

NATO SANS CLASSIFICATION

29 mai 2020

DOCUMENT
C-M(2020)0014-AS1

**RAPPORTS DU COLLÈGE INTERNATIONAL DES AUDITEURS EXTERNES
DE L'OTAN SUR LA VÉRIFICATION DES ÉTATS FINANCIERS 2018
DE L'ACT, DE L'EMI, DU NADEFCOL ET DE LA STO**

NOTE SUR LA SUITE DONNÉE

Le 28 mai 2020, au terme d'une procédure d'accord tacite, le Conseil a pris note du rapport du RPPB annexé au C-M(2020)0014, approuvé les recommandations qu'il contient et marqué son accord pour que le rapport du RPPB, les rapports de l'IBAN et les états financiers 2018 de l'ACT, de l'EMI, du NADEFCOL et de la STO soient rendus publics.

(signé) Jens Stoltenberg
Secrétaire général

NB : La présente note fait partie du C-M(2020)0014 et doit être placée en tête de ce document.

NATO SANS CLASSIFICATION

7 mai 2020

DOCUMENT

C-M(2020)0014

Procédure d'accord tacite :

28 mai 2020 17:30

CONSEIL DE L'ATLANTIQUE NORD

**RAPPORTS DU COLLÈGE INTERNATIONAL DES AUDITEURS EXTERNES
DE L'OTAN SUR LA VÉRIFICATION DES ÉTATS FINANCIERS 2018
DE L'ACT, DE L'EMI, DU NADEFCOL ET DE LA STO**

Note du secrétaire général

1. On trouvera ci-joint les rapports du Collège international des auditeurs externes de l'OTAN (IBAN) sur la vérification des états financiers 2018 du Commandement allié Transformation (ACT), de l'État-major militaire international (EMI), du Collège de défense de l'OTAN (NADEFCOL) et de l'Organisation pour la science et la technologie (STO). Pour ces quatre entités, l'IBAN a émis une opinion sans réserve à la fois sur les états financiers et sur la conformité.
2. Les rapports de l'IBAN ont été examinés par le Bureau de la planification et de la politique générale des ressources (RPPB) (voir annexe).
3. Je ne pense pas que cette question doive être examinée plus avant. Par conséquent, **sauf avis contraire me parvenant d'ici au jeudi 28 mai 2020 à 17h30**, je considérerai que le Conseil aura pris note du rapport du RPPB, approuvé les recommandations qu'il contient et marqué son accord pour que le rapport du RPPB, les rapports de l'IBAN et les états financiers 2018 de l'ACT, de l'EMI, du NADEFCOL et de la STO soient rendus publics.

(signé) Jens Stoltenberg

1 annexe
1 pièce jointe

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**RAPPORTS DU COLLÈGE INTERNATIONAL DES AUDITEURS EXTERNES
DE L'OTAN SUR LA VÉRIFICATION DES ÉTATS FINANCIERS 2018
DE L'ACT, DE L'EMI, DU NADEF COL ET DE LA STO**

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

Références :

- A. IBA-A(2019)0069 – Rapport de l'IBAN sur la vérification des états financiers 2018 du Commandement allié Transformation
- B. IBA-A(2019)0083 – Rapport de l'IBAN sur la vérification des états financiers 2018 de l'État-major militaire international
- C. IBA-A(2019)0111 – Rapport de l'IBAN sur la vérification des états financiers 2018 du Collège de défense de l'OTAN
- D. IBA-A(2019)0103 – Rapport de l'IBAN sur la vérification des états financiers 2018 de l'Organisation pour la science et la technologie
- E. C-M(2015)0025 – Règlement financier de l'OTAN (NFR)
- F. PO(2015)0052 – Mandat issu du sommet du pays de Galles concernant la transparence et l'obligation de rendre compte
- G. PO(2013)0154 – Processus relatif à l'indemnité de représentation

INTRODUCTION

1. Le présent rapport du RPPB concerne les rapports du Collège international des auditeurs externes de l'OTAN (IBAN) sur la vérification des états financiers 2018 de l'ACT, de l'EMI, du NADEF COL et de la STO. Pour ces quatre entités, l'IBAN a émis une opinion sans réserve tant sur les états financiers que sur la conformité (références A, B, C et D).

OBJET

2. Le présent rapport résume les rapports de l'IBAN, afin que le RPPB puisse réfléchir aux questions ou préoccupations d'ordre stratégique qui se posent dans le cadre de la vérification des états financiers des entités OTAN et recommander des lignes de conduite au Conseil s'il y a lieu, une démarche propre à accroître la transparence, à améliorer le compte rendu et à renforcer la cohérence.

EXAMEN DE LA QUESTION

3. L'IBAN n'a formulé aucune nouvelle observation ou recommandation à l'issue de la vérification des états financiers 2018 de l'ACT et de l'EMI. Trois nouvelles observations ont été formulées pour les deux autres entités, une pour le NADEF COL et deux pour la STO. À la date de l'établissement des différents rapports de l'IBAN, treize questions ayant fait l'objet d'observations lors des audits précédents étaient en cours de traitement ou à traiter et trois avaient été traitées. Aucune observation n'a eu d'incidence sur les opinions émises pour 2018.

4. L'élément récurrent commun à ces quatre rapports d'audit est l'observation selon laquelle les entités concernées doivent progresser sur la voie de la mise en œuvre du NFR (référence E), et en particulier des articles relatifs à la gestion des risques, au contrôle interne et à l'audit interne.

5. Le RPPB note que l'ACT s'attache à donner suite à l'observation relative à l'audit interne : trois agents vont venir renforcer les effectifs du service d'audit interne. En 2018, l'IBAN avait relevé, à l'échelle de l'OTAN, de possibles insuffisances dans le contrôle interne. Le RPPB se réjouit dès lors que l'ACT ait demandé au service d'audit interne de réaliser une évaluation des risques de fraude dans tout le commandement et qu'aucun problème n'ait été constaté. L'EMI a formulé une proposition visant à mettre en place une fonction d'audit interne. En attendant que cette proposition se concrétise, les activités d'audit interne continueront d'être confiées à la NCIA. Le RPPB note que la création d'une fonction d'audit interne au sein de l'EMI est indispensable pour garantir l'efficacité du système de contrôle interne et de la politique de gestion des risques.

6. Toutes les entités considérées dans le présent rapport ont défini, à des degrés divers, une politique de gestion des risques, ce qui est encourageant. L'ACT a mis en place des registres des risques budgétaires et financiers, mais il ne dispose toujours pas de procédures de gestion des risques ni de registres exhaustifs, « transversaux » et solides dans d'autres domaines fonctionnels, par exemple au niveau opérationnel. Il devra s'attacher en priorité à réaliser des progrès dans ce domaine. Il est encourageant de constater que l'EMI et le NADEF COL ont établi des politiques et des procédures de gestion des risques ainsi que des registres des risques. La prochaine étape consistera à les faire approuver par la direction et à les faire contrôler par le service d'audit interne. L'IBAN a néanmoins constaté qu'il n'y avait pas de communication régulière entre les différents acteurs au sein du NADEF COL concernant les risques principaux. Le NADEF COL a indiqué qu'il était en phase de transition et que certaines procédures de gestion des risques n'avaient dès lors pas été pleinement mises en application mais que cela ne l'empêchait pas de se rapprocher de la pleine conformité avec les recommandations formulées par l'IBAN. Le RPPB juge encourageants les progrès réalisés à ce jour et attend avec intérêt la mise en place de politiques et de procédures de gestion des risques efficaces et efficientes ainsi que de registres des risques dans toutes les entités OTAN présentant des états financiers.

7. L'IBAN a relevé des cas où les plafonds de remboursement des frais de représentation avaient été dépassés. Le RPPB reconnaît que les sommes sont négligeables, mais il encourage l'ACT à se conformer aux principes énoncés dans le document de référence G (processus relatif à l'indemnité de représentation) et à veiller à ce qu'aucune obligation juridique ne soit contractée en dépassement du budget relatif à l'indemnité de représentation.

8. L'IBAN a également formulé une observation sur le contrôle interne dans son rapport d'audit portant sur la STO après avoir constaté que la ventilation des traitements et des prestations figurant dans les états financiers ne correspondait pas à celle présentée dans les notes jointes à ces états financiers. Le RPPB souscrit à la recommandation de l'IBAN et se réjouit que la STO ait indiqué qu'elle allait s'employer à améliorer l'environnement de contrôle relatif à l'établissement des états financiers de l'exercice suivant.

9. L'IBAN a constaté que le Centre pour la recherche et l'expérimentation maritimes (CMRE) et l'ACT devaient s'améliorer pour ce qui est des délais de validation des livrables du CMRE, l'objectif étant de permettre à la STO de disposer de fonds suffisants pour pouvoir verser les traitements, payer les réparations et régler d'autres dépenses associées aux projets. La STO et l'IBAN s'accordent sur le fait que la formulation utilisée dans le supplément technique au memorandum d'accord conclu entre l'ACT et le CMRE pourrait être améliorée, et ils sont en train de prendre les mesures nécessaires pour réexaminer le memorandum et proposer des modifications.

10. Par ailleurs, l'IBAN a fait le point sur la suite donnée aux questions ayant fait l'objet d'observations lors de précédents audits concernant la STO, et il a constaté que cinq questions étaient en cours de traitement, qu'une question avait été traitée et que deux questions restaient à traiter. L'une des questions restant à traiter porte sur une observation formulée pour l'exercice 2014 (nécessité d'améliorer la comptabilité de gestion par projet). L'IBAN a constaté que la comptabilité par projet n'avait pas été instaurée de manière fiable en raison d'informations incomplètes et d'outils inadéquats. Le RPPB demande instamment à la STO de faire le nécessaire pour pouvoir calculer le montant de l'excédent ou de la perte propre à chaque projet et fournir à la direction les informations nécessaires à la prise de décision.

11. Le RPPB se félicite que la STO ait progressé dans la mise en place d'un système d'évaluation des performances et d'un système d'enregistrement des temps de travail pleinement conformes au Règlement du personnel civil et que des contrôles aient été effectués et documentés en 2019.

CONCLUSIONS

12. Le RPPB se réjouit des importants progrès réalisés par l'ACT dans le domaine de l'audit interne et note que l'EMI a formulé une proposition visant à mettre en place une fonction d'audit interne. Il insiste pour que cette fonction soit instaurée et dotée de ressources suffisantes sans délai, l'objectif étant de réduire la dépendance de l'EMI à l'égard de la fonction d'audit interne de la NCIA.

13. Toutes les entités considérées dans le présent rapport ont défini, à des degrés divers, une politique de gestion des risques, ce qui est encourageant. L'EMI et le NADEF COL ont pris des mesures pour mettre au point des politiques et des procédures de gestion des risques ainsi que des registres des risques, mais ceux-ci doivent encore être approuvés par la direction et contrôlés par le service d'audit interne. Le RPPB juge encourageants les progrès réalisés à ce jour et attend avec intérêt la mise en place dans toutes les entités OTAN présentant des états financiers de politiques et de procédures de gestion des risques efficaces et efficientes ainsi que de registres des risques.

14. Des progrès restent à accomplir dans le domaine du contrôle interne. Le RPPB invite l'ACT à faire en sorte que les principes relatifs aux indemnités de représentation soient respectés afin d'éviter que les plafonds de remboursement des frais de représentation soient dépassés. Le RPPB souscrit aux observations formulées par l'IBAN concernant le contrôle interne à la STO et il invite cette dernière à corriger les incohérences entre les montants relatifs aux traitements et aux prestations dans les prochains états financiers.

15. Le RPPB se réjouit que la STO ait réalisé des progrès concernant la mise en place d'un système d'évaluation des performances parfaitement conforme au Règlement financier de l'OTAN, mais il estime que la STO doit faire mieux encore pour ce qui est des autres questions à traiter, et en particulier de celle ayant trait à la comptabilité de gestion par projet (observation formulée pour l'exercice 2014).

16. Le RPPB recommande que le présent rapport, les rapports de l'IBAN et les états financiers 2018 de l'ACT, de l'EMI, du NADEFCOL et de la STO soient rendus publics, en vertu de la politique agréée dans la référence F.

RECOMMANDATIONS

17. Le Bureau de la planification et de la politique générale des ressources recommande au Conseil :

17.1. de prendre note des rapports de l'IBAN cités en référence A, B, C et D ;

17.2. d'approuver les conclusions formulées dans les paragraphes 12 à 16 du présent rapport.



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

INTERNATIONAL BOARD OF AUDITORS FOR NATO
COLLÈGE INTERNATIONAL DES AUDITEURS EXTERNES DE L'OTAN

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Enclosure to
C-M(2020)0014



IBA-A(2019)0069
19 July 2019

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

Cc: Supreme Allied Commander Transformation (SACT)
Financial Controller, Allied Command Transformation (ACT)
Chairman, Resource Policy & Planning Board (RPPB)
Branch Head, Secretariat and Finance Branch, NATO Office of Resources (NOR)
Private Office Registry

Subject: *International Board of Auditors for NATO (IBAN) Auditor's Report and Letter of Observations and Recommendations on the audit of the Allied Command Transformation (ACT) Consolidated Financial Statements for the year ended 31 December 2018 – IBA-AR(2019)0006*

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

IBAN's report sets out an unqualified opinion on the consolidated financial statements of ACT and on compliance for financial year 2018.

Yours sincerely,

Hervé-Adrien Metzger
Chairman

Attachments: As stated above.

**Note succincte
du Collège international des auditeurs externes de l'OTAN (IBAN)
à l'intention du Conseil
sur la vérification des états financiers consolidés
du Commandement allié Transformation (ACT)
pour l'exercice clos le 31 décembre 2018**

L'IBAN a procédé à la vérification des états financiers consolidés du Commandement allié Transformation (ACT) pour l'exercice clos le 31 décembre 2018. L'ACT se compose de quatre entités principales : le quartier général (QG de l'ACT), le Centre de guerre interarmées (JWC), le Centre d'entraînement de forces interarmées (JFTC) et le Centre interarmées d'analyse et de retour d'expérience (JALLC). L'ACT assume, devant le Comité militaire de l'OTAN, la responsabilité des recommandations générales relatives à la transformation de l'Organisation. D'une part, il étudie des concepts, s'attache à promouvoir l'élaboration de la doctrine et mène des recherches expérimentales, et, d'autre part, il soutient le Commandement allié Opérations (ACO) pour l'organisation et la conduite d'exercices visant à entraîner les forces des pays de l'Alliance et celles des pays partenaires aux opérations multinationales et/ou interarmées.

En 2018, les dépenses de l'ACT se sont établies à environ 143,83 millions d'euros.

L'IBAN a émis une opinion sans réserve sur les états financiers consolidés de l'ACT ainsi que sur la conformité pour l'exercice clos le 31 décembre 2018.

À l'issue de l'audit, l'IBAN n'a pas formulé d'observations pour l'exercice considéré.

L'IBAN a par ailleurs fait le point sur la suite donnée aux questions ayant fait l'objet d'observations lors de précédents audits et il a constaté que cinq questions avaient été traitées, que trois autres étaient en cours de traitement et qu'une question était à traiter.

L'opinion (annexe 2) et la lettre d'observations et de recommandations (annexe 3) ont été transmises au commandant suprême allié Transformation (SACT), dont les commentaires ont ensuite été intégrés dans la lettre (appendice de l'annexe 3).

19 juillet 2019

COLLÈGE INTERNATIONAL DES AUDITEURS EXTERNES DE L'OTAN

**OPINION SUR LES ÉTATS FINANCIERS
DU COMMANDEMENT ALLIÉ TRANSFORMATION
(ACT)
POUR L'EXERCICE CLOS LE 31 DÉCEMBRE 2018**

**OPINION DU COMMISSAIRE AUX COMPTES
À L'INTENTION DU CONSEIL DE L'ATLANTIQUE NORD**

Vérification des états financiers

Opinion sur les états financiers

Le Collège international des auditeurs externes de l'OTAN (IBAN) a procédé à la vérification des états financiers du Commandement allié Transformation (ACT) portant sur la période de 12 mois ayant pris fin le 31 décembre 2018. Diffusés sous la cote 7000 GSB MBX 0010/FC-31-19 et soumis à l'IBAN le 28 mars 2019, ces états financiers se composent de l'état de la situation financière au 31 décembre 2018, 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 la période de 12 mois ayant pris fin le 31 décembre 2018, ainsi que d'un résumé des méthodes comptables importantes et d'autres notes explicatives. Ils contiennent en outre un rapport sur l'exécution du budget portant sur la période de 12 mois ayant pris fin le 31 décembre 2018.

L'opinion de l'IBAN est que les états financiers donnent une image fidèle et exacte de la situation financière de l'ACT au 31 décembre 2018 ainsi que de sa performance financière, de ses flux de trésorerie et de l'exécution du budget pour la période de 12 mois ayant pris fin le 31 décembre 2018, en application des dispositions comptables et des normes de compte rendu du cadre comptable OTAN.

Justification de l'opinion émise sur les états financiers

Le Règlement financier de l'OTAN (NFR) prévoit que l'audit externe des organismes OTAN établis en vertu du Traité de l'Atlantique Nord est effectué par un collège de commissaires aux comptes nommés par le Conseil de l'Atlantique Nord.

L'IBAN a effectué son audit sur la base des normes internationales des institutions supérieures de contrôle des finances publiques (ISSAI 1000-1810), définies par l'Organisation internationale des institutions supérieures de contrôle des finances publiques (INTOSAI), ainsi que des dispositions complémentaires figurant dans sa propre charte.

L'IBAN est indépendant, ainsi que le prévoit le Code de déontologie de l'INTOSAI, et il s'est acquitté de ses responsabilités dans le respect des dispositions de ce code. Les responsabilités des membres de l'IBAN sont décrites de manière plus détaillée dans la section « Responsabilités de l'IBAN concernant la vérification des états financiers » et dans sa charte. L'IBAN estime qu'il a obtenu par son audit les éléments probants nécessaires et suffisants pour lui permettre de formuler une opinion.

Responsabilité de la direction concernant les états financiers

La responsabilité de la direction concernant les états financiers est définie dans le NFR. Les états financiers de l'ACT sont établis en application des dispositions comptables et des normes de compte rendu du cadre comptable OTAN tel qu'approuvé par le Conseil. Il incombe au contrôleur des finances de soumettre les états financiers à l'IBAN au plus tard le 31 mars qui suit la fin de l'exercice visé dans les états financiers.

Les états financiers sont signés par le commandant suprême allié Transformation et par le contrôleur des finances. En apposant leur signature sur ces documents, ceux-ci confirment que des mesures de gouvernance financière, des mécanismes de gestion des ressources, des contrôles internes et des systèmes d'information financière ont été mis en place et maintenus afin de garantir une utilisation efficace et efficiente des ressources.

Cette confirmation couvre l'élaboration, la mise en place et le maintien d'un ensemble de contrôles internes de nature à permettre l'établissement et la présentation d'états financiers qui soient auditable et exempts d'inexactitudes significatives, que celles-ci relèvent d'une fraude ou d'une erreur. Elle couvre aussi le compte rendu relatif à la capacité de l'entité à poursuivre son activité, la présentation, le cas échéant, des questions relatives à la continuité de l'activité, et l'application du principe comptable de continuité d'activité, à moins qu'il soit prévu de liquider l'entité ou de mettre un terme à son activité ou qu'il ne soit pas réaliste de procéder de la sorte.

Responsabilités de l'IBAN concernant la vérification des états financiers

L'audit a pour objectif de permettre à l'IBAN d'obtenir une assurance raisonnable sur le point de savoir si les états financiers considérés dans leur ensemble sont exempts d'inexactitudes significatives, que celles-ci relèvent d'une fraude ou d'une erreur, et de formuler une opinion à leur sujet. L'assurance raisonnable correspond à un degré de certitude élevé, mais elle ne garantit pas qu'un audit effectué conformément aux ISSAI permettra dans tous les cas de détecter les inexactitudes significatives. Les inexactitudes, qui peuvent résulter d'une fraude ou d'une erreur, sont considérées comme significatives lorsque l'on peut raisonnablement s'attendre à ce que, considérées isolément ou collectivement, elles influent sur les décisions économiques que les utilisateurs des états financiers prennent en se fondant sur ceux-ci.

Dans le cadre d'audits effectués conformément aux ISSAI, les auditeurs font appel à leur jugement professionnel et à leur esprit critique tout au long de la planification et de la réalisation du travail. Cela nécessite de tenir compte des particularités que présentent les entités du secteur public. L'IBAN s'attache aussi :

- à recenser et à évaluer les risques d'inexactitudes significatives dans les états financiers, que celles-ci relèvent d'une fraude ou d'une erreur, à concevoir et à mettre en œuvre des procédures d'audit sensibles à ces risques ainsi qu'à obtenir par son audit les éléments probants nécessaires et suffisants pour lui permettre

de formuler une opinion ; le risque de non-détection d'une inexactitude significative relevant d'une fraude est plus élevé que le risque de non-détection d'une inexactitude significative relevant d'une erreur car la fraude peut résulter d'une collusion, d'une falsification, d'omissions intentionnelles, de fausses déclarations ou du contournement du contrôle interne ;

- à acquérir une connaissance du contrôle interne qui soit pertinente pour l'audit, 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 de l'entité ;
- à déterminer si les méthodes comptables appliquées sont appropriées et si les estimations comptables et les informations connexes fournies par la direction sont raisonnables ;
- à se prononcer sur le caractère approprié ou non de l'utilisation du principe comptable de la continuité d'activité et à déterminer, à partir des éléments probants obtenus par l'audit, s'il existe une incertitude significative du fait d'événements ou de circonstances susceptibles de remettre fondamentalement en cause la capacité de l'entité à poursuivre son activité ; si l'IBAN juge qu'une telle incertitude existe, il est tenu d'appeler l'attention, dans son opinion, sur les informations correspondantes figurant dans les états financiers ou, si ces informations sont incomplètes, de formuler une opinion modifiée ; les conclusions de l'IBAN sont fondées sur les éléments probants en sa possession à la date d'établissement de son rapport d'audit ; il n'est toutefois pas exclu que l'entité soit amenée à cesser son activité en raison d'événements ou de circonstances futurs ;
- à évaluer la présentation générale, la structure et le contenu des états financiers, y compris les informations fournies, et à déterminer si les états financiers rendent compte fidèlement des opérations et des événements qui en font l'objet.

L'IBAN est tenu de communiquer avec les organes chargés de la gouvernance, et notamment de les informer du périmètre et du calendrier de la mission d'audit qu'il prévoit d'effectuer, des principales conclusions de l'audit et des lacunes significatives qu'il aura éventuellement constatées dans le contrôle interne au cours de l'audit.

L'opinion que l'IBAN formule à l'intention du Conseil de l'Atlantique Nord doit aider ce dernier à s'acquitter de son rôle. C'est la raison pour laquelle l'IBAN est responsable de ses travaux et de son opinion devant le seul Conseil.

Vérification de la conformité

Opinion sur la conformité

Sur la base des procédures qu'il a appliquées, l'IBAN estime que rien, dans son audit des états financiers, ne lui donne de raison de penser que les fonds n'ont pas été régulièrement employés à l'acquittement de dépenses autorisées ou qu'ils ne sont pas conformes au Règlement financier de l'OTAN et au Règlement du personnel civil de l'OTAN.

Justification de l'opinion émise sur la conformité

L'IBAN a effectué la vérification portant sur la conformité sur la base des normes internationales des institutions supérieures de contrôle des finances publiques (ISSAI 4000), définies par l'Organisation internationale des institutions supérieures de contrôle des finances publiques (INTOSAI), ainsi que des dispositions complémentaires figurant dans sa propre charte.

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

Responsabilité de la direction concernant la conformité

Tous les membres du personnel – civils et militaires – de l'OTAN sont tenus de respecter le Règlement financier de l'OTAN ainsi que les règles et procédures financières qui s'y rattachent et les directives d'application particulières, dont le Règlement du personnel civil de l'OTAN fait partie.

Le commandant suprême allié Transformation est responsable et tenu comptable d'une saine gestion financière. Les organismes OTAN doivent administrer leurs finances en s'appuyant sur les principes suivants : adéquation, bonne gouvernance, obligation de rendre compte, transparence, gestion des risques et contrôle interne, audit interne, audit externe, prévention et détection des fraudes.

Responsabilités de l'IBAN concernant la conformité

Selon sa charte, en plus d'être responsable de fournir une assurance raisonnable quant à la question de savoir si les états financiers considérés dans leur ensemble sont exempts d'inexactitudes significatives, l'IBAN doit chaque année rendre au Conseil un avis indépendant lui assurant que les fonds ont été régulièrement employés à l'acquittement de dépenses autorisées (adéquation) et qu'ils sont conformes aux règles en vigueur (régularité). Par « adéquation », on entend le respect des principes généraux régissant une gestion financière saine ainsi que la conduite des membres de l'administration. Par « régularité », on entend le respect de critères officiels tels que les règlements, règles et procédures applicables.

Il incombe ainsi à l'IBAN d'appliquer des procédures lui permettant d'obtenir en toute indépendance une assurance sur le point de savoir si les fonds ont été régulièrement employés à l'acquittement de dépenses autorisées et si les opérations correspondantes ont été exécutées conformément à la réglementation en vigueur. De telles procédures prévoient notamment la prise en compte des risques de non-conformité significative.

Bruxelles, le 19 juillet 2019



Hervé-Adrien Metzger
Président

19 juillet 2019

COLLÈGE INTERNATIONAL DES AUDITEURS EXTERNES DE L'OTAN

**LETTRE D'OBSERVATIONS ET DE RECOMMANDATIONS
CONCERNANT LE COMMANDEMENT ALLIÉ TRANSFORMATION
(ACT)**

POUR L'EXERCICE CLOS LE 31 DÉCEMBRE 2018

Introduction

Le Collège international des auditeurs externes de l'OTAN (IBAN) a procédé à la vérification des états financiers de l'ACT pour l'exercice clos le 31 décembre 2018. Il a émis une opinion sans réserve à leur sujet ainsi qu'au sujet de la conformité.

