20 December 2017

DOCUMENT
C-M(2017)0066-AS1

IBAN AUDIT ON THE 2016 FINANCIAL STATEMENTS OF THE NATO COMMUNICATIONS AND INFORMATION ORGANISATION (NCIO)

ACTION SHEET

On 19 December 2017, under the silence procedure, the Council noted the IBAN report on the 2016 financial statements of the NCIO attached to C-M(2017)0066 and agreed to the public disclosure of this report, the IBAN audit and the associated 2016 financial statements.

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2017)0066.

13 December 2017

DOCUMENT
C-M(2017)0066
Silence Procedure ends:
19 Dec 2017 17:30

IBAN AUDIT ON THE 2016 FINANCIAL STATEMENTS OF THE NATO COMMUNICATIONS AND INFORMATION ORGANISATION (NCIO)

Note by the Secretary General

1. I attach the International Board of Auditors for NATO (IBAN) report on the audit of the 2016 financial statements of the NATO Communications and Information Organisation (NCIO).

2. The IBAN report sets out a qualified opinion on the financial statements and on compliance for the financial year 2016.

3. The IBAN reports has been reviewed by the Resource Policy and Planning Board (RPPB) (see Annex). I do not believe that this matter requires discussion in the Council. Consequently, unless I hear to the contrary by **17:30 hrs on Tuesday 19 December 2017**, I shall assume that the Council has noted the IBAN report on the 2016 financial statements of the NCIO and agreed to the public disclosure of this report, the IBAN audit and the associated 2016 financial statements.

(Signed) Jens Stoltenberg

Annex 1:	RPPB Report
Enclosure 1:	IBAN Report
Enclosure 2:	NCIO Financial Statements

1 Annex
2 Enclosures

Original: English

IBAN AUDIT ON THE 2016 FINANCIAL STATEMENTS OF THE NATO COMMUNICATIONS AND INFORMATION ORGANISATION

Report by the Resource Policy and Planning Board (RPPB)

References:

A. IBA-AR(2017)15	-	IBAN audit report
B. CM(2015)0025	-	NATO Financial Regulations
C. CM(2016)0023	-	NATO Accounting Framework

INTRODUCTION

1. This report contains the RPPB's observations and recommendations on the IBAN audit of the 2016 financial statements of NCIO (reference A).

2. The RPPB acknowledges that the issues highlighted in the IBAN audit report have already been dealt with by the appropriate governing bodies of NCIO (the Finance Committee and the Agency Supervisory Board). That said, the Board is still mandated under Article 15 of the NFRs (reference B) to provide Council with comments and recommendations on the audit opinion.

DISCUSSION

3. The IBAN have issued a qualified opinion on the financial statements and on compliance for the 2016 financial year. The IBAN identified thirteen observations during the audit. One observation impacted the qualified audit opinion on both the financial statements and on compliance. Three observations affected the audit opinion on the financial statements. The remaining 9 observations did not impact the audit opinion.

4. Observation 1: The IBAN issued a qualified opinion on the financial statements and on compliance because of a lack of integrated systems to support the effective and efficient management and financial reporting of property, plant and equipment (PP&E) and intangible assets. This was the basis for the qualified audit opinion in 2015 too and the Agency is continuing to pursue implementation of its planned integrated solution, Enterprise Business Applications (EBA). Nations in the Agency Finance Committee have stressed that the enterprise tool alone will not be sufficient to address the problems highlighted during the audit and the Agency has assured that top management is heavily engaged in the transition to the new system. The Agency has taken considerable action already to address asset management issues and the Board expects further significant progress to be made over the coming twelve months as the EBA integrated solution is implemented.

5. Observation 2: NCIA has made good progress in conforming to the requirements of the NATO Financial Regulations (NFRs) (reference B) and the NATO Accounting Framework (reference C) with regards inventory reporting and controls. However more work is needed to ensure the correct accounting treatment is properly and consistently applied.

6. Observation 3: The IBAN again highlighted a lack of consistent and robust process for determining capability development project revenue and found that the reliability and

documentation of the process is still not yet sufficient to provide the necessary assurance. This is a major challenge and will be resolved as part of the integrated project accounting solution in EBA once it is fully implemented. Further action is in hand in the meantime to improve discipline and provide better training for the project management community.

7. Observation 4: The IBAN highlighted lack of assurance on the reliability of the estimates for future loss related to the New NATO HQ project. The Agency has acknowledged the findings on the uncertainty and lack of adherence to established processes and confirmed that it has taken action to remediate the issues identified in the audit. The Board notes that the NCIO Finance Committee has demanded greater visibility and control of the projects and that any potential funding issues should be discussed with the committee upfront.

8. Observation 5: The IBAN have highlighted the progress being made towards implementing the NFRs particularly those articles relating to internal control risk management and internal audit. The RPPB notes that this is a common theme running through the audits on the 2016 financial statements of many NATO bodies and that the Agency will continue its efforts to ensure full compliance with the NFRs. The Board welcomes the fact that in November 2016 the ASB adopted COSO[1] as the internal control framework for NCIO.

9. The remaining 9 observations did not affect the audit opinion. More details can be found on each of these including the management action being taken by the Agency to address these in the IBAN report (reference A). The RPPB notes in particular the observation related to weak coordination between NCIA and the Investment Committee which is linked to the Board's broader review into the governance arrangements for improving the delivery of common funded capabilities. The RPPB welcomes the progress made to address prior years' audit observations noting that out of sixteen observations eleven have been settled or superseded and of the 7 outstanding 4 are considered partially settled.

CONCLUSIONS

10. The IBAN have submitted a qualified opinion on the NCIO financial statements for 2016 which follows on from the qualified opinions issued since 2013. The RPPB acknowledges the efforts that the Agency is making to address the issues identified by the IBAN and recognises that the governing bodies of NCIO are best placed to deal with the overall response. The RPPB welcomes the engagement of senior Agency management (not just the Financial Controller) to address the issues identified in the latest IBAN audit and expects to see progress made in several areas to settle recurring audit themes.

[1] Committee of Sponsoring Organisations (COSO) is generally accepted as setting the highest international standards for internal control.

RECOMMENDATIONS

11. The RPPB recommends that the Council:
    (a) note the IBAN report IBA-AR(2016)15;
    (b) note the conclusions in paragraph 10; and,
    (c) approve the public disclosure of this report, the IBAN audit (reference A) and the associated 2016 financial statements of NCIO.

Summary Note for Council
by the International Board of Auditors for NATO (Board)
on the audit of the Financial Statements of the
NATO Communications and Information Organisation (NCIO)
for the year ended 31 December 2016

NCIO consists of the NCI Agency and its governance structure. The mission of the NCI Agency is to deliver to NATO secure, coherent, cost effective and interoperable communications and information systems and services in support of consultation, command and control (C3) and enabling intelligence, surveillance and reconnaissance capabilities. It includes information technology support to NATO Headquarters, the Command Structure and NATO Agencies. In 2016, NCIO generated revenues of EUR 795 million and incurred expenses of EUR 797 million, resulting in a net deficit of EUR 2 million.

The Board audited the 2016 NCIO Financial Statements and issued a qualified opinion on the financial statements and on compliance.

During the audit, the Board identified 13 observations. One observation impacts the audit opinion on both the financial statements and on compliance:

1. Lack of integrated systems to support the effective and efficient management and financial reporting of property plant and equipment (PP&E) and intangible assets.

Three observations impact the audit opinion on the financial statements:

2. EUR 35 million understatement of inventory.

3. Lack of consistent and robust process for determining Capability Development project revenue for the period.

4. Lack of assurance on the reliability of the estimate for future loss related to the New NATO Headquarters Programme.

The remaining nine observations do not impact the audit opinion:

5. Some progress being made to achieve compliance with the NATO Financial Regulations, particularly those articles on internal control, risk management and internal audit and with the NCIO Financial Rules and Procedures (FRPs).

6. Contractor claim resulting from changing and delayed contract requirement definition and weak coordination between NCIA and the Investment Committee.

7. Weaknesses in source selection planning process.

8. Insufficient coverage of competed support service contracts in 2016.

9. Weak management of project closure process.

10. Weaknesses in the Time Accounting System (TAS).

11. Complex recording of Resolute Support Projects in Cost-to-Complete Model.

12. Incomplete information in the disclosure notes on the Transition Programme.

13. Depreciation reserve in the Operating Fund.

These findings are summarised in the Letter of Observations and Recommendations (Annex 3).

For NCIO's Formal Comments, see the Appendix to Annex 3. The detailed formal comments provide further information to the reader. The Board has taken into consideration some of the comments in its observations or recommendations.

22 August 2017

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE

THE NATO COMMUNICATIONS AND INFORMATION ORGANISATION

(NCIO)

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) audited the accompanying Financial Statements of the NATO Communications and Information Organisation (NCIO), which comprised the Statement of Financial Position as at 31 December 2016, the Statement of Financial Performance, the Statement of Change in Net Assets & Equity and the Cash Flow Statement for the year then ended, and Notes to the Financial Statements, including a Statement of Accounting Policies. The Board also audited the Budget Execution Statement 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 authorized by the North Atlantic Council (NAC). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion on the Financial Statements

We were not able to obtain enough evidence in respect to revenue in the Statement of Financial Performance related to Capability Development projects. This also impacts the level of estimated future losses and eventually the net surplus or deficit for the period. This is due to weaknesses in the estimation of the "cost-at-completion" for these projects, which directly impacts the calculation of revenue recognised during the year under the "percentage-of-completion" method.

We were also not able to obtain enough evidence in respect to the amount of estimated future losses recorded in the Statement of Financial Performance for the New NATO Headquarters Active Network Infrastructure (ANWI) project. This also impacts the level of net surplus or deficit for the period. This was due to uncertainties arising from the fact that estimating losses for this project was done outside of the normal NCIA process for approving such losses and that subsequent events were significantly different than the estimates.

Furthermore, we were not able to obtain enough evidence in respect to the completeness of Property, Plant and Equipment and Intangible Assets presented in the Statement of Financial Position. This is due to its multiple accounting systems and logistics tools that still do not fully support a proper financial reporting of Property, Plant and Equipment and Intangible Assets.

In addition, the Board found that Inventory reported as a current asset in the Statement of Financial Position was understated by EUR 35 million. This was because NCIA erroneously continued to remove from inventory the amount identified in 2013 as inventory purchased before 1 January 2013. At the end of 2016, this adjustment was no longer necessary as a vast majority of such pre-2013 inventory was consumed. Deferred Revenue and Advances, a liability account in the Statement of Financial Position, is also understated by the same EUR 35 million.

Lastly, there was no summary note to the financial statements in respect to Inventory and Intangible Assets held at 31 December 2016 but that were purchased prior to 1 January 2013 as required by the NATO Accounting Framework.

Qualified Opinion on Financial Statements

In our opinion, except for the effects and possible effects of the matters described in the *Basis for Qualified Opinion on the Financial Statements,* the financial statements present fairly, in all material respects, the financial position of NCIO as of 31 December 2016, and of its financial performance and its cash flows for the year then ended are 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 authorized by the North Atlantic Council (NAC).

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 authorized 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

We did not obtain enough evidence that comprehensive accounting records of all property acquired by NCIO have been established and maintained as required by Article 12 of the NATO Financial Regulations. This is due to the fact that the multiple accounting systems and logistics tools in use still do not support effective and efficient management processes and financial reporting of assets acquired as required by NCIO's legal framework.

Qualified Opinion on Compliance

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

Brussels, 22 August 2017

Hervé-Adrien Metzger
Chairman

22 August 2017

INTERNATIONAL BOARD OF AUDITORS FOR NATO

LETTER OF OBSERVATIONS AND RECOMMENDATIONS

FOR THE NATO COMMUNICATIONS AND INFORMATION ORGANISATION

(NCIO)

FOR THE YEAR ENDED 31 DECEMBER 2016

Introduction

The International Board of Auditors for NATO (Board) audited the NATO Communications and Information Organisation (NCIO) Financial Statements for the year ended 31 December 2016, and issued a qualified opinion on both the financial statements and on compliance. The reasons for the qualification, as well as other observations and recommendations, are summarised in the Observations and Recommendations section below.

The Board found that improvements were made in certain areas of asset management. These improvements are detailed in observations 1 and 2. Nevertheless, the weaknesses that remain continue to impact the audit opinion on both the financial statements and compliance. NCIA expects that the implementation of the Enterprise Business Applications (EBA) system as from 1 January 2018 will allow for better asset management and reporting.

Observations and Recommendations

During the audit, the Board identified 13 observations. One observation impacts the audit opinion on both the financial statements and on compliance:

1. Lack of integrated systems to support the effective and efficient management and financial reporting of property plant and equipment (PP&E) and intangible assets.

Three observations impact the audit opinion on the financial statements:

2. EUR 35 million understatement of inventory.

3. Lack of consistent and robust process for determining Capability Development project revenue for the period.

4. Lack of assurance on the reliability of the estimate for future loss related to the New NATO Headquarters Programme.

The remaining nine observations do not impact the audit opinion:

5. Some progress being made to achieve compliance with the NATO Financial Regulations, particularly those articles on internal control, risk management and internal audit and with the NCIO Financial Rules and Procedures (FRPs).

6. Contractor claim resulting from changing and delayed contract requirement definition and weak coordination between NCIA and the Investment Committee.

7. Weaknesses in source selection planning process.

8. Insufficient coverage of competed support service contracts in 2016.

9. Weak management of project closure process.

10. Weaknesses in the Time Accounting System (TAS).

11. Complex recording of Resolute Support Projects in Cost-to-Complete Model.

12. Incomplete information in the disclosure notes on the Transition Programme.

13. Depreciation reserve in the Operating Fund.

The Board also followed up on the status of observations from previous years' audits and noted that 4 were settled, 5 were partially settled, 6 were superseded by current year observations and 3 are still outstanding.

The Board also issued a separate Management Letter (reference IBA-AML(2017)07) to NCI Agency management with 9 observations, included three relating to Information Technology (IT) strategic plans, personnel structure, and general computer controls.

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

OBSERVATIONS AND RECOMMENDATIONS

1. LACK OF INTEGRATED SYSTEMS TO SUPPORT THE EFFECTIVE AND EFFICIENT MANAGEMENT AND FINANCIAL REPORTING OF PROPERTY, PLANT AND EQUIPMENT (PP&E) AND INTANGIBLE ASSETS

Reasoning

1.1 Article 12 of the NATO Financial Regulations requires NATO bodies to establish and maintain comprehensive accounting records of all assets and liabilities.

1.2 The NATO Accounting Framework requires that NATO bodies shall capitalise in their Statement of Financial Performance all controlled Property, Plant and Equipment (PP&E) and intangible assets purchased after 1 January 2013 above certain capitalization thresholds. The nature and quantities of those items purchased before 1 January 2013 shall be summarised in the notes to the financial statements.

1.3 The NATO Accounting Framework also requires that if NCIO is acting as a service provider to NATO Commands for Computer Information Systems (CIS) and Automated Information Systems (AIS) assets, then NCIO has control over those assets. It also states that such CIS and AIS that are under construction don't need to be capitalised until 1 January 2018.

Observations

1.4 The Board found that, as in the prior year, NCIO's multiple accounting systems and separate logistic systems do not provide an effective and efficient control over NCIO's PP&E and intangible assets. The accounting systems and collection of various asset registers and logistics tools in place still do not fully mitigate the risks of unrecorded assets transactions and/or erroneous asset transactions being recorded.

1.5 Specifically, the Board found that NCIA had not assured the completeness of records (compliance) and financial reporting of the following assets:

- CIS and AIS PP&E acquired before and after 1 January 2013, not under construction, and which were acquired for Third Parties through the Core Financial System (CFS). Such assets are considered as controlled by NCIO according to the NATO Accounting Framework;
- CIS and AIS intangible assets acquired before and after 1 January 2013, not under construction, such as IT Programmes built in-house or specific components of Functional Area Service (FAS) is still missing. Examples of FAS assets are the Maritime Command and Central Information System, Logistic Command; and
- Control, Core Geographic Information System, or the NATO Common Operational Picture.

1.6 The Board also found, though, that significant efforts were made to mitigate some of the asset management issues in certain areas. Importantly, the migration of PP&E and inventory recorded in NATO Depot and Support System (NDSS) to its current CNAFS accounting system was completed at the CIS Service Support Center (CSSC) and at the CIS Support Units (CSUs).

Recommendation

1.7 The Board recommends that NCIO continue pursuing and implementing its planned integrated solution, Enterprise Business Applications (EBA), for the procurement, management and reporting of PP&E and intangible assets in order to reduce the inefficiencies and risks involved with the use of multiple accounting systems and logistic tools and that this be accomplished within timelines that have been established, or 1 January 2018.

2. EUR 35 MILLION UNDERSTATEMENT OF INVENTORY

Reasoning

2.1 Article 12 of the NATO Financial Regulations requires NATO bodies to establish and maintain comprehensive accounting records of all assets and liabilities.

2.2 The NATO Accounting Framework requires that NATO bodies shall capitalise in their Statement of Financial Performance all controlled inventory held but purchased after 1 January 2013 above certain capitalization thresholds. The nature and quantities of those items still held but purchased before 1 January 2013 shall be summarised in the notes to the financial statements.

Observations

2.3 The Board performed an audit of inventory at NCIA's CIS Sustainment Support Centre (CSSC) and found significant improvements compared to the prior year audit. The value of inventory at this location was approximately 80% of total gross inventory held at 31 December 2016. The low number of discrepancies found in the current year audit reveals that the transfer from NDSS to CNAFS had been controlled effectively. NCIA performed physical counts and clean-up exercises of all inventory at the CSSC between May and December 2016. Based on discussions with CSSC staff, though, such comprehensive physical controls had not yet taken place at other locations where inventory is held due to staff shortages.

2.4 In terms of the presentation of inventory in the financial statements, the Board found that the total value of inventory reported in the Statement of Financial Position was EUR 11 million. However, before adjustments relating to the NATO Accounting Framework, the total value of actual inventory was EUR 46 million. The EUR 35 million difference is deemed to be the value of inventory purchased prior to 1 January 2013. However, the Board found that the amount backed out for inventory purchased prior to

2013 was the same as the original 2013 adjustment. This is not logical, though. It is a false assumption to back out the same amount for prior 2013 every year as much of this inventory would have been consumed. As a result, inventory held at 31 December 2016 and 2015 was understated by EUR 35 million. Deferred Revenue and Advances in the Statement of Financial Position was also understated by the same amount.

Recommendation

2.5 The Board recommends that the Agency only remove from the inventory balances the inventory at 31 December 2016 that was purchased before 1 January 2013.

3. LACK OF CONSISTENT AND ROBUST PROCESS FOR DETERMINING CAPABILITY DEVELOPMENT PROJECT REVENUE FOR THE PERIOD

Reasoning

3.1 NCIO revenue is derived from the delivery of projects or services. For the delivery of projects, NCIO is applying IPSAS 11, *Construction Contracts*, for the calculation of revenue recognition. Revenue is recognized based on the "percentage-of-completion" method. The Agency estimates the "percentage-of-completion" based on a percentage of total expenses incurred to total estimated "cost-at-completion".

3.2 To arrive at the "cost-at-completion", a reliable estimate of the "cost-to-complete" (CTC) must be made. This estimate is an essential part of the process: the greater the estimated CTC, the lower the amount of earned revenue recognized at the reporting date, which impacts the amount of surplus or deficit for the period.

Observations

3.3 Following the 2015 Board recommendation on weaknesses in the Capability Development CTC process, NCIA has taken some actions such as an internal CTC guidance to Project Managers and a reminder in the end of year instructions for CTC exercise that a full assessment of the funding needed must be carried out by the Project Manager. NCIA has also issued three CTC Model User Guides. A draft Standard Operating Procedure (SOP) for the CTC process is still under review.

3.4 Nevertheless, despite these actions, the Board found that the reliability and documentation of the process is still not yet sufficient to provide assurance on the CTC estimates.

Recommendations

3.5 The Board recommends NCIA to improve the Cost-to-Complete estimate by:

- Incorporating project investment costs into an integrated system in order to consolidate the assessment of future costs of a project.

- standardising the "cost-to-complete" estimation processes among the Project Managers, ensuring thorough reviews by management and Finance are strengthened again, and documenting these and the results of the estimation process.
- Ensuring the year-end instructions to Project Managers are more descriptive on how "cost-to-complete" should be estimated.

4. LACK OF ASSURANCE ON THE RELIABILITY OF THE ESTIMATE FOR FUTURE LOSS RELATED TO THE NEW NATO HEADQUARTERS PROGRAMME

Reasoning

4.1 Reliable estimates are critical when estimating for future losses. For firm fixed price projects, NCIA recognizes an estimate for future losses if the estimated Cost at Completion (CAC) of the project exceeds the authorized funding agreed with the customer.

4.2 When it is anticipated that a project will have a large cost overrun, the Agency Directive on "Portfolio, Programme and Project Management Framework", states the case should be escalated to the Service Life Cycle Management Board (SLMB), the Prioritisation and Internal Investment Board or even the Executive Management Board (EMB). Then, the decision to request additional funding from the customer or to take the overrun as a loss is made.

Observations

4.3 The Board selected the four largest projects with estimated future losses at year end and found:

- Two losses for a total amount of EUR 577,320 were not supported as a reliable estimate could not be made.
- One loss relating to the estimate of additional costs for the Active Network Infrastructure (ANWI) of the new NATO Headquarters was questionable. It was estimated at EUR 1,952,500.

4.4 The Board has concerns on the way the ANWI loss has been estimated. At the end of March 2017, before the issuance of the financial statements, the estimated Cost at Completion for the Project Service Costs (PSC) of the project was increased from EUR 8.2 million to EUR 12.4 million with a cost overrun of EUR 4.2 million. No formal decision from an Agency Management Board to take that loss was made before the issuance of the financial statements, as is normally the case. As a result, the Agency Directive on "Portfolio, Programme and Project Management Framework" was not followed.

4.5 In addition, after the issuance of the financial statements at the end of March 2017, NCIA submitted a letter dated 19 May 2017 to the Deputy Permanent

Representative Committee (DPRC) stating that the cost overrun for PSC's was now expected to be EUR 7.47 million. A new NCIA letter dated 13 June 2017 was then submitted to the DPRC indicating that they were requesting additional funding for PSCs in the revised amount of EUR 8.99 million.

4.6 It is the Board's opinion that the recognition for future losses in the 2016 financial statements in the amount of EUR 1.9 million provided some transparency on the issue. Nevertheless, a more timely and formal process management of the ANWI delay should have been performed on this high visibility project, through an effective project exception mechanism involving at the very first steps the Financial Controller.

4.7 Due to the uncertainties above, the Agency did not provide the Board with enough assurance as to the reliability of the EUR 1.9 million estimate for future losses for the ANWI Project Service Costs that were recognized in the financial statements.

Recommendation

4.8 The Board recommends that NCIO comply with its Agency Directive on exception reports in order to ensure proper management of cost overrun of its programme and better estimates of future losses recorded in the financial statements.

5. SOME PROGRESS BEING MADE TO ACHIEVE COMPLIANCE WITH THE NATO FINANCIAL REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT AND WITH THE NCIO FINANCIAL RULES AND PROCEDURES (FRPS)

Reasoning

5.1 The North Atlantic Council (Council) approved revised NATO Financial Regulations (NFRs) effective as from 4 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. 4 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."

5.2 The revised NFRs are more explicit than the previous version in the areas of Risk Management (Article 11), Internal Control (Article 12), Internal Audit (Article 13) and the establishment of an Audit Advisory Panel (Article 16). They require the establishment of effective, efficient and economical risk management procedures, that there are necessary management functions in place to support effective internal control, and that NATO bodies have access to a permanent, adequately resourced, internal audit function that is compliant with internationally accepted Internal Auditing Standards. They also require the establishment of an Audit Advisory Panel. Furthermore, Article 3 requires, as a demonstration of responsibility and accountability, that both the annual Financial

Statements and Statements of Internal Control be signed by both the NATO Head of Body and Financial Controller; and Article 25 authorizes the commitment of budgetary credits for goods and services to be rendered during the financial year.

5.3 The revised NFRs provide an opportunity for NATO bodies to solidify and codify their overall internal control frameworks, including risk management. They also provide internal audit functions with clear expectations that they must be in a position to fully evaluate the effectiveness and efficiency of operations and internal controls, including risk management. Importantly they also required a robust control environment in place around the preparation of Financial Statements to ensure the quality and accuracy of the financial information is of the highest standard as it is now publicly available.

Observation

5.4 The Board found that the NCIO has continued to make progress towards achieving full compliance with all of the revised NFRs, but that more steps are still needed.

5.5 This result, though, is not unexpected considering that the more detailed FRPs, which were required by Article 4 of the revised NFRs, were not approved by the Agency Supervisory Board (ASB) until the end of March 2016. Furthermore, these changes to the NFRs are significant, and the Board understands that some time is needed to implement them properly. It is expected that doing so will increase the likelihood that the benefits accruing to the NCIO will be real, rather than it just being an exercise to demonstrate compliance with the revised NFRs.

5.6 As a result, NCIO continues to be in transition in 2016. The Board expects compliance to be achieved in 2017. It has again chosen to report on the progress against certain of these revised Articles of the NFRs, and to make recommendations against that progress. The compliance audit opinion will not be impacted in 2016 as a result of these observations.

5.7 The Board reports the status of the following areas:

Article 4 Financial Management

5.7.1 As stated above, the ASB approved the NCIO FRPs in March 2016 and the Board views 2016 as a transition year and expects compliance to be achieved in 2017. The provisions of customer funding in the FRPs will be in place upon the implementation of a full CIS lifecycle approach.

Article 11 Risk Management

5.7.2 The Board found that the NCIO has developed a corporate Enterprise Risk Management ("ERM") framework that consolidates and aligns NCI Agency risk management procedures and tools. As recommended by the Board in the prior year, NCIO has updated its Agency Risk Register with an end of year 2016 Risk Management

Report and agency-wide Risk Dashboard for 2017.

Article 12 Internal Control

5.7.3 In November 2016, the NCIO formally adopted the COSO (The Committee of Sponsoring Organizations of the Treadway Commission, Integrated Framework: May 2013) as their Internal Control Framework. COSO includes a risk management element. A number of other NATO bodies, including ACO and ACT, have also adopted COSO. The adoption of a specific and internationally recognised framework, one that is also being adopted by other NATO bodies, is an important step forward.

5.7.4 Since COSO has only recently been adopted by the NCIO, the important work of assessing and documenting specific internal control and risk management procedures remains to be completed. For the implementation of the framework and in order to assess time and resource implications for the implementation of the framework NCIO-wide, the NCI Agency Legal Office was selected as a pilot case and a Control Self-Assessment (CSA) risk based methodology was used by Internal Audit in support of the implementation activities.

5.7.5 The Board expects to see more demonstrative progress on this in the coming year. Such documentation 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. Until this assessment and documentation is completed, the Board will not be in a position to state that there is a full system of internal control, including risk management, in place that is in accordance with Articles 11 and 12 of the revised NFRs.

5.7.6 The Board also found that Terms of Reference for an NCIA Internal Control Panel have been approved by the NCIA General Manager in February 2017.

Article 13 Internal Audit

5.7.7 The Board found that Internal Audit contributed to the development of the NCIO Internal Control Framework and provides extensive support to its implementation across the Agency. Internal Audit continues to perform audits on specific programs and processes within the Agency. It is not yet able to assess compliance with COSO because, as stated above, the work of assessing and documenting specific internal control and risk management procedures remains to be completed.

Article 16 Audit Advisory Panel

5.7.8 The Board found that the NCIO established in May 2016 an Audit Advisory Panel as required by Article 16 in 2016. It has been convened three times as of the date of our audit, and is led by the Chief of Independent Verification and Validation with the participation of the NSPA Chief of Staff as external member of the panel.

