

NATO UNCLASSIFIED

29 May 2020

DOCUMENT
C-M(2020)0012-AS1

**IBAN AUDITOR'S REPORT ON THE AUDIT OF THE 2018 FINANCIAL STATEMENTS
OF MUNITIONS SAFETY INFORMATION ANALYSIS CENTER (MSIAC)**

ACTION SHEET

On 28 May 2020, under the silence procedure, the Council noted the RPPB report attached to C-M(2020)0012, agreed its conclusions and recommendations to approve a deviation from Articles 24.2 and 29.3 of the NATO Financial Regulations to regularise the use of MSIAC accumulated surpluses in an emergency fund and as an operational reserve up to a limit of € 650,000. The Council also agreed to the public disclosure of this report, the IBAN Auditor's Report and associated 2018 financial statements of MSIAC.

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2020)0012

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7 May 2020

DOCUMENT
C-M(2020)0012
Silence Procedure ends:
28 May 2020, 17:30

NORTH ATLANTIC COUNCIL

**IBAN AUDITOR'S REPORT ON THE AUDIT OF THE 2018 FINANCIAL STATEMENTS
OF MUNITIONS SAFETY INFORMATION ANALYSIS CENTER (MSIAC)**

Note by the Secretary General

1. I attach the International Board of Auditors for NATO (IBAN) Auditor's Report on the 2018 financial statements of Munitions Safety Information Analysis Center (MSIAC). The IBAN Auditor's Report set out an unqualified opinion on the financial statements and a qualified opinion on compliance of MSIAC in 2018.
2. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB) (see Annex).
3. I do not believe this issue requires further discussion. Therefore, **unless I hear to the contrary by 17:30 hours on Thursday, 28 May 2020**, I shall assume the Council noted the RPPB report, agreed its conclusions and recommendations to approve a deviation from Articles 24.2 and 29.3 of the NATO Financial Regulations to regularise the use of MSIAC accumulated surpluses in an emergency fund and as an operational reserve up to a limit of € 650,000. I shall also assume the Council has agreed to the public disclosure of this report, the IBAN Auditor's Report and associated 2018 financial statements of MSIAC.

(Signed) Jens Stoltenberg

Annex 1:
Enclosure 1:

Original: English

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**IBAN AUDITOR'S REPORT ON THE 2018 FINANCIAL STATEMENTS OF THE
MUNITIONS SAFETY INFORMATION ANALYSIS CENTER (MSIAC)**

Report by the Resource Policy and Planning Board

References:

- A. IBA-AR(2019)0018 IBAN Auditor's Report on the audit of 2018 financial statements of Munitions Safety Information Analysis Center (MSIAC)
- B. FC(2020)0015 Authorisation of the deviation from NFRs on MSIAC operational reserve
- C. C-M(2015)0025 NATO Financial Regulations (NFR)
- D. PO(2015)0052 Wales Summit tasker on transparency and accountability

INTRODUCTION

1. This report by the RPPB addresses the IBAN Auditor's Reports on the 2018 financial statement of MSIAC. The IBAN Auditor's Reports set out an unqualified opinion on the financial statements and a qualified opinion on compliance of MSIAC in 2018 (reference A).

AIM

2. This report summarises the IBAN Auditor's Reports to enable the Board to reflect on strategic issues or concerns emanating from the audit of financial statements of NATO entities and to recommend courses of action to Council as applicable, which has the potential to improve transparency, accountability and consistency.

3. In addition, the report also recommends the Council agree a deviation from the NFR to resolve an outstanding observation from 2015 financial statements audit report in relation to the MSIAC policy of retaining accumulated surplus as an operational reserve.

DISCUSSION

4. No new observations and recommendations were issued as a result of the IBAN audit on the 2018 financial statements for MSIAC. As of the date of the respective IBAN Auditor's Reports two prior year observations remain open, of which one continue to be the basis for the audit qualification on compliance.

5. In 2018 the amount in the MSIAC reserve fund was KEUR 219 and did not include the additional surplus of KEUR 420. IBAN recommended that MSIAC should comply with Article 29.3 of the NFR (reference C) and restrict currency holdings to the minimum to meet forecast payments prior to receipt of the following contribution instalment. This situation is not in compliance with the NFRs and continues to be the basis for qualification on compliance. In 2019, IBAN was informed that MSIAC had not attempted to seek a deviation from the revised NFR on this matter.

6. In 2020 MSIAC, supported by a recommendation from its Steering Committee, submitted a request seeking authorisation of the deviation from the NFR to allow the use of MSIAC accumulated surpluses in an emergency fund and as an operational reserve that will

not exceed KEUR 650 (reference B). This reserve is funded solely from the direct financial contributions of the MSIAC MOU nations; it does not involve any Common or broader NATO Funds. The MSIAC Steering Committee continue to believe that such a reserve is essential to meet MSIAC member nations' requirements and this includes the need to access technical expertise, products and tools to address explosive safety issues. Furthermore the reserve, with a limit of up to KEUR 650, also allows for continuity of operations in the event one (or more) member nations ceases to be a member or to fund loss of job indemnity should the Steering Committee suspend MSIAC operations.

7. The RPPB recalls that Council has endorsed similar requests from the governing bodies of NATO FORACS Office¹, NAPMO², NAGSMO³ and the NSPO⁴ and therefore supports the MSIAC Steering Committee decision to retain an operational reserve that will not exceed KEUR 650. As of 2020, the Board notes the current MSIAC 5-year financial plan shows the reserve gradually shrinking from KEUR 620 in 2019 to approximately KEUR 400 by 2023.

