	NATO	NORTH ATLANTIC COUNCIL
	OTAN	CONSEIL DE L'ATLANTIQUE NORD

**NATO UNCLASSIFIED**

13 December 2018

**DOCUMENT**  
C-M(2018)0061-AS1

**IBAN AUDIT ON THE 2017 FINANCIAL STATEMENTS OF SCIENCE AND  
TECHNOLOGY ORGANISATION (STO)**

**ACTION SHEET**

On 12 December 2018, under the silence procedure, the Council noted the IBAN report on the 2017 financial statements of STO, endorsed the RPPB report attached to C-M(2018)0061, and agreed to the public disclosure of this report, the IBAN audit and associated 2017 financial statements of STO.

(Signed) Jens Stoltenberg  
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2018)0061.

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4 December 2018

**DOCUMENT**  
C-M(2018)0061  
**Silence Procedure ends:**  
**12 Dec 2018 17:30**

**IBAN AUDIT ON THE 2017 FINANCIAL STATEMENTS OF SCIENCE AND  
TECHNOLOGY ORGANISATION (STO)**

**Note by the Secretary General**

1. I attach the International Board of Auditors for NATO (IBAN) report on the audit of the 2017 financial statements of Science and Technology Organisation (STO). The IBAN audit produced an unqualified opinion on the financial statements and a qualified opinion on compliance for STO.
2. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB) (see Annex 1).
3. I do not believe this issue requires further discussion. Therefore, **unless I hear to the contrary by 17:30 hours on Wednesday, 12 December 2018**, I shall assume the Council noted the IBAN report on the 2017 financial statements of STO, endorsed the RPPB report, and agreed to the public disclosure of this report, the IBAN audit and associated 2017 financial statements of STO.

(Signed) Jens Stoltenberg

1 Annex  
2 Enclosures

Original: English

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-1-



**IBAN AUDIT ON THE 2017 FINANCIAL STATEMENTS OF SCIENCE AND  
TECHNOLOGY ORGANISATION (STO)**

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

References:

- |                     |  |
|---------------------|--|
| A. IBA-AR(2018)0094 | IBAN Audit on the 2017 Financial Statements of STO     |
| B. PO(2015)0052     | Wales Summit tasker on transparency and accountability |

**INTRODUCTION**

1. This report covers the 2017 financial statement audit of STO submitted by IBAN (reference A) which set out an unqualified opinion on the financial statements and a qualified opinion on compliance.

**OBSERVATIONS**

2. The IBAN found control weaknesses and lack of compliance with the Civilian Personnel Regulations (CPRs) in Centre for Maritime Research & Experimentation (CMRE) in a number of significant areas related to management of human resources. No personal performance and evaluation management system was in place, promotions and granting of allowances did not comply with regulations and there were significant weaknesses in the internal controls and management of leave. The IBAN issued five observations with recommendations, two were the basis for qualification. The other three observations did not impact the audit opinion, but highlighted improper consultant employment durations and improvements needed in the Statement of Internal Control and risk management, internal control and internal audit.

3. The IBAN followed up on the status of observations from the previous years' and found one was settled, two were partially settled, one remains outstanding and one was superseded by current year observations. Progress was made on the outstanding and partially settled observations from prior year which related to management accounting, the human resources control environment, and related party declarations. In 2017, STO initiated a process to begin allocating costs by project, re-established the Head of Personnel, and sent and received some related party declarations. The STO Financial Controller (FC) projects progress will continue in 2018 and the observations will be fully settled in 2019. Additional details can be found in the IBAN report (from page 12-14 of reference A).

4. STO agreed with the IBAN's two observations and recommendations related to non-compliance with the CPRs on performance evaluation, promotions and allocation of allowances in addition to control weaknesses with respect to leave. CMRE management is taking steps to improve its processes and procedures to comply with the CPRs. Many positive changes have been identified and corrective actions were initiated since the arrival and support of the New Director CMRE in late 2017 and more corrective actions are expected with the expected arrival of the new HR Manager at the end of October 2018. Most notably, CMRE conducted its first mid-year review in August 2018 and implemented an Automated Personnel Management System to better track leave. The STO FC projects the

two observations resulting in a qualified opinion to be partially settled by the end of 2018 and fully settled by the end of 2019.

5. STO generally agreed with the remainder of the observations and has plans to continue to improve in the areas of contract duration CPR compliance by updating its contract policy by the end of 2018 and compliance in the areas of risk management, internal control and internal audit by adopting International Organization of Standardization (ISO) 31000 on risk management. The STO FC expects full compliance in the areas of risk management, internal control and internal audit by the end of 2020, highlighting the lack of dedicated resources coupled with STO's complex structure comprising of three different entities: Office of the Chief Scientist, Collaboration Support Office and CMRE.

## **DISCUSSION**

6. The RPPB notes the IBAN raised a number of points regarding HR issues at CMRE that have been accepted in the formal comments by STO and understands that corrective actions are being taken and are expected to be fully resolved by the end of 2019. Further, the RPPB notes the progress in the areas of risk management, internal control and internal audit, and the FC's projected timelines to settle the observations.

## **CONCLUSION**

7. The IBAN issued an unqualified opinion on the 2017 STO financial statements and a qualified opinion on compliance. Weaknesses in personnel management have been identified since 2016 at CMRE and actions are being initiated by STO to correct the findings.

## **RECOMMENDATIONS**

8. The RPPB recommends that the Council:

8.1. note the IBAN report at reference A;

8.2. endorse the conclusion in paragraph 7; and,

8.3. agree to the public disclosure of this report, the IBAN audit and the associated 2017 financial statements of STO in line with the agreed policy in reference B.



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)0094  
29 August 2018

To: Secretary General  
Attn: Director of the Private Office

Cc: Chairman/NATO Chief Scientist, Science and Technology Board  
Chairman, Science and Technology Organisation Finance and Audit Sub-Group  
Financial Controller, International Military Staff/Science and Technology Organisation  
Chairman, Resource Policy and Planning Board (RPPB)  
Branch Head, Plans and Policy Branch, NATO Office of Resources (NOR)  
Private Office Registry

Subject: ***International Board of Auditors for NATO (Board) Auditor's Report and Letter of Observations and Recommendations on the audit of the Science and Technology Organisation (STO) Financial Statements for the year ended 31 December 2017 – IBA-AR(2018)0017***

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

The Board's report sets out an unqualified opinion on the Financial Statements of the STO and a qualified opinion on compliance for the 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  
Science and Technology Organisation (STO)  
for the year ended 31 December 2017**

The Board audited the Science and Technology Organisation (STO), which became a NATO body on 1 July 2012. Its mission is to help position the Nations' and NATO's Science and Technology investments as a strategic enabler of the knowledge and technology advantage for the defence and security posture of NATO nations and partner Nations.

The STO comprises three executive bodies: the STO Office of the Chief Scientist (OCS) located in Brussels, Belgium, under the authority of the Chief Scientist; the STO Collaboration Support Office (CSO) located in Neuilly-sur-seine, France, under the authority of its Director; and the STO Centre for Maritime Research and Experimentation (CMRE) located in La Spezia, Italy, under the authority of its Director.

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

During the audit, the Board made five 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 compliance.

1. CMRE – Non-compliance with NATO Civilian Personnel Regulations (CPRs) for performance evaluation, promotions, and allocation of allowances, and
2. Weaknesses in the control of and the use of leave.
3. CMRE – non-compliance with the CPRs on the duration of employment of consultants
4. Further improvements required in the area of risk management, internal control and internal audit, and
5. Improvements to the Statement of Internal Control.

The Board also followed up on the status of the observations from the previous year's audit and found that two recommendations were settled, one was partially settled, two were superseded by current year observations and two remained outstanding.

The Auditor's Report (Annex 2) and the Letter of Observations and Recommendations (Annex 3) were issued to the STO 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 SCIENCE AND TECHNOLOGY ORGANISATION**

**(STO)**

**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 Science and Technology Organisation (STO), which comprised the Statement of Financial Position as at 31 December 2017, the Statement of Financial Performance, Statement of Changes in Net Equity and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The Board also audited the Statements of Budget Execution of the Office of the Chief Scientist and the Collaboration Support Office included in Annex of the Financial Statements.

*Management's Responsibility for the Financial Statements*

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

*Auditor's Responsibility*

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

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

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



*Opinion on Financial Statements*

In our opinion, the Financial Statements present fairly, in all material respects, the financial position of STO as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with the NATO Accounting Framework.

**Report on Compliance**

*Management's Responsibility for Compliance*

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

*Auditor's Responsibility*

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

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

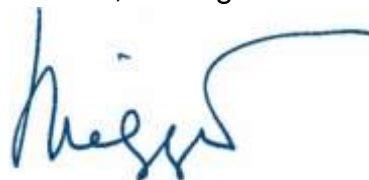
*Basis for Qualified Opinion on Compliance*

The Board found control weaknesses and lack of compliance with the Civilian Personnel Regulations (CPRs) in Centre for Maritime Research & Experiment (CMRE) in a number of significant areas related to management of human resources. No personal performance and evaluation management system was in place, promotions and granting of allowances did not comply with regulations and there were significant weaknesses in the internal controls and management of leave.

*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



Hervé-Adrien Metzger  
Chairman

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**ANNEX 3  
IBA-AR(2018)0017**

29 August 2018

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**LETTER OF OBSERVATIONS AND RECOMMENDATIONS  
FOR THE SCIENCE AND TECHNOLOGY ORGANISATION  
(STO)**

**FOR THE YEAR ENDED 31 DECEMBER 2017**

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## **Introduction**

The International Board of Auditors for NATO (Board) audited the Science and Technology Organisation (STO) Financial Statements for the year ended 31 December 2017, and issued an unqualified opinion on the financial statements and a qualified opinion on compliance.

The STO is composed of the Science and Technology Board; three executive bodies and Scientific and technical committees. The three executive bodies of the STO are: The Office of the Chief Scientist (OCS), the Science and Technology Collaboration Support Office (CSO) and the Centre for Maritime Research and Experimentation (CMRE).

## **Observations and Recommendations**

The Board's audit resulted in five observations and recommendations:

Two observations impact the opinion on compliance:

1. CMRE – Non-compliance with NATO Civilian Personnel Regulations (CPRs) for performance evaluation, promotions, and allocation of allowances, and
2. Weaknesses in the control of and the use of leave.

The remaining three observations do not impact the audit opinion:

3. CMRE – non-compliance with the CPRs on the duration of employment of consultants
4. Further improvements required in the area of risk management, internal control and internal audit, and
5. Improvements to the Statement of Internal Control.

The Board also followed up on the status of the observations from the previous year's audit and found that two recommendations were settled, one is partially settled, two were superseded by current year observations and two remain outstanding.

The Board also issued a Management Letter (reference IBA-AML(2018)0012) to STO management with one observation for management's attention.

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

## **OBSERVATIONS AND RECOMMENDATIONS**

### **1. CMRE - NON COMPLIANCE WITH NATO CIVILIAN PERSONNEL REGULATIONS (CPRS) FOR PERFORMANCE EVALUATION, PROMOTIONS AND ALLOCATION OF ALLOWANCES**

#### **Reasoning**

1.1 CMRE, as part of the STO, shall comply with the requirements of the STO Charter, the CPRs and NATO Financial Regulations (NFRs) regarding personnel management and remuneration of personnel.