Observations et recommandations

À l'issue de l'audit, l'IBAN n'a pas formulé d'observations pour l'exercice considéré.

L'IBAN a examiné la suite donnée aux questions ayant fait l'objet d'observations lors de précédents audits, et il a constaté que cinq questions avaient été traitées, que trois autres étaient en cours de traitement et qu'une question était à traiter.

L'IBAN a par ailleurs adressé au commandant suprême allié Transformation une lettre (IBA-AML(2019)0003) dans laquelle il fait le point, à l'intention de la direction, sur la suite donnée aux observations antérieures.

SUITES DONNÉES AUX OBSERVATIONS ANTÉRIEURES

L'IBAN a fait le point sur la suite donnée aux questions ayant fait l'objet d'observations et de recommandations lors de précédents audits. On trouvera dans le tableau ci-après un récapitulatif de ces observations et des mesures prises par l'entité, ainsi qu'un état de la question.

OBSERVATION/RECOMMANDATION	MESURES PRISES	ÉTAT DE LA QUESTION
(1) ACT – Exercice 2017 IBA-AR(2018)0007, paragraphe 1.7 NÉCESSITÉ D'AMÉLIORER LES CONTRÔLES INTERNES RELATIFS À LA GESTION DES BIENS AU QG DE L'ACT Recommandation de l'IBAN L'IBAN recommande que le QG de l'ACT : • veille à ce qu'un registre complet et exact de ses biens soit établi dès que possible, conformément au NFR, aux FRP et aux directives de l'ACT ; • veille à ce qu'il soit procédé régulièrement à un inventaire physique des biens au QG de l'ACT et dans les commandements subordonnés à l'ACT afin que les registres demeurent exacts et fiables et pour réduire le risque d'erreur ou de fraude.	Des progrès considérables ont été accomplis dans l'exécution des démarches recommandées. L'ACT a acquis un logiciel spécial de gestion des actifs, dans lequel ont été consignés des biens de l'ACT (essentiellement des articles « attractifs », acquis après le 1^{er} janvier 2017). Des inventaires des biens ont été réalisés en 2018. L'IBAN insiste à nouveau sur l'importance d'un registre complet et exact des biens (comprenant les équipements installés, le mobilier, etc.) pour des raisons de comptabilité. Approuvée par le QG du SACT en mars 2018, la directive 061-001 prévoit un seuil de comptabilisation pour les biens non consommables : 50 % du niveau A (5 000 euros) à moins que le bien soit susceptible d'être « attractif » et détourné à des fins personnelles. L'IBAN invite le QG de l'ACT à s'assurer que le seuil susmentionné lui permet de contrôler efficacement l'ensemble de ses biens.	Question en cours de traitement

(2) ACT – Exercice 2017 IBA-AR(2018)0007, paragraphe 2.4 ABSENCE D'INSCRIPTION À L'ACTIF DES STOCKS D'UNE VALEUR SUPÉRIEURE AU SEUIL DE COMPTABILISATION Recommandation de l'IBAN L'IBAN recommande à l'ACT d'inscrire à l'actif les stocks dont la valeur dépasserait le seuil de 50 000 euros. Il recommande par ailleurs à l'ACT de vérifier l'exactitude et l'exhaustivité des données ainsi que la valeur des biens figurant dans le système comptable du Centre de guerre interarmées (JWC), du Centre d'entraînement de forces interarmées (JFTC) et du Centre interarmées d'analyse et de retour d'expérience (JALLC) afin de s'assurer que les stocks dont la valeur dépasse le seuil de comptabilisation ont bien été inscrits à l'actif.	Les registres des stocks ont été rectifiés. Aucun site ne possède de stock d'une valeur supérieure à 50 000 euros.	Question traitée
(3) ACT – Exercice 2017 IBA-AR(2018)0007, paragraphe 3.11 NÉCESSITÉ D'APPORTER DES AMÉLIORATIONS DANS LES DOMAINES DE LA GESTION DES RISQUES ET DU CONTRÔLE INTERNE Recommandation de l'IBAN L'IBAN recommande que l'ACT : • poursuive la mise au point de registres des risques complets et détaillés aux niveaux stratégique et opératif et s'assure que les registres rendent compte des risques importants dans toutes les fonctions de l'organisme, garantissant ainsi que tous les risques sont bien pris en compte ; cela suppose notamment de faire en sorte que sa politique de gestion des risques à l'échelle de l'entité soit pleinement appliquée dans l'ensemble de l'organisme ; • définisse et établisse clairement une propension au risque (aux niveaux du SACT et du contrôleur des finances) ;	L'ACT continue de s'employer à donner suite à la recommandation. Il est en mesure de déterminer les risques et de prendre des mesures pour les atténuer, mais cette approche doit être plus structurée et requiert la mise en place d'outils informatiques, qui sont encore en cours de développement. Les services chargés du budget et des finances au QG de l'ACT et dans les commandements subordonnés ont mis au point leurs propres registres des risques. La plupart des niveaux opératifs de l'organisme n'ont toujours pas de registre des risques complet et détaillé. Rien ne permet d'affirmer à ce stade que la gestion des risques est un processus	Question en cours de traitement

• consigne par écrit les procédures de contrôle interne et de gestion des risques en place pour les principaux processus opérationnels et évalue la conformité avec le cadre de contrôle interne choisi.	« transversal » à l'ACT, qui engloberait tous les niveaux de l'organisme. La propension au risque n'a toujours pas été officiellement définie. L'ACT ne peut pas démontrer à l'heure actuelle avoir officiellement fait concorder ses objectifs et processus avec les risques et avec les contrôles internes en place.	
(4) ACT – Exercice 2017 IBA-AR(2018)0007, paragraphe 4.6 LA FONCTION D'AUDIT INTERNE À L'ACT Recommandation de l'IBAN L'IBAN formule les recommandations ci-après. • Le service d'audit interne de l'ACT devrait évaluer pleinement le système de contrôle interne et de gestion des risques dans l'ensemble de l'organisme, 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 gestion des risques et les contrôles internes à l'ACT sont efficaces. • Le service d'audit interne de l'ACT devrait s'appuyer sur les registres des risques de toutes les fonctions de l'ACT (lorsqu'ils seront disponibles) pour planifier les missions d'audit interne. Il pourra de la sorte sélectionner les thèmes d'audit suivant une approche structurée qui soit fondée sur les risques et dûment justifiée. • L'ACT ne devrait pas procéder à l'audit d'entités qui n'en font pas partie s'il n'a pas les capacités suffisantes pour réaliser des audits des entités qui ont un lien direct avec lui ou avec les commandements qui lui sont subordonnés. Les ressources limitées dont il dispose pour les audits internes devraient être consacrées aux audits des entités qui ont un lien direct avec lui.	Le service d'audit interne a évalué le processus de gestion des risques dans tout l'ACT et est arrivé à la conclusion que ce processus n'avait pas encore atteint le stade d'avancement escompté. Il en va de même pour ce qui est du système de contrôle interne. Cette conclusion concorde avec les observations de l'IBAN. Les documents de planification des audits internes font apparaître qu'une approche fondée sur les risques a été appliquée pour sélectionner les thèmes d'audit. Il reste que la qualité de cette approche dépend des données figurant dans les registres des risques de toutes les fonctions de l'ACT. Trois personnes vont venir renforcer les effectifs du service d'audit interne. Le nombre d'audits d'entités ne faisant pas partie de l'ACT a été réduit.	Question traîtée

(5) ACT – Exercice 2017 IBA-AR(2018)0007, paragraphe 5.8 JUSTIFICATION INCOMPLÈTE D'UNE DÉROGATION À LA PROCÉDURE D'ACQUISITION NORMALE Recommandation de l'IBAN L'IBAN recommande que le JWC suive le NRF et les règles d'acquisition en place et veille à ce que les dérogations soient pleinement étayées et fondées sur des motifs valables allant dans le sens du NRF.	Il n'a pas été constaté de problème au JWC en 2018.	Question traitée
(6) ACT – Exercice 2016 IBA-AR(2017)06, paragraphe 2.4 CAS DE NON-CONFORMITÉ EN CE QUI CONCERNE LES INDEMNITÉS DE REPRÉSENTATION Recommandation de l'IBAN L'IBAN recommande que l'ACT : - veille à ce que des contrôles adéquats soient en place pour éviter que des dépenses soient effectuées en dépassement du budget annuel ; - n'accorde les indemnités de représentation que sous la forme de remboursements, après approbation du contrôleur des finances ; il convient dès lors de ne plus autoriser le personnel à utiliser des cartes de crédit de l'ACT pour effectuer des achats relevant des frais de représentation.	Tout comme en 2017, l'IBAN a relevé des cas où les plafonds de remboursement des frais de représentation avaient été dépassés. Bien que les sommes soient négligeables, l'IBAN insiste sur le fait qu'il est important, pour des questions de réputation, de respecter les règles applicables aux indemnités de représentation. En 2018, l'ACT a continué d'utiliser des cartes de crédit pour effectuer des achats relevant des frais de représentation.	Question à traiter
(7) ACT – Exercice 2014 IBA-AR(2015)15, paragraphe 2 ABSENCE DE PARALLÉLISME ENTRE LES VERSEMENTS EN FAVEUR DU CENTRE POUR LA RECHERCHE ET L'EXPÉRIMENTATION MARITIMES (CMRE) ET LES PRESTATIONS FOURNIES PAR CE DERNIER Recommandation de l'IBAN L'IBAN recommande que, pour 2015, l'ACT envisage d'échelonner les versements en faveur du CMRE de	Les versements effectués en 2018 en faveur du CMRE ont concordé avec le rythme des prestations.	Question traitée

manière à suivre plus précisément le rythme des prestations.		
(8) ACT – Exercice 2014 IBA-AR(2015)15, paragraphe 3 FAILLES EN MATIÈRE DE CONTRÔLE INTERNE DANS LES PROCÉDURES DE COMPTABILISATION ET DE COMPTE RENDU FINANCIER Recommandation de l'IBAN Comme l'année précédente, l'IBAN recommande à l'ACT d'améliorer sa procédure de vérification des données chiffrées et autres présentées dans ses états financiers, et notamment de désigner une personne étrangère au processus d'établissement des états financiers qui puisse passer en revue ces derniers.	Les états financiers ont été passés en revue à plusieurs niveaux.	Question traitée
(9) ACT – Exercice 2013 IBA-AR(2014)16, section 5 ABSENCE DE CONFIRMATION DU SOLDE DES ÉLÉMENTS D'ACTIF ET DE PASSIF IMPUTABLES À D'AUTRES ENTITÉS OTAN EN FIN D'EXERCICE Recommandation de l'IBAN L'IBAN recommande qu'à partir de l'exercice 2014, l'ACT se fasse confirmer par les autres organismes OTAN concernés le solde des éléments d'actif et de passif leur correspondant en prévision de l'établissement des états financiers.	L'ACT travaille toujours à arrêter des procédures et des processus, qui n'ont pas été établis officiellement, pour vérifier avec l'ACO et la NCIA les soldes leur correspondant. Chaque entité de l'ACT devrait se faire confirmer officiellement par les autres entités OTAN concernées le solde des éléments d'actif et de passif qui lui est imputable en fin d'exercice.	Question en cours de traitement

Une question est considérée comme étant « à traiter » lorsqu'aucun progrès notable n'a encore été réalisé en vue de son règlement. Une question est considérée comme étant « en cours de traitement » lorsque l'organisme OTAN visé a commencé à mettre en œuvre la recommandation correspondante ou lorsque certains éléments de la recommandation (mais pas tous) ont été suivis d'effets. Une question est considérée comme étant « traitée » lorsque la recommandation correspondante a été mise en œuvre ou qu'elle a été rendue ou est devenue caduque.

**COMMENTAIRES OFFICIELS
DU COMMANDANT SUPRÊME ALLIÉ TRANSFORMATION (SACT)
CONCERNANT LA LETTRE D'OBSERVATIONS ET DE RECOMMANDATIONS
ET POSITION DU COLLÈGE INTERNATIONAL DES AUDITEURS EXTERNES
DE L'OTAN (IBAN)**

SUITES DONNÉES AUX OBSERVATIONS ANTÉRIEURES

Commentaires officiels du SACT

La direction de l'ACT est satisfaite de constater que plusieurs des questions ayant fait l'objet d'observations lors d'audits précédents ont été réglées. Pour les autres, les mesures énoncées ci-après ont été prises.

(1) ACT – Exercice 2017

IBA-AR(2018)0007, paragraphe 1.7

**NÉCESSITÉ D'AMÉLIORER LES CONTRÔLES INTERNES RELATIFS À LA
GESTION DES BIENS AU QG DE L'ACT**

Commentaires officiels du SACT

L'ACT se réjouit que l'IBAN reconnaisse que des « progrès considérables » ont été accomplis sur cette question. Il est toutefois conscient que les efforts doivent se poursuivre tout au long de 2019 pour que cette question puisse être considérée comme traitée.

(3) ACT – Exercice 2017

IBA-AR(2018)0007, paragraphe 3.11

**NÉCESSITÉ D'APPORTER DES AMÉLIORATIONS DANS LES DOMAINES DE LA
GESTION DES RISQUES ET DU CONTRÔLE INTERNE**

Commentaires officiels du SACT

L'ACT reconnaît que si les services chargés du budget et des finances au QG et dans les commandements subordonnés ont mis au point des registres des risques, la plupart des niveaux opérationnels de l'organisme n'ont toujours pas de registre des risques complet et détaillé. Il se dit conscient de devoir travailler sur cette question en priorité en 2019 afin de faire montre de progrès supplémentaires.

(6) ACT – Exercice 2016

IBA-AR(2017)06, paragraphe 2.4

CAS DE NON-CONFORMITÉ EN CE QUI CONCERNE LES INDEMNITÉS DE REPRÉSENTATION

Commentaires officiels du SACT

L'ACT continue certes d'utiliser une carte de crédit pour effectuer certains achats relevant des frais de représentation, mais le responsable de la vérification interne vérifie l'intégralité des dépenses. Il y a donc un processus en place pour que les dépenses relevant des frais de représentation effectuées avec une carte de crédit soient dûment validées en toute indépendance conformément à la politique de l'ACT.

(9) ACT – Exercice 2013

IBA-AR(2014)16, section 5

ABSENCE DE CONFIRMATION DU SOLDE DES ÉLÉMENTS D'ACTIF ET DE PASSIF IMPUTABLES À D'AUTRES ENTITÉS OTAN EN FIN D'EXERCICE

Commentaires officiels du SACT

L'ACT avait officialisé le processus de confirmation des soldes par l'ACO pour l'établissement des états financiers de 2016, et il avait officialisé celui qui concerne la NCIA pour l'établissement des états financiers de 2017. Le solde des éléments d'actif et de passif du JALLC et du JFTC imputables à d'autres entités OTAN en fin d'exercice est très limité, voire inexistant, mais l'ACT s'attachera néanmoins à obtenir une déclaration officielle de leur part. Le QG du SACT va également mettre en place un processus officiel par lequel les éléments d'actif et de passif du JWC seront inclus dans les vérifications relevant de la NCIA, comme c'est déjà le cas pour l'ACO.

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NORTH ATLANTIC TREATY ORGANISATION
ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD
HEADQUARTERS, SUPREME ALLIED COMMANDER TRANSFORMATION
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7000 GSB MBX 0010/FC-31-19

TO: Mr Hervé-Adrien Metzger, Chairman, International Board of Auditors for NATO

SUBJECT: 2018 Annual Financial Statements for the ACT Group of Budgets

DATE: 28 March 2019

REFERENCE: A. NATO Financial Regulations, Article 3

1. In accordance with Reference A, I herewith forward the Annual Financial Statements for the Allied Command Transformation Group of Budgets for the Financial Year 2018.
2. I consider that the financial information contained in the Statements agrees with the Allied Command Transformation financial records, and shows the position at the end of the financial year in respect of each of the items listed in Article 34 of the NATO Financial Regulations NFRs).
3. For these 2018 Financial Statements, ACT has again met the timeline set out in the NFRs. This states that Financial Statements are to be produced by 31 March. ACT have also worked closely with the International Board of Auditors for NATO (IBAN) on ensuring they could conclude their audit of all ACT sites by this date.

Peter E. Dahl
Financial Controller
Allied Command Transformation

André Lanata
General, French Air Force
Supreme Allied Commander Transformation

ENCLOSURE

1. 2018 ACT Financial Statements

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DISTRIBUTION:

External: -

Action:

Chairman, IBAN
Budget Committee Secretariat

Information:

Commander JWC
Commander JFTC
Commander JALLC
SACTREPEUR

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**FINANCIAL CONTROLLER'S FOREWORD AND REPORT ON THE
2018 ACT FINANCIAL STATEMENTS**

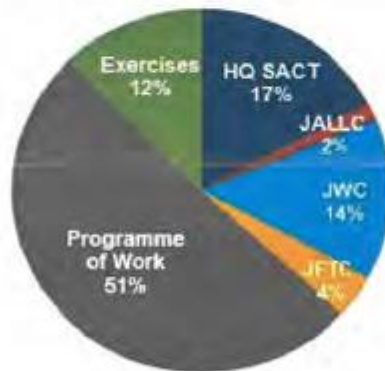
1. The Allied Command Transformation (ACT) Annual Financial Statements for the ACT Group of Budgets cover the period of 1 January 2018 to 31 December 2018 and have been prepared in accordance with the NATO Financial Regulations (NFRs), as well as International Public Sector Accounting Standards (IPSAS) as decided in 2002 by the North Atlantic Council (NAC) and subsequently modified by their decision to introduce the NATO Adapted Framework.

2. These Financial Statements should be read in conjunction with the ACT Annual Report and together, both documents provide visibility to the Nations on how ACT executed its 2018 programme, committed its resources, and contributed to Alliance Capabilities in accordance with the NATO Military Authorities (NMA) Strategic Priorities and Objectives (SPO). The format follows Military Committee (MC) guidance and seeks to ensure that ACT's work is totally transparent.

FINANCIAL SUMMARY

3. On January 1, 2018, ACT was awarded a budget of €138.897M (based on January 2017 exchange rates). At the end of 2017 the NAC approved €1.539M of special carry forward funds identified as surplus for use against 2018 requirements, which resulted in a final budget available for use of €140.436M.

ACT 2018 INITIAL BUDGET ALLOCATION



4. During the course of which the ACT Budgets were reduced by €100K and €857K of uncommitted surplus funds were authorised for special carry forward into 2019. As at 31 December 2018 ACT had committed €136.218M or 98.8% of the remaining €137.94M budget authorisation.

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%	2016	2017	2018
ACT Budget Execution	97.7	97.8	98.8

ACT budget execution expressed in % of the total amount from 2016 to 2018

5. The 2018 Budget Allocation represents €8.771M increase over the 2017 allocation. Three drivers determined this rise: the cost of living increase associated with civilian salaries, the inclusion of the major NATO Live Exercise TRIDENT JUNCTURE in Norway and funding of additional high priority activity in ACT's capability development programme of work.

6 Noting that the ACT Program of Work (PoW) and overhead elements were predominantly executed in accordance with the approved budget some surplus funds were redirected towards the exercise programme to support the increased cost estimation for conducting the TRIDENT JUNCTURE exercise. At year-end surplus funds of approximately €1.7M will be returned to nations, which were predominantly generated from a 5% over estimation of the HQ SACT travel requirements during the year and over estimation of the increased costs associated with TRIDENT JUNCTURE.

7. An examination of budget commitment and expenditure by input category indicates that the commitment pattern is consistent with the previous years.

Chapter	2015	2016	2017	2018
71 (Personnel cost)	20.53%	22.18%	23.22%	22.66%
72 (Contractual Supplies and Services)	79.35%	77.63%	76.4%	77.26%
73 (Capital Investment)	0.12%	0.19%	0.38%	0.09%

OVERVIEW

8. Throughout the year, the Alliance made a significant reassessment of its structure and processes as part of the NATO Command Structure Adaptation. Allied Command Transformation has been central to this work and its implications have heavily influenced our future organization and activities. The new structure is more streamlined and enables the success of our mission as NATO's Warfare Development Command. The initial implementation of the new structure has evolved smoothly and as planned through the application of trial structures and flexibility measures. Nevertheless, much still remains to be achieved.

9. In addition to adaptation, ACT continued to build upon the themes from previous years: engagement, innovation and preservation of the Alliance's military instrument now and in the foreseeable future. The outcomes of the Brussels Summit, in particular, the initiatives to improve the Alliance situational awareness; readiness, sustainability and

interoperability; development of capabilities and technologies; and the consolidation of the partnership framework were integrated in ACT's Programme of Work. These outcomes will continue to guide our deliverables, under a mindset focused on incorporating innovative ways of working.

10. The Annual Report describes significant transformational activities executed by ACT during 2018 against each of these objectives

WAY AHEAD

11. It is SACT's intent that the new ACT, as the Alliance's Warfare Development Command, provide, by design, end-to-end coherence of the NATO military instrument, along three lines of effort: Deliver, Disrupt and Implement.

12. With capability development as ACT's new centre of gravity, we must first focus on delivering tangible and timely output for the Warfighter. Starting with the new NATO Defence Planning Process (NDPP) cycle and Common Funded Capabilities Governance Model, but expanding it to warfare thinking and interoperability, we have to cross-functionally exploit the full array of levers ranging from alternative analysis, education and training, supported by new technologies, common doctrines and lessons learned, and our extensive network, including Centres of Excellence, to further enhance consistency, compatibility and efficiency of our military instrument. Experimentation, together with modelling and simulation, will enable quick adjustment cycles in order to timely field solutions that meet the operators' challenges, and support enhanced decision making, both at the military and political level.

13. As we do so, we will continue disrupting current assumptions, pushing ourselves out of our comfort zone to ensure our Alliance maintains an "edge". Innovation permeates all military adaptation, and is about generating and collecting ideas that we can turn into capabilities as quickly as possible through Warfare Development. Embracing and implementing it in ACT is no longer an option, and as we set the structural, functional and financial conditions for innovation to thrive, we will encourage and embrace bottom-up initiative, incrementally apply new technologies and approaches to widen our scope, while taking risk and accepting the subsequent possibility of failing. Speed and responsiveness will be key, and we will accelerate our processes to analyse current and emerging threats to detect trends and opportunities faster than our potential adversaries. This will demand commitment, ownership and initiative from us all, at all levels; bureaucracy and process should not preclude us from novel thinking and from building the strategic visions that can inform NATO decision making.

14. While our new structure provides exciting opportunities, it also offers a challenging transition. For all of the above to become effective, careful, smooth but resolute implementation of the NCS Adaptation and the Common Funded Capabilities Governance Model will be vital. ACT can only drive a credible NATO Transformation if we manage to first efficiently transform ourselves.

BASIS OF FINANCIAL REPORTING

15. These financial statements are prepared on an accrual accounting basis. NATO adopted the International Public Sector Accounting Standards (IPSAS) as the guiding principle for preparation of all financial statements. This approach was modified with the NATO Adapted Accounting Framework, which was introduced in 2013. The Accounting Framework for NATO was developed to provide minimum requirements for financial reporting for all NATO reporting entities and has formed the basis of ACT financial statements since introduction. ACT continues to apply the NAC endorsed Accounting Framework to these 2018 Consolidated Financial Statements.

AUDIT

16. As is the case with all NATO entities, these financial statements are audited by the International Board of Auditors for NATO (IBAN), who are the body responsible for rendering an audit opinion.

REPORT ON THE STATEMENTS

17. These financial statements incorporate the accounting records of the ACT Headquarters, as well as those of the subordinate Commands within the ACT Budget Group. They have been consolidated under my direction to provide a true and fair view of the financial activities of ACT during financial year 2018.



PETER E. DAHL
Financial Controller
Allied Command Transformation

GOVERNANCE STATEMENT 2018

The Scope of Responsibility

As Supreme Allied Commander Transformation, I have responsibility for maintaining effective governance and a sound system of internal control that supports the achievement of the Command's policies, aims and objectives, while safeguarding the nations' funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me by the Nations.

These requirements are articulated in my "90 Day" letter dated 14 December 2018 and my Commander's Vision and Intent issued 26 March 2019.

As ACT Financial Controller, I have responsibility for safeguarding the Nations' common funds and assets, in accordance with the responsibilities assigned to me in the NATO Financial Regulations.

Governance Statement

The Nations require that an annual Governance Statement is prepared, under our direction. This statement forms part of the Command's annual consolidated financial statements. As such, it is reviewed, by our external auditors, the International Board of Auditors for NATO, as part of their annual certification of our accounts.

This statement, therefore, aims to provide assurance and provide an assessment of the risk profile and its effectiveness in managing those risks.

Structure of Governance

Allied Command Transformation's governance structure has been developed and implemented in accordance with the requirements of the NATO member nations, either directly, during their annual Summits, or through the nations' appointed NATO Committees, who exercise proportionate and independent oversight and controls over our own operations.

Leadership Team

As SACT, I am supported by a leadership team, which meets regularly and provides executive, management and governance guidance and advice on the operations of the Command's deliverables. The leadership team provides effective support and challenge in improving the Command's operations, and by providing additional rigour and discipline in decision making so as to inform the strategic thinking of ACT. It has specific responsibilities, reporting to me, as SACT, for ACT's overall strategy and resource budget.

Under my direction, the strategy for the Command, an estimate of the Command's resources for each financial year, and an annual report on the Command's activities, are prepared, and submitted to the Nations.

