	NATO	NORTH ATLANTIC COUNCIL
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23 September 2021

DOCUMENT
C-M(2021)0022-AS1

**IBAN AUDITOR'S REPORT AND LETTER OF OBSERVATIONS AND
RECOMMENDATIONS ON THE 2019 AUDIT OF NCIO FINANCIAL STATEMENTS**

ACTION SHEET

On 22 September 2021, under the silence procedure, the Council noted the RPPB report at annex to C-M(2021)0022, agreed its conclusions and recommendations, and agreed to the public disclosure of this report, the IBAN Auditor's Report and Letter of Observations and Recommendations and associated 2019 financial statements of NCIO.

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2021)0022.

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8 September 2021

DOCUMENT
C-M(2021)0022
Silence Procedure ends:
22 Sep 2021 17:30

**IBAN AUDITOR'S REPORT AND LETTER OF OBSERVATIONS AND
RECOMMENDATIONS ON THE 2019 AUDIT OF NCIO FINANCIAL STATEMENTS****Note by the Secretary General**

1. I attach the International Board of Auditors for NATO (IBAN) Auditor's Report and Letter of Observations and Recommendations on the 2019 financial statements of NATO Communications and Information Organisation (NCIO). The IBAN Auditor's Report set out qualified opinions on both the 2019 financial statements and on compliance for NCIO.
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, 22 September 2021**, I shall assume the Council noted the RPPB report, agreed its conclusions and recommendations, and agreed to the public disclosure of this report, the IBAN Auditor's Report and Letter of Observations and Recommendations and associated 2019 financial statements of NCIO.

(Signed) Jens Stoltenberg

1 Annex
2 Enclosures

Original: English

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IBAN AUDITOR'S REPORT AND LETTER OF OBSERVATIONS AND RECOMMENDATIONS ON THE 2019 AUDIT OF NATO COMMUNICATIONS AND INFORMATION ORGANISATION (NCIO) FINANCIAL STATEMENTS

Report by the Resource Policy and Planning Board

References:

A. IBA-A(2021)0009	IBAN's Auditor's Report and Letter of Observations and Recommendations on the audit of 2019 financial statements of NATO Communications and Information Organisation (NCIO)
B. C-M(2015)0025	NATO Financial Regulations (NFR)
C. BC-D(2015)0260-REV1	Financial rules and procedures (FRP)
D. C-M(2016)0023	NATO Accounting Framework (NAF)
E. AC/335-D(2021)0003-REV5	NCIA Customer Funding Regulatory Framework Review
F. PO(2015)0052	Wales Summit tasker on transparency and accountability

INTRODUCTION

1. This report by the RPPB addresses the IBAN Auditor's Report and Letter of Observations and Recommendations on the 2019 financial statements of NCIO. The IBAN Auditor's Report sets out qualified opinions on both the financial statements and compliance for NCIO (reference A).

AIM

2. This report highlights key issues in the IBAN Auditor's Report and Letter of Observations and Recommendations (reference A) to enable the Board to reflect on strategic challenges emanating from the audit of financial statements of NATO entities and to recommend courses of action to Council as applicable, which have the potential to improve transparency, accountability and consistency.

3. The Board acknowledges that the observations highlighted in the Auditor's Report and Letter of Observations and Recommendations have been discussed and dealt with by the participating Nations represented on the NCIO Agency Supervisory Board (ASB), which is the relevant governing body. The RPPB is mandated under Article 15 of the NFRs (reference B) to examine the Auditor's Report and Letter of Observations and Recommendations and to provide comments and recommendations to the Council as required.

OBSERVATIONS

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4. During the audit, the IBAN made three observations and recommendations, including one observation on the material incompleteness of Property, Plant and Equipment (PP&E) and intangible assets that impacted the audit opinion on the financial statements and on compliance. The other two observations related to the improvements needed on the internal control over accrual estimates and NCIO's need to improve customer rates and overhead assumptions did not impact the audit opinion on the financial statements or on compliance. Also, the IBAN followed up on the status of observations and recommendations from the previous years' audits and found that eight were closed and five remain in progress.

4.1. During the audit, the IBAN was unable to express an opinion on the value of inventory amounting to approximately EUR 47 million due to a lack of sufficient and appropriate evidence as IBAN was not able to carry out annual physical checks. The IBAN stresses that this opinion related to the value of inventory is based on the COVID-19 situation, which is outside of NCIO's area of responsibility.

4.2. Observation 1 (basis for a qualified opinion on the financial statements and on compliance): Firstly, the IBAN found that PP&E and intangible assets, including assets under construction, were materially incomplete because CIS assets under construction as of 1 January 2018, including existing ones that continue after 1 January 2018 were fully expensed. This relates, among other things, to ACCS licenses and right to use intellectual property rights as well as CIS related to the New HQ.¹ Secondly, PP&E and intangible assets recorded in the legacy accounting systems have not yet been fully migrated into the new Enterprise Business Applications (EBA) system and reported in the NCIO 2019 Financial Statement.² Thirdly, the IBAN also found the absence of the note disclosure for PP&E and intangible assets held prior to 1 January 2013 and of the CIS assets that were held under construction prior to 1 January 2018, in accordance with the NAF (reference D). And finally from a compliance perspective, the IBAN found that NCIO did not establish and maintain a comprehensive inventory of PP&E and intangible assets, including assets under construction, in accordance with Article 12 of the NFRs.

4.2.1. The Board supports IBAN's recommendation that NCIO recognises all PP&E and intangible assets, including assets under construction, in the financial statements, in accordance with the NAF and establishes and maintains comprehensive accounting records of all PP&E and intangible assets, and assets under construction in accordance with Article 12 of the NFRs.

4.3. Observation 2: NCIO's accounting system (EBA) automates the calculation and accounting of accruals, based on the date of receipt of goods and services against approved purchase orders. Through the selection of purchase orders the IBAN found that some of the

¹ As per para 6.4 of NAF (reference D) "NCIO shall capitalise all Computer Information Systems (CIS) assets under construction starting as of 1 January 2018. This shall apply for all new CIS assets under construction after 1 January 2018, but also for existing assets under construction that continue after 1 January 2018."

² NATO Reporting Entities capitalise all controlled PP&E and intangible assets purchased after 1 January 2013 while for those assets previously recognised and held prior to 1 January 2013, the NATO Reporting Entity should provide a brief description in the notes to the financial statements

expenses accrued in 2019 corresponded to services or goods actually carried out or to be carried out in 2020. In addition there were no supporting documents attached in EBA to substantiate these receipts.

4.3.1. The Board supports IBAN's recommendation that NCIO develops internal control procedures to detect incorrect estimates of accrued expenses, in particular with regard to the erroneous validation of the receipt of purchase orders in EBA and defines a list of documents to be uploaded in EBA.

4.4. Observation 3: NCIO applies the Budget Committee approved standard customer rates methodology which includes the overhead rates. However, the IBAN found that the NCIO Customer Rates and Overheads Governance Model does not clearly set out the roles and responsibilities relating to inputs from internal stakeholders and that NCIO does not perform a variance analysis of approved standard customer rates, including overhead rates with actuals nor report them to the ASB Finance Committee. The IBAN found that NCIO does not use the Time Accounting System (TAS) to assess the accuracy of assumptions used in the customer rates. The IBAN also found that travel costs for services delivered by NCIA to its customers were historically included in the overhead rate, rather than being directly billed to customers³.

4.4.1. The Board supports IBAN's recommendation that NCIO clarifies roles of internal stakeholders who influence customer rates, provide detailed information supporting the rationale of each business assumption taken by Management, apply a consistent approach regarding travel costs, fully use the TAS and report variances between approved customer and overhead rates and actuals to the ASB Finance Committee.

4.5. Prior year closed observation: The IBAN closed observations on the financial reporting control weaknesses, compliance with the NCIA personnel establishment policy, quality and accuracy of Cost-to-Complete (CTC) process and estimates. It also closed the observations on the process to prepare, send and receive confirmation of the outstanding assets and liability balances from other NATO Reporting Entities and on the quality of the TAS.

4.6. Prior year observation in-progress: Progress is noted in respect of the prior year observations, notably in assessing the legacy of NATO Depot and Support System (NDSS) converted data, migrating of unit prices from NDSS and adjusting to NAF. However, additional improvement is still required in the source selection planning process, contract requirement definition, and in the confirmation of the Statement of Internal Control. It is also noted that the Internal Audit Charter, internationally accepted internal audit standards and reporting lines will be addressed as a part of the NFR (reference B) review.

DISCUSSION

³ The impact of the deficiencies related to the accuracy of the assumptions used in the calculation of the customer rates is that the total actual overhead for 2018 is approximately 24% instead of 28%.

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5. The Board acknowledges the significant effort of the NCIO to address IBAN's observations and its positive cooperation in reviewing progress on the recommendations in the IBAN audit reports.

5.1. The Board notes that the IBAN observation regarding the material incompleteness of PP&E and intangible assets will remain an issue in 2020 NCIO Financial Statements. NCIO ASB emphasized that significant mitigating actions have been taken to ensure appropriate control measures and to address the risk of non-compliance, however some observations will not be closed without further improvements and funding for the EBA. Recognising the dependency and inherent complexity of the EBA TAS, the Board expressed its concerns on the challenges NCIA is facing putting in place a functioning cost accounting system and called for further strengthening of its accuracy and adjustments to its underlying processes. The Board expects that the correction to unit prices in EBA and a full disclosure of NCIA's inventory balance will be reviewed in the IBAN's follow-up audit activity for 2020.

5.2. The Board recognises the challenge NCIO faces with regards to asset management and mentioned a "get well plan" would be reviewed as part of the multi-year implementation plan in 2021. It noted also the significant efforts on improving internal control over accrual estimates. With the enhanced NCIA Customer Funding Regulatory Framework (reference E) NCIO can improve the accuracy and transparency of assumptions underlying customer rates, including overheads.

5.3. The Board is keen to see unqualified audit reports for NCIO, with a closure to outstanding audit observations especially regarding migration of missing PP&E items and recognition and disclosure of intangible assets and assets under construction, this would demonstrate sound financial management and administration.

CONCLUSIONS

6. The IBAN Auditor's Report sets out qualified opinions on both the financial statements and compliance for NCIO. In total, three observations were raised in the audit report for NCIO of which one observation impacted the audit opinion for NCIO in 2019 on financial statements and compliance. As of the date of the respective IBAN Auditor's Report and Letter of Observations and Recommendations a total of five prior year observations for NCIO were in-progress and eight prior year observations were closed.

7. In 2019, the IBAN identified that improvements are needed in recording CIS assets, migrating PP&E and intangible assets into the new EBA system and including a note disclosure for PP&E and intangible assets held prior to 1 January 2013 and CIS assets under construction prior to 1 January 2018, in the financial statements. The IBAN also noted that improvements are needed on the internal control over accrual estimates and to the NCIO customer rates and overhead assumptions.

8. In this regard, the Board supports IBAN's recommendation that material incompleteness of PP&E and intangible assets is recognised in the NCIO Financial Statements and that NCIO set up accounting records of all PP&E intangible assets. The Board also supports IBAN's recommendation on the improvement of internal control

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procedures and improvement of the accuracy and transparency of assumptions underlying customer rates, including overheads.

9. In respect of prior year observations, the Board welcomes progress made by NCIO in the area of financial reporting and personnel establishment policy. Furthermore, the Board notes improvement in the TAS, CTC process and in the process of the outstanding liabilities and balances. In addition, it upholds IBAN's recommendation that NCIO disclose full value of inventory, comply with its Standard Operating Procedure, validate the Statement of Internal Controls, improve contract requirement definition and modify the Internal Audit Charter.

10. The Board acknowledged the need for further strengthening of TAS since certain observations will not be closed without further progress⁴and funding for the EBA Release 4.

RECOMMENDATIONS

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

11.1. note this report and the IBAN Auditor's Report and Letter of Observations and Recommendations at reference A;

11.2. agree the conclusions at paragraphs 6 to 10; and

11.3. agree to the public disclosure of the 2019 financial statements for NCIO, its associated IBAN Auditor's Report and Letter of Observations and Recommendations and this report in line with agreed policy at reference F.

⁴ The Board discussed and agreed to include the RPPB decision for authorisation to use the Operating fund for Agency internal Investment Capability Delivery



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



NCIA/FC/2020/3152

NCIO Financial Statements 2019

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Foreword by General Manager NATO Communication and Information (NCI) Agency

I am pleased to present the Financial Statements (FS) for the NCI Agency for the financial year 2019. This year's assessment comes at a time of significant change to how the Agency manages and controls its business operations and financials.

At the crossroads between the requirements for operational management and the opportunities within business support systems, the Enterprise Business Application (EBA) provides the Agency with the capability to consolidate all financial processes and data in one financial system. This is the third set of FS that I have issued during my tenure.

The NCI Agency EBA system, in its first release, went live during early 2019, consequently this is the first set of FS using one financial system. As expected in similar complex Enterprise Resource Planning (ERP) implementations, EBA required further system stabilization and a usage learning curve that started in 2019 and will continue as subsequent releases are implemented.

Financial statements are an important piece to confirm the sound financial management of the Agency and in particular its capacity to achieve breakeven over the planning period. In 2019, the net operating result shows a modest surplus of 3.3 MEUR (0.4% of the total revenue).

Financially and operationally, during 2019 the Agency continued to achieve important milestones, and also addressed implementation challenges on some programmes. Overall, the NCI Agency's total revenue amounts to 800.1 MEUR, this is a 7% decrease compared to the previous year.

This decrease in Agency revenue is mainly due to a lower NSIP Acquisition revenue, which is not entirely in the Agency's control. Challenges and delays have influenced the Agency's NSIP execution rate on some major programmes, in particular, the Air Command and Control System (ACCS), Software and Deployable Air Command and Control Radar project (DARS),

Satellite Ground Terminal Stations (SGTS), Polaris and the Functional Grouping and Facilities Study (FGFS) programmes.

The Operating revenues continued their upward trend, being up 3% compared to prior year, while the External CIS revenues slightly decreased by 2%.

Finally, compared with planned break-even, included in the 2019 – 2021 Financial Plan¹, the net operating result for 2019 amounting 3.3 MEUR demonstrate the ability of the Agency to exercise prudent financial management. This achievement is the result of strict cost control procedures being implemented across the Agency.

Continuous improvement through organizational reform is a central pillar supporting the NCI Agency's business operations and financials. This approach is becoming part of our organizational DNA and a foundation that empowers agility with our delivery of capability. As we align the Agency's operational requirements and business support systems – digital, non-digital, personnel and facilities – the Agency will be more responsive to NATO's readiness, modernization and innovation agendas, and build on the Agency's 2019 accomplishments.

Other internal Agency accomplishments include:

Finance Function Transformation

With the arrival of the new Financial Controller end 2019, new objectives have been defined to transform the Agency's Finance operations to become a NATO's leading Finance function. This goal includes consolidating the responsibilities of the Finance function, reinforcing the financial accounting and corporate processes and reporting systems, strengthening the financial services delivered to business operations, and enhancing strategic financial management. The Finance function will maintain strong leadership for the implementation of EBA to improve the quality of financial data and the robustness and efficiency of financial processes.

¹ AC/337-D(2018)0038 dated 7 November 2018 and AC/337-D(2018)0038-AS1 dated 16 November 2018

Finance Function in 2019

- Continued to actively address and closeout IBAN and Internal Audit observations.
- Continued to progress the NCIO Internal Control Framework.
- Delivered the Agency's first multi-annual Investment Plan, embedded within the 2019 – 2021 Business Plan² and reflected in the 2019 – 2021 Financial Plan. Initiated the process of finding viable funding sources for NCI Agency Internal Investments with the Agency's governance bodies.
- Participated in an independent study that focused on the categorization and allocation of overhead cost that confirmed the Agency's overhead expenditure is consistent with its peers and has a favourable management cost to productivity ratio.

Business Operations Management Improvements

- Improved the Agency's risk management process that removes hierarchical barriers and allows timely decision-making for the successful delivery of planned objectives and milestones.
- Implemented the Request to Proposal (R2P) tool to optimize the overall "Customer Request to Customer Price Proposal Acceptance" process to provide better insight into the status of customer requests for both Agency staff and the customers.
- Transitioned to an organic Portfolio Management Office (PfMO) to improve the Agency's ability to manage common funded capabilities across their entire lifecycles.
- Continued to work towards a matrix organization – re-organizing core areas, improving Agency recruitment and customer demand management.
- Established a series of Crisis Management processes to better support the Alliance from peacetime operations to crisis management.

Facilities Upgrades

- Completed several important facilities upgrade milestones in cooperation with the Agency's Host Nations (HN):

- Relocated the Air and Missile Defence and Control assets from Glons and restored these capabilities in The Hague.
- Continued to progress renovations at The Hague in collaboration with the HN The Netherlands; the first renovation phase completed in 2019 to accommodate staff in this portion of the building and allow for the initiation of the current transition configuration that will continue until early 2021.
- Completed the Active IT upgrades for both The Hague and Oeiras to ensure ongoing operational capability.
- Handed over the Glons and Latina facilities to HN Belgium and HN Italy, respectively.
- Closed, relocated and transformed, the NATO Communications and Information Systems School (NCISS) in Latina, Italy after 60 years of serving the Alliance, to the NCI Academy in Oeiras, Portugal.

Some specific NCI Agency Capability and Service Development/ Delivery accomplishments include:Contract Awards

- Awarded contracts to National industry worth approximately 1.42 BEUR, of which 1 BEUR related to the Military Satellite Communication (SATCOM) Memorandum of Understanding, to provide services to National SATCOM Programmes in France, Italy, the United Kingdom and the United States, for the period 2020 – 2035.
- Signed four new bilateral industry partnership agreements on cyber information sharing.

Operations & Exercises

- Deployed more than 470 staff on rotation - including NATO Civilians, Military and Contractors - to support over 30 major NATO and National exercises, and operations in Afghanistan (Operation Resolute Support (RS)), Iraq (NATO Mission Iraq (NMI)) and Kosovo (Kosovo Force (KFOR)).

² AC/337-D(2018)0035 dated 24 September 2018 and AC/337-D(2018)0035-AS1 dated 16 November 2018

Capability/Service Delivery

- Delivered essential NATO interoperable communication capabilities to Nations, for example, the delivery of voice equipment to the Bulgarian and Latvian Air Forces.
- Engaged in the delivery of Georgia Secure Communication Network and four projects for the NATO-Ukraine Command, Control, Communications and Computers Trust Fund (C4TF).
- Visited 13 different ports in nine different countries to support 17 Communication and Information Systems (CIS) operational handovers for NATO's maritime operations.
- Delivered key infrastructure at the main Alliance Ground Surveillance (AGS) operating base in Italy to connect the AGS aircraft to the NATO Secret Wide Area Network and made provisions to support the systems and services required to operate the NATO AGS capability.
- Established and delivered the NATO Cyber Security Centre (NCSC) to centralize NATO's cyber security services.