8. The Board encourages progress on the remaining open IBAN observation where MSIAC need to make more progress on producing risk management policies albeit that this effort must be commensurate with its size and scale of activities and operations.

CONCLUSIONS

9. The Board notes the outstanding MSIAC observation and acknowledges the Steering Committee request to allow the use of MSIAC accumulated surpluses in an emergency fund and as an operational reserve (reference B). The Board recalls similar deviation requests have been approved by the Council.

10. The Board encourages MSIAC to set up specific risk management policies but acknowledges that this effort must be commensurate with its size and scale of activities.

RECOMMENDATIONS

11. The Resource Policy and Planning Board recommends that the Council:

11.1. note this report and the IBAN report at reference A;

11.2. note that the MSIAC Steering Committee has reaffirmed that the continued provision of an operational reserve to be essential;

11.3. agree the approach taken by the governing body of the MSIAC to retain accumulated surpluses in an emergency fund and as an operational reserve up to a limit of KEUR 650 (reference B);

11.4. agree the conclusions at paragraphs 9 to 10; and

11.5. agree the public disclosure of the 2018 financial statements, the associated IBAN Auditor's Report and this report in line with agreed policy at Reference D.

¹ C-M(2018)0032

² PO(2015)0751

³ C-M(2017)0011

⁴ C-M(2017)0048



NORTH ATLANTIC TREATY ORGANIZATION
ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD

INTERNATIONAL BOARD OF AUDITORS FOR NATO
COLLÈGE INTERNATIONAL DES AUDITEURS EXTERNES DE L'OTAN



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IBA-A(2019)0139

25 October 2019

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

Cc: Chairman, MSIAC Steering Committee
Project Manager, MSIAC
Financial Controller, International Staff
Chairman, Resource Policy & Planning Board
Branch Head, Secretariat and Finance Branch, NATO Office of Resources
Private Office Registry

Subject: ***International Board of Auditors for NATO (IBAN) Auditor's Report and Letter of Observations and Recommendations on the audit of the Munitions Safety Information Analysis Center (MSIAC) Restated Financial Statements for the year ended 31 December 2018 – IBA-AR(2019)0018***

IBAN 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).

IBAN's report sets out an unqualified opinion on the Financial Statements of the MSIAC and a qualified opinion on compliance for financial year 2018.

Yours sincerely,

Dr. Hans Leijtens
Chairman

Attachments: As stated above.

Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Restated Financial Statements of the
Munitions Safety Information Analysis Center (MSIAC)
for the year ended 31 December 2018

The Munitions Safety Information Analysis Center (MSIAC) provides a focal point within NATO to assist national and NATO munitions development programmes. The MSIAC project is directed and administered by a Steering Committee and a Project Manager. Budget authorisations for the year 2018 (including amounts brought forward) amounted to EUR 1.81 million while budget expenses amounted to EUR 1.77 million.

IBAN issued an unqualified opinion on the MSIAC Financial Statements and a qualified opinion on compliance for the year ended 31 December 2018.

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

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

The Auditor's Report (Annex 2) and the Letter of Observations and Recommendations (Annex 3) were issued to the MSIAC who replied that they had no specific formal comments.

IBAN also issued a Management Letter (reference IBA-AML(2019)0013) with the follow-up on the status of previous years' observation for management's attention.

25 October 2019

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDITOR'S REPORT ON THE RESTATED FINANCIAL STATEMENTS OF

MUNITIONS SAFETY INFORMATION ANALYSIS CENTER

(MSIAC)

FOR THE YEAR ENDED 31 DECEMBER 2018

**INDEPENDENT AUDITOR'S REPORT
TO THE NORTH ATLANTIC COUNCIL**

Report on the Financial Statements

Opinion on the Financial Statements

The International Board of Auditors for NATO (IBAN) has audited the Restated Financial Statements of Munitions Safety Information Analysis Center (MSIAC), for the 12 month period ended 31 December 2018, issued under document reference FC(2019)0037-REV1, and submitted to IBAN on 27 August 2019. These Restated Financial Statements comprise the Statement of Financial Position as at 31 December 2018, the Statement of Financial Performance, the Statement of Changes in Net Assets/Equity and the Statement of Cash Flow, for the 12 month period ended 31 December 2018, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a budget execution report for the 12 month period ended 31 December 2018.

In our opinion, the Restated Financial Statements give a true and fair view of the financial position of MSIAC as at 31 December 2018, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2018, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework.

Basis for Opinion on the Financial Statements

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies pursuant to the North Atlantic Treaty shall be performed by IBAN.

We have conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAIs 1000-1810) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

We are independent in accordance with the INTOSAI Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's Responsibility for the Financial Statements

Management's responsibility for the financial statements is laid down in the NFRs. The Restated Financial Statements of Munitions Safety Information Analysis Center (MSIAC) are drawn up in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council. The Financial Controller is responsible for submitting the Financial Statements for audit to IBAN not later than 31st March following the end of the financial year.

The Financial Statements are signed by the Head of the NATO body (MSIAC's Project Manager) and the Financial Controller (NATO-IS). In signing the Financial Statements, the Head of NATO body and the Financial Controller confirm the establishment and maintenance of financial governance, resource management practices, internal controls and financial information systems to achieve the efficient and effective use of resources.

