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RAPPORT DU COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES DE L'OTAN SUR LA VÉRIFICATION DES ÉTATS FINANCIERS 2016 DE L'ORGANISATION OTAN D'INFORMATION ET DE COMMUNICATION (NCIO)

NOTE SUR LA SUITE DONNÉE

Le 19 décembre 2017, au terme d'une procédure d'accord tacite, le Conseil a pris note du rapport de l'IBAN sur les états financiers 2016 de la NCIO, joint au C-M(2017)0066, et il a donné son accord pour que le rapport du RPPB, le rapport de l'IBAN et les états financiers 2016 correspondants soient communiqués au public.

(signé) Jens Stoltenberg
Secrétaire général

NB : La présente note fait partie du C-M(2017)0066 et doit être placée en tête de ce document.

NATO SANS CLASSIFICATION

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RAPPORT DU COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES DE L'OTAN SUR LA VÉRIFICATION DES ÉTATS FINANCIERS 2016 DE L'ORGANISATION OTAN D'INFORMATION ET DE COMMUNICATION (NCIO)

Note du secrétaire général

1. On trouvera ci-joint le rapport du Collège international des commissaires aux comptes de l'OTAN (IBAN) sur la vérification des états financiers 2016 de l'Organisation OTAN d'information et de communication (NCIO).

2. L'IBAN a émis une opinion avec réserve sur les états financiers de la NCIO ainsi que sur la conformité pour l'exercice 2016.

3. Le rapport de l'IBAN a été examiné par le Bureau de la planification et de la politique générale des ressources (RPPB) (voir annexe). Je ne pense pas que cette question nécessite un débat au Conseil. Par conséquent, sauf avis contraire me parvenant d'ici au **mardi 19 décembre 2017 à 17h30**, je considérerai que le Conseil aura pris note du rapport de l'IBAN sur la vérification des états financiers 2016 de la NCIO et qu'il aura donné son accord pour que le rapport du RPPB, le rapport de l'IBAN et les états financiers 2016 de la NCIO soient communiqués au public.

(signé) Jens Stoltenberg

Annexe 1 :	Rapport du RPPB
Pièce jointe 1 :	Rapport de l'IBAN
Pièce jointe 2 :	États financiers de la NCIO

1 annexe
2 pièces jointes

Original : anglais

RAPPORT DU COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES DE L'OTAN SUR LA VÉRIFICATION DES ÉTATS FINANCIERS 2016 DE L'ORGANISATION OTAN D'INFORMATION ET DE COMMUNICATION (NCIO)

Rapport du Bureau de la planification et de la politique générale des ressources (RPPB)

Références :

A.	IBA-AR(2017)15	-	Rapport de l'IBAN
B.	C-M(2015)0025	-	Règlement financier de l'OTAN
C.	C-M(2016)0023	-	Cadre comptable OTAN

INTRODUCTION

1. Le présent rapport contient les observations et les recommandations du RPPB concernant le rapport du Collège international des commissaires aux comptes de l'OTAN (IBAN) sur la vérification des états financiers 2016 de la NCIO (référence A).

2. Le RPPB est bien conscient que les problèmes mis en lumière dans le rapport de l'IBAN ont déjà été traités par les organes directeurs compétents de la NCIO (Comité financier et Comité de surveillance de l'Agence). Néanmoins, en vertu de l'article 15 du Règlement financier de l'OTAN (NFR) (référence B), le RPPB est tenu de faire part au Conseil de ses observations et de ses recommandations concernant ce rapport.

EXAMEN DE LA QUESTION

3. L'IBAN a émis une opinion avec réserve sur les états financiers ainsi que sur la conformité pour l'exercice 2016. Il a formulé treize observations. L'une de ces observations a eu une incidence sur l'opinion émise par l'IBAN concernant les états financiers ainsi que la conformité. Trois observations ont eu une incidence sur l'opinion émise par l'IBAN concernant les états financiers. Les neuf autres observations n'ont pas eu d'incidence sur les opinions émises.

4. <u>Observation 1.</u> L'IBAN a émis une opinion avec réserve sur les états financiers ainsi que sur la conformité en raison de l'absence de système intégré qui permette une gestion et un compte rendu financier efficaces et efficients des immobilisations corporelles et des immobilisations incorporelles. C'était aussi pour cette raison qu'il avait formulé une opinion avec réserve en 2015, et l'Agence OTAN d'information et de communication (NCIA) continue de mettre en œuvre la solution intégrée qu'elle a prévue, à savoir l'application métier d'entreprise (EBA). Les pays qui siègent au Comité financier de l'Agence ont souligné que l'outil EBA ne suffira pas à lui seul pour traiter les problèmes mis en avant au cours de l'audit, et l'Agence a veillé à ce que les hauts dirigeants jouent un rôle extrêmement actif dans la transition vers le nouveau système. L'Agence a déjà pris d'importantes mesures pour traiter les questions de gestion des actifs, et le RPPB compte que davantage de progrès notables seront réalisés au cours des douze mois à venir, à mesure que la solution intégrée EBA sera implémentée.

5. Observation 2. La NCIA a bien avancé sur la voie de la mise en œuvre des exigences du Règlement financier de l'OTAN (référence B) et du cadre comptable OTAN (référence C) s'agissant du compte rendu et des contrôles portant sur les stocks. Il reste toutefois du travail à accomplir pour faire en sorte qu'un traitement comptable correct soit appliqué, de manière appropriée et cohérente.

6. Observation 3. L'IBAN a de nouveau souligné qu'il n'y avait pas de processus cohérent et solide de calcul des produits générés par les projets de développement capacitaire et il a constaté que le degré de fiabilité et la documentation concernant ce processus n'étaient toujours pas suffisants pour fournir l'assurance nécessaire. C'est là une difficulté majeure, qui sera réglée lorsque la solution intégrée qui est prévue dans l'EBA pour la comptabilité projets aura été pleinement implémentée. Pour l'heure, des mesures sont en train d'être mises en place afin d'améliorer la discipline et la formation de la communauté de gestion des projets.

7. Observation 4. L'IBAN a souligné l'absence d'assurance concernant la fiabilité des estimations pour pertes futures s'agissant du projet de nouveau siège de l'OTAN. L'Agence a pris note des constatations relatives à l'incertitude et au manque de respect des processus en place, et elle a confirmé qu'elle avait pris des mesures pour pallier les difficultés signalées dans le rapport d'audit. Le RPPB note que le Comité financier de la NCIO a insisté pour que la visibilité et le contrôle des projets soient renforcés et pour que, le cas échéant, les difficultés financières fassent l'objet d'un examen avec ce comité à un stade précoce.

8. Observation 5. L'IBAN a mis en avant les progrès en cours sur la voie de la mise en œuvre du NFR, en particulier des articles relatifs au contrôle interne, à la gestion des risques et à l'audit interne. Le RPPB note qu'il s'agit d'un thème commun récurrent dans les audits des états financiers 2016 de nombreux organismes OTAN, et que l'Agence poursuivra ses efforts pour faire en sorte que le NFR soit pleinement respecté. Il note avec satisfaction qu'en novembre 2016, l'ASB a adopté pour la NCIO le cadre de contrôle interne du COSO[1].

9. Les neuf autres observations n'ont pas eu d'incidence sur les opinions émises. On trouvera dans le rapport de l'IBAN (référence A) davantage de détails sur chacune de ces observations et sur les mesures que l'Agence met en place pour y donner suite. Le RPPB prend note en particulier de l'observation qui porte sur la coordination insuffisante entre la NCIA et le Comité des investissements et qui s'inscrit dans le contexte plus large de la revue par le RPPB des arrangements de gouvernance en vue de l'amélioration de la mise à disposition de capacités financées en commun. Le RPPB salue les progrès réalisés s'agissant de donner une suite aux questions ayant fait l'objet d'observations lors des audits précédents et il note que, sur les seize questions soulevées, onze ont été réglées ou rendues caduques, et que sur les sept questions restant à régler, quatre sont considérées comme partiellement réglées.

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[1] Le COSO (Committee of Sponsoring Organisations of the Treadway Commission) est largement reconnu comme l'instance qui fixe les normes internationales les plus élevées pour le contrôle interne.

CONCLUSIONS

10. L'IBAN a émis une opinion avec réserve sur les états financiers 2016 de la NCIO, comme il l'a fait chaque année depuis 2013. Le RPPB est conscient que l'Agence s'efforce de résoudre les problèmes détectés par l'IBAN et il reconnaît que les organes directeurs de la NCIO sont les mieux placés pour y apporter une réponse globale. Il salue l'action menée par les hauts dirigeants de l'Agence (et pas uniquement le contrôleur des finances) pour donner suite aux questions soulevées dans le cadre du dernier audit effectué par l'IBAN, et il compte que des progrès seront réalisés dans plusieurs domaines en vue du règlement des questions d'audit récurrentes.

RECOMMANDATIONS

11. Le RPPB recommande au Conseil :
   (a) de prendre note du rapport de l'IBAN diffusé sous la cote IBA-AR(2017)15 ;
   (b) de prendre note des conclusions figurant au paragraphe 10 du présent rapport ;
   (c) d'approuver la communication au public du présent rapport, du rapport de l'IBAN (référence A) et des états financiers 2016 de la NCIO qui y sont joints.

Note succincte
du Collège international des commissaires aux comptes de l'OTAN
à l'intention du Conseil sur la vérification des états financiers de
l'Organisation OTAN d'information et de communication (NCIO)
pour l'exercice clos le 31 décembre 2016

L'Organisation OTAN d'information et de communication (NCIO) est composée de l'Agence OTAN d'information et de communication (NCIA) et de sa structure de gouvernance. La NCIA a pour mission de fournir à l'OTAN des services SIC (systèmes d'information et de communication) sécurisés, cohérents, d'un bon rapport coût-efficacité et interopérables, à l'appui de ses capacités C3 (consultation, commandement et contrôle) et de ses capacités ISR (renseignement, surveillance et reconnaissance). Cela englobe le soutien informatique du siège, de la structure de commandement et des agences de l'Organisation. En 2016, les produits de la NCIO se sont chiffrés à 795 millions d'euros (MEUR), et ses charges à 797 MEUR, ce qui a généré un déficit net de 2 MEUR.

Le Collège international des commissaires aux comptes de l'OTAN a procédé à la vérification des états financiers 2016 de la NCIO et a émis une opinion avec réserve à leur sujet ainsi que sur la conformité.

À l'issue de l'audit, le Collège a formulé treize observations. Une observation a une incidence sur l'opinion émise par le Collège concernant les états financiers ainsi que la conformité.

1. Absence de système intégré qui permette une gestion et un compte rendu financier efficaces et efficients des immobilisations corporelles et des immobilisations incorporelles.

Trois observations ont une incidence sur l'opinion émise par le Collège concernant les états financiers.

2. Sous-évaluation à hauteur de 35 MEUR des stocks.

3. Absence de processus cohérent et fiable de calcul des produits générés par les projets de développement capacitaire sur la période considérée.

4. Absence d'assurance concernant la fiabilité des estimations pour pertes futures s'agissant du programme relatif au nouveau siège de l'OTAN.

Les neuf autres observations n'ont pas d'incidence sur l'opinion émise.

5. Réalisation de progrès sur la voie de la conformité avec le Règlement financier de l'OTAN, et en particulier avec les articles relatifs au contrôle interne, à la gestion des risques et à l'audit interne, et avec les règles et procédures financières applicables à la NCIO.

6. Réclamation du contractant suite aux modifications et aux retards dans la définition des prescriptions contractuelles et à la coordination insuffisante entre la NCIA et le Comité des investissements.

7. Faiblesses dans le processus de planification de la sélection des fournisseurs.

8. Recours insuffisant à la mise en concurrence pour les contrats de services de soutien en 2016.

9. Faiblesses dans la gestion du processus de clôture de projet.

10. Faiblesses dans le système de comptabilité horaire (TAS).

11. Complexité de l'enregistrement des projets relatifs à la mission Resolute Support dans le modèle des coûts d'achèvement.

12. Caractère incomplet des informations données dans les notes relatives au programme de transition.

13. Réserve pour amortissement et fonds de fonctionnement.

Ces constatations sont récapitulées dans la lettre d'observations et de recommandations (annexe 3).

Pour les commentaires officiels de la NCIO, on se reportera à l'appendice à l'annexe 3. Ces commentaires officiels détaillés donnent des précisions au lecteur. Le Collège a tenu compte de certains de ces commentaires dans ses observations et recommandations.

22 août 2017

COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES DE L’OTAN

OPINION SUR LES ÉTATS FINANCIERS DE L'ORGANISATION OTAN D'INFORMATION ET DE COMMUNICATION (NCIO) POUR L’EXERCICE CLOS LE 31 DÉCEMBRE 2016

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

Rapport sur les états financiers

Le Collège international des commissaires aux comptes de l'OTAN a procédé à la vérification des états financiers de l'Organisation OTAN d'information et de communication (NCIO), composés de l'état de la situation financière au 31 décembre 2016, de l'état de la performance financière, de l'état des variations de l'actif net/situation nette et du tableau des flux de trésorerie pour l'exercice clos à cette date, ainsi que de notes explicatives, y compris une déclaration sur les méthodes comptables. Le Collège a également vérifié l'état de l'exécution du budget pour l'exercice clos le 31 décembre 2016.

Responsabilité de la direction

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

Responsabilité du Collège

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

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

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

Justification de l'opinion avec réserve émise sur les états financiers

Le Collège n'a pas été en mesure d'obtenir suffisamment d'éléments probants concernant les produits enregistrés dans l'état de la performance financière pour les projets de développement capacitaire. Cela a un impact sur le niveau des estimations pour pertes futures et, au bout du compte, sur l'excédent ou le déficit net pour la période. Cela tient à des lacunes dans l'estimation des dépenses à l'achèvement pour les projets évoqués, lacunes qui ont des incidences directes sur le calcul des produits constatés pendant l'exercice en application de la méthode du « taux d'exécution ».

En outre, le Collège n'a pas été en mesure d'obtenir suffisamment d'éléments probants concernant les estimations pour pertes futures notifiées dans l'état de la performance financière pour le projet d'infrastructure réseau active (ANWI) relatif au nouveau siège de l'OTAN. Cela a aussi un impact sur le niveau de l'excédent ou du déficit net pour la période. Cela tient aux incertitudes liées au fait que les estimations pour pertes futures relatives à ce projet ont été effectuées en dehors du processus que la NCIA suit normalement pour approuver de telles pertes, et au fait que les événements postérieurs ont été très différents par rapport aux estimations.

De surcroît, le Collège n'a pas été en mesure d'obtenir suffisamment d'éléments probants concernant l'exhaustivité des immobilisations corporelles et des immobilisations incorporelles présentées dans l'état de la situation financière. Cela tient à la multiplicité des systèmes comptables et des outils logistiques de la NCIO, qui ne permet toujours pas pleinement d'établir un compte rendu financier correct en ce qui concerne les immobilisations corporelles et les immobilisations incorporelles.

Par ailleurs, le Collège a constaté que les stocks enregistrés en tant qu'éléments d'actif à court terme dans l'état de la situation financière étaient sous-évalués de 35 MEUR. Cela tient au fait que la NCIA a continué, à tort, de déduire des stocks le montant notifié en 2013 pour les stocks achetés avant le 1er janvier 2013. À la fin de l'exercice 2016, un tel ajustement n'était plus nécessaire car la majeure partie des articles des stocks antérieurs à 2013 avaient été utilisés. Les produits non acquis et les avances, qui font l'objet d'un compte de passif dans l'état de la situation financière, sont aussi sous-évalués de 35 MEUR.