**GOVERNANCE STATEMENT
2018**

Risk Management and Control

The Command's overall approach to risk management is summarized in the ACT Risk Management Directive 20-3.2 dated 22 January 2018. This contains detailed guidance and ACT's policy on how to execute risk management effectively.

Although the Command has been working diligently towards this, a comprehensive list of bottom up risks – anchored on fully populated and approved risk registers - and top down, high level strategic risks - fully staffed to, and owned by me, as SACT - remains incomplete.

Much of the reason for our failure, stems from the resource reallocation and significant internal reorganisation required to deliver the adapted NATO Command Structure

However, as SACT, I recognise that the ultimate responsibility, for ensuring a comprehensive and effective risk management structure is in place, is mine. And, I am committed to achieving full compliance in 2019. To achieve this, the Command will introduce a series of reporting and monitoring mechanisms, covering governance, and risk and internal control, for completion and delivery, by our main functional areas. These will be reviewed, by the Command's Audit Advisory Panel, prior to their formal submission to me for approval.

Our internal controls have been in place for the whole of 2018. We assess how the achievement of our policies, aims and objectives might be affected by the risks we face. We therefore aim to design a system of controls, which mitigate these risks. Such systems are not designed to eliminate all risk but to strike an appropriate, proportionate balance, between control, cost and risk taking.

Our tolerance for individual risks is informed by their potential impact on ACT's ability to fulfil its function as a NATO Strategic Command. Our risk management strategy is still being developed. However, its eventual aim is to enable the Command to manage its risks in a structured manner.

We have, to date, identified six areas of strategic and operational risk. Our intention is, during 2019, to further refine these so that, before the end of 2019, we will be in a position to review and report on these monthly.

We intend that each risk will be owned by a member, or members, of the leadership team. Our further aim is to ensure that there is an appropriate framework of controls and mitigating actions, in place, to manage identified and potential exposures.

GOVERNANCE STATEMENT 2018

We will be introducing, during 2019, a three lines of defence model of risk management:

- Line 1: Business Operations – Comprising integrated programme areas, "clusters" and planning groups. The oversight processes, which would exist, within these areas, will be used to derive assurance on how objectives are being met, and resources and risks managed.
- Line 2: Corporate Oversight – Comprising the Leadership Team, supported by and ACT's board structure.
- Line 3: Providers of assurance, internal and external - our internal and external auditors who provide independent and objective assurance over the Command's framework of governance, risk management and control.

Work is still ongoing to refine and define our strategic and operational risks. However, our six risk areas, currently under development, are set out below

Risk Area	ACT Tolerance	Key Actions and Issues
ACT Reputation: the risk that ACT is seen to practice what it preaches in relation to its own operation or the behaviour of its staff. ACT's impact could also be threatened should stakeholders not regard ACT's work as relevant or authoritative	Low	We have obtained Nations' approval for our strategy and budget and have positioned ACT to operate, in 2019, under a tight budget constraint. We are focusing our programmes of work on priority outputs most likely to be of interest to our stakeholders. We intend to have an integrated approach to stakeholder oversight, with strategies in place for managing our relationships within NATO, member nations, industry and our strategic partners. We expect that this approach will help to ensure that we take an informed, well managed approach to significant events.
Change Management: The risk that significant change projects go badly wrong or fail, with negative impacts on ACT's deliverables	Modest	ACT recognises opportunities that change projects can bring within a properly managed process. During 2019, as a first step to strengthen controls in this area, we have created a group, with a report timeline of March 2019, to identify and provide options to boost and maintain innovation by ACT in respect of our NATO, Nations and Industry stakeholders.

**GOVERNANCE STATEMENT
2018**

Quality: poor quality work could undermine ACT's reputation and its ability to have a positive impact on the delivery of its programmes.	Low	External feedback indicates that ACT's reputation, for high quality work, is strong and we strive to ensure that it remains so. Our outputs will continue to have a focus on technical quality relating to both our people and our influence
Resilience: The risk that resource/ capacity constraints cause ACT not to deliver its planned programme of work.	Modest	ACT understands that the market, for its staff, which we recognise as our most valuable resource, is a competitive one. We are being proactive in communicating, and engaging, with NATO nations about the benefits of an ACT posting, as part of a military career. The NATO Adaptation implementation process makes the successful appointment of specialist staff, both military and civilian, with the particular skill sets needed, to be challenging, and we will have to monitor this area very closely.
Information Security: The risk that ACT losses, or discloses, sensitive information and the resultant impact on individuals or organisations affected	Low	Safeguarding the information we handle is a priority. We operate an information management security system which the NATO Office of Security has confirmed is fully aligned to NATO's security protocols.
Financial Operations: The risk that ACT does not use its resources economically, efficiently or effectively	Low	Our financial operations require our staff to possess a degree of skill, knowledge and continuity which many NATO nations recognise is best served by using civilian staff. ACT is no exception to this. We continue to successfully execute our budgets, within the NATO regulations.

GOVERNANCE STATEMENT 2018

The ACT Audit Advisory Panel

The ACT Audit Advisory Panel (AAP), comprising five members, is chaired by the ACT Chief of Staff, Vice Admiral Paul Bennett, who chaired his first AAP meeting in November 2018.

The AAP may review and, if necessary, challenge the Command's approach to internal control. It also may provide advice, to the Command Group, as to the effectiveness of the policies and processes in use. We recognise that this process, in the past, has not been as robust as it could have been. This will change in 2019.

For 2019, therefore, the AAP's focus will be to underline that it is providing more support to the Command's Command Group and high level Boards, and to drive the risk programme with a greater degree of ownership and feedback, as well as providing a higher level of feedback and assurance by holding risk owners to account.

The AAP will be challenging the Command's approach to internal control, so as to provide advice, both to the Commander and the Financial Controller, as to the effectiveness of the policies and processes in use.

Capacity to Handle Risk

Risk management must be embedded into the Command's corporate planning and programme management systems. We acknowledged, in our 2017 Statement, that the Command still had some way to go in achieving this.

In 2018, the Command expected to have appointed its dedicated risk champions, and to have populated its first round of risk registers identifying and assessing risks. This has not happened. As stated earlier, the AAP will be ensuring that the processes are managed in 2019 to provide for full implementation by the year end.

In addition to our evolving overall risk implementation process, our specific aims continue to be that:

- Our budgetary systems are fit for purpose so that they were effectively tied to the budget and resource allocation management and reporting process.
- The Command's management boards effectively reviewed periodic, and annual, financial reports so that they were seen to be in a good position to manage financial performance against forecasts and possible risks.
- Meaningful targets existed to measure financial in-year management, and other performance areas.
- Effective project management disciplines were in place.
- The Command's key risks will be identified, regularly reviewed, and, where appropriate, actions were taken to mitigate the effects of any identified risks impacting the Command.

**GOVERNANCE STATEMENT
2018**

As SACT, I am responsible for ensuring that processes are in place that effectively reviews the Command's systems of internal control. And, as such, we are committed to a policy of continuous improvement, to our procedures, regulations and internal processes, so as to provide a comprehensive and relevant process of risk management, compliance and assurance.

As part of this continuing improvement, during 2018, the Command has undertaken revisions to the following directives:

- ACT Financial Regulations – expected roll out in first half of 2019;
- Property Accounting and Control – issued in 2018;
- ACT's Internal Control Framework – issued in 2018; and
- Risk Management - issued in 2018

Statement of Information Risk

As Supreme Allied Commander Transformation, together with the staff of Allied Command Transformation, I have access to data and information which are needed to enable me to discharge the responsibilities and duties assigned by the Nations.

ACT continues to ensure that we focus attention, not only on preserving the security of information currently held, but also that we scan the horizon to ensure that we can do so for the future.

Whilst assurance cannot be absolute, I have arrived at my conclusion by taking into account a framework of measures. These have been designed to reduce the incidence of security incidents occurring and/or to provide early warning that an incident has occurred, or is likely to occur. These measures include:

- In partnership with the relevant host nation, ensuring that measures, for security protection, exist which align with the current threat level
- The adoption of information technology measures, including those to protect against cyber threats. In the case of ACT, this has been developed in concert with our communications and information technology supplier - the NATO Communications and Information Agency
- The implementation of information security measures, including a network of information asset owners.
- Adoption of measures for personnel security.
- Annual mandatory security training of staff to ensure that they are kept up to date on current security policies and procedures.
- A focus, by management, on security risk.
- Horizon scanning through regular assessments of current and emerging threats.

GOVERNANCE STATEMENT 2018

Compliance with Policies and Procedures

As a Command, we acknowledge that we must comply, where appropriate, with the policies and procedures of NATO, and our host nations.

We therefore ensure that the requirements of NATO, and host nation, security policies are taken account of and that we benchmark our approach against them.

In order to assess the adequacy of our current measures, and to ensure the effective implementation of relevant action plans, we are also undertaking, in consultation, where necessary, with our host nations, deep dives into different areas of our operations. Examples of these are our ongoing, fit for purpose, reviews of our health and safety processes, business continuity plans, and human resources procedures

We work with nations, and other NATO bodies, to ensure our strategic partners, who handle data on our behalf, comply with all relevant data security requirements.

Approach to Governance and Accountability

As part of our overall approach, to governance and accountability, I have asked the Command's AAP to examine, and expand on, the applicability of operating the 'three lines of defence' model of risk management. These are set out earlier in this statement.

Personal Data Related Incidents

ACT is developing a policy, and set of strategies, for the protection of personally identifiable information. A draft directive - "ACT Personal Data Privacy Protection" - will set out an ACT wide policy on data protection. This document, which is currently being staffed, has a projected roll out for the second half of 2019.

The Command is not required to report significant incidents relating to personal data. However, if we were required to do so, there would have been no incidents to report in 2018.

Tackling Fraud and Corruption

The Command reviewed the 2018 issued IBAN Fraud and Corruption Report. Although no ACT specific issues were identified, the IBAN Report highlighted areas of possible weakness, NATO wide, which should be addressed by the Command. The report found, *inter alia*, that NATO:

- has no organization wide strategy to prevent, detect and respond to fraud and corruption;
- policies for the prevention, detection and response to fraud and corruption are fragmented;
- bodies do not consistently assess fraud risks;
- is vulnerable to risks of fraud and corruption;

GOVERNANCE STATEMENT 2018

- good practices for preventing, detecting and responding to fraud and corruption are not fully in place.

As a result of these IBAN findings, the AAP has commissioned the ACT Internal Auditor to undertake a fraud health check, throughout the Command, to determine whether: clear reporting strategies exist; an effective, well implemented control environment is functioning; the Command has an ability to measure and evaluate actions taken; and the reporting process is fair and transparent.

Internal Audit

ACT internal audit's role is to advise on the effectiveness of governance, risk and control arrangements in place, and also advise on the progress being made in implementing the risk management processes articulated above.

Ensuring that the Command's internal audit structure maintains its independence, and is adequate, for the tasks assigned, is important for the Command. That is why, as part of the NATO Adaptation Review process, the existing staffing structure was reviewed, and found to be inadequate for the governance needs of the Command. Additional resources have, therefore, been allocated, from the second half of 2019.

Looking Ahead

We continue to focus on maintaining and improving our performance. And, we continue to position ourselves to be able to understand, and respond to, any major areas of change in our external environment and the challenges and opportunities that they bring. Our 2019, and beyond, objectives aim to provide focus on issues of strategic priority, both for us, and our stakeholders.

We recognise, therefore, that we need to plan intelligently to address the impact of changes on the Command – for example, NATO Adaptation. We will, therefore, continue to champion efficient and transparent working practices throughout Allied Command Transformation.

Review of Effectiveness

We are responsible for reviewing the effectiveness of the systems of internal control that support the achievement of the Command's policies, aims and objectives, as set out by the Nations.

Our review of the effectiveness of these systems is informed by the work of our budget holders, and other senior leaders throughout ACT, who have responsibility for the development and maintenance of the internal control framework, and comments made by our internal and external auditors.

**GOVERNANCE STATEMENT
2018**

We have a further responsibility for the development and maintenance of the Command's internal control framework. In particular this responsibility includes ensuring that:

- Governance processes are operating in an efficient and effective manner.
- Comprehensive budget management systems exist, which are linked to NATO's resource management process.
- There are regular reviews, by the Command's management boards, to monitor and manage budget activity and financial performance.

As in the past, we will continue to ensure that:

- Qualified officials are assigned to the financial positions reflected in the Command's internal organization.
- The tasks and responsibilities of those officials are clearly reflected in the relevant job descriptions.
- Formal delegation of authority for financial matters is in place.
- Effective controls are in place, areas of concern are being highlighted and where necessary, effective remedial action is undertaken.
- All members of staff are conscious of their individual responsibilities, as set out in the Command's Code of Conduct.



Peter E Dahl
Financial Controller
Allied Command Transformation



André Lanata
General, French Air Force
Supreme Allied Commander Transformation

ACT CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDING 31 DECEMBER 2018
(EUR)

ASSETS	Notes	2018	2017
Current Assets			
<i>Cash and Cash Equivalents</i>	2	64,040,878	42,764,670
<i>Receivables</i>	4	4,145,546	24,411,978
<i>Prepayments</i>	5	785,127	571,118
Non-Current Assets			
<i>Property, Plant & Equipment</i>	6	25,925,951	26,543,008
TOTAL ASSETS		<u>94,897,502</u>	<u>94,290,774</u>
LIABILITIES			
Current Liabilities			
<i>Payables</i>	7	27,980,638	24,479,288
<i>Deferred Revenue</i>	8	7,686,528	26,734,291
<i>Advance Contributions</i>	9	33,298,476	16,329,696
<i>Other Advances</i>	10	5,909	204,490
TOTAL LIABILITIES		<u>68,971,551</u>	<u>67,747,766</u>
NET ASSETS			
<i>Capital contributions</i>		29,671,314	29,000,634
<i>Accumulated surpluses/(deficits)</i>		<u>(3,745,363)</u>	<u>(2,457,626)</u>
Total net assets / equity*	11	<u>25,925,951</u>	<u>26,543,008</u>

*total net assets / equity is equal to the total of PP&E shown under Non-Current Assets

**ACT STATEMENT OF CHANGES IN NET ASSETS / EQUITY
FOR THE YEAR ENDING 31 DECEMBER 2018
(EUR)**

	Capital Contributions	Accumulated Surplus / Deficit	Total
Balance as at 01 January 18	29,000,634	(2,457,626)	26,543,008
<i>adjustment for 31 Dec 18 exchange rate</i>	<u>670,680</u>	<u>(63,890)</u>	<u>606,790</u>
Balance at 1 January 2018 (using 31 Dec 18 exchange rate)	29,671,314	(2,521,516)	27,149,798
Changes in net assets / equity for the year			
Additional capital contributed by nations in 2018			0
<i>surplus / deficit for the period</i>		(1,223,847)	(1,223,847)
Balance as at 31 December 18	<u><u>29,671,314</u></u>	<u><u>(3,745,363)</u></u>	<u><u>25,925,951</u></u>

**ACT CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDING 31 DECEMBER 2018
(EUR)**

	Notes	2018	2017
REVENUE			
<i>Revenue</i>	12	135,991,117	128,782,420
<i>Other revenue</i>	13	6,418,971	6,856,037
<i>Financial revenue</i>	14	194,183	91,565
Total Operating Revenue		<u>142,604,271</u>	<u>135,730,022</u>
OPERATING EXPENSES			
<i>Personnel</i>	15	30,154,431	30,021,696
<i>Contractual Supplies and Services</i>	15	102,819,916	95,995,523
<i>Capital and Investments</i>	15	2,694,710	2,477,186
<i>Depreciation charges</i>	6	1,223,847	1,026,597
<i>Other Expenses</i>	17	6,418,971	6,856,164
<i>Finance costs</i>	18	516,243	379,452
Total Operating Expenses		<u>143,828,118</u>	<u>136,756,618</u>
NET SURPLUS(DEFICIT) FOR THE YEAR		<u>(1,223,847)</u>	<u>(1,026,596)</u>

ACT CONSOLIDATED CASHFLOW STATEMENT
FOR THE YEAR ENDING 31 DECEMBER 2018
(EUR)

	2018	2017
Cash Flow from Operating Activities		
Surplus (deficit)	(1,223,847)	(1,026,596)
Non-cash movements		
depreciation charges	1,223,847	1,026,596
Increase (decrease) in payables	3,501,350	(2,315,806)
Increase (decrease) in current liabilities	(2,277,564)	1,468,058
deferred revenue		(616,111)
Decrease / (Increase) in receivables	20,266,431	(19,106,456)
Decrease / (Increase) in Current Assets	(214,009)	20,380
	22,500,055	(19,523,339)
Extraordinary Item		
Net cash flow from operating activities	21,276,208	(20,549,935)
Purchase of PPE		616,111
Net cash flow from investing activities		616,111
Net increase (decrease) in cash and cash equivalents	21,276,208	(19,933,824)
Effect of exchange rate changes on cash and cash equivalents on translation		
Cash and cash equivalents at beginning of period	42,764,670	62,698,494
Cash and cash equivalents at end of period	<u>64,040,878</u>	<u>42,764,670</u>

NATO UNCLASSIFIED

ACT CONSOLIDATED BUDGET EXECUTION STATEMENT FOR
THE YEAR ENDING 31 DECEMBER 2018

ALL FIGURES SHOWN IN THE APPROVED BUDGET CURRENCY

Budgets presented in approved currency	Initial Authorisation (BA1)	Movements	1st Mid Year Authorisation (BA2)	Movements	2nd Mid Year Authorisation (BA3)	Movements	Final Authorisation	Set Commitment	Actual Expenses	Total Commitment/Spend	Carry Forward	Leave
2018 Budget - SACT HQ												
2018	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	21,612,195	24,900	21,637,095	(98,761)	21,538,334	(255,136)	21,283,200	8,750	21,292,000	21,292,180	9,250	48,950
Contractual Supplies & Services	2,880,772	(46,850)	2,833,922	(46,217)	2,787,705	217,700	3,005,405	451	2,854,587	2,855,438	451	544,067
Capital Investments	0	0	0	0	0	0	0	0	0	0	0	0
2018 Total	24,492,967	(19,550)	24,473,417	(147,078)	24,325,374	(15,436)	24,309,800	10,201	24,146,587	24,147,618	10,201	593,017
2017	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	5,700	0	5,700	0	5,700	0	5,700	0	(9,488)	(9,488)	0	15,188
Contractual Supplies & Services	38,894	0	38,894	0	38,894	0	38,894	0	(23,490)	(23,490)	0	62,384
2017 Total	44,594	0	44,594	0	44,594	0	44,594	0	(32,978)	(32,978)	0	77,572
2016	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	0	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	0	0	0	0	0	0	0	0	0	0	0	0
Capital Investments	0	0	0	0	0	0	0	0	0	0	0	0
2016 Total	0	0	0	0	0	0	0	0	0	0	0	0
Budget 201 Grand Total	24,537,561	(19,550)	24,518,011	(147,078)	24,370,000	(15,436)	24,354,564	10,201	24,073,609	24,073,609	10,201	670,589

Budgets presented in approved Currency	Initial Authorisation (BA1)	Movements	1st Mid Year Authorisation (BA2)	Movements	2nd Mid Year Authorisation (BA3)	Movements	Final Authorisation	Net Commitment	Actual Expenses	Total Commitments/Spent	Carry Forward	Leaves
357 Budget - ACT USD Programme of Work												
2016	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	528,504	(0)	528,504	(5,000)	523,504	(473)	523,031	0	514,454	514,454	0	8,577
Contractual Supplies & Services	18,717,243	321,286	19,038,529	298,112	19,336,641	431,738	19,768,379	1,317,092	17,821,671	16,938,752	1,317,092	787,617
2016 Total	19,245,747	321,286	19,567,033	293,112	19,873,144	431,265	20,296,410	1,317,092	18,336,125	18,453,216	1,317,092	796,194
2017	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	0	0	0	0	0	0	0	0	(20,813)	(20,813)	0	20,813
Contractual Supplies & Services	1,401,523	0	1,401,523	0	1,401,523	0	1,401,523	0	1,170,836	1,170,836	0	230,687
2017 Total	1,401,523	0	1,401,523	0	1,401,523	0	1,401,523	0	1,150,023	1,150,023	0	251,500
2018	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	0	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	0	0	0	0	0	0	0	0	(7,054)	(7,054)	0	7,054
2018 Total	0	0	0	0	0	0	0	0	(7,054)	(7,054)	0	7,054
Budget 357 Grand Total	20,647,270	321,286	20,968,556	293,112	21,274,667	431,265	21,699,933	1,317,092	19,279,064	20,586,158	1,317,092	1,054,777

Budgets presented in approved Currency	Initial Authorisation (BA1)	Movements	1st Mid Year Authorisation (BA2)	Movements	2nd Mid Year Authorisation (BA3)	Movements	Final Authorisation	Net Commitment	Actual Expenses	Total Commitment/Spend	Carry Forward	Lapses
252 Budget - Joint Analysis and Lessons Learned Centre												
2018	€	€	€	€	€	€	€	€	€	€	€	€
Personnel	1,539,638	0	1,539,638	0	1,539,638	(183,710)	1,436,918	0	1,436,918	1,436,918	0	0
Contractual Supplies & Services	657,042	31,734	688,776	(1,163)	687,613	(47,185)	650,429	19,293	631,136	650,429	19,293	0
Capital Investments	25,000	0	25,000	1,163	26,163	0	26,163	0	26,163	26,163	0	0
2018 Total	2,231,670	31,734	2,253,404	0	2,253,404	(149,894)	2,113,510	19,293	2,094,217	2,113,510	19,293	0
2017	€	€	€	€	€	€	€	€	€	€	€	€
Personnel	5,813	0	5,813	0	5,813	0	5,813	0	519	519	0	5,294
Contractual Supplies & Services	1,425	0	1,425	0	1,425	0	1,425	0	1,425	1,425	0	0
2017 Total	7,238	0	7,238	0	7,238	0	7,238	0	1,944	1,944	0	5,294
Budget 252 Grand Total	2,238,908	31,734	2,270,642	0	2,270,642	(149,894)	2,120,748	19,293	2,096,161	2,115,453	19,293	5,294
258 Budget - ACT Euro Programs of Work												
2018	€	€	€	€	€	€	€	€	€	€	€	€
Personnel	2,557	0	2,557	0	2,557	(2,409)	147	0	130	130	0	27
Contractual Supplies & Services	50,204,721	1,650,494	51,854,715	(134,233)	51,720,483	(537,495)	51,182,988	996,146	49,957,657	50,963,903	996,146	219,165
Capital Investments	0	0	0	0	0	0	0	0	0	0	0	0
2018 Total	50,206,778	1,650,494	51,857,272	(134,233)	51,720,940	(539,995)	51,183,145	996,146	49,957,787	50,963,933	996,146	219,212
2017	€	€	€	€	€	€	€	€	€	€	€	€
Personnel	0	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	3,268,568	0	3,268,568	0	3,268,568	0	3,268,568	27,812	3,027,115	3,054,927	27,812	213,641
2017 Total	3,268,568	0	3,268,568	0	3,268,568	0	3,268,568	27,812	3,027,115	3,054,927	27,812	213,641
2016	€	€	€	€	€	€	€	€	€	€	€	€
Contractual Supplies & Services	10,000	0	10,000	0	10,000	0	10,000	0	10,000	10,000	0	0
2016 Total	10,000	0	10,000	0	10,000	0	10,000	0	10,000	10,000	0	0
Budget 258 Grand Total	53,485,346	1,650,494	55,125,840	(134,233)	55,091,608	(539,995)	54,461,713	1,023,958	62,004,902	64,028,860	1,023,958	432,853

Budgets presented in approved Currency	Initial Authorisation (BA1)	Movements	1st Mid Year Authorisation (BA2)	Movements	2nd Mid Year Authorisation (BA3)	Movements	Final Authorisation	Net Commitment	Actual Expenses	Total Commitment/Spend	Carry Forward	Lapse
2018 Budget - ACT Exercise Budget												
2018	€	€	€	€	€	€	€	€	€	€	€	€
Personnel	434,000	(13,000)	421,000	(215,000)	205,500	103,500	309,439	0	253,808	253,808	0	55,631
Contractual Supplies & Services	17,098,500	(104,176)	16,994,324	178,748	17,133,471	349,943	17,483,414	0	17,145,110	17,145,110	0	338,303
2018 Total	17,492,500	(117,176)	17,375,324	(36,754)	17,338,971	453,882	17,792,853	0	17,398,919	17,398,919	0	393,934
2017	€	€	€	€	€	€	€	€	€	€	€	€
Personnel	0	0	0	0	0	0	0	0	(3,200)	(3,200)	0	3,200
Contractual Supplies & Services	0	0	0	0	0	0	0	0	(68,558)	(68,558)	0	68,558
2017 Total	0	0	0	0	0	0	0	0	(71,758)	(71,758)	0	71,758
2016	€	€	€	€	€	€	€	€	€	€	€	€
Personnel	0	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	0	0	0	0	0	0	0	0	(148,738)	(148,738)	0	148,738
2016 Total	0	0	0	0	0	0	0	0	(148,738)	(148,738)	0	148,738
Budget 2018 Grand Total	17,492,500	(117,176)	17,375,324	(36,754)	17,338,971	453,882	17,792,853	0	17,178,363	17,178,363	0	614,689

Budgets presented in approved
Currency

255 Budget - Joint Warfare Centre

2016

Personnel

Contractual Supplies & Services

Capital Investments

2016 Total

2017

Personnel

Contractual Supplies & Services

Capital Investments

2017 Total

2018

Personnel

Contractual Supplies & Services

2018 Total

Budget 255 Grand Total

Initial Authorisation (BA1)	Movements	1st Mid Year Authorisation (BA2)	Movements	2nd Mid Year Authorisation (BA3)	Movements	Final Authorisation	Net Commitment	Actual Expenditure	Total Commitment/Spent	Carry Forward	Lapse
NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK
86,538,191	0	86,538,191	(148,500)	85,389,691	(2,464,222)	82,925,469	0	83,681,943	83,681,943	0	243,518
87,042,502	(1,690,000)	90,352,502	(51,500)	90,301,002	(1,405,768)	88,895,234	375,437	87,683,648	88,059,086	375,437	835,150
0	1,000,000	1,000,000	200,000	1,800,000	280,000	2,173,000	1,228,381	888,793	2,057,144	1,228,381	107,858
173,580,693	0	178,580,693	0	173,580,693	(3,350,000)	174,935,693	1,603,788	172,204,390	173,808,173	1,603,788	1,107,525
NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK
41,537	0	41,537	0	41,537	0	41,537	33,258	(19,707)	13,549	33,258	27,998
5,111,023	0	5,111,023	0	5,111,023	0	5,111,023	0	4,207,415	4,207,415	0	903,608
0	0	0	0	0	0	0	0	0	0	0	0
5,152,560	0	5,152,560	0	5,152,560	0	5,152,560	33,258	4,187,708	4,220,964	33,258	931,506
NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK
0	0	0	0	0	0	0	0	0	0	0	0
701,036	0	701,036	0	701,036	0	701,036	0	(770,481)	(770,481)	0	1,471,520
701,036	0	701,036	0	701,036	0	701,036	0	(770,481)	(770,481)	0	1,471,520
184,434,294	0	184,434,294	0	184,434,294	(3,350,000)	186,849,294	1,637,044	175,621,609	177,258,647	1,637,044	3,590,647

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Budgets presented in
approved Currency

	Initial Authorisation (BA1)	Movements	1st Mid Year Authorisation (BA2)	Movements	2nd Mid Year Authorisation (BA3)	Movements	Final Authorisation	Net Commitment	Actual Expenses	Total Commitment/Spend	Carry Forward	Lapse
256 Budget Joint Forces Training Centre												
2016	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN
Personnel	6,071,899	(250,580)	5,821,399	133,751	5,954,600	(95,500)	5,859,100	0	5,800,246	5,800,246	0	58,914
Contractual Supplies & Services	16,536,377	899,847	17,436,224	188,406	17,626,630	581,574	18,208,204	648,415	17,467,423	18,115,838	648,415	92,365
Capital Investments	0	0	0	0	0	0	0	0	0	0	0	0
2016 Total	22,610,276	649,347	23,258,623	321,667	23,581,230	486,074	24,067,364	648,415	23,267,669	23,916,084	648,415	151,280
2017	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN
Personnel	0	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	2,005,803	0	2,005,803	0	2,005,803	0	2,005,803	0	1,666,132	1,666,132	0	339,671
Capital Investments	0	0	0	0	0	0	0	0	0	0	0	0
2017 Total	2,005,803	0	2,005,803	0	2,005,803	0	2,005,803	0	1,666,132	1,666,132	0	339,671
2018	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN
Personnel	0	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	0	0	0	0	0	0	0	0	0	0	0	0
Capital Investments	0	0	0	0	0	0	0	0	0	0	0	0
2018 Total	0	0	0	0	0	0	0	0	0	0	0	0
Budget 256 Grand Total	24,616,079	649,347	25,265,426	321,667	25,587,033	486,074	26,073,167	648,415	24,933,802	25,582,216	648,415	490,951

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Allied Command Transformation
Notes to the Financial Statements
For the year ended 31 December 2018
All amounts stated in Thousands of Euros (€'000), unless otherwise stated

NOTES TO THE ACCOUNTS

1. Statement of Accounting Policies

1.1 Basis of preparation

The financial statements of Allied Command Transformation (ACT) have been prepared in accordance with the NATO Accounting Framework.

