

NATO SANS CLASSIFICATION

30 septembre 2015

DOCUMENT
C-M(2015)0066-AS1

**RAPPORT DU COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES
DE L'OTAN SUR LA VÉRIFICATION DES ÉTATS FINANCIERS DU GROUPE
DE BUDGETS DE L'ÉTAT-MAJOR MILITAIRE INTERNATIONAL (EMI)
RELATIFS À L'EMI, À L'AGENCE OTAN DE NORMALISATION (AON),
AU PARTENARIAT POUR LA PAIX (PPP)
ET AUX AUTRES COOPÉRATIONS MILITAIRES (OMC)
POUR L'EXERCICE 2013**

SUITE DONNÉE

Le 29 septembre 2015, au terme d'une procédure d'accord tacite, le Conseil a pris note du rapport du Collège international des commissaires aux comptes de l'OTAN diffusé sous la cote IBA-AR(2014)15 et joint au C-M(2015)0066, et il a approuvé la recommandation du Bureau de la planification et de la politique générale des ressources visant la communication au public.

(signé) Alexander Vershbow
Secrétaire général délégué

NOTE : La présente note fait partie du C-M(2015)0066 et doit être placée en tête de ce document.

NATO SANS CLASSIFICATION

24 septembre 2015

NOTE

C-M(2015)0066

Procédure d'accord tacite :

29 sept 2015 18:00

RAPPORT DU COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES DE L'OTAN SUR LA VÉRIFICATION DES ÉTATS FINANCIERS DU GROUPE DE BUDGETS DE L'ÉTAT-MAJOR MILITAIRE INTERNATIONAL (EMI) RELATIFS À L'EMI, À L'AGENCE OTAN DE NORMALISATION (AON), AU PARTENARIAT POUR LA PAIX (PPP) ET AUX AUTRES COOPÉRATIONS MILITAIRES (OMC) POUR L'EXERCICE 2013

Note du secrétaire général délégué

1. On trouvera en annexe le rapport du Collège international des commissaires aux comptes de l'OTAN (IBAN) sur la vérification des états financiers du Groupe de budgets de l'État-major militaire international (EMI) relatifs à l'EMI, à l'Agence OTAN de normalisation (AON), au Partenariat pour la paix (PPP) et aux Autres coopérations militaires (OMC) pour l'exercice clos le 31 décembre 2013. Ce rapport contient une opinion sans réserve.
2. Le document a été porté à l'attention du Bureau de la planification et de la politique générale des ressources (RPPB).
3. Le RPPB recommande au Conseil, ainsi que le prévoit le PO(2015)0052, d'approuver la communication au public des états financiers 2013 du Groupe de budgets de l'EMI relatifs à l'EMI, à l'AON, au PPP et aux OMC ainsi que du rapport de l'IBAN correspondant.
4. J'estime que ce rapport ne nécessite pas d'examen plus approfondi. Par conséquent, sauf avis contraire me parvenant **d'ici au mardi 29 septembre 2015 à 18 heures**, je considérerai que le Conseil aura pris note du rapport de l'IBAN diffusé sous la cote IBA-AR(2014)15 et qu'il aura approuvé la recommandation du RPPB visant la communication au public des documents précités, contenue dans la note ci-jointe.

(signé) Alexander Vershbow

4 annexes

Original : anglais

NATO SANS CLASSIFICATION

-1-



20 juillet 2015

NOTE
AC/335-N(2015)0021-REV3
Procédure d'accord tacite :
10 sept 2015 12:00

**BUREAU DE LA PLANIFICATION
ET DE LA POLITIQUE GÉNÉRALE DES RESSOURCES
(RPPB)**

**RAPPORT ET LETTRE D'OBSERVATIONS ET DE RECOMMANDATIONS DE L'IBAN
SUR LA VÉRIFICATION DES ÉTATS FINANCIERS DU GROUPE DE BUDGETS
DE L'ÉTAT-MAJOR MILITAIRE INTERNATIONAL (EMI) RELATIFS À L'EMI,
À L'AGENCE OTAN DE NORMALISATION, AU PARTENARIAT POUR LA PAIX
ET AUX AUTRES COOPÉRATIONS MILITAIRES
POUR L'EXERCICE CLOS LE 31 DÉCEMBRE 2013**

Note du président

Références : (A) IBA-A(2014)158
(B) IBA-A(2015)15

1. En vertu du PO(2015)0052, les rapports de l'IBAN non classifiés, assortis des états financiers correspondants, sont en principe rendus publics après leur examen par le Conseil de l'Atlantique Nord.
2. L'IBAN a émis une opinion sans réserve sur les états financiers 2013 du Groupe de budgets de l'État-major militaire international (EMI) relatifs à l'EMI, à l'Agence OTAN de normalisation, au Partenariat pour la paix et aux Autres coopérations militaires. Le rapport de l'IBAN sera transmis au Conseil afin qu'il en prenne note, ainsi que le prévoient les procédures agréées.
3. Le contrôleur des finances de l'EMI a examiné les états financiers conformément aux politiques agréées (C-M(2018)0016 et PO(2015)0052), ainsi que le rapport de l'IBAN, et il a émis des préoccupations concernant la mise en lecture publique de certains éléments de ce rapport, qui, d'après lui, contiennent des informations personnelles sensibles.
4. Le RPPB s'est dit satisfait de la manière dont les fonds communs alloués ont été gérés par le contrôleur des finances de l'EMI, laquelle avait permis à l'IBAN de formuler une opinion sans réserve. Il a constaté que l'observation de l'IBAN concernant l'indemnité de représentation découlait directement de l'approbation, au milieu de l'exercice financier 2013, du PO(2013)0154.

5. La directive sur la mise en lecture publique de l'information OTAN (AC/324-D(2014)0010) donne une définition explicite du concept d'information personnelle sensible¹. Le RPPB, après avoir dûment pris en considération les arguments du contrôleur des finances de l'EMI relatifs aux informations à fournir, a estimé que les éléments visés par les préoccupations émises ne correspondaient en aucun point aux critères énoncés dans cette directive.

6. Le RPPB estime donc que le rapport d'audit considéré ne contient pas d'informations qui, selon la politique relative à la mise en lecture publique de l'information OTAN, ne peuvent être rendues publiques, et que, conformément à la politique agréée dans le PO(2015)0052, le rapport de l'IBAN portant la cote IBA-A(2014)158, ainsi que les états financiers correspondants et d'autres éléments pertinents, devraient être mis en lecture publique.

(signé) Giorgio Romano

Responsables : R. Strasser, poste 2617
H. Ronning, poste 4463
Original : anglais

¹ Une information personnelle sensible est un fait ou une opinion concernant une personne, qui a trait aux performances professionnelles, au respect des règles de discipline, à la santé physique ou mentale, à la situation financière ou à la vie privée, et dont on peut raisonnablement penser que la diffusion peut faire courir un danger physique à cette personne ou nuire à sa carrière ou à sa réputation.

Note du secrétaire

Le 14 septembre 2015, au terme d'une procédure d'accord tacite, le RPPB a approuvé le rapport au Conseil diffusé sous la cote AC/335-N(2015)0021-REV3.

**Note succincte du Collège international des commissaires aux comptes de
l'OTAN à l'intention du Conseil
sur la vérification des états financiers
du Groupe de budgets de l'État-major militaire international (EMI)
relatifs à l'EMI, à l'Agence OTAN de normalisation (AON),
au Partenariat pour la paix (PPP),
au Dialogue méditerranéen (DM),
à l'Initiative de coopération d'Istanbul (ICI)
et aux Autres coopérations militaires (OMC)
pour l'exercice clos le 31 décembre 2013**

Introduction

L'État-major militaire international (EMI) est l'organe exécutif du Comité militaire, la plus haute instance militaire de l'OTAN. Il est chargé de veiller à l'application des politiques et décisions du Comité militaire. Par ailleurs, il prépare des plans, entreprend des études et émet des recommandations sur les orientations à suivre pour les questions militaires.

Le groupe de budgets de l'EMI englobe les éléments suivants :

- l'Agence OTAN de normalisation (AON), qui est un organe intégré et unique, composé de personnel militaire et de personnel civil et placé sous la responsabilité d'un directeur. La mission de l'AON consiste à lancer, coordonner, soutenir et administrer les activités de normalisation menées sous l'autorité du Comité OTAN de normalisation ;
- le programme de travail du Partenariat pour la paix (PPP), qui est exécuté dans le cadre du programme du PPP à l'échelle de l'OTAN ;
- le Dialogue méditerranéen (DM), dont le but consiste à contribuer à la sécurité et à la stabilité pour l'Alliance par l'instauration d'une meilleure compréhension mutuelle et la rectification des conceptions erronées ;
- l'Initiative de coopération d'Istanbul (ICI), qui a été mise en place pour proposer une coopération dans la région du Moyen-Orient élargi grâce à une coopération pratique et à une assistance dans différents domaines, ainsi qu'à des activités spécifiques ;
- les Autres coopérations militaires (OMC), qui reflètent l'évolution de la coopération avec l'Afghanistan, le Pakistan et l'Union africaine.

Les états financiers des éléments ci-dessus sont réunis en un tout qui fait l'objet du présent rapport.

La dotation totale (EMI, AON, PPP, DM, ICI et OMC) relative à l'exercice clos le 31 décembre 2013 s'établissait à 24,6 millions d'euros.

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18 juillet 2014

COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES DE L'OTAN

**RAPPORT SUR LA VÉRIFICATION DES ÉTATS FINANCIERS
DU GROUPE DE BUDGETS DE L'ÉTAT-MAJOR MILITAIRE INTERNATIONAL (EMI)
RELATIFS À L'EMI,
À L'AGENCE OTAN DE NORMALISATION (AON),
AU PARTENARIAT POUR LA PAIX (PPP),
AU DIALOGUE MÉDITERRANÉEN (DM),
À L'INITIATIVE DE COOPÉRATION D'ISTANBUL (ICI)
ET AUX AUTRES COOPÉRATIONS MILITAIRES (OMC)**

POUR L'EXERCICE CLOS LE 31 DÉCEMBRE 2013

OPINION
DU COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES DE L'OTAN
À L'INTENTION DU CONSEIL DE L'ATLANTIQUE NORD

Rapport sur les états financiers

Le Collège international des commissaires aux comptes de l'OTAN (le Collège) a procédé à la vérification des états financiers du Groupe de budgets de l'EMI relatifs à l'État-major militaire international (EMI), à l'Agence OTAN de normalisation (AON), au Partenariat pour la paix (PPP), au Dialogue méditerranéen (DM), à l'Initiative de coopération d'Istanbul (ICI) et aux Autres coopérations militaires (OMC), composés de l'état de la situation financière au 31 décembre 2013 et de l'état de la performance financière, de l'état des variations de la situation nette et du tableau des flux de trésorerie pour l'exercice clos à cette date, des notes jointes aux états financiers, ainsi que d'un résumé des méthodes comptables importantes. Le Collège a également vérifié l'état de l'exécution du budget pour l'exercice clos le 31 décembre 2013.