Capability Development

- Completed the pilot project for Accelerated Software Acquisition "Intelligence Coalition Support Capability" in Kosovo Force KFOR.
- Provided NCI Agency space domain subject matter expertise to support the development of the Alliance's first overarching space policy.
- Championed Cloud technology for the development of a NATO Software Factory to deliver software to Nations and to collaborate with industry in real-time.
- Shared measures to counteract potential threats to devices and systems related to the 2019 European elections as the NCI Agency contribution to the NATO-EU cooperation.

External Stakeholder Engagement

- Organized and delivered the 15th edition of the NATO Information Assurance Symposium (NIAS) - NATO's largest Cyber Security conference - that had a record of attendance with about two thousand people.
- Gathered 800 senior industry, government, and military leaders at the Agency's flagship conference, NITEC, in Oslo, Norway, and

engaged with representatives from NATO, the Nations, think tanks, academia and industry in 30 interactive workshops.

Future Challenges

At the time of releasing the NCI Agency 2019 Financial Statements, the COVID-19 crisis is unfolding. The Agency remains fully committed to ensuring critical communications and information services for NATO during this crisis.

Without a doubt, this crisis will mark 2020 in terms of financial and operational impacts. It will, however, reinforce the need for a robust, reliable and flexible NCI Agency, committed and capable of leading NATO's Digital Endeavor.

In these uncertain times, the Agency is proving able to effectively and efficiently continue its mission to NATO, and this would not be possible without the contributions of the Agency's mobile workforce, resilient infrastructure and delivery commitment. Careful financial risk management will be exercised during 2020 to ensure a balanced financial performance and secure the Agency's financial fundamentals.

Kevin J. Scheid
General Manager
NATO Communications and Information Agency

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

Vision

In 2019, NATO celebrated its 70th anniversary, it is not only the longest-lasting Alliance in history but also the most successful Alliance in history. At this occasion, the NATO Foreign Ministers noted "rapid and profound technological change requires new approaches", and this is precisely where the NCI Agency and its predecessors have been supporting the Alliance for 64 years. As a technology organization, the NCI Agency is charged with driving technological progress across the Alliance.

In line with defence spending, NATO continues to progress its fundamental readiness, modernization and innovation transformation agendas in a manner in which it performs its mission by effectively exploiting information technology and reforming its operational and business processes. Today, NATO's consultation (Article IV) and collective military operations (Article V) are dependent on a secure and resilient digital infrastructure, and an array of Information and Communications Technology (ICT) applications.

The NATO Communications and Information Organization (NCIO) is at the centre of NATO's digital transformation, and the NCI Agency is positioned to lead the way. At the end of 2018, the Agency Supervisory Board (ASB) approved a comprehensive five-year Strategic Plan that delivers the themes of the Strategic Direction and Guidance set by the Nations.

The Agency is advancing its delivery against the strategic goals and objectives set in the NCI Agency 2018 - 2022 Strategic Plan³ and progressing towards the NCIO vision – becoming one of the top 10 international organizations to work for in Europe.

Mission

The NCI Agency's mission is defined in the NCIO Charter and is a solid foundation for the Agency's business operations, and the Agency is building upon this foundation. The digital transformation of NATO is a necessity; all large organizations are facing this challenge. With the COVID-19 crisis unfolding, this requirement for a digital enterprise is more topical than ever. It is during these times of crisis that the Alliance's reliance on the Agency's

secure and reliable ICT capabilities and services becomes evident. The Agency is capable of responding to this challenge and fulfilling its mission.

As a customer funded organization, sound financial systems, processes and controls are essential for all parts of Agency's business, be it towards customer delivery or in its enabling functions. A specific strategic goal is dedicated to championing customer funding, tailoring it for the digital endeavour and strengthening the Agency's financial management model.

Business Model and Developments in 2019

As established by the NCIO Charter in mid-2012, the NCI Agency is customer funded for delivering ICT to NATO and nations. The principles of Customer Funding are based on the NCIO Charter:

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

Since 2014, the Agency's operations have been in line with a Bridging Model, with customers charged through Customer Funding except for the NATO CIS School, Latina. The successor of the School is the NCI Academy in Oeiras, Portugal, which opened with an Interim Operating Capability (IOC) in 2019. The NCI Academy will migrate to the Customer Funding model used elsewhere in the Agency as from 2021.

The Agency continues to evolve from an asset based to a service based provider and is maturing Customer Funding application through the Agency's Costed Customer Service Catalogue (CCSC) approach. Following screening by the Agency's governance bodies and Working Group of National Technical Experts (WGNT), the 2019 Service Rates are used as a basis to price services to Commands, Headquarters and the Nations. This process is further evolving to ensure a stable baseline and to allow for comparability.

³ AC/337-D(2018)0014-REV2 dated 7 December 2018 and AC/337-D(2018)0014-REV2-AS1 dated 18 December 2018

The Customer Funding Regulatory Framework (CFRF) forms the basis of the Agency's financial operations. A key aspect of this framework covers the issues contained within the overarching principles for funding eligibility:

- Definition of customers, internal and external and their roles and responsibilities;
- Coordination with existing programming and planning mechanisms;
- Recapitalization of ICT assets and equipment;
- Roles of the Agency Supervisory Board (ASB), Resource Policy and Planning Board (RPPB), Budget Committee (BC), and Investment Committee (IC);
- Service demand and requirements validation;
- Pricing of Agency services;
- Provision of independent advice to the NATO resource community;
- Roles of other stakeholders in the governance of the NCI Agency;
- Requirement for ICT Services and Capabilities;
- Procedures governing the use of the Operating Fund.

Governed by the Nations, the Operating Fund, in this context, performs the function of a repository for Accumulated Surpluses or Deficits. The overall level of the Operating Fund (excluding the depreciation) set by the Nations, currently at 10 MEUR, with any increases, is based on a risk assessment and justification. The CFRF has been in effect as of 2016, it went through its first review in 2018, and a comprehensive review is planned to take place in 2020.

The main aim of the Customer Funding financial model is to empower the customer to secure the best value for money in obtaining the services it requires. The concept also aims to ensure that the beneficiaries of the goods and services are those who pay the full costs of the benefits they receive. The customer states their requirements; generally in the context of the draft Service Level Agreement (SLA), Capability Package (CP) or by submitting a Task Order (TO) or a Customer Request Form (CRF). The Agency confirms its ability to fulfil the requirements, and following internal staffing and coordination, proposes a cost for each service or capability requested based on approved Customer Rates and/or the CCSC. Operating as an integral part of NATO, the Agency must remain attentive to NATO's funding constraints and in close coordination with its customers to tailor its service levels to the requirements and priorities set by its customers.

By being Customer Funded, the Agency must recover all of its costs from the work and services it provides its customers. In line with the BC's guidance, the Agency charges its customers the Customer Rates or professional labor fees, respectively by Project Service Costs (PSCs) for capability development and Service Support Costs (SSCs) for ICT services, with the aim to achieve financial breakeven over time.

The Agency's Customer Rates are based on the actual costs as disclosed in the Annual Financial Statements. Following the Nations approval, since 2017, the Customer Rates used are a single set of rates. This is considered to offer more transparency and traceability of the Agency's cost structure, and allows for a more stable calculation methodology and comparison over the years.

Consistent with the CFRF, the Agency predominantly provides customers with CIS services based on Firm Fixed Price (FFP) agreements whereby the Agency delivers a specified set of goods or services for a fixed price. The use of FFP agreements reduce administration costs and provides customers with more stability and less risk as the Agency manages all associated risks with delivering the goods or services within the agreed price unless otherwise agreed with the customer (e.g. exchange rate fluctuations for agreements not priced in Euros). The Agency's obligation is the delivery of goods and services in accordance with the agreed customer specifications, and the customers obligation is the payment of the agreed amount. Given the constraints associated with the use of the Operating Fund and its limited level, the Agency relies on the customer provided funding via advance payments and the timely payment of invoices to provide the cash flow for daily Agency business operations.

As part of the approved 2019 Business Plan and 2019 Financial Plan, in 2019, the Agency provided the first iteration of a Multi-Year Investment Plan covering investments in Agency's internal and the NATO Enterprise areas respectively. The Multi-Year Investment Plan aims to improve the predictability, agility and prioritization of the Agency's Investments and associated Operation and Maintenance (O&M) costs. In terms of the Agency's Internal Investments, the Agency has been engaging with the ASB Finance Committee to source appropriate funding in line with the NCIO Charter for these necessary organic capabilities.

During 2019, the Agency was subject to an independent consultancy study focused on the Agency categorization and allocation of overhead cost. The

study concluded that the Agency's overhead expenditure is consistent with its peers and has a favourable cost to productivity ratio. Subject to investment and resource constraints and interdependencies, the Agency is in the process of implementing the recommendations.

The Enterprise Business Applications (EBA) system, in its first release, went live during early 2019. This marks the consolidation of financial processes and data in one financial system for the first time since the Agency's creation. With considerable effort, the Agency was able to produce and deliver the 2019 Financial Statements using the new system. As expected in similar complex Enterprise Resource Planning (ERP) implementations, EBA required further system stabilization and a usage learning curve that started in 2019 and will continue as subsequent releases are implemented. A specific EBA stabilization effort has been put in place to address EBA related shortcomings and the lessons learned from the preparation of 2019 Financial Statements.

Financial Statements Overview

Basis of Preparation

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

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

In respect to the 2019 NCIO Financial Statements, these were prepared:

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

Amounts in the financial statements are stated in euros.

Compliance with Financial Regulations

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

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

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

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

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

Financial Performance and Position Highlights

Total revenues for 2019 amount to 800.1 MEUR, a decrease of 62.5 MEUR or 7% from 2018, and include:

- 266 MEUR of acquisition revenue earned as Host Nation and procurement principal for NSIP, NATO Entities and Nations, a decrease of 64.9 MEUR or 19.6% from previous year;
- 296.5 MEUR of operating, services and project support revenue contracted, using BC approved Customer Rates, for the provision and acquisition of CIS capabilities and services, an increase of 8.2 MEUR or 2.8% from previous year;
- 231.7 MEUR of operating and external CIS revenue earned in direct support of the delivery of services, a decrease of 5.1 MEUR or 2.1% from previous year;
- 3.6 MEUR of other operating revenue earned in the provision of other support services provided to hosted entities (e.g. NAGSMA) as well as contribution revenue from the execution of the BC funded portion of the Transition Programme and NCIO Independent Secretariat core funding from Nations;
- 2.3 MEUR earned from favourable foreign exchange rate variances and, to a minor extent, interest earned from short-term deposits, typically one to three months (same as previous year).

Totalling 796.8 MEUR the 2019 Agency costs and expenses are 66.3 MEUR or 7.7% lower compared to 2018 and include:

- 266.4 MEUR of acquisition costs incurred in the procurement, on behalf of the Investment Committee (IC), other NATO entities and Nations, of CIS capabilities

and services from industry, decrease of 63.2 MEUR or 19.2 % from previous year;

- 264.3 MEUR of costs related with the civilian personnel employed during the year (in compliance with NATO Civilian Personnel Regulations, NAC approved salary scales and allowances), and Interim Workforce Contractors, temporary staff and consultants, up 3.5 MEUR or 1.3% from previous year;
- 253.6 MEUR of costs for Contractual Supplies and Services, a reduction of 7.2 MEUR or 2.8% from previous year, which include operating and external CIS costs in direct support of the delivery of services, costs related to the execution of capabilities' projects as well as running costs of the Agency facilities and equipment.
- 7.5 MEUR cost from an in-year provisions mainly on active projects and services the agency is delivering.
- 3.8 MEUR of depreciation expense for fixed assets capitalised in line with the accounting policies as adopted by NATO, increase of 0.6 MEUR from previous year;
- 1.2 MEUR of expenses from unfavourable foreign exchange rate variances, including bank transaction fees related to conversion of currencies; and,

Net result for the year, is a surplus of 3.3M EUR compared to a loss of 0.5M EUR previous year which is close to a break even.

Total assets amount to 509.2 MEUR an increase of 27.8 MEUR or 5.8% from previous year, largely made up of Cash holdings and Receivables. Total Liabilities amount to 438.6 MEUR an increase of 24.5 MEUR or 5.9% from previous year, mostly reflecting an increase in the balances of Accounts Payable and additions into provisions.

Total Net Equity and Operating Fund

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

At 31 December 2019, the Agency Total Net Equity amounts to 70.6 MEUR broken-down as follows:

- 49.5 MEUR of Reserved Earnings, composed of (1) the remaining Transition Reserve of 2.5 MEUR, as per RPPB decision, for purposes of funding transition

activities of the Agency; (2) the Depreciation Reserve, amounting to 4.2 MEUR, related to assets not yet fully depreciated, and (3) the Inventory Reserves amounting 42.8 MEUR related to IPSAS12 inventory adjustments and Weighted Average Cost (WAC) price adjustments.

- 21.1 MEUR of Retained Earnings, which equal the Operating Fund (as per the IBAN guidance and ASB Finance Committee decision, depreciation reserve is no longer considered as part of the Operating Fund).

Internal Control Framework

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

Risk Management

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

Of the top ten risks the Agency has identified some other risk that have given rise to Provisions and are captured in the Financial Statements (note 27).

The Agency continues to mature its ERM, through a documented process, trainings, workshops, presentations and communications to staff as well as reinforcing the

activities to review, mitigate and regularly report on risks. The Agency also separately tracks the issues it faces.

External and Internal Audit

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

External Audit

The International Board of Auditors (IBAN) led in 2019 the audit of the 2018 NCIO Financial Statements resulting in 3 observations (first two observations impact the audit opinion on the financial statements and observation one also impacts the opinion on compliance):

1. Lack of integrated systems to support the management and financial reporting of property plant and equipment (PP&E) and intangible assets.
2. Understatement of inventory (which is linked to the implementation of the NATO Accounting Framework).
3. Methodology for calculating the service delivery accrual

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

IBAN has already initiated the audit of the 2019 Financial Statements. As per the NFR the NCIO Financial Statements are submitted to IBAN and ASB by 31 March. In accordance with the NCIO Charter, the ASB will approve the Financial Statements once IBAN audit results are published, taking in consideration the advice of the ASB Audit Committee.

Internal Audit

The Agency's internal audit activities are a significant part of its overall control structure, and directly impacted its performance in 2019.

Over the year, Internal Audit completed six advisory, nine compliance and one consultancy engagements. The completed engagements spanned several thematic areas and covered reviews of project management activities, operational processes, corporate and administrative processes and information technology areas.

The Agency continues to improve its methods and processes used to monitor the implementation of audit recommendations and realized significant improvement throughout the year. Over 2019, management successfully closed fifty-one internal audit and five IBAN observations

Internal Audit will continue performing follow up missions and will report on the status of the implementation of the recommended actions during 2020 to Agency management and the ASB Audit Committee. Finally, IA continued to support the implementation of the NATO Financial Regulations and the NCIO Financial Rules and Procedures and also contributed to the development and implementation of the NCIO Internal Control Framework.

NCIO Statement of Financial Position*As of 31 December 2019**(all figures are in Euro)**(Prior Year restated)*

		NCIO	
	Note	2019	2018 - Restated
ASSETS			
<i>Current Assets</i>			
Cash and Cash Equivalents	1	63,440,700	148,294,384
Receivables	2	372,248,062	272,827,470
Prepayments and Miscellaneous Assets	3	19,737,257	3,107,687
Inventory	4	46,743,909	50,825,466
Work in Progress	5	1,995,874	3,145,258
Other Current Assets	6	12,744	15,415
Total Current Assets		504,178,546	478,215,680
<i>Non-Current Assets</i>			
Financial Assets		0	0
Non-current Receivables	7	766,962	1,925
Property, Plant and Equipment	8	4,275,287	3,183,617
Intangible Assets	8	3,437	16,617
Total Non-Current Assets		5,045,686	3,202,159
TOTAL ASSETS		509,224,232	481,417,839

NCIO Statement of Financial Position*As of 31 December 2019**(all figures are in Euro)**(Prior Year restated)*

		NCIO	
	Note	2019	2018 - Restated
LIABILITIES			
<i>Current Liabilities</i>			
Payables	9	199,929,108	157,965,846
Deferred Revenue and Advances	10	213,408,563	238,571,180
Other Current Liabilities	11	2,133,882	1,901,240
Total Current Liabilities		415,471,553	398,438,266
<i>Non-Current Liabilities</i>			
Non-Current Payables		0	0
Non-Current Deferred Revenue and Advances		0	0
Non-Current Borrowings		0	0
Provisions	12	23,159,439	15,666,610
Total Non-Current Liabilities		23,159,439	15,666,610
TOTAL LIABILITIES		438,630,992	414,104,876
NET ASSETS/EQUITY			
Retained Earnings	13	21,057,428	18,482,932
Reserved Earnings	31	49,535,812	48,830,031
TOTAL NET ASSETS/EQUITY		70,593,240	67,312,963
TOTAL LIABILITIES AND NET ASSETS/EQUITY		509,224,232	481,417,839

NCIO Statement of Financial Performance*For the year ended 31 December 2019**(all figures are in Euro)**(Prior Year restated)*

		NCIO	
	Note	2019	2018 - Restated
REVENUE			
Project and Support Services Revenue	14	296,503,404	288,260,703
External Services Revenue	15	231,667,623	236,769,744
Acquisition Revenue	16	266,058,420	330,985,358
Other Operating Revenue	17	3,578,455	4,238,758
TOTAL OPERATING REVENUE	18	797,807,902	860,254,563
Financial Revenue	27	2,280,385	2,336,200
TOTAL REVENUE	18	800,088,287	862,590,763
EXPENSES			
Cost of Acquisition	19	(266,420,567)	(329,592,123)
Personnel Costs	20	(264,293,659)	(260,825,316)
Contractual Supplies and Services	23	(253,643,820)	(260,053,734)
Depreciation and Amortisation	24	(3,803,143)	(3,687,789)
Provisions	25	(7,492,829)	(7,734,531)
Financial Expenses	27	(1,153,992)	(1,129,660)
Other Expenses	28	0	(44,083)
TOTAL EXPENSES		(796,808,010)	(863,067,236)
SURPLUS/(DEFICIT)			
Retainable Earnings	32	3,280,277	(476,473)
Refundable Earnings			0
SURPLUS/(DEFICIT) FOR THE PERIOD		3,280,277	(476,473)
Revaluation of Assets		0	0

NCIO Statement of Cash Flows*For the year ended 31 December 2019**(all figures are in Euro)**(Prior Year restated)*