Pour terminer, les états financiers ne contiennent pas de note récapitulative présentant les stocks et les immobilisations incorporelles qui étaient détenus au 31 décembre 2016 mais qui ont été achetés avant le 1er janvier 2013, contrairement à ce que prévoit le cadre comptable OTAN.

Opinion avec réserve sur les états financiers

L'opinion du Collège est que, à l'exception des effets avérés et possibles des questions mentionnées au paragraphe précédent, les états financiers donnent, à tous égards significatifs, une image fidèle, conforme au cadre comptable OTAN, de la situation financière de la NCIO au 31 décembre 2016, ainsi que de sa performance financière et de ses flux de trésorerie pour l'exercice clos à cette date.

Rapport sur la conformité

Responsabilité de la direction

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

Responsabilité du Collège

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

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

Justification de l'opinion avec réserve émise sur la conformité

Le Collège n'a pas obtenu suffisamment d'éléments probants pour pouvoir établir avec certitude que des registres comptables complets répertoriant tous les biens acquis par la NCIO avaient été établis et tenus comme le requiert l'article 12 du Règlement financier de l'OTAN. Cela tient au fait que la multiplicité des systèmes comptables et des outils logistiques utilisés par la NCIO ne permet toujours pas de mettre en place des processus de gestion efficaces et efficients et d'établir, pour ce qui concerne les actifs acquis, un compte rendu financier conforme au cadre réglementaire applicable à la NCIO.

Opinion avec réserve sur la conformité

L'opinion du Collège est que, à l'exception des effets possibles des questions mentionnées au paragraphe précédent, les opérations financières et les informations présentées dans les états financiers sont, à tous égards significatifs, conformes au Règlement financier de l'OTAN et au Règlement du personnel civil de l'OTAN.

Bruxelles, le 22 août 2017

Hervé-Adrien Metzger
Président

22 août 2017

COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES DE L'OTAN

LETTRE D'OBSERVATIONS ET DE RECOMMANDATIONS CONCERNANT L'ORGANISATION OTAN D'INFORMATION ET DE COMMUNICATION (NCIO) POUR L'EXERCICE CLOS LE 31 DÉCEMBRE 2016

Introduction

Le Collège international des commissaires aux comptes de l'OTAN a procédé à la vérification des états financiers de l'Organisation OTAN d'information et de communication (NCIO) pour l'exercice clos le 31 décembre 2016, et il a émis une opinion avec réserve à leur sujet ainsi qu'au sujet de la conformité. Les éléments ayant motivé la réserve ainsi que les autres observations et recommandations sont récapitulés dans la section intitulée « Observations et recommandations », ci-dessous.

Le Collège a constaté des améliorations dans certains domaines de la gestion des actifs. Ces améliorations sont présentées en détail dans les observations 1 et 2. Toutefois, les insuffisances qui subsistent continuent d'avoir une incidence sur l'opinion émise au sujet des états financiers et de la conformité. La NCIA compte que l'implémentation du système d'application métier d'entreprise (EBA), le 1er janvier 2018, permettra d'améliorer la gestion des actifs et le compte rendu s'y rapportant.

Observations et recommandations

À l'issue de l'audit, le Collège a formulé treize observations. L'une de ces observations a une incidence sur l'opinion émise par le Collège concernant les états financiers ainsi que la conformité.

1. Absence de système intégré qui permette une gestion et un compte rendu financier efficaces et efficients des immobilisations corporelles et des immobilisations incorporelles.

Trois observations ont une incidence sur l'opinion émise par le Collège concernant les états financiers.

2. Sous-évaluation à hauteur de 35 MEUR des stocks.

3. Absence de processus cohérent et fiable de calcul des produits générés par les projets de développement capacitaire sur la période considérée.

4. Absence d'assurance concernant la fiabilité des estimations pour pertes futures s'agissant du programme relatif au nouveau siège de l'OTAN.

Les neuf autres observations n'ont pas d'incidence sur l'opinion émise.

5. Réalisation de progrès sur la voie de la conformité avec le Règlement financier de l'OTAN, et en particulier avec les articles relatifs au contrôle interne, à la gestion des risques et à l'audit interne, et avec les règles et procédures financières applicables à la NCIO.

6. Réclamation du contractant suite aux modifications et aux retards dans la définition des prescriptions contractuelles et à la coordination insuffisante entre la NCIA et le Comité des investissements.

7. Faiblesses dans le processus de planification de la sélection des fournisseurs.

8. Recours insuffisant à la mise en concurrence pour les contrats de services de soutien en 2016.

9. Faiblesses dans la gestion du processus de clôture de projet.

10. Faiblesses dans le système de comptabilité horaire (TAS).

11. Complexité de l'enregistrement des projets relatifs à la mission Resolute Support dans le modèle des coûts d'achèvement.

12. Caractère incomplet des informations données dans les notes relatives au programme de transition.

13. Réserve pour amortissement et fonds de fonctionnement.

Le Collège a également fait le point sur la suite donnée aux questions ayant fait l’objet d’observations lors d’audits précédents, et il a constaté que quatre questions avaient été réglées, que cinq questions avaient été partiellement réglées, que six questions avaient été rendues caduques par des observations formulées à l’issue de la vérification des états financiers de 2016 et que trois questions attendaient encore une suite.

Par ailleurs, le Collège a adressé séparément à la direction de la NCIA une lettre (IBA-AML(2017)07) dans laquelle il présente neuf observations, dont trois observations portant sur les plans stratégiques en matière d'informatique, la structure des effectifs et les contrôles informatiques généraux.

La présente lettre d'observations et de recommandations a été soumise à la NCIO, dont les commentaires officiels ont été intégrés dans la lettre avec, le cas échéant, la position du Collège à leur sujet (appendice à l'annexe 3).

OBSERVATIONS ET RECOMMANDATIONS

1. ABSENCE DE SYSTÈME INTÉGRÉ QUI PERMETTE UNE GESTION ET UN COMPTE RENDU FINANCIER EFFICACES ET EFFICIENTS DES IMMOBILISATIONS CORPORELLES ET DES IMMOBILISATIONS INCORPORELLES

Contexte

1.1 Selon l'article 12 du Règlement financier de l'OTAN (NFR), les organismes OTAN doivent établir et tenir des registres comptables complets répertoriant tous les actifs et passifs.

1.2 Le cadre comptable OTAN prévoit que les organismes OTAN doivent inscrire à l'actif, dans l'état de la performance financière, toutes les immobilisations corporelles et les immobilisations incorporelles dont ils exercent le contrôle et qui ont été acquises après le 1er janvier 2013 si la valeur de ces immobilisations excède les seuils spécifiques fixés pour l'inscription à l'actif. La nature et le nombre des articles achetés avant le 1er janvier 2013 doivent être présentés dans les notes jointes aux états financiers.

1.3 Le cadre comptable OTAN prévoit aussi que lorsque la NCIO joue le rôle de fournisseur de services à des commandements OTAN pour des moyens relatifs aux systèmes d'information et de communication (SIC) et aux systèmes d'information automatisés (AIS), c'est elle qui en exerce le contrôle. Il stipule aussi que les moyens SIC et AIS en cours de construction ne doivent pas être inscrits à l'actif avant le 1er janvier 2018.

Observations

1.4 Le Collège a constaté, comme en 2015, que les multiples systèmes comptables et systèmes logistiques actuellement utilisés par la NCIO ne lui permettent pas d'assurer un contrôle efficace et efficient de ses immobilisations corporelles et de ses immobilisations incorporelles. Les systèmes comptables et les divers registres d'actifs et outils logistiques en place ne permettent toujours pas à la NCIO de maîtriser le risque de non-enregistrement d'opérations portant sur des actifs ni le risque d'erreur dans l'enregistrement de telles opérations.

1.5 Le Collège a constaté en particulier que la NCIA n'avait pas fourni l'assurance voulue quant à l'exhaustivité des registres (conformité) et du compte rendu financier concernant les actifs énumérés ci-après :

- les immobilisations corporelles relatives aux SIC et aux AIS qui ont été acquises avant et après le 1er janvier 2013, qui ne sont pas en cours de construction et qui ont été achetées pour des tiers au moyen du logiciel financier central (CFS) ; ces actifs sont considérés comme étant contrôlés par la NCIO en vertu du cadre comptable OTAN ;

- les immobilisations incorporelles relatives aux SIC et aux AIS qui ont été acquises avant et après le 1er janvier 2013 et qui ne sont pas en cours de construction – comme les programmes informatiques maison et les composantes spécifiques des services de domaine fonctionnel (FAS) – ne sont toujours pas présentées ; on peut citer comme actifs FAS les moyens du système maritime d'information de commandement et de contrôle et les moyens relatifs au commandement et au contrôle logistiques ;
- les moyens relatifs au système central d'information géographique et à la situation opérationnelle commune (COP) de l'OTAN.

1.6 Le Collège a constaté que d'importants efforts avaient toutefois été déployés pour atténuer certaines des difficultés liées à la gestion des actifs dans certains domaines. Il importe de noter que la migration des immobilisations corporelles et des stocks enregistrés dans le système de soutien des dépôts de l'OTAN (NDSS) vers l'actuel système comptable du système financier automatisé centralisé de l'OTAN (CNAFS) est achevée au Centre de soutien et de maintien en condition opérationnelle des SIC (CSSC) et dans les unités de soutien des SIC (CSU).

Recommandation

1.7 Le Collège recommande à la NCIO de continuer de développer et de mettre en œuvre la solution intégrée qu'elle a prévue, à savoir l'application métier d'entreprise (EBA), pour l'acquisition d'immobilisations corporelles et d'immobilisations incorporelles, leur gestion et le compte rendu s'y rapportant, afin de réduire les problèmes d'efficacité et les risques associés à l'utilisation d'un grand nombre de systèmes comptables et d'outils logistiques, et de faire en sorte de respecter l'échéance fixée, à savoir le 1er janvier 2018.

2. SOUS-ÉVALUATION À HAUTEUR DE 35 MEUR DES STOCKS

Contexte

2.1 Selon l'article 12 du Règlement financier de l'OTAN, les organismes OTAN doivent établir et tenir des registres comptables complets répertoriant tous les actifs et passifs.

2.2 Le cadre comptable OTAN prévoit que les organismes OTAN doivent inscrire à l'actif, dans l'état de la performance financière, tous les stocks qu'ils détiennent et sur lesquels ils exercent le contrôle pour autant qu'ils aient été acquis après le 1er janvier 2013 et que leur valeur excède les seuils spécifiques fixés pour l'inscription à l'actif. La nature et le nombre des articles des stocks toujours détenus mais achetés avant le 1er janvier 2013 doivent être présentés dans les notes jointes aux états financiers.

Observations

2.3 Le Collège a vérifié les stocks détenus au CSSC et a constaté que des améliorations considérables avaient été apportées par rapport à l'exercice précédent. La valeur des stocks détenus au CSSC représentait environ 80 % de la valeur brute totale des stocks détenus au 31 décembre 2016. Le nombre peu élevé d'incohérences relevées lors de l'audit qui a porté sur l'exercice 2016 montre que le transfert du NDSS au CNAFS a fait l'objet d'un contrôle efficace. La NCIA a effectué des inventaires physiques de tous les stocks détenus au CSSC entre mai et décembre 2016 et a apporté les corrections nécessaires. Toutefois, au cours de ses entretiens avec des agents du CSSC, le Collège a appris que, en raison d'un manque d'effectifs, des contrôles physiques complets analogues n'avaient pas encore eu lieu dans les autres sites où des stocks étaient détenus.

2.4 S'agissant de la présentation des stocks dans les états financiers, le Collège a constaté que la valeur totale des stocks notifiée dans l'état de la situation financière était de 11 MEUR. Toutefois, avant les ajustements liés à l'application du cadre comptable OTAN, la valeur totale des stocks réels était de 46 MEUR. On considère que la différence de 35 MEUR représente la valeur des stocks achetés avant le 1er janvier 2013. Le Collège a toutefois constaté que le montant décompté pour les articles des stocks achetés avant 2013 était le même que celui de l'ajustement initial de 2013. Ce n'est pas logique. Retirer chaque année le même montant pour les stocks acquis avant 2013 n'est pas la bonne façon de procéder, car une bonne partie des articles auront été utilisés. Pour les exercices 2016 et 2015, les stocks détenus au 31 décembre étaient donc sous-évalués de 35 MEUR. Dans l'état de la situation financière, les produits non acquis et les avances sont sous-évalués du même montant.

Recommandation

2.5 Le Collège recommande à l'Agence de ne décompter des soldes des stocks que le montant des stocks détenus au 31 décembre 2016 qui ont été achetés avant le 1er janvier 2013.

3. ABSENCE DE PROCESSUS COHÉRENT ET FIABLE DE CALCUL DES PRODUITS GÉNÉRÉS PAR LES PROJETS DE DÉVELOPPEMENT CAPACITAIRE SUR LA PÉRIODE CONSIDÉRÉE

Contexte

3.1 La NCIO tire ses recettes de l'exécution de projets et de la prestation de services. En ce qui concerne l'exécution de projets, elle applique l'IPSAS 11 (*Contrats de construction*) pour le calcul des produits à constater. Les produits sont ainsi comptabilisés en fonction du « taux d'exécution ». Pour estimer ce taux, l'Agence calcule, en pourcentage, le rapport entre le montant total des dépenses déjà exposées et le montant total estimatif des « dépenses à l'achèvement ».

3.2 Pour calculer les « dépenses à l'achèvement », il faut estimer de manière fiable les « coûts d'achèvement » (CTC). Cette estimation est cruciale : plus les CTC estimatifs sont élevés, plus le montant constaté au titre des produits acquis à la date de clôture sera faible, ce qui se répercutera sur le montant de l'excédent ou du déficit notifié pour la période.

Observations

3.3 Suite aux recommandations que le Collège a formulées pour l'exercice 2015 s'agissant des faiblesses dans le processus d'estimation des CTC pour les projets de développement capacitaire, la NCIA a pris certaines mesures ; elle a notamment communiqué en interne aux gestionnaires de projet des instructions concernant les CTC, et elle a rappelé dans les instructions de fin d'exercice que, pour l'estimation des CTC, une évaluation complète des fonds nécessaires devait être effectuée par les gestionnaires de projet. La NCIA a en outre diffusé trois guides d'utilisation des modèles CTC. Un projet d'instruction permanente (SOP) relative au processus CTC est toujours à l'examen.

3.4 Malgré les mesures prises, le Collège a constaté que le degré de fiabilité et la documentation concernant le processus ne sont toujours pas suffisants pour que l'assurance voulue puisse être fournie s'agissant des estimations CTC.

Recommandations

3.5 Le Collège recommande que la NCIA améliore les estimations des coûts d'achèvement en prenant les mesures suivantes :

- intégrer dans un système centralisé les coûts d'investissement relatifs aux projets de manière à n'utiliser qu'un système pour l'estimation des coûts futurs liés aux projets ;
- normaliser les processus d'estimation des coûts d'achèvement au niveau des gestionnaires de projet, faire en sorte de réinstaurer une revue détaillée de ces éléments par la hiérarchie et la Direction Finances, et consigner par écrit ces différentes démarches ainsi que les résultats du processus d'estimation ;
- faire en sorte que les instructions de fin d'exercice adressées aux gestionnaires de projet donnent une description plus détaillée de la manière dont l'estimation des coûts d'achèvement doit être effectuée.