Responsabilité de la direction

La direction est chargée d'établir les états financiers conformément au cadre comptable OTAN et aux dispositions du Règlement financier de l'OTAN tels qu'ils ont été fixés par le Conseil de l'Atlantique Nord, et de veiller à ce que les états financiers donnent une image fidèle de la situation de l'entité. Elle est ainsi responsable de la conception, de l'application et de la tenue d'un système de contrôle interne de nature à permettre l'établissement et la présentation d'états financiers qui soient exempts d'inexactitudes significatives, que celles-ci relèvent d'une fraude ou d'une erreur.

Responsabilité du Collège

Il incombe au Collège de formuler sur ces états financiers une opinion qui soit fondée sur son travail de vérification, lequel aura été effectué conformément aux dispositions de sa charte et aux normes internationales d'audit. Ces normes exigent que le Collège respecte certains principes déontologiques, et qu'il planifie et effectue sa vérification de manière à parvenir à une assurance raisonnable sur le point de savoir si les états financiers sont exempts d'inexactitudes significatives.

Un audit consiste à appliquer des procédures permettant d'obtenir des éléments probants relatifs aux montants et aux informations figurant dans les états financiers. Les procédures retenues à cette fin sont laissées à l'appréciation de l'auditeur, qui évalue notamment les risques d'inexactitudes significatives dans les états financiers, que celles-ci relèvent d'une fraude ou d'une erreur. Pour l'évaluation de ces risques, le système de contrôle interne sur lequel s'appuient l'établissement et la présentation des états financiers de l'entité concernée est pris en considération, le but étant d'élaborer des procédures d'audit qui soient adaptées à la situation considérée et non pas d'exprimer une opinion sur l'efficacité du système de contrôle interne. Il s'agit aussi de déterminer si

les méthodes comptables appliquées sont appropriées et si les estimations comptables faites par la direction sont raisonnables, ainsi que d'évaluer la présentation générale des états financiers.

Le Collège estime qu'il a obtenu par son audit les éléments probants nécessaires et suffisants pour lui permettre de formuler une opinion.

Opinion sur les états financiers

L'opinion du Collège est, qu'à tous égards significatifs, les états financiers donnent une image fidèle, conforme au cadre comptable OTAN, de la situation financière du Groupe de budgets de l'EMI relatifs à l'EMI, à l'AON, au PPP, au DM, à l'ICI et aux OMC au 31 décembre 2013, ainsi que de sa performance financière et de ses flux de trésorerie pour l'exercice clos à cette date.

Rapport sur la conformité

Responsabilité de la direction

En plus d'être responsable, comme il est dit plus haut, de l'établissement et de la présentation des états financiers, la direction est chargée de veiller à ce que les opérations financières et les informations présentées dans les états financiers soient conformes aux dispositions du Règlement financier de l'OTAN et du Règlement du personnel civil de l'OTAN telles qu'elles ont été fixées par le Conseil de l'Atlantique Nord.

Responsabilité du Collège

En plus d'être responsable, comme il est dit plus haut, de la formulation d'une opinion sur les états financiers, le Collège est chargé de se prononcer sur le point de savoir si les opérations financières et les informations présentées dans les états financiers sont, à tous égards significatifs, conformes au Règlement financier de l'OTAN et au Règlement du personnel civil de l'OTAN. Il lui incombe notamment d'appliquer des procédures lui permettant d'obtenir une assurance raisonnable sur le point de savoir si les fonds ont été utilisés pour le règlement de dépenses autorisées et si les opérations correspondantes ont été exécutées conformément à la réglementation en vigueur dans le domaine financier et en matière de personnel. De telles procédures prévoient notamment l'évaluation des risques de non-conformité significative.

Le Collège estime qu'il a obtenu par son audit les éléments probants nécessaires et suffisants pour lui permettre de formuler une opinion.

Opinion sur la conformité

Le Collège estime que les opérations financières et les informations présentées dans les états financiers sont, à tous égards significatifs, conformes au Règlement financier de l'OTAN et au Règlement du personnel civil de l'OTAN.

Bruxelles, le 18 juillet 2014

Charilaos Charisis
Président

COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES DE L'OTAN

**LETTRE D'OBSERVATIONS ET DE RECOMMANDATIONS CONCERNANT LE
GROUPE DE BUDGETS DE L'ÉTAT-MAJOR MILITAIRE INTERNATIONAL (EMI)
(EMI, AGENCE OTAN DE NORMALISATION (AON),
PARTENARIAT POUR LA PAIX (PPP),
DIALOGUE MÉDITERRANÉEN (DM),
INITIATIVE DE COOPÉRATION D'ISTANBUL (ICI)
ET AUTRES COOPÉRATIONS MILITAIRES (OMC))**

POUR L'EXERCICE CLOS LE 31 DÉCEMBRE 2013

Introduction

Le Collège international des commissaires aux comptes de l'OTAN a procédé à la vérification des états financiers du groupe de budgets de l'État-major militaire international (EMI) pour l'exercice clos le 31 décembre 2013, et il a émis une opinion sans réserve à leur sujet ainsi que sur la conformité.

Observations et recommandations

Au cours de la vérification des états financiers, le Collège a formulé trois observations concernant le défaut de conformité avec les nouvelles règles relatives à l'indemnité de représentation, l'absence d'audit interne et le montant moyen des liquidités qui est excédentaire par rapport à ce qui est prévu dans le Règlement financier de l'OTAN.

En raison de la possible mise en lecture publique des commentaires officiels, le directeur général de l'EMI n'a pas été en mesure de répondre au Collège de manière détaillée à ce stade (référence : IMSTAM(FC)-0060-2014). Toutefois, le contrôleur des finances de l'EMI a quant à lui donné des réponses détaillées au Collège.

OBSERVATIONS ET RECOMMANDATIONS**1. DÉFAUT DE CONFORMITÉ AVEC LES NOUVELLES RÈGLES RELATIVES À L'INDEMNITÉ DE REPRÉSENTATION****Contexte**

En 2013, le Conseil de l'Atlantique Nord a approuvé une procédure et des règles actualisées relatives à la perception et à l'utilisation de l'indemnité de représentation. Décrites dans le PO(2013)0154, les nouvelles règles s'appliquent, depuis le 1^{er} juin 2013 sans exception, à tous les agents de l'OTAN ayant droit à cette indemnité. L'indemnité est désormais perçue uniquement sous forme de remboursement de dépenses et plus sous forme d'avance. Par ailleurs, les contrôleurs des finances des organismes OTAN sont maintenant chargés de vérifier que les dépenses satisfont bien aux critères fixés pour le remboursement.

Constatation

Le RPPB a constaté que le contrôleur des finances de l'EMI a publié une procédure interne relative à l'indemnité de représentation (IMSTAM(FC)-077-2013-REV1). Or, cette procédure n'est pas pleinement conforme au PO(2013)0154. Par ailleurs, il n'y a pas d'informations sur les dépenses relatives à l'indemnité de représentation pour 2013 qui, de plus, n'apparaissent pas dans les états financiers.

Recommandation

Pour 2014, l'EMI doit élaborer et appliquer une procédure qui soit conforme aux nouvelles règles relatives à la perception et à l'utilisation de l'indemnité de représentation.

Commentaires factuels et officiels du contrôleur des finances de l'EMI

Accord partiel.

Comme expliqué dans l'exposé fait le 30 avril 2014, le PO a été rédigé dans un contexte où le personnel civil relevait d'un centre de paie. Le Comité des budgets (« à 28 ») a noté que « des mesures de transition pour l'application du PO au budget militaire pourraient être examinées à sa réunion suivante » (BC-DS(2013)0016, point XII. C). Ainsi, les modalités exactes de la mise en application pour le personnel militaire sont toujours à l'examen au Comité des budgets. Les nouvelles règles relatives à l'indemnité de représentation ne sont – pas encore – applicables aux budgets militaires.

Il incombe aux responsables de ces budgets de se concerter pour trouver une approche adaptée qui satisfasse le Comité des budgets. J'ai l'intention de veiller à ce qu'une procédure soit en place à l'EMI pour le 1^{er} janvier 2015 au plus tard.

Dans l'attente des délibérations du Comité des budgets, le Bureau du contrôle financier a anticipé et diffusé une procédure interne (IMSTAM) afin que le suivi soit plus rigoureux à l'avenir.

Position du Collège

Le Collège estime que les nouvelles règles relatives à l'indemnité de représentation doivent s'appliquer, sans exception, à tous les agents de l'OTAN ayant droit à cette indemnité.

2. ABSENCE D'AUDIT INTERNE

Contexte

La fonction d'audit interne est un élément important de toute entité. Elle permet notamment de détecter et d'empêcher les fraudes, de tester les contrôles internes et de vérifier la conformité avec les règles et règlements applicables.

Constatation

L'EMI ne dispose pas de sa propre fonction d'audit interne. Les audits internes étaient menés par le Service Audit interne du Secrétariat international (SI). Toutefois, il n'y a pas eu de tels audits récemment, et on ne sait pas si et quand ils se poursuivront. En outre, aucun audit interne n'a été engagé à l'EMI depuis l'introduction du FinS.

Recommandation

L'EMI devrait établir un cycle régulier d'audit interne, ce qu'il peut faire en collaborant avec le SI ou avec d'autres organismes OTAN.

Commentaires factuels et officiels du contrôleur des finances de l'EMI

Accord.

3. MONTANT MOYEN DES LIQUIDITÉS EXCÉDENTAIRES PAR RAPPORT À CE QUI EST PRÉVU DANS LE RÈGLEMENT FINANCIER DE L'OTAN (NFR)

Contexte

D'après le NFR (article 13), il convient de calculer le montant des tranches de contributions de façon à limiter le total des avoirs en devises au minimum nécessaire pour couvrir les dépenses prévues jusqu'à la réception de la tranche suivante. Selon les règles et procédures financières (FRP), il y a un surplus de trésorerie si la moyenne mensuelle des liquidités excède l'équivalent de trois fois la moyenne des dépenses

mensuelles. Comme il n'y a que deux appels de contributions par an, il s'agit en fait de six fois la moyenne des dépenses mensuelles (12,6 millions d'euros en 2013, soit six fois le montant moyen des dépenses mensuelles de 2,1 millions d'euros). D'après les FRP, les circonstances qui ont conduit à la formation de l'excédent doivent être indiquées au Comité des budgets.

Constatation

Le Collège a constaté que la moyenne des liquidités mensuelles en 2013 (15,7 millions d'euros) représentait sept fois et demie la moyenne des dépenses mensuelles (2,1 millions d'euros), ce qui est considéré comme un excédent dans le NFR et les FRP. Les raisons de ce surplus n'ont pas été indiquées au Comité des budgets.

Recommandation

Le Collège recommande que l'EMI cherche les causes de cet excédent de trésorerie par rapport à ce qui est prévu dans le NFR et les FRP. Une meilleure analyse des liquidités doit être effectuée à l'avenir afin de mieux estimer l'échelonnement des dépenses prévues. En outre, dans le futur, il faudra signaler au Comité des budgets les excédents de trésorerie.