NCIO	
2019	2018 - Restated
CASH FLOWS FROM OPERATING ACTIVITIES	
Surplus/(Deficit) for the Period	3,280,277 (476,473)
Depreciation and Amortisation	3,803,143 3,679,467
Revaluation of Assets	0 0
Decr./ (Incr.) Receivables	(99,420,592) (65,660,965)
Decr./ (Incr.) Prepayments and Miscellaneous Assets	(16,629,570) 13,359
Decr./ (Incr.) Inventory	4,081,557 (4,503,068)
Decr./ (Incr.) Work in Progress	1,149,384 (2,265,945)
Decr./ (Incr.) Other Current Assets	2,671 25,021
Incr./ (Decr.) Payables	41,963,262 20,849,039
Incr./ (Decr.) Deferred Revenue and Advances	(25,162,617) 31,042,374
Incr./ (Decr.) Borrowings	0 0
Incr./ (Decr.) Other Current Liabilities	232,642 378,495
Incr./ (Decr.) Provisions	7,492,829 7,734,531
NET CASH FLOWS FROM OPERATING ACTIVITIES	(79,207,014) (9,184,164)
CASH FLOWS FROM INVESTING ACTIVITIES	
Decr./ (Incr.) Financial Assets	0 0
Decr./ (Incr.) Non-current Receivables	(765,036) (21)
Decr./ (Incr.) PP&E and Intangible Assets	(4,881,634) (3,349,416)
Decr./ (Incr.) Other Non-Current Assets	0 0
NET CASH FLOWS FROM INVESTING ACTIVITIES	(5,646,670) (3,349,437)
CASH FLOWS FROM FINANCING ACTIVITIES	
Incr./ (Decr.) Non-Current Payables	0 0
Incr./ (Decr.) Non-Current Deferred Revenue and Advances	0 0
Incr./ (Decr.) Non-Current Borrowings	0 0
Incr./ (Decr.) Other Non-Current Liabilities	0 0
NET CASH FLOWS FROM FINANCING ACTIVITIES	0 0
NET INCR./ (DECR.) CASH AND CASH EQUIVALENTS	(84,853,684) (12,533,602)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	148,294,384 160,827,986
Incr./ (Decr.) Cash and Cash Equivalents	(84,853,684) (12,533,602)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	63,440,700 148,294,384

NCIO Statement of Change in Net Assets/Equity (Operating Fund)*As of 31 December 2019**(all figures are in Euro)**(Prior Year restated)*

BALANCE AT BEGINNING OF PERIOD	67,312,963	25,033,493
Variations due to restatement	0	42,755,943
Restated balance	67,312,963	67,789,436
Net gains/(losses) not recognized in the Statement of Financial Performance	0	0
Net surplus/(deficit) for the period	3,280,277	(476,473)
BALANCE AT END OF PERIOD	70,593,240	67,312,963
RESERVES AT BEGINNING OF PERIOD	48,830,031	7,717,116
Net increase/(decrease) of bookvalue of property, plant and equipment	1,078,491	(329,746)
Net increase/(decrease) of Transition reserves	(372,710)	(1,313,552)
Net increase/(decrease) of Inventory reserves	0	42,755,943
Net increase/(decrease) of currency translation differences	0	0
RESERVES AT END OF PERIOD	49,535,812	48,830,031
SURPLUSES/(DEFICITS) CARRIED FORWARD	21,057,428	18,482,932
NET ASSETS/EQUITY AT END OF PERIOD	70,593,240	67,312,963

NCIO Budget Execution Statement

As of 31 December 2019

(all figures are in Euro)

NCIO

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	Initial Budget	Transfers	BA2	Transfers	Final Budget	Net Commitment	Expenses	Total Spent	Carry Forward	Lapsed
BUDGET										
Chapter 1	1,437,799	0	0	0	1,437,799	0	1,328,033	1,328,033	0	109,766
Chapter 2	359,118	0	0	0	359,118	438	326,612	327,050	438	32,068
Chapter 3	0	0	0	0	0	0	0	0	0	0
Total current year	1,796,917	0	0	0	1,796,917	438	1,654,645	1,655,083	438	141,834
Chapter 1	2,845	0	0	0	2,845	0	2,845	2,845	0	0
Chapter 2	376	0	0	0	376	0	376	376	0	0
Chapter 3	0	0	0	0	0	0	0	0	0	0
Total prior year	3,221	0	0	0	3,221	0	3,221	3,221	0	0
Chapter 1	0	0	0	0	0	0	0	0	0	0
Chapter 2	0	0	0	0	0	0	0	0	0	0
Chapter 3	0	0	0	0	0	0	0	0	0	0
Total 2 years ago	0	0	0	0	0	0	0	0	0	0
TOTAL	1,800,138	0	0	0	1,800,138	438	1,657,866	1,658,304	438	141,834

Accounting Policies

Basis of preparation

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

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

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

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

Changes in Accounting Standards

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

- IPSAS 40 – Public Sector Combinations

Revenue Recognition

Revenue from exchange transactions

NCIO operates under Customer Funding Regulatory Framework and the vast majority of NCIO's revenue is Customer Funded revenue which is subdivided into:

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

NCIO also still has some contributions income from budgets:

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

Revenue measurement and timing

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

Expenses Recognition

NCIO has the following main categories of costs:

- Acquisition: costs relating to goods and services procured as a principal on behalf of sponsors, NATO entities or Member Nations.
- Personnel: costs derived from the employment of civilian personnel, as per NATO regulations, including salaries, allowances, pension contributions, recruitment and moving costs, but also training, medical and Interim Workforce Contractors, temporary staff and consultants.
- Contractual supplies and services: costs pertaining to goods and services procured from industry either directly in support of the delivery of services and capabilities or required for the normal functioning of the Agency's facilities and equipment.
- Depreciation, amortisation and provisions: costs related to usage of Agency assets, spread on a straight-line over their economic life, and costs related to the variance of Agency reserves (e.g. reserve for future losses, reserve for untaken leave).
- Foreign currency exchange and financial gains/losses: payments by NATO Bodies and Host Nations may be made in a variety of currencies. Gains/losses on foreign currency exchanges occasionally occur between the time of assessment and the

time of payment. These differences are assessed and either refunded, charged or absorbed by the NCI Agency, depending on the agreement with the Customers. Gains or losses are recognised in the accounts in the period in which they occur.

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

Financial Plan Execution

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

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

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

Cash Flow Statements

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

Foreign Currency

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

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

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

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

Financial Assets

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

Financial Liabilities

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

Receivables

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

Accounts Payable

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

Advances and/or Unearned Revenue

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

Prepayments

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

Retirement Benefits: Provident Fund and Defined Contribution Pension Scheme

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

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

Other Long-Term Service Benefits

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

Leased Assets

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

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

Externally Acquired Intangible Assets

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

Property, Plant and Equipment (PPE)

PPE is recognised when it is an asset controlled by NCI Agency. Assets, of which PPE is a type, are defined by IPSAS as "Resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity". Control of an asset is defined by IPSAS as arising "when the entity can use or otherwise benefit from the asset in pursuit of its objectives, and can exclude or otherwise regulate the access of others to that benefit." In addition, the NATO Accounting Framework has established criteria as to assist in assessing the level of control that any NATO Reporting Entity has for reporting assets in its financial statements. Even so, for CIS assets, NCIO's Charter stipulates that NCIO is considered the owner of these assets and thus NCIO is to report them in their financial statements. In some cases this is linked to the Handover/Takeover process - see below.

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

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

Per the NCIO Charter, NCIO is to assume ownership of all IT assets and IT infrastructure from the NATO commands. For those assets taken over, NCIO has considered those acquired prior to 2013 as fully expensed per the NATO Accounting Framework - adapted IPSAS 17 standard.

Property, Plant and Equipment (PPE)

NCIO controlled PPE is recognised at cost. Cost includes the purchase price, (including import duties, non-refundable purchase taxes, and deducting trade discounts and rebates) and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating, such as costs of site preparation, initial delivery and handling costs and installation costs. For each category of PPE capitalisation threshold values per item are defined. Items with a value below the applicable threshold will be expensed.

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

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

Land and Buildings

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

Depreciation and Amortisation

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

Inventories

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

replacement cost. The cost of standard items of inventories is measured by using the weighted average cost formula.

Under the full Customer Funding regime as of 2014, and per its Charter, NCIO is now considered as procurement principal for the inventories and as a result, now accounts for all inventories. NCIO is applying the Nato Accounting Framework – adapted IPSAS 12 – except for the element of adjusting the inventory balances for all inventory acquired prior to 1 Jan 2013.

NCIO has no capitalisation thresholds for Inventory.

Provisions

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

Contingent Liabilities

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

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

Net Equity and Operating Fund

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

Net Equity are subdivided into:

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

NCI Agency operates under Customer Funding Regulatory Framework, approved by Council. The approved policies and procedures of this Customer Funding financial regime that authorise and regulate the use of the NCI Agency Operating Fund during this reporting period are the NFRs (C-M(2015)0025 dated 4 May 2015) and the FRPs

(AC/337-D(2016)0014-REV1 dated 24 October 2018), and the Customer Funding Regulatory Framework approved by the Council in 2015 (PO(2015)0394-AS1 dated 16 July 2015).

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

End of 2016, the Agency Supervisory Board (ASB) Finance Committee tasked the Agency to develop a paper on the Operating Fund for discussion. During its meeting on 12 and 13 October 2017, the Agency Supervisory Board (ASB) Finance Committee decided⁴ as follows:

- The need for an Operating Fund as a risk management tool.
- The definition of Operating Fund as the accumulated surplus or deficit fund equalling the sum of retained earnings, but no longer comprising of depreciation reserve.
- The target level of the Operating Fund at 10M EUR, excluding depreciation reserve.
- Agreed on the pro rata distribution of potential surplus Operating Fund based upon the Military Budget and the NATO Security Investment Programme share in the Agency revenue via the call for contributions mechanism, with the understanding that the adjustment mechanism be revised within a year (up until then any surplus was returned through a reduction in Customer Rates).

Per the above and as of the 2019 Financial Statements the Operating Fund, per Nations guidance, is considered equal to the Retained Earnings.

⁴ AC/337(FC)DS(2017)0004

NOTES TO THE FINANCIAL STATEMENTS

Critical Accounting Estimates and Judgements

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

Legal proceedings both real and possible

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

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

A. Notes to the NCIO Statement of Financial Position

1. Cash and Cash Equivalents

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

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

(All amounts in 1 Euro)

		NCIO	
		2019	2018 - Restated
Cash and Cash Equivalents			
100	Cash in hand	64,377	35,784
101	Current bank clearing accounts and internal transfers	9,098	(3,081)
102	Current bank accounts - Euro	48,425,545	118,872,586
104	Current bank accounts - Non-Euro	14,533,868	29,299,143
106	Current investments accounts - Euro	0	0
108	Current investments accounts - Non-Euro	407,812	89,952
		63,440,700	148,294,384

2. Accounts Receivable

Receivables total 372.2 MEUR. Trade receivables are impacted by the NSIP Quarterly Accounting Financial Report (QAFR) bookings. The NCI Agency has adapted its accounting treatment in line with prior years IBAN observation, so that advances received from the NSIP Programme are netted against the amounts to be received from the same programme. This represents more clearly and accurately the position of the NCI Agency against the programme at year-end. Without these impacted QAFR bookings, trade receivables total 119.4 MEUR which include billed but not yet received amounts from Customers.

Trade receivables from accrued revenue amounts to 230.2 MEUR.

		2019	2018 - Restated
Receivables			
11001	Customer receivables (A/R) - Common funded - NATO and NATO entities	187,728,360	99,589,453
11002	Customer receivables (A/R) - Not common funded	40,041,217	75,322,047
1107	Customer receivables - Bad debts	(336,812)	(336,812)
11000	Customer receivables (A/R) - Common funded - NSIP	(88,729,547)	(149,362,386)
111	Customer receivables - Consolidated entities	75,519	0
113	Customer receivables - Recoverable expenses	(471)	431,197
115	Current receivables - Tax or personnel related	3,246,761	2,949,042
116	Current receivables - Accrued, unbilled revenue	230,214,278	244,238,196
119	Current receivables - Other	8,756	(3,267)
		372,248,062	272,827,470

NSIP related trade receivables from nations are 44.0 MEUR and trade receivables from accrued revenue amounts to 75.4 MEUR, resulting in a total 119.4 MEUR, that is netted against the balance of advances through the QAFR pay sheets of 132.8 MEUR leading to a net position of liability towards the NSIP at 31/12/2019 of 13.3 MEUR as per the below table.

		2019	2018 - Restated
110021	Customer receivables (A/R) - NATO Nations	44,027,690	55,819,724
110002	Customer receivables (A/R) - NSIP - QFR Advances on approved forecast (BS 10)	(132,757,237)	(149,362,386)
116020	Accrued, unbilled - License revenue (Accum.)	75,409,706	71,301,928
		(13,319,840)	(22,240,735)

3. Prepayments and Miscellaneous Assets

		2019	2018 - Restated
Prepayments and Miscellaneous Assets			
130	Prepayments	19,737,257	3,107,687
		19,737,257	3,107,687

This amount represents advances and prepayments made to vendors required to maintain continuity in service provision toward the Agency customers.

4. Inventories

		2019	2018 - Restated
Inventory			
14000	Inventory - Consumables	17,832,873	10,974,240
14001	Inventory - Spare parts and Minor Equipment	28,911,036	39,851,226
		46,743,909	50,825,466

The inventory ending balance is for a total of 46,7 MEUR which is an decrease of 4.1M EUR when compared to the 2018 restated balance of 50.8 MEUR.

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

The Agency has agreed with IBAN to assess the legacy NDSS converted data/NAF adjustment with the objective to have a more reliable value to bring into the statement of position by the end of 2019 hence;

- The inventory value reported in the 2018 Financial Statements was restated by 42.8 MEUR, to adjust the inventory balances in line with IPSAS 12 regulations and reflects the correct value on stock.
- A count has been conducted by CSSC as a the regular annual exercise on the inventory and 'bufferstocks', and in the same time, CSSC updated the Items on stock that required WAC price adjustments based at the best fair value.
- The inventory balances within the statement of position were brought in line with the Inventory balances counted within the Inventory module.

The reversal of priory year NAF adjustment and WAC validation did not affect the statement of performance and its counterpart has been reflected within the Net Assets. The regular inventory variance of the year is reflected within the statement of performance into the contractual supplies and services expenses.

5. Work In Progress

		2019	2018 - Restated
Work in Progress			
145	Work in progress	1,995,874	3,145,258
		1,995,874	3,145,258

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

Pre-financed projects totalling €935,691 are governed by existing binding arrangements (overarching framework agreements such as Memorandum of Understanding – MOU) between the Agency and its main sponsors. All existing pre-finance authorisations are granted as per the terms and conditions prescribed in the FRPs specifically developed for the Agency operating under its Customer Funding Regime. The decision to pre-finance projects is assessed by the Chief Operating Officer (COO), Production Directors and the Financial Controller prior to being approved on a case-by-case basis by the Financial Controller. Accordingly this not considered as a technical contingent asset.

For projects sponsored by NSIP, APFs may be authorised to cover the initial cost for writing the full project price proposal (TBCE). In some cases the APFs are insufficient to cover this initial effort in which case the NCI Agency capitalises the shortfall pending approval of the Project Service Cost (PSC). Funds expended during this stage are capitalised as work in progress for a total amount of €230,673.

In the course of executing projects, sometimes the Customer requests changes in specifications, scope, or duration that results in the costs exceeding the contracted revenue. Similarly to APF over-runs, for these recoverable exceptions, costs are capitalised until the exceptions are contractually regularised. The total capitalised amount of recoverable exceptions is €829,510.

6. Other Current Assets

		2019	2018 - Restated
Other Current Assets			
1559	Transitory asset accounts - Clearing accounts	12,744	15,415
		12,744	15,415

This amount concerns different transactions that are pending a resolution/final booking in 2020.

7. Non-current Receivables

		2019	2018 - Restated
Non-current Receivables			
160	Non-current financial assets	766,962	1,925
		766,962	1,925

These are prepaid deposits on long term programmes for the Agency.

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

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

NCIO Statement of Property, Plant and Equipment and Intangible Assets

As of 31 December 2019

(all figures are in Euro)

NCIO

Note	ACQUISITION					DEPRECIATION				BOOK VALUE	
	31-Dec-2018	Current Year	Disposals / Adjustm.	Transfers / Reversals	Revaluation	31-Dec-2019	31-Dec-2018	Current Year	Disposals / Adjustm.	31-Dec-2019	31-Dec-2019
PLANT, PROPERTY AND EQUIPMENT											
ADP Equipment	10,197,278	3,041,132	0	0	0	13,238,410	(8,077,711)	(2,580,019)	0	(10,657,730)	2,580,681
Comms Equipment	3,653,320	865,567	0	0	0	4,518,887	(2,992,176)	(741,481)	0	(3,733,657)	785,230
Mission Equipment	582,529	796,992	0	0	0	1,379,521	(382,907)	(314,024)	0	(696,931)	682,589
Machinery	231,924	125,176	0	0	0	357,101	(186,567)	(57,009)	0	(243,576)	113,524
Installed Equipment	699,214	15,990	0	0	0	715,204	(637,050)	(44,242)	0	(681,291)	33,913
Office Furniture	0	7,150	0	0	0	7,150	0	(1,788)	0	(1,788)	5,363
Passenger Vehicles	379,608	29,626	0	0	0	409,234	(341,024)	(37,107)	0	(378,132)	31,102
Infrastructure, plant and equipment	15,743,873	4,881,634	0	0	0	20,625,507	(12,617,435)	(3,775,670)	0	(16,393,105)	4,232,402
NCIA Main Building The Hague - Enhancements	142,950	0	0	0	0	142,950	(85,770)	(14,295)	0	(100,065)	42,885
Land and buildings - Leasehold improvements	142,950	0	0	0	0	142,950	(85,770)	(14,295)	0	(100,065)	42,885
Software Licences	288,141	0	0	0	0	288,141	(271,525)	(13,179)	0	(284,704)	3,437
Intangible assets	288,141	0	0	0	0	288,141	(271,525)	(13,179)	0	(284,704)	3,437
TOTAL PLANT, PROPERTY AND EQUIPMENT - CAPITALISED	16,174,964	4,881,634	0	0	0	21,056,598	(12,974,730)	(3,803,144)	0	(16,777,874)	4,278,724
Capital expenditures pending capitalisation - Accrued	0	0	0	0	0	0	0	0	0	0	0
TOTAL PLANT, PROPERTY AND EQUIPMENT	16,174,964	4,881,634	0	0	0	21,056,598	(12,974,730)	(3,803,144)	0	(16,777,874)	4,278,724
DEPRECIATION RESERVE	16,174,964	4,881,634	0	0	0	21,056,598	(12,974,730)	(3,803,144)	0	(16,777,874)	4,278,724
INCREASE/(DECREASE) DEPRECIATION RESERVE		4,881,634	0	0	0	4,881,634		(3,803,144)	0	(3,803,144)	1,078,490
DEFERRED REVENUE	12,351,528	66,557	0	0	0	12,418,085	(7,612,893)	(1,108,689)	0	(8,721,582)	3,696,503
INCREASE/(DECREASE) DEFERRED REVENUE		66,557	0	0	0	66,557	0	(1,108,689)	0	(1,108,689)	(1,042,132)

4,278,724 EUR Total Plant, property and Equipment as published in the detail table consist of 4,275,287 EUR Property Plant and Equipment and 3,437 EUR of Intangible assets as published in the statement of financial position

9. Payables

		2019	2018 - Restated
Payables			
2000	Supplier payables - Accounts payable	56,747,459	2,768,441
2004	Supplier payables - Accrued supplier invoices	141,736,530	154,257,277
2006	Supplier payables - Warranties received	1,445,119	940,128
		199,929,108	157,965,846

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

10. Deferred Revenue and Advances

		2019	2018 - Restated
Deferred Revenue and Advances			
211	Current deferred revenue	130,428,057	181,310,587
215	Current advances and prepayments received	82,980,506	57,260,593
		213,408,563	238,571,180

The Deferred/Unearned Revenue and Advances of 213.4 MEUR are composed of:

- Revenue is billed for ongoing projects and services, however revenue earned is determined through the stage of completion resulting in 130.4 MEUR of revenue billed but not yet recognised as earned.
- Advances and prepayments of 83 MEUR refer to deposits from customers and IC nations for projects and services that will be delivered by the agency.