4. ABSENCE D'ASSURANCE CONCERNANT LA FIABILITÉ DES ESTIMATIONS POUR PERTES FUTURES S'AGISSANT DU PROGRAMME RELATIF AU NOUVEAU SIÈGE DE L'OTAN

Contexte

4.1 Il est essentiel de disposer d'estimations fiables pour évaluer les pertes futures. Pour les projets à prix ferme et définitif, la NCIA comptabilise l'estimation pour pertes futures si l'estimation des dépenses à l'achèvement (CAC) pour un projet donné est supérieure au montant des fonds autorisés qui a été convenu avec le client.

4.2 Pour les cas où l'on prévoit un important dépassement des coûts liés à un projet donné, la directive de l'Agence fixant le Cadre pour la gestion des projets, des programmes et des portefeuilles stipule que le dossier doit être porté devant le Comité de gestion du cycle de vie des services (SLMB), le Comité de la priorisation et des investissements internes, voire le Comité de gestion exécutive (EMB). Il est ensuite décidé soit de demander des fonds supplémentaires au client, soit de considérer le surcoût en tant que perte.

Observations

4.3 Le Collège a choisi de vérifier les quatre plus gros projets pour lesquels il existait des estimations de pertes futures en fin d'exercice, et il a constaté ce qui suit :

- deux pertes d'un montant total de 577 320 EUR n'ont pas été justifiées car il n'a pas été possible d'effectuer une estimation fiable ;
- une perte en rapport avec l'estimation des coûts supplémentaires pour l'infrastructure réseau active (ANWI) du nouveau siège de l'OTAN est sujette à caution ; elle a été estimée à 1 952 500 EUR.

4.4 Le Collège est préoccupé par la manière dont l'estimation de la perte relative au projet ANWI a été effectuée. À la fin du mois de mars 2017, avant la publication des états financiers, l'estimation des CAC pour ce qui concerne les prestations à fournir pour le projet est passée de 8,2 MEUR à 12,4 MEUR, ce qui représente un dépassement des coûts de 4,2 MEUR. Aucune décision officielle n'a été prise par un comité de gestion d'agence pour le traitement de cette perte avant la publication des états financiers, contrairement à ce qui se fait normalement. La directive de l'Agence fixant le Cadre pour la gestion des projets, des programmes et des portefeuilles n'a donc pas été suivie.

4.5 De plus, après la publication de ses états financiers, intervenue à la fin du mois de mars 2017, la NCIA a adressé le 19 mai 2017 une lettre au Comité des représentants permanents adjoints (DPRC), dans laquelle elle déclarait qu'elle s'attendait à ce que le dépassement des coûts des prestations à fournir pour le projet (PSC) se chiffre à 7,47 MEUR. Le 13 juin 2017, la NCIA adressait une autre lettre au DPRC, dans laquelle elle demandait que des crédits supplémentaires d'un montant révisé à la hausse et porté à 8,99 MEUR soient octroyés pour les PSC.

4.6 Le Collège estime que la constatation, dans les états financiers de 2016, de pertes futures d'un montant de 1,9 MEUR a donné un certain degré de transparence à la question. Il aurait toutefois fallu gérer le retard pris dans le projet à haute visibilité ANWI plus tôt et de manière plus officielle au moyen d'un mécanisme efficace de dérogation dans lequel le contrôleur des finances aurait joué un rôle dès les toutes premières étapes.

4.7 En raison des incertitudes évoquées plus haut, l'Agence n'a pas fourni au Collège une assurance suffisante quant à la fiabilité du montant des estimations pour pertes futures s'agissant des PSC relatifs à l'ANWI, à savoir 1,9 MEUR, qui a été inscrit dans les états financiers.

Recommandation

4.8 Le Collège recommande que la NCIO se conforme à la directive de l'Agence relative à la mention d'anomalies pour faire en sorte que le dépassement des coûts de son programme soit géré de manière appropriée et que des estimations plus fiables des pertes futures soient présentées dans les états financiers.

5. RÉALISATION DE PROGRÈS SUR LA VOIE DE LA CONFORMITÉ AVEC LE RÈGLEMENT FINANCIER DE L'OTAN, ET EN PARTICULIER AVEC LES ARTICLES RELATIFS AU CONTRÔLE INTERNE, À LA GESTION DES RISQUES ET À L'AUDIT INTERNE, ET AVEC LES RÈGLES ET PROCÉDURES FINANCIÈRES APPLICABLES À LA NCIO

Contexte

5.1 Le Conseil de l'Atlantique Nord a approuvé la version révisée du Règlement financier de l'OTAN (NFR) en date du 4 mai 2015. Il s'agissait de la première révision de ce texte en plus de trente ans. Bien que l'article 36 de cette nouvelle version prévoie que le Règlement entre en vigueur dès son approbation (à savoir le 4 mai 2015), le Conseil a reconnu que l'on ne pouvait s'attendre à sa pleine application avant la fin de 2015. Par ailleurs, il est stipulé à l'article 4 que « le comité financier [...] adopte [...] une série de règles et procédures financières qui donnent des orientations supplémentaires propres à assurer la bonne exécution du présent Règlement ».

5.2 Les dispositions du NFR révisé sont plus explicites que celles de la version précédente s'agissant de la gestion des risques (article 11), du contrôle interne (article 12), de l'audit interne (article 13) et de l'établissement d'une commission consultative sur l'audit (article 16). Selon ces dispositions, il faut définir des procédures de gestion des risques qui soient conformes aux critères d'efficacité, d'efficience et d'économie, mettre en place les fonctions de gestion nécessaires à un contrôle interne efficace, faire en sorte que les organismes OTAN disposent d'une fonction d'audit interne permanente, dotée de ressources suffisantes et exercée conformément aux normes d'audit interne reconnues au niveau international, et établir une commission consultative sur l'audit. De plus, l'article 3 stipule que, dans un souci de saine gestion financière et aux fins du respect de l'obligation de rendre compte, les états financiers et les déclarations sur le contrôle interne doivent être signés chaque année par le chef d'organisme OTAN et par le contrôleur des finances. L'article 25 permet quant à lui l'engagement de crédits budgétaires correspondant aux biens et services à fournir pendant l’exercice.

5.3 La nouvelle version du NFR est l'occasion pour les organismes OTAN de renforcer et de codifier leur cadre général de contrôle interne, y compris la gestion des risques. Elle prévoit aussi la mise en place de fonctions d'audit interne, l'objectif déclaré étant d'obtenir une capacité d'analyse approfondie de l'efficacité et de l'efficience des activités et des contrôles internes, y compris la gestion des risques. Il importe de souligner que le nouveau texte exige par ailleurs qu'un environnement de contrôle robuste soit en place pour la préparation des états financiers, de manière à garantir que les informations financières répondent aux normes les plus rigoureuses en termes de qualité et d'exactitude étant donné qu'elles sont désormais rendues publiques.

Observations

5.4 Le Collège a constaté que la NCIO avait continué de faire des progrès s'agissant de se conformer à la totalité des dispositions de la nouvelle version du NFR, mais il estime que davantage encore doit être fait pour y parvenir.

5.5 Cette constatation n'a en fait rien de surprenant sachant que les règles et procédures financières (FRP), plus détaillées, demandées à l'article 4 de la version révisée du NFR, n'ont été approuvées par le Comité de surveillance de l'Agence (ASB) qu'à la fin du mois de mars 2016. Par ailleurs, les modifications apportées au NFR sont considérables, et le Collège reconnaît qu'il faudra un certain temps pour les appliquer correctement. La bonne application des dispositions devrait permettre à la NCIO de tirer de réels avantages de la nouvelle version du NFR et pas simplement de montrer qu'elle respecte les nouvelles exigences.

5.6 Compte tenu de ce qui précède, 2016 reste une année de transition pour la NCIO. Le Collège attend de la NCIO qu'elle se conforme pleinement au NFR en 2017. Il a une fois de plus décidé de rendre compte des progrès réalisés à l'égard de certains des articles révisés du NFR et de formuler des recommandations sur cette base. Les observations ainsi faites n'auront pas d'incidence sur l'opinion relative à la conformité pour l'exercice 2016.

5.7 Le Collège fait le point de la situation dans les domaines énumérés ci-après.

Article 4 – Gestion financière

5.7.1 Comme indiqué plus haut, l'ASB a approuvé les FRP applicables à la NCIO en mars 2016, et le Collège considère 2016 comme une année de transition et attend de la NCIO qu'elle se conforme pleinement au NFR en 2017. Les dispositions relatives au financement par le client qui sont définies dans les FRP seront en place dès la mise en œuvre d'une approche fondée sur le cycle de vie complet des SIC.

Article 11 – Gestion des risques

5.7.2 Le Collège a constaté que la NCIO avait établi un cadre de gestion du risque d'entreprise (ERM) qui regroupe et harmonise les procédures et les outils de gestion des risques de la NCIA. Suivant la recommandation formulée par le Collège pour l'exercice 2015, la NCIO a actualisé le registre des risques de l'Agence en y intégrant un rapport de fin d'exercice 2016 sur la gestion des risques ainsi qu'un tableau de bord sur les risques pour 2017 destiné à l'ensemble de l'Agence.

Article 12 – Contrôle interne

5.7.3 En novembre 2016, la NCIO a adopté officiellement le cadre de contrôle interne du COSO (Committee of Sponsoring Organisations of the Treadway Commission – Integrated Framework : May 2013). Ce cadre comporte un volet sur la gestion des risques. Un certain nombre d'autres organismes OTAN, dont le Commandement allié Opérations (ACO) et le Commandement allié Transformation (ACT), l'ont eux aussi adopté. L'adoption d'un cadre spécifique, reconnu au niveau international et qui plus est adopté par d'autres organismes OTAN, constitue un grand pas en avant.

5.7.4 La NCIO n'ayant adopté le cadre COSO que récemment, elle doit encore mener à bien l'important travail d'évaluation et de consignation par écrit des diverses procédures de contrôle interne et de gestion des risques. Afin de préparer la mise en oeuvre de ce cadre et d'évaluer le temps et les ressources qui seront nécessaires pour son application dans l'ensemble de la NCIO, le Bureau des affaires juridiques de la NCIA a été choisi comme banc d'essai, et une méthode d'auto-évaluation du contrôle (CSA) fondée sur l'analyse des risques a été utilisée par le service d'audit interne à l'appui des activités de mise en oeuvre de ce cadre.

5.7.5 Le Collège attend de la NCIO qu'elle réalise des progrès notables à cet égard au cours de l'exercice à venir. La consignation par écrit est indispensable pour montrer clairement à tous qu'un système complet de contrôle interne et de gestion des risques est en place. Tant que l'évaluation n'aura pas été menée à bien et que les documents voulus n'auront pas été produits, le Collège ne sera pas en mesure de déclarer qu'un système complet de contrôle interne (et de gestion des risques) conforme aux articles 11 et 12 de la version révisée du NFR est bien en place.

5.7.6 Le Collège a par ailleurs constaté que le mandat d'une commission NCIA sur le contrôle interne avait été approuvé par le directeur général de l'Agence en février 2017.

Article 13 – Audit interne

5.7.7 Le Collège a constaté que le service d'audit interne avait contribué à l'établissement du cadre de contrôle interne de la NCIO et qu'il fournissait un large soutien à sa mise en œuvre dans l'ensemble de l'Agence. Ce service continue de réaliser des audits portant sur des programmes et des processus propres à l'Agence. Il n'est pas encore en mesure d'évaluer la conformité avec le cadre COSO car, comme indiqué plus haut, le travail d'évaluation et de consignation par écrit des diverses procédures de contrôle interne et de gestion des risques doit encore être finalisé.

Article 16 – Commission consultative sur l'audit

5.7.8 Le Collège a constaté que la NCIO avait établi en mai 2016 la commission consultative sur l'audit prévue par l'article 16. À la date de l'audit, cette commission s'était réunie à trois reprises. Elle est dirigée par le chef du Service Validation et vérification indépendantes, et le chef d'état-major de l'Agence OTAN de soutien et d'acquisition (NSPA) prend part à ses travaux en qualité de membre venant d'un autre organisme.

Recommandations

5.8 Le Collège formule les recommandations suivantes :

a) la NCIA devrait procéder, de manière systématique et détaillée, à l'évaluation de ses procédures de contrôle interne et de gestion des risques et à leur consignation par écrit, en vue d'une mise en conformité avec le cadre COSO, qu'elle vient d'adopter ;

b) une fois qu'une suite aura été donnée à la recommandation formulée au point a), le service d'audit interne devrait évaluer pleinement le contrôle interne et la gestion des risques dans l'ensemble de la NCIA, et il devrait veiller à ce que ce travail soit clairement documenté, de manière à ce que l'on puisse aboutir à la conclusion que la NCIA respecte le cadre COSO ;

c) la NCIA devrait continuer d'avancer sur la voie de l'application pleine et entière du régime de financement par le client, afin de mettre en œuvre efficacement ses FRP.

6. RÉCLAMATION DU CONTRACTANT SUITE AUX MODIFICATIONS ET AUX RETARDS DANS LA DÉFINITION DES PRESCRIPTIONS CONTRACTUELLES ET À LA COORDINATION INSUFFISANTE ENTRE LA NCIA ET LE COMITÉ DES INVESTISSEMENTS

Contexte

6.1 Lorsqu'un projet contient des prescriptions techniques très complexes, il est d'usage de fixer des délais plus longs pour l'évaluation, l'analyse et la prise de décision quant à la meilleure option possible pour le client. Lorsqu'un contrat n'est pas exécuté suivant les dispositions prévues et qu'il y a des différends entre le contractant et l'agent d'acquisition, il est aussi d'usage d'informer régulièrement le client de l'évolution des négociations menées en vue du règlement des différends.

Observations

6.2 Le Collège a vérifié un échantillon d'avenants à des contrats, et notamment un avenant qui portait sur un projet visant à fournir des SIC déployables à la Force de réaction de l'OTAN (NRF) et qui réglait la réclamation soumise par un contractant.

6.3 Le Collège a constaté que les prescriptions techniques relatives à ce projet avaient été modifiées à plusieurs reprises. Il était question au départ d'un dispositif sur camion, puis d'une solution de transit, puis à nouveau d'un dispositif sur camion, pour en revenir finalement à une solution de transit. Ces instructions contradictoires données par le Comité des investissements et par la communauté des utilisateurs ainsi que les retards ultérieurs dans la définition des prescriptions techniques ont donné lieu à une augmentation des coûts du contrat.

6.4 En raison des difficultés évoquées plus haut, le contractant a soumis à la NCIA trois réclamations officielles portant sur un montant total de 17,3 MEUR. Un compromis a finalement été négocié entre la NCIA et le contractant : il prévoyait notamment la passation d'un contrat de soutien logistique pluriannuel avec ce contractant.

6.5 La NCIA n'a toutefois pas informé en premier lieu le client, en l'occurrence le Comité des investissements, du volet « soutien logistique » de la négociation. Ce manque de transparence dans les premières phases du traitement par la NCIA de la réclamation a été un sujet de préoccupation pour le Comité des investissements.

6.6 Finalement, le volet de la négociation relatif au contrat de soutien logistique n'a pas été approuvé. Le montant convenu pour le règlement définitif de la réclamation, à savoir 12,7 MEUR, a été mis à disposition par le Comité des investissements et versé au contractant par la NCIA. Il est fort probable que ce surcoût aurait pu être évité si les prescriptions avaient été clairement définies dès le départ.