Recommendations

5.8 The Board recommends that:

a) NCIA perform a systematic and detailed assessment and documentation of its internal control and risk management procedures to support compliance with its recently approved internal control framework, COSO.

b) Once recommendation a) is completed, Internal Audit fully evaluate internal control and risk management throughout NCIA, and that this work be clearly documented, so as to be able to conclude as to NCIA's compliance against COSO.

c) NCIA continue its move to the full provisions of customer funding for the effective implementation of its FRPs.

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

Reasoning

6.1 When a project includes very complex technical requirements it is common practice to allow longer deadlines for assessing, analyzing and deciding on the best option available for the customer. When a contract is not being implemented as planned with disputes between the contractor and the procurement agent, it is also common practice to keep the customer regularly informed of the on-going negotiations to resolve the case.

Observations

6.2 The Board audited a sample of contract amendments. This included an amendment to a project to provide NATO Response Force (NRF) deployable CIS, which was the settlement of a contractor claim.

6.3 The Board found that the technical requirements for this project changed several times. It was initially a truck shelter based implementation, then became a transit based solution, went back to a truck shelter based implementation, and finally, back to a transit based solution again. These contradictory instructions from the Investment Committee (IC) and the user community, as well as subsequent delays in technical requirements, increased the costs of the contract.

6.4 As a result, the contractor submitted to NCIA three formal claims in the total amount of EUR 17.3 million. A compromise was eventually negotiated between NCIA and the contractor that included a multi-year Logistics Support Contract with the contractor.

6.5 However, NCIA had not first informed the customer, in this case the IC, of the Logistics Support aspect of the negotiation. This lack of transparency in NCIA's initial handling of the claim was a point of concern for the IC.

6.6 Eventually, the Logistics Support Contract element of the negotiation was not agreed. A final settlement of the claim in the amount of EUR 12.7 million has been funded by the IC and paid by NCIA to the contractor. This additional cost most likely could have been avoided had the requirements been clear from the beginning.

Recommendations

6.7 The Board reminds NCIO and the funding committees of the recommendations of the IBAN Special Performance Audit Reports to Council on the need to improve NATO's capability package process, including:

- For the Agency, improving information management and transparency by rationalizing and modernizing the processes and information technology used to manage Capability Package work.
- For the funding committees, unifying, strengthening and clarifying governance roles to ensure that capability requirements reflect needs and enable capability delivery as closely as possible to agreed plans.

7. WEAKNESSES IN SOURCE SELECTION PLANNING PROCESS

Reasoning

7.1 Acquisition Directive 06.01, dated 1 April 2012 and which was still in force 2016, includes the following provisions:

- The Source Selection Plan (SSP) will be coordinated and approved prior to issuance of the solicitation document.
- The Project Evaluation Board (PEB) Chairman shall be appointed by the Contract Award Board (CAB) Chairman at least six weeks prior the issuance of the Invitation for Bid (IFB) so that he/she can review the IFB package before it is issued to ensure that appropriate evaluation criteria are identified and in line with the SSP.
- A draft SSP shall be prepared by the PEB Chairman not later than three weeks prior to the bid closing date.
- The proposed plan must be completed and agreed by the PEB Chairman, approved by the CAB who submits it for approval to the Source Selection Authority (the General Manager) prior to the Opening of Bids.

Observations

7.2 The Board audited a sample 20 contracts or amendments to contracts, including six major "International Competitive Bidding" (ICB) and three Basic Ordering Agreement

(BOA) competitions. Also included was the largest evaluation selection and awarding process in 2016, which was for the Information Technology Modernization (ITM) Work Package 1, Wave 1.

7.3 The Board found the following:

1. The estimated date of contract award for the ICBs provided in the IC's D Document was not achieved in any of the six ICBs sampled. The contract award is one of the most crucial milestones for the Host Nation, especially for high priority capabilities.

2. The Board found three cases where the SSP was only approved after the initial bid closing date.

3. When using BOAs, it is expected that the procurement process will take about 3 months to complete (versus 6-12 months). The Board found that for two out of three of the BOAs sampled, the competition took 5 months or more.

7.4 In respect to the ITM selection process, the Board found the following:

- Three different PEB Chairmen were appointed.
- The Invitation for Bid (IFB) was amended nine times.
- The first PEB Chairman was appointed on the same date as the issuance of the first IFB.
- The SSP approved by the General Manager on 20 November 2015 was not complete in terms of the actual date of bid opening and subsequent update to the proposed PEB schedule, PEB staffing and the SSP Annex A checklist items did not match to the latest IFB.
- The SSP was revised three times with a new PEB Chairman and technical evaluation that was supposed to start on 7 December 2015 but which actually started 11 January 2016 with evaluators still missing as of mid-December 2015.

7.5 As a result, part of the additional EUR 165,000 authorized in February 2017 by the IC that was not initially budgeted for Project Service Costs have been used to cover activities associated with the extended bidding and evaluation time.

7.6 Due to the inherent complexity and magnitude of the contract, entailing the Best Value evaluation of six bids, over 700 clarification requests in the solicitation (IFB) phase and over 40 in the evaluation phase, more realistic deadlines for achieving that process should have been planned.

Recommendations

7.7 As in the prior year, the Board again recommends that in order to avoid delays and to ensure realistic project service costs estimates during the evaluation, selection and awarding phases, NCIO should ensure that:

a) There are more realistic estimates of contract award dates, one of main project milestone, be provided to the budget holder.

b) Source Selection Plans are approved and the PEB Chairman be appointed prior to the issuance of the solicitation document.

c) Adequate planning resources are being provided to the PEB.

d) Confidence rate of the cost estimates be included in the estimate documents provided to the IC.

8. INSUFFICIENT COVERAGE OF COMPETED SUPPORT SERVICE CONTRACTS IN 2016

Reasoning

8.1 As per new NATO Financial Rules and Regulations, C-M(2015)0025 Section VII - Procurement and Contracting Article 32.2 "*The relevant finance committee/governing body will provide appropriate levels of delegated powers to deviate from the strict application of competitive bidding where justified for operational, efficiency, economic or technical reasons*".

8.2 In addition, the newly approved Agency's Acquisition Directive AD 16.01 reads in paragraph 3.2.2.1.2 "*Procuring without providing for full and open competition shall not be justified on the basis of a lack of advance planning by the requiring activity or concerns related to the amount of funds available to the Agency or activity for the acquisition of supplies or service*".

Observations

8.3 The Board found improvement in that there was a decreased number of approved deviations for sole source in general and for contractors in particular. Five recent general framework contracts were put in place to provide IT experts or specialized support individuals.

8.4 Nevertheless, the Board also found that some deviation requests have been approved to reduce the overall costs for the Agency by contracting directly with the individual contractors rather than hiring them through the Service Support Contract (SSC) companies as was initially done. This approach removes the mark-up of the SSC companies, but creates a distortion of the principles and effectiveness of the SSC as the SSC is being used less.

8.5 The Board also found several deviation requests approved in 2016 for an extra year to the same individual contractor on the condition that a recruitment for a NATO Civilian position would occur. That demand has been put in place to avoid future costly and urgent procurement deviations. A sample of six acquisition decisions based on future

NATO Civilian recruitment were made. In five of the six samples, no NATO Civilian recruitment occurred and the contractors have again been extended into 2017. The sixth contractor was not renewed because the project was completed.

8.6 The Board was told by NCIA that they have already identified lessons in the solicitation and implementation of the ongoing SSCs (e.g. insufficient number of the specialized areas) and that work is ongoing in ensuring that those are addressed in the re-competition and award of new SSCs by the end of 2018.

8.7 Furthermore, the Board was informed by NCIA that the Procurement Standard Operating Procedure 16.01, an implementing document of the Acquisition Directive 16.01, was approved by the Chief of Staff on 9 June 2017.

Recommendation

8.8 The Board recommends NCIO to continue its effort to use Service Support Contracts or other competed vehicles to their full potential, use deviations to sole source for contractors only for operational, efficiency, economic or technical reasons with strong coordination with Human Resources management.

9. WEAK MANAGEMENT PROCESS FOR PROJECT CLOSURES

Reasoning

9.1 NCIO revenue is derived from the delivery of projects or services. For the delivery of projects, NCIO is applying IPSAS 11, *Construction Contracts*, for the calculation of the revenue recognition as follows:

> "*When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract shall be recognized as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date*".

9.2 It is important, then, to know exactly when a project is fully completed and can be closed. For Firm Fixed Price contracts, any surplus after closure of the project should be recognized as a surplus revenue.

9.3 As a practice for Capability Development (CD) projects, any surplus above EUR 10,000 and above 8% of the budget can be kept in the Operating Fund or returned to the customer based on a decision of the Service Lifecycle Management Board (SLMB).

Observations

9.4 The Board found that 16 Firm Fixed Price Capability Development projects that were closed in 2016 were sent to the SLMB for decision. The amount of surplus of these 16 projects was EUR 3,175,039.

9.5 On 23 February 2017, however, the SLMB abstained from making a decision on these projects due to the need for further discussion/coordination. The final decision should have been taken after completion of the coordination between Service Strategy, NSIP Liaison Officer and Finance and would be followed by the detailed list of the projects and recommended closure options. However, the Board did not find evidence that such decisions were made before the issuance of the financial statements at the end of March 2017. Had the SLMB decided before the issuance of the financial statements to keep the surplus, then the surplus would have increased the net surplus/deficit for the period and the amount of the Operating Fund at 31 December 2016.

9.6 The Board found that out of the 16 closed projects sent in February 2017 for SLMB decisions, 10 projects had been already sent to the SLMB in 2016 for decision, but decisions were not made.

9.7 The Board also found that, based on the 2016 Cost to Complete Model for Operation Projects, two additional closed projects eligible for SLMB decision were not included in the initial list.

9.8 The Board also found that there was no such process for the Service Level Agreements (SLA) and for the NATO Centralized CIS Services (CSLA) surpluses to go to the SLMB for decision on keeping or returning any surpluses earned. The contract periods of local SLAs and for the CSLA run from 1 January to 31 December. Like other NCIA projects, SLAs are technically closed when all deliverables have been provided to the customer and financially closed when all pending financial transactions have been settled. As they are Firm Fixed Price contracts, a surplus or deficit may be generated.

9.9 Out of 66 SLAs that have been issued since 2014, 20 have been fully closed. 10 SLAs were closed in 2016, of which four were closed with a surplus totaling EUR 13.5 million and three were closed with a deficit totaling EUR 5.9 million.

9.10 If the same practice as for CD projects had been used, an amount of EUR 13.5 million related to the four surplus SLAs could have been sent to SLMB for decision on whether to return any of the surplus to the customer. The two different processes, with possible surpluses returned only for CD customers, can create inequality among internal customers. Surpluses for CD projects are often returned, mainly to the Investment Committee (IC), whereas SLA surpluses, relating mainly to the military budget (ACO and ACT), are not.

9.11 One of various reasons for SLA surpluses can be NCIA’s failure to deliver services according to the terms of the SLA. Firmed Fixed Price SLAs provide little opportunity for recourse for the customer to seek compensation. SLMB review and dialogue with customers could mitigate such issues.

Recommendations

9.12 The Board recommends that NCIA continue to improve its project closure process:

- By issuing a comprehensive and harmonized Directive on closing activities, including those related to SLAs.
- By clarifying and making consistent the practice of the determining whether to return surpluses above 8% and EUR 10,000.
- By planning and making more frequent SLMB decisions on closed projects to ensure that decisions are made before the issuance of the financial statements and to avoid the risk that such decisions are perceived to only be taken after year-end as a way for the NCIA to manage the level of net surplus/deficit presented in the financial statements.

10. WEAKNESSES IN THE TIME ACCOUNTING SYSTEM (TAS)

Reasoning

10.1 Labor costs are a significant portion of internal NCIA costs for project implementation. As a result, it is important that such costs can be properly recorded against each project implemented in the Enterprise Project Management (EPM) system. Labor costs are charged to the project via the Time Accounting System (TAS).

10.2 If not properly charged, incorrect labor costs can be invoiced to the customers and can impact not only the amount of revenue calculated via the 'cost-to-complete' calculation for a contract, but can also impact the overall calculation of net surplus or deficit for the period.

Observations

10.3 Following first implementation of TAS for SLAs in 2014, the Board made a recommendation in its report for improvement of the quality data recorded in TAS. In 2015, the Board found significant improvements were made.

10.4 Since the TAS system remains outside of the Agency's accounting systems, the Board has once again performed a review of the quality of the TAS data, with a specific focus on audit trail and internal control. The Board found the following:

a) A total amount of EUR 431,650 was allocated against projects under generic resources without providing details on the hours, the name of the staff or the contractor that worked to provide these services. Those costs are related to "internal service providers" where generic resources are used, so that staff can book hours across many projects to a central project and a fixed price charge is made to the project.

b) For a specific project of CIS delivery to Resolute Support, the price proposal for Service Support Costs was EUR 1,300,420. The customer did not agree with the proposal and did not provide funding at all. Nevertheless, as an Alliance Operations and Missions, the service was provided by NCIA. An amount of EUR 166,425 was charged to the project and a procurement effort estimated at EUR 227,000 was cancelled. However, EUR 907,000 of Service Support Costs were also incurred, but were charged against another project. The Board asked which project these costs were charged to, but NCIA has not yet been able to reply. This is of concern as it can't be determined whether these costs should have been charged to the other project.

Recommendation

10.5 The Board has seen improvement in the quality of the TAS data since its full implementation with Service Delivery in 2014. Nevertheless, as EBA has been delayed and the Agency is not yet working with its integrated management system, the Board recommends NCIO to continue its efforts in mitigating risks and internal controls specifically for "internal service providers" and for the CIS delivery to Alliance Operation Missions.

11. COMPLEX RECORDING OF RESOLUTE SUPPORT PROJECTS IN COST-TO-COMPLETE MODEL

Reasoning

11.1 The Agency in relation to its customers utilizes two types of contracts:

- Firm Fixed Price (FFP) proposal/agreement.
- Cost Reimbursable (CR) proposal/agreement.

11.2 As per Agency Directive AD 04.01 "Terms of Business for Customer Funding" dated 21 December 2015, Project Service Cost (PSC) and Support Service Cost (SSC) must be FFP and Investment Costs or External Costs must be CR.

11.3 The Agency's approach for revenue recognition is based on a Cost-to-Complete (CTC) model and is by project. Each project agreed with a customer should be properly recorded in the CTC model based on the terms of the contract.

Observations

11.4 Most of the contracts for CIS support to the Resolute Support (RS) signed with ACO are a mixture of Service Support Costs and External Costs i.e. Firm Fixed Price and Cost Reimbursable, respectively. A RS project agreed with the customer can be split for revenue recognition into three different Cost-to-Complete models: Third Party, Operations and Service Delivery. Within the Service Delivery model, the same project can also be divided into Service Support Costs and External Costs.

11.5 As a result of this complexity, the Board found that the link between the contract signed with the customer and the revenue valuation calculated by CTC models is lost. This is a significant weakness.

11.6 From a sampling of 16 price acceptance contracts for RS, the Board was not able to find, by project in the CTC models, an amount of EUR 16.43 million of formal funding authorization for the services agreed with the customer. The Board also tried to reconcile the total amount of purchase orders provided by the customer with the total amount recognized against the three Cost-to-Complete models. A variance of EUR 1.23 million was found between customer's purchase orders (EUR 87.68 million) and the total amount of authorized budget recorded in the CTC files (EUR 86.45 million). This difference was due to funding budgets being reduced based on an agreement with ACO, but the formal ACO purchase orders were not adjusted.

11.7 The Board also found that some Service Support Costs agreed with the customer in the price proposal/price acceptance as Firm Fixed Price have been recorded as Cost Reimbursable in the CTC files.

11.8 With a 2016 budget of around EUR 85 million for CIS provision in RS, the above description exemplifies the complexity of Agency revenue recognition through limited CTC models developed in complex spreadsheets.

Recommendation

11.9 The Board recommends that a simple mapping from customer agreements by project be included in the Service Delivery Cost-to-Complete model and that the type of service i.e. Firm Fixed Price or Cost Reimbursable agreed with the customer be properly recorded.

11.10 The Board also recommends that, when an agreement is reached with a customer to reduce the funding budget, NCIA requires the customer to also provide an updated purchase order.

12. INCOMPLETE INFORMATION IN THE DISCLOSURE NOTES ON THE TRANSITION PROGRAMME

Reasoning

12.1 Disclosure notes are included in the financial statements to provide additional information for the reader to better understand the balances presented in the Statement of Financial Position, Statement of Financial Performance or the Statement of Change in Net Assets/Equity.

12.2 As the NCIO Transition Programme remains important to the Agency’s ongoing transformation, a summary note on authorized funding and current expenditures has been included since the 2013 Financial Statements.

Observations

12.3 The Board found that improvements could be made to the Transition Programme disclosures. In 2016, two major events impacted the Transition Programme. First, the IC provided EUR 7.33 million of funding for the "Functional Groupings and Facility Study (FGFS) Implementation. Second, an additional EUR 7.61 million of IC funding related to EBA implementation delays was provided.

12.4 The IC funding of the FGFS is not reported in the note. The EBA IC funding is not fully reported as authorized funding for Internal Engineer Services for an amount of EUR 857,940 related to EBA delay is not reported in the note.

Recommendation

12.5 The Board recommends that, in future, the note related to the Transition Programme include full disclosure of IC funding provided during the year for transition activities.

13. DEPRECIATION RESERVE IN THE OPERATING FUND

Reasoning

13.1 As per the NCIO FRPs, the Operating Fund is a source of working capital for deficits or a repository for surpluses that arise from Agency operations. Depreciation reserves are considered to be part of the Operating Fund.

Observations

13.2 As a practice since the creation of the Operating Fund, a depreciation reserve for the value of PP&E and intangible assets not yet fully depreciated is included in the EUR 10 million Operating Fund level to be approved by the Nations. The depreciation reserve was EUR 1.49 million at 31 December 2014, EUR 3.7 million at 31 December 2015 and EUR 4.26 million at 31 December 2016. Furthermore, the amount of the depreciation reserve is expected to increase significantly in the coming years due mainly to the NATO Accounting Framework requirement that NCIO shall capitalize all CIS PP&E and intangible assets under construction as of 1 January 2018.

13.3 This will overwhelm the limits of the Operating Fund, calling into question whether the depreciation reserve should be considered as part of the Operating Fund. Removing the depreciation reserve from the Operating Fund is further supported by the fact that depreciation reserves aren't cash reserves available to be used in the future, but rather, the cash has already been spent to purchase the assets.

Recommendation

13.4 The Board recommends that depreciation reserves be removed from the Operating Fund. They should continue to be reported as Net Assets of NCIO, though.

FOLLOW-UP ON PRIOR YEARS' OBSERVATIONS AND RECOMMENDATIONS

The Board followed-up on the status of observations that were still open from prior years' audits. The following table summarizes the current position.

OBSERVATION / RECOMMENDATION	ACTION	STATUS
2015 NCIO AUDIT REPORT IBA-AR(2016)10		
1. LACK OF INTEGRATED SYSTEMS TO SUPPORT THE EFFECTIVE AND EFFICIENT MANAGEMENT AND FINANCIAL REPORTING OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS **Recommendation 1** The Board recommends that NCIO continue pursuing and implementing an integrated solution for the procurement, management and reporting of tangible and intangible assets in order to reduce the inefficiencies and risks involved with the use of many different accounting systems and logistic tools. This should be accomplished within timelines that have been established.	NCIA agrees to the needed integrated solution which will be provided by the EBA implementation funded through the Transition Programme. Due to the delays encountered in this programme, the Agency told the Board that it is trying to mitigate the risks through a variety of actions.	Observation **Superseded by 2016 Observation 1**.
2. LACK OF A CONSISTENT AND ROBUST PROCESS IN DETERMINING CAPABILITY DEVELOPMENT PROJECT REVENUE FOR THE PERIOD **Recommendation 2** The Board recommends that: a) project milestones are defined in a more detailed manner, including activities or group of tasks. b) project Investment Costs be incorporated into an integrated system in order to consolidate into a single system the assessment of future costs of a project. c) standardized "cost-to-complete" estimation processes are put into place among the Project Managers, that thorough reviews by management and Finance are strengthened again, and that these and the results of the estimation process are documented. d) end of year instructions to Project Managers should be more descriptive on what and how "cost-to-complete" must be estimated.	The automated CTC process will be in scope within the EBA implementation. A consultancy study helped in the provision of three CTC Model - User Guides, including one for Third Party and one for Service Delivery. A draft Standard Operating Procedure (SOP) for CTC process is still under review.	Observation **Superseded by 2016 Observation 3**.

OBSERVATION / RECOMMENDATION	ACTION	STATUS
3. FURTHER STEPS ARE REQUIRED TO ACHIEVE FULL COMPLIANCE WITH THE REVISED NATO FINANCIAL REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL AND RISK MANAGEMENT **Recommendation 3** The Board recommends that NCIO: a) Formally adopt the internal control framework that it is currently in the process of assessing itself against internally (COSO ERM). In addition, this should be coordinated with the Head of Financial Reporting Policy to ensure consistent frameworks are adopted across NATO. b) Update the Agency Risk Register with the controls in place and the risk tolerance limits or actions to be taken to mitigate identified risks and ensure that all Directorates and Organizational Units within the Agency have an updated Risk Register for year 2016.	NCIA will continue progress in meeting the revised NFRs and FRPs.	Observation **Superseded by 2016 Observation 5**.
4. WEAKNESSES IN SOURCE SELECTION PLANNING PROCESS **Recommendation 4** The Board recommends that in order to avoid delays for the project during the evaluation phase, NCIO should ensure that: a) realistic dates of contract award are being provided to the budget holder. b) Source Selection Plan is approved and the Project Evaluation Board Chairman is appointed prior to the issuance of the solicitation document. c) adequate planning resources are being provided to the Project Evaluation Board.	The 2016 Acquisition Directive will be applicable as from 2017. More detailed Acquisition procedures were also recently issued in June 2017.	Observation **Superseded by 2016 Observation 7**.
5. INSUFFICIENT USE OF COMPETED SUPPORT SERVICE CONTRACTS IN 2015 AND 2016 **Recommendation 5** The Board recommends that NCIO: a) continue its efforts in awarding general IT Service Support Contracts and transition	Two new SSCs have been awarded since the Board observation.	Observation **Superseded by 2016 Observation 8**.

OBSERVATION / RECOMMENDATION	ACTION	STATUS
existing positions under these competed arrangements; and b) better ensure that deviations to sole source for IT contractors be only for operational, efficiency, economic or technical reasons; and c) ensure that the General Manager's approval is obtained for contractor's recruitment when required.		
6. IMPROVEMENT STILL NEEDED FOR PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS MANAGEMENT **Recommendation 6** The Board recommends that NCIO: a) continues in its efforts to record and capitalize all CIS assets acquired since 2013, b) improve the quality of CSSC inventory with an up-to-date warehouse management system to better track tangible assets in transit; and c) carry out physical stock checks at financial year-end.	Within the EBA scope further modules are foreseen to complement the process, such as a Warehouse Management Module.	Observation **Partially settled**. a) Fixed Assets acquired through CNAFS are capitalized. No assurance that all CIS (not under construction) acquired through CFS are capitalized. b) CSSC quality has been greatly improved. c) Done for end of year activities at CSSC, but not at all locations.
7. IMPROVEMENTS NEEDED FOR PROJECT CLOSURE ACTIVITIES **Recommendation 7** The Board recommends that the Agency continues to improve its project closure process: a) by issuing a comprehensive and harmonized Directive on closing activities including SLA. b) by clarifying the practice of the surplus above 8% and/or EUR 10,000. c) by planning more frequent SLMB decisions on closed projects, in part to avoid the perception that decisions are only taken after	A closure standard operating procedures is currently being developed which will address projects and SLAs.	Observation **Superseded by 2016 Observation 9**.

OBSERVATION / RECOMMENDATION	ACTION	STATUS
the year-end as a way for the Agency to manage the level of surplus or deficit presented in the financial statements.		
8. MORE TRANSPARENCY NEEDED ON SLMB DECISIONS TO RETURN CERTAIN PROJECT SURPLUSES TO THE CUSTOMERS RATHER THAN ALLOWING THEM TO FLOW TO THE OPERATING FUND **Recommendation 8** The Board recommends that: a) the various NATO governing bodies with roles in approving the use of the Operating Fund agree to the current practice of the SLMB making decisions to return surpluses to customers rather than allowing them to go to the Operating Fund; and b) disclosure notes on the NCIO Statement of Change in Net Asset/Equity (Operating Fund) mention a summary of SLMB decisions related to surplus generated by closed projects.	This has not been done. A disclosure on the amount approved by the SLMB in 2016 was done.	Observation **Partially settled**.
9.WEAKNESSES IN REVENUE RECOGNITION FOR SERVICE LEVEL AGREEMENTS **Recommendation 9** The Board recommends that the Agency, in liaison with its customers, adjusts the open POs on a more frequent basis during the year for the funding for external CIS.	The Agency has taken action accordingly based on end of year pressure from customers.	Observation **Settled**.
11. COMPLETENESS OF RELATED PARTY DISCLOSURES **Recommendation 11** The Board recommends that NCIO fully complies with the requirements of the NATO Accounting Framework in respect to related party disclosures, including making inquiries of governing bodies to ensure the completeness of related party transactions.	This was done.	Observation **Settled**.
12. PLACEMENT OF ROLE OF THE COMPETITION ADVOCATE **Recommendation 12** The Board recommends that: a) The position of the Competition Advocate is put outside the area of influence of procurement to ensure a real independence of the position	ASB has taken decision on the role of Agency Competition Advocate following the Board's	Observation **Settled**.

OBSERVATION / RECOMMENDATION	ACTION	STATUS
and fairness in the procurement process. **b)** The Competition Advocate issues an annual report on its activities to the Agency's Senior Management and the Agency Supervisory Board.	recommendation.	
2014 NCIO AUDIT REPORT: IBA-AR(2015)20		
7. LACK OF A FORMAL AND DOCUMENTED PROCESS TO IDENTIFY AND DISCLOSE CONTINGENT LIABILITIES **Recommendation 7** The Board recommends that NCIO improve the way that information on contingent liabilities is requested, collected and assessed. Such a process is necessary to ensure that contingent liabilities disclosures in the Financial Statements are accurate and complete. The process should be also fully documented as well.	Draft Agency Instructions on reporting of provisions, contingent liabilities/assets and events after the reporting period.	Observation **Partially Settled**. **Awaiting Agency Instruction and Acquisition standard operating procedures to be issued.**
8. INCOMPLETE CONFIRMATION OF YEAR-END ASSETS AND LIABILITIES OUTSTANDING BETWEEN NATO BODIES **Recommendation 8** The Board recommends that NCIO improve its process to prepare, sent and receive confirmation of the outstanding asset and liabilities balances from other NATO Bodies as part of the preparation of the Financial Statements.	Despite some improvement in the reporting of year-end balances for assets and liabilities, the handling of the reconciliation with main customers remains incomplete.	Observation **Outstanding**.
10. LACK OF SPECIFIC REPORTING OF AIR COMMAND & CONTROL (AIRC2) AND NATO BALLISTIC MISSILE DEFENCE (BMD) IN THE FINANCIAL STATEMENTS **Recommendation 10** The Board recommends that NCIO disclose separate segment information related to the BMD and AirC2 programmes. This will help the BMD & AirC2 Steering Committees as well as other NATO Committees to achieve their governing roles and responsibilities.	Following a consultancy study three segmentation bases have been analyzed: - NCIO Segmentation Based on Budget Documentation. - NCIO Segmentation Based on C3 Capability Development / CIS Service Provision / Other.	Observation **Outstanding**. **Awaiting final EBA implementation.**

OBSERVATION / RECOMMENDATION	ACTION	STATUS
	- NCIO Segmentation Based on Groups of Service Lines. The choice of NCIO is a mixture of the following two dimensions: - Segmentation based on budget documentation. - Segmentation based on organizational governance.	
2013 NCIO AUDIT REPORT: IBA-AR(2014)22		
4. NCIO'S FINANCIAL REPORTING PROCESSES DO NOT YET FULLY MITIGATE THE RISK OF ERRORS IN THE FINANCIAL STATEMENTS **Recommendation 4** The Board recommends NCIO to improve its financial reporting control procedures, including management reviews, in order to ensure that they adequately mitigate the risk of errors in the financial statements.	The Board found improvements for the preparation and issuance of the 2016 financial statements despite staff shortage in Finance. However, the Agency is still working with two different accounting systems and relying to a large extent on spreadsheets for its revenues recognition. NCIO should continue to improve its financial reporting control procedures, including management reviews.	Observation **Partially Settled**.
2012 NCIO AUDIT REPORT: IBA-AR(2013)23		
5. NCIA CD SEGMENT FINANCIAL STATEMENTS (Former NC3A) **Recommendation 5** The Board recommends that the NCIA Temporary Staff should be managed in compliance with CPR's and local laws for NCIA Temporary Staff serving in the Netherlands.	No temporary staff anymore under that status.	Observation **Settled**.
6. NCIA SD SEGMENT FINANCIAL STATEMENTS (former NCSA) **Recommendation 6** The Board recommends that now that an adapted IPSAS framework has been approved with different requirements for PP&E compared to IPSAS 17, NCIA should develop a detailed accounting policy on PP&E and ensure sufficient note disclosures on PP&E in future financial statements.	PP&E accounting policy has already been issued in 2017. An intangible asset accounting policy is also expected to be issued in 2017.	Observation **Partially Settled**.