Commentaires factuels et officiels du contrôleur des finances de l'EMI

Accord partiel.

Le principal facteur déterminant le montant des liquidités des entités financées en commun est déjà connu : ce montant dépend du moment de la réception des contributions des pays. Les appels de contributions sont calculés et coordonnés par le Service Trésorerie du SI. Afin de réduire le nombre de paiements effectués par les pays, les appels sont « lancés simultanément pour les budgets de tous les organismes OTAN » (article 13.4 du NFR).

Ainsi, l'EMI ne calcule pas et ne lance pas les appels de contributions. En outre, les contributions perçues par l'EMI ne représentent qu'une petite partie (1,5 % environ) des contributions appelées pour le budget militaire. Lorsque les pays reçoivent un appel, il leur appartient de déterminer le moment du paiement.

Le Collège finalise à l'échelle de l'OTAN un audit thématique sur la trésorerie. Comme les appels de contributions sont coordonnés, il serait préférable d'examiner toute observation sur ce processus centralisé au niveau de l'OTAN dans son ensemble.

Toutefois, l'EMI assortira les états financiers 2014 d'un commentaire à l'intention du Comité des budgets, si la trésorerie dépasse le seuil fixé, conformément aux FRP (XIII (2)).



INTERNATIONAL MILITARY STAFF
ETAT-MAJOR MILITAIRE INTERNATIONAL



28 April 2014

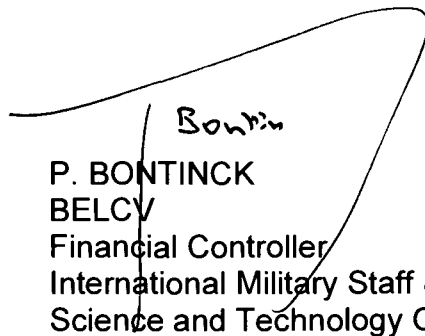
IMSTAM(FC)-0028-2014

CHAIRMAN BUDGET COMMITTEE

IMS FINANCIAL STATEMENTS 2013, INCORPORATING:

**INTERNATIONAL MILITARY STAFF (IMS, BUDGET CODE 301)
NATO STANDARDIZATION AGENCY (NSA, BUDGET CODE 302)
PARTNERSHIP FOR PEACE (PfP, BUDGET CODE 504)
MEDITERRANEAN DIALOGUE (MD, BUDGET CODE 508)
ISTANBUL COOPERATION INITIATIVE (ICI, BUDGET CODE 514)
OTHER MILITARY COOPERATION (OMC, BUDGET CODE 524)**

1. Please find attached the IMS Financial Statements (FS) 2013 incorporating the IMS, NSA, PfP, MD, ICI and OMC.
2. Information on the NATO-IRAQ Trust Fund is also included within these FS.


P. BONTINCK
BELCV
Financial Controller
International Military Staff &
Science and Technology Organisation

Enclosure:

1. IMS FS 2013

Copy To: DIRECTOR NSA, MA DG IMS, FC, RECORDS

Action Officer: Mr P. Bontinck, Financial Controller IMS,(4339)

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INTERNATIONAL MILITARY STAFF (IMS) FINANCIAL STATEMENTS 2013

**Incorporating
IMS (301), NSA (302), PfP (504), MD (508), ICI (514) and
OMC (524)**



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STATEMENT ON INTERNAL CONTROL

To : International Board of Auditors for NATO

Subject : **Management Representation relating to Financial Statements for the year ended 31 December 2013**

As the Director General, International Military Staff (IMS) I have responsibility for maintaining a sound system of internal control that supports the achievement of the organisation's policies, aims, and objectives set by the North Atlantic Council and the Military Committee whilst safeguarding the funds and assets for which I am responsible, in accordance with the responsibilities assigned to me.

The system of internal control is designed to manage and reduce, rather than entirely eliminate, the risk of failure to achieve the organisation's policies, aims, and objectives; it can therefore provide reasonable but not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of the organisation's policies, aims, and objectives, to evaluate the nature and extent of those risks, and to manage them efficiently, effectively, and economically. The system of internal control can be primarily summarised as follows:

- a. Risk reduction by "outsourcing" administrative tasks to the NATO International Staff (IS) where practical. This is also a measure of efficiency by avoiding duplication of services. The tasks of guarding the premises, operating and maintaining the facilities, arranging for utilities, and administering entitlements and processing payrolls for civilian personnel are carried out by the relevant services of the IS and I am relying, in the first instance on the internal review of these services conducted by the IS Financial Controller.
- b. Risk reduction by eliminating the use of cash except for limited petty cash operations.
- c. Utilising qualified staff, the principles of checks and balances, and separation of duties. It is ensured that staff working throughout the financial system are suitably qualified and trained which includes having a sound understanding of their responsibilities in accordance with the NATO Financial Regulations and IMS Standard Operating Procedures. Goods and services are requested (on behalf of end-users) by the relevant fund managers; procurement, using competition wherever possible, is effected by the Purchasing and Contracting Officer after approval by the Financial Controller, IMS. Invoices introduced by the fund managers are verified and approved for payment by the fiscal staff but payment is effected and bank records reconciled by separate staff members. This separation of duties is

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- d. supported by the levels of delegation for decision making being appropriate to rank and experience.
- e. Direct inspection on a sample basis of financial records and activities with a financial impact. When deemed necessary, the Internal Audit Service of the IS is asked to perform inspections on behalf of the Financial Controller, IMS for set periods according to the management agreement with the IS.
- f. Reporting and explaining aspects of budgetary control and fiscal execution to the BC.

According to the NATO Financial Regulations the Financial Controller exercises in my name the responsibility for administration of the financial and budgetary control system. I have directed that the Financial Controller reports to me without delay any irregularities that cannot be resolved at his level. No such issues occurred in 2013.

The work of the IBAN also informs the system of internal control with any observations or comments it makes being acted upon to further improve processes. The IBAN report for the IMS Financial Statements 2012 issued an unqualified opinion as was the case for the preceding years.

In signing this statement I am acknowledging on behalf of the Director NSA that the above approach is also applicable for the NSA.



For
Sir Christopher Harper
Air Marshal
Director General
International Military Staff

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INTRODUCTION BY THE FINANCIAL CONTROLLER (FC)

1. The International Military Staff (IMS) is an international organisation created by the Ottawa Agreement and operating under the authority of the North Atlantic Council (NAC), and is domiciled in Belgium. The principal functions of the IMS are to support the Military Committee in its decision making process and to coordinate the implementation of its decisions. Its financial statements have been produced using the Financial Services System (FinS) and incorporate as part of the same set of financial books the IMS (Budget Code 301), The NATO Standardisation Agency (NSA, Budget Code 302), Partnership for Peace (PfP, Budget Code 504) the Mediterranean Dialogue (MD, Budget Code 508), the Istanbul Cooperation Initiative (ICI, Budget Code 514) and Other Military Cooperation (OMC, Budget Code 524) as well as the NATO Iraq Trust Fund. The NSA co-ordinates, supports and administers all NATO standardization activities conducted under the authority of the Committee for Standardization (CS). The NSA is subordinate to the NAC with the CS as its Board of Directors. The Director is operationally independent of the Director General (DG) IMS, although the DG is a member of the CS. The IMS FC's Office undertakes many of the NSA's day-to-day financial management activities.
2. The Financial Statements (FS) for Financial Year 2013 have been produced in accordance with NATO Financial Regulations and the applicable International Public Sector Accounting Standards (IPSAS)¹ as adapted by NATO².
3. The statements reflect the financial position, the financial performance, the budget execution, the cash flow and the change in net assets for year 2013 compared to year 2012. Notes disclose the significant variations and changes, following the materiality principle and the statements take account of the comments made by the IBAN during the audit of the FS 2012.
4. In order to efficiently and effectively execute its budget the IMS has instructed the NATO Defense College and the Collaboration Support Organization, other entities in the IMS Budget Group (BG), to undertake certain outreach activities which are accounted for as Reimbursable Activities. Subject to the provisions of the applicable IPSAS, the revenue and expenditure made through the reimbursable budgets are fully accounted for in the IMS financial statements with corresponding entries in the separate NDC and STO financial statements.

¹ These are the IPSAS as set out in the Handbook of IPSAS Pronouncements 2012 Edition

² C-M(2013)0039

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5. As the IPSAS are continuously evolving compliance is a dynamic process that requires staff to keep updating their knowledge. Also it requires that the accounting tools are suitably maintained and, when appropriate, upgraded. An ongoing challenge is that NATO Bodies undertake financial reporting in a consistent way. Therefore the IMS BG maintains a dialogue with the other NATO Bodies and plays a full part in the IPSAS WG and the Working Group of Financial Controllers. The IMS BG remains committed to developing its IPSAS expertise and producing FS fully compliant with the applicable standards and any instructions issued by Nations eg. from the Resource Policy and Planning Board or the Budget Committee. The IMS BG will also continue to work openly and constructively with the IBAN.



P. BONTINCK
BELCV
Financial Controller
International Military Staff

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STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

(in euro)

		2013	2012	Difference
ASSETS				
Current Assets				
Notes				
Cash and Cash Equivalents				
Petty Cash and Advances	3a	26,200	26,000	200
Current Bank Accounts	3b	11,908,602	13,574,208	(1,665,606)
Cash Equivalents	3c	4,026,618	3,066,275	960,343
Total Cash and Cash equivalents		15,961,420	16,666,483	(705,063)
Receivables				
Receivables from Staff Members	4a	875	38	837
Other Receivables	4b	164,865	95,932	68,932
Total Receivables		165,739	95,970	69,769
Prepayments and Miscellaneous Assets				
Non-Assigned Expenditures	5a	86,427	69,832	16,594
Advances and Prepayments	5b	929,253	1,079,209	(149,956)
Total Prepayments and Miscellaneous Assets		1,015,680	1,149,042	(133,362)
Non-current Assets				
Property Plant and Equipment				
AIS	6a	13,373	30,061	(16,688)
Communication Systems	6b	1,246,620	1,439,042	(192,422)
Furniture	6c	156	1,075	(920)
Transport Equipment	6d	113,380	150,862	(37,482)
Installed Equipment	6e	5,395	6,175	(780)
Total Property Plant and Equipment		1,378,923	1,627,215	(248,292)
TOTAL ASSETS		18,521,763	19,538,710	(1,016,947)
LIABILITIES				
Current Liabilities				
Payables				
Payable to Suppliers	7a	3,214,307	1,382,344	1,831,963
Payable to Non - Consolidated Entities	7b	-	85,400	(85,400)
Payable to staff members	7c	894	385	509
Other payables	7d	21,580	-	21,580
Total Payables		3,236,781	1,468,129	1,768,652
Unearned Revenue & Advance Contributions				
Unearned Revenue and Advance Contributions	8a	12,826,107	14,481,009	(1,654,902)
Liabilities Lapses Budget Authorizations	8b	903,202	1,388,707	(485,505)
Liabilities from Operational Results	8c	81,756	31,376	50,379
Liabilities from Financial Results	8d	94,993	142,273	(47,280)
Liabilities from Budget Decreases	8e	-	400,000	(400,000)
Total Unearned Revenue & Advances Contributions		13,906,059	16,443,366	(2,537,307)
Non-current Liabilities				
Provisions for PP&E	9	1,378,923	1,627,215	(248,292)
Total Provision for PP&E		1,378,923	1,627,215	(248,292)
TOTAL LIABILITIES		18,521,763	19,538,710	(1,016,947)

