	NATO	NORTH ATLANTIC COUNCIL
	OTAN	CONSEIL DE L'ATLANTIQUE NORD

NATO UNCLASSIFIED

21 December 2018

DOCUMENT
C-M(2018)0075-AS1

**IBAN AUDIT ON THE 2017 FINANCIAL STATEMENTS OF NATO COMMUNICATION
AND INFORMATION ORGANISATION**

ACTION SHEET

Ref: C-M(2018)0075-COR1

On 21 December 2018, under the silence procedure, the Council noted the IBAN report on the 2017 financial statements of NCIO, endorsed the RPPB report attached to C-M(2018)0075, and agreed to the public disclosure of this report, the IBAN audit report and associated 2017 financial statements of NCIO.

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2018)0075.

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21 December 2018

DOCUMENT
C-M(2018)0075-FINAL

**IBAN AUDIT ON THE 2017 FINANCIAL STATEMENTS OF NATO COMMUNICATION
AND INFORMATION ORGANISATION**

Note by the Secretary General

1. Attached is the final version of the International Board of Auditors for NATO (IBAN) report on the audit of the 2017 financial statements of NATO Communications and Information Organisation reviewed by the Resource Policy and Planning Board and noted by the Council.

(Signed) Jens Stoltenberg

1 Annex
1 Enclosure

Original: English

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-1-



**IBAN AUDIT ON THE 2017 FINANCIAL STATEMENTS OF NATO COMMUNICATION
AND INFORMATION ORGANISATION (NCIO)**

Report by the Resource Policy and Planning Board (RPPB)

References:

A. IBA-A(2018)0087-REV1	IBAN Audit on the 2017 Financial Statements of NCIO
B. CM(2015)0025	NATO Financial Regulations (NFRs)
C. AC/337(FC)D(2015)0003-REV6	NCIO Financial Rules and Procedures (FRPs)
D. PO(2015)0052	Wales Summit tasker on transparency and accountability

BACKGROUND

1. This report by the RPPB addresses the IBAN audit of the 2017 financial statements and compliance of NCIO. The IBAN audit set out qualified opinions on the financial statements and on compliance of NCIO in 2017 (reference A).

2. The RPPB is mandated under Article 15 of the NFRs (reference B) to provide Council with comments and recommendations on the audit opinion. The RPPB acknowledges the issues highlighted in the IBAN audit report have already been considered and dealt with by the appropriate governing bodies of NCIO (the Finance Committee and the Agency Supervisory Board (ASB)). The RPPB notes this report is based on information provided by the Agency in the IBAN report (reference A), information from ASB and Finance Committee Action and Decision Sheets (such as Internal Audit Reports), NCIA presentations, and direct communication with the ASB Chairman and NCIO Financial Controller.

DISCUSSION

3. The IBAN identified six observations during the audit. One observation impacted the audit opinion on both the financial statements and on compliance. One observation only affected the audit opinion on the financial statements. The remaining four observations did not impact the audit opinion. The IBAN also followed up on the status of observations from previous years' audits and noted six were settled, four were partially settled, six remained outstanding, and five were superseded by current year observations.

4. Observation 1: The IBAN issued a qualified opinion on the financial statements and on compliance because of a lack of integrated systems to support the effective and efficient management and financial reporting of property, plant and equipment (PP&E) and intangible assets. This was also the basis for the qualified audit opinion in 2015 and 2016 and the Agency is continuing to pursue implementation of its planned integrated solution, Enterprise Business Applications (EBA) which is now expected to achieve final operating capability in January 2019 after several delays. In parallel with the EBA implementation, the Agency migrated PP&E data from a legacy accounting system to its current accounting system at the CIS Service Support Centre and the CIS Support Units, established an Asset Management Coordination Group (AMCG), drafted an Asset Management (AM) strategy and an AM Agency directive.

5. The ASB noted that the Agency agreed to the need for an integrated solution and believes this will be provided by the EBA. The ASB noted that implementation timelines were severely impacted by legacy procedures and recurring changes to the supporting IT Toolset. The ASB recognises and has emphasised the requirement to effectively track CIS assets. The ASB noted the efforts by the Agency to mitigate some of the asset management issues, and noted the requests by the Agency for additional resources to more effectively mitigate the limitations due to the lack of an adequate system. The ASB opted not to resource additional manpower requests in 2017 and 2018, but took the decision to wait until 2019 to increase the related manpower with the expectation that the observation would be settled upon submission of the 2019 financial statements. Consistent with the ASB's deferment, the IBAN found that the ASB confirmed the 2019 Customer Rates would include 4.5 staff posts for asset management and logistic functions.

6. Observation 2: The IBAN issued a qualified opinion on the financial statements because of an understatement of inventory and equivalent overstatement of deferred revenue plus advances approximated at EUR 33.4 million. The IBAN found that NCIA used an outdated figure from 2013 to adjust the reported value of inventory. The IBAN believes the assumption made by NCIA to use the same figure as 2013 is not accurate because much of the 2013 inventory should have been consumed or impaired.

7. The ASB noted that the IBAN's audit at the NCIA's CIS Sustainment Support Centre confirmed that the NCI Agency has complete accounting records for the physical inventory balances. Further, the ASB noted that the Agency agreed the adjusting accounting entry must be reviewed in order to reflect the inventory rotation over time as well as identify slow moving and obsolete inventory. The Agency has not yet dedicated the resources to address the observation due to the continued efforts on EBA. The Agency agreed to settle the observation before issuance of the 2019 financial statements, after EBA is implemented.

8. Observation 3: The IBAN found the Agency did not formally request an increase in its authorized NATO International Civilian (NIC) personnel ceiling in accordance with the NCIA Personnel Establishment Policy and breached both the NIC and Interim Workforce Capacity (IWC) ceilings approved in the 2017-2019 Financial Plan. Both the NIC and IWC ceilings were retroactively revised in the 2018-2020 Financial Plan which the IBAN did not consider in line with the principles of the Personnel Establishment Policy. The Agency recognized the process was not strictly followed, which led to having more posts than authorised in the Financial Plan.

9. The ASB provided explicit guidance on the format and content by which the Agency now must report its personnel establishment and require quarterly metrics be reported to the ASB. The ASB noted that the Agency agreed to adapt its internal processes to ensure the ceilings are complied with and the ASB will have the opportunity to approve or reject the request in advance. The ASB expects the observation to be settled in 2018 and for the Agency to be fully compliant with the ASB guidance in the 2020 Personnel Establishment report as the Agency and the Finance Committee agreed on a phased implementation of the full Personnel Establishment guidance.

10. Observation 4: The IBAN found that NCIO continued to make progress towards implementing the NFRs particularly those articles relating to internal control, risk management and internal audit. The ASB noted that the implementation of the NCIO Internal Control Framework is at its very initial stage, but progress has been made in the legal, finance, acquisition and human resources departments as well as with risk registers. The RPPB notes that this is a common theme in the IBAN audits on the 2017 financial statements of many NATO Bodies and that the Agency will continue its efforts to ensure full compliance with the NFRs. There was one point of disagreement between the Agency and the IBAN regarding the reporting lines of the internal audit (IA) function of the Agency where the IBAN emphasised the requirement of dual reporting to the ASB (Audit Committee) at the functional level and to the General Manager at the administrative level. The Agency stated that “changes to the reporting lines for IA will only be implemented following a review of art. 13 of the NFRs as well as of the NATO’s Agencies Guidelines on Corporate Governance¹.” The RPPB notes that this is a common theme in the IBAN audits of multiple NATO Bodies and that it will be considered in the upcoming NFR and FRP review.

11. Observation 5: The IBAN found that NCIO’s Statement of Internal Control did not meet the requirements of NCIO’s Financial Rules and Procedures (reference C). The Agency agreed with the IBAN and plans to implement the IBAN’s recommendation by revising its internal control certification process in the 2018 financial statements.

12. Observation 6: The IBAN found that despite NCIO assurance, the Agency is still struggling to ensure that adequate planning resources are dedicated to its largest contract evaluations, selections and awarding activities. Specifically, the IBAN found several instances where the Agency did not meet the requirements of its internal standard operating procedures (SOPs), and many contracts were awarded after significant delays which increase the risk of cost overrun.

13. The Agency acknowledged resource plans are not always aligned with the requirements of a source selection, but the Agency has identified and is pursuing several improvement efforts. The improvement efforts include: mandatory source selection process training, sequestration of the evaluators, and optimizing the Contracts Award Board work. The ASB acknowledged the ongoing efforts to enforce discipline and to implement additional mitigating internal controls to ensure adequate resourcing is in place in the source selection process.

14. The Agency also noted that the current procurement SOP requires clarification of the Source Selection Plan approval timeline and required elements therein and was informed that the Agency plans to update its procurement SOP no later than January 2019. The ASB expects the improvement efforts coupled with SOP update will help the Agency comply with its procurement SOPs and strengthen the overall source selection process. The RPPB emphasises the importance of the ASB and the Agency’s responsibility to ensure there are adequate controls over human and financial capital as they have practical implications to NATO common funding.

¹ C-M(2005)0087

15. Prior year observations: The ASB has discussed the four partially settled and six outstanding observations with management and the Agency's action plans indicate that the majority would be settled in 2019, after EBA is implemented; these observations relate to determining capability development project revenue, incomplete year-end asset and liability confirmation process, internal intangible asset accounting policy, and other financial reporting weaknesses. Four observations relating to incomplete disclosures, documented contingency disclosure process, consolidation of morale and welfare activities, and changing/delayed contract requirement definitions are expected to be settled in 2018. Lastly, NCIO is deferring the creation of a specific action plan on the outstanding time accounting system (TAS) observation as NCIO is awaiting the results of an IBAN performance audit on TAS.

16. More details on the IBAN's current year and prior year observations and recommendations including the management action being taken by the Agency can be found in the IBAN report (reference A).

CONCLUSION

17. The IBAN issued a qualified opinion on compliance and the NCIO financial statements for 2017 which follows on from the qualified opinions issued since 2013. The RPPB acknowledges the efforts the Agency is making to address issues identified by the IBAN and recognises the governing bodies of NCIO are best placed to deal with the overall response. The RPPB stresses that the governing bodies closely track all IBAN observations and recommendations and hold the Agency accountable for providing an adequate action plan and timeline for remediation. Also, the RPPB emphasises the importance of the ASB and the Agency's responsibility to ensure there are adequate controls over human and financial capital as they have practical implications to NATO common funding. The RPPB welcomes engagement of senior Agency management (not just the Financial Controller) to address issues identified in the IBAN's audit reports and expects to see progress made in several areas to settle recurring audit themes, especially those related to the EBA implementation.

18. The RPPB promotes increased transparency in future years by maintaining a single document from the governing body in response to the IBAN's audit report² that is publicly disclosed, whereas internal documents are not available to the public.

² Consolidating for each open observation (all current year observations and prior year outstanding observations and partially settled observations) the progress made, future action(s) required/planned and corresponding dates, including the date of expected closure.

RECOMMENDATIONS

19. The RPPB recommends the Council:
 - 19.1. note the IBAN report at reference A;
 - 19.2. endorse the conclusion at paragraph 17;
 - 19.3. invite the ASB to provide a consolidated action plan in future years as described in paragraph 18; and,
 - 19.4. agree to the public disclosure of this report, the IBAN audit report and the associated 2017 financial statements of NCIO in line with the agreed policy in reference D.



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)0087-REV1
7 November 2018

To: Secretary General
Attn: Director of the Private Office

Cc: Chairman, Agency Supervisory Board, NATO Communications & Information Organisation (NCIO)
General Manager, NATO Communications & Information Agency (NCIA)
Financial Controller, NCIA
Chairman, Resource Policy and Planning Board (RPPB)
Private Office Registry

Subject: ***International Board of Auditors for NATO (Board) Auditor's Report and Letter of Observations and Recommendations on the audit of the NATO Communications and Information Organisation (NCIO) Financial Statements for the year ended 31 December 2017 – IBA-AR(2018)0011-REV1***

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).

This revised version incorporates updated formal comments requested by NCIA after the Board had issued the initial final version of its report and subsequently presents a modified final Board position on Observation n°4 – Further improvements required in the area of risk management, internal control and internal audit.

The Board's report sets out a qualified opinion on the Financial Statements of the NCIO and on compliance for financial year 2017.

Yours sincerely,

Hervé-Adrien Metzger
Chairman

Attachments: As stated above.



**Summary Note for Council
by the International Board of Auditors for NATO (Board)
on the audit of the Financial Statements of the
NATO Communications and Information Organisation (NCIO)
for the year ended 31 December 2017**

NCIO consists of the NCI Agency and its governance structure. The mission of the NCI Agency is to deliver to NATO secure, coherent, cost effective and interoperable communications and information systems and services in support of consultation, command and control (C3) and enabling intelligence, surveillance and reconnaissance capabilities. It includes information technology support to NATO Headquarters, the Command Structure and NATO Agencies. In 2017, NCIO generated revenues of EUR 770 million and incurred expenses of EUR 769 million, resulting in a surplus of EUR 1 million.

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

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

The main findings are listed below. Observation one and two impact the audit opinion on the financial statements. Observation one also impacts the opinion on compliance:

1. Lack of integrated systems to support the effective and efficient management and financial reporting of property plant and equipment (PP&E) and intangible assets.
2. EUR 33 million understatement of inventory.
3. NCIA Personnel Establishment Policy not fully complied with.
4. Further improvements required in the area of risk management, internal control and internal audit.
5. No clear confirmation of the system of internal control.
6. Weaknesses in the source selection planning process.

The Board also followed up on the status of observations from its previous years' audit and noted that six were settled, four were partially settled, five were superseded by current year observations and six are still outstanding.

The Auditor's Report (Annex 2) and the Letter of Observations and Recommendations (Annex 3) were issued to the NCIO whose comments have been included, with the Board's position on those comments where necessary, see the Appendix to Annex 3.

29 August 2018

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE

THE NATO COMMUNICATIONS AND INFORMATION ORGANISATION

(NCIO)

FOR THE YEAR ENDED 31 DECEMBER 2017

**REPORT OF THE INTERNATIONAL BOARD OF AUDITORS
FOR NATO TO THE NORTH ATLANTIC COUNCIL**

Report on the Financial Statements

The International Board of Auditors for NATO (Board) audited the accompanying Financial Statements of the NATO Communications and Information Organisation (NCIO), which comprised the Statement of Financial Position as at 31 December 2017, the Statement of Financial Performance, the Statement of Change in Net Assets & Equity and the Cash Flow Statement for the year then ended, and Notes to the Financial Statements, including a Statement of Accounting Policies. The Board also audited the Budget Execution Statement for the year ended 31 December 2017.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion on the Financial Statements

We were not able to obtain enough evidence in respect to the completeness of Property, Plant and Equipment and Intangible Assets presented in the Statement of Financial Position and in the Note disclosure of Property, Plant and Equipment acquired prior to 2013. This is due to NCIOs multiple accounting systems and logistics tools that still do not fully support a proper financial reporting of Property, Plant and Equipment and Intangible Assets.

In addition, the Board found that Inventory reported as a current asset in the Statement of Financial Position was understated by EUR 33.4 million. This was because NCIA erroneously continued to remove from inventory the amount identified in 2013 as inventory purchased before 1 January 2013. At the end of 2017, this adjustment was no longer necessary as a vast majority of such pre-2013 inventory was consumed. Deferred Revenue and Advances, a liability account in the Statement of Financial Position, is also understated by the same EUR 33.4 million.

Lastly, there was no summary note to the financial statements in respect to Inventory and Intangible Assets held at 31 December 2017 but purchased prior to 1 January 2013 as required by the NATO Accounting Framework.

Qualified Opinion on Financial Statements

In our opinion, except for the effects and possible effects of the matters described in the *Basis for Qualified Opinion on the Financial Statements*, the financial statements present fairly, in all material respects, the financial position of NCIO as at 31 December 2017, and of its financial performance and its cash flows for the year then ended are in accordance with the NATO Accounting Framework.

Report on Compliance

Management's Responsibility for Compliance

In addition to the responsibility for the preparation and presentation of the Financial Statements described above, management is also responsible for ensuring that the financial transactions and information reflected in the financial statements are in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations as authorized 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 authorized expenditure and whether their operations have been carried out in compliance with the financial and personnel regulations in force. Such procedures include the assessment of the risks of material non-compliance.

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

Basis for Qualified Opinion on Compliance

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

Qualified Opinion on Compliance

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

Brussels, 29 August 2018

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

Hervé-Adrien Metzger
Chairman

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**ANNEX 3
IBA-AR(2018)0011-REV1**

29 August 2018

INTERNATIONAL BOARD OF AUDITORS FOR NATO

LETTER OF OBSERVATIONS AND RECOMMENDATIONS

FOR THE NATO COMMUNICATIONS AND INFORMATION ORGANISATION

(NCIO)

FOR THE YEAR ENDED 31 DECEMBER 2017

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Introduction

The International Board of Auditors for NATO (Board) audited the NATO Communications and Information Organisation (NCIO) Financial Statements for the year ended 31 December 2017, and issued a qualified opinion on both the financial statements and on compliance. The reasons for the qualification, as well as other observations and recommendations, are summarised in the Observations and Recommendations section below.

The Board found that improvements were made in certain areas of asset management. Nevertheless, the weaknesses that remain continue to impact the audit opinion on both the financial statements and compliance. NCIA expects that the implementation of the Enterprise Business Applications (EBA) system at the end of 2018 will allow for better asset management and reporting.

Observations and Recommendations

During the audit, the Board made six observations and recommendations. One observation impacts the audit opinion on both the financial statements and on compliance:

1. Lack of integrated systems to support the effective and efficient management and financial reporting of property plant and equipment (PP&E) and intangible assets.

One observation impacts the audit opinion on the financial statements:

2. EUR 33.4 million understatement of inventory.

The remaining four observations do not impact the audit opinion:

3. NCIA Personnel Establishment Policy not fully complied with.
4. Further improvements required in the area of risk management, internal control and internal audit.
5. No clear confirmation of the system of internal control.
6. Weaknesses in the source selection planning process.

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

The Board also issued a separate Management Letter (reference IBA-AML(2018)0007) to NCI Agency management with 4 observations.

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

OBSERVATIONS AND RECOMMENDATIONS

1. LACK OF INTEGRATED SYSTEMS TO SUPPORT THE EFFECTIVE AND EFFICIENT MANAGEMENT AND FINANCIAL REPORTING OF PROPERTY, PLANT AND EQUIPMENT (PP&E) AND INTANGIBLE ASSETS

Reasoning

1.1. Article 12 of the NATO Financial Regulations (NFRs) requires NATO bodies to establish and maintain comprehensive accounting records of all assets and liabilities.

1.2. The NATO Accounting Framework requires that NATO bodies shall capitalise in their Statement of Financial Position all controlled Property, Plant and Equipment (PP&E) and Intangible assets purchased after 1 January 2013 above certain capitalization thresholds. The nature and quantities of those items purchased before 1 January 2013 shall be summarised in the notes to the financial statements.

1.3. The NATO Accounting Framework also requires that if NCIO is acting as a service provider to NATO Commands for Computer Information Systems (CIS) and Automated Information Systems (AIS) assets, then NCIO has control over those assets. It also states that such CIS and AIS that are under construction don't need to be capitalised until 1 January 2018.

Observations

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

1.5. Specifically, the Board found that NCIA had not assured the completeness of records (compliance) and financial reporting of the following assets:

- CIS and AIS PP&E acquired before and after 1 January 2013, not under construction, and which were acquired for Third Parties through the Core Financial System (CFS). Such assets are considered as controlled by NCIO according to the NATO Accounting Framework;
- CIS and AIS intangible assets acquired before and after 1 January 2013, not under construction, such as IT Programmes built in-house

1.6. The Board found that significant efforts had been made to mitigate some of the asset management issues. For example, the Agency Supervisory Board (ASB) recently confirmed that the 2019 Customer Rates would include 4.5 staff posts for asset management and logistic functions.

Recommendation

1.7. The Board recommends that NCIO reduces the inefficiencies and risks involved with the use of multiple accounting systems and logistic tools used for recording of PP&E and Intangible assets and that this be accomplished within timelines that have been established i.e. end of 2018.

2. EUR 33.4 MILLION UNDERSTATEMENT OF INVENTORY

Reasoning

2.1 Article 12 of the NATO Financial Regulations requires NATO bodies to establish and maintain comprehensive accounting records of all assets and liabilities.

2.2 The NATO Accounting Framework requires that NATO bodies shall capitalise in their Statement of Financial Position all controlled inventory held but purchased after 1 January 2013 above certain capitalization thresholds. The nature and quantities of those items still held but purchased before 1 January 2013 shall be summarised in the notes to the financial statements.

Observations

2.3 The Board audited the inventory at NCIA's CIS Sustainment Support Centre (CSSC) and found that the improvements found last year had been maintained. The Board noted that the CSSC had performed a major physical count and clean-up exercise of all inventory at the CSSC between May and December 2016. The Board noted that no such exercise took place in 2017 due to other priorities. The Board's testing revealed that the 2016 work could still be relied upon to have accurately disclosed inventory in 2017. However, the lack of physical inspections could lead to a deterioration of this situation in future years.

2.4 In terms of disclosure of inventory in the financial statements, the Board found that the total value of inventory reported in the Statement of Financial Position was EUR 3.6 million. However, before adjustments relating to the NATO Accounting Framework, the total value of actual inventory was EUR 37 million. The EUR 33.4 million difference is deemed to be the value of inventory purchased prior to 1 January 2013. However, the Board found, as in the previous year, that the amount backed out for inventory purchased prior to 2013 was the same as the original 2013 adjustment. In the Board's opinion, it is a false assumption to back out the same amount for prior 2013 every year as much of this inventory would have been consumed. As a result, inventory held at 31 December 2017 is understated by around EUR 33.4 million. Deferred Revenue and Advances in the Statement of Financial Position was also understated by the same amount.

2.5 NCIA discloses in the notes supporting the Financial Statements that it has concerns over the unit prices migrated from the legacy system NATO Depot and Support

System (NDSS). The agency intends to clean this data with the objective of disclosing a more reliable figure for inventory balances by the end of 2018.

2.6 In addition, the Board notes that NATO Accounting Framework states that the Agency may choose to write down to the net realizable value items which are considered slow moving over the last 36 months. The Board did note through its physical inspections of inventory that many items appeared to be either slow moving or obsolete. The Agency needs to consider how to account for these items in 2018.

Recommendation

2.7 The Board recommends that the Agency disclose the full value of inventory held in its 2018 Financial Statements. In addition, the Agency needs to complete its clean up exercise on unit prices migrated from NDSS. Further, the agency needs to identify slow moving and obsolete inventory and write them down to net realizable value in the 2018 Financial Statements. Finally, the agency should ensure that physical inspections and clean up exercises on the inventory held are carried out regularly and preferably on an annual basis.

3. NCIA PERSONNEL ESTABLISHMENT POLICY NOT FULLY COMPLIED WITH

Reasoning

3.1 The NCIO Financial Plan establishes the staff ceilings for Civilian staff posts (NATO International Civilian (NIC)), for Military posts (in conjunction with Military Defence Planning Committee) and for the Interim Workforce Capacity (IWC) for each of the 3 years of the Plan.

3.2 As per NCIO Financial Rules and Procedures (FRPs) Article V on the Financial Plan, based on the report (General Manager quarterly report) received by the Agency Supervisory Board (ASB) and the advice of the Finance Committee, the ASB may choose to ask for a revised Financial Plan to be prepared. Such a revised plan will need to be approved by the ASB.

3.3 In 2015, the ASB approved a NCIA Personnel Establishment Policy. In Article 4.11 of this policy it states that in case the post to be established is above the authorized ceiling approved by the ASB in the annual Financial Plan, the General Manager shall request the ASB authorization, after review by the Finance Committee. The request shall be supported by adequate analysis and justification.

Observation*Ceiling for Civilian Staff*

3.4 The ceiling for civilian staff, as approved by ASB in the Financial Plan 2017-2019, was 1,836 NIC posts. As of 31 December 2017, the actual number of NICs was 1,872 posts, thus 36 posts above the ceiling approved in the original Financial Plan 2017-2019.

3.5 No formal request to the ASB was made by the General Manager with supported adequate analysis and justification as otherwise required by the NCIA Personnel Establishment Policy.

3.6 The Board though notes that the Financial Plan for 2018-2020, approved on the 27 October 2017, retroactively revised the ceiling for NIC posts for 2017 and increased it to 1,900 NIC posts.

Ceiling for Interim Workforce Capacity (IWC)

3.7 The ceiling for IWC, as approved in the Financial Plan 2017-2019, allowed IWCs up to the equivalent of 320 posts.

3.8 The 2017-2019 Financial Plan defines the IWC ceiling only in terms of "posts" and not in terms of "Full Time Equivalent" (FTE). However, in its manpower breakdown evolution, the 2017-2019 Financial Plan shows a total of 229 FTE for IWC for 2017. The 2018-2020 Financial Plan details the ceiling in terms of both Posts and FTEs.

3.9 As for the NIC ceiling, the Board notes that the Financial Plan for 2018-2020 retroactively revised the ceiling for IWC posts for 2017 and increased it to 350 IWC posts. Also, the IWC ceiling for 2017 for FTEs was retroactively revised to 266 FTEs.

3.10 The Board reviewed the Time Accounting System (TAS) and noticed that the IWCs worked in total 93,974 days in 2017. According to NCIA Human Resources, this is equivalent to 427 FTEs split into 125 IWC filling vacant NIC positions and 302 IWC hired as extra workforce. These figures exceed the revised approved ceiling of 266 FTE.

3.11 The Board considers that the way the 2017 workforce ceilings have been retroactively revised is an example of "fait accompli" and is not in line with the principles of the Personnel Establishment Policy. This example does not improve the visibility required on the Agency's personnel management.

3.12 However, the Board welcomes the recent Finance Committee's request¹ to obtain a detailed breakdown of overheads and a clear and timely Personnel Establishment submission.

¹ AC/337(FC)DS(2018)0002 dated 26 April 2018

3.13 The Board also note that the IWC ceilings are defined in the 2018-2020 Financial Plan by both number of posts and FTE. This might be of greater value for the ASB when approving the ceiling of the Agency's manpower.

Recommendations

3.14 The Board recommends that the Agency:

- a) Comply strictly with its Personnel Establishment Policy in respect to the ceilings.
- b) Finalise clarification on the IWC ceiling in the Financial Plan.

3.15 Further, the Board invites the ASB, as responsible for approving the overall Personnel Establishment, to be more proactive in its oversight role to ensure proper visibility into the Agency personnel management.

4. FURTHER IMPROVEMENTS REQUIRED IN THE AREA OF RISK MANAGEMENT, INTERNAL CONTROL AND INTERNAL AUDIT

Reasoning

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

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

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

4.4 NATO bodies shall, according to the NFRs Article 13, have access to a permanent, adequately resourced, internal audit function that is compliant with internationally accepted Internal Auditing Standards. The revised NFRs provide internal audit functions with clear expectations that they must be in a position to fully evaluate the effectiveness and efficiency of operations and internal controls, including risk management.

Observations

4.5 The Board found that the NCIO continued to make progress towards achieving full compliance with the revised NFRs, but that more steps are still needed.

4.6 Detailed FRPs, as required by Article 4 of the revised NFRs, was approved by the ASB in March 2016.

4.7 The Board reports the status of the following areas:

Article 11 Risk Management

4.8 The Board found that the NCIO developed a corporate Enterprise Risk Management (“ERM”) framework that consolidates and aligns NCI Agency risk management procedures and tools. Risk Registers are regularly updated and a summary of the risks Agency-wide is provided in the Governance Dashboard Monthly Report.