The accounting framework for all NATO Reporting Entities is an adapted version of International Public Sector Accounting Standards (IPSAS) as issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants.

This Accounting Framework has been developed to provide minimum requirements for financial reporting for all NATO Reporting Entities following approval by the North Atlantic Council on 14 February 2013 of an IPSAS-adapted accounting framework for the Alliance.

The financial statements comply with the accounting requirements of the NATO Financial Regulations (NFRs) and the relevant entity directives and policies. In instances where there is a conflict between IPSAS and the NFRs this has been noted.

The financial statements have been prepared on a going-concern basis and the historical cost basis, except for financial instruments that are measured at fair value at the end of each reporting period. The principal accounting policies are set out below. They have been applied consistently to all periods presented. The accounting principles recognised as appropriate for the recognition, measurement and reporting of the financial position, performance and cash flows on an accrual based accounting using historical costs have been applied consistently throughout the reporting period.

In accordance with Article 2.1 of the NFRs, the financial year of ACT is 1 January to 31 December.

1.2 Accounting estimates and judgments

In accordance with the Accounting Framework and generally accepted accounting principles, the financial statements necessarily include amounts based on estimates and assumptions made by the management and based on historical experience as well as on the most reliable information available. In exercising the judgements to make the estimates, a degree of caution was included in light of the principle of 'prudence' required by IPSAS in order not to overstate assets or revenue or understate liabilities or expenses.

The estimates and underlying assumptions are reviewed on an ongoing basis. These estimates and assumptions affect the amounts of assets, liabilities, revenue and expenses reported. By their nature, these estimates are subject to measurement uncertainty. The effect of changes to such estimates and assumptions in future periods could be significant to the financial statements.

1.3 Changes in Accounting Policy and Standards (if applicable)

The same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria set in IPSAS 3. For the 2018

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financial statements, the accounting policies have been applied consistently throughout the reporting period.

The impacts of any other change to the entity accounting policy have been identified in the notes under the appropriate headings.

1.4 Changes in pronouncements

Some new standards, alignments of standards and interpretations were issued or became effective for the financial years beginning on 1 January 2018. These have either been classed as not applicable to the entity or have been applied by the entity in preparing the financial statements. Neither of the Standards are expected to have a significant effect on the financial statements of the entity.

IPSAS	Name	Effective date for periods beginning on or after	Comment
39	Employee Financial Benefits	01 January 2018	Replaces IPSAS 25. Underlying principle: the cost of providing employee benefits is recognized in the period in which the entity receives services from the employee, rather than when the benefits are paid or payable. This aspect does not impact the ACT consolidated group.
40	Public Sector Combinations	01 January 2019	Annual periods beginning on or after 1 January 2019, with earlier application encouraged. This will not impact the ACT consolidated group.

1.5 Foreign currency

These financial statements are presented in Euro, which is NATO's reporting currency. The functional currency of each ACT Headquarter (HQ) is detailed below under "Consolidation" and data from each HQ is converted into Euro to facilitate the consolidation process. Foreign currency transactions are translated into the functional currency of the HQ at the NATO exchange rates prevailing at the date of the transaction.

ACT HQs that have a functional currency other than Euro are translated into the reporting currency. All assets and liabilities of such entities at year-end were translated using the NATO exchange rates that were applicable at 31 December 2018. Revenue and expenses were translated using an average of the NATO exchange rates applicable during the reporting period. Unrealised gains and losses resulting from the translation of statements in currencies other than Euro are recognised in the Statement of Financial Position.

1.6 Consolidation

The consolidated financial statements include the financial results of the controlling entity and its controlled entities. Inter-entity balances and transactions have been eliminated in consolidation.

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Entities which are consolidated into the financial statements are listed below.

Name	Location	Functional Currency
HQ Supreme Allied Command Transformation (SACT)	Norfolk, Virginia, USA	Euro and US Dollar
Joint Analysis Lessons Learned Centre (JALLC)	Lisbon, Portugal	Euro
Joint Force Training Centre (JFTC)	Bydgoszcz, Poland	Polish Zloty
Joint Warfare Centre (JWC)	Stavanger, Norway	Norwegian Kroner

While Morale & Welfare activities are under the control of the Supreme Allied Commander Transformation (SACT), in accordance with the NATO Accounting Framework, they have not been consolidated into these financial statements. A separate activity report as required by the NFRs is submitted to the Budget Committee.

1.7 Services in-kind

In these financial statements, services in kind are not recognised.

1.8 Financial Instruments disclosure/presentation

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. ACT uses only non-derivative financial instruments as part of its normal operations. These financial instruments include cash and cash equivalents, accounts receivable, liabilities and loans between NATO entities.

1.9 Cash and cash equivalents

Cash and cash equivalents include cash on hand, petty cash, current bank accounts, deposits held with banks, and other short-term investments (with a maturity of three months or less).

1.10 Short-term investments

These are short-term investments (with a maturity of more than three and less than twelve months).

1.11 Receivables

Receivables are stated at net realisable value, after provision for doubtful and uncollectible debts. It can also include amounts due by other NATO entities and nations.

Contribution receivables are recognised when a call for contribution has been issued to the member nations. No allowance for impairment loss is recorded with respect to member nations' assessed contributions receivable except for exceptional and agreed technical reasons (if applicable).

1.12 Property, Plant and Equipment (PP&E)

PP&E with the exception of land are stated at cost less accumulated depreciation and accumulated impairment losses. ACT entities are acting in the capacity of a principal.

Depreciation is recognised so as to write off the cost of the assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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An item of PP&E is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of PP&E is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the statement of financial performance.

PP&E categories are listed in the table below:

Category	Threshold	Depreciation	Method
Land	€200,000	N/A	N/A
Buildings	€200,000	40 years	Straight-line
Other infrastructure	€200,000	40 years	Straight-line
Installed equipment	€30,000	10 years	Straight-line
Machinery	€30,000	10 years	Straight-line
Vehicles	€10,000	5 years	Straight-line
Mission equipment	€50,000	3 years	Straight-line
Furniture	€30,000	10 years	Straight-line
Communications	€50,000	3 years	Straight-line
Automated information systems	€50,000	3 years	Straight-line

During 2018, ACT staff conducted a thorough analysis of all purchases made during the year to establish if any fell within the categories and capitalisation thresholds detailed in the table above. PP&E held in ACT is detailed in Note 6.

1.13 Leases

Leases are classified as finance leases whenever the terms of the lease transfers substantially all the risks and rewards of ownership to the lessee.

All other leases are classified as operating leases.

Rental payable under lease contract are recognised as an expense in the statement of financial performance on a straight line basis over the lease term, (if applicable). As at 31 December 2018, ACT had the following amounts owed on non-cancellable leases at HQ SACT, JFTC and JALLC.

Item	amounts paid in 2018	amounts due in 2019 - 2022
Various vehicles	€119.5	€272.6

1.14 Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less

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accumulated amortisation and accumulated impairment losses.

Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful lives, and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An intangible asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss, arising on the disposal or retirement of an intangible asset, is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the statement of financial performance.

1.15 Payables

Payables (including amounts due to other NATO entities) are amounts due to third parties for goods and services received that remain unpaid as of the reporting date. They are recognised at their face value. This includes estimates of accrued obligations for goods and services received at year-end but not yet invoiced.

1.16 Deferred Revenue

Deferred revenue represents income/contributions from member nations and/or third parties that have been called for current or prior years' budgets and that have not yet been recognised as revenue.

1.17 Advances

Advances are income/contributions from member nations/third parties called or received related to future years' budgets.

1.18 Employee benefits

ACT's employees participate in one of the two NATO pensions funds: the Coordinated Pension Scheme or the Defined Contribution Pension Scheme (DCPS) administered by NATO and the Retirees Medical Claims Fund (RMCf). The assets and liabilities for these pension schemes are accounted for centrally at NATO Headquarters and therefore are not recognised in these financial statements. Note 16 below refers.

1.19 Provisions

Provisions are recognised when ACT has a legal or constructive obligation as a result of past event, and where it is probable that an outflow of resources will be required to settle the obligation, and where a reliable estimate of the amount of the obligation can be made. If the effect is material, provisions are determined by discounting the expected future cash flows to their present value.

1.20 Net Assets

Net assets represent the residual interest in the assets of the entity after deducting its liabilities. NATO entities perform their activities on a no-profit / no loss basis globally over the reporting period. However, this does not prohibit the realisation of operating surplus or deficit in the financial reporting period.

1.21 Revenue and expense recognition

Revenue

Revenue comprises contributions from Member Nations and income from other customers to fund ACT's budgets. It is recognised in the year when these contributions are used for their intended purpose as envisioned by ACT's budgets. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured

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reliably. Unused contributions and other revenue that relate to future periods are deferred accordingly.

Interest income is accrued on a time-basis, by reference to the principal outstanding and at the effective interest rate applicable. Bank interest earned and accrued as of 31 December 2018; exchange rate revenue due to transactions in foreign currency; and realised exchange rate revenue are recognised as financial revenue.

Finance costs

Bank charges and exchange rate losses due to transactions in foreign currency are recognised as finance costs.

1.22 Surplus or deficit for the period

In accordance with entity accounting policies entity revenue is recognised up to the amount of the matching expenses.

1.23 Trust Funds

ACT controls a number of specific Trust Funds referred to in Note 3 below. NATO recognises an asset when it controls access to the asset and gains economic benefit or service potential but matches this to an equal liability. ACT does not recognise any expenditure or revenue in relation to the Trust Funds in its statement of financial performance which it does not control.

1.24 Cash-flow statement

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

2. Cash and cash equivalents

Cash and cash equivalents consist of cash held on deposit in financial institutions in instant access accounts.

	2018	2017
Total Euro Accounts	37,616	27,910
Total non-Euro Accounts	26,425	14,855
	64,041	42,765

All non-Euro denominated currencies were converted to Euros using the NATO spot exchange rate for applicable currencies in the Statement of Financial Position as at 31 December 2018. The Euro account includes an amount of €73k, which represents the remainder of funds deposited by nations contributing to Trust Funds (see Note 3 below).

The cash holdings are significantly higher than the previous year and this is explained by all nations settling their cash call contributions by the end of 2018. In the previous year, ACT carried a €17.5m receivable for outstanding cash call contributions.

Deposits are partly held in interest-bearing current bank accounts in immediately available funds. Current bank accounts are held in Euro, US Dollar, Polish Zloty and Norwegian Kroner. Funds are held in highly reliable non-interest and interest-bearing bank accounts.

3. Trust Funds

In 2018, ACT was responsible for one Voluntary National Contribution Fund (VNCF) operated by HQ SACT. The fund provided training during 2017 and 2018 for weapons inspector teams from NATO nations, as well as Partnership for Peace (PfP) countries. Deposits received for this 2-year initiative amounted to €233k, of which €44k were expensed in 2017 and €123k were expensed in 2018. The balance of €66k was returned to participating nations in February 2019 via the central NATO Trust Fund account at HQ NATO. In 2018 there was also a balance of €7k from a 2017 VNCF (Advanced Commander's Counter-Marauding Terrorist Course) which was returned to participating nations in May 2018 via the central NATO Trust Fund account. Details are summarised in the table below:

Name of Fund	Balance as at 01 Jan 18	Money transferred in	In year expenses	Balance as at 31 Dec 18
Weapons Intelligence Team Training 2017-2018 (WITT 2017-2018)	189.1	0	123.2	65.9
2nd Advanced Commander's Counter-Marauding Terrorist Attach Course (2nd ACC-MTA)	7.0	0	Returned to nations: 7.0	0

4. Receivables

	2018	2017
Receivables	3,821	6,921
Contributions receivables from nations	0	17,491
Bad debts	325	
	4,146	24,412

As referred to in Note 2 above, ACT received full settlement of the 2nd 2018 cash call before 31 December. This leads to a significant decrease in the overall receivable total.

The non-cash call receivables include €550 for invoices that still need to be prepared at the end of the financial year. Other invoices amounting to €1m were raised at the year end to recognise revenue corresponding to expenditure against delegated budgets from ACO since it is necessary to show the receivable in these financial statements under the matching concept as the expense has been recognised. These receivables were largely cleared in a timely manner in the following year.

An entry has been made for bad debts relating to long outstanding, disputed receivables with three nations. Following several attempts to obtain accurate supporting information from the service provider, ACT acknowledge that there are

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insufficient records to guarantee the accuracy of the original decision to raise invoices.

5. Prepayments

The following prepayments were recorded:

	2018	2017
Prepayments to 3rd Party Suppliers	785	571

Prepayments to third party suppliers relate to payments made in advance of goods or services rendered, which will reflect terms and conditions of a contract or agreement. Such prepayments are offset against final payments upon receipt of a final invoice.

6. Property, plant and equipment

In accordance with the NAC approved Accounting Framework and the ACT policy on accounting for PP&E, consolidated entities will consider PP&E acquired before 01 January 2013 as fully expensed. PP&E held prior to 01 January 2013, and not previously recognized as an asset, are disclosed in the table below:

PP&E category	Approximate number of items	Location of asset	comments
Buildings	5 buildings in 1 geographical HQ location	HQ SACT, Norfolk, Virginia	Buildings were either provided free of charge or fully expensed prior to 01 January 2013. Includes installed equipment.
Buildings	5 buildings in 1 geographical HQ location	JWC, Stavanger, Norway	
Buildings	4 buildings in 1 geographical HQ location	JFTC, Bydgoszcz Poland	
Buildings	1 building in 1 geographical HQ location	JALLC, Lisbon, Portugal	
Vehicles	5	HQ SACT, Norfolk, Virginia	All vehicles held at the HQs were purchased prior to 01 January 2013 and have been fully expensed in the year of purchase.
Vehicles	12	JWC, Stavanger, Norway	
Vehicles	0	JFTC, Bydgoszcz Poland	
Vehicles	0	JALLC, Lisbon, Portugal	

The buildings detailed above contain both installed equipment and numerous items of furniture that pre-date the 01 January 2013 date referred to in the NATO Accounting Framework document. The nature and specific number of furniture items is not considered material but has been included, where possible, in the appropriate Property Accounting register

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	Buildings & infrastructure EUR	Installed equipment EUR	Furniture EUR	Vehicles EUR	Machinery EUR	Total EUR
Balance at 1 January 2018	24,135,235	2,701,652	1,694,914	422,423	48,410	29,000,634
adjustment for 31 Dec 18 exchange rate	547,519	72,704	47,301	1,861	1,295	670,680
Balance at 1 January 2018 (using 31 Dec 18 exchange rate)	24,682,754	2,774,357	1,742,215	424,283	47,705	29,671,314
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Balance at 31 December 2018	24,682,754	2,774,357	1,742,215	424,283	47,705	29,671,314
Accumulated depreciation						
Balance at 1 January 2018	1,431,939	568,332	398,030	33,524	5,801	2,457,626
adjustment for 31 Dec 18 exchange rate	35,559	16,291	11,108	770	162	63,890
Balance at 1 January 2018 (using 31 Dec 18 exchange rate)	1,467,498	604,623	409,138	34,294	5,963	2,521,516
Depreciation expense	735,670	224,329	174,222	84,857	4,770	1,223,847
Accumulated Depreciation at 31 Dec 2018	2,203,168	828,951	583,360	119,150	10,734	3,745,363
Net book value						
Balance at 1 January 2018	22,703,295	2,113,321	1,296,884	388,899	40,809	26,543,008
Balance at 31 December 2018	22,479,586	1,945,405	1,158,855	305,133	36,971	25,925,951

The depreciation charge for the year was €1,223,847

7. Accounts Payable

Accounts Payable is detailed below:

	2018	2017
Suppliers	4,253	4,571
Staff Members	86	193
Non-Consolidated NATO Entities	22,480	18,720
Governments	1,162	995
Other payables	0	0
	27,981	24,479

A number of services were received for which ACT had yet to receive an invoice and so consequently these are reflected in the end of financial year payable position.

Payables include invoices received that have not been settled, as well as accruals recognised at the reporting date.

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8. Deferred revenue

	2018	2017
Budget related	5,943	24,819
NSIP related	1,678	1,719
Other sources	66	196
	<u>7,687</u>	<u>26,734</u>

Deferred revenue includes budget credits carried forward which have been committed following a legal and contractual obligation entered into with a supplier but for which the goods and services have not yet been received. The corresponding charges will be incurred after the reporting date.

For the financial year ending 31 December 2018, €5.9m was Budget Related, which was a significant decrease over the previous year. However, this should be viewed in conjunction with Note 9 below, which shows a corresponding increase in Advance Contributions received from Nations. The outstanding cash call balances in 2017 were reflected in total as deferred revenue until settled. For 2018, all cash calls, including the "Advance Contribution for 2019" were settled.

The Other sources figure of €66k relates to the Trust Funds operated by HQ SACT referred to in Note 3 above.

9. Advances Contributions

	2018	2017
Advance Contributions	33,298	16,330

Advance Contributions correspond to cash called from the Nations for the following financial year and represent approximately 25% of the total ACT budget allocation. All advance contributions to ACT were received as at 31 December 2018.

10. Other advances

	2018	2017
Other Advances	6	204

Other advances correspond to cash received from external entities against which future payment will be offset.

11. Net assets

	2018	2017
Capital contributions	29,671	29,001
Accumulated surpluses/(deficits)	(3,745)	(2,458)
Total net assets / equity	<u>25,926</u>	<u>26,543</u>

Net assets relate to PP&E recognised by ACT, less depreciation charges accumulated in the current and prior years. The PP&E recognised was not necessarily purchased

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by ACT, as it includes assets that ACT has assumed control of through their use. Note 6 above details PP&E holdings and the associated depreciation charges.

12. Revenue

The revenue recognition is matched with expenses against the entity budgets. Contributions from nations are booked as an advance under deferred revenue and subsequently recognised as revenue when it is earned.

The following key revenue items are presented:

Recognised Revenue	2018	2017
Assessment Calls/Contributions	133,227	126,385
NSIP Revenue	2,618	2,224
Other income	146	173
	<u>135,991</u>	<u>128,782</u>

An analysis of ACT's cash receipts from Nations' is as follows:

	Euro '000	USD '000	NOK '000	PLN '000
Cash Receipt by currency during 2018	66,353	44,125	176,919	22,144
Amount in Euros (for comparison only)	66,353	38,242	17,876	5,119

13. Other revenue

This consists of reimbursable activity within ACT, which is comprised of two elements: activity undertaken between entities within the ACT consolidation group (inter-entity) and activity undertaken between the ACT group and a 3rd party (reimbursable). The inter-entity activity has been eliminated from the ACT consolidated accounts. That is to say that revenue and expenses has only been recorded once in the accounts and not by both consolidating entities. In addition, the end of year asset and liability position between consolidating entities has also been balanced and eliminated.

With regard to 3rd party reimbursable activity some €6.4m of activity has been undertaken during 2018.

14. Financial revenue

Financial revenue relates to interest earned on deposits during the financial year across all ACT headquarters. The majority of the interest (€168k) was earned on short term USD deposits.

15. Expenses

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The expenses shown in the Statement of Financial Performance has been calculated after charging the following main elements:

	2018	2017
Chapter 1		
Salaries & associated costs	29,328	28,961
Consultants	4	184
Training	636	643
Other	186	234
TOTAL	30,154	30,022

Chapter 2		
General support and Utility costs	7,009	6,033
Contractors	43,950	44,167
Travel and subsistence	14,117	13,619
AIS Support	31,540	28,025
Mission equipment costs	38	43
Communications	106	372
Training	6,060	3,736
R&D supplies		
TOTAL	102,820	95,995

Capital & Investments (Chapter 3 & NSIP)		
AIS Capital & Investment	0	131
Mission Equipment Assets	87	49
Building Infrastructures	26	0
NSIP funded contractor support	2,047	1,646
Other NSIP	535	545
Other	0	106
TOTAL	2,695	2,477

Expenses relating to contractors are reflected in Chapter 2 and reflects the Budget Committee guidance set out in paragraph 2.2.3 of MBC-M(2010)0039. A significant part of this category of expense is with the CMRE. In 2018, ACT incurred €21.1m of expenses relating to contractor services provided by CMRE. The other significant amount expensed by ACT in relation to contractor costs were payments made to NCIA for the Programme of Work. In 2018, these amounted to €13.6m.

Overall the levels of expenses across categories are consistent with the prior year

Capital and Investments include charges against Chapter 3 of €113k and also NSIP amounting to €2,58m, making a total of €2,69m. The Budget Execution Statement shows the expenditure against all Chapters of all budgets and so reports the €113k.

16. Staff resources

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a) Analysis of staff costs - the aggregate staff costs, including grants and allowances paid, are detailed below.

	2018	2017
Salaries of Civilian Staff	17,860	18,315
Allowances of Civilian Staff	4,928	4,977
Contributions to Health Insurance (c)	3,848	3,990
Contributions to Pension Funds (d)	1,432	1,347
	<u>28,068</u>	<u>28,629</u>

b) Analysis of staff numbers - the number of full-time equivalent persons employed as at 31 December 2018 was:

	HQ SACT	JWC	JFTC	JALLC
Military	480	172	79	36
Civilian	114	53	17	9
Customer Funded	0	0	0	0
Temporary Civilian	4	0	0	7
Reimbursable Civilians	2	0	1	0
Local Wage Rate (LWR)	0	12	0	0
Total	<u>600</u>	<u>237</u>	<u>97</u>	<u>52</u>
Voluntary National Contributions	34	1	3	4
Partnership for Peace (PfP)	3	0	1	1
Overages in addition to VNC	4	2	1	1
Legacy transition	3	0	0	0

c) Health Insurance - all civilian members of ACT are members of the NATO Health Insurance Scheme, providing sickness, maternity, accident, disablement and death benefits to staff members, their spouses and children. Staff members pay contributions of approximately 3.32% to 9.27% of gross salary, which are matched by contributions paid by ACT. For 2018 ACT contributions totalled €3.848m.

d) Contributions to Pension Funds

The NATO Defined Contribution Pension Scheme: came into effect on 1 July 2005 and provides for the communal investment of contributions in respect of civilian staff of ACT accorded international status under the NATO Charter. Staff pay contributions equivalent to 8% of their monthly basic salary, and ACT pays a 12% contribution. The assets and liabilities for this scheme are accounted for centrally at NATO Headquarters, located in Brussels, Belgium and are not recognised in these financial statements.