1.2 The STO Charter Annex 5, Article 6, requires that any new position at CMRE implying a change to the Personnel Establishment shall be endorsed by the Science and Technology Board (STB).

1.3 According to Article 32 of the CPRs, extra-duties allowances may be paid to a staff member of a lower grade formally designated to assume the full responsibilities of a higher grade post due to this post being unfilled because of prolonged absence or recruitment difficulties. The allowance is payable, without retro-active effect, after 2 months' continuous service in the higher grade and it will be reviewed by the Head of NATO body after a period of 6 months.

1.4 Article 55 of the CPRs requires NATO bodies to establish a system to evaluate periodically the proficiency of staff members in the performance of their duties. The system may include periodic performance reports. Such a system serves the objective of the organisation and clarifies the requirements for the personnel, their expected performance and related awards.

1.5 Chapter XII of the CPRs set the regulations for the change of post or grade and the effective date of such changes. Article 57 states that applications from staff members to notified vacancies shall be examined with those of outside candidates. It also refers to the possibility of transferring a staff member to another vacant post in the same location, same grade and level of responsibility based on a system of performance management. The rules do not allow for retroactive application of an advancement of step or change of grade.

#### **Observations**

1.6 The Board found that CMRE has not implemented a personnel performance and evaluation management system as required by the CPRs. As a result, any decision related to

promotion, grade changes or entitlement of extra duty allowance cannot be supported by a periodical evaluation of the proficiency of staff members.

1.7 The Board found cases of retroactive grade and step increases of staff members which did not comply with the CPRs:

- a) In three cases, staff members were promoted to a higher grade (A4 to A5, A3 to A4 and B5 to B6) with retroactive effect. These staff members also benefitted from the annual step increase. In one of the cases, the staff member also received an undue household allowance and a higher percentage of expatriation allowance tied to the household allowance for the period December 2014 to February 2016. This undue allowance was partially reimbursed by granting dependent children's allowance retroactively.

1.8 These retroactive promotions are not in compliance with the CPRs nor the NFRs as there were no financial commitments in 2017.

1.9 Further, the Board found cases where CMRE paid extra-duty allowance for long periods:

- a) One staff member received extra-duty allowance from 1 January 2016 to 31 October 2017 for a position which was not vacant in the Personnel Establishment, but for which the previous Director decided, without approval of the STB, to remove the incumbent from their duties.
- b) Another staff member is receiving extra-duty allowance since 1 January 2015 while there is no performance management system to ensure that the formally designated staff member assumes the full responsibilities of the higher grade post and no review by the Head of NATO body took place after 6 months as required by the CPRs.

## **Recommendations**

1.10 The Board recommends CMRE implement an effective personnel performance management system in compliance with the CPRs.

1.11 Further, the Board recommends that:

- a) CMRE establishes procedures and internal controls ensuring comply with the CPRs and the STO Charter in regards to remuneration, post, step and grade changes and extra-duty allowances. Effective date of approved changes in grade and allowances should follow the rules stipulated in the CPRs.

- b) CMRE implement a semi-annual review of the performance for the personnel being formally designated to assume the full responsibilities of a higher grade post and thus benefiting from extra-duty allowances.

## **2. CMRE - WEAKNESSES IN THE CONTROL OF THE USE OF LEAVE**

### **Reasoning**

2.1 Personnel costs are allocated to the projects managed by CMRE based on timesheets prepared by staff. A robust time recording system provides transparency on project costs by providing detailed reporting on the use of personnel resources per project. In addition, together with appropriate internal controls, it ensures an accurate and efficient monitoring of annual leave, compensatory leave, sick leave and other types of leave taken by staff.

2.2 The CPRs establish rules for leave entitlement, the timelines for when leave should be taken, and the criteria for when the Head of NATO body may authorise payment in lieu for untaken compensatory leave. CMRE grants compensatory leave (called cruise leave) to scientists and engineers for special working hours on the CMRE vessels (i.e. outside the prescribed working hours) in accordance with Article 17 of the CPRs. This compensatory leave must normally be taken within 3 months unless the Head of NATO Body authorises payment in lieu if, as a result of service requirements, the leave could not be taken.

2.3 CMRE has a project oriented structure that requires an efficient and effective use of its resources to deliver projects to customers. Resources are mainly composed of scientist personnel working for the research and engineering department and other personnel in support functions such as administration and Information Labs Office (overhead).

### **Observations**

2.4 The Board found that CMRE lacks an effective and efficient management and control over the time accounting of its personnel working on projects. The existing time recording system is not accurate, not filled in a timely manner, and the reporting of leave is not reconciled with the leave requests provided to the Manpower & Human Resource section.

2.5 The Board found that the lack of a second level control over the allocation and use of leave led to errors in the computation of leave balance for personnel. The Board found the following:

- a) The annual leave balance at the beginning of 2017 could not be reconciled with the leave balance at the end of 2016.

- b) One newcomer joining the centre in 2017 received an annual leave balance for 2016.
- c) The 2017 annual leave entitlements were incorrectly calculated.
- d) There was a lack of control over sick leave exceeding two consecutive days and requiring a medical certificate.
- e) No control and proper follow-up on the use of cruise leave balances granted to scientists and engineers was performed. As a result, the Board found that, in 2017, 64 days out of a total of 307 days (21%) of cruise leave was not used within the 3 months from when it was earned and thus should either be cancelled or approved for payment in lieu based on proper authorisation.

2.6 The lack of proper internal controls and management of annual leave entitlement, compensatory leave and the use of leave increases the risk of errors and provides opportunities for the risk of fraud.

### **Recommendations**

2.7 The Board recommends that CMRE implement a sound control environment over the use of the time recording system, including:

- a) The establishment of written procedures to define the roles and responsibilities of the personnel, line managers and Human Resource section on the control of time management, including leave requests.
- b) The performance of regular reconciliations of leave requests reported to the Human Resource section with the leave reported in the time recording system, including corrective actions if necessary.
- c) Ensuring that medical certificates are provided for sick leave requests exceeding two consecutive days and that any unjustified sick leave is converted into annual leave, if necessary.
- d) The tracking of the use of cruise leave, including applying the provisions of the CPRs in regards to untaken cruise leave.



### **3. CMRE – NON-COMPLIANCE WITH THE CPRs ON THE DURATION OF EMPLOYMENT OF CONSULTANTS**

#### **Reasoning**

3.1 Article 69 of the CPRs on the duration of employment of consultants stipulates that contracts shall not normally exceed a period of 90 consecutive days. It also stipulates that, if required by circumstances, such contacts may be extended by one further period not exceeding 90 days. In exceptional and well-defined cases, if the services of a consultant are known to be required for a period longer than 180 days, specific budgetary provision shall be made.

#### **Observation**

3.2 Consultants working for CMRE are scientists under the CMRE Visiting Researcher Program.

3.3 The Board found that the average number of working days for CMRE consultants was 129 in 2017. From 15 identified consultants, 8 worked more than 90 consecutive days and 3 worked for a period exceeding 180 days in 2017. The Board did not find any supporting documentation explaining the reason and circumstances for extension of contracts beyond the 90 days.

3.4 The current staff instruction on the Visiting Researcher Program, which serves as a framework for the hiring of scientific consultants, does not mention the circumstances nor the exceptional circumstances which would lead to offer contracts exceeding the durations stipulated in the CPRs.

#### **Recommendation**

3.5 The Board recommends CMRE to update the staff instruction on Visiting Researcher Program to comply with the requirements of the CPRs on the use of consultants.

3.6 When extending consultants beyond 90 days, the Board recommends CMRE to clearly document in writing the circumstances requiring the extension of the service of the consultant. In addition, consultants extended beyond 180 days require a specific budgetary provision to be made and approved by the governing body.

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

##### **Reasoning**

4.1 According to Article 11 of the NFRs, 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 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 (NFRs, Article 13). In the case of CMRE, the internal audit function is outsourced to NCIA.

4.3 Article 12 of the NFRs 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.

##### **Observations**

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

4.5 Detailed STO Financial Procedures were approved by the STB on 16 March 2017.

##### *Risk Management*

4.6 As decided by the STB on 12 June 2018, STO is currently developing an entity-wide risk management policy. It is scheduled to be reviewed by the STO's Finance and Audit Sub Group (FASG) and submitted to STB for approval under silence in the second semester of 2018 and applicable as from 2019. Therefore, no entity-wide risk register exists, including financial risks. Until the STO develops a documented risk management policy and procedures, the Board will not be in the position to state that there is a system of risk management in place in accordance with Article 11 of the NFRs.

4.7 Based on the approval of a STO risk management policy in 2018, risk management is planned to be implemented in CMRE, Collaboration Support Office (CSO) and Office of the

Chief Scientist (OCS). The Board found that the CSO demonstrated ongoing maturity in the implementation of risk management based on the Management of Risks methodology. OCS is still in the process of implementing risk management adapted to the entity's size.

4.8 CMRE was provided with a risk assessment and internal audit plan prepared by NATO Communications and Information Agency (NCIA) Internal Audit and delivered in December 2016. NCIA Internal Audit prepared a CMRE risk register based on a control self-assessment and risk assessment workshop in CMRE. The Board found that CMRE had not yet assigned risk owners, mitigation action plans and deadlines for mitigating actions to the individual risks. Overall, the Board did not observe improvement in the risk management and internal control at CMRE in 2017.

#### *Internal Control*

4.9 The Board found that STO has not formally adopted a specific Internal Control Framework to be used to assess the system of internal control in place as required by FRP XII. It is expected that an internal control framework will be put in place as from 2019. Therefore, formal mapping of critical processes, associated risks and existing internal controls are not completed. Documentation of specific internal controls is essential in order to ensure, and to clearly demonstrate to others, that a complete system of internal control is in place.

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

#### *Internal Audit*

4.11 An audit of the risk management and internal control at CMRE to be done by NCIA Internal Audit was originally scheduled for the second half of 2017, but was cancelled and postponed until the second half of 2018. Therefore, no internal audit activities were conducted in 2017 for the three components of STO (CMRE, CSO and OCS). As a result, it cannot be stated that the STO undertook internal audit activities to fully evaluate, throughout the organisation, the risk exposures and the effectiveness of internal controls in managing risk within the governance, operations and information systems as required by Article 13 of the NFRs.

### **Recommendations**

4.12 The Board recommends that the STO:

- a) Issue an STO entity-wide risk management policy and an internal control framework appropriate for each of the three components (CMRE, CSO and OCS) and that risk

registers are developed and employed throughout all of the STO entities.

- b) Complete the on-going work of assessing and documenting the system of internal control and risk management procedures to support compliance with NFR Articles 11 and 12, FRPs XI and XII, and the internal control framework that it chooses.
- c) Ensure internal audit activities evaluate risk management and internal control throughout the STO.

## **5. IMPROVEMENTS TO THE STATEMENT OF INTERNAL CONTROL**

### **Reasoning**

5.1 As per Article XII of the FRPs, the system of Internal Control is designated to identify risks, evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This information should be provided by the Financial Controller in the Statement of Internal Control which is part of the financial statements.

