has registered no non-current assets.

NOTE 9: ACCOUNTS PAYABLE

Payables and accrued expenses may be to commercial suppliers, staff, other NATO bodies or MSIAC member Nations.

Payable to suppliers relates to goods and services for which an invoice has been received, checked, and queued for payment but for which payment was still pending at year-end.

Accrued expenses correspond to the estimated accrual obligation to third parties for goods and services received but not yet invoiced.

Payable to nations

A payable of EUR 555,124.54 (EUR 451,749.39 at year-end 2014) is in relation to the reimbursable salaries and represents the amount due to the United States (US) for one civilian staff member who is paid directly by the US government. This amount payable is usually paid by the US subtracting it from its annual contribution payment to MSIAC.

Amounts corresponding to 2015 lapsed credits (EUR 166,040.40) and to net interests earned in 2015 (EUR 1,868.19) were payables to MSIAC member Nations. Up to now, the standard practice of the MSIAC Steering Committee has been to add these amounts to the Project Accumulated Surplus (see note on Net Assets).

NOTE 10: DEFERRED REVENUE**Unearned Revenue**

Unearned revenue corresponds to contributions called for the current year or before (received or receivable) but for which corresponding expenditures will be incurred after the reporting date of 31 December 2015. They include principally those amounts of contributions which will be spent in subsequent years on the MSIAC Budget. If the funds are not spent by the end of the second year following the year in which they have been approved, these funds may be kept and used an additional year.

NOTE 11: ADVANCES

No advances are called in the context of the standard call for contributions process applicable to MSIAC.

No advance payments were made by MSIAC member Nations, with the exception of EUR 8,000 in 2014 that are pending regularisation.

NOTE 12: SHORT TERM PROVISIONS

There are no short term provisions.

NOTE 13: OTHER CURRENT LIABILITIES

For 2015, these consist essentially of transactions relating to MSIAC and funded and allocated in accordance with its budget but which were executed in the NATO International Staff accounts during 2015. Therefore they were treated as inter entity transactions, as both these NATO entities are controlled by the OFC accounting system (automatically picked-up by the ERP). These transactions are pending regularisation.

NOTE 14: NON-CURRENT LIABILITIES AND LONG TERM UNEARNED REVENUE

The long term unearned revenue is unearned revenue in relation to net carrying amounts of Property, Plant and Equipment and intangible assets. Revenue is recognised over the estimated life cycle of the Property, plant and equipment and the intangible assets.
There are no non-current liabilities.

NOTE 15: NET ASSETS

Net Assets correspond to MSIAC's Project Accumulated Surplus.

The Project's Accumulated Surplus of EUR 954,987.12 (EUR 1,079,388.65 at year-end 2014) relates to funds held under the direction of the Steering Committee. It is comprised of the previous year's surplus (EUR 1,079,388.65) plus 2014 lapsed funds (EUR 118,811.37) plus net interest earned in 2014 (EUR 1,987.10) plus miscellaneous income (EUR 0.00) minus the amount of surplus allowed for use in funding the 2015 budget (EUR 245,200.00).

The Steering Committee keeps these funds in case of emergency funding needs for the Project. The growth in accumulated surplus over previous years reflects more Nations entering the Project but zero growth in Project staff. Over the mid-term the Steering Committees' intent is to keep 5-6 shares worth of reserve funding.

Statement of Financial Performance**NOTE 16: 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.

Revenue from member Nations' budgetary contributions is considered as non-exchange revenue in consideration of the fact that the shares are equal. Non-exchange revenue is matched with expenses stemming from budget execution.

NOTE 17: EXPENSES**Wages, Salaries and Employee Benefits**

The personnel costs include all civilian personnel expenses as well as other non-salary related expenses in support of funded activities. They also include expenses for salaries and emoluments for approved NATO permanent civilian positions and temporary personnel, for other salary related and non-related allowances including overtime, medical examinations, recruitment, installation and removal, and for contracted consultants and training.

Supplies and Consumables Used

This item also includes expenses attributed to Capital Expenses from a budget perspective, if they do not meet the criteria of PPE or Intangible Assets (EUR 38,000 in 2015 and EUR 63,055.38 in 2014).

NOTE 18: BUDGET INFORMATION**NATO MSIAC Budget**

Presently, the NATO MSIAC Budget is not publicly available.

The actual amounts referred to by IPSAS 24 ("amounts that result from execution of the budget") are considered to be the commitment of credits.

Presentation of budget information in the financial statements

An analysis of the budget execution for the current and the previous year is provided in Annex5. The MSIAC budget execution compares the budget's authorized credits and the actual amounts committed and expended.