11. Other Current Liabilities

		2019	2018 - Restated
Other Current Liabilities			
250	Current tax and personnel related liabilities	126,883	260,770
251	Current retirement and pensions related liabilities	3,810	0
254	Current other liabilities	2,003,189	1,640,470
		2,133,882	1,901,240

Other current liabilities include:

- Refundable surpluses amount to 2 MEUR and represent mostly funds to be returned to the IC from acquisition projects and to the BC for results (lapses/financial/miscellaneous) on budgets - mostly prior year budgets - since the Agency is Customer Funded as of 2014.
- Other liabilities related to personnel amount to 126.9 KEUR.

12. Provisions

		2019	2018 - Restated
Provisions			
2901	Provisions - Major risks and costs	14,388,488	6,864,531
2902	Provisions - Personnel related risks and costs	8,770,951	8,802,079
		23,159,439	15,666,610

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

Major risks and Costs:

- Projects are constantly monitored and deviations from the original cost estimates and authorised budgets are reported and analysed. At year-end closing a thorough cost-to-complete exercise is carried out to determine what the current status is in terms of costs and revenue to date, and to estimate what the cost-to-complete will be for multiple year projects. If, as a result of this process, the project management together with the NCI Agency Capability Development's financial management come to the conclusion that the project is likely to generate a loss at completion, then a provision will be made to cover that potential future loss. Analysis conducted at a later stage may result in a change of estimates which translates in an increase or decrease of the provision built up in prior years. The total provision for the Customer Funded projects amounts to 6.4 MEUR.

- Provision on the outcome of (legal/contractual) claims of suppliers and other major risks for an amount of 7.9 MEur.

Personnel related risks and costs :

- The NCI Agency provision for the untaken leave days outstanding at year end, in accordance with IPSAS 25 Employee benefits, constitutes a liability towards the future for 8.2 MEUR. This provision is calculated on a rolling basis, i.e. the prior year provision is reversed at the beginning of the year and a new provision calculated, thus charging the change for the year to the Statement of Financial Performance.
- Provision made for 139 KEUR for JFC Naples for “Trattamento di Fine Rapporto (TFR)” in application of the Italian Law and of IPSAS 19. TFR is a vested benefit payable to the employee for a part of his / her salary deferred in time to the moment when termination of the contract takes place. The calculation of the value of this liability takes place annually and includes interests for the loan forcedly made by the employee to the employer given the fact that payment is deferred to a later time. In view of the foregoing, TFR has to be considered as one extra monthly instalment of the annual pay.

13. Net Assets/Equity

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

B. Notes to the NCIO Statement of Financial Performance

14. Projects and Service Support Revenue

		2019	2018 - Restated
Project and Support Services Revenue			
500	Project services revenue	111,275,786	107,567,591
501	Support services revenue	185,227,618	180,693,112
		296,503,404	288,260,703

With the introduction of full Customer Funding as of 1 Jan 2014, the 2019 operations revenue can be categorised as either Project Services Revenue for 111.3 MEUR or Services Revenue for 185.2 MEUR, coming from signed Service Level Agreements (Service Support Costs) and other Service Agreements, all agreed and calculated at approved Customer Rates.

For all Customer Funded revenue, revenue is recognised, in accordance with IPSAS 9 and 11, by reference to the stage of completion or the cost burn rate, depending on the type of funding agreement; firm fixed price or cost reimbursable. This revenue recognition was already in place in 2013 for that part of the NCI Agency's business Customer Funded at that time but has now been expanded to nearly all its revenues. In applying this revenue recognition a “cost to complete” is calculated based on either inputs from the project manager as to the resources required to complete the project/deliverables or either based on information from the financial system as to the legal liabilities incurred per the end of 2019, but not yet accrued or expended, and which nevertheless form part of the 2019 services signed with the Customers through the Service Level Agreements.

15. External CIS Revenue

The total revenue per service as specified in the Service Level agreements have two revenue components. There is the Service Support Revenue element that is based on effort charged at approved customer rates (see the note above) and the External CIS Revenue of 233.7 MEUR in 2019 that represents the revenue charged to customers to cover the contractual supplies and services delivered by industry required by the NCI Agency to provide its CIS services.

		2019	2018 - Restated
External Services Revenue			
5100	External CIS revenue – Billed	233,747,614	219,527,482
5105	External CIS revenue - Accrued, unbilled (CY)	7,850,372	14,606,837
5106	External CIS revenue - Deferred revenue reversal (CY)	7,968,054	0
5109	External CIS revenue - Deferred (CY) (-)	(17,898,417)	2,635,425
		231,667,623	236,769,744

16. Acquisition Revenue

		2019	2018 - Restated
Acquisition Revenue			
5110	Acquisition revenue - Billed	237,110,248	281,113,236
5115	Acquisition revenue - Accrued, unbilled (CY)	28,948,172	38,129,080
5119	Acquisition revenue - Deferred (CY) (-)	0	11,743,042
		266,058,420	330,985,358

Acquisition Revenue is earned as Host Nation for the NSIP, and for other NATO entities and Nations. Included here are the Acquisition Revenues for the AirC2 and BMD programmes.

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

17. Other Operating Revenue

		2019	2018 - Restated
Other Operating Revenue			
529	Other operations revenue	1,354,266	4,067,977
541	Inventory variation - (Increase)/Decrease	429,387	0
545	Other revenue	1,794,802	170,781
		3,578,455	4,238,758

Other Operating Revenue consists of elements such as:

- Revenue from the support to and hosting of Agencies such as NAGSMA and BGX;
- Revenue from 2019 budgets for the ASB Independent Secretariat and the BC877 NCI Agency Implementation Budget for a total of 1.7 MEUR. Details and their Budget Execution Statements can be found under section D of the Notes to the Financial Statements.

18. Revenue Details

In summary the NCI Agency total operating revenue, excluding financial revenue for the period ending 31 December 2019 was 797.8 MEUR broken-down as:

- 794.2 MEUR of Operating revenue excluding other operating revenue is:
 - 266 MEUR Acquisition Revenue earned in the execution of procurements for NSIP and non-NSIP;
 - 231.7 MEUR External CIS Revenue earned in the execution of CIS Service Level Agreements for goods and services procured from industry;
 - 296.5 MEUR Operating Revenue earned through the rendering of capability development and delivery of CIS services by Agency resources; and
- 3.6 MEUR Other operating revenue

Financial and other (non-operating) revenue results in an amount of 2.3 MEUR

19. Cost of Acquisitions

		2019	2018 - Restated
Cost of Acquisition			
727	Contractors, general services and supplies	210,657,881	240,431,600
727	Contractors, general services and supplies	55,762,686	89,160,523
		266,420,567	329,592,123

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

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

20. Personnel Costs

		2019	2018 - Restated
Personnel Costs			
710	Salaries, allowances and other remunerations	162,275,905	152,927,879
711	Interim Workforce Capacity (IWC)	66,809,886	74,879,323
712	Recruitment costs and installation and separation allowances	3,577,196	2,721,407
713	Clothing costs and allowances	148,683	148,240
715	Medical examinations and general personnel related insurances	15,650,176	15,075,625
716	Education and training	3,625,704	3,467,587
717	Employer contributions to pensions; loss of job and other personnel contracts related indemnities	1,891,519	2,027,400
718	NATO Pensions (Pension funds)	10,314,589	9,577,855
		264,293,659	260,825,316

Personnel costs in this category are for staff members hired under the NATO Civilian Personnel Regulations (CPRs) and contractors. The figures represent the costs of personnel working on activities required to operate the NCI Agency and deliver services to Customers. This category also includes cost incurred with recruitment activity, learning and development, and personnel related costs due to reorganisation (loss of job indemnity) charged against the BC 877 Budget for 0.9 MEUR.

21. Employee Disclosures

Staff Numbers

At 31 December 2019 - 851 (2018: 909) military posts and 1624 (2018: 1536) NATO civilian posts were filled.

Retirement benefits

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

The NCI Agency does not control or manage any of the schemes or scheme assets and is not exposed to the risks and rewards of the schemes and hence does not record any assets or liabilities of the schemes on its Statement of Financial Position. In 2019 the NCI Agency contributed 10.4 MEUR (2018: 9.2 MEUR) to the various NATO pension schemes.

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 "NATO body" during the period 2012-2015 and affiliated to the DCPS are therefore entitled to a payment to be made from the NATO DCPS accounts.

In the course of 2019 staff members have received direct compensation based on the above. The NCI Agency has been awarded the compensation amounting to EUR 601,336.32 which will be paid in 2020. The aforementioned NATO's DCPS Group Insurance Compensatory Payment has been recognized as accrued revenue in the Financial Statements.

22. Related Party Transactions

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

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

Related Party Transactions of Members of Boards and Committees

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

Representative Allowance of the General Manager

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

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

The total entitlement to representation allowance for the NCI Agency GM was 10,000 EUR. The actual expenses during 2019: 2,678 EUR (2018: 7,814.15 EUR) were as follows:

- Rental supplement: € 0.00
- Functions: € 2,678.00
- Total representation allowance: € 2,678.00

Key Management Personnel

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

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

Euro (A7/A6)	2019	2018
Basic salaries	710,175	1,038,701
Allowances	148,104	172,993
Post-employment benefits	0	341,564
Employer's contribution to Insurance	79,355	115,849
Employer's contribution to Pension	46,801	70,136
Total	984,435	1,739,243

FTE	2019	2018
General Manager	1	1
Directors (A6/OF6/OF7)	4.67	7.66

Name	Nationality	Role	Grade and step at year-end	Loans received from NCIA	Family members receiving income from NCIA	Other revenue from NCIA or NATO
<i>Kevin Scheid</i>	<i>USA</i>	<i>General Manager</i>	<i>A7 step 5</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>RADM Thomas Daum (left 31 Mar 19)</i>	<i>DEU</i>	<i>Chief of Staff</i>	<i>OF-7</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>MGEN Göksel Sevindik (arrived 04 Mar 19)</i>	<i>TUR</i>	<i>Chief of Staff</i>	<i>OF-7</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>Ludwig Decamps</i>	<i>BEL</i>	<i>Chief Operating Officer</i>	<i>A6 Step 7</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>Peter Scaruppe (left 31 Jan 19)</i>	<i>DEU</i>	<i>Director Acquisition</i>	<i>A6 Step 7</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>Antoine Pailhès (arrived 28 Oct 19)</i>	<i>FRA</i>	<i>Financial Controller</i>	<i>A6 Step 3</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>Gregory Edwards (left 31 Mar 19)</i>	<i>USA</i>	<i>Director Infrastructure Services</i>	<i>A6 Step 5</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>Murray Davidson (left 31 Jan 19)</i>	<i>GBR</i>	<i>Director Service Strategy</i>	<i>A6 step 3</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>Michael Stoltz</i>	<i>DEU</i>	<i>Director Air and Missile Defence Command & Control</i>	<i>A6 Step 6</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>
<i>Simona ROCCHI</i>	<i>ITA</i>	<i>Legal Advisor</i>	<i>A6 Step 6</i>	<i>Nil</i>	<i>Nil</i>	<i>Nil</i>

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

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

23. Contractual Supplies and Services

		2019	2018 - Rest.
Contractual Supplies and Services			
720	Rent and operational leasing costs	34,281,537	34,076,875
721	Maintenance and repair (Services)	155,096,782	187,305,609
722	Consumables and spare parts (Supplies)	3,218,389	1,629,504
723/73	Minor equipment and Investment costs	12,925,784	12,111,012
724	Utilities, postal and courier services, travel and transportation	16,924,942	15,173,442
725	Facilities management, environment, safety and security	16,110,789	3,685,538
726	Public relations, representation, hospitality and moral and welfare	345,448	241,638
727	Contractors, general services and supplies	14,740,149	5,830,117
		253,643,820	260,053,734

Contractual supplies and services contain both direct and indirect costs:

- Rent and leasing costs only concern either rental costs or operating leases per IPSAS 13; the NCI Agency does not have any finance leases

24. Depreciation and Amortisation

		2019	2018 - Restated
Depreciation and Amortisation			
740	Amortisation and depreciation	3,803,143	3,679,467
741	Write-offs	0	8,322
		3,803,143	3,687,789

For Fixed Assets, the NCI Agency takes into account the current year depreciation as a cost which amounts to 3.8 MEUR. Full detail on the 2019 annual depreciation by asset category can be found in the Table under note 8.

25. Provisions

		2019	2018 - Restated
Provisions			
7461	Provisions - Major risks and costs	7,523,957	5,914,213
7462	Provisions - Personnel related risks and costs	(31,128)	1,820,318
		7,492,829	7,734,531

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

NCIO has made the following provisions:

Provisions – Major risks and costs

- Provisions were made for future losses for active projects/services. The expected loss was recognised as an expense immediately (IPSAS 9 and 11). For reasons of commercial confidentiality, details of which programmes/projects are not disclosed the net effect is an increase of 7.5 MEUR.

Provisions – Personnel Related

- Provision for untaken leave of own personnel of 1M EUR increase: personnel leave days untaken at the end of the year can be transferred to the next year and taken before the end of the first quarter. This constitutes a liability towards the next year since staff will not be available for service during this period of time. The provision is calculated on a rolling basis based on actual days of untaken leave outstanding and the average cost of a day of untaken leave per grade level.
- Provision for Loss Of Job Indemnity (LOJI); the provision balance of LOJI 2019 reported on the statement of financial position was reduced by 1 MEUR.
- Provision for “Trattamento di Fine Rapporto (TFR)” in application of the Italian Law and of IPSAS 19 was reduced by 203 KEUR compared with prior year.

26. Contingent Liabilities

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

As there is consistent case law from the NATO Administrative Tribunal, there 2 cases under review that would qualify as contingent liabilities although for confidentiality reasons we do not disclose them in detail.

The execution of some of the transition large programmes the Agency is undertaking carry, due to its complexity and interdependencies, significant risks in terms of scope, schedule and costs.

(1) ITM - mostly for reasons outside the Agency’s control, the Agency has also identified the need to approach this very large and far reaching “project” as a programme as well as the need to expand the scope of the programme to cover for the migration of the applications and dual operations during the transition period;

(2) FGFS in relation to the potential unplanned and out of scope IT related costs. The Agency remains attentive and will continue to engage with the relevant governance bodies and entities so to mitigate to the maximum extent possible these risks.

27. Financial Revenue and Expenses

		2019	2018 - Restated
Financial Revenue and Expenses			
550	Foreign exchange surpluses	1,982,466	2,160,602
555	Other financial surpluses	297,919	175,598
750	Foreign exchange deficits	(1,000,992)	(1,001,969)
7550	Financial costs - Current liabilities	(189,325)	(91,245)
7555	Financial costs – Other	36,325	(36,446)
		1,126,393	1,206,540

The total result from financial revenue and expenses is a surplus of 1.1 MEUR. This amount is primarily composed of a net realised foreign exchange gain of 2.0 MEUR and foreign exchange deficits 1.0 MEUR. For IC acquisition activity the financial result is borne by NSIP and is thus not included here.

28. Other Expenses

		2019	2018 - Restated
Other Expenses			
760	Fixed assets – Surplus/Deficits	0	44,083
		0	44,083

There were no losses on PPE recognized in 2019.

29. Financial Instruments

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

Liquidity risk

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

Credit risk

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

Foreign currency risk

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

30. Write-offs

Per the applicable NCIO Financial Rules and Procedures (document AC/337-D(2017)0014-AS1);

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

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

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

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

For the period between 01 January 2019 and 31 December 2019 the NCI Agency has written off:

- CIS assets with total net book value of 0 EUR.
- Accounts receivable with a total value of 11,371 EUR.
- WIP write off with total value of 199,755 EUR.

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

Under its Charter and its Customer Funding model, the NCIO is allowed to have an Operating Fund (OF) which represents its retained earnings accumulated over the years. The use of the OF is regulated by the Customer Funding Regulatory Framework approved by Council in 2015 (PO(2015)0394-AS1) and are part of the NCIO Financial Rules and Procedures (FRPs) that were approved by the Agency Supervisory Board (ASB) in 2018 (AC/337-D(2016)0014-REV1).

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

The Financial Controller is responsible to recommend the size of the OF and the planned annual action to increase or to reduce it. Any surplus or deficit for 2019 is to be attributed to the OF with Nations deciding on its use.

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

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

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

The operating surplus for 2019, before adjustment to reserves, is distributed as follows:

31. Reserves at the End of the Period.

		2019	2018 - Restated
Reserved Earnings			
310	Reserves - General purpose	4,278,150	3,200,234
311	Reserves - Special programmes	2,501,144	2,873,854
312	Reserves - Inventory	42,755,943	42,755,943
		49,535,237	48,829,456

- 4,278,150 EUR of earnings remain reserved for the assets not yet fully depreciated, thus increasing the depreciation reserve in 2019 with 1.1M EUR.
- 6,068,856 EUR of accumulated transition expenses are booked against the Special Transition Reserve thus decreasing from a total 8,570,000 Eur at 31 December 2013 to 2,501,144 EUR at 31 December 2019.
- 42,755,942 EUR Inventory balances adjusted as per the NATO accounting Framework.

		2019	2018 - Restated
Reserves Special programmes			
311000	Special programmes reserves - Transition projects - Approved and authorised - Prior years	1,175,868	1,548,578
311001	Special programmes reserves - Transition projects - Approved, not authorised - Prior years	1,325,276	1,325,276
		2,501,144	2,873,854

Transition Expenses

	Authorised	Spent < 2019	Spent 2019	Total Spent	Remaining
Transition OF funded	7.244.724	5.696.146	372.710	6.068.855	1.175.869

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

In addition, the Enterprise Business Application (EBA), previously faced significant delays thereby negatively affecting the implementation schedule for all EBA-related activities. Upon completion of Phase 1 of the project in early 2017, it became apparent the cost estimate for implementing EBA was considerably above the authorised cost, as such an alternative implementation scenario was designed to reduce external implementation cost and maximise efficiencies. Implementation has since started to deliver the Customer Funding Core Capability in early 2018. In 2016, an additional 6,754,436 Eur and 857,940 Eur was approved for EBA. In March 2018, Core HR of Release 1 was delivered and the Initial Operating Capability of the Finance, Project Accounting, Asset Management and Acquisitions part of Release 1 began at the end of 2018. There has been an additional amount of funding for the EBA project during 2018 of 2,622,182 EUR. EBA system went live with the Final Operating Capability (FOC) in February 2019 for Release 1 while some implementation activities are still to be completed.

