NATO UNCLASSIFIED

03 January 2019

DOCUMENT
C-M(2018)0071-AS1

IBAN AUDIT ON THE 2017 AND 2016 FINANCIAL STATEMENTS OF THE INTERNATIONAL STAFF

ACTION SHEET

On 21 December 2018, under the silence procedure, the Council noted the IBAN reports on the 2017 and 2016 financial statements of the International Staff attached to C-M(2018)0071, endorsed the RPPB report, and agreed to the public disclosure of the report, the IBAN audit reports and associated 2017 and 2016 financial statements of the International Staff.

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2018)0071.

14 December 2018

DOCUMENT
C-M(2018)0071
Silence Procedure ends:
21 Dec 2018 15:30

IBAN AUDIT ON THE 2017 AND 2016 FINANCIAL STATEMENTS OF THE INTERNATIONAL STAFF

Note by the Secretary General

1. I attach the International Board of Auditors for NATO (IBAN) reports on the audits of the 2017 and 2016 financial statements of the International Staff. The IBAN audits of the International Staff produced qualified opinions on both the financial statements and compliance for 2017 and disclaimers of opinion on both the financial statements and compliance for 2016.

2. The IBAN reports have been reviewed by the Resource Policy and Planning Board (RPPB) (see Annex 1).

3. I do not believe this issue requires further discussion. Therefore, **unless I hear to the contrary by 15:30 hours on Friday, 21 December 2018,** I shall assume the Council noted the IBAN reports on the 2017 and 2016 financial statements of the International Staff, endorsed the RPPB report, and agreed to the public disclosure of this report, the IBAN audit reports and associated 2017 and 2016 financial statements of the International Staff.

(Signed) Jens Stoltenberg

1 Annex
1 Enclosure
1 Appendix

Original: English

IBAN AUDIT ON THE 2017 AND 2016 FINANCIAL STATEMENTS OF THE INTERNATIONAL STAFF (IS)

Report by the Resource Policy and Planning Board (RPPB)

References:

A.	IBA-A(2018)0093	IBAN Audit on the 2017 Financial Statements of the IS
B.	IBA-A(2018)0006	IBAN Audit on the 2016 Financial Statements of the IS
C.	BC-D(2015)0260-REV2	NATO Financial Rules and Procedures (NFRs)

INTRODUCTION

1. This report covers the audits of the 2017 and 2016 financial statements of the IS submitted by the IBAN (reference A and B) which set out a qualified opinion on the financial statements and on compliance for financial year 2017 and a disclaimer of opinion on the financial statements and on compliance for financial year 2016.

OBSERVATIONS

2. 2017 Audit Report: The IBAN found that significant progress was made by the IS from 2016 to 2017 and many of the issues identified in 2016 were addressed in 2017. The improvements, which primarily related to correcting financial statement disclosures and performing reconciliations, showed a major increase in the maturity level of the IS's financial reporting capabilities and controls and ultimately enabled the IBAN to opine on the IS's 2017 financial statements. Of the previous years' observations: the IS settled 20, partially settled three, three were superseded by 2017 observations and five remained outstanding. The improvements are detailed in annex 3 of the IBAN's report (from page 8-18 of reference A).

3. The IBAN issued five observations in 2017, one impacted the IBAN's audit opinion on financial statements and one impacted the IBAN's audit opinion on compliance. The main issue with the 2017 IS financial statements was that the 2016 comparative figures remained the same as those published in 2016 which the IBAN deemed unreliable via their disclaimer of opinion. The IS analysed the costs and benefits and opted to not restate its 2016 comparative figures, but rather to concentrate on the 2017 figures due to a "lack of resources available to do this task whilst at the same time closing financial year 2017 and producing the financial statements." Additionally, restating the 2016 figures would have further delayed the submission of the 2017 financial statements which was the IBAN's basis for qualification on compliance. This issue is considered closed as 2016 figures will not be published in the 2018 financial statements.

4. The IBAN report also highlighted outstanding and partially settled observations from the current and previous years that did not directly impact the audit opinion. The observations related to improvements needed on reconciliations, the statement of cash flow, unauthorised commitments, year-end confirmations, processes related to the new Enterprise Resource Planning (ERP) system (such as periodic review of access rights), and, consistent with many NATO entities, in the areas of risk management, internal control and internal audit. Refer to the Action Plan at Appendix I for more information.

5. The majority of the IBAN observations and recommendations were accepted in the formal comments by the Financial Controller (FC) of the IS. (The full formal comments can be found in the appendix to annex 3 of reference A). However, there was one where the FC and the IBAN have different views and that was on procurements carried out by unauthorised staff. The IBAN was made aware by the FC, through the IS's register of procurements by unauthorised staff, of instances of procurements made on behalf of the IS by employees without the authority to do so (totalling €506,873). The IBAN concluded that it is managements' responsibility to ensure rules are followed by staff including ensuring that proper actions are taken if rules are not followed. The FC highlighted that the transactions were ratified appropriately[1], and the appropriate controls and measures were, and continue to be, in place to reduce the potential of unauthorised commitments as much as practicable. Also, the FC pointed out that the number and value of the unauthorized transactions were relatively low in comparison to the total number and value of procurements processed by the IS and the situation in 2017 was exceptionally high compared to previous years.

6. The FC projects the 2017 and prior year observations will be settled in 2018 and 2019. However, the Financial Controller doesn't expect full compliance with the NFRs in the areas of risk management, internal control and internal audit until the end of 2020, taking into consideration the results of the Functional Review. Refer to the Action Plan at Appendix I for more information.

7. <u>2016 Audit Report</u>: Many of the issues identified by the IBAN in 2016 were addressed in 2017 and are highlighted by the improved audit opinion. In 2016 the IBAN found fundamental control and structural weaknesses in the financial statements of the IS, partially resulting from implementation of the new ERP system. The IBAN found that these weaknesses led to material errors and concluded there was a high risk that the possible effects on the financial statements of undetected misstatements could be both material and pervasive. As a result the IBAN was not able to obtain sufficient appropriate evidence to provide a basis for an audit opinion.

8. The IBAN found that some improvements were made relating to controls and disclosures in comparison with the disclaimer of opinion provided on the 2015 financial statements. The improvements made by the IS can be found in annex 3 of the IBAN report (from page 3-21 of reference B). However the IBAN still found serious problems; of most concern to them was the fact that the cash disclosed in the financial statements had not been reconciled to the bank statements[2]. In addition to the issues with cash, the IBAN found other problems with the financial statements and supporting data. The Cash Flow Statement was mathematically incorrect and could not be reconciled to movements in assets and

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[1] Ratification process in the IS requires an investigation to determine if: the materials or services are an allowable cost, the vendor is acceptable, the materials or services were needed by NATO-IS, the price is determined to be reasonable, and there is no apparent conflict of interest, among other criteria.

[2] The cash reconciliation observation remained in 2017, but progress was made. The unreconciled balance was approximately €50,000 at the end of the 2017 audit versus an initial unreconciled balance of over €330,000. The FC intends to request BC approval to write-off the remaining balance in accordance with NFRs (reference C).

liabilities[3]. Full details of the issues identified by the IBAN and recommendations made on the financial statements can be found in section 2 and those relating to issues of compliance can be found in section 3 of the IBAN report (from page 3-5 of reference B).

9. The IBAN audit on the 2015 financial statements of the IS contained 20 observations and the Board noted that 14 of these were still outstanding following its audit on the 2016 financial statements. Details can be found in the follow-up on previous year's observations in the IBAN report (from page 3-21 of reference B).

10. The majority of the IBAN observations and recommendations were accepted in the formal comments by the FC of the IS. (The full formal comments can be found in the appendix to annex 3 of reference B). However, there was one where the FC and the IBAN have different views and that was on the use of contractors to fill two posts in the IS procurement section. The IBAN did not find any evidence that any conflict of interest occurred and noted that the IS established mitigating measures to minimise the risks. Nevertheless the IBAN concluded the risk of a conflict of interest remains with contractors fulfilling a procurement role and recommended the positions be filled with new hires or by employing temporary staff. The FC points out that the NATO Financial Regulations do not forbid the use of contractors in the procurement process and that the IBAN observation raises a matter of principle which NATO member nations should settle.

DISCUSSION

11. The RPPB is pleased that the IS was able to make significant progress to obtain a more positive result on the 2017 financial statement audit. The IS has come a long way: implementing the ERP system, training and recruiting the appropriate staff, updating the financial reporting processes and prioritising effectively. The RPPB notes the improvements made in several areas in comparison with the weaknesses outlined in the audits on the 2016 financial statements (reference A).

12. While disappointed at the longevity and persistent nature of the problems identified by the IBAN which led to the disclaimer of opinion on the 2016 financial statements of the IS, the RPPB is encouraged by the progress made by the IS in 2017. The RPPB recalls that implementing issues with the ERP system were a major factor in the disclaimer of opinion issued by the IBAN on the 2015 financial statements (reference A).

13. The RPPB notes that the IBAN and the FC were not able to reach a common understanding on the use of procurements carried out by unauthorised staff. The RPPB notes that unauthorised procurements pose a potential risk for the IS and is fully aware of the negative consequences of these types of procurements. The RPPB notes IBAN's position that the responsibility ultimately lies on IS management to minimise, if not eliminate, these occurrences. The RPPB believes that the number of occurrences identified does not allude to a persistent, systemic problem; however, the value of the transactions warrant clear corrective action by the IS.

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[3] In 2017, the cash flow statement was arithmetically correct and fully reconciled to the movements in assets and liabilities; however, improvements are still needed to fully comply with IPSAS 2.

14. The RPPB understands that the IBAN and the FC were not able to reach a common understanding on the use of contractors in the IS procurement section during the 2016 financial statement audit. The RPPB notes that the FC agrees the preferred solution is to have established positions filled but that may not always be possible and the NATO Financial Regulations do not forbid the use of contractors in the procurement process. The RPPB notes that the IS was able to recruit suitable qualified personnel to fulfil procurement functions and the IBAN did not issue a similar observation during the 2017 financial statement audit. The RPPB sees this issue as an opportunity to reiterate that situations may arise at NATO bodies requiring the use of contractors in procurement roles. The RPPB recognises the increased risk and expects NATO organisations to minimize the extent of using contractors in procurement roles.

15. The RPPB notes that substantial progress has been made, but calls attention to the significant work that remains to be done by the IS with respect to full compliance with the NFRs and FRPs.

CONCLUSION

16. The IBAN issued the IS qualified opinions on the financial statements and on compliance for financial year 2017 and a disclaimer of opinion on the financial statements and on compliance for financial year 2016. The issues identified by the IBAN on the 2017 and 2016 financial statements were primarily due to challenges involved in ERP implementation and persistent staffing issues in the Office of the Financial Controller. The challenges associated with ERP implementation have been and continue to be steadily addressed. Progress was evidenced by the significant number of IBAN observations settled and that the IBAN found that the 2016 IS financial statements present fairly, in all material respects the financial position of the IS as of 31 December 2017, and of its financial performance and its cash flows for the year ended.

RECOMMENDATIONS

17. The RPPB recommends the Council:

17.1. note the IBAN reports (reference A and B);

17.2. endorse the conclusion at paragraph 16; and

17.3. approve the public disclosure of this report, the IBAN audit reports and the associated 2016 and 2017 financial statements of the IS.

APPENDIX 1
ANNEX TO
C-M(2018)0071

Action Plan to Remediate Outstanding Observations

1. The action plan provides details of the status of the outstanding observations reflected in the IBAN audit report (reference A). Management has assessed each observation as Open, In progress or Closed based on the following definitions:

1.1. Open – Management is reviewing how best to address the observation or will address the observation at a later date.

1.2. In progress – Management is actively working to resolve the observation and has made progress in resolving the issue.

1.3. Settled – Management considers the observation satisfactorily closed or considers it is unable to take further corrective action.

IBAN Observation	Action Plan	Current Assessment	Resolution Timeline
Financial statement impact No restatement of comparative 2016 figures	The 2016 comparative figures will not be included in the 2018 financial statements.	Settled	NA - The observation is considered Settled.
Compliance impact Late issuance of financial statements	A procedure and tracking mechanism concerning the preparation of the financial statements are in place with a goal to have all 2018 financial statements (nine) issued by 31 March 2019. This is critically dependent on the availability of the adequate resources: in particular support provided by consultants or staffing of the newly (to be) created posts.	In-progress	Upon issuance of the 2018 financial statements.

IBAN Observation	Action Plan	Current Assessment	Resolution Timeline
No impact on opinion Residual unreconciled cash balance	The FC intends to request BC approval to write-off the remaining balance in accordance with NFRs (reference C).	In-progress	Upon issuance of the 2018 financial statements.
No impact on opinion Procurement carried out by unauthorised staff	It is not realistic to expect that an organization can prevent all unauthorized commitments from happening. This is a recurring issue in every organization, public or private. The IS is fully aware of the negative consequences of this type of commitment and has already implemented management measures and controls, based on best practices, to reduce the potential of unauthorized commitments as much as practicable. More information can be found in reference A.	Settled	NA - Settled
No impact on opinion Improvements required in the area of Risk Management, internal Controls and internal Audit	Additional information can be found at PO(2018)0491 where the issue of risk management is addressed in the context of the Functional Review. The IS will issue a risk management policy, select an internal control framework, assess and document the system of internal control and risk management procedures, and improve internal audit activities.	Open	Timeline to be determined based on outcome of the Functional Review

IBAN Observation	Action Plan	Current Assessment	Resolution Timeline
No impact on opinion Errors in the cash flow statement	The observation was partially settled in 2017. The FC will review the disclosures relating to movements on the Statement of Financial position and ensure they are described correctly.	In progress	Upon issuance of the 2018 financial statements.
No impact on opinion Incomplete reconciliation of commitments carried forward	An explanation will be provided concerning the difference between the carry forwards of commitments from 2015 and 2016.	In progress	Upon issuance of the 2018 financial statements.
No impact on opinion Carry forward of commitments based on purchase requisitions increases the risk of non-compliance and of misstatement	The IS will re-examine the way programme commitments are dealt with in the ERP. It was felt, however, that it was preferable for Divisions and OFC to gain more experience in this respect in order to make a better assessment for the need to change. In the meantime, developments under way in the future releases of the ERP may also contribute to solving this question (current planned go-live date is April 2019).	Open	Upon issuance of the 2019 financial statements.

IBAN Observation	Action Plan	Current Assessment	Resolution Timeline
No impact on opinion Matching invoices to purchase orders and the delivery of goods and services	The observation was partially settled in 2017. The IS will implement work flows ensure that the norm is to use POs to create liabilities and to restrict the use of PRs to those cases where it is absolutely necessary. In addition, the IS will use three way matching wherever possible and practical, and the situations where two-way matching is permissible should be identified and documented, and subsequently monitored. In addition, developments under way in the future releases of the ERP may also contribute to solving this question (current planned go-live is April 2019).	In progress	Upon issuance of the 2019 financial statements.
No impact on opinion Lack of periodic review of user access rights	Since the move to the current HQ a new procedure has been put in place by the IS OFC ERP Competency Centre in coordination with NCIA which allows for a continuous and specific monitoring of the user profiles and the related access rights.	Settled	NA - Settled
No impact on opinion The use of the 'switch user' function needs to be monitored	The IS considers that relative risks are marginal. Nevertheless, a change request was introduced and implemented in the ERP which generates a report that enables the identification of users who processed transactions when user access (with the “switch user” function was granted.	Settled	NA - Settled

IBAN Observation	Action Plan	Current Assessment	Resolution Timeline
No impact on opinion Confirmation of year-end assets and liabilities outstanding between NATO entities	The IS will establish a periodic AP/AR reconciliation check between consolidated, nonconsolidated entities and other NATO bodies.	Open	Upon issuance of the 2019 financial statements.
No impact on opinion Accounting for funds relating to the former NATO Hawk Production and Logisitics Organisation	The IS will determine the best method to account and disclose the assets and liabilities and movement of funds of the former NHMO.	Open	Upon issuance of the 2019 financial statements.

North Atlantic Treaty Organization
Organisation du Traité de l'Atlantique Nord
International Board of Auditors
Collège International des Commissaires aux Comptes

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IBA-A(2018)0093
27 August 2018

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

Cc: Assistant Secretary General, Executive Management Division
Financial Controller, International Staff
Chairman, Resource Policy & Planning Board (RPPB)
Branch Head, Plans and Policy Branch, NATO Office of Resources (NOR)
Private Office Registry

Subject: ***International Board of Auditors for NATO (Board) Auditor's Report and Letter of Observations and Recommendations on the audit of the Financial Statements of the International Staff (IS) for the year ended 31 December 2017 – IBA-AR(2018)0028***

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

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

Yours sincerely,

Hervé-Adrien Metzger
Chairman

Attachments: As stated above.

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ANNEX 1

Summary Note for Council
by the International Board of Auditors for NATO (Board)
on the audit of the Financial Statements of the International Staff (IS)
for the year ended 31 December 2017

The International Staff (IS) supports the work of the North Atlantic Council and its Committees. The total budgetary spend disclosed in the 2017 Financial Statements was EUR 192 million.

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

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

The main findings are listed below. Observation one impacts the opinion on the financial statements and observation two impacts the opinion on compliance.

1. No restatement of comparative 2016 figures.

2. Late issuance of financial statements.

3. Residual unreconciled cash balance.

4. Procurement carried out by unauthorised staff.

5. Improvements required in the area of Risk Management, Internal Controls and Internal Audit.

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

The Auditor's report (Annex 2) and the Letter of Observations and Recommendations (Annex 3) were issued to the IS whose comments have been included. See the Appendix to Annex 3.

ANNEX 2
IBA-AR(2018)0028

27 August 2018

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF

THE INTERNATIONAL STAFF (IS)

FOR THE YEAR ENDED 31 DECEMBER 2017

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

Report on the Financial Statements

The International Board of Auditors for NATO (Board) audited the Financial Statements of the International Staff (IS) which comprised the Statement of Financial Position as at 31 December 2017, the Statement of Financial Performance, the Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The Board also audited the Statements of Budget Execution for the year ended 31 December 2017.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these Financial Statements in accordance with the NATO Accounting Framework and the requirements of the NATO Financial Regulations as authorised by the North Atlantic Council, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion on the Financial Statements

The Board previously issued a disclaimer of opinion on the 2016 IS Financial Statements. The IS did not restate its 2016 closing balances. This impacted the comparative figures in the 2017 IS Financial Statements. The Board's audit found that corrections to the closing 2016 balances were done as part of 2017 transactions rather than retrospectively. The Board has therefore qualified its audit opinion on the IS 2017 Financial Statements due to the lack of reliability and comparability of the 2016 comparative information.

Qualified Opinion on the Financial Statements

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

Report on Compliance

Management's Responsibility for Compliance

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

Auditor's Responsibility

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

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

Basis for Qualified Opinion on compliance

The NATO Financial Regulations require the financial statements to be submitted for audit to the Board by the Financial Controller no later than 31 March following the end of the financial year. The IS Financial Statements for the year ended 31 December 2017, though, were only submitted on 14 May 2018.

Qualified Opinion on Compliance

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

Brussels, 27 August 2018

Hervé-Adrien Metzger
Chairman

27 August 2018

INTERNATIONAL BOARD OF AUDITORS FOR NATO

LETTER OF OBSERVATIONS AND RECOMMENDATIONS

FOR THE INTERNATIONAL STAFF (IS)

FOR THE YEAR ENDED 31 DECEMBER 2017

Introduction

The International Board of Auditors for NATO (Board) audited the International Staff (IS) Financial Statements for the year ended 31 December 2017, and issued a qualified opinion on the financial statements and a qualified opinion on compliance.

Observations and Recommendations

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

One observation impacts the audit opinion on the financial statements.

1. No restatement of comparative 2016 figures.

One observation impacts the audit opinion on compliance:

2. Late issuance of financial statements.

The remaining three observations do not impact the audit opinion:

3. Residual unreconciled cash balance.

4. Procurement carried out by unauthorised staff.

5. Improvements required in the area of Risk Management, Internal Controls and Internal Audit.

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

The Board also issued a Management Letter (reference IBA-AML(2018)0016) to the Assistant Secretary General Executive Management Division of the International Staff with one observation for management's attention.

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

OBSERVATIONS AND RECOMMENDATIONS

1. NO RESTATEMENT OF COMPARATIVE 2016 FIGURES

Reasoning

1.1 According to International Public Sector Accounting Standards (IPSAS) 3, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by restating the comparative amounts for prior period(s) presented in which the error occurred. In doing so, the entity shall disclose the following:

a) The nature of the prior period error.

b) For each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected.

Observations

1.2 The IS decided not to restate its 2016 comparative figures in the 2017 IS Financial Statements. The IS Office of the Financial Controller (OFC) informed us that this decision was taken because, in their opinion, the work involved in restating 2016 would have diverted resources away from producing the 2017 financial statements. In addition, it would have involved trying to adjust the accounting system retrospectively which could be a difficult task.

1.3 Our audit found that corrections to the opening balances were done as part of 2017 transactions rather than retrospectively. However, as the 2016 comparative figures were not restated and the Board issued a Disclaimer of Audit Opinion on the 2016 IS Financial Statements, the Board qualified its audit opinion on the IS 2017 Financial Statements due to the lack of reliability and comparability of the 2016 comparative information.

Conclusion

1.4 The Board does not provide any recommendation following this observation but this led the Board to issue a qualified opinion on compliance.

2. LATE ISSUANCE OF FINANCIAL STATEMENTS

Reasoning

2.1 Article 35.1 of the NFRs states that annual financial statement for each NATO body, consolidated where applicable and appropriate, shall be submitted for audit to the International Board of Auditors for NATO by the Financial Controller not later than 31st

March following the end of the financial year.

Observation

2.2 The 2017 IS Financial Statements were not received by the Board until 14 May 2018.

Conclusion

2.3 The late issuance of the financial statements results in a qualification on compliance for the 2017 IS Financial Statements.

3. RESIDUAL UNRECONCILED CASH BALANCE

Reasoning

3.1 According to Article 12 of the NATO Financial Regulations (NFRs), the Heads of NATO bodies shall ensure that the necessary internal management functions are in place to support effective internal control. It is a fundamental requirement of internal control that all bank accounts are effectively controlled and correctly presented in the Financial Statements.

Observations

3.2 We note that Cash and Cash Equivalents presented in the 2017 IS Financial Statements reconcile to the amounts disclosed in the bank statements. For the 2016 and 2015 IS Financial Statements, the cash was not reconciled to the accounting system due to problems and accounting errors relating to the introduction of the new Enterprise Resource Planning (ERP) software in 2015.

3.3 For 2017, the IS identified the unreconciled amount and booked it as a reduction of a liability of about EUR 52,000. According to IS OFC, given the time that has passed and the nature of the errors in cash accounting when the ERP was introduced in 2015, it remains uncertain as to whether the unreconciled amount of EUR 52,000 can be identified and resolved. However, we could not substantiate this assertion.

Recommendations

3.4 The Board recommends that the IS identifies the cause of the discrepancy in the Cash and Cash Equivalents disclosed and take the necessary corrective actions prior to production of the 2018 Financial Statements. However, if the IS determine and document that it not possible to identify the transactions that led to the discrepancy, the Board recommends that the IS write- off the residual unreconciled cash balance in accordance with the NFRs.

4. PROCUREMENTS CARRIED OUT BY UNAUTHORISED STAFF

Reasoning

4.1 Article III, paragraph f. of the NATO Financial Rules and Procedures (FRPs) states that Purchasing and Contracting officers have exclusive legal authority for the procurement of goods and services on behalf of the NATO body.

4.2 In addition, Article 13.11 of the IS Procurement Manual approved by the Budget Committee states that '*Under no circumstances shall NATO IS staff other than the Procurement Service or other individuals specifically authorized by them enter into formal negotiations, place orders or execute contracts or modifications for the provision of goods or services to NATO IS or in any way obligate NATO […].The Procurement Service should take positive action to preclude, to the maximum extent possible, the need for ratification actions. Although procedures are provided herein for use in those cases where the ratification of an unauthorized commitment is necessary, these procedures may not be used in a manner that encourages such commitments being made by unauthorized personnel.'*

4.3 The Financial Controller is responsible for ensuring prior approval of commitments, according to Article 6 of the NFRs.

Observations

4.4 During our audit, we found three unauthorised commitments amounting to EUR 506,873 entered into by the IS in 2017. One related to a contract for TV coverage of the 2017 NATO summit for EUR 350,443, another for the refurbishment of the Senior Civilian Representative Residence and Staff accommodation in Afghanistan for EUR 136,430. The final related to a review of policy and an action plan for implementation of the Women Peace and Security Agenda for EUR 20,000.

4.5 In each case, staff members entered into legal commitments on behalf of NATO although they were not authorised to do so. Subsequently, after the goods and services were delivered and the invoice was received by the OFC, the unauthorised contracts were discovered by OFC. The procurements were regularised retrospectively according to procedures in the IS Procurement Manual.

Recommendation

4.6 The Board recommends the IS ensure that unauthorised purchases are avoided in future, for example by issuing a reminder to all staff that only authorised staff members may carry out procurement functions.

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

Reasoning

5.1 According to Article11of the NFRs, the Heads of NATO bodies shall ensure that effective, efficient and economical risk management procedures are in place to support the achievement of objectives as set by the Nations. Risks to the achievement of these objectives shall be identified, assessed and mitigated.

5.2 Article XI of the FRPs states that the Head of the NATO Body shall ensure commitment to overall risk management and that all staff divisions are able to identify the key risks, evaluate the nature and extent of those risks and implement controls to mitigate the risks. The Financial Controller is responsible for financial risk management standards and an appropriate Internal Control Framework to be reviewed by the Internal Control Officer.

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

5.4 According to paragraph 13.1 of the NFRs, all NATO bodies shall undertake internal audit activities in order to evaluate risk exposures and the effectiveness of internal controls in managing risk within the organisation's governance, operations and information systems.

Observations

5.5 We found that the IS had not yet fully implemented the new NFRs and FRPs. Considerable work still needs to be done in terms of the identification of risks and in developing procedures to assess and mitigate those risks (Article 11). We understand that these have not been developed yet by the IS. However, OFC have developed some detailed risk assessments and are in the process of documenting internal controls. This work started in 2016 but the documents are still at a draft stage as the OFC prioritised the production of the 2017 financial statements.

5.6 This report outlines significant improvements regarding compliance with Article 12 of the NFRs on internal controls. The weaknesses that existed relating to controls to ensure the accuracy and reliability of accounting data were largely resolved. In addition, audit trails and the documentation supporting the disclosures in the financial statements have improved considerably.

5.7 The Board notes that the IS have not yet chosen an Internal Control framework to assess its system of internal control against the requirements of FRP XII. The adoption of a specific framework is an important step forward and is essential in order to ensure and to clearly demonstrate to others that a complete system of internal control and risk management is in place. A number of other NATO bodies, including Allied Command Operations, Allied Command Transformation, NATO Communications and Information Agency, NATO EF 2000 and Tornado Development, production and Logistics Agency and NATO Airborne Early Warning and Control Programme Management Agency have already adopted the internal control framework of The Committee of Sponsoring Organisations of the Treadway Commission (COSO).

5.8 Furthermore, because the IS has not yet fully implemented the new NFRs and FRPs in respect to risk management and internal control, the Internal Audit Service of the IS has not yet fully evaluated, throughout the IS, the risk exposures and the effectiveness of internal controls in managing risk within the governance, operations and information systems as required by Article 13.

Recommendations

5.9 The Board recommends that, as a matter of priority, the IS ensure that it complies with all the requirements of the new NFRs and FRPs. This should include, but not be limited to:

a) Preparing an entity-wide risk management policy throughout the IS and developing risk registers throughout all IS divisions.

b) Assessing and documenting the system of internal control and risk management to support compliance with the NFRs, FRPs and the internal control framework that the IS chooses.

c) Choose a specific internal control framework that the IS will use to assess its system of internal control.

d) The Internal Audit Service of the IS perform activities that fully evaluate internal control and risk management throughout the IS, and that this work be clearly documented so as to be able to conclude as to the IS's compliance against the new NFRs and FRPs.

FOLLOW-UP OF PREVIOUS YEAR'S OBSERVATIONS

The Board reviewed the status of the observations and recommendations arising from previous years' audits. The observations and their status are summarised in the table below.

OBSERVATION/RECOMMENDATION	ACTION	STATUS
(1) IS FY 2016 **IBA-AR(2017)40, paragraph 2.1** **ERRORS IN DISCLOSED CASH BALANCES** **Board's Recommendation** The Board recommends that the IS identify the cause of the discrepancy in the cash disclosed and ensure that it is correctly disclosed in the 2017 Financial Statements. In addition, the IS should ensure that bank accounts held at Local Offices are disclosed as cash and not as advances under Other Current Assets.		Observation **Superseded by current year observation 3**.
(2) IS FY 2016 **IBA-AR(2017)40, paragraph 2.2** **ERRORS IN THE CASH FLOW STATEMENT** **Board's Recommendation** The Board recommends that the IS ensure that the 2017 Cash Flow Statements is arithmetically correct, complies with IPSAS 2, and can be reconciled to movements on the Statements of Financial Position and Performance.	The cash flow statement was arithmetically correct and was fully reconciled to the statements of Financial Position and Performance. However, some of the disclosures relating to movements on the Statement of Financial Position were described incorrectly.	Observation **Partially Settled**.
(3) IS FY 2016 **IBA-AR(2017)40, paragraph 2.3** **INCOMPLETE NOTE DISCLOSURE OF CASH** **Board's Recommendation** The Board recommends that the IS provide, in its 2017 Financial Statements notes, a detailed breakdown of the makeup of cash balances supporting the cash balance disclosed in the Statement of Financial Position. This should be in addition to Note 30 that provides a breakdown of cash by segments. Further, the IS should ensure that the notes relating to cash are consistent with the Statement of Financial Position.	The IS 2017 Financial Statements provided a detailed breakdown of cash balances supporting the Statement of financial Position.	Observation **Settled**.

(4) IS FY 2016 **IBA-AR(2017)40, paragraph 2.4** **INCOMPLETE DISCLOSURES REGARDING TRUST FUNDS** **Board's Recommendation** The Board recommends that the 2017 Financial Statements disclose additional information on Trust Funds in the notes. . This information should be provided in Note 3 'Cash and Cash Equivalents' and Note 37 'related parties'.	Detailed information on individual Trust Funds was provided in the IS 2017 Financial Statements.	Observation **Settled**.
(5) IS FY 2016 **IBA-AR(2017)40, paragraph 2.5** **OVERSTATEMENT OF OTHER CURRENT ASSETS** **Board's Recommendation** The Board recommends that all intercompany postings are eliminated in the 2017 IS Financial Statements.	The Board's audit did not reveal any intercompany postings relating to the IS 2017 Financial Statements.	Observation **Settled**.
(6) IS FY 2016 **IBA-AR(2017)40, paragraph 2.6** **DISCLOSURE ERROR IN PAYABLES AND DEFERRED REVENUE** **Board's Recommendation** The Board recommends that, in the 2017 IS Financial Statements, the IS ensure that Payables and Deferred Revenues are correctly classified and disclosed.	IS OFC introduced more effective controls relating to the production of its financial statements. As a result, the Board's audit did not find any material disclosure errors between payables and deferred revenue.	Observation **Settled**.
(7) IS FY 2016 **IBA-AR(2017)40, paragraph 2.7** **UNRECONCILED UNEARNED REVENUE** **Board's Recommendation** The Board recommends that the IS ensure that the 2017 IS Financial Statements provide a full reconciliation between Unearned Revenue and the credits carried forward on the Budget Execution Statement.	A Reconciliation for 2017 was provided to the Board with a minor reconciling difference of EUR 11,734.	Observation **Settled**.

(8) IS FY 2016 **IBA-AR(2017)40, paragraph 2.8** **LACK OF ASSURANCE ON PROPER CUT-OFF OF EXPENSES** **Board's Recommendation** The Board recommended following its audit of the IS 2015 Financial Statements, that the 2015 accrual be identified and the 2015 balance be restated as the comparative figure in the 2016 Financial Statements. The IS responded that it believed the restatement of 2015 accruals would be extremely difficult, costly to attain, and of limited value for money. As a result, the Board found examples of accruals related to services received in 2015 were accounted for as 2016 transactions. As a result, accruals and expenses were overstated by an unknown amount in the IS 2016 Financial Statements. However, it should be noted that the Board did not find examples of transactions that were not accrued at the end of 2016, i.e., cut off problems between 2016 and 2017. The Board will confirm following its audit of the IS 2017 Financial Statements whether this issue has been resolved.	The Board did not find any material issues regarding the cut-off of expenses in 2017.	Observation **Settled**.
(9) IS FY 2016 **IBA-AR(2017)40, paragraph 2.9** **INCOMPLETE DISCLOSURE OF NET ASSETS AND SURPLUS/DEFICIT** **Board's Recommendation** The Board recommends that the IS ensure that the 2017 Financial Statements comply with IPSAS 1 by including a Statement of Changes in Net Assets/Equity. In addition, detailed notes supporting the movements in the year plus a justification for the amount and nature of the Net Asset balance at the end of 2017 be provided.	A Statement of Changes in Net Assets/Equity was included in the 2017 IS Financial Statements. However, a justification for the amount and nature of the Net Asset balance was not provided.	Observation **Superseded by an observation in the Management Letter.**
(10) IS FY 2016 **IBA-AR(2017)40, paragraph 2.10** **INCOMPLETE FOREIGN EXCHANGE RATE REVALUATION OF ASSETS AND LIABILITIES AT YEAR-END** **Board's Recommendation** The Board recommends that, for the IS 2017 Financial Statements, the IS provide a detailed analysis to the Board to ensure that all material monetary assets and liabilities held in foreign currencies have been revalued at year-end.	A revaluation was done and provided to the Board of all monetary assets and liabilities including outstanding Accounts Receivable and Payable, bank	Observation **Settled**.

	accounts held in foreign currency, NLO bank accounts and Trust Funds.	
(11) IS FY 2016 **IBA-AR(2017)40, paragraph 2.11** **INCONSISTENT NOTE DISCLOSURE OF REVENUE** **Board's Recommendation** The Board recommends that the IS explain the basis of its classification of revenue between Revenue from Exchange Transactions and Other Revenue in the notes to the Financial Statements. In addition, the IS should ensure that the notes supporting the 2017 Financial Statements are consistent with the primary Financial Statements.	The Board found that the IS 2017 explained the basis of its classification between Revenue from Exchange Transactions and Other Revenue consistently with the primary Financial Statements	Observation **Settled**.
(12) IS FY 2016 **IBA-AR(2017)40, paragraph 2.12** **UNDERSTATEMENT OF ALLOWANCE FOR DOUBTFUL DEBTS** **Board's Recommendation** The Board recommends that, for the 2017 Financial Statements, the IS make an allowance for bad debts relating to the NATO Staff Centre.	Specifically related to the receivable outstanding from the Staff Centre, the BC decided to cover this amount through the use of special carry forward of lapsable appropriations from the 2016 Civil Budget (BC-D(2018)0067 and BC-D(2018)0076). Therefore, an allowance for doubtful debt is no longer needed.	Observation **Settled**.
(13) IS FY 2016 **IBA-AR(2017)40, paragraph 2.13** **INCOMPLETE DISCLOSURE RELATED TO EMPLOYEES IN NOTES TO FINANCIAL STATEMENTS** **Board's Recommendation** The Board recommends that, in the 2017 IS Financial Statements, Note 35 'Employee Disclosure' includes the number of staff as at 31 December 2017, a comparison with the previous year and explanations for significant differences. In addition, information be included comparing actual and approved positions.	The 2017 IS Financial statements included disclosures on the number of staff in 2017, a comparison with 2016, an explanation for differences and a comparison with actual and approved positions.	Observation **Settled**.

(14) IS FY 2016 **IBA-AR(2017)40, paragraph 2.14** **INCOMPLETE DISCLOSURE RELATING TO LEASES** **Board's Recommendation** The Board recommends that the 2017 IS Financial Statements fully comply with the disclosure requirements of IPSAS 13 regarding Leases.	The 2017 IS Financial Statements included the disclosure requirements of IPSAS 13 regarding leases.	Observation **Settled**.
(15) IS FY 2016 **IBA-AR(2017)40, paragraph 3.1** **CONTROLS OVER THE RECONCILIATION OF BANK BALANCES NEED TO BE ENFORCED** **Board's Recommendation** The Board recommends that the IS perform and document monthly cash reconciliations between the bank balances and the amounts presented in the accounting system. This will enable the IS to identify misstatements (if any) and take corrective action on a timely basis. The bank reconciliations should be documented at the end of each month with the signatures of the preparer and reviewer together with the dates the control took place.	The Board's audit found that regular bank reconciliations were carried out. These were done monthly and at year end and signed accordingly.	Observation **Settled**.
(16) IS FY 2016 **IBA-AR(2017)40, paragraph 3.2** **INCOMPLETE DISCLOSURE AND RECONCILIATION OF BANK ACCOUNTS HELD BY EXTERNAL OFFICES** **Board's Recommendation** The Board recommends that the IS reconcile the NLO bank accounts centrally and, disclose the balances in the Financial Statements.	The Board's audit found that the IS had reconciled and documented the reconciliation of NLO bank accounts and disclosed the balances in the IS 2017 Financial Statements.	Observation **Settled**.