OBSERVATION / RECOMMENDATION	ACTION	STATUS
2010 NCSA AUDIT REPORT: IBA-AR(2012)10		
5.2 NO CONSOLIDATION OF MORALE AND WELFARE ACTIVITIES (MWA) NCSA did not include MWA activities, revenue and expenses of EUR 1.4 million, in the 2010 NCSA Financial Statements and no information was disclosed about MWA. The Board's view is that the NCSA's MWA activities are controlled by NCSA and as such the financial statements of MWA activities should be consolidated into those of NCSA in accordance with IPSAS 6, *Consolidated Financial Statements*. **Recommendation** The Board recommends that NCSA consolidates the MWA activities into the NCSA Financial Statements in order to present fairly the total revenue, expenditures, assets and liabilities.	NCIO issued an Agency Directive on Morale and Welfare. However, the Board did not find any financial information in support of such activities by way of a disclosure note to the financial statements as required by the NATO Accounting Framework.	Observation **Outstanding**.

NATO COMMUNICATIONS AND INFORMATION ORGANISATION (NCIO)
AGENCY SUPERVISORY BOARD (ASB)
FINANCE COMMITTEE
FORMAL COMMENTS ON THE
LETTER OF OBSERVATIONS AND RECOMMENDATIONS

OBSERVATION 1:
LACK OF INTEGRATED SYSTEMS TO SUPPORT THE EFFECTIVE AND EFFICIENT MANAGEMENT AND FINANCIAL REPORTING OF PROPERTY, PLANT AND EQUIPMENT (PP&E) AND INTANGIBLE ASSETS

NCIO ASB's Formal Comments

As in prior years, the Board highlights that the NCIO's multiple accounting systems and separate logistic systems do not provide an effective and efficient control over NCIO's PP&E and intangible assets as this does not fully mitigate the risks of unrecorded assets transactions and/or erroneous asset transactions being recorded. The Agency has developed these requirements for EBA to go live in early 2018. EBA will offer a fully integrated solution.

Nevertheless, to the extent possible, the Agency has already taken considerable actions as to address asset management issues and to improve pending EBA implementation:

- *In line with the NATO Accounting Framework, the Agency has undertaken efforts to account for all Service Delivery assets acquired as of 1 January 2013 including those acquired under CIS Delegated Budgets. Hand Over/Take Over (HO/TO) of CIS Assets for Command Structure static entities was completed in 2014 and that for Resolute Support was completed per the end of 2015. As part of this work and newly implemented processes, asset accounts continue to be refined and updated.*
- *As of 1 January 2014 the Agency has decreased the number of financial systems from three to two by migrating the former NACMA's ProAcc/ProCure to the former NC3A's PeopleSoft system (CFS - Core Financial System).*
- *The Agency has activated the necessary inventory and asset management tools within former NCSA's Oracle based application (CNAFS) which were already available in the NPC CNAFS. The migration from NDSS has been completed at the CIS Service Support Center (CSSC) in Brunssum and at the NCI Agency CIS Support Units (CSUs) throughout NATO. These tools now capture newly acquired Service Delivery inventory and assets.*
- *The Agency also played a key role in co-operating with the Head of Financial Reporting Policy, which lead to the adaptation of the NATO Accounting Framework approved by the Council in late April 2016 where the ambiguity between control and ownership of CIS assets has been eliminated (defining now that NCIO also has control) and establishes a transition period for the NCI*

Agency up until 1 January 2018, as to bring Assets under Construction on its books.

- *The Agency further contributed to the NATO Accounting Policy for PPE that was approved by the RPPB in April 2017, and to the Accounting Policy for Intangible Assets that is currently addressed for approval by the RPPB under Silence procedure.*
- *The NCI Agency is currently focusing on the set-up in EBA to cover all the Agency requirements for PPE, intangible assets, assets under construction and inventory.*

In summary, the Agency agrees to the need for an integrated solution, this will be provided by the EBA. Meanwhile the Board has recognised the significant efforts by NCI Agency to mitigate some of the asset management issues. Importantly, the migration of PP&E and inventory recorded in NATO Depot and Support System (NDSS) to its current CNAFS accounting system was completed at the CIS Service Support Center (CSSC) and at the CIS Support Units. The NCI Agency has further undertaken continuous efforts in order to ensure that EBA will adequately handle the PPE and intangible assets accounting requirements and specifically the assets under construction for which the EBA implementation is a pre-requisite for the Agency to meet the deadline of 1 January 2018.

OBSERVATION 2:
EUR 35 MILLION UNDERSTATEMENT OF INVENTORY

NCIO ASB's Formal Comments

As a result of the Hand Over / Take Over of Inventory from the NATO Commands in 2014, the NCI Agency applied the accounting treatment for inventories prescribed in the NATO Accounting Framework (Adapted from the International Public Standard (IPSAS) 12) for inventory acquired prior to 1 January 2013 and considered it as fully expensed.

The IBAN's audit at the NCIA's CIS Sustainment Support Centre confirmed that the NCI Agency has complete accounting records for the physical inventory balances.

NCIA agrees that the adjusting accounting entry from 2014 that decreased assets for the value of the prior 2013 acquired inventory items should have been reviewed, in order to reflect the inventory rotation over time. This will require additional research to determine the correct accounting for the corresponding liability/revenue when the adjustment entry is reversed. NCIA will consult IBAN and launch the discussion within the NATO Accounting Working Group in order to apply a correct and consistent accounting policy within NATO.

OBSERVATION 3:
LACK OF CONSISTENT AND ROBUST PROCESS FOR DETERMINING CAPABILITY DEVELOPMENT PROJECT REVENUE FOR THE PERIOD

NCIO ASB's Formal Comments

The Agency is aware of the requirement to incorporate the project investment cost into an integrated system in order to consolidate the assessment of future cost of the project as a whole. This is part of the integrated project accounting solution in EBA, and therefore the Agency will comply once EBA is fully implemented.

The estimated Cost-to-Complete is based on the best effort from the Project Manager to forecast future spending on his project, which tends to be more difficult if the closing date is further in the future. Even if during the execution the intermediate estimated CTC's are over (or under) estimated, the effect will be neutralized at the end of the project life cycle where the CTC will be zero and the recognized revenue will be equal to the billed revenue. Although the over or underestimation of CTC may have an impact on the calculation of Earned Revenue for a particular project for a particular period, the sum of that effect levels out across the totality of projects which are at various stages of completion (new projects, active projects and closing/closed projects). Given the large number of projects (about 75% fixed price), statistically the effect for a given year's performance tends to become immaterial.

Notwithstanding the above comments, the Agency acknowledges that the cost to complete process for the capability development projects needs further strengthening and improved discipline. The agency is further focusing on education, documentation and training of the Project Management community with specific focus on NSIP projects. End of Year instructions are currently being reviewed and will be improved for the 2017 closing. These efforts aim at better project manager estimates and more discipline. The automated CTC process and further optimization of the process is in scope within the EBA implementation and will further improve the process.

OBSERVATION 4:
LACK OF ASSURANCE ON THE RELIABILITY OF THE ESTIMATE FOR FUTURE LOSS RELATED TO THE NEW NATO HEADQUARTERS PROGRAMME

NCIO ASB's Formal Comments

As reported to the Agency Supervisory Board (ASB) on 27 April in Ottawa, the Agency is in a cost overrun status on this project because its complexity and interdependencies were underestimated, as well as due to contractor performance issues which led to the need to establish a programme office and significantly increase IV&V effort. Additionally, the dynamic nature of this *programme resulted in an increase of scope which due to the criticality and time pressure was undertaken without prior provision of additional Project Service Costs (PSCs). Based on available information at that time, the Agency recognized and provisioned for losses to the amount of 4.8 MEUR in the 2016 Financial Statements as submitted to the IBAN on 31 March 2017.*

On 22 May 2017, The ASB Finance Committee was advised of the cost overrun and tasked the Agency to address the funding shortfall with the Customer "in order to consistently apply the principles of the Customer Funding Regulatory Framework such as fair treatment and equity across the customer base and avoid that internal customers bear additional costs due to the deficit incurred win the ANWI programme; and reiterating the message that the Committee should have been informed in advance of the ANWI cost overrun, rather than being presented with a "fait accompli." In accordance with NSIP rules, the Agency has recently submitted a funding request for this cost overrun to the NNHQ Project Office for which the DPRC is requesting NOR validation which will likely not be finalized before September 2017.

As reported by the Agency to the ASB on 27 June 2017, the cost overrun status for ANWI programme continues pending the decision of the DPRC and, unless otherwise directed by the NCIO ASB, the Agency will continue to give ANWI top operational priority in order to meet current delivery deadlines which are linked to the hosting of the NATO Summit at the New NATO Headquarters in 2018.

The Agency acknowledges the findings on the uncertainty and lack of adherence to the established processes and confirms it has taken action to remediate the issues raised on the audit report.

OBSERVATION 5:
SOME PROGRESS BEING MADE TO ACHIEVE COMPLIANCE WITH THE NATO FINANCIAL REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT AND WITH THE NCIO FINANCIAL RULES AND PROCEDURES (FRPS)

NCIO ASB's Formal Comments

The Agency will continue its efforts towards implementation of the provisions of the NFRs, in order to ensure full compliance.

OBSERVATION 6:
CONTRACTOR CLAIM RESULTING FROM CHANGING AND DELAYED CONTRACT REQUIREMENT DEFINITION AND WEAK COORDINATION BETWEEN NCIA AND THE INVESTMENT COMMITTEE

NCIO ASB's Formal Comments

The Agency agrees with the Board's recommendation for improving information management and transparency by rationalizing and modernizing the processes and information technology used to manage Capability Package work. In the particular case referenced, the original requirements have changed several times initiated by the user community resulting in decisions from the Investment Committee that have led to subsequent delays in technical requirements. The claim process has been very lengthy and cumbersome however, the Agency has given regular updates to both IC and BC.

OBSERVATION 7:
WEAKNESSES IN SOURCE SELECTION PLANNING PROCESS

NCIO ASB's Formal Comments

With regards to the Board's observation that the Agency should have more realistic estimates of contract award dates to be provided to the budget holder, the Agency has undertaken great effort to release realistic Contract Award dates to the budget holders, based on the standard time required to run the proposed procurement strategy. It is hereby factoring some contingencies to address the risk of potential delays. However, it is to be noted that as soon as the Agency deviates from the standard scenario, such as in the case of issues in the bidding process leading to engaging with Bidders and Delegations, the specific procedures are followed. This process causes delays that are difficult to predict, and this is often due to external factors that are beyond the Agency's control. The Agency will further aim at refining the scenarios when preparing the requests (TBCE) to go to the budget holders (IC) by increasing contingency in the time needed to address potential issues during the evaluation process (based on historical data) as well as confidence level of the cost estimates.

With regard to the Board's observation that Source Selection Plans are to be approved and the PEB Chairman be appointed prior to the issuance of the solicitation document, the Agency will ensure that the Acquisition Standing Operating Procedures (SOP) released in June 2017 that define the PEB appointment conditions prior to the issuance of the solicitation document are properly followed.

In order to ensure adequate planning resources as recommended by the Board, the Agency has also clearly defined the Source Selection Planning activities, and the roles and responsibilities of the resources in its above mentioned SOP, this *will lead to more realistic budgeting of the Project Service Costs to cover adequately the associated activities on bidding and evaluation time.*

OBSERVATION 8:
INSUFFICIENT COVERAGE OF COMPETED SUPPORT SERVICE CONTRACTS IN 2016

NCIO ASB's Formal Comments

The Agency continues its efforts in order to further optimise the process and the Board recognises that it has already identified lessons to improve the process in solicitation and implementation of the ongoing SSCs. The Agency confirms that this work is ongoing and that this will be addressed in the re-competition at the end of 2018.

OBSERVATION 9:
WEAK MANAGEMENT PROCESS FOR PROJECT CLOSURES

NCIO ASB's Formal Comments

The Agency has developed 2 SOPs, one for projects and one for SLA's. These SOPs will be reviewed and updated as needed and will reconsider the applicability of the 8%/10 KEUR rule for projects and SLA's upon validation by the ASB Finance Committee. The Agency will also implement more frequent SLMB review of projects to be closed.

OBSERVATION 10:
WEAKNESSES IN THE TIME ACCOUNTING SYSTEM (TAS)

NCIO ASB's Formal Comments

The Agency welcomes IBAN's noted improvements and will endeavour to continue to improve TAS recording and management per the IBAN's recommendation.

OBSERVATION 11:
COMPLEX RECORDING OF RESOLUTE SUPPORT PROJECTS IN COST-TO-COMPLETE MODEL

NCIO ASB's Formal Comments

The Agency would like to emphasize that the complexity is not only due to recording in three different CTCs but more importantly for having to collate and process information from two different financial systems.

The Agency does not agree with the observation outlined at 11.5, "as a result of this complexity the link between the contract signed with the customer and the revenue valuation calculated by CTC models is lost." The revenue recognition is calculated in the related CTC's depending on the financial system and accounting unit in which the customer purchase order (PO) was managed, and accordingly, the relationship between the customer PO, financial systems and the CTC by project code is traceable and available, however Agency confirms the complexity and that traceability requires a great deal of effort.

Board's position

The Board reviewed the wording in paragraph 11.5 and found that it does overstate the issue by implying that the Board could find no link at all. This is not the case. Paragraph 11.6 describes the specific reconciliation issues the Board encountered.

NCIO ASB's Formal Comments

The Agency agrees with the Board that improvements are necessary, and had already mitigated the risk in 2016 by designating one finance POC that was responsible for the monthly reporting. However due to the cumbersome process, the Agency further decided towards the end of 2016 that in 2017, Resolute Support agreements will be managed in one financial system. This resulted in significant improvements in reporting and overall financial management. Consolidated financial updates are prepared on a regular basis and are used for the weekly coordination meetings between the service provider, O&E Service Line and the customer JFCB. The revenue recognition will also be dealt with in one CTC.

The Agency will also engage more with the customer to have, as a result of the final customer review meetings, revised written customer agreement based on the verbally agreed baselines.

The Agency is confident that the actions that it has taken for 2017 will result in compliance with the Boards recommendations.

OBSERVATION 12:
INCOMPLETE INFORMATION IN THE DISCLOSURE NOTES ON THE TRANSITION PROGRAMME

NCIO ASB's Formal Comments

The Agency will comply with the IBAN recommendations.

OBSERVATION 13:
DEPRECIATION RESERVE IN THE OPERATING FUND

NCIO ASB's Formal Comments

The Agency agrees with the recommendation of the Board and notes that since the establishment of NCI Agency, depreciation reserves were always included as part of the Operating Fund per the Nations' guidance. The Agency recognizes the complexity in the future when NCIO will start capitalizing the CIS assets under construction as of 1 January 2018. As stated by the Board, depending on the accounting treatment, this might impact the depreciation reserve considerably. The Agency will look into the definition of the Operating Fund and make a proposal to the ASB in order to have a clear distinction between the Operating Fund and the Net Assets.

PROPOSED FACTUAL AND FORMAL COMMENTS ON THE BOARD'S ASSESSMENT OF THE STATUS OF THE PRIOR YEARS' AUDIT OBSERVATIONS

Out of the sixteen observations/recommendations from previous years' audits, eleven have been settled or superseded and seven are outstanding of which four are partially settled. The Agency provides per below an update on the seven outstanding observations.

IBAN Recommendation 6 on 2015 NCIO Audit Report

NCIO ASB's Formal Comments

The Board recognises that this observation is partially settled. The Board has found that fixed assets that are acquired through the CNAFS are capitalized, however there is still a lack of assurance that this is the case for all the CIS assets that are acquired through the CFS. The Agency is working on this, and once EBA is implemented the Agency will be in compliance with this recommendation. The Board found that the CSSC quality has been significantly improved, and that physical stock checks are appropriately done at CSSC, but not at all locations. The Agency is fully aware of this and continues its effort in order to implement the physical stock check process at year-end at all locations however faces important resource constraints. Given the recommendation of the Board under 1.7 related to the PPE and intangible assets, the Agency proposes to change this observation as superseded, and to add the comments to the 2016 recommendation.

Board's position

The Board considered the proposal to consider this superseded and add the comments to current year observation 1, but decided to keep this follow-up observation as partially settled.

IBAN Recommendation 8 on 2015 NCIO Audit Report

NCIO ASB's Formal Comments

This item is linked to IBAN Recommendation 9 of the 2016 Audit Report. The Agency will work to settle this item before the end of 2017.

IBAN Recommendation 7 on NCIO 2014 Audit Report

NCIO ASB's Formal Comments

The Agency has prepared a SOP that is currently under final coordination. The process that is documented in the SOP, will be followed for the preparation of the financial statements and will support settlement of this observation.

IBAN Recommendation 8 on NCIO 2014 Audit Report

NCIO ASB's Formal Comments

The Agency already improved per the end of 2016 but agrees that further improvement is required and thus will comply with the Board's recommendation.

IBAN Recommendation 10 on NCIO 2014 Audit Report

NCIO ASB's Formal Comments

The Agency will address the outcome of the study conducted regarding segmented financial statements with the relevant stakeholders. The Agency is ensuring that EBA will cover the requirements for the segment reporting and therefore will comply upon implementation of EBA.

IBAN Recommendation 4 on NCIO 2013 Audit Report

NCIO ASB's Formal Comments

The Agency welcomes the Boards findings about the further improvements that have been made despite the staff shortage. The Agency will however continue to monitor and improve within the limitations of its multiple financial systems and suboptimal interfaces with other legacy systems, pending the EBA implementation.

IBAN Recommendation 6 on NCIO 2012 Audit Report

NCIO ASB's Formal Comments

The Agency confirms that it is co-operating very closely with the HFRP on NATO Accounting Policies. The NATO wide accounting policy for PP&E has been issued and approved by the RPPB in 2017. The Accounting Policy for Intangible Assets is currently addressed for approval by the RPPB under Silence procedure. These policies will form the basis for more detailed NCIA implementing instructions on the subject.

IBAN Recommendation 5.2 on 2010 NCSA Audit Report

NCIO ASB's Formal Comments

The Agency has issued an Agency Directive on Morale and Welfare in 2016, and is in the process of implementing it and will continue to take action in order to comply with the Board's recommendation.

NATO Communications and Information Agency

Agence OTAN d'Information et de Communication

NCIA/FC/2017/00555

NCIO Financial Statements 2016

Contents

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

2016 once again demonstrated that we, as a NATO Agency, remain a key contributor to NATO; enabling the Alliance to develop and broaden the scope of their Defence Capabilities and to empower the new Deterrence and Defence NATO posture.

In close collaboration with the NATO commands and the NATO resource community the Agency placed emphasis on delivering NATO Summit priorities, enabling us to deliver all essential work resulting from the Wales Summit and due for the Warsaw Summit, on time. In particular, the Agency achieved to enable the Ballistic Missile Defence capability to reach its Initial Operating Capability stage for the Warsaw Summit.

We have seen significant capabilities delivered during 2016. Effective and efficient partnerships with the Nations, and the ingenuity of Agency staff leveraging cloud computing technologies allowed us to rapidly establish the connectivity of the NATO Force Integration Units (NFIUs); and, at the same time, to demonstrate the operational and strategic benefits of a modern approach to NATO IT. The timely connectivity of the NFIUs was an essential enabler for the Enhanced Forward Presence and showcase the opportunities in direct collaboration with the Nations and the NATO Force Structure to strengthen the Alliance's ability to execute its strategic priorities.

This year, we met a significant milestone for NATO's Air Command and Control System, NATO's largest common-funded programme, which – after a significant development phase - is now in operational use. Our Cyber Defence Capabilities demonstrated their worth under an increased number of cyber activities; re-emphasizing the need for the Alliance to continue the investments in this capability area.

However, there were also delays in planned key deliveries during 2016. The move to the new NATO Headquarters was delayed predominantly as a result of delays to deliver the Active Network Infrastructure (ANWI) programme. The ANWI programme was re-scheduled and based on our findings we have recognized and provisioned 4.2 MEUR to cater for a total cost overrun on project service costs of 4.8 MEUR for the programme. In addition, our IT Modernisation programme, a key delivery to NATO, was under dispute procedure putting the delivery at risk. A Board of Arbitration ruled in favour of the Agency and the project has fully resumed its deliveries with delays.

While delivering capabilities and services throughout 2016, we have continuously focused on increasing efficiency. This has, to some extent, been forced into focus by changes outside our direct influence. For instance the reduction of over 1300 military staff, equivalent to approximately 50% of our total military staff or 65% reduction in overhead military staff since the inception of the Agency. This reduction in military manning has been and is one of the challenges, we face, when trying to strengthen our ability to deliver the sought solutions to our customers. However, apart from this challenge, when monetized, it has also allowed us to make the equivalent 36.5MEuro of reductions/savings; and thus, helped us to surpass the 20% overhead savings target mandated as part of the Agency Reform.

In delivering capabilities and services, our priority remains the support to Alliance operations and exercises. This support has been professionally delivered by our decentralized CIS Support Units and through deployments of other Agency staff. However, the rapid increase in customer requests for preparation of and participation in NATO exercises is stretching our resources and is expected to increase the gap between our capacity and the customer demand.

Nations' willingness to seek "NATO First" solutions, and the expansion of our service catalogue and capability deliveries, is also leading to a more rapid growth in customer demand than in the Agency's qualitative and quantitative capacity. Consequently, throughout 2016, we have faced capacity issues and directed significant effort to optimize internal processes in order to virtually increase capacity – "to produce more with same or less".

In 2017, we aim to continue to improve as provider of CIS services and capabilities to our customers. In support of this ambition, the Agency has initiated several initiatives to improve both internal and external business performance management that is aimed at showing results in 2017.

I would like to extend my appreciation to both our staff and governing bodies for helping us achieve what we do and enabling us to maintain the strong commitment to our customers and our stakeholders.

Koen Gijsbers
General Manager NCI Agency

Overview of the NATO Communication and Information Organisation (NCIO)

Mission[1]

Covering the entire capability life cycle, the NCI Organisation Mission is to:

- Deliver C3 capabilities to its requirements holders, whilst ensuring their coherence and interoperability in compliance with agreed NATO architectures,
- Ensure provision of secure CIS services to its customers,
- Deliver capabilities and provide services "other than C3/CIS" to NATO and Nations, as approved by the ASB,

in order to enable NATO's Consultation, Command and Control (C3) and to facilitate, inter alia, the seamless integration of Intelligence, Surveillance, Reconnaissance, Target Acquisition (ISTAR) functions and their associated information exchange, while continuously improving coherency, effectiveness, efficiency and delivering cost savings. It includes IT-support to the Alliances' business processes (to include the provision of IT shared services) to the NATO HQ, the Command Structure and NATO Agencies (including itself).

In our role as CIS supplier and enabler for the Alliance, our value proposition includes the following key points:

Trusted, Unbiased Partner

- Our customers' mission is our mission.
- Provide advice to customers without commercial bias.
- Transparency to foster trust with governance bodies and customers.
- Acquire best and most affordable solutions for our customers.
- Contract out services and acquisition at industry standards and at a competitive cost.

Deep understanding of NATO and unparalleled technical expertise

- Full understanding of NATO and its operational environment.
- Design authority responsible for leveraging emerging technology and maintaining NATO ICT architecture.
- Deliver secure, coherent, interoperable solutions across the capability lifecycle.

An integral part of NATO

- Owned and governed by the Nations, committed to our customers.
- Independent verification and validation of solutions.

Flexible and Diverse Workforce

- Unique mix of NATO civilians, military personnel and contracted workforce.
- Return on national investments in military manpower via military rotation.
- Full range of services from solution development, acquisition and support.

We multiply forces by making the Alliance's capabilities and capacities more effective and credible.

Operational Environment

The NCI Agency is the executive arm of NCIO and is chartered to execute its mission. In view of NATO's level of ambition it performs the following functions and tasks:

- Work with all relevant stakeholders in order to develop NATO C3's architectures to support Senior Policy Committees' capability coherence and implement NATO technical coherence;
- Perform central planning, technical planning, systems design and engineering, integration and configuration management, testing and technical support for assigned NATO systems or installations;
- Operate, control and support assigned in-service NATO CIS and installations, and any other assigned in-service systems, appropriate systems support including hardware and software maintenance and configuration management, and ensuring the commensurate training of personnel for operations and maintenance;
- Manage and execute Programmes and other projects assigned to it;
- Act as Host Nation for assigned NATO Security Investment Programme (NSIP) projects as recommended by the NATO Resource Policy and Planning Board (RPPB) and approved by the North Atlantic Council (NAC), or as approved by the NATO Investment Committee (IC);

[1] Annex 1 to C-M (2012)0049 the Charter of the NCI Organisation.

- Exercise ownership of assigned infrastructures and assets in support of its mission;
- Provide Information Assurance and Cyber Defence for NATO's Communications and Information Infrastructures consistent with NATO Cyber Defence Policy;
- Provide technical advice to nations participating in the NATO Force Structure when interfacing their C3 systems with those of NATO;
- Perform studies, provide advice and support NATO bodies and other customers in the scientific, technical and operational analysis domains.

Customer Funding

As per the terms of its Charter, the Customer Funded nature of the Agency means it must recover all of its costs from the work and services it provides to NATO and National Customers with the aim of achieving financial break-even over time.

The NCI Agency cost of services is supported and sustained through a number of Service Level Agreements (SLAs) and Projects whereby the Agency charges for its labour and running costs as well as its externally contracted services and costs.

Effective 2014 the Agency implemented customer funding with the conversion from of CIS service delivery, Air Command and Control (Air C2) and Ballistic Missile Defence (BMD) from budgets to fee for service customer agreements.

One of the key lessons learned so far, is that if customer funding is to achieve the efficiency and effectiveness sought when NATO Agency Reform was introduced, then greater transparency and leaner oversight is needed. In this regard, in compliance with the Council approved Customer Funding Regulatory Framework[2] and in line with the Agency Strategic Plan, the main stepping stones towards the achievement of a mature Customer Funding Model are:

- Resolution of the critical issue of the provision of military manpower to the Agency and capacity gaps resulting from the End State Peacetime Establishment (ESPE) whilst IT Modernization project is delayed
- Consolidation of the various legacy internal information systems under an integrated Enterprise Business Application (EBA) capability
- Establishment, in full coordination with customers and Nations, of a robust Service Portfolio and associated priced Service Catalogue
- Consolidate and build upon the foundations put in place in the consolidation, rationalization and optimization phases
- Deliver against the updated Benefits and Savings Realization Plan and latest Efficiency Plan
- Complete the transition to a service-based organization, and
- Achieve greater coherence, predictability and transparency.