Article 12 Internal Control

4.9 In November 2016, the NCIO formally adopted the COSO (The Committee of Sponsoring Organizations of the Treadway Commission, Integrated Framework: May 2013) as their Internal Control Framework. Since COSO was only recently adopted by the NCIO, the important work of assessing and documenting specific internal control and risk management procedures remains to be completed. For the implementation of the framework and in order to assess time and resource implications for the implementation of the framework NCIO-wide, the NCI Agency Legal Office was selected as a pilot case and a Control Self-Assessment (CSA) risk based methodology was used by Internal Audit (IA) in support of the implementation activities.

4.10 In addition, IA is supporting the implementation of the framework for Finance, Acquisition and the recruitment process. IA is also developing a road map for the implementation of the framework across the Agency.

4.11 Documentation of specific internal controls and risk management is essential in order to ensure and to clearly demonstrate to others that a complete system of internal control and risk management is in place.

4.12 The Board also found that Terms of Reference for an NCIA Internal Control Panel was approved by the NCIA General Manager in February 2017.

FRP's on fraud prevention and detection

4.13 The NCIO's FRPs III and VI specifically mention the responsibility and accountability of the Acquisition Director and of the Financial Controller related to fraud prevention and detection. Both must ensure appropriate mechanisms are in place for fraud prevention and detection in procurement activities and in financial activities.

4.14 The Acquisition Directorate provides an overview of fraud prevention and detection mechanisms related to procurement activities in its Standard Operating Procedure (SOP) 16.01 issued in June 2017. No such document for financial activities exists.

Article 13 Internal Audit

4.15 The Board found that IA, despite its limited capacity, continues supporting the development of the NCIO Internal Control Framework and provides extensive support to its implementation across the Agency. IA continues to perform audits on specific programs and processes within the Agency to assess the performance of the system of internal control. However, IA is not in a position to assess and review the NCIO internal control framework, as stipulated in NFR Article 12, as it is still in the initial implementation phase.

4.16 The Board also reviewed the independence of the Internal Audit Function.

4.17 The Board acknowledges that the Internal Audit Function of the Agency has been organized based on the “NATO’s Agencies Guidelines on Corporate Governance” (C-M(2005)0087) approved by Council on 15 September 2005. In this document, no clear distinction is made for IA between the functional reporting to the ASB and the administrative reporting to the General Manager. This dual reporting is the key element of Internal Audit independence.

4.18 As a consequence, the Agency’s Internal Audit reports both functionally and administratively to the General Manager solely. This is also confirmed in the IA Charter where it states that IA reports to the General Manager who also approves the internal audit plan.

4.19 Based on International Standards for the Professional Practice of Internal Audit (Standards) 1100 and 1110, the Internal Audit function shall report functionally to the ASB and the Audit Committee, (i.e. the Finance Committee for NCIO) and administratively IA shall report to the General Manager. Interpretation of these standards provides details of the content of the two reporting lines. The Board believes that the current reporting lines for IA are not fully in compliance with internationally accepted Internal Auditing standards, as required by Article 13.2 of the NFR’s.

4.20 The Board is of the opinion that the new NFRs and their reference to internationally accepted Internal Auditing Standards supersede the NATO Guidelines on Corporate Governance and therefore, these guidelines are no longer applicable.

Recommendations

4.21 While continuing the effort of maintaining corporate Enterprise Risk Management, the Board recommends that:

- a) NCIO perform a systematic and detailed assessment and documentation of its internal control and risk management procedures to support compliance with its approved internal control framework.
- b) NCIO issues clear directions on appropriate mechanisms for fraud prevention and detection related to financial activities.
- c) Internal Audit:
 - fully evaluate, once the system is in place, the internal control and risk management throughout NCIA, and that this work be clearly documented, so as to be able to conclude as to NCIA's compliance against COSO;
 - modifies its Charter to ensure independence in compliance with internationally accepted Internal Auditing standards as mentioned in Article 13.2 of the NFR's.

5. NO CLEAR CONFIRMATION OF THE SYSTEM OF INTERNAL CONTROL

Reasoning

5.1 As per the NCIO's FRP's Article XII, the system of Internal Control is designed to identify risks, to evaluate the nature and extent of those risks, and to manage them efficiently, effectively and economically. This information should be provided by the General Manager and the Financial Controller in the Statement of Internal Control which is part of the financial statements. The Director of Acquisition is to confirm the content for procurement and contracting.

5.2 The Statements of Internal Control shall include, among others, the following items:

- a) Confirmation that an effective system of internal control is maintained and operated by the NATO entity;
- b) Confirmation that the system of internal control provides reasonable assurance of the achievement of the following objectives: effectiveness and efficiency operations, reliability of financial information, and compliance with applicable rules and regulations;
- c) Confirmation with regard to safeguarding of assets; an evaluation as to the adequacy of the system of Internal Control in place.

Observation

5.3 The Board found that the Statement of Internal Control does not clearly confirm that an effective system of internal control is maintained and operated by the NCIO.

Instead it is written that the General Manager “acknowledges responsibility” to maintain a sound system of internal control that supports the NCI Agency and ensures it delivers on its Chartered mandate.

5.4 Also, there is no clear confirmation that the system of internal control provides reasonable assurance of the achievement of the three above objectives. Instead, the Statement of Internal Control states that the system of internal control “is based on” an ongoing process effected by the Board, management and other personnel designed to provide reasonable assurance regarding the three mentioned objectives.

5.5 Finally, we found that there is no confirmation with regard to safeguarding of assets. The Statement states that internal control “is to ensure” that NATO assets are utilized for the purposes intended.

5.6 The main objective of the Statement of Internal Control is to provide an update on the effectiveness and efficiency of the internal control system at a certain period. The Board finds that NCIO’s Statement of Internal Control for year 2017 does not provide sufficient clarity on this objective. Further, no confirmation was provided by Director of Acquisition on the content of the statement related to procurement and contracting.

Recommendation

5.7 The Board recommends that NCIO’s Statement of Internal Control contain the confirmations required by the FRP XII including the confirmation by the Director of Acquisition on the content for procurement and contracting of the Statement of Internal Control.

6. WEAKNESSES IN THE SOURCE SELECTION PLANNING PROCESS

Reasoning

6.1 In June 2017, the Agency released a Standard Operating Procedure (SOP) related to its entity wide Acquisition Directive A.D 16.01 that provides the overall policy and structure for acquisition management within the Agency.

6.2 The Source Selection Plan (SSP) is the basic planning and guidance document for the conduct of a particular source selection. It covers:

- a) The solicitation preparation and review,
- b) The Source Selection Organization (SSO)
- c) The source selection procedures, including bid evaluation, source selection and contract awards.

6.3 In line with the above, the Acquisition Directive requires the following for the solicitation and evaluation phases:

- Approval of the SSP and evaluators' workbook should be finalized before the solicitation document is released (Art. 3.4.5 SOP 16.01).
- Final version of SSP will be forwarded to the Source Selection Authority, i.e. the General Manager for approval, two weeks prior to the bid closing date (Art. 3.7.5.6 SOP 16.01).
- All members of the evaluation team including the Project Evaluation Board (PEB) Chairman shall be designated early in the source selection process (Art. 4.1.4.1.3 SOP 16.01).

6.4 The actual date of the contract award, a major milestone of a project, is a key indicator on the effectiveness and efficiency of the Agency implementing the project. This indicator can be compared to the estimated award date as per the Investment Committee document or the solicitation document.

Observations

6.5 The Board audited a sample of 23 contracts or amendments to contracts awarded from December 2016 to December 2017 including seven major International Competitive Bidding (ICB) competitions. The value of the sample was EUR 205 million and represents more than 50 % of contracts above 250,000 euros.

6.6 Out of these seven major contracts, only one Source Selection Plan was approved before the issuance of the solicitation document and only one was approved two weeks prior the bid closing date.

6.7 As per the actual date of contract award, only one contract met the expected dates². The six other contracts were signed on average 10 months after the estimated dates. If the initial Capability Package Implementation Plan (PIP) is used as the reference of the expected contract signature, two contracts were awarded 10 years, one contract 4 years and one contract 14 month after the initial PIP dates. Delays in contract award increases the risk of cost overrun.

6.8 Despite NCIO assurance, in the audit report 2016, that the Agency would ensure that the Acquisition SOP are properly followed and that the Source Selection Planning activities, roles and responsibilities would be clarified, the Agency is still struggling to ensure that adequate planning resources are dedicated to its largest contract evaluation, selection and awarding activities.

² Mentioned in the "current schedule" of the IC document.

Recommendations

6.9 The Board recommends that the Agency comply with its 2017 Acquisition SOP ensuring that sufficient resources are planned for the evaluation and selection phases and that Source Selection Plans are approved prior to the issuance of the solicitation document.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

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

OBSERVATION / RECOMMENDATION	ACTION	STATUS
<p>(1) NCIO FY 2016 IBA-AR(2017)15, paragraph 1</p> <p>LACK OF INTEGRATED SYSTEMS TO SUPPORT THE EFFECTIVE AND EFFICIENT MANAGEMENT AND FINANCIAL REPORTING OF PROPERTY, PLANT AND EQUIPMENT (PP&E) AND INTANGIBLE ASSETS</p> <p>Board's Recommendation The Board recommends that NCIO continue pursuing and implementing its planned integrated solution, Enterprise Business Applications (EBA), for the procurement, management and reporting of PP&E and intangible assets in order to reduce the inefficiencies and risks involved with the use of multiple accounting systems and logistic tools and that this be accomplished within timelines that have been established, or 1 January 2018</p>		Observation; Superseded by current year Observation 1.
<p>(2) NCIO FY 2016 IBA-AR(2017)15, paragraph 2</p> <p>EUR 35 MILLION UNDERSTATEMENT OF INVENTORY</p> <p>Board's Recommendation The Board recommends that the Agency only remove from the inventory balances the inventory at 31 December 2016 that was purchased before 1 January 2013.</p>		Observation; Superseded by current year Observation 2.
<p>(3) NCIO FY 2016 IBA-AR(2017)15, paragraph 3</p> <p>LACK OF CONSISTENT AND ROBUST PROCESS FOR DETERMINING CAPABILITY DEVELOPMENT PROJECT REVENUE FOR THE PERIOD</p> <p>Board's Recommendation The Board recommends NCIA to improve the Cost-to-Complete estimate by:</p> <ul style="list-style-type: none"> - Incorporating project investment costs into an integrated system in order to 	NCIA significantly improved the quality of the planned figures at completion provided by Project Managers. Multiple seminars, training and workshops took	Observation Outstanding (In Progress)

OBSERVATION / RECOMMENDATION	ACTION	STATUS
<p>consolidate the assessment of future costs of a project.</p> <ul style="list-style-type: none"> - Standardising the “cost-to-complete” estimation processes among the Project Managers, ensuring thorough reviews by management and Finance are strengthened again, and documenting these and the results of the estimation process. - Ensuring the year-end instructions to Project Managers are more descriptive on how “cost-to-complete” should be estimated. 	<p>place in 2017 for the project manager community with the objectives of improving the quality of the data related to the scope, the scheduling and costs of the project.</p> <p>Estimated CTC provided by project managers have been regularly reviewed and checked by Head of Project Management Office (HPMO), Service Line chief and the service of the Chief of Operation Officer (COO). In addition, a risk register is more systematically in place for each project.</p> <p>The Board observed increased accuracy of the Cost to Complete estimates. There is though still a lack of sufficient documentation as well as little harmonization in the structure of the documentation among project managers for the process of estimating the cost at completion of the project.</p>	
<p>(4) NCIO FY 2016 IBA-AR(2017)15, paragraph 4</p> <p>LACK OF ASSURANCE ON THE RELIABILITY OF THE ESTIMATE FOR FUTURE LOSS RELATED TO THE NEW NATO HEADQUARTERS PROGRAMME</p> <p>Board’s Recommendation The Board recommends that NCIO comply with its Agency Directive on exception reports in order to ensure proper management of cost overrun of its programme and better estimates of future losses recorded in the financial statements.</p>	<p>The Board found that the estimated amounts of provisions in 2017 were reliable and documented.</p>	<p>Observation Settled.</p>

OBSERVATION / RECOMMENDATION	ACTION	STATUS
<p>(5) NCIO FY 2016 IBA-AR(2017)15, paragraph 5</p> <p>SOME PROGRESS BEING MADE TO ACHIEVE COMPLIANCE WITH THE NATO FINANCIAL REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT AND WITH THE NCIO FINANCIAL RULES AND PROCEDURES (FRPS)</p> <p>Board's Recommendation The Board recommends that:</p> <p>a) NCIA perform a systematic and detailed assessment and documentation of its internal control and risk management procedures to support compliance with its recently approved internal control framework, COSO.</p> <p>b) Once recommendation a) is completed, Internal Audit fully evaluate internal control and risk management throughout NCIA, and that this work be clearly documented, so as to be able to conclude as to NCIA's compliance against COSO.</p> <p>c) NCIA continue its move to the full provisions of customer funding for the effective implementation of its FRPs.</p>		<p>Observation Superseded by current year observation 4.</p>
<p>(6) NCIO FY 2016 IBA-AR(2017)15, paragraph 6</p> <p>CONTRACTOR CLAIM RESULTING FROM CHANGING AND DELAYED CONTRACT REQUIREMENT DEFINITION AND WEAK COORDINATION BETWEEN NCIA AND THE INVESTMENT COMMITTEE</p> <p>Board's Recommendation The Board reminds NCIO and the funding committees of the recommendations of the IBAN Special Performance Audit Reports to Council on the need to improve NATO's capability package process, including:</p> <ul style="list-style-type: none"> - For the Agency, improving information management and transparency by rationalizing and modernizing the processes and information technology used to manage Capability Package work. 	<ul style="list-style-type: none"> - New format of quarterly reports to Investment Committee on NSIP implementation starting in 2018 with a broader capability view and highlight capability development achievement. - Deputy Permanent Representative Committee (DPRC) is monitoring the ongoing implementation of 	<p>Observation Outstanding.</p>

OBSERVATION / RECOMMENDATION	ACTION	STATUS
- For the funding committees, unifying, strengthening and clarifying governance roles to ensure that capability requirements reflect needs and enable capability delivery as closely as possible to agreed plans.	the newly agreed approach on common funded capability delivery governance structure.	
<p>(7) NCIO FY 2016 IBA-AR(2017)15, paragraph 7</p> <p>WEAKNESSES IN SOURCE SELECTION PLANNING PROCESS</p> <p>Board's Recommendation As in the prior year, the Board again recommends that in order to avoid delays and to ensure realistic project service costs estimates during the evaluation, selection and awarding phases, NCIO should ensure that:</p> <p>a) There are more realistic estimates of contract award dates, one of main project milestone, be provided to the budget holder.</p> <p>b) Source Selection Plans are approved and the PEB Chairman be appointed prior to the issuance of the solicitation document.</p> <p>c) Adequate planning resources are being provided to the PEB.</p> <p>d) Confidence rate of the cost estimates be included in the estimate documents provided to the IC.</p>		Observation Superseded by current year observation 6.
<p>(8) NCIO FY 2016 IBA-AR(2017)15, paragraph 8</p> <p>INSUFFICIENT COVERAGE OF COMPETED SUPPORT SERVICE CONTRACTS IN 2016</p> <p>Board's Recommendation The Board recommends NCIO to continue its effort to use Service Support Contracts or other competed vehicles to their full potential, use deviations to sole source for contractors only for operational, efficiency, economic or technical reasons with strong coordination with Human Resources management.</p>	Fewer deviation requests approved in 2017: 16 deviations for contractors (40 in 2016 and 66 in 2015). Better use of Service Support Contracts.	Observation Settled.

OBSERVATION / RECOMMENDATION	ACTION	STATUS
<p>(9) NCIO FY 2016 IBA-AR(2017)15, paragraph 9</p> <p>WEAK MANAGEMENT PROCESS FOR PROJECT CLOSURES</p> <p>Board's Recommendation The Board recommends that NCIA continue to improve its project closure process:</p> <ul style="list-style-type: none"> - By issuing a comprehensive and harmonized Directive on closing activities, including those related to SLAs. - By clarifying and making consistent the practice of the determining whether to return surpluses above 8% and EUR 10,000. - By planning and making more frequent SLMB decisions on closed projects to ensure that decisions are made before the issuance of the financial statements and to avoid the risk that such decisions are perceived to only be taken after year-end as a way for the NCIA to manage the level of net surplus/deficit presented in the financial statements. 	<p>As of 2017 and based on SOP 06.01.04 on project completion to closure, there is no longer a list of FFP projects closed with surplus to be sent to SLMB for decision.</p> <p>In case the customer does not agree with the closure report, an exception report is to be submitted to the SLMB.</p> <p>Write Off approved and recommended by SLMB. For amount > 40 000 Euros ASB approval is required.</p> <p>NCIA confirm that there was no FFP project with surplus sent to SLMB decision (on an exceptional basis) for year 2017.</p>	<p>Observation Settled.</p>
<p>(10) NCIO FY 2016 IBA-AR(2017)15, paragraph 10</p> <p>WEAKNESSES IN THE TIME ACCOUNTING SYSTEM (TAS)</p> <p>Board's Recommendation The Board has seen improvement in the quality of the TAS data since its full implementation with Service Delivery in 2014. Nevertheless, as EBA has been delayed and the Agency is not yet working with its integrated management system, the Board recommends NCIO to continue its efforts in mitigating risks and internal controls specifically for "internal service providers" and for the CIS delivery to Alliance. Operation Missions.</p>	<p>The Board noticed further improvement in 2017 in the quality of the TAS data. Nevertheless, as EBA has been delayed and the Agency is not yet working with its integrated management system, the Board recommends NCIO to continue its efforts of mitigating risks and internal controls. The Board noticed that the TAS in practice is still open thus authorizing retro-active corrections.</p>	<p>Observation Outstanding.</p>

OBSERVATION / RECOMMENDATION	ACTION	STATUS
<p>(11) NCIO FY 2016 IBA-AR(2017)15, paragraph 11</p> <p>COMPLEX RECORDING OF RESOLUTE SUPPORT PROJECTS IN COST-TO-COMplete MODEL</p> <p>Board's Recommendation The Board recommends that a simple mapping from customer agreements by project be included in the Service Delivery Cost-to-Complete model and that the type of service i.e. Firm Fixed Price or Cost Reimbursable agreed with the customer be properly recorded.</p> <p>The Board also recommends that, when an agreement is reached with a customer to reduce the funding budget, NCIA requires the customer to also provide an updated purchase order.</p>	<p>For year 2017, all projects related to CIS delivery to RS was recorded in CNAFS easing the reporting processes as well as the revenue calculation into one single CTC File.</p> <p>The Board also noticed less difficulties in getting revised PO's from the customers on time.</p>	<p>Observation Settled.</p>
<p>(12) NCIO FY 2016 IBA-AR(2017)15, paragraph 3</p> <p>INCOMPLETE INFORMATION IN THE DISCLOSURE NOTES ON THE TRANSITION PROGRAMME</p> <p>Board's Recommendation The Board recommends that, in future, the note related to the Transition Programme include full disclosure of IC funding provided during the year for transition activities.</p>	<p>The Board welcomed the full disclosure of IC funding but noticed that the expenditures incorrectly included open encumbrances. Therefore, the expenditures are overstated by around EUR 6.5 million.</p>	<p>Observation Outstanding.</p>
<p>(13) NCIO FY 2016 IBA-AR(2017)15, paragraph 3</p> <p>DEPRECIATION RESERVE IN THE OPERATING FUND</p> <p>Board's Recommendation The Board recommends that depreciation reserves be removed from the Operating Fund. They should continue to be reported as Net Assets of NCIO, though.</p>	<p>By AC/337(FC)N(2017)0012-REV1, it has been recommended not to include the depreciation reserve in the Operating Fund. It is now disclosed as part of the Reserved Earnings</p>	<p>Observation Settled.</p>

OBSERVATION / RECOMMENDATION	ACTION	STATUS
<p>(14) NCIO FY 2015 IBA-AR(2016)10, paragraph 6</p> <p>IMPROVEMENT STILL NEEDED FOR PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS MANAGEMENT</p> <p>Board's Recommendation The Board recommends that NCIO:</p> <p>a) continues in its efforts to record and capitalize all CIS assets acquired since 2013,</p> <p>b) improve the quality of CSSC inventory with an up-to-date warehouse management system to better track tangible assets in transit; and</p> <p>c) carry out physical stock checks at financial year-end.</p>		<p>Observation Superseded by current year observation 1.</p>
<p>(15) NCIO FY 2015 IBA-AR(2016)10, paragraph 8</p> <p>MORE TRANSPARENCY NEEDED ON SLMB DECISIONS TO RETURN CERTAIN PROJECT SURPLUSES TO THE CUSTOMERS RATHER THAN ALLOWING THEM TO FLOW TO THE OPERATING FUND</p> <p>Board's Recommendation The Board recommends that:</p> <p>a) the various NATO governing bodies with roles in approving the use of the Operating Fund agree to the current practice of the SLMB making decisions to return surpluses to customers rather than allowing them to go to the Operating Fund; and</p> <p>b) disclosure notes on the NCIO Statement of Change in Net Asset/Equity (Operating Fund) mention a summary of SLMB decisions related to surplus generated by closed projects.</p>	<p>New procedures with different criteria for return funds to Customers were issued. Refer to: AC/337(FC)N(2017)0017-REV 1 dated 28 Sept. 2017 and 2 SOP's related to project completion to closure (PC2C) process and to SLA completion to closure (SC2C) process. Both SOP's were issued in Dec. 2016.</p> <p>There is no more a list of FFP projects closed with surplus to be sent to SLMB for decision. In case the customer does not agree with the closure report, an exception report is to be sent to the SLMB Write Off approved and recommended by SLMB. For amount > 40 000 Euros ASB approval is required.</p>	<p>Observation Settled.</p>

OBSERVATION / RECOMMENDATION	ACTION	STATUS
	NCIA confirm that there was no FFP project with surplus sent to SLMB decision (on an exceptional basis) for year 2017.	
<p>(16) NCIO FY 2014 IBA-AR(2015)20, paragraph 7</p> <p>LACK OF A FORMAL AND DOCUMENTED PROCESS TO IDENTIFY AND DISCLOSE CONTINGENT LIABILITIES</p> <p>Board's Recommendation The Board recommends that NCIO improve the way that information on contingent liabilities is requested, collected and assessed. Such a process is necessary to ensure that contingent liabilities disclosures in the Financial Statements are accurate and complete. The process should be also fully documented as well.</p>	<p>Agency Instructions on reporting of provisions, contingent liabilities/assets and events after the reporting period is still in draft after two years. The collection of contingent liabilities is made at year end for the preparation of the Financial Statements through the Tasker Tracking System.</p>	<p>Observation Partially Settled.</p>
<p>(17) NCIO FY 2014 IBA-AR(2015)20, paragraph 8</p> <p>INCOMPLETE CONFIRMATION OF YEAR-END ASSETS AND LIABILITIES OUTSTANDING BETWEEN NATO BODIES</p> <p>Board's Recommendation The Board recommends that NCIO improve its process to prepare, sent and receive confirmation of the outstanding asset and liabilities balances from other NATO Bodies as part of the preparation of the Financial Statements.</p>	<p>The Board found that considerable progress was made by the Agency. NCIA asset balances was either confirmed or differences investigated with IS, IMS, ACO and ACT. However, the liabilities was only confirmed with ACO and not with other NATO bodies.</p>	<p>Observation Partially Settled.</p>

OBSERVATION / RECOMMENDATION	ACTION	STATUS
<p>(18) NCIO FY 2014 IBA-AR(2015)20, paragraph 10</p> <p>LACK OF SPECIFIC REPORTING OF AIR COMMAND & CONTROL (AIRC2) AND NATO BALLISTIC MISSILE DEFENCE (BMD) IN THE FINANCIAL STATEMENTS</p> <p>Board's Recommendation The Board recommends that NCIO disclose separate segment information related to the BMD and AirC2 programmes. This will help the BMD & AirC2 Steering Committees as well as other NATO Committees to achieve their governing roles and responsibilities.</p>	<p>Following a consultancy study, three segmentation bases have been analysed:</p> <ul style="list-style-type: none"> - NCIO Segmentation Based on Budget Documentation. - NCIO Segmentation Based on C3 Capability Development / CIS Service Provision / Other. - NCIO Segmentation Based on Groups of Service Lines. <p>The choice of NCIO is a mixture of the following two dimensions:</p> <ul style="list-style-type: none"> - Segmentation based on budget documentation. - Segmentation based on organizational governance. 	<p>Observation Outstanding.</p> <p>Awaiting final EBA implementation.</p>
<p>(19) NCIO FY 2013 IBA-AR(2014)22, paragraph 4</p> <p>NCIO'S FINANCIAL REPORTING PROCESSES DO NOT YET FULLY MITIGATE THE RISK OF ERRORS IN THE FINANCIAL STATEMENTS</p> <p>Board's Recommendation The Board recommends NCIO to improve its financial reporting control procedures, including management reviews, in order to ensure that they adequately mitigate the risk of errors in the financial statements.</p>	<p>The Board found improvements in the preparation and issuance of the 2017 financial statements. However, the Agency is still working with two different accounting systems and relying to a large extent on spreadsheets for its revenues recognition (CTC files). As long as EBA is not fully implemented (FOC date: end of 2018) NCIO should continue to improve its</p>	<p>Observation Partially Settled.</p>

OBSERVATION / RECOMMENDATION	ACTION	STATUS
	financial reporting control procedures, including management reviews.	
<p>(20) NCIO FY 2012 IBA-AR(2013)23, paragraph 6</p> <p>NCIA SD SEGMENT FINANCIAL STATEMENTS (former NCSA)</p> <p>Board's Recommendation The Board recommends that now that an adapted IPSAS framework has been approved with different requirements for PP&E compared to IPSAS 17, NCIA should develop a detailed accounting policy on PP&E and ensure sufficient note disclosures on PP&E in future financial statements.</p>	<p>PP&E accounting policy was issued in 2017.</p> <p>An intangible asset accounting policy is also expected.</p>	<p>Observation Partially Settled.</p>
<p>(21) NCSA FY 2012 IBA-AR(2012)10, paragraph 5.2</p> <p>NO CONSOLIDATION OF MORALE AND WELFARE ACTIVITIES (MWA)</p> <p>Board's Recommendation The Board recommends that NCSA consolidates the MWA activities into the NCSA Financial Statements in order to present fairly the total revenue, expenditures, assets and liabilities.</p>	<p>NCIO issued an Agency Directive on Morale and Welfare.</p> <p>However, the Board did not find any financial information in support of such activities by way of a disclosure note to the financial statements as required by the NATO Accounting Framework.</p>	<p>Observation Outstanding.</p>

**NATO COMMUNICATIONS AND INFORMATION AGENCY (NCIA) FORMAL
COMMENTS ON THE LETTER OF OBSERVATIONS AND RECOMMENDATIONS
AND THE INTERNATIONAL BOARD OF AUDITORS (BOARD) POSITIONS**

OBSERVATION 1:

**LACK OF INTEGRATED SYSTEMS TO SUPPORT THE EFFECTIVE AND EFFICIENT
MANAGEMENT AND FINANCIAL REPORTING OF PROPERTY, PLANT AND
EQUIPMENT (PP&E) AND INTANGIBLE ASSETS**

NCIA's Formal Comments

As in prior years, the Board highlights that the NCIO's multiple accounting systems and separate logistic systems do not provide an effective and efficient control over NCIO's PP&E and intangible assets as this does not fully mitigate the risks of unrecorded assets transactions and/or erroneous asset transactions being recorded. The Agency has developed these requirements for EBA to go live on third quarter 2018. EBA will offer a fully integrated solution.