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The NATO Coordinated Pension Scheme: staff members make contributions representing 9.5% of their monthly salary.

Contributions are expensed during the year in which the services are rendered and represent the total pension obligation for ACT. Total pension contributions of ACT across the 2 schemes outlined above totalled €1,432k during 2018.

Further to an analysis covering the last years of the history of death in service risks in relation to premiums paid by the Organisation during 2012-2015, a compensation of €6m at the NATO-wide level was agreed by the insurance company. End 2018, the NATO Secretary General decided that a fraction of this amount (circa €1.7m) should be paid to NATO staff who were members of the DCPS during the period 2012-2015 in proportion to the contributions they made to the DCPS. Staff employed by "NATO body" during the period 2012-2015 and affiliated to the DCPS are therefore entitled to a payment to be made from the NATO DCPS accounts. A decision still has to be taken concerning the remaining amount of the compensation, which may result in a proportional payment to "NATO body".

Untaken Leave

NATO regulations allow civilian staff to carry forward untaken leave days to the following year. The regulation stipulates that any days carried forward must be taken by 30 April of the following year or the leave days are forfeited. Carry forward beyond this date is only approved by the Human Resources Branch in exceptional circumstances. At the end of 2018, ACT civilian staff across all Headquarters carried forward 1,661 leave days. In monetary terms, this equates to approximately €735k but ACT has a policy of not making an actual financial payment to staff in lieu of this. ACT staff either take the untaken leave by 30 April of the following year or lose the days, unless exceptionally allowed to extend. In view of this policy, and the fact that the vast majority of days are taken by 30 April of the following year, ACT does not recognise a liability in these financial statements.

17. Other expenses

Other expenses consists of reimbursable activity within ACT, which is comprised of two elements: activity undertaken between entities within the ACT consolidation group (inter-entity) and activity undertaken between the ACT group and a 3rd party (reimbursable). The inter-entity activity has been eliminated from the ACT consolidated accounts. That is to say that revenue and Expenses has only been recorded once in the accounts and not by both consolidating entities. In addition, the end of year asset and liability position between consolidating entities has also been balanced and eliminated.

18. Finance costs

This includes the sum of exchange rate gains and losses (€491), as well as bank charges incurred by ACT entities for normal business transactions (€25k).

19. Related Party Transactions

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NATO is an organisation set up under the 1949 Washington Treaty. Those countries that were or have become parties to the Convention, the Member Nations, are regarded as related parties. ACT, as one of the two NATO Strategic Commands, has, during the year, had various material transactions with these Member Nations.

Key Management Personnel

Under IPSAS 20 Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial and operating decisions. IPSAS 20 requires the disclosure of the existence of related party relationships, where control exists, and the disclosure of information about entities and its related parties. This information is required for accountability purposes and to facilitate a better understanding of the financial position and performance of the reporting entity.

No related party disclosure is made in these financial statements as key management personnel have no significant party relationships that could affect the operation of this reporting entity. The Key Management Personnel are defined as senior members of the Command Group, who together constitute the Management Board of ACT. Remuneration received by individuals has been in accordance with an individual's national military pay scale or in accordance NATO published salary scales. During the period, no key managerial staff or other related parties has undertaken any material transactions that could affect the operation of this reporting entity.

In addition to the key management personnel of the Command Group, ACT has implemented several controls on staff who are involved in the contract award process to ensure that no related party factors could influence this procedure. All key management personnel are in the process of being asked to sign a related party disclosure document. This will be in place prior to publication of the audit report into the 2017 ACT Consolidated Financial Statements.

20. Representation allowance

Representation Funds are provided to SACT by the Nations' Permanent Representatives to NATO for use at his discretion. These funds are allocated in USD to the HQ SACT 257 budget but all numbers have been converted to Euro for the purpose of these financial statements.

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SACT allocates these funds to his subordinate Commanders, as he considers reasonable. For 2018 the Representation Funds allocated to SACT, and subsequently delegated, were as follows:

Entity	2018 Allocation (Eur)
HQ SACT	37.2
JWC	4.3
JFTC	1.2
JALLC	0.7
TOTAL	43.4

The ACT Directive governs the processes to cover the operation of Representation Funds. The use of these funds is monitored on a monthly basis through the office of the Financial Controller and they are also subject to annual audit by the IBAN.

During the course of 2018, €24.5k of available funds were lapsed.

21. Budget Execution Statement Overview

Exchange Rates applicable to Budget Execution Statement:

Year	Initial Authorisation	Mid-Yr Authorisation	Final Authorisation	Net Commitment	Actual Expenses	Carry Forward
2018	Jan 17 ¹	Jan 17	Jan 17	Dec 18 ²	Ave 18 ³	Dec 18
2017/16	Dec 16 ⁴	Dec 16	Dec 17	Dec 18 ²	Ave 18 ³	Dec 18
¹ Rate used in 2017 Budget authorisation						
² Rate used to revalue outstanding commitments at year end prior to rolling forward to 2018						
³ Rate used in determining expenditure throughout the year						
⁴ Rate used to bring forward commitments remaining at year end 2016						

Expenditure Reconciliation: Budget Execution Statement / Statement of Financial Performance. IPSAS 24 requires a reconciliation of Budget Execution Statement data with the expenses recorded in the Statement of Financial Performance. The expenditure data is in the currency of the budget and then translated using an average exchange rate for the year.

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Financial Expenditure recorded in Budget Execution Statements (BES):

Budget 201	20,402	
Budget 252	2,096	
Budget 255	18,245	
Budget 256	5,821	
Budget 257	16,340	
Budget 258	53,005	
Budget 259	17,178	
		133,087

Expenses recorded in Statement of Financial Performance:

Chapter 71	30,154	
Chapter 72	102,820	
Chapter 73	113	
Total Expenditure equal to BES		133,087
NSIP expenditure		2,582
Less capitalised NSIP expenditure (PP&E)		(0)
Depreciation charges		1,224
Other Expenses		6,419
Finance Costs		516
Total Expenses in Statement of Financial Performance		143,828

IPSAS 24. This Standard requires reconciliation between Budget Execution Statements and actual amounts presented in the financial statements where the financial statement and budget are not prepared on a comparable basis. Whilst the table above reconciles the actual expenses recorded in ACT's Budget Execution Statements and the Statement of Financial Performance, the remainder of the Budget Execution Statements is prepared using a different basis.

The Statements of Financial Position, Financial Performance, Changes in Net Assets and Statement of Cash Flow are prepared on a full accrual basis, whereas the Budget Execution Statements, apart from "actual expenses," are prepared on a commitment accounting basis. Significant budgetary transfers are detailed in the table below.

Budgetary Lapses

Lapses recorded on the Budget Execution Statement have a value of €2.665m. This figure is generated as a direct result of the exchange rates. Lapses occur in the original currency in which the budget was approved by the BC.

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Budget Code	Budget Currency	Value of Lapse in Budget Currency (figures shown as complete amounts)				Value of Lapse in Euro (Average Rate of Exchange)
		2016	2017	2018	Total	
201	USD	0	78	194	272	230
252	EUR	0	5	0	5	5
255	NOK	1,472	932	1,188	3,592	373
256	PLN	0	340	151	491	115
257	USD	7	252	796	1,055	894
258	EUR	0	214	219	433	433
259	EUR	149	72	394	615	615
						2,665

22. Statement of Budgetary Transfers

In accordance with the NATO Financial Regulations (NFR Section V, Article 26) budgetary transfers are recorded on the face of the accounts. All transfers were executed between budgets at the January 2017 rate of exchange. The totality of transfers undertaken in 2018 do not breach the authorised Budget Authority outlined in BC-BA(2018)0003 dated 22 October 2018.

In order to comply with the requirements of IPSAS 24 the significant budgetary transfers are detailed in the Budget Execution Table included with these financial statements.

23. Statement of Special Carried Forward Credits

As required by the NATO Financial Regulations, credits committed and carried forward are separately disclosed by budget and by year in the Budget Execution Statements.

During 2018 ACT was also given specific permission to also make the following Special Carry Forwards. The Council (C-M(2018)0067) refers:

JWC (BC 255) NOK1.061M for the procurement of vehicles

JFTC (BC 256) PLN486K in support of the NATO-Georgia Exercise

ACT POW (BC 257) \$351K (337,200 EUR) in support of ACT's Strategic Foresight Analysis study

ACT POW (BC 257) 208KUSD (200,000 EUR) for Data Science support to Defence Planning

ACT POW Exercises (BC 259) €211K accrued for the NATO-Georgia Exercise

24. Morale & Welfare Activities

Under the NAC approved NATO Accounting Framework implemented with effect from 01 January 2013, NATO entities should capture financial information in support of morale and welfare activities by way of a note disclosure to the financial statements and not consolidated in the financial statements.

In accordance with NATO reference documents PO(97)98 and MBC-DS(97)23, the consolidated 2018 Annual Report on MWA activity within the ACT Budget Group, has been submitted to the Budget Committee.

25. Statement of Write-Off

A summary table of write off is attached at Annex A to these financial statements. A full statement will be sent under separate cover to the Budget Committee.

26. Statement of Performance & Position Per Entity

The tables on the following pages show the Statements of Position and Performance of the ACT Headquarters that are part of the consolidated group. There is also a table showing the entries made on consolidation.

For the year ended 31 December 2018
Amounts in EUR

STATEMENT OF FINANCIAL POSITION PER HEADQUARTER

	HQ SACT			JWC			JFTC		
	2018	2017	Difference	2018	2017	Difference	2018	2017	Difference
Current Assets									
Total Cash & Cash Equivalents	54,195,623	36,159,904	18,035,720	5,915,632	2,854,232	3,061,400	341,380	1,562,109	(1,220,728)
Receivables	2,485,670	23,200,053	(20,714,083)	795,072	415,701	379,371	1,942,255	685,893	1,256,372
Total Advances & Prepayments	608,271	537,679		226,266	127,346	98,920	37,124	34,204	2,920
Non-Current Assets									
Property, Plant & Equipment	23,527,752	23,844,185	(315,433)	229,531	269,809	(60,279)	2,168,668	2,409,014	(240,345)
Total Assets	<u>80,818,817</u>	<u>83,741,821</u>	<u>(2,923,004)</u>	<u>7,186,501</u>	<u>3,667,089</u>	<u>3,479,412</u>	<u>4,489,437</u>	<u>4,091,216</u>	<u>(201,781)</u>
Liabilities									
Payables	25,315,624	21,127,524	4,188,100	1,563,011	2,241,687	(678,676)	849,812	942,496	(92,684)
Deferred Revenue	4,666,293	22,875,524	(18,009,231)	850,052	720,484	129,568	130,102	1,339,708	(1,209,606)
Advance Contributions	27,433,715	15,694,588	11,539,127	4,523,907	435,108	4,088,799	1,340,854		1,340,854
Other Advances	0	0	0	0	0	0	0	0	0
Total Liabilities	<u>57,615,632</u>	<u>59,897,636</u>	<u>(2,282,004)</u>	<u>6,936,970</u>	<u>3,397,279</u>	<u>3,539,691</u>	<u>2,320,769</u>	<u>2,282,205</u>	<u>38,564</u>
Net Assets									
Capital Contributions	26,940,437	26,209,002	731,435	293,018	294,721	(1,703)	2,437,859	2,496,911	(59,052)
Accumulated surplus (deficit)	(3,412,685)	(2,364,817)	(1,047,868)	(63,467)	(4,912)	(58,575)	(269,191)	(87,897)	(181,294)
Total assets / equity	<u>23,527,752</u>	<u>23,844,185</u>	<u>(315,433)</u>	<u>229,531</u>	<u>269,809</u>	<u>(60,279)</u>	<u>2,168,668</u>	<u>2,409,014</u>	<u>(240,345)</u>

For the year ended 31 December 2018
Amounts in EUR

STATEMENT OF FINANCIAL POSITION PER HEADQUARTER

	JALLC			NSIP			Total 2018	Consolidation Postings	Published 2018
	2018	2017	Difference	2018	2017	Difference			
Current Assets									
Total Cash & Cash Equivalents	169,643	254,887	(85,244)	2,006,989	1,869,819	137,171	82,830,268	1,410,610	64,040,878
Receivables	87,697	113,762	(25,065)				5,311,004	(1,490,225)	3,820,779
Total Advances & Prepayments	83,486	21,889	41,576				935,127	(150,000)	785,127
Non-Current Assets									
Property, Plant & Equipment	0	0	0	0	0	0	25,925,951		25,925,951
Total Assets	<u>320,806</u>	<u>390,538</u>	<u>(69,732)</u>	<u>2,006,989</u>	<u>1,869,819</u>	<u>137,171</u>	<u>94,802,350</u>	<u>(229,615)</u>	<u>94,572,734</u>
Liabilities									
Payables	152,726	107,106	45,619	329,082	150,188	178,894	28,210,253	(229,615)	27,980,638
Deferred Revenue	162,173	78,943	83,230	1,677,907	1,719,631		7,686,528		7,686,528
Advance Contributions							33,298,476		33,298,476
Other Advances	5,909	204,490	(198,581)				5,909		5,909
Total Liabilities	<u>320,806</u>	<u>390,538</u>	<u>(69,732)</u>	<u>2,006,989</u>	<u>1,869,819</u>	<u>178,894</u>	<u>69,201,166</u>	<u>(229,615)</u>	<u>68,971,551</u>
Net Assets									
Capital Contributed by Nations	0	0	0	0	0	0	29,671,314		29,671,314
Accumulated surplus (deficit)	0	0	0	0	0	0	(3,745,363)		(3,745,363)
Total assets / equity	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>25,925,951</u>	<u>0</u>	<u>25,925,951</u>

For the year ended 31 December 2018
Amounts in EUR

STATEMENT OF FINANCIAL PERFORMANCE PER HEADQUARTER

	HQ SACT			JWC			JFTC		
	2018	2017	Difference	2018	2017	Difference	2018	2017	Difference
Total Revenue	111,560,862	102,787,427	8,773,435	19,076,827	19,842,744	(1,765,417)	8,296,575	7,679,258	617,318
Total Expenses	112,814,705	103,814,022	9,000,686	19,076,827	19,842,744	(1,765,417)	8,296,575	7,679,258	617,318
End of Year Result	(1,223,847)	(1,026,597)	(197,250)	0	0	0	0	0	0

	JALLC			NSP			Consolidation Eliminations	Published 2017
	2018	2017	Difference	2018	2017	Difference		
Total Revenue	1,021,511	2,197,172	(1,175,661)	2,618,495	2,228,921	394,574	(26,605,641)	142,604,271
Total Expenses	1,021,511	2,197,172	(1,175,661)	2,618,495	2,228,921	394,574	(26,605,641)	143,828,118
End of Year Result	0	0	0	0	0	0	0	(1,223,847)

Note: Inter entity revenue and expenses have been removed from the originating entity (mainly HQ SACT) and are shown at the subordinate level. IPSAS 11 applies.

Statement of Position

Statement of Performance

	Inter-Entity Eliminations		Inter Entity Eliminations
Assets		Revenue	
Current Assets			
Cash and Cash Equivalents	1,410,610	Operating revenue	25,289,456
Receivables	(1,490,225)	Inter Entity Revenue	1,316,185
Advance to Consolidated Entity	(150,000)		
Total Current Assets	<u>(229,615)</u>	Total Revenue	<u>26,605,641</u>
Liabilities		Expenses	
Payables	229,615	Inter Entity Expenses	(26,605,641)
Unearned Revenue			
Total Liabilities	<u><u>229,615</u></u>	Total Expenses	<u><u>(26,605,641)</u></u>

Annex A

ACT Write off Report of International Property 2018

Command	Headquarters property	Net Book Value (in currency)	Number of RoS	comments
HQ SACT	Equipment	\$0	1	Obsolete and no longer required for use at ACT
JFTC	Equipment	PLN 0	9	Obsolete and no longer required for use at JFTC
JFTC	Furniture	PLN 0	2	beyond economical repair
JWC	Equipment	NOK 0	3	Obsolete and no longer required for use at JWC
JWC	Furniture	NOK 0	1	beyond economical repair



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

INTERNATIONAL BOARD OF AUDITORS FOR NATO
COLLÈGE INTERNATIONAL DES AUDITEURS EXTERNES DE L'OTAN

NATO UNCLASSIFIED



IBA-A(2019)0083
19 July 2019

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

cc: Director General, International Military Staff
Financial Controller, International Military Staff
Chairman, Resource Policy and Planning Board (RPPB)
Branch Head, Secretariat and Finance Branch, NATO Office of Resources
Private Office Registry

Subject: *International Board of Auditors for NATO (IBAN) Auditor's Report and Letter of Observations and Recommendations on the financial audit of the International Military Staff (IMS) incorporating the NATO Standardisation Office (NSO) and the Outreach Activities Financial Statements for the year ended 31 December 2018 – IBA-AR(2019)0008*

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

IBAN's report sets out an unqualified opinion on the Financial Statements of the International Military Staff (IMS) and on compliance for financial year 2018.

Yours sincerely,

Hervé-Adrien Metzger
Chairman

Attachment: As stated above.



**Note succincte
du Collège international des auditeurs externes de l'OTAN (IBAN)
sur la vérification des états financiers de l'État-major militaire international (EMI),
englobant le Bureau OTAN de normalisation (NSO) et les activités d'ouverture,
pour l'exercice clos le 31 décembre 2018**

Introduction

L'État-major militaire international (EMI), état-major principal du siège de l'OTAN, est l'organe exécutif du Comité militaire, la plus haute instance militaire de l'OTAN. L'EMI a pour rôle de fournir au Comité militaire des avis militaires stratégiques et un soutien administratif. Il est également chargé de veiller à ce que les politiques et décisions du Comité militaire soient mises en œuvre par les organismes compétents de l'OTAN.

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

- le Bureau OTAN de normalisation (NSO), qui est un bureau indépendant de l'OTAN composé de personnel militaire et de personnel civil et placé sous la responsabilité d'un directeur. La mission du NSO consiste à lancer, à coordonner, à soutenir et à administrer les activités de normalisation menées sous l'autorité du Comité OTAN de normalisation ;
- le programme d'ouverture de l'EMI, qui couvre les activités de partenariat menées avec des pays d'Afrique du Nord (Dialogue méditerranéen), avec des pays du Moyen-Orient (Initiative de coopération d'Istanbul), et avec l'Afghanistan, l'Iraq, le Pakistan et l'Union africaine (Autres coopérations militaires).

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

La dotation totale (EMI, NSO et activités d'ouverture) relative à l'exercice clos le 31 décembre 2018 s'établissait à 26,3 millions d'euros.

L'IBAN a émis une opinion sans réserve sur les états financiers ainsi que sur la conformité pour l'exercice clos le 31 décembre 2018.

L'IBAN n'a pas formulé d'observations à l'issue de l'audit. Il a fait le point sur la suite donnée aux questions ayant fait l'objet d'observations lors de précédents audits. Ses constatations sont récapitulées dans la partie « Suites données aux observations antérieures » de la lettre d'observations et de recommandations (annexe 3).

L'opinion (annexe 2) et la lettre d'observations et de recommandations (annexe 3) ont été transmises à l'EMI, dont les commentaires ont ensuite été intégrés dans la lettre ainsi que, le cas échéant, la position de l'IBAN à leur sujet (appendice à l'annexe 3).

19 juillet 2019

COLLÈGE INTERNATIONAL DES AUDITEURS EXTERNES DE L'OTAN

**OPINION SUR LES ÉTATS FINANCIERS
DE L'ÉTAT-MAJOR MILITAIRE INTERNATIONAL (EMI),
ENGLOBANT LE BUREAU OTAN DE NORMALISATION (NSO)
ET LES ACTIVITÉS D'OUVERTURE**

POUR L'EXERCICE CLOS LE 31 DÉCEMBRE 2018

**OPINION DU COMMISSAIRE AUX COMPTES
À L'INTENTION DU CONSEIL DE L'ATLANTIQUE NORD**

Vérification des états financiers

Opinion sur les états financiers

Le Collège international des auditeurs externes de l'OTAN (IBAN) a procédé à la vérification des états financiers de l'État-major militaire international (EMI), qui couvrent l'EMI, le Bureau OTAN de normalisation (NSO) et les activités d'ouverture, portant sur la période de 12 mois ayant pris fin le 31 décembre 2018. Diffusés sous la cote IMSTAM(FC)-0015-2019 et soumis à l'IBAN le 25 mars 2019, ces états financiers se composent de l'état de la situation financière au 31 décembre 2018, 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 la période de 12 mois ayant pris fin le 31 décembre 2018, ainsi que d'un résumé des méthodes comptables importantes et d'autres notes explicatives. Ils contiennent en outre un rapport sur l'exécution du budget portant sur la période de 12 mois ayant pris fin le 31 décembre 2018.

L'opinion de l'IBAN est que les états financiers donnent une image fidèle et exacte de la situation financière de l'EMI au 31 décembre 2018 ainsi que de sa performance financière, de ses flux de trésorerie et de l'exécution du budget pour la période de 12 mois ayant pris fin le 31 décembre 2018, en application des dispositions comptables et des normes de compte rendu du cadre comptable OTAN.

Justification de l'opinion émise sur les états financiers

Le Règlement financier de l'OTAN (NFR) prévoit que l'audit externe des organismes OTAN établis en vertu du Traité de l'Atlantique Nord est effectué par le Collège international des auditeurs externes de l'OTAN (IBAN).

L'IBAN a effectué son audit sur la base des normes internationales des institutions supérieures de contrôle des finances publiques (ISSAI 1000-1810), définies par l'Organisation internationale des institutions supérieures de contrôle des finances publiques (INTOSAI), ainsi que des dispositions complémentaires figurant dans sa propre charte.

L'IBAN est indépendant, ainsi que le prévoit le Code de déontologie de l'INTOSAI, et il s'est acquitté de ses responsabilités dans le respect des dispositions de ce code. Les responsabilités des membres de l'IBAN sont décrites de manière plus détaillée dans la section « Responsabilités de l'IBAN concernant la vérification des états financiers » et dans sa charte.

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

Responsabilité de la direction concernant les états financiers

La responsabilité de la direction concernant les états financiers est définie dans le NFR. Les états financiers de l'ACT sont établis en application des dispositions comptables et

des normes de compte rendu du cadre comptable OTAN tel qu'approuvé par le Conseil. Il incombe au contrôleur des finances de soumettre les états financiers à l'IBAN au plus tard le 31 mars qui suit la fin de l'exercice visé dans les états financiers.

Les états financiers sont signés par le chef de l'organisme OTAN concerné et par le contrôleur des finances. En apposant leur signature sur ces documents, ceux-ci confirment que des mesures de gouvernance financière, des mécanismes de gestion des ressources, des contrôles internes et des systèmes d'information financière ont été mis en place et maintenus afin de garantir une utilisation efficace et efficiente des ressources.

Cette confirmation couvre l'élaboration, la mise en place et le maintien d'un ensemble de contrôles internes de nature à permettre l'établissement et la présentation d'états financiers qui soient auditables et exempts d'inexactitudes significatives, que celles-ci relèvent d'une fraude ou d'une erreur. Elle couvre aussi le compte rendu relatif à la capacité de l'entité à poursuivre son activité, la présentation, le cas échéant, des questions relatives à la continuité de l'activité, et l'application du principe comptable de continuité d'activité, à moins qu'il soit prévu de liquider l'entité ou de mettre un terme à son activité ou qu'il ne soit pas réaliste de procéder de la sorte.

Responsabilités de l'IBAN concernant la vérification des états financiers

L'audit a pour objectif de permettre à l'IBAN d'obtenir une assurance raisonnable sur le point de savoir si les états financiers considérés dans leur ensemble sont exempts d'inexactitudes significatives, que celles-ci relèvent d'une fraude ou d'une erreur, et de formuler une opinion à leur sujet. L'assurance raisonnable correspond à un degré de certitude élevé, mais elle ne garantit pas qu'un audit effectué conformément aux ISSAI permettra dans tous les cas de détecter les inexactitudes significatives. Les inexactitudes, qui peuvent résulter d'une fraude ou d'une erreur, sont considérées comme significatives lorsque l'on peut raisonnablement s'attendre à ce que, considérées isolément ou collectivement, elles influent sur les décisions économiques que les utilisateurs des états financiers prennent en se fondant sur ceux-ci.

Dans le cadre d'audits effectués conformément aux ISSAI, les auditeurs font appel à leur jugement professionnel et à leur esprit critique tout au long de la planification et de la réalisation du travail. Cela nécessite de tenir compte des particularités que présentent les entités du secteur public. L'IBAN s'attache aussi :

- à recenser et à évaluer les risques d'inexactitudes significatives dans les états financiers, que celles-ci relèvent d'une fraude ou d'une erreur, à concevoir et à mettre en œuvre des procédures d'audit sensibles à ces risques ainsi qu'à obtenir par son audit les éléments probants nécessaires et suffisants pour lui permettre de formuler une opinion ; le risque de non-détection d'une inexactitude significative relevant d'une fraude est plus élevé que le risque de non-détection d'une inexactitude significative relevant d'une erreur car la fraude peut résulter d'une collusion, d'une falsification, d'omissions intentionnelles, de fausses déclarations ou du contournement du contrôle interne ;

- à acquérir une connaissance du contrôle interne qui soit pertinente pour l'audit, 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 de l'entité ;
- à déterminer si les méthodes comptables appliquées sont appropriées et si les estimations comptables et les informations connexes fournies par la direction sont raisonnables ;
- à se prononcer sur le caractère approprié ou non de l'utilisation du principe comptable de la continuité d'activité et à déterminer, à partir des éléments probants obtenus par l'audit, s'il existe une incertitude significative du fait d'événements ou de circonstances susceptibles de remettre fondamentalement en cause la capacité de l'entité à poursuivre son activité ; si l'IBAN juge qu'une telle incertitude existe, il est tenu d'appeler l'attention, dans son opinion, sur les informations correspondantes figurant dans les états financiers ou, si ces informations sont incomplètes, de formuler une opinion modifiée ; les conclusions de l'IBAN sont fondées sur les éléments probants en sa possession à la date d'établissement de son rapport d'audit ; il n'est toutefois pas exclu que l'entité soit amenée à cesser son activité en raison d'événements ou de circonstances futurs ;
- à évaluer la présentation générale, la structure et le contenu des états financiers, y compris les informations fournies, et à déterminer si les états financiers rendent compte fidèlement des opérations et des événements qui en font l'objet.