(17) IS FY 2016 **IBA-AR(2017)40, paragraph 3.3** **INCOMPLETE DISCLOSURE OF THE RECONCILIATION OF EXPENSES IN THE BUDGET EXECUTION STATEMENT TO THE STATEMENTS OF FINANCIAL PERFORMANCE AND POSITION.** **Board's Recommendation** The Board recommends that the IS ensure that the 2017 IS Financial Statements disclose a detailed reconciliation of transactions in the Statements of Financial Performance and Position to the expenses in the Budget Execution Statement.	The 2017 IS Financial Statements provided a note reconciling the Statements of Financial Performance and Position to the Budget Execution Statement.	Observation **Settled**.
(18) IS FY 2016 **IBA-AR(2017)40, paragraph 3.4** **RECONCILIATION OF SUB LEDGERS TO THE GENERAL LEDGER NOT COMPLETED** **Board's Recommendation** The Board recommends that, for the 2017 Financial Statements, the receivables and payables sub ledgers be fully reconciled to the General Ledger and Financial Statements.	The Board's audit found that sub ledgers had been reconciled to the General Ledger. In addition, the reconciliations were fully documented and provided to the Board.	Observation **Settled**.
(19) Audit report FY 2016 **IBA-AR(2017)40, paragraph 3.5** **INCOMPLETE RECONCILIATION OF PAYROLL TO GENERAL LEDGER** **Board's Recommendation** The Board recommends that the Office of Financial Control explain and document all differences between the payroll data in the PMIS system and the payroll disclosed in the ERP General Ledger. This reconciliation should be provided to the auditors as at 31 December.	OFC provided the Board with detailed monthly reconciliation between the General Ledger and the payroll system (PMIS) to support the payroll expenditures in the 2017 IS Financial Statements.	Observation **Settled**.

(20) IS FY 2016 **IBA-AR(2017)40, paragraph 3.6** **COMPLIANCE WITH THE NFRS PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL AND RISK MANAGEMENT** **Board's Recommendation** The Board recommends that, as a matter of priority, the IS ensure that it complies with all the requirements of the new NFRs and FRPs. This should include, but not be limited to: a) Assessing and documenting the system of internal control and risk management to support compliance with the NFRs, FRPs and the internal control framework that the IS chooses. b) Choose a specific internal control framework that the IS will use to assess its system of internal control. Since other NATO entities, including ACO, ACT and NCIO, have already adopted COSO as their internal control framework, the IS should consider adopting COSO to ensure consistency across NATO. c) Prepare an entity-wide risk management policy throughout the IS and that risk registers be developed and employed throughout all divisions of the IS. d) The Internal Audit Service of the IS perform activities that fully evaluate internal control and risk management throughout the IS, and that this work be clearly documented so as to be able to conclude as to the IS's compliance against the new NFRs and FRPs.	.	Observation **Superseded by current year observation 5**.
(21) IS FY 2016 **IBA-AR(2017)40, paragraph 3.7** **INCOMPLETE RECONCILIATION OF COMMITMENTS CARRIED FORWARD** **Board's Recommendation** The Board recommends that the IS provide an explanation for the difference between the carry forwards of commitments from 2015 into 2016. In addition, the Board recommends that the IS ensure its 2017 Financial Statements disclose commitments carried forward correctly.	The commitments carried into 2017 from 2016 are reconciled. However, the Board has not yet received an explanation for the differences between 2015 and 2016.	Observation **Partially Settled**.

(22) IS FY 2016 **IBA-AR(2017)40, paragraph 3.8** **REFUNDABLE SURPLUSES IN CALL FOR FUNDS BASED ON ESTIMATES** **Board's Recommendation** The Board recommends that the IS adjust the final call related to the 2017 budget to reflect the actual net interest and miscellaneous receipts reported on the IS 2015 Financial Statements. In addition, when estimates are contained within call documents, the IS make it clear to the Nations that the amounts are estimates and will be adjusted at a later date.	The IS adjusted the final call for 2017 to correct the difference between the actual and estimated interest and miscellaneous receipts 2015. No calls since have been based on estimates.	Observation **Settled**.
(23) IS FY 2016 **IBA-AR(2017)40, paragraph 3.9** **CONTRACTORS FILLING PROCUREMENT STAFF ROLES** **Board's Recommendation** The Board recommends that the IS, as soon as possible, recruit suitably qualified International Staff or by employing Temporary Staff (Chapter XVII of the Civilian Personnel Regulations) to fulfil the Procurement function in order to minimize the use of contractors. Until then, the IS should ensure that the increased risks of conflict of interest continue to be recognised and fully mitigated and that the contractors are carrying out their tasks with the highest professional, ethical moral and legal standards as required by Article 3.4 of the Procurement Manual.	No contractors were employed in a procurement function in 2017. The IS are currently in the process of recruiting International Staff.	Observation **Settled**.
(24) IS FY 2015 **IBA-AR(2017)04, paragraph 3.1** **IMPLEMENTATION OF THE NEW ENTERPRISE RESOURCE PLANNING (ERP) SYSTEM AND ITS EFFECT ON THE FINANCIAL STATEMENTS** **Board's Recommendation** An independent external assessment of the IS ERP implementation be undertaken focusing on the requirement of the IS to produce 9 separate Financial Statements. Such an assessment should also consider the lessons to be learned for future ERP system implementations in NATO. The Board recommends that this assessment be performed at the latest by the end of 2017.	The Budget Committee recommended to the RPPB (BC-D92017-FINAL, dated 10 July 2017) that a 'lessons learned report by the IS FC should be completed as a matter of urgency and not later than the end of September 2017 so that further advice on the need for an external review can be considered	Observation **Settled**.

	alongside the audit of the 2016 IS Financial Statements. A lessons learned report was submitted to the Budget Committee. See BC-D (2018)0002, dated 9 January 2018.	
(25) IS FY 2015 **IBA-AR(2017)04, paragraph 4.2** **INSUFFICIENT LEVEL OF CONTROLS OVER BUDGET EXECUTION** **Board's Recommendation** The IS load its common funded budget into the ERP system by using the same accounting string as in the GL to ensure the budget can be executed and controlled effectively.	In 2017, the IS did not load its common funded budget into the ERP using the GL accounting string. However, the Board did not find any issues relating to the control of budget execution in 2017. As this situation is unlikely to change and the budget system will continue to be used as the basis of loading the budget into the ERP, the Board considers this matter settled.	Observation **Settled**.
(26) IS FY 2015 **IBA-AR(2017)04, paragraph 4.3** **CARRY FORWARD OF COMMITMENTS BASED ON PURCHASE REQUISITIONS INCREASES THE RISK OF NON-COMPLIANCE AND OF MISSTATEMENT** **Board's Recommendation** The OFC examine, with the programmes, the implementation of future work flows that ensure that the norm is to use POs to create liabilities and form the basis of carry forwards so that the use of PRs is strictly limited to cases where there is an operational necessity. In cases where PRs are carried forward, controls, including monitoring, should be put in place and clearly documented.	In 2017, PRs were still used as a basis for the carry forward of commitments into 2018. It is possible that new releases of the ERP may resolve this issue in future.	Observation **Outstanding**.

(27) IS FY 2015 **IBA-AR(2017)04, paragraph 4.4** **MATCHING INVOICES TO PURCHASE ORDERS AND THE DELIVERY OF GOODS AND SERVICES** **Board's Recommendation** Similar to the recommendation on PR approval, ,the Board Recommended that implementation of future work flows ensure that the norm is to use POs to create liabilities and to restrict the use of PRs to those cases where it is absolutely necessary. In addition, OFC should use three-way matching wherever possible and practical, and the situations where two-way matching is permissible should be identified and documented, and subsequently monitored.	The Board notes that some progress was on this issue. In 2017, a purchase order was created relating to programme expenditure if the supplier was known.	Observation **Partially Settled**.
(28) IS FY 2015 **IBA-AR(2017)04, paragraph 5.2** **LACK OF PERIODIC REVIEW OF USER ACCESS RIGHTS** **Board's Recommendation** The IS develop documented procedures that set up formal channels of communication to ensure the CC is aware of staff members who have transferred between departments. In addition, a periodic review of users and their responsibilities should be set up to ensure the appropriate roles and responsibilities are assigned to the correct staff. Further, users should have access end dates assigned according to the duration of their contract.	In the case where a staff member leaves or transfers to a different division, action is taken. However, a general review of users was not done.	Observation **Outstanding**.
(29) IS FY 2015 **IBA-AR(2017)04, paragraph 5.3** **THE USE OF THE 'SWITCH USER' FUNCTION NEEDS TO BE MONITORED** **Board's Recommendation** The IS put controls in place to ensure that the use of the 'switch user' function is strictly controlled and monitored to ensure that it is only ever used in the appropriate circumstances. This could take the form of a periodic report that shows clearly who has used it, when it was used and for what purpose. The limitations on the use of the 'switch user' function, and the related controls, should be clearly documented.	There is no periodic report showing clearly who has used this function.	Observation **Outstanding**.

(30) IS FY 2013 **IBA-AR(2014)19, Paragraph 6** **CONFIRMATION OF YEAR-END ASSETS AND LIABILITIES OUTSTANDING BETWEEN NATO ENTITIES** **Board's Recommendation** The Board recommended that the IS, as from 2014, to confirm outstanding asset and liability balances it has with other NATO bodies as part of the preparation of the financial statements.	The IS did not confirm outstanding year-end asset and liability balances with all other NATO entities as part of its preparation of its 2017 financial statements. However, balances were confirmed with NCIA with whom the IS does a significant amount of business.	Observation **Outstanding**.
(31) IS FY 2010 **IBA-AR(2012)08, Paragraph 5.2** **ACCOUNTING FOR FUNDS RELATING TO THE FORMER NATO HAWK PRODUCTION AND LOGISTICS ORGANIZATION** **Board's Recommendation** The Board recommends that the IS determine the best method to account and disclose the assets and liabilities and movement of funds during the year of the former NHMO.	The amounts to be settled with the Nations were established and are disclosed within the IS accounting system. However, formal final financial statements have yet to be produced so that the amounts owed to Nations can finally be settled.	Observation **Outstanding**.

INTERNATIONAL STAFF (IS) FORMAL COMMENTS ON THE LETTER OF OBSERVATIONS AND RECOMMENDATIONS AND THE INTERNATIONAL BOARD OF AUDITORS (BOARD) POSITIONS

OBSERVATION 1: NO RESTATEMENT OF COMPARATIVE 2016 FIGURES

International Staff's Formal Comments

The decision to not restate the 2016 financial statements but to perform the necessary corrections during 2017 was founded on the lack of resources available to do this task whilst at the same time closing financial year 2017 and producing the financial statements. It was a management decision based on prioritisation and risk management.

OBSERVATION 2: LATE ISSUANCE OF FINANCIAL STATEMENTS

International Staff's Formal Comments

Agreed.

OBSERVATION 3: RESIDUAL UNRECONCILED CASH BALANCE

International Staff's Formal Comments

The figure has been significantly reduced from EUR 334,784.33 in 2015 to EUR 52k in 2017. The decision to request a write-off will be seen in the context of the closure of 2018.

OBSERVATION 4: PROCUREMENTS CARRIED OUT BY UNAUTHORISED STAFF

International Staff's Formal Comments

Although the number and amount of unauthorized commitments that were identified in 2017 may seem high, their relative importance is still low considering the total number and amount of procurement transactions processed by the IS.
It is not realistic to expect that an organization can prevent all unauthorized commitments from happening. This is a recurring issue in every organization, public or private. The IS is fully aware of the negative consequences of this type of commitments and has already implemented management measures and

controls, based on best practices, to reduce the potential of unauthorized commitments as much as practicable.
These measures and controls include the following:

- *Stringent ratification procedures to ensure that all unauthorized commitments are properly investigated and that only those that meet the conditions for ratification (e.g., legitimate operational need, availability of funding, price reasonableness, etc.) are approved for payment*
- *A register of unauthorized commitments and ratifications to keep track of all identified instances per individual and division and to allow the detection of recurring issues*
- *Periodic training for non-procurement personnel to educate/inform them about the approved procurement procedures and the consequences of unauthorized commitments*
- *Inclusion of disclaimers in contracts making clear to all suppliers that only duly appointed procurement officers are authorized to enter into contracts or to make contract changes on behalf of the Organization*
- *Encourage the use of templates to request information from suppliers, which include disclaimers to avoid unauthorized commitments*
- *Ad-hoc reminders sent to specific Divisions or the whole IS stressing that only duly appointed procurement officers have the authority required to enter into contracts on behalf of the Organization*
- *Implementation of emergency procurement procedures to ensure the timely authorization of purchases by procurement officers in case of urgent operational needs*

Board's position

The Board notes the initiatives taken by IS in order to prevent unauthorised commitments. Nevertheless we stress that it is a management responsibility to ensure rules are followed by staff including ensuring that proper actions be taken if rules are not followed.

OBSERVATION 5:
IMPROVEMENTS REQUIRED IN THE AREA OF RISK MANAGEMENT, INTERNAL CONTROL AND INTERNAL AUDIT

International Staff's Formal Comments

Agreed.

FOLLOW-UP OF PREVIOUS YEAR'S OBSERVATIONS

IBA-AR(2017)04 (Financial Year 2015), paragraph 4.3
CARRY FORWARD OF COMMITMENTS BASED ON PURCHASE REQUISITIONS INCREASES THE RISK OF NON-COMPLIANCE AND OF MISSTATEMENT

International Staff's Formal Comments

The intent is indeed to re-examine the way programme commitments are dealt with in the ERP. It was felt, however, that it was preferable for Divisions and OFC to gain more experience in this respect in order to make a better assessment for the need to change. In the meantime, developments under way in the future releases of the ERP may also contribute to solving this question.

IBA-AR(2014)19 (Financial Year 2013), paragraph 6
CONFIRMATION OF YEAR-END ASSETS AND LIABILITIES OUTSTANDING BETWEEN NATO ENTITIES

International Staff's Formal Comments

It is envisaged to establish a periodic AP/AR reconciliation check between consolidated and non-consolidated entities.

FC(2018)0055

NATO INTERNATIONAL STAFF FINANCIAL STATEMENTS

For the year ended
31 December 2017

Annexes

Jens STOLTENBERG
Secretary General

Stephane CHAGNOT
Financial Controller

ANNEX 1 to
FC(2018)0055

NATO INTERNATIONAL STAFF
Statement of financial position
As at 31 December 2017

(All amounts in EUR)

	Notes	2017	2016
Assets			
Current assets			
Cash and cash equivalents	3	68,127,881.72	52,364,760.22
Short term investments	4	46,501,325.02	57,575,871.00
Receivables	5	32,257,679.05	45,007,711.87
Prepayments	6	4,032,132.44	1,412,981.35
Other current assets	7	2,506,594.59	14,847,903.89
Inventories	8	426,745.39	17,051.84
		153,852,358.21	171,226,280.17
Non-current assets			
Receivables	9	0.00	0.00
Property, plant & equipment	10	1,581,046.01	1,910,722.27
Intangible assets	11	14,763,958.37	15,340,028.94
Other non-current assets	12	0.00	0.00
		16,345,004.38	17,250,751.21
Total assets		170,197,362.59	188,477,031.38
Liabilities			
Current liabilities			
Payables	13	24,740,862.72	13,916,892.67
Deferred revenue	14	51,381,017.24	63,336,342.44
Advances	15	53,188,515.08	59,790,474.39
Short term provisions	16	0.00	418,077.20
Other current liabilities	17	23,984,283.52	33,505,486.67
		153,294,678.56	170,967,273.37
Non-current liabilities			
Payables	18	0.00	
Long term provisions	18	0.00	
Deferred revenue	19	16,345,004.38	17,250,751.23
Other non-current liabilities	20	0.00	0.00
		16,345,004.38	17,250,751.23
Total liabilities		169,639,682.94	188,218,024.60
Net assets	21		
Capital assets		0.00	
Reserves		0.00	
Current year Surplus / (Deficits)		298,672.87	210,422.78
Accumulated surpluses / (deficits) prior year		259,006.78	48,584.00
Total net assets/ equity		557,679.65	259,006.78

ANNEX 2 to
FC(2018)0055

NATO INTERNATIONAL STAFF
Statement of financial performance

As at 31 December 2017

(All amounts in EUR)

	Notes	2017	2016
Revenue			
Non exchange revenue	22	193,692,091.59	203,403,072.12
Exchange revenue	23	13,096,952.87	3,182,245.68
Other revenue	24	988,747.31	5,789,616.27
Financial revenue	25	399,290.73	950,622.55
Total revenue		**208,177,082.50**	**213,325,556.62**
Expenses			
Personnel	26	118,696,606.86	114,722,492.80
Contractual supplies and services	26	84,422,428.68	95,539,392.37
Depreciation and amortization	26	2,541,483.55	2,158,252.59
Impairment	26	24,070.42	418,077.20
Provisions	26	1,786,579.40	0.00
Other expenses	26	27,784.47	454,324.65
Finance costs	25	379,456.25	845,832.11
Total expenses		**207,878,409.63**	**214,138,371.72**
Surplus/(Deficit) for the period	27	**298,672.87**	**-812,815.10**

NATO INTERNATIONAL STAFF
Statement of Cash Flow
As at 31 December 2017
(All amounts in EUR)

	Notes	2017	2016
Cash flow from operating activities	28		
Surplus/(Deficit)		298,672.87	210,422.78
Non-cash movements		**298,672.87**	**210,422.78**
Depreciation/ Amortisation		2,541,483.55	2,158,252.59
Impairment			
Increase /(decrease) in payables		(7,733,314.46)	1,907,143.10
Increase/ (decrease) in other current liabilities		(10,426,950.00)	19,299,225.35
Increase/ (decrease) in provisions		(418,077.20)	418,077.20
(Gains)/losses on sale of property, plant and equipment			
Decrease/ (Increase) in other current assets		11,350,465.15	(13,309,756.85)
Decrease/ (Increase) in receivables		9,721,188.18	16,896,591.52
Decrease/ (Increase) in other non current assets		905,746.83	(332,945.46)
Net cash flow from operating activities		**5,940,542.05**	**27,036,587.45**
Cash flow from investing activities			
Purchase of property plant and equipment / Intangible assets		(1,550,639.40)	(1,983,801.03)
Proceeds from sale of property plant and equipment			
Net cash flow from investing activities		**(1,550,639.40)**	**(1,983,801.03)**
Cash flow from financing activities		-	-
Net cash flow from financing activities			
Net increase/(decrease) in cash and cash equivalents		**4,688,575.52**	**25,263,209.20**
Cash and cash equivalent at the beginning of the period		109,940,631.22	84,673,866.41
Cash and cash equivalent at the end of the period		114,629,206.74	109,940,631.22

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NATO INTERNATIONAL STAFF
Statement of Changes in Net Assets/Equity
As at 31 December 2017

	(in EUR)
Balance at the beginning of the period 2016	**48,584.00**
Changes in accounting policy	
Restated balance	
Net (gains)/losses recognised directly in net assets/equity	
Exchange difference on translating foreign operations	
Gain on property revaluation	
Surplus/(deficit) for the period	210,422.78
Change in net assets/equity for the year ended 2016	**210,422.78**
Balance at the end of the period 2016	**259,006.78**
Balance at the beginning of the period 2017	**259,006.78**
Changes in accounting policy	
Restated balance	
Net (gains)/losses recognised directly in net assets/equity	
Exchange difference on translating foreign operations	
Gain on property revaluation	
Surplus/(deficit) for the period	298,672.87
Change in net assets/equity for the year ended 2017	**298,672.87**
Balance at the end of the period 2017	**557,679.65**

NATO INTERNATIONAL STAFF
Statement of Budget Execution as at 31 December 2017

(amounts in euro)	Initial Budget	Increase / Decrease	Revised Budget	Transfers	Frozen Budget	Final budget	Commitments	Expenses	Total spent	Carry forward	Special carry forward	Lapsed
CIVIL BUDGET												
Chapter 1	126,686,242.54	(451,532.42)	126,234,710.12	(162,388.55)	-	126,072,321.57	851,819.37	123,103,284.64	123,955,104.01	851,819.37	736,338.00	1,380,879.56
Chapter 2	49,173,678.00	7,131,838.92	56,305,516.92	301,069.00	100,000.00	56,706,585.92	1,742,098.92	43,880,455.60	45,622,554.52	1,742,098.92	2,523,039.00	8,560,992.40
Chapter 3	4,325,596.00	673,690.13	4,999,286.13	(133,444.00)	-	4,865,842.13	654,148.01	660,180.58	1,314,328.59	654,148.01	3,429,110.00	122,403.54
Chapter 4	23,488,812.00	(585,394.46)	22,903,417.54	(5,236.45)	-	22,898,181.09	5,728,382.89	15,737,506.48	21,465,889.37	5,728,382.89	716,586.00	715,705.72
Total FY 2017	203,674,328.54	6,768,602.17	210,442,930.71	0.00	100,000.00	210,542,930.71	8,976,449.19	183,381,427.30	192,357,876.49	8,976,449.19	7,405,073.00	10,779,981.22
CIVIL BUDGET												
Chapter 1	586,661.08	-	586,661.08	-	-	586,661.08	127,376.16	210,693.62	338,069.78	127,376.16	-	248,591.30
Chapter 2	4,710,115.14	-	4,710,115.14	-	-	4,710,115.14	144,509.42	2,551,624.58	2,696,134.00	144,509.42	-	2,013,981.14
Chapter 3	1,023,195.92	-	1,023,195.92	-	-	1,023,195.92	15,046.19	863,729.99	878,776.18	15,046.19	-	144,419.74
Chapter 4	1,591,447.20	-	1,591,447.20	-	-	1,591,447.20	1,203,562.66	(455,928.92)	747,633.74	1,203,562.66	-	843,813.46
Total FY 2016	7,911,419.34	-	7,911,419.34	-	-	7,911,419.34	1,490,494.43	3,170,119.27	4,660,613.70	1,490,494.43	-	3,250,805.64
CIVIL BUDGET												
Chapter 1	249,760.61	-	249,760.61	-	-	249,760.61	24,892.66	49,917.03	74,809.69	24,892.66	-	174,950.92
Chapter 2	654,614.50	-	654,614.50	-	-	654,614.50	22,020.59	99,041.30	121,061.89	22,020.59	-	533,552.61
Chapter 3	185,371.34	-	185,371.34	-	-	185,371.34	133,180.77	(21,819.65)	111,361.12	133,180.77	-	74,010.22
Chapter 4	129,447.28	-	129,447.28	-	-	129,447.28	4,749.25	(237,670.00)	(232,920.75)	4,749.25	-	362,368.03
Total FY 2015	1,219,193.73	-	1,219,193.73	-	-	1,219,193.73	184,843.27	(110,531.32)	74,311.95	184,843.27	-	1,144,881.78
SPECIAL CARRY FORWARDS												
Chapter 1	4,510,049.78	-	4,510,049.78	-	-	4,510,049.78	3,720.49	2,011,433.30	2,015,153.79	3,720.49	2,249,360.55	245,535.44
Chapter 2	2,059,652.56	-	2,059,652.56	-	-	2,059,652.56	605,343.57	585,276.51	1,190,620.08	605,343.57	540,412.00	328,620.48
Chapter 3	5,091,667.57	-	5,091,667.57	-	-	5,091,667.57	1,656,453.11	819,725.99	2,476,179.10	1,656,453.11	1,559,792.00	1,055,696.47
Chapter 4	16,453.58	-	16,453.58	-	-	16,453.58	11,478.18	(14,237.09)	(2,758.91)	11,478.18		19,212.49
Total SPECIAL CARRY FORWARDS	11,677,823.49	-	11,677,823.49	-	-	11,677,823.49	2,276,995.35	3,402,198.71	5,679,194.06	2,276,995.35	4,349,564.55	1,649,064.88
	224,482,765.10	6,768,602.17	231,251,367.27	0.00	100,000.00	231,351,367.27	12,928,782.24	189,843,213.96	202,771,996.20	12,928,782.24	11,754,637.55	16,824,733.52

ANNEX 5 to
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INTERNATIONAL STAFF
Statement of Budget Execution as at 31 December 2016

(amounts in euro)	Initial Budget	Increase / Decrease	Revised Budget	Transfers	Final budget	Commitments	Expenses	Total spent	Carry forward	Special carry forward	Lapsed
CIVIL BUDGET											
Chapter 1	125,608,777.36	(2,077,383.22)	123,531,394.14	496,000.00	124,027,394.14	440,681.07	118,305,607.67	118,746,288.74	440,681.07	3,639,194.00	1,641,911.40
Chapter 2	41,546,666.13	2,257,736.76	43,804,402.89	(484,450.35)	43,319,952.54	4,710,027.14	36,022,073.02	40,732,100.16	4,710,027.14	2,058,730.00	529,122.38
Chapter 3	3,298,265.00	(297,635.04)	3,000,629.96	1,250.35	3,001,880.31	262,834.09	1,630,900.79	1,893,734.88	262,834.09	734,212.00	373,933.43
Chapter 4	23,577,520.00	(432,718.50)	23,144,801.50	(12,800.00)	23,132,001.50	1,579,777.81	20,989,361.88	22,569,139.69	1,579,777.81	-	562,861.81
Total FY 2016	194,031,228.49	(550,000.00)	193,481,228.49	0.00	193,481,228.49	6,993,320.11	176,947,943.36	183,941,263.47	6,993,320.11	6,432,136.00	3,107,829.02
CIVIL BUDGET											
Chapter 1	1,352,450.23	-	1,352,450.23	-	1,352,450.23	249,760.61	832,742.37	1,082,502.98	249,760.61	-	269,947.25
Chapter 2	4,446,775.86	-	4,446,775.86	-	4,446,775.86	618,055.50	3,788,289.22	4,406,344.72	618,055.50	-	40,431.14
Chapter 3	1,073,664.84	-	1,073,664.84	-	1,073,664.84	48,553.73	951,718.79	1,000,272.52	48,553.73	-	73,392.32
Chapter 4	12,170,990.30	-	12,170,990.30	-	12,170,990.30	129,524.25	11,232,797.98	11,362,322.23	129,524.25	-	808,668.07
Total FY 2015	19,043,881.23	-	19,043,881.23	-	19,043,881.23	1,045,894.09	16,805,548.36	17,851,442.45	1,045,894.09	-	1,192,438.78
CIVIL BUDGET											
Chapter 1	1,197,240.65	-	1,197,240.65	-	1,197,240.65	-	884,889.75	884,889.75	-	-	312,350.90
Chapter 2	728,740.67	-	728,740.67	-	728,740.67	773.51	194,618.62	195,392.13	773.51	-	533,348.54
Chapter 3	326,455.11	-	326,455.11	-	326,455.11	-	62,117.50	62,117.50	-	-	264,337.61
Chapter 4	4,239,673.65	-	4,239,673.65		4,239,673.65	19,053.58	3,395,452.18	3,414,505.76	19,053.58	-	825,167.89
Total FY 2014	6,492,110.08	-	6,492,110.08	-	6,492,110.08	19,827.09	4,537,078.05	4,556,905.14	19,827.09	-	1,935,204.94
SPECIAL CARRY FORWARDS											
Chapter 1	1,661,003.19	-	1,661,003.19	-	1,661,003.19	145,980.01	377,987.89	523,967.90	145,980.01	870,855.79	266,179.50
Chapter 2	256,559.00	-	256,559.00	-	256,559.00	36,647.00	220,869.68	257,516.68	36,647.00	-	(957.68)
Chapter 3	8,410,074.63	-	8,410,074.63	-	8,410,074.63	903,280.24	2,974,194.77	3,877,475.01	903,280.24	4,351,354.77	181,244.85
Chapter 4	430,649.31	-	430,649.31	-	430,649.31	9,069.39	239,418.41	248,487.80	9,069.39	-	182,161.51
Total SPECIAL CARRY FORWARDS	10,758,286.13	-	10,758,286.13	-	10,758,286.13	1,094,976.64	3,812,470.75	4,907,447.39	1,094,976.64	5,222,210.56	628,628.18
	230,325,505.93	(550,000.00)	229,775,505.93	0.00	229,775,505.93	9,154,017.93	202,103,040.52	211,257,058.45	9,154,017.93	11,654,346.56	6,864,100.92

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FC(2018)0055

NATO PMIS
Statement of Budget Execution
As at 31 December 2017

(amounts in euro)	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Final budget	Actuals	Carry forward	Lapsed
PMIS										
Chapter 1	180,355	-	180,355	-	180,355	-	180,355	161,366	-	18,989
Chapter 2	258,693	-	258,693	-	258,693	-	258,693	233,443	-	25,250
Chapter 3	-	-	-	-	-	-	-		-	-
Total FY 2017	**439,048**	**-**	**439,048**	**-**	**439,048**	**-**	**439,048**	**394,810**	**-**	**44,239**
PMIS										
Chapter 1	-	-	-	-	-	-	-	-	-	-
Chapter 2	-	-	-	-	-	-	-	-	-	-
Chapter 3	-	-	-	-	-	-	-	-	-	-
Total FY 2016	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
PMIS										
Chapter 1	-	-	-	-	-	-	-	-	-	-
Chapter 2	-	-	-	-	-	-	-	-	-	-
Chapter 3	-	-	-	-	-	-	-	-	-	-
Total FY 2015	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total all budgets	**439,048**	**-**	**439,048**	**-**	**439,048**	**-**	**439,048**	**394,810**	**-**	**44,239**

ANNEX 5 to
FC(2018)0055

NATO PMIS
Statement of Budget Execution
As at 31 December 2016

(amounts in euro)	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Final budget	Actuals	Carry forward	Lapsed
PMIS										
Chapter 1	126,250	-	126,250	-	126,250	-	126,250	118,223	-	8,027
Chapter 2	20,000	-	20,000	-	20,000	-	20,000	19,478	-	522
Chapter 3	-	-	-	-	-	-	-		-	-
Total FY 2016	**146,250**	**-**	**146,250**	**-**	**146,250**	**-**	**146,250**	**137,700**	**-**	**8,550**
PMIS										
Chapter 1	-	-	-	-	-	-	-	-	-	-
Chapter 2	-	-	-	-	-	-	-	-	-	-
Chapter 3	-	-	-	-	-	-	-	-	-	-
Total FY 2015	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
PMIS										
Chapter 1	-	-	-	-	-	-	-	-	-	-
Chapter 2	-	-	-	-	-	-	-	-	-	-
Chapter 3	-	-	-	-	-	-	-	-	-	-
Total FY 2014	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total all budgets	**146,250**	**-**	**146,250**	**-**	**146,250**	**-**	**146,250**	**137,700**	**-**	**8,550**

NATO OSS
Statement of Budget Execution
As at 31 December 2017

(amounts in euro)	Initial budget	Increase	BA2	Transfers	BA3	Transfers	Frozen Budget	Final budget	Actuals	Carry forward	Lapsed
OSS											
Chapter 1	900,000	-	900,000	-	900,000	-	-	900,000	900,000	-	-
Chapter 2	-	-	-	-	-	-	-	-	-	-	-
Chapter 3	-	-	-	-	-	-	-	-	-	-	-
Total FY 2017	**900,000**	**-**	**900,000**	**-**	**900,000**	**-**	**-**	**900,000**	**900,000**	**-**	**-**
OSS											
Chapter 1	501,167	-	501,167	-	501,167	-	492,202	993,369	450,898	50,269	492,202
Chapter 2	-	-	-	-	-	-	-	-	-	-	-
Chapter 3	-	-	-	-	-	-	-	-	-	-	-
Total FY 2016	**501,167**	**-**	**501,167**	**-**	**501,167**	**-**	**492,202**	**993,369**	**450,898**	**50,269**	**492,202**
OSS											
Chapter 1	-	-	-	-	-	-	-	-	-	-	-
Chapter 2	-	-	-	-	-	-	-	-	-	-	-
Chapter 3	-	-	-	-	-	-	-	-	-	-	-
Total FY 2015	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total all budgets	**1,401,167**	**-**	**1,401,167**	**-**	**1,401,167**	**-**	**492,202**	**1,893,369**	**1,350,898**	**50,269**	**492,202**

NATO OSS
Statement of Budget Execution
As at 31 December 2016

(amounts in euro)	Initial budget	Increase	BA2	Transfers	BA3	Transfers	Final budget	Frozen Budget	Actuals	Carry forward	Lapsed
OSS											
Chapter 1	1,186,500	359,258	1,545,758	-	1,545,758	-	1,545,758	482,036	562,555	501,167	0
Chapter 2	27,500	-	27,500	-	27,500	-	27,500	10,166	17,334	-	0
Chapter 3	-	-	-	-	-	-	-	-		-	-
Total FY 2016	1,214,000	359,258	1,573,258	-	1,573,258	-	1,573,258	492,202	579,889	501,167	0
OSS											
Chapter 1	-	-	-	-	-	-	-	-	-	-	-
Chapter 2	-	-	-	-	-	-	-	-	-	-	-
Chapter 3	-	-	-	-	-	-	-	-	-	-	-
Total FY 2015	-	-	-	-	-	-	-		-	-	-
OSS											
Chapter 1	-	-	-	-	-	-	-	-	-	-	-
Chapter 2	-	-	-	-	-	-	-	-	-	-	-
Chapter 3	-	-	-	-	-	-	-	-	-	-	-
Total FY 2014	-	-	-	-	-	-	-	-	-	-	-
Total all budgets	1,214,000	359,258	1,573,258	-	1,573,258	-	1,573,258	492,202	579,889	501,167	0

EXPLANATORY NOTES TO NATO INTERNATIONAL STAFF 2017 FINANCIAL STATEMENTS

NOTE 1: GENERAL INFORMATION

NATO's essential purpose is to safeguard the freedom and security of its members through political and military means. Politically, NATO promotes democratic values and encourages consultation and cooperation on defence and security issues to build trust and, in the long run, prevent conflict. Militarily, NATO is committed to the peaceful resolution of disputes. If diplomatic efforts fail, it has the military capacity needed to undertake crisis-management operations. These are carried out under Article 5 of the Washington Treaty - NATO's founding treaty - or under a United Nations mandate, alone or in cooperation with other countries and international organizations.

The International Staff was created in 1951 to support the North Atlantic Council (NAC) (Council resolution D-D(51)30). The "Agreement on the Status of the North Atlantic Treaty Organization" defined its status, which National Representative and International Staff negotiated and signed in September of 1951.

The IS is an advisory and administrative body whose primary role is to support the national delegations of the 29 member states at NATO Headquarters. It produces policy papers, background notes and reports on issues relevant to NATO's political and military agenda and, in doing so, supports the process of consensus building and decision-making in the Alliance. The IS then helps to implement the decisions taken in NATO's committees and liaises closely with the nations and NATO's International Military Staff (IMS).

Headed by the Secretary General, the IS includes eight divisions, each headed by an Assistant Secretary General and a number of Independent Offices headed by Directors. Some 1,000 civilians work within the IS at NATO Headquarters in Brussels, Belgium. They owe their allegiance to the Alliance throughout the period of their appointment. They are either recruited directly by the Organization or seconded by their governments and each appointment is approved by the Secretary General.

The financial statements cover the budgetary and financial operations relating to the NATO International Staff (IS) budgeted and non-budgeted functions and programs.

NOTE 2: ACCOUNTING POLICIES

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

Declaration of conformity

The NATO-IS financial statements have been prepared in accordance with the NATO Accounting Framework which adapts a small number of IPSAS standards to better suit the specific requirements of the Alliance (as originally approved by nations under C-M(2013)0039 on 26 July 2013 and revised under C-M(2016)0023 on 29 April 2016) and with the NATO Financial Regulations (NFR), the Financial Rules and Procedures (FRP).

Basis of preparation

The financial statements have been prepared on a going-concern basis: NATO-IS will continue in operation for the foreseeable future.

The amounts shown in these financial statements are presented in EUR

The financial year begins on 1 January and ends on 31 December of the same year.

The following IPSAS have no material effect on the 2017 financial statements of the NATO-IS:

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

Concerning IPSAS 6: the transactions concerning the NATO Staff Centre are not consolidated with those of the International Staff, as the IPSAS 6 "Consolidated and Separate Financial Statements" would require, but are reported separately in accordance with a specific NAC decision taken under C-M(20103)0054.