Recommandations

6.7 Le Collège rappelle à la NCIO et aux comités financiers compétents les recommandations qu'il a formulées dans le rapport d'audit de performance sur la nécessité d'améliorer le processus OTAN des paquets de capacités qu'il a établi à l'intention du Conseil, à savoir :

- s'agissant de l'Agence, améliorer la gestion de l'information et la transparence en rationalisant et en modernisant les processus et les systèmes informatiques utilisés pour la gestion des travaux relatifs aux paquets de capacités ;
- s'agissant des comités financiers, uniformiser, renforcer et clarifier les rôles en matière de gouvernance pour que les besoins capacitaires définis correspondent aux besoins réels et pour que la mise à disposition des capacités puisse se faire le plus possible conformément aux plans approuvés.

7. FAIBLESSES DANS LE PROCESSUS DE PLANIFICATION DE LA SÉLECTION DES FOURNISSEURS

Contexte

7.1 La directive 06.01 relative aux acquisitions, qui date du 1er avril 2012 et était toujours en vigueur en 2016, prévoit ce qui suit :

- le plan de sélection des fournisseurs (SSP) fera l'objet d'une concertation et sera approuvé avant la publication des documents d'appel d'offres ;
- la présidence de la commission d'évaluation des projets (PEB) est nommée par la présidence du comité d'adjudication des marchés (CAB) six semaines au moins avant la publication de l'appel d'offres (IFB) afin qu'elle puisse examiner le dossier d'appel d'offres avant sa publication et faire en sorte que des critères d'évaluation appropriés et conformes au SSP soient définis ;
- un projet de SSP doit être établi par la présidence de la PEB trois semaines au moins avant la date limite de dépôt des offres ;
- le plan proposé doit être finalisé et avalisé par la présidence de la PEB, puis approuvé par le CAB, qui le soumet à l'approbation de l'autorité de sélection des fournisseurs (le directeur général) avant l'ouverture des plis.

Observations

7.2 Le Collège a vérifié un échantillon de vingt contrats et avenants à des contrats, dont six appels d'offres internationaux (ICB) majeurs et trois mises en concurrence reposant sur un accord type de passation des commandes (BOA). Il a aussi vérifié la principale procédure d'évaluation, de sélection et d'octroi de marché suivie en 2016, qui portait sur la première phase du premier lot de travaux de modernisation de l'outil informatique (ITM).

7.3 Le Collège a fait les constatations suivantes :

1. la date d'attribution du contrat prévue dans le document établi par le Comité des investissements n'a été respectée dans aucun des six dossiers ICB examinés ; l'adjudication du marché est l'une des étapes les plus importantes pour le pays hôte, en particulier pour ce qui concerne les capacités hautement prioritaires ;

2. dans trois cas, le SSP n'a été approuvé qu'après la date limite de dépôt des offres fixée initialement ;

3. dans le cas des BOA, on s'attend à ce que le processus d'acquisition dure environ trois mois (contre six à douze mois dans les autres cas) ; pour deux des trois BOA de l'échantillon, la mise en concurrence a pris cinq mois ou plus.

7.4 S'agissant du processus de sélection pour l'ITM, le Collège a fait les constatations suivantes :

- trois présidences différentes se sont succédé à la tête de la PEB ;
- l'appel d'offres a été modifié à neuf reprises ;
- la première présidence de la PEB a été nommée le jour même de la publication du premier appel d'offres ;
- le SSP approuvé par le directeur général le 20 novembre 2015 n'était pas complet : il ne spécifiait pas la date effective d'ouverture des plis ; la mise à jour ultérieure du programme et des effectifs proposés pour la PEB ainsi que de la liste des éléments à contrôler figurant dans l'annexe A du SSP ne reflétait pas la version la plus récente de l'appel d'offres ;
- le SSP a été modifié à trois reprises pour la désignation d'une nouvelle présidence, et l'évaluation technique, qui était censée commencer le 7 décembre 2015, n'a été entamée que le 11 janvier 2016, les évaluateurs n'étant toujours pas au complet à la mi-décembre 2015.

7.5 Ainsi, une partie du montant supplémentaire de 165 000 EUR qui a été autorisé en février 2017 par le Comité des investissements et qui n'était pas budgétisé au départ pour le coût des prestations à fournir (PSC) a servi à financer les activités liées à la prolongation du délai pour le dépôt et l'évaluation des offres.

7.6 En raison de la complexité et du montant élevé de ce marché, qui ont donné lieu à une procédure d'évaluation de « valeur optimale » pour six offres et à l'envoi de plus de 700 demandes de précisions au cours de la phase d'appel d'offres (IFB) et de plus de 40 au cours de la phase d'évaluation, il aurait fallu prévoir des échéances plus réalistes pour mener à bien le processus.

Recommandations

7.7 Comme en 2015, le Collège recommande à nouveau que, pour éviter les retards et pour garantir que des estimations réalistes des coûts des prestations à fournir soient effectuées au cours des phases d'évaluation, de sélection et d'adjudication, la NCIO fasse en sorte que :

a) des dates plus réalistes pour l'attribution des marchés, qui constitue l'une des principales étapes des projets, soient communiquées aux titulaires de budget ;

b) les plans de sélection des fournisseurs soient approuvés, et la présidence de la commission d'évaluation des projets nommée, avant la publication des documents d'appel d'offres ;

c) les commissions d'évaluation des projets soient dotées de ressources adéquates pour la planification ;

d) le degré de fiabilité des estimations des coûts soit présenté dans les documents relatifs aux estimations qui sont communiqués au Comité des investissements.

8. RECOURS INSUFFISANT À LA MISE EN CONCURRENCE POUR LES CONTRATS DE SERVICES DE SOUTIEN EN 2016

Contexte

8.1 En vertu de l'article 32.2 de la version révisée du NFR (C-M(2015)0025, section VII – Acquisition et passation de marchés), « [l]e comité financier ou l'organe directeur concerné délègue les pouvoirs voulus pour qu'il puisse être dérogé à l'application stricte de la procédure de mise en concurrence lorsque des raisons opérationnelles ou techniques, des raisons d'efficacité ou des raisons de coût le justifient ».

8.2 Par ailleurs, la directive AD 16.01 relative aux acquisitions, nouvellement approuvée par l'Agence, dispose en son paragraphe 3.2.2.1.2 que l'acquisition de biens ou de services sans qu'il soit fait pleinement appel à la libre concurrence ne saurait être justifiée par un défaut de planification de la part des demandeurs responsables de l'activité ni par des incertitudes quant à l'enveloppe dont disposeront l'Agence ou les responsables de l'activité.

Observations

8.3 Le Collège a constaté que les choses s'étaient améliorées : le nombre de dérogations approuvées pour la passation de contrats de gré à gré en général, et de contrats avec des titulaires de marché en particulier, a diminué. Cinq contrats-cadres généraux ont été établis récemment pour le recours à des experts en informatique et à des personnes fournissant des services spécialisés.

8.4 Le Collège a toutefois aussi constaté qu'une réponse positive avait été donnée à certaines demandes de dérogation, l'objectif étant de réduire les coûts globaux pour l'Agence grâce à la passation de marchés directement avec des contractants pris individuellement, plutôt que par l'intermédiaire de sociétés proposant des contrats de services de soutien (SSC) comme cela avait été le cas au départ. Cette approche permet d'éviter la majoration de prix liée aux sociétés proposant des SSC, mais porte atteinte aux principes et à l'efficacité des SSC, auxquels on a moins recours.

8.5 Le Collège a également noté qu'une réponse positive avait été donnée en 2016 à plusieurs demandes de dérogation visant à prolonger d'un an le contrat passé avec un même titulaire de marché à condition qu'il y ait recrutement à un poste civil OTAN. Cette exigence a été fixée pour éviter à l'avenir les dérogations coûteuses et décidées en urgence en matière d'acquisition. Le Collège a examiné un échantillon de six décisions d'acquisition prises sur la base du principe qu'il y aurait recrutement futur à un poste civil OTAN. Pour cinq des six décisions examinées, il n'y a pas eu de recrutement à un poste civil OTAN, et le contrat des titulaires de marché a été prolongé une nouvelle fois, jusqu'en 2017. Le contrat du sixième titulaire de marché n'a pas été renouvelé car le projet sur lequel il travaillait était achevé.

8.6 La NCIA a fait savoir au Collège qu'elle avait déjà tiré des enseignements de l'appel d'offres et de l'implémentation des SSC en cours (comme le nombre insuffisant de personnes dans les domaines spécialisés) et qu'elle s'employait à faire en sorte que ces enseignements soient traités dans le cadre de la nouvelle mise en concurrence et de l'octroi des nouveaux SSC d'ici à la fin de 2018.

8.7 En outre, la NCIA a fait savoir au Collège que l'instruction permanente 16.01 relative aux acquisitions, qui définit les modalités d'application de la directive 16.01, avait été approuvée par le chef d'état-major le 9 juin 2017.

Recommandation

8.8 Le Collège recommande que la NCIO poursuive ses efforts visant à exploiter pleinement les possibilités offertes par les contrats de services de soutien ou par d'autres procédures de mise en concurrence, et qu'elle n'octroie des dérogations pour la passation de contrats de gré à gré que pour des raisons d'ordre opérationnel, économique et technique ou pour des raisons d'efficacité, en coordination étroite avec les Ressources humaines.

9. FAIBLESSES DANS LA GESTION DU PROCESSUS DE CLÔTURE DE PROJET

Contexte

9.1 La NCIO tire ses recettes de l'exécution de projets et de la prestation de services. En ce qui concerne l'exécution de projets, elle applique l'IPSAS 11 (*Contrats de construction*) pour le calcul des produits à constater. Cette norme dispose que :

> « [l]orsque le résultat d'un contrat de construction peut être estimé de façon fiable, les produits et les coûts du contrat doivent être comptabilisés respectivement en produits et en charges en fonction du degré d'avancement de l'activité du contrat à la date de reporting. »

9.2 Il importe donc de savoir exactement quand un projet est complètement terminé et peut être clôturé. Pour les contrats à prix ferme et définitif, tout excédent apparaissant après la clôture du projet doit être constaté en tant que produit excédentaire.

9.3 Selon la pratique en vigueur pour les projets de développement capacitaire, tout excédent supérieur à 10 000 EUR et à 8 % du budget peut soit être conservé dans le fonds de fonctionnement soit être restitué au client, selon la décision que prendra le Comité de gestion du cycle de vie des services (SLMB).

Observations

9.4 Le Collège a constaté que seize projets de développement capacitaire fondés sur un contrat à prix ferme et définitif qui ont été clôturés en 2016 ont été soumis pour décision au SLMB. L'excédent pour ces seize projets se chiffrait à 3 175 039 EUR.

9.5 Le 23 février 2017, le SLMB s'est toutefois abstenu de prendre une décision sur ces projets en raison de la nécessité d'approfondir leur examen et/ou de renforcer la coordination. La décision finale aurait dû être prise à l'issue du processus de coordination entre la Direction Stratégie de Service, l'agent de liaison du programme OTAN d'investissement au service de la sécurité (NSIP) et la Direction Finances, et être suivie de la liste détaillée des projets et des options de clôture recommandées. Le Collège n'a toutefois pas trouvé d'éléments attestant que de telles décisions avaient été prises avant la publication des états financiers, intervenue fin mars 2017. Si, avant la publication des états financiers, le SLMB avait décidé de conserver l'excédent dégagé, cela aurait eu pour effet de faire augmenter l'excédent et/ou le déficit net pour la période ainsi que le montant du fonds de fonctionnement au 31 décembre 2016.

9.6 Le Collège a constaté que, sur les seize projets clôturés soumis pour décision au SLMB en février 2017, dix avaient déjà été soumis pour décision à ce comité en 2016, mais que celui-ci ne s'était alors pas prononcé.

9.7 Le Collège a également constaté que, sur la base du modèle des coûts d'achèvement 2016 pour les projets relatifs aux opérations, deux autres projets clôturés qui remplissaient les conditions nécessaires pour être soumis au SLMB pour décision ne figuraient pas dans la liste initiale.

9.8 Par ailleurs, le Collège a constaté qu'il n'y avait pas de processus analogue pour les excédents des accords sur les niveaux de service (SLA) et du SLA centralisé pour les services SIC OTAN (CSLA) : leurs éventuels excédents ne sont pas soumis au SLMB pour qu'il décide soit de les conserver soit de les restituer. Les SLA conclus au niveau local et le CSLA courent du 1er janvier au 31 décembre. Comme les autres projets de la NCIA, les SLA sont clôturés sur le plan technique lorsque tous les livrables ont été fournis au client, et clôturés sur le plan financier lorsque toutes les opérations ont finalement été effectuées. Comme il s'agit de contrats à prix ferme et définitif, il peut y avoir un excédent ou un déficit.

9.9 Sur les 66 SLA qui ont été établis depuis 2014, vingt ont été pleinement clôturés. Dix SLA ont été clôturés en 2016, dont quatre avec un excédent se chiffrant au total à 13,5 MEUR, et trois avec un déficit total de 5,9 MEUR.

9.10 Si l'approche applicable aux projets de développement capacitaire avait été suivie, le montant de 13,5 MEUR correspondant à l'excédent dégagé de quatre SLA aurait pu être soumis au SLMB pour qu'il prenne une décision sur la question de savoir s'il fallait en restituer une partie au client. L'existence de deux processus différents, avec la possibilité de restituer des excédents éventuels uniquement aux clients de projets de développement capacitaire, risque de créer des inégalités entre les clients en interne. Les excédents des projets de développement capacitaire sont souvent restitués, principalement au Comité des investissements, alors que les excédents des SLA, qui concernent essentiellement le budget militaire (Commandement allié Opérations (ACO) et Commandement allié Transformation (ACT)), ne le sont pas.

9.11 L'une des raisons pour lesquelles des SLA sont susceptibles de générer des excédents peut être l'incapacité de la NCIA à fournir les services conformément aux clauses de ces SLA. Dans le cadre des SLA fondés sur des contrats à prix ferme et définitif, les clients ont peu de possibilités de recours pour réclamer une compensation. L'examen de ces questions par le SLMB et le dialogue avec les clients pourraient atténuer les difficultés évoquées.

Recommandations

9.12 Le Collège recommande à la NCIA de continuer d'améliorer son processus de clôture des projets :

- en publiant une directive complète et harmonisée sur les activités de clôture, y compris celles qui concernent les SLA ;
- en clarifiant et en rendant cohérente la pratique consistant à déterminer si les excédents supérieurs à 8 % et à 10 000 EUR doivent être restitués ;
- en faisant en sorte que le SLMB se prononce plus fréquemment sur les projets clôturés, le but étant de garantir que des décisions soient prises avant la publication des états financiers et d'éviter de donner l'impression que les décisions ne sont prises qu'après la fin de l'exercice pour permettre à l'Agence de jouer sur le niveau de l'excédent ou du déficit net notifié dans les états financiers.

10. FAIBLESSES DANS LE SYSTÈME DE COMPTABILITÉ HORAIRE (TAS)

Contexte

10.1 Les coûts de la main-d'œuvre représentent une part importante des coûts internes de la NCIA pour l'exécution des projets. Par conséquent, il importe qu'ils puissent être comptabilisés de manière appropriée et imputés sur chacun des projets mis en œuvre dans le cadre du système de gestion de projet d'entreprise (EPM). Les coûts de la main-d'œuvre sont imputés sur les projets auxquels ils se rapportent selon le système de comptabilité horaire (TAS).

10.2 Si l'imputation des coûts de la main-d'œuvre ne se fait pas de manière appropriée, les clients peuvent se voir facturer des montants incorrects, ce qui risque d'avoir des répercussions non seulement sur le produit calculé sur la base du CTC pour un contrat donné, mais aussi sur l'excédent net ou le déficit net global calculé pour la période considérée.