This confirmation covers the design, implementation and maintenance of internal controls relevant to the preparation and presentation of financial statements that are auditable and free from material misstatement, whether due to fraud or error. This also covers reporting on the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there are plans to liquidate the entity or to cease its operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgement and maintain professional scepticism throughout the planning and performance of the audit. This involves taking into account Considerations Specific to Public Sector Entities. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are required to communicate with the bodies charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our Independent External Auditor's Report is prepared to assist North Atlantic Council in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

Report on Compliance

Qualified Opinion on Compliance

In our opinion, except for the matters described below in the *Basis for Qualified Opinion on Compliance* paragraph and based on the procedures we performed, nothing has come to our attention, as part of our audit of the Financial Statements that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

Basis for Qualified Opinion on Compliance

We found that MSIAC at 31 December 2018 held EUR 219 thousand of Accumulated Surpluses (in addition to which are added EUR 420 thousand of current year surplus). These Accumulated Surpluses are to be used in cases of emergency funding needs, and are a reserve. Such a reserve does not comply with Articles 24.2 and 29.3 of the NATO Financial Regulations, which require, respectively, that appropriations which have not been committed shall lapse at the end of the financial year, and that each contribution instalment shall be calculated to restrict total currency holdings to the minimum to meet forecast payments prior to receipt of the following contribution instalment. MSIAC has not requested Council to authorise a deviation from Articles 24.2 and 29.3 of the NFRs on this matter.

We have conducted our compliance audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 4000) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

Management's Responsibility for Compliance

All NATO staff, military and civilian, are obligated to comply with the NATO Financial Regulations, associated Financial Rules and Procedures and internal implementing directives. These include the NATO Civilian Personnel Regulations.

The Project Manager is responsible and accountable for sound financial management. The financial administration of NATO bodies must incorporate the principles of propriety, sound governance, accountability, transparency, risk management and internal control, internal audit, external audit, and fraud prevention and detection.

Auditor's Responsibilities for Compliance

IBANs responsibility is to provide reasonable assurance about whether the financial statements as a whole are free from material misstatement. Additionally our Charter requires us to provide independent assurance and report annually to the North Atlantic Council about whether funds have been properly used for the settlement of authorised

expenditure (propriety) and whether funds are spent in compliance with the regulations in force (regularity). Propriety relates to the observance of the general principles governing sound financial management and the conduct of public officials. Regularity concerns the adherence to formal criteria such as relevant regulations, rules and procedures.

This responsibility includes performing procedures to obtain independent assurance about whether funds have been properly used for the settlement of authorised expenditure and whether they have been used in compliance with the regulations in force. Such procedures include consideration of the risks of material non-compliance.

Brussels, 25 October 2019



Dr. Hans Leijtens
Chairman

25 October 2019

INTERNATIONAL BOARD OF AUDITORS FOR NATO

LETTER OF OBSERVATIONS AND RECOMMENDATIONS

FOR THE MUNITIONS SAFETY INFORMATION ANALYSIS CENTER

(MSIAC)

FOR THE YEAR ENDED 31 DECEMBER 2018

Introduction

The International Board of Auditors for NATO (IBAN) audited the Munitions Safety Information Analysis Center (MSIAC) Restated Financial Statements for the year ended 31 December 2018 and issued an unqualified opinion on the financial statements and a qualified opinion on compliance.

Observations and Recommendations

During the audit, IBAN made no observations.

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

IBAN also issued a Management Letter (reference IBA-AML(2019)0013) with the follow-up on the status of previous years' observation for management's attention.

FOLLOW-UP OF PREVIOUS YEAR'S OBSERVATIONS

IBAN followed up on the status of observations from the previous years' audit. The observations, actions taken by the auditee as reviewed by IBAN, and their status are summarised in the table below.

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p>(1) MSIAC FY 2015 IBA-AR(2018)0001, paragraph 1</p> <p>USE OF A MANAGEMENT RESERVE FUND NOT IN COMPLIANCE WITH THE REVISED NATO FINANCIAL REGULATIONS (NFRS)</p> <p>Board's recommendation The Board recommends that MSIAC comply with Article 29.3 of the NFRs and restrict currency holdings to the minimum to meet forecast payments prior to receipt of the following contribution instalment. Alternatively, if the MSIAC Steering Committee continues to believe that such a management reserve is necessary, a request for deviation from Articles 24.2 and 29.3 of the NFRs should be made to Council.</p>	<p>The amount in the reserve fund decreased from EUR 474 thousand to EUR 219 thousand. However this amount does not include the current year surplus of EUR 420 thousand that will be reclassified to accumulated surplus in 2019.</p> <p>This situation is not in compliance with the NFRs and continues to be a basis for qualification on compliance.</p> <p>We have not been informed of any progress concerning MSIAC's attempt to seek a deviation from the revised NFRs on this matter.</p>	<p>Observation Open.</p>
<p>(2) MSIAC FY 2015 IBA-AR(2018)0001, paragraph 6</p> <p>EFFORTS TO ACHIEVE COMPLIANCE WITH THE REVISED NATO FINANCIAL REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT</p> <p>Board's recommendation The Board recommends that MSIAC:</p> <p>a) Issues a risk management policy and that risk registers are developed and employed.</p>	<p>a) No specific risk management policy has been set up yet, however, an operational risk register has been provided and completed.</p>	<p>Observation Open.</p>

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APPENDIX
ANNEX 3
IBA-AR(2019)0018