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STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER 2013

(in euro)

		2013	2012	Difference
Notes				
Revenue				
Revenue from Contributions	10a	24,917,026	22,442,194	2,474,832
Financial Revenue	10b	10,604	15,484	(4,880)
Revenue for Depreciation	10c	248,291	247,393	898
Total Revenue		25,175,921	22,705,070	2,470,850
Expenses				
Personnel	11a	(19,729,518)	(18,005,119)	1,724,399
Contractual Supplies and Services	11b	(4,618,639)	(4,393,966)	224,673
Capital and Investments Budgeting	11c	(568,870)	(43,110)	525,760
Depreciation	11d	(248,291)	(247,393)	898
Finance Costs	11e	(10,604)	(15,484)	(4,880)
Total Expenses		(25,175,921)	(22,705,070)	2,470,850
SURPLUS/DEFICIT FOR THE PERIOD	12	-	-	-

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CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

	31/12/2013 Euro	31/12/2012 Euro
CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Surplus/Deficit</i>	-	-
Non-cash movements		
Depreciation	248,291	247,393
Increase /(decrease) in payables	1,768,652	(971,852)
Increase/ (decrease) in other current liabilities	(2,537,307)	4,400,366
Decrease/ (Increase) in receivables	(69,769)	2,718,048
(Gains)/losses on sale of property, plant and equipment	-	(6,377)
Increase/ (decrease) in other current assets	133,362	(165,806)
Increase/ (decrease) in Long-Term Provisions	(248,292)	(186,145)
NET CASH FLOWS FROM OPERATING ACTIVITIES	(705,063)	6,035,627
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property plant and equipment		(61,248)
Proceeds from sale of property plant and equipment		6,377
Cash Advances	-	-
NET CASH FLOWS FROM INVESTING ACTIVITIES	-	(54,871)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	-	-
Repayment of borrowings	-	-
NET CASH FLOWS FROM FINANCING ACTIVITIES	-	-

Notes to the Cash Flow Statement

(a) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and balances with banks. Cash and cash equivalents included in the Cash Flow Statement comprise the following statement of financial position amounts:

	2013	2012
Cash on hand and balances with banks	15,961,420	16,666,483
Short term investments	-	-

There has been a decrease in cash and cash equivalents of 705,063 EUR.

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STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 31 DECEMBER 2013

	All Cost Shares Euro	28 Nations (2011) Euro	28 Nations (2012) Euro	28 Nations (2013) Euro
BALANCE AT 31 DECEMBER 2012	-	-	-	-
CHANGE OF THE PERIOD	-	-	-	-
BALANCE AT 31 DECEMBER 2013	-	-	-	-

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STATEMENT OF BUDGET EXECUTION AS AT 31 DECEMBER 2013 (Note 13)

EURO	Initial Budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments	Expenses	Total Spent	Carry Forward	Lapsed
BUDGET 301 (IMS)2013												
Chapter 1	16,562,652	-	16,562,652	-	16,562,652	534,783	17,097,435	3,401,792	13,447,663	16,849,455	3,401,792	247,980
Chapter 2	3,684,928	-	3,684,928	-	3,684,928	(534,783)	3,150,145	185,044	2,646,310	2,831,354	185,044	318,791
Chapter 3	47,500	-	47,500	-	47,500	-	47,500	33,213	8,870	42,083	33,213	5,417
TOTAL	20,295,080	-	20,295,080	-	20,295,080	0	20,295,080	3,620,048	16,102,843	19,722,891	3,620,048	572,189
BUDGET 302 (NSA)2013												
Chapter 1	2,335,520	-	2,335,520	-	2,335,520	-	2,335,520	-	2,316,162	2,316,162	-	19,358
Chapter 2	308,714	-	308,714	-	308,714	-	308,714	1,693	230,796	232,490	1,693	76,224
Chapter 3	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	2,644,234	-	2,644,234	-	2,644,234	-	2,644,234	1,693	2,546,958	2,548,652	1,693	95,582
BUDGET 504 (PFP)2013												
Chapter 1	107,235	(20,335)	86,900	(6,000)	80,900	(29,059)	51,841	1,666	45,980	47,646	1,666	4,194
Chapter 2	580,373	20,335	600,708	40,000	640,708	29,059	669,767	20,510	645,094	665,605	20,510	4,163
TOTAL	687,608	-	687,608	34,000	721,608	-	721,608	22,176	691,074	713,251	22,176	8,357
BUDGET 508 (MD)2013												
Chapter 1	66,324	(15,324)	51,000	-	51,000	(7,739)	43,261	1,510	34,919	36,429	1,510	6,832
Chapter 2	371,963	15,324	387,287	22,000	409,287	7,739	417,026	28,341	384,774	413,115	28,341	3,911
TOTAL	438,287	-	438,287	22,000	460,287	-	460,287	29,851	419,693	449,544	29,851	10,743
BUDGET 514 (ICI)2013												
Chapter 1	30,637	(10,637)	20,000	-	20,000	-	20,000	-	19,708	19,708	-	292
Chapter 2	157,359	10,637	167,996	-	167,996	-	167,996	1,250	128,317	129,567	1,250	38,429
TOTAL	187,996	-	187,996	-	187,996	-	187,996	1,250	148,025	149,275	1,250	38,721
BUDGET 524 (OMC)2013												
Chapter 1	59,035	(24,775)	34,260	(3,000)	31,260	-	31,260	6,015	12,401	18,416	6,015	12,844
Chapter 2	318,664	24,775	343,439	(53,000)	290,439	-	290,439	8,876	178,766	187,642	8,876	102,797
TOTAL	377,699	-	377,699	(56,000)	321,699	-	321,699	14,891	191,167	206,058	14,891	115,641
TOTAL FY2013	24,630,904	-	24,630,904	-	24,630,904	0	24,630,904	3,689,910	20,099,761	23,789,671	3,689,910	841,233

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EURO	Initial Budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments	Expenses	Total Spent	Carry Forward	Lapsed
BUDGET 301 (IMS)2012												
Chapter 1	3,556,274	-	3,556,274	-	3,556,274	-	3,556,274	891,689	2,660,560	3,552,249	891,689	4,025
Chapter 2	276,270	-	276,270	-	276,270	-	276,270	-	273,179	273,179	-	3,091
Chapter 3	38,000	-	38,000	-	38,000	-	38,000	-	38,000	38,000	-	-
TOTAL	3,870,545	-	3,870,545	-	3,870,545	-	3,870,545	891,689	2,971,739	3,863,428	891,689	7,117
BUDGET 302 (NSA)2012												
Chapter 1	52,657	-	52,657	-	52,657	-	52,657	23,848	28,808	52,656	23,848	0
Chapter 2	774	-	774	-	774	-	774	-	771	771	-	3
Chapter 3	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	53,431	-	53,431	-	53,431	-	53,431	23,848	29,579	53,427	23,848	3
BUDGET 504 (PFP)2012												
Chapter 1	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 2	28,932	-	28,932	-	28,932	-	28,932	-	28,500	28,500	-	432
TOTAL	28,932	-	28,932	-	28,932	-	28,932	-	28,500	28,500	-	432
BUDGET 508 (MD)2012												
Chapter 1	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 2	8,748	-	8,748	-	8,748	-	8,748	-	8,748	8,748	-	-
TOTAL	8,748	-	8,748	-	8,748	-	8,748	-	8,748	8,748	-	-
BUDGET 514 (ICI)2012												
Chapter 1	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 2	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-	-	-	-	-	-	-
BUDGET 524 (OMC)2012												
Chapter 1	6,096	-	6,096	-	6,096	-	6,096	-	3,602	3,602	-	2,494
Chapter 2	152,806	-	152,806	-	152,806	-	152,806	7,500	93,382	100,882	7,500	51,923
TOTAL	158,901	-	158,901	-	158,901	-	158,901	7,500	96,984	104,484	7,500	54,417
TOTAL FY2012	4,120,557	-	4,120,557	-	4,120,557	-	4,120,557	923,037	3,135,551	4,058,588	923,037	61,969
BUDGET 301 (IMS)2011												
Chapter 1	1,159,714	-	1,159,714	-	1,159,714	-	1,159,714	-	1,159,714	1,159,714	-	-
Chapter 2	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 3	522,000	-	522,000	-	522,000	-	522,000	-	522,000	522,000	-	-
TOTAL	1,681,714	-	1,681,714	-	1,681,714	-	1,681,714	-	1,681,714	1,681,714	-	-
BUDGET 302 (NSA)2011												
Chapter 1	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 2	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 3	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL FY2011	1,681,714	-	1,681,714	-	1,681,714	-	1,681,714	-	1,681,714	1,681,714	-	-
TOTAL ALL BUDGETS	30,433,175	-	30,433,175	-	30,433,175	0	30,433,175	4,612,947	24,917,026	29,529,973	4,612,947	903,202

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NOTES

Note 1: Accounting Policies

A. Accounting Period

These Financial Statements are based on the accounting records of the IMS as of 31 December 2013. In accordance with Article 2 of the NFR, the financial year begins on 1 January and ends on 31 December of the year.

B. Reporting Currency

The functional and reporting currency used throughout these Financial Statements is the Euro (€).

C. Basis of preparation

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

There is an ongoing IMS review but this is unlikely to change the core mission of the IMS – support to the Military Committee.

Although NSA is part of Agency Reform Initiative there were no changes in 2013 and the definitive solution proposed for 2014 will not change the core mission of the organization.

As a result of the creation of the NCIO there is an ongoing work with NCIA to transfer related CIS responsibilities.

D. Financial Reporting Framework

The IMS financial statements have been prepared on the accrual basis of accounting in accordance with the International Public Sector Accounting Standards (IPSAS) issued by the IPSAS Board (IPSASB) and relevant to the IMS as decided by the North Atlantic Council in 2002 and where appropriate, their adaptation as approved by the NAC in the "NATO Accounting Framework" Document C-M(2013)0039, dated 3 August 2013.

The accounting principles recognized as appropriate for the recognition, measurement and reporting of the financial position, performance and cash flows on an accrual based accounting using historical costs have been applied consistently throughout the reporting period to ensure that the financial statements provide information that is relevant to the decision-making and reliable, comparable, and understandable in light of the qualitative characteristics of financial reporting as well as the of the principle of the right balance between the benefits derived from the information and the costs of providing it as summarised in Appendix A of IPSAS 1.

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

A new standard, IPSAS 32, was issued, however it has not been adopted earlier than the application date. The following IPSAS are not relevant for the IMS Financial Statements 2013: IPSAS 26 - Impairment of Cash-Generating Assets, IPSAS 27 – Agriculture. The following IPSAS have no material effect on the financial statements: IPSAS 5, IPSAS 6, IPSAS 7, IPSAS 8, IPSAS 10, IPSAS 11, IPSAS 16, IPSAS 18.