Segment Reporting

A segment is a distinguishable activity or group of activities for which it is appropriate to separately report financial information. For NATO IS the segment information is based on principal activities and different sources of financing for different categories of activities of the organisation. To this end, the following segments have been adopted: Civil Budget, Reimbursable Expenses, Personnel Management Information System, Office of Shared Services, Extra-Budgetary Funds, Partners' Accommodation and Refurbishment of Building Z.

Changes in Accounting Policy

None to report.

Reclassification of Financial Statements of Previous Years

None to report. It should be noted, however, that a number of regularisations of transactions pertaining to previous years were done during 2017 to correct issues related to the first period of use of the new EPR system early in 2015 and this may affect the comparability of information between financial years.

Use of estimates

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

Foreign currency transactions

The NATO-IS budget is authorized and managed in EUR so contributions are called in EUR. The same situation prevails for the other entities which are budget driven such as the Personnel Management Information System and the Office of Shared Services. Foreign currency transactions as required are accounted for at the NATO exchange rates prevailing on the date of the transaction. Monetary assets and liabilities at year-end which were denominated in foreign currencies were converted into EUR using the NATO exchange rates applicable at 31 December of the fiscal year.

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

Financial risks

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

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

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

a. Foreign currency exchange risk

The exposure to foreign currency risk is limited as the majority of the NATO-IS's expenditures are made in EUR. The current bank accounts are held in EUR, CAD, CHF, DKK, GBP, NOK and USD. There are accounts with local banks for the Information and Liaison Offices in New York, Moscow, Kyiv, Tbilisi, Chisinau and Tashkent. The currency risk associated with these holdings is considered limited in consideration of the level of the aggregated amount held in these accounts.

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

b. Credit risk

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

ING Bank Credit Ratings as at 22/02/2018

	Fitch	Moody's	S&P
Short term	F1	NA	A2

c. Liquidity risk

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

d. Interest rate risk

Except for certain cash and cash equivalent balances, the NATO-IS financial assets and liabilities do not have associated interest rates. NATO-IS is restricted from entering into borrowings and investments, and, therefore, there is an insignificant interest rate risk. Interest earned is not a budgetary resource but contributes to the surplus owed to Nations.

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, other short term highly liquid investments.

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

b. Receivables

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

Contributions receivable are recognised when a call for contribution, based on the approved budget, has been issued to the funding Nations. These receivables represent the uncollected contributions from Member Nations. No allowance for loss is recorded with respect to Member countries' assessed contributions receivable.

c. Prepayments

A prepayment is a payment in advance of the period to which it pertains and is mainly in respect of advance payments made to third parties. This item may include advances made to NATO staff in accordance with Civilian Personnel Regulations (such as advances on salaries or on education allowance).

d. Other Current Assets

Other Current Assets correspond to miscellaneous amounts due to NATO IS such as accrued income, rent related deposits, and other assets that do not result from the standard order to cash process, such as the counterpart of untaken leave, miscellaneous transactions to be regularized, including between entities managed by the IS Office of Financial Control, and advances made to non-consolidated NATO entities, generally in order to ease their treasury situation.

e. Inventories

As mentioned above, NATO's adaptations of IPSAS were spelled out in C-M(2013)0039 of July 2013, which included IPSAS 12 Inventories. It is described as follows:

Control of NATO Inventories was defined with a set of 10 criteria to be used in assessing the level of control of an asset. A positive response on six of the criteria will lead to the asset being capitalised in the Financial Statements if it is above the capitalisation threshold. This is applied from January, 2013.

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

Capitalisation thresholds relevant to the financial statement are as follow:

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

Slow moving inventory – Assuming turnover of stock is over a 12 month period, any items not used over a 36 month period will be deemed to be slow moving.

Strategic stock – Some complex elements of slow moving stock can be identified as strategic if they are deemed essential to the effective operation of an asset and cannot be readily replaced by commercial off the shelf items or cannot be purchased due to market decisions to close production lines of key inventory items due to the advanced age of the strategic asset to which the stock relates

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

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

NATO IS may consider inventory acquired prior to 1 January 2013 as fully expensed.
For inventory held prior to 1 January 2013, and not previously recognized as an asset, NATO IS will provide a brief description of inventory held within their inventory recording systems in the notes to the financial statements. Such disclosure will include as a minimum the types of inventories held, locations where inventories are held and the approximate number of items held per asset category.
Where this adaptation conflicts with another requirement of IPSAS this adaptation shall apply. For the remainder, IPSAS 12 shall apply.

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

Inventories relate to those across the IS HQ. Inventories in external offices abroad are not considered to be material.

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

a. Property, Plant & Equipment

As mentioned above, NATO's adaptations of IPSAS were spelled out in C-M(2013)0039 of July 2013, which included IPSAS 17 Property Plant and Equipment. It is described as follows:

Control of NATO PPE was defined with a set of 10 criteria to be used in assessing the level of control of an asset – they are the same as applied to Inventory. A positive response on six of the criteria will lead to the asset being capitalised in the financial statements if it is above the capitalization threshold. This is applied from January 2013.

Capitalization thresholds relevant to the financial statement are as follow:

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

In light of the move to the New NATO HQ in 2018, it has been decided, in general, that core PPE relating to the current HQ and Building Z will be fully expensed as will any fixed equipment and furniture that is not to be transferred to the New HQ. Only movable items purchased with a view to being used again in the New HQ/Building Z environment will be capitalized.

Where and as appropriate, the value of specific pieces of PPE (for example buildings), will be broken down into component parts to allow depreciation of different parts of the asset at different rates. The IS has considered PP&E acquired prior to 1 January 2013 as fully expensed. For PPE held prior to 1 January 2013, and not previously recognized as an asset, the IS will provide a brief description in the Notes below.

NATO-IS deems that the NAC, by approving this guideline, recognized that the resources necessary to deal with the issues capitalising the legacy assets would exceed the benefits. In light of this and, combined with the fact that substantial assets will not survive the move to the New NATO HQ in 2018, NATO-IS decided to apply the IPSAS principle of balance between Benefit and Cost (IPSAS 1, Appendix A).

b. Intangible Assets

As mentioned above, NATO's adaptations of IPSAS were spelled out in C-M(2013)0039 of July 2013, which included IPSAS 31 Intangible Assets. It is described as follows:

Control of NATO Intangible Assets was defined with a set of 10 criteria to be used in assessing the level of control of an asset – they are the same as mentioned above under Inventory. A positive response on six of the criteria will lead to the asset being capitalised in the financial statements if it is above the capitalization threshold. This is applied from January, 2013.

NATO Intangible Assets Capitalization Thresholds – NATO-IS will capitalise each intangible asset item that is above the following agreed NATO thresholds:

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

NATO-IS will capitalize all controlled intangible assets above the NATO Intangible Asset Capitalization Threshold. For anything below the threshold, the IS will have the flexibility to expense specific items.

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

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

NATO-IS will capitalize other types of intangible assets acquired after 1 January 2013 including:

- Copyright
- Intellectual Property Rights
- Software development

NATO-IS may consider intangible assets acquired prior to 1 January 2013 as fully expensed. The IS looked as far back as 2006 in establishing values of work in progress, especially software under development.

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

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

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

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

Current liabilities

a. Payables

Payables are amounts due to Nations in relation with budget rules or to third parties for goods received and services provided that remain unpaid. This includes an estimate of accrued obligations to third parties for goods and services received but not yet invoiced.

b. Advances and Unearned revenue

Funds are always called in advance of need because NATO-IS has no capital that would allow it to pre-finance any of its activities.

Unearned revenue represents participating Nations' contributions which have been called for current budgets but that have not yet been recognised as revenue in the absence of matching expenses.

Advances are recognised when calls in relation to future year budgets are issued. Advances made by contributing nations outside of the call for contributions process are recorded when cash is received.

c. Other Current Liabilities

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

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

This item also includes the valuation of staff untaken leave.

Non-Current Liabilities

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

Net Assets

Net Assets correspond to cumulative surpluses/deficits of non-budgetary activities such as Partner Accommodation where income follows a process that is relatively independent from the actual level of expenses, and does not automatically balance expenses as in the standard NATO budget process. For such activities, the yearly execution results in a surplus or a deficit.

Leases

In addition to lease agreements that NATO-IS has signed for its own use, lease contracts were signed by NATO-IS for some delegations' accommodation; the related costs are charged back to the occupants in relation to the surface they occupy in the leased buildings.

Revenue and expense recognition

a. Revenue from non-exchange transactions

Revenue from non-exchange transactions comprises contributions from Participating Nations when they are based on officially approved cost shares or on a voluntary basis that are not approximately equal to the proportion of value received. This applies to all budget driven segments or entities (Civil Budget, Office of Shared Services) and to Extra Budgetary Funds.

Civil Budget contributions to be called from Member Nations, based on the budget approved by the North Atlantic Council, are initially recorded as unearned revenue liabilities. Because contributions are subject to conditions that, if unfulfilled, require the return of the transferred resources, the entity recognises a liability until the condition is fulfilled.

Assessed contributions for the NATO-IS Civil Budget are accounted for as unearned revenue when called; revenue is recognised and the liability is discharged when the conditions are fulfilled. Revenue is recognised in 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 which relate to future periods are deferred accordingly.

Voluntary contributions such as pledges in relation to Extra Budgetary Funds are accounted for as unearned revenue when confirmed by the donor; revenue is recognised and the liability is discharged when the conditions are fulfilled.

In-kind contributions of services are currently not recognised in the Statement of Financial Performance. The number of Voluntary National Contributions (VNCs) staff is disclosed in the "employee disclosure" section below.

b. Revenue from exchange transactions

Resources of revenue from exchange transactions are measured at fair value of the consideration received or receivable and are recognised when goods and services are delivered. This is revenue in relation to the reimbursement of administrative support and common operating costs, Refundable Expenses, PMIS and Partners' Accommodation costs.

c. Long term unearned revenue

The budget resources provided by Nations for the funding of capital expenditure are recognised as a liability in the Statement of Financial position as long term unearned revenue. Earned revenue will be progressively recognised from long term unearned revenue, in an amount equal to annual depreciation of the related non-current assets, as future economic benefits and service potential will flow to the NATO International Staff when the asset is operational.

NOTE 3: CASH AND CASH EQUIVALENTS

The current bank accounts at NATO HQ are held in EUR, CAD, CHF, DKK, GBP, NOK and USD. Deposits are held in bank current accounts that are immediately available.

NATO-IS has information and liaison offices in New York, Moscow, Kyiv, Tbilisi, Tashkent and Chisinau. Current accounts of these offices are held with local banks. The amount for 2016 is not available.

Cash is also held for Extra Budgetary Funds for which NATO-IS is the executing agent and therefore acts as the principal, or for which NATO-IS acts as Treasurer. These projects are not financed by the common funding principle. These Extra Budgetary Funds managed on behalf of third parties are held in cash or as a receivable if they correspond to an unpaid non-budgetary contribution in relation to nationally funded elements. In the case of an anticipated contribution, they are accounted for when cash is effectively received. The corresponding amounts are presented as a current liability.

NATO Reimbursable Expenses, Partners' Accommodation and Building Z Refurbishment use the same bank account as NATO IS. The breakdown provided below corresponds to their implicit position which may be positive or negative (in case they find themselves in a cash shortage position such as Partners' Accommodation because of the prepayments to be done in relation leases of related buildings).

Cash and cash equivalent (amounts in EUR)	2017	2016
NATO IS HQ Civil Budget	48,435,310.56	34,146,215.63
NATO IS External Offices	460,187.19	n.a.
NATO IS Petty Cash	3,998.83	14,327.11
NATO IS HQ Reimbursable Expenses	(145,814.73)	(185,774.00)
PMIS	145,460.07	144,986.69
Office of Shared Services	1,145,436.09	2,101,911.39
Extra Budgetary Funds	16,647,919.60	15,733,990.50
Partners' Accomodation	(670,749.04)	(559,436.50)
Refurbishment of Building Z	2,106,133.15	968,539.40
Total	68,127,881.72	52,364,760.22

There remains a discrepancy of EUR 52K between the general ledger and cash on the bank statements compared to EUR 117K end 2016. This difference is being assessed.

NOTE 4: SHORT TERM INVESTMENTS

Short term investments are made in highly liquid and high quality paper in consideration of the situation of interest rates. For practical reasons all funds are placed from the IS bank accounts including amounts originating from another segment. The table below indicates the origin of the funds subject to short term investments.

Short Term Investments (amounts in EUR)	2017	2016
NATO IS HQ Civil Budget	35,001,325.02	57,000,000.00
NATO IS HQ Reimbursable Expenses)	-	-
NATO IS External Offices	-	-
PMIS	-	-
Office of Shared Services	1,500,000.00	-
Extra Budgetary Funds	10,000,000.00	575,871.00
Partners' Accomodation	-	-
Refurbishment of Building Z	-	-
Total	46,501,325.02	57,575,871.00

NOTE 5: CURRENT ASSETS: ACCOUNTS RECEIVABLE

Accounts receivable are mainly outstanding contributions for the NATO Civil Budget (MEUR 29.0) related to the call issued at the end of the year and amounts due by other bodies and member Nations for services rendered by the International Staff (Common Operating Costs and Administrative Support).

Contributions receivable from NATO member Nations are essentially funds requested from the Nations to finance the Civil Budget and the advances called in relation to the following year Civil Budget that remain unpaid at year end. In accordance with the standard procedure, one advance for the following year's budget is called at the end of the current year and two calls for contributions are issued during year, usually in February and in November. Other receivables from NATO member Nations correspond mainly to amounts due in relation to common operating costs, administrative support and rental of office accommodation.

Receivables from Member or Partner Nations and others correspond to amounts due in relation to common operating costs, administrative support, rental of modular buildings, accommodation fees of Partner buildings, items procured on behalf of third parties, contributions to the Von Karman Institute etc. They also correspond to outstanding amounts in relation to the funding of specific national requirements concerning the refurbishment of Building Z.

Receivables from staff correspond to miscellaneous services (e.g. use of telephone for private purposes). This item also includes amounts due from the insurer to compensate for salary costs of staff on long term sick leave.

NOTE 6: PREPAYMENTS

Prepayments to suppliers relate mostly to rental fees for the year to come, which have to be paid in advance, and to advances to the Belgian Ministry of Defence in relation to minor works to be done in the New NATO HQ.

Prepayments to staff members correspond to advances to be regularised (education allowances for the following year, travel on duty, and loans, as provided by the CPRs).

Prepayments (in EUR)	IS	Partners' Accomodation	Total
Suppliers	1,442,193.43	1,283,123.82	2,725,317.25
Staff	1,306,815.19	0	1,306,815.19
Others		0	-
TOTAL	2,749,008.62	1,283,123.82	4,032,132.44

NOTE 7: OTHER CURRENT ASSETS

These consist essentially of the counterpart of the valuation of untaken leave (EUR 1.8 million) and advances to non-consolidated NATO entities (EUR 0.5 million). The counterpart of untaken leave is a valuation of the potential budgetary contribution that would be required if this untaken leave were to be paid. However as indicated in the note on Employee Disclosure, untaken leave is normally never paid. Advances to the Post Employment Benefit Schemes are cash advances to the Defined Contribution Pension Scheme to ease the payment of invalidity and retirement annuities. Advances were also done towards the NATO Staff Centre to ease its liquidity situation.

NOTE 8: INVENTORIES

Inventories include office supplies, maintenance supplies, medicines and munitions.

NOTE 9: NON CURRENT ASSETS: RECEIVABLES

Nothing to report.

NOTE 10: PROPERTY, PLANT AND EQUIPMENT

The following principles have been applied.

Property, Plant and Equipment

Infrastructure, plant and equipment are stated under the accounting principles mentioned in Note 2 above.

This consists principally of costs related to the Network Realignment and Robustness (NR2) and audiovisual equipment.

Network Realignment and Robustness (NR2) is part of a strategic plan to revitalize the management and support of Information and Communications Technology (ICT) within the current Headquarters. This element delivered a hardware and software upgrade to the physical infrastructure for which the bulk was delivered prior to the close of 2012.

Land and buildings

Land and buildings are shown at fair value, based on internal valuation and judgment on each reporting date.

Belgium has granted to NATO by way of concession a plot of land on which NATO is authorized to erect all necessary buildings and facilities needed to perform its functions. A symbolic price is paid annually for the rent. NATO is the full owner of all structures built thereon. Belgium remains the sole and full owner of the land, which is public domain ("domaine publique"). The concession ends 180 days after NATO has left the buildings and facilities. At the end of the concession, there will be no property rights transferred to NATO. As a consequence, given the indefinite economic life of land and the specific nature of concessions, the use of the land is classified as an operational lease. The rent charged by the host nation is recognised as an expense in the Statement of Financial Performance.

The original buildings of the current HQ site are estimated as having a zero value in consideration of their age, of the terms of the concession agreement, of the limited value for money of an evaluation study and of the move to new premises in 2018.

Although parts of the New NATO HQ building and its systems were handed over from the Project Management Team to NATO International Staff during 2017, the hand over process was not complete by end 2017; elements still remained in the hands of the PMT and of the NCIA. NATO International Staff did not yet benefit from the service potential of the building at year end 2017. The final acceptance of the building is supposed to take place on 30 November 2018. Therefore the related PPE valuation remains on the books of the New NATO HQ. The transfer to the International Staff books will be done when the hand over is complete or when depreciation begins which is considered to be as from date of the first official meeting in the new premises. This approach also ensures greater visibility and completeness of information of the New NATO HQ financial statements, as it can be connected to the budgetary process of the NNHQ.

Material and non-recorded items purchased prior to 1 January 2013 are the fourth wing of Building Z, assessed at the historical cost of EUR 2.566 million, and the Secretary General's residence with an assessed market value of EUR 10,300,000 as at November 2013.

The table below concerns the IS for its Civil Budget component.

AS PER FINANCIAL STATEMENTS (amounts in EUR)	Carrying Amount end 2016	Additions 2017	Reclass 2017	Disposals 2017	Depreciation 2017	Impairment 2017	Carrying Amount end 2017
COMMON FUNDED							
Automated Information Systems	45,229				45,229		0
Installed equipment	55,636				5,856		49,780
Machinery	65,860	156,421			15,779		206,501
Transportation Equipment	125,539	79,814			51,318		154,035
Communications	331,892				277,841		54,051
IT Equipment	628,685		-245,580		9,405		373,700
Intangible assets	5,628,658	941,780	1,486,172		2,136,055		5,920,554
Intangible assets under contruction	9,711,276	372,625	-1,240,592				8,843,309
TOTAL	16,592,775	1,550,639	0	0	2,541,484	0	15,601,931

	2015	2016					
AS PER FINANCIAL STATEMENTS (amounts in EUR)	Carrying Amount end 2015	Additions 2016	Reclass 2016	Disposals 2016	Depreciation 2016	Impairment 2016	Carrying Amount end 2016
COMMON FUNDED							
Automated Information Systems	108,480.67				63,251.33		45,229.33
Installed equipment	0.57	58,563.74			2,928.19		55,636.12
Machinery	79,032.00				13,172.00		65,860.00
Transportation Equipment	80,214.83	79,448.00			34,123.56		125,539.28
Communications	427,279.10	90,549.50			185,936.86		331,891.73
IT Equipment		718,379.57			89,694.89		628,684.68
Intangible assets	- 1,205,829.90	288,446.47	8,315,187.00		1,769,146.04	2,000,000.00	3,628,657.53
Intangible assets under contruction	17,278,049.51	748,413.75	- 8,315,187.04			- 2,000,000.00	11,711,276.22
TOTAL	16,767,227	1,983,801	-0	0	2,158,253	0	16,592,775

NOTE 11: INTANGIBLE ASSETS

Intangible assets are stated at historical cost minus accumulated depreciation and any recognized impairment loss. The assets deemed valid are software/hardware systems that are work in progress and will be continue to be used in the New HQ. They are as follows:

- Digital Assets Management System (DAMS) – this is a Public Diplomacy tool that will make NATO's digital assets accessible in multiple formats to the media. It will improve the retrieval and availability of multimedia files to all NATO Staff and will serve as Public Diplomacy's single shared storage platform for all public digital assets.

- Enterprise Resource Planning (ERP) – this Oracle based software will enable NATO-IS to more effectively manage and report on the human and financial resources under its responsibility by integrating business processes from Finance, Budget, Procurement, Facility Management, and Human Resources (HR).

- Integrated Library System (ILS) – the project is designed to provide an online library automation solution to support the daily operations of the IS Library (which is part of PDD) ranging from cataloguing and circulation procedures to delivering resources and services via its website.

- Web Content Management (WCM) – the project will update and improve the web based content management system for the public website of NATO Headquarters.

- Enterprise Information Management (EIM) is a core multi-year program of procedures and integrated software applications to manage information throughout NATO HQ and ensure that information is handled effectively and securely.

- Project Portfolio Management System (PPM) is part of a NATO Resource Reform process under the aegis of the NATO Office of Resources (NOR). The system provides the necessary functionality for collecting, analysing, validating, recording, consolidating and reporting information on current and planned common funded military resources in terms of Investment, Operation and Maintenance and Manpower costs.

Depreciation

Straight-line depreciation method is used for all categories, with the life cycles in keeping with those stated in accounting policy.

Impairment of fixed assets

The carrying amounts of fixed assets are reviewed for impairment if events or changes of circumstances indicate that they may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the impairment loss. Any provision for impairment losses is charged against the Statement of Financial Performance in the year concerned.

NOTE 12: OTHER NON-CURRENT ASSETS

Nothing to report.

NOTE 13: PAYABLES

Payables and accrued expenses may be to commercial suppliers, staff, Member Nations, other NATO bodies and Partner Nations.

Payable to suppliers

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

Payable to personnel

Payable to personnel relates to amounts due to staff in relation to travel expenses and hospitalities.

Payable to Nations

There is a payable in relation to the reimbursable salaries due to certain countries (United States, Norway and the Netherlands) for civilian staff members who are paid directly by their governments. This amount payable can used by the nations in question applying it against their annual project contribution.

Payable to other NATO bodies

This includes amounts received from NATO bodies in support of projects funded by the Civil Budget.

Accruals

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

Payables (in EUR)	2017
Suppliers	3,860,011.47
Personnel Related	54,123.71
Member Nations	6,705,501.16
Accruals	8,411,147.49
Others	36,417.99
Total	19,067,201.82

NOTE 14: DEFERRED REVENUE

Civil Budget:
Unearned revenue corresponds to contributions called for the current or previous years that NATO IS plans to use as originally intended, but for which corresponding expenses will be incurred after the reporting date of 31 December 2017.

Unearned revenue includes principally those amounts of contributions which will be spent in subsequent years on the NATO Civil Budget as credits carried-forward resulting from the budget execution in accordance with the NATO Financial Regulations. If the funds are not spent by the end of the second year following the year for which they were approved, these funds will lapse unless a specific decision is taken by member nations for a further carry-forward.

Extra Budgetary Funds:

Unearned Revenue corresponds essentially to contributions received in relation to Trust Funds for which the related project activities are not completed. These amounts should be spent in future years as the projects evolve.

NOTE 15: ADVANCES

The standard call for budget contributions process includes an advance on the following year's budget. Advances called amounting to EUR 51,000,000 relate to funding the 2017 Civil Budget (compared to EUR 50,000,000 previous year).

In addition, some Nations made ad hoc voluntary advance contributions in the amount of EUR 1.8 (EUR 9.1 million end 2016).

NOTE 16: SHORT TERM PROVISIONS

The provision corresponds to receivables for which a write-off procedure was pending was settled during 2017.

NOTE 17: OTHER CURRENT LIABILITIES:

Closed Operations	2,305,335.14
Current Year Surplus	18,377,825.81
Untaken Leave	1,786,579.40
Stikker Fund	95,774.61
Interco Liability	11,955,046.87
Other	321,313.24
Total Other Current Liabilities	34,841,875.07

Other Current Liabilities Linked to the Budget Process

Amounts corresponding to the current year budgetary surplus (lapsed credits + net interest + miscellaneous income) are considered a liability towards the contributing nations. The settlement does not follow the normal accounts payable process, since the standard approach is to return them to contributing nations via a deduction of the following year's call for budget contributions. Nations may also decide that part or all of the budgetary surplus is made available for use in future years (see Note on Budget Information).

Lapsed credits are budget funds for which no legal liability exists. They cannot be spent in subsequent years. Lapsed credits are deducted from the contributions due from Nations to fund the Civil Budget in the second call of the following year. For the PMIS, lapsed credits are deducted from the amounts due by the NATO participating entities for the following year. This principle does not apply to the Office of Shared Services, as exceptionally agreed by the Budget Committee. The other activities do not follow the standard budget process.

For the Civil Budget, receipts linked to interest, foreign exchange difference gains and bank charges are deducted from the contributions due by Nations to fund the Civil Budget in the following year; the deduction is made in the second call.

Miscellaneous receipts correspond to amounts collected by NATO-IS for services rendered to staff (e.g. private phone calls) or services rendered to and works performed for entities, including delegations, present on the HQ site (e.g. telephone, refurbishment works, cabling). They also include amounts related to Science for Peace and Security grants returned to NATO-IS. These receipts come as a deduction in the calculation of the contributions due from nations to fund the Civil Budget in the following year; the deduction is made in the second call.

Civil Budget Surplus (in EUR)	2017	2016
Lapsed Appropriations	16,824,733.52	6,864,100.94
Miscellaneous Income	1,556,869.33	167,657.15
Net Financial Income	(3,777.04)	(379,173.29)
Total: Current Year Surplus	18,377,825.81	7,031,758.09

The increase of the 2017 surplus compared to 2016 is essentially due to a high level of lapsed appropriations linked to the delay in the move to the New HQ resulting in excess appropriations related to the buildings operating costs, unused reserve for identified risks, overaccruals during 2015 and 2016, and completion of IT projects funded by special carry-forward appropriations.

Other Current Liabilities linked to closed or ad-hoc projects

Other Current Liabilities consist of monies initially contributed by Nations relating to balances of closed Trusts Funds for which NATO-IS is awaiting instructions on the redistribution of funds, to the settlement of the closure of former NATO entities (HAWK Agency) and AGS Support Staff Cell, to ad-hoc contributions by some nations to specific projects.

Untaken Leave

Included at year end 2017 is the valuation of Untaken Leave (which has no impact on the current budgets) in the amount of EUR 1.8 million.

Stikker Fund

The Stikker Fund originates from a donation made by former Secretary General D.U. Stikker in the 1960s. In accordance with the conditions laid down by the donor, the Fund is used for special financial aid to NATO staff in exceptional and distressing circumstances (EUR 95,774.61 unchanged between 2016 and 2017).

NOTE 18: NON-CURRENT LIABILITIES: LONG TERM PROVISIONS

Nothing to report.

NOTE 19: NON-CURRENT LIABILITIES: DEFERRED REVENUE

Long term unearned revenue is unearned revenue in relation to net carrying amounts of PP&E and intangible assets. Revenue is recognised over the estimated life cycle of the PP&E and the intangible assets when PP&E and intangible assets are recognized.

NOTE 20: OTHER NON-CURRENT LIABILITIES

Nothing to report.

NOTE 21: NET ASSETS

Corresponds to miscellaneous accumulated surpluses/deficits generated outside of the budget execution context, essentially Partners Accommodation.

When the funding policy for Partners Accommodation (referred to as "Annex IV") was established in 1997 (BC-DS(97)18 Revised), Annex IV had budgetary credits authorised to provide for Partner accommodation on site. These were expanded to create offices in the Manfred Wörner Building. The Civil Budget Committee then decided to have the Partners reimburse the total rent and operational costs in proportion to the space they occupied. Further, Nations agreed that financing of Annex IV should be treated separately from the Civil Budget. They also agreed that Annex IV would, in future, be funded by Partners' rental payments, therefore Annex IV is not subject to the lapse rules foreseen in NATO's Financial Regulations. Over time, this process resulted in surpluses.

NOTE 22: REVENUE FROM NON-EXCHANGE TRANSACTIONS

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

The total revenue from non-exchange transactions is essentially related to budget (or equivalent) driven segments, and in particular NATO-IS, the Office of Shared Services and Extra Budgetary Funds. Budget contributions, when called, are booked as unearned revenue and subsequently recognised as revenue when earned. The revenue recognition is matched with the recognition of expenses against the budgets. For Extra Budgetary Funds: revenue is matched to the costs of activities undertaken.

NOTE 23: REVENUE FROM EXCHANGE TRANSACTIONS

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

The total revenue from exchange transactions is broken down as follows. For the IS: revenue in relation to the reimbursement to the Civil Budget of administrative support and common operating costs, revenue received from concessions, miscellaneous income. For the PMIS: contributions from other NATO bodies to cover the expenses of the PMIS system according to their proportion of established posts. For Partners' Accommodation: rent charged principally to Partner Countries for office space at NATO HQ (Buildings V/VA/Wörner).

NOTE 24: OTHER REVENUE

In the case of the Building Z Refurbishment, the Other Revenue is the balancing element in order to capitalize all expenses related to this project.

NOTE 25: FINANCIAL REVENUE AND COSTS

Financial revenue (being principally from the Civil Budget) is measured at fair value received or receivable for interest and foreign exchange gains. This source of revenue is impacted by the current context where negative interest rates apply to EUR short term cash investments.

NOTE 26: EXPENSES

Wages, salaries and employee benefits

The personnel related costs include all staff expenses, as well as other non-salary related expenses in support of common funded activities. The amounts include expenses for salaries and emoluments for approved NATO-IS positions and temporary personnel, for other salary related and non-related allowances including overtime, medical exams, recruitment, installation and removal and for contracted consultants and training in accordance with Civilian Personnel Regulations.

Operating costs: rents, supplies and consumables used

The operating costs relate primarily to costs necessary to the day to day operation of the HQ, as well as travel expenses. This item includes expenses classified as Capital expenditure from a budget perspective (to include items such as IT, security, television and radio studios etc.) but that did not qualify as capital from an IPSAS perspective.

Programmes and grants

The majority of grants are considered expended upon notification to the beneficiary of the decision to attribute the grant/award. Programmes and grants is a broad term that covers activities with Partners and NATO nations ranging from funding seminars and conferences through NGOs, to bringing groups of experts to NATO HQ for briefings and attributing grants in the framework of the Science for Peace Security Programme (the latter being the main component). It also includes the cost of running NATO Information and External Offices in Russia, Ukraine, Georgia, Central Asia, Moldova and New York.

Programmes and grants expenses include advances paid to beneficiaries of grants.

Depreciation and amortization

No amounts are budgeted for depreciation and amortization.

Financial costs

Financial costs include expenses for banking costs and foreign exchange losses.

Other expenses

Other expenses is revenue received from concessions and transferred the Staff Centre and summer camps. They also include the amount of net interest revenue and miscellaneous income that will be returned to the Nations and are booked as Other Current Liability in the Statement of Financial Position.

NOTE 27: RESULT OF THE PERIOD (SURPLUS/DEFICIT)

The surplus/deficit is realised from the activities in support of Partner accommodation.

NOTE 28: CASH FLOW STATEMENT

In accordance with the new NATO Accounting Framework, the cash flow statement is presented based on the indirect method.

NOTE 29: BUDGET INFORMATION

Presentation of budget information in the financial statements

For the purposes of these financial statements, the term budget is understood as corresponding to a formal approval of expense limits by the North Atlantic Council or the Budget Committee. It does not correspond to situations where the term budget may be used for more managerial purposes and/or is used to forecast expenditure rather than limit its allocations.

From a budget perspective, the International Staff Financial Statements include the budget transactions of the following budget entities: the NATO Civil Budget (i.e. that of the NATO Headquarters in Brussels, essentially but not exclusively the International Staff), the NATO Wide PMIS, and the Office of Shared Services.

Presently, none of these budgets is publicly available.

The actual amounts referred to by IPSAS 24 ("amounts that result from execution of the budget") are considered to be the actuals and the commitment of appropriations when the corresponding services or goods could not be received in the course of the year.

Budget Execution Rules and Principles

The following comments relate to the Civil Budget since it is the most important entity. The analysis and processes apply to a very large extent to the other two budget entities.

The initial approved budget corresponds to total appropriations authorised by the North Atlantic Council, normally at the end of the previous financial year. During the year the budget is adjusted as required. The final authorisation is the approved appropriations' situation as reported at the end of the financial year including budgetary increases/decreases approved by the Budget Committee and transfers approved by the Budget Committee or by the Financial Controller, depending on thresholds.

The budgets are prepared for the same period (1 January to 31 December) and encompass the same entities (NATO International Staff, the NATO Wide PMIS, Office of Shared Services) as these financial statements but the basis is different.

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

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

The Civil Budget is prepared and executed as follows:

1) The commitment of appropriations is the advance acceptance and recording of the financial consequence resulting from a legal obligation incurred during the financial year. As a consequence appropriations are allocated, and commitments are approved, for goods, services and works to be delivered at a later stage. Commitments are settled when the service is rendered or goods delivered as is the case for expenses under accrual accounting.

2) Unliquidated commitments are carried forward and added to the budget of the following financial year in relation to an existing legal commitment or if a special agreement is given by the Budget Committee. Under the new regulations they correspond to services not received or

goods not delivered, at year-end, for specific circumstances. Outstanding commitments can be carried forward for two years. As a consequence, the services or goods received may relate to a commitment of appropriations from previous years' budgets. The carry-forward should be justified by a reason for which the services or goods could not be received in the course of the year. In addition, in accordance with Financial Regulations, member Nations may agree to a further carry-forward of commitments that were already carried forward twice.

3) Commitments, because they are an advance acceptance, and because payments cannot be made above approved credit levels, typically include an estimation factor and are (if only slightly) higher than the actual amount eventually paid. This results in commitments being higher than the actual expenses and in appropriations eventually lapsing.

4) Commitments are only made in respect of expenses relating to the initial purpose of the commitment. Commitments for capital expenditures are normally made in the year during which the purchase order is issued. In accrual accounting, the related costs would not appear in the Statement of Financial Performance but in the Balance Sheet and only upon reception of the works, goods or services. Conversely, there is no budgetary commitment of appropriations for non-cash transactions such as capital depreciation or provisions which would normally appear in the Statement of Financial Performance under accrual accounting.

5) On an exceptional basis, the NATO member Nations may approve the special carry-forward of appropriations without any prior legal commitment, for instance for projects at their initiation stage or planned expenditures. In accrual accounting there would be no expense recorded.

6) The balance of unused budgetary appropriations (not committed) lapses and is returned to Member Nations at year-end. Lapses may include cases where a project was eventually not completed or started, and therefore led to no expense.

The NATO Civil Budget

The Civil Budget is based on an Objective Based Budgeting (OBB) system which links financial and human resources to Global Objectives. Contributions to these Global Objectives by IS Divisions and Independent Offices are broken down into Operational Objectives. The OBB system is based on eight Global Objectives which are defined at a political and strategic level of the Organization.

The eight objectives are set out below:

- Crisis Management & Operations
- Collective Defence
- Cooperative Security
- Public Relations
- Consultation Process
- Operational Environment of the Headquarters Site
- Governance and Regulation
- Headquarters Security

The budget classification is also based on the economic nature of the expenses broken down into four Resource Pools as follows:

Resource Pool 1:	Personnel
Resource Pool 2:	Operations and Maintenance
Resource Pool 3:	Capital
Resource Pool 4:	Programmes

All budget transactions, commitments and expenses are tracked according to a classification by Objective and by Resource Pool.

Initial Civil Budget – Revised Civil Budget

The initial Civil Budget for 2017 was approved, in December 2016, in the amount of EUR 198,812,800 (C-M(2016)0076(INV)). The Civil Budget was revised in November 2017 to the amount of EUR 198,772,800 (BC-D(2017)0235). The amounts include costs related to the Provident Fund and Defined Contribution Pension Scheme employer contributions. The Coordinated Pension scheme is subject to specific financial statements including the related budget execution statement.

In addition, for 2017, Nations also approved:

- the use of prior years' lapsable appropriations (from financial 2015), for specific requirements in the amount of EUR 4,956,029 (BC-D(2017)0029(INV)).
- the use of prior year (from financial year 2016) appropriations that would have otherwise lapsed in the amount of EUR 6,864,100.92 (BC-D(2017)0073(INV)).
- the carry-forward of existing appropriations and commitments (a combination of special and further carry-forward) in the amount of EUR 12,087,777 (BC-D(2016)0259-REV1-ADD1-REV2(INV)).

The initially frozen amounts (EUR 1,473,000) were eventually unfrozen but for EUR 100,000.

When approving the 2018 Civil Budget (C-M(2017)0064), the NAC agreed that all appropriations that would potentially lapse (other than those subject to an ad hoc carry-forward agreement by the BC) would be re-used in 2018 to fund in particular the 2018 Summit and the Staff Centre closure.

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

An analysis of budget execution for the NATO Civil Budget is provided at Annex 5.