Against NCI Agency OF Reserve for transition

Group	Projectcode		Project Description	External baseline Lifecycle	Net Labor	Consultancy *	Other Expenses	Travel	Investments	Total spent	Available
Group A - Enabling Services and Enterprise Business Applications	NCA009223	91-09223_901	Group A - Enabling Services (ES)	1.180.852.00	146.511.09	995.495.20	4.999.38	7.616.82	-	1.154.622.49	26.229.51
	NCA009224	91-09224_901	Group A Enterprise Business Application (EBA)	3.339.706.00	1.638.702.85	1.339.488.08	5.238.21	132.988.74	-	3.116.417.88	223.288.12
				4.520.558.00	1.785.213.94	2.334.983.28	10.237.59	140.605.56	-	4.271.040.37	249.517.63
Group B - Demand Management, Account Management and Demand	NCA009225	No EBA	DEMAND MANAGEMENT (DM) - CLOSED	666.728.00	-	438.311.48	2.083.95	31.506.47	-	471.901.90	194.826.10
				666.728.00	-	438.311.48	2.083.95	31.506.47	-	471.901.90	194.826.10
Group C - Service Strategy	NCA009226	No EBA	Service Strategy (SS) - CLOSED	1.828.790.00	164.877.92	1.108.735.21	401.02	26.904.24	-	1.300.918.39	527.871.61
				1.828.790.00	164.877.92	1.108.735.21	401.02	26.904.24	-	1.300.918.39	527.871.61
Group D - Transition / Education and Training	NCA009229	No EBA	Transition Management (TIP12-000.2) - CLOSED	228.648.00	8.844.97	-	16.149.54	-	-	24.994.51	203.653.49
				228.648.00	8.844.97	-	16.149.54	-	-	24.994.51	203.653.49
TOTAL				7.244.724.00	1.958.936.83	3.882.029.97	28.872.10	199.016.27	-	6.068.855.17	1.175.868.83

32. Retained Earnings:

		2019	2018 - Restated
Retained Earnings			
5	Revenue	800,088,287	862,590,763
7	Expenses	(796,808,010)	(863,067,236)
300	Surplus (Deficits) carried forward - Prior Years	17.777.151	18.959.405
		21.057.428	18.482.932

Below table reconciles Net Assets/Equity for 2015-2019

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

For the year ended 31 December
2019

(all figures are in Euro)

(Prior Year
restated)

	Property, Plant and Equipment (PP&E) & Intangible Assets		Reserves - Special Purpose	Reserves - Special Progr.	Reserves - Inventory	RESERVED EARNINGS	RETAINED EARNINGS	NET ASSETS/EQUITY	
	Acq. Value	Depreciation	Book Value					Surpl./ (Def.) Yr	Yr-end Balance
2018 as Published	16,174,964	-12,974,730	3,200,234	2,873,854		6,074,088	18,482,932	-476,473	-476,473
31-Dec-18	16,174,964	-12,974,730	3,200,234	2,873,854		6,074,088	18,482,932		24,557,020
2018 as Published Restated (Unaudited)	16,174,964	-12,974,730	3,200,234	2,873,854	42,755,943	48,830,031	18,482,932	-476,473	-476,473
31-Dec-18	16,174,964	-12,974,730	3,200,234	2,873,854	42,755,943	48,830,031	18,482,932		67,312,963
2019 as Published (Unaudited)	21,056,598	-16,777,873	4,278,724	2,501,144	42,755,943	49,535,811	21,057,428	3,280,277	3,280,277
31-Dec-19	21,056,598	-16,777,873	4,278,724	2,501,144	42,755,943	49,535,811	21,057,428		70,593,240

YEAR-END BALANCES	OF	Destination						NET ASSETS/EQUITY	
	Year-end Balance	Property, Plant and Equipment (PP&E) & Intangible Assets		Reserves - Special Purpose	Reserves - Special Progr.	Reserves - Inventory	RESERVED EARNINGS	RETAINED EARNINGS	
		Acq. Value	Acc. Deprec.	Book Value					Yr-end Balance
31-Dec-05	5,064,289	6,352,418	-1,746,915	4,605,503	0		4,605,503	458,786	5,064,289
31-Dec-06	6,780,419	11,440,622	-3,721,092	7,719,530	0		7,719,530	-939,111	6,780,419
31-Dec-07	15,448,855	13,272,399	-6,289,891	6,982,508	0		6,982,508	8,466,347	15,448,855
31-Dec-08	16,813,862	16,337,520	-9,760,847	6,576,673	0		6,576,673	10,237,189	16,813,862
31-Dec-09	11,869,058	20,011,958	-13,481,609	6,530,349	0		6,530,349	5,338,709	11,869,058
31-Dec-10	4,183,086	23,524,061	-18,064,656	5,459,406	0		5,459,406	-1,276,320	4,183,086
31-Dec-11	9,913,025	24,356,808	-20,925,008	3,431,799	0		3,431,799	6,481,225	9,913,025
31-Dec-12	15,770,863	43,368	0	43,368	0		43,368	15,727,495	15,770,863
31-Dec-13	18,350,285	1,043,893	-227,169	816,725	8,570,000		9,386,725	8,963,561	18,350,285
31-Dec-14	20,280,170	8,276,385	-3,906,195	4,370,190	7,817,315		12,187,505	8,092,665	20,280,170
31-Dec-15	26,122,091	11,373,573	-7,445,917	3,927,656	6,217,986		10,145,642	15,976,449	26,122,091
31-Dec-16	23,945,958	9,493,472	-5,229,501	4,263,972	5,532,909		9,796,881	14,149,077	23,945,958
31-Dec-17	25,033,493	12,869,784	-9,340,075	3,529,709	4,187,407		7,717,116	17,316,377	25,033,493
31-Dec-18	24,557,020	16,174,964	-12,974,730	3,200,234	2,873,854		6,074,088	18,482,932	24,557,020
31-Dec-18 Restated	67,312,963	16,174,964	-12,974,730	3,200,234	2,873,854	42,755,943	48,830,031	18,482,932	67,312,963
31-Dec-19	70,593,240	21,056,598	-16,777,873	4,278,724	2,501,144	42,755,943	49,535,811	21,057,428	70,593,239

INCR./(DECR.) FOR THE YEAR	OF Surplus/(Def.) for the Year	Destination						NET ASSETS/EQUITY Surpl./(Def.) Yr
		Property, Plant and Equipment (PP&E) & Intangible Assets	Reserves - Special Purpose	Reserves - Special Progr.	Reserves - Inventory	RESERVED EARNINGS	RETAINED EARNINGS	
		Acq. Value Yr	Deprec. Yr	Δ Book Value				
31-Dec-05 (*)	5,064,289	6,352,418	-1,746,915	4,605,503	0	4,605,503	458,786	5,064,289
31-Dec-06	1,716,130	5,088,204	-1,974,177	3,114,027	0	3,114,027	-1,397,897	1,716,130
31-Dec-07	8,668,436	1,831,777	-2,568,799	-737,022	0	-737,022	9,405,457	8,668,436
31-Dec-08	1,365,007	3,065,121	-3,470,956	-405,835	0	-405,835	1,770,842	1,365,007
31-Dec-09	-4,944,804	3,674,438	-3,720,762	-46,324	0	-46,324	-4,898,480	-4,944,804
31-Dec-10	-7,685,972	3,512,104	-4,583,047	-1,070,943	0	-1,070,943	-6,615,029	-7,685,972
31-Dec-11	5,729,939	832,746	-2,860,353	-2,027,606	0	-2,027,606	7,757,545	5,729,939
31-Dec-12	5,857,838	-24,313,440	20,925,008	-3,388,431	0	-3,388,431	9,246,270	5,857,838
31-Dec-13	2,579,422	1,000,525	-227,169	773,357	8,570,000	9,343,357	-6,763,934	2,579,422
31-Dec-14	1,929,885	7,232,492	-3,679,027	3,553,465	-752,685	2,800,780	-870,895	1,929,885
31-Dec-15	5,841,921	3,097,188	-3,539,722	-442,534	-1,599,329	-2,041,863	7,883,783	5,841,921
31-Dec-16	-2,176,133	-1,880,101	2,216,417	336,316	-685,077	-348,762	-1,827,371	-2,176,133
31-Dec-17	1,087,535	3,376,312	-4,110,574	-734,262	-1,345,502	-2,079,764	3,167,299	1,087,535
31-Dec-18	-476,473	3,305,179	-3,635,230	-329,475	-1,313,553	-1,643,028	1,166,555	-476,473
31-Dec-18 Restated	-476,473	3,305,179	-3,635,230	-329,475	-1,313,553	-1,643,028	1,166,555	-476,473
31-Dec-19	3,280,277	4,881,634	-3,803,143	1,078,490	-372,710	0	705,780	2,574,497

33. Events after the financial reporting date of 31 December 2019

NCIO is required to disclose events, both favourable and unfavourable, that occurred between the reporting date of 31 December 2019 and the date when these Financial Statements were authorised for issue by the General Manager. IPSAS requires two types of events which should be identified:

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

The outbreak of the pandemic crisis in the first quarter 2020 will impact the activity of the Agency. It is however too early to assess the financial impacts it may have,

34. MWA disclosure

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

Revenue generated throughout the year for MWA activities amounted to 160,429 EUR and originated primarily from discontinued operations in NCISS Latina (10,565 EUR) and NPC Glons (60,827 EUR), one-off contributions from external parties (75,000 EUR), while Civilian Staff Association and ticket sales for two major Christmas events contributed additional funds (14,037 EUR).

Total expenses for the events organized in 2019 amounted to 45,834 EUR.

Main assets of the MWA consists of cash balance in the bank of 102,649 EUR and receivables of 79,595 EUR, while liabilities of 10,235 EUR relate primarily to accrued expenses for the organized events in 2019.

D. Notes on the NCIO Budget Execution Statements

Although NCIO is fully Customer Funded as of 2014, it still has two components that are budget funded in 2019 and for which it thus produces a Budget Execution Statement:

- The NCIO Independent Secretariat Budget, as per the Charter of the NCIO, approved by Council on 19 June 2012 under C-M(2012)0049, the NCIO is composed of an ASB and an executive body composed of a General Manager and his/her staff (the NCI Agency). Per Article 26 (e) of the Charter, the chairperson of the ASB is supported by an Independent Secretariat that is only responsible to the chairperson. Per Article 50 (c) and per AC/337-D(2014)0007-AS1 dated 9 May 2014, the ASB approved core funding (distinct and separate from NATO common funding) for the NCIO Independent Secretariat. The ASB approved the structure and an annual budget based on the Military Budget cost share model.
- The NCI Agency Budget for workforce/reorganisation adjustments as a result of the Transition Programme - BC 877 Budget (NATO common funding)

Expenses amount include accrued expenses as reported in the Statement of Financial Performance; budget execution/financial statement are thus presented on a comparable basis and in compliance with IPSAS24. Lapsed amounts represent budget funds that were not used (unspent) during the course of the financial year. Carry forward amounts are the net Commitments at the end of the financial year that have not been converted into expenses at the end of the financial year. Chapter 1 represents – Personnel cost, Chapter 2 represents Contractual Supplies and Services and Chapter 3 represents Investments.

NCIO Budget Execution Statement

For the year ended 31 December 2019
(all figures are in Euro)

NCIO

	Initial Budget	Transfers	BA2	Transfers	Final Budget	Net Commitment	Expenses	Total Spent	Carry Forward	Lapsed
BUDGET										
Chapter 1	537,799	0	0	0	537,799	0	428,033	428,033	0	109,766
Chapter 2	359,118	0	0	0	359,118	438	326,612	327,050	438	32,068
Chapter 3	0	0	0	0	0	0	0	0	0	0
Total current year	896,917	0	0	0	896,917	438	754,645	755,082	438	141,835
Chapter 1	2,845	0	0	0	2,845	0	2,845	2,845	0	0
Chapter 2	376	0	0	0	376	0	376	376	0	0
Chapter 3	0	0	0	0	0	0	0	0	0	0
Total prior year	3,221	0	0	0	3,221	0	3,221	3,221	438	0
Chapter 1	0	0	0	0	0	0	0	0	0	0
Chapter 2	0	0	0	0	0	0	0	0	0	0
Chapter 3	0	0	0	0	0	0	0	0	0	0
Total 2 years ago	0	0	0	0	0	0	0	0	0	0
TOTAL	900,138	0	0	0	900,138	438	758,304	758,304	438	141,835

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

As of 31 December 2019

(all figures are in Euro)

NCIO
Implementation
Budget (BC 877)(*)

	Initial Budget	Transfers	BA2	Transfers	Final Budget	Net Commitment	Expenses	Total Spent	Carry Forward	Lapsed
BUDGET										
Chapter 1	900,000	0	0	0	900,000	0	900,000	900,000	0	0
Chapter 2	0	0	0	0	0	0	0	0	0	0
Chapter 3	0	0	0	0	0	0	0	0	0	0
Total current year	900,000	0	0	0	900,000	0	900,000	900,000	0	0
Chapter 1	0	0	0	0	0	0	0	0	0	0
Chapter 2	0	0	0	0	0	0	0	0	0	0
Chapter 3	0	0	0	0	0	0	0	0	0	0
Total prior year	0	0	0	0	0	0	0	0	0	0
Chapter 1	0	0	0	0	0	0	0	0	0	0
Chapter 2	0	0	0	0	0	0	0	0	0	0
Chapter 3	0	0	0	0	0	0	0	0	0	0
Total 2 years ago	0	0	0	0	0	0	0	0	0	0
TOTAL	900,000	0	0	0	900,000	0	900,000	900,000	0	0

NAF IMPACT PRIOR 1 JAN 2013 EXPENSED PPE AND INVENTORY

1. PPE

As per the NATO Accounting Framework(NAF), NCIO has chosen per the adapted, 17 “Plant, Property and Equipment” and 31 “Intangible Assets”, PPE and Intangible Assets acquired prior to 1 January 2013, as fully expensed. Items of PPE acquired prior 1 January 2013 are obsolete from an economic point of view and therefore been cannibalised or disposed of.

2. INVENTORY

For the reporting year 2019 Inventory balances have been fully disclosed in the Statement of Position and within the notes.

E. Restated Financial Statements 2018

NCIO Statement of Financial Position

As of 31 December 2019
(all figures are in Euro)
(Prior Year restated)

	NCIO		
	2018 – as published	Restatement	2018 - Restated
ASSETS			
<i>Current Assets</i>			
Cash and Cash Equivalents	148.294.384	0	148,294,384
Receivables	272.827.470	0	272,827,470
Prepayments and Miscellaneous Assets	3.107.687	0	3,107,687
Inventory	8.069.523	42,755,943	50,825,466
Work in Progress	3.145.258	0	3,145,258
Other Current Assets	15.415	0	15,415
Total Current Assets	435.459.737	42,755,943	478,215,680
<i>Non-Current Assets</i>			
Financial Assets	0	0	0
Non-current Receivables	1.925	0	1,925
Property, Plant and Equipment	3.183.617	0	3,183,617
Intangible Assets	16.617	0	16,617
Total Non-Current Assets	3.202.159	0	3,202,159
TOTAL ASSETS	438.661.895	42,755,943	481,417,839

NCIO Statement of Financial Position

As of 31 December 2019
(all figures are in Euro)
(Prior Year restated)

	NCIO		
	2018 – as published	Restatement	2018 - Restated
LIABILITIES			
<i>Current Liabilities</i>			
Payables	157,965,846	0	157,965,846
Deferred Revenue and Advances	238,571,180	0	238,571,180
Other Current Liabilities	1,901,240	0	1,901,240
Total Current Liabilities	398,438,266	0	398,438,266
<i>Non-Current Liabilities</i>			
Non-Current Payables	0	0	0
Non-Current Deferred Revenue and Advances	0	0	0
Non-Current Borrowings	0	0	0
Provisions	15.666.610	0	15,666,610
Total Non-Current Liabilities	15.666.610	0	15,666,610
TOTAL LIABILITIES	414,104,876	0	414,104,876
NET ASSETS/EQUITY			
Retained Earnings	18.482.932	0	18,482,932
Reserved Earnings	6.074.088	42,755,943	48,830,031
TOTAL NET ASSETS/EQUITY	24.557.020	42,755,943	67,312,963
TOTAL LIABILITIES AND NET ASSETS/EQUITY	438.661.895	42,755,943	481,417,839

	NCIO		
	2018 – as published	Restatement	2018 - Restated
LIABILITIES			
<i>Current Liabilities</i>			
Payables	157,965,846	0	157,965,846
Deferred Revenue and Advances	238,571,180	0	238,571,180
Other Current Liabilities	1,901,240	0	1,901,240
Total Current Liabilities	398,438,266	0	398,438,266
<i>Non-Current Liabilities</i>			
Non-Current Payables	0	0	0
Non-Current Deferred Revenue and Advances	0	0	0
Non-Current Borrowings	0	0	0
Provisions	15.666.610	0	15,666,610
Total Non-Current Liabilities	15.666.610	0	15,666,610
TOTAL LIABILITIES	414,104,876	0	414,104,876
NET ASSETS/EQUITY			
Retained Earnings	18.482.932	0	18,482,932
Reserved Earnings	6.074.088	42,755,943	48,830,031
TOTAL NET ASSETS/EQUITY	24.557.020	42,755,943	67,312,963
TOTAL LIABILITIES AND NET ASSETS/EQUITY	438.661.895	42,755,943	481,417,839

NCIO Statement of Financial Performance*For the year ended 31 December 2019**(all figures are in Euro)**(Prior Year restated)***REVENUE**

Project and Support Services Revenue
External Services Revenue
Acquisition Revenue
Other Operating Revenue
TOTAL OPERATING REVENUE
Financial Revenue
TOTAL REVENUE

EXPENSES

Cost of Acquisition
Personnel Costs
Contractual Supplies and Services
Depreciation and Amortisation
Provisions
Financial Expenses
Other Expenses
TOTAL EXPENSES

SURPLUS/(DEFICIT)

Retainable Earnings
Refundable Earnings
SURPLUS/(DEFICIT) FOR THE PERIOD

Revaluation of Assets

NCIO

2018 – as published	Restatement	2018 - Restated
288,260,703	0	288,260,703
236,769,744	0	236,769,744
330,985,358	0	330,985,358
4,238,758	0	4,238,758
860,254,563	0	860,254,563
2,336,200	0	2,336,200
862,590,763	0	862,590,763
(329,592,123)	0	(329,592,123)
(260,825,316)	0	(260,825,316)
(260,053,734)	0	(260,053,734)
(3,687,789)	0	(3,687,789)
(7,734,531)	0	(7,734,531)
(1,129,660)	0	(1,129,660)
(44,083)	0	(44,083)
(863,067,236)	0	(863,067,236)
(476,473)	0	(476,473)
0	0	0
(476,473)	0	(476,473)
0	0	0