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
b) As required by FRP XII 3) (e), chooses a specific internal control framework that it will use to assess its system of internal control. The assessment is required by Article 12 of the NFRs. Since other NATO entities, including ACT and NAPMA, have already adopted COSO as their internal control framework, and it is a framework that can be used by entities of all sizes, MSIAC should consider adopting COSO as their internal control framework.	b) No internal control framework has been chosen yet.	
c) In coordination with the International Staff where applicable, begins the work of assessing and documenting the system of internal control and risk management procedures to support compliance with NFR Articles 11 and 12, FRPs XI and XII, and the internal control framework that it chooses.	c) No assessment and documentation of a system of internal control and risk management procedure has been identified.	
d) Through outsourcing if considered to be more cost effective, ensure internal audit activities are evaluating MSIAC risk management and internal control.	d) None identified nor reported.	

The Open status is used for recommendations that are open and for which no notable progress has been achieved to date. The In-progress status is used for open recommendations when the NATO Body has started to implement the recommendation or when some (but not all) sub-recommendations are closed. The Closed status is used for recommendations that are closed because they have been implemented, are superseded, or have lapsed.

NATO MSIAC
FINANCIAL STATEMENTS
Financial Year 2018

Annexes:

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



Dr. M. SHARP
Project Manager MSIAC



S. CHAGNOT
Financial Controller NATO-IS

NATO MSIAC
Statement of financial position

As at 31 December 2018

(in EUR)				
	Notes	Current Year	Prior Year	Variance
		2018	2017	CY - PY
Assets				
<i>Current assets</i>				
Cash and cash equivalents	3 & 4	1,382,075.21	1,284,597.90	97,477.31
Short term investments	3	0.00	0.00	0.00
Receivables	5	0.00	7,060.73	-7,060.73
Prepayments	6	1,662.22	388.18	1,274.04
Other current assets	6	20,996.71	0.00	20,996.71
Inventories	7			0.00
		1,404,734.14	1,292,046.81	112,687.33
<i>Non-current assets</i>				
Receivables	5	0.00	0.00	0.00
Property, plant & equipment	8	0.00	0.00	0.00
Intangible assets	8	0.00	0.00	0.00
Other non-current assets		0.00	0.00	0.00
		0.00	0.00	0.00
Total assets		1,404,734.14	1,292,046.81	112,687.33
Liabilities				
<i>Current liabilities</i>				
Payables	9	707,125.96	684,014.48	23,111.48
Deferred revenue	10	11,850.00	5,369.65	6,480.35
Advances	11	0.00	0.00	0.00
Short term provisions	12	0.00	0.00	0.00
Other current liabilities	13	46,245.50	128,732.61	-82,487.11
		765,221.46	818,116.74	-52,895.28
<i>Non-current liabilities</i>				
Payables	14	0.00	0.00	0.00
Long term provisions	14	0.00	0.00	0.00
Non Current Deferred revenue	14	0.00	0.00	0.00
Other non-current liabilities	14	0.00	0.00	0.00
		0.00	0.00	0.00
Total liabilities		765,221.46	818,116.74	-52,895.28
Net assets				
<i>Capital assets</i>				
Reserves				
Accumulated surplus / (deficit)		219,512.68	473,930.07	-254,417.39
Current year surplus / (deficit)		420,000.00	0.00	420,000.00
Total net assets/ equity	15	0.00	0.00	0.00

NATO MSIAC
Statement of financial performance

As at 31 December 2018

(in EUR)			
Notes	Current Year	Prior Year	Variance
	2018	2017	CY - PY
Revenue	16		
Non exchange revenue	1,799,417.57	1,737,278.93	62,138.64
Joining Fees and Early Access Contributions	420,000.00	0.00	420,000.00
Exchange revenue	0.00	0.00	0.00
Other revenue	0.00	0.00	0.00
Financial revenue	0.00	0.00	0.00
Total revenue	2,219,417.57	1,737,278.93	482,138.64
Expenses	17		
Personnel	1,359,256.00	1,290,874.23	68,381.77
Contractual supplies and services	417,237.98	442,000.39	-24,762.41
Depreciation and amortization	0.00	0.00	0.00
Impairment	0.00	0.00	0.00
Provisions	0.00	0.00	0.00
Other expenses	20,996.71	1,585.34	19,411.37
Finance costs	1,926.88	2,818.97	-892.09
Total expenses	1,799,417.57	1,737,278.93	62,138.64
Surplus/(Deficit) for the period	420,000.00	0.00	420,000.00

NATO MSIAC
Statement of cash flow
 As at 31 December 2018

	(in EUR)	
	2018	2017
Cash flow from operating activities		
Surplus/(Deficit)	420,000.00	
Non-cash movements		
Depreciation/ Amortisation		
Impairment		
Use of Cash Reserves	-254,417.39	-366,366.43
Increase /(decrease) in payables	23,111.48	-16,189.58
Increase/ (decrease) in other current liabilities	-76,006.76	-16,835.72
Increase/ (decrease) in provisions		0.00
(Gains)/losses on sale of property, plant and equipment		0.00
Decrease/ (Increase) in other current assets	-22,270.75	4,677.30
Decrease/ (Increase) in receivables	7,060.73	161,656.77
Decrease/ (Increase) in other non-current assets		
Net cash flow from operating activities	97,477.31	-233,057.66
Cash flow from investing activities		
Purchase of property plant and equipment / Intangible assets		
Proceeds from sale of property plant and equipment		
Net cash flow from investing activities	0.00	0.00
Cash flow from financing activities		
Net cash flow from financing activities	0.00	0.00
Net increase/(decrease) in cash and cash equivalents	97,477.31	-233,057.66
Cash and cash equivalent at the beginning of the period	1,284,597.90	1,517,655.56
Cash and cash equivalent at the end of the period	1,382,075.21	1,284,597.90