Nevertheless, over the past years and while pending EBA implementation, Agency has taken a number of actions to address asset management issues, namely:

- In line with the NATO Accounting Framework, the Agency has undertaken efforts to account for all Service Delivery assets acquired as of 1 January 2013 including those acquired under CIS Delegated Budgets. Hand Over/Take Over (HO/TO) of CIS Assets for Command Structure static entities was completed in 2014 and that for Resolute Support was completed per the end of 2015. As part of this work and newly implemented processes, asset accounts continue to be refined and updated.*
- As of 1 January 2014 the Agency has decreased the number of financial systems from three to two by migrating the former NACMA's ProAcc/ProCure to the former NC3A's PeopleSoft system (CFS- Core Financial System).*
- The Agency has activated the necessary inventory and asset management tools within former NCSA's Oracle based application (CNAFS) which were already available in the NPC CNAFS. The migration from NDSS has been completed at the CIS Service Support Center (CSSC) in Brunssum and at the NCI Agency CIS Support Units (CSUs) throughout NATO. These tools now capture newly acquired Service Delivery inventory and assets.*
- The Agency also played a key role in co-operating with the Head of Financial Reporting Policy, which lead to the adaptation of the NATO Accounting Framework approved by the Council in late April 2016 where*

the ambiguity between control and ownership of CIS assets has been eliminated (defining now that NCIO also has control) and establishes a transition period for the NCI Agency up until 1 January 2018, as to bring Assets under Construction on its books.

- The Agency further contributed to the NATO Accounting Policy for PPE that was approved by the RPPB in April 2017, and to the Accounting Policy for Intangible Assets that is currently addressed for approval by the RPPB under Silence procedure.*
- The NCI Agency is currently focusing on the set-up in EBA to cover all the Agency requirements for PPE, intangible assets, assets under construction and inventory.*

In summary, the Agency agrees to the need for an integrated solution, this will be provided by the EBA. Meanwhile the Board has recognised the significant efforts by NCI Agency to mitigate some of the asset management issues. Importantly, the migration of PP&E and inventory recorded in NATO Depot and Support System (NDSS) to its current CNAFS accounting system was completed at the CIS Service Support Centre (CSSC) and at the CIS Support Units. The NCI Agency has further undertaken continuous efforts in order to ensure that EBA will adequately handle the PPE and intangible assets accounting requirements and specifically the assets under construction for which the EBA implementation is a pre-requisite for the Agency.

**OBSERVATION 2:
EUR 33.4 MILLION UNDERSTATEMENT OF INVENTORY**

NCIA's Formal Comments

As a result of the Hand Over / Take Over of Inventory from the NATO Commands in 2014, the NCI Agency applied the accounting treatment for inventories prescribed in the NATO Accounting Framework¹ for inventory acquired prior to 1 January 2013 and considered it as fully expensed.

The IBAN's audit at the NCIA's CIS Sustainment Support Centre confirmed that the NCI Agency has complete accounting records for the physical inventory balances. The Agency notes the improvements found by the IBAN and that testing revealed that the physical count performed in 2016 could still be relied upon to have accurately disclosed inventory in 2017.

However, the Agency agrees that the lack of physical inspections could lead to a deterioration of this situation in future years and will take the necessary actions to ensure some sort of count is done over the next year.

The Agency agrees that the adjusting accounting entry (consistent with the NATO

Accounting Framework) from 2014 that decreased the asset for the value of the prior 2013 acquired inventory items must be reviewed, in order to reflect the inventory rotation over time, as well as identify slow moving and obsolete inventory so to better reflect the value of the inventory in stock on its statement of financial position.

As the mentioned in the notes supporting the Financial Statements the Agency has concerns over the unit prices migrated from the legacy system NATO Depot and Support System (NDSS). It intends to clean this data with the objective of disclosing a more reliable figure for inventory balances by the end of 2018.

**OBSERVATION 3:
NCIA PERSONNEL ESTABLISHMENT POLICY NOT FULLY COMPLIED WITH**

NCIA's Formal Comments

a) With regards to the observation related to the Personnel Establishment policy and respect of the ceiling, the Agency recognizes that the process was not strictly followed, which led to having more posts than authorised in the Financial Plan. The Agency will adapt its internal processes to ensure that the ceilings are complied with and that, in case the ceiling should be revised, the ASS is requested to approve it in anticipation. The Agency would like to highlight that the IWC component of the Agency which is working against established posts is not only filling vacant posts, but also backfilling for maternity leave or long-term sick leave.

b) The Agency agrees with the recommendation and will insert more descriptive verbiage in future iterations of its Financial Plan.

Board's Position

We draw the attention of the ASB on the need to be more proactive in ensuring proper visibility into the Agency's personnel management.

**OBSERVATION 4:
FURTHER IMPROVEMENTS REQUIRED IN THE AREA OF RISK MANAGEMENT,
INTERNAL CONTROL AND INTERNAL AUDIT**

NCIA's Formal Comments

a) The implementation of the NCIO Internal Control Framework is at its very initial stage. Notwithstanding its very limited capacity, Internal Audit supported the implementation of the NCIO Internal Control Framework for Legal Office. A Control Self-Assessment (CSA) risk based methodology was used by IA in support of the implementation activities.

All identified risks have been included in the relevant Risk Registers which now also includes a section related to internal controls. Therefore, for all identified risks, controls have been developed and documented by management, considering the risk appetite of the Agency. This internal control section describes and documents each control, how it is implemented, who owns/co-owns it and how it is to be treated. The development of the controls is based on the 17 principles of the COSO framework as well as the relevant point of focus. IA will continue to support management in the implementation of the NCIO Internal Control Framework for the future. This effort has been extended to all business processes within Finance Directorate and in areas where the inherent risk of fraud is high.

b) By following the directions of the NCIO Internal Control Framework as well as the provisions of the Agency Directive on Enhancing Transparency and Accountability in the NCI Agency - Fraud Prevention (AD 05.04), IA has assisted Finance, Acquisition and HR (limited to recruitment process) to identify fraud related risks and to define appropriate control mechanisms for fraud prevention and detection by following the methodology described above.

c) The International Standards of Supreme Audit Institutions (ISSAI) and the Institute of Internal Auditors' (the IIAs') International Standards for the Professional Practice of Internal Auditing (Standards), present general terms to allow adoption in different national and international contexts with the understanding that implementation will be governed by the environment in which the internal audit activity carries out their responsibilities and in accordance with the applicable regulations.

In light of this and consistent with art. 13 of the NFRs and the NATO's Agencies Guidelines on Corporate Governance (CM(2005)0087) approved by Council on 15 September 2005, the NCI Agency Internal Audit function is set up at the NATO Body level. Such a reporting line ensures adequate organisational independence for Internal Audit. Additionally, the Head of Internal Audit has access to the ASB FinCom (Audit Committee) which is also charged with the review of the activities of IA. For all above, changes to the reporting lines for IA will be only implemented following a review of art. 13 of the NFRs as well as of the NATO's Agencies Guidelines on Corporate Governance.

Board's Position

We maintain our interpretation that the principles set in the new NFRs complement and clarify those set in the NATO Guidelines on Corporate Governance. These principles and regulations, which include reference to the internationally accepted Internal Auditing standards (Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing), apply to the Agency.

The dual reporting line for the internal audit function, as described in the Internal Auditing standards, is both beneficial for the General Manager of NCIA and the ASB or its audit committee. Accordingly, without being integrated within any other function of NCIO, the head of internal audit should report at the functional level to the Audit Committee and at the administrative level to the General Manager, in accordance with those standards.

The Board recognises that the implementation of these Internal Auditing standards could be tailored to the operating environment of the Agency. However this should not lead to undermining the independence principle set in these standards and the NFRs. Therefore, it is for the Agency to adapt the Internal Audit Charter and other operating procedures to abide by the principles and comply with the rules set by the North Atlantic Council.

**OBSERVATION 5:
NO CLEAR CONFIRMATION OF THE SYSTEM OF INTERNAL CONTROL**

NCIA's Formal Comments

The NCIO agrees with the recommendation and will implement accordingly.

**OBSERVATION 6:
WEAKNESSES IN THE SOURCE SELECTION PLANNING PROCESS**

NCIA's Formal Comments

The Agency continues its efforts to further enforce compliancy with Procurement SOP and strengthen the overall source selection process. Several improvement efforts were identified and are being pursued, like enforcing discipline in adherence to the Source Selection Plans timelines, sequestering evaluators for the time of evaluation, optimizing Contracts Award Board (CAB) work (delegation, silence procedure, CAB Chair decision authority) or introducing mandatory Source Selection Process training for the Evaluation Team.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(3) NCIO FY 2016

IBA-AR(2017)15, paragraph 3

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

NCIA's Formal Comments

Observation partially settled. The Agency notes the Board's appreciation for the

progress made namely on the significantly improved quality of the planned figures at completion provided by Project Managers, the multiple seminars, training and workshops that took place in 2017 for the project manager community with the objective of improving the quality of the data related to the scope, the scheduling and costs of the project. Furthermore, the agency is nearing go-live for the new EBA system which is designed to integrate the different aspects of NSIP authorisations and Non-NSIP Acquisition type projects and thus further standardise the CTC process. Nevertheless the Agency agrees that further improvement is required and will continue to pursue full compliance with the Board's recommendation.

(6) NCIO FY 2016

IBA-AR(2017)15, paragraph 6

CONTRACTOR CLAIM RESULTING FROM CHANGING AND DELAYED CONTRACT REQUIREMENT DEFINITION AND WEAK COORDINATION BETWEEN NCIA AND THE INVESTMENT COMMITTEE

NCIA's Formal Comments

A new format of quarterly reports to Investment Committee on NSIP implementation started in 2018 with a broader capability view and highlight capability development achievement. The Agency, via its Board, remains engaged with the currently ongoing NATO institutional and Customer Funding Regulatory Framework reviews. In addition, the General Manager has included in his Strategic Plan for the Agency specific objectives aimed at improving the Agency's capability development and delivery performance.

Furthermore, following the approval by Defense Ministers of the Common Funded Capability Delivery Governance model at their 7-8 June meeting, to be endorsed by Heads of State and Government at the 2108 NATO Summit, its implementation will start in August 2018. The new capability delivery process will be detailed in an Overarching Directive, to be signed by Capability Management Authorities (ACT, ACT, NCIA, NSPA) by October 2018. This process will reduce the number of required consensus decisions to four mandatory and two optional decision gates, operationalize a programmatic approach including a single project-level authorization, improving delivery of required capabilities that meet commanders' performance expectations within expected timelines and agreed cost.

(10) NCIO FY 2016
IBA-AR(2017)15, paragraph 10
WEAKNESSES IN THE TIME ACCOUNTING SYSTEM (TAS)

NCIA's Formal Comments

The Agency welcomes the Board's acknowledgement of the progress made and pending EBA implementation will continue to monitor and improve its time accounting processes as well as its efforts of mitigating risks and internal controls. EBA Work Package 4, pertaining the replacement of EPM, will specifically address this recommendation and improve TAS quality with improved functionality that allows for team working and improved control in respect to how TAS can be booked. This work package is currently planned to be in place by the end of 2019. Additionally, the full implementation in 2019 of the Enterprise Service Delivery Model (ESDM), fully supported by EBA, will also assist in controlling internal service provision and provide a 'best practice' service delivery framework.

(12) NCIO FY 2016
IBA-AR(2017)15, paragraph 3
INCOMPLETE INFORMATION IN THE DISCLOSURE NOTES ON THE TRANSITION PROGRAMME

NCIA's Formal Comments

The Board welcomed the full disclosure of IC funding but noticed that the expenditures incorrectly included open encumbrances. The Agency will fully comply with the IBAN recommendations.

(16) NCIO FY 2014
IBA-AR(2015)20, paragraph 7
LACK OF A FORMAL AND DOCUMENTED PROCESS TO IDENTIFY AND DISCLOSE CONTINGENT LIABILITIES

NCIA's Formal Comments

Observation partially settled. Agency instructions on reporting of provisions, contingent liabilities/assets and events after the reporting period is in final coordination. The collection of contingent liabilities is made at year end for the preparation of the Financial Statements through the Tasker Tracking System. Agency intends to settle this observation over the next reporting period.

(17) NCIO FY 2014

IBA-AR(2015)20, paragraph 8

**INCOMPLETE CONFIRMATION OF YEAR-END ASSETS AND LIABILITIES
OUTSTANDING BETWEEN NATO BODIES**

NCIA's Formal Comments

Observation partially settled. The Board found that considerable progress was made by the Agency. NCIA asset balances was either confirmed or differences investigated with IS, IMS, ACO and ACT. However, the liabilities was only confirmed with ACO and not with other NATO bodies. The Agency agrees that further improvement is required and will comply with the Board's recommendation.

(18) NCIO FY 2014

IBA-AR(2015)20, paragraph 10

**LACK OF SPECIFIC REPORTING OF AIR COMMAND & CONTROL (AIRC2) AND
NATO BALLISTIC MISSILE DEFENCE (BMD) IN THE FINANCIAL STATEMENTS**

NCIA's Formal Comments

The Agency is ensuring that EBA will cover the requirements for the segment reporting and therefore will comply upon implementation of EBA.

19) NCIO FY 2013

IBA-AR(2014)22, paragraph 4

**NCIO'S FINANCIAL REPORTING PROCESSES DO NOT YET FULLY MITIGATE THE
RISK OF ERRORS IN THE FINANCIAL STATEMENTS**

NCIA's Formal Comments

Observation partially settled. The Agency welcomes the Boards findings about the further improvements that have been made despite the staff shortage. The Agency will continue to monitor and improve within the limitations of its multiple financial systems and suboptimal interfaces with other legacy systems, pending the EBA implementation.

(20) NCIO FY 2012

IBA-AR(2013)23, paragraph 6

NCIA SD SEGMENT FINANCIAL STATEMENTS (former NCSA)

NCIA's Formal Comments

Observation partially settled. PP&E accounting policy was issued in 2017. An intangible asset accounting policy is also expected. These policies will form the

basis for more detailed NCIA implementing instructions on the subject.

(21) NCSA FY 2012

IBA-AR(2012)10, paragraph 5.2

NO CONSOLIDATION OF MORALE AND WELFARE ACTIVITIES (MWA)

NCIA's Formal Comments

The Agency has issued an Agency Directive on Morale and Welfare in 2016, and is in the process of implementing it and will continue to take action in order to comply with the Board's recommendation.



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



NCIA/FC/2018/00543

NCIO Financial Statements 2017

NATO UNCLASSIFIED

Contents	Page
Foreword NCI Agency GM	2
Overview	3
NCIO Statement of Financial Position	11
NCIO Statement of Financial Performance	12
NCIO Statement of Cash Flows	13
NCIO Statement of Changes in Net Assets	14
NCIO Budget Execution Statement	15
Accounting Policies	16
Notes to the Financial Statements	22
2016 Restated Statement of Financial Position and Performance	60
NAF impact prior 1/1/13	66
Statement on Internal Control	67
Financial Controller Certification	69
List of Acronyms	70

Foreword by the General Manager

In the first Financial Statement of the NCI Agency of my tenure, I am pleased to report that the Agency ends fiscal year 2017 with a positive operating result and a surplus 0.14% of total revenue (or 1.1 million Euro).

I would like to draw the Board's attention to the fact that the Agency has overachieved its operational revenue target and at the same time fully complied with the Council-mandated savings. The latter is the result of close and constructive cooperation with our sponsors in what was a challenging task.

It is clear that five years of reforms and efficiency measures have taken a serious toll on the organization and its staff, as well as customer satisfaction. In order to prevent a further negative impact on project execution and service provision we need to now focus on the Agency's ability to deliver and to meet the ever increasing demands from our sponsors. This includes the increase in Agency support to NATO operations and exercises.

Progress made in 2017 inspires optimism and confidence in the Agency's ability to provide, maintain and defend a NATO enterprise-wide secure and resilient, cloud-based information technology infrastructure required for NATO's consultation and collective defence. By the end of 2017 we took the last hurdles in the Active Network Infrastructure project, allowing NATO Headquarters and the NCI Agency to begin transitioning to the new NATO Headquarter's.

Also, in December 2017, the Agency received an initial shipment of Data Centre equipment in Mons, Belgium, launching a NATO-wide IT modernization programme. IT Modernization will fundamentally reshape NATO's cyber posture, embrace cloud computing, increase resiliency, enhance information assurance, and improve the mobility and agility of the workforce.

A strategic focus

In a fundamentally changed security environment, continued support to Alliance Operations and Missions, as well as NATO's Deterrence and Defence posture is our overriding priority. The Agency will continue to strengthen its position as a strategic partner supporting NATO's political-military agenda, and setting the conditions for a fully digital NATO enterprise that ensures consultation and collective defence. Against the background of NATO Command Structure Adaptation, an important focus in the resilience integrity of NATO networks under Agency custodianship, as well as the resilience of the Agency itself.

The in-depth 90-day assessment that I undertook when I took up my post in July 2017 has identified funding issues related to our facilities, internal IT and two major programmes (ANWI and ITM). These will need due consideration and staffing in 2018. However, at the end of 2017 we see an Agency who's bottom-line is sound.

I remain excited about the talent in the Agency, in our Industry partners, the Turnaround that is taking place and our contribution to NATO's ambitious agenda.

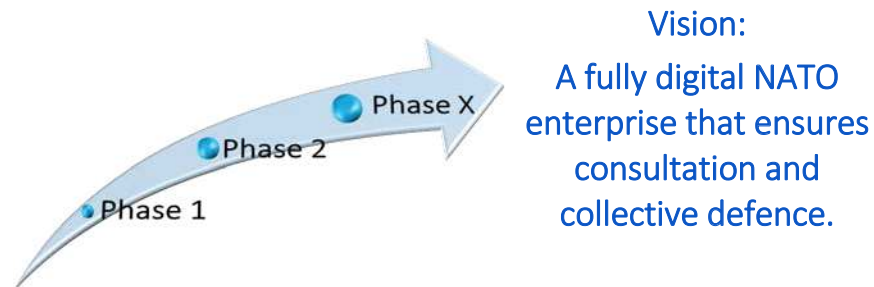


Kevin J. Scheid
General Manager,
NATO Communications and Information
Agency

Overview of the NATO Communication and Information Organisation (NCIO) and Agency (NCIA)

Vision

NATO is currently in the midst of a fundamental transformation in the way it performs its mission by more effectively exploiting information technology and reforming business processes. Today, NATO's consultation (Article IV) and military operations (Article V) are dependent on a secure, resilient IT infrastructure and an array of software applications. They are critical to NATO's success, and we invest in them through projects like the new NATO Headquarters active network, IT modernization across the NATO Enterprise, the NATO communications infrastructure and the development or acquisition of thousands of applications, all accounting to billions of euros of investments. The benefits of these investments need to be fully realised. Threats to this IT and CIS infrastructure are as dangerous to the Alliance as a conventional military attack and have been recognized by the North Atlantic Council as a threat rising to the level for collective defence.



The NATO Communications and Information Organisation is at the center of this digital transformation and the NCI Agency is positioned to lead the way. We acquire, deploy and defend communications systems for NATO's political decision-makers and commands. We are on the frontlines against cyber-attacks, monitoring thousands of them daily, diagnosing threats, working closely with governments and industry so that future debilitating attacks can be prevented. We have a 62-year legacy to build upon, from the Cold War, the Balkans and Afghanistan to the rapid

deployment of IT to the force integration units on NATO's eastern flank. We have decades of experience working side-by-side with the men and women who comprise NATO's military contingent. We are uniquely qualified to lead this endeavour.

Mission

Based on the NCI Organisation Charter¹, working with NATO Nations, their technology industries and with the support of our Supervisory Board, we will lift NATO's technological prowess and enhance the efforts of the Alliance. In doing so, we will:

- Provide, maintain and defend a NATO enterprise-wide secure, resilient, cloud-based information technology infrastructure required for NATO's consultation (Article IV) and collective defence (Article V);
- Provide the tools and know-how for communicating, managing and exploiting NATO's business and operational data; bring artificial intelligence and machine learning to the business of securing and managing NATO's information assets;
- Advise, counsel and implement the business transformation techniques and practices NATO requires to take full advantage of its information technology investments.

Our value proposition to NATO remains valid and strong:

Value Proposition

We strengthen the Alliance through our unique understanding of NATO, the Nations and the power of technology.

No private contractor can replace our role in NATO, no other NATO organisation has our capabilities, know-how and experience to meet NATO's needs, whether in Europe or alongside NATO troops around the world.

Our values are rock-solid – our sponsors are top-of-mind, always at the center of our day-to-day work, our support to military exercises and deployed troops is our highest priority and we never forget these commitments.

¹ C-M (2012)0049, 14 June 2012

Agency Priorities in Support of NATO

The NCI Agency's priority remains supporting NATO Operations, Missions and Exercises, enabling NATO's Deterrence and Defence posture and supporting the following initiatives:

- NATO Adaptation
- Readiness Action Plan
- Enhanced Forward Presence
- Tailored Forward Presence
- Operations and Exercises
- Capability Delivery
- Cyber Defence
- Partnership with Industry

The Agency continues to support the Alliance's efforts to adapt to the changing international environment and work to strengthen our position as a strategic partner to NATO supporting NATO's political agenda by setting the conditions for a fully digital NATO enterprise that ensures consultation and collective defence.

Building on NATO's Readiness Action Plan, the NCI Agency supported the "enhanced Forward Presence" and "tailored Forward Presence" initiatives through our Connected Forces Readiness programme to increase the readiness and interoperability of NATO Commands and NATO Force Structures as well as NATO and Partner Nations. In 2017, the programme was superseded by the NATO Readiness and Interoperability Programme to include projects supporting the implementation of the Alliance's Deterrence and Defence posture.

The Agency's 2017 efforts towards this, in continuation of our support to the NATO Force Integration Units, included support to the designing, developing and certification of CIS architectures for the Multi-National Division North-East, Multi-National Division South-East and the Multi-National Corps North-East. Equally, initial work towards the tailored Forward Presence has begun, based on the first requests in support of enhanced air capabilities around the Black Sea.

Following the 2017 Meeting of Heads of State and Government, Nations agreed to strengthen efforts in NATO's fight against terrorism, expand NATO support to the Global Coalition to Defeat ISIS, continue operations and missions in Afghanistan and Iraq, approve the accession of Montenegro into NATO and declare the intent to increase defence investment in capabilities based on annual national plans. The Agency commits itself to a supporting and enabling role in these initiatives.

The Agency remains committed to deliver key capabilities to the NATO Alliance, enabling it to fulfil its mission of providing freedom and security to its members. NCI Agency's continuing support towards future capabilities including a NATO-wide Information Technology Modernisation, the Alliance Future Surveillance and Control Project and Ballistic Missile Defence, the delivering of communication and information support to deployed operations and exercises and the implementation of the Air Command and Control System and Bi-Strategic Command Automated Information Systems are all a clear sign of this commitment.

Business Model

As established by the NCIO Charter in mid-2012, the NCI Agency is customer funded in delivering NATO Information and Communication Technology (ICT). Principles of Customer Funding based on the Charter include:

- Customers shall be charged the direct costs plus an overhead to cover general administrative expenditures, recuperation of capital investments, and Agency operating and running costs;
- Charges to customers shall be subject to customer agreement prior to being incurred;
- Customer Rates are set in such a way to ensure balance between planned income (revenue) and expenditure (expenses) to achieve breakeven over the planning period; and are submitted, after review by the ASB Finance Committee, to the ASB for endorsement and finally to the BC for approval on behalf of all Customers.

Since 2014 the NCIA been operating with a Bridging Model, with customers charged on the basis of Customer Funding except for the NATO CIS School, Latina. The School will migrate to the Customer Funding model used elsewhere in the Agency once the facility is moved to Oeiras, Portugal and the revised cost structure is solid. The Agency continues to evolve from an asset based to a service based provider and mature Customer Funding through use of the Costed Customer Service Catalogue approach. The New NATO HQ (NNHQ) has a catalogue for 2018 and a separate catalogue is being produced for non-NNHQ areas to use from 2019.

At Reference H, the NAC approved the Customer Funding Regulatory Framework which forms the basis of the Agency financial operations. Key aspects of this framework cover the issues of overarching principles, eligibility; the definition of customers, internal and external, their roles and responsibilities; the coordination with existing programming and planning mechanisms; the recapitalisation of ICT assets and equipment; the roles of the ASB, RPPB, NATO Budget Committee (BC), and Investment Committee (IC); service demand and requirements validation;

pricing of Agency services; the provision of independent advice to the NATO resource community; the roles of other stakeholders in the governance of the NCI Agency; the requirement for ICT Services and Capabilities; and procedures governing use of the Operating Fund. The use of the Operating Fund, which in this context performs the function of a repository for Accumulated Surpluses or Deficits, is determined by Nations. The overall level of the Operating Fund (excluding the depreciation) is currently set by a Nations at 10MEUR, with any increases based on a risk assessment and justification.

One of the aims of the Customer Funding is to empower the customer to secure the best value for money in obtaining the services it requires. The concept also aims to ensure that the beneficiaries of the goods and services are the ones who pay the full costs of the benefits they receive. The customer states their requirements, generally in the context of the draft SLA, capability package or by submitting a task order or customer request form. The Agency confirms its ability to fulfil the requirements, and following internal staffing and coordination, proposes a cost for each service or capability requested based on approved Customer Rates and/or Costed Customer Service Catalogue. Operating as an integral part of NATO, the Agency must remain attentive to the NATO's funding constraints and in close coordination with its customers tailor its service levels to the requirements and priorities set by its customers.

Being Customer Funded, the Agency must recover all of its costs from the work and services it provides its customers. In line with the Budget Committee's guidance the Customer Rates or professional labor fees the Agency charges its customers, termed respectively Project Service Costs (PSCs) for capability development and Service Support Costs (SSCs) for ICT services, aim to achieve financial breakeven over time. The Customer Rates are based on the actual costs as disclosed in the most recent published but still to be audited Annual Financial Statements². Since the 2017 Customer Rates, following Nations' approval, a single set of rates structure has been in use as this is considered to offer better transparency and traceability of the Agency's cost structure as well as allowing a more stable calculation methodology and facilitating comparability over the years.

Consistent with the Customer Funding Regulatory Framework, the Agency predominantly contracts with customers for the provision of CIS services on the basis of Firm Fixed Price (FFP) agreements whereby NCI Agency delivers a specified set of goods or services for a fixed price. The use of FFP reduces administration costs

and provides customers with more stability and less risk as the Agency manages all associated risks with delivering the goods or services within the agreed price, unless otherwise agreed with the customer (e.g. exchange rate fluctuations for agreements not priced in Euros). The Agency's obligation is the delivery in accordance with the agreed specifications, and the customer's obligation is payment of the agreed amount. Given the constraints on the use of the Operating Fund and its limited level, the NCI Agency relies on the customer provided funding via advance payments and timely payment of invoices to provide the cash flow for daily operations.

Agency Manning

To great concern of the Agency, the military fill rate, even after the approval by the NAC of the End-State Peacetime Establishment (ESPE) in July 2016, continues at critically low levels. During 2017, in total, the Agency lost a further net 85 military staff members to reach a filling figure of 966 military staff members; 874 against PE posts, and 92 Legacy Transition Personnel (LTP). The fill rate was, at the end of the year, 75.9% of the PE, 84.0% taking the LTP into account (even if LTP are not filling the PE).

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

As the PE was defined to meet the minimum core requirement, any gap in the military workforce still needs to be addressed swiftly and carefully.

Regarding the NATO International Civilian (NIC) component, which is still being optimised for efficiency, the Agency is facing a challenging situation to build its full capacity due to the time needed for recruitment (9 months average to hire) and its contract policy which calls for staff turnover to refresh skills and knowledge. This policy seems to lead to more unexpected attrition (resignations) than in a normal context, which creates issues to the Agency as the implementation of the Move Plan is more difficult than expected (less people willing to move with their post than planned).