Reconciliation between Budget Execution and Statement of Financial Performance

		Amounts
Budget Execution Statement Total Costs		189,843,213.96
Depreciation & Amotisation Charges	+	990,844.15
Impairments PP&E, Intangible Assets and Stocks	+	17,051.84
Impairments Receivables	+	
Stock Variation	+	294,272.57
Net Book Value Fixed Assets Losses	+	
PP&E Recognition	-	
Financial Costs	+	217,284.88
Non-Budgetary Provisions	+	1,786,579.40
Other Non-Budgetary Costs	+	
Statement of Financial Performance Costs		193,149,246.80

Human Resources Shared Services

The NATO IS Executive Management Human Resources was appointed as the provider of NATO-wide Human Resources Shared Services. In this context, a wide variety of services will be provided over time. During 2017 in addition to extant services related to the Integrated Payroll Personnel Management Information System (PMIS), operations related to the NATO Talent Acquisition Platform (NTAP) were put in place. In terms of financial reporting, both categories of services are now recorded in this HR Shared Services segment which until 2016 was limited to the provision of payroll services (PMIS).

The PMIS budget for 2017 was approved by the Budget Committee in the amount of EUR 205,605 as per BC-D(2017)0048(INV) (EUR 146,250 in 2016 as per BC-D(2016)0057 and COR1). It was not revised. For the Talent Acquisition Platform an EUR 440,431 expenditure limit was approved for 2017

(BC-D(2017)0010(INV). Eventually expenses were much lower and invoices sent were adjusted accordingly.

Funding is provided through contributions by the NATO bodies in proportion to their staffing levels for PMIS and in proportion of hires per annum for NTAP. Invoices are reduced by the amount of previous year's surplus.

A budget execution statement is provided at Annex 5.

Shared Services Initiative Budget

An amount of MEUR 5.8 was made available for the pre-financing of the initial Agency Reform transition costs as part of the MTRP 2012-2016 (C-M(20110067). The Budget Committee agreed a framework mechanism for the management and control of the funds related to the initial transition costs and subsequently to the budget allocation of the pre-financed credits to allow full oversight (BC-D(2012)0202-REV1 and BC-D(2011)0209-ADD1). Council agreed this as part of the 2012 Military Budget Recommendations (C-M(2011)0099).

The 2016 Shared Services Initiative initial budget covered the operations of the Shared Services Office until it was disbanded in the course of the year and an annual tranche related to the implementation of Phase I of General Procurement Shared Services. The 2016 budget was agreed in the amount of EUR 1,214,000, of which 70% of the EUR 900,000 allocation related to General Procurement Shared Services was frozen (EUR 630,000). In addition, 50% of the EUR 314,000 personnel expenses appropriations were also frozen (EUR 157,000) awaiting clarification on the status of the OSS beyond the first six months of the year further to the assessment and approach to Finance and Accounting Shared Services. Subsequently the BC decided a partial unfreeze (EUR 218,000) of the allocation related to General Procurement Shared Services. This left an amount of frozen appropriations of EUR 569,000 (EUR 412,000 and EUR 157,000). Further to the submission of the 2nd budget execution report the BC agreed to unfreeze EUR 73,213 in the Personnel Chapter and EUR 3,584 in the O&M Chapter. As a consequence, frozen appropriations eventually amounted to EUR 492,202. The portion of frozen funds related to the Office of Shared Services amounted to EUR 80,202. The portion related to the General Procurement Shared Services initiative by NSPA amounted to EUR 412,000 and the Budget Committee noted that this amount is available for use by the Committee for the intended purpose of the MEUR 5.8 (C-M(2011)0067) foreseen for the initial Agency Reform transition costs (BC-DS(2016)0017, III). The Budget Committee agreed that available funds from the 2015 General Procurement Shared Services allocation (EUR 359,258) could be used for 2016 (BC-DS(2016)0017, III).

The 2017 Shared Services Initiative initial budget was approved in the amount of EUR 900,000 (C-M(2016)0077(INV)). This amount was not revised in the course of the year. Further to the closure of the Office of Shared Services during 2016, the budget allocation is limited to the NSPA requirements to operate the General Procurement Shared Services. Frozen funds from 2016 related to the Office of Shared Services (EUR 80,202) were lapsed at the end of 2017. Funds available concerning GPSS at year end will be used in 2018.

A budget execution statement is provided at Annex 5.

NOTE 30: SEGMENTS

The tables below provide segment information for financial performance and financial position statements for 2016 and 2017.

	Notes	IS	Refundable Expenses	PMIS	OSS	Extra Budgetary Funds	PARTNER ACCOMODATION	BUILDING Z REFURBISHMENT	Neutralisation of Internal Transactions	2017	2016
Assets											
Current assets											
Cash and cash equivalents	3	48,899,499.55	-145,814.73	149,460.07	1,149,438.09	18,847,919.60	-470,749.04	2,106,133.15		68,127,881.72	62,364,760.22
Short term investments	4	46,501,325.02				0.00				46,501,325.02	67,676,871.00
Receivables	5	30,386,174.56	663,955.12	50,100.59	0.00	603,908.40	146,196.08	387,348.00		32,257,679.05	46,007,711.87
Prepayments	6	2,749,008.62				0.00	1,283,123.82			4,032,132.44	1,412,881.36
Other current assets	7	2,387,320.01		233,523.19	1,500,290.43	10,004,418.78			11,618,964.79	2,506,384.59	14,847,903.88
Inventories	8	426,745.30				0.00				426,745.30	17,061.84
		131,360,076.16	518,140.39	429,964.11	2,649,728.52	27,298,247.78	758,589.86	2,503,478.15	11,618,964.79	163,862,358.21	171,326,390.17
Non-current assets											
Receivables	9					0.00				0.00	0.00
Property, plant & equipment	10	838,067.21				0.00		742,978.80		1,581,046.01	1,910,722.27
Intangible assets	11	14,763,958.37				0.00				14,763,958.37	16,340,028.94
Other non-current assets	12					0.00				0.00	0.00
		15,602,025.58	0.00	0.00	0.00	0.00	0.00	742,978.80	0.00	16,345,004.38	17,250,751.21
Total assets		146,962,101.76	518,140.39	429,964.11	2,649,728.52	27,298,247.78	758,589.86	3,246,456.95	11,618,964.79	178,187,362.59	188,477,031.38
Liabilities											
Current liabilities											
Payables	13	19,067,201.82	298,944.62	1,368.31	2,649,728.52	431,500.54	149,063.71	2,189,358.20		24,740,862.72	13,916,882.67
Deferred revenue	14	24,871,679.90				26,700,337.26				51,361,017.24	63,336,342.44
Advances	15	52,776,318.31	259,195.77	150,000.00		0.00				53,184,515.08	60,790,474.30
						0.00					
Short term provisions	16									0.00	418,077.20
Other current liabilities	17	34,841,879.07		277,719.80		115,310.99	64,228.50	314,119.96	11,618,964.79	23,954,283.82	33,508,406.67
		131,360,076.16	518,140.39	429,964.11	2,649,728.52	27,298,247.79	268,890.21	2,503,478.16	11,618,964.79	153,294,678.58	170,967,273.37
Non-current liabilities											
Payables	18					0.00				0.00	
Long term provisions	18					0.00				0.00	
Deferred revenue	19	15,602,025.58				0.00		742,978.80		16,345,004.38	17,250,751.23
Other non-current liabilities	20									0.00	0.00
		15,602,025.58	0.00	0.00	0.00	0.00	0.00	742,978.80	0.00	16,345,004.38	17,250,751.23
Total liabilities		146,962,101.76	518,140.39	429,964.11	2,649,728.53	27,298,247.79	268,890.21	3,246,456.96	11,618,964.79	169,639,682.94	188,218,024.60
Net assets	21										
Capital assets										0.00	
Reserves										0.00	
Current year Surplus / (Deficits)							298,872.87			298,872.87	210,422.78
Accumulated surpluses / (deficits) prior year							259,006.78			259,006.78	48,584.00
Total net assets/ equity		0.00	0.00	0.00	0.00	0.00	557,879.65	0.00	0.00	557,879.65	259,006.78

Eliminations correspond essentially to cash movements between segments related to the fact that short term investments, for practical reasons, are done from the IS bank accounts.

INTERNATIONAL STAFF

Statement of financial position

As at 31 December 2018

(All amounts in EUR)

	Notes	IS	Refundable Expenses	PMIS	OSS	Extra Budgetary Funds	Partner Accommodation	Building Z Refurbishment	2018	2017
Assets										
Current assets										
Cash and cash equivalents	3	34,160,542.74	-185,774.00	144,886.69	2,101,911.39	15,733,960.50	-558,436.50	968,538.40	52,364,780.22	84,873,888.41
Short term investments	4	57,000,000.00				575,871.00			57,575,871.00	0.00
Receivables	5	38,791,401.74	1,078,123.88	4,610.56	5,238.01	3,428,631.87	89,531.79	1,610,174.00	45,007,711.87	60,860,882.07
Prepayments	6	508,705.95					904,275.40		1,412,981.35	2,362,809.48
Other current assets	7	4,125,201.82			290.43	10,304,334.44	418,077.20		14,847,903.89	1,712,598.80
Inventories	8	17,051.84							17,051.84	10,645.03
		134,602,904.09	892,349.88	149,897.27	2,107,439.83	30,042,827.81	862,447.89	2,578,712.40	171,228,280.17	149,720,901.59
Non-current assets										
Receivables	9								0.00	0.00
Property, plant & equipment	10	1,252,840.79						657,881.48	1,910,722.27	833,390.49
Intangible assets	11	15,340,028.94							15,340,028.94	16,072,319.51
Other non-current assets	12								0.00	12,096.75
		16,592,869.73	0.00	0.00	0.00	0.00	0.00	657,881.48	17,250,751.21	16,917,806.75
Total assets		151,195,773.82	892,349.88	149,897.27	2,107,439.83	30,042,827.81	862,447.89	3,236,594.88	188,477,031.38	166,638,607.34
Liabilities										
Current liabilities										
Payables	13	-13,221,921.41	-12,914.14	-941.75	-348,090.58	-164,300.70	-170,718.91	-0.20	-13,918,892.67	-8,752,348.10
Deferred revenue	14	-30,718,195.33			-1,121,619.25	-29,222,072.34	0.00	-2,274,455.52	-63,336,342.44	-73,951,577.45
Advances	15	-59,131,836.46	-518,635.91	-140,000.00					-59,790,474.39	-51,099,794.87
Short term provisions	16						-418,077.20		-418,077.20	
Other current liabilities	17	-31,530,948.85	-360,799.83	-8,656.52	-639,730.02	-656,449.77	-4,645.00	-304,257.68	-33,505,486.67	-11,760,291.68
		-134,602,904.07	-892,349.88	-149,897.27	-2,107,439.83	-30,042,827.81	-593,441.11	-2,578,712.40	-170,967,273.37	-149,564,010.08
Non-current liabilities										
Payables	18								0.00	
Long term provisions	18								0.00	
Deferred revenue	19	-16,592,869.75						-657,881.48	-17,250,751.23	-16,767,326.32
Other non-current liabilities	20								0.00	-675,626.60
		-16,592,869.75	0.00	0.00	0.00	0.00	0.00	-657,881.48	-17,250,751.23	-17,442,952.92
Total liabilities		-151,195,773.82	-892,349.88	-149,897.27	-2,107,439.83	-30,042,827.81	-593,441.11	-3,236,594.88	-188,218,024.60	-164,006,963.00
Net assets	21									
Capital assets									0.00	
Reserves									0.00	
Current year Surplus / (Deficits)							-210,422.78		210,422.78	
Accumulated surpluses / (deficits) prior year							-48,584.00		48,584.00	2,635,200.04
Total net assets/ equity		0.00	0.00	0.00	0.00	0.00	-259,006.78	0.00	259,006.78	2,635,200.04

	Notes	IS	Refundable Expenses	PMIS	OSS	Extra Budgetary Funds	Partner Accommodation	Building Z Refurbishment	2017	2018
Revenue										
Non exchange revenue	22	182,217,639.26			1,360,902.30	10,113,550.03			193,692,091.59	200,800,300.88
Exchange revenue	23	9,687,449.19	334,049.85	394,809.83			2,680,644.00		13,096,952.87	514,469.22
Other revenue	24	900,821.80	25,125.79				658.40	62,141.32	988,747.31	488,843.60
Financial revenue	25	343,336.55				55,954.18			399,290.73	144,758.09
Total revenue		193,149,246.80	359,175.64	394,809.83	1,360,902.30	10,169,504.21	2,681,302.40	62,141.32	208,177,082.50	201,948,371.79
Expenses										
Personnel	26	118,133,213.05		161,368.40		391,556.39		10,471.02	118,696,606.86	112,977,948.23
Contractual supplies and services	26	70,438,372.51	356,469.47	233,443.43	1,350,898.18	9,608,945.26	2,382,629.53	51,670.30	84,422,428.68	86,035,747.87
Depreciation and amortization	26	2,541,483.55							2,541,483.55	754,482.64
Impairment	26	24,070.42							24,070.42	0.00
Provisions	26	1,786,579.40							1,786,579.40	0.00
Other expenses	26	8,242.99			10,004.12	9,537.36			27,784.47	2,105,405.39
Finance costs	25	217,284.88	2,706.17			159,465.20			379,456.25	74,787.66
Total expenses		193,149,246.80	359,175.64	394,809.83	1,360,902.30	10,169,504.21	2,382,629.53	62,141.32	207,878,409.63	201,948,371.79
Surplus/(Deficit) for the period	27	0.00	0.00	0.00	0.00	0.00	298,672.87	0.00	298,672.87	0.00

INTERNATIONAL STAFF
Statement of financial performance
As at 31 December 2017
(All amounts in EUR)

	Notes	IS	Refundable Expenses	PMS	OSS	Extra Budgetary Funds	Partner Accommodation	Building Z Refurbishment	2017	2016
Revenue										
Non exchange revenue	22	-202,583,419.71			-679,888.01	0.00		-258,763.60	-203,403,072.12	-200,800,300.88
Exchange revenue	23			-137,700.48			-3,044,545.20		-3,182,245.68	-614,469.22
Other revenue	24	-139,585.70	-498,450.38			-6,151,600.16			-6,788,818.27	-488,843.60
Financial revenue	25	-701,826.92				-249,596.65			-950,822.58	-144,756.08
Total revenue		-203,424,832.33	-498,450.38	-137,700.48	-679,888.01	-6,401,196.81	-3,044,545.20	-258,763.60	-213,328,666.62	-201,948,371.78
Expenses										
Personnel	26	113,700,080.38	423.40	118,232.76	216,740.23	588,478.43		120,538.40	114,722,402.80	112,877,848.23
Contractual supplies and services	26	86,538,458.73	497,840.71	19,480.57	363,425.58	4,564,678.04	3,399,073.58	138,225.20	95,530,302.37	88,036,747.87
Depreciation and amortization	26	2,158,252.58							2,158,252.58	754,482.84
Impairment	26						418,077.20		418,077.20	0.00
Provisions	26								0.00	0.00
Other expenses	26	178,480.81	618.75			230,800.54	43,209.54		454,324.85	2,108,405.38
Finance costs	25	827,724.82	-432.48	-12.85	-266.18	19,036.80			848,832.11	74,787.86
Total expenses		203,424,832.33	498,450.38	137,700.48	679,888.01	6,401,196.81	3,857,360.36	258,763.60	214,138,371.72	201,948,371.78
Surplus/(Deficit) for the period	27	0.00	0.00	0.00	0.00	0.00	-812,815.16	0.00	812,815.16	0.00

Refurbishment works in Building Z are planned in conjunction with the move to the New NATO Headquarters. Partner nations have been asked to pay in advance for the works corresponding to their specific requests (Optional Program) in addition to the basic refurbishment, in the amount of EUR 2,934,037. NATO member nations agreed that the rest of the works estimated MEUR 7.9 would be prefinanced by the IS treasury. All expenses are capitalized.

NOTE 31: LEASES

An analysis of lease contracts was conducted and it was considered that some of them had characteristics that could have led them to be considered as finance leases (in the IPSAS 13 sense) in particular as relates to the rent of porta cabins for temporary accommodation (e.g. Buildings V, VA) and the Manfred Wörner building. However, in consideration of the fact that NATO-IS is moving to new premises in 2018, the rental period will be shorter than the remaining economic life of this equipment. As a consequence, all leases in NATO IS are classified as operating leases. Fees payable under these lease agreements are accounted as expenses in the Statement of Financial Performance on a straight-line basis over the relevant lease term.

Belgium has granted to NATO by way of concession a plot of land on which NATO is authorized to erect all necessary buildings and facilities needed to perform its functions. A symbolic price is paid annually for the rent. NATO is the full owner of all constructions made. Belgium remains the sole and full owner of the land, which is public domain ("domaine public"). The concession ends 180 days after NATO has left the buildings and facilities. At the end of the concession, there will be no property rights transferred to NATO. As a consequence, given the indefinite economic life of land and the specific nature of concessions, the use of the land is classified as an operational lease. The rent charged by the host nation is recognised as an expense in the statement of financial performance.

The operating leases at the reporting date can be classified into three categories: temporary offices, transport equipment and photocopiers. The reduction in leases for offices is linked to the move to the New NATO HQ where there is no such requirement.

Lease Payments (in EUR)	2017	2018	2019-2022	After 2022
Temporary Offices	3,278,667	3,248,805	1,837,000	-
Photocopiers	364,758	182,329	-	-
Transport Equipment	171,137	217,077	428,988	-

NOTE 32: RESTRICTIONS ON FIXED ASSETS

There are no restrictions on fixed assets.

NOTE 33: CONTINGENT LIABILITIES

A number of contingent liabilities have been identified but the total possible obligation relating to these items is not expected to be material.

It should be noted that in light of the current circumstances surrounding the operation of the NATO Staff Centre and its restructuring, Civil Budget resources may have to be used.

NOTE 34: WRITE OFF

The table below summarizes the write-off procedures for IS equipment in 2017.

Serial	Dossier	Date	Location	Type of Items	Acquisition Value	Net Book Value	Reason for Write-off	Disposal Method
1	001-2017	12/9/2017	IS HQ	Furniture and lightning and small equipment	10,062.00	-	Unserviceable, Obsolete	Waste/Recycle
2	002-2017	12/9/2017	IS HQ	Audio-Visual, Telecommunication and IT Equipment	85,864.00	-	Unserviceable, Obsolete	Waste/Recycle
3	003-2017	12/9/2017	IS HQ	Chemical Detection and Gardening Equipment	31,519.00	-	Unserviceable, Obsolete	Waste/Recycle
4	s/n	8/11/2017	NLO-KIEV PASP	Office Furniture/Machinery, Telecommunication and Audio-Visual Equipment	Unknown	72.80	Redundant/Surplus Items	Donation
5	s/n	8/11/2017	NLO-KIEV PDD	Office Furniture/Machinery, Telecommunication and Audio-Visual Equipment	Unknown	10.96	Redundant/Surplus Items	Donation
TOTALS					127,445.00	83.76		

(*) Donations made to Institute of International Relations of UKR General Staff Armed Forces, approved by BC

The Budget Committee also agreed the write-off of unrecoverable rent concerning Partners' Accommodation in the amount of EUR 419,577.20.

NOTE 35: CONTINGENT ASSETS

Nothing to report.

NOTE 36: EMPLOYEE DISCLOSURE

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

The tables below compare the established posts with the number of staff and compares with the previous year. Establishment changes are approved by the NAC. However, the NATO Secretary General has delegated authority in this domain. During 2017, this delegated authority was used to create 13.5 posts and delete 20 posts. In addition, the Budget Committee recommended and the NAC agreed the creation of 4 posts and deletion of 21 posts. Posts in the Office of Shared Services were deleted in relation to the termination of the activities of the Office. The PMIS was reinforced by one position to support the application.

Civil Budget	2017	Creations	Deletions	2016
Number of approved posts	1,111.6	17.5	41.0	1,135.1
Number of staff at year end	1,056			1,060

NATO Wide PMIS	2017	Creations	Deletions	2016
Number of approved posts	2	1	0	1
Number of staff at year end	2			1

Office of Shared Services	2017	Creations	Deletions	2016
Number of approved posts	0	0	2	2
Number of staff at year end	0			0

Building Z Refurbishment	2017	Creations	Deletions	2016
Number of approved posts	1	0	0	1
Number of staff at year end	0			1

Also, NATO-IS receives "in kind" services provided by nationally funded personnel known as Voluntary National Contributions (VNCs). VNCs worked for the IS at HQ but also at the NATO external offices, or in support of specific projects on-site. During 2017, around 40 VNCs worked for the IS at HQ (49 in 2016).

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

There is no longer any staff member remaining as an affiliate of the NATO Provident Fund which is a defined contribution pension scheme providing retirement benefits to civilian staff recruited by NATO before 1 July 1974 and who decided not to join the Defined Benefit Pension Scheme set up at this date. Benefits are paid upon retirement as one lump sum, being the total of the individual right acquired. Monthly contributions, paid directly into the Fund, were made by staff and NATO, being 7% and 14% respectively of basic salary.

573 staff members (542 end 2016) participate in the Defined Contribution Pension Scheme (DCPS) administered by NATO. The DCPS provides that the NATO-IS budget makes a 12% monthly matching contribution to the staff members contributions for current service.

470 employees (504 end 2016) participate in NATO's Defined Benefit Pension Scheme (DBPS): a deduction of 9% of their salaries is made and contributed to the annual financing of this Scheme. These contributions are expensed during the year in which the services are rendered and represent the total pension obligation of the entity. The funding mechanism of the DBPS provides that Nations contribute, in the course of a given year, for the difference between amounts due to pensioners and staff contributions received.

(amounts in EUR)		2017	2016
Provident Fund	Staff	-	2,136.62
	Employer	-	3,237.64
	Total	-	5,374.26
Co-ordinated Pension Scheme	Staff	3,646,198.36	3,721,117.35
	Employer	-	-
	Total	3,646,198.36	3,721,117.35
Defined Contribution Pension Scheme	Staff	3,505,043.50	3,097,294.20
	Employer	4,932,170.09	4,407,783.01
	Total	8,437,213.59	7,505,077.21
TOTAL	Staff	7,151,241.86	6,820,548.17
	Employer	4,932,170.09	4,411,020.65
	Total	12,083,411.95	11,231,568.82

Also, 9 staff members (11 in 2016) are employed on reimbursable basis with an agreement between NATO-IS and the United States. Their salary is paid directly by the US using national salary scales and the US is reimbursed the costs corresponding to the grade of the post occupied by the staff member. Those individuals are paid and accrue pension rights under a United States pension scheme. A similar agreement exists with the Netherlands and currently applies to 1 staff member (1 in 2016). An agreement with Norway was signed in 2015 and applies to 3 staff members (2 in 2016).

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

NOTE 37: KEY MANAGEMENT PERSONNEL

The North Atlantic Council is the governing body of NATO. It approves the Civil Budget further to screening and recommendation by the Budget Committee (BC) and the Resource Policy and Planning Board (RPPB). Members of the North Atlantic Council, the BC and the RPPB are nominated by their respective national authorities. They are paid on the basis of applicable national pay scales. They do not receive from NATO any additional remuneration for their responsibilities or access to benefits.

For the purposes of IPSAS 20 implementation, key management personnel of the International Staff are the Secretary General, the Deputy Secretary General, the Director of the Private Office, the eight (seven in 2015) Assistant Secretary Generals, the Senior Civilian Representative in Afghanistan and the three Directors of Independent Offices (Security, Resources and Financial Control). The aggregate remuneration and the number of individuals on a full time equivalent basis are:

Aggregate remuneration: EUR 3,986,281.42 (EUR 3,511,303 in 2016)
Number of persons: 15 (15 in 2016)

The increase in the aggregate remuneration is essentially due to the recruitment on a newly created post at the end of 2016 which was fully occupied during 2017 and to changes in the individual situation (e.g. family situation) of newly recruited members.

The Secretary General is provided with accommodation at no cost in premises belonging to the Organisation. The residence is serviced by three established posts. The cost of operations and maintenance of the residence and works were EUR 239,116 in 2017 (EUR 291,613 in 2016). The amounts vary according to the level of annual renovation works. The residence was assessed in November of 2013 as being worth EUR 10,300,000. The Deputy Secretary General is provided with an approved special allowance to contribute towards the lease of accommodation suitable for representation at the Ministerial and distinguished visitor level. The Secretary General is entitled upon departure to a special leaving allowance, equal to one year's basic salary if a full four year term was served.

On 1 June, 2013, the NAC approved changes to the Representation Allowance system. A key element was that in lieu of monthly allowances being paid out and then reimbursed by the recipients if unused, recipients now submit receipts and are then reimbursed up to the allocated ceiling. The OFC is responsible for the day to day verification, with IBAN able to disallow expenses if deemed necessary.

A total of twelve senior staff positions are entitled to a Representation Allowance, the use of which is subject to a specific control by the OFC. This includes the Secretary General, the Deputy Secretary General, the Director of the Private Office, the seven Assistant Secretary Generals, one Deputy Assistant Secretary General, and the Spokesperson. The gross amount paid was EUR 53,775 (EUR 69,656 in 2015). Unused funds and disallowed expenses are returned to the Organisation.

Key management staff have access to a pool of vehicles for official business.

There is no other remuneration or benefit to key management personnel and their family members. Key management personnel is entitled to receive loans which are also available to other members of the NATO International Staff.

NOTE 38: RELATED PARTIES

There have been the following related party relations.

Member Nations and NATO bodies

NATO-IS performs certain administrative support and common operating services for which in 2016 a total amount of, respectively EUR 6,338,588.39 (EUR 6,313,675 in 2016) and EUR 3,348,860.80 (EUR 3,531,358.15 in 2016) was charged to other NATO bodies and Member Nation delegations. These amounts come as a deduction to the budget contributions due from Nations to fund the Civil Budget.

Belgium provides military personnel in support of activities related to security (Delegation Militaire de la Sécurité Technique) for which EUR 531,301 (EUR 541,160.89 in 2016) were charged by the Belgian Ministry of Defence and paid by the Civil Budget. Staff in support of communications (Communications Branch of the Situation Centre) is no longer provided directly to the International Staff but via the NCIA.

Also, 9 (11 in 2016) staff members are employed on reimbursable basis with an agreement between NATO-IS and the United States. Their salary is paid directly by the US using national salary scales and the US is reimbursed the costs corresponding to the grade of the post occupied by the staff member. Those individuals are paid and accrue pension rights under a United States pension scheme. A similar agreement exists with the Netherlands and currently applies to 1 staff member (1 in 2016). An agreement with Norway was signed in 2015 and applies to 3 staff members (2 in 2016).

Member and Partner Nations

The NATO-IS Office of Financial Control is the Treasurer for the operations related to a number of Trust Funds. The Trust Funds were authorized under NATO's Partnership for Peace Programme, the Mediterranean Dialogue Programme, the NATO-Russia Council, the NATO-Ukraine Commission and the NATO-Georgia Commission. The OFC also received financial resources on a bilateral ad-hoc basis from nations in support of specific activities conducted by NATO-IS or as a complement to the Civil Budget funding for certain activities. For Trust Funds a Lead Nation (NATO member) is normally designated. Partner nations can also participate in such additional funding. No management fees are charged by the IS to cover the related costs.

Appendixes 1 and 2 provide a breakdown of the Statements of Financial Position and of Financial Performance for Extra Budgetary Funds.

Employee Benefits

NATO-IS is responsible for the management at the NATO-wide level for the three pension systems (Provident Fund, Defined Benefit Pension Scheme, Defined Contribution Pension Scheme) and the

Retirees Medical Claims Fund. Separate financial statements are issued by the NATO-IS Office of Financial Control. No management fees corresponding to the related costs incurred by NATO-IS are charged to these entities.

Staff Centre

In October 2013, Nations approved a new mandate for the Staff Centre under C-M(2013)0054 with a view to transitioning to a fully customer funded model in 2016. An Executive Board was established in 2013 to provide oversight of Staff Centre operations. The Chairman of the Board is nominated by the Secretary General and is currently the ASG EM. Other members of the Board include other Executive Management staff, the IMS Executive Officer and the Director of the Staff Centre. Two members of the Budget Committee attend ex-officio.

Appendix 1 Annex 1 of the C-M outlines, under the heading of Category A, all activities that can receive Civil Budget funding.

NATO-IS provides certain administrative support and covers some operating and maintenance services to the Staff Centre in an estimated amount of EUR 1,059,327 (EUR 1,170,426 in 2016) which are not charged. These are estimates based on physical criteria (space, number of staff served etc.) and may not correspond exactly to the value of the service received by the Staff Centre.

In accordance with the Council decision on the Mandate of the NATO HQ Staff Centre, the Staff Centre has its own financial statement.

Statement of financial position

As at 31 December 2017

(All amounts in EUR)

	Von Karman Institute	Children Summer Camps	US Tramil	EW Trial Air	EW Trial Nav	Audit of Multi-Nationally Funded Bodies	TF Tajikistan II	TF Moldova III	TF Azerbaijan (PFP Proj JCP)
Assets									
Current assets									
Cash and cash equivalents	64,082.65	42,225.93	453,206.47	457,262.70	290,612.12	84,394.38	1.25	807,317.03	304,849.20
Short term investments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Receivables	385,951.12	4,848.00	0.00	70,000.00	46,116.00	0.00	0.00	0.00	0.00
Prepayments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other current assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Inventories	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	450,033.77	**47,073.93**	**453,206.47**	**527,262.70**	**336,728.12**	**84,394.38**	**1.25**	**807,317.03**	**304,849.20**
Non-current assets									
Receivables	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Property, plant & equipment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Intangible assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other non-current assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	0.00	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Total assets	**450,033.77**	**47,073.93**	**453,206.47**	**527,262.70**	**336,728.12**	**84,394.38**	**1.25**	**807,317.03**	**304,849.20**
Liabilities									
Current liabilities									
Payables	30,924.35	215.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred revenue	419,109.42	45,642.93	453,206.47	527,262.70	336,728.12	84,394.38	1.25	807,317.03	304,849.20
Advances	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Short term provisions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other current liabilities	0.00	1,216.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	450,033.77	**47,073.93**	**453,206.47**	**527,262.70**	**336,728.12**	**84,394.38**	**1.25**	**807,317.03**	**304,849.20**
Non-current liabilities									
Payables	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Long term provisions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other non-current liabilities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total liabilities	**450,033.77**	**47,073.93**	**453,206.47**	**527,262.70**	**336,728.12**	**84,394.38**	**1.25**	**807,317.03**	**304,849.20**
Net assets									
Capital assets									
Reserves									
Current year Surplus / (Deficits)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Accumulated surpluses / (deficits) prior year	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total net assets/ equity	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**

APPENDIX 1 to
ANNEX 6 to
FC(2018)0055

	TF Armenia	TF Ukraine II Phase 2	TF Ukraine RADACT DISP	TF Georgia IV	TF CNAD VNCF	TF Jordan III	TF Jordan IV	TF Serbia IV
Assets								
Current assets								
Cash and cash equivalents	1,081,500.00	1,611,082.89	0.00	44,127.05	488,062.73	186,991.75	253,422.83	1,051,364.88
Short term investments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Receivables	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Prepayments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other current assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Inventories	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	1,081,500.00	**1,611,082.89**	**0.00**	**44,127.05**	**488,062.73**	**186,991.75**	**253,422.83**	**1,051,364.88**
Non-current assets								
Receivables	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Property, plant & equipment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Intangible assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other non-current assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	0.00	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Total assets	**1,081,500.00**	**1,611,082.89**	**0.00**	**44,127.05**	**488,062.73**	**186,991.75**	**253,422.83**	**1,051,364.88**
Liabilities								
Current liabilities								
Payables	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred revenue	1,081,500.00	1,611,082.89	0.00	44,127.05	488,062.73	186,991.75	253,422.83	1,051,364.88
Advances	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Short term provisions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other current liabilities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	1,081,500.00	**1,611,082.89**	**0.00**	**44,127.05**	**488,062.73**	**186,991.75**	**253,422.83**	**1,051,364.88**
Non-current liabilities								
Payables	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Long term provisions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other non-current liabilities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total liabilities	**1,081,500.00**	**1,611,082.89**	**0.00**	**44,127.05**	**488,062.73**	**186,991.75**	**253,422.83**	**1,051,364.88**
Net assets								
Capital assets								
Reserves								
Current year Surplus / (Deficits)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Accumulated surpluses / (deficits) prior year	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total net assets/ equity	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**

	TF Canada Crisis Mgmt Mauritania	Global NAF (TF APM Destruction Belarus)	TF Ukraine II SALW Mun. Destr.	TF NATO Defence Capacity Building	TF JWGDR Prof Dev Pgrm	TF Mauritania	TF Mauritania II	TF Building Integrity
Assets								
Current assets								
Cash and cash equivalents	-5.61	-9,998,730.16	14,427.02	10,444,163.20	291,628.39	0.00	311,078.28	444,226.65
Short term investments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Receivables	0.00	0.00	0.00	0.00	106.16	0.00	0.00	0.00
Prepayments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other current assets	0.00	10,000,000.00	0.00	0.00	0.00	0.00	0.00	4,419.79
Inventories	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	-5.61	**1,269.84**	**14,427.02**	**10,444,163.20**	**291,734.55**	**0.00**	**311,078.28**	**448,646.44**
Non-current assets								
Receivables	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Property, plant & equipment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Intangible assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other non-current assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	0.00	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Total assets	**-5.61**	**1,269.84**	**14,427.02**	**10,444,163.20**	**291,734.55**	**0.00**	**311,078.28**	**448,646.44**
Liabilities								
Current liabilities								
Payables	0.00	0.00	0.00	0.00	-8.50	0.00	0.00	23,577.22
Deferred revenue	-5.61	1,269.84	14,427.02	10,444,163.20	202,648.05	0.00	311,078.28	462,149.22
Advances	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Short term provisions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other current liabilities	0.00	0.00	0.00	0.00	89,095.00	0.00	0.00	-37,080.00
	-5.61	**1,269.84**	**14,427.02**	**10,444,163.20**	**291,734.55**	**0.00**	**311,078.28**	**448,646.44**
Non-current liabilities								
Payables	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Long term provisions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other non-current liabilities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total liabilities	**-5.61**	**1,269.84**	**14,427.02**	**10,444,163.20**	**291,734.55**	**0.00**	**311,078.28**	**448,646.44**
Net assets								
Capital assets								
Reserves								
Current year Surplus / (Deficits)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Accumulated surpluses / (deficits) prior year	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total net assets/ equity	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**

APPENDIX 1 to
ANNEX 6 to
FC(2018)0055

	TF Explosive Detec	TF Georgia Professional Development	TF Ukraine MCT	TF Ukraine L&S	TF Ukraine Cyber Defence	TF Ukraine C4	TF Ukraine Medical Rehabilitation	TF Ukraine EOD/CIED
Assets								
Current assets								
Cash and cash equivalents	326,545.76	246,229.26	423,829.05	1,132,379.51	33,064.04	2,275,885.95	1,175,010.50	375,817.56
Short term investments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Receivables	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Prepayments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other current assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Inventories	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	326,545.76	**246,229.26**	**423,829.05**	**1,132,379.51**	**33,064.04**	**2,275,885.95**	**1,175,010.50**	**375,817.56**
Non-current assets								
Receivables	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Property, plant & equipment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Intangible assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other non-current assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	0.00	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Total assets	**326,545.76**	**246,229.26**	**423,829.05**	**1,132,379.51**	**33,064.04**	**2,275,885.95**	**1,175,010.50**	**375,817.56**
Liabilities								
Current liabilities								
Payables	0.00	0.00	0.00	0.00	0.00	77,244.78	230,000.00	0.00
Deferred revenue	326,545.76	246,229.27	361,749.05	1,132,379.51	33,064.04	2,198,641.17	945,010.50	375,817.56
Advances	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Short term provisions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other current liabilities	0.00	-0.01	62,080.00	0.00	0.00	0.00	0.00	0.00
	326,545.76	**246,229.26**	**423,829.05**	**1,132,379.51**	**33,064.04**	**2,275,885.95**	**1,175,010.50**	**375,817.56**
Non-current liabilities								
Payables	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Long term provisions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other non-current liabilities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total liabilities	**326,545.76**	**246,229.26**	**423,829.05**	**1,132,379.51**	**33,064.04**	**2,275,885.95**	**1,175,010.50**	**375,817.56**
Net assets								
Capital assets								
Reserves								
Current year Surplus / (Deficits)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Accumulated surpluses / (deficits) prior year	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total net assets/ equity	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**