Agency Manning

During 2016, to the increasing concern of the Agency, the military fill rate continued to reduce, even after the implementation of the NAC approved Peacetime Establishment (PE) in July 2016. In total, the Agency lost a further net 118 military staff members to reach a filling figure of 1051 staff members; 856 against PE posts, and 195 Legacy Transition Personnel (LTP). The fill rate was, at the end of the year, of 74.4% of the PE, 91.3% taking the LTP into account (even if LTP are not filling the PE).

The Agency remains confident that the Nations will continue to provide excellent support in this transition period but highlights the fact that, even if the Agency still welcomes Legacy Transition Personnel (staff not filling official posts), the main focus should be the manning of the official PE posts.

As the PE was defined to meet the minimum core requirement, any gap in the military workforce still needs to be addressed swiftly and carefully.

Regarding the NATO International Civilian (NIC) component, which is still being optimised for efficiency, the Agency is facing a challenging situation to build its full capacity due to the time needed for recruitment (9 months average to hire) and its contract policy which calls for staff turnover to refresh skills and knowledge. This policy seems to lead to have more unexpected attrition (resignations) than in a normal context, which creates issues to the Agency, as the implementation of the Move Plan is more difficult than expected (less people willing to move with their post than planned).

At the end of 2016, the NIC population had increased by 45, however still with around 310 posts under recruitment. The Agency is actively working to reduce the time for recruitment, via the use of HireVue, of Skill Pools, etc.

To mitigate this capacity shortfall the Agency has put in place a surge capacity through an Interim Workforce Capacity (IWC) strategy to mitigate the shortfall of NICs and to ensure that we can fulfil our delivery obligations to Customers. This however, is creating financial pressure as in most cases the costs for IWCs are higher than NICs and of course military staff.

[2] PO(2015)0394

Transition Programme

In accordance with an RPPB decision on the funding eligibility and modalities of the Agency Transition Programme[3], the Agency has been authorized to pursue its transition plan with a mix of common funding (from Military Budget and NATO Security Investment Programme - NSIP) supplemented through funds from a Transition Reserve constituted from Agency Operating Fund. This separate funding provided to the Agency is not included in the costs the Agency charges its customers.

Enterprise Business Application

Upon completion of Phase 1 – requirements capture – early in 2016, of the EBA project aimed at delivering an integrated business application, it became apparent the cost estimate for implementing EBA was considerably above the authorized cost. Subsequently the NCI Agency, in coordination with the NATO Office of Resources (NOR) developed alternative implementation scenario to reduce external implementation cost, maximize lifecycle efficiencies and reduce Agency internal effort and timeline by using the already running NATO International Staff (IS) Framework Agreement for Professional Services for Applications Delivery & Support. Following authorization by the Investment Committee in July 2016 and contract award in January 2017, implementation has started to deliver the Customer Funding Core Capability by January 2018.

Functional Groupings and Facilities

The Functional Groupings and Facilities Study addressing the new geographical footprint of the Agency is under implementation as approved by the Agency Supervisory Board. The requested resources were approved and fully authorized by the RPPB and IC and the FGFS Programme Office stood up 2nd half of 2016. As requested by Nations the resources and impact of the move of the NATO CIS School from Latina, Italy to Oeiras, Portugal was added to the FGFS scope.

Although the final move of NCI Agency staff to the New NATO HQ was postponed, all of the Brussels based staff planned to move to The Hague and Mons were successfully moved on time. The renovation and expansion of the facility in The Hague, by Host Nation The Netherlands has started as planned. On the contrary, the start of the new building construction in Mons, initially projected to take place in 2016, is postponed to 2017 due to additional security requirements requested by SHAPE to the Host Nation Belgium.

[3] AC/335-N(2013)0044; Resource Requirements for the NATO Communications and Information Agency Transition Programme.

IT Modernisation

Successful implementation of the IT Modernisation (ITM) will deliver a mission critical refresh of the IT footprint across the NATO Enterprise. In this context, the NCI Agency has combined oversight of the ITM Project (part of Capability Package – CP150), the NATO Communications Infrastructure Project (part of CP 104) and the Enterprise NATO PKI Project (part of CP155) in a single Programme Office construct with the aim of ensuring careful programmatic monitoring of the implementation and successful realization of this major initiative.

Bidding for IT Modernization (ITM) Work Package 1 (Infrastructure as a Service Implementation and Consolidation) ended in late 2015. In June 2016 the NCI Agency announced the winner of the Best Value Evaluation bid. Subsequently to complaints received the AC/4-D-2261 Dispute Procedure was enacted with the Board of Arbitration delivering its report on 16 December 2016 and upholding the Best Value Evaluation result. For this reason the predicted date of Work Package 1 Contract Award has been delayed to 31 March 2017.

ITM Work Package 2 (Client Equipment) has also went through a competitive process and a Lowest Compliant Bidder selected and announced.

Efficiencies and Savings

The Agency continues to work towards the implementation of the Council's guidance to achieve the saving targets set by NATO Agencies Reform, while maintaining civilian manpower levels at more or less constant levels and a reduction of 1325 military staff (full time equivalent - FTE), equivalent to reduction of approximately 50% Agency total military staff since 2010.

The benefits of this significant reduction in military personnel are not measurable in financial terms, still it is important to note that not only these reductions primarily benefit the contributing Nations but also that these reductions have been managed through efficiencies, particularly in overhead. Nevertheless, the magnitude and fact that most of the work previously performed by the departed military staff remains, results in risks and impacts for the Agency and its customers.

Financial Statements Overview

Basis of Preparation

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

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

In respect to the 2016 NCIO Financial Statements these were prepared:

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

Amounts in the financial statements are stated in euros.

Compliance with Financial Regulations

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

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

Article 27 of these NATO Financial Regulations specifically relates to the Agency as a Customer Funded entity: *"Customer-Funded bodies make agreements with customers to provide goods and services in accordance with Customer requirements. Customers' agreement will describe the requirements for how funds are to be made available to the Customer-Funded bodies and how the funds will be committed and carried forward; these requirements may be different from common-funded NATO bodies"*.

The NATO Communications & Information Agency Customer Funding Regulatory Framework is a fundamental part of the governance of the Agency, along with the NCIO Charter provisions. Intended for full implementation on 1 January 2016 it is designed to deliver effective and efficient C&I service provision by NCIA by establishing mechanisms for validating Agency costs and for validation of all requirements, including ICT services, while future C&I capability requirements will continue to be provided through the Capability Package process with greater emphasis on ICT asset renewal which will be on a biennial schedule to ensure that technology upgrades and replacement of obsolescent equipment keeps up with the military requirement.

New NCIO Financial Rules and Procedures

On 29 March 2016, the ASB concluded a two-year effort to update NATO's Financial Regulations (NFRs) and Financial Rules and Procedures (FRPs) by approving the new FRPs specifically applicable to the NCIO and the NCIA with effect from 1 April 2016 and thus applicable to the 2016 NCIO Financial Statements.

Key points as follows:

- These regulations are applicable to the entire Agency and its staff. "All NATO staff, military and civilian, are obligated to comply with these NFRs, associated Financial Rules and Procedures and internal implementing directives. Any member of staff who contravenes the NFRs, associated Financial Rules and Procedures and internal implementing directives will be held accountable and may be financially liable for their actions."
- Greater detail required in the Financial Planning (e.g. operating costs to be detailed and all Agency capital investment with a unit cost above Level C (€80,000) must be separately identified in the Financial Plan).
- Authority and responsibility of Director of Acquisition (as delegated by the GM) outlined; DACQ may further sub-delegate authority to Acquisition/Purchasing and contracting officers.
- For non-NSIP procurements, Director Acquisition can approve departures from competitive bidding up to EFL Level E (800 KEUR). Above that amount BC approval must be sought in coordination with the Customer.
- Expanded scope/role for Internal Audit, which shall now include undertaking tasks at the request of the ASB Chairperson, and routine reporting to the ASB.
- Establishment of an Audit Advisory Panel to review and advise GM of all internal and external audit findings. At least one member of the Audit Advisory Panel must be outside of NCIO.
- Greater scrutiny by Nations on in-year execution (e.g. NATO Budget Committee needs to authorise ICT/CIS asset write-off in excess of net book value of EFL level C (80 KEUR) regardless of the source of funding).

- Performance period or delivery dates for Agency Operating Costs must be aligned with the Financial Year. External Services Costs can be exceptionally extended into the following year but only with explicit customer agreement.
- Restrictions imposed for transfers between Chapters, also, service delivery costs (External Service Costs and Service Support Costs) cannot be transferred between projects without the agreement of the customer.
- Future year requirements must be funded against future year financial plans. External customers asking the Agency to commit to future year requirements must obtain contract authority for that future year from the Budget Committee before tasking the Agency, and provide firm funding commitments for all years.
- Prefinancing (anticipatory commitments) of Agency effort (personnel and travel expenses) is exceptional and requires the Financial Controller approval subject to specific conditions. For the first time, write-off of receivables including pre-financing above 40 KEUR requires ASB Finance Committee approval.
- BC is responsible for use of Operating Fund and its size. BC to approve use of Operating Fund up to 500 KEUR above which Resources Planning and Policy Board (RPPB) approval is required.

Financial Performance Highlights

2016 constituted only the third year of transformation of the Agency from an asset based to a service oriented organisation. Operating under difficult conditions of challenged NATO financial resources, the Agency faced in 2016 lower than planned manpower levels, particularly military, while at the same time demands from customers and Nations for improved effectiveness and efficiencies. In addition, implementation of an Agency-wide Customer Funding regime, initially in the form of a "Bridging Model", continued, coupled with initiatives to increase the level of transparency and confidence with our Customers. Having, with the exception of the NCISS, successfully completed the conversion from budget to customer funded in 2014, the structure and breakdown of the 2016 Financial Statements has remained the same as that of the previous year.

Total revenues for the 2016 amount to 795 MEUR, up 111 MEUR or 16% from 2015, and include:

- 405 MEUR of acquisition revenue earned as Host Nation and procurement principal for NSIP, NATO Entities and Nations (up 74 MEUR or 22% from previous year);
- 234 MEUR of operating, services and project support revenue contracted, using BC approved Customer Rates, for the provision and acquisition of CIS capabilities and services (up 24 MEUR or 11% from previous year);
- 140 MEUR of operating and external CIS revenue earned in direct support of the delivery of services and capabilities (up 11 MEUR or 9% from previous year);
- 7 MEUR of other operating revenue recognized due to the application of the NATO Accounting Framework (NAF) and the increase of the net inventory identified as Agency property as from 1 January 2013 (up 3 MEUR from previous year).
- 6 MEUR of other operating revenue earned in the provision of other support services provided to hosted entities, e.g. NAGSMA and TACOMS, as well as contribution revenue from the execution of the BC funded portion of the Transition Programme and NCIO Independent Secretariat core funding from Nations (same as previous year); and,
- 3 MEUR earned from favourable foreign exchange rate variances and, to a minor extent, interest earned from short-term deposits, typically one to three months (same as previous year).

Totalling 797 MEUR the 2016 Agency costs and expenses are 119 MEUR or 17% up from 2015 and include:

- 403 MEUR of acquisition costs incurred in the procurement, on behalf of the Investment Committee (IC), other NATO entities and Nations, of CIS capabilities and services from industry (up 72 MEUR or 22% from previous year);
- 225 MEUR of costs related with the civilian personnel employed during the year, in compliance with NATO Personnel Regulations, NAC approved salary scales and allowances, and interim workforce - contractors, temporary staff and consultants (up 35 MEUR or 18% from previous year);
- 160 MEUR of operating and external CIS costs in direct support of the delivery of services, to a total of 129 MEUR, direct costs incurred on the execution capabilities' projects totalling 15 MEUR as well as 17 MEUR related to the running costs of the Agency facilities and equipment (up 14 MEUR or 10% from previous year);
- 4 MEUR of depreciation expense for fixed assets capitalized in line with the accounting policies as adopted by NATO (same as previous year);
- 2 MEUR of expenses from unfavourable foreign exchange rate variances, including bank transaction fees related to conversion of currencies; and,
- 2 MEUR of provisions for untaken leave and net future potential losses as identified in the end of year cost at completion review made for all ongoing customer arrangements.

Net result for the year, including financial income/costs and depreciation expense is a deficit of 2.2 MEUR, or 0.3% of total revenue.

While overall the Agency was successful in mitigating the lower than planned capacity with the use interim workforce, most of the net operating deficit recognized in 2016 pertains to the recognition and provision for operating losses mostly related to ANWI.

Total assets amount to 363 MEUR, largely made up of Cash holdings and Receivables. Total Liabilities amount to 339 MEUR at the end of the 2016, mostly reflecting an increase in the balances of Payables, Deferred Revenue and Advances.

Reserve for Operating Losses

In line with the key accounting principle of prudence which makes sure that assets and income are not overstated and liabilities and expenses are not understated and by which uncertain, but relevant and material transactions or events, must be reported the soonest.

In this context the Agency maintains a provision for future losses, a liability of uncertain timing or amount, for active projects for when it is assessed probable that the total project execution costs will exceed the contracted revenue.

In 2016 an internal audit identified that given its characteristics, scope and nature the ANWI project should be managed as a programme and not as a project; it was not resourced appropriately and the overall governance and adherence to PRINCE2 and MPS (Managing Programmes Successfully) processes, was not being fully followed.

In response a new programme structure was put in place. With the review of the programme it became clear that not all of the planned ANWI capability could be delivered in time. As such a re-planning exercise including the prime contractor and the New NATO Headquarters Programme Office was completed.

With the new programme structure there has been significant increase in Agency resources engaged in delivering the project. Furthermore, with the re-scheduling of the ANWI programme there has been significant impact both in terms of time and cost to complete. For this reason, after careful review and assessment of the resources and activities still to be undertaken the Agency has recognized a provision of 4.2 million euros to cater for a total cost overrun on project service costs of 4.8 MEUR for the programme. The establishment of this provision does not exclude a possible future recovery of all or a portion of this amount, the reimbursement will be recognised as a separate asset, but only when the reimbursement is virtually certain. The Agency will also endeavour to minimize the financial impact of the projected overrun.

Total Net Equity and Operating Fund

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

At 31 December 2016, the Agency Total Net Equity amounts to 24 MEUR broken-down as follows:

- 6 MEUR Transition Reserve, as per RPPB decision, for purposes of funding transition activities of the Agency
- 18 MEUR Operating Fund, of which 4 MEUR related to assets not yet fully depreciated and 14 MEUR of net accumulated earnings from previous fiscal periods

June 2013, Nations at the ASB Finance Committee approved that the level of the Agency Operating Fund, including Depreciation Reserve, should be 10 MEUR and since then have decided to incorporate the annual surpluses into the Agency Customer Rates. Of the 18 MEUR Operating Fund balance at 31 December 2016, Nations have already allocated 6 MEUR to reduce the 2017 Customer Rates and 4 MEUR to the Preliminary 2018 Customer Rates.

Previous Year Restatement

NCI Agency needs to replace its current financial systems by one integrated solution. The target go-live date for this Enterprise Business Application (EBA) is now set at early 2018. The implementation started in March 2017. For finance the focus lies on project accounting and asset management, which are currently spread across the two legacy systems. Any implementation of a new software system requires the redesign of its master data, and the cleansing and transition of the current data structures towards the new master data structures. For accounting the natural Chart of Accounts (CoA) is the single most important master data element to assure proper general accounting record keeping and reporting, including the production of annual statutory financial statements. The legacy CoA's are completely different and were not (entirely) designed to support customer funding. Although NCI Agency has been producing aggregated statements across the two legacy systems for a number of years, a proper single CoA was not developed in the past. In 2016, in preparation of the introduction of

EBA, quite a big effort was put into designing the CoA "of the future", resulting in a numbers of re-classifications of individual accounts between line items in the Statements of Financial Position and Performance. The impact on the Net Assets/Equity of these re-classifications is zero.

The incremental revenue accrual as at 31 Dec. 2015 for NSIP Acquisition Revenue was erroneously booked against a liability account instead of the appropriate asset accrual account for an amount of 31.5 MEUR, leading to an overstatement of both assets and liabilities.

Finally, the transfer of Retained Earnings to Depreciation Reserves for 2015, was not entirely correct. A correction of 184 KEUR was done to align the figures for 2015 and 2016. This reclassification is between one element of the Operating Fund and another, and therefor does not impact any totals.

Risk Management

The Agency top risk landscape is dynamic and made of Agency-wide and Agency-level risks. Agency-wide risks are some persistent corporate risks originated by the environment in which Agency operates; Agency-level are operational risks generated by those Agency efforts surrounded by relevant degree of uncertainty and impact on customers.

To strengthen Risk Management, The Agency focused in 2016 on providing Risk Management Unit trainings, workshops, presentations and communications to staff. Some 65 individuals have been formally trained in risk identification and assessment techniques and a wide set of guidance documents has been produced and made available.

In July 2016, NCI Agency Executives participated in the yearly workshop aimed at identifying and assessing the key top Agency level risks. With each top risk assigned to a Director accountable for managing and reporting on it.

External and Internal Audit

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

External Audit

The International Board of Auditors (IBAN) led in 2016 the audit of the 2015 NCIO Financial Statements of the NCI Agency resulting in a number of observations of which two were considered critical. The first one related to the lack of integrated systems to support the effective and efficient management and financial reporting of property, plant and equipment and intangible assets, and the second to the lack of a consistent and robust process in determining capability development project revenue for the period. The Agency, under the remit of its supervisory board is undertaking the necessary actions to remediate and resolve all outstanding observations.

The IBAN also conducted a performance audit with regard to the NATO Business Continuity Planning and Management and the Agency was in scope of the review. Among others, the International Board made one recommendations to improve the BCP process of the Agency. Management is considering possible actions for the implementation of this recommendation.

IBAN has already initiated the audit of the 2016 Financial Statements. As per the NFR the NCIO Financial Statements are submitted to IBAN and ASB by 31 March. In accordance with the NCIO Charter, the ASB will approve the Financial Statements once IBAN audit results are published, taking in consideration the advice of the ASB Finance Committee.

Internal Audit

The Internal Audit activities was a significant part of the Agency's overall control structure, and exercised a positive influence on the overall Agency performance.

During the reporting period, Internal Audit completed 6 advisory, 11 compliance and 1 consulting engagements. The engagements completed spanned several thematic areas and covered reviews of project management activities, operational processes, corporate and administrative processes and information technology areas. Management continues to enhance the existing follow-up process with the aim to follow-up even more closely on the progress of outstanding observations identified in the Internal Audit reports.

Internal Audit will continue performing follow up missions and will report on the status of the implementation of the recommended actions during 2017 to Agency management and the ASB Finance Committee.

NCIO Statement of Financial Position

As of 31 December 2016

(all figures are in Euro)

(Prior Year restated)

	Note	NCIO 2016	NCIO 2015 - Restat.
ASSETS			
Current Assets			
Cash and Cash Equivalents	1	168,228,053	105,887,809
Receivables	2	174,079,678	164,142,564
Prepayments and Miscellaneous Assets	3	4,916,232	10,789,473
Inventory	4	11,321,408	6,151,976
Work in Progress	5	370,568	610,437
Other Current Assets	6	57,465	40,074
Total Current Assets		**358,973,404**	**287,622,333**
Non-Current Assets			
Financial Assets		0	0
Non-current Receivables	7	2,009	1,967
Property, Plant and Equipment	8	4,144,475	3,469,106
Intangible Assets	8	120,077	274,872
Other Non-Current Assets		0	0
Total Non-Current Assets		**4,266,561**	**3,745,945**
TOTAL ASSETS		**363,239,965**	**291,368,278**

NCIO Statement of Financial Position

As of 31 December 2016

(all figures are in Euro)

(Prior Year restated)

	Note	NCIO 2016	NCIO 2015 - Restat.
LIABILITIES			
Current Liabilities			
Payables	9	141,180,690	100,640,385
Deferred Revenue and Advances	10	182,547,604	143,887,098
Borrowings		0	0
Other Current Liabilities	11	4,056,843	12,059,735
Total Current Liabilities		**327,785,137**	**256,587,217**
Non-Current Liabilities			
Non-Current Payables		0	0
Non-Current Deferred Revenue and Advances	12	296,125	(192,784)
Non-Current Borrowings		0	0
Provisions	13	11,212,745	8,757,836
Other Non-Current Liabilities	14	0	93,919
Total Non-Current Liabilities		**11,508,870**	**8,658,970**
TOTAL LIABILITIES		**339,294,007**	**265,246,187**
NET ASSETS/EQUITY	15		
Retained Earnings	36	14,148,497	15,976,449
Reserved Earnings	35	9,797,461	10,145,642
TOTAL NET ASSETS/EQUITY		**23,945,958**	**26,122,091**
TOTAL LIABILITIES AND NET ASSETS/EQUITY		**363,239,965**	**291,368,278**

NCIO Statement of Financial Performance

For the year ended 31 December 2016

(all figures are in Euro)

(Prior Year restated)

	Note	NCIO 2016	NCIO 2015 - Restat.
REVENUE			
Project and Support Services Revenue	16	233,966,048	210,445,406
External Services Revenue	17	139,973,672	129,461,315
Acquisition Revenue	18	404,776,276	330,604,967
Other Operating Revenue	19	13,331,387	10,355,098
TOTAL OPERATING REVENUE	**21**	**792,047,383**	**680,866,786**
Financial Revenue	31	2,936,420	2,653,256
Other Revenue	20	29,300	36,504
TOTAL REVENUE	21	**795,013,103**	**683,556,545**
EXPENSES			
Cost of Acquisition	23	(402,879,438)	(330,967,810)
Personnel Costs	24	(225,301,575)	(189,675,109)
Contractual Supplies and Services	27	(160,383,998)	(146,345,562)
Depreciation and Amortisation	28	(3,791,369)	(4,288,876)
Provisions	29	(2,454,909)	(3,473,738)
Financial Expenses	31	(2,111,832)	(2,943,692)
Other Expenses	32	(266,114)	(19,837)
TOTAL EXPENSES		**(797,189,236)**	**(677,714,623)**
SURPLUS/(DEFICIT)			
Retainable Earnings	36	(2,176,133)	5,841,922
Refundable Earnings		0	0
SURPLUS/(DEFICIT) FOR THE PERIOD		**(2,176,133)**	**5,841,922**
Revaluation of Assets		0	0

NCIO Statement of Cash Flows

For the year ended 31 December 2016

(all figures are in Euro)

(Prior Year restated)

	Note	NCIO 2016	NCIO 2015 - Restat.
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus/(Deficit) for the Period		(2,176,133)	5,841,922
Depreciation and Amortisation		3,789,732	3,554,565
Revaluation of Assets		0	0
Decr./(Incr.) Receivables		(9,937,114)	(28,284,179)
Decr./(Incr.) Prepayments and Miscellaneous Assets		5,873,241	(6,864,598)
Decr./(Incr.) Inventory		(5,169,433)	(1,981,521)
Decr./(Incr.) Work in Progress		239,869	1,191,107
Decr./(Incr.) Other Current Assets		(17,391)	(2,409)
Incr./(Decr.) Payables		40,540,306	8,270,280
Incr./(Decr.) Deferred Revenue and Advances		38,660,506	(29,834,398)
Incr./(Decr.) Borrowings		0	0
Incr./(Decr.) Other Current Liabilities		(8,002,892)	1,916,585
NET CASH FLOWS FROM OPERATING ACTIVITIES		**63,800,691**	**(46,192,646)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Decr./(Incr.) Financial Assets		(41)	(91)
Decr./(Incr.) Non-current Receivables		0	0
Decr./(incr.) PP&E and Intangible Assets		(4,310,306)	(2,928,354)
Decr./(Incr.) Other Non-Current Assets		0	14,500
NET CASH FLOWS FROM INVESTING ACTIVITIES		**(4,310,347)**	**(2,913,945)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Incr./(Decr.) Non-Current Payables		0	0
Incr./(Decr.) Non-Current Deferred Revenue and Advances		488,909	(333,894)
Incr./(Decr.) Non-Current Borrowings		0	0
Incr./(Decr.) Provisions		2,454,909	(13,861,477)
Incr./(Decr.) Other Non-Current Liabilities		(93,919)	(2,204,484)
NET CASH FLOWS FROM FINANCING ACTIVITIES		**2,849,900**	**(16,399,855)**
NET INCR./(DECR.) CASH AND CASH EQUIVALENTS		**62,340,244**	**(65,506,447)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**105,887,809**	**171,394,256**
Incr./(Decr.) Cash and Cash Equivalents		62,340,244	(65,506,447)
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**168,228,053**	**105,887,809**

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

For the year ended 31 December 2016

(all figures are in Euro)

(Prior Year restated)

	Note	NCIO 2016	NCIO 2015 - Restat.
BALANCE AT BEGINNING OF PERIOD		**26,122,091**	**20,280,169**
Variations due to restatement		0	0
Restated balance		**26,122,091**	**20,280,169**
Net gains/(losses) not recognized in the Statement of Financial Performance		0	0
Net surplus/(deficit) for the period		(2,176,133)	5,841,922
BALANCE AT END OF PERIOD		**23,945,958**	**26,122,091**
RESERVES AT BEGINNING OF PERIOD		**10,145,642**	**12,187,505**
Net increase/(decrease) of bookvalue of property, plant and equipment		336,896	(442,534)
Net increase/(decrease) of reserves		(685,077)	(1,599,329)
Net increase/(decrease) of currency translation differences		0	0
RESERVES AT END OF PERIOD		**9,797,461**	**10,145,642**
SURPLUSSES/(DEFICITS) CARRIED FORWARD		**14,148,497**	**15,976,449**
NET ASSETS/EQUITY AT END OF PERIOD		**23,945,958**	**26,122,091**

NCIO Budget Execution Statement

For the year ended 31 December 2016
(all figures are in Euro)

NCIO

	Note	Initial Budget	Transfers	BA2	Transfers	Final Budget	Net Commitment	Expenses	Total Spent	Carry Forward	Lapsed
BUDGET											
Chapter 1		1,101,894	40,000	1,141,894	2,568,000	3,709,894	410	283,397	283,807	410	3,426,087
Chapter 2		144,195	(40,000)	104,195	0	104,195	12,463	82,331	94,794	12,463	9,401
Chapter 3		0	0	0	0	0	0	0	0	0	0
Total current year		**1,246,089**	**0**	**1,246,089**	**2,568,000**	**3,814,089**	**12,873**	**365,728**	**378,601**	**12,873**	**3,435,488**
Chapter 1		0	0	0	0	0	0	0	0	0	0
Chapter 2		9,643	0	9,643	0	9,643	0	10,439	10,439	0	(796)
Chapter 3		0	0	0	0	0	0	0	0	0	0
Total prior year		**9,643**	**0**	**9,643**	**0**	**9,643**	**0**	**10,439**	**10,439**	**0**	**(796)**
Chapter 1		0	0	0	0	0	0	0	0	0	0
Chapter 2		0	0	0	0	0	0	0	0	0	0
Chapter 3		0	0	0	0	0	0	0	0	0	0
Total 2 years ago		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
TOTAL		**1,255,732**	**0**	**1,255,732**	**2,568,000**	**3,823,732**	**12,873**	**376,167**	**389,040**	**12,873**	**3,434,692**

Accounting Policies

Basis of preparation

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

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

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

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

Segment Reporting

In its 2013 financial statements, NCIO applied segment reporting on the basis of its legacy entities that were still funded through their legacy models and governing committees for their respective activities. In its 2014 and 2015 financial statements, NCIO has not included segment reporting in accordance with IPSAS 18.

Following an observation from IBAN on their audit of the NCIO 2015 Financial Statements, the Financial Controller sought, in 2016, expert advice on the best and most suitable application of IPSAS 18 in the financial statements of NCIO.

Consistent with the definition under IPSAS 18.9, a segment is a distinguishable activity or group of activities whose identification shall be driven by (i) the evaluation of the entity's past performance in achieving its objectives (accountability purposes) and (b) the decision-making about the future allocation of resources (decision-making purposes).