5.2 The Statement 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 of operations, reliability of financial information, and compliance with applicable rules and regulations.
- c) Confirmation with regard to safeguarding of assets.
- d) An evaluation as to the adequacy of the system of Internal Control in place,
- e) Reference to the Internal Control Framework used by the NATO entity for the assessment.
- f) A Summary of the review of the effectiveness of the system of Internal Control and on what information the assessment is based
- g) Areas of improvement of the system of Internal Control and an assessment of the possible impact of these weaknesses

## **Observations**

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 STO. Instead, it is written that “the Chief Scientist and Chairman of the Science and Technology Board (STB), together with the Directors of the Centre for Maritime Research and Experimentation (CMRE) and the Collaborative Support Office (CSO), as Heads of the three Executive Bodies of the STO, collectively exercise overall responsibility for the maintenance of a sound system of Risk Management and Internal Control, in accordance with Articles 11.1 and 12.1 of the NATO Financial Regulations”.

5.4 In addition, the Board found that there is no confirmation with regards to safeguarding of assets nor a reference to the Internal Control Framework used by the NATO entity for the assessment. Also, although the Statement of Internal Control indirectly mention areas with control weaknesses, there is no assessment of the possible impact of these weaknesses.

5.5 The main objective of the Statement of Internal Control is to provide an update on the effectiveness and efficiency of the internal control system during a certain period. The Board finds that STO’s Statement of Internal Control for the year 2017 does not provide sufficient clarity on this objective.

## **Recommendation**

5.6 The Board recommends that the STO’s Statement of Internal Control contain the confirmations required by the FRPs article XII.

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

The Board followed-up on the status of observations that were still open from prior years' audits. The observations and their status are summarised in the table below.

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p><b>(1) STO FY 2016</b> <b>IBA-AR(2017)16, paragraph 1</b></p> <p><b>EFFORTS TO ACHIEVE COMPLIANCE WITH THE NATO FINANCIAL REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT</b></p> <p><b>Board's Recommendation</b> The Board recommends that the STO:</p> <p>a) Issues an entity-wide risk management policy and that risk registers are developed and employed throughout all of STO entities and operations,</p> <p>b) As required by FRP XII 3) (e), chooses a specific internal control framework that it will use to assess its system of internal control. The assessment is required by Article 12 of the NFRs. Since other NATO entities, including ACO and ACT, have already adopted COSO as their internal control framework, and it is a framework that can be used by entities of all sizes, the STO should consider adopting COSO as their internal control framework.</p> <p>c) Continues its on-going work of assessing and documenting the system of internal control and risk management procedures to support compliance with NFR Articles 11 and 12, FRPs XI and XII, and the internal control framework that it chooses.</p> <p>d) Through outsourcing if considered to be more cost effective, ensures internal audit activities are evaluating risk management and internal control throughout the STO.</p>		<p>Observation <b>Superseded by current year Observation 3.</b></p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p>(2) STO FY 2016 IBA-AR(2017)16, paragraph 2</p> <p><b>CMRE – IMPROVEMENTS TO BE DONE IN THE CONTROL ENVIRONMENT OF HUMAN RESOURCES</b></p> <p><b>Board's Recommendation</b> The Board recommends to clarify the roles and responsibilities of the acting and former Head of Personnel and Administration.</p> <p>The Board recommends that CMRE issue an Office Notice in which it clearly defines the supporting documents to be provided in order to justify any change of home leave address.</p> <p>The Board recommends that CMRE complies with the CPRs and set procedures to ensure equal treatment of promotions and ensure an efficient, effective and economical use of resources.</p>	<p>The Head of Personnel and Administration was re-established in his functions in 2018.</p> <p>No clarification nor office notice was issued.</p>	<p>Observation <b>Settled.</b></p> <p>Observation <b>Outstanding.</b></p> <p>Observation <b>Superseded by current year Observation 1.</b></p>
<p>(3) STO FY 2016 IBA-AR(2017)16, paragraph 3</p> <p><b>IMPROVEMENTS NEEDED IN THE AUTHORISATION AND CONTROL OF REPRESENTATION ALLOWANCES</b></p> <p><b>Board's Recommendation</b> The Board recommends that undue representation allowance are reimbursed to each STO executive bodies.</p> <p>The Board recommends that as from 2017, no representation allowance will be reimbursed for meetings between STO personnel, including STB members.</p>	<p>The internal rules for the use of representation allowance was clarified in 2017. The Board did not find any cases of non-compliance with the regulations for the use of representation allowances.</p>	<p>Observation <b>Settled.</b></p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p><b>(4) STO FY 2016</b> IBA-AR(2017)16, paragraph 4</p> <p><b>NO RELATED PARTY DECLARATION OBTAINED FROM THE STB</b></p> <p><b>Board's Recommendation</b> STO should fully comply with the requirements of the NATO Accounting Framework in respect to related party disclosures, including making inquiries of governing bodies to ensure the completeness of related party transactions</p>	<p>12 STB members out of 27 representatives did not signed the Related Party declarations.</p>	<p>Observation <b>Partially Settled.</b></p>
<p><b>(5) STO FY 2014</b> IBA-AR(2015)36, paragraph</p> <p><b>CENTRE FOR MARITIME RESEARCH AND EXPERIMENTATION (CMRE) – IMPROVEMENTS NEEDED IN ACCOUNTING TO RECOGNIZE ITS CUSTOMER FUNDED STATUS / Improvements needed to management accounting by project</b></p> <p><b>Board's Recommendation</b> The Board recommends that CMRE develop a methodology that will allow it to determine the costs per project, including the allocation of overhead costs to individual projects. This will allow for the determination of surplus or deficit by project, and provide management with information that is useful in managing the business.</p>	<p>The Board found that, in 2016, the CMRE initiated a process to begin allocating costs to its different projects. While this process is not yet mature, nor linked to the financial accounting system, it can begin to help the CMRE to identify issues as they move to a more mature model that would eventually become integrated into a financial accounting system.</p>	<p>Observation <b>Outstanding.</b></p>



**SCIENCE AND TECHNOLOGY ORGANISATION (STO) FORMAL COMMENTS  
ON THE LETTER OF OBSERVATIONS AND RECOMMENDATIONS AND THE  
INTERNATIONAL BOARD OF AUDITORS (BOARD) POSITIONS**

**OBSERVATION 1: CMRE – NON COMPLIANCE WITH NATO CIVILIAN PERSONNEL  
REGULATIONS (CPRS) FOR PERFORMANCE EVALUATION, PROMOTIONS AND  
ALLOCATION OF ALLOWANCES**

***STO's Formal Comments***

*Agreed.*

*CMRE Management are taking steps to improve performance evaluation procedures and to work toward full compliance with the CPRs. In the meanwhile, the Director of the CMRE, Dr. Warner, already developed a hierarchical matrix so that each employee and line manager will know who to report his or her objectives. A first Mid-year Review will be in August 2018 (in order to comply with the articles 55 of the CPRs).*

**OBSERVATION 2:  
CMRE – WEAKNESSES IN THE CONTROL OF THE USE OF LEAVE**

***STO's Formal Comments***

*Agreed.*

*CMRE Management are taking steps to improve controls over annual leave. The staff document was developed and published to detail the use of different types of leave. The new Automated Personnel Management System (APMS), CMRE will be able to better track all types of leave. The entire process will be done electronically. Concerning Cruise, CMRE have developed a Sea Allowance Policy. APMS will track this Cruise leave.*

**OBSERVATION 3: CMRE – NON-COMPLIANCE WITH THE CPRs ON THE DURATION OF EMPLOYMENT OF CONSULTANTS**

**STO's Formal Comments**

*Partly Agreed.*

*As already discussed with IBAN during their visit in June 2018, CMRE Internal Procedures for their Visiting Researcher Program as a consultant; According to our procedures, they can have a duration contract for 3 months to 1 year. It is correct that this procedures does not indicate that the CPR limits the duration is limited, however can be extended in exceptional and well-defined cases. If required or a period longer than 180 days, specific budgetary provisions need to be made. These provisions were always respected. CMRE write a contract policy allowing better explaining the exceptional and well define cases for such extensions.*

**Board's Position**

**We maintain our position that CMRE should update the staff instruction on Visiting Researcher Program to comply with the requirements of the CPRs on the use of consultants, unless an exemption from the CPRs is granted by Council for these specific cases relating to the Visiting Researcher Program.**

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

**STO's Formal Comments**

*Partly Agreed.*

*The STO comprises three separate NATO entities. As such, an STO-wide response may not always be the most appropriate response. Nonetheless, the entities within the STO will continue their on-going work in the areas of Risk Management and Internal Audit. The STO will take into account the IBAN recommendation to adopt COSO as an Internal Control Framework.*

**OBSERVATION 5: IMPROVEMENTS TO THE STATEMENT OF INTERNAL CONTROL**

***STO's Formal Comments***

*Partly Agreed.*

*The IBAN recommendations will be taken into account when writing future Statements on Internal Control.*

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

***STO's Formal Comments***

*Updates noted. No additional comments.*



SCIENCE AND TECHNOLOGY ORGANIZATION

OFFICE OF THE CHIEF SCIENTIST



**NATO UNCLASSIFIED**

29 March 2018

STO-OCS(2018)0021

Mr Hervé Adrien Metzger  
Chair, International Board of Auditors for NATO (IBAN)

**Subject : The Science and Technology Organization consolidated Financial Statements for the Year ended 31 December 2017**

1. Please find attached the 2017 Science and Technology Organisation (STO) Financial Statements, issued in accordance with NATO Financial Regulation (NFR) Article 35.1, and the STO Charter C-M(2012)0046 Article 25.
2. I can confirm that, in accordance with NFR Financial Rules and Procedures (FRP) XXXV (4), the STO can agree to public disclosure of these Financial Statements.
3. Notwithstanding the above, as stated in C-M(2012)0041, public disclosure of IBAN Audit Reports is a matter for Council decision, based upon the recommendation of the RPPB. Decisions are informed by the NATO policy on public disclosure of documents (C-M(2008)0116).
4. The IBAN Audit Report covering these Financial Statements has not been completed, but should be issued to Council prior to 31<sup>st</sup> August 2018 (NFR 15.2). As such, the STO is not yet in a position to anticipate any potential representations that may be made to the RPPB, regarding the Audit Report.
5. The STO therefore reserves its position on public disclosure of the eventual IBAN Audit Report.

Dr Thomas H. KILLION  
NATO Chief Scientist  
STB Chairman

Annex 1: STO Financial Statements FY 2017

1 Annex

**NATO UNCLASSIFIED**



Financial Statements of the

## **NATO SCIENCE AND TECHNOLOGY ORGANIZATION**

31 December 2017



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## Executive Summary

The role of NATO Science and Technology (S&T) is to cover basic and applied research broadly in the engineering, physical, information, human, medical and social sciences, and to deliver a range of products and services essential to NATO and NATO Nations. They are:

- Supporting the core tasks of the Alliance as set out in the NATO Strategic Concept;
- Supporting technological and knowledge advantages, thereby being a critical force multiplier;
- Providing the evidence-base to support informed decision-making; and
- Helping to mitigate evolving threats and risks, including supporting public diplomacy.

The STO is composed of the Science and Technology Board (STB); three Executive Bodies; and Scientific and technical committees.

Governance of the STO is vested in the STB which reports to the NAC through the Military Committee and the Conference of National Armaments Directors (CNAD). Leadership of the STO is exercised by the Chief Scientist through his roles as Chair of the STB and Senior Scientific Advisor to NATO leadership.