Observations

10.3 Suite à l'implémentation, pour la première fois, du TAS pour les SLA en 2014, le Collège avait formulé, dans son rapport sur cet exercice, une recommandation en vue de l'amélioration de la qualité des données enregistrées dans le TAS. En 2015, il avait constaté que des améliorations significatives avaient été apportées.

10.4 Le TAS restant en dehors des systèmes comptables de l'Agence, le Collège a de nouveau examiné la qualité des données figurant dans ce système, en se concentrant en particulier sur la piste de vérification et sur le contrôle interne. Il a fait les constatations suivantes :

a) un montant total de 431 650 EUR a été attribué à des projets au titre des ressources génériques sans que des précisions aient été données sur le nombre d'heures de travail et sur le nom des agents ou du prestataire qui ont travaillé pour fournir ces services ; ces coûts concernent les « prestataires de services internes », pour lesquels des ressources génériques sont utilisées, les agents peuvent ainsi comptabiliser des heures de travail pour de nombreux projets dans un projet central et un prix forfaitaire peut être facturé au projet ;

b) pour un projet spécifique de fourniture de services SIC à la mission Resolute Support, l'offre de prix pour les services de soutien était de 1 300 420 EUR ; le client n'a pas approuvé cette offre et n'a pas octroyé de fonds ; toutefois, comme il s'agissait d'un projet qui s'inscrivait dans le cadre des opérations et missions de l'Alliance, le service a été fourni par la NCIA ; une somme de 166 425 EUR a été facturée au projet, et une acquisition portant sur un montant estimé à 227 000 EUR a été annulée ; des dépenses d'un montant de 907 000 EUR pour des services de soutien ont toutefois été exposées, mais elles ont été imputées sur un autre projet ; le Collège a voulu savoir sur quel projet ces dépenses avaient été imputées, mais la NCIA n'a pas encore été en mesure de lui répondre ; il s'agit d'un sujet de préoccupation car il n'est pas possible de déterminer s'il fallait imputer ces dépenses sur l'autre projet.

Recommandation

10.5 Le Collège a constaté que la qualité des données du TAS s'était améliorée depuis la pleine implémentation du système s'agissant de la Prestation de services, en 2014. Toutefois, étant donné que le projet EBA a pris du retard et que l'Agence n'utilise pas encore son système de gestion intégré, le Collège recommande à la NCIO de poursuivre ses efforts visant à atténuer les risques et à mettre en place des contrôles internes portant spécifiquement sur les « prestataires de services internes » et sur la fourniture de SIC à l'appui des opérations et des missions de l'Alliance.

11. COMPLEXITÉ DE L'ENREGISTREMENT DES PROJETS RELATIFS À LA MISSION RESOLUTE SUPPORT DANS LE MODÈLE DES COÛTS D'ACHÈVEMENT

Contexte

11.1 Pour traiter avec ses clients, l'Agence utilise deux types de contrat :

- proposition/accord reposant sur un prix ferme et définitif (FFP) ;
- proposition/accord reposant sur le principe du coût remboursable (CR).

11.2 La directive AD 04.01 de l'Agence (« Conditions applicables au financement par le client »), datée du 21 décembre 2015, prévoit que le coût des prestations à fournir (PSC) et le coût des services de soutien doivent faire l'objet d'un contrat de type FFP, tandis que les coûts d'équipement et les coûts externes doivent faire l'objet d'un contrat de type CR.

11.3 L'approche de l'Agence pour la constatation des produits est fondée sur un modèle CTC et se fait par projet. Chaque projet ayant fait l'objet d'un accord avec un client doit être dûment enregistré dans le modèle CTC sur la base des clauses du contrat passé.

Observations

11.4 La plupart des contrats de soutien des SIC pour la mission Resolute Support qui ont été signés avec l'ACO comportent à la fois des coûts relatifs aux services de soutien et des coûts externes, et donc, respectivement, un aspect FFP et un aspect CR. Pour la constatation des produits, chacun des projets relatifs à la mission Resolute Support peut être classé dans trois modèles différents de CTC : Tiers, Opérations et Prestation de services. Dans le modèle Prestation de services, les coûts relatifs à un même projet peuvent être répartis en coûts des services de soutien et en coûts externes.

11.5 Le Collège a constaté que, en raison de la complexité de la question, le lien entre le contrat signé avec le client et la valorisation des produits calculée au moyen des modèles CTC était perdu. C'est une faiblesse significative.

11.6 Sur un échantillon de seize contrats avec acceptation de prix pour la mission Resolute Support, le Collège n'a pas été en mesure de trouver, par projet dans les modèles CTC, une somme de 16,43 MEUR correspondant à des autorisations de financement officielles pour des services sur lesquels le client avait marqué son accord. Il a également essayé de rapprocher le montant total des ordres d'achat émis par le client et le montant total constaté dans le cadre des trois modèles CTC. Il a relevé une différence de 1,23 MEUR entre les ordres d'achat émis par le client (87,68 MEUR) et le montant total des crédits autorisés enregistré dans les fichiers CTC (86,45 MEUR). La différence s'explique par la réduction des crédits de financement intervenue suite à un accord passé avec l'ACO. Les ordres d'achat officiels émis par l'ACO n'ont toutefois pas été ajustés.

11.7 Le Collège a par ailleurs constaté que certains coûts relatifs aux services de soutien pour lesquels il avait été décidé avec le client, dans le cadre de la proposition de prix/acceptation de prix, de passer un contrat de type FFP, ont été enregistrés en tant que coûts remboursables dans les fichiers CTC.

11.8 Sachant que, pour 2016, la dotation octroyée pour la fourniture de services SIC à l'appui de la mission Resolute Support était d'environ 85 MEUR, l'exemple décrit ci-dessus montre toute la complexité de la constatation des produits de l'Agence au moyen de modèles CTC limités présentés dans des tableaux complexes.

Recommandation

11.9 Le Collège recommande d'inclure dans le modèle des coûts d'achèvement « Prestation de services » un tableau simple qui sera établi sur la base des accords passés avec les clients et par projet, et d'enregistrer de manière appropriée le type de service convenu avec les clients, à savoir un service à prix ferme et définitif ou un service à coût remboursable.

11.10 Le Collège recommande aussi que, lorsqu'un accord est passé avec un client pour réduire le budget de financement, la NCIA demande au client de fournir un ordre d'achat actualisé.

12. CARACTÈRE INCOMPLET DES INFORMATIONS DONNÉES DANS LES NOTES RELATIVES AU PROGRAMME DE TRANSITION

Contexte

12.1 Des notes sont jointes aux états financiers pour donner des informations complémentaires au lecteur et lui permettre ainsi de mieux comprendre les soldes présentés dans l'état de la situation financière, dans l'état de la performance financière et dans l'état des variations de l'actif net/situation nette.

12.2 Comme le programme de transition de la NCIO reste important pour le processus de transformation continue de l'Agence, une note récapitulative présentant le montant des crédits autorisés et celui des dépenses courantes est jointe aux états financiers depuis l'exercice 2013.

Observations

12.3 Le Collège a constaté que des améliorations avaient pu être apportées aux notes relatives au programme de transition. En 2016, deux faits majeurs ont eu une incidence sur le programme de transition. Premièrement, le Comité des investissements a octroyé une somme de 7,33 MEUR pour l'application des résultats de l'étude sur les groupes fonctionnels et les installations (FGFS) et, deuxièmement, des crédits supplémentaires d'un montant de 7,61 MEUR ont été octroyés par le Comité des investissements pour couvrir les retards pris dans l'exécution du projet EBA.

12.4 Les crédits octroyés par le Comité des investissements pour la FGFS ne sont pas présentés dans les notes jointes aux états financiers. Les crédits octroyés par le Comité des investissements pour le projet EBA ne sont pas présentés de manière exhaustive, car des fonds autorisés d'un montant de 857 940 EUR destinés aux services techniques internes dans le cadre du retard pris dans le projet EBA ne sont pas présentés dans la note.

Recommandation

12.5 Le Collège recommande que, à l'avenir, la note relative au programme de transition présente de manière exhaustive les crédits que le Comité des investissements a octroyés en cours d'exercice pour des activités liées à la transition.

13. RÉSERVE POUR AMORTISSEMENT ET FONDS DE FONCTIONNEMENT

Contexte

13.1 Selon les règles et procédures financières applicables à la NCIO, le fonds de fonctionnement sert de fonds de roulement pour couvrir les déficits, et de fonds de dépôt pour les excédents liés aux activités de l'Agence. Les réserves pour amortissement sont considérées comme faisant partie du fonds de fonctionnement.

Observations

13.2 Dans la pratique, depuis la création du fonds de fonctionnement, une réserve pour amortissement pour la valeur des immobilisations corporelles et des immobilisations incorporelles qui n'ont pas encore été pleinement amorties est prévue dans les 10 MEUR du fonds de fonctionnement, et le montant de cette réserve doit être approuvé par les pays. La réserve pour amortissement s'élevait à 1,49 MEUR au 31 décembre 2014, à 3,7 MEUR au 31 décembre 2015 et à 4,26 MEUR au 31 décembre 2016. De plus, elle devrait augmenter de manière significative au cours des prochaines années principalement en raison de l'exigence fixée dans le cadre comptable OTAN selon laquelle, à partir du 1er janvier 2018, la NCIO devra inscrire à l'actif l'ensemble des immobilisations corporelles et les immobilisations incorporelles en cours de construction pour ce qui est des moyens SIC.

13.3 Cela entraînera un dépassement du plafond du fonds de roulement. Se pose donc la question de savoir si la réserve pour amortissement doit être considérée comme faisant partie du fonds de fonctionnement. Un autre argument plaidant en faveur d'une dissociation de la réserve pour amortissement du fonds de fonctionnement est le fait que cette réserve ne contient pas de liquidités disponibles pour une utilisation future, mais que les liquidités ont déjà été utilisées pour acheter les actifs.

Recommandation

13.4 Le Collège recommande de retirer les réserves pour amortissement du fonds de fonctionnement. Il faut toutefois continuer de les présenter en tant qu'actifs nets de la NCIO.

SUITES DONNÉES AUX OBSERVATIONS ET AUX RECOMMANDATIONS ANTÉRIEURES

Le Collège a fait le point sur les questions qui avaient fait l'objet d'observations à l'issue de précédents audits et auxquelles il n'avait pas encore été donné suite. La situation actuelle est récapitulée dans le tableau ci-après.

OBSERVATION/RECOMMANDATION	MESURES PRISES	ÉTAT DE LA QUESTION
NCIO – Rapport d'audit 2015 (IBA-AR(2016)10)		
1. ABSENCE DE SYSTÈME INTÉGRÉ QUI PERMETTE UNE GESTION ET UN COMPTE RENDU FINANCIER EFFICACES ET EFFICIENTS DES IMMOBILISATIONS CORPORELLES ET DES IMMOBILISATIONS INCORPORELLES **Recommandation n° 1** Le Collège recommande à la NCIO de continuer à rechercher puis de mettre en œuvre une solution intégrée pour l'acquisition des immobilisations corporelles et des immobilisations incorporelles, leur gestion et le compte rendu y afférent, afin de réduire les problèmes d'efficacité et les risques associés à l'utilisation d'un grand nombre de systèmes comptables et d'outils logistiques différents. La mise en œuvre d'une telle solution devrait intervenir dans les délais fixés.	La NCIA convient qu'elle a besoin d'une solution intégrée, qui lui sera apportée grâce à la mise en œuvre de l'EBA, financée sur le programme de transition. Ce programme ayant pris du retard, l'Agence a fait savoir au Collège qu'elle tentait d'atténuer les risques au moyen de diverses mesures.	Observation **rendue caduque par l'observation n° 1 formulée pour l'exercice 2016**.
2. ABSENCE DE PROCESSUS COHÉRENT ET FIABLE DE CALCUL DES PRODUITS GÉNÉRÉS PAR LES PROJETS DE DÉVELOPPEMENT CAPACITAIRE SUR LA PÉRIODE CONSIDÉRÉE **Recommandation n° 2** Le Collège recommande : a) de définir les grandes étapes des projets de manière plus précise, notamment sous la forme d'activités ou de groupes de tâches ; b) d'intégrer dans un système centralisé les coûts d'investissement relatifs aux projets, de manière à n'utiliser qu'un seul système pour l'estimation des coûts futurs liés aux projets ; c) de mettre en place pour les gestionnaires de projet des processus normalisés d'estimation des coûts d'achèvement, de réinstaurer une revue détaillée de ces éléments	L'automatisation du processus d'estimation des coûts d'achèvement (CTC) fera partie du périmètre de l'EBA. L'étude réalisée par un consultant a aidé à établir trois guides d'utilisation pour les modèles de coûts d'achèvement, dont un guide Tiers et un guide Prestation de services. Un projet d'instruction permanente (SOP) relative au processus CTC est toujours à l'examen.	Observation **rendue caduque par l'observation n° 3 formulée pour l'exercice 2016**.

OBSERVATION/RECOMMANDATION	MESURES PRISES	ÉTAT DE LA QUESTION
par la hiérarchie et la Direction Finances, et de documenter ces différentes démarches ainsi que les résultats du processus d'estimation ; d) de préciser davantage, dans les instructions de fin d'année adressées aux gestionnaires de projet, ce que doit couvrir l'estimation des coûts d'achèvement et comment cette estimation doit être effectuée.		
3. NÉCESSITÉ DE MESURES COMPLÉMENTAIRES POUR UNE PLEINE CONFORMITÉ AVEC LA VERSION RÉVISÉE DU RÈGLEMENT FINANCIER DE L'OTAN, ET EN PARTICULIER AVEC LES ARTICLES RELATIFS AU CONTRÔLE INTERNE ET À LA GESTION DES RISQUES **Recommandation n° 3** Le Collège formule les recommandations ci-après : a) la NCIO devrait adopter officiellement le cadre de contrôle interne (COSO ERM) à l'aune duquel elle s'évalue actuellement en interne ; de plus, une coordination avec le responsable de la politique d'information financière devrait être assurée de façon à ce que l'on adopte un cadre cohérent pour l'ensemble de l'OTAN ; b) la NCIO devrait, d'une part, actualiser le registre des risques de l'Agence pour qu'il fasse état des mécanismes de contrôle en place, des limites de tolérance face aux risques et des mesures à prendre pour atténuer les risques répertoriés et, d'autre part, faire en sorte que toutes les directions et unités organisationnelles de l'Agence se dotent d'un registre des risques actualisé de la sorte pour l'exercice 2016.	La NCIA continuera d'avancer sur la voie de la conformité avec le NFR révisé et les FRP.	Observation **rendue caduque par l'observation n° 5 formulée pour l'exercice 2016**.
4. FAIBLESSES DANS LE PROCESSUS DE PLANIFICATION DE LA SÉLECTION DES FOURNISSEURS **Recommandation n° 4** Le Collège recommande que, pour éviter que les projets prennent du retard lors de la phase d'évaluation, la NCIO fasse en sorte que :	La directive de 2016 relative aux acquisitions sera d'application à partir de 2017. Des procédures d'acquisition plus détaillées ont été publiées récemment, en juin 2017.	Observation **rendue caduque par l'observation n° 7 formulée pour l'exercice 2016**.