NCIO Statement of Cash Flows

For the year ended 31 December 2019 (all figures are in Euro)
(Prior Year restated)

CASH FLOWS FROM OPERATING ACTIVITIES

Surplus/(Deficit) for the Period
Depreciation and Amortisation
Revaluation of Assets

Decr./((Incr.) Receivables
Decr./((Incr.) Prepayments and Miscellaneous Assets
Decr./((Incr.) Inventory
Decr./((Incr.) Work in Progress
Decr./((Incr.) Other Current Assets
Incr./((Decr.) Payables
Incr./((Decr.) Deferred Revenue and Advances
Incr./((Decr.) Borrowings
Incr./((Decr.) Other Current Liabilities
Incr./((Decr.) Provisions

NET CASH FLOWS FROM OPERATING ACTIVITIES**CASH FLOWS FROM INVESTING ACTIVITIES**

Decr./((Incr.) Financial Assets
Decr./((Incr.) Non-current Receivables
Decr./((Incr.) PP&E and Intangible Assets
Decr./((Incr.) Other Non-Current Assets

NET CASH FLOWS FROM INVESTING ACTIVITIES**CASH FLOWS FROM FINANCING ACTIVITIES**

Incr./((Decr.) Non-Current Payables
Incr./((Decr.) Non-Current Deferred Revenue and Advances
Incr./((Decr.) Non-Current Borrowings
Incr./((Decr.) Provisions
Incr./((Decr.) Other Non-Current Liabilities

NET CASH FLOWS FROM FINANCING ACTIVITIES**NET INCR./((DECR.) CASH AND CASH EQUIVALENTS****CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD**

Incr./((Decr.) Cash and Cash Equivalents
--

CASH AND CASH EQUIVALENTS AT END OF PERIOD

NCIO		
2018 – as published	Restatement	2018 - Restated
(476,473)	0	(476,473)
3,679,467	0	3,679,467
0	0	0
(65,660,965)	0	(65,660,965)
13,359	0	13,359
(4,503,068)	0	(4,503,068)
(2,265,945)	0	(2,265,945)
25,021	0	25,021
20,849,039	0	20,849,039
31,042,374	0	31,042,374
0	0	0
378,495	0	378,495
0	7,734,531	7,734,531
(16,918,696)	7,734,531	(9,184,164)
0	0	0
(21)	0	(21)
(3,349,416)	0	(3,349,416)
0	0	0
(3,349,437)	0	(3,349,437)
0	0	0
0	0	0
0	0	0
7,734,531	(7,734,531)	0
0	0	0
7,734,531	(7,734,531)	0
(12,533,602)	0	(12,533,602)
160,827,986	0	160,827,986
(12,533,602)	0	(12,533,602)
148,294,384	0	148,294,384

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

*For the year ended 31 December 2019
(all figures are in Euro)
(Prior Year restated)*

		NCIO	
		2018 – as published	2018 - Restated
BALANCE AT BEGINNING OF PERIOD		25.033.493	25,033,493
Variations due to restatement		0	42,755,943
Restated balance		25.033.493	67,789,436
Net gains/(losses) not recognised in the Statement of Financial Performance		0	0
Net surplus/(deficit) for the period		(476.473)	(476,473)
BALANCE AT END OF PERIOD		24.557.020	67,312,963
RESERVES AT BEGINNING OF PERIOD		7.717.116	7,717,116
Net increase/(decrease) of book value of property, plant and equipment		(329.746)	(329,476)
Net increase/(decrease) of reserves		(1.313.552)	(1,313,552)
Net increase/(decrease) of Inventory reserves		0	42,755,943
Net increase/(decrease) of currency translation differences		0	0
RESERVES AT END OF PERIOD		6.074.088	48,830,031
SURPLUSES/(DEFICITS) CARRIED FORWARD		18.482.932	18,482,932
NET ASSETS/EQUITY AT END OF PERIOD		24.557.020	67,312,963

**Office of the Financial Controller**

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NCIA/FC/2020/03143
31 March 2020

Subject: **Statement of Internal Control
NATO Communications and Information Organisation
(NCIO) Financial Statements for the period 01 January
2019 to 31 December 2019**

1. This Statement of Internal Control applies to the NCIO Financial Statements for the year ended 31 December 2019. Internal control is driven by the requirement of the NATO Financial Regulations, the NCIO Financial Rules and Procedures, the NATO Accounting Framework, the NCIO Internal Control Framework and good business practices. Internal control is to ensure that NATO assets are utilized for the purposes intended and that the transactions relating to their usage reflect the highest standards of integrity to justify continued confidence of the NATO Member Nations.
2. The NCIO system of internal control is based on an ongoing process effected by the Board, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance. As part of the process, identified risks to the achievement of NCI Organisation goals and objectives, are managed efficiently, effectively and economically. In detail:
 - a. The ASB has the responsibility to: (1) ensure that effective risk management measures are in place and monitor performance execution on that basis; (2) exercise management control by comparison of the NCIA activities with applicable ASB directives; (3) oversee the delivery of results against targets; (4) evaluate the performance against objectives of the NCIA; (5) benchmark the NCIA against comparable organisations;
 - b. The ASB has established an Audit Committee (AC) comprising 29 members of NATO nations. The AC assists the Board in fulfilling its oversight responsibilities in the areas of internal controls, risk management, internal and external audits, financial reporting, and regulatory compliance. In 2019, the AC carried out five meetings in plenary session, of which three were discharged under Finance Committee (FinCom) arrangement prior to the AC Charter approval;
 - c. The Chairman of the ASB is responsible to maintain a sound system of internal control that supports the ASB Secretariat and ensures it delivers on its mandate;
 - d. The General Manager (GM) is responsible to maintain a sound system of internal control that supports the NCI Agency and ensures it delivers on its Chartered mandate;
 - e. The Chief Operating Officer (COO) is responsible to maintain a sound system of internal control for business planning together with the related business intake and capacity management, as well as monitoring programme/project exceptions;
 - f. The Director Acquisition is responsible to maintain a sound system of internal control that ensures the integrity of the procurement process;

- g. The Head of Human Resources is responsible to maintain a sound system of internal control relating to the recruitment and departure of staff and associated payment of salaries and allowances;
- h. The Financial Controller is responsible for the correct use and accounting of funds made available to the NCI Agency and the ASB Independent Secretariat and for maintaining a sound system of internal financial controls.

Considering the statements above, senior management can provide confirmation that a sound system of internal control exists within the agency. The environment of control will improve with the consolidation of all financial transaction in one system (EBA Release 1). While some administrative and reporting process were affected and have required additional effort, the level of control was maintained at transactional level. Also, significant effort and additional controls have been performed as part of the closing process to secure data quality. Ongoing corrective actions and EBA Stabilisation Initiative in 2020 should allow delivering the full benefit of having one system. Other than the ones reported in paragraph 4, no weaknesses in internal control that require disclosure in the 2019 financial statements were identified.

The implementation of the NCIO Internal Control Framework is an ongoing process, which the Agency is focusing on with priority. In line with its provisions, an Internal Control Panel (ICP) is established to ensure an effective, systematic and coordinated implementation of this framework within the Organization. Safeguarding of assets is driven by the NCI Agency Property Accounting Officers that have implemented a suitable sub-structure in order to manage and account for all assets.

3. The main aspects of the NCIO's system of internal control for 2019 are as follows:

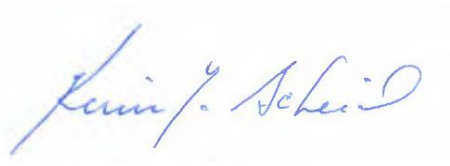
- a. All funds received are recorded, accounted and managed through a set of information systems, which include: enterprise-wide project management; a time accounting system and the Oracle R 12 based tool Enterprise Business Applications (EBA)¹. Controls are in place at transactional level to control use and disbursement of funds;
- b. The Independent Secretariat has its budget approved and funded by ASB Member Nations;
- c. The NCI Agency annually updates its Customer Rates based on the ASB approved Customer Rates Principles and Methodology². These are endorsed by the ASB, and approved by the NATO Budget Committee on behalf of all Customers;
- d. The NCI Agency also annually updates its Services Rates (based on Customer Rates for the Agency's professional services element) and these validated by the ASB and NATO Budget Committee;
- e. The NCI Agency has an integrated planning process comprising the Strategic Plan; Business Plan; and Financial Plan. It prepares annually a Financial Plan (3 year planning horizon) covering revenue and expenses related to Customer Funding which is signed-off by the Executive Management Board, chaired by the GM. The Financial Plan is approved by the ASB;

¹ Go-Live' was in Q1 2019 for EBA Release 1

² AC/337(FC)D(2018)0003-REV1

- f. Agreements with Customers are in writing and are usually concluded on a Firm Fixed Price and/or Cost Reimbursable basis;
 - g. Procurement activities are under the responsibility of the Director of Acquisition with the specific involvement of the GM. For some deviations from normal competition, the Agency has a designated Competition Advocate - Director Service Strategy who advises the GM;
 - h. Through its Service Life Management Board (SLMB) chaired by the COO, the Agency oversees the operational environment with a focus on early identification and quantification of risks which affect services and projects to allow for timely management oversight and/or assistance to mitigate;
 - i. The Agency has Enterprise-wide Risk Management Policy and Framework which sets out the risk management processes in place and details the roles and responsibilities of staff in relation to risk. This policy has been issued to all staff who are expected to work within the Agency's risk management policies, to alert management on emerging risks and control weaknesses and assume responsibility for risks and controls within their own area of work. There are regular reviews by senior management of key risks and related controls.
 - j. The Agency has an Internal Audit Function with an approved risk-based three-year audit plan which reviews, amongst other areas, internal control and risk mitigation. Internal Audit reports to the General Manager and provides regular updates to the ASB-Audit Committee;
 - k. The Agency has a Fraud Prevention and Detection function. It reports to the General Manager and provides regular updates on lessons learned at the Internal Control Panel. In 2019, no instance of fraud was detected;
 - l. In order to support the NCI Agency Management and the ASB in undertaking internal control responsibilities, an Internal Control Questionnaire and Assessment (ICQA) is used to serve as a management self-assessment and evaluation tool. This questionnaire is in line with the provisions of the NCIO Internal Control Framework which was developed based on the guidance issued by the Committee of Sponsoring Organizations of the Tread way Commission (COSO) and approved by ASBS in November 2016. Management has continued work on developing the internal control framework within the Finance Directorate by employing a risk based methodology to design process controls in line with the COSO guidance;
 - m. All new joiners to the Agency participate in an Induction Programme that includes education about Agency procedures and behaviour standards. Moreover, the Agency has a Code of Conduct for all staff, as well as an Anti-Fraud Directive, and staff must undergo training in ethical behaviour and appropriate use of resources.
4. During its last financial statements audit', the International Board of Audit for NATO (IBAN) made 3 observations and recommendations related to the 2018 NCIO Financial statements. These observations are:
- 1. Lack of integrated systems to support the management and financial reporting of property plant and equipment (PP&E) and intangible assets.
 - 2. Understatement of inventory and
 - 3. Methodology for calculating the service delivery accrual. Observation one and two impacted the audit opinion on the

financial statements while observation one also impacted the opinion on compliance. The NCIO remains focused and committed to resolving all IBAN observations and recommendations and EBA Release 1 is the key tool to assist with this. Additional areas of improvement identified by management as a focus for Financial Year 2020 are the EBA Stabilisation Initiative and continue documentation of key controls on financial and assets management processes.



Kevin J. Scheid

General Manager



Antoine Pailhès

Financial Controller

Distribution:

External

Chairman Board of Auditors for NATO

Chairman NCIO Agency Supervisory Board

Internal

Members Executive Management Board



NATO UNCLASSIFIED

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NCIA/FC/2020/03141
10 April 2020

Subject: **Financial Controller's Certification -
NATO Communications and Information Organisation
(NCIO) Financial Statements for the period 01 January
2019 to 31 December 2019**

1. The 2019 Financial Statements for the NCIO are submitted to the International Board of Auditors for NATO (IBAN) and the Agency Supervisory Board (ASB) as required by the NATO Financial Regulations and the NCIO Charter.
2. The Financial Statements were prepared in accordance with the following Reference documents:

- a. C-M(2012)0049, Charter of the NATO Communications and Information Organisation, approved by Council, dated 14 June 2012.
- b. C-M(2015)0025), NATO Financial Regulations, approved by Council, dated 4 May 2015;
- c. PO(2015)0394, NATO Communications & Information Agency Customer Funding Regulatory Framework, approved by Council, dated 16 July 2015;
- d. C-M(2016)0023, revised NATO Accounting Framework (IPSAS adaptation), approved by Council, dated 29 April 2016;
- e. AC/337-D(2016)0014-REV1, NCIO Financial Rules and Procedures, approved by the ASB, dated 20 November 2018;

3. I certify that the NCIO 2019 Financial Statements:

- a. present fairly the NCIO's financial position, financial performance, cash flows and changes in net assets/equity during the period;
- b. can be publicly disclosed.

Antoine Pailhès
Financial Controller

ACRONYMS

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

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



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IBA-A(2021)0009
12 February 2021

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

Cc: NATO Permanent Representatives
Chairman, Agency Supervisory Board, NATO Communications & Information Organisation (NCIO)
General Manager, NATO Communications & Information Agency (NCIA)
Financial Controller, NCIA
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 NATO Communications and Information Organisation (NCIO)'s Financial Statements for the year ended 31 December 2019 – IBA-AR(2020)0021***

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 a qualified opinion on the Financial Statements of the NATO Communications and Information Organisation and on compliance for financial year 2019.

Yours sincerely,

Daniela Morgante
Chair

Attachments: As stated above.

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**Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Financial Statements of the
NATO Communications and Information Organisation (NCIO)
for the year ended 31 December 2019**

NCIO comprises an Agency Supervisory Board (ASB) and an Executive Body, the NCI Agency. The mission of the NCI Agency is to deliver to NATO secure, coherent, cost effective and interoperable communications and information systems and services in support of consultation, command and control (C3) and enabling intelligence, surveillance and reconnaissance capabilities. It includes information technology support to NATO Headquarters, the Command Structure and NATO Agencies. In 2019, NCIO generated revenues of EUR 800.1 million and incurred expenses of EUR 796.8 million, resulting in a surplus of EUR 3.3 million.

IBAN issued a qualified opinion on the Financial Statements and on compliance for the year ended 31 December 2019.

Due to the COVID-19 situation, IBAN was unable to carry out annual physical checks at the CIS Sustainment Support Centre (CSSC) to confirm the value of inventory in accordance with the requirements of International Standards of Supreme Audit Institutions (ISSAIs). IBAN stresses that this opinion is based on the COVID-19 situation, which is outside of NCIO's area of responsibility.

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

One observation and recommendation impacts the audit opinion on both the Financial Statements and on compliance:

1. Material incompleteness of Property, Plant and Equipment (PP&E) and Intangible Assets.

The other two observations and recommendations do not impact the audit opinion on the Financial Statements and compliance:

2. Improvements needed on the internal control over accrual estimates.
3. Improvements needed to the NCIO customer rates and overhead assumptions.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that eight were closed and five remain in progress.

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

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The observations and recommendations raised during the audit as well as the follow-up of the previous years' observations, which have not been included in the IBAN's Letter of Observations and Recommendations are included in a Management Letter addressed to NCIO's management. This is because IBAN considers that these matters are to be addressed by NCIO's management and therefore fall under NCIO's management responsibility.

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12 February 2021

INTERNATIONAL BOARD OF AUDITORS FOR NATO

**AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE
NATO COMMUNICATIONS AND INFORMATION ORGANISATION**

(NCIO)

FOR THE YEAR ENDED 31 DECEMBER 2019

PUBLICLY DISCLOSED - PDN(2021)0013 - MIS EN LECTURE PUBLIQUE

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

Report on the Audit of the Financial Statements

Qualified Opinion on the Financial Statements

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of the NATO Communications and Information Organisation (NCIO), for the 12 month period ended 31 December 2019, issued under document reference NCIA/FC/2020/3152, and submitted to IBAN on 15 April 2020. These Financial Statements comprise the Statement of Financial Position as at 31 December 2019, 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 2019, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a Budget Execution Statement for the 12 month period ended 31 December 2019.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the Financial Statements give a true and fair view of the financial position of NCIO as at 31 December 2019, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2019, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF).

Basis for Qualified Opinion on the Financial Statements

We were not able to obtain sufficient evidence in respect to the completeness of Property, Plant and Equipment (PP&E) and Intangible Assets, including assets under construction, reported in the 2019 Financial Statements.

This is because Computer Information Systems (CIS) assets that were under construction as of 1 January 2018, including existing ones that continue after 1 January 2018, were fully expensed in the Statement of Financial Performance. A similar issue led to a qualification of the 2018 NCIO Financial Statements.

As a result, we were not able to obtain sufficient evidence in respect to the fair presentation of expenses and, given the Agency's no-profit/no-loss model, of its associated revenue.

Additionally, PP&E and Intangible Assets recorded in the legacy accounting systems have not yet been fully migrated into the new Enterprise Business Applications (EBA) system and reported in the NCIO 2019 Financial Statements.

Furthermore, NCIO did not include in the Financial Statements a note disclosure for

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PP&E and Intangible Assets held prior to 1 January 2013, and for CIS assets that were under construction and development prior to 1 January 2018, in accordance with the NATO Accounting Framework.

Regarding inventory, IBAN has found no evidence to suggest that the true value was not disclosed in the Statement of Financial Position. However, due to the COVID-19 situation, we were unable to carry out annual physical checks at the CIS Sustainment Support Centre (CSSC) to confirm the value of inventory in accordance with the requirements of International Standards of Supreme Audit Institutions (ISSAIs). Regarding the 2018 Financial Statements, IBAN's audit revealed no material errors. However, IBAN cannot rely on previous year's findings to inform an opinion on the 2019 Financial Statements.

As a result, IBAN is unable to express an opinion on the value of inventory amounting to approximately EUR 47 million due to a lack of sufficient and appropriate evidence, as required by our auditing standards. IBAN stresses that this opinion is based on the COVID-19 situation, which is outside of NCIO's area of responsibility.

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies and reporting entities 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 (ISSAI 2000-2899) 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 Financial Statements of NCIO 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.

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The Financial Statements are signed by the Head of the NATO reporting entity and the Financial Controller. In signing the Financial Statements, the Head of the NATO reporting entity 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.

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- 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

Based on the procedures we performed, except for the matter described in the basis for qualified opinion section, 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

With respect to PP&E, Intangible Assets, including assets under construction, controlled by NCIO, we did not obtain sufficient evidence that a comprehensive inventory was established and maintained as required by Article 12 of the NFRs. Article 12 of the NFRs, which applies to all assets irrespective of when they were acquired, requires that comprehensive accounting records are established and maintained for all assets.