NATO MSIAC
Statement of Change in Net Assets/Equity

As at 31 December 2018

	(in EUR)
Balance at the beginning of the period 2017	840,296.50
Changes in accounting policy	
Restated balance	
Net gains/(losses) recognised directly in net assets/equity	
Exchange difference on translating foreign operations	
Gain on property revaluation	
Use of Cash Reserves	-366,366.43
Surplus/(deficit) for the period	
Change in net assets/equity for the year ended 2017	473,930.07
Balance at the beginning of the period 2018	473,930.07
Changes in accounting policy	
Restated balance	
Exchange difference on translating foreign operations	
Gain on property revaluation	
Use of Cash Reserves	-254,417.39
Surplus/(deficit) for the period	420,000.00
Change in net assets/equity for the year ended 2018	639,512.68
Balance at the end of the period 2018	639,512.68

NATO MSIAC
Statement of Budget Execution
as at 31 December 2018

	Initial budget	Transfers	BA2	Transfers	BA3	Increase/Decrease	Final budget	Actuals	Carry forward	Lapsed
(Amounts in euro)										
Budget 2018										
Chapter 1	1,442,800		1,442,800		1,442,800	37,000	1,479,800	1,462,027	0	17,773
Chapter 2	317,350		317,350		317,350	13,000	330,350	318,342	11,850	158
Chapter 3	-		-		-		-			-
Chapter 4	-		-		-		-			-
Total FY 2018	1,760,150	-	1,760,150	-	1,760,150	50,000	1,810,150	1,780,369	11,850	17,931
Budget 2017										
Chapter 1	5,125		5,125		5,125		5,125	-2,170		7,295
Chapter 2	245		245		245		245	222	-	23
Chapter 3	-		-		-		-			-
Total FY 2017	5,370	-	5,370	-	5,370	-	5,370	-1,948	-	7,318
Budget 2016										
Chapter 1										
Chapter 2										
Chapter 3										
Total FY 2016	-	-	-	-	-	-	-	-	-	-
Total all budgets	1,765,520	-	1,765,520	-	1,765,520	50,000	1,815,520	1,778,421	11,850	25,249

NATO MSIAC
Statement of Budget Execution
as at 31 December 2017

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

**EXPLANATORY NOTES TO MSIAC
2018 FINANCIAL STATEMENTS****NOTE 1: GENERAL INFORMATION**

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

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

At the end of 2017, MSIAC had twelve participating countries: Australia, Belgium, Canada, Finland, France, Germany, Italy, the Netherlands, Norway, Spain, Sweden, the United Kingdom and the United States. In 2018, Poland joined MSIAC bringing the membership to thirteen; and the Republic of Korea was granted early access which allows to use MSIAC services pending the completion of the accession procedure.

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

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

The participating countries pay all operational and administrative costs relating to the Project office, in accordance with an agreed cost-sharing formula which is based on a share value (EUR 84,000 for 2017 and 2018). End 2018, nine member Nations had one share and four had two shares.

NOTE 2: ACCOUNTING POLICIES

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

Declaration of Conformity

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

Basis of Preparation

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

The financial year is from 1 January to 31 December.

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

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

The following IPSAS have no material effect on the 2018 MSIAC financial statements:

IPSAS 5: Borrowing Costs
IPSAS 6: Consolidated and Separate Financial
IPSAS 7: Investments in Associates.
IPSAS 8: Interests in Joint Ventures
IPSAS 10: Financial Reporting in Hyperinflationary Economies
IPSAS 11: Construction Contracts
IPSAS 16: Investment Property
IPSAS 21: Impairment of non-cash generating assets
IPSAS 26: Impairment of Cash-Generating Assets
IPSAS 27: Agriculture
IPSAS 32: Service Concession Arrangements: Grantor

Changes in accounting policy

None to report.

Reclassification of Financial Statements of Previous Years

None to report.

Use of Estimates

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

Foreign Currency Transactions

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

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

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

Financial Risks

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

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

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

a. Foreign currency exchange risk

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

b. Credit risk

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

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

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

ING Bank Credit Ratings as at 01/03/2019

	Fitch	Moody's	S&P
Short term	F1	P1	A-2

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

c. Liquidity risk

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

d. Interest rate risk

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

Current Assets**a. Cash and cash equivalents**

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

b. Funds Managed for Third Parties

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

c. Receivables

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

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

d. Prepayments

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

e. Inventories

As mentioned above, NATO's adaptations of IPSAS are spelled out in C-M(2016)0023 of April 2016, which included IPSAS 12 Inventories. Furthermore, C-M(2017)0043 of September 2017, approved the NATO Accounting Policy for Inventory.

When it comes to assessing the control of NATO Inventory, these documents define a set of 10 criteria to be used in assessing the level of control of an Inventory asset. A positive response on six of the criteria will lead to the asset being capitalised in the Financial Statements if it is above the capitalisation threshold. This is applied from January, 2013, under the initial NATO Accounting Framework C-M(2013)0039 of July 2013.