The MSIAC budget classification is based on the economic nature of the expenses broken down into three chapters as follows:

Chapter I : Personnel Expenses
Chapter II : Operating Expenses
Chapter III : Capital Costs

The MSIAC Budget is prepared for the same period (1 January to 31 December) and encompasses the same entity as these financial statements.

Changes to the budgetary regulations were introduced by the North Atlantic Council in 2015 in approving a new set of NATO Financial Regulations. The new NATO Financial Regulations were made applicable to the 2015 budget year as from 1 May 2015. They have in particular instilled an accruals based approach to budget preparation and budget execution, whereas before the approach was largely cash based. As a consequence, it is not possible to compare the budget executions of 2014 and 2015, since the underlying concepts differ. It has not been possible to restate the 2014 budget execution in order to make it comparable.

The budget execution for 2015 may contain flaws since (a) the budget was prepared and approved in 2014 before the new Financial Regulations were formally approved and (b) two sets of regulations were in force during 2015, with the new ones as from 1 May 2015. In addition, commitments that were carried-forward from previous years into 2015 had been approved and were executed in accordance with the old rules.

Up until 2014, the budget and accounting bases differed. The MSIAC Budget was prepared and executed on a commitment basis; it is not fully prepared on an accrual basis. As from 2016, these differences should become smaller, with 2015 being a transition year.

The MSIAC budget is prepared and executed as follows:

- 1) The commitment of credits is the advance acceptance and recording of the financial consequence resulting from a legal obligation incurred during the financial year. As a consequence credits are allocated, and commitments are approved, for goods, services and works to be delivered at a later stage. Up until 2014, commitments have been settled when an invoice is presented for payment, and not when the service is rendered or goods delivered as is the case for expenses under accrual accounting and with the new NATO Financial Regulations. Commitments of appropriations are now supposed to correspond to services or goods to be received in the course of the year.
- 2) Unliquidated commitments are carried forward and added to the budget of the following financial year in relation to an existing legal commitment or if a special agreement is given by the Steering Committee. Under the previous financial rules, unliquidated commitments would correspond to the amounts remaining to be paid. Under the new regulations they would

correspond to services not received or goods not delivered, at year-end, for specific circumstances, and should therefore normally be equal to zero. Outstanding commitments can be carried forward for two years. As a consequence, the services or goods received may relate to a commitment of credits from previous years' budgets. Whereas the previous Financial Regulations allowed for an almost automatic carry-forward of credits provided a contract was signed, with the new Regulations the carry-forward should be justified by a reason for which the services or goods could not be received in the course of the year. As a consequence, carried-forward credits herein follow two different rules.

- 3) Commitments, because they are an advance acceptance, and because payments cannot be made above approved credit levels, typically include an estimation factor and are (if only slightly) higher than the actual amount eventually paid. This results in commitments being higher than the actual expenses and in credits eventually lapsing.
- 4) Commitments are only made in respect of future payments (old rules) or expenses (new rules) relating to the initial purpose of the commitment. Commitments for capital expenditures are normally made in the year during which the purchase order is issued. In accrual accounting, the related costs would not appear in the Statement of Financial Performance but in the Balance Sheet and only upon reception of the works, goods or services. Conversely, there is no budgetary commitment of credits for non-cash flow transactions such as capital depreciation or provisions which would normally appear in the Statement of Financial Performance under accrual accounting.
- 5) On an exceptional basis, the MSIAC Steering Committee may approve the carry-forward of credits without any prior legal commitment, for instance for projects at their initiation stage or planned expenditures. In accrual accounting there would be no expense recorded.
- 6) The balance of unused budgetary credits (not committed) lapses and is returned to Member Nations at year-end. Lapses may include cases where a project was eventually not completed or started, and therefore lead to no expense.

Outstanding commitments can be carried forward during two years.

Reconciliation between Budget Execution and Statement of Financial Performance

(a) Statement of financial performance Total Expenditure	1,536,208.56
(b) PP&E Acquisition	-
(c) Financial Costs	-
(d) Budget Execution Total Expenditure	1,536,208.56

The final 2015 budget authorization amounted to EUR 1,719,730.69, whereas actual commitments in 2014 amounted to EUR 1,553,670.29. The difference, which amounted to EUR 160,040.40, lapsed. As such the latter amount becomes part of the annual 2014 budget surplus and should be returned to the contributing Nations unless they should decide to re-use this surplus.

Reconciliation between Budget and Calls for Contributions

The funding of the budget is made of one call for contributions, carried over credits and a part of previous years' surplus.