APPENDIX 1 to
ANNEX 6 to
FC(2018)0055

	TF Iraq C-IED	TF NATO Defense & Security Campaign –Pilot phase	TF NATO-UKraine Platform on Countering Hybrid Warfare	TF Communi cation Activities in W-Balkans	TF NRC CAI IV	TF NRC Pilot Proj Afghan & Asia	TF Counter Narcotics	TF NRC Theater Missile Defence 3
Assets								
Current assets								
Cash and cash equivalents	280,895.86	88,700.00	20,000.00	20,000.00	165,803.46	0.00	194,723.85	25,213.59
Short term investments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Receivables	0.00	0.00	0.00	0.00	96,887.12	0.00	0.00	0.00
Prepayments	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other current assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Inventories	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	280,895.86	**88,700.00**	**20,000.00**	**20,000.00**	**262,690.58**	**0.00**	**194,723.85**	**25,213.59**
Non-current assets								
Receivables	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Property, plant & equipment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Intangible assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other non-current assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	0.00	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Total assets	**280,895.86**	**88,700.00**	**20,000.00**	**20,000.00**	**262,690.58**	**0.00**	**194,723.85**	**25,213.59**
Liabilities								
Current liabilities								
Payables	0.00	33,920.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred revenue	280,895.86	54,780.00	20,000.00	20,000.00	262,690.58	0.00	194,723.85	25,213.59
Advances	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Short term provisions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other current liabilities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	280,895.86	**88,700.00**	**20,000.00**	**20,000.00**	**262,690.58**	**0.00**	**194,723.85**	**25,213.59**
Non-current liabilities								
Payables	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Long term provisions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Deferred revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other non-current liabilities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total liabilities	**280,895.86**	**88,700.00**	**20,000.00**	**20,000.00**	**262,690.58**	**0.00**	**194,723.85**	**25,213.59**
Net assets								
Capital assets								
Reserves								
Current year Surplus / (Deficits)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Accumulated surpluses / (deficits) prior year	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total net assets/ equity	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**

ANNEX 1 to
FC(2018)

	TF Montenegro	TF UK Stratcom	TF Iraq TCB	Women, Peace and Security	2017	2016
Assets						
Current assets						
Cash and cash equivalents	167,960.16	748,840.20	-22,532.50	242,261.72	16,647,919.60	15,821,593.78
Short term investments	0.00	0.00	0.00	0.00	0.00	575,871.00
Receivables	0.00	0.00	0.00	0.00	603,908.40	3,431,243.67
Prepayments	0.00	0.00	0.00	0.00	0.00	0.00
Other current assets	0.00	0.00	0.00	0.00	10,004,419.79	10,216,731.16
Inventories	0.00	0.00	0.00	0.00	0.00	0.00
	167,960.16	**748,840.20**	**-22,532.50**	**242,261.72**	**27,256,247.79**	**30,045,439.61**
Non-current assets						
Receivables	0.00	0.00	0.00	0.00	0.00	0.00
Property, plant & equipment	0.00	0.00	0.00	0.00	0.00	0.00
Intangible assets	0.00	0.00	0.00	0.00	0.00	0.00
Other non-current assets	0.00	0.00	0.00	0.00	0.00	0.00
	0.00	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Total assets	**167,960.16**	**748,840.20**	**-22,532.50**	**242,261.72**	**27,256,247.79**	**30,045,439.61**
Liabilities						
Current liabilities						
Payables	0.00	84.63	0.00	35,642.06	431,599.54	273,086.39
Deferred revenue	167,960.16	748,755.57	-22,532.50	206,619.66	26,709,337.26	29,637,745.36
Advances	0.00	0.00	0.00	0.00	0.00	0.00
Short term provisions	0.00	0.00	0.00	0.00	0.00	0.00
Other current liabilities	0.00	0.00	0.00	0.00	115,310.99	134,607.86
	167,960.16	**748,840.20**	**-22,532.50**	**242,261.72**	**27,256,247.79**	**30,045,439.61**
Non-current liabilities						
Payables	0.00	0.00	0.00	0.00	0.00	0.00
Long term provisions	0.00	0.00	0.00	0.00	0.00	0.00
Deferred revenue	0.00	0.00	0.00	0.00	0.00	0.00
Other non-current liabilities	0.00	0.00	0.00	0.00	0.00	0.00
Total liabilities	**167,960.16**	**748,840.20**	**-22,532.50**	**242,261.72**	**27,256,247.79**	**30,045,439.61**
Net assets						
Capital assets						
Reserves						
Current year Surplus / (Deficits)	0.00	0.00	0.00	0.00	0.00	0.00
Accumulated surpluses / (deficits) prior year	0.00	0.00	0.00	0.00	0.00	0.00
Total net assets/ equity	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**

Extra Budgetary Funds
Statement of financial performance
As at 31 December 2017
(All amounts in EUR)

	Von Karman Institute	Children Summer Camps	US Tramil	EW Trial Air	EW Trial Nav	Audit of Multi-Nationally Funded Bodies	TF Tajikistan II	TF Moldova III	TF Azerbaijan (PFP Proj JCP)	TF Armenia	TF Ukraine II Phase 2	TF Ukraine RADACT DISP	TF Georgia IV	TF CNAD VNCF
Revenue														
Non exchange revenue	0.00	188,209.50	1,549,260.43	227,509.70	415.75	19,036.34	0.00	0.00	0.00	0.00	0.00	578,124.23	370,334.48	304,896.64
Exchange revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Financial revenue	0.00	0.00	35,739.21	506.08	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total revenue	0.00	188,209.50	1,584,999.64	228,015.78	415.75	19,036.34	0.00	0.00	0.00	0.00	0.00	578,124.23	370,334.48	304,896.64
Expenses														
Personnel	0.00	77,261.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Contractual supplies and services	0.00	110,946.41	1,564,829.95	228,015.74	0.00	19,036.34	0.00	0.00	0.00	0.00	0.00	578,124.23	370,334.48	304,896.64
Depreciation and amortization	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Impairment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Provisions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other expenses	0.00	0.00	0.00	0.02	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Finance costs	0.00	2.09	20,169.69	0.02	415.75	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total expenses	0.00	188,209.50	1,584,999.64	228,015.78	415.75	19,036.34	0.00	0.00	0.00	0.00	0.00	578,124.23	370,334.48	304,896.64
Surplus/(Deficit) for the period	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

	TF Jordan III	TF Jordan IV	TF Serbia IV	TF Canada Crisis Mgmt Mauritania	Global NAF (TF APM Destruction Belarus)	TF Ukraine II SALW Mun. Destr.	TF NATO Defence Capacity Building	TF JWGDR Prof Dev Pgrm	TF Mauritania	TF Mauritania II	TF Building Integrity	TF Explosive Detec
Revenue												
Non exchange revenue	2,000,000.00	0.00	0.00	0.00	0.00	0.00	359,604.49	394,406.56	0.00	0.00	441,427.88	0.00
Exchange revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Financial revenue	0.00	0.00	0.00	0.00	3,560.98	0.00	0.00	0.00	0.00	0.00	138.10	0.00
Total revenue	2,000,000.00	0.00	0.00	0.00	3,560.98	0.00	359,604.49	394,406.56	0.00	0.00	441,565.98	0.00
Expenses												
Personnel	0.00	0.00	0.00	0.00	0.00	0.00	0.00	58,975.04	0.00	0.00	104,367.50	0.00
Contractual supplies and services	2,000,000.00	0.00	0.00	0.00	0.00	0.00	359,604.49	325,703.68	0.00	0.00	332,961.67	0.00
Depreciation and amortization	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Impairment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Provisions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other expenses	0.00	0.00	0.00	0.00	1,294.04	0.00	0.00	7,138.35	0.00	0.00	214.42	0.00
Finance costs	0.00	0.00	0.00	0.00	2,266.94	0.00	0.00	2,589.49	0.00	0.00	4,022.39	0.00
Total expenses	2,000,000.00	0.00	0.00	0.00	3,560.98	0.00	359,604.49	394,406.56	0.00	0.00	441,565.98	0.00
Surplus/(Deficit) for the period	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

	TF Georgia Professional Development	TF Ukraine MCT	TF Ukraine L&S	TF Ukraine Cyber Defence	TF Ukraine C4	TF Ukraine Medical Rehabilitation	TF Ukraine EOD/CIED	TF Iraq C-IED	TF NATO Defense & Security Campaign –Pilot phase	TF NATO-Ukraine Platform on Countering Hybrid Warfare	TF Communication Activities in W-Balkans	TF NRC CAI IV	TF NRC Pilot Proj Afghan & Asia
Revenue													
Non exchange revenue	198,179.00	110,785.40	0.00	932,093.93	263,593.71	230,000.00	0.00	0.00	33,920.00	0.00	0.00	152,297.87	96,346.02
Exchange revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Financial revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.02	0.00
Total revenue	198,179.00	110,785.40	0.00	932,093.93	263,593.71	230,000.00	0.00	0.00	33,920.00	0.00	0.00	152,297.89	96,346.02
Expenses													
Personnel	77,049.40	22,644.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Contractual supplies and services	113,925.18	87,801.76	0.00	932,093.93	263,593.71	230,000.00	0.00	0.00	33,920.00	0.00	0.00	152,297.89	0.00
Depreciation and amortization	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Impairment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Provisions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other expenses	589.67	300.86	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Finance costs	6,614.75	38.78	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	96,346.02
Total expenses	198,179.00	110,785.40	0.00	932,093.93	263,593.71	230,000.00	0.00	0.00	33,920.00	0.00	0.00	152,297.89	96,346.02
Surplus/(Deficit) for the period	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

	TF Counter Narcotics	TF NRC Theater Missile Defence 3	TF Montenegro	TF UK Stratcom	TF Iraq TCB	Women, Peace and Security	2017
Revenue							
Non exchange revenue	409,880.64	0.00	0.00	32,333.65	1,058,302.15	162,591.66	10,113,550.03
Exchange revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Financial revenue	15,977.91	0.00	0.00	0.00	31.88	0.00	55,954.18
Total revenue	425,858.55	0.00	0.00	32,333.65	1,058,334.03	162,591.66	10,169,504.21
Expenses							
Personnel	0.00	0.00	0.00	32,333.65	0.00	18,925.80	391,556.39
Contractual supplies and services	421,585.16	0.00	0.00	0.00	1,035,633.43	143,640.57	9,608,945.26
Depreciation and amortization	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Impairment	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Provisions	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other expenses	0.00	0.00	0.00	0.00	0.00	0.00	9,537.36
Finance costs	4,273.39	0.00	0.00	0.00	22,700.60	25.29	159,465.20
Total expenses	425,858.55	0.00	0.00	32,333.65	1,058,334.03	162,591.66	10,169,504.21
Surplus/(Deficit) for the period	0.00	0.00	0.00	0.00	0.00	0.00	0.00

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

INTERNATIONAL BOARD OF AUDITORS
COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES

IBA-A(2018)0006
1 February 2018

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

Cc: Assistant Secretary General, Executive Management Division
Financial Controller, International Staff
Chairman, Resource Policy & Planning Board (RPPB)
Branch Head, Plans and Policy Branch, NATO Office of Resources (NOR)
Private Office Registry

Subject: ***International Board of Auditors for NATO (Board) Auditor's Report and Letter of Observations and Recommendations on the audit of the Financial Statements of the International Staff (IS) for the year ended 31 December 2016 – IBA-AR(2017)40***

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

The Board's report sets out a Disclaimer of Opinion on the Financial Statements of the International Staff and on compliance for financial year 2016.

Yours sincerely,

Hervé-Adrien Metzger
Chairman

Attachments: As stated above.

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ANNEX 1

Summary Note for Council
by the International Board of Auditors for NATO (Board)
on the audit of the Financial Statements of the International Staff (IS)
for the year ended 31 December 2016

The Board was required to audit the Financial Statements of the International Staff as at 31 December 2016. The total budgetary spend disclosed in the 2016 Financial Statements was EUR 203 million.

The Board issued a Disclaimer of Opinion on the Financial Statements and on compliance for the year ended 31 December 2016 (Annex 2).

The Board found fundamental control and structural weaknesses partially resulting from implementation of the International Staff's new Enterprise Resource Planning (ERP) system. The Board found that these weaknesses led to material errors in the 2016 financial statements. The Board concluded from the errors and control weaknesses identified that there was a high risk that the possible effects on the financial statements of undetected misstatements could be both material and pervasive.

Because of the significance of the errors and weaknesses found, the Board has not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, the Board does not express an opinion on the financial statements or on compliance.

Annex 3 provides a summary of the findings on the 2016 IS Financial Statements as well as the Board's detailed observations and recommendations.

The International Staff's formal comments are contained in the Appendix of Annex 3. The detailed formal comments provide further information to the reader, but do not change the Board's observations or recommendations. The Board notes that the IS agrees with most of its observations on the financial statements and controls. Where deemed appropriate, the Board has provided its position following the International Staff's formal comments. Annex 3 also provides a follow–up of the Boards previous year's observations.

26 January 2018

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE INTERNATIONAL STAFF (IS) FOR THE YEAR ENDED 31 DECEMBER 2016

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

Report on the Financial Statements

The International Board of Auditors for NATO (Board) was engaged to audit the Financial Statements of the International Staff which comprised the Statement of Financial Position as at 31 December 2016, the Statement of Financial Performance, the Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The Board was also engaged to audit the Statements of Budget Execution for the year ended 31 December 2016.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these Financial Statements in accordance with the NATO Accounting Framework and the requirements of the NATO Financial Regulations as authorised by the North Atlantic Council, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these Financial Statements based on our audit, which is conducted in accordance with our Charter and international standards on auditing. Because of the matters described in the *Basis for Disclaimer Opinion on the Financial Statements* paragraph, however, we were not able to obtain sufficient appropriate evidence to provide a basis for our opinion.

Basis for Disclaimer of Opinion on the Financial Statements

We found fundamental control and structural weaknesses partially resulting from the IS new Enterprise Resource Planning (ERP) system. We found that these weaknesses led to material errors in the 2016 Financial Statements. We concluded from the errors and control weaknesses identified that there was a high risk that the possible effects on the financial statements of undetected misstatements could be both material and pervasive.

Disclaimer of Opinion on the Financial Statements

Because of the significance of the matters described in the *Basis for Disclaimer of Opinion on the Financial Statements* paragraph, we have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the Financial Statements.

Report on Compliance

Management's Responsibility for Compliance

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

Auditor's Responsibility

In addition to the responsibility to express an opinion on the Financial Statements described above, our responsibility includes expressing an opinion on whether the financial transactions and information reflected in the Financial Statements are, in all material respects, in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations. Because of the matters described in the *Basis for Disclaimer of Opinion on Compliance* paragraph, however, we were not able to obtain sufficient and appropriate audit evidence to provide a basis for our opinion.

Basis for Disclaimer of Opinion on Compliance

The NATO Financial Regulations require the establishment of a system of internal control. We found fundamental control and structural weaknesses partially resulting from the IS new ERP system. We found material weaknesses in internal control over financial reporting due to material errors and unreconciled and unsupported balances in the financial statements issued to us on 11 April 2017. We concluded from the extent of these internal control weaknesses that there was a high risk that the possible effects on compliance of undetected instances of non-compliance could be both material and pervasive. Further details can be found in sections 2 and 3 in the Letter of Observations and Recommendations.

Disclaimer of Opinion on Compliance

Because of the significance of the matters described in the basis for *Disclaimer of Opinion on Compliance* paragraph, we have not been able to obtain sufficient and appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on Compliance.

Brussels, 26 January 2018

Hervé-Adrien Metzger
Chairman

26 January 2018

INTERNATIONAL BOARD OF AUDITORS FOR NATO

LETTER OF OBSERVATIONS AND RECOMMENDATIONS

FOR THE INTERNATIONAL STAFF (IS)

FOR THE YEAR ENDED 31 DECEMBER 2016

1. INTRODUCTION

1.1 BACKGROUND

1.1.1 The Board previously issued a 'Disclaimer of Audit Opinion' both on disclosure and compliance relating to the IS 2015 Financial Statements (IBA-AR (2017)04). The IS were not able to provide the Board with fully reconciled accounting data upon which to conduct its audit. As a result, the Board could not obtain sufficient appropriate audit evidence on which to base an opinion. The Board concluded that the possible effects on the financial statements of undetected misstatements and instances on non-compliance with regulations could be both material and pervasive. Accordingly, the Board did not express an opinion on the financial statements or on compliance.

1.1.2 A new Enterprise Resource Planning System (ERP) was introduced at the beginning of 2015. The Board's audit of the IS 2015 Financial Statements revealed a number of significant weaknesses relating to the implementation of the new ERP. The Board identified weaknesses in controlling access and accountability within the ERP. The Board found weaknesses in accounting controls, including the lack of a documented control to ensure that all data from the legacy system had been correctly loaded into the new ERP to form the basis of the opening 2015 balances. In addition, basic accounting controls such as bank reconciliations, reconciling sub ledgers and closing accounting periods were lacking. Further, weaknesses were identified relating to budgetary reporting and the controls over commitments carried forward. Weaknesses were also noted in system settings and the authorisation procedures relating to payments. Payments were made from incorrect bank accounts and these transactions were not fully identified and corrected before the 2015 Financial Statements were issued.

1.1.3 The Board's findings were supported by the Statement of Internal Control issued with the IS 2015 Financial Statements. The Statement of Internal Control stated that problems resulting from the implementation of the ERP led to difficulties in making payments, accounting weaknesses and limitations in financial reporting. The Board's audit of the IS 2015 Financial Statements revealed that these weaknesses led to material errors in financial reporting and unreconciled transactions and balances. Most significantly, the cash disclosed in the Financial Statements did not agree to the cash in the bank by EUR 5,650,615.41. Other areas of concern related to the disclosures regarding cash flows, surpluses, accruals, foreign exchange transactions and the notes supporting the Financial Statements. Finally, the IS were unable to reconcile budgetary expenses to the ERP accounting system. The Board's audit report on the IS 2015 Financial Statements contained 20 observations. The Board notes that 14 of these observations were still outstanding following its audit of the IS 2016 Financial Statements.

1.2 SUMMARY OF FINDINGS ON THE 2016 FINANCIAL STATEMENTS

1.2.1 The Board found that some improvements were made relating to controls and disclosures on the IS 2016 Financial Statements in comparison with the IS 2015 Financial Statements. Some of the weaknesses outlined in 2015 by the Board relating to controls have been addressed by the IS. Details of these improvements can be found in the table 'Status of Previous year's Observations'. In addition, the Board was provided with more auditable accounting data than in 2015 so that it could carry out more extensive audit procedures. Importantly, the IS provided the Board with a reconciliation between the expenses shown on the Budget Execution Statements to General Ledger. Whilst the Board found some minor differences in the reconciliation, the Board was able to isolate the issue and does not believe it to be material or pervasive. As a result, the Board was able to carry out a full audit of budgetary expenses. However, the 2015 issue relating to cut-off of expenses still existed in 2016 as 2015 accrued expenses were accounted for as 2016 transactions.

1.2.2 Despite the improvements outlined above, serious problems still existed with internal controls over financial reporting related to the 2016 Financial Statements. Of most concern is the fact that the cash disclosed in the Financial Statements has still not been reconciled to the bank statements. The IS are still investigating the discrepancy. It is a fundamental control and accounting requirement that cash should always be disclosed correctly and fully reconciled. The fact that it is not means that errors may go undetected relating to many account balances and transactions.

1.2.3 In addition to the issue with cash, the Board found other problems with the Financial Statements and supporting data. The Board found material balances were not fully supported by or reconciled to accounting data. Specifically, these related to Unearned Revenue and the Net Asset Balance. Further, the Board found material misstatements in Payables, Deferred Revenue and Other Current Assets. The Cash Flow Statement is mathematically incorrect and cannot be reconciled to movements in assets and liabilities. There was no 'Statement of Changes in Net Assets/Equity 'as required by IPSAS 1. Note disclosures are incomplete relating to Trust Funds and Net Assets. Finally, the notes were not always consistent with the main Financial Statements, specifically relating to Revenue classification. These represent material weaknesses in internal control over financial reporting. While some improvements were noted, the performance remains very poor.

1.2.4 The Statement of Internal Control issued with the 2016 Financial Statements outlined that problems still existed and concluded that the 'financial reporting in place during 2016 cannot provide reasonable assurance as to full compliance with budget rules or full compliance with the NATO Accounting Framework'. The Board found examples of non-compliance with the Financial Rules and Procedures. These included a lack of bank reconciliations of both bank accounts held at Headquarters and also External Offices, such as the Ukraine. In addition, the accounts payable sub ledger was not reconciled to the General Ledger and the Payroll System Personnel Management Information System (PMIS) was not fully reconciled to General Ledger. In addition, due to the fact that there is uncertainty over the value of expenses due to the issue related to the 2015 accrued expenses being included in 2016, the Board cannot confirm that the commitments brought forward into 2016 complied with the Financial Regulations. However, the Board notes that it did not find any issues related to compliance when it audited the 2016 expenses.

1.2.5 Whilst the Board continues to find significant issues of non-compliance with the Financial Regulations, improvements were made since 2015, especially related to the Budget Execution Statements. However, serious issues still exist relating to the preparation of the Financial Statements and internal controls. The Board notes that the 2016 statements were mainly produced by the Financial Controller with the detailed work being done by external contractors. The Chief Accountant and his staff had limited involvement in producing the Financial Statements. The Board had to rely on the input from the contractors to carry out its work. Most questions regarding disclosures could only be answered by the contractors. In the Board's opinion, this creates risks as the staff who should normally be involved in producing the Financial Statements are not adequately involved. For example, staff should always be aware of the accounting corrections that have been made and where problems need to be resolved.

1.2.6 In conclusion, improvements were made compared to 2015 regarding expenses (both on the Statement of Financial Performance and the Budget Execution Statement). However, uncertainties as to the amounts disclosed still existed due to the cut off issue brought forward from 2015. Major issues still existed in 2016 regarding the disclosures in the Statement of Financial Position, Cash Flow Statement and the supporting information provided in the notes. Cash still did not reconcile to the Financial Statements. Material errors in presentation and disclosures were found. Material balances could not be supported and/or reconciled and a core Financial Statement required by the NATO Accounting Framework was missing (Statement in Changes in Net Assets/Equity). As a result, it maintains its Disclaimer of Opinion regarding the Financial Statements. This is because, based on the audit evidence obtained, the possible effects on the Financial Statements of undetected misstatements could be both material and pervasive.

1.2.7 In terms of compliance with the NATO Financial Regulations (NFRs) the Board found the following instances of non-compliance:

- Weaknesses in accounting controls to verify the accuracy and reliability of accounting data and records (NFR, Article 12.1 (b)).
- Lack of regular documented reconciliations of cash to the accounting system (Financial Rules and Procedures (FRP), paragraph 4 (c)).
- Payables sub ledger not reconciled to the General Ledger (FRP, paragraph 4 (c)).
- Compliance with regard to Commitments carried into 2016 from 2015 because of the issue with cut-off of expenses in 2015 (NFR, paragraph 25.2).
- Late submission of the Financial Statements and Statement of Internal Control. Both were delivered on 11 April 2017 (NFR, Article 35.1).
- Commitments brought forward from 2015 into 2016 are not reconciled. There are different amounts disclosed in the 2015 and 2016 IS Financial Statements (NFR, paragraph 25.2).

1.2.8 As a result of material weaknesses in internal controls and instances of non-compliance identified, the Board maintains its Disclaimer of Opinion on Compliance. This is because, based on the audit evidence obtained, the possible effects of undetected instances of non-compliance could be both material and pervasive.

OBSERVATIONS AND RECOMMENDATIONS

2. ERRORS IDENTIFIED IN THE 2016 FINANCIAL STATEMENTS

2.1 ERRORS IN DISCLOSED CASH BALANCES

Reasoning

2.1.1 It is a fundamental requirement of internal control that all bank accounts are effectively controlled and correctly presented in the Financial Statements.

Observations

2.1.2 The Board notes that cash presented in the 2015 IS Financial Statements was not reconciled between the Financial Statements and the amounts disclosed in the bank statements. For the 2016 Financial Statements, the problems in reconciling cash to the accounting system remained unresolved. The Board found that the cash presented in the 2016 IS Financial Statements was understated by a net amount of EUR 116,889 compared to the amount held in the bank. This unreconciled amount is still being investigated by the IS.

2.1.3 In addition to the unreconciled difference reported in paragraph 2.1.2 above, the Board found that cash was understated on the Statement of Financial Position because bank accounts held by remote External Offices, such as in Ukraine, were not disclosed as part of the cash balance. Transactions related to these bank accounts were disclosed as advances from the IS main bank accounts to the External Offices' bank accounts. These advances totaled EUR 2,091,999 at 31 December 2016. These advances are not equivalent to cash balances and were disclosed as Other Current Assets. As a result, cash is understated by an uncertain amount.

Recommendation

2.1.4 The Board recommends that the IS identify the cause of the discrepancy in the cash disclosed and ensure that it is correctly disclosed in the 2017 Financial Statements. In addition, the IS should ensure that bank accounts held at Local Offices are disclosed as cash and not as advances under Other Current Assets.

2.2 ERRORS IN THE CASH FLOW STATEMENT

Reasoning

2.2.1 The Cash Flow Statement should comply with the requirements of International Public Sector Accounting Standards (IPSAS) 2, *Cash Flow Statements*, and must reconcile to movements in assets, liabilities and opening and closing cash balances as reported in the Statement of Financial Position.

Observation

2.2.2 The Board found that the Cash Flow Statement contained many errors. It did not agree with the supporting information provided to the Board. Firstly, an increase in Net Assets (disclosed as a surplus on the cash flow) was, in fact, a deficit. As a result, the net increase in cash and cash equivalents in the 2016 Financial Statements did not agree to the change in the cash balance between 2015 and 2016. Secondly, the non-cash movements disclosed in the cash flow did not, in many cases, agree to the movements in the 2016 Statement of Financial Position. Finally, the surplus shown (which should have been a deficit) is not the deficit from the Statement of Performance but the movement in Net Assets on the Statement of Financial Position between 2015 and 2016. In order to comply with IPSAS 2, the deficit from the Statement of Financial Performance should have been shown on the cash flow. Any adjustments to Net Assets should have been disclosed as a separate line item and explained in the Notes.

Recommendation

2.2.3 The Board recommends that the IS ensure that the 2017 Cash Flow Statements is arithmetically correct, complies with IPSAS 2, and can be reconciled to movements on the Statements of Financial Position and Performance.

2.3 NOTE DISCLOSURES RELATING TO CASH

Reasoning

2.3.1 IPSAS 1, *Presentation of Financial Statements*, requires that additional information be provided that is relevant to the understanding of the entity.

Observations

2.3.2 The Board found that Note 3 on Cash and Cash equivalents does not provide a breakdown of the cash held by the IS. Note 30 provides a breakdown of cash equivalents held by Segments. Segments are equivalent to groupings of Funds by their nature comprising the IS common budget, refundable expenses, PMIS, Trust Funds, Office of Shared Services, Partners Accommodation and Batiment Z. However, in order to help the reader understand the financial statements, the Board believes that the same detailed breakdown of cash by segment should also be provided in Note 3.

2.3.3 The Board found that Note 4 'Short-Term Investments' was not consistent with the Statement of Financial Position. The Statement of Position disclosed EUR 57,575,871 but Note 4 disclosed EUR 57,000,000. The amount of EUR 575,871 related to an investment from Extra Budgetary Funds but was not disclosed in Note 4.

Recommendation

2.3.4 The Board recommends that the IS provide, in its 2017 Financial Statements notes, a detailed breakdown of the makeup of cash balances supporting the cash balance disclosed in the Statement of Financial Position. This should be in addition to Note 30 that provides a breakdown of cash by segments. Further, the IS should ensure that the notes relating to cash are consistent with the Statement of Financial Position.

2.4 INCOMPLETE DISCLOSURES REGARDING TRUST FUNDS

Reasoning

2.4.1 Trust Funds are managed on behalf of Nations based on agreements. For example, the Partnership for Peace Trust Fund policy (EAPCC/D (2009)0016) states that each Trust Fund should have a separate account in order to follow the financial situation of each project. Furthermore, the policy requires that funds not used for a specific project should be returned to the contributing parties.

2.4.2 Trust Funds are disclosed in the Financial Statements as assets (cash or receivables) and as current liabilities. To ensure transparency and full disclosure, these assets and liabilities should be disclosed separately from funds held relating to the common funded budgets. In addition, the details behind the asset and liabilities need to be fully supported by accounting information in the ERP.

Observation

2.4.3 The Board found that there were insufficient disclosures related to Trust Funds in the 2016 Financial Statements. In previous years (2014), additional information on Trust Fund was provided. Specifically, previous Financial Statements contained information on the name of individual Funds, total cash held by the Funds, those held for third parties and those managed directly by the IS, opening and closing balances and movements within the financial year. This information provided the reader with an overview of the financial status of each Fund.

Recommendation

2.4.4 The Board recommends that the 2017 Financial Statements disclose additional information on Trust Funds in the notes as outlined in paragraph 2.4.3 above. This information should be provided in Note 3 'Cash and Cash Equivalents' and Note 37 'related parties'.

2.5 OVERSTATEMENT OF OTHER CURRENT ASSETS

Reasoning

2.5.1 All intercompany postings should be eliminated as part of the process of producing the IS Financial Statements. Intercompany postings are internal payables and receivables, such as transfers between funds within the IS Financial Statements.

Observation

2.5.2 Total Other Current Assets were disclosed as EUR 14,847,904. A significant portion of this balance, EUR 12,226,552, related to intercompany postings such as internal receivables and payables within the IS Financial Statements. These amounts should have been offset against each other and eliminated. This means that other Current Assets and Other Liabilities were both overstated by EUR 12,226,552

Recommendation

2.5.3 The Board recommends that all intercompany postings are eliminated in the 2017 IS Financial Statements.

2.6 DISCLOSURE ERROR IN PAYABLES AND DEFERRED REVENUE

Reasoning

2.6.1 Liabilities should be disclosed in the Statement of Financial Position in accordance with their nature and substance.

Observation

2.6.2 When examining the detail behind the balances disclosed for Payables and Deferred Revenue, the Board found that an amount related to payables to Nations (staff costs reimbursable to Nations) of EUR 8.9 million was disclosed as Deferred Revenue. Deferred Revenue corresponds to contributions from Nations called but not expensed. The payable to Nations for reimbursable salaries is described in the notes to the Financial Statements as being a Payable and not a Deferred Revenue. As a result, Payables were understated by EUR 8.9 million, and Deferred Revenue overstated by EUR 8.9 million.

Recommendation

2.6.3 The Board recommends that, in the 2017 IS Financial Statements, the IS ensure that Payables and Deferred Revenues are correctly classified and disclosed.

2.7 UNRECONCILED UNEARNED REVENUE

Reasoning

2.7.1 Unearned Revenue corresponds to contributions called for the current year and before for which corresponding expenses were not yet incurred as at 31 December 2016. The balance should be equivalent to or reconciled to committed credits carried forward in the Budget Execution Statement as at 31 December 2016.

Observation

2.7.2 The Deferred Revenue Liability on the Statement of Financial Position was disclosed as EUR 63,336,342. This contained the Unearned Revenue Balance related to the IS main budget of 21,745,642. The Board found that there was a difference of EUR 937,278 between the carry forwards on the Budget Execution Statement (EUR 20,808,364) and the Unearned Revenue balance. The IS could not explain or provide reconciling items for this difference and are investigating the discrepancy.

Recommendation

2.7.3 The Board recommends that the IS ensure that the 2017 IS Financial Statements provide a full reconciliation between Unearned Revenue and the credits carried forward on the Budget Execution Statement.

2.8 2015 ACCRUALS DISCLOSED IN THE FINANCIAL STATEMENTS

Reasoning

2.8.1 Prior to issuing Financial Statements, all accrued liabilities at year-end should be identified and disclosed within the Financial Statements.

Observations

2.8.2 A total of EUR 13,916,892.67 was disclosed under liabilities as Payables in the 2016 Financial Statements. This amount included invoices received but not yet paid at year-end. It also included accrued liabilities where a service or good had been received from a supplier but no invoice was received at year-end. Not all accruals were identified in the IS 2015 Financial Statements.

2.8.3 The Board recommended following its audit of the IS 2015 Financial Statements, that the 2015 accrual be identified and the 2015 balance be restated as the comparative figure in the 2016 Financial Statements. The IS responded that it believed the restatement of 2015 accruals would be extremely difficult, costly to attain, and of limited value for money. As a result, the Board found examples of accruals related to services received in 2015 were accounted for as 2016 transactions. As a result, accruals and expenses were overstated by an unknown amount in the IS 2016 Financial Statements.

However, it should be noted that the Board did not find examples of transactions that were not accrued at the end of 2016, i.e., cut off problems between 2016 and 2017. The Board will confirm following its audit of the IS 2017 Financial Statements whether this issue has been resolved.

2.9 INCOMPLETE DISCLOSURE OF NET ASSETS AND SURPLUS/DEFICIT

Reasoning

2.9.1 IPSAS 1 requires a ‘Statement of Changes in Net Assets/Equity’ to be disclosed as part of the Financial Statements. In addition, accumulated surpluses/deficits for the year, and the movement in Net Assets in the Financial Statements need to be justified and fully reconciled within the Financial Statements.

Observations

2.9.2 The 2016 IS Financial Statements did not contain a Statement of Changes in Net Assets/Equity. In addition, the notes to the Financial Statements described the nature of the surplus/deficit and the balance in Net Assets but did not provide further details. Specifically, a reconciliation of the deficit for the year on the Statement of Financial Performance (EUR 812,815) to the movement in Net Assets (a reduction of EUR 2,376,193) was not provided. Normally, the surplus/deficit for the year should be equivalent to the change in the value of Net Assets. If not, an explanation should be given in the Financial Statements.

2.9.3 The IS provided the Board with a detailed breakdown of the movement in Net Assets during 2016. Many adjustments and reclassifications of balances were done but these were not disclosed in the Financial Statements. The adjustments were designed to limit the surplus/deficit for the year to only relate to Partner Accommodation. Balances from previous years were reclassified to other current liabilities. The number of adjustments and reclassifications of prior year balances lead, in the Board’s opinion, to the conclusion that the nature of and value of the accumulated Net Assets at year-end 2016 of EUR 259,007 as uncertain. The Board understands that it should represent the accumulated surplus of revenue over expenses for Partner Accommodation. However, uncertainty exists as to whether this balance can be fully justified.

Recommendation

2.9.4 The Board recommends that the IS ensure that the 2017 Financial Statements comply with IPSAS 1 by including a Statement of Changes in Net Assets/Equity. In addition, detailed notes supporting the movements in the year plus a justification for the amount and nature of the Net asset balance at the end of 2017 be provided.

2.10 INCOMPLETE FOREIGN EXCHANGE RATE REVALUATION OF ASSETS AND LIABILITIES AT YEAR-END

Reasoning

2.10.1 The NATO Accounting Framework requires monetary assets and liabilities in foreign currencies be revalued at year-end. This means all assets and liabilities other than fixed assets (Inventory, Property, Plant and Equipment and Intangibles).

Observation

2.10.2 The IS did not revalue any assets and liabilities in the 2015 Financial Statements. In 2016 the IS revalued cash, receivables and payables but not any other assets or liabilities. The IS believe that all other assets and liabilities are mainly in EUR and revaluing them would have no material effect on the Financial Statements. However, the IS did not provide the Board with a detailed analysis to prove this. As a result, there is uncertainty regarding the effect the revaluation would have had.

Recommendation

2.10.3 The Board recommends that, for the IS 2017 Financial Statements, the IS provide a detailed analysis to the Board to ensure that all material monetary assets and liabilities held in foreign currencies have been revalued at year-end.

2.11 INCONSISTENT NOTE DISCLOSURE OF REVENUE

Reasoning

2.11.1 The Notes supporting the Financial Statements need to be consistent with the presentations made in the primary Financial Statements (Statement of Financial Position, Statement of Financial Performance, Cash Flow Statement and Statement of Changes in Net Assets). In addition, the classification of revenue from exchange transactions needs to comply with IPSAS 9.

Observation

2.11.2 The Board found that the Statement of Financial Performance disclosed Exchange Revenue of EUR 3,182,246, and Other Revenue of EUR 5,789,616. The Other Revenue included revenues related to Refundable Expenses and Extra Budgetary Funds (Trust Funds). However, Note 23 to the Financial Statements states that Revenue related to Refundable Expenses and Extra Budgetary Funds is disclosed as Revenue from Exchange Transactions. The note does not therefore agree with the Statement of Financial Performance.

Recommendation

2.11.3 The Board recommends that the IS explain the basis of its classification of revenue between Revenue from Exchange Transactions and Other Revenue in the notes to the Financial Statements. In addition, the IS should ensure that the notes supporting the 2017 Financial Statements are consistent with the primary Financial Statements.

2.12 UNDERSTATEMENT OF ALLOWANCE FOR DOUBTFUL DEBTS

Reasoning

2.12.1 An analysis of long outstanding receivables (over one year at the end of 2016) and outstanding payments should be done in order to identify doubtful debts, losses or write-offs. When there is an uncertainty as to the recovery of receivables, an allowance for doubtful debts should be booked in the Financial Statements.