The three executive bodies of the STO are:

- a. The Office of the Chief Scientist (OCS), located within NATO Headquarters, Brussels, provides executive and administrative support to the NATO Chief Scientist in fulfilling his/her roles as the Chair of the Science & Technology Board (STB) and the Senior Scientific Advisor at NATO Headquarters.
- b. The S&T Collaboration Support Office (CSO), located in Neuilly sur Seine, Paris, provides the executive and administrative support to the collaborative S&T activities conducted through the STO level 2 committees and level 3 working groups.
- c. The Centre for Maritime Research and Experimentation (CMRE) located in La Spezia, Italy, organizes and conducts scientific research and technology development and delivers innovative and field-tested S&T solutions to address the defence and security needs of the Alliance.

In accordance with the STO Charter, the Chief Scientist, supported by STO Financial Controller (FC), shall submit to the STB and IBAN consolidated financial statements<sup>1</sup> in accordance with the NATO Accounting Framework <sup>2</sup> (as based on International Public Sector Accounting Standards (IPSAS)), and NATO Financial Regulations.

The STB shall approve the consolidated annual financial statements taking into account the audit report of the International Board of Auditors for NATO (IBAN) and the comments of the STB Finance and Audit Sub-Group (FASG).

These consolidated Financial Statements for the STO cover the period from 1 January 2017 to 31 December 2017.

The Financial Statements reflect the financial position, the financial performance, the budget execution, the cash flow and the change in net assets for the reporting period. Notes provide further

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<sup>1</sup> C-M(2012)0046 Annex 1 para 25.1

<sup>2</sup> C-M(2013)0039 and C-M(2017)0023



disclosures on key transactions following the materiality principle and where appropriate, segmented reporting.

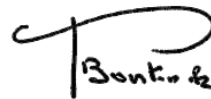
The Financial Statements have been prepared primarily using the data from the FinS accounting software, in which each executive body is represented with a separate set of financial books / balancing segment.

The STO pursues full compliance. It remains committed to developing its Financial Reporting expertise and to producing fully compliant Financial Statements in accordance with the applicable standards, and any instructions issued by Nations, e.g. from the NATO Resource Policy and Planning Board. It also remains dedicated to continue to work openly and constructively with the IBAN.

Conditions for success need to be met. Staff need to maintain up-to-date knowledge as the NATO Accounting Framework and IPSAS standards are continuously evolving, accounting tools need to be suitably maintained and, when appropriate, upgraded and NATO Bodies should undertake financial reporting in a consistent way. The STO will therefore continue to maintain a dialogue with the other NATO Bodies and to play a full part in the NATO Accounting Working Group and the Working Group of Financial Controllers.



Dr Thomas Killion  
NATO Chief Scientist  
Chairman, NATO Science and Technology Board



Peter Bontinck  
Financial Controller  
Science and Technology Organisation

## Statement of Internal Control

The Chief Scientist and Chairman of the Science and Technology Board (STB), together with the Directors of the Centre for Maritime Research and Experimentation (CMRE) and the Collaborative Support Office (CSO), as Heads of the three Executive Bodies of the STO, collectively exercise overall responsibility for the maintenance of a sound system of Risk Management and Internal Control, in accordance with Articles 11.1 and 12.1 of the NATO Financial Regulations (NFRs).

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

The systems of Risk Management and Internal Financial Control are based on an on-going process designed to identify the principal risks to the achievement STO policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 December 2017 and up to the date of these Financial Statements.

The systems of Risk Management and Financial Control processes provide a network of internal control processes, which includes the following elements:

- a. The Science & Technology Board (STB) is routinely informed about risks affecting the STO, via the work of the Finance and Audit Sub Group (FASG). The key roles of the FASG are to assess the activities of the STO Executive Bodies, and provide advice and recommendations to the STB in support of Financial Management, Financial Planning and Execution, and Audit. The key role of the various S&T sub-groups and committees are to provide on-going reporting to the STB on operational and technical matters;
- b. Senior Managers and Finance Officials regularly scrutinise operational and financial activities;
- c. Three times a year, the NATO Budget Committee scrutinizes the financial activities of the Military Budget funded CSO and the OCS. In addition, the financial activities of the CMRE are reviewed during regular STB Meetings
- d. Policies, rules, and procedures governing technical, operational and financial activities are extensively documented and promulgated;
- e. Suitably qualified staff are employed throughout the financial system, to help ensure that staff have a sound understanding of their responsibilities as set out in the NATO Financial Regulations (NFR) and the policies promulgated by the STB;
- f. The usage of a common accounting system, FinS, having built-in approval workflows and controls together with audit trails, ensures that transactions are recorded consistently and accurately based on the Military Budget Chart of Accounts;
- g. Internal Audit Service providers are commissioned on an occasional basis by the STO Financial Controller and the STB and
- h. Recommendations and observations arising from external audits and internal audits are acted upon promptly.

The recently revised NATO Financial Regulations (NFRs), and Financial Rules and Procedures (FRPs) are important pillars of the STO internal control framework. The NFRs were endorsed by the Nations in May 2015. The FRPs - applicable to the CSO and the OCS - were approved by the Budget Committee in February 2016. As such, 2017 was the first full financial year under the new NFR/FRP framework. In addition, revised STO-wide Financial Procedures were approved by the STB in March 2017.

As Chairman of the STB, and Financial Controller, we also have collective responsibility for reviewing the effectiveness of the system of internal control. Our review is informed by the work of STO Senior Managers, External Audits, Internal Audits, and the work of various sub-committees reporting to the STB, including the Finance and Audit Sub-Group (FASG).

The work of the FASG, and the work of various technical sub-groups during 2017, did not raise any significant matters for attention regarding operational or technical matters. The IBAN External Audit of the 2016 Financial Statements - undertaken in 2017 - resulted in an unqualified opinion. The audit also resulted in a number of IBAN recommendations across the STO, concerning representation allowance, related party disclosures, and compliance with the revised NFRs.

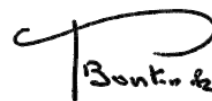
However, regarding the CMRE, the IBAN made observations concerning unclear Human Resource managerial responsibilities, and non-compliance with NATO Civilian Personnel Regulations. The new Director, who arrived in November, 2017, has already taken steps to solved these issues. She has brought in a Human Resource specialist from NATO Headquarters to assist in rectifying existing issues and ensure future compliance.

For the most part, we are satisfied that the Risk Management and Internal Financial Control systems in operation across the STO during the year 2017 were reasonably adequate and effective. However, we recognize that important control issues surfaced during the CMRE Audit. Again, the new Director is taking action to examine the findings from the Audit and to look at the timing and scope of implementing steps to address these issues.

In 2017 the STO engaged an external consultant and an Internal Audit Service provider to continue the process of developing enhanced Risk Management and internal control procedures. This work continues in 2018. In addition, the STO works towards full compliance with the revised NFRs and FRPs. As noted by the Nations<sup>3</sup> 'the scale of the challenge is significant' and 'it could take until Financial Year 2018 for NATO bodies to be in full compliance'.



Dr Thomas Killion  
NATO Chief Scientist  
Chairman, NATO Science and Technology Board



Peter Bontinck  
Financial Controller  
Science and Technology Organisation

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<sup>3</sup> C-M(2016)0077 paragraph 5.2 dated 12th December 2016.

## Statement 1 – STO Consolidated Statement of Financial Position

as at 31 December 2017

(in EUR)

		<u>2017</u>	<u>2016</u>
	Notes		
<b>Assets</b>			
<b><i>Current assets</i></b>			
Cash and cash equivalents	1	14,099,707	9,230,057
Receivables	2	3,267,303	7,186,817
Prepayments	3	580,833	635,158
		<u>17,947,843</u>	<u>17,052,032</u>
<b><i>Non-current assets</i></b>			
Property, plant & equipment	4	3,976,289	3,242,684
		<u>3,976,289</u>	<u>3,242,684</u>
<b>Total assets</b>		<u>21,924,132</u>	<u>20,294,716</u>
<b>Liabilities</b>			
<b><i>Current liabilities</i></b>			
Payables	5	3,524,626	2,516,048
Deferred revenue	6	19,056	23,441
Advances	7	2,535,489	3,168,632
Credit facilities	8	2,000,000	1,500,000
Provisions	9	41,778	-
Other current liabilities	10	27,505	233,159
		<u>8,148,454</u>	<u>7,441,280</u>
<b><i>Non-current liabilities</i></b>			
Deferred revenue	11	207,547	338,979
		<u>207,547</u>	<u>338,979</u>
<b>Total liabilities</b>		<u>8,356,001</u>	<u>7,780,259</u>
Surplus/Deficit	12	1,053,674	366,944
Retained earnings	13	12,514,457	12,147,513
<b>Total net assets</b>		<u>13,568,131</u>	<u>12,514,457</u>
<b>Total net assets and liabilities</b>		<u>21,924,132</u>	<u>20,294,716</u>

## Statement 2 – STO Consolidated Statement of Financial Performance

for the year ended 31 December 2017

(in EUR)

	<u>2017</u>	<u>2016</u>
Notes		
<b>Revenue</b>	<sup>14</sup>	
Revenue	32,187,130	33,340,123
Financial revenue	22,043	48,941
<b>Total revenue</b>	<u>32,209,173</u>	<u>33,389,064</u>
<b>Expenses</b>	<sup>15</sup>	
Personnel	18,494,824	19,980,503
Contractual supplies and services	11,792,728	12,289,803
Depreciation and amortization	753,297	715,947
Finance costs	114,650	35,867
<b>Total expenses</b>	<u>31,155,499</u>	<u>33,022,120</u>
<b>Surplus/(Deficit) for the period</b>	<sup>16</sup> <u>1,053,674</u>	<u>366,944</u>

## Statement 3 – STO Consolidated Statement of Cash Flow

(in EUR)

	2017	2016
<b>Cash flow from operating activities</b>		
Surplus/(Deficit)	1,053,674	366,944
<b>Non-cash movements</b>		
Depreciation/ Amortisation	753,297	715,947
Increase /(decrease) in payables	1,050,357	292,045
Increase/ (decrease) in other current liabilities	(843,182)	313,274
Increase/ (decrease) in provisions	(131,433)	(47,256)
Decrease/ (Increase) in other-current assets	54,325	(40,032)
Decrease/ (Increase) in receivables	3,919,514	(1,306,242)
<b>Net cash flow from operating activities</b>	<u>5,856,552</u>	<u>294,680</u>
<b>Cash flow from investing activities</b>		
Purchase of property plant and equipment/ Intangible assets	(1,486,902)	(2,679,986)
<b>Net cash flow from investing activities</b>	<u>(1,486,902)</u>	<u>(2,679,986)</u>
<b>Cash flow from financing activities</b>	500,000	400,000
<b>Net cash flow from financing activities</b>	<u>500,000</u>	<u>400,000</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<u>4,869,650</u>	<u>(1,985,306)</u>
<b>Cash and cash equivalent at the beginning of the period</b>	<u>9,230,057</u>	<u>11,215,363</u>
<b>Cash and cash equivalent at the end of the period</b>	<u>14,099,707</u>	<u>9,230,057</u>

**Statement 4 – STO Consolidated Statement of Change in Net Assets**

for the year ended 31 December 2017  
(in EUR)

	<b>Commitments / Legal Obligations</b>	<b>Depreciation Reserve</b>	<b>Vessels Reserve</b>	<b>Net Equity Fund</b>	<b>General Reserve</b>	<b>Total</b>
<b>Balance at the end of the period 2015</b>	807,534	1,092,900	4,853,000	3,500,000	1,894,079	12,147,513
Net gains/(losses) recognised directly in net assets/equity						
Exchange difference on translating foreign operations						
Gain on property revaluation						
Surplus/(deficit) for the period	767,658	1,810,805	(3,244,054)	-	1,032,535	366,944
<b>Change in net assets/equity for the year ended 2016</b>	767,658	1,810,805	(3,244,054)	-	1,032,535	366,944
<b>Balance at the end of the period 2016</b>	1,575,192	2,903,705	1,608,946	3,500,000	2,926,614	12,514,457
Net gains/(losses) recognised directly in net assets/equity						
Exchange difference on translating foreign operations						
Gain on property revaluation						
Surplus/(deficit) for the period	996,504	865,038	(493,460)	-	(314,408)	1,053,674
<b>Change in net assets/equity for the year ended 2017</b>	996,504	865,038	(493,460)	-	(314,408)	1,053,674
<b>Balance at the end of the period 2017</b>	2,571,696	3,768,743	1,115,486	3,500,000	2,612,206	13,568,131

## NOTES TO THE STO CONSOLIDATED FINANCIAL STATEMENTS

### A. ACCOUNTING POLICIES

#### Basis for Preparation

The STO financial statements have been prepared in accordance with the NATO Accounting Framework (NAF) as adopted by the NATO Council. The NATO Accounting Framework is an adaptation of the International Public Sector Accounting Standards (IPSAS).