At the end of 2017, the NIC population had increased by 45 (an accomplishment considering the increasing number of resignations in the Agency), while an additional

² The unaudited Annual Financial Statements are used since the NCIO Financial Rules and Procedures require both these and the proposed Customer Rates to be issued by 31 March

330 posts were under recruitment. The Agency continues to actively work to reduce the time for recruitment via the use of HireVue, Skill Pools, etc.

To alleviate this shortfall, the Agency has put a surge capacity in place through an Interim Workforce Capacity (IWC) strategy to mitigate the shortfall of NICs and to ensure that we can fulfil our delivery obligations to Customers. This however, creates financial pressure as in most cases the costs for IWCs are higher than NICs and of course military staff.

Transition Programme

In accordance with an RPPB decision on the funding eligibility and modalities of the Agency Transition Programme³, the Agency has been authorised to pursue its transition plan with a mix of common funding (from Military Budget and NATO Security Investment Programme - NSIP) supplemented through funds from a Transition Reserve constituted from the Agency Operating Fund. This separate funding provided to the Agency is not included in the costs the Agency charges its customers.

Enterprise Business Application (EBA): following authorisation by the Investment Committee in July 2017 and contract award in January, implementation has started to deliver the Customer Funding Core Capability incrementally in four phases starting in 2018. Although not without challenges, Initial Operating Capability (IOC) was achieved in March 2018 with the roll-out of the Human Resources module, and completion of phase 1, mostly related to the Finance modules, is expected within the year.

Functional Groupings and Facilities (FGFS): The Functional Groupings and Facilities Study addressing the new geographical footprint of the Agency is under implementation as approved by the Agency Supervisory Board. The requested resources were approved and fully authorised by the RPPB and IC, and the FGFS Programme Office stood up in the 2nd half of 2017. The renovation and expansion of the facility in The Hague, by Host Nation The Netherlands has been progressing as planned, and the location and construction schedule for the new building in Mons has been agreed with Host Nation Belgium. Last but not least the Agency has just successfully completed the move of all the staff based in Brussels to the New NATO Headquarters

IT Modernisation (ITM): this major project will deliver a mission critical refresh of the IT footprint across the NATO Enterprise. In December 2017, an initial shipment of Data Centre equipment was received in Mons, Belgium. It will be followed by a major

delivery in February 2018, for a total of 21 pre-staged racks required to implement the future NATO Cloud Services. In conjunction with the second Data Centre in Lago Patria, Italy, it will allow for the centralization and consolidation of services and applications, as well as the centralized management of the NATO Enterprise infrastructure.

Efficiencies and Savings

The Council-agreed 2017 Contribution Ceilings⁴ placed significant emphasis on the 2014 Wales Summit decisions on improving common funded resource planning alongside transparency and accountability, and encouraged prudent planning together with a stricter control of resources so as to minimise impacts on common funded entities.

Against the backdrop of resource constraints, particularly within the Communication and Information Systems services and support portions of the NATO Command Structure Entities and Programmes budgets, and pending the realisation of tangible benefits tied to NATO reform efforts, the NCI Organisation fully embraced the NAC invitation to investigate further efficiencies in the Agency's organic (in-house) NCI costs, including overheads and service level agreements, without transferring costs (i.e. shifting to direct charges) to the customers or other budgets.

Under the umbrella of the NCI Organisation governance and the NATO Budget Committee, the Agency embarked on a collaborative effort with the Budget Holders in order to realise the mandated efficiencies, and identified efficiency measures to be implemented in a phased approach throughout 2017, outlined in a comprehensive Efficiency Plan.

In order to ensure business continuity and minimise the impacts on operations, the Efficiency Plan execution entailed the use of a suspense account mechanism intended to offset the efficiencies identified, and permit the signature of Service Level Agreements beyond the available funding. Consistent with Council's guidance, the Budget Committee exercised an active monitoring function over the suspense account, and concluded that internal management, controls and flexibility within the budget envelopes proved sufficient to deal with the 11 MEUR target, and no resort to the suspense account was made.

By means of significant efforts by the Agency, NCI Organisation, Budget Holders, and the Budget Committee, these challenging targets were fully met. The realisation of the structural aspect of efficiencies will be monitored during 2018 budget execution.

³ AC/335-N(2013)0044; Resource Requirements for the NATO Communications and Information Agency Transition Programme.

⁴ C-M(2016)0058 (INV)

Financial Statements Overview

Basis of Preparation

The NCIO Financial Statements are a formal record of the financial activities and position of the NCI Agency and the ASB Secretariat. These include an extensive set of notes to the financial statements describing each item on the statement of financial position, performance, cash flow and budget execution statement in further detail.

The NCIO Financial Statements are a standalone document and undergo a specific approval process as well as an audit by the International Board of Auditors for NATO (IBAN). For full visibility of the Agency's operating performance and strategic alignment to the NATO mission, readers should also consult the NCIO Annual Report.

In respect to the 2017 NCIO Financial Statements, these were prepared:

- for public disclosure
- on a going-concern principle
- on the basis of a single entity using multiple legacy accounting and operating systems
- on an accrual basis and a historical cost convention, except as disclosed in the accounting policies and detailed notes

Amounts in the financial statements are stated in euros.

Compliance with Financial Regulations

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

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

Article 27 of the NATO Financial Regulations specifically relates to the Agency as a Customer Funded entity: *"Customer-Funded bodies make agreements with*

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

The NATO Communications & Information Agency Customer Funding Regulatory Framework is a fundamental part of the governance of the Agency, along with the NCIO Charter provisions. It's designed to deliver effective and efficient C&I service provision by NCIA by establishing mechanisms for validating Agency costs and for validation of all requirements, including ICT services, while future C&I capability requirements will continue to be provided through the Capability Package process with greater emphasis on ICT asset renewal which will be on a biennial schedule to ensure that technology upgrades and replacement of obsolescent equipment keeps up with the military requirement.

With effect from 1 April 2016 and thus applicable to the 2017 NCIO Financial Statements, the ASB concluded a two-year effort to update NATO's Financial Regulations (NFRs) and Financial Rules and Procedures (FRPs) by approving the new FRPs specifically applicable to the NCIO and the NCIA.

Financial Performance Highlights

2017 constituted only the third year of transformation of the Agency from an asset based to a service oriented organisation. Operating under difficult conditions of challenged NATO financial resources, the Agency faced in 2017 lower than planned manpower levels, particularly military, while at the same time demands from customers and Nations for improved effectiveness and efficiencies. In addition, implementation of an Agency-wide Customer Funding regime continued, initially in the form of a "Bridging Model", as did initiatives to increase the level of transparency and confidence with our Customers. Having successfully completed the conversion from budget to customer funded in 2014, with the exception of the NATO CIS School (NCISS), the structure and breakdown of the 2017 Financial Statements has remained the same as that of the previous year.

Total revenues for the 2017 amount to 770.3 MEUR, down 19.5 MEUR or -2.5% from 2016, and include:

- 283.2 MEUR of acquisition revenue earned as Host Nation and procurement principal for NSIP, NATO Entities and Nations, down 55.8 MEUR or -16.5% from previous year, primarily due to the lower value of the contractual milestones executed in year;
- 258.2 MEUR of operating, services and project support revenue contracted, using BC approved Customer Rates, for the delivery of CIS capabilities and

services, up 24.2 MEUR or 10.3% from previous year, mostly related to revenue earned in the execution of Active Network Programme at the New NATO HQ;

- 222.6 MEUR of operating and external CIS revenue earned in direct support of the delivery of services, up 16.3 MEUR or 7.9% from previous year, almost entirely due to the ramp up of the Air Command and Control System (ACCS) in-service support model;
- 4.2 MEUR of other operating revenue earned in the provision of other support services provided to hosted entities (e.g. NAGSMA) as well as contribution revenue from the execution of the BC funded portion of the Transition Programme and NCIO Independent Secretariat core funding from Nations;
- 2.2 MEUR earned from favourable foreign exchange rate variances and, to a minor extent, interest earned from short-term deposits, typically one to three months (same as previous year).

Totalling 769.3 MEUR the 2017 Agency costs and expenses are 22.7 MEUR or 2.9% down from 2016 and include:

- 279.7 MEUR of acquisition costs incurred in the procurement, on behalf of the Investment Committee (IC), other NATO entities and Nations, of CIS capabilities and services from industry down 57.4 MEUR from previous year due to lower valued contractual milestones;
- 227.6 MEUR of costs related with the civilian personnel employed during the year (in compliance with NATO Personnel Regulations, NAC approved salary scales and allowances), and interim workforce - contractors, temporary staff and consultants, up 2.3 MEUR or 1.0% from previous year;
- 257.1 MEUR of costs for Contractual Supplies and Services, including external CIS costs of 218.9 MEUR and acquisition cost of 3.0 MEUR in direct support of the delivery of services, including direct costs incurred on the execution capabilities' projects for 9.1 MEUR, including 18.7 MEUR related to the running costs of the Agency facilities and equipment, and including 7.7 MEUR of inventory variation.
- 4.1 MEUR of depreciation expense for fixed assets capitalised in line with the accounting policies as adopted by NATO, up 0.3 MEUR from previous year;
- 4.0 MEUR of expenses from unfavourable foreign exchange rate variances, including bank transaction fees related to conversion of currencies, up 1.9 MEUR from previous year; and,
- 3.3 MEUR income from an in-year net reduction of provisions mostly pertaining to the recovery of the provision for losses made in 2016 for the ANWI project.

Net result for the year, including financial income/costs and depreciation expense is a surplus of 1.1 MEUR, or 0.14% of total revenue.

Total assets amount to 379 MEUR, largely made up of Cash holdings and Receivables. Total Liabilities amount to 354 MEUR at the end of the 2017, mostly reflecting an increase in the balances of Deferred Revenue and Advances.

Total Net Equity and Operating Fund

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

At 31 December 2017, the Agency Total Net Equity amounts to 25.0 MEUR broken-down as follows:

- 7.7 MEUR of Reserved Earnings, composed of (1) the remaining Transition Reserve of 4.2 MEUR, as per RPPB decision, for purposes of funding transition activities of the Agency, and (2) the Depreciation Reserve, amounting to 3.5 MEUR, related to assets not yet fully depreciated.
- 16.2 MEUR of Retained Earnings, which equal the Operating Fund (as per the IBAN guidance and ASB Finance Committee decision, depreciation reserved earnings are no longer considered as part of the Operating Fund).

In October 2017, Nations at the ASB Finance Committee: (1) confirmed the continued need for an Operating Fund as a risk management tool, (2) agreed to no longer include the depreciation reserved earnings as part of the Operating Fund, (3) confirmed to the target level being 10.0 MEUR with increases based on risk assessment to be justified (4) agreed on the pro rata distribution of potential surplus from the Operating Fund based upon the Military Budget and the NATO Security Investment Programme share in the Agency revenue via the call for contributions mechanism (previously any surplus was applied as a rebate/reduction to the customer rates i.e. 5.6 MEUR for 2017 Customer Rates and 2.8 MEUR for 2018 Customer Rates).

Previous Year Restatement

NCI Agency is in the process of replacing its no longer fit for purpose legacy two financial systems by one Enterprise Resource Planning (ERP) solution, serving as the Agency's integrated business tool. The target go-live date for phase 1 of this Enterprise Business Application (EBA) is third quarter, 2018. For finance, the focus lies on project accounting and asset management. Any implementation of a new

software system requires the redesign of its master data and the cleansing and transition of the current data structures towards the new master data structures. For financial accounting, the natural Chart of Accounts (CoA) is the single most important master data element to assure proper general accounting record keeping and reporting, including the production of annual statutory financial statements.

NCI Agency has been producing consolidated statements for a number of years. However, it had to do so using the legacy CoAs which were not only distinct but also not entirely designed to support customer funding. In 2016, in preparation of the introduction of EBA, a significant effort was put into designing an end-state CoA. This resulted in a number of re-classifications between individual accounts in the Statements of Financial Position and Performance with no impact on the Net Assets/Equity.

In 2017, some additional reclassifications were identified that were overlooked in 2016. Most important one being the inventory variation account (5.2 MEUR in 2016) which was booked under other operating revenue whereas it should be booked under Contractual Supplies and Services Costs. A provision expense reclassification was also done for 0.7 MEUR of provisions for "Trattamento di Fine Rapporto (TFR)" and another amount of 0.5 MEUR was also reclassified from other operating revenue to ECIS revenue.

Further to an audit observation from IBAN on the 2016 Financial Statements, observing on the complex recording of Resolute Support Mission activity in the cost to complete models, the Agency reorganised the RSM activity which is now entirely reported under Support Service Costs (SSC) and External CIS (ECIS) Revenue. For comparability, the Agency also reclassified the 2016 RSM activity accordingly (66 MEUR from Acquisition to ECIS revenue).

All the resulting restatements of 2016 bear a minimal impact on the net result.

Internal Control Framework

Internal control helps entities to achieve objectives and sustain and improve performance. NCIO has an Internal Control Framework (ICF), approved by the ASB in 2016, that has been designed considering the components and associate principles of the COSO's Internal Control - Integrated Framework'. It is expected it will enable NCIO to effectively and efficiently develop a system of internal control that adapts to changing business and operating environment, mitigate risks to acceptable levels, and support sound decision making and governance of the organisation. The NCIO ICF is under implementation and continues to be matured, and as part of this, an NCI Agency Internal Control Panel has been established which meets regularly to: oversee the implementation of the ICF across the Agency, oversee development & deployment of related policies and procedures,

recommend priorities and objectives to the GM and identify opportunities, risks, control weaknesses, and correcting measures to the GM.

Risk Management

The Agency operates an Enterprise Risk Management (ERM) system with Corporate and also Directorate Risk Registers. The Agency's top risk landscape is dynamic and is made up of risks that can be Agency-wide and/or corporate in nature. The Agency regularly reviews its top risks at an Executive level taking account of the environment in which Agency operates and its risk appetite, as well as the probability of the risk occurring and its impact. Such an Executive level review takes place a minimum of once or twice per year with regular monitoring through the Monthly Operating Report (MOR). All Agency top risks are assigned to an individually accountable Risk Owner (usually an Executive) to manage. Other lower level (in terms of probability and impact) risks are within Directorate Risk Registers.

Of the top ten risks the Agency has identified some have given rise to either Provisions or have been listed as Contingent Liabilities in the Financial Statements (notes 27 and 28). These pertain to funding issues related to our facilities, internal IT and two major programmes (ANWI and ITM) and will need due consideration and staffing in 2018.

The Agency continues to mature its ERM, through a documented process, trainings, workshops, presentations and communications to staff as well as reinforcing the activities to review, mitigate and regularly report on risks. The Agency also separately tracks the issues it faces.

External and Internal Audit

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

External Audit

The International Board of Auditors (IBAN) led in 2017 the audit of the 2016 NCIO FS resulting in a number of observations of which four were considered critical:

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

- Understatement of inventory which is linked to the implementation of the NATO Accounting Framework
- Lack of assurance of the reliability of the estimate for future loss related to the New NATO Headquarters Programme.

The Agency, under the remit of its supervisory board, is undertaking the necessary actions to remediate and resolve all outstanding observations.

The IBAN also conducted performance audits with regard to: (1) the Assessments of Outcomes and Benefits of NSIP Projects; (2) the Need to revise NATO wide Framework on Morale and Welfare Activities, and (3) the NATO Budget Preparation and Approval Processes.

IBAN has already initiated the audit of the 2017 Financial Statements. As per the NFR the NCIO Financial Statements are submitted to IBAN and ASB by 31 March. In accordance with the NCIO Charter, the ASB will approve the Financial Statements once IBAN audit results are published, taking in consideration the advice of the ASB Finance Committee.

Internal Audit

The Internal Audit activities were a significant part of the Agency's overall control structure and exercised a positive influence on the overall Agency performance.

During the reporting period, Internal Audit completed 5 advisory and 13 compliance engagements. The completed engagements spanned several thematic areas and covered reviews of project management activities, operational processes, corporate and administrative processes and information technology areas. Management continues to enhance the existing follow-up process with the aim to follow-up even more closely on the progress of outstanding observations identified in the Internal Audit reports.

Internal Audit will continue performing follow up missions and will report on the status of the implementation of the recommended actions during 2018 to Agency management and the ASB Finance Committee. Finally, IA continued to support the implementation of the new NATO Financial Regulations and the NCIO Financial Rules and Procedures and also contributed to the development and implementation of the NCIO Internal Control Framework. “

NCIO Statement of Financial Position

As of 31 December 2017

(all figures are in Euro)

(Prior Year restated)

ASSETS

Current Assets

	Note	2017	2016 - Restat.
Cash and Cash Equivalents	1	160,827,986	168,228,053
Receivables	2	207,166,505	174,079,678
Prepayments and Miscellaneous Assets	3	3,121,046	4,916,232
Inventory	4	3,566,455	11,321,408
Work in Progress	5	879,313	370,568
Other Current Assets	6	40,436	57,465
Total Current Assets		375,601,740	358,973,404

Non-Current Assets

Financial Assets		0	0
Non-current Receivables	7	1,904	2,009
Property, Plant and Equipment	8	3,458,587	4,144,475
Intangible Assets	8	71,697	120,077
Other Non-Current Assets		0	0
Total Non-Current Assets		3,532,188	4,266,561
TOTAL ASSETS		379,133,928	363,239,965

NCIO Statement of Financial Position

As of 31 December 2017

(all figures are in Euro)

(Prior Year restated)

LIABILITIES

Current Liabilities

Payables	9	137,116,806	141,180,690
Deferred Revenue and Advances	10	207,528,805	182,843,729
Borrowings		0	0
Other Current Liabilities	11	1,522,745	4,056,843
Total Current Liabilities		346,168,356	328,081,263

Non-Current Liabilities

Non-Current Payables		0	0
Non-Current Deferred Revenue and Advances		0	0
Non-Current Borrowings		0	0
Provisions	12	7,932,079	11,212,745
Other Non-Current Liabilities		0	0
Total Non-Current Liabilities		7,932,079	11,212,745
TOTAL LIABILITIES		354,100,435	339,294,007

NET ASSETS/EQUITY

Retained Earnings	13		
	34	17,316,377	14,149,077
Reserved Earnings	33	7,717,116	9,796,881
TOTAL NET ASSETS/EQUITY		25,033,493	23,945,958
TOTAL LIABILITIES AND NET ASSETS/EQUITY		379,133,928	363,239,965

NCIO Statement of Financial Performance

For the year ended 31 December 2017

(all figures are in Euro)

(Prior Year restated)

		NCIO	
	Note	2017	2016 - Restat.
REVENUE			
Project and Support Services Revenue	14	258,152,164	233,966,048
External Services Revenue	15	222,620,080	206,279,671
Acquisition Revenue	16	283,184,550	338,962,461
Other Operating Revenue	17	4,224,401	7,669,770
TOTAL OPERATING REVENUE	19	768,181,194	786,877,951
Financial Revenue	29	2,152,762	2,936,420
Other Revenue	18	11,850	29,300
TOTAL REVENUE	19	770,345,806	789,843,670
EXPENSES			
Cost of Acquisition	21	(279,706,085)	(337,123,735)
Personnel Costs	22	(227,616,964)	(225,301,575)
Contractual Supplies and Services	25	(257,110,914)	(220,970,268)
Depreciation and Amortisation	26	(4,134,860)	(3,791,369)
Provisions	27	3,280,666	(2,454,909)
Financial Expenses	29	(3,953,914)	(2,111,832)
Other Expenses	30	(16,199)	(266,114)
TOTAL EXPENSES		(769,258,271)	(792,019,803)
SURPLUS/(DEFICIT)			
Retainable Earnings	34	1,087,535	(2,176,133)
Refundable Earnings		0	0
SURPLUS/(DEFICIT) FOR THE PERIOD		1,087,535	(2,176,133)
Revaluation of Assets		0	0

NCIO Statement of Cash Flows*For the year ended 31 December 2017**(all figures are in Euro)**(Prior Year restated)*

CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus/(Deficit) for the Period		1,087,535	(2,176,133)
Depreciation and Amortisation		4,116,698	3,789,732
Revaluation of Assets		0	0
Decr./((Incr.) Receivables		(33,086,827)	21,586,913
Decr./((Incr.) Prepayments and Miscellaneous Assets		1,795,186	5,873,241
Decr./((Incr.) Inventory		7,754,953	(5,169,433)
Decr./((Incr.) Work in Progress		(508,745)	239,869
Decr./((Incr.) Other Current Assets		17,029	(17,391)
Incr./((Decr.) Payables		(4,063,884)	40,540,306
Incr./((Decr.) Deferred Revenue and Advances		24,685,076	7,625,388
Incr./((Decr.) Borrowings		0	0
Incr./((Decr.) Other Current Liabilities		(2,534,098)	(8,002,892)
NET CASH FLOWS FROM OPERATING ACTIVITIES		(737,076)	64,289,601
CASH FLOWS FROM INVESTING ACTIVITIES			
Decr./((Incr.) Financial Assets		105	(41)
Decr./((Incr.) Non-current Receivables		0	0
Decr./((incr.) PP&E and Intangible Assets		(3,382,431)	(4,310,306)
Decr./((Incr.) Other Non-Current Assets		0	0
NET CASH FLOWS FROM INVESTING ACTIVITIES		(3,382,326)	(4,310,347)
CASH FLOWS FROM FINANCING ACTIVITIES			
Incr./((Decr.) Non-Current Payables		0	0
Incr./((Decr.) Non-Current Deferred Revenue and Advances		0	0
Incr./((Decr.) Non-Current Borrowings		0	0
Incr./((Decr.) Provisions		(3,280,666)	2,454,909
Incr./((Decr.) Other Non-Current Liabilities		0	(93,919)
NET CASH FLOWS FROM FINANCING ACTIVITIES		(3,280,666)	2,360,990
NET INCR./((DECR.) CASH AND CASH EQUIVALENTS		(7,400,068)	62,340,244
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD			
Incr./((Decr.) Cash and Cash Equivalents		168,228,053	105,887,809
CASH AND CASH EQUIVALENTS AT END OF PERIOD		(7,400,068)	62,340,244
		160,827,986	168,228,053

NCIO Statement of Change in Net Assets/Equity (Operating Fund)

For the year ended 31 December 2017

(all figures are in Euro)

(Prior Year restated)

		NCIO	
	Note	2017	2016 - Restat.
BALANCE AT BEGINNING OF PERIOD		23,945,958	26,122,091
Variations due to restatement		0	0
Restated balance		23,945,958	26,122,091
Net gains/(losses) not recognized in the Statement of Financial Performance		0	0
Net surplus/(deficit) for the period		1,087,535	-2,176,133
BALANCE AT END OF PERIOD		25,033,493	23,945,958
RESERVES AT BEGINNING OF PERIOD		9,796,881	9,961,965
Net increase/(decrease) of bookvalue of property, plant and equipment		(734,262)	519,994
Net increase/(decrease) of reserves		(1,345,502)	(685,077)
Net increase/(decrease) of currency translation differences		0	0
RESERVES AT END OF PERIOD		7,717,116	9,796,881
SURPLUSES/(DEFICITS) CARRIED FORWARD		17,316,377	14,149,077
NET ASSETS/EQUITY AT END OF PERIOD		25,033,493	23,945,958

NCIO Budget Execution Statement

For the year ended 31 December 2017
(all figures are in Euro)

NCIO

Note	Initial Budget	Transfers	BA2	Transfers	Final Budget	Net Commitment	Expenses	Total Spent	Carry Forward	Lapsed
BUDGET										
Chapter 1	2,747,305	0	2,747,305	0	2,747,305	0	2,744,792	2,744,792	0	2,513
Chapter 2	93,013	0	93,013	0	93,013	5,759	68,849	74,609	5,759	18,404
Chapter 3	0	0	0	0	0	0	0	0	0	0
Total current year	2,840,318	0	2,840,318	0	2,840,318	5,759	2,813,641	2,819,401	5,759	20,917
Chapter 1	2,050	0	2,050	0	2,050	0	2,109	2,109	0	(58)
Chapter 2	12,463	0	12,463	0	12,463	11,063	0	11,063	11,063	1,400
Chapter 3	0	0	0	0	0	0	0	0	0	0
Total prior year	14,513	0	14,513	0	14,513	11,063	2,109	13,171	11,063	1,342
Chapter 1	0	0	0	0	0	0	0	0	0	0
Chapter 2	0	0	0	0	0	0	0	0	0	0
Chapter 3	0	0	0	0	0	0	0	0	0	0
Total 2 years ago	0	0	0	0	0	0	0	0	0	0
TOTAL	2,854,831	0	2,854,831	0	2,854,831	16,822	2,815,750	2,832,572	16,822	22,259

Accounting Policies

Basis of preparation

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

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

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

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

Segment Reporting

In its 2013 financial statements, NCIO applied segment reporting on the basis of its legacy entities that were still funded through their legacy models and governing committees for their respective activities. In its 2014 and 2015 financial statements, NCIO did not include segment reporting in accordance with IPSAS 18.

Following an observation from IBAN on their audit of the NCIO 2015 Financial Statements, the Financial Controller sought, in 2017, expert advice on the best and most suitable application of IPSAS 18 in the financial statements of NCIO.

Consistent with the definition under IPSAS 18.9, a segment is a distinguishable activity or group of activities whose identification shall be driven by (i) the evaluation of the entity's past performance in achieving its objectives (accountability purposes) and (b) the decision-making about the future allocation of resources (decision-making purposes).

Identifying segments is a judgmental assessment which first requires to determine the objectives of the entity, but also to consider such matters as the expectations of stakeholders (IPSAS 18.15(b)), the qualitative characteristics of financial reporting,

including relevance of information that is affected by materiality (IPSAS 18.15(c)), and the basis on which the governing body and senior manager require financial information to be structured (IPSAS 18.15 (d)).

IPSAS 18.14 expects that in most cases the major classifications of activities identified in budget documentation will reflect the segments for which information is reported to the governing body and the most senior manager of the entity because they will require information about segment to enable them (a) to discharge their management responsibilities and to evaluate the performance of the entity in achieving its objectives in the past, and (b) to make decisions about the allocation of resources by the entity in the future.

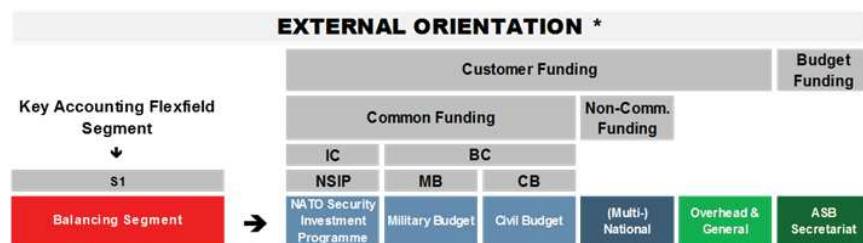
IPSAS 18.18 further prescribes that government agencies are usually managed along service lines, because this reflects the way in which (a) major outputs are identified, (b) their achievements monitored, and (c) their resource needs identified and budgeted. If that is the case, it is likely that reporting externally on the basis of service segments will also satisfy the requirements of this Standard (IPSAS 18.18).