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

Capitalisation thresholds relevant to the financial statement are as follow:

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

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

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

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

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

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

The MSIAC assesses inventories under IPSAS 12. The outcome of this assessment is that the value of the inventories is immaterial both in value and in terms of the nature of the items held. Consequently, inventory is fully expensed on receipt. The materiality will be assessed each year.

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

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

a. Property, Plant & Equipment

As mentioned above NATO's adaptation of IPSAS are spelled out in C-M(2016)0023 of April 2016 among which were specific items addressing IPSAS 17 PPE. Furthermore, C-M(2017)0022 (INV) approved the NATO accounting policy for Property, Plant and Equipment.

When it comes to assessing the control of NATO over PPE these documents define a set of 10 criteria to be used in assessing the level of control of a tangible asset. A positive response on six of the criteria will lead to the asset being capitalised in the Financial Statements if it is above the capitalisation threshold. This is applied from January, 2013, under the initial NATO Accounting Framework C-M(2013)0039 of July 2013.

Capitalisation thresholds relevant to the financial statement are as follow:

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

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

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

b. Intangible Assets

As mentioned above, NATO's adaptations of IPSAS are spelled out in C-M(2017)0023 of April 2013, which included IPSAS 31 Intangible Assets. Furthermore, C-M(2017)0044 approved the NATO accounting policy for intangible assets.

When it comes to assessing the control of NATO over Intangible Assets, these documents define a set of 10 criteria to be used in assessing the level of control of an Intangible asset – they are the same as mentioned above under Inventory. A positive response on six of the criteria will lead to the asset being capitalised in the Financial Statements if it is above the capitalisation threshold. This is applied from January, 2013, under the initial NATO Accounting Framework C-M(2013)0039 of July 2013.

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

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

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

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

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

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

- Copyright
- Intellectual Property Rights
- Software development

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

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

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

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

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

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

Non-Current Assets other than PPE

There are none.

Current Liabilities

a. Payables

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

b. Advances and Unearned revenue

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

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

c. Other Current Liabilities

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

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

Non-Current Liabilities

The MSIAC has no non-current liabilities.

Net Assets

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

Revenue Recognition

Revenue comprises contributions from Member Nations, pro-rated contributions (partial calls) and joining fees from new Member Nations.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably. The balance of unspent contributions and other revenues that relate to future periods are deferred accordingly.

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

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

On the other hand, calls related to non-budgeted contributions (new membership early access, access during the year, and Joining Fees from new Member Nations) are recognized when they are issued and as Non-Exchange revenue in the Statement of Financial Performance, considering that it is not possible to directly identify and value the consideration provided by MSIAC directly in return for the resources received. There are no expenses to be matched against these resources which are not refundable to nations.

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

Segment Reporting

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

Statement of Financial position

NOTE 3: CASH AND CASH EQUIVALENTS – SHORT TERM INVESTMENTS

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

cash (in EUR)	2018	2017
Cash at bank	1,382,075.21	1,284,597.90
Petty cash	-	-
Total	1,382,075.21	1,284,597.90

There were no short term investments.

NOTE 4: FUNDS MANAGED FOR THIRD PARTIES

MSIAC does not manage funds for third parties.

NOTE 5: ACCOUNTS RECEIVABLE

Receivables (in EUR)	2018	2017
Budgetary contributions	-	-
Others	-	7,060.73
Total	-	7,060.73

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

NOTE 6: PREPAYMENTS and OTHER CURRENT ASSETS

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

(in EUR)	2018	2017
Prepayments to Suppliers	1,662.22	388.18
Prepayments to Staff	-	-
Other Current Assets	20,996.71	-
Total	22,658.93	388.18

Other Current Assets include the counterpart of untaken leave as a valuation of the potential budgetary contribution that would be required if this untaken leave were to be paid. However as indicated in the note on Employee Disclosure untaken leave is normally never paid. For 2017 untaken leave was not considered material. This item also includes accrued financial revenue.

NOTE 7: INVENTORIES

Nothing to report, inventories are not considered material.

NOTE 8: NON-CURRENT ASSETS

MSIAC has registered no non-current assets.

NOTE 9: ACCOUNTS PAYABLE

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

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

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

Payables (in EUR)	2018	2017
Suppliers	24,360.10	14,639.31
Personnel	1,170.00	95.67
Member Nations	622,218.98	650,869.50
Accrued expenses/Education	-	-
Accruals	59,376.88	18,410.00
Total	707,125.96	684,014.48

Payable to nations

A payable of EUR 622,218.98 (EUR 650,869.50 at year-end 2017) is in relation to the reimbursable salaries and represents the amount due to the United States (US) for one civilian staff member who is paid directly by the US government. This amount remains to be regularised.

NOTE 10: DEFERRED REVENUE**Deferred Revenue**

Deferred revenue corresponds to contributions called for the current year or before (received or receivable) that MSIAC intends to use for its initial purpose, but for which corresponding goods or services could not be received in the course of the current budget year but will be incurred after the end

of the reporting period. If these amounts carried forward are not spent by the end of the second year following the year for which they were approved, these funds lapse, unless a specific decision is taken by member nations for a further carry-forward.

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

NOTE 11: ADVANCES

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

NOTE 12: SHORT TERM PROVISIONS

There were no short term provisions.