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

The financial statements have been prepared on a going-concern basis.

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

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

The STO is composed of the Science and Technology Board (STB) and three executive bodies: the Centre for Maritime Research and Experimentation (CMRE), the Collaboration Support Office (CSO) and the Office of the Chief Scientist (OCS).

#### Accounting estimates and judgments

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

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



## Changes in pronouncements

No accounting standard has been adopted earlier than the application date as stated in the IPSAS standards. The following IPSAS are not relevant for the STO Financial Statements 2017: IPSAS 26 - Impairment of Cash-Generating Assets, IPSAS 27 - Agriculture. The following IPSAS have no material effect on the financial statements: IPSAS 5, IPSAS 10, IPSAS 11, IPSAS 16, IPSAS 18 and IPSAS 32.

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

IPSAS 39 (Employee benefits) becomes effective 1 January 2018 and will replace IPSAS 25. IPSAS 40 (Public Sector Combinations) will become effective 1 January 2019. Neither has not been adopted by the STO for the 2017 Financial Statements.

## Foreign Currency Transactions

These financial statements are presented in Euro, which is the STO functional and reporting currency. Foreign currency transactions are converted into Euro at the NATO exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at year-end are converted into Euro using the NATO exchange rates applicable at 31 December 2017. Resulting realized and unrealized gains and losses are recognized in the Statement of Financial Performance.

## Consolidation

The STO comprises the Science and Technology Board (STB) and three separated executive bodies:

Entity NAME	LOCATION
Office of the Chief Scientist (OCS)	Brussels – Belgium
Collaboration Support Office (CSO)	Neuilly-sur-Seine – France
Centre for Maritime Research & Experimentation (CMRE)	La Spezia – Italy

According to Article 25 of the Charter of the NATO Science and Technology Organization, the Chief Scientist, supported by the STO Financial Controller, shall submit to the STB and the International Board of Auditors for NATO (IBAN) Consolidated Annual Financial Statements.

The three bodies have a separate Director (Head of NATO Body), and a separate budget or revenue stream. None of the bodies has control over the others, as defined in IPSAS 35 - para. 18-22.

## Services In-Kind

The STO received services in-kind in the form of military personnel provided by the NATO Member Nations. Such personnel are assigned to specific military positions on the personnel establishments of the executive bodies and / or provided as voluntary contributions. This also includes military personnel assigned to the crew of the research vessels ALLIANCE and LEONARDO. In these financial statement, services in-kind are recognized neither as revenue nor as an assets.

## Financial Instruments disclosure/presentation

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

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

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

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

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

**Currency risk:** The STO's exposure to foreign currency exchange risk is limited, as most of its transactions are dealt with in Euros. A limited number of transactions are accounted for in other currencies.

**Liquidity risk:** The liquidity risk is based on the assessment whether the organization will encounter difficulties in meeting its obligations associated with financial liabilities.

For CSO & OCS there is a very limited exposure to liquidity risk because of the budget funding mechanism that guarantees contributions in relation to approved budgets. The limited risks are primarily the validity of forecast that result in the calls for contributions. For CMRE liquidity risk is minimized by the cash available in the Net Equity Fund (NEF) and by the policy of requiring pre-payments & stage payments from customers.

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

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument.

## Assets

### *a. Cash and cash Equivalents*

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

### *b. Short-term investments*

Short-term investments are with a maturity of more than three and less than twelve months.

### *c. Receivables*

Receivables are stated at net realisable value, which approximates fair value, after provision for doubtful and uncollectible debts. It can also include amounts due from other NATO entities and/or staff members.

Contributions receivable are recognized when a call for contribution has been issued to the member nations.

### *d. Inventories*

The STO assesses inventories under IPSAS 12 and the outcome of this assessment is that the value of the inventories is immaterial both in value and in terms of the nature of the items held. Consequently, inventory is fully expensed on receipt.

### *e. Prepayments*

Prepayments are mainly in respect of advance payments made to third parties.

### *f. Property, Plant and Equipment (PP&E)*

Property, plant and equipment, with the exception of land, are stated at cost less accumulated depreciation and accumulated impairment losses.

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

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is

recognized in the Statement of Financial Performance.

PP&E categories are listed in the table below:

Category	Threshold	Depreciation life	Method
Land	200,000	N/A	N/A
Buildings	200,000	40	Straight line
Other infrastructure	200,000	40	Straight line
Installed equipment	30,000	10	Straight line
Machinery	30,000	10	Straight line
Vehicles	10,000	5	Straight line
Aircraft	200,000	Dependent on type	Straight line
Vessels	200,000	Dependent on type	Straight line
Mission equipment	50,000	3	Straight line
Furniture	30,000	10	Straight line
Communications	50,000	3	Straight line
Automated information systems	50,000	3	Straight line

In accordance with the NATO Accounting Framework PP&E acquired prior to 1 January 2013 has been fully expensed and the STO does not foresee any grouping of assets.

***g. Leases***

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

All other leases are classified as operating leases.

Rents payable under lease contracts are recognized as an expense in the statement of financial performance on a straight-line basis over the lease term.

***h. Intangible Assets***

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

Amortization is recognized on a straight-line basis over the estimated useful live. The estimated useful lives, and amortisation methods are reviewed at the end of each reporting period, with the effect of any changes in estimates accounted for on a prospective basis.

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

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

*i. Impairment of tangible and intangible assets*

At the end of each accounting period, the entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated, being the greater of the asset's fair value less costs to sell and value in use. Impairment losses, if any, are recognized in the Statement of Financial Performance.

## Liabilities

*a. Payables*

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

*b. Deferred Revenue*

For the common-funded entities, CSO and OCS, deferred revenue represents contributions from Nations that have been called for current or prior year budgets but for which corresponding charges will be incurred after the reporting period. Deferred revenue is recognized incrementally and equally with the depreciation expenses. The reserve for depreciation is the counterpart of the PP&E and Intangible Assets Net Book Value.

For CMRE, deferred revenue represents revenue from customers for current or prior year activities for which goods have not been delivered or services have not been rendered at year-end.

*c. Advances*

For CSO and OCS, advances are income or contributions from member nations or third parties called or received, that are related to future year budgets.

For CMRE, advances from customers are either cash received as working capital or result from advance billing to customers where the rate of expenditure has fallen behind the agreed payment milestones.

*d. Provisions*

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

*e. Employee benefits*

STO employees participate in one of the three NATO pensions funds; the Provident Fund, the Coordinated Pension Scheme or the Defined Contribution Pension Scheme (DCPS). The STO also contributes to the Retirees' Medical Claims Fund (RMCF) that is a reserve to ensure that sufficient resources are available to enable NATO to meet its obligations under Art 51.2 of the Civilian Personnel Regulations (CPRs).

The assets and liabilities for the above NATO pension schemes and the RMCF are held and accounted for centrally at NATO International Staff (NATO IS) and therefore are not recognized in the STO financial statements.

DCPS and Provident Fund: The STO contributes a specified percentage of payroll costs to the DCPS and Provident Fund. In addition to the employer's contribution, a portion of the employees' salaries is deducted and contributed to the DCPS or Provident Fund. The employer's contributions are recognized as an expense during the year the services are rendered and represent the total pension obligation of the STO.

Coordinated Pension Scheme: Employees who have joined NATO before 1 July 2005 are members of the NATO Coordinated Pension Scheme which is a defined benefit plan. Upon completion of 10 years employment with NATO, the employees are entitled to retirement benefits of 2% per year of service of final basic salary on attainment of a retirement age of 60. There is no further pension obligation for the STO, as the future liabilities have been transferred to NATO IS.

## Net Assets

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

NATO entities perform their activities on a no profit / no loss basis over the reporting period. However, this does not prohibit the realisation of an operating surplus or deficit in the financial reporting period.

## Revenue and Expense Recognition

### *a. Revenue*

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably. Revenue includes contributions from Member Nations and income from customers to fund STO activities.

For common-funded bodies (CSO and OCS), revenue is recognized in the year when these appropriated funds are used for their intended purpose as envisioned for STO's programmes. Unused contributions and other revenue that relate to future periods are deferred accordingly.

For CMRE, revenue is recognized as goods and services are delivered to customers.

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

Bank interests earned and accrued as of 31 December 2017, realised and unrealised exchange rate revenue, in accordance with IPSAS 4 – Effect of the foreign exchange rate -, are recognized as financial revenue.

### *b. Expenses*

Expenses are recognized when occurred. Expenses are accrued when goods and services are received.

Bank charges, realised and unrealized exchange rate losses are recognized as finance costs.

## Surplus or Deficit for the Period

For CSO and OCS, revenue is recognized up to the amount of the matching expenses. Any resulting surplus is recorded as a current liability (see note 10). This amount represents a liability owed to the funding nations to be deducted from the contributions called in the following year.

For CMRE, the surplus or deficit of the period is recognized when services are rendered.

## Cash-flow statement

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

**B. NOTES TO THE STATEMENT OF FINANCIAL POSITION****1. Cash and cash equivalents**

		(in euro)		
		2017	2016	Variance
Petty Cash		2,430	6,128	(3,698)
Bank accounts	EUR	13,711,187	8,582,215	5,128,972
	GBP	6,109	6,315	(206)
	USD	379,981	635,399	(255,418)
<b>Total</b>		<b>14,099,707</b>	<b>9,230,057</b>	<b>4,869,650</b>

Bank accounts are held in highly liquid non-interest and interest-bearing accounts.

Current bank accounts are held in EUR, GBP and USD. Balances in foreign currencies have been converted to EUR at the NATO exchange rates at 31 December 2017.

The CSO and OCS second call for contributions together with the advance contribution for 2018 were received on 28 December 2017. Funds have been advanced from the International Military Staff (IMS) to cover the contribution payment delay.