L'IBAN est tenu de communiquer avec les organes chargés de la gouvernance, et notamment de les informer du périmètre et du calendrier de la mission d'audit qu'il prévoit d'effectuer, des principales conclusions de l'audit et des lacunes significatives qu'il aura éventuellement constatées dans le contrôle interne au cours de l'audit.

L'opinion que l'IBAN formule à l'intention du Conseil de l'Atlantique Nord doit aider ce dernier à s'acquitter de son rôle. C'est la raison pour laquelle l'IBAN est responsable de ses travaux et de son opinion devant le seul Conseil.

Vérification de la conformité

Opinion sur la conformité

Sur la base des procédures qu'il a appliquées, l'IBAN estime que rien, dans son audit des états financiers, ne lui donne de raison de penser que les fonds n'ont pas été régulièrement employés à l'acquittement de dépenses autorisées ou qu'ils ne sont pas conformes au Règlement financier de l'OTAN et au Règlement du personnel civil de l'OTAN.

Justification de l'opinion émise sur la conformité

L'IBAN a effectué la vérification portant sur la conformité sur la base des normes internationales des institutions supérieures de contrôle des finances publiques (ISSAI 4000), définies par l'Organisation internationale des institutions supérieures de contrôle des finances publiques (INTOSAI), ainsi que des dispositions complémentaires figurant dans sa propre charte.

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

Responsabilité de la direction concernant la conformité

Tous les membres du personnel – civils et militaires – de l'OTAN sont tenus de respecter le Règlement financier de l'OTAN ainsi que les règles et procédures financières qui s'y rattachent et les directives d'application particulières, dont le Règlement du personnel civil de l'OTAN fait partie.

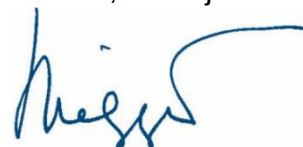
Le chef d'organisme OTAN est responsable et tenu comptable d'une saine gestion financière. Les organismes OTAN doivent administrer leurs finances en s'appuyant sur les principes suivants : adéquation, bonne gouvernance, obligation de rendre compte, transparence, gestion des risques et contrôle interne, audit interne, audit externe, prévention et détection des fraudes.

Responsabilité de l'IBAN concernant la conformité

Selon sa charte, en plus d'être responsable de fournir une assurance raisonnable quant à la question de savoir si les états financiers considérés dans leur ensemble sont exempts d'inexactitudes significatives, l'IBAN doit chaque année rendre au Conseil un avis indépendant lui assurant que les fonds ont été régulièrement employés à l'acquittement de dépenses autorisées (adéquation) et qu'ils sont conformes aux règles en vigueur (régularité). Par « adéquation », on entend le respect des principes généraux régissant une gestion financière saine ainsi que la conduite des membres de l'administration. Par « régularité », on entend le respect de critères officiels tels que les règlements, règles et procédures applicables.

Il incombe ainsi à l'OTAN d'appliquer des procédures lui permettant d'obtenir en toute indépendance une assurance sur le point de savoir si les fonds ont été régulièrement employés à l'acquittement de dépenses autorisées et si les opérations correspondantes ont été exécutées conformément à la réglementation en vigueur. De telles procédures prévoient notamment la prise en compte des risques de non-conformité significative.

Bruxelles, le 19 juillet 2019



Hervé-Adrien Metzger
Président

19 juillet 2019

COLLÈGE INTERNATIONAL DES AUDITEURS EXTERNES DE L'OTAN

LETTRE D'OBSERVATIONS ET DE RECOMMANDATIONS

**CONCERNANT L'ÉTAT-MAJOR MILITAIRE INTERNATIONAL (EMI),
LE BUREAU OTAN DE NORMALISATION (NSO)
ET LES ACTIVITÉS D'OUVERTURE**

POUR L'EXERCICE CLOS LE 31 DÉCEMBRE 2018

Introduction

Le Collège international des auditeurs externes de l'OTAN (IBAN) a procédé à la vérification des états financiers de l'État-major militaire international (EMI) pour l'exercice clos le 31 décembre 2018 (IMSTAM(FC)-0015-2019, du 25 mars 2019), et il a émis une opinion sans réserve à leur sujet ainsi que sur la conformité.

Observations et recommandations

L'IBAN n'a pas formulé d'observations à l'issue de l'audit.

L'IBAN a fait le point sur la suite donnée à la question ayant fait l'objet d'une observation lors de l'audit précédent, et il a constaté que la question était désormais en cours de traitement.

L'IBAN a aussi adressé au directeur général de l'EMI une lettre (IBA-AML(2019)0005) contenant une observation à l'intention de la direction.

SUITES DONNÉES AUX OBSERVATIONS ANTÉRIEURES

L'IBAN a fait le point sur la suite donnée à la question ayant fait l'objet d'une observation lors du précédent audit. On trouvera dans le tableau ci-après un récapitulatif de cette observation et des mesures prises par l'entité ainsi qu'un état de la question.

OBSERVATION/RECOMMANDATION	MESURES PRISES	ÉTAT DE LA QUESTION
(1) EMI – Exercice 2017 IBA-AR(2018)0005 NÉCESSITÉ D'APPORTER DES AMÉLIORATIONS DANS LES DOMAINES DU CONTRÔLE INTERNE, DE LA GESTION DES RISQUES ET DE L'AUDIT INTERNE Recommandation de l'IBAN a) Élaborer une politique de gestion des risques, notamment du risque financier, qui soit applicable à toute l'entité ; b) Consigner par écrit les procédures de contrôle interne et de gestion des risques en place pour les principaux processus opérationnels de l'EMI et évaluer la conformité avec le cadre de contrôle interne choisi ;	En décembre 2018, l'EMI a instauré une politique de gestion des risques (notamment du risque financier) applicable à toute l'entité, l'objectif étant de garantir et de montrer clairement que des procédures de gestion des risques conformes aux critères d'efficacité, d'efficience et d'économie sont en place. Cette politique décrit les modalités de gestion des risques au sein de l'EMI, clarifie les rôles et les responsabilités des différents acteurs du processus de gestion des risques et définit un certain nombre de concepts fondamentaux, comme la propension au risque, la capacité de risque et la tolérance au risque. Question traitée. L'EMI a commencé à consigner par écrit ses procédures et à les réunir dans un cadre de contrôle interne. Par ailleurs, il a conclu un accord en vue d'externaliser sa fonction d'audit interne auprès de la NCIA. La NCIA et l'EMI se sont ainsi mis d'accord sur un plan d'audit interne qui comprend notamment l'évaluation de la conformité des procédures de contrôle interne existantes avec le cadre choisi. Le contrat prévoit que la mise en œuvre de ce plan	Question en cours de traitement.

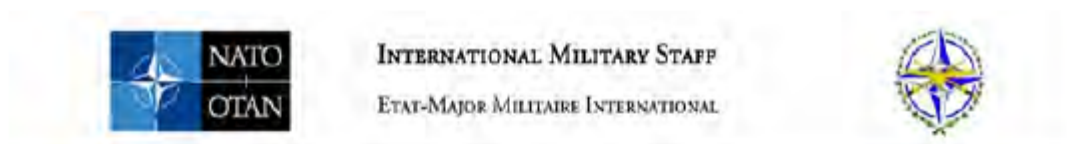
OBSERVATION/RECOMMANDATION	MESURES PRISES	ÉTAT DE LA QUESTION
	débute en 2019, mais les activités d'audit interne n'avaient pas encore commencé au moment de l'établissement du présent rapport. État de la question : L'exécution des tâches décrites ci-dessus n'avait pas encore débuté au moment de l'établissement du présent rapport. L'IBAN ne peut donc pas se prononcer sur la question de savoir si sa recommandation a bien été suivie ou non. Par conséquent, la question est considérée comme en cours de traitement.	
c) Améliorer la communication des informations dans la déclaration sur le contrôle interne afin d'en assurer la conformité avec les FRP XII ;	Dans ses états financiers pour l'exercice clos le 31 décembre 2018, l'EMI a modifié sa déclaration sur le contrôle interne. Il a indiqué qu'aucun problème significatif concernant des questions à caractère financier ou opérationnel n'avait été relevé en 2018. Il a rappelé que, dans le cadre de la vérification des états financiers de 2017, l'IBAN devait produire une documentation plus formelle concernant la gestion des risques et le contrôle financier interne. L'EMI a indiqué qu'il était en train de s'atteler à cette tâche, citant à cet égard l'introduction, en décembre 2018, de sa politique de gestion des risques. Question traitée.	
d) Effectuer un audit interne, en recourant à l'externalisation si cette option est jugée plus appropriée, aux fins d'une évaluation complète de l'efficacité du système de contrôle interne et de gestion des risques dans l'ensemble de l'entité.	L'EMI a conclu un accord avec la NCIA en vue de lui confier sa fonction d'audit interne. Dans un premier temps, la NCIA évaluera la conformité des procédures de contrôle interne existantes avec le cadre choisi. Cette tâche est inscrite dans le plan d'audit interne qui a été approuvé pour 2019. Une fois cette première étape terminée, la NCIA commencera à effectuer	

OBSERVATION/RECOMMANDATION	MESURES PRISES	ÉTAT DE LA QUESTION
	des audits internes. Le contrat prévoit que la mise en œuvre du plan d'audit interne débutera en 2019, mais les activités d'audit interne n'avaient pas encore démarré au moment de l'établissement du présent rapport. État de la question : Aucun audit interne n'avait été effectué au moment de l'établissement du présent rapport. Toutefois, des mesures ont été prises pour pouvoir commencer à effectuer des audits internes prochainement, l'idée étant d'évaluer l'efficacité du système de contrôle interne et de gestion des risques. La question est donc considérée comme en cours de traitement.	

Une question est considérée comme étant « à traiter » lorsqu'aucun progrès notable n'a encore été réalisé en vue de son règlement. Une question est considérée comme étant « en cours de traitement » lorsque l'organisme OTAN visé a commencé à mettre en œuvre la recommandation correspondante ou lorsque certains éléments de la recommandation (mais pas tous) ont été suivis d'effets. Une question est considérée comme étant « traitée » lorsque la recommandation correspondante a été mise en œuvre ou qu'elle a été rendue ou est devenue caduque.

**COMMENTAIRES OFFICIELS
DE L'ÉTAT-MAJOR MILITAIRE INTERNATIONAL (EMI)
CONCERNANT LA LETTRE D'OBSERVATIONS ET DE RECOMMANDATIONS
ET POSITION DU COLLÈGE INTERNATIONAL
DES AUDITEURS EXTERNES DE L'OTAN**

L'EMI note avec satisfaction que l'IBAN a émis une opinion sans réserve et qu'il n'a pas formulé de nouvelles observations ou recommandations. Pour ce qui est des suites données à l'observation de l'audit précédent, l'EMI est d'accord avec l'état de la question tel que présenté par l'IBAN. Il s'attachera à mettre en œuvre les deux recommandations restantes au cours de l'exercice 2019.



25 March 2019

IMSTAM(FC)-0015-2019

CHAIR, INTERNATIONAL BOARD OF AUDITORS FOR NATO (IBAN)

INTERNATIONAL MILITARY STAFF (IMS) FINANCIAL STATEMENTS 2018

1. Please find attached the 2018 International Military Staff (IMS) Financial Statements, issued in accordance with NATO Financial Regulation (NFR) Article 35.1.
2. I can confirm that, in accordance with NFR Financial Rules and Procedures (FRP) XXXV (4), the IMS can agree to public disclosure of these Financial Statements.
3. Notwithstanding the above, as stated in C-M(2012)0041, public disclosure of IBAN Audit Reports is a matter for Council decision, based upon the recommendation of the RPPB. Decisions are informed by the NATO policy on public disclosure of documents (C-M(2008)0116).
4. The IBAN Audit Report covering these Financial Statements has not been issued, but should be presented to Council no later than 31 August 2019 (NFR 15.2). As such, the IMS is not yet in a position to anticipate any potential representations that may be made to the RPPB, regarding the Audit Report.
5. The IMS therefore reserves its position on public disclosure of the eventual IBAN Audit Report.


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

Enclosure:

1. IMS Financial Statements FY 2018

Copy To: DIRECTOR NHQC3S, DIRECTOR CS, DIRECTOR NSO, EXCO,
MA DG IMS, FC, RECORDS

Action Officer: Ms A. MUEFFKE, Principal Administrator (Finance) to FC IMS, (4593)



**INTERNATIONAL MILITARY STAFF
(IMS)
FINANCIAL STATEMENTS 2018**

**Incorporating
IMS (301), NSO (302) and Outreach (501) Budgets**



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INTRODUCTION TO THE 2018 IMS FINANCIAL STATEMENTS

The International Military Staff (IMS) is the core Military Staff in NATO HQ. It is the executive body of the Military Committee (MC), NATO's senior military authority.

The role of the IMS is to provide strategic military advice and staff support for the MC, which advises the North Atlantic Council, NATO's principal political decision making body, on military aspects of policy, operations, and transformation within the Alliance. The IMS also ensures that NATO decisions and policies on military matters are implemented by the appropriate NATO military bodies.

The IMS Financial Statements 2018 have been produced in accordance with the NATO Accounting Framework. This Accounting Framework is based on International Public Sector Accounting Standards (IPSAS), as adapted by NATO. The Financial Statements are also produced in accordance with the NATO Financial Regulations (NFRs) and are presented in a commonly adopted layout.

The expenses were charged over three budgets covering the: IMS (Budget Code 301); NATO Standardization Office (NSO, BC 302); and Outreach (BC 501). The Statements also cover the NATO Iraq Trust Fund.

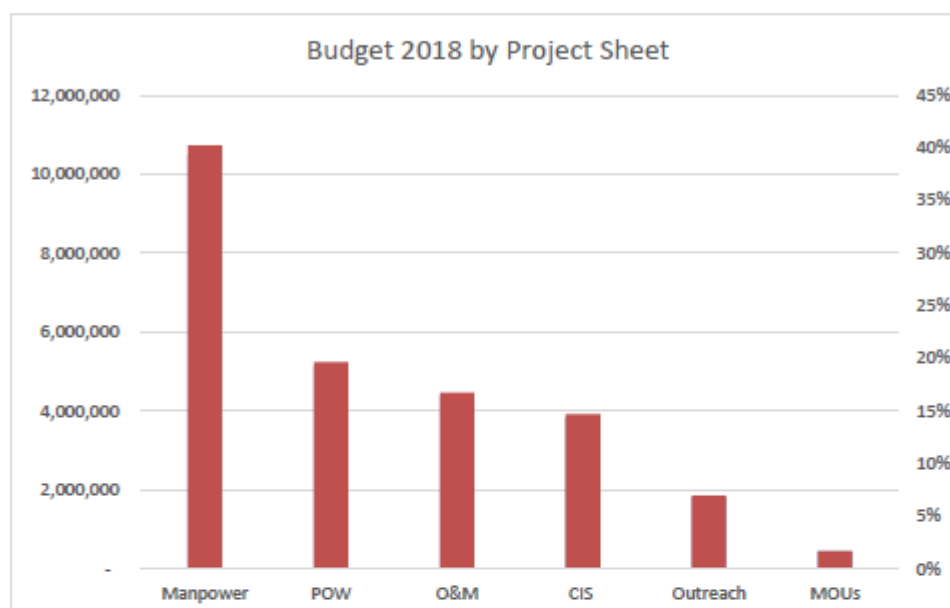
The budgetary expenses are recorded on an accrual basis, meaning in the period in which the goods or services are delivered. Any exception to that principle is outlined in Annex 1 to the Financial Statements, which provides a comparison between the Budget Execution and IPSAS.

The table below is a summary of the final budget execution over the last five years.

IMS	2014	2015	2016	2017	2018
Final Budget	19,588,041	20,118,452	19,217,045	21,067,040	21,983,382
Execution	19,398,965	20,071,925	18,871,201	20,767,657	21,983,382
Execution %	99.0%	99.8%	98.2%	98.6%	100.0%
NSO					
Final Budget	2,659,695	2,380,966	2,337,693	2,475,112	2,594,705
Execution	2,485,908	2,380,966	2,320,458	2,474,553	2,594,705
Execution %	93.5%	100.0%	99.3%	100.0%	100.0%
OUTREACH					
Final Budget	1,691,590	1,466,379	1,530,464	1,144,000	1,506,269
Execution	1,483,461	1,466,379	1,404,488	855,707	1,195,331
Execution %	87.7%	100.0%	91.8%	74.8%	79.4%

The execution is stable for the IMS and NSO budgets and more volatile in the Outreach Budget, which is highly dependent on political decisions by NATO and Partner Nations. Since 2016 the execution consists almost completely of actual expenses.

As presented in the chart below personnel costs represent the largest share with 40% of the total. The IMS scientific Programme of Work (PoW) comes second with 20% and operational costs (mostly facility management and maintenance) are the third largest category with 17% of the total, followed by costs for communication and information services (CIS), outreach activities and memoranda of understanding (MOUs).



The IMS Financial Controller (FC) is also the FC of the Science and Technology Organization (STO) and the NATO Defence College (NDC). The IMS, STO and NDC are therefore related parties under a common Financial Controller. In order to efficiently and effectively execute its budget the IMS has instructed the NDC and the STO to undertake certain outreach activities.

Jan Broeks,
Lieutenant General, Royal Nederland's Army,
Director General
International Military Staff

Peter Bontinck,
Financial Controller,
International Military Staff

STATEMENT ON INTERNAL CONTROL FY 2018

The Director General, International Military Staff (IMS), exercises overall responsibility for IMS Risk Management and Internal Control systems, in accordance with Articles 11.1 and 12.1 of the NATO Financial Regulations (NFRs).

The IMS Financial Controller is responsible for financial risk management, and for establishing financial risk management standards (NFR Financial Rules and Procedures XI.3 and XI.4). In addition, the Financial Controller is responsible for the system of internal financial and budgetary control (NFR 12.2).

The systems of Risk Management and Internal Financial Control are based on an on-going process designed to identify the principal risks to the achievement of IMS policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 December 2018 and up to the date of these Financial Statements.

The systems of Risk Management and Internal Financial Control are designed to manage and minimize risk at the IMS. Risk Management and Internal Financial Controls can therefore provide only a reasonable, but not absolute, assurance of effectiveness. The risks addressed at the IMS include risks to: IMS operational aims and objectives; compliance with the NFRs; the reliability of financial information; and the safeguarding of assets.

The Risk Management and Financial Control processes at the IMS provide a network of internal controls that can be assessed using the five key components of the COSO Framework:

Control Environment

The culture and ethical values of the overall control environment are established by senior management. Measures for the promotion of ethical values include: IMS participation in the NATO-wide 'Building Integrity' Initiative; the promulgation of the NATO Code of Conduct to all IMS staff; and disclosures on any senior management related party transactions in our annual financial statements.

Oversight is provided by the NATO Military Committee (MC), supported by various subcommittees, who routinely scrutinize IMS Senior Management reports on strategic operational matters.

On Financial matters, interim Budgetary Execution Reports are presented to, and reviewed by, the NATO Budget Committee three times a year. In addition, IMS financial requirements comprising the yearly budget proposals are screened and reviewed by the Nations at various oversight fora.

The overall structure of the IMS was recently reviewed by a panel of military experts in support of the Military Committee, and was re-established under the authority of the NATO Secretary General in May 2016. The structure incorporates clearly defined responsibilities and authorities in the pursuit of operational objectives.

Risk Assessment

The Director General has appointed a Risk Management coordinator in accordance with NFR Article 11. The IMS Executive Management Board regularly monitors actions mitigating the significant risks identified. Risk Management processes continue to be developed, with the assistance of an external consultants when necessary.

Control Activities

The IMS operates a 'Tasker Tracker' mechanism: The mechanism uses software to launch, monitor and control ongoing progress towards management's operational requirements, in accordance with deadlines and operational priorities.

In the financial domain, the IMS finance and accounting system - 'FinS' - has built-in approval workflows and controls, together with audit trails. The controls are designed in order that transactions are recorded consistently, accurately and in accordance with the applicable rules and regulations.

IMS leadership is supported by an Executive Management Board meeting routinely to review internal processes and to inform decision making.

Information and Communication

IMS internal communications are enhanced by strong reporting lines, based on military principles. The IMS has an extensive Standard Operating Policy (IMSSOP 6) on the management of information and communications. This provides for effective communications in pursuit of operational objectives.

Communication also provides for the effective functioning of internal control. The Audit Advisory Panel, for example, reports to the Director General.

The IMS also communicates externally on matters affecting the functioning of internal control mechanism include the Statement on Internal Control, comprising part of the Financial Statements, which is released to the general public. External Audits include examinations of internal controls and compliance. The results of these audits are made available and discussed by various oversight authorities.

Monitoring

An outsourced Internal Audit service provider is engaged on a periodic basis, to undertake on behalf of the IMS Financial Controller. The IMS is also subject to annual external audits from the International Board of Auditors for NATO (IBAN).

Recommendations and observations arising from audits are assessed by the Audit Advisory Panel reporting to the Director General. The results are then assessed by the Executive Management Board, who initiate any appropriate actions.

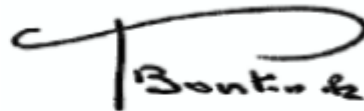
The Director General of the IMS, and the Financial Controller, have a collective responsibility for reviewing the effectiveness of the system of internal control. Our review is informed by the above five COSO components, and by the work of IMS Senior Managers, External Audits, and Internal Audits.

No significant issues regarding financial or operational matters were raised in 2018. The IBAN External Audit of the 2017 Financial Statements - undertaken in 2018 - resulted in an unqualified opinion, only observing on the need for more formal documentation on risk management and internal financial control. The entity is in the process to address the formal documentation and as such has issued the IMS Risk Management Policy in December 2018.

Overall, we are satisfied that the Risk Management and Internal Financial Control systems in operation across the IMS during the year 2018 were reasonably adequate and effective.



Jan Broeks,
Lieutenant General, Royal Nederland's Army,
Director General
International Military Staff



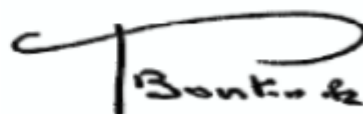
Peter Bontinck,
Financial Controller,
International Military Staff

IMS
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018
(in euro)

		<u>2018</u>	<u>(restated) 2017</u>
ASSETS			
Current Assets			
	Notes		
Cash and Cash Equivalents	2	12,827,256	7,124,357
Receivables	3	55,653	2,679,297
Prepayments	4	813,881	803,074
		<u>13,696,790</u>	<u>10,606,729</u>
Non-current Assets			
Property Plant and Equipment	5	32,408	71,065
Intangible assets	6	87,857	167,769
		<u>120,265</u>	<u>238,834</u>
TOTAL ASSETS		<u><u>13,817,055</u></u>	<u><u>10,845,563</u></u>
LIABILITIES			
Current Liabilities			
Payables	7	6,719,665	3,633,739
Deferred revenue	8	6,977,125	6,972,990
		<u>13,696,790</u>	<u>10,606,729</u>
Non-current Liabilities			
Deferred revenue	9	120,265	238,834
TOTAL LIABILITIES		<u><u>13,817,055</u></u>	<u><u>10,845,563</u></u>



.....
Jan Broeks,
Lieutenant General, Royal Nederland's Army,
Director General
International Military Staff



.....
Peter Bontinck,
Financial Controller,
International Military Staff

IMS
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 31 DECEMBER 2018
(in euro)

		<u>2018</u>	<u>2017</u>
	Notes		
Revenue			
Revenue	9	25,670,102	24,777,448
Financial Revenue	9	7,196	4,732
Other revenue	9	116,554	120,860
Total Revenue		<u>25,793,853</u>	<u>24,903,041</u>
 Expenses			
Personnel	10	(16,406,800)	(16,589,625)
Contractual supplies and services	11	(9,263,303)	(8,187,823)
Depreciation and amortization	5,6	(116,554)	(120,860)
Finance costs	9	(7,196)	(4,732)
Total Expenses		<u>(25,793,853)</u>	<u>(24,903,041)</u>
 Surplus/(Deficit) for the period		<u><u>-</u></u>	<u><u>-</u></u>

IMS
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018
(in euro)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
<i>Surplus/(Deficit) for the period</i>	-	-
Non-cash movements		
Depreciation and Amortization	116,554	120,860
Increase/(Decrease) in payables	3,085,926	(5,794,502)
Increase/(Decrease) in other current liabilities	4,135	(957,026)
Decrease/(Increase) in receivables	2,623,645	(1,142,119)
Losses on transfer of property, plant and equipment	2,015	-
(Increase) in other current assets	(10,807)	(39,257)
(Decrease) in Long-Term provisions	(118,569)	(120,860)
NET CASH FLOWS FROM OPERATING ACTIVITIES	5,702,899	(7,932,904)
NET CASH FLOWS FROM INVESTING ACTIVITIES	-	-
NET CASH FLOWS FROM FINANCING ACTIVITIES	-	-
NET INCREASE DECREASE IN CASH AND CASH EQUIVALENTS	5,702,899	(7,932,904)
 Cash and Cash Equivalents at the beginning of period	 7,124,357	 15,057,262
Cash and Cash Equivalents at the end of period	12,827,256	7,124,357

IMS
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 31 DECEMBER 2018

(in euro)

	Total
Balance at 31 December 2016	-
Surplus/(Deficit) for the period	-
Balance at 31 December 2017	-
Surplus/(Deficit) for the period	-
Net Change in net assets/equity for the year ended 2018	-
Balance at 31 December 2018	-

NOTES

Note 1: Significant Accounting Policies

1. Basis of preparation

The Financial Statements 2018 have been prepared in accordance with the NATO Accounting Framework. This Accounting Framework is based on International Public Sector Accounting Standards (IPSAS), as adapted by NATO. The financial statements comply with the financial requirements of the NATO Financial Regulations (NFRs) and the associated Financial Rules and Procedures (FRPs) as well as with the IMS directives and policies.