We have conducted our compliance audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 4000-4899) developed by the

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International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined 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 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 Head of the NATO reporting entity is responsible and accountable for sound financial management. The financial administration of NATO bodies and reporting entities 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

In addition to the responsibility to provide reasonable assurance about whether the financial statements as a whole are free from material misstatement, the IBAN Charter requires IBAN 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 are 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 authorized 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, 12 February 2021



Daniela Morgante
Chair

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12 February 2021

INTERNATIONAL BOARD OF AUDITORS FOR NATO

LETTER OF OBSERVATIONS AND RECOMMENDATIONS
FOR THE NATO COMMUNICATIONS AND INFORMATION ORGANISATION
(NCIO)
FOR THE YEAR ENDED 31 DECEMBER 2019

PUBLICLY DISCLOSED - PDN(2021)0013 - MIS EN LECTURE PUBLIQUE

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Introduction

The International Board of Auditors for NATO (IBAN) audited the NATO Communications and Information Organisation (NCIO) Financial Statements for the year ended 31 December 2019, and issued a qualified opinion on the Financial Statements and a qualified opinion on compliance.

Observations and Recommendations:

During the audit, IBAN made three observations and recommendations.

One observation and recommendation impacts the audit opinion on both the Financial Statements and on compliance:

1. Material incompleteness of Property, Plant and Equipment (PP&E) and Intangible Assets.

The other two observations and recommendations do not impact the audit opinion on the Financial Statements and compliance:

2. Improvements needed on the internal control over accrual estimates.
3. Improvements needed to the NCIO customer rates and overhead assumptions.

IBAN also followed up on the status of thirteen observations from previous years' audits and noted that eight were closed and five were in-progress.

The observations and recommendations raised during the audit as well as the follow-up of the previous years' observations, which have not been included in the IBAN's Letter of Observations and Recommendations are included in a Management Letter addressed to NCIO's management. This is because IBAN considers that these matters are to be addressed by NCIO's management and therefore fall under NCIO's management responsibility.

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OBSERVATIONS AND RECOMMENDATIONS

1. MATERIAL INCOMPLETENESS OF PROPERTY, PLANT AND EQUIPMENT (PP&E) AND INTANGIBLE ASSETS

Reasoning

1.1 The NATO Accounting Framework (NAF) states that if NCIO is acting as a service provider to NATO Commands for Computer Information Systems (CIS) or Automated Information Systems (AIS) assets, then NCIO has control over those assets.

1.2 The NAF requires that NATO Reporting Entities shall capitalise in their Statement of Financial Position all controlled Property, Plant and Equipment (PP&E) and Intangible Assets purchased after 1 January 2013 above certain capitalisation thresholds.

1.3 For PP&E and Intangible Assets held prior to 1 January 2013, and previously recognised as an asset, the NAF also requires that NATO Reporting Entities provide a brief description of assets in the notes to the financial statements. Such disclosure should include as a minimum the types of assets held, locations where assets are held and the approximate number of items per asset category.

1.4 According to the NAF, NCIO may consider CIS assets under construction prior to 1 January 2018 as fully expensed. The NAF also states that NCIO shall capitalise all CIS assets under construction starting as of 1 January 2018. This applies for all new CIS assets under construction after 1 January 2018, but also for existing ones that continue after 1 January 2018.

1.5 Furthermore, in accordance with the NAF, NCIO shall from 1 January 2018, provide in the notes to the financial statements further disclosure on types and the locations of CIS assets that were under construction prior to 1 January 2018.

1.6 From a compliance perspective, Article 12 of the NATO Financial Regulations (NFRs) on Internal Control requires NATO bodies to establish and maintain comprehensive accounting records of all assets and liabilities. Such accounting records include an inventory of PP&E and Intangible Assets, including assets under construction, indicating for instance the types of assets held, locations, the number of items per asset category and asset value. Article 12 of the NFRs applies to all assets, irrespective of when they were acquired.

Observation

1.7 NCIO implemented the Enterprise Business Applications (EBA) system in 2019. One of the aims of this new Enterprise Resource Planning (ERP) system was to facilitate the management and financial reporting of PP&E and Intangible Assets.

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The EBA system provides the necessary functionalities for an effective and efficient control and reporting over NCIO's PP&E and Intangible assets.

1.8 However, from a financial reporting perspective, IBAN found that PP&E and Intangible assets, including assets under construction, reported in the 2019 Financial Statements were materially incomplete. Such assets are considered as controlled by NCIO according to the NATO Accounting Framework. For example, intangible assets related to Air Command and Control System (ACCS) licenses and right to use intellectual property rights were not capitalised as well as CIS related to the New NATO Headquarters. The exact value of these assets had not been assessed by NCIO.

1.9 This is because CIS assets that were under construction as of 1 January 2018, including existing ones that continue after 1 January 2018, were fully expensed in the Statement of Financial Performance. A similar issue led to a qualification of the 2018 NCIO Financial Statements.

1.10 As a result, we were not able to obtain sufficient evidence in respect to the fair presentation of expenses and, given the Agency's no-profit/no-loss model, of its associated revenue.

1.11 Additionally, PP&E and Intangible Assets recorded in the legacy accounting systems have not yet been fully migrated into the new Enterprise Business Applications (EBA) system and reported in the NCIO 2019 Financial Statements.

1.12 Furthermore, NCIO did not include in the Financial Statements a note disclosure in accordance with the NATO Accounting Framework, as follows:

- For PP&E and Intangible Assets held prior to 1 January 2013, the types of PP&E and Intangible Assets held, locations where assets are held and the approximate number of items per asset category.
- For CIS assets that were under construction and development prior to 1 January 2018, the types and locations of assets.

1.13 Finally, from a compliance perspective, IBAN found that NCIO did not establish and maintain a comprehensive inventory of PP&E and Intangible Assets, including assets under construction, in accordance with Article 12 of the NFRs. Such an inventory may indicate for instance the types of assets held, locations, the number of items per asset category and asset value. Article 12 of the NFRs applies to all assets, including CIS and AIS assets under construction, irrespective of when they were acquired. Establishing and maintaining a comprehensive inventory of assets is an important internal control to ensure the safeguard of the Agency's assets.

Recommendation

1.14 IBAN recommends that NCIO:

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- a) Recognises all PP&E and Intangible Assets, including assets under construction, in the Financial Statements in accordance with the NATO Accounting Framework.
- b) Establishes and maintains comprehensive accounting records of all PP&E, Intangible Assets, and assets under construction in accordance with Article 12 of the NFRs.

2. IMPROVEMENTS NEEDED ON THE INTERNAL CONTROL OVER ACCRUAL ESTIMATES

Reasoning

2.1 NCIO Financial Statements are prepared under the accrual basis of accounting in accordance with Article 34.2 of the NATO Financial Regulations (NFRs), the NATO Accounting Framework (NAF) and IPSAS 1.

2.2 NCIO's accounting system EBA automates the calculation and accounting of accruals, based on the date of receipt of goods and services against approved purchase requisitions (PRs) and purchase orders (POs). Evaluation and validation of the receipt falls under the responsibility of operational project staff as they have the best knowledge with regards to the progress of projects.

2.3 NCIO's financial closing procedure (NCIA/FC/2019/03302) provides comprehensive instructions to operational staff to ensure that all receipts are entered into EBA when goods and services are received during the financial year, whether or not an invoice was provided by the supplier.

2.4 Accruals should reflect the best estimate of costs incurred on the basis of the best available, relevant and traceable information. In practice, a formal document signed by the buyer and the supplier proves the performance and date of receipt of the services and goods delivered in accordance with the contract and price conditions. This may be, for example, a delivery note, a partial or final statement of acceptance, or a certificate of conformity and milestones completion.

2.5 If a formal document is not available, estimates may be based and documented on the professional judgement and knowledge of project managers, provided their assertion is unbiased and prudent option. Supporting documentation provides assurance that, firstly, management's assertions regarding accrual accounting estimates are true and fair and, secondly, that internal control activities are adequate to detect incorrect estimates and erroneous validation of PO's receipt in EBA.

2.6 In this respect, Article 6 of the NFRs requires the Financial Controller to

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exercise the responsibility of budgeting, accounting and reporting activities of the NATO entity. This includes being responsible for the financial internal control system established and for the preparation of the financial statements in accordance with NATO accounting Framework.

2.7 In addition, Article 12.3 of the NFRs states that *“Internal control activities shall include [...] adequate audit trails and data confidentiality, integrity and availability in information systems.”*

Observation

2.8 We found that out of a selection of 27 purchase orders (EUR 51 million), at least EUR 5.5 million of expenses accrued in 2019 corresponded to services or goods actually carried out or to be carried out in 2020. The receipts were validated in EBA for the total or partial amount of the purchase orders. However the corresponding services had not been provided in 2019.

2.9 In addition, no supporting documents were attached in EBA at the time of the audit to substantiate these receipts and their evaluation. A list of mandatory documents to be uploaded in EBA is important to ensure an adequate audit trail to justify the accrual amounts or estimates and dates of validation of the receipts of goods and services.

Recommendation

2.10 IBAN recommends that NCIO:

- a) Develops documented internal control procedures to detect incorrect estimates of accrued expenses, in particular with regard to the erroneous validation of the receipt of purchase orders in EBA.
- b) Defines a mandatory list of documents to be uploaded in EBA by operational project staff in order to justify the accrual amounts or estimates and dates of validation of the receipts of goods and services.

3. IMPROVEMENTS NEEDED TO THE NCIO CUSTOMER RATES AND OVERHEAD ASSUMPTIONS

Reasoning

3.1 As a customer funded organisation, NCIO's revenue recognition, as reported in its Financial Statements, is directly related to the customer rates methodology, which include overheads. In addition to the independent audit assurance provided on the Financial Statements, IBAN audited as part of the audit of revenue in the 2019 NCIO Financial Statements, the methodology used by NCIO for calculating its

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customer rates, including overheads. Based on its audit, IBAN identified improvements needed to the NCIO customer rates assumptions, including overheads, to be brought to the Council's attention.

3.2 As per Article 52, the NCI Organisation Charter establishes that:

- *Customers shall be charged the direct costs of the services provided plus an overhead to cover general administrative expenditures, recuperation of capital investments and agency operating and running costs;*
- *Customer rates (including overheads) shall be annually endorsed by the Agency Supervisory Board (ASB) for approval by the NATO Budget Committee (BC) on behalf of all customers;*
- *Customer rates must be set in such a way as to ensure a balance between planned income and expenditure.*

3.3 According to the NCIO Customer Rates Principles and Methodology (AC/337(FC)D(2018)0003-REV2 (INV)), the Agency customer rates are set annually and represent the per-capita labour price for all direct (billable) Agency staff. The customer rates applied in 2019 were calculated based on projections and information drawn from 2017 and 2018. Through the customer rates, the Agency recovers manpower costs (except for the Interim Workforce direct costs) and expected operating costs. The customer funded nature of the Agency means it must recover all of its costs from the work and services it provides.

3.4 Customer rates, including overheads, are developed based on a number of business assumptions. These are based on inputs from different parts of the Agency. These inputs are estimates based on customer demand and estimation of the Agency capacity to deliver taking into account business growth (input from Chief Operating Officer), related workforce growth and costs (input from Human Resources) and running and investment costs (input from Finance in coordination with others).

3.5 The Financial Controller is responsible for the development of the annual customer rates and ensuring that the Agency breaks even. For planning purposes, all Agency posts are classified as billable or non-billable (overheads). This planning per post is largely based on the NCIA Human Resource (HR) personnel database and is a major factor influencing the calculation of the annual customer rates.

3.6 The annual customer rates are used to price all Agency staff effort and are expressed in person-hours or person-years (Full-Time Equivalent, FTE). A billable staff member works an average of 7.6 hours per day. The activity ratio is determined on an annual basis per staff category based on the total annual number of days excluding the historical average of annual leave, training, and administrative work, etc.

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3.7 There are differences between the total number of days deducted for the NATO International Civilians (NICs), Military and Interim Workforce Capacity (IWCs), i.e. consultants and contractors, as their annual leave and training commitments are different. The activity ratios per staff category are approximately 72% for NICs, 80% for IWCs and 65% for Military.

3.8 Billable Staff are employees (NICs and Military) and IWCs that are directly charged to a specific project, service or customer. Non-Billable Staff are staff members (NICs and Military) and IWCs that support the delivery of projects and services to customers but do not work directly on them. This covers overheads for central corporate functions like executive management, Finance, Human Resources, Internal Audit, but also a significant number of shared indirect staff performing activities required to deliver on services, capability development and projects.

3.9 The overhead rate ceiling used to recover indirect costs including Non-Billable and other centrally managed expenses (insurance, Internal Information Technology, utilities...) is set as a percentage of the total operating costs of the Agency. The rates included in the 2018-2020 Financial plan were 28% for 2018, 27% for 2019 and 26% for 2020.

3.10 The Agency annual customer rates are reviewed and noted by the NCIO ASB Finance Committee focusing on workforce projections (predicted number of future staff to complete agency work) and ensuring that the overhead rate ceiling is complied with. The rates are then approved by the Budget Committee (BC) on behalf of customers.

Observations

3.11 NCIO has applied the BC approved standard customer rates methodology, including the overhead rates, and these figures have been accurately reported in the NCIO 2019 Financial Statements and the notes, in accordance with the NATO Accounting Framework. However, IBAN found deficiencies related to the accuracy of some of the assumptions used in the Agency's calculation of the 2018 approved customer rates including the overhead rate, as described below. These assumptions form the basis of the standard customer rates, including overheads, year after year.

3.12 The NCIO Customer Rates and Overheads Governance Model (AC/337(FC)D(2018)0003-REV2 (INV)) gives the lead for the development of the annual customer rates to the Financial Controller. However, it does not clearly set out the roles, responsibilities and accountabilities relating to the inputs from internal stakeholders.

3.13 Furthermore, the Model does not require a detailed review of business assumptions. Accordingly, NCIO does not perform a variance analysis of approved standard customer rates, including overhead rates, with actuals. Moreover, NCIO does not use the Time Accounting System (TAS) to assess the accuracy of assumptions (i.e. activity ratios per staff category, the classification of staff activities between

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billable and non-billable activities, FTE projections, etc.), used in the customer rates, including the overhead rates.

3.14 Such a variance analysis would improve the accuracy and transparency of the customer rates and overhead estimation process. This would also improve the reliability of the business assumptions applied to future estimates. The results of such variance analysis could be reported to the ASB Finance Committee in order to improve accountability.

3.15 IBAN reviewed business assumptions and compared approved standard customer rates for 2018, including the overhead rate, with 2018 actuals, analysing any variances. At the time of the audit, 2018 actuals were the latest figures available. Variances related to the allocation of direct costs and overheads have an effect on how costs are charged to individual projects. It is therefore important to ensure the accuracy and transparency of the cost allocation methodology, to improve the fair allocation of costs between NCIO's customers.

3.16 As part of the review of business assumptions, IBAN found that the Agency uses an extract from the HR personnel database to establish the billable/ non-billable status of each staff member. This extract includes all posts whether they are filled or not. In addition, the HR database does not reflect the actual activities performed by individuals. Staff book their time to service codes, which are considered as billable activities, even if they are defined as non-billable. As such, the staff billability status is determined by the type of actual activity performed and not by the post filled in the HR data base.

3.17 IBAN also reviewed the assumptions for the activity ratios per staff category and found that the activity ratio for Interim Workforce Capacity (IWCs) was set at 80%. However, in practice, based on a review of IWC time recorded in the Time Accounting System, approximately 90% of the time spent by an IWC is devoted to billable activities.

3.18 As part of the review of the overhead part of the customer rates, which was 28% in 2018, IBAN compared the classification of staff activities between billable and non-billable activities, with the actual work performed by individuals in 2018. IBAN found that approximately 10% of non-billable staff were reallocated during the year to work on specific external customer projects. As a result, the actual overhead rate would have been approximately 2% lower, amounting to EUR 4 million.

3.19 In addition to the above issue around classification of staff activities, IBAN also found that travel costs for services delivered by NCIA to its customers were historically included in the overhead rate, rather than being directly billed to customers, as is the case for travel costs related to external customer projects. In 2018, these travel costs for services delivered amounted to EUR 4 million. As a result, by allocating travel costs for services delivered to direct billable costs, the actual overhead rate would have been a further 2% lower.

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3.20 In conclusion, although NCIO has correctly applied the BC approved standard customer rates and overhead methodology, IBAN found when reviewing the 2018 customer and overhead rates, deficiencies related to the accuracy of the standard assumptions made. These deficiencies related to the IWCs activity ratio, the classification of staff activities between billable and non-billable activities, and the allocation of travel costs for services delivered by the Agency. The impact of the above brought the total actual 2018 overhead rate to approximately 24%.

Recommendation

3.21 IBAN recommends that NCIO improves the accuracy and transparency of assumptions underlying customer rates, including overheads. This can be achieved by:

- a) Clarifying roles, responsibilities and accountabilities of internal stakeholders involved in the business assumptions that influence customer rates and overhead calculations;
- b) Providing detailed qualitative information supporting the rationale of each business assumption taken by Management;
- c) Applying a fair and consistent approach regarding travel costs for services delivered, that should be directly charged to customers and not be included in the Agency overheads;
- d) Using the Time Accounting System to compare prior year's assumptions and actuals in order to support, assess and improve the accuracy of business assumptions (i.e. activity ratios per staff category, resource classification billable or non-billable information, FTE projections, etc.), and
- e) Reporting significant variances between approved customer and overhead rates and actuals to the ASB Finance Committee.

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FOLLOW-UP OF PREVIOUS YEARS' 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.