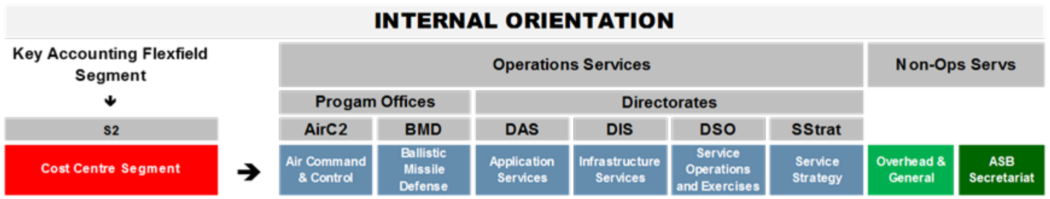
Identifying segments is a judgmental assessment which first requires to determine the objectives of the entity, but also to consider such matters as the expectations of stakeholders (IPSAS 18.15(b)), the qualitative characteristics of financial reporting, including relevance of information that is affected by materiality (IPSAS 18.15(c)), and the basis on which the governing body and senior manager require financial information to be structured (IPSAS 18.15 (d)).

IPSAS 18.14 expects that in most cases the major classifications of activities identified in budget documentation will reflect the segments for which information is reported to the governing body and the most senior manager of the entity because they will require information about segment to enable them (a) to discharge their management responsibilities and to evaluate the performance of the entity in achieving its objectives in the past, and (b) to make decisions about the allocation of resources by the entity in the future.

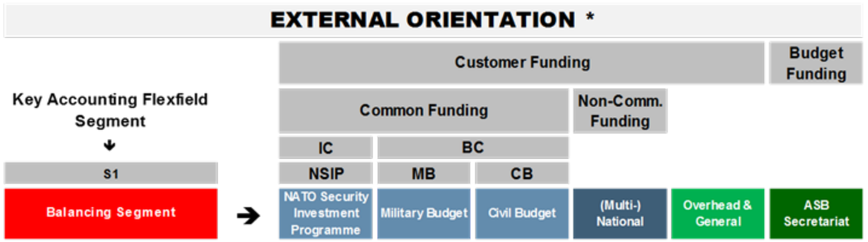
IPSAS 18.18 further prescribes that government agencies are usually managed along service lines, because this reflects the way in which (a) major outputs are identified, (b) their achievements monitored, and (c) their resource needs identified and budgeted. If that is the case, it is likely that reporting externally on the basis of service segments will also satisfy the requirements of this Standard (IPSAS 18.18).

Based on its understanding of the relevant facts and circumstances together with the IPSAS 18 requirements, the Agency, as well as the expert consulted, are of the judgemental view that two segmentation bases are possible that fairly represent the way the NCI Agency's past performance is evaluated and the way decisions are made about future allocation of resources. On this basis, the NCIO would report a matrix form of segmentation based on the following two dimensions:

- Segmentation based on organisational governance and on groups of service lines:
  - AirC2 programme
  - BMD programme
  - Other projects (subject to ASB organisational governance)



- Segmentation based on budget documentation:
  - Internal customers – Investment Committee (NSIP)
  - Internal customers – Budget Committee - In this segment, a distinction could be made between the military budget and the civil budget
  - External customers
  - Other



Although a segmentation based on (groups of) service lines is aligned to the organisation and management of the NCI Agency, it does not comprehensively reflect the NCI Agency's governance, accountability and decision-making process. With respect to the AirC2 and BMD programmes however, their governance by NAC approved Steering Committees justifies that the related programmes are reported as two separate segments in accordance with IPSAS 18.

The 2016 NCIO Financial Statements have no segment reporting because the segment reporting basis will first be discussed with the Agency's governance bodies and based on this result it will be implemented along with EBA.

The NCIO Financial Statements also include the budget execution for the NCIO's Independent Secretariat. These reflect the running costs of the Independent Secretariat in support of the ASB Chairman and Nations. Although this could qualify as a separate segment under IPSAS 18, given the low value of this budget of about 300KEUR it has not been reported as such.

Changes in Accounting Standards

No new standards have become effective on 1 January 2016.

The following IPSAS become effective as of 1 January 2017:

- IPSAS 33 - First-time Adoption of Accrual Basis IPSASs
- IPSAS 34 - Separate Financial Statements
- IPSAS 35 - Consolidated Financial Statements
- IPSAS 36 - Investments in Associates and Joint Ventures
- IPSAS 37 - Joint Arrangements
- IPSAS 38 - Disclosure of Interests in Other Entities

The following IPSAS will become effective as of 1 January 2018:

- IPSAS 39 - Employee Benefits (replaces IPSAS 25)

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

- IPSAS 40 - Public Sector Combinations

NCIO has not yet made an assessment of whether these standards will impact NCIO Financial Reporting.

Revenue Recognition

Revenue from exchange transactions

Under its third year of Customer Funding under a Bridging Model the vast majority of NCIO's revenue is Customer Funded revenue which is subdivided into:

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

NCIO also still has some contributions income from budgets:

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

Revenue measurement and timing

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

Expenses Recognition

NCIO has the following main categories of costs:

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

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

Financial Plan Execution

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

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

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

Cash Flow Statements

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

Foreign Currency

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

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

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

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

Financial Assets

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

Financial Liabilities

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

Receivables

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

Accounts Payable

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

Advances and/or Unearned Revenue

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

Prepayments

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

Retirement Benefits: Provident Fund and Defined Contribution Pension Scheme

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

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

Other Long-Term Service Benefits

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

Leased Assets

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

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

Externally Acquired Intangible Assets

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

Property, Plant and Equipment (PPE)

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

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

Upon the screening of the 2017-2019 NCI Agency Financial Plan, Nations at the ASB Finance Committee acknowledged the Agency's ownership of NATO's common-funded CIS assets and that additional logistics personnel were required to support the provision of services and ensure appropriate levels of property and financial accountability on behalf of NATO Nations.

However, the ASB Finance Committee, and while acknowledging that the lack of logistic personnel would affect the Agency's compliance with NATO's Financial Regulations and the NCIO Financial Rules and Procedures and possibly result in a qualification by IBAN of the next NCIO Financial Statements, did not authorize the hiring of that additional personnel on the grounds of overall financial constraints.

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

Per the NCIO Charter, NCIO is to assume ownership of all IT assets and IT infrastructure from the NATO commands. To this end a formal HO/TO process with the NATO Commands for static locations and operations has been undertaken. The HO/TO for static commands was completed by 31 December 2014 and that for operations was finalized in 2015. On completion of the HO/TO the NCI Agency (as the executive arm of the NCIO) accepts the full responsibility for the control and management of these CIS assets. For those assets taken over, NCIO has considered those acquired prior to 2013 as fully expensed per the NATO Accounting Framework - adapted IPSAS 17 standard.

Property, Plant and Equipment (PPE)

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

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

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

Land and Buildings

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

Depreciation and Amortisation

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

Inventories

Inventories are assets in the form of materials or supplies to be consumed or distributed in the production process or in the rendering of services or held for sale or distribution in the ordinary course of operations or in the process of production for sale or distribution. Inventories are measured at the lower of cost or current replacement cost. The cost of standard items of inventories is measured by using the weighted average cost formula.

As per the 2013 NCIO Financial Statements (Annex B, items 90-92, page 42) NCIO legacy entities did not report inventories other than those held in NPC Glons and NCISS (minor value), as under the procurement agent principle all assets/inventories acquired for Customers (mainly ACT and ACO) were excluded from the Statement of Financial Position.

Under the full Customer Funding regime as of 2014, and per its Charter, NCIO is now considered as procurement principal for the inventories and as a result, now accounts for all inventories. Nevertheless and as already reported in its 2013 Financial Statements, NCIO is applying the NAF – adapted IPSAS 12 – by which it considers all inventory acquired prior to 1 Jan 2013 as expensed.

As per the NAF, based on the information available, the NCIO has produced an Annex to these Statements which provides a summary of such expensed inventory - types, locations and approximate number of items held per inventory category.

NCIO has no capitalisation thresholds for Inventory.

Provisions

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

Contingent Liabilities

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

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

Net Assets/Equity/Operating Fund

As of 2014 the NCI Agency works under a Customer Funding bridging model. The approved policies and procedures of this Customer Funding financial regime that authorise and regulate the use of the NCI Agency Operating Fund during this reporting period are the NFRs (C-M(2015)0025 dated 4 May 2015) and the FRPs (AC/337-D(2016)0014-AS1 dated 29 March 2016), and the Customer Funding Regulatory Framework approved by the Council in 2015 (PO(2015)0394-AS1 dated 16 July 2015).

Oversight of the performance of the Operating Fund is the responsibility of the ASB. The BC will undertake assigned responsibilities for regulating the Agency's Operating Fund including its use and increasing or decreasing its size for NCI Agency.

The Financial Controller, in sufficient time, and through the Finance Committee, is to input annually to the NATO Budget Committee in advance of the subsequent financial planning cycle (next plus two years): factors in recommending the Operating Fund level for the aforementioned period; a risk assessment of the likely stability of revenue and costs so the upcoming proposed Customer Rates, which drive Financial Plan, are assessed for the probability to incur a surplus or deficit.

The Financial Controller, on behalf of the General Manager, is required to recommend changes to the Customer Rates that will increase or decrease the Operating Fund by the desired amount and when approved, to reflect such changes in the Financial Plan or alternatively propose uses to which the declared excess Operating Fund may be applied to increase the effective and efficient operations of the Agency. Such changes and proposals will be submitted to the Finance Committee for endorsement. Since 2013, *t*he ASB has decided to keep the Operating Fund level at 10 MEUR (AC/337(FS)DS(2013)0004 dated June 2013).

The Financial Controller must, in a timely manner, provide an exceptional report should the actual execution of the Financial Plan indicate a significant deficit will occur in the financial year. The report will be addressed through the Finance Committee to the ASB, in the first instance, who will consider if it has to be brought to the attention of the BC. If so informed, the BC shall consider whether the RPPB needs to be informed.

At the end of the financial year the balance of the operating result (i.e. the difference between revenue and expenses, adjusted to reflect as appropriate the cost-to-complete of ongoing projects), together with any surplus or deficit and the financial result shall be transferred to the Agency's Operating Fund as surplus or deficit for the year.

The General Manager, with the concurrence of the Financial Controller, following recommendation by the ASB and the approval of the BC may expend accumulated surpluses up to an overall limit of 500 KEUR during the financial year for initiatives supporting the effective and efficient operation of the Agency. Expenditures in excess of 500 KEUR will require RPPB approval.

The NCI Agency retained earnings accumulated over the years represent its authorised Operating Fund. When implementing IPSAS 17, a portion of these earnings were partially encumbered for the value of fixed assets not yet fully depreciated, reported separately as a depreciation reserve. The categories of assets and the breakdown of the remaining book value per category is reported in the Statement of PPE.

NOTES TO THE FINANCIAL STATEMENTS

Critical Accounting Estimates and Judgements

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

Legal proceedings both real and possible

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

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

A. Notes to the NCIO Statement of Financial Position

1. Cash and Cash Equivalents

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

With reference to the IBAN Special Report to Council on the Thematic Audit of Cash Holdings in NATO (IBA-AR(2014)17) dated 28 November 2014, the cash holdings of NCIO at 31 December 2016 are 21% of total annual expenditures or just about three months of operations, which is well within the IBAN reported average and the NFR. The increase in in the 2016 end of year balance versus 2015 mostly reflects the higher turnover, particularly Acquisition Revenue.

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

(All amounts in 1 Euro)

			NCIO	
		Note Unit	2016	2015 - Restat.
Cash and Cash Equivalents				
100	Cash in hand		42,809	59,564
101	Current bank clearing accounts and internal transf		-3,632,500	-677,333
102	Current bank accounts - Euro		115,441,684	86,252,635
104	Current bank accounts - Non-Euro		44,644,802	13,142,731
106	Current investments accounts - Euro		0	4,770
108	Current investments accounts - Non-Euro		11,731,259	7,105,442
			168,228,053	**105,887,809**

2. Accounts Receivable

Receivables total 174 MEUR. Trade receivables are impacted by the NSIP Quarterly Accounting Financial Report (QAFR) bookings. The NCI Agency has adapted its accounting treatment per the IBAN observation in the past, so that advances received from the NSIP Programme are netted against the amounts to be received from the same programme. This more clearly and accurately represents the position of the NCI Agency against the programme at year-end. Without these impacted QAFR bookings trade receivables total 194 KMEUR which include billed but not yet received amounts from Customers.

Trade receivables from accrued revenue/expenses amounts to 167 MEUR of which 31 MEUR is resulting from the revenue recognition by stage of completion for which income is considered earned but which has not yet been billed to the customer.

		Note Unit	2016	2015 - Restat.
Receivables				
11001	Customer receivables (A/R) - Common funded - NA		116,856,738	79,721,637
11002	Customer receivables (A/R) - Non-Common funded		78,345,013	91,730,066
1107	Customer receivables - Bad debts		-336,812	0
11000	Customer receivables (A/R) - Common funded - NS		-187,922,463	-169,652,500
111	Customer receivables - Consolidated entities		0	133,008
113	Customer receivables - Recoverable expenses		130,646	71,400
115	Current receivables - Tax or personnel related		2,318	2,164,323
116	Current receivables - Accrued revenue		166,982,908	159,915,177
150	Current other assets		21,328	59,453
			174,079,678	**164,142,564**

NSIP related trade receivables from nations are 58 MEUR and trade receivables from accrued revenue amounts to 136 MEUR, resulting in a total 194 MEUR, that is netted against the balance of advances through the QAFR paysheets of 187 MEUR leading to a net position of receivables towards the NSIP at 31/12/2016 of 6 MEUR as per the below table.

		Note Unit	2016	2015 - Restat.
110021	Customer receivables (A/R) - Non-Common funded	CD - NSIP	58,485,710	73,572,863
110001	Customer receivables (A/R) - Common funded - QF	CD - NSIP	-187,922,463	-169,652,500
116020	Accrued non-ICT services revenue	CD - NSIP	135,547,536	137,150,880
			6,110,783	**41,071,244**

3. Prepayments and Miscellaneous Assets

Note / Unit		2016	2015 - Restat.
Prepayments and Miscellaneous Assets			
13	Prepayments and miscellaneous assets	4,916,232	10,789,473
		4,916,232	**10,789,473**

This amount represents advances and prepayments made to vendors.

4. Inventories

Note / Unit		2016	2015 - Restat.
Inventory			
14000	Inventory - Acquisition value - Consumables	2,310,137	1,351,413
14001	Inventory - Acquisition value - Spare parts	9,011,488	4,800,779
14002	Inventory - Acquisition value - Ammunition and ex	-216	-216
		11,321,408	**6,151,976**

The inventory ending balance is for a total of 11 MEUR which is an increase of 5 MEUR when compared to 2015.

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

However, the first time recognition of inventory was impacted by the introduction of the NAF applicable as of 1 January 2013 that allows for the adaption of IPSAS 12 - inventory items acquired prior to 1 January 2013 can be considered as fully expensed.

For the first time recognition of the CSSC Brunssum, the initial amount of 32.8 MEUR was booked as a beginning balance. As a result of the application of the NAF, a correction to the balance for the prior 2013 acquired items of 30 MEUR was made for all NCI Agency inventories. In 2015, inventory was also taken on from CSUs as a beginning balance and amounting to 2.2 MEUR. This beginning balance has also been considered as acquired prior to 1 January 2013 resulting in a total amount of 32.3 MEUR expensed per the NAF. In accordance with the stipulations of the NAF, a brief description on inventories held prior to 1 JAN 2013, is provided later in this document.

5. Work In Progress

		Note / Unit	2016	2015 - Restat.
Work in Progress				
145	Work in progress		370,568	610,437
			370,568	**610,437**

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

Pre-financed projects totalling €327,551.45 are governed by existing bidding arrangements (overarching framework agreements such as Memorandum of Understanding – MOU) between the Agency and its main sponsors. All existing pre-finance authorizations are granted as per the terms and conditions prescribed in the FRPs specifically developed for the Agency operating under its Customer Funding Regime. The decision to pre-finance projects is assessed by the production Directors and the Financial Controller prior to being approved on a case-by-case basis by the Financial Controller. Accordingly we do not view this as a technical contingent asset.

For projects sponsored by NSIP, APFs may be authorized to cover the initial cost for writing the full project price proposal (TBCE). In some cases the APFs are insufficient to cover this initial effort in which case the NCI Agency capitalizes the shortfall pending approval of the Project Service Cost (PSC). Funds expended during this stage are capitalized as work in progress for a total amount of €43,016.72

6. Other Current Assets

		Note / Unit	2016	2015 - Restat.
Other Current Assets				
1559	Transitory asset accounts - Clearing accounts		57,465	40,074
			57,465	**40,074**

This amount concern different transactions that are pending a resolution/final booking in 2016.

7. Long Term Receivables

		Note / Unit	2016	2015 - Restat.
Non-current Receivables				
160	Non-current financial assets		2,009	1,967
			2,009	**1,967**

Amounts concern receivables related to a long term deposit for fuel in theatre.

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

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

NCIO Statement of Property, Plant and Equipment and Intangible Assets

As of 31 December 2016
(all figures are in Euro)

NCIO

		ACQUISITION						DEPRECIATION				BOOK VALUE
	Note	31-Dec-2015	Current Year	Disposals / Adjustm.	Transfers / Reversals	Revaluation	31-Dec-2016	31-Dec-2015	Current Year	Disposals / Adjustm.	31-Dec-2016	31-Dec-2016
PLANT, PROPERTY AND EQUIPMENT												
ADP Equipment		4,277,774	2,537,855	-1,354,078	0	0	5,461,551	-2,594,653	-1,838,530	1,342,340	(3,090,844)	2,370,707
Comms Equipment		3,417,647	1,352,781	-2,701,810	0	0	2,068,617	-2,859,527	-898,776	2,701,808	(1,056,495)	1,012,122
Mission Equipment		163,772	223,303	-59,761	0	0	327,314	-68,327	-106,368	59,761	(114,934)	212,380
Machinery		156,317	58,625	-27,251	0	0	187,690	-69,558	-53,735	27,251	(96,042)	91,648
Installed Equipment		1,173,110	112,270	-634,873	0	0	650,507	-706,477	-358,996	620,073	(445,400)	205,107
Office Furniture		12,600	0	-12,600	0	0	0	-9,450	-3,150	12,600	0	0
Passenger Vehicles		297,135	83,273	-36,331	0	0	344,078	-171,263	-99,936	36,331	(234,868)	109,209
Infrastructure, plant and equipment		**9,498,355**	**4,368,106**	**-4,826,705**	**0**	**0**	9,039,756	**-6,479,255**	**-3,359,492**	**4,800,164**	(5,038,584)	4,001,173
Bâtiment Z Brussels - Enhancements		15,436	0	0	0	0	15,436	-3,087	-1,544	0	(4,631)	10,805
NCIA Main Building The Hague - Enhancements		142,950	0	0	0	0	142,950	-42,885	-14,295	0	(57,180)	85,770
Leasehold Improvements		102,966	0	-102,966	0	0	0	0	-102,966	102,966	0	0
Land and buildings - Leasehold improvements		**261,352**	**0**	**-102,966**	**0**	**0**	158,386	**-45,972**	**-118,805**	**102,966**	(61,811)	96,575
Software Licences		1,195,560	156,641	-1,103,598	0	0	248,603	-920,689	-311,435	1,103,598	(128,526)	120,077
Intangible assets		**1,195,560**	**156,641**	**-1,103,598**	**0**	**0**	248,603	**-920,689**	**-311,435**	**1,103,598**	(128,526)	120,077
TOTAL PLANT, PROPERTY AND EQUIPMENT - CAPITALIZED		**10,955,267**	**4,524,747**	**-6,033,269**	**0**	**0**	9,446,746	**-7,445,916**	**-3,789,732**	**6,006,728**	(5,228,920)	4,217,825
Capital expenditures pending capitalization - Accrued		418,306	46,727	0	-418,306	0	46,727	0	0	0	0	46,727
TOTAL PLANT, PROPERTY AND EQUIPMENT		**11,373,573**	**4,571,474**	**-6,033,269**	**-418,306**	**0**	9,493,472	**-7,445,916**	**-3,789,732**	**6,006,728**	(5,228,920)	4,264,552
DEPRECIATION RESERVE		11,373,573	4,571,474	-6,033,269	-418,306	0	9,493,472	-7,445,916	-3,789,732	6,006,728	(5,228,920)	4,264,552
INCREASE/(DECREASE) DEPRECIATION RESERVE			4,571,474	-6,033,269	-418,306	0	(1,880,101)		-3,789,732	14,800	(3,774,932)	(5,655,033)
DEFERRED REVENUE		5,785,276	2,439,039	0	0	0	8,224,315	-4,527,103	-1,506,723	0	(6,033,826)	2,190,489
INCREASE/(DECREASE) DEFERRED REVENUE			2,439,039	0	0	0	2,439,039		-1,506,723	0	(1,506,723)	932,315

9. Payables

		Note Unit	2016	2015 - Restat.
Payables				
2000	Supplier payables - Accounts payable		16,287,030	7,118,813
2004	Supplier payables - Accrued expenses		124,298,947	92,437,651
2010	Supplier payables - Consolidated entities - Accounts payable		0	18,102
2014	Supplier payables - Consolidated entities - Accrued expenses		0	82,386
2006	Supplier payables - Warranties received		594,713	983,432
			141,180,690	**100,640,385**

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

10. Deferred Revenue and Advances

		Note Unit	2016	2015 - Restat.
Deferred Revenue and Advances				
211	Current deferred revenue		132,425,522	121,534,804
215	Current advances and prepayments received		50,122,082	22,352,294
			182,547,604	**143,887,098**

The Deferred/Unearned Revenue and Advances of 182 MEUR are composed of:

- Revenue is billed for ongoing projects and services, however revenue earned is determined through the stage of completion resulting in 132 MEUR of revenue billed but not yet recognised as earned.
- Advances and prepayments of 50 MEUR refer to deposits from customers and IC nations for projects and services that will be delivered by the agency.

11. Other Current Liabilities

		Note / Unit	2016	2015 - Restat.
Other Current Liabilities				
250	Current tax and personnel related liabilities		65,714	21,531
251	Current retirement and pensions related liabilitie		0	0
254	Current other liabilities		3,991,129	12,043,381
255	Transitory liability accounts		0	-5,177
			4,056,843	**12,059,735**

Other current liabilities include:

- Refundable surpluses amount to 3.9 MEUR and represent mostly funds to be returned to the IC from acquisition projects and to the BC for results (lapses/financial/miscellaneous) on budgets - mostly prior year budgets - since the Agency is Customer Funded as of 2014 the outstanding balance at 31 December 2014 mostly relate to multinational programmes.
- Other liabilities related to personnel amount to 65.7 KEUR.

12. Non-Current Deferred Revenue and Advances

		Note / Unit	2016	2015 - Restat.
Non-Current Deferred Revenue and Advances				
270	Non-current deferred revenue		296,125	-192,784
			296,125	**-192,784**

Non-current deferred revenue represents the unearned revenue related to net book value of capital assets acquired for customer funded capability development projects.

13. Provisions

		Note / Unit	2016	2015 - Restat.
Provisions				
2901	Provisions - Major risks and costs		4,395,083	2,024,100
2902	Provisions - Personnel related		6,817,662	6,733,736
			11,212,745	**8,757,836**

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

- Projects are constantly monitored and deviations from the original cost estimates and authorized budgets are reported and analysed. At year-end closing a thorough cost-to-complete exercise is carried out to determine what the current status is in terms of costs and revenue to date, and to estimate what the cost-to-complete will be for multiple year projects. If, as a result of this process, the project management together with the NCI Agency Capability Development's financial management come to the conclusion that the project is likely to generate a loss at completion, then a provision will be made to cover that potential future loss. Analysis conducted at a later stage may result in a change of estimates which translates in an increase or decrease of the provision built up in prior years. The provision for the Customer Funded projects amounts to 3.3 MEUR, of which 2.1 MEUR for a provision for future losses for the ANWI project (in addition to another 2.1 MEUR recognized in-year as an operating loss).
- A provision was made for 1.1 MEUR for an expected return of revenue to the customer in relation to the DCISG service agreement based on the current discussion about the services provided in 2016.
- The NCI Agency provision for the untaken leave days outstanding at year end, in accordance with IPSAS 25 Employee benefits, constitutes a liability towards the future for 5.8 MEUR. This provision is calculated on a rolling basis, i.e. the prior year provision is reversed at the beginning of the year and a new provision calculated, thus charging the change for the year to the Statement of Financial Performance.
- Provision made for 330 KEUR for JFC Naples for “Trattamento di Fine Rapporto (TFR)” in application of the Italian Law and of IPSAS 19. TFR is a vested benefit payable to the employee for a part of his / her salary deferred in time to the moment when termination of the contract takes place. The calculation of the value of this liability takes place annually and includes interests for the loan forcedly made by the employee to the employer given the fact that payment is deferred to a later time. In view of the foregoing, TFR has to be considered as one extra monthly instalment of the annual pay.
- A net provision has been booked for 665 KEUR for Loss of Job Indemnity which will be paid in 2017 but for people that have been formally notified in 2016.

14. Other Non-Current Liabilities

		Note / Unit	2016	2015 - Restat.
Other Non-Current Liabilities				
295	Non-current other liabilities		0	93,919
			0	**93,919**

The amount of 94 KEUR in 2015 represented the remaining deferred revenue from Nations used under the budget funding prior 2014 for acquisition of Property Plant and Equipment (PPE). It is recognised as revenue at the same pace as depreciation is recognised as an expense for the same assets. The amount shown equals the initial value of PPE posted minus the accumulated depreciation. In 2016 these assets were fully depreciated and therefore the corresponding deferred revenue balance became zero.

15. Net Assets/Equity

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

B. Notes to the NCIO Statement of Financial Performance

16. Projects and Service Support Revenue

		Note Unit	2016	2015 - Restat.
Project and Support Services Revenue				
500	Operations revenue - Project services	CD - Ops	98,037,700	92,161,520
501	Operations revenue - Support services	CD - Ops	15,111	0
530	Operations revenue - Project services - Intra-company	CD - Ops	147,373	699,078
501	Operations revenue - Support services	SD	135,765,864	117,584,808
			233,966,048	**210,445,406**

With the introduction of full Customer Funding as of 1 Jan 2014, the 2016 operations revenue can be categorized as either Project Support Revenue for 98 MEUR stemming from Capability Development (Project Services Costs) or Services Revenue for 135 MEUR, coming from signed Service Level Agreements (Service Support Costs) and other Service Agreements, all agreed and calculated at approved Customer Rates.

For all Customer Funded revenue, revenue is recognized, in accordance with IPSAS 9 and 11, by reference to the stage of completion or the cost burn rate, depending on the type of funding agreement; firm fixed price or cost reimbursable. This revenue recognition was already in place in 2013 for that part of the NCI Agency's business Customer Funded at that time but has now been expanded to nearly all its revenues. In applying this revenue recognition a "cost to complete" is calculated based on either inputs from the project manager as to the resources required to complete the project/deliverables or either based on information from the financial system as to the legal liabilities incurred per the end of 2016, but not yet accrued or expended, and which nevertheless form part of the 2016 services signed with the Customers through the Service Level Agreements.

Details as to the revenue recognition for these revenues through the stage of completion can be found hereunder.