NOTE 13: OTHER CURRENT LIABILITIES

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

(amounts in EUR)	2018	2017
Lapsed Appropriations	25,248.79	129,155.73
Net Financial Income	-	- 2,783.40
Miscellaneous Income	-	1,360.28
Others	-	-
Total	25,248.79	127,732.61

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

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

There are no non-current liabilities.

NOTE 15: NET ASSETS

Net Assets correspond to MSIAC's Project Accumulated Surplus from previous years and the surplus (deficit) from the current year..

Project Accumulated Surplus relates to funds resulting from past contributions by MSIAC member Nations in excess of budget execution that the Steering Committee decided not to redistribute to the member nations but keep for the needs of MSIAC. This reserve also includes the former surpluses originating , for instance, from non-budgeted new membership contributions and joining fees paid by incoming member nations to contribute to the products and services developed over the 25 years of MSIAC operations. It is held at the direction of the Steering Committee. The Steering Committee may use these funds to contribute to future costs associated with MSIAC operations, or in case of emergency funding needs for the Project. The growth in accumulated surplus over previous years reflects more Nations entering the Project but zero growth in Project staff. A five year plan is agreed yearly and incrementally reduces this fund to target levels agreed by the MSIAC Steering Committee. At the Steering Committee meeting October 2018, the nations agreed to a target range between EUR 400 and EUR 650K.

(in EUR)	2018	2017
Cumulated Surplus beginning of the year	473,930.07	840,296.50
+ Lapses from previous year	129,155.73	72,080.09
+ Net Financial Income (Interest, Bank Fees) previous year	- 2,783.40	- 3,346.52
+ Miscellaneous Income previous year	1,360.28	-
- Surplus allocated to current year budget	- 382,150.00	- 435,100.00
Cumulated Surplus end of the year	219,512.68	473,930.07
Current Year Surplus	420,000.00	-
Net Assets as off 01 Jan 2019	639,512.68	473,930.07

The Project Accumulated surplus reduced between 2016 (EUR 840K) and 2017 (474K), in accordance with the policy agreed by the Steering Committee. At the end of 2018, it amounts to EUR 219,512.68 , however in 2018 MSIAC collected additional proceedings from early access contributions and joining fees from new members (EUR 420K), that will revert to equity in 2019.

Statement of Financial Performance

NOTE 16: REVENUE

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably.

Revenue from member Nations' budgetary contributions is considered as non-exchange revenue in consideration of the fact that the contributions by member Nations are based on the number of shares and not in proportion of the service they receive. Non-exchange revenue is matched with expenses stemming from budget execution.

Other contributions such as non-budgeted contributions (new membership early access, access during the year, and Joining Fees from new Member Nations) whilst being also recognized as Non-Exchange revenue, do not follow the matching principle since it is not possible to directly identify and value the consideration provided by MSIAC directly in return for the resources received. There are no expenses to be matched against this revenue which is not refundable to nations. Therefore these result in Surplus of the period concerned.

NOTE 17: EXPENSES

Wages, Salaries and Employee Benefits

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

Supplies and Consumables Used

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

Other Expenses

This item includes a valuation of untaken leave.

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

Presently, the NATO MSIAC Budget is not publicly available.

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

Presentation of budget information in the financial statements

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

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

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

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

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

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

The MSIAC budget is prepared and executed as follows:

- 1) The commitment of appropriations is the advance acceptance and recording of the financial consequence resulting from a legal obligation incurred during the financial year. As a consequence appropriations are allocated, and commitments are approved, for goods, services and works to be delivered at a later stage. Commitments are settled when the service is rendered or goods delivered as is the case for expenses under accrual accounting.
- 2) Unliquidated commitments at year end normally lapse. However, if they are supported by a legal obligation and correspond to goods or services that could not be received during the course of the year for specific reasons, they may be carried forward and added to the budget of the following financial year. Uncommitted appropriations may be subject of a special carry forward to the following year if a specific agreement is given by the Steering Committee. Outstanding commitments can be carried forward for two years. As a consequence, the services or goods received may relate to a commitment of appropriations from previous years' budgets. The carry-forward should be justified by a reason for which the services or goods could not be received in the course of the year. In addition, in accordance with Financial Regulations, member Nations may agree to a further carry-forward of commitments that were already carried forward twice.

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

Reconciliation between Budget Execution and Statement of Financial Performance

BUDGET EXECUTION		2018	2017
Total Budget (including carried-forward from previous year)	(a)	1,815,519.65	1,867,400.00
Credits Carried Forward in Following Year	(b)	11,850.00	5,369.65
Lapsed Appropriations	(c)	25,248.79	129,155.73
Budget Execution Expenses	(d) = (a-b-c)	1,778,420.86	1,732,874.62

RECONCILIATION		2018	2017
Financial Performance Expenses (total)	(e)	1,799,417.57	1,737,278.93
Other net expenses (financial and miscellaneous)	(f)	20,996.71	4,404.31
Increase in Non-Current Assets	(g)		0.00
Other Elements	(h)		0.00
Sub-Total	(i) = (e-f+g+h)	1,778,420.86	1,732,874.62
Difference to Budget Expenses	(d-i)	0.00	0.00

Budget execution

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

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

Reconciliation between Budget and Calls for Contributions

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

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

As directed by the Steering Committee, the calls covered EUR 1,428,000 in 2018 and in 2017. However, further to Poland joining MSIAC during 2018 and early access granted to the Republic of Korea, early access contributions were requested in the total amount of EUR 105,000. These proceedings are considered non-budgetary revenue, recognizable as a period surplus, that will be moved to equity at the beginning of the following year.