OBSERVATION/RECOMMANDATION	MESURES PRISES	ÉTAT DE LA QUESTION
a) des dates réalistes pour l'attribution des marchés soient communiquées aux titulaires de budget ; b) les plans de sélection des fournisseurs soient approuvés et les présidents de commission d'évaluation des projets soient nommés avant la publication des documents d'appel d'offres ; c) les commissions d'évaluation des projets soient dotées de ressources adéquates pour la planification.		
5. RECOURS INSUFFISANT À LA MISE EN CONCURRENCE POUR LES CONTRATS DE SUPPORT DES SERVICES EN 2015 ET EN 2016 **Recommandation n° 5** Le Collège recommande à la NCIO : a) de continuer de s'efforcer, pour ce qui est de l'attribution des contrats de support des services informatiques, de respecter le régime général de mise en concurrence, et de faire passer les postes existants à ce même régime ; b) de mieux veiller à ce que, dans le domaine informatique, les dérogations, c'est-à-dire le recours à des contrats de gré à gré, s'appuient uniquement sur des arguments d'ordre opérationnel, technique ou économique ou sur des raisons d'efficacité ; c) de veiller à ce que le directeur général approuve l'engagement des contractants lorsqu'il y a lieu.	Deux nouveaux SSC ont été attribués depuis que le Collège a formulé son observation.	Observation **rendue caduque par l'observation n° 8 formulée pour l'exercice 2016**.
6. NÉCESSITÉ D'AMÉLIORER ENCORE LA GESTION DES IMMOBILISATIONS CORPORELLES ET DES IMMOBILISATIONS INCORPORELLES **Recommandation n° 6** Le Collège recommande à la NCIO : a) de poursuivre son travail de comptabilisation et d'inscription à l'actif des moyens SIC acquis depuis 2013 ; b) d'améliorer la qualité de l'inventaire du CSSC au moyen d'un système de gestion des	Dans le cadre du projet EBA, il est prévu que de nouveaux modules viendront compléter le processus, et notamment un module de gestion des entrepôts.	Question **partiellement réglée**. a) Les immobilisations corporelles acquises au travers

OBSERVATION/RECOMMANDATION	MESURES PRISES	ÉTAT DE LA QUESTION
entrepôts qui permette un meilleur suivi des actifs corporels en transit ; c) de procéder à des vérifications physiques des stocks en fin d'exercice financier.		du CNAFS ont été inscrites à l'actif. Absence d'assurance permettant d'affirmer que tous les moyens SIC (qui ne sont pas en cours de construction) qui ont été acquis au travers du CFS ont été inscrits à l'actif. b) La qualité des données relatives au CSSC a été grandement améliorée. c) Cela a été fait pour les activités de fin d'exercice au CSSC, mais pas dans tous les sites.
7. NÉCESSITÉ D'AMÉLIORER LES ACTIVITÉS DE CLÔTURE DE PROJETS **Recommandation n° 7** Le Collège recommande à l'Agence de continuer d'améliorer son processus de clôture des projets : a) en publiant une directive complète et harmonisée sur les activités de clôture, y compris des SLA ; b) en clarifiant la pratique relative aux excédents supérieurs à 8 % et/ou à 10 000 EUR ; c) en faisant en sorte que le SLMB se prononce plus fréquemment sur les projets clôturés, afin notamment d'éviter de donner l'impression que les décisions ne sont prises qu'après la fin de l'exercice pour permettre à l'Agence de jouer sur le niveau de l'excédent ou du déficit notifié dans les états financiers.	L'établissement d'instructions permanentes pour la clôture d'exercice est en cours. Ces instructions porteront sur les projets et sur les SLA.	Observation **rendue caduque par l'observation n° 9 formulée pour l'exercice 2016**.

OBSERVATION/RECOMMANDATION	MESURES PRISES	ÉTAT DE LA QUESTION
8. NÉCESSITÉ DE PLUS DE TRANSPARENCE CONCERNANT LES DÉCISIONS DU SLMB VISANT LA RESTITUTION DE CERTAINS EXCÉDENTS AUX CLIENTS PLUTÔT QUE L'ALIMENTATION DU FONDS DE FONCTIONNEMENT **Recommandation n° 8** Le Collège recommande : a) que les divers organes de l'OTAN ayant un droit de regard sur l'utilisation qui est faite du fonds de fonctionnement valident la pratique actuelle du SLMB consistant à prendre des décisions visant la restitution des excédents aux clients plutôt que leur affectation au fonds de fonctionnement ; b) que les notes jointes à l'état de l'actif net/situation nette (fonds de fonctionnement) de la NCIO comprennent un récapitulatif des décisions du SLMB concernant les excédents constatés à la clôture des projets.	Cela n'a pas été fait. Le montant approuvé par le SLMB en 2016 a été présenté dans une note.	Question **partiellement réglée**.
9. FAIBLESSES DANS LA CONSTATATION DES PRODUITS POUR LES ACCORDS SUR LES NIVEAUX DE SERVICE **Recommandation n° 9** Le Collège recommande que l'Agence, en coordination avec ses clients, ajuste plus fréquemment les ordres d'achat non exécutés pour le financement de SIC extérieurs.	L'Agence a pris des mesures en ce sens, suite aux pressions exercées par les clients en fin d'année.	Question **réglée**.
11. EXHAUSTIVITÉ DES INFORMATIONS RELATIVES AUX PARTIES LIÉES **Recommandation n° 11** Le Collège recommande à la NCIO de respecter pleinement les exigences fixées dans le cadre comptable OTAN s'agissant de la présentation des informations relatives aux parties liées, et d'adresser des demandes d'explication aux organes directeurs pour faire en sorte que les informations relatives aux opérations entre parties liées soient exhaustives.	Cela a été fait.	Question **réglée**.

OBSERVATION/RECOMMANDATION	MESURES PRISES	ÉTAT DE LA QUESTION
12. ATTRIBUTION DE LA FONCTION DE RESPONSABLE DE LA MISE EN CONCURRENCE **Recommandation n° 12** Le Collège formule les recommandations ci-après : a) la fonction de responsable de la mise en concurrence devrait être séparée de la sphère d'influence de la Direction Acquisitions afin de pouvoir être exercée en toute indépendance et de garantir l'équité du processus d'acquisition ; b) le responsable de la mise en concurrence devrait présenter chaque année un rapport sur ses activités à la direction de la NCIA et au Comité de surveillance de l'Agence.	L'ASB a pris une décision concernant le rôle du responsable de la mise en concurrence suite à la recommandation formulée par le Collège.	Question **réglée**.
NCIO – RAPPORT D'AUDIT 2014 (IBA-AR(2015)20)		
7. ABSENCE DE PROCESSUS FORMEL ET DOCUMENTÉ PERMETTANT D'IDENTIFIER LES PASSIFS ÉVENTUELS ET D'EN RENDRE COMPTE DANS LES NOTES JOINTES AUX ÉTATS FINANCIERS **Recommandation n° 7** Le Collège recommande à la NCIO d'améliorer les procédures de demande, de recueil et d'analyse des informations sur les passifs éventuels, de manière à pouvoir garantir l’exactitude et l'exhaustivité des informations sur les passifs éventuels fournies dans les notes jointes aux états financiers. Les procédures visées devraient en outre être parfaitement documentées.	Établissement d'un projet d'instructions de l'Agence sur le compte rendu relatif aux provisions, aux passifs/actifs éventuels et aux événements postérieurs à la période sur laquelle porte le compte rendu.	Question **partiellement réglée**. **On attend la publication par l'Agence des instructions évoquées et des SOP relatives aux acquisitions.**
8. ABSENCE DE CONFIRMATION DU SOLDE DE CERTAINS ÉLÉMENTS D'ACTIF ET DE PASSIF IMPUTABLES À D'AUTRES ENTITÉS OTAN EN FIN D'EXERCICE **Recommandation n° 8** Le Collège recommande à la NCIO d'améliorer le processus – préparation, envoi du courrier et réception des réponses – qui doit lui permettre de se faire confirmer par d'autres organismes OTAN le solde des éléments d'actif et de passif leur correspondant en prévision de l'établissement des états financiers.	Malgré certaines améliorations apportées au compte rendu relatif aux soldes de fin d'exercice pour les éléments d'actif et de passif, le rapprochement avec les principaux clients reste incomplet.	Question **restant à régler**.

OBSERVATION/RECOMMANDATION	MESURES PRISES	ÉTAT DE LA QUESTION
10. ABSENCE DE COMPTE RENDU SPÉCIFIQUE SUR LE COMMANDEMENT ET LE CONTRÔLE AÉRIENS (C2 AIR) ET LA DÉFENSE ANTIMISSILE BALISTIQUE (BMD) DANS LES ÉTATS FINANCIERS **Recommandation n° 10** Le Collège recommande à la NCIO de fournir, dans les notes jointes aux états financiers, des informations sectorielles sur les programmes BMD et C2 Air afin d'aider les comités directeurs compétents, ainsi que d'autres comités OTAN, à s'acquitter de leurs fonctions de gouvernance et responsabilités.	Suite à une étude réalisée par un consultant, trois bases sectorielles ont été analysées : – informations sectorielles de la NCIO « Documentation budgétaire » ; – informations sectorielles de la NCIO « Développement capacitaire des C3/Fourniture de services SIC/Autres » ; – informations sectorielles de la NCIO « Groupes de lignes de services ». Le choix effectué par la NCIO combine des éléments des deux dimensions suivantes : - informations sectorielles « Documentation budgétaire » ; - informations sectorielles « Gouvernance organisationnelle ».	Question **restant à régler**. **On attend l'implémentation finale de l'EBA.**
NCIO – RAPPORT D'AUDIT 2013 (IBA-AR(2014)22)		
4. PROCESSUS DE COMPTE RENDU FINANCIER NE PERMETTANT PAS ENCORE D'ATTÉNUER VÉRITABLEMENT LE RISQUE D'ERREUR DANS LES ÉTATS FINANCIERS **Recommandation n° 4** Le Collège recommande à la NCIO d'améliorer ses procédures de contrôle du compte rendu financier, notamment la procédure d'examen par la direction, pour que le risque d'erreur dans les états financiers soit adéquatement atténué.	Le Collège a constaté des améliorations dans le processus d'établissement et de publication des états financiers de 2016, en dépit du manque de personnel financier. Il a toutefois noté que l'Agence continuait de travailler avec deux systèmes	Question **partiellement réglée**.

OBSERVATION/RECOMMANDATION	MESURES PRISES	ÉTAT DE LA QUESTION
	comptables différents et qu'elle avait encore largement recours à des feuilles de calcul pour déterminer les produits à constater. La NCIO devrait continuer d'améliorer ses procédures de contrôle du compte rendu financier, notamment la procédure d'examen par la direction.	
NCIO – RAPPORT D'AUDIT 2012 (IBA-AR(2013)23)		
5. ÉTATS FINANCIERS DU SECTEUR CD (ANCIENNEMENT NC3A) DE LA NCIA **Recommandation n° 5** Le Collège estime que la gestion du personnel temporaire de la NCIA doit être assurée dans le respect du RPC ainsi que de la législation néerlandaise dans le cas du personnel temporaire employé aux Pays-Bas.	Il n'y a plus d'agent temporaire sous ce statut.	Question **réglée**.
6. ÉTATS FINANCIERS DU SECTEUR SD (ANCIENNEMENT NCSA) DE LA NCIA **Recommandation n° 6** Le Collège recommande que, maintenant qu'a été approuvé un cadre IPSAS adapté, contenant des dispositions différentes de celles de l'IPSAS 17, la NCIA établisse une méthode comptable détaillée pour les immobilisations corporelles et veille à ce que suffisamment d'informations soient données à ce sujet dans les notes qui seront jointes aux états financiers futurs.	La méthode comptable applicable aux immobilisations corporelles a été publiée en 2017. Une méthode comptable relative aux immobilisations incorporelles devrait aussi être établie et publiée en 2017.	Question **partiellement réglée**.
NCSA - RAPPORT D'AUDIT 2010 (IBA-AR(2012)10)		
5.2 ABSENCE DE CONSOLIDATION POUR LES ACTIVITÉS SOCIORÉCRÉATIVES La NCSA n'a pas intégré les activités sociorécréatives, dont les produits et les charges représentent 1,4 MEUR, dans ses états financiers de 2010, et aucune information n'a été publiée concernant ces activités. Le Collège estime que les activités sociorécréatives de la NCSA sont contrôlées par celle-ci et qu'à ce titre, les états financiers qui s'y rapportent doivent être intégrés à ceux de la NCSA, conformément à l'IPSAS 6 (*États financiers consolidés et individuels*).	La NCIO a diffusé une directive de l'Agence sur les activités sociorécréatives. Le Collège n'a toutefois pas trouvé d'informations financières à l'appui de ces activités, informations qui auraient dû être fournies dans une note jointe aux états financiers ainsi que le requiert le cadre comptable OTAN.	Question **restant à régler**.

OBSERVATION/RECOMMANDATION	MESURES PRISES	ÉTAT DE LA QUESTION
Recommandation Le Collège recommande à la NCSA d'intégrer les activités sociorécréatives dans ses états financiers afin de présenter fidèlement le solde total des recettes et des dépenses, ainsi que des actifs et des passifs.		

**ORGANISATION OTAN D'INFORMATION ET DE COMMUNICATION (NCIO)
COMITÉ DE SURVEILLANCE DE L'AGENCE (ASB)
COMITÉ FINANCIER
COMMENTAIRES OFFICIELS
SUR LA LETTRE D'OBSERVATIONS ET DE RECOMMANDATIONS**

**OBSERVATION N° 1 :
ABSENCE DE SYSTÈME INTÉGRÉ QUI PERMETTE UNE GESTION ET UN COMPTE RENDU FINANCIER EFFICACES ET EFFICIENTS DES IMMOBILISATIONS CORPORELLES ET DES IMMOBILISATIONS INCORPORELLES**

Commentaires officiels de l'ASB de la NCIO

Comme il l'a fait pour les exercices précédents, le Collège souligne que les multiples systèmes comptables et les systèmes logistiques séparés utilisés par la NCIO ne lui permettent pas d'assurer un contrôle efficace et efficient de ses immobilisations corporelles et de ses immobilisations incorporelles car ils ne permettent pas de maîtriser le risque de non-enregistrement d'opérations portant sur des actifs ni le risque d'erreur dans l'enregistrement de telles opérations. Pour faire face à ces difficultés, l'Agence a défini des prescriptions spécifiques pour l'EBA, qui doit être mise en service début 2018. L'EBA constituera une solution pleinement intégrée.

Cela étant, l'Agence a déjà pris, quand c'était possible, des mesures importantes pour traiter les problèmes relatifs à la gestion des actifs et pour améliorer la situation en attendant la mise en service de l'EBA.

- *En application du cadre comptable OTAN, l'Agence a entrepris de comptabiliser tous les actifs servant à la prestation de services acquis depuis le 1er janvier 2013, y compris ceux qui ont été acquis sur des budgets SIC délégués. Le processus de transfert/reprise des actifs SIC a été achevé en 2014 pour ce qui est des implantations fixes de la structure de commandement, et à la fin 2015 pour ce qui est de la mission Resolute Support. Dans le cadre de ces travaux, et grâce aux nouveaux processus mis en place, les comptes d'actif continuent d'être affinés et actualisés.*
- *Au 1er janvier 2014, l'Agence a ramené le nombre de systèmes financiers de trois à deux en faisant migrer les données du système ProAcc/ProCure, celui de l'ex-NACMA, vers le système PeopleSoft, celui de l'ex-NC3A (logiciel financier central – CFS).*
- *L'Agence a activé dans le CNAFS (application tournant sous Oracle) de l'ex-NCSA les outils de gestion des stocks et des actifs qui étaient déjà disponibles dans le CNAFS du NPC. La migration du NDSS est achevée au Centre de soutien et de maintien en condition opérationnelle des SIC (CSSC), à Brunssum, ainsi que dans les unités de soutien des SIC de la NCIA réparties*

dans les différents organismes OTAN. Ces outils permettent désormais de comptabiliser les stocks et les actifs nouvellement acquis pour la prestation de services.