NCIO Operations and Services Performance Details by Sponsor Account

For the projects and agreements open at 31 December 2016

(all figures are in Euro)

(including Intra-company Transactions)

NCIO

		2016										
		BUDGET	EXPENSES		REVENUE					WIP	SURPLUS/(DEFICIT)	
	Note	Contract Value	Expenses to Date	Cost to Complete	Billed to Date	Earned to Date	Deferred (-)	Accrued (+)	Earned CY	Incr./(Decr.) CY	Retained to Date	Provision to Date
NATO HQ & Agencies		69,921,429	80,366,062	10,464,832	71,658,352	68,611,644	(4,848,938)	1,802,229	24,430,191	(273,905)	(9,437,773)	(163,542)
Allied Command Operations (ACO)		658,528,211	619,864,587	17,423,123	645,297,518	633,287,845	(14,577,327)	2,543,690	247,710,627	(4,047)	14,133,175	(342,657)
Allied Command Transformation (ACT)		88,668,370	85,140,650	903,422	79,652,669	81,041,650	(660,236)	2,073,181	34,293,326	0	(3,194,600)	(4,782)
TOTAL INTERNAL CUSTOMERS - SENIOR		**817,118,009**	**785,371,299**	**28,791,376**	**796,608,539**	**782,941,140**	**(20,086,500)**	**6,419,100**	**306,434,144**	**(277,951)**	**1,500,802**	**(510,982)**
Investment Committee (IC)		338,333,886	229,627,322	88,649,538	238,793,911	228,526,019	(30,335,076)	20,067,184	48,870,949	(451,741)	(328,353)	(243,291)
TOTAL INTERNAL CUSTOMERS - NSIP		**338,333,886**	**229,627,322**	**88,649,538**	**238,793,911**	**228,526,019**	**(30,335,076)**	**20,067,184**	**48,870,949**	**(451,741)**	**(328,353)**	**(243,291)**
TOTAL INTERNAL CUSTOMERS		**1,155,451,896**	**1,014,998,621**	**117,440,915**	**1,035,402,450**	**1,011,467,158**	**(50,421,576)**	**26,486,284**	**355,305,093**	**(729,693)**	**1,172,449**	**(754,273)**
Agencies		6,877,026	5,184,811	836,786	5,939,892	5,864,208	(194,766)	119,082	2,249,245	(87,525)	679,920	0
NATO Force Structure (NFS)		5,614,169	4,071,122	1,399,337	5,730,378	4,069,485	(1,774,772)	113,879	1,447,108	21,775	91,497	0
NATO Nations		44,947,428	27,933,764	13,352,142	34,701,867	27,959,932	(7,258,232)	516,297	7,463,896	150,307	809,762	(10,514)
NATO Partners		3,010,465	2,077,077	877,799	2,724,533	2,107,133	(636,821)	19,421	526,974	0	32,457	(0)
Multinational Programs & Organizations (MN&O)		85,058,546	74,207,913	8,320,882	78,252,370	73,319,603	(5,094,142)	161,375	10,695,120	83,014	(403,584)	(378,204)
TOTAL EXTERNAL CUSTOMERS		**145,507,634**	**113,474,686**	**24,786,946**	**127,349,039**	**113,320,360**	**(14,958,733)**	**930,055**	**22,382,342**	**167,572**	**1,210,051**	**(388,719)**
Various/Others		4,735,579	2,934,167	33,061	1,656,313	2,075,312	(72,297)	491,296	1,551,663	0	(858,855)	(1)
TOTAL VARIOUS/OTHERS		**4,735,579**	**2,934,167**	**33,061**	**1,656,313**	**2,075,312**	**(72,297)**	**491,296**	**1,551,663**	**0**	**(858,855)**	**(1)**
TOTAL BY SPONSOR ACCOUNT		**1,305,695,109**	**1,131,407,474**	**142,260,922**	**1,164,407,803**	**1,126,862,830**	**(65,452,607)**	**27,907,635**	**379,239,098**	**(562,120)**	**1,523,644**	**(1,142,992)**
									378,676,977			

NCIO Operations and Services Performance Details by Service Line

For the projects and agreements open at 31 December 2016

(all figures are in Euro)

(including Intra-company Transactions)

NCIO

		2016										
		BUDGET	EXPENSES		REVENUE					WIP	SURPLUS/(DEFICIT)	
	Note	Contract Value	Expenses to Date	Cost to Complete	Billed to Date	Earned to Date	Deferred (-)	Accrued (+)	Earned CY	Incr./(Decr.) CY	Retained to Date	Provision to Date
AirC2 Program Office & Services		182,259,325	136,504,905	42,384,820	142,649,727	136,458,201	(9,819,548)	3,627,230	62,902,791	55,668	72,960	(20,155)
TOTAL AIRC2 PO&S		**182,259,325**	**136,504,905**	**42,384,820**	**142,649,727**	**136,458,201**	**(9,819,548)**	**3,627,230**	**62,902,791**	**55,668**	**72,960**	**(20,155)**
BMD Program Office & Services		24,108,376	20,722,790	3,123,779	18,958,520	20,215,271	(705,554)	1,962,305	5,745,421	989	(267,496)	(84,326)
TOTAL BMD PO&S		**24,108,376**	**20,722,790**	**3,123,779**	**18,958,520**	**20,215,271**	**(705,554)**	**1,962,305**	**5,745,421**	**989**	**(267,496)**	**(84,326)**
C2 - Joint Command and Control Services		128,957,892	107,870,011	16,526,587	111,075,783	108,660,923	(5,673,045)	2,543,551	30,919,838	(399,288)	1,509,982	(367,615)
JISR - Joint Intelligence, Surveillance and Reconnaissance Se		102,194,669	80,522,437	16,732,523	87,217,026	81,513,539	(6,488,636)	3,065,021	19,200,582	0	1,705,964	(618)
SSBA - Service Support & Business Applications		49,270,052	41,751,657	8,863,690	44,909,385	43,278,150	(1,250,246)	391,646	12,968,176	0	1,686,060	(33,993)
OA - Operational Analysis		22,338,644	18,726,985	363,731	17,960,756	18,336,885	(152,710)	528,838	7,109,524	18,185	300,291	(1,829)
ET - Education & Training Services		25,850,616	25,314,727	721,010	24,534,324	24,553,798	(271,032)	290,202	8,872,426	74,611	(435,377)	(44)
DAS IO - Architecture Services Implementation Office		13,834,046	9,315,392	4,202,243	11,093,987	9,415,987	(2,113,097)	435,097	1,634,072	0	110,200	0
TOTAL DAS - ARCHITECTURE SERVICES		**342,445,919**	**283,501,210**	**47,409,783**	**296,791,262**	**285,759,281**	**(15,948,766)**	**7,254,354**	**80,704,617**	**(306,492)**	**4,877,122**	**(404,098)**
NSII - Network Services & IT Infrastructure		243,660,035	184,048,675	25,955,365	211,686,250	198,263,492	(16,391,014)	9,321,049	67,053,701	122,163	13,230,132	(2)
CES - Core Enterprise Services		119,019,223	102,787,112	7,618,506	112,634,783	108,673,378	(5,967,717)	2,120,105	37,000,997	22,994	5,299,661	(148,357)
CS - Cyber Security Services		105,403,228	96,175,822	3,562,178	101,454,843	100,932,295	(1,103,248)	1,088,978	31,492,520	(48,143)	6,370,466	(46,245)
SMC - Service Management & Control		10,629,110	8,801,243	208,462	10,470,541	10,354,425	(5,514,533)	0	4,781,324	0	1,578,008	0
TOTAL DIS - INFRASTRUCTURE SERVICES		**478,711,596**	**391,812,851**	**37,344,511**	**436,246,416**	**418,223,590**	**(28,976,512)**	**12,530,132**	**140,328,542**	**97,014**	**26,478,267**	**(194,604)**
CSU - Customer Support Units		168,724,676	182,028,035	1,480,200	173,937,007	171,906,585	(4,663,048)	44,584	60,627,152	0	(8,699,058)	(83,742)
CSSC - CIS Sustainment Support Centre		1,870,045	1,195,716	0	1,870,045	1,870,045	0	0	829	0	674,329	0
O&E - Operations & Excercises		9,051,495	9,788,650	132,264	8,343,409	8,686,399	(283)	54,546	4,996,076	0	(1,237,533)	0
OC - Operations Centre		28,306,906	28,958,707	900,343	27,581,512	27,520,533	(1,664,285)	133,481	7,649,584	0	(1,421,115)	(225,181)
TOTAL DSO - OPERATIONS AND EXERCISES MANAGEMENT		**207,953,122**	**221,971,108**	**2,512,808**	**211,731,974**	**209,983,562**	**(6,327,616)**	**232,610**	**73,273,641**	**0**	**(10,683,377)**	**(308,923)**
IV&V - Independent Validation & Verification Services		19,119,654	18,429,468	1,084,095	18,726,010	17,316,882	(1,435,922)	168,730	5,852,257	0	(514,026)	(2,419)
Other Service Strategy Services		1,538,035	7,292,571	906,219	1,158,685	1,368,769	(52,557)	262,642	587,253	0	(5,100,520)	0
TOTAL SSTRAT - SERVICE STRATEGY		**20,657,689**	**25,722,039**	**1,990,315**	**19,884,695**	**18,685,651**	**(1,488,479)**	**431,372**	**6,439,510**	**0**	**(5,614,546)**	**(2,419)**
ACQ - Acquisition Services		3,175,073	13,368,550	0	3,207,398	3,140,287	(53,674)	0	3,140,287	0	(10,228,263)	0
DM - Demand Management Services		7,195,324	6,138,808	319,474	6,290,080	6,124,485	(209,856)	44,262	2,153,718	(89,163)	(12,947)	(9,739)
Transition Services		0	0	0	0	0	0	0	0	0	0	0
Various/Others		39,188,685	31,665,213	7,175,432	28,647,731	28,272,500	(1,922,601)	1,825,369	4,550,569	(320,136)	(3,098,075)	(118,728)
TOTAL MISCELLANEOUS		**49,559,082**	**51,172,571**	**7,494,906**	**38,145,209**	**37,537,273**	**(2,186,132)**	**1,869,631**	**9,844,574**	**(409,299)**	**(13,339,285)**	**(128,466)**
TOTAL BY SERVICE LINE		**1,305,695,109**	**1,131,407,474**	**142,260,922**	**1,164,407,803**	**1,126,862,830**	**(65,452,607)**	**27,907,635**	**379,239,098**	**(562,120)**	**1,523,644**	**(1,142,992)**
									378,676,977			

P3: Project, Programme and Portfolio (P3) Management

SLA: Service Level Agreement

SA: Service Agreement

CIS: Communication and Information Systems

NSIP: NATO Security Investment Programme

TP: Third Parties (i.e. Non-NSIP)

17. External CIS Revenue

The total revenue per service as specified in the Service Level agreements have two revenue components. There is the Service Support Revenue element that is based on effort charged at approved customer rates (see the note above) and the External CIS Revenue of 135 MEUR in 2016 that represents the revenue charged to customers to cover the contractual supplies and services delivered by industry required by the NCI Agency to provide its CIS services.

		Note Unit	2016	2015 - Restat.
External Services Revenue				
5100	External CIS revenue - Billed		134,873,912	133,560,835
5105	External CIS revenue - Accrued/WIP		1,637,191	160,068
5106	External CIS revenue - Non-current deferred revenue reversal		680,513	1,237,757
5109	External CIS revenue - Current/Non-current deferred (-)		2,782,056	-5,497,345
			139,973,672	**129,461,315**

18. Acquisition Revenue

		Note Unit	2016	2015 - Restat.
Acquisition Revenue				
5110	Acquisition revenue - Billed	CD - NSIP	260,417,571	224,882,591
5115	Acquisition revenue - Accrued/WIP	CD - NSIP	-1,148,382	-878,916
5110	Acquisition revenue - Billed	CD - TP	160,218,466	145,890,576
5115	Acquisition revenue - Accrued/WIP	CD - TP	6,068,984	-15,646,727
5119	Acquisition revenue - Current/Non-current deferred (-)	CD - TP	-20,780,363	-24,451,138
533	External CIS and acquisition revenue - Acquisition - Intra-comp	CD - TP	0	808,580
			404,776,276	**330,604,967**

Acquisition Revenue is earned as Host Nation for the NSIP for 259 MEUR, and for other NATO entities and Nations for 145 MEUR. Included here are the Acquisition Revenues for the AirC2 and BMD programmes but also NATO led operations' related CIS support contracts.

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

19. Other Operating Revenue

		Note Unit	2016	2015 - Restat.
Other Operating Revenue				
541	Inventory and work in progress - (Increase) Decrease	SD	7,051,685	3,863,773
545	Other operations revenue	CD - Ops	1,657,388	3,134,131
545	Other operations revenue	CD - NSIP	-245,000	245,000
545	Other operations revenue	CD - TP	0	-661
545	Other operations revenue	SD	4,867,313	3,112,854
			13,331,387	**10,355,098**

Other Operating Revenue consists of elements such as:

- The revenue recognized related to inventory of 7 MEUR consists of the following :
  - the net increase in inventory of 5.1 MEUR and
  - 1.9 MEUR for the recognition of revenue for the remaining balance of unearned revenue from the Nations for inventory that was acquired in 2013, but at that moment the agency was still acting as the procurement agent on behalf of the NCS and third parties. Since 2014 the Agency was acting as a principal, and the first time recognition of inventory for the prior 2014 period resulted in a recognition of 5.7 MEUR of Unearned Revenue from Nations for inventory. This amount is recognized as revenue over a period of three years starting 1st Jan 2014; meaning 1/3 or 1.9 MEUR was recognized as revenue in 2014, 2015 and now finally in 2016;
- Revenue from the support to and hosting of Agencies such as NAGSMA and BGX for 900 KEUR;
- Recovery of overheads from contractors working under acquisition funding 209 KEUR;
- Conferences and miscellaneous revenues 220 KEUR;
- NCIO still has some revenues from either 2016 budgets for the ASB Independent Secretariat and the BC877 NCI Agency Implementation Budget for a total of 3.8 MEUR. Details and their Budget Execution Statements can be found under section D of the Notes to the Financial Statements;
- The remaining 1.2 MEUR is revenue related to non-trade reimbursements.

20. Other Revenue

		Note Unit	2016	2015 - Restat.
Other Revenue				
560	Fixed assets sales - Surpluses		29,300	36,504
			29,300	**36,504**

This amount represents a surplus from sales of depreciated fixed assets.

21. Revenue Details

In summary the NCI Agency total operating revenue, excluding the other operating revenue for the period ending 31 December 2016 was 795.0 MEUR broken-down as:

- 778.7 MEUR of Operating revenue excluding other operating revenue is:
  - 404.8 MEUR Acquisition Revenue earned in the execution of procurements for NSIP and Third Parties;
  - 139.9 MEUR External CIS Revenue earned in the execution of CIS Service Level Agreements for goods and services procured from industry;
  - 234.0 MEUR Operating Revenue earned through the rendering of capability development and delivery of CIS services by Agency resources; and
- 13.3 MEUR Other operating revenue

Financial and other (non-operating) revenue results in an amount of MEUR 3.0

Per below tables Total Revenue is summarized by Sponsor Account and Service Line, both for 2016 and prior year 2015.

P3: Project, Programme and Portfolio (P3) Management
SLA: Service Level Agreement
SA: Service Agreement
CIS: Communication and Information Systems
NSIP: NATO Security Investment Programme
TP: Third Parties (i.e. Non-NSIP)

NCIO Revenue Summary by Sponsor Account

For the year ended 31 December 2016

(all figures are in Euro)

NCIO

	Note	2016							
		Operating Revenue				External CIS	Acquisition Revenue		TOTAL
		P3	SLA	SA	Total	Revenue	NSIP	TP	
NATO HQ & Agencies		12,812,772	7,338,863	4,581	**20,156,216**	4,000,071	0	33,034,218	**57,190,505**
Allied Command Operations (ACO)		7,475,668	88,415,835	31,057,839	**126,949,342**	120,757,239	0	66,169,473	**313,876,053**
Allied Command Transformation (ACT)		18,493,634	11,243,362	107,090	**29,844,087**	4,449,239	0	149,420	**34,442,746**
TOTAL INTERNAL CUSTOMERS - SENIOR		**38,782,074**	**106,998,060**	**31,169,510**	**176,949,644**	**129,206,548**	**0**	**99,353,111**	**405,509,304**
Investment Committee (IC)		48,419,208	0	0	**48,419,208**	0	259,234,152	0	**307,653,360**
TOTAL INTERNAL CUSTOMERS - NSIP		**48,419,208**	**0**	**0**	**48,419,208**	**0**	**259,234,152**	**0**	**307,653,360**
TOTAL INTERNAL CUSTOMERS		**87,201,282**	**106,998,060**	**31,169,510**	**225,368,852**	**129,206,548**	**259,234,152**	**99,353,111**	**713,162,664**
Agencies		692,191	19,780	17,292	**729,262**	1,432,458	0	2,591,049	**4,752,770**
NATO Force Structure (NFS)		1,462,701	0	0	**1,462,701**	6,183	0	0	**1,468,883**
NATO Nations		6,234,213	0	(16,083)	**6,218,130**	1,396,073	0	43,999,849	**51,614,053**
NATO Partners		526,974	0	0	**526,974**	0	0	0	**526,974**
Multinational Programs & Organizations (MN&O)		5,654,109	1,388,390	2,613,235	**9,655,734**	1,122,400	0	(453,423)	**10,324,711**
TOTAL EXTERNAL CUSTOMERS		**14,570,187**	**1,408,170**	**2,614,444**	**18,592,801**	**3,957,114**	**0**	**46,137,475**	**68,687,390**
Various/Others		0	0	39,096	**39,096**	1,512,566	0	0	**1,551,663**
TOTAL VARIOUS/OTHERS		**0**	**0**	**39,096**	**39,096**	**1,512,566**	**0**	**0**	**1,551,663**
TOTAL BY SPONSOR ACCOUNT		**101,771,469**	**108,406,230**	**33,823,050**	**244,000,749**	**134,676,228**	**259,234,152**	**145,490,587**	**783,401,716**
			276,905,508						
OTHER OPERATING REVENUE									
Revenue in CTC, not in Statement of Financial Performance									
Internal Revenue allocations		*(526,849)*			***(526,849)***		*0*	*0*	***(526,849)***
Intra-company eliminations		*(649,369)*	*(1,665,634)*		***(2,315,003)***		*0*	*(16,500)*	***(2,331,503)***
Revenue in CTC, classified under Other Operating Revenue									
Other Operating Revenue (Part of CTC)		*(222,555)*	*(1,359,814)*		***(1,582,369)***		*(245,000)*	*0*	***(1,827,369)***
Revenue not in CTC									
Revenue reclassification		*(313,037)*	*(5,297,444)*		***(5,610,481)***	*5,297,444*	*280,037*	*33,000*	***0***
Other Operating Revenue (Not part of CTC)									***13,331,387***
TOTAL OPERATING REVENUE		***100,059,659***	***100,083,339***	***33,823,050***	***233,966,048***	***139,973,672***	***259,269,189***	***145,507,087***	***792,047,383***
Financial Revenue									***2,936,420***
Other Revenue									***29,300***
TOTAL REVENUE		***100,059,659***	***100,083,339***	***33,823,050***	***233,966,048***	***139,973,672***	***259,269,189***	***145,507,087***	***795,013,103***
			273,880,061				***404,776,276***		

NCIO Revenue Summary by Sponsor Account

For the year ended 31 December 2016

(all figures are in Euro)

NCIO

	Note	2015							
		Operating Revenue				External CIS	Acquisition Revenue		TOTAL
		P3	SLA	SA	Total	Revenue	NSIP	TP	
NATO HQ & Agencies		11,801,148	9,002,700	0	**20,803,848**	302,034	0	13,330,492	**34,436,375**
Allied Command Operations (ACO)		6,396,552	77,974,174	21,263,730	**105,634,456**	110,285,458	0	63,663,873	**279,583,787**
Allied Command Transformation (ACT)		15,461,535	8,556,893	433,917	**24,452,346**	6,385,266	0	0	**30,837,612**
TOTAL INTERNAL CUSTOMERS - SENIOR		**33,659,236**	**95,533,768**	**21,697,647**	**150,890,650**	**116,972,758**	**0**	**76,994,366**	**344,857,774**
Investment Committee (IC)		40,569,200	0	0	**40,569,200**	0	224,248,675	0	**264,817,876**
TOTAL INTERNAL CUSTOMERS - NSIP		**40,569,200**	**0**	**0**	**40,569,200**	**0**	**224,248,675**	**0**	**264,817,876**
TOTAL INTERNAL CUSTOMERS		**74,228,436**	**95,533,768**	**21,697,647**	**191,459,851**	**116,972,758**	**224,248,675**	**76,994,366**	**609,675,649**
Agencies		1,345,277	0	0	**1,345,277**	478,160	0	569,415	**2,392,851**
NATO Force Structure (NFS)		1,422,849	0	92,309	**1,515,158**	54,402	0	1,041,563	**2,611,123**
NATO Nations		5,027,698	0	245,296	**5,272,994**	419,591	0	27,025,739	**32,718,325**
NATO Partners		487,265	0	0	**487,265**	0	0	103,269	**590,534**
Multinational Programs & Organizations (MN&O)		9,843,718	1,138,227	2,997,384	**13,979,329**	1,583,480	0	1,578,174	**17,140,983**
TOTAL EXTERNAL CUSTOMERS		**18,126,806**	**1,138,227**	**3,334,990**	**22,600,022**	**2,535,633**	**0**	**30,318,160**	**55,453,815**
Various/Others		0	0	0	**0**	5,219	0	0	**5,219**
TOTAL VARIOUS/OTHERS		**0**	**0**	**0**	**0**	**5,219**	**0**	**0**	**5,219**
TOTAL BY SPONSOR ACCOUNT		**92,355,242**	**96,671,994**	**25,032,637**	**214,059,873**	**119,513,610**	**224,248,675**	**107,312,525**	**665,134,684**
					241,218,241				
OTHER OPERATING REVENUE									
Revenue in CTC, not in Statement of Financial Performance									
Internal Revenue allocations		*(577,123)*			***(577,123)***				***(577,123)***
Intra-company eliminations		*(614,556)*			***(614,556)***	*(88,102)*	*0*	*(771,234)*	***(1,473,891)***
Revenue in CTC, classified under Other Operating Revenue									
Other Operating Revenue (Part of CTC)		*7,790,312*			***7,790,312***	*(362,293)*		*0*	***7,428,019***
Revenue not in CTC									
Revenue reclassification		*185,000*	*(10,398,100)*		***(10,213,100)***	*10,398,100*	*0*	*(185,000)*	***0***
Other Operating Revenue (Not part of CTC)									***10,355,098***
TOTAL OPERATING REVENUE		***99,138,876***	***96,671,994***	***25,032,637***	***210,445,406***	***129,461,315***	***224,248,675***	***106,356,292***	***680,866,786***
Financial Revenue									***2,653,256***
Other Revenue									***36,504***
TOTAL REVENUE		***99,138,876***	***96,671,994***	***25,032,637***	***210,445,406***	***129,461,315***	***224,248,675***	***106,356,292***	***683,556,545***
					251,165,946		***330,604,967***		

NCIO Revenue Summary by Service Line

For the year ended 31 December 2016
(all figures are in Euro)

NCIO

	Note	2016							
		Operating Revenue				External CIS	Acquisition Revenue		TOTAL
		P3	SLA	SA	Total	Revenue	NSIP	TP	
AirC2 Program Office & Services		19,144,050	0	17,883,514	**37,027,564**	25,930,896	123,060,215	20,635,937	**206,654,611**
TOTAL AIRC2 PO&S		**19,144,050**	**0**	**17,883,514**	**37,027,564**	**25,930,896**	**123,060,215**	**20,635,937**	**206,654,611**
BMD Program Office & Services		5,746,410	0	0	**5,746,410**	0	14,425,823	0	**20,172,233**
TOTAL BMD PO&S		**5,746,410**	**0**	**0**	**5,746,410**	**0**	**14,425,823**	**0**	**20,172,233**
C2 - Joint Command and Control Services		11,493,080	6,005,698	823,342	**18,322,120**	12,198,430	5,673,018	206,248	**36,399,816**
JISR - Joint Intelligence, Surveillance and Reconnaissance Se		12,166,265	3,964,721	2,289,151	**18,420,137**	780,445	14,493,592	8,487,528	**42,181,701**
SSBA - Service Support & Business Applications		4,156,774	3,801,044	293,371	**8,251,188**	4,716,988	9,963,133	11,264	**22,942,573**
OA - Operational Analysis		7,127,709	0	0	**7,127,709**	0	0	0	**7,127,709**
ET - Education & Training Services		2,602,649	6,252,170	(828)	**8,853,991**	93,046	0	49,420	**8,996,457**
DAS IO - Architecture Services Implementation Office		1,634,072	0	0	**1,634,072**	0	6,306,482	0	**7,940,554**
TOTAL DAS - ARCHITECTURE SERVICES		**39,180,549**	**20,023,633**	**3,405,035**	**62,609,217**	**17,788,909**	**36,436,225**	**8,754,460**	**125,588,810**
NSII - Network Services & IT Infrastructure		11,428,837	13,127,696	8,958,749	**33,515,282**	33,660,582	69,058,176	68,904,432	**205,138,473**
CES - Core Enterprise Services		9,853,018	9,871,052	(53,300)	**19,670,770**	17,353,221	10,674,732	34,389,844	**82,088,567**
CS - Cyber Security Services		5,855,229	11,245,292	70,090	**17,170,612**	14,273,765	5,557,149	5,996,167	**42,997,693**
SMC - Service Management & Control		459,555	3,904,700	128,600	**4,492,855**	288,469	0	0	**4,781,324**
TOTAL DIS - INFRASTRUCTURE SERVICES		**27,596,640**	**38,148,740**	**9,104,139**	**74,849,519**	**65,576,037**	**85,290,057**	**109,290,443**	**335,006,057**
CSU - Customer Support Units		0	40,826,432	1,145,915	**41,972,347**	18,654,805	0	0	**60,627,152**
CSSC - CIS Sustainment Support Centre		0	646	0	**646**	183	0	0	**829**
O&E - Operations & Excercises		0	1,535,980	2,005,487	**3,541,467**	1,454,609	0	0	**4,996,076**
OC - Operations Centre		1,710,792	5,226,770	0	**6,937,562**	712,022	0	6,602,663	**14,252,248**
TOTAL DSO - OPERATIONS AND EXERCISES MANAGEMENT		**1,710,792**	**47,589,828**	**3,151,402**	**52,452,022**	**20,821,619**	**0**	**6,602,663**	**79,876,304**
IV&V - Independent Validation & Verification Services		4,358,410	1,122,767	223,000	**5,704,177**	148,080	0	0	**5,852,257**
Other Service Strategy Services		587,253	0	0	**587,253**	0	0	0	**587,253**
TOTAL SSTRAT - SERVICE STRATEGY		**4,945,664**	**1,122,767**	**223,000**	**6,291,430**	**148,080**	**0**	**0**	**6,439,510**
ACQ - Acquisition Services		0	720,200	42,830	**763,030**	2,377,257	0	206,012	**3,346,299**
DM - Demand Management Services		1,265,333	799,222	0	**2,064,555**	0	0	1,072	**2,065,626**
Transition Services		0	0	0	**0**	0	0	0	**0**
Various/Others		2,182,032	1,841	13,130	**2,197,003**	2,033,430	21,832	0	**4,252,265**
TOTAL MISCELLANEOUS		**3,447,365**	**1,521,263**	**55,960**	**5,024,587**	**4,410,688**	**21,832**	**207,083**	**9,664,190**
TOTAL BY SERVICE LINE		**101,771,469**	**108,406,230**	**33,823,050**	**244,000,749**	**134,676,228**	**259,234,152**	**145,490,587**	**783,401,716**
					276,905,508				

P3: Project, Programme and Portfolio (P3) Management
SLA: Service Level Agreement
SA: Service Agreement
CIS: Communication and Information Systems
NSIP: NATO Security Investment Programme
TP: Third Parties (i.e. Non-NSIP)

NCIO Revenue Summary by Service Line

For the year ended 31 December 2016
(all figures are in Euro)