**2. Receivables**

		(in euro)		
		2017	2016	Variance
Contributions receivable from Nations		38,529	3,171,042	(3,132,513)
Receivable from non consolidated NATO entities		1,950,930	2,235,865	(284,935)
Receivable from Staff Members		83,495	198,661	(115,166)
Receivable from Governments		748,653	566,769	181,884
Invoices to be established		268,756	907,843	(639,087)
VAT Recoverable from Government		164,728	95,263	69,465
Receivable for financial result		7,038	5,970	1,068
Receivable from Third Parties		3,436	3,306	130
Other Receivables		1,738	906	832
Prepaid Expenses		-	1,192	(1,192)
<b>Total</b>		<b>3,267,303</b>	<b>7,186,817</b>	<b>(3,919,514)</b>



***Contributions receivable from Nations***

All contributions from Nations were received at year-end 2017.

***Receivable from non-consolidated NATO entities***

Significant receivables from NATO Entities at year-end 2017 include CMRE Invoices to NATO HQ SACT for the 2017 Programme of Work (EUR 1,882,930).

***Receivable from Staff Members***

Receivable from Staff Members are prepaid allowances and short-term loans. Collections are assured through payroll withholding.

***Receivable from Governments***

Receivable from Governments are CMRE invoices for services rendered in 2017 to customer Nations.

***Invoices to be established***

Invoice to be established are services that have been provided to CMRE customers, including European Community Consortia Projects (EUR 165,627), for which the related invoices have not been issued at the end of the reporting period.

***VAT recoverable from Government***

This is the Value Added Tax (VAT) paid by the CSO subject to reimbursement from the Host Nation.

***Receivable for financial result***

The receivable for financial result is, for the common-funded entities (CSO and OCS), the net amount of bank interest received, bank charges and realized gains and losses generated during 2017. The financial loss has been transferred to the receivable for EUR 7,038.

As the CMRE is customer-funded, there is no offsetting of financial revenue and expenses. The financial result is a loss of EUR 92,607. This results mainly from losses on exchange rates.

### 3. Prepayments

Prepayments are mainly advance payments provided to the ship management company (EUR 212,783), for stores, insurance and spare parts.

In addition, STO entities have maintenance contracts that are financed over several fiscal years. The amount associated with future fiscal years is recorded as a prepayment.

### 4. Property, Plant and Equipment

	(in euro)					
	<b>Mission Equipment</b>	<b>AIS Equipment</b>	<b>Vehicles</b>	<b>Installed Equipment</b>	<b>Working in progress</b>	<b>Total</b>
Gross Book Value (31 Dec 2016)	1,249,387	285,432	-	2,682,454	544,551	4,761,824
Deletions (31 Dec 2016)						
<b>Gross Book Value (1 Jan 2017)</b>	<b>1,249,387</b>	<b>285,432</b>	<b>-</b>	<b>2,682,454</b>	<b>544,551</b>	<b>4,761,824</b>
Accumulated Depreciation (31 Dec 2016)	(1,036,105)	(190,288)	-	(292,747)		(1,519,140)
<b>Accumulated Depreciation (1 Jan 2017)</b>	<b>(1,036,105)</b>	<b>(190,288)</b>	<b>-</b>	<b>(292,747)</b>	<b>-</b>	<b>(1,519,140)</b>
<b>Net Book Value (1 Jan 2017)</b>	<b>213,282</b>	<b>95,144</b>	<b>-</b>	<b>2,389,707</b>	<b>544,551</b>	<b>3,242,684</b>
Additions in 2017	647,474	119,394	21,650		854,555	1,643,073
Adjustments in 2017				(80,691)	(76,153)	(156,844)
Depreciation in 2017	(353,848)	(134,942)	(4,330)	(259,504)		(752,624)
<b>Net Book Value (31 Dec 2017)</b>	<b>506,908</b>	<b>79,596</b>	<b>17,320</b>	<b>2,049,512</b>	<b>1,322,953</b>	<b>3,976,289</b>
<b>Gross Book Value (31 Dec 2017)</b>	<b>1,896,861</b>	<b>404,826</b>	<b>21,650</b>	<b>2,601,763</b>	<b>1,322,953</b>	<b>6,248,053</b>
<b>Accumulated Depreciation (31 Dec 2017)</b>	<b>(1,389,953)</b>	<b>(325,230)</b>	<b>(4,330)</b>	<b>(552,251)</b>	<b>-</b>	<b>(2,271,764)</b>
<b>Net Book Value (31 Dec 2017)</b>	<b>506,908</b>	<b>79,596</b>	<b>17,320</b>	<b>2,049,512</b>	<b>1,322,953</b>	<b>3,976,289</b>

#### **CMRE Property Plant & Equipment**

##### Mission Equipment:

- PHINS (an inertial navigation system providing position, true heading, attitude, speed, depth and heave) pack for Autonomous Underwater Vehicles (AUVs)
- 2 Muscle AUV energy stations
- ARIS 3000 imaging sonar
- Slocum Glider

##### AIS Equipment

- SCINET Central Processing Infrastructure based on Virtualized Architecture

##### Vehicles

- Staff car

##### Work in progress

- Very Low Frequency Synthetic Aperture Sonar (VLFAS) Receiver and Projector prototype
- Observation Class Remotely Operated Vehicle (ROV)

**CSO Property Plant & Equipment****Installed Equipment**

- The renovation of the building façade initially recorded as an asset in 2016 was derecognized in 2017 as a correction of error.

**STO - Assets purchased prior to the implementation of the NATO Accounting Framework**

CSO owns one staff car and other IT equipment (software) purchased before 1 January 2013.

CMRE also has about 100 assets that were purchased prior to the implementation of the NATO accounting framework (1 January 2013).

- *Vessels (custodian is Headquarter, Supreme Allied Command Transformation HQ SACT)*
  - *The NRV Alliance*
  - *The CRV Leonardo*
- *IT Equipment*
  - *Disaster recovery*
  - *Satellite communication system*
  - *Various workstations and servers*
- *Mission Equipment*
  - *Multiple types of autonomous vehicles*
  - *Towed acoustics arrays*
  - *Multiple types of sonar*
- *Vehicles*
  - *Cars*
  - *Fork lift*
- *Machinery*
  - *Industrial shredding machine*
- *Installed Equipment*
  - *Air condition systems for the new and old building*
  - *Uninterrupted Power Supply (UPS) systems*
  - *TV closed circuit system*

**CMRE Premises**

CMRE is located in La Spezia, Italy on the Italian Navy compound, Centro Supporto e Sperimentazione Navale (CSSN). The majority of the premises are provided by the Host Nation at no cost to CMRE.

**CSO Premises**

The CSO is located in Neuilly-sur-Seine, France. The premises are provided by the Host Nation. The CSO pays a nominal annual charge for use of the facilities. Extensions and significant upgrades have been added to the existing facilities. Those done prior to 1 January 2013 have been fully expensed in accordance with the NATO Accounting Framework.

**OCS Premises**

The OCS is hosted in the NATO Headquarters in Brussels, Belgium. The premises are provided at no cost to the OCS.

**5. Payables**

	(in euro)		
	2017	2016	Variance
Payables to Suppliers	1,936,494	1,045,643	890,851
Accruals for Goods and Services	937,560	819,833	117,727
Accruals for Untaken Leave	650,572	650,572	-
<b>Total</b>	<b>3,524,626</b>	<b>2,516,048</b>	<b>1,008,578</b>

**Payables to Suppliers**

This includes invoices received from suppliers but not yet settled.

**Accruals**

Accrued expenses are accounted for goods and services received from suppliers for which invoices have not been received at 31 December 2017.

In comparison with 2016, the improvement of timeliness of year-end procurement resulted in an increase in receipt invoices and a shift from accruals to payables.

The CMRE untaken leave is recognized as a short-term employee benefit where these benefits are expected to be settled totally within 12 months after the end of the annual reporting period in which the employees render the related employment service. Untaken leave is measured on an undiscounted basis using remuneration rates in force on the last day of the reporting period.

**6. Deferred revenue**

The deferred revenue at year-end 2017 is related to Programme of Work activities and associated commitments not fully delivered by suppliers at 31 December 2017 due to delays from contractors unable to fulfil their deliveries as planned (EUR 19,056 for CSO).

## 7. Advances

	(in euro)		
	2017	2016	Variance
From customers	853,379	1,383,441	(530,062)
Contributions	1,650,000	1,750,000	(100,000)
Other	32,110	35,191	(3,081)
<b>Total</b>	<b>2,535,489</b>	<b>3,168,632</b>	<b>(633,143)</b>

### *From Customers*

At year-end 2017, CMRE advances from customers amount to EUR 853,379. This includes amounts pre-financed by European Community Consortia for CMRE projects valued at EUR 715,264.

### *Contributions*

These advances correspond to cash called from the Nations for the following financial year. They represent approximately 25% of the provisional total budget allocation. This mechanism is applicable to the common-funded organizations (CSO and OCS).

At year-end 2017, the advances amount to EUR 1,650,000. This includes the advances for CSO EUR 1,500,000 and OCS EUR 150,000.

## 8. Credit Facilities

The credit facilities are loans received from IMS to bridge the cash shortage due to the late payment of the CSO 2017 2<sup>nd</sup> call for contributions.

## 9. Current provision

This amount represents an indemnity for loss of employment for a CMRE staff member which is payable in 2018 in accordance with the NATO Civilian Personnel Regulations.

## 10. Other current liabilities

	(in euro)		
	2017	2016	Variance
Liabilities from Lapsed Budget Authorization	24,950	102,789	(77,839)
Liabilities from Operational Result	2,555	30,370	(27,815)
Liabilities from Financial Result	-	-	-
Liabilities from Excess Contributions	-	100,000	(100,000)
<b>Total</b>	<b>27,505</b>	<b>233,159</b>	<b>(205,654)</b>

***Liabilities from Lapsed Budget Authorisation***

For the common-funded entities (CSO and OCS), lapses from budget authorizations are unspent balances from the 2017 budget and from the 2016 budgets carried-forward into 2017.

These liabilities are mainly due to actual costs in the execution in the entities Program of Work and operation and maintenance being below estimates.

***Liabilities from Operational Results***

The Liabilities from Operational Results for the common-funded entities are mostly composed of miscellaneous revenues and written-off accruals from previous years where the final invoice was lower than the estimated accrued amount.

**11. Deferred revenue – Non Current Liabilities**

This provision represents the net book value (NBV) of PP&E at 31 December 2017 for the common-funded entities (CSO and OCS). This provision is decreased by the annual depreciation expense and any asset derecognized and increased by any new acquisition.

For CMRE the NBV balance is booked in the Net Equity Depreciation Reserve.

**12. Result for the period**

The 2017 result for the period is a surplus of EUR 1,053,674.

**13. Retained Earnings**

The retained earnings have been increased by the result of the period (EUR 1,053,674) and have been allocated as follows:

Reserve	Commitments / Legal Obligations	Depreciation Reserve	Vessels Reserve	Net Equity Fund	General Reserve	Total
<b>Net Equity 31st December 2016</b>	<b>1,575,192</b>	<b>2,903,705</b>	<b>1,608,946</b>	<b>3,500,000</b>	<b>2,926,614</b>	<b>12,514,457</b>
Net change in Vessels Reserve			(493,460)			(493,460)
Net change in PPE		865,038				865,038
Net change in CCF	996,504					996,504
Net change in General Reserve			-		(314,408)	(314,408)
<b>Net Equity 31st December 2017</b>	<b>2,571,696</b>	<b>3,768,743</b>	<b>1,115,486</b>	<b>3,500,000</b>	<b>2,612,206</b>	<b>13,568,131</b>

**Commitments**

The reserve for commitments represents the value of orders for goods and services placed in one fiscal year, but neither received nor invoiced until the following fiscal year(s).