The IMS Financial Statements have also been prepared in accordance with the accounting requirements of the NFRs and the Financial Rules and Procedures (FRP) and the relevant entity directives and policies.

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In instances where there is a conflict between IPSAS, the NATO Accounting Framework, and the NFRs and FRP, this has been noted.

E. Changes in accounting policy

The same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria set out in IPSAS 3. For the 2013 Financial Statements, the NATO Accounting Framework which adapts certain IPSAS for NATO context has been applied for any new assets only within Plant, Property and Equipment (PPE) and Intangibles. This has potentially impacted on what is recognized due to consideration of control criteria; the threshold for capitalization; and in some cases the depreciation life is revised. The impacts of any changes to the IMS's accounting policy have been identified in the notes under the appropriate headings.

F. Foreign currency transactions

Foreign currency transactions are accounted for at the NATO exchange rates prevailing on the date of the transactions. Monetary assets and liabilities at year-end which were denominated in foreign currencies, were translated into Euro using the NATO rates of exchange that were applicable at 31 December 2013. Realised and unrealised gains and losses resulting from the settlement of such transactions and from the revaluation at the reporting dates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Financial Position and Performance. An assessment was made of all assets and liabilities in foreign currencies as of 31 December 2013. The amount of unrealised gains in negligible and deemed immaterial.

G. Consolidation

Consolidated financial statements include the financial results of the controlling entity and its controlled entities. When consolidation occurs inter-entity balances and transactions are eliminated. However, the IMS does not consolidate its financial statements with the other IMS BG constituent bodies due to operational independence. The bodies are only linked by a common Financial Controller. An IPSAS 6 adaption is applicable according to C-M (2013)0039. Morale and Welfare Activities are not consolidated into the Financial Statements.

H. Services in Kind

Services in-kind are services provided by individuals to public sector entities in a non-exchange transaction. These services meet the definition of an asset because the entity controls a resource from which future economic benefits or service potential is expected to flow to the entity. An entity may, but is not required to, recognize services in-kind as revenue and as an asset, and a decrease in an asset and an expense upon consumption of the service in-kind. Due to many circumstances surrounding services in-kind, including the ability to exercise control over the services, and measuring the fair value of the services, IPSAS does not require the recognition of services in-kind.

I. Assets – Current Asset

The entity holds the following types of current assets.

a. Cash and Cash Equivalents

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

b. Receivables

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

In accordance with IPSAS, receivables are broken down into amounts receivable from user charges, taxes, receivables from related parties, etc.

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Contributions receivable are recognized when a call for contribution has been issued to the member nations. No allowance for loss is recorded with respect to Member countries' assessed contributions receivable except for exceptional and agreed technical reasons.

c. Inventories

IPSAS 12 defines inventories, establishes measurement requirements under the historical costs system and establishes disclosure requirements. The IMS Budget Group assesses inventories under IPSAS 12 and the outcome of this assessment is that the value of the inventories is immaterial both in value and in terms of the nature of the items held. Consequently, all inventories are fully expensed on receipt. This is the same approach as FS2007 onwards but this policy is reviewed each year for changes in materiality.

d. Prepayments

This reflects prepayments given to suppliers and to other NATO entities.

J. Non Current Assets

In this category are included all assets invested for more than 12 months or receivable beyond 12 months from the closing date of the Financial Statements.

a. Financial Assets

Long term receivables from the nations for future payment of provisions are reported as a financial asset.

b. Property, plant and equipment.

Basic Principles:

- All property, plant and equipment is stated at historical cost less accumulated depreciation and any recognized impairment loss;
- No external evaluator to set values for assets;
- The capitalization threshold has been set at € 5,000 unless specifically stated otherwise;
- No grouping of assets;
- Depreciation is calculated on a straight-line basis; however the depreciable life of an asset is dependent on the particular category it is in.
- Full depreciation / amortization in the month of acquisition, and nil in the month of disposal.
- As an accounting principle, land cannot be depreciated.

For assets acquired up to and including 31 December 2012 the following policy will be applied until the asset is de-recognised:

- Any building improvements eligible for capitalisation are to be recognised where the value exceeds 100,000 EUR.
- Installed equipment (e.g. airco units, PABX, networks), furniture, and machinery not part of another category will have a life of 10 years.
- CIS equipment (i.e. IT and telecoms equipment except PABX) have a life of 4 years.
- Vehicles (and similar) have a life of 7 years.

For assets acquired on or after 1 January 2013 the following changed accounting policy is applied:

IPSAS 17 Adapted - PPE

- Control. In addition to the standard assessment of "substance over form", the following criteria are used to assist in assessing the level of control that any NATO Reporting Entity has for reporting assets in its financial statements. Criteria that evidence the control of PPE include:

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

If the NATO Reporting Entity responds positively to six of the above criteria, it is likely that the asset is controlled by the NATO Reporting Entity. In this case, the reporting entity will need to capitalise the assets in its Financial Statements (if it is also above the capitalisation threshold).

Capitalisation Thresholds. Taking account of the above mentioned control criteria, and the guidance in IPSAS 17, the IMS (including the NSA) and NDC capitalise each item of PPE above the following thresholds and apply the stated depreciation life below:

Category	Threshold – per item (no grouping)	Depreciation life	Method
Land	€200,000	N/A	N/A
Buildings	€200,000	40 years	Straight line
Other infrastructure	€200,000	40 years	Straight line
Installed equipment (e.g. airco)	€5,000	10 years	Straight line
Machinery	€5,000	10 years	Straight line
Vehicles	€5,000	5 years	Straight line
Mission equipment	€5,000	3 years	Straight line
Furniture	€5,000	10 years	Straight line
Communications (e.g. networks; PABX)	€5,000	3 years	Straight line
Automated information systems	€5,000	3 years	Straight line

c. Impairment of tangible assets

The carrying values of fixed assets are reviewed for impairment if events or changes in circumstances indicate that they may be not recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Any provision for impairment is charged against the statement of financial performance in the year concerned.

d. Intangible Assets.

Prior to 31 December 2012, intangibles were reviewed on a case by case basis against IPSAS 31 requirements. The IMS had no intangibles that met the criteria for capitalization up to 31 December 2012. Post 1 January 2013, the following changed accounting policy is applied to review new acquisitions:

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IPSAS 31 Adapted - Intangibles

Control. In addition to the standard assessment of "substance over form", the following criteria are used to assist in assessing the level of control that any NATO Reporting Entity has for reporting assets in its financial statements. Criteria that evidence the control of intangibles include:

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

If the NATO Reporting Entity responds positively to six of the above criteria, it is likely that the asset is controlled by the NATO Reporting Entity. In this case, the reporting entity will need to capitalise the assets in its Financial Statements (if it is also above the capitalisation threshold).

Capitalisation Thresholds. Taking account of the above mentioned control criteria, as well as guidance in IPSAS 31, the IMS (including the NSA) and NDC shall capitalise each intangible item above the following thresholds and apply the stated depreciation life below:

Category	Threshold – per item (no grouping)	Depreciation life	Method
Computer software (commercial off the shelf)	€5,000	4 years	Straight line
Computer software (bespoke)	€5,000	10 years	Straight line
Computer database	€5,000	4 years	Straight line
Integrated system	€5,000	4 years	Straight line

Integrated systems include research, development, implementation and both software and hardware elements.

Other intangibles to be considered for capitalization are:

- Copyright (but not historical documents or publications)
- Intellectual Property Rights
- Software development

There are no assets in 2013 that meet the recognition criteria for Intangible Assets.

K. Current liabilities

a. Payables

Payables are amounts due to third parties based on goods received or services provided unpaid. This includes an estimate of accrued obligation to third parties for goods and services received but not yet invoiced.

b. Unearned revenue and Advances.

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Unearned revenue represents contributions from Nations and/or third parties that have been called for current or prior years budgets but that have not yet been recognised as revenue. Funds are called in advance of their need because the entity has no capital that would allow it to pre-finance any of its activities. Advances are contributions received related to future year's budgets.

c. Employee Benefits – Post Employment benefits

IPSAS 25 prescribes the accounting treatment of the following employee benefits:

- Short-term benefits which fall due wholly within twelve months after the end of the accounting period in which employees render the related service;
- Post-employment benefits;
- Termination benefits.

Defined Contribution plans

Certain employees are members of the Provident Fund. Certain employees are members of the NATO-wide Defined Contribution Pension Scheme (DCPS). The assets of the plans are held separately from those of IMS in funds under the control of independent trustees or an Administrator. The IMS is required to contribute a specified percentage of payroll costs to the DCPS to fund the benefits. Payments to the DCPS are recognized as an expense when employees have rendered service entitling them to the contributions. The only obligation of IMS with respect to the DCPS is to make the specified contributions.

Defined Benefit plans

Certain employees who have joined NATO before 1 July 2005 are members of the NATO Coordinated Pension Scheme which is a funded defined benefit plan. Under the plans and upon completion of 10 years employment with NATO, the employees are entitled to retirement benefits of 2% per year of service of final basic salary on attainment of a retirement age of 60. No other post-retirement benefits are provided to these employees. Staff members whose length of service is not sufficient to entitle them to a retirement pension are eligible for a leaving allowance.

The assets and liability for the NATO's Defined Benefit Plan and the Retirees Medical Contribution Fund (RMCF) are accounted for centrally at NATO Headquarters by the International Staff and therefore are not recognized in these financial statements.

L. Non-Current Liabilities

a. Provisions – Long term Provisions for PP&E

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

Long-term Provisions are non-current liabilities of uncertain value or timing.

They can also derive from the recognition of the fixed assets' present net value to be spent in the form of depreciation/amortization which is not due for at least one fiscal year and perhaps will not be settled until many years in the future.

b. *Contingent Liabilities*

A contingent liability is 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 in the control of the entity. A contingent liability is not recognised as a liability because it is yet to be confirmed whether there is a present obligation that could lead to a possible outflow of resources or a sufficiently reliable estimate of the obligation cannot be made.

M. Net Assets

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

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N. Revenue and expense recognition

a. Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably. Contributions when called are booked as unearned revenue and subsequently recognized as revenue when it is earned.

Revenue comprises contributions from Member Nations and other customers to fund the entity's budgets. It is recognized as revenue in the Statement of Financial Performance when such contributions are used for their intended purpose as envisioned by operational budgets. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably. The balance of unspent contributions and other revenues that relate to future periods are deferred accordingly.

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

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

Bank interests earned and accrued as of 31 December 2013, exchange rate revenue due to transactions in foreign currency and realized exchange rate revenue in accordance with the entity Policy IPSAS 4 - Effect of the foreign exchange rate - are recognized as financial revenue.

b. Expenses

Budgetary expenses are recognized when occurred. Accruing of expenses is based on the concept of accruing when goods and services are received. Bank charges, exchange rate losses due to transactions in foreign currency and realized exchange rate losses are recognized as financial expenses.