Based on its understanding of the relevant facts and circumstances together with the IPSAS 18 requirements, the Agency, as well as the expert consulted, are of the judgemental view that two segmentation bases are possible that fairly represent the way the NCI Agency's past performance is evaluated and the way decisions are made about future allocation of resources. On this basis, the NCIO would report a matrix form of segmentation based on the following two dimensions:

- Segmentation based on organisational governance and on groups of service lines:
 - AirC2 programme
 - BMD programme
 - Other projects (subject to ASB organisational governance)



- Segmentation based on budget documentation:
 - Internal customers – Investment Committee (NSIP)
 - Internal customers – Budget Committee - In this segment, a distinction could be made between the military budget and the civil budget
 - External customers
 - Other



Although a segmentation based on (groups of) service lines is aligned to the organisation and management of the NCI Agency, it does not comprehensively reflect the NCI Agency's governance, accountability and decision-making process. With respect to the AirC2 and BMD programmes however, their governance by NAC approved Steering Committees justifies that the related programmes are reported as two separate segments in accordance with IPSAS 18.

The 2017 NCIO Financial Statements have no segment reporting because the segment reporting basis will first be discussed with the Agency's governance bodies and based on this result it will be implemented along with EBA.

The NCIO Financial Statements also include the budget execution for the NCIO's Independent Secretariat. These reflect the running costs of the Independent Secretariat in support of the ASB Chairman and Nations. Although this could qualify as a separate segment under IPSAS 18, given the low value of this budget of about 500KEUR, it has not been reported as such.

Changes in Accounting Standards

No new standards have become effective on 1 January 2017.

The following IPSAS will become effective as of 1 January 2018:

- IPSAS 39 - Employee Benefits (replaces IPSAS 25)

The following IPSAS will become effective as of 1 January 2019:

- IPSAS 40 - Public Sector Combinations

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

Revenue Recognition

Revenue from exchange transactions

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

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

NCIO also still has some contributions income from budgets:

- NCIO's Independent Secretariat: revenue associated with the running of the Independent Executive Secretariat which is to support the ASB Chairman. This budget is core funded and the ASB approves the structure and its annual budget, which is based on the Military Budget cost share model.
- Transition: specific budgets, authorised by the BC, created in 2013 and onwards to cover for expenses related to the NATO Command Structure reform and Agency Transition Programme workforce adjustments.

Revenue measurement and timing

Provided the amount of revenue can be measured reliably and it is probable that NCIO will receive payment, revenue for goods and services delivered is recognised when NCIO has transferred the significant risks and rewards of ownership and it is probable that NCIO will receive payment for delivering goods and services. These criteria are considered to be met when the goods or services are delivered to the customers' satisfaction. For all Customer Funded revenue, revenue is recognized by reference to the stage of completion or the cost burn rate, depending on the type of funding agreement; firm fixed price or cost reimbursable. For the budget revenue, income is recognised at the moment an expense is incurred as the revenue is guaranteed to be funded by member Nations.

Expenses Recognition

NCIO has the following main categories of costs:

- Acquisition: costs relating to goods and services procured as a principal on behalf of sponsors, NATO entities or Member Nations.
- Personnel: costs derived from the employment of civilian personnel, as per NATO regulations, including salaries, allowances, pension contributions, recruitment

and moving costs but also training, medical and interim workforce (contractors, temporary staff and consultants).

- Contractual supplies and services: costs pertaining to goods and services procured from industry either directly in support of the delivery of services and capabilities or required for the normal functioning of the Agency's facilities and equipment.
- Depreciation, amortisation and provisions: costs related to usage of Agency assets, spread on a straight-line over their economic life, and costs related to the variance of Agency reserves (e.g. reserve for future losses, reserve for untaken leave).
- Foreign currency exchange and financial gains/losses: payments by NATO Bodies and Host Nations may be made in a variety of currencies. Gains/losses on foreign currency exchanges occasionally occur between the time of assessment and the time of payment. These differences are assessed and either refunded, charged or absorbed by the NCI Agency, depending on the agreement with the Customers. Gains or losses are recognised in the accounts in the period in which they occur.

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

Financial Plan Execution

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

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

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

Cash Flow Statements

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

Foreign Currency

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

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

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

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

Financial Assets

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

Financial Liabilities

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

Receivables

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

Accounts Payable

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

Advances and/or Unearned Revenue

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

Prepayments

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

Retirement Benefits: Provident Fund and Defined Contribution Pension Scheme

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

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

Other Long-Term Service Benefits

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

Leased Assets

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

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

Externally Acquired Intangible Assets

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

Property, Plant and Equipment (PPE)

PPE is recognised when it is an asset controlled by NCI Agency. Assets, of which PPE is a type, are defined by IPSAS as "Resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity". Control of an asset is defined by IPSAS as arising "when the entity can use or otherwise benefit from the asset in pursuit of its objectives, and can

exclude or otherwise regulate the access of others to that benefit." In addition the NATO Accounting Framework has established criteria as to assist in assessing the level of control that any NATO Reporting Entity has for reporting assets in its financial statements. Even so, for CIS assets, NCIO's Charter stipulates that NCIO is considered the owner of these assets and thus NCIO is to report them in their financial statements. In some cases this is linked to the Handover/Takeover process - see below.

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

Upon the screening of the 2017-2019 NCI Agency Financial Plan, Nations at the ASB Finance Committee acknowledged the Agency's ownership of NATO's common-funded CIS assets and that additional logistics personnel were required to support the provision of services and ensure appropriate levels of property and financial accountability on behalf of NATO Nations.

However, the ASB Finance Committee, and while acknowledging that the lack of logistic personnel would affect the Agency's compliance with NATO's Financial Regulations and the NCIO Financial Rules and Procedures and possibly result in a qualification by IBAN of the next NCIO Financial Statements, did not authorise the hiring of that additional personnel on the grounds of overall financial constraints.

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

Per the NCIO Charter, NCIO is to assume ownership of all IT assets and IT infrastructure from the NATO commands. To this end a formal HO/TO process with the NATO Commands for static locations and operations has been undertaken. The HO/TO for static commands was completed by 31 December 2014 and that for operations was finalized in 2015. On completion of the HO/TO the NCI Agency (as the executive arm of the NCIO) accepts the full responsibility for the control and management of these CIS assets. For those assets taken over, NCIO has considered those acquired prior to 2013 as fully expensed per the NATO Accounting Framework - adapted IPSAS 17 standard.

Property, Plant and Equipment (PPE)

NCIO controlled PPE is recognised at cost. Cost includes the purchase price, (including import duties, non-refundable purchase taxes, and deducting trade discounts and rebates) and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating, such as costs of site preparation,

initial delivery and handling costs and installation costs. For each category of PPE capitalisation threshold values per item are defined. Items with a value below the applicable threshold will be expensed.

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

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

Land and Buildings

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

Depreciation and Amortisation

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

Inventories

Inventories are assets in the form of materials or supplies to be consumed or distributed in the production process or in the rendering of services or held for sale or distribution in the ordinary course of operations or in the process of production

for sale or distribution. Inventories are measured at the lower of cost or current replacement cost. The cost of standard items of inventories is measured by using the weighted average cost formula.

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

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

NCIO has no capitalisation thresholds for Inventory.

Provisions

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

Contingent Liabilities

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

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

Net Equity and Operating Fund

Net Equity is, per the NAF/IPSAS, reflected in the Agency's Annual Financial Statements under the Statement of Financial Position, equalling the balance between total Assets and total Liabilities.

Net Equity are subdivided into:

- Retained Earnings, considered as accumulated surplus and deficit available for distribution
- Reserved Earnings, considered as accumulated surplus and deficit that are reserved for a specific purpose, and thus not available for distribution

As of 2014 the NCI Agency works under a Customer Funding bridging model. The approved policies and procedures of this Customer Funding financial regime that authorise and regulate the use of the NCI Agency Operating Fund during this reporting period are the NFRs (C-M(2015)0025 dated 4 May 2015) and the FRPs (AC/337-D(2017)0014-AS1 dated 29 March 2017), and the Customer Funding Regulatory Framework approved by the Council in 2015 (PO(2015)0394-AS1 dated 16 July 2015).

Oversight of the performance and use of the Fund is the responsibility of the Nations.

End of 2016, the Agency Supervisory Board (ASB) Finance Committee tasked the Agency to develop a paper on the Operating Fund for discussion. During its meeting on 12 and 13 October 2017, the Agency Supervisory Board (ASB) Finance Committee decided⁵ as follows:

- The need for an Operating Fund as a risk management tool.
- The definition of Operating Fund as the accumulated surplus or deficit fund equalling the sum of retained earnings, but no longer comprising of depreciation reserve.
- The target level of the Operating Fund at 10 M EUR, excluding depreciation reserve.
- Tasked the Agency to conduct a risk assessment to justify any increase to the Operating Fund above 10 M EUR.
- Agreed on the pro rata distribution of potential surplus Operating Fund based upon the Military Budget and the NATO Security Investment Programme share in the Agency revenue via the call for contributions mechanism, with the

understanding that the adjustment mechanism be revised within a year (up until then any surplus was returned through a reduction in Customer Rates).

Per the above and as of the 2017 Financial Statements the Operating Fund, per Nations guidance, is considered equal to the Retained Earnings.

⁵ AC/337(FC)DS(2017)0004

NOTES TO THE FINANCIAL STATEMENTS

Critical Accounting Estimates and Judgements

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

Legal proceedings both real and possible

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

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

A. Notes to the NCIO Statement of Financial Position

1. Cash and Cash Equivalents

Cash available on demand is considered to be cash that can accessed at very short notice (e.g. 1 working day) while a short-term deposit is invested from typically one to three months. Cash and cash equivalents includes amounts advanced by Customers for future usage. Cash balances are restricted to the use for which Customers have provided the cash.

With reference to the IBAN Special Report to Council on the Thematic Audit of Cash Holdings in NATO (IBA-AR(2014)17) dated 28 November 2014, the cash holdings of NCIO at 31 December 2017 are approximately 21% of total annual expenditures or just about three months of operations, which is well within the IBAN reported average and the NFR. The decrease in the 2017 end of year balance versus 2016 mostly reflects slower turnover offset by an increase in the current investment account.

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

(All amounts in 1 Euro)

		NCIO	
		Note	2016 -
		Unit	Restat.
Cash and Cash Equivalents		2017	
100	Cash in hand	35,380	42,809
101	Current bank clearing accounts and internal transfers	488	-3,632,500
102	Current bank accounts - Euro	96,631,995	115,441,684
104	Current bank accounts - Non-Euro	41,700,870	44,644,802
106	Current investments accounts - Euro	0	0
108	Current investments accounts - Non-Euro	22,459,253	11,731,259
		160,827,986	168,228,053

2. Accounts Receivable

Receivables total 207 MEUR. Trade receivables are impacted by the NSIP Quarterly Accounting Financial Report (QAFR) bookings. The NCI Agency has adapted its accounting treatment per the IBAN observation in the past, so that advances received from the NSIP Programme are netted against the amounts to be received from the same programme. This more clearly and accurately represents the position of the NCI Agency against the programme at year-end. Without these impacted QAFR bookings trade receivables total 146 MEUR which include billed but not yet received amounts from Customers.

Trade receivables from accrued revenue/expenses amounts to 148 MEUR of which 51 MEUR is resulting from the revenue recognition by stage of completion for which income is considered earned but which has not yet been billed to the customer.

		Note	2017	2016 - Restat.
		Unit		
Receivables				
11001	Customer receivables (A/R) - Common funded - NATO and NATO entities		128,403,858	116,856,738
11002	Customer receivables (A/R) - Not common funded		66,261,479	78,345,013
1107	Customer receivables - Bad debts		-345,130	-336,812
11000	Customer receivables (A/R) - Common funded - NSIP		-137,662,008	-187,922,463
111	Customer receivables - Consolidated entities		0	0
113	Customer receivables - Recoverable expenses		386,977	130,646
115	Current receivables - Tax or personnel related		2,478,846	23,647
116	Current receivables - Accrued, unbilled revenue		147,604,939	166,982,908
119	Current receivables - Other		37,544	0
			207,166,505	174,079,678

NSIP related trade receivables from nations are 49 MEUR and trade receivables from accrued revenue amounts to 97 MEUR, resulting in a total 146 MEUR, that is netted against the balance of advances through the QAFR paysheets of 137 MEUR leading to a net position of receivables towards the NSIP at 31/12/2017 of 9 MEUR as per the below table.

		Note	2017	2016 - Restat.
		Unit		
110021	Customer receivables (A/R) - NATO Nations (BS 60)	CD - NSIP	49,179,998	58,485,710
110002	Customer receivables (A/R) - NSIP - QFR Advances on approved forecast (BS 10)	CD - NSIP	-137,662,008	-187,922,463
116020	Accrued, unbilled - License revenue (Accum.)	CD - NSIP	97,127,980	135,547,536
			8,645,970	6,110,783

3. Prepayments and Miscellaneous Assets

		Note	2017	2016 - Restat.
		Unit		
Prepayments and Miscellaneous Assets				
130	Prepayments		3,121,046	4,916,232
			3,121,046	4,916,232

This amount represents advances and prepayments made to vendors.

4. Inventories

		Note	2017	2016 - Restat.
		Unit		
Inventory				
14000	Inventory - Consumables		1,682,302	2,310,137
14001	Inventory - Spare parts		1,884,151	9,011,272
			3,566,455	11,321,408

The inventory ending balance is for a total of 3.6 MEUR which is a decrease of 7.7 MEUR when compared to 2016.

Since 2014 NCI Agency is considered the principal for procurement of CIS assets for NSIP and Third Parties and is therefore taking the primary responsibility and risk for the related inventory items. Inventories reported are those inventories held at NCI Agency's depots such as CSSC Brunssum, NPC Glons and NCISS Latina; they are valued with the weighted average cost method. Prior to 2014 inventories, other than NPC and NCISS, were not reported as being the service provider to the NATO Command Structure (NCS), the NCI Agency operated under delegated budget agreements as a procurement agent for the NCS. Since the NCI Agency became fully Customer Funded as of 1 Jan 2014 inventories are fully disclosed, as the NCI Agency is no longer acting as an agent on behalf of a third party but rather as a principal in rendering services to its Customers.

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

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

To be noted that as a direct result of the implementation of the NAF, expensing all inventory acquired prior to 1 Jan 2013 (32.3 MEUR), a mismatch exists between the physical inventory and the balances reported in the Statement of Financial Position. IBAN observed on this during its audit on the 2016 Financial Statements, stating that the inventory is underestimated by this amount.

Notwithstanding the NAF, the Agency acknowledges the IBAN position but also has reason to believe that this NAF adjustment of 32.3 MEUR was not a reliable figure due to the converted data from legacy inventory systems NDSS that was not using an IPSAS compliant inventory valuation method such as FIFO or Weighted Average Cost method.

As such, the Agency has agreed with IBAN to assess the legacy NDSS converted data/NAF adjustment with the objective to have a more reliable value to bring into the statement of position by the end of 2018.

Also to be noted that the reported inventory balances have been decreased by NSIP amounts for a cumulated total of 5.2 MEUR (FY2016/2017) these adjustments are considered as Assets under Construction for which the NATO Accounting Framework allows NCIA to report balances as from FY2018.

5. Work In Progress

		Note	2017	2016 - Restat.
		Unit		
Work in Progress				
145	Work in progress		879,313	370,568
			879,313	370,568

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

Pre-financed projects totalling €756,615.22 are governed by existing binding arrangements (overarching framework agreements such as Memorandum of Understanding – MOU) between the Agency and its main sponsors. All existing pre-finance authorisations are granted as per the terms and conditions prescribed in the FRPs specifically developed for the Agency operating under its Customer Funding Regime. The decision to pre-finance projects is assessed by the production Directors and the Financial Controller prior to being approved on a case-by-case basis by the Financial Controller. Accordingly we do not view this as a technical contingent asset.

For projects sponsored by NSIP, APFs may be authorised to cover the initial cost for writing the full project price proposal (TBCE). In some cases the APFs are insufficient to cover this initial effort in which case the NCI Agency capitalizes the shortfall pending approval of the Project Service Cost (PSC). Funds expended during this stage are capitalised as work in progress for a total amount of €104,064.51.

In the course of executing projects, sometimes the Customer requests changes in specifications, scope, or duration that results in the costs exceeding the contracted revenue. Similarly to APF over-runs, for these recoverable exceptions, costs are capitalised until the exceptions are contractually regularized. The total capitalised amount of recoverable exceptions is €20,871.80.

6. Other Current Assets

		Note Unit	2017	2016 - Restat.
Other Current Assets				
1559	Transitory asset accounts - Clearing accounts		40,436	57,465
			40,436	57,465

This amount concerns different transactions that are pending a resolution/final booking in 2018.

7. Long Term Receivables

		Note Unit	2017	2016 - Restat.
Non-current Receivables				
160	Non-current financial assets		1,904	2,009
			1,904	2,009

Amounts concern receivables related to a long term deposit for fuel in theatre.

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

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

NCIO Statement of Property, Plant and Equipment and Intangible Assets

As of 31 December 2017

(all figures are in Euro)

NCIO

Note	ACQUISITION					DEPRECIATION				BOOK VALUE	
	31-Dec-2016	Current Year	Disposals / Adjustm.	Transfers / Reversals	Revaluation	31-Dec-2017	31-Dec-2016	Current Year	Disposals / Adjustm.	31-Dec-2017	31-Dec-2017
PLANT, PROPERTY AND EQUIPMENT											
ADP Equipment	5,461,551	2,278,089	-19,734	0	0	7,719,906	-3,090,848	-2,689,457	3,535	(5,776,770)	1,943,136
Comms Equipment	2,068,617	834,058	0	0	0	2,902,675	-1,056,497	-969,413	0	(2,025,910)	876,765
Mission Equipment	327,314	95,154	0	0	0	422,467	-114,934	-117,787	0	(232,720)	189,747
Machinery	187,690	9,900	0	0	0	197,590	-96,042	-49,398	0	(145,440)	52,150
Installed Equipment	650,507	30,445	-10,356	0	0	670,596	-445,400	-132,357	2,589	(575,168)	95,428
Office Furniture	0	0	0	0	0	0	0	0	0	0	0
Passenger Vehicles	344,078	35,530	0	0	0	379,608	-234,868	-64,843	0	(299,711)	79,897
Infrastructure, plant and equipment	9,039,756	3,283,175	-30,089	0	0	12,292,842	-5,038,589	-4,023,254	6,124	(9,055,719)	3,237,123
Bâtiment Z Brussels - Enhancements	15,436	0	0	0	0	15,436	-4,631	-1,544	0	(6,175)	9,262
NCIA Main Building The Hague - Enhancements	142,950	0	0	0	0	142,950	-57,180	-14,295	0	(71,475)	71,475
Leasehold Improvements	0	0	0	0	0	0	0	0	0	0	0
Land and buildings - Leasehold improvements	158,386	0	0	0	0	158,386	-61,811	-15,839	0	(77,650)	80,737
Software Licences	248,603	29,226	0	0	0	277,829	-128,526	-77,606	0	(206,132)	71,697
Intangible assets	248,603	29,226	0	0	0	277,829	-128,526	-77,606	0	(206,132)	71,697
TOTAL PLANT, PROPERTY AND EQUIPMENT - CAPITALIZED	9,446,746	3,312,401	-30,089	0	0	12,729,058	-5,228,926	-4,116,698	6,124	(9,339,500)	3,389,558
Capital expenditures pending capitalization - Accrued	46,727	140,727	0	-46,727	0	140,727	0	0	0	0	140,727
TOTAL PLANT, PROPERTY AND EQUIPMENT	9,493,472	3,453,128	-30,089	-46,727	0	12,869,784	-5,228,926	-4,116,698	6,124	(9,339,500)	3,530,284
DEPRECIATION RESERVE	9,493,472	3,453,128	-30,089	-46,727	0	12,869,784	-5,228,926	-4,116,698	6,124	(9,339,500)	3,530,284
INCREASE/(DECREASE) DEPRECIATION RESERVE		3,453,128	-30,089	-46,727	0	3,376,312		-4,116,698	2,589	(4,114,110)	(737,798)
DEFERRED REVENUE	6,327,106	3,157,203	-10,606	-10,506	0	9,463,197	-3,167,740	-3,309,841	3,535	(6,474,046)	2,989,151
INCREASE/(DECREASE) DEFERRED REVENUE		3,157,203	-10,606	-10,506	0	3,136,091		-3,309,841	3,535	(3,306,306)	(170,215)

9. Payables

		Note	2017	2016 - Restat.
		Unit		
Payables				
2000	Supplier payables - Accounts payable		16,686,514	16,287,030
2004	Supplier payables - Accrued supplier invoices		120,055,102	124,298,947
2010	Supplier payables - Consolidated entities - Accounts payable		0	0
2014	Supplier payables - Consolidated entities - Accrued expenses		0	0
2006	Supplier payables - Warranties received		375,190	594,713
			137,116,806	141,180,690

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

10. Deferred Revenue and Advances

		Note	2017	2016 - Restat.
		Unit		
211	Current deferred revenue		156,331,383	132,721,647
215	Current advances and prepayments received		51,197,422	50,122,082
			207,528,805	182,843,729

The Deferred/Unearned Revenue and Advances of 207 MEUR are composed of:

- Revenue is billed for ongoing projects and services, however revenue earned is determined through the stage of completion resulting in 156 MEUR of revenue billed but not yet recognised as earned.
- Advances and prepayments of 51 MEUR refer to deposits from customers and IC nations for projects and services that will be delivered by the agency.

11. Other Current Liabilities

		Note Unit	2017	2016 - Restat.
Other Current Liabilities				
250	Current tax and personnel related liabilities		76,052	65,714
251	Current retirement and pensions related liabilities		0	0
254	Current other liabilities		1,472,936	3,991,129
255	Transitory liability accounts		-26,243	0
			1,522,745	4,056,843

Other current liabilities include:

- Refundable surpluses amount to 1.4 MEUR and represent mostly funds to be returned to the IC from acquisition projects and to the BC for results (lapses/financial/miscellaneous) on budgets - mostly prior year budgets - since the Agency is Customer Funded as of 2014.
- Other liabilities related to personnel amount to 76 KEUR.

12. Provisions

		Note Unit	2017	2016 - Restat.
Provisions				
2901	Provisions - Major risks and costs		950,317	4,395,083
2902	Provisions - Personnel related risks and costs		6,981,762	6,817,662
			7,932,079	11,212,745

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

- Projects are constantly monitored and deviations from the original cost estimates and authorised budgets are reported and analysed. At year-end closing a thorough cost-to-complete exercise is carried out to determine what the current status is in terms of costs and revenue to date, and to estimate what the cost-to-complete will be for multiple year projects. If, as a result of this process, the project management together with the NCI Agency Capability Development's financial management come to the conclusion that the project is likely to generate a loss at completion, then a provision will be made to cover that potential future loss. Analysis conducted at a later stage may result in a change of estimates which translates in an increase or decrease of the provision built up in prior years. The total provision for the Customer Funded projects amounts to 950 KEUR. In 2016, specific provisions for future losses were made for ANWI and NCISG service level agreement. Both provisions have been significantly reduced or eliminated as NCI Agency expects to recoup most of the project support costs related to ANWI and the NCISG matter has been resolved. To note however, that further a provision has been foreseen for a potentially unrecoverable EBA cost overrun.

- The NCI Agency provision for the untaken leave days outstanding at year end, in accordance with IPSAS 25 Employee benefits, constitutes a liability towards the future for 6.6 MEUR. This provision is calculated on a rolling basis, i.e. the prior year provision is reversed at the beginning of the year and a new provision calculated, thus charging the change for the year to the Statement of Financial Performance.
- Provision made for 336 KEUR for JFC Naples for “Trattamento di Fine Rapporto (TFR)” in application of the Italian Law and of IPSAS 19. TFR is a vested benefit payable to the employee for a part of his / her salary deferred in time to the moment when termination of the contract takes place. The calculation of the value of this liability takes place annually and includes interests for the loan forcedly made by the employee to the employer given the fact that payment is deferred to a later time. In view of the foregoing, TFR has to be considered as one extra monthly instalment of the annual pay.

13. Net Assets/Equity

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

B. Notes to the NCIO Statement of Financial Performance

14. Projects and Service Support Revenue

		Note	2017	2016 - Restat.
		Unit		
Project and Support Services Revenue				
500	Project services revenue	CD - Ops	104,549,622	98,037,700
501	Support services revenue	CD - Ops	0	15,111
530	Operations revenue - Project services - Intra-company	CD - Ops	0	147,373
501	Support services revenue	SD	153,602,542	135,765,864
			258,152,164	233,966,048

With the introduction of full Customer Funding as of 1 Jan 2014, the 2017 operations revenue can be categorized as either Project Support Revenue for 104 MEUR stemming from Capability Development (Project Services Costs) or Services Revenue for 153 MEUR, coming from signed Service Level Agreements (Service Support Costs) and other Service Agreements, all agreed and calculated at approved Customer Rates.

For all Customer Funded revenue, revenue is recognized, in accordance with IPSAS 9 and 11, by reference to the stage of completion or the cost burn rate, depending on the type of funding agreement; firm fixed price or cost reimbursable. This revenue recognition was already in place in 2013 for that part of the NCI Agency's business Customer Funded at that time but has now been expanded to nearly all its revenues. In applying this revenue recognition a “cost to complete” is calculated based on either inputs from the project manager as to the resources required to complete the project/deliverables or either based on information from the financial system as to the legal liabilities incurred per the end of 2017, but not yet accrued or expended, and which nevertheless form part of the 2017 services signed with the Customers through the Service Level Agreements.