**Depreciation Reserve**

The depreciation reserve represents the NBV of assets and a source of future depreciation expense.

**Vessels Reserve**

The reserve is used to accumulate resources in current periods to fund future, major vessel upkeep projects. NRV Alliance undergoes one major and one minor upkeep period in a five year period.

The NRV Alliance vessel modification programme, which started in 2016, has been extended into 2017. The balance of EUR 1,115,486 has been retained in the reserve to complete renovation of the communications systems, pay any remaining contract termination costs associated with the previous vessel operations and maintenance contract, and conduct a scheduled dry-dock upkeep in 2018.

**Net Equity Fund (NEF)**

The STO Charter states that the governing board may establish a Net Equity Fund (NEF) to facilitate the CMRE operations (C-M(2012)0046 articles 23.3 and 24.1). The fund was established to provide liquidity for projects, to act as a buffer for project gains and losses, and to be a source of funds for investments.

**General Reserve**

This represents accumulated surpluses (retained earnings) available for allocation in subsequent financial periods.

**C. NOTES TO STATEMENT OF FINANCIAL PERFORMANCE****14. Revenue**

	(in euro)		
	2017	2016	Variance
Revenue from Contributions	6,625,298	6,325,270	300,028
Revenue from Services	25,561,832	27,014,417	(1,452,585)
Revenue from Reimbursable budget	-	436	(436)
Financial Revenue	22,043	48,941	(26,898)
<b>Total</b>	<b>32,209,173</b>	<b>33,389,064</b>	<b>(1,179,891)</b>

**Revenue from Contributions**

CSO and OCS, contributions, when called, are booked as an advance under deferred revenue and subsequently recognized as revenue when earned. Revenue is recognized up to the amount of the matching expenses.

**Revenue from Services**

The revenue from services is the value of work completed and delivered during the year, under the customer-funded business model (CMRE).

**15. Expenses**

	(in euro)		
Category	2017	2016	Variance
Personnel	18,494,824	19,980,503	(1,485,679)
Supplies and Services	11,326,083	12,049,605	(723,522)
Capital and Investments	466,645	240,198	226,447
Depreciation	753,297	715,947	37,350
Financial Costs	114,650	35,867	78,783
<b>Total</b>	<b>31,155,499</b>	<b>33,022,120</b>	<b>(1,866,621)</b>

**Personnel**

Personnel expenses include civilian and military personnel expenses as well as other non-salary related expenses. The amounts include expenses for salaries and emoluments for approved NATO civilian and temporary personnel, for other salary related and non-related allowances including overtime, medical examinations, recruitment, installation, and removal and for contracted consultants and training.

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



The personnel establishments (PE) of the STO entities are shown below. For the OCS, the CSO, and the CMRE military component, the personnel establishment is fixed.

Personnel Establishment	PE - Authorized			PE - Filled		
	Mil	Civ	Total	Mil	Civ	Total
CSO	14	35	49	11	31	42
OCS	2	5	7	2	6	8
CMRE - Customer Funded positions	9	0	9	5	-	5
<b>International Manpower Ceiling</b>	<b>25</b>	<b>40</b>	<b>65</b>	<b>18</b>	<b>37</b>	<b>55</b>
CMRE - Customer Funded positions	9	170	179	6	133	139
Voluntary National Contributions	-	-	-	1	-	1
<b>Total</b>	<b>34</b>	<b>210</b>	<b>244</b>	<b>25</b>	<b>170</b>	<b>195</b>

The CMRE civilian workforce is set annually by the governance board based on the anticipated workload. The figure above reflects the number of filled positions on 31 December 2017.

### Supplies and Services

Supplies and Services include expenses required for STO activities: general administrative costs, maintenance costs of buildings/grounds, communications and information systems, transportation, travel expenses, representation/hospitality and miscellaneous expenses.

At the CMRE, some aspects of contractor support had been disclosed under 'Personnel' in the statement of financial performance in accordance with common practice to-date. Following advice from the International Board of Auditors for NATO (IBAN), this type of contractor support is now disclosed in 'Supplies and Services' as it more appropriately reflects the nature of the expenses. Therefore, an amount of EUR 275,137 has been reclassified in 2017 from 'Personnel' to 'Supplies and Services'.

In 2016, the comparative amount was EUR 5,013. As the above-mentioned recommendation does not represent a change in accounting policy but rather a clarification of the economic nature without impact on the total expenditure, the 2016 presentation has not been amended.

### Capital and Investments

Capital and Investments are reported as expenses. Capital and Investments which exceed the capitalisation thresholds are capitalized as PP&E and depreciated accordingly.

## 16. Surplus or Deficit for the Period

In 2017, the STO generated a surplus of EUR 1,053,674 which is entirely the result of CMRE operations. Annual surplus/deficits are allocated to the Retained Earnings.

For the common-funded entities (CSO and OCS), the operating revenue is recognized up to the amount of the matching expenses. The financial revenue and the miscellaneous revenue, after offsetting the related expenses, are booked as payable to / receivable from Nations. Therefore, they generate no surplus or deficit.

## D. CONTINGENT LIABILITIES

Contingent Liabilities have been determined under the criteria set out in IPSAS 19 and are based on the realistic and prudent estimates of the expenditure required to settle future legal obligations.

In 2016, the Italian authorities re-issued a claim to the CMRE for contributions to the Italian National Health System. The claim covers all NATO entities in Italy, and dates back to the 1980's. The NATO HQ legal service are aware of this matter, and the claims are suspended pending resolution of the issue between NATO and Italy. The CMRE is not aware that the claim will be substantiated, and can make no estimate as to when this case will be resolved. As at the date of these Financial Statements, there is a possibility of a future obligation, but this cannot be measured reliably. The CMRE assessment is that no settlement will be made.

## E. SEGMENT REPORTING

In accordance with IPSAS 18, the STO discloses financial information about distinguishable activities of its consolidated reporting entities. A 'segment' is a distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information. IPSAS 18 distinguishes two types of 'segments':

- 'Service segments' refer to a distinguishable component of an entity that is engaged in providing related outputs or achieving particular operating objectives consistent with the overall mission of each entity; and
- 'Geographical segments' are a distinguishable component of an entity that is engaged in providing outputs or achieving particular operating objectives within a specific geographical area.

The STO is segmented into three executive bodies as provided in the STO Charter: CSO, CMRE and OCS.

The segment reporting includes the Statement of Financial Position, Performance and Budget Execution. For CMRE the Budget Execution Statement is omitted because the entity is customer funded.

COLLABORATIVE SUPPORT OFFICE  
STATEMENT OF FINANCIAL POSITION

as at 31 December 2017  
(in EUR)

		2017	2016
	Notes		
<b>Assets</b>			
<b><i>Current assets</i></b>			
Cash and cash equivalents	1	3,439,291	397,197
Receivables	2	291,415	2,956,297
Prepayments	3	49,044	18,582
		<u>3,779,750</u>	<u>3,372,076</u>
<b><i>Non-current assets</i></b>			
Property, plant & equipment	4	207,547	338,979
		<u>207,547</u>	<u>338,979</u>
<b>Total assets</b>		<u>3,987,297</u>	<u>3,711,055</u>
<b>Liabilities</b>			
<b><i>Current liabilities</i></b>			
Payables	5	201,093	267,235
Deferred revenue	6	19,056	23,441
Advances	7	1,532,111	1,535,191
Credit facilities	8	2,000,000	1,500,000
Provisions	9	-	-
Other current liabilities	10	27,490	46,209
		<u>3,779,750</u>	<u>3,372,076</u>
<b><i>Non-current liabilities</i></b>			
Deferred revenue	11	207,547	338,979
		<u>207,547</u>	<u>338,979</u>
<b>Total liabilities</b>		<u>3,987,297</u>	<u>3,711,055</u>
Surplus/Deficit	12	-	-
Retained earnings	13	-	-
<b>Total net assets</b>		<u>-</u>	<u>-</u>
<b>Total net assets and liabilities</b>		<u>3,987,297</u>	<u>3,711,055</u>

**COLLABORATIVE SUPPORT OFFICE  
STATEMENT OF FINANCIAL PERFORMANCE**



for the year ended 31 December 2017  
(in EUR)

	<u>2017</u>	<u>2016</u>
Notes		
<b>Revenue</b>	14	
Revenue	5,751,804	5,624,915
Financial revenue	5,237	9,583
<b>Total revenue</b>	<u>5,757,041</u>	<u>5,634,498</u>
<b>Expenses</b>	15	
Personnel	4,086,220	4,150,280
Contractual supplies and services	1,638,215	1,448,461
Depreciation and amortization	27,369	26,174
Finance costs	5,237	9,583
<b>Total expenses</b>	<u>5,757,041</u>	<u>5,634,498</u>
<b>Surplus/(Deficit) for the period</b>	16	
	<u>-</u>	<u>-</u>

CENTRE FOR MARITIME RESEARCH & EXPERIMENTATION  
STATEMENT OF FINANCIAL POSITION

as at 31 December 2017  
(in EUR)

		<u>2017</u>	<u>2016</u>
	Notes		
<b>Assets</b>			
<b><i>Current assets</i></b>			
Cash and cash equivalents	1	10,292,459	8,803,189
Receivables	2	2,936,610	3,854,411
Prepayments	3	487,826	573,741
		<u>13,716,895</u>	<u>13,231,341</u>
<b><i>Non-current assets</i></b>			
Property, plant & equipment	4	3,768,742	2,903,705
		<u>3,768,742</u>	<u>2,903,705</u>
<b>Total assets</b>		<u>17,485,637</u>	<u>16,135,046</u>
<b>Liabilities</b>			
<b><i>Current liabilities</i></b>			
Payables	5	3,022,350	2,237,148
Deferred revenue	6	-	-
Advances	7	853,378	1,383,441
Credit facilities	8	-	-
Provisions	9	41,778	-
Other current liabilities	10	-	-
		<u>3,917,506</u>	<u>3,620,589</u>
<b><i>Non-current liabilities</i></b>			
Deferred revenue	11	-	-
		<u>-</u>	<u>-</u>
<b>Total liabilities</b>		<u>3,917,506</u>	<u>3,620,589</u>
Surplus/Deficit	12	1,053,674	366,944
Retained earnings	13	12,514,457	12,147,513
<b>Total net assets</b>		<u>13,568,131</u>	<u>12,514,457</u>
<b>Total net assets and liabilities</b>		<u>17,485,637</u>	<u>16,135,046</u>

CENTRE FOR MARITIME RESEARCH & EXPERIMENTATION  
STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 31 December 2017  
(in EUR)

	<u>2017</u>	<u>2016</u>
Notes		
<b>Revenue</b>	<sup>14</sup>	
Revenue	25,561,832	27,014,416
Financial revenue	16,806	39,358
<b>Total revenue</b>	<u>25,578,638</u>	<u>27,053,774</u>
<b>Expenses</b>	<sup>15</sup>	
Personnel	13,586,316	15,172,970
Contractual supplies and services	10,103,307	10,797,803
Depreciation and amortization	725,928	689,773
Finance costs	109,413	26,284
<b>Total expenses</b>	<u>24,524,964</u>	<u>26,686,830</u>
<b>Surplus/(Deficit) for the period</b>	<sup>16</sup> <u>1,053,674</u>	<u>366,944</u>

OFFICE OF THE CHIEF SCIENTIST  
STATEMENT OF FINANCIAL POSITION

as at 31 December 2017  
(in EUR)