NCIO

	Note	2015							
		Operating Revenue				External CIS Revenue	Acquisition Revenue		TOTAL
		P3	SLA	SA	Total		NSIP	TP	
AirC2 Program Office & Services		18,505,918	0	20,780,627	39,286,545	339,496	116,972,271	9,388,298	165,986,609
TOTAL AIRC2 PO&S		**18,505,918**	**0**	**20,780,627**	**39,286,545**	**339,496**	**116,972,271**	**9,388,298**	**165,986,609**
BMD Program Office & Services		6,207,904	0	0	6,207,904	0	12,159,209	(0)	18,367,113
TOTAL BMD PO&S		**6,207,904**	**0**	**0**	**6,207,904**	**0**	**12,159,209**	**(0)**	**18,367,113**
C2 - Joint Command and Control Services		8,259,316	3,652,529	639,742	12,551,588	16,138,742	4,432,114	401,343	33,523,787
JISR - Joint Intelligence, Surveillance and Reconnaissance Se		13,585,192	3,697,067	86,991	17,369,249	3,030,797	11,323,295	7,093,389	38,816,730
SSBA - Service Support & Business Applications		4,136,459	2,391,169	35,012	6,562,640	8,443,461	7,783,819	396,237	23,186,157
OA - Operational Analysis		6,386,771	0	0	6,386,771	0	0	0	6,386,771
ET - Education & Training Services		2,158,207	6,955,229	0	9,113,436	59,244	0	0	9,172,680
DAS IO - Architecture Services Implementation Office		1,253,818	0	0	1,253,818	0	4,927,016	0	6,180,834
TOTAL DAS - ARCHITECTURE SERVICES		**35,779,763**	**16,695,994**	**761,744**	**53,237,501**	**27,672,244**	**28,466,244**	**7,890,969**	**117,266,958**
NSII - Network Services & IT Infrastructure		8,702,543	11,860,557	1,032,252	21,595,352	36,446,885	53,952,540	70,900,863	182,895,639
CES - Core Enterprise Services		7,917,806	7,722,902	0	15,640,708	16,156,460	8,339,764	13,541,576	53,678,509
CS - Cyber Security Services		5,302,514	10,319,770	0	15,622,284	17,305,616	4,341,590	395,773	37,665,263
SMC - Service Management & Control		395,245	3,297,550	0	3,692,796	964,807	0	0	4,657,603
TOTAL DIS - INFRASTRUCTURE SERVICES		**22,318,108**	**33,200,780**	**1,032,252**	**56,551,139**	**70,873,768**	**66,633,895**	**84,838,212**	**278,897,014**
CSU - Customer Support Units		0	39,624,070	907,832	40,531,902	18,303,432	0	0	58,835,333
CSSC - CIS Sustainment Support Centre		0	1,605,045	0	1,605,045	264,171	0	0	1,869,216
O&E - Operations & Excercises		0	1,026,582	433,917	1,460,499	1,992,822	0	0	3,453,321
OC - Operations Centre		1,258,674	4,384,407	0	5,643,081	1,856,570	0	0	7,499,651
TOTAL DSO - OPERATIONS AND EXERCISES MANAGEMENT		**1,258,674**	**46,640,104**	**1,341,749**	**49,240,527**	**22,416,994**	**0**	**0**	**71,657,521**
IV&V - Independent Validation & Verification Services		4,509,105	135,117	0	4,644,222	123,445	0	0	4,767,668
Other Service Strategy Services		391,699	0	0	391,699	0	0	0	391,699
TOTAL SSTRAT - SERVICE STRATEGY		**4,900,805**	**135,117**	**0**	**5,035,922**	**123,445**	**0**	**0**	**5,159,367**
ACQ - Acquisition Services		0	0	0	0	0	0	4,921,624	4,921,624
DM - Demand Management Services		2,193,746	0	0	2,193,746	0	0	273,423	2,467,168
Transition Services		0	0	0	0	0	0	0	0
Various/Others		1,190,326	0	1,116,265	2,306,590	(1,912,337)	17,056	0	411,309
TOTAL MISCELLANEOUS		**3,384,071**	**0**	**1,116,265**	**4,500,336**	**(1,912,337)**	**17,056**	**5,195,047**	**7,800,102**
TOTAL BY SERVICE LINE		**92,355,242**	**96,671,994**	**25,032,637**	**214,059,873**	**119,513,610**	**224,248,675**	**107,312,525**	**665,134,684**
					241,218,241				

22. Expenses

NCIO Statement of Financial Performance - Direct/Indirect

For the year ended 31 December 2016
(all figures are in Euro)
(Prior Year restated)

	Note	NCIO 2016	NCIO 2015 - Restat.
REVENUE			
Project and Support Services Revenue		233,966,048	210,445,406
External Services Revenue		139,973,672	129,461,315
Acquisition Revenue		404,776,276	330,604,967
Other Operating Revenue		13,331,387	10,355,098
TOTAL REVENUE		**792,047,383**	**680,866,786**
DIRECT EXPENSES			
Cost of Acquisition		(402,879,438)	(330,967,810)
Cost of External CIS		(134,071,715)	(119,579,250)
Personnel Costs		(164,054,707)	(135,241,559)
Contractual Supplies and Services		(11,479,222)	(12,321,490)
Depreciation and Amortisation		(2,624,936)	(2,871,155)
Provisions		(2,408,419)	(2,057,852)
TOTAL DIRECT EXPENSES		**(717,518,437)**	**(603,039,117)**
OPERATING SURPLUS/(DEFICIT) FOR THE PERIOD		**74,528,947**	**77,827,669**
INDIRECT EXPENSES			
Personnel Costs		(57,846,868)	(53,190,615)
Contractual Supplies and Services		(14,833,061)	(13,572,321)
Depreciation and Amortisation		(1,166,433)	(1,417,721)
Other Expenses		(266,114)	(19,837)
TOTAL INDIRECT EXPENSES		**(74,112,476)**	**(68,200,493)**
OTHER REVENUE			
Financial Revenue		2,936,420	2,653,256
Other Revenue		29,300	36,504
TOTAL OTHER REVENUE		**2,965,719**	**2,689,759**
OTHER EXPENSES			
Provisions		(548,833)	(1,415,886)
Financial Expenses		(2,111,832)	(2,943,692)
TOTAL OTHER EXPENSES		**(2,660,665)**	**(4,359,577)**
INDIRECT SURPLUS/(DEFICIT) FOR THE PERIOD		**(73,807,422)**	**(69,870,311)**
Reorganisation Costs		(2,897,658)	(2,115,436)
NET SURPLUS/(DEFICIT) FOR THE PERIOD		**(2,176,133)**	**5,841,922**

Not presented within the main table of Statement of Financial Performance, the table presented herewith provides an overview of the split between direct and indirect costs. This is in accordance with the common layout for financial statements that was agreed with the Head of Financial Reporting Policy, submitted to the RPPB in December 2016.

This break-down is based on the nature and use of the funds and aims at providing an insight on the NCI Agency cost structure with regard to direct and indirect (overhead) costs

In summary the NCI Agency total expenses for the period ending 31 December 2016 were 797.2 MEUR broken-down as:

- 402.9 MEUR Acquisition Costs incurred in the execution of procurements for NSIP and Third Parties;
- 134.0 MEUR External CIS Costs incurred in the execution of CIS Service Level Agreements for goods and services procured from industry; and
- 254.7 MEUR Operating Costs (excluding reorg expenses) incurred that is including :
  - direct expenses of 180.5 MEUR directly related to the rendering of capability development and delivery of CIS services by Agency resources:
    - personnel for 164 MEUR
    - contractual supplies and services for 11.5 MEUR
    - depreciation and provisions for 5.0 MEUR
  - indirect costs for 73.8 MEUR incurred for the running, enabling and supporting of the Agency infrastructure and activities for personnel and contractual supplies and services:
    - Personnel for 57.8 MEUR
    - contractual supplies and services for 14.8 MEUR
    - depreciation and provisions for 2.0 MEUR
    - NET Financial Revenue for 0.8 MEUR
- Reorganisation expenses for 2.9 MEUR

23. Cost of Acquisitions

		Note Unit	2016	2015 - Restat.
Cost of Acquisition Revenue				
727	Contractors, general services and supplies	CD - NSIP	258,164,557	223,993,859
727	Contractors, general services and supplies	CD - TP	144,714,880	106,973,951
			402,879,438	**330,967,810**

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

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

24. Personnel Costs

		Note Unit	2016	2015 - Restat.
Personnel Costs				
710	Salaries, allowances and other remunerations		141,245,992	136,376,409
711	Interim Workforce Capacity (IWC)		53,278,304	27,424,834
712	Recruitment costs and installation and separatio		2,789,789	1,539,432
713	Clothing costs and allowances		78,235	79,307
715	Medical examinations and general personnel rel		13,271,451	13,575,372
716	Education and training		3,585,582	2,624,077
717	Employer contributions to pensions; loss of job ar		3,400,000	1,251,935
718	NATO Pensions (Pension funds)		7,652,221	6,803,742
			225,301,575	**189,675,109**

Personnel costs in this category are for staff members hired under the NATO Civilian Personnel Regulations (CPRs) and contractors. The figures represent the costs of personnel working on activities required to operate the NCI Agency and deliver services to Customers. This category also includes cost incurred with recruitment activity, learning and development, and personnel related costs due to reorganisation (loss of job indemnity) paid out the BC 877 Budget of MEUR 3.4.

25. Employee Disclosures

Staff Numbers

At 31 December 2016; 1051 (2015: 1169) military posts and 1424 (2015: 1379) NATO civilians posts were filled.

Retirement benefits

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

The NCI Agency does not control or manage any of the schemes or scheme assets and is not exposed to the risks and rewards of the schemes and hence does not record any assets or liabilities of the schemes on its Statement of Financial Position. In 2016 the NCI Agency contributed 7.6 MEUR (2015: 6.8 MEUR) to the various NATO pension schemes.

26. Related Party Transactions

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

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

Related Party Transactions of Members of Boards and Committees

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

Representative Allowance of the General Manager

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

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

The total entitlement to representation allowance for the NCI Agency GM was 10,691.76 EUR. The actual expenses during 2016: Euro 6,115.90 (2015: Euro 10,355.79) were as follows:

- Rental supplement expenses: € 2,673.00
- Hospitality Expenses: € 3,442.90
- Total representation allowance: € 6,115.90

Key Management Personnel

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

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

Euro (grades A7/A6)	2016	2015
Basic salaries	1,133,853	1,188,563
Allowances	228,735	313,792
Post-employment benefits	0	0
Employer’s contribution to Insurance	132,130	150,003
Employer’s contribution to Pension	105,099	108,004
Total	**1,599,817**	**1,760,362**

FTE	2016	2015
General Manager (A7)	1	1
Directors (OF7/OF6/OF7)	9.38	10

Name	*Nationality*	*Role*	*Grade and step at year-end*	*Loans received from NCIA*	*Family members receiving income from NCIA*	*Other revenue from NCIA or NATO*
Koenraad Gijsbers	*NLD*	*General Manager*	*A7 step 5*	*Nil*	*Nil*	*Nil*
RADM Dr Thomas Daum	*DEU*	*Chief of Staff and Deputy General Manager*	*OF7*	*Nil*	*Nil*	*Nil*
BGEN Luigi Tomaiuolo	*ITA*	*Director Service Operations*	*OF6*	*Nil*	*Nil*	*Nil*
Guy Feat (left 30 Sep 16)	*FRA*	*Director Application Services*	*A6 step 4*	*Nil*	*Nil*	*Nil*
Laurie-Jo Litton (arr 24 Oct 16)	*USA*	*Director Application Services*	*A6 step 1*	*Nil*	*Nil*	*Nil*
Charles Shawcross (left 06 Jan 16)	*CAN*	*Director Service Strategy*	*A6 step 5*	*Nil*	*Nil*	*Nil*
Davidson (arr 01 Feb 16)	*GBR*	*Director Service Strategy*	*A6 step 1*	*Nil*	*Nil*	*Nil*
Velizar Shalamanov (left 16 Jan 17)	*BGR*	*Director Demand Management*	*A6 step 6*	*Nil*	*Nil*	*Nil*
Peter Scaruppe	*DEU*	*Director Acquisition*	*A6 step 6*	*Nil*	*Nil*	*Nil*
Darrell Midgley	*GBR*	*Director BMD Programme Office and Services*	*A6 step 2*	*Nil*	*Nil*	*Nil*
Anne-Marie Pick	*USA*	*Financial Controller*	*A6 step 8*	*Nil*	*Nil*	*Nil*
Gregory Edwards	*USA*	*Director Infrastructure Services*	*A6 step 2*	*Nil*	*Nil*	*Nil*
Enzo Montalti (left 30 Jun 16)	*ITA*	*Director AirC2 Programme Office and Services*	*A6 step 5*	*Nil*	*Nil*	*Nil*

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

Out of the Key Management, two members had a family member who have been employed as interns and/or in a temporary position with the standard Agency emoluments applicable to the position.

27. Contractual Supplies and Services

		Note Unit	2016	2015 - Restat.
Contractual Supplies and Services				
720	Rent and operational leasing costs		30,016,179	21,972,438
721	Maintenance and repair (Services)		92,936,757	80,949,873
722	Spare parts and consumables (Supplies)		6,779,518	7,193,242
723	Minor investments (Below threshold)		4,032,974	6,310,702
724	Utilities, postal and courier services, travel and tr		13,280,220	14,871,761
725	Facilities management, environment, safety and s		2,407,653	1,812,642
726	Public relations, representation, hospitality and r		223,486	240,687
727	Contractors, general services and supplies		5,380,045	12,168,378
730	Investments pending capitalisation		5,327,166	825,839
			160,383,998	**146,345,562**

Contractual supplies and services contain both direct and indirect costs:

- Rent and leasing costs only concern either rental costs or operating leases per IPSAS 13; the NCI Agency does not have any finance leases
- Expenses on External CIS, to the amount of 134 MEUR, are included throughout the above items (mainly 720-730)
- Under account 724, an amount of 10 MEUR is included for travel costs (indirect travel costs including SLA travel but also project direct travel costs)
- Also included are the specific investments and other expenses against PSCs, for a total amount of approximately 9 MEUR
- Investments not capitalized concern acquisitions which do not exceed the PPE thresholds (above 5K EUR per item) per NCI Agency's accounting policy

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

28. Depreciation and Amortisation

		Note Unit	2016	2015 - Restat.
Depreciation and Amortisation				
740	Amortisation and depreciation		3,789,732	3,554,565
741	Write-offs		1,638	734,311
			3,791,369	**4,288,876**

For Fixed Assets, the NCI Agency takes into account the current year depreciation as a cost which amounts to 3.8 MEUR. Full detail on the 2016 annual depreciation by asset category can be found in the Table under note 8.

29. Provisions

		Note Unit	2016	2015 - Restat.
Provisions				
7461	Provisions - Major risks and costs		2,370,983	568,484
7462	Provisions - Personnel related		83,926	2,905,253
			2,454,909	**3,473,738**

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

NCIO has made the following provisions:

- Provisions – Major risks and costs
  - Provision for future losses for active projects/services for a net cost of 2.3 MEUR (mostly related to ANWI and NCISG): when it is probable that total contract costs will exceed total contract revenue or when part of the contract revenue will not be recovered, the expected loss is recognised as an expense immediately (IPSAS 9 and 11).
- Provisions – Personnel Related
  - Provision for untaken leave of own personnel of 582 KEUR increase: personnel leave days untaken at the end of the year can be transferred to the next year and taken before the end of the first quarter. This constitutes a liability towards the next year since staff will not be available for service during this period of time. The provision is calculated on a rolling basis based on actual days of untaken leave outstanding and the average cost of a day of untaken leave per grade level.
  - Provision for Loss Of Job Indemnity (LOJI) ; the provision balance of LOJI 2016 reported on the statement of financial position was reduced with 502 KEUR compared to the Provision balance LOJI of 2015
  - Provision for 4 KEUR for JFC Naples for “Trattamento di Fine Rapporto (TFR)” in application of the Italian Law and of IPSAS 19.

30. Contingent Liabilities

IPSAS defines a contingent liability as “A possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, or, a present obligation that arises from past events, but is not recognized because: 1) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or 2) The amount of the obligation cannot be measured with sufficient reliability”.

The Agency has a process to capture information on provisions and contingent liabilities at year-end from all the organisational elements, and is implementing a process to capture that information throughout the year.

For 2016 statements NCI Agency has not identified any material obligation that qualify disclosure as contingent liabilities.

31. Financial Revenue and Expenses

		Note Unit	2016	2015 - Restat.
550	Foreign exchange surpluses		2,770,662	2,618,565
555	Other financial surpluses		165,758	34,690
750	Foreign exchange deficits		-1,983,949	-2,697,348
7550	Financial costs - Current liabilities		-127,982	-248,427
7555	Financial costs - Other		98	2,084
			824,588	**-290,436**

The total result from financial revenue and expenses is a surplus of €824,588, this surplus is primarily due to the surplus from realised exchange rate gains and losses of €786,713 and €37,776 net surplus from interest income/expense and bank charges. To be noted that for IC acquisition activity the financial result is borne by NSIP and is thus not included here.

32. Other Expenses

		Note Unit	2016	2015 - Restat.
Other Expenses				
760	Fixed assets sales - Deficits		266,114	19,837
			266,114	**19,837**

This expense represent some net book value losses on PPE.

33. Financial Instruments

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

Liquidity risk

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

Credit risk

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

Foreign currency risk

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

34. Write-offs

Applicable as from 29 March 2016 per the approved NCIO Financial Rules and Procedures (document AC/337-D(2016)0014);
FRP XVII 1) The amount of the write-off will be based on the net book value.
FRP XVII 8) On write-offs, information will be provided to the NATO budget Committee and the Finance Committee on an aggregated level in the Financial Statements as audited by IBAN.

For the period between 01 January 2016 and 28 March 2016, the NCI Agency disposed of assets with a total historical value of 626 KEUR
For the period between 29 March 2016 and 31 December 2016 the NCI Agency disposed of assets with total net book value of 0 EUR.

NCIO Statement of Property, Plant and Equipment Disposals for the year ended 31 December 2016

Location/unit/entity	PPE Class	Total (Euro)
CIS Log Depot, Brunssum	CIS Equipment	626,171.62
NCIA HQ	ADP equipment	0.00
NCIA HQ	Audio/Visual equipment	0.00
NCIA HQ	Transport equipment	0.00
NCIA HQ	Tools and machinery	0.00
NCIA HQ	Telephone equipment	0.00
NCIA HQ	Radio equipment	0.00
NCIA HQ	Electrical equipment	0.00
NCIA HQ	Furniture	0.00
	Total	**626,171.62**

C. *Notes to the NCIO Statement of Change in Net Assets/Equity (Operating Fund)*

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

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

The Financial Controller is responsible to recommend the size of the OF and the planned annual action to increase or to reduce it. Any surplus or deficit for 2016 is to be attributed to the OF with Nations to decide on its use.

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

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

Per the Agency's internal arrangements, the Service Lifecycle Management Board (SLMB) exceptionally decides upon the return to customers of operational surpluses above 8% and/or EUR 10.000. Given that the SLMB's timeline for decision-taking has an impact on the Agency's ability to record surpluses in the Financial Statements and as recommended by the International Board of Auditors for NATO (IBAN), the Agency, tasked by its Finance Committee, will develop policy to clarify criteria, authority and practice when upon deciding on the return of excess funds to customers on the execution of capability development related projects. For purposes of full disclosure the Agency has returned a total 2.5 MEUR to customers, of which 2.3 MEUR to the IC within the scope of the NSIP, and 0.2 MEUR to other common funded customers.

The operating surplus for 2016, before adjustment to reserves, is distributed as follows:

35. Reserves at the End of the Period.

		Note / Unit	2016	2015 - Restat.
Reserved Earnings				
310	Reserves - General purpose		4,264,552	3,927,656
311	Reserves - Special programmes		5,532,909	6,217,986
			9,797,461	**10,145,642**

- €4,264,552 of earnings remain reserved for the assets not yet fully depreciated, thus increasing the depreciation reserve in 2016 with €336,896.
- €3,037,091 of accumulated transition expenses are booked against the Special Transition Reserve thus decreasing from a total €8,570,000 at 31 December 2013 to €5,532,909 at 31 December 2016.

The Special programmes reserves of 5.5 MEUR have a balance against the authorised baseline (7.27 MEUR) of 4.2 MEUR and an additional reserved amount of MEUR 1.3.

		Note Unit	2016	2015 - Restat.
311000	Special programmes reserves - Transition projects - Approved and authorised - Prior years		4,207,633	4,892,710
311001	Special programmes reserves - Transition projects - Approved, not authorised - Prior years		1,325,276	1,325,276
			5,532,909	**6,217,986**

Transition Expenses

As per the terms of the RPPB decision on the funding eligibility and modalities of the Agency Transition Programme, the Agency has been authorized to pursue its transition plan with a mix of common funds (from MB and NSIP) and surplus funds from its Operating Fund. This is separate funding provided to the Agency (i.e. not part of the Customer Rates). The table below summarised the transition programme spent against this funding provided (excluding workforce adjustments/overheads).

	Authorised	Spent < 2016	Spent 2016	Total Spent	Remaining
Transition IC funded	23,763,344	5,644,344	2,257,639	7,901,983	15,861,361
Transition OF funded	7,244,724	2,352,014	685,077	3,037,091	4,207,633
	31,008,068	**7,996,357**	**2,942,717**	**10,939,074**	**20,068,994**

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

In addition, the largest and most critical project of the approved Transition Programme, the EBA, has faced some significant delays. These delays are effectively delaying the implementation schedule for all EBA-related activities as authorised by the IC, which has serious operational implications for the Agency and implications for the benefit and savings realisation for the Agency due to the inter-dependencies for a number of planned business and operational efficiencies with EBA. In 2016 an additional 6,754,436 EUR was authorised for the EBA project.

Overall, the Transition Programme projects have all been either completed or are in progress. It is expected that the rate of expenditure will accelerate with the implementation of EBA in 2017. The table on the next pages provide the detailed spending for the NCI Agency Transition Programme in 2014-2016 by activity cluster.

Prior to the Transition Programme being approved in December 2013, the Agency, with full transparency to its ASB, already undertook some transition activities related to the consolidation and rationalisation phases of the Agency reform process. They constituted a set of pre-Transition Programme activities geared to prepare the non-customer funded elements of the agency for the implementation of customer funding and thus ensure the business continuity and the ability of these same elements to deliver within the context of a larger integrated agency. The Transition Programme as approved by nations in December 2013 did not conflict with these activities but rather complemented it by focusing on the next phases of agency reform; rationalisation and optimization. The amounts spent on these pre-transition activities have been reported in the respective 2012-2014 Financial Statements and are fully accounted for through projects with the required time accounting bookings associated to them.

The amounts associated with transition activities before approval of the Agency transition programme, equate to €7.25 million (this number is however at gross rates, thus including overheads, contrary to the IC/BC Transition Expenses).

It is also important to note that most of this work was done on a best effort basis with long hours by existing agency staff (many of which were indirect staff) operating under hybrid funding models (admin budgets and Customer Funding). Accordingly the majority of this figure was not charged to Agency customers or legacy budgets but serves as a representation of the level of effort undertaken for these activities.

TRANSITION EXPENDITURES Period 01-Jan-14 - 31-Dec-16

Against IC approved baselines (excl. overhead)

Group	Projectcode	Project Description	External baseline Lifecycle	Net Labor	Consultancy (1)	Other Expenses	Travel	Investments	Total spent	Available
Group A - Enabling Services and Enterprise Business Applications	NSP009535	Enterprise Business Application (EBA)	2,560,738	587,181	343,097	740	24,155	-	955,173	**1,605,565**
	NSI005957	ENABLING SERVICES	1,760,620	-	-	-	-	1,524,685	1,524,685	**235,935**
	NSI005976	EBA - WORK PACKAGE 1	9,470,321	-	-	-	-	1,013,124	1,013,124	**8,457,197**
	NSI005977	EBA - WORK PACKAGE 2	379,738	-	-	-	-	379,738	379,738	**- 0**
	NSI005978	EBA - SOFTWARE PACKAGE	4,975,707	-	-	-	-	-	-	**4,975,707**
	NCA009223	Enabling Services (ES)	1,180,852	76,772	824,582	-	9,317	-	910,671	**270,181**
	NCA009224	Enterprise Business Application (EBA)	3,339,706	250,442	24,804	8,019	28,891	-	312,156	**3,027,550**
			23,667,682	**914,395**	**1,192,484**	**8,759**	**62,363**	**2,917,548**	**5,095,548**	**18,572,134**
Group B - Demand Management, Account Management and Demand Planning	NSP009797	DEMAND MANAGEMENT (DM) - Closed	160,000	87,007	14,764	14,362	-	-	116,132	**43,868**
	NSI005979	DEMAND MANAGEMENT (DM) - Inactive	762,558	-	-	-	-	746,478	746,478	**16,080**
	NCA009225	DEMAND MANAGEMENT (DM) - Closed	666,728	-	438,311	2,084	31,506	-	471,902	**194,826**
			1,589,286	**87,007**	**453,075**	**16,446**	**31,506**	**746,478**	**1,334,513**	**254,773**
Group C - Service Strategy	NSP009718	Agency Transition SStrat Cluster	536,000	272,925	26,912	888	10,423	-	311,148	**224,852**
	NSI005980	COO / SERVICE STRATEGY	2,548,862	-	-	-	-	2,509,745	2,509,745	**39,117**
	NCA009226	Service Strategy	1,828,790	163,981	1,125,433	401	26,904	-	1,316,718	**512,072**
			4,913,652	**436,905**	**1,152,345**	**1,289**	**37,328**	**2,509,745**	**4,137,611**	**776,041**
Group D - Transition / Education and Training	NSP009812	Transition Cultural Amalgamation	44,000	-	17,942	400	-	-	18,342	**25,658**
	NSI005981	TRANSITION (TIP12-000.1)	215,000	-	-	-	-	-	-	**215,000**
	NCA009229	Transition Management (TIP12-000.2)	228,648	8,845	649	16,150	-	-	25,643	**203,005**
			487,648	**8,845**	**18,591**	**16,550**	**-**	**-**	**43,985**	**443,663**
Group D - Transition / Education and Training	NSP009811	Transition Education and Training	60,000	21,697	15,650	7,067	1,938	-	46,352	**13,648**
	NSI005982	NATO IT EDUCATION AND TRAINING (TIP12-005.1)	289,800	-	-	-	-	281,065	281,065	**8,735**
			349,800	**21,697**	**15,650**	**7,067**	**1,938**	**281,065**	**327,416**	**22,384**
			31,008,068	**1,468,848**	**2,832,145**	**50,110**	**133,135**	**6,454,836**	**10,939,074**	**20,068,994**

Against NCI Agency OF Reserve for Transition

Group	Projectcode	Project Description	External baseline Lifecycle	Net Labor	Consultancy (1)	Other Expenses	Travel	Investments	Total spent	Available
Group A - Enabling Services and Enterprise Business Applications	NCA009223	Group A - Enabling Services (ES)	1,180,852	76,772	824,582	-	9,317	-	910,671	270,181
	NCA009224	Group A Enterprise Business Application (EBA)	3,339,706	250,442	24,804	8,019	28,891	-	312,156	3,027,550
			4,520,558	**327,214**	**849,386**	**8,019**	**38,208**	**-**	**1,222,827**	**3,297,731**
Group B - Demand Management, Account Management and Demand Planning										
	NCA009225	DEMAND MANAGEMENT (DM)	666,728	-	438,311	2,084	31,506	-	471,902	194,826
			666,728	**-**	**438,311**	**2,084**	**31,506**	**-**	**471,902**	**194,826**
Group C - Service Strategy										
	NCA009226	Service Strategy (SS)	1,828,790	163,981	1,125,433	401	26,904	-	1,316,718	512,072
			1,828,790	**163,981**	**1,125,433**	**401**	**26,904**	**-**	**1,316,718**	**512,072**
Group D - Transition / Education and Training										
	NCA009229	Transition Management (TIP12-000.2)	228,648	8,845	649	16,150	-	-	25,643	203,005
			228,648	**8,845**	**649**	**16,150**	**-**	**-**	**25,643**	**203,005**
			7,244,724	**500,039**	**2,413,779**	**26,654**	**96,619**	**-**	**3,037,091**	**4,207,633**

36. Retained Earnings:

		Note Unit	2016	2015 - Restat.
30	Retained earnings		16,324,630	10,134,526
5	REVENUE		795,013,103	683,556,545
7	EXPENSES		-797,189,236	-677,714,623
			14,148,497	**15,976,449**

The final operating deficit of €2,176,133 after reserve adjustment of €348,181 (see above), when added to the retained earnings, results in a total of €14,148,497.