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 Reporting Entity 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. In the case where there are sub-recommendations, the status related to each sub-recommendation is indicated in the Action Taken column.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>(1) NCIO FY 2018 IBA-AR(2019)19, paragraph 1</p> <p>LACK OF AN INTEGRATED SYSTEM TO SUPPORT THE MANAGEMENT AND FINANCIAL REPORTING OF PROPERTY, PLANT AND EQUIPMENT (PP&E) AND INTANGIBLE ASSETS</p> <p>IBAN's Recommendation IBAN recommends that, with the implementation of the Enterprise Business Application (EBA) in 2019, all the above assets should be disclosed as PPE, Intangible Assets and CIS and AIS work in progress as appropriate in the NCIO 2019 Financial Statements.</p>	<p>The Agency intends to achieve this by the end of the 2020 Financial Year when all EBA functionalities have been fully implemented.</p> <p>This Observation is superseded by Observation 1 in the Letter of Observations and Recommendations and its status is therefore treated as Closed.</p>	<p>Observation Closed.</p>
<p>(2) NCIO FY 2018 IBA-AR(2019)19, paragraph 2</p> <p>UNDERSTATEMENT OF INVENTORY</p> <p>IBAN's Recommendation IBAN recommends that, with the implementation of the new EBA in 2019, the Agency disclose the full value of inventory held in its 2019 Financial Statements. In addition, the Agency needs to complete its clean up exercise on unit prices migrated from NDSS. Further, the agency should</p>	<p>The Agency assessed the legacy NDSS converted data and NAF adjustment to reflect a more reliable value in the 2019 Statement of Financial Position.</p>	<p>Observation In-progress.</p>

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<p>identify slow moving and obsolete inventory and write them down to net realizable value in the 2019 Financial Statements.</p>	<p>In addition, the Agency completed its clean up exercise on unit prices migrated from NDSS. Finally, the Agency reviewed its slow moving and obsolete inventory adjusted their value accordingly in the 2019 Financial Statements.</p> <p>Due to the COVID-19 situation, we were unable to carry out annual physical checks at the CIS Sustainment Support Centre (CSSC) to confirm the value of inventory in accordance with the requirements of International Standards of Supreme Audit Institutions (ISSAIs).</p> <p>This status is based on the COVID-19 situation, which is outside of NCIO's area of responsibility. IBAN will review the full implementation of this recommendation as part of the audit of the 2020 Financial Statements.</p> <p>This Observation is In-progress.</p>	
<p>(3) NCIO FY 2018 IBA-AR(2019)19, paragraph 3</p> <p>SERVICE DELIVERY EXPENSE ACCRUAL VALUATION</p> <p>IBAN's Recommendation IBAN recommends that NCIA ensure, in future, that a complete review of all open purchase orders be undertaken by service line management in order to make the best estimate of the value of external service accruals at year end.</p>	<p>The observation is superseded by Observation 3 in the Letter of Observations and Recommendations.</p> <p>This Observation is therefore Closed.</p>	<p>Observation Closed.</p>

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OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>(4) NCIO FY 2017 IBA-AR(2018)11, paragraph 3</p> <p>NCIA PERSONNEL ESTABLISHMENT POLICY NOT FULLY COMPLIED WITH</p> <p>IBAN's Recommendation The Board recommends that the Agency:</p> <p>a) Comply strictly with its Personnel Establishment Policy in respect to the ceilings.</p> <p>b) Finalise clarification on the IWC ceiling in the Financial Plan.</p> <p>Further, the Board invites the ASB, as responsible for approving the overall Personnel Establishment, to be more proactive in its oversight role to ensure proper visibility into the Agency personnel management.</p>	<p>a) Observation Closed in financial year 2018.</p> <p>b) Observation Closed in financial year 2018.</p> <p>Regarding the role of the ASB, a number of actions have been taken.</p> <p>With AC/337(FC)N(2018)0016 the Nations have defined the format and content of the Agency's Personnel Establishment submission.</p> <p>Further to the above, with AC/337(FC)N(2018)0016, the Nations have demanded an Organisational Directive setting out the applicability, scope, governing principles, roles and responsibilities, as well as a description of the business processes and control mechanisms, regulating the employment of Interim Workforce Capacity.</p> <p>With AC/337-N(2018)0020 and AC/337-D(2019)0020, the Nations have obtained visibility of personnel trends from 2015 onwards, including the evolution of the Personnel Establishment' structure, composition, grades, and diversity. The next deliverable will focus on the "to be", and will be embedded in the 2020-2022 Business Plan, with ceilings agreed upon in the</p>	<p>Observation Closed.</p>

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	<p>context of the 2020-22 Financial Plan.</p> <p>With AC/337-N(2019)0011, the Nations have monitored the military and civilian manning per quarter, against the agreed ceiling. This type of deliverable is released on a quarterly basis.</p> <p>With AC/337-N(2018)0023, The ASB delegated the oversight of the Agency's Personnel Establishment to the Finance Committee.</p> <p>Based on a review of the above, IBAN considers this Observation to be Closed.</p>	
<p>(5) NCIO FY 2017 IBA-AR(2018)11, paragraph 4</p> <p>FURTHER IMPROVEMENTS REQUIRED IN THE AREA OF RISK MANAGEMENT, INTERNAL CONTROL AND INTERNAL AUDIT</p> <p>IBAN's Recommendation While continuing the effort of maintain corporate Enterprise Risk, the Board recommends that:</p> <p>a) NCIO perform a systematic and detailed assessment and documentation of its internal control and risk management procedures to support compliance with its approved internal control framework.</p> <p>b) NCIO issues clear directions on appropriate mechanisms for fraud prevention and detection related to financial activities.</p>	<p>a) In 2019, the Agency developed risk registers with related mitigating controls in accordance with the COSO framework adopted by the ASB.</p> <p>Observation Closed.</p> <p>b) The Internal Control Framework as described in a) above is regarded by the Agency as the appropriate mechanism for the detection and prevention of fraud. To date, Internal Audit has assisted finance, acquisitions and the recruitment process in the identification of appropriate mitigating controls. In 2019, the Agency's Fraud Prevention and Detection (FP&D) Manager performed a review</p>	<p>Observation In-progress.</p>

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<p>c) Internal Audit</p> <p>- fully evaluate, once the system is in place, the internal control and risk management throughout NCIA, and that this work be clearly documented, so as to be able to conclude as to NCIA's compliance against COSO;</p> <p>- modifies its Charter to ensure independence in compliance with internationally accepted Internal Auditing Standards as mentioned in Article 13.2 of the NFRs.</p>	<p>of roles and responsibilities in the travel on duty's approval process for all Agency's staff. In addition, a fraud-risk assessment was performed covering travel. Finally, the Office of the Internal Auditor carried out an advisory mission and prepared a report related to Fraud Prevention and Detection controls regarding Human Resources Allowances. Observation Closed.</p> <p>c) Internal control and risk management were fully evaluated and reported in the Head Internal Audit Annual Report - Internal Audit Operations for the year 2019 developed in NCIA to be evaluated. The report includes a conclusion regarding the assessment of NCIA's internal control system. Observation Closed.</p> <p>Regarding the Internal Audit Charter, internationally accepted internal audit standards and reporting lines, this is a NATO wide issue that will be addressed as part of the review of the NFRs and FRPs in 2021. Observation In-Progress.</p>	
<p>(6) NCIO FY 2017 IBA-AR(2018)11, paragraph 5</p> <p>NO CLEAR CONFIRMATION OF THE SYSTEM OF INTERNAL CONTROL</p> <p>IBAN's Recommendation The Board recommends that NCIO's Statement of Internal Control contain the confirmations required by FRP XII including the confirmation by the Director of Acquisition on the content for procurement and contracting of the Statement of Internal Control.</p>	<p>The Statement of Internal Control still does not comply with the wording of FRP XII. Specifically, the following elements are not included:</p> <p>- confirmation that an effective system of internal control is</p>	<p>Observation In-progress.</p>

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	operated by the entity. - confirmation with regard to safeguarding of assets.	
<p>(7) NCIO FY 2017 IBA-AR(2018)11, paragraph 6</p> <p>WEAKNESSES IN THE SOURCE SELECTION PLANNING PROCESS</p> <p>IBAN's Recommendation The Board recommends that the Agency comply with its 2017 Acquisition SOP ensuring that sufficient resources are planned for the evaluation and selection phases and that Source Selection Plans are approved prior to the issuance of the solicitation document.</p>	<p>A revised SOP 16.1 was according to the Agency implemented in 2019. The Agency provided supporting documentation regarding this matter during the final stages of the audit. IBAN will verify the implementation of this procedure and follow up this issue as part of its 2020 audit.</p>	<p>Observation In-progress.</p>
<p>(8) NCIO FY 2016 IBA-AR(2017)15, paragraph 3</p> <p>LACK OF CONSISTENT AND ROBUST PROCESS FOR DETERMINING CAPABILITY DEVELOPMENT PROJECT REVENUE FOR THE PERIOD</p> <p>IBAN's Recommendation The Board recommends NCIA to improve the Cost-to-Complete estimate by:</p> <p>Incorporating project investment costs into an integrated system in order to consolidate the assessment of future costs of a project. Standardising the "cost-to-complete" estimation processes among the Project Managers, ensuring thorough reviews by management and Finance are strengthened again, and documenting these and the results of the estimation process.</p> <p>Ensuring the year-end instructions to Project Managers are more descriptive on how "cost-to-complete" should be estimated.</p>	<p>NCIA improved the quality of the CTC process and IBAN notes the increased accuracy of the Cost to Complete estimates. With the introduction of EBA, a new more integrated approach (less reliance on spreadsheets) was implemented by the end of 2019.</p>	<p>Observation Closed.</p>

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OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>(9) NCIO FY 2016 IBA-AR(2017)15, paragraph 6</p> <p>CONTRACTOR CLAIM RESULTING FROM CHANGING AND DELAYED CONTRACT REQUIREMENT DEFINITION AND WEAK COORDINATION BETWEEN NCIA AND THE INVESTMENT COMMITTEE</p> <p>IBAN's Recommendation The Board reminds NCIO and the funding committees of the recommendations of the IBAN Special Performance Audit Reports to Council on the need to improve NATO's capability package process, including:</p> <ul style="list-style-type: none"> - For the Agency, improving information management and transparency by rationalizing and modernizing the processes and information technology used to manage Capability Package work. - For the funding committees, unifying, strengthening and clarifying governance roles to ensure capability requirements reflect needs and enable capability delivery as closely as possible to agreed plans. 	<ul style="list-style-type: none"> - A proposed new format of quarterly reports on NSIP implementation to the Investment Committee which focuses on broader capabilities and highlights achievements has yet to be developed. Observation Open. - The Deputy Permanent Representative Committee (DPRC) is monitoring the ongoing implementation of the newly agreed approach on common funded capability delivery governance structure. Observation In-progress. 	<p>Observation In-progress.</p>
<p>(10) NCIO FY 2016 IBA-AR(2017)15, paragraph 10</p> <p>WEAKNESSES IN THE TIME ACCOUNTING SYSTEM (TAS)</p> <p>IBAN's Recommendation The Board has seen improvement in the quality of the TAS data since its full implementation with Service Delivery in 2014. Nevertheless, as EBA has been delayed and the Agency is not yet working with its integrated management system, the Board recommends NCIO to continue its efforts in mitigating risks and internal controls specifically for "internal service providers" and for the CIS delivery to Alliance Operation Missions.</p>	<p>IBAN has noted improvements over time in the quality of the TAS data, since the implementation of EBA. We found that the TAS in practice is still open to retrospective corrections that were justified. As a result, IBAN regards this recommendation as Closed.</p>	<p>Observation Closed.</p>

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OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>(11) NCIO FY 2014 IBA-AR(2015)20, paragraph 8</p> <p>INCOMPLETE CONFIRMATION OF YEAR - END ASSETS AND LIABILITIES OUTSTANDING BETWEEN NATO BODIES</p> <p>IBAN's Recommendation The Board recommends that NCIO improve its process to prepare, send and receive confirmation of the outstanding asset and liabilities balances from other NATO Bodies as part of the preparation of the Financial Statements.</p>	<p>NCIO has improved its process to prepare, send and receive confirmation of the outstanding asset and liabilities balances from other NATO Bodies as part of the preparation of the Financial statements. This was verified during the course of the audit. IBAN reviews the confirmation of year-end balances on an annual basis and may raise a new observation if further weaknesses are noted in this area. Therefore, IBAN regards this recommendation as Closed.</p>	<p>Observation Closed.</p>
<p>(12) NCIO FY 2013 IBA-AR(2014) 22, paragraph 4</p> <p>NCIO's FINANCIAL REPORTING PROCESSES DO NOT YET FULLY MITIGATE THE RISK OF ERRORS IN THE FINANCIAL STATEMENTS</p> <p>IBAN's Recommendation The Board recommends NCIO to improve its financial reporting control procedures, including management reviews, in order to ensure that they adequately mitigate the risk of errors in the financial statements.</p>	<p>IBAN did not identify significant financial reporting control weaknesses since the implementation of EBA.</p>	<p>Observation Closed.</p>

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OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>(13) NCIO FY 2012 IBA-AR92013)23, paragraph 6</p> <p>NCIA SD SEGMENT FINANCIAL STATEMENTS (former NCSA)</p> <p>IBAN's Recommendation The Board Recommends that now that an adapted IPSAS framework has been approved with different requirements for PP&E compared to IPSAS 17, NCIA should develop a detailed accounting policy on PP&E and ensure sufficient note disclosures on PP&E in future financial statements.</p>	<p>IBAN's updated observation on PP&E is presented in Observation 1 in the Letter of Observations and Recommendations. This observation is therefore superseded and treated as Closed.</p>	<p>Observation Closed.</p>

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**NATO COMMUNICATIONS AND INFORMATION ORGANISATION (NCIO)
FORMAL COMMENTS ON THE LETTER OF OBSERVATIONS AND
RECOMMENDATIONS AND
THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS**

**OBSERVATION 1:
MATERIAL INCOMPLETENESS OF PROPERTY, PLANT AND EQUIPMENT
(PP&E) AND INTANGIBLE ASSETS**

NCIO's Formal Comments

The Agency has made significant efforts to mitigate legacy property records and inventory holdings. The inventory holdings are accounted and adjusted to comply with NAF standards. For the PPE items, we have reported the fixed asset register within our financial statements with the caveat of missing PPE items due to its nature of classification and PPE items related to Assets under construction. This complex matter of AuC will require further analysis on the impact towards financial planning/reporting vs Financial Statements applying NAF and the underlying process change related to IC projects. The Agency remains committed to achieving full compliance with the NATO Accounting Framework and will actively work to present an assessment of the impacts and actions and expected time needed to address the audit qualification. This should be presented to the Nations by mid-2021.

**OBSERVATION 2:
IMPROVEMENTS NEEDED ON THE INTERNAL CONTROL OVER ACCRUAL
ESTIMATES**

NCIO's Formal Comments

Implementation of EBA has improved the way in which the Agency operates and a significant number of processes are currently being handled.

Expense accruals are now reflected in the financial records directly by the respective requestors immediately after goods are delivered or services are rendered, which provides estimates that are more accurate and ensures better accountability and transparency.

The Agency recognizes the importance of documenting the processes and has implemented the required actions (instructions and training) as part of the 2020 closing process. Detailed guidance will be further formalised in 2021 with an aim to close this observation and tighten internal control in this area.

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**OBSERVATION 3:
IMPROVEMENTS NEEDED TO THE NCIO CUSTOMER RATES AND OVERHEAD
ASSUMPTIONS**

NCIO's Formal Comments

The Agency agrees with the observation and foresees the following improvement actions:

The Agency will address the IBAN observation under the guidance of an ASB Finance Committee Tiger Team that has been established in order to improve accuracy and transparency of assumptions underlying customer rates, including overheads. As part of its activity, the tiger team will also address the recommendations made by the IBAN – including reporting any significant variances between approved customer and overhead rates and actuals to the ASB Finance Committee.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

**(2) NCIO 2018 FY
IBA-AR(2019)19, paragraph 2
UNDERSTATEMENT OF INVENTORY**

NCIO's Formal Comments

The Agency has undertaken significant effort to properly assess and adjust accounting to disclose full value of the inventory in the financial year 2019 and hence the NCIA expect closure of this observation.

The resulting adjustment could not be verified on site by IBAN auditor due to COVID-19 restrictions imposed at CSSC Brunssum, which is beyond the Agency's control.

**(5) NCIO FY 2017
IBA-AR(2018)11, paragraph 4
FURTHER IMPROVEMENTS REQUIRED IN THE AREA OF RISK MANAGEMENT,
INTERNAL CONTROL AND INTERNAL AUDIT**

NCIO's Formal Comments

The actions under the Agency's remit are confirmed and are closed. The Agency therefore would suggest this recommendation to be closed, as it creates perception that the Agency is not progressing this area.

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The remaining open part of the observation should be addressed across NATO.

The Agency's view is before modification of the Charter, to ensure independence in compliance with internationally accepted Internal Auditing Standards as mentioned in Article 13.2 of the NFRs, the issue needs to be addressed NATO-wide as part of the planned review of the NFRs and FRPs in 2021.

IBAN's Position

IBAN acknowledges that challenges around compliance with Article 13.2 of the NFRs, and in particular the independence requirements in internationally accepted Internal Auditing standards may need to be addressed as part of the upcoming revision of the NFRs. The Charter of the NCIO Internal Auditor may need to be revised to reflect any changes in the revised NFRs. IBAN aims to re-evaluate the status of this recommendation once the revised version of the NFRs has been approved by Council.

(6) NCIO FY 2017

IBA-AR(2018)11, paragraph 5

NO CLEAR CONFIRMATION OF THE SYSTEM OF INTERNAL CONTROL

NCIO's Formal Comments

The actions already taken by NCIA partially mitigated this observation although minor adjustments of the wording will be included in the Statement of Internal Control for FS2020; confirmation that an effective system of internal control is operated by the entity and confirmation with regard to safeguarding assets.

(7) NCIO FY 2017

IBA-AR(2018)11, paragraph 6

WEAKNESSES IN THE SOURCE SELECTION PLANNING PROCESS

NCIO's Formal Comments

Revised SOP 16.1 was implemented in 2019. The Agency has provided relevant supporting documentation to respond to this IBAN observation. However, given the extensive nature of requested documentation that has been fully completed in October 2020, it should permit complete review by IBAN in the next audit cycle for FS2020.

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(9) NCIO FY 2016

IBA-AR(2017)15, paragraph 6

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

NCIO's Formal Comments

The Agency has updated its IC reporting that now includes amongst others the following details:

- Projects which suffered a delay above 6 months during the last quarter.*
- Highlights of achievements but also challenges faced by Programmes and Projects.*

The Agency intends to further enhance this report but such enhancements depend on IC approval of Agency's document named "Standardised Implementation of Portfolio, Programme and Project Management, Architecture & Design, and Verification & Validation for the NSIP Common Funded Capability Portfolio" - Reference NCIA/COO/2020/01302, released to IS/NOR on the 18th June 2020 and under screening.

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GLOSSARY OF TERMS

In accordance with International Standards of Supreme Audit Institutions (ISSAI 2705), audit opinions on financial statements and on compliance can be unqualified, qualified, a disclaimer, or adverse:

- An unqualified opinion is when IBAN issues an opinion that the financial statements and budget execution report are stated fairly and that nothing has come to our attention 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 rules and regulations.
- A qualified opinion means that IBAN was generally satisfied with the presentation of the financial statements, but that some key elements of the statements were not fairly stated or affected by a scope limitation, or specific issues have come to our attention 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 rules and regulations.
- A disclaimer is issued when the audit scope is severely limited and IBAN cannot express an opinion, or when there are material uncertainties affecting the financial statements or the use of funds.
- An adverse opinion is issued when the effect of an error or disagreement is so pervasive and material to the financial statements that IBAN concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

When an audit opinion is unqualified, in accordance with auditing standards, three types of paragraphs may also be communicated in the auditor's report:

- Key Audit Matters (ISSAI 2701): Those matters that, in IBAN's professional judgement, were of most significance in the audit of the financial statements of the current period. Key Audit Matters are addressed to Council.
- Emphasis of Matter (ISSAI 2706): If IBAN considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements; we will include an Emphasis of Matter paragraph in the auditor's report provided.
- Other Matter (ISSAI 2706): If IBAN considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in our judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report; we will include an Other Matter paragraph in the auditor's report.

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