In accordance with MSIAC's Steering Committee decision, new member nations have to contribute a one-off Joining Fee, besides the normal annual contributions. In 2018 as a result of the accession of Poland and the Republic of Korea, EUR 315,000 were collected as joining fees. These proceedings are considered non-budgetary revenue, recognizable as a period surplus, that will be moved to equity at the beginning of the following year.

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

amounts in EUR	2018	2017
Initial Budget	1,760,150.00	1,863,100.00
Revised Budget	50,000.00	-
Total Annual Budget	1,810,150.00	1,863,100.00
Advance called previous year	-	-
Call in current year	1,533,000.00	1,428,000.00
Total Cash Calls	1,533,000.00	1,428,000.00
Use of Previous Year's Surplus	-	-
Use of Project Accumulated Surplus	277,150.00	435,100.00
Other Funding Sources	277,150.00	435,100.00
Total Funding	1,810,150.00	1,863,100.00

NOTE 19: WRITE-OFFS

Serial	Date	Location	Type of Items	Acquisition Value in EUR	Net Book Value	Reason for Write-off	Disposal Method
1	26/7/2018	IS Building Z	Miscellaneous IT Equipment	515,476.10	-	Unserviceable, Obsolete	Waste/Recycle
2	26/7/2018	IS Building Z	Miscellaneous Furniture Items	150,628.35	-	Unserviceable, Obsolete	Waste/Recycle
TOTAL				666,104.45	-		

NOTE 20: LEASES

MSIAC does not have any financial leases.

NOTE 21: RESTRICTIONS ON FIXED ASSETS

There are no restrictions on fixed assets.

NOTE 22: CONTINGENT LIABILITIES

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

NOTE 23: CONTINGENT ASSETS

Nothing to report

NOTE 24: EMPLOYEE DISCLOSURE

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

Paid leave is an employee benefit and as such part of overall personnel expenses. In accordance with personnel regulations, the remaining balance at year end may be carried forward but must be taken before 30 April of the following year. It can be exceptionally expanded to 31 October in accordance with Civilian Personnel Regulations art. 42.3.5 and 42.3.6. After this date it lapses and is not paid to staff. For these financial statements, untaken leave is specifically reported if its monetary value is more than 10% of the total annual leave entitlement. The cost of untaken leave days is usually absorbed during the year through the monthly salaries; leave to be taken carried forward into the next year constitutes a liability towards the future and would notionally require funding from Participating Nations.

End 2018, untaken leave was estimated EUR 20,996.71. Untaken leave by MSIAC staff was not considered material as of end 2017.

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

For 2018, MSIAC had an approved Personnel Establishment of 10 positions funded by the MSIAC budget (10 for 2017).

End 2018, 8 staff members (8 in 2017) participated in the Defined Contribution Pension Scheme (DCPS) administered by NATO. The DCPS provides that the MSIAC budget makes a 12 percent monthly matching contribution to the staff members' contributions for current service. End 2018, 1 other employees (2 in 2017) participated in NATO's Defined Benefit Pension Scheme (DBPS): a deduction of 9.5% of their salaries is made and contributed to the annual financing of this Plan. In addition, the MSIAC budget makes a monthly matching contribution of 19% to the DBPS. Consequently, the MSIAC has neither DBPS nor DCPS liabilities for its staff members. These contributions are expensed during the year in which the services are rendered and represent the total pension obligation of the entity.

		2018	2017
Provident Fund	Staff	-	-
	Employer	-	-
	Total	-	-
Co-ordinated Pension Scheme	Staff	6,843.36	12,032.76
	Employer	14,476.41	24,065.52
	Total	21,319.77	36,098.28
Defined Contribution Pension Scheme	Staff	73,993.56	65,379.62
	Employer	86,889.74	77,434.65
	Total	160,883.30	142,814.27
TOTAL	Staff	80,836.92	77,412.38
	Employer	101,366.15	101,500.17
	Total	182,203.07	178,912.55

End 2018, one staff member was employed on a reimbursable basis with an agreement between NATO-IS and the United States (same for 2017). The individual is remunerated and accrues pension rights under the United States pension scheme.

Further to an analysis covering the last years of the history of death in service risks in relation to premiums paid by the Organisation during 2012-2015, a compensation of EUR 6 million at the NATO-wide level was agreed by the insurance company. End 2018, the NATO Secretary General decided that

a fraction of this amount (circa EUR 1,7 million) should be paid to NATO staff who were members of the DCPS during the period 2012-2015 in proportion to the contributions they made to the DCPS. Staff employed by MSIAC during the period 2012-2015 and affiliated to the DCPS are therefore entitled to a payment to be made from the NATO DCPS accounts. A decision still has to be taken concerning the remaining amount of the compensation, which may result in a proportional payment to MSIAC.

NOTE 25: KEY MANAGEMENT PERSONNEL

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

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

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

NOTE 26: RELATED PARTIES

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

In 2018, NATO International Staff charged MSIAC an amount of EUR 59,440.46 for administrative support costs (EUR 82,181.02 in 2017) and EUR 35,465 for common operating costs (EUR 27,404.53 in 2017). In addition, the International Staff charges an annual rent for office space occupied in Building Z up until the move to the new NATO HQ during 2018 (EUR 9,031.40 for 2018 and EUR 36,125.62 in 2017).

List of acronyms:

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