- *La NCIA a joué un rôle clé dans le travail qui a été réalisé en collaboration avec le responsable OTAN de la politique en matière d'information financière, et qui a mené à l'adaptation du cadre comptable OTAN, dont la version révisée, approuvée par le Conseil fin avril 2016, lève l'ambiguïté qui existait entre la notion de « contrôle » et celle de « propriété » des moyens SIC (il est désormais établi que la NCIO a également le contrôle de ces moyens) et prévoit une période de transition, la NCIA ayant jusqu'au 1er janvier 2018 pour comptabiliser les moyens en cours de construction.*
- *L'Agence a apporté sa contribution à l'établissement de la méthode comptable OTAN applicable aux immobilisations corporelles, qui a été approuvée par le RPPB en avril 2017, et de la méthode comptable relative aux immobilisations incorporelles, qui est actuellement à l'examen au sein du Bureau de la planification et de la politique générale des ressources (RPPB), qui doit se prononcer dans le cadre d'une procédure d'accord tacite.*
- *Pour l'heure, la NCIA s'attache à configurer l'EBA de manière à ce qu'elle couvre tous les besoins de l'Agence s'agissant des immobilisations corporelles, des immobilisations incorporelles, des actifs en cours de construction et des stocks.*

En résumé, l'Agence convient qu'elle a besoin d'une solution intégrée, qui lui sera apportée grâce à l'EBA. En attendant, le Collège a constaté que l'Agence avait déployé des efforts considérables pour atténuer certaines des difficultés liées à la gestion des actifs. Il importe de souligner que la migration des immobilisations corporelles et des stocks enregistrés dans le NDSS vers l'actuel système comptable du système financier automatisé centralisé de l'OTAN (CNAFS) est achevée au Centre de soutien et de maintien en condition opérationnelle des SIC (CSSC) et dans les unités de soutien des SIC (CSU). La NCIA a poursuivi ses efforts pour faire en sorte que l'EBA traite de manière appropriée les besoins en matière de comptabilisation des immobilisations corporelles et des immobilisations incorporelles, et en particulier des moyens en cours de construction et, à cet égard, l'implémentation de l'EBA est une condition préalable indispensable pour que l'Agence puisse respecter l'échéance du 1er janvier 2018.

OBSERVATION N° 2 :
SOUS-ÉVALUATION À HAUTEUR DE 35 MEUR DES STOCKS

Commentaires officiels de l'ASB de la NCIO

Suite au processus de transfert/reprise des stocks des commandements OTAN en 2014, la NCIA a appliqué la méthode prévue dans le cadre comptable OTAN (IPSAS 12 adaptée) pour la comptabilisation des stocks acquis avant le 1er janvier 2013, et les a considérés comme entièrement passés en charges.

La vérification effectuée par l'IBAN au CSSC de la NCIA a confirmé que l'Agence tenait des registres comptables complets pour ce qui est des soldes des stocks physiques.

L'Agence reconnaît que l'écriture de régularisation qui a été effectuée en 2014 et qui faisait baisser les actifs d'un montant correspondant à la valeur des articles des stocks acquis avant 2013 aurait dû être revue afin qu'elle reflète la rotation des stocks au fil du temps. Il faudra effectuer des recherches complémentaires pour déterminer comment comptabiliser correctement le passif/le produit correspondant quand l'écriture de contrepassation sera effectuée. La NCIA consultera l'IBAN et lancera un débat sur la question au sein du Groupe de travail OTAN sur la comptabilité afin qu'une méthode comptable correcte et cohérente soit appliquée au sein de l'OTAN.

OBSERVATION N° 3 :
ABSENCE DE PROCESSUS COHÉRENT ET FIABLE DE CALCUL DES PRODUITS GÉNÉRÉS PAR LES PROJETS DE DÉVELOPPEMENT CAPACITAIRE SUR LA PÉRIODE CONSIDÉRÉE

Commentaires officiels de l'ASB de la NCIO

L'Agence est consciente de la nécessité d'intégrer dans un système centralisé les coûts d'investissement relatifs aux projets afin d'étayer l'estimation des coûts futurs globaux que ces projets généreront. Cela fait partie de la solution comptable intégrée qui est prévue dans l'EBA, et l'Agence pourra donc répondre aux exigences fixées lorsque l'EBA aura été pleinement implémentée.

L'estimation des coûts d'achèvement est effectuée sur la base des chiffres fournis par les gestionnaires de projet, qui s'efforcent d'évaluer au mieux à combien s'élèveront les dépenses liées aux projets, mais cela s'avère d'autant plus difficile que la date de clôture est éloignée. Cela dit, même si les coûts d'achèvement estimatifs des projets en cours d'exécution sont surévalués (ou sous-évalués), les incidences seront neutralisées à la fin du cycle de vie des projets, quand les coûts d'achèvement seront égaux à zéro et que les produits constatés correspondront aux montants facturés. Bien que la surévaluation ou la sous-évaluation des coûts d'achèvement puisse avoir une incidence sur le calcul des produits acquis se rapportant à un projet donné pendant une période donnée, la somme des incidences est nulle si l'on considère l'ensemble des projets, plus ou moins avancés (projets nouveaux, projets en cours, et projets clôturés ou en passe de l'être). Comme les projets sont très nombreux (et comme 75 % d'entre eux sont à prix ferme et définitif), les incidences sur la performance pour un exercice donné tendent à être statistiquement insignifiantes.

Malgré les commentaires formulés ci-dessus, l'Agence reconnaît que le processus d'estimation des coûts d'achèvement liés aux projets de développement capacitaire doit être renforcé davantage et être exécuté avec plus de discipline. Elle continue de faire porter ses efforts principalement sur la sensibilisation à ces questions, sur la fourniture d'une documentation et sur la formation de la communauté de gestion de projet, en mettant l'accent tout particulièrement sur les projets NSIP. Les instructions de fin d'exercice sont actuellement à l'examen et seront améliorées pour la clôture de l'année 2017. L'objectif est de faire en sorte que les gestionnaires de projet fournissent de meilleures estimations et fassent preuve de plus de discipline. L'automatisation du processus CTC et son optimisation font partie du périmètre de l'EBA et permettront d'améliorer encore la situation.

OBSERVATION N° 4 :
ABSENCE D'ASSURANCE CONCERNANT LA FIABILITÉ DES ESTIMATIONS POUR PERTES FUTURES S'AGISSANT DU PROGRAMME RELATIF AU NOUVEAU SIÈGE DE L'OTAN

Commentaires officiels de l'ASB de la NCIO

Comme cela a été signalé à l'ASB le 27 avril à Ottawa, l'Agence est dans une situation de dépassement des coûts pour ce projet en raison de la sous-estimation de la complexité du travail et des interdépendances, et en raison des problèmes de performance du contractant, qui ont rendu nécessaire l'établissement d'un bureau de programme et une augmentation considérable des activités de validation et de vérification indépendantes (IV&V). De plus, la nature évolutive de ce programme a mené à un élargissement de son périmètre. En raison de l'importance cruciale de ce programme et des contraintes de temps, cet élargissement a été décidé sans que des crédits aient été prévus au préalable pour le financement des prestations à fournir supplémentaires. Sur la base des informations dont elle disposait à ce moment-là, l'Agence a comptabilisé et provisionné des pertes pour un montant de 4,8 MEUR dans les états financiers de 2016 tels qu'ils ont été soumis à l'IBAN le 31 mars 2017.

Le 22 mai 2017, le Comité financier de l'ASB a été informé du dépassement des coûts et il a chargé l'Agence de trouver avec le client un moyen de combler le déficit pour pouvoir appliquer de manière cohérente les principes du régime de financement par le client, comme le traitement équitable et l'équité, applicables à tous les clients, et pour éviter que les clients en interne n'aient à prendre en charge les coûts supplémentaires liés au déficit dans le projet ANWI ; il a répété qu'il aurait dû être informé à l'avance du dépassement des coûts pour ce projet, plutôt que d'être mis devant le fait accompli. Conformément aux règles du NSIP, l'Agence a récemment soumis au Bureau de projet pour le nouveau siège une demande de fonds visant à couvrir ce dépassement des coûts, que le DPRC a *soumise au NOR pour validation, tâche que ce dernier ne pourra probablement pas finaliser avant septembre 2017.*

Comme l'Agence l'a signalé à l'ASB le 27 juin 2017, dans l'attente de la décision du DPRC, le projet ANWI reste en situation de dépassement des coûts et, sauf instruction contraire de l'ASB de la NCIO, l'Agence continuera de considérer le projet ANWI comme sa première priorité opérationnelle afin de respecter les actuelles échéances de livraison, qui sont liées à l'organisation dans le nouveau siège du sommet de l'OTAN programmé pour 2018.

L'Agence prend note des constatations relatives à l'incertitude et au manque de respect des processus en place, et elle confirme qu'elle a pris des mesures pour pallier les difficultés signalées dans le rapport d'audit.

OBSERVATION N° 5 :
RÉALISATION DE PROGRÈS SUR LA VOIE DE LA CONFORMITÉ AVEC LE RÈGLEMENT FINANCIER DE L'OTAN, ET EN PARTICULIER AVEC LES ARTICLES RELATIFS AU CONTRÔLE INTERNE, À LA GESTION DES RISQUES ET À L'AUDIT INTERNE, ET AVEC LES RÈGLES ET PROCÉDURES FINANCIÈRES APPLICABLES À LA NCIO

Commentaires officiels de l'ASB de la NCIO

L'Agence poursuivra ses efforts pour mettre en œuvre les dispositions du NFR et faire en sorte qu'elles soient pleinement respectées.

OBSERVATION N° 6 :
RÉCLAMATION DU CONTRACTANT SUITE AUX MODIFICATIONS ET AUX RETARDS DANS LA DÉFINITION DES PRESCRIPTIONS CONTRACTUELLES ET À LA COORDINATION INSUFFISANTE ENTRE LA NCIA ET LE COMITÉ DES INVESTISSEMENTS

Commentaires officiels de l'ASB de la NCIO

L'Agence souscrit à la recommandation du Collège visant à ce qu'elle améliore la gestion de l'information et la transparence en rationalisant et en modernisant les processus et les systèmes informatiques utilisés pour la gestion des travaux relatifs aux paquets de capacités. Dans le cas particulier qui est évoqué, les prescriptions initiales ont été modifiées à plusieurs reprises à la demande de la communauté des utilisateurs, ce qui a fait que le Comité des investissements a pris des décisions qui ont donné lieu à des retards dans la définition des prescriptions techniques. Le processus de réclamation a été très long et difficile ; l'Agence a toutefois informé régulièrement le Comité des investissements et le Comité des budgets de l'évolution de la situation.

OBSERVATION N° 7 :
FAIBLESSES DANS LE PROCESSUS DE PLANIFICATION DE LA SÉLECTION DES FOURNISSEURS

Commentaires officiels de l'ASB de la NCIO

Concernant l'observation du Collège selon laquelle l'Agence devrait communiquer aux titulaires de budget des estimations plus réalistes des dates d'attribution des contrats, il est à noter que la NCIA a déployé des efforts considérables pour leur communiquer des dates d'attribution réalistes, en se fondant sur le délai habituellement nécessaire pour mener la stratégie d'acquisition proposée. Ainsi, elle tient compte de certains imprévus pour pouvoir faire face au risque de retard. Toutefois, il faut aussi noter que, quand l'Agence s'écarte du scénario normal, comme dans le cas des problèmes qui se sont posés pour la procédure d'appel d'offres et qui ont nécessité des contacts avec les soumissionnaires et avec les délégations, les procédures spécifiques définies sont suivies. Ce processus donne lieu à des retards difficilement prévisibles, ce qui est souvent dû à des facteurs extérieurs sur lesquels l'Agence n'a pas de prise. Quand l'Agence établira les demandes (estimations de coût de type B) destinées aux titulaires de budget (Comité des investissements), elle continuera de s'attacher à affiner ses scénarios en augmentant (sur la base des données relatives à de précédents projets) les marges de sécurité prévues pour la résolution des problèmes susceptibles de se poser au cours du processus d'évaluation ainsi que le degré de fiabilité des estimations de coût.

Concernant l'observation du Collège selon laquelle les plans de sélection des fournisseurs doivent être approuvés, et la présidence de la PEB nommée, avant la publication des documents d'appel d'offres, l'Agence fera en sorte que les instructions permanentes relatives aux acquisitions qui ont été publiées en juin 2017 et qui définissent les conditions à remplir pour une nomination à la présidence de la PEB avant la publication des documents d'appel d'offres soient dûment suivies.

En outre, pour faire en sorte que des ressources adéquates soient octroyées à la planification comme le recommande le Collège, l'Agence a défini clairement, dans les instructions permanentes évoquées plus haut, les activités de planification de la sélection des fournisseurs ainsi que les rôles et les responsabilités des ressources, ce qui mènera à une budgétisation plus réaliste des coûts des prestations à fournir et aidera à couvrir de manière appropriée les activités connexes concernant la période de dépôt et d'évaluation des offres.

OBSERVATION N° 8 :
RECOURS INSUFFISANT À LA MISE EN CONCURRENCE POUR LES CONTRATS DE SERVICES DE SOUTIEN EN 2016

Commentaires officiels de l'ASB de la NCIO

L'Agence poursuit ses efforts pour optimiser davantage le processus, et le Collège a constaté qu'elle avait déjà tiré des enseignements en vue de l'amélioration du processus d'appel d'offres et de mise en œuvre des actuels SSC. L'Agence confirme que ce travail se poursuit et que la question sera traitée dans le cadre des nouvelles mises en concurrence fin 2018.

OBSERVATION N° 9 :
FAIBLESSES DANS LA GESTION DU PROCESSUS DE CLÔTURE DE PROJET

Commentaires officiels de l'ASB de la NCIO

L'Agence a établi deux instructions permanentes, l'une pour les projets et l'autre pour les SLA. Ces instructions seront réexaminées et mises à jour selon les besoins, et traiteront la question de l'application du critère des 8 %/10 kEUR aux projets et aux SLA après validation par le Comité financier de l'ASB. L'Agence soumettra plus fréquemment à l'examen du SLMB les projets à clôturer.

OBSERVATION N° 10 :
FAIBLESSES DANS LE SYSTÈME DE COMPTABILITÉ HORAIRE (TAS)

Commentaires officiels de l'ASB de la NCIO

L'Agence note avec satisfaction que l'IBAN a constaté que des améliorations avaient été apportées, et elle s'efforcera de continuer d'améliorer l'enregistrement des données dans le TAS et la gestion de ce système, comme l'IBAN le lui a recommandé.

OBSERVATION N° 11 :
COMPLEXITÉ DE L'ENREGISTREMENT DES PROJETS RELATIFS À LA MISSION RESOLUTE SUPPORT DANS LE MODÈLE DES COÛTS D'ACHÈVEMENT

Commentaires officiels de l'ASB de la NCIO

L'Agence souhaiterait souligner que la complexité n'est pas due seulement à l'enregistrement dans trois modèles CTC différents, mais aussi – et surtout – au fait que l'on doive recueillir et traiter des informations provenant de deux systèmes financiers différents.

L'Agence n'est pas d'accord avec l'observation faite au point 11.5, selon laquelle « en raison de la complexité de la question, le lien entre le contrat signé avec le client et la valorisation des produits calculée au moyen des modèles CTC était perdu ». Pour la constatation des produits, le calcul est effectué dans les modèles CTC correspondants, en fonction du système financier et de l'unité comptable dans lesquels l'ordre d'achat émis par le client a été géré, et ainsi, le lien entre cet ordre d'achat, les systèmes financiers et les CTC par code de projet est traçable et peut être présenté. L'Agence confirme toutefois que la question est complexe et qu'assurer la traçabilité demande beaucoup d'efforts.