NATO UNCLASSIFIED

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

NCIO Operations and Services Performance Details by Sponsor Account

For the projects and agreements open at 31 December 2017

(all figures are in Euro)

(including Intra-company Transactions)

For the projects and agreements open at 31 December 2017

(all figures are in Euro)

(including Intra-company Transactions)

		2017									
Note	BUDGET	EXPENSES			REVENUE			WIP		SURPLUS/(DEFICIT)	
	Contract Value	Expenses to Date	Cost to Complete	Billed to Date	Earned to Date	Deferred (-)	Accrued (+)	Earned CY	Incr./((Decr.) CY	Retained to Date	Provision to Date
NATO HQ & Agencies	90,505,497	93,737,752	7,250,823	76,718,797	79,223,449	(3,734,777)	6,239,430	29,621,347	(24,569)	(2,726,084)	(312,569)
Allied Command Operations (ACO)	810,182,639	779,414,096	11,272,987	775,136,234	789,443,324	(5,633,276)	19,940,366	350,797,798	38,526	9,644,225	(101,582)
Allied Command Transformation (ACT)	94,178,434	84,808,852	823,747	85,880,412	86,015,208	(799,802)	934,598	29,814,542	0	1,028,544	(4,785)
TOTAL INTERNAL CUSTOMERS - SENIOR	994,866,569	957,960,700	19,347,556	937,735,443	954,681,981	(10,167,856)	27,114,394	410,233,687	13,958	7,946,686	(418,936)
Investment Committee (IC)	337,517,349	240,575,967	70,450,276	263,839,921	243,318,402	(35,915,748)	15,394,229	50,182,949	72,699	0	(440,696)
TOTAL INTERNAL CUSTOMERS - NSIP	337,517,349	240,575,967	70,450,276	263,839,921	243,318,402	(35,915,748)	15,394,229	50,182,949	72,699	0	(440,696)
TOTAL INTERNAL CUSTOMERS	1,332,383,918	1,198,536,667	89,797,833	1,201,575,364	1,198,000,383	(46,083,603)	42,508,623	460,416,636	86,657	7,946,686	(859,633)
Agencies	9,428,683	6,403,988	1,645,436	7,823,685	7,262,457	(963,385)	402,157	2,295,536	1,882	806,136	(13,638)
NATO Force Structure (NFS)	6,303,588	5,382,582	305,699	6,757,855	5,262,401	(1,512,214)	16,760	1,314,927	(1,979)	272	(112)
NATO Nations	58,728,753	34,375,202	19,820,489	44,738,050	36,617,819	(8,975,029)	854,799	10,277,473	351,679	2,082,858	(62,605)
NATO Partners	3,216,334	2,198,605	765,445	2,977,337	2,303,756	(697,325)	23,744	430,817	0	0	(0)
Multinational Programs & Organizations (MN&O)	92,339,366	73,724,195	5,540,110	78,093,796	74,429,205	(4,457,962)	793,371	12,413,840	72,144	(242,606)	(10,897)
TOTAL EXTERNAL CUSTOMERS	170,016,724	122,084,572	28,077,178	140,390,722	125,875,638	(16,605,914)	2,090,831	26,732,594	423,726	2,646,660	(87,252)
Various/Others	5,136,937	2,907,325	254,817	1,794,123	2,250,022	(3,734)	459,633	693,141	0	(657,237)	(3,432)
TOTAL VARIOUS/OTHERS	5,136,937	2,907,325	254,817	1,794,123	2,250,022	(3,734)	459,633	693,141	0	(657,237)	(3,432)
TOTAL BY SPONSOR ACCOUNT	1,507,537,579	1,323,528,564	118,129,828	1,343,760,209	1,326,126,044	(62,693,252)	45,059,087	487,842,370	510,383	9,936,109	(950,317)
								488,352,754			

NCIO Operations and Services Performance Details by Service Line

For the projects and agreements open at 31 December 2017

(all figures are in Euro)

(including Intra-company Transactions)

(including Intra-company Transactions)		2017										
		BUDGET		EXPENSES		REVENUE		WIP		SURPLUS/(DEFICIT)		
		Contract Value	Expenses to Date	Cost to Complete	Billed to Date	Earned to Date	Deferred (-)	Accrued (+)	Earned CY	Incr./((Decr.) CY	Retained to Date	Provision to Date
AirC2 Program Office & Services		250,791,201	204,841,429	34,437,798	212,807,038	204,421,262	(14,368,736)	5,983,964	82,966,026	32,449	(486,622)	(14,494)
TOTAL AIRC2 PO&S		250,791,201	204,841,429	34,437,798	212,807,038	204,421,262	(14,368,736)	5,983,964	82,966,026	32,449	(486,622)	(14,494)
BMD Program Office & Services		29,163,387	24,006,810	2,210,170	23,181,109	23,770,123	(593,979)	1,182,993	6,094,472	(989)	0	(130)
TOTAL BMD PO&S		29,163,387	24,006,810	2,210,170	23,181,109	23,770,123	(593,979)	1,182,993	6,094,472	(989)	0	(130)
C2 - Joint Command and Control Services		114,779,347	99,073,513	7,721,723	104,489,139	102,590,943	(4,011,764)	2,315,740	25,936,947	(20,212)	1,609,215	(20,420)
JISR - Joint Intelligence, Surveillance and Reconnaissance Services		118,159,224	90,630,142	20,244,507	101,134,176	91,965,133	(10,577,571)	1,446,305	19,416,828	124,250	924,363	(2,901)
SSBA - Service Support & Business Applications		44,889,555	43,213,779	3,567,585	41,753,784	40,968,648	(1,329,108)	633,038	11,217,880	316	1,305,212	(430,164)
OA - Operational Analysis		25,573,582	18,772,986	2,826,756	18,130,910	18,292,718	(116,679)	278,487	6,618,087	(18,185)	0	(322)
ET - Education & Training Services		26,121,581	24,516,262	968,902	24,872,617	24,547,004	(510,098)	193,161	8,455,905	102	155,727	(6,268)
DAS IO - Architecture Services Implementation Office		12,670,427	9,465,988	2,976,606	11,062,404	9,364,476	(2,027,384)	329,456	1,112,108	0	0	0
TOTAL DAS - ARCHITECTURE SERVICES		342,193,716	285,672,670	38,306,079	301,443,030	287,728,921	(18,572,604)	5,196,187	72,757,756	86,271	3,994,516	(460,075)
NSII - Network Services & IT Infrastructure		328,689,031	274,402,172	23,513,105	285,303,218	287,467,510	(14,365,926)	17,873,673	147,366,119	48,630	9,950,924	(99,379)
CES - Core Enterprise Services		138,864,579	128,097,162	8,226,439	125,703,276	127,735,769	(4,498,272)	6,309,478	44,285,446	61,578	3,660,190	(255,818)
CS - Cyber Security Services		108,702,226	104,344,928	2,799,981	104,581,903	104,661,069	(2,418,919)	1,356,925	31,900,702	3,641	107,111	(4,420)
SMC - Service Management & Control		13,524,494	12,420,902	25,813	13,219,889	13,300,929	(252,927)	127,278	4,551,407	0	772,122	0
TOTAL DIS - INFRASTRUCTURE SERVICES		589,780,331	519,265,163	34,565,337	528,808,287	533,165,278	(21,536,044)	25,667,354	228,103,675	113,849	14,490,347	(359,616)
CSU - Customer Support Units		183,432,514	186,775,487	2,075,050	180,878,880	179,289,931	(2,853,641)	1,154,970	63,848,848	0	(7,386,726)	(48,370)
CSSC - CIS Sustainment Support Centre		1,870,045	1,195,705	0	1,870,045	1,870,045	0	0	0	0	674,340	0
O&E - Operations & Excercises		13,760,416	12,761,774	367,646	12,655,935	12,767,885	0	112,192	4,425,986	0	304	0
OC - Operations Centre		19,000,026	19,046,512	365,926	18,663,935	17,932,426	(860,872)	110,392	6,957,542	249,367	(873,134)	0
TOTAL DSO - OPERATIONS AND EXERCISES MANAGEMENT		218,063,000	219,779,478	2,808,621	214,068,795	211,860,286	(3,714,513)	1,377,555	75,232,376	249,367	(7,585,216)	(48,370)
IV&V - Independent Validation & Verification Services		23,497,715	19,216,857	3,084,088	21,130,478	19,790,926	(1,415,324)	75,771	5,683,543	20,686	(166,209)	(50,541)
Other Service Strategy Services		5,128,699	7,807,418	1,485,371	2,472,930	3,056,094	0	583,165	1,968,365	8,750	25,800	(12)
TOTAL SSTRAT - SERVICE STRATEGY		28,626,414	27,024,275	4,569,459	23,603,408	22,847,020	(1,415,324)	658,936	7,651,908	29,436	(140,409)	(50,553)
ACQ - Acquisition Services		6,732,685	7,538,072	18,269	6,786,505	6,741,079	(32,516)	0	3,600,792	0	(764,653)	(10,824)
DM - Demand Management Services		6,407,020	6,120,471	108,367	6,312,282	6,135,084	(222,815)	45,617	1,298,998	0	109,124	(326)
Transition Services		0	0	0	0	0	0	0	0	0	0	0
Various/Others		35,779,825	29,280,197	1,105,727	26,749,754	29,456,991	(2,236,721)	4,946,481	10,136,368	0	319,022	(5,929)
TOTAL MISCELLANEOUS		48,919,530	42,938,740	1,232,363	39,848,542	42,333,154	(2,492,052)	4,992,098	15,036,158	0	(336,508)	(17,079)
TOTAL BY SERVICE LINE		1,507,537,579	1,323,528,564	118,129,828	1,343,760,209	1,326,126,044	(62,693,252)	45,059,087	487,842,370	510,383	9,936,109	(950,317)
									488,352,754			

15. External CIS Revenue

The total revenue per service as specified in the Service Level agreements have two revenue components. There is the Service Support Revenue element that is based on effort charged at approved customer rates (see the note above) and the External CIS Revenue of 202 MEUR in 2017 that represents the revenue charged to customers to cover the contractual supplies and services delivered by industry required by the NCI Agency to provide its CIS services.

		Note Unit	2017	2016 - Restat.
External Services Revenue				
5100	External CIS revenue – Billed		202,616,329	200,682,128
5105	External CIS revenue - Accrued, unbilled (CY)		17,282,308	1,637,191
5106	External CIS revenue - Deferred revenue reversal (CY)		0	0
5109	External CIS revenue - Deferred (CY) (-)		2,721,442	3,960,353
			222,620,080	206,279,671

16. Acquisition Revenue

		Note Unit	2017	2016 - Restat.
Acquisition Revenue				
5110	Acquisition revenue - Billed	CD - NSIP	226,150,714	260,417,571
5115	Acquisition revenue - Accrued, unbilled (CY)	CD - NSIP	-38,629,519	-1,148,382
5110	Acquisition revenue – Billed	CD - TP	115,176,768	94,404,651
5115	Acquisition revenue - Accrued, unbilled (CY)	CD - TP	-4,589,919	6,068,984
5119	Acquisition revenue - Deferred (CY) (-)	CD - TP	-14,923,494	-20,780,363
533	External CIS and acquisition revenue - Acquisition - Intra-company	CD - TP	0	0
			283,184,550	338,962,461

Acquisition Revenue is earned as Host Nation for the NSIP for 187 MEUR, and for other NATO entities and Nations for 96 MEUR. Included here are the Acquisition Revenues for the AirC2 and BMD programmes. The amount for the NATO led operations' related CIS support contracts is no longer included under the Acquisition revenue but is now fully reported under External CIS revenue. There has been a decrease of the NSIP Acquisition activity from 2016 to 2017 due to projects going to an end (e.g. ISAF) as well as some projects have delivered less than expected (AirC2 for 40-50 MEUR, LOG FS for 12 MEUR, NATO Static SGTs for 9.3 MEUR). In 2017 the GM also made it a priority to set up a NSIP Task Force for the Agency to review the entire forecasts of the NSIP projects in view to provide more realistic forecasts.

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

17. Other Operating Revenue

		Note		
		Unit	2017	2016 - Restat.
Other Operating Revenue				
529	Other operations revenue		3,859,999	6,441,741
541	Inventory variation - (Increase)/Decrease		0	1,882,253
545	Other revenue		364,402	-654,224
			4,224,401	7,669,770

Other Operating Revenue consists of elements such as:

- Revenue from the support to and hosting of Agencies such as NAGSMA and BGX for 470 KEUR;
- Conferences and miscellaneous revenues 231 KEUR;
- Revenue from 2017 budgets for the ASB Independent Secretariat and the BC877 NCI Agency Implementation Budget for a total of 2.3 MEUR. Details and their Budget Execution Statements can be found under section D of the Notes to the Financial Statements;
- The remaining 900 KEUR is revenue related to non-trade reimbursements.

18. Other Revenue

		Note		
		Unit	2017	2016 - Restat.
Other Revenue				
560	Fixed assets sales – Surpluses		11,850	29,300
			11,850	29,300

This amount represents a surplus from sales of depreciated fixed assets.

19. Revenue Details

In summary the NCI Agency total operating revenue, excluding financial and other revenue for the period ending 31 December 2017 was 768 MEUR broken-down as:

- 764 MEUR of Operating revenue excluding other operating revenue is:
 - 283.2 MEUR Acquisition Revenue earned in the execution of procurements for NSIP and Third Parties;
 - 222.6 MEUR External CIS Revenue earned in the execution of CIS Service Level Agreements for goods and services procured from industry;
 - 258.1 MEUR Operating Revenue earned through the rendering of capability development and delivery of CIS services by Agency resources; and
- 4.2 MEUR Other operating revenue

Financial and other (non-operating) revenue results in an amount of MEUR 2.2

Per below tables Total Revenue is summarized by Sponsor Account and Service Line, both for 2017 and prior year 2016.

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

NCIO Revenue Summary by Sponsor Account

For the year ended 31 December 2017

(all figures are in Euro)

NCIO

Note

2017

	Operating Revenue				External CIS Revenue	Acquisition Revenue		TOTAL
	P3	SLA	SA	Total		NSIP	TP	
NATO HQ & Agencies	19,043,721	8,351,737	17,512	27,412,971	2,183,807	0	34,942,418	64,539,196
Allied Command Operations (ACO)	5,553,810	94,686,473	39,337,085	139,577,368	211,258,956	0	1,910,333	352,746,657
Allied Command Transformation (ACT)	14,971,590	11,366,041	88,930	26,426,562	3,387,981	0	154,581	29,969,123
TOTAL INTERNAL CUSTOMERS - SENIOR	39,569,121	114,404,252	39,443,527	193,416,901	216,830,744	0	37,007,332	447,254,977
Investment Committee (IC)	50,255,649	0	0	50,255,649	0	187,521,195	0	237,776,844
TOTAL INTERNAL CUSTOMERS - NSIP	50,255,649	0	0	50,255,649	0	187,521,195	0	237,776,844
TOTAL INTERNAL CUSTOMERS	89,824,770	114,404,252	39,443,527	243,672,549	216,830,744	187,521,195	37,007,332	685,031,820
Agencies	890,756	91,764	10,394	992,915	1,304,503	0	3,458,292	5,755,710
NATO Force Structure (NFS)	1,312,948	0	0	1,312,948	0	0	0	1,312,948
NATO Nations	6,442,102	0	2,264,784	8,706,886	1,922,267	0	54,716,479	65,345,632
NATO Partners	430,817	0	0	430,817	0	0	0	430,817
Multinational Programs & Organizations (MN&O)	6,657,192	1,055,314	3,243,596	10,956,102	1,529,882	0	481,252	12,967,236
TOTAL EXTERNAL CUSTOMERS	15,733,816	1,147,079	5,518,774	22,399,668	4,756,651	0	58,656,023	85,812,343
Various/Others	0	0	15,264	15,264	677,877	0	0	693,141
TOTAL VARIOUS/OTHERS	0	0	15,264	15,264	677,877	0	0	693,141
TOTAL BY SPONSOR ACCOUNT	105,558,585	115,551,331	44,977,565	266,087,481	222,265,272	187,521,195	95,663,355	771,537,304
	382,794,168							
OTHER OPERATING REVENUE								
Revenue in CTC, not in Statement of Financial Performance								
Internal Revenue allocations	(251,647)			(251,647)	0	0	0	(251,647)
Intra-company eliminations	(471,934)	(3,080,826)		(3,552,760)	(5,186)	0	0	(3,557,946)
Revenue in CTC, classified under Other Operating Revenue								
Other Operating Revenue (Part of CTC)	(232,751)			(232,751)	(769,649)	0	0	(1,002,400)
Revenue not in CTC								
Revenue reclassification	(52,632)	(3,845,527)		(3,898,159)	1,129,643		0	(2,768,516)
Other Operating Revenue (Not part of CTC)								4,224,401
TOTAL OPERATING REVENUE	104,549,622	108,624,977	44,977,565	258,152,164	222,620,080	187,521,195	95,663,355	768,181,195
Financial Revenue								2,152,762
Other Revenue								11,850
TOTAL REVENUE	104,549,622	108,624,977	44,977,565	258,152,164	222,620,080	187,521,195	95,663,355	770,345,807
	376,222,622					283,184,550		

NCIO Revenue Summary by Sponsor Account

For the year ended 31 December 2017

(all figures are in Euro)

NCIO

Note

2016

	2016							
	Operating Revenue				External CIS	Acquisition Revenue		TOTAL
	P3	SLA	SA	Total	Revenue	NSIP	TP	
NATO HQ & Agencies	10,811,054	7,338,863	4,581	18,154,498	4,000,071	0	33,034,218	55,188,787
Allied Command Operations (ACO)	7,475,668	88,415,835	31,057,839	126,949,342	186,571,053	0	355,658	313,876,053
Allied Command Transformation (ACT)	18,493,634	11,243,362	107,090	29,844,087	4,449,239	0	149,420	34,442,746
TOTAL INTERNAL CUSTOMERS - SENIOR	36,780,357	106,998,060	31,169,510	174,947,927	195,020,363	0	33,539,297	403,507,586
Investment Committee (IC)	48,419,208	0	0	48,419,208	0	259,234,152	0	307,653,360
TOTAL INTERNAL CUSTOMERS - NSIP	48,419,208	0	0	48,419,208	0	259,234,152	0	307,653,360
TOTAL INTERNAL CUSTOMERS	85,199,564	106,998,060	31,169,510	223,367,134	195,020,363	259,234,152	33,539,297	711,160,946
Agencies	692,191	19,780	17,292	729,262	1,432,458	0	2,591,049	4,752,770
NATO Force Structure (NFS)	1,462,701	0	0	1,462,701	6,183	0	0	1,468,883
NATO Nations	6,234,213	0	(16,083)	6,218,130	1,396,073	0	43,999,849	51,614,053
NATO Partners	526,974	0	0	526,974	0	0	0	526,974
Multinational Programs & Organizations (MN&O)	5,654,109	1,388,390	2,613,235	9,655,734	1,122,400	0	(453,423)	10,324,711
TOTAL EXTERNAL CUSTOMERS	14,570,187	1,408,170	2,614,444	18,592,801	3,957,114	0	46,137,475	68,687,390
Various/Others	0	0	39,096	39,096	1,512,566	0	0	1,551,663
TOTAL VARIOUS/OTHERS	0	0	39,096	39,096	1,512,566	0	0	1,551,663
TOTAL BY SPONSOR ACCOUNT	99,769,751	108,406,230	33,823,050	241,999,031	200,490,043	259,234,152	79,676,772	781,399,998
	342,719,323							
OTHER OPERATING REVENUE								
Revenue in CTC, not in Statement of Financial Performance								
Internal Revenue allocations	(526,849)			(526,849)	0	0	0	(526,849)
Intra-company eliminations	(649,369)	(1,665,634)		(2,315,003)	0	35,037	16,500	(2,263,466)
Revenue in CTC, classified under Other Operating Revenue								
Other Operating Revenue (Part of CTC)	(222,555)	991,846		769,291	0	0	0	769,291
Revenue not in CTC								
Revenue reclassification	(170,794)	(5,789,628)		(5,960,422)	5,789,628	0	0	(170,794)
Other Operating Revenue (Not part of CTC)								7,669,770
TOTAL OPERATING REVENUE	98,200,184	101,942,815	33,823,050	233,966,049	206,279,671	259,269,189	79,693,272	786,877,951
Financial Revenue								2,936,420
Other Revenue								29,300
TOTAL REVENUE	98,200,184	101,942,815	33,823,050	233,966,049	206,279,671	259,269,189	79,693,272	789,843,670
	342,045,535				338,962,461			

NCIO Revenue Summary by Service Line

For the year ended 31 December 2017

(all figures are in Euro)

NCIO

Note

2017

	Operating Revenue				External CIS Revenue	Acquisition Revenue		TOTAL
	P3	SLA	SA	Total		NSIP	TP	
AirC2 Program Office & Services	17,777,346	0	23,338,131	41,115,477	41,882,998	73,031,891	10,876,506	166,906,872
TOTAL AIRC2 PO&S	17,777,346	0	23,338,131	41,115,477	41,882,998	73,031,891	10,876,506	166,906,872
BMD Program Office & Services	6,093,483	0	0	6,093,483	0	12,647,897	0	18,741,380
TOTAL BMD PO&S	6,093,483	0	0	6,093,483	0	12,647,897	0	18,741,380
C2 - Joint Command and Control Services	12,615,415	5,470,030	1,530,789	19,616,234	6,300,501	5,174,606	254,297	31,345,639
JISR - Joint Intelligence, Surveillance and Reconnaissance Services	10,543,093	3,714,240	702,264	14,959,597	4,581,481	1,675,854	33,643,801	54,860,733
SSBA - Service Support & Business Applications	3,681,871	3,692,944	234,251	7,609,067	3,609,129	11,407,465	51,704	22,677,365
OA - Operational Analysis	6,599,902	0	0	6,599,902	0	0	0	6,599,902
ET - Education & Training Services	1,998,250	6,428,813	0	8,427,063	28,944	0	1,040	8,457,047
DAS IO - Architecture Services Implementation Office	1,112,108	0	0	1,112,108	0	6,520,311	0	7,632,419
TOTAL DAS - ARCHITECTURE SERVICES	36,550,639	19,306,028	2,467,304	58,323,971	14,520,056	24,778,236	33,950,842	131,573,105
NSII - Network Services & IT Infrastructure	12,409,852	13,755,054	2,870,057	29,034,963	118,379,786	64,759,571	12,479,175	224,653,496
CES - Core Enterprise Services	15,764,495	9,394,760	1,281,401	26,440,656	17,906,369	5,921,872	36,066,298	86,335,194
CS - Cyber Security Services	5,228,425	11,149,662	86,625	16,464,712	15,439,631	5,757,017	1,669,399	39,330,759
SMC - Service Management & Control	399,171	3,862,446	214,650	4,476,267	75,140	769,558	0	5,320,965
TOTAL DIS - INFRASTRUCTURE SERVICES	33,801,943	38,161,922	4,452,733	76,416,598	151,800,926	77,208,018	50,214,873	355,640,415
CSU - Customer Support Units	0	47,838,664	11,548,110	59,386,774	4,462,074	0	0	63,848,848
CSSC - CIS Sustainment Support Centre	0	646	0	646	(646)	0	0	0
O&E - Operations & Exercises	0	1,626,201	2,085,716	3,711,917	714,069	0	213,740	4,639,725
OC - Operations Centre	1,381,071	5,802,378	13,625	7,197,075	9,835	0	0	7,206,909
TOTAL DSO - OPERATIONS AND EXERCISES MANAGEMENT	1,381,071	55,267,889	13,647,451	70,296,411	5,185,332	0	213,740	75,695,483
IV&V - Independent Validation & Verification Services	4,029,432	1,136,353	238,705	5,404,490	299,740	0	0	5,704,229
Other Service Strategy Services	1,977,115	0	0	1,977,115	0	0	0	1,977,115
TOTAL SSTRAT - SERVICE STRATEGY	6,006,547	1,136,353	238,705	7,381,605	299,740	0	0	7,681,344
ACQ - Acquisition Services	14,439	955,416	47,680	1,017,534	2,583,258	0	41,667	3,642,459
DM - Demand Management Services	618,627	680,371	0	1,298,998	0	0	365,728	1,664,726
Transition Services	0	0	0	0	0	0	0	0
Various/Others	3,314,489	43,352	785,563	4,143,405	5,992,963	(144,847)	0	9,991,521
TOTAL MISCELLANEOUS	3,947,555	1,679,139	833,242	6,459,937	8,576,221	(144,847)	407,395	15,298,706
TOTAL BY SERVICE LINE	105,558,585	115,551,331	44,977,565	266,087,481	222,265,272	187,521,195	95,663,355	771,537,304
382,794,168								

NCIO Revenue Summary by Service Line

For the year ended 31 December 2017

(all figures are in Euro)

NCIO

Note	2016							
	Operating Revenue				External CIS Revenue	Acquisition Revenue		TOTAL
	P3	SLA	SA	Total		NSIP	TP	
AirC2 Program Office & Services	19,873,699	0	17,883,514	37,757,213	25,930,896	123,060,215	20,635,937	207,384,261
TOTAL AIRC2 PO&S	19,873,699	0	17,883,514	37,757,213	25,930,896	123,060,215	20,635,937	207,384,261
BMD Program Office & Services	5,746,410	0	0	5,746,410	0	14,425,823	0	20,172,233
TOTAL BMD PO&S	5,746,410	0	0	5,746,410	0	14,425,823	0	20,172,233
C2 - Joint Command and Control Services	11,527,701	6,005,698	823,342	18,356,741	12,198,430	5,673,018	206,248	36,434,437
JISR - Joint Intelligence, Surveillance and Reconnaissance Services	12,166,265	3,964,721	2,289,151	18,420,137	780,445	14,493,592	8,487,528	42,181,701
SSBA - Service Support & Business Applications	4,156,774	3,801,044	293,371	8,251,188	4,716,988	9,963,133	11,264	22,942,573
OA - Operational Analysis	7,127,709	0	0	7,127,709	0	0	0	7,127,709
ET - Education & Training Services	2,602,649	6,252,170	(828)	8,853,991	93,046	0	49,420	8,996,457
DAS IO - Architecture Services Implementation Office	1,634,072	0	0	1,634,072	0	6,306,482	0	7,940,554
TOTAL DAS - ARCHITECTURE SERVICES	39,215,170	20,023,633	3,405,035	62,643,838	17,788,909	36,436,225	8,754,460	125,623,431
NSII - Network Services & IT Infrastructure	11,428,837	13,127,696	8,958,749	33,515,282	92,871,733	69,058,176	9,693,281	205,138,473
CES - Core Enterprise Services	7,816,679	9,871,052	(53,300)	17,634,431	17,353,221	10,674,732	34,389,844	80,052,228
CS - Cyber Security Services	5,855,229	11,245,292	70,090	17,170,612	14,273,765	5,557,149	5,996,167	42,997,693
SMC - Service Management & Control	459,555	3,904,700	128,600	4,492,855	288,469	0	0	4,781,324
TOTAL DIS - INFRASTRUCTURE SERVICES	25,560,301	38,148,740	9,104,139	72,813,180	124,787,188	85,290,057	50,079,292	332,969,718
CSU - Customer Support Units	0	40,826,432	1,145,915	41,972,347	18,654,805	0	0	60,627,152
CSSC - CIS Sustainment Support Centre	0	646	0	646	183	0	0	829
O&E - Operations & Exercises	0	1,535,980	2,005,487	3,541,467	8,057,272	0	0	11,598,739
OC - Operations Centre	1,710,792	5,226,770	0	6,937,562	712,022	0	0	7,649,584
TOTAL DSO - OPERATIONS AND EXERCISES MANAGEMENT	1,710,792	47,589,828	3,151,402	52,452,022	27,424,283	0	0	79,876,304
IV&V - Independent Validation & Verification Services	4,358,410	1,122,767	223,000	5,704,177	148,080	0	0	5,852,257
Other Service Strategy Services	587,253	0	0	587,253	0	0	0	587,253
TOTAL SSTRAT - SERVICE STRATEGY	4,945,664	1,122,767	223,000	6,291,430	148,080	0	0	6,439,510
ACQ - Acquisition Services	0	720,200	42,830	763,030	2,377,257	0	206,012	3,346,299
DM - Demand Management Services	1,265,333	799,222	0	2,064,555	0	0	1,072	2,065,626
Transition Services	0	0	0	0	0	0	0	0
Various/Others	1,452,382	1,841	13,130	1,467,353	2,033,430	21,832	0	3,522,615
TOTAL MISCELLANEOUS	2,717,715	1,521,263	55,960	4,294,938	4,410,688	21,832	207,083	8,934,540
TOTAL BY SERVICE LINE	99,769,751	108,406,230	33,823,050	241,999,031	200,490,043	259,234,152	79,676,772	781,399,998
342,719,323								

20. Expenses

NCIO Statement of Financial Performance - Direct/Indirect

For the year ended 31 December 2017
(all figures are in Euro)
(Prior Year restated)

		NCIO	
	Note	2017	2016 - Restat.
REVENUE			
Project and Support Services Revenue		258,152,164	233,966,048
External Services Revenue		222,620,080	206,279,671
Acquisition Revenue		283,184,550	338,962,461
Other Operating Revenue		4,224,401	7,669,770
TOTAL REVENUE		768,181,194	786,877,951
DIRECT EXPENSES			
Cost of Acquisition		(282,773,714)	(337,123,735)
Cost of External CIS		(218,909,369)	(199,827,418)
Personnel Costs		(176,126,163)	(164,054,707)
Contractual Supplies and Services		(9,138,846)	(11,479,222)
Cost of Stock Variance		(7,754,953)	5,169,433
Depreciation and Amortisation		(3,316,494)	(2,684,889)
Provisions		3,371,569	(2,408,419)
TOTAL DIRECT EXPENSES		(694,647,971)	(712,408,957)
OPERATING SURPLUS/(DEFICIT) FOR THE PERIOD			
		73,533,223	74,468,994
INDIRECT EXPENSES			
Personnel Costs		(48,692,080)	(57,846,868)
Contractual Supplies and Services		(18,732,306)	(14,833,061)
Depreciation and Amortisation		(818,366)	(1,106,481)
Other Expenses		(16,199)	(266,114)
TOTAL INDIRECT EXPENSES		(68,258,951)	(74,052,524)
OTHER REVENUE			
Financial Revenue		2,152,762	2,936,420
Other Revenue		11,850	29,300
TOTAL OTHER REVENUE		2,164,612	2,965,719
OTHER EXPENSES			
Provisions		(90,903)	(548,833)
Financial Expenses		(3,953,914)	(2,111,832)
TOTAL OTHER EXPENSES		(4,044,817)	(2,660,665)
INDIRECT SURPLUS/(DEFICIT) FOR THE PERIOD			
		(70,139,155)	(73,747,469)
Reorganisation Costs		(2,306,533)	(2,897,658)
NET SURPLUS/(DEFICIT) FOR THE PERIOD		1,087,535	(2,176,133)

Not presented within the main table of Statement of Financial Performance, the table presented herewith provides an overview of the split between direct and indirect costs. This is in accordance with the common layout for financial statements that was agreed with the Head of Financial Reporting Policy, submitted to the RPPB in December 2016.