Below table reconciles Net Assets/Equity for 2014-2016 :

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

For the year ended 31 December 2016
(all figures are in Euro)
(Prior Year restated)

	Property, Plant and Equipment (PP&E) & Intangible Assets		Reserves - Special Purpose	Reserves - Special Progr.	RESERVED EARNINGS	RETAINED EARNINGS	NET ASSETS/EQUITY	
	Acq. Value	Depreciation	Book Value				Surpl./(Def.) Yr	Yr-end Balance
31-Dec-14	**8,276,385**	**-3,906,195**	**4,370,190**	**7,817,315**	**12,187,505**	**8,092,665**		**20,280,170**
2015 - Restat.	3,097,188	-3,539,722	-442,533	-1,599,329	-2,041,862	7,883,783	5,841,921	5,841,921
31-Dec-15	**11,373,573**	**-7,445,917**	**3,927,656**	**6,217,986**	**10,145,643**	**15,976,449**		**26,122,091**
2016 as Published (Unaudited)	-1,880,101	2,216,997	336,896	-685,077	-348,182	-1,827,952	-2,176,133	-2,176,133
31-Dec-16	**9,493,472**	**-5,228,920**	**4,264,552**	**5,532,909**	**9,797,461**	**14,148,497**		**23,945,958**

Below tables show the evolution since the Net Assets/Equity since 2005 :

YEAR-END BALANCES	OF Year-end Balance	Destination: Property, Plant and Equipment (PP&E) & Intangible Assets		Reserves - Special Purpose	Reserves - Special Progr.	RESERVED EARNINGS	RETAINED EARNINGS	NET ASSETS/EQUITY	
		Acq. Value	Acc. Deprec.	Book Value					Yr-end Balance
31-Dec-05	**5,064,289**	6,352,418	-1,746,915	**4,605,503**	**0**	**4,605,503**	**458,786**		**5,064,289**
31-Dec-06	**6,780,419**	11,440,622	-3,721,092	**7,719,530**	**0**	**7,719,530**	**-939,111**		**6,780,419**
31-Dec-07	**15,448,855**	13,272,399	-6,289,891	**6,982,508**	**0**	**6,982,508**	**8,466,347**		**15,448,855**
31-Dec-08	**16,813,862**	16,337,520	-9,760,847	**6,576,673**	**0**	**6,576,673**	**10,237,189**		**16,813,862**
31-Dec-09	**11,869,058**	20,011,958	-13,481,609	**6,530,349**	**0**	**6,530,349**	**5,338,709**		**11,869,058**
31-Dec-10	**4,183,086**	23,524,061	-18,064,656	**5,459,406**	**0**	**5,459,406**	**-1,276,320**		**4,183,086**
31-Dec-11	**9,913,025**	24,356,808	-20,925,008	**3,431,799**	**0**	**3,431,799**	**6,481,225**		**9,913,025**
31-Dec-12	**15,770,863**	43,368	0	**43,368**	**0**	**43,368**	**15,727,495**		**15,770,863**
31-Dec-13	**18,350,285**	1,043,893	-227,169	**816,725**	**8,570,000**	**9,386,725**	**8,963,561**		**18,350,285**
31-Dec-14	**20,280,170**	8,276,385	-3,906,195	**4,370,190**	**7,817,315**	**12,187,505**	**8,092,665**		**20,280,170**
31-Dec-15	**26,122,091**	11,373,573	-7,445,917	**3,927,656**	**6,217,986**	**10,145,643**	**15,976,449**		**26,122,091**
31-Dec-16	**23,945,958**	9,493,472	-5,228,920	**4,264,552**	**5,532,909**	**9,797,461**	**14,148,497**		**23,945,958**

INCR./(DECR.) FOR THE YEAR	OF Surplus/(Def.) for the Year	Destination Deprec. Reserve	Carried Forward	Sub-total	Trans. Reserve	TOTAL
31-Dec-05 (*)	**5,064,289**	4,605,503	458,786	**5,064,289**	0	**5,064,289**
31-Dec-06	**1,716,130**	3,114,027	-1,397,897	**1,716,130**	0	**1,716,130**
31-Dec-07	**8,668,436**	-737,022	9,405,457	**8,668,436**	0	**8,668,436**
31-Dec-08	**1,365,007**	-405,835	1,770,842	**1,365,007**	0	**1,365,007**
31-Dec-09	**-4,944,804**	-46,324	-4,898,480	**-4,944,804**	0	**-4,944,804**
31-Dec-10	**-7,685,972**	-1,070,943	-6,615,029	**-7,685,972**	0	**-7,685,972**
31-Dec-11	**5,729,939**	-2,027,606	7,757,545	**5,729,939**	0	**5,729,939**
31-Dec-12	**5,857,838**	-3,388,431	9,246,270	**5,857,838**	0	**5,857,838**
31-Dec-13	**2,579,422**	773,357	-6,763,934	**-5,990,578**	8,570,000	**2,579,422**
31-Dec-14	**1,929,885**	3,553,465	-870,895	**2,682,570**	-752,685	**1,929,885**
31-Dec-15	**5,841,921**	-442,533	7,883,783	**7,441,250**	-1,599,329	**5,841,921**
31-Dec-16	**-2,176,133**	336,896	-1,827,952	**-1,491,056**	-685,077	**-2,176,133**
TOTAL	**23,945,958**	**4,264,552**	**14,148,497**	**18,413,049**	**5,532,909**	**23,945,958**

(*) Year-end Balance 31-Dec-05

37. Events after the financial reporting date of 31 December 2016

NCIO is required to disclose events, both favourable and unfavourable, that occurred between the reporting date of 31 December 2016 and the date when these Financial Statements were authorized for issue by the General Manager. IPSAS requires two types of events which should be identified:

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

No material events occurred which could be categorised as adjusting event under (a) or (b).

D. Notes on the NCIO Budget Execution Statements

Although NCIO is fully Customer Funded as of 2014, it still has two components that are budget funded in 2016 and for which it thus produces a Budget Execution Statement:

1. The NCIO Independent Secretariat Budget
2. The NCI Agency Budget for workforce/reorganisation adjustments as a result of the Transition Programme - BC 877 Budget

D1. Notes on the NCIO Secretariat Budget Execution Statements

NCIO Secretariat Budget Execution Statement

For the year ended 31 December 2016
(all figures are in Euro)

NCIO Secretariat

	Note	Initial Budget	Transfers	BA2	Transfers	Final Budget	Net Commitment	Expenses	Total Spent	Carry Forward	Lapsed
BUDGET											
Chapter 1		309,894		309,894	0	309,894	410	283,397	283,807	410	26,087
Chapter 2		104,195		104,195	0	104,195	12,463	82,331	94,794	12,463	9,401
Chapter 3		0		0	0	0	0	0	0	0	0
Total current year		**414,089**	**0**	**414,089**	**0**	**414,089**	**12,873**	**365,728**	**378,601**	**12,873**	**35,488**
Chapter 1		0		0	0	0	0	0	0	0	0
Chapter 2		9,643		9,643	0	9,643	0	10,439	10,439	0	(796)
Chapter 3		0		0	0	0	0	0	0	0	0
Total prior year		**9,643**	**0**	**9,643**	**0**	**9,643**	**0**	**10,439**	**10,439**	**0**	**(796)**
Chapter 1		0		0	0	0	0	0	0	0	0
Chapter 2		0		0	0	0	0	0	0	0	0
Chapter 3		0		0	0	0	0	0	0	0	0
Total 2 years ago		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
TOTAL		**423,732**	**0**	**423,732**	**0**	**423,732**	**12,873**	**376,167**	**389,040**	**12,873**	**34,692**

As per the Charter of the NCIO, approved by Council on 19 June 2012 under C-M(2012)0049, the NCIO is composed of an ASB and an executive body composed of a General Manager and his/her staff (the NCI Agency).
Per Article 26 (e) of the Charter, the chairperson of the ASB is supported by an Independent Secretariat that is only responsible to the chairperson. Per Article 50 (c) and per AC/337-D(2014)0007-AS1 dd 9 May 2014, the ASB approved core funding (distinct and separate from NATO common funding) for the NCIO Independent Secretariat.
The ASB approved the structure and an annual budget based on the Military Budget cost share model. The approved the 2016 budget amounts to €414,089, the 2015 carry forward budget authorisation is €9,643, resulting in a total of €423,723.
The 2016 budget is based on the direct cost of the A4, A3, B5 and B3 NIC and one intern, the direct travel cost of its staff, the Learning & Development costs and the representation/hospitality cost for the Chairman, totalling €283,807. The ASB Secretariat is supported logistically (HR, Finance, IT services, Legal and Acquisition), by the NCI Agency Capability Development which also executes the budget within its financial system. For this support the Independent Secretariat is charged with a support cost amounting to €77,219 for 2016.

Total spent for 2016 amount to €389,040:

- actual 2016 expenses against the 2015 and 2016 budgets amount to €376,167 which correspond to the accrued expenses reported in the Statement of Financial Performance; budget and the financial statement are thus presented on a comparable basis and in compliance with IPSAS24;
- credits that are carried forward amount to €12,873.

An amount of €35,488 represents the lapsed credits against the 2016 and (€796) against the carry forward budget 2015, resulting in a total lapse in 2016 of €34,692.

D2. *Notes on the NCI Agency Implementation and Transition Budget Execution Statements*

NCIO Implementation Budget (BC 877) Budget Execution Statement

For the year ended 31 December 2016
(all figures are in Euro)

NCIO Implementation Budget (BC 877)

	Note	Initial Budget	Transfers	BA2	Transfers (*)	Final Budget	Net Commitment	Expenses	Total Spent	Carry Forward	Lapsed
BUDGET											
Chapter 1		792,000	40,000	832,000	2,568,000	3,400,000	0	0	0	0	3,400,000
Chapter 2		40,000	(40,000)	0	0	0	0	0	0	0	0
Chapter 3		0		0	0	0	0	0	0	0	0
Total current year		**832,000**	**0**	**832,000**	**2,568,000**	**3,400,000**	**0**	**0**	**0**	**0**	**3,400,000**
Chapter 1		0		0	0	0	0	0	0	0	0
Chapter 2		0		0	0	0	0	0	0	0	0
Chapter 3		0		0	0	0	0	0	0	0	0
Total prior year		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Chapter 1		0		0	0	0	0	0	0	0	0
Chapter 2		0		0	0	0	0	0	0	0	0
Chapter 3		0		0	0	0	0	0	0	0	0
Total 2 years ago		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
TOTAL		**832,000**	**0**	**832,000**	**2,568,000**	**3,400,000**	**0**	**0**	**0**	**0**	**3,400,000**

(*) Decision Sheet BC-DS(2016)0038 (INV) - 2016 NCIA IMPLEMENTATION BUDGET (BC 877): 2016 Revised funding allocation and regularisation of the suspense account

The Committee agreed to establish a suspense account for the increase required in 2016 NCIA workforce adjustments (EUR 2,568,000) in addition to the budgetary appropriations allocated for 2016 (EUR 832,000) in budget BC 877 (NCIA Implementation budget); thereby noting that the total 2016 requirement for LOJI were MEUR 3.4 .
The committee recognised that the use of the suspense account was a temporary solution and needed to be regularised. The 2016 BC 876/877 Budget was finally approved for the total of MEUR 3.4. The funding was fully spent by year end for a total of 3.4 MEUR.

2015 RESTATED STATEMENT OF FINANCIAL POSITION AND PERFORMANCE

The restatement of the Statement of Financial Position, Financial Performance and Cash Flow Statement has been undertaken because of the new COA that has been developed in preparation of the EBA implementation per 1 January 2018. The legacy CoA's are completely different and were not (entirely) designed to support customer funding. Now, in preparation of EBA, quite a big effort was put into designing the CoA "of the future", resulting in a numbers of re-classifications of individual accounts between line items in the Statements of Financial Position and Performance. The impact on the Net Assets/Equity of these re-classifications is zero. The impact on the totals for Assets and Liabilities (Statement of Financial Position) is minimal (approx. 3%).
Additionally, the incremental revenue accrual as at 31 Dec. 2015 for NSIP Acquisition Revenue was erroneously booked against a liability account instead of the appropriate asset accrual account for an amount of 31.5 MEUR, leading to an overstatement of both assets and liabilities. The impact on Net/Assets and Liabilities is zero.
Finally, the transfer of Retained Earnings to Depreciation Reserves for 2015, was not entirely correct. A correction of 184 KEUR was done to align the figures for 2015 and 2016. This reclassification is between one element of the Operating Fund and another, and therefor does not impact any totals.

NCIO Statement of Financial Position - Restated

As of 31 December 2015

(all figures are in Euro)

	Note	NCIO - RESTATED				
		2015 - Restat.				
		Prior Year - As published	Re-classifications	IBAN Observations	Accounting Policies	Prior Year - Restated
ASSETS						
Current Assets						
Cash and Cash Equivalents		106,553,798	(665,989)	0	0	**105,887,809**
Receivables		204,021,616	(39,879,053)	0	0	**164,142,564**
Prepayments and Miscellaneous Assets		1,770,386	9,019,087	0	0	**10,789,473**
Inventory		6,151,976	0	0	0	**6,151,976**
Work in Progress		610,437	0	0	0	**610,437**
Other Current Assets		238,036	(197,962)	0	0	**40,074**
Total Current Assets		**319,346,249**	**(31,723,916)**	**0**	**0**	**287,622,333**
Non-Current Assets						
Financial Assets		0	0	0	0	**0**
Non-current Receivables		0	1,967	0	0	**1,967**
Property, Plant and Equipment		3,469,106	0	0	0	**3,469,106**
Intangible Assets		274,872	0	0	0	**274,872**
Other Non-Current Assets		0	0	0	0	**0**
Total Non-Current Assets		**3,743,978**	**1,967**	**0**	**0**	**3,745,945**
TOTAL ASSETS		**323,090,226**	**(31,721,949)**	**0**	**0**	**291,368,278**

NCIO Statement of Financial Position - Restated

As of 31 December 2015

(all figures are in Euro)

	Note	NCIO - RESTATED				
		2015 - Restat.				
		Prior Year - As published	Re-classifications	IBAN Observations	Accounting Policies	Prior Year - Restated
LIABILITIES						
Current Liabilities						
Payables		99,656,953	983,432	0	0	**100,640,385**
Deferred Revenue and Advances		175,411,085	(31,523,987)	0	0	**143,887,098**
Borrowings		0	0	0	0	**0**
Other Current Liabilities		13,048,344	(988,609)	0	0	**12,059,735**
Total Current Liabilities		**288,116,381**	**(31,529,164)**	**0**	**0**	**256,587,217**
Non-Current Liabilities						
Non-Current Payables		0	0	0	0	**0**
Non-Current Deferred Revenue and Advances		0	(192,784)	0	0	**(192,784)**
Non-Current Borrowings		0	0	0	0	**0**
Provisions		8,757,836	0	0	0	**8,757,836**
Other Non-Current Liabilities		93,919	0	0	0	**93,919**
Total Non-Current Liabilities		**8,851,754**	**(192,784)**	**0**	**0**	**8,658,970**
TOTAL LIABILITIES		**296,968,136**	**(31,721,949)**	**0**	**0**	**265,246,187**
NET ASSETS/EQUITY						
Retained Earnings		16,160,126	(183,678)	0	0	**15,976,449**
Reserved Earnings		9,961,965	183,678	0	0	**10,145,642**
TOTAL NET ASSETS/EQUITY		**26,122,091**	**0**	**0**	**0**	**26,122,091**
TOTAL LIABILITIES AND NET ASSETS/EQUITY		**323,090,226**	**(31,721,949)**	**0**	**0**	**291,368,278**

NCIO Statement of Financial Performance - Restated

For the year ended 31 December 2015
(all figures are in Euro)

	Note	NCIO - RESTATED				
		2015 - Restat.				
		Prior Year - As published	Re-classifications	IBAN Observations	Accounting Policies	Prior Year - Restated
REVENUE						
Project and Support Services Revenue		341,837,733	(131,392,326)	0	0	**210,445,406**
External Services Revenue		0	129,461,315	0	0	**129,461,315**
Acquisition Revenue		330,604,967	0	0	0	**330,604,967**
Other Operating Revenue		3,683,196	6,671,901	0	0	**10,355,098**
Financial Revenue		2,653,256	0	0	0	**2,653,256**
Other Revenue		2,095,873	(2,059,369)	0	0	**36,504**
TOTAL REVENUE		**680,875,025**	**2,681,521**	**0**	**0**	**683,556,545**
EXPENSES						
Cost of Acquisition and external CIS Revenue		(330,967,810)	0	0	0	**(330,967,810)**
Personnel Costs		(193,148,144)	3,473,036	0	0	**(189,675,109)**
Contractual Supplies and Services		(141,330,270)	(5,015,292)	0	0	**(146,345,562)**
Depreciation and Amortisation		(3,834,244)	(454,632)	0	0	**(4,288,876)**
Provisions		(2,773,738)	(700,000)	0	0	**(3,473,738)**
Financial Expenses		(2,959,060)	15,368	0	0	**(2,943,692)**
Other Expenses		(19,837)	0	0	0	**(19,837)**
TOTAL EXPENSES		**(675,033,103)**	**(2,681,521)**	**0**	**0**	**(677,714,623)**
SURPLUS/(DEFICIT)						
Retainable Earnings		5,841,922	0	0	0	**5,841,922**
Refundable Earnings		0	0	0	0	**0**
SURPLUS/(DEFICIT) FOR THE PERIOD		**5,841,922**	**0**	**0**	**0**	**5,841,922**
Revaluation of Assets		0	0	0	0	**0**

NCIO Statement of Cash Flows - Restated

For the year ended 31 December 2015
(all figures are in Euro)

	Note	NCIO - RESTATED 2015 - Restat. Prior Year - As published	Re-classifications	IBAN Observations	Accounting Policies	Prior Year - Restated
CASH FLOWS FROM OPERATING ACTIVITIES						
Surplus/(Deficit) for the Period		5,841,922	0	0	0	**5,841,922**
Depreciation and Amortisation		3,554,565	0	0	0	**3,554,565**
Revaluation of Assets		0	0	0	0	**0**
Decr./(Incr.) Receivables		(68,882,760)	39,879,053	0	0	**(29,003,708)**
Decr./(Incr.) Prepayments and Miscellaneous Assets		(1,277,871)	(9,019,087)	0	0	**(10,296,958)**
Decr./(Incr.) Inventory		(1,981,521)	0	0	0	**(1,981,521)**
Decr./(Incr.) Work in Progress		1,191,107	0	0	0	**1,191,107**
Decr./(Incr.) Other Current Assets		(535,961)	197,962	0	0	**(337,999)**
Incr./(Decr.) Payables		7,909,481	983,432	0	0	**8,892,913**
Incr./(Decr.) Deferred Revenue and Advances		5,854,211	(31,523,987)	0	0	**(25,669,776)**
Incr./(Decr.) Borrowings		0	0	0	0	**0**
Incr./(Decr.) Other Current Liabilities		2,465,755	(988,609)	0	0	**1,477,145**
NET CASH FLOWS FROM OPERATING ACTIVITIES		**(45,861,072)**	**(471,237)**	**0**	**0**	**(46,332,309)**
CASH FLOWS FROM INVESTING ACTIVITIES						
Decr./(Incr.) Financial Assets		0	(1,967)	0	0	**(1,967)**
Decr./(Incr.) Non-current Receivables		0	0	0	0	**0**
Decr./(incr.) PP&E and Intangible Assets		(2,928,354)	0	0	0	**(2,928,354)**
Decr./(Incr.) Other Non-Current Assets		14,500	0	0	0	**14,500**
NET CASH FLOWS FROM INVESTING ACTIVITIES		**(2,913,854)**	**(1,967)**	**0**	**0**	**(2,915,821)**
CASH FLOWS FROM FINANCING ACTIVITIES						
Incr./(Decr.) Non-Current Payables		0	0	0	0	**0**
Incr./(Decr.) Non-Current Deferred Revenue and Advances		0	(192,784)	0	0	**(192,784)**
Incr./(Decr.) Non-Current Borrowings		0	0	0	0	**0**
Incr./(Decr.) Provisions		(13,861,477)	0	0	0	**(13,861,477)**
Incr./(Decr.) Other Non-Current Liabilities		(2,204,484)	0	0	0	**(2,204,484)**
NET CASH FLOWS FROM FINANCING ACTIVITIES		**(16,065,961)**	**(192,784)**	**0**	**0**	**(16,258,746)**
NET INCR./(DECR.) CASH AND CASH EQUIVALENTS		**(64,840,887)**	**(665,989)**	**0**	**0**	**(65,506,876)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**171,394,685**	**0**	**0**	**0**	**171,394,685**
Incr./(Decr.) Cash and Cash Equivalents		(64,840,887)	(665,989)	0	0	**(65,506,876)**
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**106,553,798**	**(665,989)**	**0**	**0**	**105,887,809**

NAF IMPACT PRIOR 1 JAN 2013 EXPENSED PPE AND INVENTORY

As per the NATO Accounting Framework, NCIO has chosen per the adapted IPSAS 12 “Inventories”, 17 “Plant, Property and Equipment” and 31 “Intangible Assets”, to consider all inventories, PPE and Intangible Assets acquired prior to 1 January 2013, as fully expensed.

For these PPE and inventories (acquired prior 01-Jan-2013) as per the NATO Accounting framework NCIA will need to provide a disclosure to the notes of the financial statements.

For PPE, the disclosure will need to include the types of PPE held, locations where PPE is held and the approximate number of items held per asset category.

For Inventories similar disclosure is required. Within the NCIO Statement of financial position 2016, inventory balance do not pertain any inventory items that were acquired prior 01 January 2013.

NCIO Statement of Property, Plant and Equipment - Expensed Items

As of 31 December 2016

Quantity / number of items

Location	ADP Equipment	Comms Equipment	Installed Equipment	Machinery	Mission Equipment	Office Furniture	Passenger Vehicles	Grand Total
	NCIO							
Poland	73	157	30	17	42			319
Netherlands	505	1,092	143	20	508	1	3	2,272
Kosovo	161	99	19	1	15			295
Portugal	9	136	11		19			175
Belgium	299	240	5	5	34		5	588
Italy	225	842	87	22	250			1,426
Germany	143	142	27	17	50	1		380
Afganistan	233	188	4	7	62			494
Turkey	58	131	3		20			212
Norway	368	61	10	1	19			459
Spain	16	3			3			22
Croatia	4	7	6		2			19
United Kingdom	25	175	11		30			241
United States	141	16		1	5			163
Infrastructure, plant and equipment	**2,260**	**3,289**	**356**	**91**	**1,059**	**2**	**8**	**7,065**

NATO UNCLASSIFIED

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NCIA/FC/2017/00551
31 March 2017

To: Distribution

Subject: **Statement of Internal Control - NATO Communications and Information Organisation (NCIO) Financial Statements for the period 01 January to 31 December 2016**

1. This Statement of Internal Control applies to the NCIO Financial Statements for the year ended 31 December 2016. Internal control is driven by the requirement of the NATO Financial Regulations, the NCIO Financial Rules and Procedures, the NATO Accounting Framework, and good business practices. Internal control is to ensure that NATO assets are utilized for the purposes intended and that the transactions relating to their usage reflect the highest standards of integrity to justify continued confidence of the NATO Member Nations.

2. The NCI Agency and Independent Secretariat's[1] system of internal control[2] is based on an ongoing process designed to identify the principle risks to the achievement of NCI Organisation goals and objectives, to evaluate the nature and extent of those risks and to manage them efficiently and effectively:

   a) The General Manager acknowledges responsibility to maintain a sound system of internal control that supports the NCI Agency and ensures it delivers on its Chartered mandate;

   b) The Financial Controller acknowledges responsibility for the correct use and accounting of funds made available to the NCI Agency and for maintaining a sound system of internal financial controls;

3. The main aspects of the NCIO's system of internal control for 2016 are as follows:

   a) All funds received are recorded, accounted and managed through a set of information systems, which include: enterprise-wide project management; a time accounting system; and two legacy financial systems based on the accounting software from Oracle; the Centralized NATO Automated Financial System (CNAFS); and the Core Financial System (CFS), formerly PeopleSoft;

   b) The Independent Secretariat has its budget approved and funded by ASB Member Nations;

   c) The NCI Agency annually updates its Customer Rates. These are endorsed by the ASB, and approved by the NATO Budget Committee on behalf of all Customers;

   d) The Customer Funded NCI Agency prepares an Annual Financial Plan (3 year planning horizon) covering revenue and expenses which is signed-off by the Executive Management Board. The Financial Plan is approved by the ASB;

   e) All agreements with Customers are in writing and are usually concluded on a Firm Fixed Price and/or Cost Reimbursable basis;

   f) Through its Service Life Management Board (SLMB), the Agency oversees the operational environment with a focus on early identification and quantification of risks which affect services and projects to allow for timely management oversight and/or assistance to mitigate;

   g) The Agency has Enterprise-wide Risk Management and risk registers for each Directorate and enabling Office (e.g. HR);

   h) The Agency has an Internal Audit Service with an approved risk-based annual audit plan which reviews, amongst other areas, internal control and risk mitigation. Internal Audit reports to the General Manager and provides regular updates to the ASB-Finance Committee;

   i) The Agency, under Internal Audit's lead, has prepared a documented Internal Control Framework which has been reviewed by the ASB-Finance Committee.

4. During its last audit, the International Board of Audit for NATO did not find any material instances of failure of the internal control system. Weaknesses on compliance were identified regarding accounting for Plant, Property and Equipment assets acquired or controlled. These are being gradually addressed through further policy development (in co-ordination with NATO's Head of Financial Reporting Policy), focused Agency efforts, and through implementation of Agency's Enterprise Business Applications programme in 2018[3].

[1] The Independent Secretariat supports the Agency Supervisory Board and is part of the NCIO

[2] Director of Acquisition confirms the content for procurement and contracting whilst the Agency Supervisory Board Chairman does so for the Independent Secretariat

[3] Initial 'Go-Live' is January 2018

5. In 2016, two instances of fraud have detected and dealt with by the Agency. In both cases the amounts were immaterial but the Agency has pursued proactive and robust investigations culminating in disciplinary action. The individuals involved have left the Agency with National Authorities notified as necessary, and action taken to recover the estimated losses and these have or are expected to be successful. The lessons learned to prevent reoccurrences are being urgently taken forward.

Koen Gijsbers	Anne-Marie Pick
General Manager	Financial Controller

Distribution:

External

Chairman Board of Auditors for NATO
Chairman NCIO Agency Supervisory Board

Internal

Members Executive Management Board

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NCIA/FC/2017/00550
31 March 2017

Subject: **Financial Controller's Certification - NATO Communications and Information Organisation (NCIO) Financial Statements for the period 01 January to 31 December 2016**

1. The 2016 Financial Statements for the NCIO are submitted to the International Board of Auditors for NATO (IBAN) and the Agency Supervisory Board (ASB) as required by the NATO Financial Regulations and the NCIO Charter.

2. The Financial Statements were prepared in accordance with the following Reference documents:
   a. C-M(2015)0025), NATO Financial Regulations, approved by Council, dated 4 May 2015;
   b. AC/337-D(2016)0014, NCIO Financial Rules and Procedures, approved by the ASB, dated 29 March 2016;
   c. C-M(2016)0023, revised NATO Accounting Framework (IPSAS adaptation), approved by Council, dated 29 April 2016;
   d. PO(2015)0394, NATO Communications & Information Agency Customer Funding Regulatory Framework, approved by Council, dated 16 July 2015;
   e. C-M(2012)0049, Charter of the NATO Communications and Information Organisation, approved by Council, dated 14 June 2012.

3. I certify that the NCIO 2016 Financial Statements:
   a. present fairly the NCIO's financial position, financial performance, cash flows and changes in net assets/equity during the period;
   b. can be publicly disclosed.

Anne-Marie M Pick
Financial Controller

ACRONYMS

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

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