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

The financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair value at the end of each reporting period. The principal accounting policies are set out below. They have been applied consistently to all periods presented. The accounting principles recognized as appropriate for the recognition, measurement and reporting of the financial position, performance and cash flows on an accrual based accounting using historical costs have been applied consistently throughout the reporting period.

The financial statements cover the period from the 1 January to 31 December.

2. Accounting estimates and judgements

In accordance with IPSAS and generally accepted accounting principles, the financial statements necessarily include amounts based on estimates and assumptions made by the management and based on historical experience as well as on the most reliable information available. In exercising the judgements to make the estimates, a degree of caution was included in light of the principle of 'prudence' required by IPSAS in order not to overstate assets or revenue or understate liabilities or expenses.

The estimates and underlying assumptions are reviewed on an ongoing basis. These estimates and assumptions affect the amounts of assets, liabilities, revenue and expenses reported. By their nature, these estimates are subject to measurement uncertainty. The effect of changes to such estimates and assumptions in future periods could be significant to the financial statements.

3. Changes in accounting policy and standards

The same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria set in IPSAS 3. For the 2018 financial statements, the accounting policies have been applied consistently throughout the reporting period.

In order to provide more relevant data for the users of the financial statements some presentational changes have been made. The excess of financial expenses over financial revenue is no longer presented as a receivable from Nations, but is directly offset against

payables to Nations. The liabilities to Nations referring to unspent balances and miscellaneous income are presented as non-trade payables rather than deferred revenue. The balances related to these changes have been restated accordingly for the 2017 comparative information.

The respective impact of any other change to the entity accounting policy have been identified in the notes under the appropriate headings.

4. Changes in pronouncements

IPSAS 39 (Employee benefits) became effective 1 January 2018 and replaced IPSAS 25. IPSAS 40 (Public Sector Combinations) will become effective 1 January 2019.

The IPSAS (Financial Reporting under the cash basis of accounting) is a new standard with various effective dates as noted in the standard.

No accounting standard has been adopted earlier than the application date as stated in the IPSAS standards. None of these new standards is expected to have a material effect on the financial statements of the IMS.

5. Foreign currency transactions

These financial statements are prepared in Euro, which is the functional and reporting currency of the IMS. Foreign currency transactions are accounted for at the NATO exchange rates prevailing on the date of the transactions. Monetary assets and liabilities at year-end which were denominated in foreign currencies are assessed for materiality and if material are translated into Euro using the NATO rates of exchange applicable as at 31 December 2018. Realized and unrealized gains and losses resulting from the settlement of such transactions and from the revaluation at the reporting dates of monetary assets and liabilities denominated in foreign currencies are recognized in the Statement of Financial Position and Performance. An assessment was made of all assets and liabilities in foreign currencies as of 31 December 2018. The amount of unrealized losses is deemed immaterial.

6. Consolidation

Consolidated financial statements include the financial results of the controlling entity and its controlled entities.

While Morale & Welfare activities are under the control of the head of the NATO body, in accordance with the NATO Accounting Framework, they have not been consolidated into these financial statements. A separate activity report as required by the NFRs is submitted to the Military Budget Committee.

7. Services in Kind

The IMS received services in-kind in the form of military personnel provided by the NATO nations. Such personnel are assigned to specific, military positions on the Peacetime Establishments (PE) of the IMS (see Note 10). In these financial statements, services in kind are recognized neither as revenue nor as an asset.

8. Financial instruments

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

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

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

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

The maximum exposure as at 31 December 2018 is equal to the total amount of bank balances, short-term deposits, and receivables disclosed in the Statement of Financial Position. If receivables are considered uncollectible, they are adequately provided for. There is a very limited credit risk associated with the realization of these instruments.

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

Liquidity risk: The liquidity risk is based on the assessment of whether the organization will encounter difficulties in meeting its obligations associated with financial liabilities. There is a very limited exposure to liquidity risk because of the budget funding mechanism that guarantees contributions in relation to approved budgets. The accuracy of forecasting cash requirements as well as the delay in payment represent the main liquidity risk.

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

9. Leases

Leases are classified as finance leases whenever the terms of the lease transfers substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under lease contract are recognized as an expense in the statement of financial performance on a straight line basis over the lease term.

10. Cash and Cash Equivalents

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

11. Receivables

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

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

12. Prepayments

Prepayments and deposits are payments to suppliers, employees and other NATO entities in advance of the period to which they pertain.

13. Property, plant and equipment.

Property Plant and Equipment with finite useful lives that are acquired separately are carried at initial cost less accumulated depreciation and any recognized impairment losses. Depreciation is recognized on a straight line basis over their estimated useful lives. Full depreciation is charged in the month of acquisition and nil in the month of disposal. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period with the effect of any changes in estimate accounted for on a prospective basis. Property Plant and Equipment is derecognized when no future economic benefit is expected. The cost and any related accumulated depreciation are removed from the accounting records.

14. Intangible Assets.

Intangible assets with finite useful lives that are acquired separately are carried at initial cost less accumulated amortization and any recognized impairment losses. Amortization is recognized on a straight line basis over their estimated useful lives. Full amortization is charged in the month of acquisition and nil in the month of disposal. The estimated useful lives, residual values and amortization method are reviewed at the end of each reporting period with the effect of any changes in estimate accounted for on a prospective basis. Intangible assets are derecognized when no future economic benefit is expected. The cost and any related accumulated amortization are removed from the accounting records.

15. Impairment of tangible and intangible assets

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

16. Payables

Payables (including amounts due to other NATO entities) are initially recognized at their fair value and subsequently measured at amortized cost. This includes estimates of accrued obligations for goods and services received but not yet invoiced.

17. Deferred revenue and Advances.

Deferred revenue represents contributions from Nations and/or third parties that have been called for current or prior years budgets but that have not yet been recognized as

revenue. Funds are called in advance of their need because the entity has no capital that would allow it to pre-finance any of its activities. Advances are contributions called or received related to future year's budgets.

18. Employee Benefits – Post Employment benefits

IMS civilian employees either participate in the Defined Contribution Pension Scheme (DCPS) or in the Coordinated Pension Scheme (NATO Defined Benefit Plan).

The assets and liabilities for all of NATO's post-employment benefit schemes are accounted for centrally at NATO Headquarters by the International Staff and therefore are not recognized in these financial statements.

Defined Contribution plans

The assets of the plans are held separately from those of IMS in funds under the control of independent trustees or an Administrator. The IMS is required to contribute a specified percentage of payroll costs to the DCPS to fund the benefits. Payments to the DCPS are recognized as an expense when employees have rendered service entitling them to the contributions. The only obligation of IMS with respect to the DCPS is to make the specified contributions.

Defined Benefit plan

Employees who joined NATO before 1 July 2005 are members of the NATO Coordinated Pension Scheme which is a funded defined benefit plan. Under the plan and upon completion of 10 years employment with NATO, the employees are entitled to retirement benefits of 2% per year of service of final basic salary on attainment of a retirement age of 60. Staff members whose length of service is not sufficient to entitle them to a retirement pension are eligible for a leaving allowance.

Continued Medical Coverage

Some qualifying retirees may also benefit from Continued Medical Coverage (CMC).

19. Revenue recognition

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

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

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

Bank interests earned and accrued as of 31 December 2018, exchange rate revenue due to transactions in foreign currency and realized exchange rate revenue in accordance with the entity Policy IPSAS 4 - Effect of the foreign exchange rate - are recognized as financial revenue.

20. Trust Funds

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

Note 2: Cash and Cash Equivalents

	2018	2017
Petty Cash	1,200	1,200
Advances	15,000	25,000
Current Bank Accounts IMS	12,257,427	6,445,811
Current Bank Accounts NATO Iraq Trust	181,125	280,305
Cash Equivalents	372,504	372,041
Total Cash and Cash Equivalents	12,827,256	7,124,357

Deposits are held in interest bearing bank accounts in immediately available funds. Cash holdings are largely determined by the timing of receipts from the nations, which arrive in two instalments, generally in April and December.

Cash Equivalents are held in Euros and are funds invested on a short term deposit or business account. For cash and cash equivalents, restrictions on their use apply.

Note 3: Receivables

	2018	(restated) 2017
Calls for Contribution Receivable	-	300,000
Receivables Budget Increases	32,326	-
Receivables from Non-Consolidated NATO Entities	-	2,300,000
Receivables from Staff Members	3,900	-
VAT Receivable	12,768	9,534
Accrued Revenue	410	9,909
Receivables from Third Parties	6,248	59,855
Total Receivables	55,653	2,679,297

The budget increases are transfers of budgetary credits that the IMS received from other budgets in the IMS Budget Group (IMS BG). They were executed after the Second Call for Contributions and are therefore still due from the Nations.

The VAT receivable is for services rendered to the IMS mission on Moscow. The VAT is reimbursed by the government with several months delay.

Accrued revenue consists of bank interest earned in 2018, but for which the cash is received in 2019.

The Receivables from third parties includes several invoices for procurement and services on behalf of third parties.

As per Note 1.3, the receivables financial results in an amount of EUR 11,287 in 2017 is no longer presented as a receivable from Nations but is directly offset against payables to Nations.

Note 4: Prepayments

	2018	2017
Prepaid Expenses	131,108	139,030
Advances and Prepayments to suppliers	682,773	664,044
Total Prepayments	813,881	803,074

The most significant element of prepaid expenses is the 2019 portion of the instalments for education allowances that cover the entire school year 2018-2019.

The largest portion of advances relates to the provision of contractually agreed Working Capital for research projects.

Note 5: Property, plant and equipment

	Furniture		Vehicles		Installed Equipment		Total	
Reporting Period	2018	2017	2018	2017	2018	2017	2018	2017
Cost Opening Balance	9,193	9,193	358,880	358,880	7,800	7,800	375,873	375,873
Additions	-	-	-	-	-	-	-	-
Disposals	(9,193)	-	-	-	(7,800)	-	(16,993)	-
Cost Closing Balance	-	9,193	358,880	358,880	-	7,800	358,880	375,873
Accumulated Depreciation Opening Balance	9,193	9,193	290,090	249,922	5,525	4,745	304,808	263,859
Current Year Depreciation	-	-	36,382	40,168	260	780	36,642	40,948
Retired Depreciation	(9,193)	-	-	-	(5,785)	-	(14,978)	-
Accumulated Depreciation Closing Balance	-	9,193	326,473	290,090	-	5,525	326,473	304,808
Net Carrying Amount	-	-	32,408	68,790	-	2,275	32,408	71,065

The following useful lives are used in the calculation of depreciation.

Furniture – 10 years

Installed Equipment – 10 years

Vehicles – 5 years

As a result of the relocation to the New NATO HQ (NNHQ) some furniture and installed equipment became obsolete and has been transferred to the Transition Office in charge of the relocation.

In 2018 there are no write-offs that meet the disclosure criteria in the NATO Financial Regulations.

Note 6: Intangible Assets

Reporting Period	Software	
	2018	2017
Cost Opening Balance	360,630	360,630
Additions	-	-
Disposals	-	-
Cost Closing Balance	360,630	360,630
Accumulated Amortization Opening Balance	192,861	112,949
Current Year Amortization	79,912	79,912
Accumulated Amortization Closing Balance	272,773	192,861
Net Carrying Amount	87,857	167,769

The only intangible assets that the IMS owns are software systems. It has been determined that the useful life of such software is 4 years and that they are amortized on a straight line basis. In general software is considered to be internally developed, however an assessment is made for each individual case to determine whether the asset can be considered as acquired off the shelf.

Note 7: Payables

	2018	(restated) 2017
Payables to Suppliers	364,222	607,215
Accruals	5,284,434	2,348,607
Payables to Nations	1,069,529	676,575
Payables to Staff Members	1,479	1,342
Total Payables	6,719,665	3,633,739

The average credit period on purchases is 30 days. The IMS has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms. Payables are short term liabilities to third parties directly related to the activities and operations of the IMS.

Accruals are mainly related to goods and services received on the scientific projects of the IMS as well as IT support SLAs.

The Payables to Nations are appropriations that have not been spent or miscellaneous income that are due to the Nations. They include lapses, miscellaneous income from

operational results, financial results and any budget over- and under calls. As per Note 1.3, in 2017 the amount of EUR 687,862 less the financial result of EUR 11,287 has been presented as deferred revenue and as a receivable from Nations respectively.

Note 8: Deferred Revenue

	2018	(restated) 2017
Current Deferred Revenue	6,977,125	6,972,990
Non-Current Deferred Revenue	120,265	238,834

Current deferred revenue consists mostly of budget deferred revenue or advanced contributions for the next FY, but for which corresponding expenses will be incurred after the reporting date. Another component is the deferred revenue for trust funds, which is the corresponding liability for the cash received by nations to fund the NATO-Iraq Trust Fund. As per Note 1.3, the 2017 balance of amounts refundable to Nations of EUR 687,862 are now presented as a payable to Nations (Ref. Note 7).

Non-Current deferred revenue represents the net carrying amount of PP&E and Intangible Assets as of 31 December 2018. The revenue will be recognized in the year when the depreciation and amortization expense will be recognized.

Note 9: Revenue

	2018	2017
Revenue from Contributions	25,670,102	24,777,448
Financial Revenue	7,196	4,732
Revenue released from Deferred Revenue	116,554	120,860
Total Revenue	25,793,853	24,903,041

Financial Revenue represents bank interest and realized currency gains. Financial Revenue is used to cover finance costs to the extent possible. In 2018, finance costs were in excess of revenue. The balance is netted off against payables to Nations.

Revenue released from deferred revenue represents revenue released in respect of PP&E depreciation and amortization of intangible assets.

Reconciliation between Budget Revenue and Deferred Revenue.

The table below explains to what extent the deferred revenue from previous years and the net calls made in 2018 for the annual budgets are recognized as budget operating revenue in the fiscal year. The remaining balance is deferred revenue for the funds that are carried forward to future years, payables for the annual budgets credits that are lapsed, payables for budget decreases and receivables for budget increases.

	2018	2017
Budget Deferred revenue opening balance		192,685
Contributions called for 2018		
Call 1	20,292,417	
Call 2	6,494,139	
Total Contributions Called	26,786,556	
Budget expenses in 2018	(25,670,102)	
Lapses	(310,938)	
Budget increases	97,731	
Budget decreases	(799,931)	
Budget Deferred revenue Closing Balance	296,000	

Note 10: Personnel Expenses

Employees are compensated for the service they provide in accordance with rules and amounts established by NATO. The compensation consists of basic salary, various allowances, health insurance, pension plan and other benefits as agreed with each Host Nation and the Protocols of NATO.

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

	2018	2017
Employee Benefits	10,026,430	9,589,077
DCPS	429,579	416,413
IMS POW	4,956,000	5,468,341
Consultants and Contractors	265,963	406,493
MOUS	218,988	206,041
Outreach	260,464	233,895
Recruitment and Separation	13,973	37,666
Training	80,020	88,717
Other Costs	155,383	142,984
Total Expenses	16,406,800	16,589,625

Peacetime Establishment (PE)

	Total Approved PE - IMS	Filled Positions - IMS	Total Approved PE - NSO	Filled Positions - NSO
Civilians (MBC)	85	80	16	16
Military	317	283	26	19
Voluntary National Contribution (VNC)	20	13	0	0
National Manpower Overage (NMO)	19	19	0	0
Host Nation	2	1	0	0
PFP	11	5	2	1
Local Wage Rate (LWR)	1	1	0	0
Civilians (CBC)	10	10	0	0
Legacy post (LEG)	0	0	0	0
Twinned posts (TP)*	4	4	2	2

Untaken Leave

The Balance of untaken leave at the end of 2018 was 517 days (2017: 350 days) for IMS and 71 days (2017: 71 days) for NSO. The associated cost is recognized as an accrual.

Note 11: Contractual Supplies and Services

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

	2018	2017
CIS	3,587,473	1,963,534
Outreach	1,237,927	934,595
Utilities, Maintenance and Furniture	3,631,735	4,666,950
Travel and Hospitality	749,510	573,967
Office Supplies and Reference		
Materials	56,658	48,469
Services	-	308
Total Expenses	9,263,303	8,187,823

Operating Leases

All leases of the IMS are cancellable and are recognized as an expense on a straight-line basis over the lease term. They have been classified as operating leases as they do not transfer substantially all the risks and rewards incidental to ownership. The classification has been based on the fact that the ownership is not transferred by the end of the lease term, the lease term is not for the majority of the item's estimated economic life and the leases do not contain a bargain purchase option.

The IMS had 3 rental/lease contracts in 2018 – two temporary ones for 4 months lease of copiers and a contract for lease of a vehicle.

The total annual cost of the lease contracts amounts to 81,259 EUR (2017: 60,333 EUR).

Note 12: Related Parties

The key management personnel includes: the DG IMS, Directors, and Heads of Independent Offices. They are all rotated, typically every three years, and with the exception of the Financial Controller, have only management oversight of routine operating and maintenance activities. The detailed work related to these tasks tends to be undertaken by staff officers. The IMS Financial Controller is also the Financial Controller of the Science and Technology Organization (STO) and the NATO Defence College (NDC). The IMS, STO and NDC are therefore related parties under a common Financial Controller.

The other key management personnel of the entity have no significant known related party relationships that could affect the operation of this reporting entity. Key management are remunerated in accordance with the applicable National or NATO pay scales. They do not receive from NATO any additional remuneration for Board responsibilities or access to preferential benefits such as the entitlement to receive loans over and above those available to all NATO personnel under normal rules.

Note 13 Representation Allowance

Representation Allowance is available to certain designated NATO high officials whose position entails responsibility for maintaining relationships of value to NATO. Representation Allowance can be used to complement national funds and is made available to support social events and catering. In 2018 three senior IMS officials received Representation Allowances.

The total entitlement amounted to 37,000 EUR (2017: 37,000 EUR) and the actual expenses to 29,000 EUR (2017: 29,471 EUR).

IMS
BUDGET EXECUTION STATEMENT
FOR THE YEAR END 31 DECEMBER 2018
(in euro)

EURO	Initial Budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments	Expenses	Total Spent	Carry Forward	Lapsed
BUDGET 301 (IMS)2018												
Chapter 1	13,879,229	224,000	14,103,229	302,000	14,405,229	(33,397)	14,371,832	296,000	14,075,832	14,371,832	296,000	-
Chapter 2	8,930,948	(354,000)	8,576,948	(302,000)	8,274,948	(663,398)	7,611,550	-	7,611,550	7,611,550	-	-
Chapter 3	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	22,810,177	(130,000)	22,680,177	-	22,680,177	(696,795)	21,983,382	296,000	21,687,382	21,983,382	296,000	-
BUDGET 302 (NSO)2018												
Chapter 1	1,913,136	-	1,913,136	45,000	1,958,136	86,669	2,044,805	-	2,044,805	2,044,805	-	-
Chapter 2	789,243	-	789,243	(185,000)	604,243	(54,342)	549,901	-	549,901	549,901	-	-
TOTAL	2,702,379	-	2,702,379	(140,000)	2,562,379	32,326	2,594,705	-	2,594,705	2,594,705	-	-
BUDGET 501 (OTRCH)2018												
Chapter 1	194,000	-	194,000	(20,500)	173,500	(56,469)	117,031	-	93,478	93,478	-	23,552
Chapter 2	1,350,000	-	1,350,000	20,500	1,370,500	18,738	1,389,238	-	1,101,852	1,101,852	-	287,386
TOTAL	1,544,000	-	1,544,000	-	1,544,000	(37,731)	1,506,269	-	1,195,331	1,195,331	-	310,938
TOTAL FY2018	27,056,556	(130,000)	26,926,556	(140,000)	26,786,556	(702,200)	26,084,356	296,000	25,477,418	25,773,418	296,000	310,938
BUDGET 301 (IMS)2017												
Chapter 1	192,685	-	192,685	-	192,685	-	192,685	-	192,685	192,685	-	-
TOTAL	192,685	-	192,685	-	192,685	-	192,685	-	192,685	192,685	-	-
TOTAL FY2017	192,685	-	192,685	-	192,685	-	192,685	-	192,685	192,685	-	-
TOTAL ALL BUDGETS	27,249,241	(130,000)	27,119,241	(140,000)	26,979,241	(702,200)	26,277,041	296,000	25,670,103	25,966,103	296,000	310,938

The budget covers the financial year from 1 January 2018 to 31 December 2018 and includes the following budgets: 301 (IMS), 302 (NSO) and 501 (Outreach). The Initial Budgets and subsequent revisions are reviewed and issued by Budget Committee.

In accordance with the NFRs, all the changes between the initial and the final budget which were due to transfers of appropriations, were either authorized by the Budget Committee or were within the authority of the IMS Financial Controller. These changes are presented in the Budget Execution Statement. The lapses on budget 501 are mainly explained by the cancellation of activities in the NATO Defence College as well as the fluctuating and difficult to predict partner participation rate.

As required by the NATO Financial Regulations and the FRPs the credits carried forward are presented in the Budget Execution Statement. They represent the unexpended balances at year end for which there is a legal liability or a Budget Committee decision and are equal to the closing Budget Deferred Revenue (see also Note 9).

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

	Financial Performance	Budget	Difference
Total Expenses	25,793,853	25,670,102	(123,750)
Personnel	16,406,800	16,406,800	-
Contractual Supplies and Services	9,263,303	9,263,303	-
Capital and Investments	-	-	-
Depreciation Expense	116,554	-	116,554
Finance Cost	7,196	-	7,196
Difference			0

NATO-Iraq Trust Fund Status
as of 31st December 2018
(In euro)

FISCAL YEAR	IN COUNTRY COURSES	OUT OF COUNTRY COURSES			TOTAL
	EXPENSES	EXPENSES	SLOTS OFFERED	SLOTS TAKEN	
2005	133,235	1,494,235	123	200	1,627,470
2006	966,684	1,355,890	444	253	2,322,574
2007	745,024	1,230,390	223	197	1,975,414
2008	2,900,068	1,105,880	230	208	4,005,948
2009	200,557	1,263,332	220	208	1,463,889
2010	218,647	1,737,842	412	336	1,956,489
2011	44,135	1,733,875	468	420	1,778,010
2012	-	23,366	23	15	23,366
2013	-	176,359	42	42	176,359
2014	-	10,340			10,340
2015		301,817	62	62	301,817
2016		1,565,362	340	268	1,565,362
2017		55,568	4	4	55,568
2018		99,180	7	7	99,180
TOTAL	5,208,350	12,153,436			17,361,786
NATO-IRAQ TRUST FUND STATUS AS OF 31 DEC 2018					
FUND DONATED					17,176,421
INTEREST EARNED (net of finance costs)					366,490
FUND USED					17,361,786
FUND AVAILABLE					181,125

NOTE: The expenses in 2018 were for two NRCC course at the NATO Defence College in Rome. The funds available are equal to the cash as of 31 of December 2018.



NORTH ATLANTIC TREATY ORGANIZATION
ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD
INTERNATIONAL BOARD OF AUDITORS FOR NATO
COLLÈGE INTERNATIONAL DES AUDITEURS EXTERNES DE L'OTAN

NATO UNCLASSIFIED



IBA-A(2019)0111
28 August 2019

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

Cc: Commandant, NATO Defense College
Financial Controller, International Military Staff
Head Budget & Fiscal Section, NATO Defense College
Chairman, Resource Policy & Planning Board
Branch Head, Secretariat and Finance Branch, NATO Office of Resources
Private Office Registry

Subject: *International Board of Auditors for NATO (IBAN) Auditor's Report and Letter of Observations and Recommendations on the audit of the NATO Defense College Financial Statements for the year ended 31 December 2018 – IBA-AR(2019)0007*

IBAN submits herewith its approved Auditor's Report (Annex 2) and Letter of Observations and Recommendations (Annex 3) with a Summary Note for distribution to the Council (Annex1).

IBAN's report sets out an unqualified opinion on the Financial Statements of the NATO Defense College, and on compliance for financial year 2018.

Yours sincerely,

Dr. Hans Leijtens
Chairman

Attachments: As stated above.



**Note succincte
du Collège international des auditeurs externes de l'OTAN
à l'intention du Conseil sur la vérification des états financiers
du Collège de défense de l'OTAN (NADEFCOL)
pour l'exercice clos le 31 décembre 2018**

Le Collège international des auditeurs externes de l'OTAN (IBAN) a procédé à la vérification des états financiers du Collège de défense de l'OTAN (NADEFCOL), qui est chargé d'organiser des stages et d'autres programmes conçus pour préparer des officiers et des responsables appelés à servir à des postes importants à l'OTAN ou en rapport avec l'OTAN, et pour faire connaître les initiatives et les intérêts de l'OTAN. Le montant total des dépenses du NADEFCOL pour l'exercice clos le 31 décembre 2018 s'est établi à 10,123 millions d'euros (MEUR).