Bank charges, exchange rate losses due to transaction in foreign currency and realized exchange rate losses in accordance with IPSAS 4 – Effect of the foreign exchange rate are recognized as financial expenses.

O. Surplus or Deficit for the Period

In accordance with IMS Budget Group accounting policies revenue is recognized up to the amount of the matching expenses.

P. Trust Funds

The IMS manages the NATO-Iraq Trust Fund on behalf of the contributing nations. NATO recognises an asset when it controls access to the asset and gains economic benefit or service potential but matches this to an equal liability. The IMS does not recognise any expenditure or revenue in relation to the Trust Funds which it does not control in its Statements of Financial Performance.

Q. Other Issues – Related Party Disclosures

A formal process is followed to verify the existence or not of any related party relationships. All key personnel have to make a written declaration. Any such relationships have to be fully disclosed in the notes to the Financial Statements.

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Note 2: Accounting Judgements and Estimates

In accordance with Generally Accepted Accounting Principles, the Financial Statements necessarily include amounts based on estimates and assumptions made by the management and based on historical experience as well as on the most reliable information available. In exercising the judgments to make the estimates, a degree of caution was included in light of the principle of 'prudence' required by IPSAS in order not to overstate assets or revenue or understate liabilities or expenses. The estimates and underlying assumptions are reviewed on an ongoing basis. These estimates and assumptions affect the amounts of assets, liabilities, revenues and expenses reported. By their nature, these estimates are subject to measurement uncertainty. The effect of changes to such estimates and assumptions in future periods could be significant to the financial statements.

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Notes to the Statement of Financial Position

Note 3 : Cash and Cash Equivalents

	31-Dec-13	31-Dec-12
Petty Cash and Advances		
Petty Cash	1,200	1,000
Advances	25,000	25,000
Total Petty Cash and Advances	26,200	26,000
Current Bank Account IMS	9,906,223	11,398,033
Current Bank Account NATO Iraq Trust Fund	2,002,379	2,176,175
Cash Equivalents	4,026,618	3,066,275
Total Cash and Cash Equivalents	15,961,420	16,666,483

a. Petty Cash holdings are small amounts of cash kept in the International Military Staff (IMS) - € 700 and the NATO Standardization Agency (NSA) - € 500 to pay for small expenses. The IMS has delegated some expenses to the office in Moscow (MLM) - € 25,000. Regularly the advance account holders report on their use of funds.

b. Current Bank Accounts are held in euros. Deposits are partly held in interest-bearing current bank accounts in immediately available funds. The accounts reflect the situation on the bank statements. The decrease is explained by the placement of funds on a short term deposit accounts.

c. Cash Equivalents are held in euros and is the money invested on a short term deposit or business account. For cash and cash equivalents, there are restrictions on their use. The increase is explained by routine allocation of funds between current bank accounts and interest bearing accounts based on the forecasted cash needs of the IMS.

Note 4 : Receivables

	31-Dec-13	31-Dec-12
Receivables from Staff Members	875	38
Total Receivables from Staff members	875	38
Other Receivables/Recoverables		
VAT Receivable	10,348	2,456
Accrued Revenue	73,426	81,466
Receivables from Third Parties	81,091	12,010
Total Other Receivables/Recoverables	164,865	95,932
Total Receivables	165,739	95,970

a. Receivables from Staff Members are minor amounts, such as short term loans (in accordance with the CPRs), salaries to be reimbursed, allowances to be reimbursed by staff members and receivables not belonging to these categories such as travel advances and private telecommunication usage. Collections are assured through payroll withholdings and deductions from staff separation payments. The amount relates to private use of telephones.

b. Other Receivables

VAT receivable relates to VAT refunds due from national tax offices.

Accrued revenue consists of bank interest that is earned in 2013, but the cash is received in 2014. The decrease is explained by the slightly lower interest rates.

Receivables from third parties include mostly the 2013 NHQC3S Civil Budget Contribution (EUR 64,972). The remainder covers several small invoices for procurement and services on behalf of third parties.

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Note 5 : Prepayments and Miscellaneous Assets

	31-Dec-13	31-Dec-12
Non-Assigned Expenditures	86,427	69,832
Advances and Prepayments to suppliers	929,253	1,079,209
Total Prepayments and Miscellaneous Assets	1,015,680	1,149,042

a. The account "Non-Assigned Expenditures" is used for temporary posting of expenditures, which cannot be assigned yet to the appropriate expenditure account because they belong to the next fiscal year. The largest element is for instalments on education allowances that staff members have asked to cover the entire school year 2013-2014 (€ 82,603) under the Civilian Personnel Regulations (CPR). The remainder covers airplane tickets for missions starting in 2014.

b. Advances and Prepayments are mainly in respect of advance payments made to suppliers and other entities. Since 2011, It includes the Advance Funds Request from NAMSA/NSPA Software licenses support and maintenance (€ 230,110) and the contractually agreed Working capital deposit at the NC3A/NCIA for the IMS POW (€ 663,000). These advances are yearly reviewed and adjusted according to the expected requirements for the year. The remainder is mainly advances to MLM Moscow for procurement of a vehicle (€ 30,383).

Note 6: Property, Plant And Equipment

As of 1st of January 2013 an IPSAS 17 adaption is applicable according to C-M (2013)0039. However there were no new assets recognized in 2013 and the policy that was in place up to and including 31 December 2012 applies.

Opening balances have been calculated as of 1 January 2013 and all subsequent changes to arrive at the closing balance are disclosed below:

	Ais	Communication Systems	Furniture	Transport Equipment	Installed Equipment	Totals
Opening Balance	30,061	1,439,042	1,075	150,862	6,175	1,627,214
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Depreciation	16,688	192,422	919	37,482	780	248,291
Closing Balance	13,373	1,246,620	156	113,380	5,395	1,378,923
Gross Carrying Amount	137,323	1,931,229	9,193	276,827	7,800	2,362,372
Accumulated Depreciation	123,950	684,609	9,037	163,447	2,405	983,448
Net Carrying Amount	13,373	1,246,620	156	113,380	5,395	1,378,923

a. In the AIS category are included servers and appliances necessary for the NATO Secret Networks (Minerva and Cronos) and for the HQ NU LAN and two LANS in the NSA and the C3S.

b. The most significant part of communication systems is the IMS share of the HQ ICT Revitalisation. The IMS part is clearly identifiable (in servers farms and WLANS) and under the control of the IMS. Its cost was reliably measured and the IMS bears all the benefits and risks associated with the assets. The other assets included here are two small WLANS and a teleconferencing system.

c. The assets included under the furniture category are used for storing servers and other similar items.

d. Transport equipment includes the staff motor vehicles of the IMS and the NSA.

e. Installed equipment includes a machine that is used for binding in the IMS Registry Services. More details are included in Annex 1.

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Note 7: Payables

	31-Dec-13	31-Dec-12
Payables to Suppliers	984,525	69,911
Accruals	2,229,783	1,312,433
Total Payable to Suppliers	3,214,307	1,382,344
Payables to Non Consolidated Entities	-	85,400
Payables to Staff Members	894	385
Other Payables	21,580	-
Total Payables	3,236,781	1,468,129

a. Payables to Suppliers include invoices received from suppliers but not yet settled in an amount of € 984,525. During 2012 the upgrade to FINS11i necessitated a freezing of transaction processing, thus resulting in low payables. In 2013 payables are back to their historical levels. The accruals have been split over two accounts. Account 231900 (€ 2,068,072) is the default AP accrual account used in the accounting system. The assessed accruals have been charged to account 231950 (€161,711) in order to make the distinction at month end reconciliation between the sub ledger and general ledger.

b. In 2012 the payables non consolidated entities included an invoice payable to NDC with the year end accruals for reimbursable expenses on the PFP, MD, ICI and OMC budgets. In 2013 the outreach accruals were entered manually and hence the difference.

c. Payables to Staff Members include insurance for interns and temporary staff approved but not paid out due to close of the year.

d. One staff member of the NSA is reimbursed by the US according to national rules. The NSA reimburses to the US the amounts that would have been paid if the employee was hired directly by the organization. This is based on an Agreement signed between NATO and the US (30-04-2008), according which US nationals may choose to be reimbursed according national rules. The payable covers November and December 2013.

Note 8: Unearned Revenue and Advance Contributions

	31-Dec-13	31-Dec-12
Unearned Revenue (See Note 10)		
Unearned Revenue	4,612,947	5,802,271
Unearned Revenue Trust Funds	2,013,160	2,178,738
Advanced Contributions for next FY	6,200,000	6,500,000
Total Unearned Revenue	12,826,107	14,481,009
Liabilities from Lapses	903,202	1,388,707
Liabilities from Operational Results	81,756	31,376
Liabilities from Financial Results	94,993	142,273
Liabilities from Budget Decreases		
Transfers IMS to NDC Budget	-	400,000
Total Liabilities from Budget Decreases	-	400,000
Total Unearned Revenue and Advance Contributions	13,906,059	16,443,366

a. Unearned Revenue consists of contributions received or receivable, but for which corresponding expenses will be incurred after the reporting date. It is accounted for by type, cost share, budget and year in accordance with the IMS Budget Group policy. The following table gives a more detailed overview and reflects the amounts carried forward.

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	FY 2012	FY 2013
IMS Budget 301	891,689	3,620,048
NSA Budget 302	23,848	1,693
PFP Budget 504	-	22,176
MD Budget 508	-	29,851
ICI Budget 514	-	1,250
OMC Budget 524	7,500	14,891
Total	4,612,947	

The unearned revenue for trust funds is the corresponding liability for the cash received by nations to fund the NATO-Iraq Trust Fund. It also includes the accrued bank interest. See also Annex 2.

The Advanced Contributions are called for FY 2014 and represent 25% of the provisional BA1 for 2014.

b. The Liabilities from Lapses are the unspent balances at year end. The detailed information can be found on the budget execution statement. The majority is on 2013 credits and mainly explained by the postponement of O&M expenditures due to the move to the new NATO HQ, a higher than expected lapse rate on personnel expenses due to the ongoing IMS PE Review and the variability of expense patterns on outreach activities.

c. The Liabilities from Operational Results include the miscellaneous income (€ 33,614), which is composed of cash receipts relating to previous Budget Years. The main components are the final calculation of education advance for 2011 and 2012 (€ 18,229), reimbursements by the IS (€ 11,164) for procured furniture and the NCIA (€ 11,455) for the conclusion of the FINS at STO Project. This was partially offset by the reimbursement of expenses for 2 staff members following Appeals Board decisions (€ 9,000).

Additionally the accrual write-off (€ 48,141) i.e. where the invoice turned out to be lower than the estimated accrual amount, has been posted here. In accordance with IMS Budget Group policy the amount is shown separately for reason of clarity. It is accounted for by type, cost share, budget and year. All listed accrual write-off are related to FY 2013.

d. The Liabilities from Financial Results are, after offsetting the expenses such as bank charges/realised losses, the net amount of bank interest received and realized gains generated during 2013. In accordance with IMS Budget Group policy the amount is shown separately for reason of clarity. The decrease in interest reflects lower market interest rates than in 2012. Details are provided in the following table.