Observation

2.12.2 The Board found a case where it believes an allowance should have been made for doubtful debts. There was an amount due from the Staff Center of EUR 491,531 that were overdue for four years. In the Board's opinion, given the financial situation of the Staff Centre, an allowance for bad debts should have been made for this balance due in the 2016 IS Financial Statements.

Recommendation

2.12.3 The Board recommends that, for the 2017 Financial Statements, the IS make an allowance for the bad debts relating to the NATO Staff Centre.

2.13 INCOMPLETE DISCLOSURE RELATED TO EMPLOYEES IN NOTES TO FINANCIAL STATEMENTS

Reasoning

2.13.1 Paragraph 42 of IPSAS 1 requires that disclosures in the notes to the Financial Statements should be consistent with disclosures in previous years Financial Statements.

Observation

2.13.2 The information disclosed in the notes related to the number of employees is incomplete compared to that disclosed in previous years Financial Statements. The number of approved positions was disclosed for the civil budget (1135 positions) but not the actual number of staff at year-end compared to the previous year. As a result, there was no comparison with the number of positions approved with actual employees.

Recommendation

2.13.3 The Board recommends that, in the 2017 IS Financial Statements, Note 35 'Employee Disclosure' includes the number of staff as at 31 December 2017, a comparison with the previous year and explanations for significant differences. In addition, information be included comparing actual and approved positions.

2.14 INCOMPLETE DISCLOSURE RELATING TO LEASES

Reasoning

2.14.1 The notes to the Financial Statements should comply with the disclosure requirements regarding Leases as set out in IPSAS 13.

Observation

2.14.2 Note 31 to the 2016 IS Financial Statements gives some general information on Operational Leases held. These related to temporary offices, transport equipment and photocopiers. However, the Board found that there were no disclosures related to paragraph 44 of IPSAS 13, which requires disclosure of the total of future minimum lease payments under non-canceable operating leases for each of the following periods:

- Not later than one year;
- Later than one year and not later than five years; and
- Later than five years.

Recommendation

2.14.3 The Board recommends that the 2017 IS Financial Statements fully comply with the disclosure requirements of IPSAS 13 regarding Leases.

3. ISSUES RELATING TO CONTROLS AND COMPLIANCE

3.1 CONTROLS OVER THE RECONCILIATION OF BANK BALANCES NEED TO BE ENFORCED

Reasoning

3.1.1 According to paragraph VI 4(c) of the FRPs, the Financial Controller shall ensure that all accounts are reconciled and verified on a regular basis, and all activities with financial implications, including multinational and non-appropriated fund activities, controlled by periodic inspection.

Observation

3.1.2 The Board found that the IS did not perform monthly reconciliations of cash balances between the accounting system and bank statements during 2016. The IS provided the Board with a spreadsheet showing such a reconciliation as at 31 December 2016. However, the Board found that this control was not performed on a regular basis. In addition, the year-end reconciliation was not signed by either the preparer or the reviewer.

Recommendation

3.1.3 The Board recommends that the IS perform and document monthly cash reconciliations between the bank balances and the amounts presented in the accounting system. This will enable the IS to identify misstatements (if any) and take corrective action on a timely basis. The bank reconciliations should be documented at the end of each month with the signatures of the preparer and reviewer together with the dates the control took place.

3.2 INCOMPLETE DISCLOSURE AND RECONCILIATION OF BANK ACCOUNTS HELD BY EXTERNAL OFFICES

Reasoning

3.2.1 Paragraph VI of the FRPs states that the Financial Controller shall ensure that all accounts are reconciled and verified on a regular basis and controlled by periodic inspection. This should include NATO External Offices' bank accounts. These are part of the IS.

Observation

3.2.2 The Board notes that the IS controlled expenses and revenues that related to transactions in NATO External Office bank accounts periodically. However, these bank accounts were not reconciled to the General Ledger at year end and disclosed in the Financial Statements.

Recommendation

3.2.3 The Board recommends that the IS reconcile the NATO External Office bank accounts centrally and, disclose the balances in the Financial Statements.

3.3 INCOMPLETE DISCLOSURE OF THE RECONCILIATION OF EXPENSES IN THE BUDGET EXECUTION STATEMENT TO EXPENSES IN THE STATEMENT OF FINANCIAL PERFORMANCE

Reasoning

3.3.1 Expenses recorded in the Budget Execution Statements are recorded on the same basis as transactions recorded in the Statements of Financial Performance and Position. To ensure completeness and accuracy of the expenses disclosed, it is a fundamental control that these expenses can be reconciled to each other.

Observation

3.3.2 The IS was unable to provide the Board with this reconciliation to support the 2015 IS Financial Statements. Considerable improvements were made to support the disclosures in the Budget Execution contained in the 2016 Financial Statements. The IS provided the Board with a detailed reconciliation from the accounting system. The Board reworked the reconciliation using the accounting data that matched the Statements of Financial Position and Performance. The Board found a relatively small unreconciled difference of around EUR 119,000. The IS investigated the difference and found that it was due to an accounting correction made in 2015. The fact that the data almost reconciled meant the Board was able to carry out a full audit of the expenses disclosed in the Budget Execution Statements. As this reconciliation is fundamental and important to understanding the Financial Statements, it should be disclosed in the Notes supporting the Financial Statements.

Recommendation

3.3 The Board recommends that the IS ensure that the 2017 IS Financial Statements disclose a detailed reconciliation of transactions in the Statements of Financial Performance and Position to the expenses in the Budget Execution Statement.

3.4 RECONCILIATION OF SUB LEDGERS TO THE GENERAL LEDGER NOT COMPLETED

Reasoning

3.4.1 It is a fundamental accounting control to ensure that all sub ledgers, (e.g., Accounts Payable and Accounts Receivable) are reconciled to the General Ledger and Financial Statements. Ideally, this should be done monthly as part of the accounting period closing.

Observation

3.4.2 The Board found that the receivables sub ledger was reconciled to the General Ledger and to the Financial Statements for 2016. However, the payables sub ledger could not be reconciled to the General Ledger or Financial Statements. A net difference of EUR 200,193.96 remains unexplained.

Recommendation

3.4.3 The Board recommends that, for the 2017 Financial Statements, the receivables and payables sub ledgers be fully reconciled to the General Ledger and Financial Statements.

3.5 INCOMPLETE RECONCILIATION OF PAYROLL TO GENERAL LEDGER

Reasoning

3.5.1 A key accounting control supporting the production of Financial Statements is a reconciliation of the PMIS to the accounting system ERP to ensure accuracy and completeness.

Observation

3.5.2 The Board found that there was an unreconciled difference between the data provided by PMIS and the General Ledger of EUR 567 thousand at 31 December 2016. The difference is probably due to payments related to payroll made outside the PMIS system, such as payments made when a staff member leaves. However, the Board found that these differences were not fully documented.

Recommendation

3.5.3 The Board recommends that the Office of Financial Control explain and document all differences between the payroll data in the PMIS system and the payroll disclosed in the ERP General Ledger. This reconciliation should be provided to the auditors as at 31 December.

3.6 COMPLIANCE WITH THE NFRS PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL AND RISK MANAGEMENT

Reasoning

3.6.1 The North Atlantic Council (Council) approved revised NFRs effective as from 04 May 2015. This was the first time in more than 30 years that the NFRs have been revised. While Article 36 of the revised NFRs states that "*the NFRs will take effect immediately (i.e., 04 May 2015)*", Council also agreed that full implementation was only expected by the end of 2015. Furthermore, Article 4 of the revised NFRs states that "*the finance committee shall approve a set of Financial Rules and Procedures (FRPs) that provide additional guidance to ensure the effective implementation of the revised NFRs.*"

3.6.2 The revised NFRs are more explicit than the previous version in the areas of Risk Management (Article 11) and Internal Control (Article 12). They require the establishment of effective, efficient and economical risk management procedures, and that there are necessary management functions in place to support effective internal control. Furthermore, Article 3 requires, as a demonstration of responsibility and accountability, that both the annual Financial Statements and Statement of Internal Control be signed by the NATO Head of Body and the Financial Controller.

3.6.3 The revised NFRs provide an opportunity for NATO bodies to solidify and codify their overall internal control frameworks, including risk management. Importantly, they also require a robust control environment in place around the preparation of the Financial Statements to ensure the quality and accuracy of the financial information is of the highest standard, as it is now publicly available.

Observations

3.6.4 The Board found that the IS had not yet fully implemented the new NFRs and FRPs. Considerable work still needs to be done in terms of the identification of risks, and in developing procedures to assess and mitigate those risks (Article 11). This report outlines areas that need to be improved regarding compliance with Article 12 of the NFRs on internal controls. Weaknesses exist in controls that are meant to ensure the accuracy and reliability of accounting data and to establish and maintain comprehensive accounting records of all assets and liabilities. Audit trails are not adequate in all areas. Weaknesses were also identified in the approval process and authorisation of bank transfers.

3.6.5 The Board also found that the IS had not chosen an Internal Control framework to assess its system of internal control against the requirements of FRP XII. The adoption of a specific framework is an important step forward and is essential in order to ensure and to clearly demonstrate to others that a complete system of internal control and risk management is in place. A number of other NATO bodies, including ACO, ACT, NCIO, NETMA and NAPMA have already adopted the internal control framework of The Committee of Sponsoring Organisations of the Treadway Commission (COSO).

3.6.6 Furthermore, because the IS has not yet fully implemented the new NFRs and FRPs in respect to risk management and internal control, the Internal Audit Service of the IS has not yet fully evaluated, throughout the IS, the risk exposures and the effectiveness of internal controls in managing risk within the governance, operations and information systems as required by Article 13.

Recommendation

3.6.7 The Board recommends that, as a matter of priority, the IS ensure that it complies with all the requirements of the new NFRs and FRPs. This should include, but not be limited to:

a) Assessing and documenting the system of internal control and risk management to support compliance with the NFRs, FRPs and the internal control framework that the IS chooses.
b) Choose a specific internal control framework that the IS will use to assess its system of internal control. Since other NATO entities, including ACO, ACT and NCIO, have already adopted COSO as their internal control framework, the IS should consider adopting COSO to ensure consistency across NATO.
c) Prepare an entity-wide risk management policy throughout the IS and that risk registers be developed and employed throughout all divisions of the IS.
d) The Internal Audit Service of the IS perform activities that fully evaluate internal control and risk management throughout the IS, and that this work be clearly documented so as to be able to conclude as to the IS's compliance against the new NFRs and FRPs.

3.7 INCOMPLETE RECONCILIATION OF COMMITMENTS CARRIED FORWARD

Reasoning

3.7.1 According to NFR, paragraph 25.3 'Appropriated funds which have been committed, supported by legal obligation, and for which goods and services have not yet been rendered by the end of the financial year shall be automatically carried forward…'. Commitments carried forward from the 2015 Financial Statements should be the same as those disclosed as brought forward into the 2016 Financial Statements.

Observation

3.7.2 The Board found that the 2015 IS Financial Statements disclosed commitments carried forward into 2016 of EUR 34,565,314.19. The IS 2016 Financial Statements disclosed the amount of commitments brought forward from 2015 as EUR 36,294,277.44. The IS was unable to provide an explanation for this discrepancy.

Recommendation

3.7.3 The Board recommends that the IS provide an explanation for the difference between the carry forwards of commitments from 2015 into 2016. In addition, the Board recommends that the IS ensure its 2017 Financial Statements disclose commitments carried forward correctly.

3.8 REFUNDABLE SURPLUSES IN CALL FOR FUNDS BASED ON ESTIMATES

Reasoning

3.8.1 The FRPs (Article XXIX) state that calls *"shall be based on budget approval documents and input from the entities' Financial Controllers concerning refundable surpluses."*

Observation

3.8.2 The second and final call related to the 2016 IS budget, (FC (CC) (2016)0015(CBC-02)-COR3), calculated the net calls to be made to the Nations taking refundable surpluses from the 2015 financial year into account. The refundable surpluses were net interest of EUR 50,000 and miscellaneous receipts of EUR 100,000. The call document refers to the IS 2015 Financial Statements regarding the refundable surpluses. The Board understands that the amounts for refundable items were estimates as, at the time of the call, the 2015 IS Financial Statements were not yet issued. However, this is not made clear in the call document.

Recommendation

3.8.3 The Board recommends that the IS adjust the final call related to the 2017 budget to reflect the actual net interest and miscellaneous receipts reported on the IS 2015 Financial Statements. In addition, when estimates are contained within call documents, the IS make it clear to the Nations that the amounts are estimates and will be adjusted at a later date.

3.9 CONTRACTORS FILLING PROCUREMENT STAFF ROLES

Reasoning

3.9.1 The procurement function needs to be carried out with the utmost integrity to avoid potential or perceived conflicts of interest. The IS are bound by the Civilian Personnel Regulations (CPRs). Codes of Conduct are outlined in Articles 13 and 60 of the CPRs. Specifically related to procurement, International Staff must comply with the Standards of Conduct outlined in the IS Procurement Manual. Article 3.4 of the Procurement Manual states *"…the procurement activity is to be carried out in a manner consistent with the highest professional, ethical, moral and legal standards."*

Observation

3.9.2 The Board found that two of the posts in the IS procurement section are currently filled by contractors. The contractors started working in the OFC in July and September 2015 and the contracts were extended based on waivers foreseen in the Procurement Regulations. However, these posts are designated to be filled by International Staff. This situation is not ideal as it creates potential and possible perceived conflicts of interest and is very expensive (EUR 1,000 and EUR 890 per day respectively). The contractors have a potential conflict of interest between NATO, the company that employs them, other clients and potential future clients mainly because the contractors are involved with the process of hiring other contractors. The Board did not find any evidence that any conflicts of interest occurred and the IS established mitigating measures to minimise the risks Nevertheless, the risk of a conflict of interest remains.

Recommendation

3.9.3 The Board recommends that the IS, as soon as possible, recruit suitably qualified International Staff or by employing Temporary Staff (Chapter XVII of the Civilian Personnel Regulations) to fulfil the Procurement function in order to minimise the use of contractors. Until then, the IS should ensure that the increased risks of conflict of interest continue to be recognised and fully mitigated and that the contractors are carrying out their tasks with the highest professional, ethical moral and legal standards as required by Article 3.4 of the Procurement Manual.

FOLLOW-UP OF PREVIOUS YEAR'S OBSERVATIONS

The Board reviewed the status of the observations and recommendations arising from the audit of the 2015 Financial Statements. The observations and their status are summarised in the table below.

OBSERVATION/RECOMMENDATION	ACTION	STATUS
1. IBA-AR(2017)04 (Financial Year 2015) paragraph 2.1 **OVERSTATEMENT OF CASH BALANCES** **Board's recommendation** As a matter of urgency, the IS identify the cause of the discrepancy in cash and ensure that cash is effectively controlled and correctly disclosed in future.	Discrepancies in cash were still being investigated in 2017. Please see paragraph 2.1.	Observation **Superseded by current year observation**.
2. IBA-AR(2017)04 (Financial Year 2015) paragraph 2.2 **ERRORS IN THE CASH FLOW STATEMENT** **Board's recommendation** The IS identify the reasons for the errors in the Cash Flow Statement and ensure that it is correctly stated in future Financial Statements.	Please see paragraph 2.2.	Observation **Superseded by current year observation**.
3. IBA-AR(2017)04 (Financial Year 2015) paragraph 2.3 **INABILITY TO RECONCILE EXPENSES IN THE BUDGET EXECUTION STATEMENT TO EXPENSES IN THE STATEMENT OF FINANCIAL PERFORMANCE** **Board's recommendation** The IS ensure, in future Financial Statements, that a detailed reconciliation of transactions in the Statements of Financial Performance and Position to the expenses in the Budget Execution Statement be provided at the time of the issuance of the Financial Statements.	Please see paragraph 3.3.	Observation **Superseded by current year observation**.
4. IBA-AR(2017)04 (Financial Year 2015) paragraph 2.4 **INCONSISTENT DISCLOSURE OF AN ACCUMULATED SURPLUS** **Board's recommendation** The IS justify the reasons for the accumulated surplus disclosed and ensure that, in future, they are correctly disclosed on the Statement of Financial Performance.	Changes were introduced in the 2016 Financial Statements so as to limit surpluses to the segments related to partner accommodation. However, the	Observation **Superseded by current year observation**.

OBSERVATION/RECOMMENDATION	ACTION	STATUS
	balance presented is still not fully justified. Refer to paragraph 2.9.	
5. IBA-AR(2017)04 (Financial Year 2015) Paragraph 2.5 **LACK OF ASSURANCE ON PROPER CUT-OFF OF EXPENSES** **Board's recommendation** The IS identify all accruals related to 2015 in its 2016 Financial Statements.	The IS stated that processes were put in place to better identify accruals from 2016. The IS believed that the restatement of accruals at end of 2015 would be extremely difficult, costly to attain and of limited value for money. Refer to paragraph 2.8.	Observation **Superseded by current year observation**.
6. IBA-AR(2017)04 (Financial Year 2015) paragraph 2.6 **NO FOREIGN EXCHANGE RATE REVALUATION OF MONETARY ASSETS AND LIABILITIES AT YEAR-END** **Board's recommendation** For all future IS Financial Statements, the IS ensure that all assets and liabilities, as required by the NATO Accounting Framework, held in foreign currencies are revalued at year-end.	The IS have revalued cash, receivables and payables, but no other monetary assets and liabilities. Refer to paragraph 2.10.	Observation **Superseded by current year observation**.
7. IBA-AR(2017)04 (Financial Year 2015) paragraph 2.7 **DISCREPANCY BETWEEN INVENTORY PRESENTED IN FINANCIAL STATEMENTS AND DISCLOSED IN NOTES** **Board's recommendation** The IS ensure, in future, that all note discloses support and are consistent with the main Financial Statements.	The IS intend to implement this recommendation on the 2017 Financial Statements.	Observation **Superseded by current year observation**.
8. IBA-AR(2017)04 (Financial Year 2015) paragraph 3.1 **IMPLEMENTATION OF THE NEW ENTERPRISE RESOURCE PLANNING (ERP) SYSTEM AND ITS EFFECT ON THE FINANCIAL STATEMENTS** **Board's recommendation** An independent external assessment of the IS ERP implementation be undertaken focusing on the requirement of the IS to produce 9 separate Financial Statements. Such an assessment	The Budget Committee recommended to the RPPB (BC-D92017-FINAL, dated 10 July 2017) that 'lessons learned report	Observation **Outstanding**.

OBSERVATION/RECOMMENDATION	ACTION	STATUS
should also consider the lessons to be learned for future ERP system implementations in NATO. The Board recommends that this assessment be performed at the latest by the end of 2017.	by the IS FC should be completed as a matter of urgency and by not later than the end of September 2017 so that further advice on the need for an external review can be considered alongside the audit of the 2016 IS Financial Statements. No lessons learned report by the IS FC has yet been issued to the Budget Committee.	
9. IBA-AR(2017)04 (Financial Year 2015) paragraph 4.1 **LACK OF BASIC ACCOUNTING RECONCILIATIONS, INCLUDING CASH** **Board's recommendation** The IS introduce regular accounting controls to ensure accounting periods are closed promptly, regular reconciliations to sub ledgers are carried out, budget expenses are reconciled to GL expenses and cash is reconciled between the bank and the accounting system. In addition, the Board recommends that the OFC complete its work on data transfer from the old system and that this is documented with a clear audit trail.	The IS stated that actions were gradually put in place since the end of 2016 with a view to periodic closures and reconciliations.	Observation **Superseded by current year observation**.
10. IBA-AR(2017)04 (Financial Year 2015) paragraph 4.2 **INSUFFICIENT LEVEL OF CONTROLS OVER BUDGET EXECUTION** **Board's recommendation** The IS load its common funded budget into the ERP system by using the same accounting string as in the GL to ensure the budget can be executed and controlled effectively.	The IS Financial Controller stated that the issue will be addressed with stakeholders with a view to streamlining the exchange of information between the budgeting and the accounting software components. However, the Board has not seen any result from this.	Observation **Outstanding**.
11. IBA-AR(2017)04 (Financial Year 2015) paragraph 4.3 **CARRY FORWARD OF COMMITMENTS BASED ON PURCHASE REQUISITIONS INCREASES THE RISK OF NON-COMPLIANCE AND OF MISSTATEMENT** **Board's recommendation** The OFC examine, with the programmes, the implementation of future work flows that ensure	The Financial Controller stated that the way the programme	Observation **Outstanding**.

OBSERVATION/RECOMMENDATION	ACTION	STATUS
that the norm is to use POs to create liabilities and form the basis of carry forwards so that the use of PRs is strictly limited to cases where there is an operational necessity. In cases where PRs are carried forward, controls, including monitoring, should be put in place and clearly documented.	commitments are treated in the ERP will be re-examined with IS Divisions concerned in order to limit the cases in which PRs are used for commitment purposes. However, the Board has not seen any result from this.	
12. IBA-AR(2017)04 (Financial Year 2015) paragraph 4.4 **MATCHING INVOICES TO PURCHASE ORDERS AND THE DELIVERY OF GOODS AND SERVICES** **Board's recommendation** Similar to the recommendation on PR approval, that the IS examine with the programmes, the implementation of future work flows that ensure that the norm is to use POs to create liabilities and to restrict the use of PRs to those cases where it is absolutely necessary. In addition, OFC should use three-way matching wherever possible and practical, and the situations where two-way matching is permissible should be identified and documented, and subsequently monitored.	The Financial Controller stated the situation will be re-examined with IS Divisions concerned in order to assess the possibility to extend the use of the 3-way matching where relevant. However, the Board has not seen any result from this.	Observation **Outstanding**.
13. IBA-AR(2017)04 (Financial Year 2015) paragraph 4.5 **TRAVEL INVOICES AND POs CAN BE MODIFIED AND PROCESSED WITHOUT AUTHORISATION** **Board's recommendation** The IS ensure that the travel invoices process configuration is changed to prevent manually entered travel POs and invoices being processed without an approval.	Changes were implemented in July and December 2016. Travel POs and invoices cannot be processed without approval.	Observation **Settled**.
14. IBA-AR(2017)04 (Financial Year 2015) paragraph 4.6 **INCOMPLETE TOLERANCE LIMITS AND LIMITS SET TOO HIGH** **Board's recommendation** The OFC lower the tolerance limit related to travel. In addition, an appropriate tolerance limit relating to price variations should be implemented to ensure that only invoices that match the PO price are processed and approved.	Tolerance levels were reduced in 2016. In addition, a tolerance limit relating to price variations has been implemented.	Observation **Settled**.

OBSERVATION/RECOMMENDATION	ACTION	STATUS
15. IBA-AR(2017)04 (Financial Year 2015) paragraph 4.7 **CONTROLS OVER PAYMENT FILES SENT TO THE BANK NEED STRENGTHENING** **Board's recommendation** The IS establish a control to ensure that an ERP generated payment file is not manipulated between its creation and being uploaded to the bank.	A control was introduced in 2016 by the introduction of a 'hashkey'. This 'hashkey' is a control to ensure that the payment file sent to the bank is exactly the same as that received and paid by the bank. It is to ensure the payment data cannot be changed once sent to the bank.	Observation **Settled**.
16. IBA-AR(2017)04 (Financial Year 2015) paragraph 5.1 **LACK OF PROCESS DOCUMENTATION RELATING TO ACCESS MANAGEMENT AND JOB DESCRIPTIONS** **Board's recommendation** The IS develop and document clear procedures for granting, modifying, and monitoring user access to the ERP. In addition, the IS should develop a segregation of duties matrix that correctly identifies the segregations required. Further, the Board recommends that the IS create job descriptions for staff working in the CC clarifying their roles and responsibilities.	Job descriptions have been updated and approved by HR to clarify roles and responsibilities. In addition, procedures are in place for granting, modifying and monitoring access to the ERP. The segregation of duties matrix has been developed.	Observation **Settled**.
17. IBA-AR(2017)04 (Financial Year 2015) paragraph 5.2 **LACK OF PERIODIC REVIEW OF USER ACCESS RIGHTS** **Board's recommendation** The IS develop documented procedures that set up formal channels of communication to ensure the CC is aware of staff members who have transferred between departments. In addition, a periodic review of users and their responsibilities should be set up to ensure the appropriate roles and responsibilities are assigned to the correct staff. Further, users should have access end dates assigned according to the duration of their contract.	HR formally informs the CC when staff leave the Organisation, are transferred or promoted. However, the review of existing access rights, roles and responsibilities is still on going.	Observation **Partially Settled**.

OBSERVATION/RECOMMENDATION	ACTION	STATUS
18. IBA-AR(2017)04 (Financial Year 2015) paragraph 5.3 **THE USE OF THE 'SWITCH USER' FUNCTION NEEDS TO BE MONITORED** **Board's recommendation** The IS put controls in place to ensure that the use of the 'switch user' function is strictly controlled and monitored to ensure that it is only ever used in the appropriate circumstances. This could take the form of a periodic report that shows clearly who has used it, when it was used and for what purpose. The limitations on the use of the 'switch user' function, and the related controls, should be clearly documented.	The IS Financial Controller has stated that control checks on the switch user function among NATO bodies will be harmonised. However, the Board is not aware as to when this is planned to be done.	Observation **Outstanding**.
19. IBA-AR(2017)04 (Financial Year 2015) paragraph 5.4 **ACCESS TO THE NEW ENTERPRISE RESOURCE PLANNING (ERP) PRODUCTION ENVIRONMENT GIVEN TO AN IT CONSULTANT** **Board's recommendation** The IS ensure that access rights given to consultants normally only cover the test environment and that access should only be granted to production to implement agreed changes. In addition, the access should be time limited.	IS now ensures that access rights given to consultants are only granted to the production environment to implement agreed changes. IS has also put time limits on consultants' access.	Observation **Settled**.
20. IBA-AR(2017)04 (Financial Year 2015) paragraph 5.5 **NO FORMAL DOCUMENTATION OF CHANGE CONTROL BOARD DECISIONS** **Board's recommendation** The IS ensure that the minutes of the CCB decisions are recorded and develop an approval form signed by the CCB to ensure that only approved change requests are implemented.	Formal meeting minutes are now kept. The IS have developed an approval form signed by the CCB to ensure that only approved changes are implemented.	Observation **Settled**.

INTERNATIONAL STAFF (IS) FORMAL COMMENTS ON THE LETTER OF OBSERVATIONS AND RECOMMENDATIONS AND THE INTERNATIONAL BOARD OF AUDITORS (BOARD) POSITIONS

ERRORS IDENTIFIED IN THE 2016 FINANCIAL STATEMENTS

OBSERVATION 2.1:
ERRORS IN DISCLOSED CASH BALANCES

Formal comment of the International Staff

The recommendations are agreed.

Concerning reconciliation with bank statements, this difference originates from the first periods of use of the ERP, and has reduced and no new errors have occurred. In the meantime about EUR 500 million worth of transactions have been treated.

Concerning cash advances to the External Offices, the amounts in the financial statements corresponds to the value of unsettled advances. This presentation was consistent with the approach taken since these offices were established and did not give rise, to date, to any IBAN observation. In any case, the External Offices' advance accounts reflect the cash advanced but not yet reported as expenditures, they are therefore a mix of cash and justification documents (not yet reported expenses), therefore disclosing them just as cash would be erroneous. It was, therefore, considered preferable to disclose the amount as Other Current Assets. In 2017, a procedure has been put in place in the ERP to track the cash situation of these offices and should enable a proper disclosure of cash.

Board Position

Contrary to the above, the Board made a recommendation following its audit of the 2014 IS Financial Statements that ‘the IS disclose the cash balances held by external offices as part of its overall cash balance rather than a prepayment (IBA-AML(2015)15). This was agreed by the IS.

OBSERVATION 2.2:
ERRORS IN THE CASH FLOW STATEMENT

Formal comment of the International Staff

The recommendation is agreed.

OBSERVATION 2.3:
NOTE DISCLOSURES RELATING TO CASH
Formal comment of the International Staff

The recommendation is agreed. Concerning 2.3.2 the information was available but IBAN considers that it should have been repeated. The IS notes that "the Board believes that the same detailed breakdown of cash by segment" (as provided under Note 30) "should also be provided in Note 3" and therefore will repeat under Note 3 the same information as under Note 30.

OBSERVATION 2.4:
INCOMPLETE DISCLOSURES REGARDING TRUST FUNDS

Formal comment of the International Staff

The recommendation is agreed. Consolidated information concerning Trust Funds is provided in the financial statements and is treated within the segment concerning Extra Budgetary Funds. The recommendation is understood as requesting detailed information for each of the trust funds (which is available in the ERP). A table similar to that of previous financial statements will be provided. It should be noted however that detailed information concerning each trust fund is provided to the contributing nations under the specific reporting requirements of each trust fund.

OBSERVATION 2.5:
OVERSTATEMENT OF OTHER CURRENT ASSETS

Formal comment of the International Staff

The recommendation is agreed.

OBSERVATION 2.6:
DISCLOSURE ERROR IN PAYABLES AND DEFERRED REVENUE

Formal comment of the International Staff

The recommendation is essentially a matter of classification and is agreed.

OBSERVATION 2.7:
UNRECONCILED UNEARNED REVENUE

Formal comment of the International Staff

The *recommendation* is agreed.

OBSERVATION 2.8:
2015 ACCRUALS DISCLOSED IN THE FINANCIAL STATEMENTS

Formal comment of the International Staff

There is no recommendation by IBAN. The situation described by IBAN concerning the fact that 2016 financial year contained transactions belonging to 2015 is the logical consequence of the cut- off issues identified in 2015 and of the fact that there would have been very limited value in restating the 2015 accruals. IS is pleased to note that "the Board did not find examples of transactions that were not accrued at the end of 2016, i.e., cut off problems between 2016 and 2017." This would indicate that the IS has taken the proper corrective actions

OBSERVATION 2.9:
INCOMPLETE DISCLOSURE OF NET ASSETS AND SURPLUS/DEFICIT

Formal comment of the International Staff

The recommendation is agreed.

OBSERVATION 2.10:
INCOMPLETE FOREIGN EXCHANGE RATE REVALUATION OF ASSETS AND LIABILITIES AT YEAR-END

Formal comment of the International Staff

Balance sheet accounts not revalued other than cash, receivables and liabilities, correspond essentially on the asset side to Other Current Assets (which IBAN indicated above under 2.5 correspond essentially to internal transactions which are in Euros and should be eliminated), and to Non-Current Assets which are totally in Euros. On the liability side, deferred revenue and advances are essentially in Euros since they relate to the Civil Budget approved in Euros, and to non-appropriated funds, which when they are not in received in Euros are almost all converted to Euros. In the end, only a fraction corresponding to the advances to External Offices and to a small number of extra-budgetary funds could be impacted by a revaluation; this is why the IS believes that revaluing them would have no material impact on the financial statements.

Nevertheless, for the 2017 financial statements, the IS will expand the scope of accounts to be revalued.

OBSERVATION 2.11:
INCONSISTENT NOTE DISCLOSURE OF REVENUE

Formal comment of the International Staff

The recommendation is agreed and this classification issue will be clarified in the 2017 financial statements.

OBSERVATION 2.12:
UNDERSTATEMENT OF ALLOWANCE FOR DOUBTFUL DEBTS

Formal comment of the International Staff

It is due to the specific situation of, and in relation to, the NATO Staff Centre. NATO member nations are aware of this situation. However, OFC agrees that a disclosure of bad debt and the corresponding provision should have been posted.

OBSERVATION 2.13:
INCOMPLETE DISCLOSURE RELATED TO EMPLOYEES IN NOTES TO FINANCIAL STATEMENTS

Formal comment of the International Staff

The recommendation is agreed. The IS believes this information was provided in the previous financial statements and will resume this practice.

OBSERVATION 2.14:
INCOMPLETE DISCLOSURE RELATING TO LEASES

Formal comment of the International Staff

The recommendation is agreed.

ISSUES RELATING TO CONTROLS AND COMPLIANCE

OBSERVATION 3.1:
CONTROLS OVER THE RECONCILIATION OF BANK BALANCES NEED TO BE ENFORCED

Formal comment of the International Staff

The recommendation is agreed. The process of performing regular reconciliations to the general ledger in addition to the previous reconciliations between the bank statements and the cash management module of the ERP has *been introduced in 2017.*

OBSERVATION 3.2:
INCOMPLETE DISCLOSURE AND RECONCILIATION OF BANK ACCOUNTS HELD BY EXTERNAL OFFICES

Formal comment of the International Staff

The recommendation is agreed. The IS verifies all transactions related to the external offices and their bank accounts periodically. In 2017, a procedure has been put in place in the ERP to track the cash situation of these offices and should enable a proper disclosure of cash and reconciliation in the ERP.

OBSERVATION 3.3:
INCOMPLETE DISCLOSURE OF THE RECONCILIATION OF EXPENSES IN THE BUDGET EXECUTION STATEMENT TO EXPENSES IN THE STATEMENT OF FINANCIAL PERFORMANCE

Formal comment of the International Staff

The recommendation is agreed. The IS is pleased to note that IBAN could reconcile the budget transactions except for a relatively small difference representing about 0.05%.

OBSERVATION 3.4:
RECONCILIATION OF SUB LEDGERS TO THE GENERAL LEDGER NOT COMPLETED

Formal comment of the International Staff

The recommendation is agreed. The difference was identified and corrected mid-2017. Accounting controls concerning the receivables and payables sub ledgers as well as reconciliations to the General Ledger are performed.

OBSERVATION 3.5:
INCOMPLETE RECONCILIATION OF PAYROLL TO GENERAL LEDGER

Formal comment of the International Staff

The IT system used by Payroll (PMIS Personnel Management Information System) does not include the payment of salaries of departing staff, which are paid using a manual procedure. A reconciliation between the PMIS payment instructions and data in the ERP would therefore systematically be incomplete. Future releases of the ERP intend to address this issue. All salary payments are based on instructions received by IS EM-HR Payroll, be it through the PMIS *or through written instructions. The bulk of the payments is done based on an electronic file generated by the PMIS and sent to the bank. A small number of exceptions are paid manually. Every month, IS OFC performs reconciliations between the payment instruction from HR Payroll and the ERP bank transactions. IS OFC will work with EM-HR in order to reduce the number of manual transactions with a view to simplify the reconciliation process.*

OBSERVATION 3.6:
COMPLIANCE WITH THE NFRS PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL AND RISK MANAGEMENT

Formal comment of the International Staff

The recommendation is agreed.

OBSERVATION 3.7:
INCOMPLETE RECONCILIATION OF COMMITMENTS CARRIED FORWARD

Formal comment of the International Staff

The recommendation is agreed.

OBSERVATION 3.8:
REFUNDABLE SURPLUSES IN CALL FOR FUNDS BASED ON ESTIMATES

Formal comment of the International Staff

The recommendation is agreed. The adjustments were taken into account with the second call issued in 2017. It should be noted that net interest and miscellaneous income represent only a fraction of the overall amounts called (typically less than 0.5%) and therefore the use of estimates, which was dictated by circumstances, did not concern the whole call itself.

OBSERVATION 3.9:
CONTRACTORS FILLING PROCUREMENT STAFF ROLES

Formal comment of the International Staff

The recommendation is not well understood. It is in the nature of risk management that eventually a residual risk remains; it is therefore not an anomaly that a risk of conflict of interest remain despite the mitigating measures in place. More generally IBAN seems to consider that as a matter of principle the IS should not use contractors to fulfil procurement functions. The IS's preferred solution is to have the appropriate number of positions and the established positions filled, but that may not always be possible. The decision to *create posts in not within the IS Procurement Office remit. It is a well-known fact that the recruitment process can take a very long time, that the vacancies further to unforeseen events affecting staff cannot always be planned and that designated staff sometimes eventually decline posts (as has been the case for the Procurement Service). In addition, there can be situations where additional workforce is required, such is the case presently with the contracts to be put in place for the New NATO HQ. This specific situation had been identified by the IS as a risk, and the recourse to consultants was considered the most effective solution. Temporary staff with the appropriate skills and qualifications may not be available; on-boarding can be very long (one year in a recent case); they also carry their own specific risks. The IS makes use of a mix of temporary staff and contractors. The IS believes that with the appropriate internal controls, the use of contractors is acceptable and should be balanced against the risk of not being able to put in place in a timely manner the contracts required by IS business. The IS notes that IBAN "did not find any evidence that any conflicts of interest occurred and the IS established mitigating measures to minimise the risks". The NATO Financial Regulations do not forbid the use of contractors in the procurement process. We believe therefore that the observation by IBAN raises a matter of principle which NATO member nations should settle.*

Board position

The Board reiterates its position that the IS, as soon as possible, recruits suitable qualified International Staff to fulfill Procurement functions. Until then, the IS should ensure that a system of control is put in place to avoid any perceived or actual conflict of interest.