This break-down is based on the nature and use of the funds and aims at providing an insight on the NCI Agency cost structure with regard to direct and indirect (overhead) costs

In summary the NCI Agency total expenses for the period ending 31 December 2017 are 769.3 MEUR broken-down as:

- 282.8 MEUR Acquisition Costs incurred in the execution of procurements for NSIP and Third Parties;
- 218.9 MEUR External CIS Costs incurred in the execution of CIS Service Level Agreements for goods and services procured from industry; and
- 265.3 MEUR Operating Costs (excluding reorg expenses) incurred that is including :
 - Direct expenses of 192.9 MEUR directly related to the rendering of capability development and delivery of CIS services by Agency resources:
 - personnel for 176.1 MEUR
 - contractual supplies and services for 9.1 MEUR
 - inventory variation of 7.8 MEUR
 - depreciation for 3.3 MEUR
 - provisions for -3.4 MEUR
 - Indirect costs for 68.3 MEUR incurred for the running, enabling and supporting of the Agency infrastructure and activities for personnel and contractual supplies and services:
 - personnel for 48.7 MEUR
 - contractual supplies and services for 18.7 MEUR
 - depreciation and provisions for 0.8 MEUR
 - other expenses for 4.0 MEUR
- Reorganisation expenses for 2.3 MEUR

21. Cost of Acquisitions

		Note	2017	2016 - Restat.
		Unit		
Cost of Acquisition				
727	Contractors, general services and supplies	CD - NSIP	186,641,195	258,164,557
727	Contractors, general services and supplies	CD - TP	93,064,891	78,959,178
			279,706,085	337,123,735

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

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

22. Personnel Costs

		Note	2017	2016 - Restat.
		Unit		
Personnel Costs				
710	Salaries, allowances and other remunerations		141,958,138	141,245,992
711	Interim Workforce Capacity (IWC)		55,413,718	53,278,304
712	Recruitment costs and installation and separation allowances		2,638,767	2,789,789
713	Clothing costs and allowances		56,548	78,235
715	Medical examinations and general personnel related insurances		14,677,059	13,271,451
716	Education and training		2,103,065	3,585,582
717	Employer contributions to pensions; loss of job and other personnel contracts related indemnities		2,310,533	3,400,000
718	NATO Pensions (Pension funds)		8,459,137	7,652,221
			227,616,964	225,301,575

Personnel costs in this category are for staff members hired under the NATO Civilian Personnel Regulations (CPRs) and contractors. The figures represent the costs of personnel working on activities required to operate the NCI Agency and deliver services to Customers. This category also includes cost incurred with recruitment activity, learning and development, and personnel related costs due to reorganisation (loss of job indemnity) paid out of the BC 877 Budget of MEUR 2.3.

23. Employee Disclosures

Staff Numbers

At 31 December 2017; 966 (2016: 1051) military posts and 1470 (2016: 1424) NATO civilian posts were filled.

Retirement benefits

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

The NCI Agency does not control or manage any of the schemes or scheme assets and is not exposed to the risks and rewards of the schemes and hence does not record any assets or liabilities of the schemes on its Statement of Financial Position. In 2017 the NCI Agency contributed 8.4 MEUR (2016: 7.6 MEUR) to the various NATO pension schemes.

24. Related Party Transactions

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

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

Related Party Transactions of Members of Boards and Committees

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

Representative Allowance of the General Manager

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

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

The total entitlement to representation allowance for the NCI Agency GM was 10,691.76 EUR. The actual expenses during 2017: Euro 5,361.55 (2016: Euro 6,115.90) were as follows:

- Rental supplement expenses: € 3,669.82
- Hospitality Expenses: € 1,691.73
- Total representation allowance: € 5,361.55

Key Management Personnel

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

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

Euro (A7/A6)	2017	2016
Basic salaries	1,072,666	1,133,853
Allowances	191,432	228,735
Post-employment benefits	0	0
Employer's contribution to Insurance	124,323	132,130
Employer's contribution to Pension	86,118	105,099
Total	1,474,539	1,599,817

FTE	2017	2016
General Manager	1	1
Directors (A6/OF6/OF7)	8.62	9.38

NATO UNCLASSIFIED

Name	Nationality	Role	Grade and step at year-end	Loans received from NCIA	Family members receiving income from NCIA	Other revenue from NCIA or NATO
<i>Kevin Scheid (arr 01 Jul 17)</i>	<i>USA</i>	<i>General Manager</i>	<i>A7 step 3</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>Koenraad Gijsbers (left 30 Jun 2017)</i>	<i>NLD</i>	<i>General Manager</i>	<i>A7 Step 5</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>RADM Thomas Daum</i>	<i>DEU</i>	<i>Chief of Staff/Chief Operating Officer</i>	<i>OF-7</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>Velizar Shalamanov (left 16 Jan 17)</i>	<i>BGR</i>	<i>Director Demand Management</i>	<i>A6 Step 6</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>Ludwig Decamps (arr 01 Mar 17)</i>	<i>BEL</i>	<i>Director Demand Management</i>	<i>A6 Step 6</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>Peter Scaruppe</i>	<i>DEU</i>	<i>Director Acquisition</i>	<i>A6 Step 6</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>Anne-Marie Pick</i>	<i>USA</i>	<i>Financial Controller</i>	<i>A6 Step 8</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>Gregory Edwards</i>	<i>USA</i>	<i>Director Infrastructure Services</i>	<i>A6 Step 4</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>Laurie-Jo Litton (left 31 Dec 17)</i>	<i>USA</i>	<i>Director Application Services</i>	<i>A6 step 2</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>BGEN Luigi Tomaiuolo</i>	<i>ITA</i>	<i>Director of Service Operations</i>	<i>OF-6</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>Murray Davidson</i>	<i>GBR</i>	<i>Director Service Strategy</i>	<i>A6 step 2</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>Michael Stoltz (arr 01 Jul 17)</i>	<i>DEU</i>	<i>Director Air and Missile Defence Command & Control</i>	<i>A6 Step 5</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>Darrell Midgley (left 31 Mar 17)</i>	<i>GBR</i>	<i>Director BMD Programme Office and Services</i>	<i>A6 Step 3</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>

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

Out of the Key Management, none had family members who were employed as interns and/or in a temporary position with the Agency.

25. Contractual Supplies and Services

		Note	2017	2016 - Restat.
		Unit		
Contractual Supplies and Services				
720	Rent and operational leasing costs		33,265,433	30,016,179
721	Maintenance and repair (Services)		181,010,823	92,936,757
722	Consumables and spare parts (Supplies)		13,575,220	1,610,085
723	Minor equipment (Investments below threshold)		1,981,059	4,032,974
724	Utilities, postal and courier services, travel and transportation		13,267,975	13,280,220
725	Facilities management, environment, safety and security		1,961,740	2,407,653
726	Public relations, representation, hospitality and moral and welfare		183,929	223,486
727	Contractors, general services and supplies		5,272,439	71,135,748
730	Investment costs		6,592,296	5,327,166
			257,110,914	220,970,268

Contractual supplies and services contain both direct and indirect costs:

- Rent and leasing costs only concern either rental costs or operating leases per IPSAS 13; the NCI Agency does not have any finance leases
- Expenses on External CIS, to the amount of 218.9 MEUR, are included throughout the above items (mainly 720-730) and are responsible for the big increase from 2016 to 2017
- Included here is also the inventory variation for 7.7 MEUR
- Under account 724, an amount of 5 MEUR is included for indirect travel costs (including SLA travel)
- Also included are the specific investments and other expenses against PSCs, for a total amount of approximately 9 MEUR (including direct travel)
- Investments not capitalised concern acquisitions which do not exceed the PPE thresholds (above 5K EUR per item) per NCI Agency's accounting policy

NCIO also has some Morale and Welfare Activities (MWA) which are not consolidated into the Financial Statements as per the NAF adapted IPSAS 6, even if they are considered to be under the control, from a financial reporting perspective of the NCI Agency.

26. Depreciation and Amortisation

		Note	2017	2016 - Restat.
		Unit		
Depreciation and Amortisation				
740	Amortisation and depreciation		4,116,698	3,789,732
741	Write-offs		18,162	1,638
			4,134,860	3,791,369

For Fixed Assets, the NCI Agency takes into account the current year depreciation as a cost which amounts to 4.1 MEUR. Full detail on the 2017 annual depreciation by asset category can be found in the Table under note 8.

27. Provisions

		Note	2017	2016 - Restat.
		Unit		
Provisions				
7461	Provisions - Major risks and costs		-3,444,766	2,370,983
7462	Provisions - Personnel related risks and costs		164,100	83,926
			-3,280,666	2,454,909

Details can also be found under note 13. IPSAS defines a provision as “a liability of uncertain timing or amount”

NCIO has made the following provisions:

- Provisions – Major risks and costs
 - In 2016, provisions were made for future losses for active projects/services with specific amounts provisioned for ANWI and NCISG as it was deemed probable that total contract costs would exceed total contract revenue or that part of the contract revenue will not be recovered. Because of this status, the expected loss was recognised as an expense immediately (IPSAS 9 and 11). In 2017, NCI Agency significantly reduced the aforementioned liability related to ANWI as it expects to recover 2.0 MEUR in costs and it resolved the issue with the NATO CIS Group. Additionally, a provision of 0.5 MEUR has been booked for EBA as the project implementation was delayed to Q3 2018. A resulting request for additional PSC of 0.6 MEUR has been submitted to the NOR but the Agency expects only to recover 0.1 MEUR. Coupled with the other provisions from the respective costs to complete exercises, the net effect is a credit of 3.4 MEUR.
- Provisions – Personnel Related
 - Provision for untaken leave of own personnel of 788 KEUR increase: personnel leave days untaken at the end of the year can be transferred to the next year and taken before the end of the first quarter. This constitutes a liability towards the next year since staff will not be available for service during this period

of time. The provision is calculated on a rolling basis based on actual days of untaken leave outstanding and the average cost of a day of untaken leave per grade level.

- Provision for Loss Of Job Indemnity (LOJI); the provision balance of LOJI 2017 reported on the statement of financial position was reduced with 665 KEUR compared to the Provision balance LOJI of 2016.
- Provision for “Trattamento di Fine Rapporto (TFR)” in application of the Italian Law and of IPSAS 19 was increased with 5.7 KEUR compared with prior year.
- One provision for 34 KEUR booked for an appeal won by a staff member in early 2018.

28. Contingent Liabilities

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

During 2017, appeals were lodged by employees against the NCI Agency with respect to contract renewals, and the Agency is currently in the process of defending these appeals. Management is of the view that it is less than likely that any significant liability and subsequent material losses will arise in respect to these aforementioned appeals at the date of these financial statements.

The execution of some of the transition large programmes the Agency is undertaking carry, due to its complexity and interdependencies, significant risks in terms of scope, schedule and costs. (1) ITM - in addition to the delays this “project” has been exposed at its start, mostly for reasons outside the Agency’s control, the Agency has also identified the need to approach this very large and far reaching “project” as a programme as well as the need to expand the scope of the programme to cover for the migration of the applications and dual operations during the transition period; (2) FGFS - also plagued by delays, particularly in relation to the new building in SHAPE for which Belgium is Host Nation, the most immediate risk identified by the Agency pertains to unplanned and out of scope Active Network and other IT related costs in the building currently being refurbished by the Host Nation, The Netherlands in The Hague. The Agency remains attentive and will continue to engage with the relevant governance bodies and entities so to mitigate to the maximum extent possible these risks.

29. Financial Revenue and Expenses

		Note Unit	2017	2016 - Restat.
550	Foreign exchange surpluses		2,133,573	2,770,662
555	Other financial surpluses		19,189	165,758
750	Foreign exchange deficits		-3,831,738	-1,983,949
7550	Financial costs - Current liabilities		-122,014	-127,982
7555	Financial costs - Other		-162	98
			-1,801,152	824,588

The total result from financial revenue and expenses is a deficit of 1.8 MEUR. This amount constitutes from a net realised foreign exchange deficit of 1.7 MEUR and a net deficit of 0.1 MEUR from interest income/expense and bank charges. To be noted that for IC acquisition activity the financial result is borne by NSIP and is thus not included here.

30. Other Expenses

		Note	2017	2016 - Restat.
		Unit		
Other Expenses				
760	Fixed assets sales - Deficits		16,199	266,114
			16,199	266,114

This expense represent some net book value losses on PPE.

31. Financial Instruments

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

Liquidity risk

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

Credit risk

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

Foreign currency risk

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

32. Write-offs

Per the applicable NCIO Financial Rules and Procedures (document AC/337-D(2017)0014);

FRP XVII 1) the amount of the write-off will be based on the net book value.

FRP XVII 5) Write-offs of cash up to a maximum of half Level A of the EFL (€5,000) and write-offs of receivables including anticipatory commitments up to two times Level B of the EFL (€40,000) can be authorised by the General Manager through the Financial Controller.

FRP XVII 6) Write-off of cash losses in excess of half Level A of the EFL (€5,000) need to be authorised by the FinCom. The FinCom needs to authorise the write-off of receivables/anticipatory commitments exceeding two times Level B of the EFL (€40,000).

FRP XVII 8) On write-offs, information will be provided to the NATO budget Committee and the Finance Committee on an aggregated level in the Financial Statements as audited by IBAN.

For the period between 01 January 2017 and 31 December 2017 the NCI Agency has written off:

- CIS assets with total net book value of 27,392.83 Eur.
- Accounts receivable with a total value of 16,701.73 Eur.
- Cash losses with a total value of 1,756.67 Eur.
- Anticipatory commitments with a total value of 33,370.91 Eur.

C. Notes to the NCIO Statement of Change in Net Assets/Equity

Under its Charter and its Customer Funding model, the NCIO is allowed to have an Operating Fund (OF) which represents its retained earnings accumulated over the years. The use of the OF is regulated by the Customer Funding Regulatory Framework approved by Council in 2015 (PO(2015)0394-AS1) and are part of the NCIO Financial Rules and Procedures (FRP's) that were approved by the Agency Supervisory Board (ASB) in 2017 (AC/337-D(2017)0014-AS1).

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

The Financial Controller is responsible to recommend the size of the OF and the planned annual action to increase or to reduce it. Any surplus or deficit for 2017 is to be attributed to the OF with Nations to decide on its use.

In October 2017, Nations at the ASB Finance Committee: (1) confirmed the continued need for an Operating Fund as a risk management tool, (2) agreed to no longer include the depreciation reserved earnings as part of the Operating Fund, (3) confirmed to the target level being 10.0 MEUR with increases based on risk assessment to be justified (4) agreed on the pro rata distribution of potential surplus from the Operating Fund based upon the Military Budget and the NATO Security Investment Programme share in the Agency revenue via the call for contributions mechanism (previously any surplus was applied as a rebate/reduction to the customer rates i.e. 5.6 MEUR for 2017 Customer Rates and 2.8 MEUR for 2018 Customer Rates

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

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

The operating surplus for 2017, before adjustment to reserves, is distributed as follows:

33. Reserves at the End of the Period.

		Note Unit	2017	2016 - Restat.
Reserved Earnings				
310	Reserves - General purpose		3,529,709	4,263,972
311	Reserves - Special programmes		4,187,407	5,532,909
			7,717,116	9,796,881

- €3,529,709 of earnings remain reserved for the assets not yet fully depreciated, thus decreasing the depreciation reserve in 2017 with €734,263.
- €4,382,593 of accumulated transition expenses are booked against the Special Transition Reserve thus decreasing from a total €8,570,000 at 31 December 2013 to €4,187,407 at 31 December 2017.

The Special programmes reserves of 4.2 MEUR have a balance against the authorised baseline (7.2 MEUR) of 2.9 MEUR and an additional reserved amount of MEUR 1.3.

		Note Unit	2017	2016 - Restat.
311000	Special programmes reserves - Transition projects - Approved and authorised - Prior years		2,862,131	4,207,633
311001	Special programmes reserves - Transition projects - Approved, not authorised - Prior years		1,325,276	1,325,276
			4,187,407	5,532,909

Transition Expenses

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

	Authorised	Spent < 2017	Spent 2017	Total Spent	Remaining
Transition IC funded	38,729,143	7,901,983	19,799,891	27,701,874	11,027,269
Transition OF funded	7,244,724	3,037,091	1,345,502	4,382,593	2,862,131
	45,973,867	10,939,074	21,145,393	32,084,467	13,889,400

The Transition Programme was approved in December 2013, and authorised by the IC with the amount of EUR 15,123,072 to spend on investments and EUR 1,848,928 to spend on project service costs (EUR 7,245,000 approved for backfills). This authorisation was below the amounts requested by the Agency to run the planned Transition Programme. As a consequence, the planned scope of the Transition Programme required an internal assessment, restructuring and re-planning of the funded and unfunded activities. This re-planning effort delayed the formal start-up of execution of the associated Transition Programme project activities.

In addition, the Enterprise Business Application (EBA), previously faced significant delays thereby negatively affecting the implementation schedule for all EBA-related activities. Upon completion of Phase 1 of the project in early 2017, it became apparent the cost estimate for implementing EBA was considerably above the authorised cost, as such an alternative implementation scenario was designed to reduce external implementation cost and maximize efficiencies. Implementation has since started to deliver the Customer Funding Core Capability in early 2018. In 2016, an additional EUR 6,754,436 and EUR 857,940 was approved for EBA. In March 2018, Core HR of Release 1 was delivered but the Finance, Project Accounting, Asset Management and Acquisitions part of Release 1 was delayed to the third quarter of 2018 due to insufficient business and system readiness; a request for additional scope has been sent to the NOR on 9 March 2018, requesting 2 MEUR of investment costs, 0.3 MEUR of IES and 0.3 MEUR of PSC. A resulting provision of 0.5 MEUR has been booked in the 2017 Financial Statements as the Agency does not expect all to be approved.

Furthermore, the Functional Groupings and Facilities Study (FGFS), addressing the geographical footprint of the Agency, has commenced implementation (EUR 14,107,859 approved up until end of 2017), and the FGFS Programme Office stood up during the latter half of 2017.

Overall, the Transition Programme projects have all been either completed or are in progress. It is expected that the rate of expenditure will accelerate with the implementation of EBA in 2018. The table on the next pages provide the detailed spending for the NCI Agency Transition Programme in 2014-2017 by activity cluster.

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

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

It is also important to note that most of this work was done on a best effort basis with long hours by existing agency staff (many of which were indirect staff) operating under hybrid funding models (admin budgets and Customer Funding). Accordingly the majority of this figure was not charged to Agency customers or legacy budgets but serves as a representation of the level of effort undertaken for these activities.

TRANSITION EXPENDITURES Period 01-Jan-14 - 31-Dec-17

Against IC approved baselines (excl. overhead)

Group	Projectcode	Project Description	External baseline	Net Labor	Consultancy	Other Expenses	Travel	Investments	Total spent	Available
Group A - Enabling Services and Enterprise Business Applications	NSP009535	Enterprise Business Application (EBA)	2,560,738	982,819	145,521	7,667	73,166	-	1,209,173	1,351,565
	NSI005957	ENABLING SERVICES	1,760,620	-	-	-	-	1,550,467	1,550,467	210,154
	NSI005976	EBA - WORK PACKAGE 1	9,470,321	-	-	-	-	9,427,812	9,427,812	42,510
	NSI005977	EBA - WORK PACKAGE 2	379,738	-	-	-	-	379,738	379,738	0
	NSI005978	EBA - SOFTWARE PACKAGE	4,975,707	-	-	-	-	4,304,241	4,304,241	671,466
	NCA009223	Enabling Services (ES)	1,180,852	76,772	494,072	3,649	8,967	-	583,460	597,392
	NCA009224	Enterprise Business Application (EBA)	3,339,706	1,055,249	866,727	24,028	55,315	-	2,001,318	1,338,388
	NSE011614	EBA - Internal Engineer Services	857,940	417,474	74,953	-	19,743	-	512,170	345,770
			24,525,622	2,532,314	1,581,273	35,344	157,191	15,662,258	19,968,379	4,557,243
Group B - Demand Management, Account Management and Demand Planning										
	NSP009797	DEMAND MANAGEMENT (DM) - CLOSED	160,000	87,006	14,763	14,362	-	-	116,131	43,869
	NSI005979	DEMAND MANAGEMENT (DM) - INACTIVE	762,558	-	-	-	-	746,478	746,478	16,080
	NCA009225	DEMAND MANAGEMENT (DM) - CLOSED	666,728	-	438,311	2,084	31,506	-	471,902	194,826
			1,589,286	87,006	453,075	16,446	31,506	746,478	1,334,511	254,775
Group C - Service Strategy										
	NSP009718	Agency Transition SStrat Cluster - CLOSED	536,000	272,925	17,135	888	10,423	-	301,371	234,629
	NSI005980	COO / SERVICE STRATEGY	2,548,862	-	-	-	-	2,492,074	2,492,074	56,788
	NCA009226	Service Strategy - CLOSED	1,828,790	164,878	1,108,735	401	26,904	-	1,300,918	527,872
			4,913,652	437,802	1,125,870	1,289	37,328	2,492,074	4,094,364	819,288
Group D - Transition / Education and Training										
	NSP009812	Transition Cultural Amalgamation - CLOSED	44,000	-	17,942	400	-	-	18,342	25,658
	NSI005981	TRANSITION (TIP12-000.1)	215,000	-	-	-	-	-	-	215,000
	NCA009229	Transition Management (TIP12-000.2) - CLOSED	228,648	8,845	-	16,150	-	-	24,995	203,653
			487,648	8,845	17,942	16,550	-	-	43,336	444,312
Group D - Transition / Education and Training										
	NSP009811	Transition Education and Training - CLOSED	60,000	21,970	14,121	6,673	1,938	-	44,702	15,298
	NSI005982	NATO IT EDUC. & TRAINING (TIP12-005.1) - INACTIVE	289,800	-	-	-	-	287,774	287,774	2,026
			349,800	21,970	14,121	6,673	1,938	287,774	332,476	17,324
FGFS										
	NSI006153	Functional Groupings and Facilities Study (FGFS)	9,149,411	-	-	-	-	2,373,014	2,373,014	6,776,397
	NSP010991	FGFS	4,558,448	1,761,942	610,917	1,087,036	101,047	-	3,560,941	997,507
	NSE010972	FGFS - Internal Engineer Services	400,000	377,446	-	-	-	-	377,446	22,554
			14,107,859	2,139,387	610,917	1,087,036	101,047	2,373,014	6,311,401	7,796,458
			45,973,867	5,227,324	3,803,198	1,163,337	329,010	21,561,598	32,084,467	13,889,400

NATO UNCLASSIFIED

Against NCI Agency OF Reserve for transition

Group	Projectcode	Project Description	External baseline	Net Labor	Consultancy	Other Expenses	Travel	Investments	Total spent	Available
Group A - Enabling Services and Enterprise Business Applications	NCA009223	Group A - Enabling Services (ES)	1,180,852	76,772	494,072	3,649	8,967	-	583,460	597,392
	NCA009224	Group A Enterprise Business Application (EBA)	3,339,706	1,055,249	866,727	24,028	55,315	-	2,001,318	1,338,388
			4,520,558	1,132,021	1,360,798	27,677	64,282	-	2,584,778	1,935,780
Group B - Demand Management, Account Management and Demand										
	NCA009225	DEMAND MANAGEMENT (DM) - CLOSED	666,728	-	438,311	2,084	31,506	-	471,902	194,826
			666,728	-	438,311	2,084	31,506	-	471,902	194,826
Group C - Service Strategy										
	NCA009226	Service Strategy (SS) - CLOSED	1,828,790	164,878	1,108,735	401	26,904	-	1,300,918	527,872
			1,828,790	164,878	1,108,735	401	26,904	-	1,300,918	527,872
Group D - Transition / Education and Training										
	NCA009229	Transition Management (TP12-000.2) - CLOSED	228,648	8,845	-	16,150	-	-	24,995	203,653
			228,648	8,845	-	16,150	-	-	24,995	203,653
			7,244,724	1,305,744	2,907,845	46,312	122,693	-	4,382,593	2,862,131

34. Retained Earnings:

		Note	2017	2016 - Restat.
		Unit		
5	REVENUE		770,345,806	789,843,670
7	EXPENSES		- 769,258,271	- 792,019,803
300	Surplusses (Deficits) carried forward - Prior years		16,228,842	16,325,210
			17,316,377	14,149,077

The final operating surplus of €1,087,535, after reserve adjustment of €2,079,765 (see above), when added to the retained earnings, results in a total of €17,316,377 which constitutes the Operating Fund.