Gross Bank Interest	103,812
Realized Exchange Rate Gains	1,785
Gross Amount due to Nations (1)	105,597
Bank Charges/Revenue Recognised	5,652
Realised Exchange Rate Losses/Revenue Recognised	4,951
Total Financial Expenses/Revenue (2)	10,603
Total to be returned to Nations (1) – (2)	94,994

e. The Liabilities from Budget Decreases are the transfers out of the budget authorizations and not taken into account in the 2nd Contribution 2013, i.e. after BA2. There were no Budget Decreases.

Note 9: Non – Current Liabilities

Represents the Net Carrying amount of PP&E as of 31st December 2013. Similarly to the Current Unearned revenue it is owed to Nations, because the corresponding expenses have not been incurred yet. The liability is decreased with the annual depreciation and increased with any new acquisitions. A summary is provided below.

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	Ais	Communication Systems	Furniture	Transport Equipment	Installed Equipment	Totals
Gross Carrying Amount	137,323	1,931,229	9,193	276,827	7,800	2,362,372
Accumulated Depreciation	123,950	684,609	9,037	163,447	2,405	983,448
Net Carrying Amount	13,373	1,246,620	156	113,380	5,395	1,378,924

Notes to the Statement of Financial Performance

Note 10: Revenue

	31-Dec-13	31-Dec-12
Revenue from Contributions	24,917,026	22,442,194
Bank Interest Revenue Recognized	8,819	15,484
Exchange Rate Gains Revenue Recognized	1,785	-
Revenue for Depreciation	248,291	247,393
Total Revenue (See also Note 10)	25,175,921	22,705,070

a. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably. Contributions when called are booked as an advance under unearned revenue and subsequently recognised as revenue when it is earned. All revenue is recognised as revenue from exchange transactions and is matched with the incurred expenses against the International Military Staff Budget (301), NATO Standardisation Agency Budget (302), Partnership for Peace Budget (504), Mediterranean Dialogue Budget (508), the Istanbul Cooperation Initiative Budget (514) and the Other Military Cooperation Budget (524).

b. Out of the EUR 103,812 gross bank interest only EUR 8,819 is recognized as revenue, because the bank interest earned and realized exchange rate gains are matched to the amount of financial expenses incurred. (See also Note 8d.)

c. Revenue for depreciation is matched with the depreciation expense for the year and accounted for as a reduction in Net Assets.

Reconciliation between Budget Revenue and Unearned Revenue.

The table below explains to what extent the unearned revenue from previous years and the net calls made in 2013 for the annual budgets are recognized as budget operating revenue in the fiscal year. The remaining balance is unearned revenue for the funds that are carried forward to future years, payables for the annual budgets credits that are lapsed, payables for budget decreases and receivables for budget increases.

	31/12/2013 Euro	31/12/2012 Euro
Unearned Revenue opening balance		5,802,271
Contributions called for 2013		
Call 1 FC(CC)(2013)0007 (MB-01) - CANADA	18,473,178	
Call 2 FC(CC)(2013)0012 (MB-02) - GERMANY	6,157,727	
Total Contributions Called	24,630,904	
Budget Revenue earned in 2013	(24,917,026)	
Lapses	(903,202)	
Budget increases	-	
Budget decreases	-	
Unearned revenue Closing Balance	4,612,947	

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Note 11: Expenses

	31-Dec-13	31-Dec-12
Personnel (Chapter 1)	19,729,518	18,005,119
Contractual Supplies and Services (Chapter 2)	4,618,639	4,393,966
Capital and Investments (Chapter 3)	568,870	43,110
Finance Costs	10,604	15,484
Depreciation Expense	248,291	247,393
Total Expenses	25,175,921	22,705,070

a. All civilian and military Personnel expenses as well as other non-salary related expenses, in support of common funded activities. The expenses are further broken down in the following table:

	31-Dec-13	31-Dec-12
Employee Benefits	9,237,830	9,326,293
IMS POW	4,692,264	3,449,116
Admin Bill	3,692,406	3,533,884
EUDAC and COMMs	794,818	819,560
Outreach	254,094	273,091
Training	119,185	101,915
Recruitment and Separation	50,686	67,833
Consultants and Contractors	850,999	380,952
Other Costs	37,236	52,476
Total Chapter 1 Expenses	19,729,518	18,005,119

The increase of expenses in Chapter 1 is mainly due to the IMS POW. There has been improved performance by contractors in completing work with a resulting higher rate of invoicing. Another factor for the increase is the contractors' costs, which reflect the technical upgrade to FinS Release 12.

b. Contractual Supplies and Services expenses required for administrative support to the Military Committee. Includes expenses for general administrative overheads, and the maintenance costs of buildings/grounds, communications and information systems, transportation, travel expenses, representation/hospitality and miscellaneous expenses. The expenses are further broken down in the following table:

	31-Dec-13	31-Dec-12
Services	43,196	81,992
Office Supplies and Reference Materials	104,727	96,445
Utilities, Maintenance and Furniture	1,093,978	1,041,207
Rent/Lease	111,360	128,988
CIS	1,016,028	985,077
Travel and Hospitality	590,485	605,385
Outreach	1,658,865	1,454,871
Total Chapter 2 Expenses	4,618,639	4,393,966

The increase of expenses in Chapter 2 is mainly due to the higher participation rate in Partnership Programmes.

c. Items that are above the capitalization threshold of EUR 5,000 but do not meet the recognition criteria in C-M (2013)0039 are charged here. It includes the final contribution by the IMS to the MS/ICTM Revitalization Programme (EUR 522,000). The Programme had 2 distinct components - the NR2 Network for which the IMS fully contributed and the Enterprise Information Management Project (EIMP), which was not delivered. As a consequence in 2011 the IMS paid only EUR 478,000 (the final payment for the NR 2

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network) rather than the full amount of EUR 1,000,000. The remaining EUR 522,000 was deferred and paid in 2013 for the completion and approval of a new Programme of Work and Low Level Design.

d. The depreciation for 2013 calculated on a straight line basis and summarized below:

	Ais	Communication Systems	Furniture	Transport Equipment	Installed Equipment	Totals
Depreciation for 2013	16,688	192,422	919	37,482	780	248,291
Depreciation for 2012	17,746	192,654	919	35,294	780	247,393

e. Finance costs include bank charges of (€5,652) and realized exchange rate losses of (€4,951). They are matched to financial revenue. (See also note 8d.)

Note 12: Surplus or deficit for the Period

In accordance with the IMS accounting policies revenue is recognized up to the amount of the matching expenses and therefore the result is zero, i.e. no surplus or deficit.

Notes to the Statement of Budget Execution

Note 13: Budget Execution Statement

The budget covers the financial year from 1 January 2013 to 31 December 2013 and includes the following budgets: 301 (IMS), 302 (NSA), 504 (PFP), 508 (MD), 514 (ICI), 524 (OMC).

In accordance with the NFRs, all the changes between the initial and the final budget which were due to reallocations, were either authorised by the Budget Committee or were within the authority of the IMS Financial Controller. These changes are presented in the Budget Execution Statement.

As required by the NATO Financial Regulations (NFR part II, Art 11Bis), the credits carried forward are presented in the Budget Execution Statement. They represent the unexpended balances at year end for which there is a legal liability or a Budget Committee decision and are equal to the closing Unearned Revenue (see also Note 7).

The initial 2013 budget was reviewed by the Budget Committee and issued in BC-BA(2013)0001 on the 14th of January 2013. Similarly the 2013 revised authorizations BA 2 and BA3 were issued in BC-BA(2013)0002, BC-BA(2013)0002-CORR1, BC-BA(2013)0003 and BC-BA(2013)0003-CORR1 on the 26th of June, 1st of July, 7th of November and 13th of November respectively.

The Budget and the Financial Statements are not prepared on the same basis. In the financial statements only current year depreciation is recognized as an expense, while in the budget all noncurrent assets are fully expensed during the year. The following table summarizes the differences.

	Financial Position	Budget	Difference
Personnel	19,729,518	19,729,518	-
Contractual Supplies and Services	4,618,639	4,618,639	-
Capital and Investments	568,870	568,870	-
Finance Cost	10,604	-	10,604
Depreciation Expense	248,291	-	248,291
Total Expenses	25,175,921	24,917,026	258,895

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Note 14: Related Parties

The key management personnel includes: the DG IMS, Directors and Heads of Independent Offices. They are all rotated, typically every three years, and with the exception of the Financial Controller, have only management oversight of routine operating and maintenance activities. The detailed work related to these tasks tends to be undertaken by staff officers. The key management personnel of the entity have no significant known related party relationships that could affect the operation of this reporting entity. Key management is remunerated in accordance with the applicable National or NATO pay scales. They do not receive from NATO any additional remuneration for Board responsibilities or access to preferential benefits such as the entitlement to receive loans over and above those available to all NATO personnel under normal rules.

A specific statement on disclosure of Related Parties is signed by the key Management Personnel and retained for auditing purposes.

For areas such as recruitment and procurement any potential risks are mitigated as follows:

- the appropriate staffs, drawing on their professional competence, lead on carrying out the related day-to-day tasks rather than key personnel;
- there is segregation of duties eg. requirements definition is separate from the procurement and contracting function, and also a number internal actors are involved in staffing an issue for key personnel decision(s);
- maximum use is made of competition including advertising via the NATO website;
- documentation trails are maintained for all decisions and there are compliance checks against the relevant NATO regulations;
- the Internal Audit Service undertakes periodic independent reviews.

Note 15: Employee disclosure

Peacetime Establishment (PE)

	Total Approved PE - IMS	Filled Positions - IMS	Total Approved PE - NSA	Filled Positions - NSA
Civilians (MBC)	87	82	18	17
Military	328	304	27	24
Voluntary National Contribution (VNC)	20	19	-	-
National Manpower Overage (NMO)	35	32	-	-
Host Nation	67	57	-	-
PFP	7	3	2	-
Local Wage Rate (LWR)	1	1	-	-
Civilians (CBC)	13	12	-	-

The Total Approved PE figures are based on document MC 0500/2 Final. Filled Positions are extracted from the relevant IMS and NSA HR records.

Employee Benefits

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

The compensation consists of basic salary, various allowances, health insurance, pension plan and other benefits as agreed with each Host Nation and the Protocols of NATO. Cash compensations are exempt from income tax in accordance with NATO Nations agreement.

Certain employees participate in the Provident Fund or the Defined Contribution Pension Scheme (DCPS) administered by NATO. Contributions to these Plans are limited to matching the employees' contributions for current service. Other employees participate in NATO's Defined Pension Scheme; a portion of their salaries is deducted and contributed to the annual financing of this Plan. These contributions are expensed during the year in which the services are rendered and represent the total pension obligation of

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the entity. The assets and liabilities for the NATO's Defined Benefit Pension Scheme and the RMCF are accounted for centrally at NATO Headquarters by the International Staff and therefore are not recognised in these financial statements. Employee Benefits are summarised in the following table.