Position du Collège

Le Collège a examiné la formulation utilisée au paragraphe 11.5 et il a constaté qu'elle exagérait le propos en donnant à penser que le Collège n'avait pas pu trouver le moindre lien. Ce n'est pas le cas. Le paragraphe 11.6 décrit les problèmes de rapprochement spécifiques que le Collège a rencontrés.

Commentaires officiels de l'ASB de la NCIO

L'Agence est d'accord avec le Collège pour dire que des améliorations sont nécessaires, et elle a déjà atténué le risque en 2016 en désignant un POC financier qui a été chargé d'établir le compte rendu mensuel. Toutefois, en raison de la difficulté du processus, l'Agence a aussi décidé vers la fin 2016 que, en 2017, les accords concernant la mission Resolute Support seraient gérés dans un seul système financier. Cela a donné lieu à une amélioration significative du compte rendu et de la gestion financière globale. Des rapports financiers globaux contenant des données à jour sont établis régulièrement et sont utilisés au cours des réunions de coordination hebdomadaires entre le fournisseur de services, la ligne de services O&E et le client JFCBS. La constatation des produits sera aussi traitée dans un modèle CTC.

Par ailleurs, l'Agence intensifiera ses contacts avec le client pour aboutir, à l'issue des réunions d'examen final avec le client, à une version révisée de l'accord écrit passé avec le client, qui sera fondée sur les principes fixés verbalement.

L'Agence est convaincue que les mesures qu'elle a prises pour 2017 lui permettront de se conformer aux recommandations formulées par le Collège.

**OBSERVATION N° 12 :
CARACTÈRE INCOMPLET DES INFORMATIONS DONNÉES DANS LES NOTES RELATIVES AU PROGRAMME DE TRANSITION**

Commentaires officiels de l'ASB de la NCIO

L'Agence donnera suite aux recommandations formulées par l'IBAN.

OBSERVATION N° 13 :
RÉSERVE POUR AMORTISSEMENT ET FONDS DE FONCTIONNEMENT

Commentaires officiels de l'ASB de la NCIO

L'Agence souscrit à la recommandation faite par le Collège et note que, depuis qu'elle a été créée, ses réserves pour amortissement ont toujours fait partie du fonds de fonctionnement, en vertu des instructions données par les pays. Elle est consciente des difficultés qui vont se poser à l'avenir, lorsque, à partir du 1er janvier 2018, la NCIO commencera à inscrire à l'actif les moyens SIC en cours de construction. Comme indiqué par le Collège, en fonction du traitement comptable qui sera appliqué, l'impact sur la réserve pour amortissement pourrait être considérable. L'Agence examinera la définition du fonds de fonctionnement et soumettra une proposition à l'ASB afin d'établir une distinction claire entre le fonds de fonctionnement et l'actif net.

PROPOSITION DE COMMENTAIRES FACTUELS ET OFFICIELS CONCERNANT L'ÉVALUATION PAR LE COLLÈGE DES SUITES DONNÉES AUX OBSERVATIONS ANTÉRIEURES

Sur les seize questions qui ont fait l'objet d'observations et/ou de recommandations lors des audits précédents, onze ont été réglées ou rendues caduques, et sept doivent encore être réglées, parmi lesquelles quatre ont reçu à ce stade une réponse partielle. L'Agence fait ci-après le point sur les sept questions restant à régler.

Recommandation n° 6 du rapport d'audit 2015 relatif à la NCIO

Commentaires officiels de l'ASB de la NCIO

Le Collège considère que cette question est partiellement réglée. Il a constaté que les immobilisations corporelles acquises au travers du CNAFS sont inscrites à l'actif, mais il n'a toujours pas l'assurance que ce soit le cas pour tous les moyens SIC acquis au travers du CFS. L'Agence travaille sur la question, et lorsque l'EBA aura été implémentée, elle pourra donner suite à la recommandation du Collège. Le Collège a constaté que la qualité des données relatives au CSSC s'était considérablement améliorée, et que les contrôles des stocks physiques étaient effectués de manière appropriée au CSSC, mais pas dans tous les sites. L'Agence est pleinement consciente de la situation et poursuit ses efforts visant à appliquer le processus de contrôle des stocks physiques en fin d'exercice dans tous les sites. Elle doit cependant faire face à d'importantes contraintes sur le plan des ressources. En raison de la recommandation formulée par le Collège au paragraphe 1.7 concernant les immobilisations corporelles et les immobilisations incorporelles, l'Agence propose de considérer que la question *a été rendue caduque, et d'ajouter les commentaires à la recommandation formulée pour l'exercice 2016.*

Position du Collège

Le Collège a examiné la proposition visant à considérer la question comme rendue caduque et à ajouter les commentaires dans l'observation 1 faite pour l'exercice 2016, mais il a décidé de continuer de considérer la question comme étant partiellement réglée.

Recommandation n° 8 du rapport d'audit 2015 relatif à la NCIO

Commentaires officiels de l'ASB de la NCIO

Cette question est liée à la recommandation formulée par le Collège au point 9 du rapport d'audit 2016. L'Agence s'emploiera à la régler avant la fin de 2017.

Recommandation n° 7 du rapport d'audit 2014 relatif à la NCIO

Commentaires officiels de l'ASB de la NCIO

L'Agence a préparé une instruction permanente, qui en est au stade final de la procédure de coordination. Le processus décrit dans cette instruction sera suivi pour l'établissement des états financiers et facilitera le règlement de cette question en souffrance.

Recommandation n° 8 du rapport d'audit 2014 relatif à la NCIO

Commentaires officiels de l'ASB de la NCIO

Fin 2016, l'Agence avait déjà apporté des améliorations. Elle convient toutefois qu'elle doit faire encore mieux et elle continuera donc de s'efforcer de se conformer à la recommandation formulée par le Collège.

Recommandation n° 10 du rapport d'audit 2014 relatif à la NCIO

Commentaires officiels de l'ASB de la NCIO

L'Agence examinera avec les parties prenantes concernées les résultats de l'étude qui a porté sur l'établissement d'états financiers sectoriels. Elle s'attache à faire en sorte que l'EBA couvre les exigences en matière de présentation d'informations financières sectorielles et pourra donc se conformer à la recommandation du Collège dès que l'EBA aura été implémentée.

Recommandation n° 4 du rapport d'audit 2013 relatif à la NCIO

Commentaires officiels de l'ASB de la NCIO

L'Agence note avec satisfaction que le Collège a constaté que des améliorations avaient été apportées en dépit du manque de personnel. Toutefois, en attendant la mise en œuvre de l'EBA, l'Agence continuera d'assurer un suivi et de chercher à améliorer la situation, dans les limites de ce que permettent ses multiples systèmes financiers et les perfectibles interfaces avec d'autres systèmes des entités d'origine.

Recommandation n° 6 du rapport d'audit 2012 relatif à la NCIO

Commentaires officiels de l'ASB de la NCIO

L'Agence confirme qu'elle collabore très étroitement avec le responsable OTAN de la politique en matière d'information financière à l'établissement des méthodes comptables OTAN. La méthode comptable applicable aux immobilisations corporelles à l'échelle de l'OTAN a été publiée et approuvée par le RPPB en 2017. La méthode comptable relative aux immobilisations incorporelles est à l'examen au sein du RPPB, qui doit se prononcer dans le cadre d'une procédure d'accord tacite. Ces méthodes serviront de base à l'établissement de modalités d'application plus détaillées pour la NCIA.

Recommandation n° 5.2 du rapport d'audit 2010 relatif à la NCSA

Commentaires officiels de l'ASB de la NCIO

L'Agence a diffusé en 2016 une directive sur les activités sociorécréatives, et elle s'emploie actuellement à la mettre en œuvre. Elle continuera de prendre des mesures afin de se conformer à la recommandation formulée par le Collège.

NATO Communications and Information Agency

Agence OTAN d'Information et de Communication

NCIA/FC/2017/00555

NCIO Financial Statements 2016

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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).

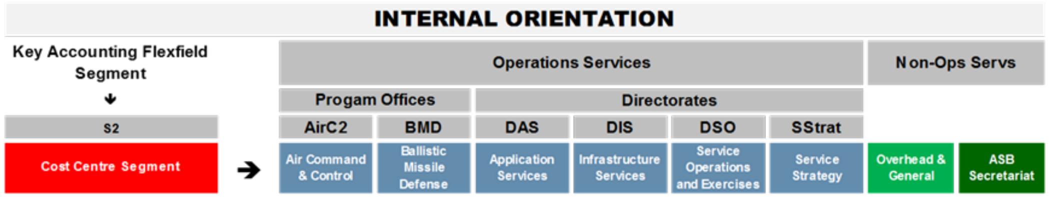
Identifying segments is a judgmental assessment which first requires to determine the objectives of the entity, but also to consider such matters as the expectations of stakeholders (IPSAS 18.15(b)), the qualitative characteristics of financial reporting, including relevance of information that is affected 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.

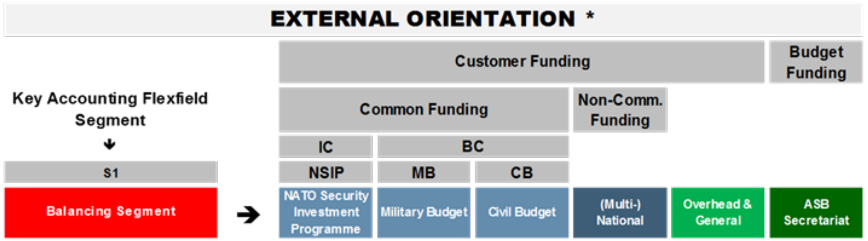
IPSAS 18.18 further prescribes that government agencies are usually managed along service lines, because this reflects the way in which (a) major outputs are identified, (b) their achievements monitored, and (c) their resource needs identified and budgeted. If that is the case, it is likely that reporting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

		Note Unit	NCIO 2016	NCIO 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**

NATO
OTAN

NATO Communications and Information Agency

Agence OTAN d'Information et de Communication

NCI AGENCY

NCIA/FC/2017/00555

NCIO Financial Statements 2016

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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).

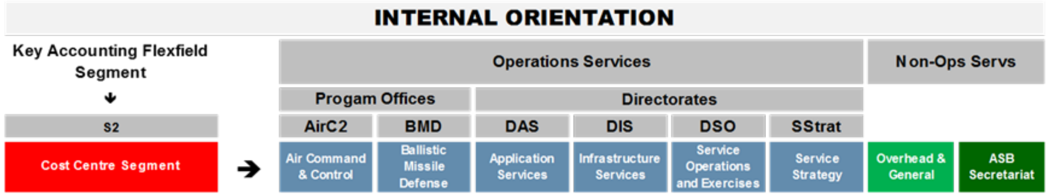
Identifying segments is a judgmental assessment which first requires to determine the objectives of the entity, but also to consider such matters as the expectations of stakeholders (IPSAS 18.15(b)), the qualitative characteristics of financial reporting, including relevance of information that is affected 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.

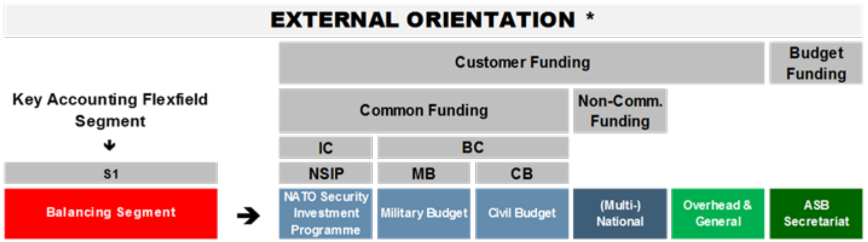
IPSAS 18.18 further prescribes that government agencies are usually managed along service lines, because this reflects the way in which (a) major outputs are identified, (b) their achievements monitored, and (c) their resource needs identified and budgeted. If that is the case, it is likely that reporting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

		Note Unit	NCIO 2016	NCIO 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

	Note	ACQUISITION 31-Dec-2015	Current Year	Disposals / Adjustm.	Transfers / Reversals	Revaluation	31-Dec-2016	DEPRECIATION 31-Dec-2015	Current Year	Disposals / Adjustm.	31-Dec-2016	BOOK VALUE 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 Revenue	Acquisition Revenue		TOTAL
		P3	SLA	SA	Total		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 Revenue	Acquisition Revenue		TOTAL
		P3	SLA	SA	Total		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)

	Note	NCIO 2016 Operating Revenue P3	SLA	SA	Total	External CIS Revenue	Acquisition Revenue NSIP	TP	TOTAL
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	Destination						NET ASSETS/EQUITY
	Year-end Balance	Property, Plant and Equipment (PP&E) & Intangible Assets		Reserves - Special Purpose	Reserves - Special Progr.	RESERVED EARNINGS	RETAINED EARNINGS	
		Acq. Value	Acc. Deprec.	Book Value				Yr-end Balance
31-Dec-05	**5,064,289**	6,352,418	-1,746,915	**4,605,503**	**0**	**4,605,503**	**458,786**	**5,064,289**
31-Dec-06	**6,780,419**	11,440,622	-3,721,092	**7,719,530**	**0**	**7,719,530**	**-939,111**	**6,780,419**
31-Dec-07	**15,448,855**	13,272,399	-6,289,891	**6,982,508**	**0**	**6,982,508**	**8,466,347**	**15,448,855**
31-Dec-08	**16,813,862**	16,337,520	-9,760,847	**6,576,673**	**0**	**6,576,673**	**10,237,189**	**16,813,862**
31-Dec-09	**11,869,058**	20,011,958	-13,481,609	**6,530,349**	**0**	**6,530,349**	**5,338,709**	**11,869,058**
31-Dec-10	**4,183,086**	23,524,061	-18,064,656	**5,459,406**	**0**	**5,459,406**	**-1,276,320**	**4,183,086**
31-Dec-11	**9,913,025**	24,356,808	-20,925,008	**3,431,799**	**0**	**3,431,799**	**6,481,225**	**9,913,025**
31-Dec-12	**15,770,863**	43,368	0	**43,368**	**0**	**43,368**	**15,727,495**	**15,770,863**
31-Dec-13	**18,350,285**	1,043,893	-227,169	**816,725**	**8,570,000**	**9,386,725**	**8,963,561**	**18,350,285**
31-Dec-14	**20,280,170**	8,276,385	-3,906,195	**4,370,190**	**7,817,315**	**12,187,505**	**8,092,665**	**20,280,170**
31-Dec-15	**26,122,091**	11,373,573	-7,445,917	**3,927,656**	**6,217,986**	**10,145,643**	**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

NCIO

Location	ADP Equipment	Comms Equipment	Installed Equipment	Machinery	Mission Equipment	Office Furniture	Passenger Vehicles	Grand Total
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**

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Office of the Financial Controller
Avenue du Bourget 140,
B-1110 Brussels
Belgium
Telephone: + 32 2 707 8286
E: Anne-Marie.Pick@ncia.nato.int
W: www.ncia.nato.int

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].

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[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
General Manager

Anne-Marie Pick
Financial Controller

<u>Distribution:</u>

External

Chairman Board of Auditors for NATO
Chairman NCIO Agency Supervisory Board

Internal

Members Executive Management Board

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Office of the Financial Controller
Avenue du Bourget 140,
B-1110 Brussels
Belgium
Telephone: + 32 2 707 8286
E: Anne-Marie.Pick@ncia.nato.int
W: www.ncia.nato.int

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