Below table reconciles Net Assets/Equity for 2015-2017

NCIO Reconciliation of Net Assets/Equity (OF - Operating Fund)

For the year ended 31 December 2017

(all figures are in Euro)

(Prior Year restated)

	Property, Plant and Equipment (PP&E) & Intangible Assets		Reserves - Special Purpose	Reserves - Special Progr.	RESERVED EARNINGS	RETAINED EARNINGS	NET ASSETS/EQUITY	
	Acq. Value	Depreciation	Book Value				Surpl./ (Def.) Yr	Yr-end Balance
31-Dec-15	11,373,573	-7,445,917	3,927,656	6,217,986	10,145,642	15,976,449		26,122,091
2016 - Restat. as Published	-1,880,101	2,216,417	336,316	-685,077	-348,762	-1,827,371	-2,176,133	-2,176,133
31-Dec-16	9,493,472	-5,229,501	4,263,972	5,532,909	9,796,881	14,149,077		23,945,958
2017 as Published (Unaudited)	3,376,312	-4,110,574	-734,262	-1,345,502	-2,079,764	3,167,299	1,087,535	1,087,535
31-Dec-17	12,869,784	-9,340,075	3,529,709	4,187,407	7,717,116	17,316,377		25,033,493

Below table shows the evolution of the Net Assets/Equity since 2005:

YEAR-END BALANCES	Year-end Balance	Destination					NET ASSETS/EQUITY	
		Property, Plant and Equipment (PP&E) & Intangible Assets		Reserves - Special Purpose	Reserves - Special Progr.	RESERVED EARNINGS	RETAINED EARNINGS	Yr-end Balance
		Acq. Value	Acc. Deprec.	Book Value				
31-Dec-05	5,064,289	6,352,418	-1,746,915	4,605,503	0	4,605,503	458,786	5,064,289
31-Dec-06	6,780,419	11,440,622	-3,721,092	7,719,530	0	7,719,530	-939,111	6,780,419
31-Dec-07	15,448,855	13,272,399	-6,289,891	6,982,508	0	6,982,508	8,466,347	15,448,855
31-Dec-08	16,813,862	16,337,520	-9,760,847	6,576,673	0	6,576,673	10,237,189	16,813,862
31-Dec-09	11,869,058	20,011,958	-13,481,609	6,530,349	0	6,530,349	5,338,709	11,869,058
31-Dec-10	4,183,086	23,524,061	-18,064,656	5,459,406	0	5,459,406	-1,276,320	4,183,086
31-Dec-11	9,913,025	24,356,808	-20,925,008	3,431,799	0	3,431,799	6,481,225	9,913,025
31-Dec-12	15,770,863	43,368	0	43,368	0	43,368	15,727,495	15,770,863
31-Dec-13	18,350,285	1,043,893	-227,169	816,725	8,570,000	9,386,725	8,963,561	18,350,285
31-Dec-14	20,280,170	8,276,385	-3,906,195	4,370,190	7,817,315	12,187,505	8,092,665	20,280,170
31-Dec-15	26,122,091	11,373,573	-7,445,917	3,927,656	6,217,986	10,145,642	15,976,449	26,122,091
31-Dec-16	23,945,958	9,493,472	-5,229,501	4,263,972	5,532,909	9,796,881	14,149,077	23,945,958
31-Dec-17	25,033,493	12,869,784	-9,340,075	3,529,709	4,187,407	7,717,116	17,316,377	25,033,493

NATO UNCLASSIFIED

INCR./((DECR.) FOR THE YEAR	Surplus/((Def.) for the Year	Destination						NET ASSETS/EQUITY Surpl./((Def.) Yr
		Property, Plant and Equipment (PP&E) & Intangible Assets		Reserves - Special Purpose	Reserves - Special Progr.	RESERVED EARNINGS	RETAINED EARNINGS	
		Acq. Value Yr	Deprec. Yr	Δ Book Value				
31-Dec-05 (*)	5,064,289	6,352,418	-1,746,915	4,605,503	0	4,605,503	458,786	5,064,289
31-Dec-06	1,716,130	5,088,204	-1,974,177	3,114,027	0	3,114,027	-1,397,897	1,716,130
31-Dec-07	8,668,436	1,831,777	-2,568,799	-737,022	0	-737,022	9,405,457	8,668,436
31-Dec-08	1,365,007	3,065,121	-3,470,956	-405,835	0	-405,835	1,770,842	1,365,007
31-Dec-09	-4,944,804	3,674,438	-3,720,762	-46,324	0	-46,324	-4,898,480	-4,944,804
31-Dec-10	-7,685,972	3,512,104	-4,583,047	-1,070,943	0	-1,070,943	-6,615,029	-7,685,972
31-Dec-11	5,729,939	832,746	-2,860,353	-2,027,606	0	-2,027,606	7,757,545	5,729,939
31-Dec-12	5,857,838	-24,313,440	20,925,008	-3,388,431	0	-3,388,431	9,246,270	5,857,838
31-Dec-13	2,579,422	1,000,525	-227,169	773,357	8,570,000	9,343,357	-6,763,934	2,579,422
31-Dec-14	1,929,885	7,232,492	-3,679,027	3,553,465	-752,685	2,800,780	-870,895	1,929,885
31-Dec-15	5,841,921	3,097,188	-3,539,722	-442,534	-1,599,329	-2,041,863	7,883,783	5,841,921
31-Dec-16	-2,176,133	-1,880,101	2,216,417	336,316	-685,077	-348,762	-1,827,371	-2,176,133
31-Dec-17	1,087,535	3,376,312	-4,110,574	-734,262	-1,345,502	-2,079,764	3,167,299	1,087,535

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

35. Events after the financial reporting date of 31 December 2017

NCIO is required to disclose events, both favourable and unfavourable, that occurred between the reporting date of 31 December 2017 and the date when these Financial Statements were authorised for issue by the General Manager. IPSAS requires two types of events which should be identified:

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

No material events occurred which could be categorised as a subsequent event under either (a) or (b).

D. Notes on the NCIO Budget Execution Statements

Although NCIO is fully Customer Funded as of 2014, it still has two components that are budget funded in 2017 and for which it thus produces a Budget Execution Statement:

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

D1. Notes on the NCIO Secretariat Budget Execution Statements

NCIO Secretariat Budget Execution Statement

For the year ended 31

December 2017

(all figures are in Euro)

NCIO Secretariat										
Note	Initial Budget	Transfers	BA2	Transfers	Final Budget	Net Commitment	Expenses	Total Spent	Carry Forward	Lapsed
BUDGET										
Chapter 1	440,772.00		440,772.00	0.00	440,772.00	0.00	438,259.13	438,259.13	0.00	2,512.87
Chapter 2	93,013.00		93,013.00	0.00	93,013.00	5,759.42	68,849.32	74,608.74	5,759.42	18,404.26
Chapter 3	0.00		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total current year	533,785.00	0.00	533,785.00	0.00	533,785.00	5,759.42	507,108.45	512,867.87	5,759.42	20,917.13
Chapter 1	2,050.35		2,050.35	0.00	2,050.35	0.00	2,108.79	2,108.79	0.00	-58.44
Chapter 2	12,462.70		12,462.70	0.00	12,462.70	11,062.70	0.00	11,062.70	11,062.70	1,400.00
Chapter 3	0.00		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total prior year	14,513.05	0.00	14,513.05	0.00	14,513.05	11,062.70	2,108.79	13,171.49	11,062.70	1,341.56
Chapter 1	0.00		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Chapter 2	0.00		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Chapter 3	0.00		0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total 2 years ago	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
TOTAL	548,298.05	0.00	548,298.05	0.00	548,298.05	16,822.12	509,217.24	526,039.36	16,822.12	22,258.69

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

Per Article 26 (e) of the Charter, the chairperson of the ASB is supported by an Independent Secretariat that is only responsible to the chairperson. Per Article 50 (c) and per AC/337-D(2014)0007-AS1 dated 9 May 2014, the ASB approved core funding (distinct and separate from NATO common funding) for the NCIO Independent Secretariat. The ASB approved the structure and an annual budget based on the Military Budget cost share model. The approved 2017 budget amounts to €533,785, the 2016 carry forward budget authorisation is €14,513, resulting in a total of €548,298.

The 2017 budget is based on the direct cost of the A4, A3, and B3 NIC and one intern, the direct travel cost of its staff, the Learning & Development costs and the representation/hospitality cost for the Chairman, totalling €438,259. The ASB Secretariat is supported logistically (HR, Finance, IT services, Legal and Acquisition), by the NCI Agency which also executes the budget within its financial system. For this support the Independent Secretariat is charged with a support cost amounting to €47,080 for 2017.

Total spent for 2017 amount to €526,039:

- actual 2017 expenses against the 2016 and 2017 budgets amount to €509,217 which correspond to the accrued expenses reported in the Statement of Financial Performance; budget and the financial statement are thus presented on a comparable basis and in compliance with IPSAS24;
- credits that are carried forward amount to €16,822.

An amount of €20,918 represents the lapsed credits against the 2017 and €1,341 against the carry forward budget 2016, resulting in a total lapse in 2017 of €22,259.

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

NCIO Implementation Budget (BC 877)(*) Budget Execution Statement

For the year
ended 31
December 2017
(all figures are in
Euro)

NCIO Implementation
Budget (BC 877)(*)

Not e	Initial Budget	Transfers	BA2	Transfers (*)	Final Budget	Net Commitment	Expenses	Total Spent	Carry Forward	Lapsed
BUDGET										
Chapter 1	2,306,533	0	2,306,533	0	2,306,533	0	2,306,533	2,306,533	0	0
Chapter 2	0	0	0	0	0	0	0	0	0	0
Chapter 3	0		0	0	0	0	0	0	0	0
Total current year	2,306,533	0	2,306,533	0	2,306,533	0	2,306,533	2,306,533	0	0
Chapter 1	0		0	0	0	0	0	0	0	0
Chapter 2	0		0	0	0	0	0	0	0	0
Chapter 3	0		0	0	0	0	0	0	0	0
Total prior year	0	0	0	0	0	0	0	0	0	0
Chapter 1	0		0	0	0	0	0	0	0	0
Chapter 2	0		0	0	0	0	0	0	0	0
Chapter 3	0		0	0	0	0	0	0	0	0
Total 2 years ago	0	0	0	0	0	0	0	0	0	0
TOTAL	2,306,533	0	2,306,533	0	2,306,533	0	2,306,533	2,306,533	0	0

(*) Decision Sheet BC-DS(2016)0052 - NCIA TRANSITION
IMPLEMENTATION BUDGET (BC 877)

The Committee agreed that 2017 requirements (LOJI and associated removal and separation requirements) had been aligned with the moves to the new NATO Headquarters (NNHQ) and elsewhere (EUR 2,306,533).

The Committee noted that the Agency was hiring to the new locations and that this was explicit in the vacancy notices and should be sufficient to avoid potential liabilities for LOJI; invited NCIA to confirm that these measures are sufficient to avoid potential future LOJI as a result of relocation of personnel recruited during the transition period; regarding LOJI avoidance measures, noted that staff being made redundant have the potential to be cross-walked into vacant positions NATO-wide

2016 RESTATED STATEMENT OF FINANCIAL POSITION AND PERFORMANCE

The restatement of the Statement of Financial Position, Financial Performance and Cash Flow Statement has been undertaken because of the new COA that has been developed in preparation of the EBA implementation per 1 January 2018.

In 2016, in preparation of the introduction of EBA, a significant effort was put into designing an end-state Chart of Accounts (CoA). This resulted in a number of re-classifications between individual accounts in the Statements of Financial Position and Performance with no impact on the Net Assets/Equity.

In 2017, some additional reclassifications were identified that were overlooked in 2016. Most important one being the inventory variation account (5.2 MEUR in 2016) which was booked under other operating revenue whereas it should be booked under Contractual Supplies and Services Costs. A provision expense reclassification was also done for 0.7 MEUR of provisions for “Trattamento di Fine Rapporto (TFR)” and another amount of 0.5 MEUR was also reclassified from other operating revenue to ECIS revenue.

Further to an audit observation from IBAN on the 2016 Financial Statements, observing on the complex recording of Resolute Support Projects in the cost to complete models, the Agency reorganised the RSM activity which is now entirely reported under Support Service Costs (SSC) and External CIS (ECIS) Revenue. For comparability, the Agency also reclassified the 2016 RSM activity accordingly (66 MEUR from Acquisition to ECIS revenue).

All the resulting restatements of 2016 bear a minimal impact on the net result.

NCIO Statement of Financial Position – Restated

As of 31 December 2016

(all figures are in Euro)

NCIO - RESTATED					
Note	2016 - Restat.				
	Prior Year - As published	Re- classifications	IBAN Observations	Accounting Policies	Prior Year - Restated
ASSETS					
Current Assets					
Cash and Cash Equivalents	168,228,053	0	0	0	168,228,053
Receivables	174,079,678	0	0	0	174,079,678
Prepayments and Miscellaneous Assets	4,916,232	0	0	0	4,916,232
Inventory	11,321,408	0	0	0	11,321,408
Work in Progress	370,568	0	0	0	370,568
Other Current Assets	57,465	0	0	0	57,465
Total Current Assets	358,973,404	0	0	0	358,973,404
Non-Current Assets					
Financial Assets	0	0	0	0	0
Non-current Receivables	2,009	0	0	0	2,009
Property, Plant and Equipment	4,144,475	0	0	0	4,144,475
Intangible Assets	120,077	0	0	0	120,077
Other Non-Current Assets	0	0	0	0	0
Total Non-Current Assets	4,266,561	0	0	0	4,266,561
TOTAL ASSETS	363,239,965	0	0	0	363,239,965

NCIO Statement of Financial Position – Restated

As of 31 December 2016

(all figures are in Euro)

NCIO - RESTATED					
Note	2016 - Restat.				
	Prior Year - As published	Re- classifications	IBAN Observations	Accounting Policies	Prior Year - Restated
LIABILITIES					
<i>Current Liabilities</i>					
Payables	141,180,690	0	0	0	141,180,690
Deferred Revenue and Advances	182,547,604	296,125	0	0	182,843,729
Borrowings	0	0	0	0	0
Other Current Liabilities	4,056,843	0	0	0	4,056,843
Total Current Liabilities	327,785,137	296,125	0	0	328,081,263
<i>Non-Current Liabilities</i>					
Non-Current Payables	0	0	0	0	0
Non-Current Deferred Revenue and Advances	296,125	(296,125)	0	0	0
Non-Current Borrowings	0	0	0	0	0
Provisions	11,212,745	0	0	0	11,212,745
Other Non-Current Liabilities	0	0	0	0	0
Total Non-Current Liabilities	11,508,870	(296,125)	0	0	11,212,745
TOTAL LIABILITIES	339,294,007	0	0	0	339,294,007
NET ASSETS/EQUITY					
Retained Earnings	14,148,497	580	0	0	14,149,077
Reserved Earnings	9,797,461	(580)	0	0	9,796,881
TOTAL NET ASSETS/EQUITY	23,945,958	0	0	0	23,945,958
TOTAL LIABILITIES AND NET ASSETS/EQUITY	363,239,965	0	0	0	363,239,965

NCIO Statement of Financial Performance – Restated

For the year ended 31 December 2016
(all figures are in Euro)

NCIO - RESTATED					
Note	2016 - Restat.				
	Prior Year - As published	Re- classifications	IBAN Observations	Accounting Policies	Prior Year - Restated
REVENUE					
Project and Support Services Revenue	233,966,048	0	0	0	233,966,048
External Services Revenue	139,973,672	66,305,999	0	0	206,279,671
Acquisition Revenue	404,776,276	(65,813,814)	0	0	338,962,461
Other Operating Revenue	13,331,387	(5,661,617)	0	0	7,669,770
Financial Revenue	2,936,420	0	0	0	2,936,420
Other Revenue	29,300	0	0	0	29,300
TOTAL REVENUE	795,013,103	(5,169,433)	0	0	789,843,670
EXPENSES					
Cost of Acquisition	(402,879,438)	65,755,703	0	0	(337,123,735)
Personnel Costs	(225,301,575)	0	0	0	(225,301,575)
Contractual Supplies and Services	(160,383,998)	(60,586,270)	0	0	(220,970,268)
Depreciation and Amortisation	(3,791,369)	0	0	0	(3,791,369)
Provisions	(2,454,909)	0	0	0	(2,454,909)
Financial Expenses	(2,111,832)	0	0	0	(2,111,832)
Other Expenses	(266,114)	0	0	0	(266,114)
TOTAL EXPENSES	(797,189,236)	5,169,433	0	0	(792,019,803)
SURPLUS/(DEFICIT)					
Retainable Earnings	(2,176,133)	0	0	0	(2,176,133)
Refundable Earnings	0	0	0	0	0
SURPLUS/(DEFICIT) FOR THE PERIOD	(2,176,133)	0	0	0	(2,176,133)

NCIO Statement of Cash Flows - Restated*For the year ended 31 December 2016**(all figures are in Euro)*

No te	NCIO - RESTATED				
	2016 - Restat.				
	Prior Year - As published	Re-classifications	IBAN Observations	Accounting Policies	Prior Year - Restated
CASH FLOWS FROM OPERATING ACTIVITIES					
Surplus/(Deficit) for the Period	(3,041,629)	0	0	0	(3,041,629)
Depreciation and Amortisation	3,789,732	0	0	0	3,789,732
Revaluation of Assets	0	0	0	0	0
Decr./((Incr.) Receivables	(9,937,114)	0	0	0	(9,937,114)
Decr./((Incr.) Prepayments and Miscellaneous Assets	5,873,241	0	0	0	5,873,241
Decr./((Incr.) Inventory	(5,169,433)	0	0	0	(5,169,433)
Decr./((Incr.) Work in Progress	239,869	0	0	0	239,869
Decr./((Incr.) Other Current Assets	(17,391)	0	0	0	(17,391)
Incr./((Decr.) Payables	40,540,306	0	0	0	40,540,306
Incr./((Decr.) Deferred Revenue and Advances	38,660,506	296,125	0	0	38,956,632
Incr./((Decr.) Borrowings	0	0	0	0	0
Incr./((Decr.) Other Current Liabilities	(8,002,892)	0	0	0	(8,002,892)
NET CASH FLOWS FROM OPERATING ACTIVITIES	62,935,196	296,125	0	0	63,231,321
CASH FLOWS FROM INVESTING ACTIVITIES					
Decr./((Incr.) Financial Assets	(41)	0	0	0	(41)
Decr./((Incr.) Non-current Receivables	0	0	0	0	0
Decr./((Incr.) PP&E and Intangible Assets	(4,310,306)	0	0	0	(4,310,306)
Decr./((Incr.) Other Non-Current Assets	0	0	0	0	0
NET CASH FLOWS FROM INVESTING ACTIVITIES	(4,310,347)	0	0	0	(4,310,347)
CASH FLOWS FROM FINANCING ACTIVITIES					
Incr./((Decr.) Non-Current Payables	0	0	0	0	0
Incr./((Decr.) Non-Current Deferred Revenue and Advances	0	(296,125)	0	0	(296,125)

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Incr./ (Decr.) Non-Current Borrowings
Incr./ (Decr.) Provisions
Incr./ (Decr.) Other Non-Current Liabilities
NET CASH FLOWS FROM FINANCING ACTIVITIES
NET INCR./ (DECR.) CASH AND CASH EQUIVALENTS
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD
Incr./ (Decr.) Cash and Cash Equivalents
CASH AND CASH EQUIVALENTS AT END OF PERIOD

0	0	0	0	0
2,454,909	0	0	0	2,454,909
394,991	0	0	0	394,991
2,849,900	(296,125)	0	0	2,553,775
61,474,748	0	0	0	61,474,748
171,394,685	0	0	0	171,394,685
61,474,748	0	0	0	61,474,748
106,553,798	0	0	0	106,553,798

NAF IMPACT PRIOR 1 JAN 2013 EXPENSED PPE AND INVENTORY

As per the NATO Accounting Framework, NCIO has chosen per the adapted IPSAS 12 “Inventories”, 17 “Plant, Property and Equipment” and 31 “Intangible Assets”, to consider all inventories, PPE and Intangible Assets acquired prior to 1 January 2013, as fully expensed.

For these PPE and inventories (acquired prior 01-Jan-2013) as per the NATO Accounting framework NCIA will need to provide a disclosure to the notes of the financial statements.

For PPE, the disclosure will need to include the types of PPE held, locations where PPE is held and the approximate number of items held per asset category.

For Inventories similar disclosure is required. Within the NCIO Statement of financial position 2017, inventory balance do not pertain any inventory items that were acquired prior 01 January 2013 (see however special mention on page 24-25 under note 4 for Inventories).

NCIO Statement of Property, Plant and Equipment - Expensed Items

As of 31 December 2017

NCIO

PLANT, PROPERTY AND EQUIPMENT							
		Furniture	Installed Equipment	Machinery	Mission Equipment	Transport Equipment	Grand Total
	Afganistan		4	7	52		63
	Belgium		5	5	34	5	49
	Croatia		6		2		8
	Germany	1	26	17	50		94
	Italy		80	22	231		333
	Kosovo		18		8		26
	Netherlands	1	112	17	508	3	641
	Norway		10	1	17		28
	Poland		30	17	29		76
	Portugal		11		19		30
	Spain				3		3
	Turkey		3		20		23
	United Kingdom		11		30		41
	United States			1	5		6
Infrastructure, plant and equipment		2	316	87	1,008	8	1,421



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NCIA/FC/2018/00541
 29 March 2018

Subject: **Statement of Internal Control -
 NATO Communications and Information Organisation (NCIO) Financial
 Statements for the period 01 January 2017 to 31 December 2017**

1. This Statement of Internal Control applies to the NCIO Financial Statements for the year ended 31 December 2017. Internal control is driven by the requirement of the NATO Financial Regulations, the NCIO Financial Rules and Procedures, the NATO Accounting Framework, the NCIO Internal Control Framework and good business practices. Internal control is to ensure that NATO assets are utilized for the purposes intended and that the transactions relating to their usage reflect the highest standards of integrity to justify continued confidence of the NATO Member Nations.
2. The NCIO system of internal control is based on an ongoing process effected by the Board, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance. As part of the process, identified risks to the achievement of NCI Organisation goals and objectives, are managed efficiently, effectively and economically. In detail:
 - a. The ASB has the responsibility to: (1) ensure that effective risk management measures are in place and monitor performance execution on that basis; (2) exercise management control by comparison of the NCIA activities with applicable ASB directives; (3) oversee the delivery of results against targets; (4) evaluate the performance against objectives of the NCIA; (5) benchmark the NCIA against comparable organisations;
 - b. The Chairman of the ASB acknowledges responsibility to maintain a sound system of internal control that supports the ASB Secretariat and ensures it delivers on its mandate;
 - c. The General Manager acknowledges responsibility to maintain a sound system of internal control that supports the NCI Agency and ensures it delivers on its Chartered mandate;
 - d. The Financial Controller acknowledges responsibility for the correct use and accounting of funds made available to the NCI Agency and the ASB Secretariat for maintaining a sound system of internal financial controls;
3. The main aspects of the NCIO's system of internal control for 2017 are as follows:
 - a. All funds received are recorded, accounted and managed through a set of information systems, which include: enterprise-wide project management; a time accounting system; and two legacy financial systems based on the accounting software from Oracle; the Centralized NATO Automated Financial System (CNAFS); and the Core Financial System (CFS), formerly PeopleSoft;
 - b. The Independent Secretariat has its budget approved and funded by ASB Member Nations;
 - c. The NCI Agency annually updates its Customer Rates. These are endorsed by the ASB, and approved by the NATO Budget Committee on behalf of all Customers;
 - d. The Customer Funded NCI Agency prepares an Annual Financial Plan (3 year planning horizon) covering revenue and expenses which is signed-off by the Executive Management Board. The Financial Plan is approved by the ASB;
 - e. All agreements with Customers are in writing and are usually concluded on a Firm Fixed Price and/or Cost Reimbursable basis;
 - f. All procurement is under the responsibility of the Director of Acquisition with the specific involvement of the General Manager for some decisions such as deviation from normal competition procedures;
 - g. Through its Service Life Management Board (SLMB), the Agency oversees the operational environment with a focus on early identification and quantification of risks which affect services and projects to allow for timely management oversight and/or assistance to mitigate;
 - h. The Agency has Enterprise-wide Risk Management and risk registers for each Directorate and enabling Office (e.g. HR). However, resources

assigned to the Risk Management function are very limited compared to the complexity and the size of the Agency;

- i. The Agency has an Internal Audit Function with an approved risk-based annual audit plan which reviews, amongst other areas, internal control and risk mitigation. Internal Audit reports to the General Manager and provides regular updates to the ASB-Audit Committee. However, resources assigned to the function are very limited compared to the complexity and the size of the Agency;
 - j. The NCIO Internal Control Framework was approved by the ASB in 2016 and it is under implementation;
 - k. The Agency has a Code of Conduct and an anti-fraud directive and all staff must undergo re-certification in ethical behaviour and appropriate use of resources. It is also implementing a Fraud prevention and detection programme to manage the risk of fraud within the organisation. In this respect, some activities were already performed in 2017.
4. During its last audit, the International Board of Audit for NATO identified one weakness that impacted the audit opinion. Weaknesses on compliance were identified regarding the lack of integrated systems to support effective and efficient management and financial reporting of Plant, Property and Equipment and intangible assets. These are being gradually addressed through further policy development (in co-ordination with NATO's Head of Financial Reporting Policy), focused Agency efforts, and through implementation of Enterprise Business Applications programme in 2018¹ which will give the Agency an integrated suite of business and financial management tools.
5. In 2017, 2 minor instances of fraud have been detected and dealt with by the Agency. In both cases the amounts were immaterial but the Agency has pursued proactive and robust investigations culminating in disciplinary action. The lessons learned to prevent reoccurrences are being taken forward.

Distribution:

External

Chairman Board of Auditors for NATO
Chairman NCIO Agency Supervisory Board

Internal

Members Executive Management Board



Kevin J Scheid
General Manager



Anne-Marie M Pick
Financial Controller

¹ 'Go-Live' is planned for Q3 2018.



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NCIA/FC/2018/00538
29 March 2018

Subject: **Financial Controller's Certification -
NATO Communications and Information Organisation (NCIO) Financial
Statements for the period 01 January 2017 to 31 December 2017**

1. The 2017 Financial Statements for the NCIO are submitted to the International Board of Auditors for NATO (IBAN) and the Agency Supervisory Board (ASB) as required by the NATO Financial Regulations and the NCIO Charter.
2. The Financial Statements were prepared in accordance with the following Reference documents:
 - a. C-M(2015)0025), NATO Financial Regulations, approved by Council, dated 4 May 2015;
 - b. AC/337-D(2016)0014, NCIO Financial Rules and Procedures, approved by the ASB, dated 29 March 2016;
 - c. C-M(2016)0023, revised NATO Accounting Framework (IPSAS adaptation), approved by Council, dated 29 April 2016;
 - d. PO(2015)0394, NATO Communications & Information Agency Customer Funding Regulatory Framework, approved by Council, dated 16 July 2015;
 - e. C-M(2012)0049, Charter of the NATO Communications and Information Organisation, approved by Council, dated 14 June 2012.
3. I certify that the NCIO 2017 Financial Statements:
 - a. present fairly the NCIO's financial position, financial performance, cash flows and changes in net assets/equity during the period;
 - b. can be publicly disclosed.

Anne-Marie M Pick
Financial Controller

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ACRONYMS

ACO	ALLIED COMMAND OPERATIONS
ACT	ALLIED COMMAND TRANSFORMATION
AIR C2	AIR COMMAND AND CONTROL
APF	ADVANCE PLANNING FUNDS
ASB	AGENCY SUPERVISORY BOARD
FinCom	AGENCY SUPERVISORY BOARD FINANCE COMMITTEE
BC	NATO BUDGET COMMITTEE
BMD	BALLISTIC MISSILE DEFENCE
CIS	COMMUNICATION INFORMATION SYSTEMS
CPR	NATO CIVILIAN PERSONNEL REGULATIONS
EBA	ENTERPRISE BUSINESS APPLICATIONS
ESPE	END STATE PEACETIME ESTABLISHMENT
FRP	FINANCIAL RULES AND PROCEDURES
GM	GENERAL MANAGER
HO/TO	HANDOVER/TAKEOVER
IBAN	INTERNATIONAL BOARD OF AUDIT FOR NATO
IC	NATO INVESTMENT COMMITTEE
ICTM	INFORMATION COMMUNICATIONS TECHNOLOGY MANAGEMENT
IMS	INTERNATIONAL MILITARY STAFF
IS	INTERNATIONAL STAFF
ISAF	INTERNATIONAL SECURITY ASSISTANCE FORCE
ISPAS	INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS
MC	MILITARY COMMITTEE
MWA	MORALE AND WELFARE ACTIVITIES
IWC	INTERIM WORKFORCE CAPACITY
NAC	NORTH ATLANTIC COUNCIL
NAF	NATO ACCOUNTING FRAMEWORK
NATO	NORTH ATLANTIC TREATY ORGANISATION
NCI Agency	NATO COMMUNICATIONS AND INFORMATION AGENCY
NCIO	NATO COMMUNICATIONS AND INFORMATION ORGANISATION
NCS	NATO COMMAND STRUCTURE
NFR	NATO FINANCIAL REGULATIONS
NIC	NATO INTERNATIONAL CIVILIAN
NSIP	NATO SECURITY INVESTMENT PROGRAMME
OF	OPERATING FUND

NATO UNCLASSIFIED

PE	PEACETIME ESTABLISHMENT/PERSONNEL ESTABLISHMENT
PPE	PLANT PROPERTY EQUIPMENT
PSC	PROJECT SERVICE COSTS
QAFR	QUARTERLY ACCOUNTING FINANCIAL REPORT
RPPB	NATO RESOURCE POLICY AND PLANNING BOARD
RS	RESOLUTE SUPPORT
SLA	SERVICE LEVEL AGREEMENT
SSC	SERVICE SUPPORT COST