The 2015 MSIAC Budget authorization was EUR 1,673,200. In addition, an amount of EUR 46,530.69 corresponded to credits carried-forward from previous financial years; the related amounts were fully funded by contributions called before 1 January 2015.

The budget authorisation specific to 2015 amounted to EUR 1,673,200. It was funded as follows.

The 2015 call for contribution was issued on 25 February 2015 (FC(CC)(2015)0003(MSC-01)). As directed by the Steering Committee, the call covered EUR 1,428,000. The remainder of EUR 245,200 for the 2015 annual budget was financed by the refundable surplus reported from previous years.

NOTE 19: WRITE-OFFS

Nothing to report.

NOTE 20: LEASES

MSIAC does not have any financial leases.

NOTE 21: RESTRICTIONS ON FIXED ASSETS

There are no restrictions on fixed assets.

NOTE 22: CONTINGENT LIABILITIES

There have been no contingent liabilities identified that would be expected to result in a material obligation.

NOTE 23: CONTINGENT ASSETS

Nothing to report

NOTE 24: EMPLOYEE DISCLOSURE

Accounting for employee benefits is accounting for any liability in relation to all forms of consideration given by an entity in exchange of service rendered by employees.

It should be noted that the NATO-IS is managing centrally three pension programmes, namely the Defined Benefit Pension Scheme (DBS), the Provident Fund and the Defined Contribution Pension Scheme (DCPS) as well as the Retirees Medical Claims Fund (RMCF), covering staff employed by all NATO bodies. NATO-wide financial statements are issued by NATO-IS Office of Financial Control for the three Pension Schemes and the RMCF, therefore, no related assets or liabilities are recognised in these financial statements.

For 2015, MSIAC had an approved Personnel Establishment of 9 positions funded by the MSIAC budget (9 for 2014).

End 2015, six staff members (same as 2013) participated in the Defined Contribution Pension Scheme (DCPS) administered by NATO. The DCPS provides that the MSIAC budget makes a 12 percent monthly matching contribution to the staff members' contributions for current service. End 2015, two other employees (same as 2014) participated in NATO's Defined Benefit Pension Scheme (DBPS): a deduction of 9.5% of their salaries is made and contributed to the annual financing of this Plan. In addition, the MSIAC budget makes a monthly matching contribution of 19% to the DBPS. Consequently, the MSIAC has neither DBPS nor DCPS liabilities for its staff members. These contributions are expensed during the year in which the services are rendered and represent the total pension obligation of the entity.

End 2015, one staff member was employed on a reimbursable basis with an agreement between NATO-IS and the United States (same for 2014). The individual is remunerated and accrues pension rights under the United States pension scheme.

	2015			2014		
amounts in EUR	Staff	Employer	Total	Staff	Employer	Total
Co-ordinated Pension Scheme	11,408.52	22,817.04	34,225.56	37,379.00	56,068.35	93,447.35
Defined Contribution Pension Scheme	43,281.35	61,234.98	104,516.33	10,627.44	21,254.88	31,882.32
Reimbursable Staff		8,859.73	8,859.73		11,673.85	11,673.85
TOTAL	54,689.87	92,911.75	147,601.62	48,006.44	88,997.08	137,003.52

Untaken leave by MSIAC staff is not considered material.

NOTE 25: KEY MANAGEMENT PERSONNEL

The MSIAC Steering Committee (one representative per member nation) is the governing body of the MSIAC. Steering Committee members are nominated by their respective national authorities. They are paid on the basis of applicable national pay scales. The Steering Committee members do not receive from MSIAC or NATO any additional remuneration for Steering Committee responsibilities or access to benefits.

The key management personnel of the MSIAC Office consists of the Project Manager established post (A5). The Project Manager is responsible for the overall operational management of MSIAC.

There are no other remunerations or benefits to key management personnel or their family members.

NOTE 26: RELATED PARTIES

Key management personnel have no significant party relationships that could affect the operation of the MSIAC Office.

In 2015, NATO International Staff charged MSIAC an amount of EUR 60,395 for administrative support costs (EUR 56,225.87 in 2013) and EUR 29,673.21 for common operating costs (EUR 30,092.86 in 2013). In addition, the International Staff charges an annual rent for office space occupied in Building Z (EUR 36,125.62 in 2015 and in 2014).

* * * * *

List of acronyms:

BC-	Budget Committee
CNAD	Conference of National Armaments Directors
DI	Defence Investment Division
ERP	Enterprise Resource Planning
IPSAS	International Public Sector Accounting Standards
IS	International Staff
MOU	Memorandum of Understanding
MSIAC	Munitions Safety Information Analysis Centre
NIMIC	NATO Insensitive Munitions Information Centre
PPE	Property, Plant and Equipment