FOLLOW-UP OF THE PREVIOUS YEARS' OBSERVATIONS

8. IBA-AR(2017)04 (Financial Year 2015) paragraph 3.1
IMPLEMENTATION OF THE NEW ENTERPRISE RESOURCE PLANNING (ERP) SYSTEM AND ITS EFFECT ON THE FINANCIAL STATEMENTS

Formal comment of the International Staff

The lessons learned report was issued for distribution to Nations on 21 December 2017.

11. IBA-AR(2017)04 (Financial Year 2015) paragraph 4.3
CARRY FORWARD OF COMMITMENTS BASED ON PURCHASE REQUISITIONS INCREASES THE RISK OF NON-COMPLIANCE AND OF MISSTATEMENT

Formal comment of the International Staff

The intent is indeed to re-examine the way programme commitments are dealt with in the ERP. It was felt, however, that it was preferable for Divisions and OFC to gain more experience in this respect in order to make a better assessment for the need to change. In the meantime, developments under way in the future releases of the ERP may also contribute to solving this question.

18. IBA-AR(2017)04 (Financial Year 2015) paragraph 5.3
THE USE OF THE 'SWITCH USER' FUNCTION NEEDS TO BE MONITORED

Formal comment of the International Staff

Worklist Access (Switch User function) is standard functionality of Oracle E-Business Suite. The grantor is responsible for granting the grantee approval authorizations. Worklist access is logged in Oracle E-Business Suite and reflects the delegation of approval rights by the grantor. We believe that the other NATO entities using this software are confronted with the same question. However, a change request (#223) is logged and approved to develop a report where, for individual transactions, the effective approver can be listed.

NATO INTERNATIONAL STAFF
FINANCIAL STATEMENTS

For the year ended
31 December 2016

Annexes

1	Statement of financial position
2	Statement of financial performance
3	Cash flow statement
4	Budgetary execution statements
5	Explanatory notes to the financial statements

Jens STOLTENBERG
Secretary General

Stephane CHAGNOT
Financial Controller

ANNEX 1 to
FC(2017)058

INTERNATIONAL STAFF
Statement of financial position
As at 31 December 2016
(All amounts in EUR)

	Notes	2016	2015
Assets			
Current assets			
Cash and cash equivalents	3	52,364,760.22	84,673,866.41
Short term investments	4	57,575,871.00	0.00
Receivables	5	45,007,711.87	60,960,882.07
Prepayments	6	1,412,981.35	2,362,809.48
Other current assets	7	14,847,903.89	1,712,598.60
Inventories	8	17,051.84	10,645.03
		171,226,280.17	**149,720,801.59**
Non-current assets			
Receivables	9	0.00	0.00
Property, plant & equipment	10	1,910,722.27	833,390.49
Intangible assets	11	15,340,028.94	16,072,319.51
Other non-current assets	12	0.00	12,095.75
		17,250,751.21	**16,917,805.75**
Total assets		**188,477,031.38**	**166,638,607.34**
Liabilities			
Current liabilities			
Payables	13	-13,916,892.67	-9,752,346.10
Deferred revenue	14	-63,336,342.44	-73,951,577.45
Advances	15	-59,790,474.39	-51,099,794.87
Short term provisions	16	-418,077.20	
Other current liabilities	17	-33,505,486.67	-11,760,291.66
		-170,967,273.37	**-146,564,010.08**
Non-current liabilities			
Payables	18	0.00	
Long term provisions	18	0.00	
Deferred revenue	19	-17,250,751.23	-16,767,326.32
Other non-current liabilities	20	0.00	-675,626.60
		-17,250,751.23	**-17,442,952.92**
Total liabilities		**-188,218,024.60**	**-164,006,963.00**
Net assets	21		
Capital assets		0.00	
Reserves		0.00	
Current year Surplus / (Deficits)		210,422.78	
Accumulated surpluses / (deficits) prior year		48,584.00	2,635,200.04
Total net assets/ equity		**259,006.78**	**2,635,200.04**

ANNEX 2 to
FC(2017)058

INTERNATIONAL STAFF
Statement of financial performance

As at 31 December 2016

(All amounts in EUR)

	Notes	2016	2015
Revenue			
Non exchange revenue	22	-203,403,072.12	-200,800,300.88
Exchange revenue	23	-3,182,245.68	-514,469.22
Other revenue	24	-5,789,616.27	-488,843.60
Financial revenue	25	-950,622.55	-144,758.09
Total revenue		**-213,325,556.62**	**-201,948,371.79**
Expenses			
Personnel	26	114,722,492.80	112,977,948.23
Contractual supplies and services	26	95,539,392.37	86,035,747.87
Depreciation and amortization	26	2,158,252.59	754,482.64
Impairment	26	418,077.20	0.00
Provisions	26	0.00	0.00
Other expenses	26	454,324.65	2,105,405.39
Finance costs	25	845,832.11	74,787.66
Total expenses		**214,138,371.72**	**201,948,371.79**
Surplus/(Deficit) for the period	27	**812,815.10**	**0.00**

ANNEX 3 to
FC(2017)058

INTERNATIONAL STAFF
Statement of cash flow
As at 31 December 2015
(All amounts in EUR)

	2016	2015
Cash flow from operating activities	**31,999,396.66**	**22,205,823.41**
Surplus/(Deficit)	2,376,193.26	(2,635,200.04)
Non-cash movements	**2,376,193.26**	**(2,635,200.04)**
Depreciation/ Amortisation	2,158,252.59	902,370.71
Impairment	-	
Increase /(decrease) in payables	2,239,991.08	19,213,161.22
Increase/ (decrease) in other current liabilities	21,552,993.32	(12,892,332.48)
Increase/ (decrease) in provisions	418,077.20	-
(Gains)/losses on sale of property, plant and equipment		345,100.00
Increase/ (decrease) in other current assets	(13,309,756.85)	(567,076.27)
Decrease/ (Increase) in receivables	16,896,591.52	17,839,800.27
Increase/ (decrease) in other non-current assets	(332,945.46)	
Net cash flow from operating activities	**29,623,203.40**	**24,841,023.45**
Cash flow from investing activities		
Purchase of property plant and equipment / Intangible assets	(1,983,801.03)	(2,229,470.59)
Proceeds from sale of property plant and equipment		
Net cash flow from investing activities	**(1,983,801.03)**	**(2,229,470.59)**
Cash flow from financing activities	**-**	**69,970.43**
Net cash flow from financing activities		
Net increase/(decrease) in cash and cash equivalents	**30,015,595.63**	**20,046,323.25**
Cash and cash equivalent at the beginning of the period	84,673,866.41	64,631,098.86
Cash and cash equivalent at the end of the period	109,940,631.22	84,673,866.41

ANNEX 4 to
FC(2017)058

INTERNATIONAL STAFF
Statement of Budget Execution
As at 31 December 2016

(amounts in euro)	Initial Budget	Increase / Decrease	Revised Budget	Transfers	Final budget	Commitments	Expenses	Total spent	Carry forward	Special carry forward	Lapsed
CIVIL BUDGET											
Chapter 1	125,608,777.36	(2,077,383.22)	123,531,394.14	496,000.00	124,027,394.14	440,681.07	118,305,607.67	118,746,288.74	440,681.07	3,639,194.00	1,641,911.40
Chapter 2	41,546,666.13	2,257,736.76	43,804,402.89	(484,450.35)	43,319,952.54	4,710,027.14	36,022,073.02	40,732,100.16	4,710,027.14	2,058,730.00	529,122.38
Chapter 3	3,298,265.00	(297,635.04)	3,000,629.96	1,250.35	3,001,880.31	262,834.09	1,630,900.79	1,893,734.88	262,834.09	734,212.00	373,933.43
Chapter 4	23,577,520.00	(432,718.50)	23,144,801.50	(12,800.00)	23,132,001.50	1,579,777.81	20,989,361.88	22,569,139.69	1,579,777.81	-	562,861.81
Total FY 2016	**194,031,228.49**	**(550,000.00)**	**193,481,228.49**	**0.00**	**193,481,228.49**	**6,993,320.11**	**176,947,943.36**	**183,941,263.47**	**6,993,320.11**	**6,432,136.00**	**3,107,829.02**
CIVIL BUDGET											
Chapter 1	1,352,450.23	-	1,352,450.23	-	1,352,450.23	249,760.61	832,742.37	1,082,502.98	249,760.61	-	269,947.25
Chapter 2	4,446,775.86	-	4,446,775.86	-	4,446,775.86	618,055.50	3,788,289.22	4,406,344.72	618,055.50	-	40,431.14
Chapter 3	1,073,664.84	-	1,073,664.84	-	1,073,664.84	48,553.73	951,718.79	1,000,272.52	48,553.73	-	73,392.32
Chapter 4	12,170,990.30	-	12,170,990.30	-	12,170,990.30	129,524.25	11,232,797.98	11,362,322.23	129,524.25	-	808,668.07
Total FY 2015	**19,043,881.23**	**-**	**19,043,881.23**	**-**	**19,043,881.23**	**1,045,894.09**	**16,805,548.36**	**17,851,442.45**	**1,045,894.09**	**-**	**1,192,438.78**
CIVIL BUDGET											
Chapter 1	1,197,240.65	-	1,197,240.65	-	1,197,240.65	-	884,889.75	884,889.75	-	-	312,350.90
Chapter 2	728,740.67	-	728,740.67	-	728,740.67	773.51	194,618.62	195,392.13	773.51	-	533,348.54
Chapter 3	326,455.11	-	326,455.11	-	326,455.11	-	62,117.50	62,117.50	-	-	264,337.61
Chapter 4	4,239,673.65	-	4,239,673.65		4,239,673.65	19,053.58	3,395,452.18	3,414,505.76	19,053.58	-	825,167.89
Total FY 2014	**6,492,110.08**	**-**	**6,492,110.08**	**-**	**6,492,110.08**	**19,827.09**	**4,537,078.05**	**4,556,905.14**	**19,827.09**	**-**	**1,935,204.94**
SPECIAL CARRY FORWARDS											
Chapter 1	1,661,003.19	-	1,661,003.19	-	1,661,003.19	145,980.01	377,987.89	523,967.90	145,980.01	870,855.79	266,179.50
Chapter 2	256,559.00	-	256,559.00	-	256,559.00	36,647.00	220,869.68	257,516.68	36,647.00	-	(957.68)
Chapter 3	8,410,074.63	-	8,410,074.63	-	8,410,074.63	903,280.24	2,974,194.77	3,877,475.01	903,280.24	4,351,354.77	181,244.85
Chapter 4	430,649.31	-	430,649.31	-	430,649.31	9,069.39	239,418.41	248,487.80	9,069.39	-	182,161.51
Total SPECIAL CARRY FORWARDS	**10,758,286.13**	**-**	**10,758,286.13**	**-**	**10,758,286.13**	**1,094,976.64**	**3,812,470.75**	**4,907,447.39**	**1,094,976.64**	**5,222,210.56**	**628,628.18**
	230,325,505.93	(550,000.00)	229,775,505.93	0.00	229,775,505.93	9,154,017.93	202,103,040.52	211,257,058.45	9,154,017.93	11,654,346.56	6,864,100.92

ANNEX 4 to
FC(2017)058

INTERNATIONAL STAFF
Statement of Budget Execution as at 31 December 2015

(amounts in euro)	Initial budget	Unfreeze	BA2	Transfers	Revised Budget	Transfers	Final budget	Commitments	Expenses	Total spent	Carry forward	Lapsed
CIVIL BUDGET												
Chapter 1	119,743,761.00	38,000.00	119,781,761.00	(1,268,944.00)	118,512,817.00	1,400,000.00	119,912,817.00	2,086,084.90	117,745,130.21	119,831,215.11	2,086,084.90	81,601.89
Chapter 2	38,207,965.00	-	38,207,965.00	1,350,491.00	39,558,456.00	(1,000,000.00)	38,558,456.00	4,461,886.26	34,044,601.68	38,506,487.94	4,461,886.26	51,968.06
Chapter 3	4,845,444.00	-	4,845,444.00	552,298.00	5,397,742.00	-	5,397,742.00	4,029,685.74	1,156,089.85	5,185,775.59	4,029,685.74	211,966.41
Chapter 4	24,322,830.00	-	24,322,830.00	(633,845.00)	23,688,985.00	(400,000.00)	23,288,985.00	12,176,981.01	10,739,682.30	22,916,663.31	12,176,981.01	372,321.69
Total FY 2015	**187,120,000.00**	**38,000.00**	**187,158,000.00**	**-**	**187,158,000.00**	**-**	**187,158,000.00**	**22,754,637.91**	**163,685,504.04**	**186,440,141.95**	**22,754,637.91**	**717,858.05**
CIVIL BUDGET												
Chapter 1	3,340,084.02	-	3,340,084.02	-	3,340,084.02	110,000.00	3,450,084.02	1,192,133.18	2,252,084.38	3,444,217.56	1,192,133.18	5,866.46
Chapter 2	7,751,479.52	-	7,751,479.52	-	7,751,479.52	(110,000.00)	7,641,479.52	429,142.52	4,608,949.37	5,038,091.89	429,142.52	2,603,387.63
Chapter 3	7,680,918.41	-	7,680,918.41	-	7,680,918.41	-	7,680,918.41	4,722,890.77	2,729,748.52	7,452,639.29	4,722,890.77	228,279.12
Chapter 4	14,832,131.57	-	14,832,131.57	-	14,832,131.57	-	14,832,131.57	4,252,379.69	9,915,389.37	14,167,769.06	4,252,379.69	664,362.51
Total FY 2014	**33,604,613.52**	**-**	**33,604,613.52**	**-**	**33,604,613.52**	**-**	**33,604,613.52**	**10,596,546.16**	**19,506,171.64**	**30,102,717.80**	**10,596,546.16**	**3,501,895.72**
CIVIL BUDGET												
Chapter 1	501,738.76	-	501,738.76	-	501,738.76	-	501,738.76	165,066.77	159,107.98	324,174.75	165,066.77	177,564.01
Chapter 2	833,860.73	-	833,860.73	-	833,860.73	(100,000.00)	733,860.73	220,000.00	407,706.57	627,706.57	220,000.00	106,154.16
Chapter 3	2,294,467.05	-	2,294,467.05	-	2,294,467.05	100,000.00	2,394,467.05	617,394.50	1,772,394.47	2,389,788.97	617,394.50	4,678.08
Chapter 4	3,742,573.70	-	3,742,573.70	-	3,742,573.70		3,742,573.70	203,611.27	3,115,704.81	3,319,316.08	203,611.27	423,257.62
Total FY 2013	**7,372,640.24**	**-**	**7,372,640.24**	**-**	**7,372,640.24**	**-**	**7,372,640.24**	**1,206,072.54**	**5,454,913.83**	**6,660,986.37**	**1,206,072.54**	**711,653.87**
CIVIL BUDGET												
Chapter 1	77,124.84	-	77,124.84	-	77,124.84	-	77,124.84	940.80	76,152.66	77,093.46	940.80	31.38
Chapter 2	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 3	1,668,353.80	-	1,668,353.80	-	1,668,353.80	-	1,668,353.80	6,100.80	1,652,973.00	1,659,073.80	6,100.80	9,280.00
Chapter 4	-	-	-	-	-	-	-	-	-	-	-	-
Total FY 2012	**1,745,478.64**	**-**	**1,745,478.64**	**-**	**1,745,478.64**	**-**	**1,745,478.64**	**7,041.60**	**1,729,125.66**	**1,736,167.26**	**7,041.60**	**9,311.38**
CIVIL BUDGET												
Chapter 1	19,937.28	-	19,937.28	-	19,937.28	-	19,937.28	-	18,996.48	18,996.48	-	940.80
Chapter 2	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 3	2,093,038.66	-	2,093,038.66	-	2,093,038.66	-	2,093,038.66	1,015.98	2,077,656.88	2,078,672.86	1,015.98	14,365.80
Chapter 4	-	-	-	-	-	-	-	-	-	-	-	-
Total FY 2011	**2,112,975.94**	**-**	**2,112,975.94**	**-**	**2,112,975.94**	**-**	**2,112,975.94**	**1,015.98**	**2,096,653.36**	**2,097,669.34**	**1,015.98**	**15,306.60**
CIVIL BUDGET												
Chapter 1	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 2	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 3	47,579.92	-	47,579.92	-	47,579.92	-	47,579.92	-	47,576.35	47,576.35	-	3.57
Chapter 4	-	-	-	-	-	-	-	-	-	-	-	-
Total FY 2010	**47,579.92**	**-**	**47,579.92**	**-**	**47,579.92**	**-**	**47,579.92**	**-**	**47,576.35**	**47,576.35**	**-**	**3.57**
										-		-
CIVIL BUDGET												
Chapter 1	123,682,645.90	38,000.00	123,720,645.90	(1,268,944.00)	122,451,701.90	1,510,000.00	123,961,701.90	3,444,225.65	120,251,471.71	123,695,697.36	3,444,225.65	266,004.54
Chapter 2	46,793,305.25	-	46,793,305.25	1,350,491.00	48,143,796.25	(1,210,000.00)	46,933,796.25	5,111,028.78	39,061,257.62	44,172,286.40	5,111,028.78	2,761,509.85
Chapter 3	18,629,801.84	-	18,629,801.84	552,298.00	19,182,099.84	100,000.00	19,282,099.84	9,377,087.79	9,436,439.07	18,813,526.86	9,377,087.79	468,572.98
Chapter 4	42,897,535.27	-	42,897,535.27	(633,845.00)	42,263,690.27	(400,000.00)	41,863,690.27	16,632,971.97	23,770,776.48	40,403,748.45	16,632,971.97	1,459,941.82
Total FY 2010	**232,003,288.26**	**38,000.00**	**232,041,288.26**	**-**	**232,041,288.26**	**-**	**232,041,288.26**	**34,565,314.19**	**192,519,944.88**	**227,085,259.07**	**34,565,314.19**	**4,956,029.19**

ANNEX 4 to
FC(2017)058

NATO OFFICE OF SHARED SERVICES
Statement of Budget Execution
As at 31 December 2016

(amounts in euro)	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Final budget	Commitments	Expenses	Total spent	Carry forward	Lapsed
OSS												
Chapter 1	1,185,451.00	-	1,185,451.00	-	1,185,451.00	-	1,185,451.00	-	562,839.79	562,839.79	-	622,611.21
Chapter 2	28,549.00	-	28,549.00	-	28,549.00	-	28,549.00	-	17,048.82	17,048.82	-	11,500.18
Chapter 3	-	-	-	-	-	-	-	-		-	-	-
Total FY 2016	**1,214,000.00**	**-**	**1,214,000.00**	**-**	**1,214,000.00**	**-**	**1,214,000.00**	**-**	**579,888.61**	**579,888.61**	**-**	**634,111.39**
OSS												
Chapter 1	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 2	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 3	-	-	-	-	-	-	-	-	-	-	-	-
Total FY 2015	**-**	**-**	**-**	**-**	**-**	**-**	**-**		**-**	**-**	**-**	**-**
OSS												
Chapter 1	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 2	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 3	-	-	-	-	-	-	-	-	-	-	-	-
Total FY 2014	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total all budgets	**1,214,000.00**	**-**	**1,214,000.00**	**-**	**1,214,000.00**	**-**	**1,214,000.00**	**-**	**579,888.61**	**579,888.61**	**-**	**634,111.39**

ANNEX 4 to
FC(2017)058

NATO OFFICE OF SHARED SERVICES
Statement of Budget Execution as at 31 December 2015

(amounts in euro)	Initial budget	Unfreeze	BA2	Increase	BA3	Transfers	Final budget	Commitments	Expenses	Total spent	Carry forward	Lapsed
OSS												
Chapter 1	246,900.00	246,900.00	493,800.00	-	493,800.00	20,000.00	513,800.00	-	507,896.14	507,896.14	-	5,903.86
Chapter 2	31,950.00	31,950.00	63,900.00	-	63,900.00	(20,000.00)	43,900.00	-	36,359.54	36,359.54	-	7,540.46
Chapter 3	-	-	-	1,200,000.00	1,200,000.00	-	1,200,000.00	-	840,742.00	840,742.00	-	359,258.00
Total FY 2015	**278,850.00**	**278,850.00**	**557,700.00**	**1,200,000.00**	**1,757,700.00**	**-**	**1,757,700.00**	**-**	**1,384,997.68**	**1,384,997.68**	**-**	**372,702.32**
OSS												
Chapter 1	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 2	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 3	-	-	-	-	-	-	-	-	-	-	-	-
Total FY 2014	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
OSS												
Chapter 1	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 2	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 3	-	-	-	-	-	-	-	-	-	-	-	-
Total FY 2013	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
										-		-
Total OSS	**278,850.00**	**278,850.00**	**557,700.00**	**1,200,000.00**	**1,757,700.00**	**-**	**1,757,700.00**	**-**	**1,384,997.68**	**1,384,997.68**	**-**	**372,702.32**

ANNEX 4 to
FC(2017)058

NATO PMIS
Statement of Budget Execution
As at 31 December 2016

(amounts in euro)	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Final budget	Commitments	Expenses	Total spent	Carry forward	Lapsed
PMIS												
Chapter 1	126,250.00	-	126,250.00	-	126,250.00	-	126,250.00	-	118,222.76	118,222.76	-	8,027.24
Chapter 2	20,000.00	-	20,000.00	-	20,000.00	-	20,000.00	-	19,477.72	19,477.72	-	522.28
Chapter 3	-	-	-	-	-	-	-	-		-	-	-
Total FY 2016	**146,250.00**	**-**	**146,250.00**	**-**	**146,250.00**	**-**	**146,250.00**	**-**	**137,700.48**	**137,700.48**	**-**	**8,549.52**
PMIS												
Chapter 1	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 2	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 3	-	-	-	-	-	-	-	-	-	-	-	-
Total FY 2015	**-**	**-**	**-**	**-**	**-**	**-**	**-**		**-**	**-**	**-**	**-**
PMIS												
Chapter 1	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 2	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 3	-	-	-	-	-	-	-	-	-	-	-	-
Total FY 2014	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total all budgets	**146,250.00**	**-**	**146,250.00**	**-**	**146,250.00**	**-**	**146,250.00**	**-**	**137,700.48**	**137,700.48**	**-**	**8,549.52**

ANNEX 4 to
FC(2017)058

NATO PMIS
Statement of Budget Execution as at 31 December 2015

(amounts in euro)	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Final budget	Commitments	Expenses	Total spent	Carry forward	Lapsed
PMIS												
Chapter 1	122,750.00	-	122,750.00	-	122,750.00	-	122,750.00	-	115,379.52	115,379.52	-	7,370.48
Chapter 2	20,000.00	-	20,000.00	-	20,000.00	-	20,000.00	-	19,490.57	19,490.57	-	509.43
Chapter 3	-	-	-	-	-	-	-	-	-	-	-	-
Total FY 2015	**142,750.00**	**-**	**142,750.00**	**-**	**142,750.00**	**-**	**142,750.00**	**-**	**134,870.09**	**134,870.09**	**-**	**7,879.91**
PMIS												
Chapter 1	1,436.29	-	1,436.29	-	1,436.29	-	1,436.29	-	-	-	-	1,436.29
Chapter 2	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 3	-	-	-	-	-	-	-	-	-	-	-	-
Total FY 2014	**1,436.29**	**-**	**1,436.29**	**-**	**1,436.29**	**-**	**1,436.29**	**-**	**-**	**-**	**-**	**1,436.29**
PMIS												
Chapter 1	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 2	-	-	-	-	-	-	-	-	-	-	-	-
Chapter 3	-	-	-	-	-	-	-	-	-	-	-	-
Total FY 2013	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
										-		-
Total PMIS	**144,186.29**	**-**	**144,186.29**	**-**	**144,186.29**	**-**	**144,186.29**	**-**	**134,870.09**	**134,870.09**	**-**	**9,316.20**

EXPLANATORY NOTES TO NATO INTERNATIONAL STAFF 2016 FINANCIAL STATEMENTS

NOTE 1: GENERAL INFORMATION

NATO's essential purpose is to safeguard the freedom and security of its members through political and military means. Politically, NATO promotes democratic values and encourages consultation and cooperation on defence and security issues to build trust and, in the long run, prevent conflict. Militarily, NATO is committed to the peaceful resolution of disputes. If diplomatic efforts fail, it has the military capacity needed to undertake crisis-management operations. These are carried out under Article 5 of the Washington Treaty - NATO's founding treaty - or under a United Nations mandate, alone or in cooperation with other countries and international organizations.

The International Staff was created in 1951 to support the North Atlantic Council (NAC) (Council resolution D-D(51)30). The "Agreement on the Status of the North Atlantic Treaty Organization" defined its status, which National Representative and International Staff negotiated and signed in September of 1951.

The IS is an advisory and administrative body whose primary role is to support the national delegations of the 28 member states at NATO Headquarters. It produces policy papers, background notes and reports on issues relevant to NATO's political and military agenda and in doing so, supports the process of consensus building and decision-making in the Alliance. The IS then helps to implement the decisions taken in NATO's committees and liaises closely with the nations and NATO's International Military Staff (IMS).

Headed by the Secretary General, the IS includes eight divisions, each headed by an Assistant Secretary General and a number of Independent Offices headed by Directors. Some 1,000 civilians work within the IS at NATO Headquarters in Brussels, Belgium. They owe their allegiance to the Alliance throughout the period of their appointment. They are either recruited directly by the Organization or seconded by their governments and each appointment is approved by the Secretary General.

The financial statements cover the budgetary and financial operations relating to the NATO International Staff (IS) budgeted and non-budgeted functions and programs.

NOTE 2: ACCOUNTING POLICIES

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

Declaration of conformity

The NATO-IS financial statements have been prepared in accordance with the NATO Accounting Framework as approved by nations under C-M(2013)0039 on 26 July, 2013 (which adapts a small number of IPSAS standards to better suit the specific requirements of the Alliance) and with the NATO Financial Regulations (NFR), the Financial Rules and Procedures (FRP).

Basis of preparation

The financial statements have been prepared on a going-concern basis: NATO-IS will continue in operation for the foreseeable future.

The amounts shown in these financial statements are presented in EUR

The financial year begins on 1 January and ends on 31 December of the same year.

The following IPSAS have no material effect on the 2016 financial statements of the NATO-IS:

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

Concerning IPSAS 6: the transactions concerning the NATO Staff Centre are not consolidated with those of the International Staff, as the IPSAS 6 "Consolidated and Separate Financial Statements" would require, but are reported separately in accordance with a specific decision taken by the NAC.

Segment Reporting

A segment is a distinguishable activity or group of activities for which it is appropriate to separately report financial information. For NATO IS the segment information is based on principal activities and different sources of financing for different categories of activities of the organisation. To this end, the following segments have been adopted: Civil Budget, Reimbursables Expenses, Personnel Management Information System, Office of Shared Services, Extra-Budgetary Funds, Partners' Accommodation and Refurbishment of Building Z.

Changes in Accounting Policy

None to report.

Use of estimates

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

Foreign currency transactions

The NATO-IS budget is authorized and managed in EUR so contributions are called in EUR. Foreign currency transactions as required are accounted for at the NATO exchange rates prevailing on the date of the transaction. Monetary assets and liabilities at year-end which were denominated in foreign currencies were converted into EUR using the NATO exchange rates applicable at 31 December 2016.

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

Financial risks

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

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

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

a. Foreign currency exchange risk

The exposure to foreign currency risk is limited as the majority of the NATO-IS's expenditures are made in EUR. The current bank accounts are held in EUR, CAD, CHF, DKK, GBP, NOK and USD. There are accounts with local banks for the Information and Liaison Offices in New York, Moscow, Kyiv, Tbilisi, Chisinau and Tashkent. The currency risk associated with these holdings is considered limited in consideration of the level of the aggregated amount held in these accounts.

The maximum exposure as at 31 December 2016 is equal to the total amount of bank balances, short term deposits and receivables. There is very limited credit risk associated with the realization of these elements.

b. Credit risk

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

ING Bank Credit Ratings as at 07/02/2017

	Fitch	Moody's	S&P
Short term	F1	NA	A2

c. Liquidity risk

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

d. Interest rate risk

Except for certain cash and cash equivalent balances, the NATO-IS financial assets and liabilities do not have associated interest rates. NATO-IS is restricted from entering into borrowings and investments, and, therefore, there is an insignificant interest rate risk. Interest earned is not a budgetary resource but contributes to the surplus owed to Nations.

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, other short term highly liquid investments.

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

b. Receivables

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

Contributions receivable are recognised when a call for contribution, based on the approved budget, has been issued to the funding Nations. These receivables represent the uncollected contributions from Member Nations. No allowance for loss is recorded with respect to Member countries' assessed contributions receivable.

c. Prepayments

A prepayment is a payment in advance of the period to which it pertains and is mainly in respect of advance payments made to third parties.

d. Other Current Assets

Other Current Assets correspond essentially to advances made to NATO-IS Offices in countries other than Belgium, or to other non-consolidated NATO entities, generally in order to ease their treasury situation.

e. Inventories

Inventories held across the IS are not considered to be material.

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

a. Property, Plant & Equipment

As mentioned above, NATO's adaptations of IPSAS were spelled out in C-M(2013)0039 of July 2013, which included IPSAS 17 Property Plant and Equipment. It is described as follows:

Control of NATO PPE was refined with a set of 10 criteria to be used in assessing the level of control of an asset – they are the same as mentioned above under Inventory. A positive response on six of the criteria will lead to the asset being capitalised in the financial statements if it is above the capitalization threshold. This is applied from January 2013.

Capitalization thresholds relevant to the financial statement are as follow:

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

In light of the forthcoming move to a New NATO HQ in 2018, it has been decided, in general, that core PPE relating to the current HQ and Building Z will be fully expensed as will any fixed equipment and furniture that is not to be transferred to the New HQ. Only movable items purchased with a view to being used again in the New HQ/Building Z environment will be capitalized.

Where and as appropriate, specific pieces of PPE (for example buildings), will be broken down into component parts to allow depreciation of different parts of the asset at different rates. The IS has considered PP&E acquired prior to 1 January 2013 as fully expensed. For PPE held prior to 1 January 2013, and not previously recognized as an asset, the IS will provide a brief description in the Notes below.

NATO-IS deems that the NAC, by approving this guideline, recognized that the resources necessary to deal with the issues capitalising the legacy assets would exceed the benefits. In light of this and, combined with the fact that substantial assets will not survive the move to the New NATO HQ in 2018, NATO-IS decided to apply the IPSAS principle of balance between Benefit and Cost (IPSAS 1, Appendix A).

b. Intangible Assets

As mentioned above, NATO's adaptations of IPSAS were spelled out in C-M(2013)0039 of July 2013, which included IPSAS 31 Intangible Assets. It is described as follows:

Control of NATO Intangible Assets was refined with a set of 10 criteria to be used in assessing the level of control of an asset – they are the same as mentioned above under Inventory. A positive response on six of the criteria will lead to the asset being capitalised in the financial statements if it is above the capitalization threshold. This is applied from January, 2013.

NATO Intangible Assets Capitalization Thresholds – NATO-IS will capitalise each intangible asset item that is above the following agreed NATO thresholds:

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

NATO-IS will capitalize all controlled intangible assets above the NATO Intangible Asset Capitalization Threshold. For anything below the threshold, the IS will have the flexibility to expense specific items.

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

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

NATO-IS will capitalize other types of intangible assets acquired after 1 January 2013 including:

- Copyright
- Intellectual Property Rights
- Software development

NATO-IS may consider intangible assets acquired prior to 1 January 2013 as fully expensed. The IS looked as far back as 2006 in establishing values of work in progress, especially software under development.

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

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

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

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

Current liabilities

a. Payables

Payables are amounts due to Nations in relation with budget rules or to third parties for goods received and services provided that remain unpaid. This includes an estimate of accrued obligations to third parties for goods and services received but not yet invoiced.

b. Advances and Unearned revenue

Funds are always called in advance of their need because NATO-IS has no capital that would allow it to pre-finance any of its activities.

Unearned revenue represents participating Nations' contributions which have been called for current budgets but that have not yet been recognised as revenue in the absence of matching expenses.

Advances are recognised when calls in relation to future year budgets are issued. Advances made by contributing nations outside of the call for contributions process are recorded when cash is received.

c. Other Current Liabilities

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

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

Non-Current Liabilities

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

NET ASSETS

Net Assets correspond to cumulative surpluses/deficits of non-budgetary activities such as Partner Accomodation where income follows a process that is relatively independent from the actual level of expenses, and does not automatically balance expenses as in the standard NATO budget process. For such activities, the yearly execution results in a surplus or a deficit.

Leases

In addition to lease agreements that NATO-IS has signed for its own use, lease contracts were signed by NATO-IS for some delegations' accommodation; the related costs are charged back to the occupants in relation to the surface they occupy in the leased buildings.

Revenue and expense recognition

a. Revenue from non-exchange transactions

Revenue comprises contributions from Member nations. Contributions to be called from Member Nations, based on the budget approved by the North Atlantic Council, are initially recorded as unearned revenue liabilities. Because contributions are subject to conditions that, if unfulfilled, require the return of the transferred resources, the entity recognises a liability until the condition is fulfilled.

Assessed contributions for the NATO-IS Civil Budget are accounted for as unearned revenue when called; revenue is recognised and the liability is discharged when the conditions are fulfilled. Revenue is recognised in 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 which relate to future periods are deferred accordingly.

In-kind contributions of services are currently not recognised in the Statement of Financial Performance. The number of Voluntary National Contributions (VNCs) staff is disclosed in the "employee disclosure" section below.

b. Revenue from exchange transactions

Resources of revenue from exchange transactions are measured at fair value of the consideration received or receivable and are recognised when goods and services are delivered. This is revenue in relation to the reimbursement of administrative support and common operating costs, PMIS and accommodation costs.

Voluntary contributions such as pledges in relation to Extra Budgetary Funds are accounted for as unearned revenue when confirmed by the donor, revenue is recognised and the liability is discharged when the conditions are fulfilled.

c. Long term unearned revenue

The budget resources provided by Nations for the funding of capital expenditure are recognised as a liability in the Statement of Financial position as long term unearned revenue.
Earned revenue will be progressively recognised from long term unearned revenue, in an amount equal to annual depreciation of the related non-current assets, as future economic benefits and service potential will flow to the NATO international Staff when the asset is operational.

NOTE 3: CASH AND CASH EQUIVALENTS

The current bank accounts at NATO HQ are held in EUR, CAD, CHF, DKK, GBP, NOK and USD. Deposits are held in interest-bearing bank current accounts that are immediately available.

NATO-IS has information and liaison offices in New York, Moscow, Kyiv, Tbilisi, Tashkent and Chisinau. Current accounts of these offices are held with local banks.

Cash is also held for Extra Budgetary Funds for which NATO-IS is the executing agent and therefore acts as the principal, or for which NATO-IS acts as Treasurer. These projects not financed by the common funding principle. These Extra Budgetary Funds managed on behalf of third parties are held in cash or as a receivable if they correspond to an unpaid non-budgetary contribution in relation to nationally funded elements. In the case of an anticipated contribution, they are accounted for when cash is effectively received. The corresponding amounts are presented as a current liability.

NOTE 4: SHORT TERM INVESTMENTS

Short term investment are made in consideration of the situation of interest rates on highly liquid and high quality paper (EUR 57,000,000 end 2016).

NOTE 5: CURRENT ASSETS: ACCOUNTS RECEIVABLE

Accounts receivable are mainly outstanding contributions for the NATO Civil Budget related to the call issued at the end of the year (MEUR 30.412) and amounts due by other bodies (MEUR 6.4) for services rendered by the International Staff (Common Operating Costs and Administrative Support).

Contributions receivable from NATO member Nations are essentially funds requested from the Nations to finance the Civil Budget and the advances called in relation to the following year Civil Budget that remain unpaid at year end. In accordance with the standard procedure, one advance for the 2017 budget was called in 2016 and two calls for contributions were issued in 2016: in February and in November. In 2016 an advance was called for the 2017 budget. Other receivables from NATO member Nations correspond mainly to amounts due in due in relation to common operating costs, administrative support and rental of office accommodation.

Receivables from member Partner Nations and others correspond to amounts due in relation to common operating costs, administrative support, rental of modular buildings, accommodation fees of Partner buildings, items procured on behalf of third parties, etc. They also correspond to outstanding amounts in relation to the funding of their specific requirements concerning the refurbishment of Building Z.

Receivables from staff correspond to miscellaneous services (e.g. use of telephone for private purposes). This item also includes amounts due by the insurer to compensate for salary costs of staff on long term sick leave.

NOTE 6: PREPAYMENTS

Prepayments to suppliers relate mostly to rental fees for the year to come, which have to be paid in advance.

Prepayments to staff members correspond to advances to be regularised (education allowances for the following year, travel on duty, and loans as provided by the CPRs.