		2017	2016
	Notes		
<b>Assets</b>			
<b><i>Current assets</i></b>			
Cash and cash equivalents	1	367,957	29,671
Receivables	2	39,278	376,109
Prepayments	3	43,963	42,835
		<u>451,198</u>	<u>448,615</u>
<b><i>Non-current assets</i></b>			
Property, plant & equipment	4	-	-
		<u>-</u>	<u>-</u>
<b>Total assets</b>		<u>451,198</u>	<u>448,615</u>
<b>Liabilities</b>			
<b><i>Current liabilities</i></b>			
Payables	5	301,183	11,665
Deferred revenue	6	-	-
Advances	7	150,000	250,000
Credit facilities	8	-	-
Provisions	9	-	-
Other current liabilities	10	15	186,950
		<u>451,198</u>	<u>448,615</u>
<b><i>Non-current liabilities</i></b>			
Deferred revenue	11	-	-
		<u>-</u>	<u>-</u>
<b>Total liabilities</b>		<u>451,198</u>	<u>448,615</u>
Surplus/Deficit	12	-	-
Retained earnings	13	-	-
<b>Total net assets</b>		<u>-</u>	<u>-</u>
<b>Total net assets and liabilities</b>		<u>451,198</u>	<u>448,615</u>

OFFICE OF THE CHIEF SCIENTIST  
STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 31 December 2017  
(in EUR)

	2017	2016
Notes		
<b>Revenue</b>	14	
Revenue	873,494	700,792
Financial revenue	-	-
<b>Total revenue</b>	873,494	700,792
<b>Expenses</b>	15	
Personnel	822,288	657,253
Contractual supplies and services	51,206	43,539
Depreciation and amortization	-	-
Finance costs	-	-
<b>Total expenses</b>	873,494	700,792
<b>Surplus/(Deficit) for the period</b>	16	
	-	-



## F. RELATED PARTIES DISCLOSURE

The key management personnel of the STO, and the STB National Representatives, have no significant known related party relationships that could affect the operations of the STO. However, the STO Financial Controller is also the Financial Controller of the NATO Defence College (NDC) and the International Military Staff (IMS). The STO, IMS and NDC are therefore related parties under a common Financial Controller.

Key management personnel include the following officials:

Science & Technology Board	<ul style="list-style-type: none"> <li>NATO National Representatives on STB</li> </ul>
Office of the Chief Scientist	<ul style="list-style-type: none"> <li>NATO Chief Scientist</li> </ul>
Centre for Maritime Research and Experimentation	<ul style="list-style-type: none"> <li>CMRE Director</li> <li>CMRE Chief Operating Officer &amp; Deputy Director</li> </ul>
Collaborative Support Office	<ul style="list-style-type: none"> <li>CSO Director</li> <li>CSO Deputy Director</li> </ul>

A specific statement of disclosure of Related Parties is signed by Key Management Personnel, and the STB National Representatives, and retained for auditing purposes.

### Compensation of key management personnel

STO Board members receive no remuneration or access to preferential benefits such as the entitlement to receive loans from NATO for their Board responsibilities.

STO key management personnel are remunerated in accordance with the published NATO salary scales. The compensation consists of basic salary, various allowances, health insurance, pension plan and other benefits as agreed with each Host Nation.

	2017	2016
Basic salaries	436,400	513,764
Allowances	66,264	90,028
Post-employment benefits	52,368	61,652
Employer's contribution to Insurance	55,433	69,945
<b>Total</b>	<b>610,465</b>	<b>735,389</b>

The change from 2016 to 2017 is due to the vacancy of the CMRE Deputy Director since August 2016.

## G. EMPLOYEE DISCLOSURE

### Representation Allowance

In the STO, only the Heads of the STO Executive Bodies are entitled to and receive Representation Allowance for establishing and maintaining relationships of value for their organizations. In 2017, the total amount of Representation Allowance spent in accordance with the NATO Guidelines<sup>4</sup> was EUR 13,355.

	2017
	(in euro)
OCS	2,048
CSO	9,125
CMRE	2,182
<b>Total</b>	<b>13,355</b>

The representation allowance generally was used to settle transactions to cover social events and for rental supplement (CSO and CMRE).

### Untaken Leave

NATO civilian staff earn 2.5 days of leave for each month worked. Untaken leave at year-end may be carried-over to the following year and used until 30 April.

The STO has taken measures to ensure all leave is taken by 30 April of the following year. Exceptionally, annual leave not taken by 31 October following the year in which it was accrued shall be forfeited (NCPR 42.3.6).

The balance of untaken leave as of 31 December 2017 is shown below:

	2017
	(in days)
OCS	15.5
CSO	219.5
CMRE	2,006
<b>Total</b>	<b>2,241</b>

<sup>4</sup> PO(2016)0100 dated 20 December 2016 – Guidelines on the Use of Representation Allowance

## H. WRITE OFF and DONATIONS

In accordance with the NATO Financial Regulations (NFRs Art. 17.1 and 17.4), a global statement of amounts written-off and donations shall be reported in the annual financial statements.

During 2017, CSO wrote-off property with a Net Book Value of nil.

Items	Purchased in	Purchasing cost	Net book value at 31-Dec-2017	Reason for write-off
Various IT equipment (laptops / servers/ screens / switches / workstations / printers / scanners/ phones...)	prior / or in 2012	-	-	Out of order / beyond economic repair / - outdated - no longer supporting recent peripherals or software
<b>Total</b>		-	-	

For CMRE and OCS no items have been written-off during the course of financial year 2017

## **I. EVENTS AFTER REPORTING DATE**

On the date of signing of these accounts there has been no material event, favourable or unfavourable incurred between the year-end and the date when the Financial Statements have been authorized for issue that would have impacted these statements.

## **J. MORALE & WELFARE ACTIVITY**

Morale and Welfare Activities (MWA) such as sport, community service, retail and concessionary activities are conducted by the CMRE.

In accordance with the NATO Accounting Framework, NATO Reporting Entities shall not consolidate MWA and / or Staff Association activities into their respective financial statements. The STO follows this practice and reports on the financial viability of MWA.

**ANNEX - TO THE NOTES TO THE FINANCIAL STATEMENTS****Budget Execution Statement**

For the common funded elements of the STO, expenses are presented on a different basis in the statement of financial performance when compared to the budget execution statement: the statement of financial performance includes finance costs, and only the depreciation expenses, whereas the purchasing costs of PP&E are recognised in the budget execution statement.

The following table is a reconciliation of actual budget amounts per the budget execution statement to actual expenses per the statement of financial performance:

<b>CSO</b>	
	(in euro)
<b>Expenses</b>	<b>Actuals</b>
Personnel	4,086,220
Supplies and Services	1,613,215
Capital and Investments	25,000
<b>Total Expenses as per Budget Execution</b>	<b>5,724,435</b>
Property Plant and Equipment capitalized (Recognition from Capital and Investments)	-
Depreciation	27,369
Financial Costs	5,237
<b>Total Expenses as per Financial Performance</b>	<b>5,757,041</b>
<b>OCS</b>	
	(in euro)
<b>Expenses</b>	<b>Actuals</b>
Personnel	822,288
Supplies and Services	51,206
Capital and Investments	-
<b>Total Expenses as per Budget Execution</b>	<b>873,494</b>
Property Plant and Equipment capitalized (Recognition from Capital and Investments)	-
Depreciation	-
Financial Costs	-
<b>Total Expenses as per Financial Performance</b>	<b>873,494</b>

**Statement of transfers**

In accordance with the NATO Financial Regulations (NFRs Art. 26), all the changes between the initial and the final budget, which were due to reallocations, were either authorized by the BC or by the Financial Controller in accordance with the NFRs for inter and intra-budget transfers. All transfers of approved appropriation shall be recorded in the financial statements.

OCS Budget Transfers

EURO	Initial Budget	Transfers	Final Budget
<b>Budget 907 (OCS) 2017</b>			
Chapter 71	696,329	125,959	822,288
Chapter 72	73,635	(22,429)	51,206
Chapter 73	-	-	-
<b>TOTAL</b>	<b>769,964</b>	<b>103,530</b>	<b>873,494</b>

CSO Budget Transfers

EURO	Initial Budget	Transfers	Final Budget
<b>Budget 908 (CSO) 2017</b>			
Chapter 71	4,181,112	(82,063)	4,099,049
Chapter 72	1,318,888	302,063	1,620,951
Chapter 73	25,000	-	25,000
<b>TOTAL</b>	<b>5,525,000</b>	<b>220,000</b>	<b>5,745,000</b>

## Budget Execution

OFFICE OF CHIEF SCIENTIST											
STATEMENT OF BUDGET EXECUTION AS AT 31 DECEMBER 2017											
Initial Budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments	Expenses	Total Spent	Carry Forward	Lapsed
696,329	65,000	761,329	2,000	763,329	58,959	822,288	-	822,288	822,288	-	-
Chapter 71											
Chapter 72											
Chapter 73											
<b>TOTAL BUDGET 907 (OCS)</b>	<b>65,000</b>	<b>834,964</b>	<b>-</b>	<b>834,964</b>	<b>38,530</b>	<b>873,494</b>	<b>-</b>	<b>873,494</b>	<b>873,494</b>	<b>-</b>	<b>-</b>

COLLABORATIVE SUPPORT OFFICE											
STATEMENT OF BUDGET EXECUTION AS OF 31 DECEMBER 2017											
Initial Budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments	Expenses	Total Spent	Carry-Forward	Lapsed
4,181,112	(55,000)	4,126,112	(23,500)	4,102,612	(3,563)	4,099,049	-	4,086,220	4,086,220	-	12,829
Chapter 71											
Chapter 72											
Chapter 73											
<b>TOTAL</b>	<b>-</b>	<b>5,525,000</b>	<b>155,000</b>	<b>5,680,000</b>	<b>65,000</b>	<b>5,745,000</b>	<b>19,056</b>	<b>5,702,767</b>	<b>5,721,823</b>	<b>19,056</b>	<b>23,177</b>
<b>BUDGET 908 (CSO) 2016</b>											
Chapter 71											
Chapter 72											
Chapter 73											
<b>TOTAL</b>	<b>-</b>	<b>23,441</b>	<b>-</b>	<b>23,441</b>	<b>-</b>	<b>23,441</b>	<b>-</b>	<b>21,668</b>	<b>21,668</b>	<b>-</b>	<b>1,773</b>
<b>TOTAL BUDGET 908 (CSO)</b>	<b>-</b>	<b>5,548,441</b>	<b>155,000</b>	<b>5,703,441</b>	<b>65,000</b>	<b>5,768,441</b>	<b>19,056</b>	<b>5,724,435</b>	<b>5,743,491</b>	<b>19,056</b>	<b>24,950</b>



**Statement of Credits Carried-Forward**

As required by the NATO Financial Regulations the credits carried forward are presented in the Budget Execution Statement. They represent the unexpended balances at year-end for which there is a legal liability and are equal to the closing Deferred Revenue.

Commitments	(in euro)		
	2017	2016	Variance
Entity			
CSO	19,056	23,441	(4,385)
OCS	-	-	-
<b>Total</b>	<b>19,056</b>	<b>23,441</b>	<b>(4,385)</b>

Due to delays in delivery by suppliers, CIS projects scheduled to be finalized before the end of the year were not completed and are due to be finalized in the first semester of 2018.