	31-Dec-13	31-Dec-12
Employee Benefits	8,951,478	9,065,398
Providend Fund	8,803	15,309
DCPS	277,549	245,586
Total Expenses	9,237,830	9,326,293

Untaken Leave

The methodology for the calculation of untaken leave has been improved to allow the IMS better control over the data provided by the IS. The Balance of untaken leave at 31.12.2013 is 26 days for NSA and 491 days for IMS. There are management procedures in place in the IMS and NSA, ensuring that all leave is taken before 30th April the following year. Only in exceptional circumstances the outstanding balance is allowed to be carried forward; however it is forfeited if not taken by 31st of December. Normally at final departure there is no compensation for leave not taken, unless it has not been possible to take the leave entitlement due to supporting a Council approved operation/mission, or an extended period of sick leave. Measures are also taken to ensure that all staff takes their leave before their date of departure. The efficiency of these measures was proven in 2013, when no leave was paid at final departure.

Untaken leave is not recognized as a liability or expense for several reasons. The amount is immaterial. The probability that employees may leave before they use an accumulated leave entitlement is considered to be very low. Because of that the normal expectation is that untaken leave will not be paid and therefore it is not possible to reliably measure the expected cost.

Note 16: Financial Instruments

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

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

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

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

The maximum exposure as at 31 December 2013 is equal to the total amount of bank balances, short-term deposits, and receivables disclosed in the Statement of Financial Position. If receivables are considered uncollectible, they are adequately provided for. There is a very limited credit risk associated with the realization of these instruments.

Currency risk: The IMS's exposure to foreign currency exchange risk is very limited, as most of its transactions are dealt with in Euros. A limited number of transactions are paid to suppliers in foreign currencies.

Liquidity risk: The liquidity risk is based on the assessment whether the organization will encounter difficulties in meeting its obligations associated with financial liabilities. There is a very limited exposure to liquidity risk because of the budget funding mechanism that guarantees contributions in relation to approved budgets. The limited risks are primarily the validity of forecasts that result in the calls for contributions.

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

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Note 17: Write-offs

In accordance with the NATO Financial Regulations (NFR Part II Art. 19), a statement of write-offs recorded in 2013 is presented in the following table.

Quantity	Description	Identity	Year of purchase	Original cost, EUR	Reason for write-off	Disposition
65	Workstations, monitors, servers, printers and notebooks	Mostly HP and Toshiba	2004-2010	41,854	Normal wear and tear	Scrapped
2	Laptop	DELL XPS	2009-2012	2,392	Stolen	N.A
1	Scanner	KODAK 500D	1997	37,000	Normal wear and tear	Scrapped
165	Office Equipment and furniture	Miscellaneous	1990-2008	8,053	Normal wear and tear	Scrapped

All property write-off transactions were within the authority of the IMS Financial Controller.

Note 18: Operating Leases

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term and are included in Contractual Supplies and Services expenses.

The IMS has 3 rental/lease contracts in 2013 that have been classified as operating leases as they do not transfer substantially all the risks and rewards incidental to ownership. The classification has been based on the fact that the ownership is not transferred by the end of the lease term, the lease term is not for the majority of the item's estimated economic life and the leases do not contain a bargain purchase option. This approach is reviewed every year.

The following rental/lease contracts are included in Chapter 2 expenses:

- Contract IMS 2008-003 for copiers signed July 2008 for a period of 5 years with a yearly cost of 25,004 EUR. This contract was replaced by three 3 year period contracts - IMS 2013-003/004/005 with a yearly cost of 24,733 EUR.

- Contract IMS 2005-005 for portacabins signed December 2005 for a period of 10 years with a yearly cost of 47,962 EUR

- Contract IMS 2012-004 for an armored vehicle signed January 2013 for a period of 3 years, with a yearly cost of 54,000. EUR.

Note 19: MWA Activities

The regulation of morale and welfare activities in international military headquarters and agencies was reinforced in 1997 (PO(97)98). An IPSAS 6 adaption is applicable according to C-M (2013)0039. Morale and Welfare Activities are not consolidated into the Financial Statements and are separately submitted to the BC under IMSTAM(FC)-0027-2014.

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IMS Non Current Asset Register

	Date Service	Date Retire	Cost				Depreciation Details					Net Book Value
			Cost Beginning	Cost Additions	Cost Retired	Net Cost	Accum	Current	Total Depreciation	Retired Depreciation	Net Depreciation	Net Book Value
ALS			137,323	-	-	137,323	107,264	16,633	123,952	-	123,952	13,372
1 - DELL POWEREDGE R710	12/11/2010		5,941	-	-	5,941	3,217	1,485	4,702	-	4,702	1,239
3 - DELL POWEREDGE R710	12/11/2010		5,941	-	-	5,941	3,217	1,485	4,702	-	4,702	1,239
5 - DELL POWEREDGE R710	12/11/2010		5,941	-	-	5,941	3,217	1,485	4,702	-	4,702	1,239
20 - DELL Power Edge 2850	18/11/2005		6,599	-	-	6,599	6,599	-	6,599	-	6,599	-
21 - DELL Power Edge Xeon 2850	6/5/2006		16,500	-	-	16,500	16,500	-	16,500	-	16,500	-
22 - DELL PE 2950 Xeon	11/9/2006		12,120	-	-	12,120	12,120	-	12,120	-	12,120	-
23 - DELL PE 2950 Xeon 5160	6/11/2006		6,087	-	-	6,087	6,087	-	6,087	-	6,087	0
24 - DELL PE 2950 Xeon 5160	7/12/2006		15,980	-	-	15,980	15,980	-	15,980	-	15,980	-
25 - Nokia Firewall	24/4/2007		9,051	-	-	9,051	9,051	-	9,051	-	9,051	0
26 - Dell Server PV12-4T LT04-120 S	16/4/2009		5,640	-	-	5,640	5,288	352	5,640	-	5,640	-
27 - Dell Power Edge R710	1/10/2010		29,703	-	-	29,703	16,708	7,426	24,134	-	24,134	5,569
28 - Dell PowerEdge R710	21/12/2010		17,822	-	-	17,822	9,281	4,455	13,736	-	13,736	4,086
COMMUNICATION SYSTEMS			1,931,229	-	-	1,931,229	492,188	192,422	684,610	-	684,610	1,246,619
6 - NSA LAN	23/8/2005		39,564	-	-	39,564	29,340	3,956	33,296	-	33,296	6,268
8 - TELECONFERENCING SYSTEM	11/11/2005		21,512	-	-	21,512	21,512	-	21,512	-	21,512	0
36 - VTC NHQC3S	7/12/2011		13,395	-	-	13,395	3,628	3,349	6,977	-	6,977	6,418
29 - Bices Network	19/5/2006		27,133	-	-	27,133	18,087	2,713	20,800	-	20,800	6,333
30 - C3S Network	6/7/2006		12,656	-	-	12,656	8,229	1,266	9,495	-	9,495	3,161
31 - Crypto Network	18/4/2007		27,174	-	-	27,174	15,623	2,717	18,340	-	18,340	8,834
32 - CISCO Switch Layer	3/3/2008		5,583	-	-	5,583	5,583	-	5,583	-	5,583	0
33 - C3S Network	16/12/2008		193,212	-	-	193,212	78,894	19,321	98,215	-	98,215	94,997
34 - Cabling	18/12/2007		135,000	-	-	135,000	68,625	13,500	82,125	-	82,125	52,875
35 - ICT REC NR2	7/5/2011		1,456,000	-	-	1,456,000	242,667	145,600	388,267	-	388,267	1,067,733
FURNITURE			9,193	-	-	9,193	8,118	919	9,037	-	9,037	156
9 - RAYONNAGE	4/3/2004		9,193	-	-	9,193	8,118	919	9,037	-	9,037	156
TRANSPORT EQUIPMENT			276,827	-	-	276,827	125,065	37,482	163,447	-	163,447	113,380
40 - Mercedes 200 CDI	24/4/2012		30,624	-	-	30,624	3,281	4,375	7,656	-	7,656	22,968
11 - OPEL VIVARO COMBI	16/12/2003		14,441	-	-	14,441	14,441	-	14,441	-	14,441	0
13 - AUDI A6	20/4/2007		22,876	-	-	22,876	18,791	3,268	22,059	-	22,059	817
14 - VW PASSAT COMFORTLINE	30/12/2007		19,639	-	-	19,639	14,259	2,805	17,064	-	17,064	2,575
15 - VW PASSAT COMFORTLINE	30/6/2008		20,043	-	-	20,043	13,122	2,863	15,985	-	15,985	4,058
16 - AUDI MLM	4/12/2008		25,061	-	-	25,061	14,618	3,580	18,198	-	18,198	6,863
17 - VOLSWAGEN TRANSPORTER MLM	30/3/2009		17,858	-	-	17,858	9,779	2,551	12,330	-	12,330	5,528
18 - SKODA SUPERB	26/6/2009		22,954	-	-	22,954	11,750	3,279	15,029	-	15,029	7,925
19 - SKODA SUPERB	26/6/2009		22,954	-	-	22,954	11,750	3,279	15,029	-	15,029	7,925
37 - BMW 520D	16/5/2011		29,758	-	-	29,758	7,085	4,251	11,336	-	11,336	18,422
38 - FORD MINIVAN	19/9/2011		19,995	-	-	19,995	3,808	2,856	6,664	-	6,664	13,331
39 - Mercedes 200 CDI	24/4/2012		30,624	-	-	30,624	3,281	4,375	7,656	-	7,656	22,968
INSTALLED EQUIPMENT			7,800	-	-	7,800	1,625	780	2,405	-	2,405	5,395
10 - BINDING MACHINE	31/12/2010		7,800	-	-	7,800	1,625	780	2,405	-	2,405	5,395
			2,362,371	-	-	2,362,371	735,159	243,291	983,450	-	983,450	1,378,921

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NATO-Iraq Trust Fund Status as of 31st December 2013

FISCAL YEAR	IN COUNTRY COURSES	OUT OF COUNTRY COURSES			TOTAL
	EXPENSES	EXPENSES	SLOTS OFFERED	SLOTS TAKEN	
2005	€133,235	€1,494,235	123	200	€1,627,470
2006	€966,684	€1,553,815	444	253	€2,520,499
2007	€745,024	€1,230,390	223	197	€1,975,414
2008	€2,900,068	€1,105,880	230	208	€4,005,948
2009	€200,557	€1,263,332	220	208	€1,463,889
2010	€218,647	€1,737,842	412	336	€1,956,489
2011	€44,135	€1,733,875	468	420	€1,778,010
2012	€-	€23,366	23	15	€23,366
2013	€-	€176,359 ¹	42	42	€176,359
TOTAL	€5,208,350	€10,319,094			€15,527,445

NATO-IRAQ TRUST FUND STATUS AS OF 31 DEC 2013	
FUNDS DONATED ²	€17,176,421
INTEREST EARNED ³	€364,184
FUND USED	€15,527,445
FUND AVAILABLE	€2,013,160

¹ Iraqi Operational Education Course

² No funds were donated in 2013

³ The interest for 2013 was EUR 10,781