Receivables from the Post Employment Benefit Schemes are cash advances to the Defined Contribution Pension Scheme to ease the payment of invalidity and retirement annuities. Advances were also done towards the NATO Staff Centre to ease its treasury.

NOTE 7: OTHER CURRENT ASSETS

Corresponds to credit notes to be received and to advances made to NATO IS Offices located outside Belgium.

NOTE 8: INVENTORIES

Other inventories include office supplies, maintenance supplies, medicines and munitions are valued.

NOTE 9: NON CURRENT ASSETS: RECEIVABLES

Nothing to report.

NOTE 10: PROPERTY, PLANT AND EQUIPMENT

The following principles have been applied.

Property, Plant and Equipment

Infrastructure, plant and equipment are stated under the accounting principles mentioned in Note 2 above.

This consists principally of costs related to the NR2 and audiovisual equipment.

Network Realignment and Robustness (NR2) is part of a strategic plan to revitalize the management and support of Information and Communications Technology (ICT) within the Headquarters. This element delivered a hardware and software upgrade to the physical infrastructure for which the bulk was delivered prior to close of 2012.

Land and buildings

Land and buildings are shown at fair value, based on internal valuation and judgment on each reporting date.

Belgium has granted to NATO by way of concession a plot of land on which NATO is authorized to erect all necessary buildings and facilities needed to perform its functions. A symbolic price is paid annually for the rent. NATO is the full owner of all structures built thereon. Belgium remains the sole and full owner of the land, which is public domain ("domaine publique"). The concession ends 180 days after NATO has left the buildings and facilities. At the end of the concession, there will be no property rights transferred to NATO. As a consequence, given the indefinite economic life of land and the specific nature of concessions, the use of the land is classified as an operational lease. The rent charged by the host nation is recognised as an expense in the Statement of Financial Performance.

The original buildings of the current HQ site are estimated as having a zero value in consideration of their age, of the terms of the concession agreement, of the limited value for money of an evaluation study and of the planned move to new premises in 2018.

Material and non-recorded items purchased prior to 1 January 2013 are the fourth wing of Building Z assessed at the historical cost of EUR 2.566 million and the Secretary General's residence with an assessed market value of EUR 10,300,000 as at November 2013.

The table below concerns the IS for its Civil Budget component.

	2015	2016					
AS PER FINANCIAL STATEMENTS (amounts in EUR)	**Carrying Amount end 2015**	**Additions 2016**	**Reclass 2016**	**Disposals 2016**	**Depreciation 2016**	**Impairment 2016**	**Carrying Amount end 2016**
COMMON FUNDED							
Automated Information Systems	108,480.67				**63,251.33**		45,229.33
Installed equipment	0.57	58,563.74			**2,928.19**		55,636.12
Machinery	79,032.00				**13,172.00**		65,860.00
Transportation Equipment	80,214.83	79,448.00			**34,123.56**		125,539.28
Communications	427,279.10	90,549.50			**185,936.86**		331,891.73
IT Equipment		718,379.57			**89,694.89**		628,684.68
Intangible assets	- 1,205,829.90	288,446.47	8,315,187.00		**1,769,146.04**	2,000,000.00	3,628,657.53
Intangible assets under contruction	17,278,049.51	748,413.75	- 8,315,187.04			- 2,000,000.00	11,711,276.22
TOTAL	**16,767,227**	**1,983,801**	**-0**	**0**	**2,158,253**	**0**	**16,592,775**

NOTE 11: INTANGIBLE ASSETS

Intangible assets are stated at historical cost minus accumulated depreciation and any recognized impairment loss. The assets deemed valid are software/hardware systems that are work in progress and will be continue to be used in the new HQ. They are as follows:

- Digital Assets Management System (DAMS) – this is a Public Diplomacy tool that will make NATO's digital assets accessible in multiple formats to the media. It will improve the retrieval and availability of multimedia files to all NATO Staff and will serve as Public Diplomacy's single shared storage platform for all public digital assets.

- Enterprise Resource Planning (ERP) – this Oracle based software will enable NATO-IS to more effectively manage and report on the human and financial resources under its responsibility by integrating business processes from Finance, Budget, Procurement, Facility Management, and Human Resources (HR).

- Integrated Library System (ILS) – the project is designed to provide an online library automation solution to support the daily operations of the IS Library (which is part of PDD) ranging from cataloguing and circulation procedures to delivering resources and services via its website.

- Web Content Management (WCM) – the project will update and improve the web based content management system for the public website of NATO Headquarters.

- Enterprise Information Management (EIM) is a core multi-year program of procedures and integrated software applications to manage information throughout NATO HQ and ensure that information is handled effectively and securely.

- Project Portfolio Management System (PPM) is part of a NATO Resource Reform process under the aegis of the NATO Office of Resources (NOR). The system will provide the necessary functionality for collecting, analysing, validating, recording, consolidating and reporting information on current and planned common funded military resources in terms of Investment, Operation and Maintenance and Manpower costs.

Depreciation

Straight-line depreciation method is used for all categories, with the life cycles being in keeping with those stated in the change in accounting policy.

Impairment of fixed assets

The carrying amounts of fixed assets are reviewed for impairment if events or changes of circumstances indicate that they may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the impairment loss. Any provision for impairment losses is charged against the Statement of Financial Performance in the year concerned.

NOTE 12: OTHER NON-CURRENT ASSETS

Nothing to report.

NOTE 13: PAYABLES

Payables and accrued expenses may be to commercial suppliers, staff, Member Nations, other NATO bodies and Partner Nations.

Payable to suppliers

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

Payable to personnel

Payable to personnel relates to amounts due to staff in relation to travel expenses and hospitalities.

Payable to Nations

There is a payable in relation to the reimbursable salaries due to certain countries (United States, Norway and the Netherlands) for civilian staff members who are paid directly by their governments. This amount payable can used by the nations in question applying it against their annual project contribution.

Payable to other NATO bodies

This includes amounts received from NATO bodies in support of projects funded by the Civil Budget.

Accruals

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

NOTE 14: DEFERRED REVENUE

Unearned revenue corresponds to contributions called for the current year or before, that NATO IS intends to use for its initial purpose, but for which corresponding expenses will be incurred after the reporting date of 31 December 2016.

Unearned revenue includes principally those amounts of contributions which will be spent in subsequent years on the NATO Civil Budget as credits carried-forward resulting from the budget execution in accordance with the NATO Financial Regulations. If the funds are not spent by the end of the second year following the year for which they were approved, these funds will lapse unless a specific decision is taken by member nations for a further carry-forward.

NOTE 15: ADVANCES

The standard call for budget contributions process includes an advance on the following year's budget. Advances called amounting to EUR 50,000,000 relate to funding the 2017 Civil Budget (compared to EUR 46,200,000 previous year).

In addition, some Nations made ad hoc voluntary advance contributions (EUR 9.1 million).

NOTE 16: SHORT TERM PROVISIONS

The provision corresponds to receivables for which a write-off procedure is pending.

NOTE 17: OTHER CURRENT LIABILITIES:

Other Current Liabilities linked to the budget process

Amounts corresponding to the current year budgetary surplus (lapsed credits + net interests + miscellaneous income) are considered a liability towards the contributing nations. The settlement does not follow the normal accounts payable process, since the standard approach is to return them to contributing nations via a deduction of the following year's call for budget contributions. Nations may also decide that part or all of the budgetary surplus is made available for use in future years (see Note on Budget Information).

Lapsed credits are budget funds for which no legal liability exists. They cannot be spent in subsequent years. Lapsed credits are deducted from the contributions due from Nations to fund the Civil Budget in the second call of the following year. For the PMIS, lapsed credits are deducted from the amounts due by the NATO participating entities for the following year. This principle does not apply to the Office of Shared Services, as exceptionally agreed by the Budget Committee. The other activities do not follow the standard budget process.

For the Civil Budget, receipts linked to interest, foreign exchange difference gain and bank charges are deducted from the contributions due by Nations to fund the Civil Budget in the following year; the deduction is made in the second call.

Miscellaneous receipts correspond to amounts collected by NATO-IS for services rendered to staff (e.g. private phone calls) or services rendered to and works performed for entities, including delegations, present on the HQ site (e.g. telephone, refurbishment works, cabling). They also include amounts related to Science for Peace and Security grants returned to NATO-IS. These receipts come as a deduction in the calculation of the contributions due from nations to fund the Civil Budget in the following year; the deduction is made in the second call.

Other Current Liabilities linked to closed or ad-hoc projects

Other Current Liabilities consist of monies initially contributed by Nations relating to balances of closed Trusts Funds for which NATO-IS is awaiting instructions on the redistribution of funds, to the settlement of the closure of former NATO entities (HAWK Agency) and AGS Support Staff Cell, to ad-hoc contributions by some nations to specific projects.

Stikker Fund

The Stikker Fund originates from a donation made by former Secretary General D.U. Stikker in the 1960s. In accordance with the conditions laid down by the donor, the Fund is used for special financial aid to NATO staff in exceptional and distressing circumstances.

NOTE 18: NON-CURRENT LIABILITIES: LONG TERM PROVISIONS

Nothing to report.

NOTE 19: NON-CURRENT LIABILITIES: DEFERRED REVENUE

Long term unearned revenue is unearned revenue in relation to net carrying amounts of PP&E and intangible assets. Revenue is recognised over the estimated life cycle of the PP&E and the intangible assets when PP&E and intangible assets are recognized.

NOTE 20: OTHER NON-CURRENT LIABILITIES

Nothing to report.

NOTE 21: NET ASSETS

Corresponds to miscellaneous accumulated surpluses/deficits generated outside of the budget execution context, essentially Partners Accommodation.

When the funding policy for Partners Accommodation (referred to as Annex IV) was established in 1997 (BC-DS(97)18 Revised), Annex IV had budgetary credits authorised to provide for Partner accommodation on site. These were expanded to create offices in the Manfred Wörner Building. The Civil Budget Committee then decided to have the Partners reimburse the total rent and operational costs in proportion to the space they occupied. Further, Nations agreed that financing of Annex IV should be treated separately from the Civil Budget. They also agreed that Annex IV would, in future, be funded by Partners rental payments, therefore Annex IV is not subject to the lapse rules foreseen in NATO's Financial Regulations. Over time, this process resulted in surpluses.

NOTE 22: REVENUE FROM NON-EXCHANGE TRANSACTIONS

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

The total revenue from non-exchange transactions is essentially related to NATO-IS. Budget contributions, when called, are booked as unearned revenue and subsequently recognised as revenue when earned. The revenue recognition is matched with the recognition of expenses against the budgets.

NOTE 23: REVENUE FROM EXCHANGE TRANSACTIONS

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

The total revenue from exchange transactions is broken down as follows. For the IS: revenue in relation to the reimbursement to the Civil Budget of administrative support and common operating costs, revenue received from concessions, miscellaneous income. For the PMIS: contributions from other NATO bodies to cover the expenses of the PMIS system according to their proportion of established posts. For Extra Budgetary Funds: revenue matching the costs of activites undertaken by NATO-IS as executive agent for Trust funds. For Partners' Accommodation: rent charged principally to Partner Countries for office space at NATO HQ (Buildings V/VA/Woerner).

NOTE 24: OTHER REVENUE

Corresponds to miscellaneous income such as: gains on disposal of fixed assets, staff private phone calls, works in national delegations, etc.

NOTE 25: FINANCIAL REVENUE

Financial revenue (being principally from the Civil Budget) is revenue from exchange transactions measured at fair value received or receivable for interests and foreign exchange gains.

NOTE 26: EXPENSES

Wages, salaries and employee benefits

The personnel related costs include all staff expenses, as well as other non-salary related expenses in support of common funded activities. The amounts include expenses for salaries and emoluments for approved NATO-IS positions and temporary personnel, for other salary related and non-related allowances including overtime, medical exams, recruitment, installation and removal and for contracted consultants and training in accordance with Civilian Personnel Regulations.

Operating costs: rents, supplies and consumables used

The operating costs relate primarily to costs necessary to the day to day operation of the HQ, as well as travel expenses. This item includes expenses classified as Capital expenditure from a budget perspective (to include items such as IT, security, television and radio studios etc.) but that did not qualify as capital from an IPSAS perspective.

Programmes and grants

The majority of grants are considered expended upon notification, to the beneficiary, of the decision to attribute the grant/award. Programmes and grants is a broad term that covers activities with Partners and NATO nations ranging from funding seminars and conferences through NGOs, to bringing groups of experts to NATO HQ for briefings and attributing grants in the framework of the Science for Peace Security Programme (the latter being the main component). It also includes the cost of running NATO Information and External Offices in Russia, Ukraine, Georgia, Central Asia, Moldova and New York.

Programmes and grants expenses include advances paid to beneficiaries of grants.

Depreciation and amortization

No amounts are budgeted for depreciation and amortization.

Financial costs

Financial costs include expenses for banking costs and foreign exchange losses.

Other expenses

Other expenses is revenue received from concessions and transferred the Staff Centre and summer camps. They also include the amount of net interest revenue and miscellaneous income that will be returned to the Nations, and are booked as a payable in the Statement of Financial Position.

NOTE 27: RESULT OF THE PERIOD (SURPLUS/DEFICIT)

The surplus/deficit is realised from the activities in support of Partner accommodation.

NOTE 28: CASH FLOW STATEMENT

In accordance with the new NATO Accounting Framework, the cash flow statement is presented based on the indirect method, whereas up to 2014 the direct method was used.

NOTE 29: BUDGET INFORMATION

Presentation of budget information in the financial statements

For the purposes of these financial statements, the term budget is understood as corresponding to a formal approval of expense limits by the North Atlantic Council or the Budget Committee. It does not correspond to situations where the term budget may be used for more managerial purposes and/or is used to forecast expenditure rather than limit its attributions.

From a budget perspective, the International Staff Financial Statements include the budget transactions of the following budget entities: the NATO Civil Budget (i.e. that of the NATO Headquarters in Brussels, essentially but not exclusively the International Staff), the NATO Wide PMIS, and the Office of Shared Services.

Presently, none of these budgets is publicly available.

The actual amounts referred to by IPSAS 24 ("amounts that result from execution of the budget") are considered to be the actuals and the commitment of appropriations when the corresponding services or goods could not be received in the course of the year.

Budget Execution Rules and Principles

The following comments relate to the Civil Budget since it is the most important entity. The analysis and processes apply to a very large extent to the other two budget entities.

The initial approved budget corresponds to total credits authorised by the North Atlantic Council, normally at the end of the previous financial year. During the year the budget is adjusted as required. The final authorisation is the approved credit situation as reported at the end of the financial year including budgetary increases/decreases approved by the Budget Committee and transfers approved by the Budget Committee or by the Financial Controller, depending on thresholds.

The Civil Budget is prepared for the same period (1 January to 31 December) and encompasses the same entity (NATO International Staff) as these financial statements but the basis is different.

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

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

Issues related to the first period of use of the ERP may also have had an impact, in particular , the receipting of goods and services in the system, some of which may have been attributed to 2016, even if the services or goods were effectively received during 2015. As a consequence, the breakdown between open commitments and actuals may not be totally accurate. This may also have impacted the cut-off of expenses between 2015 and 2016 irrespective of the budget process.

The Civil Budget is prepared and executed as follows:

1) The commitment of appropriations is the advance acceptance and recording of the financial consequence resulting from a legal obligation incurred during the financial year. As a consequence appropriations are allocated, and commitments are approved, for goods, services and works to be delivered at a later stage. Commitments are settled when the service is rendered or goods delivered as is the case for expenses under accrual accounting.

2) Unliquidated commitments are carried forward and added to the budget of the following financial year in relation to an existing legal commitment or if a special agreement is given by the Budget Committee. Under the new regulations they correspond to services not received or goods not delivered, at year-end, for specific circumstances. Outstanding commitments can be carried forward for two years. As a consequence, the services or goods received may relate to a commitment of credits from previous years' budgets. The carry-forward should be justified by a reason for which the services or goods could not be received in the course of the year. In addition, in accordance with Financial Regulations, member Nations may agree to a further carry-forward of commitments that were already carried forward twice.

3) Commitments, because they are an advance acceptance, and because payments cannot be made above approved credit levels, typically include an estimation factor and are (if only slightly) higher than the actual amount eventually paid. This results in commitments being higher than the actual expenses and in credits eventually lapsing. Generally lapse rates for Personnel, Operations and Maintenance or Capital tend to be smaller than for Programmes because they can be estimated more accurately.

4) Commitments are only made in respect of expenses relating to the initial purpose of the commitment. Commitments for capital expenditures are normally made in the year during which the purchase order is issued. In accrual accounting, the related costs would not appear in the Statement of Financial Performance but in the Balance Sheet and only upon reception of the works, goods or services. Conversely, there is no budgetary commitment of appropriations for non-cash transactions such as capital depreciation or provisions which would normally appear in the Statement of Financial Performance under accrual accounting.

5) On an exceptional basis, the NATO member Nations may approve the special carry-forward of appropriations without any prior legal commitment, for instance for projects at their initiation stage or planned expenditures. In accrual accounting there would be no expense recorded.

6) The balance of unused budgetary appropriations (not committed) lapses and is returned to Member Nations at year-end. Lapses may include cases where a project was eventually not completed or started, and therefore lead to no expense.

The NATO Civil Budget

The Civil Budget is based on an Objective Based Budgeting (OBB) system which links financial and human resources to Global Objectives. Contributions to these Global Objectives by IS Divisions and Independent Offices are broken down into Operational Objectives. The OBB system is based on eight Global Objectives which are defined at a political and strategic level of the Organization.

The eight objectives are set out below:

A	CRISIS MANAGEMENT & OPERATIONS
C	COLLECTIVE DEFENCE
P	COOPERATIVE SECURITY
R	PUBLIC RELATIONS
N	CONSULTATION PROCESS
M	OPERATIONAL ENVIRONMENT OF THE HEADQUARTERS SITE
G	GOVERNANCE AND REGULATION
S	HEADQUARTERS SECURITY

The budget classification is also based on the economic nature of the expenses broken down into four Resource Pools as follows:

Resource Pool 1: Personnel
Resource Pool 2: Operations and Maintenance
Resource Pool 3: Capital
Resource Pool 4: Programmes

All budget transactions, commitments and payments are tracked according to a classification by Objective and by Resource Pool.

An analysis of budget execution is provided at Annex 4 for what concerns the NATO Civil Budget.

Initial Civil Budget – Revised Civil Budget

The initial Civil Budget for 2016 was approved, in December 2015, in the amount of EUR 190,007,000. The Civil Budget was revised in November 2016 to the amount of EUR 189,457,000. The amounts include costs related to the Provident Fund and Defined Contribution Pension Scheme contributions.

For 2016, Nations also approved the use of prior years' lapsable appropriations, for specific requirements in the amount of EUR 4,024,229.

The initial Civil Budget for 2015 was approved, in December 2014, in the amount of EUR 187,200,000, of which EUR 80,000 were frozen. The latter amount was partially unfrozen and amount of EUR 42,000 remained frozen. No change was made when the Budget was revised in November 2015. The amounts include costs related to the Provident Fund and Defined Contribution Pension Scheme contributions.

Nations also approved the Special Carry Forward of credits in the amount of EUR 9,939,932 from 2015 to 2016 and in the amount of EUR 11,981,466 from 2016 to 2017 (amounts in the tables may be slightly lower due to transactions having taken place in the mean time).

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

Personnel Management Information System (PMIS)

A specific budget entity was put in place to manage the costs related to the work carried out by the IS in setting up and managing an Integrated Payroll Personnel Management Information System. Its funding is provided through contributions by the NATO bodies who are members of the PMIS, in proportion to their staffing levels. Invoices are reduced by the amount of previous year's surplus.

The PMIS budget for 2016 was approved by the Budget Committee in the amount of EUR 146,250 (BC-D(2016)0057 and COR1). It was not revised.

A budget execution statement is provided at Annex 4.

Office of Shared Services Budget

An amount of MEUR 5.8 was made available for the pre-financing of the initial Agency Reform transition costs as part of the MTRP 2012-2016 (C-M(20110067). The Budget Committee agreed a framework mechanism for the management and control of the funds related to the initial transition costs and subsequently to the budget allocation of the pre-financed credits to allow full oversight (BC-D(2012)0202-REV1 and BC-D(2011)0209-ADD1). Council agreed this as part of the 2012 Military Budget Recommendations (C-M(2011)0099).

The 2015 OSS initial budget was agreed in the amount of EUR 577,700, half of which was frozen pending NAC agreement with regard to the way ahead on the implementation of the NATO Shared Services Initiative (BC-DS(2014)0068). A request to unfreeze the remaining amount was submitted to the Budget Committee and approved (BC-DS(2015)0031). On 20 May 2015, the Budget Committee agreed to increase the 2015 OSS pre-financed allocation by EUR 1,200,000 to a total of EUR 1,757,700. This increase takes into account a first tranche of expenses related to the implementation of Phase I of General Procurement Shared Services in 2015.

The 2016 OSS initial budget was agreed in the amount of EUR 1,214,000, of which 70% of the EUR 900,000 allocation related to General Procurement Shared Services was frozen (EUR 630,000). In addition, 50% of the EUR 314,000 personnel expenses appropriations were also frozen (EUR 157,000) awaiting clarification on the status of the OSS beyond the first six months of the year further to the assessment and approach of Finance and Accounting Shared Services. Subsequently the BC decided a partial unfreeze (EUR 218,000) of the allocation related to General Procurement Shared Services. This left an amount of frozen appropriations of EUR 569,000 (EUR 412,000 and EUR 157,000). Further to the submission of the 2nd budget execution report the BC agreed to unfreeze EUR 73,213 in the Personnel Chapter and EUR 3,584 in the O&M Chapter (Ref.B). As a consequence, frozen appropriations eventually amounted to EUR 492,202 (of which EUR 412,000 related to the General Procurement Shared Services initiative by NSPA).

A budget execution statement is provided at Annex 4.

NOTE 30: SEGMENTS

The tables below provide segment information for financial performance and financial position statements for 2016.

INTERNATIONAL STAFF
Statement of financial position
As at 31 December 2016

(All amounts in EUR)

	Notes	IS	Refundable Expenses	PMIS	OSS	Extra Budgetary Funds	Partner Accommodation	Building Z Refurbishment	2016	2015
Assets										
Current assets										
Cash and cash equivalents	3	34,160,542 74	-185,774 00	144,986 69	2,101,911 39	15,733,990 50	-559,436 50	968,539.40	52,364,760.22	84,673,866 41
Short term investments	4	57,000,000 00				575,871 00			57,575,871.00	0.00
Receivables	5	38,791,401.74	1,078,123.88	4,610 58	5,238 01	3,428,631 87	89,531.79	1,610,174.00	45,007,711.87	60,960,882.07
Prepayments	6	508,705 95					904,275.40		1,412,981.35	2,362,809.48
Other current assets	7	4,125,201 82			290 43	10,304,334 44	418,077.20		14,847,903.89	1,712,598.60
Inventories	8	17,051 84							17,051.84	10,645.03
		134,602,904.09	892,349.88	149,597.27	2,107,439.83	30,042,827.81	852,447.89	2,578,713.40	171,226,280.17	149,720,801.59
Non-current essets										
Receivables	9								0.00	0.00
Property, plant & equipment	10	1,252,840.79						657,881.48	1,910,722.27	833,390.49
Intangible assets	11	15,340,028.94							15,340,028.94	16,072,319.51
Other non-current assets	12								0.00	12,095.75
		16,592,869.73	0.08	0.00	0.08	0.00	8.00	657,881.48	17,250,751.21	16,917,805.75
Total assets		151,195,773.82	892,349.88	149,597.27	2,107,439.83	30,042,827.81	852,447.89	3,236,594.88	188,477,031.38	166,638,807.34
Liabilities										
Current liabilities										
Payables	13	-13,221,921 41	-12,914 14	-941 75	-346,090 56	-164,305.70	-170,718 91	-0.20	-13,916,892.67	-9,752,346.10
Deferred revenue	14	-30,718,195 33			-1,121,619.25	-29,222,072.34	0.00	-2,274,455.52	-63,336,342.44	-73,951,577.45
Advances	15	-59,131,838.48	-518,635.91	-140,000.00					-59,790,474.39	-51,099,794.87
Short term provisions	16						-418,077 20		-418,077 20	
Other current liabilities	17	-31,530,948 85	-360,799 83	-8,655 52	-639,730 02	-656,449 77	-4,645 00	-304,257 68	-33,505,486 67	-11,760,291 66
		-134,682,904.07	-892,349.88	-149,597.27	-2,107,439.83	-38,042,827.81	-593,441.11	-2,578,713.40	-170,967,273.37	-146,564,010.08
Non-current liabilities										
Payables	18								0.00	
Long term provisions	18								0.00	
Deferred revenue	19	-16,592,869.75						-657,881 48	-17,250,751.23	-16,767,326 32
Other non-current liabilities	20								0.00	-675,626.60
		-18,592,869.75	0.80	0.00	0.00	0.00	0.00	-657,881.48	-17,250,751.23	-17,442,952.92
Total liabilities		-151,195,773.82	-892,349.88	-149,597.27	-2,107,439.83	-30,842,827.81	-593,441.11	-3,236,594.88	-188,218,024.60	-164,006,963.00
Net assets	21									
Capital assets									0.00	
Reserves									0.00	
Current year Surplus / (Deficits)							-210,422 78		210,422.78	
Accumulated surpluses / (deficits) prior year							-48,584.00		48,584.00	2,635,200.04
Total net assets/ equity		0.00	0.00	0.88	0.00	0.00	-259,006.78	0.00	259,006.78	2,635,200.04

INTERNATIONAL STAFF
Statement of financial performance
As at 31 December 2016

(All amounts in EUR)

	Notes	IS	Refundable Expenses	PMIS	OSS	Extra Budgetary Funds	Partner Accommodation	Building Z Refurbishment	2816	2015
Revenue										
Non exchange revenue	22	-202,563,419.71			-579,888.61	0.00		-259,763.80	-203,403,072.12	-200,800,300 88
Exchange revenue	23			-137,700.48			-3,044,545.20		-3,182,245 68	-514,469.22
Other revenue	24	-139,565.70	-498,450 39			-5,151,600.18			-5,789,616.27	-488,843.60
Financial revenue	25	-701,026 92				-249,595.63			-950,622.55	-144,758 09
Total revenue		-203,404,012.33	-498,450.39	-137,700.48	-579,888.61	-5,401,195.81	-3,044,545.20	-259,763.80	-213,325,556.62	-201,948,371.79
Expenses										
Personnel	26	113,700,080.38	423.40	118,222.76	216,749.23	566,478.43		120,538.60	114,722,492.80	112,977,948.23
Contractual supplies and services	26	86,538,458.73	497,840.71	19,490.57	363,425.56	4,584,878.04	3,396,073.56	139,225.20	95,539,392.37	86,035,747.87
Depreciation and amortization	26	2,158,252.59							2,158,252.59	754,482.64
Impairment	26						418,077.20		418,077 20	0.00
Provisions	26								0.00	0 00
Other expenses	26	179,495.81	818.76			230,800.54	43,209 54		454,324.65	2,105,405.39
Finance costs	25	827,724.82	-632.48	-12.85	-286.18	19,038.80			845,832.11	74,787 66
Total expenses		203,404,012.33	498,450.39	137,700.48	579,888.61	5,401,195.81	3,857,360.30	259,763.80	214,138,371.72	201,948,371.79
Surplus/(Deficit) for the period	27	0.00	0.80	9.00	0.00	0.00	-812,815.10	0.00	812,815.10	8.00

Rerefurbishment works in Building Z are planned In conjunction with the move to the New NATO Headquarters. Partner nations have been asked to pay in advance for the works corresponding to their specific requests (Optional Program) in addition to the basic refurbishment, in the amount of EUR 2,934,037. NATO member nations agreed that the rest of the works estimated MEUR 7.9 would be prefinanced by the IS treasury.

NOTE 31: LEASES

An analysis of lease contracts was conducted and it was considered that some of them had characteristics that could have led them to be considered as finance leases (in the IPSAS 13 sense) in particular as relates to the rent of portacabins for temporary accommodation (e.g. Buildings V, VA) and the Manfred Wörner building. However in consideration of the fact that NATO-IS will move to new premises in 2018, the rental period will be shorter than the remaining economic life of this equipment. As a consequence, all leases in NATO IS are classified as operating leases. Fees payable under these lease agreements are accounted as expenses in the Statement of Financial Performance on a straight-line basis over the relevant lease term.

Belgium has granted to NATO by way of concession a plot of land on which NATO is authorized to erect all necessary buildings and facilities needed to perform its functions. A symbolic price is paid annually for the rent. NATO is the full owner of all constructions made. Belgium remains the sole and full owner of the land, which is public domain ("domaine public"). The concession ends 180 days after NATO has left the buildings and facilities. At the end of the concession, there will be no property rights transferred to NATO. As a consequence, given the indefinite economic life of land and the specific nature of concessions, the use of the land is classified as an operational lease. The rent charged by the host nation is recognised as an expense in the statement of financial performance.

The operating leases at the reporting date can be classified into three categories: temporary building offices, transport equipment and photocopiers.

NOTE 32: RESTRICTIONS ON FIXED ASSETS

There are no restrictions on fixed assets.

NOTE 33: CONTINGENT LIABILITIES

A number of contingent liabilities have been identified, but the total possible obligation relating to these items is not expected to be material.

However, it should be noted that in light of the current circumstances surrounding the operation of the NATO Staff Centre and its restructuring, Civil Budget resources may have to be used.

NOTE 34: CONTINGENT ASSETS

Nothing to report.

NOTE 35: EMPLOYEE DISCLOSURE

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

For 2016, NATO-IS had an approved Personnel Establishment of 1,135.1 positions (1,111.1 for 2015) funded by the Civil Budget.

Also, NATO-IS receives "in kind" services provided by nationally funded personnel known as Voluntary National Contributions (VNCs). VNCs worked for the IS at HQ but also at the NATO external offices, or in support of specific projects on-site. During 2016, 49 VNCs worked for the IS at HQ.

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

There is no longer any staff member remaining as an affiliate of the NATO Provident Fund (1 end 2015), which is a defined contribution pension scheme which provides retirement benefits to civilian staff recruited by NATO before 1 July 1974 and who decided not to join the Defined Benefit Pension Scheme set up at this date. Benefits are paid upon retirement as one lump sum, being the total of the individual right acquired. Monthly contributions, paid directly into the Fund, are made by staff and NATO, being 7% and 14% respectively of basic salary.

546 staff members (486 end 2015) participate in the Defined Contribution Pension Scheme (DCPS) administered by NATO. The DCPS provides that the NATO-IS budget makes a 12% monthly matching contribution to the staff members contributions for current service.

504 employees (526 end 2014) participate in NATO's Defined Benefit Pension Scheme (DBPS): a deduction of 9% of their salaries is made and contributed to the annual financing of this Scheme. These contributions are expensed during the year in which the services are rendered and represent the total pension obligation of the entity. The funding mechanism of the DBPS provides that Nations contribute, in the course of a given year, for the difference between amounts due to pensioners and staff contributions received.

Also, 14 staff members are employed on reimbursable basis with an agreement between NATO-IS and the United States. Their salary is paid directly by the US using national salary scales and the US is reimbursed the costs corresponding to the grade of the post occupied by the staff member. Those individuals are paid and accrue pension rights under a United States pension scheme. A similar agreement exists with the Netherlands and currently applies to 1 staff member. An agreement with Norway was signed in 2015 and applies to 2 staff members.

NOTE 36: KEY MANAGEMENT PERSONNEL

The North Atlantic Council is the governing body of NATO. It approves the Civil Budget further to screening and recommendation by the Budget Committee (BC) and the Resource Policy and Planning Board (RPPB). Members of the North Atlantic Council, the BC and the RPPB are nominated by their respective national authorities. They are paid on the basis of applicable national pay scales. They do not receive from NATO any additional remuneration for their responsibilities or access to benefits.

For the purposes of IPSAS 20 implementation, key management personnel of the International Staff are the Secretary General, the Deputy Secretary General, the Director of the Private Office, the eight (seven in 2015) Assistant Secretary Generals, the Senior Civilian Representative in Afghanistan and the three Directors of Independent Offices (Security, Resources and Financial Control). The aggregate remuneration and the number of individuals on a full time equivalent basis are:

Aggregate remuneration: EUR 3,511,303 (EUR 3,124,070 in 2015)
Number of persons: 15 (14 in 2015)

The Secretary General is provided with accommodation at no cost in premises belonging to the Organisation. The residence is serviced by three established posts. The cost of operating and maintenance of the residence and works are EUR 291,613 in 2016 (EUR 448,163.60 in 2016). The decrease is due to renovation works which took place in 2015. The residence was assessed in November of 2013 as being worth EUR 10,300,000. The Deputy Secretary General is provided with an approved special allowance to contribute towards the lease of accommodation suitable for representation at the Ministerial and distinguished visitor level. The Secretary General is entitled upon departure to a special leaving allowance, equal to one year's basic salary if a full four year term was served.

On 1 June, 2013, the NAC approved changes to the Representation Allowance system. A key element was that in lieu of monthly allowances being paid out and then reimbursed by the recipients if unused, recipients now submit receipts and are then reimbursed up to the allocated ceiling. The OFC is responsible for the day to day verification, with IBAN able to disallow expenses if deemed necessary.

A total of twelve senior staff positions are entitled to a Representation Allowance the use of which is subject to a specific control by the OFC. This includes the Secretary General, the Deputy Secretary

General, the Director of the Private Office, the seven Assistant Secretary Generals one Deputy Assistant Secretary General and the Spokesperson. The gross amount paid was EUR 69,656.28 (EUR 81,305.07 in 2015). Unused funds and disallowed expenses are returned to the Organisation.

Key management staff have access to a pool of vehicles for official business.

There is no other remuneration or benefits to key management personnel and their family members. Key management personnel is entitled to receive loans which are also available to other members of the NATO International Staff.

NOTE 37: RELATED PARTIES

There have been the following related party relations.

Member Nations and NATO bodies

NATO-IS performs certain administrative support and common operating services for which in 2016 a total amount of, respectively EUR 6,313,675 (EUR 6,301,560.23 in 2015) and EUR 3,531,358.15 (EUR 3,685,830.80 in 2015) was charged to other NATO bodies and Member Nation delegations. These amounts come as a deduction to the budget contributions due from Nations to fund the Civil Budget.

Belgium provides military personnel in support of activities related to security (Delegation Militaire de la Sécurité Technique) for which EUR 541,160.89 (EUR 490,431 in 2015) were charged by the Belgian Ministry of Defence and paid by the Civil Budget. Staff in support of communications (Communications Branch of the Situation Centre) is no longer provided directly to the International Staff but via the NCIA.

Also, 11 staff members are employed on reimbursable basis with an agreement between NATO-IS and the United States. Their salary is paid directly by the US using national salary scales and the US is reimbursed the costs corresponding to the grade of the post occupied by the staff member. Those individuals are paid and accrue pension rights under a United States pension scheme. A similar agreement exists with the Netherlands and currently applies to 1 staff member. An agreement with Norway was signed in 2015 and applies to 2 staff members.

Member and Partner Nations

The NATO-IS Office of Financial Control is the Treasurer for the operations related to a number of Trust Funds. The Trust Funds were authorized under NATO's Partnership for Peace Programme, the Mediterranean Dialogue Programme, the NATO-Russia Council, the NATO-Ukraine Commission and the NATO-Georgia Commission. The OFC also received financial resources on a bilateral ad-hoc basis from nations in support of specific activities conducted by NATO-IS or as a complement to the Civil Budget funding for certain activities. For Trust Funds a Lead Nation (NATO member) is normally designated. Partner nations can also participate in such additional funding. No management fees are charged by the IS to cover the related costs.

Employee Benefits

NATO-IS is responsible for the management at the NATO-wide level for the three pension systems (Provident Fund, Defined Benefit Pension Scheme, Defined Contribution Pension Scheme) and the Retirees Medical Claims Fund. Separate financial statements are issued by the NATO-IS Office of Financial Control. No management fees corresponding to the related costs incurred by NATO-IS are charged to these entities.

Staff Centre

In October 2013, Nations approved a new mandate for the Staff Centre under C-M(2013)0054 with a view to transitioning to a fully customer funded model in 2016. An Executive Board was established in 2013 to provide oversight of Staff Centre operations. The Chairman of the Board is nominated by the Secretary General and is currently the ASG EM. Other members of the Board include other Executive

Management staff, the IMS Executive Officer and the Director of the Staff Centre. Two members of the Budget Committee attend ex-officio.

Appendix 1 Annex 1 of the C-M outlines under the heading of Category A, all activities that can receive Civil Budget funding.

NATO-IS provides certain administrative support and covers some operating and maintenance services to the Staff Centre in an estimated amount of EUR 1,170,425 (EUR 1,036,975 in 2015).

In accordance with the Council decision on the Mandate of the NATO HQ Staff Centre, the Staff Centre has its own financial statement.