L'IBAN a émis une opinion sans réserve sur les états financiers du NADEFCOL ainsi que sur la conformité pour l'exercice clos le 31 décembre 2018.

À l'issue de l'audit, l'IBAN a formulé une observation, qui n'a pas eu d'incidence sur l'opinion qu'il a émise.

Elle peut être récapitulée comme suit :

1. Nécessité d'apporter des améliorations dans les domaines de l'identification des risques et de la communication à ce sujet.

L'IBAN a par ailleurs fait le point sur la suite donnée à l'observation formulée lors de l'audit précédent, et il a constaté que la question était en cours de traitement.

L'opinion (annexe 2) et la lettre d'observations et de recommandations (annexe 3) ont été transmises au NADEFCOL, dont les commentaires ont ensuite été intégrés dans la lettre ainsi que, le cas échéant, la position de l'IBAN à leur sujet (appendice à l'annexe 3).

28 août 2019

COLLÈGE INTERNATIONAL DES AUDITEURS EXTERNES DE L'OTAN

OPINION SUR LES ÉTATS FINANCIERS

DU COLLÈGE DE DÉFENSE DE L'OTAN

(NADEFCOL)

POUR L'EXERCICE CLOS LE 31 DÉCEMBRE 2018

**OPINION DU COMMISSAIRE AUX COMPTES
À L'INTENTION DU CONSEIL DE L'ATLANTIQUE NORD**

Vérification des états financiers

Opinion sur les états financiers

Le Collège international des auditeurs externes de l'OTAN (IBAN) a procédé à la vérification des états financiers du Collège de défense de l'OTAN (NADEFCOL) portant sur la période de 12 mois ayant pris fin le 31 décembre 2018. Diffusés sous la cote IMSTAM(FC)-0009-2019 et soumis à l'IBAN le 26 mars 2019, ces états financiers se composent de l'état de la situation financière au 31 décembre 2018, 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 la période de 12 mois ayant pris fin le 31 décembre 2018, ainsi que d'un résumé des méthodes comptables importantes et d'autres notes explicatives. Ils contiennent en outre un rapport sur l'exécution du budget portant sur la période de 12 mois ayant pris fin le 31 décembre 2018.

L'opinion de l'IBAN est que les états financiers donnent une image fidèle et exacte de la situation financière du NADEFCOL au 31 décembre 2018 ainsi que de sa performance financière, de ses flux de trésorerie et de l'exécution du budget pour la période de 12 mois ayant pris fin le 31 décembre 2018, en application des dispositions comptables et des normes de compte rendu du cadre comptable OTAN.

Justification de l'opinion émise sur les états financiers

Le Règlement financier de l'OTAN (NFR) prévoit que l'audit externe des organismes OTAN établis en vertu du Traité de l'Atlantique Nord est effectué par le Collège international des auditeurs externes de l'OTAN (IBAN).

L'IBAN a effectué son audit sur la base des normes internationales des institutions supérieures de contrôle des finances publiques (ISSAI 1000-1810), définies par l'Organisation internationale des institutions supérieures de contrôle des finances publiques (INTOSAI), ainsi que des dispositions complémentaires figurant dans sa propre charte.

L'IBAN est indépendant, ainsi que le prévoit le Code de déontologie de l'INTOSAI, et il s'est acquitté de ses responsabilités dans le respect des dispositions de ce code. Les responsabilités des membres de l'IBAN sont décrites de manière plus détaillée dans la section « Responsabilités de l'IBAN concernant la vérification des états financiers » et dans sa charte.

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

Responsabilité de la direction concernant les états financiers

La responsabilité de la direction concernant les états financiers est définie dans le NFR. Les états financiers du NADEFCOL sont établis en application des dispositions comptables et des normes de compte rendu du cadre comptable OTAN tel qu'approuvé par le Conseil. Il incombe au contrôleur des finances de soumettre les états financiers à l'IBAN au plus tard le 31 mars qui suit la fin de l'exercice visé dans les états financiers.

Les états financiers sont signés par le chef de l'organisme OTAN concerné et par le contrôleur des finances. En apposant leur signature sur ces documents, ceux-ci confirment que des mesures de gouvernance financière, des mécanismes de gestion des ressources, des contrôles internes et des systèmes d'information financière ont été mis en place et maintenus afin de garantir une utilisation efficace et efficiente des ressources.

Cette confirmation couvre l'élaboration, la mise en place et le maintien d'un ensemble de contrôles internes de nature à permettre l'établissement et la présentation d'états financiers qui soient auditable et exempts d'inexactitudes significatives, que celles-ci relèvent d'une fraude ou d'une erreur. Elle couvre aussi le compte rendu relatif à la capacité de l'entité à poursuivre son activité, la présentation, le cas échéant, des questions relatives à la continuité de l'activité, et l'application du principe comptable de continuité d'activité, à moins qu'il soit prévu de liquider l'entité ou de mettre un terme à son activité ou qu'il ne soit pas réaliste de procéder de la sorte.

Responsabilités de l'IBAN concernant la vérification des états financiers

L'audit a pour objectif de permettre à l'IBAN d'obtenir une assurance raisonnable sur le point de savoir si les états financiers considérés dans leur ensemble sont exempts d'inexactitudes significatives, que celles-ci relèvent d'une fraude ou d'une erreur, et de formuler une opinion à leur sujet. L'assurance raisonnable correspond à un degré de certitude élevé, mais elle ne garantit pas qu'un audit effectué conformément aux ISSAI permettra dans tous les cas de détecter les inexactitudes significatives. Les inexactitudes, qui peuvent résulter d'une fraude ou d'une erreur, sont considérées comme significatives lorsque l'on peut raisonnablement s'attendre à ce que, considérées isolément ou collectivement, elles influent sur les décisions économiques que les utilisateurs des états financiers prennent en se fondant sur ceux-ci.

Dans le cadre d'audits effectués conformément aux ISSAI, les auditeurs font appel à leur jugement professionnel et à leur esprit critique tout au long de la planification et de la réalisation du travail. Cela nécessite de tenir compte des particularités que présentent les entités du secteur public. L'IBAN s'attache aussi :

- à recenser et à évaluer les risques d'inexactitudes significatives dans les états financiers, que celles-ci relèvent d'une fraude ou d'une erreur, à concevoir et à mettre en œuvre des procédures d'audit sensibles à ces risques ainsi qu'à obtenir

par son audit les éléments probants nécessaires et suffisants pour lui permettre de formuler une opinion ; le risque de non-détection d'une inexactitude significative relevant d'une fraude est plus élevé que le risque de non-détection d'une inexactitude significative relevant d'une erreur car la fraude peut résulter d'une collusion, d'une falsification, d'omissions intentionnelles, de fausses déclarations ou du contournement du contrôle interne ;

- à acquérir une connaissance du contrôle interne qui soit pertinente pour l'audit, 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 de l'entité ;
- à déterminer si les méthodes comptables appliquées sont appropriées et si les estimations comptables et les informations connexes fournies par la direction sont raisonnables ;
- à se prononcer sur le caractère approprié ou non de l'utilisation du principe comptable de la continuité d'activité et à déterminer, à partir des éléments probants obtenus par l'audit, s'il existe une incertitude significative du fait d'événements ou de circonstances susceptibles de remettre fondamentalement en cause la capacité de l'entité à poursuivre son activité ; si l'IBAN juge qu'une telle incertitude existe, il est tenu d'appeler l'attention, dans son opinion, sur les informations correspondantes figurant dans les états financiers ou, si ces informations sont incomplètes, de formuler une opinion modifiée ; les conclusions de l'IBAN sont fondées sur les éléments probants en sa possession à la date d'établissement de son rapport d'audit ; il n'est toutefois pas exclu que l'entité soit amenée à cesser son activité en raison d'événements ou de circonstances futurs ;
- à évaluer la présentation générale, la structure et le contenu des états financiers, y compris les informations fournies, et à déterminer si les états financiers rendent compte fidèlement des opérations et des événements qui en font l'objet.

L'IBAN est tenu de communiquer avec les organes chargés de la gouvernance, et notamment de les informer du périmètre et du calendrier de la mission d'audit qu'il prévoit d'effectuer, des principales conclusions de l'audit et des lacunes significatives qu'il aura éventuellement constatées dans le contrôle interne au cours de l'audit.

L'opinion que l'IBAN formule à l'intention du Conseil de l'Atlantique Nord doit aider ce dernier à s'acquitter de son rôle. C'est la raison pour laquelle l'IBAN est responsable de ses travaux et de son opinion devant le seul Conseil.

Vérification de la conformité

Opinion sur la conformité

Sur la base des procédures qu'il a appliquées, l'IBAN estime que rien, dans son audit des états financiers, ne lui donne de raison de penser que les fonds n'ont pas été régulièrement employés à l'acquittement de dépenses autorisées ou qu'ils ne sont pas conformes au Règlement financier de l'OTAN et au Règlement du personnel civil de l'OTAN.

Justification de l'opinion émise sur la conformité

L'IBAN a effectué la vérification portant sur la conformité sur la base des normes internationales des institutions supérieures de contrôle des finances publiques (ISSAI 4000), définies par l'Organisation internationale des institutions supérieures de contrôle des finances publiques (INTOSAI), ainsi que des dispositions complémentaires figurant dans sa propre charte.

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

Responsabilité de la direction concernant la conformité

Tous les membres du personnel – civils et militaires – de l'OTAN sont tenus de respecter le Règlement financier de l'OTAN ainsi que les règles et procédures financières qui s'y rattachent et les directives d'application particulières, dont le Règlement du personnel civil de l'OTAN fait partie.

Le chef d'organisme OTAN est responsable et tenu comptable d'une saine gestion financière. Les organismes OTAN doivent administrer leurs finances en s'appuyant sur les principes suivants : adéquation, bonne gouvernance, obligation de rendre compte, transparence, gestion des risques et contrôle interne, audit interne, audit externe, prévention et détection des fraudes.

Responsabilités de l'IBAN concernant la conformité

Selon sa charte, en plus d'être responsable de fournir une assurance raisonnable quant à la question de savoir si les états financiers considérés dans leur ensemble sont exempts d'inexactitudes significatives, l'IBAN doit chaque année rendre au Conseil un avis indépendant lui assurant que les fonds ont été régulièrement employés à l'acquittement de dépenses autorisées (adéquation) et qu'ils sont conformes aux règles en vigueur (régularité). Par « adéquation », on entend le respect des principes généraux régissant une gestion financière saine ainsi que la conduite des membres de l'administration. Par « régularité », on entend le respect de critères officiels tels que les règlements, règles et procédures applicables.

Il incombe ainsi à l'IBAN d'appliquer des procédures lui permettant d'obtenir en toute indépendance une assurance sur le point de savoir si les fonds ont été régulièrement employés à l'acquittement de dépenses autorisées et si les opérations correspondantes ont été exécutées conformément à la réglementation en vigueur. De telles procédures prévoient notamment la prise en compte des risques de non-conformité significative.

Bruxelles, le 28 août 2019

A handwritten signature in blue ink, appearing to be 'Hans Leijtens', written in a cursive style.

Hans Leijtens
Président

28 août 2019

COLLÈGE INTERNATIONAL DES AUDITEURS EXTERNES DE L'OTAN

LETTRE D'OBSERVATIONS ET DE RECOMMANDATIONS

**CONCERNANT LE COLLÈGE DE DÉFENSE DE L'OTAN
(NADEFCOL)**

POUR L'EXERCICE CLOS LE 31 DÉCEMBRE 2018

Introduction

Le Collège international des auditeurs externes de l'OTAN (IBAN) a procédé à la vérification des états financiers du Collège de défense de l'OTAN (NADEFCOL), qui est chargé d'organiser des stages et d'autres programmes conçus pour préparer des officiers et des responsables appelés à servir à des postes importants à l'OTAN ou en rapport avec l'OTAN, et pour faire connaître les initiatives et les intérêts de l'OTAN. Le montant total des dépenses du NADEFCOL pour l'exercice clos le 31 décembre 2018 s'est établi à 10,123 MEUR.

L'IBAN a émis une opinion sans réserve sur les états financiers du NADEFCOL ainsi que sur la conformité pour l'exercice clos le 31 décembre 2018.

Observations et recommandations

À l'issue de l'audit, l'IBAN a formulé une observation, qui n'a pas eu d'incidence sur l'opinion qu'il a émise.

Elle peut être récapitulée comme suit :

1. Nécessité d'apporter des améliorations dans les domaines de l'identification des risques et de la communication à ce sujet.

L'IBAN a fait le point sur la suite donnée à l'observation formulée lors de l'audit précédent, et il a constaté que la question était en cours de traitement.

L'IBAN a par ailleurs adressé à la direction du NADEFCOL une lettre faisant le point sur la suite donnée aux observations formulées lors de précédents audits (référence : IBA-AML(2019)0004).

1. NÉCESSITÉ D'APPORTER DES AMÉLIORATIONS DANS LES DOMAINES DE L'IDENTIFICATION DES RISQUES ET DE LA COMMUNICATION À CE SUJET

Contexte

1.1 Aux termes de l'article 11 du Règlement financier de l'OTAN (NFR), les chefs d'organisme OTAN veillent à ce que la réalisation des objectifs fixés par les pays puisse s'appuyer sur des procédures de gestion des risques conformes aux exigences d'efficacité, d'efficience et d'économie. En outre, ils déterminent, évaluent et atténuent les risques qui pèsent sur la réalisation de ces objectifs.

1.2 Selon les règles et procédures financières de l'OTAN (FRP) XI, le chef d'organisme OTAN veille à ce qu'une approche globale de gestion des risques soit adoptée et à ce que toutes les divisions puissent identifier les principaux risques, en déterminer la nature et l'étendue, et mettre en place les mécanismes de contrôle propres à les atténuer. Une place doit être faite, dans toute la mesure possible, à la gestion des risques dans la planification stratégique et opérationnelle, l'expédition des affaires courantes et la prise de décision à tous les niveaux de l'entité.

1.3 Aux termes de l'article 12 du NFR, les chefs d'organisme OTAN veillent à ce que les fonctions de gestion interne nécessaires soient en place pour assurer un contrôle interne efficace, et les activités de contrôle interne portent notamment sur un examen et une évaluation périodiques des risques et du bon fonctionnement du système de contrôle interne. Afin qu'il soit satisfait aux critères souhaités de contrôle interne, le contrôleur des finances veille à établir un système de contrôle financier et budgétaire interne couvrant tous les aspects de la gestion financière.

Constatations

Gestion des risques

1.4 Avec l'aide du service d'audit interne de l'Agence OTAN d'information et de communication (NCIA), le NADEFCOL a créé un registre destiné à recenser les risques associés à chacun de ses départements. En 2018, il a mis ce registre à l'essai, s'employant à l'alimenter tout au long de l'exercice. Toutefois, le registre ne recense pas la totalité des risques relatifs au NADEFCOL. Cela tient au fait qu'il a été mis en place par les services du contrôleur des finances et qu'il n'a pas été communiqué aux autres acteurs clés de l'entité, qui n'ont donc pas eu l'occasion de s'assurer que tous les risques y étaient répertoriés.

1.5 Il est important d'alimenter régulièrement le registre des risques afin que les mesures adéquates y soient dûment consignées, associées à une définition claire des rôles et des responsabilités, en application du NFR et des FRP. Pour ce faire, il convient de mettre en place une procédure dans le cadre de laquelle le registre des risques sera

communiqué, examiné et approuvé officiellement au moins une fois par an et d'associer à ce processus les acteurs principaux au sein du NADEFCOL (commandant, doyen, etc.).

Recommandation

1.6 L'IBAN recommande au NADEFCOL de veiller à ce que la totalité des risques affectant l'entité soient répertoriés dans le registre des risques en mettant en place une procédure dans le cadre de laquelle ce registre serait communiqué, examiné et approuvé officiellement au moins une fois par an et en associant à ce processus les acteurs principaux au sein du NADEFCOL.

SUITES DONNÉES AUX OBSERVATIONS ANTÉRIEURES

L'IBAN a fait le point sur la suite donnée aux questions ayant fait l'objet d'observations lors de précédents audits. On trouvera dans le tableau ci-après un récapitulatif de ces observations et des mesures prises par l'entité ainsi qu'un état de la question.

OBSERVATION/RECOMMANDATION	MESURES PRISES	ÉTAT DE LA QUESTION
(1) Exercice 2017 IBA-AR(2018)0006, paragraphe 1 NÉCESSITÉ D'APPORTER DES AMÉLIORATIONS DANS LES DOMAINES DU CONTRÔLE INTERNE, DE LA GESTION DES RISQUES ET DE L'AUDIT INTERNE Recommandations de l'IBAN L'IBAN recommande au NADEF COL : a) d'élaborer et d'approuver officiellement une politique de gestion des risques, notamment du risque financier, qui soit applicable à toute l'entité ; b) de continuer d'alimenter et d'améliorer le registre des risques afin que tous les risques affectant l'entité y soient répertoriés ; c) d'améliorer la communication des informations dans la déclaration sur le contrôle interne afin d'en assurer la conformité avec les FRP XII ;	L'IBAN a noté que le NADEF COL avait élaboré une politique de gestion des risques, notamment du risque financier, qui est applicable à toute l'entité. Toutefois, cette politique n'a pas encore été approuvée officiellement, ce qui est pourtant indispensable pour garantir et pour montrer clairement à tous que des procédures de gestion des risques respectant les critères d'efficacité, d'efficience et d'économie sont en place. Question en cours de traitement. L'IBAN a noté que le NADEF COL avait mis à l'essai un registre des risques. Toutefois, des améliorations doivent encore être apportées à ce registre étant donné qu'il ne recense pas tous les risques auxquels le NADEF COL est confronté. Question rendue caduque par l'observation formulée pour l'exercice 2018. L'IBAN a noté que le NADEF COL avait amélioré la communication des informations dans la déclaration sur le contrôle interne afin d'en assurer la conformité avec les FRP XII. Question traitée.	Question en cours de traitement.

OBSERVATION/RECOMMANDATION	MESURES PRISES	ÉTAT DE LA QUESTION
d) de consigner par écrit les procédures de contrôle interne et de gestion des risques en place pour les principaux processus opérationnels et d'évaluer la conformité avec le cadre de contrôle interne choisi ;	L'IBAN a noté que le NADEF COL avait réalisé quelques progrès dans ce domaine. Il doit continuer de mettre en place des politiques et des procédures de contrôle interne et de gestion des risques pour les principaux processus opérationnels. Question en cours de traitement.	
e) d'organiser des activités d'audit interne, en recourant à l'externalisation si cette option est jugée plus appropriée, aux fins d'une évaluation complète de l'efficacité du système de contrôle interne et de gestion des risques dans l'ensemble de l'entité.	Il est fait appel périodiquement à un prestataire de services d'audit interne (à savoir le service d'audit interne de la NCIA). Une évaluation des contrôles internes et de la gestion des risques au NADEF COL a été réalisée et documentée en 2016. Question traitée.	

Une question est considérée comme étant « à traiter » lorsqu'aucun progrès notable n'a encore été réalisé en vue de son règlement. Une question est considérée comme étant « en cours de traitement » lorsque l'organisme OTAN visé a commencé à mettre en œuvre la recommandation correspondante ou lorsque certains éléments de la recommandation (mais pas tous) ont été suivis d'effets. Une question est considérée comme étant « traitée » lorsque la recommandation correspondante a été mise en œuvre ou qu'elle a été rendue ou est devenue caduque.

**COMMENTAIRES OFFICIELS DU COLLÈGE DE DÉFENSE DE L'OTAN
(NADEFCOL) CONCERNANT LA LETTRE D'OBSERVATIONS
ET DE RECOMMANDATIONS ET POSITION DU COLLÈGE INTERNATIONAL
DES AUDITEURS EXTERNES DE L'OTAN**

**OBSERVATION 1 :
NÉCESSITÉ D'APPORTER DES AMÉLIORATIONS DANS LES DOMAINES DE
L'IDENTIFICATION DES RISQUES ET DE LA COMMUNICATION À CE SUJET**

Commentaires officiels du NADEFCOL

Le NADEFCOL souscrit à l'observation.

Un registre des risques a été mis à l'essai en 2018 et le NADEFCOL a pris les mesures ci-après en 2019.

La politique de gestion des risques SOP 114 a été approuvée officiellement/est entrée en vigueur le 5 juin 2019. Elle contient des instructions détaillées sur la procédure relative à l'accès au registre des risques ainsi qu'à son examen et à son approbation. La totalité des membres du personnel du NADEFCOL ont accès au registre des risques sur l'intranet. Chaque agent est dès lors en mesure d'alimenter le registre. L'assistant militaire du commandant a été nommé « coordonnateur de la gestion des risques ». Il est chargé de veiller à la cohérence de la gestion des risques au sein du NADEFCOL. La Branche Budget et finances assurera le secrétariat et le soutien administratif pour toutes les questions ayant trait à la gestion des risques. L'assistant travaillant au sein de la Branche Budget et finances est responsable du maintien et de l'actualisation du registre des risques et de la documentation relative au cadre de contrôle interne, sous la supervision du chef de la Branche. À la date du 26 juin 2019, tous les risques identifiés figuraient dûment dans le registre des risques.

SUITES DONNÉES AUX OBSERVATIONS ANTÉRIEURES

Commentaires généraux

L'établissement d'un plan stratégique – qui a été présenté au Comité militaire – et la réalisation, dans le même temps, d'une revue organisationnelle étayée par un inventaire détaillé des processus de travail ont été les grandes priorités du NADEFCOL pour les exercices 2018 et 2019. Ces exercices doivent donc être considérés comme des exercices de transition. Avec l'entrée en vigueur d'une politique de gestion des risques, l'intégration de tous les risques dans un registre et le recours au service d'audit interne de la NCIA, le NADEFCOL se rapproche de la pleine conformité avec les recommandations formulées par l'IBAN.

(1) Exercice 2017

IBA-AR(2018)0006, paragraphe 1

NÉCESSITÉ D'APPORTER DES AMÉLIORATIONS DANS LES DOMAINES DU CONTRÔLE INTERNE, DE LA GESTION DES RISQUES ET DE L'AUDIT INTERNE

Réponse à la recommandation 1.a :

Le NADEFCOL souscrit à la recommandation.

La politique de gestion des risques SOP 114 a été approuvée officiellement le 5 juin 2019.

Réponse à la recommandation 1.d :

Le NADEFCOL souscrit à la recommandation.

Dans le cadre de la politique de gestion des risques SOP 114, le NADEFCOL a adopté le cadre COSO, un cadre de contrôle interne internationalement reconnu qui est adapté aux besoins des organisations de petite taille. Le NADEFCOL a évalué ses contrôles et processus internes à l'aune des cinq composantes et des 17 principes du cadre COSO.



INTERNATIONAL MILITARY STAFF
ETAT-MAJOR MILITAIRE INTERNATIONAL



26 March 2019

IMSTAM(FC)-0009-2019

CHAIR, INTERNATIONAL BOARD OF AUDITORS FOR NATO (IBAN)

NATO DEFENSE COLLEGE (NDC) FINANCIAL STATEMENTS 2018

1. Please find attached the 2018 NATO Defense College Financial Statements, issued in accordance with NATO Financial Regulation (NFR) Article 35.1.
2. I can confirm that, in accordance with NFR Financial Rules and Procedures XXXV (4), the NDC can agree to public disclosure of these Financial Statements.
3. Notwithstanding the above, as stated in C-M(2012)0041, public disclosure of IBAN Audit Reports is a matter for Council decision, based upon the recommendation of the RPPB. Decisions are informed by the NATO policy on public disclosure of documents (C-M(2008)0116).
4. The IBAN Audit Report covering these Financial Statements has not been issued, but should be presented to Council no later than 31 August 2019 (NFR 15.2). As such, the NDC is not yet in a position to anticipate any potential representations that may be made to the RPPB, regarding the Audit Report.
5. The NDC therefore reserves its position on public disclosure of the eventual IBAN Audit Report.

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

Enclosure:

1. NDC Financial Statements FY 2018

Copy To: COMMANDANT NDC, HEAD OF FINANCE NDC, FC, RECORDS

Action Officer: Ms A. MUEFFKE, Principal Administrator (Finance) to FC IMS, (4593)



NATO DEFENSE COLLEGE FINANCIAL STATEMENTS (BUDGET 303)

2018



Presented by: Mr. Vincenzo Distefano, ITACV
Head Budget and Finance Branch

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ITALY

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NDC Statement on Internal Control FY 2018

The Commandant of the NATO Defense College (NDC), exercises overall responsibility for the maintenance of a sound system of Risk Management and Internal Control, in accordance with Articles 11.1 and 12.1 of the NATO Financial Regulations (NFRs).

The NDC Financial Controller is responsible for financial risk management, and for establishing financial risk management standards (NFR Financial Rules and Procedures XI.3 and XI.4). In addition, the Financial Controller is responsible for the system of internal financial and budgetary control (NFR 12.2).

The systems of Risk Management and Internal Financial Control are based on an on-going process designed to identify the principal risks to the achievement of NDC policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 December 2018 and up to the date of these Financial Statements.

The systems of Risk Management and Internal Financial Control are designed to manage and reduce - rather than entirely eliminate - risk at the NDC. Risk Management and Internal Financial Controls can therefore provide only a reasonable, but not absolute, assurance of effectiveness. The risks addressed at the NDC include risks to: NDC operational aims and objectives; compliance with the NFRs; the reliability of financial information; and the safeguarding of assets.

The Risk Management and Financial Control processes at the NDC provide a network of internal controls that can be assessed using the five key components of the COSO¹ Framework:

Control Environment

The culture and ethical values of the overall control environment are established by senior management. The promotion of ethical values includes; NDC participation in the NATO-wide 'Building Integrity' Initiative; the promulgation of the NATO Code of Conduct to all NDC staff; and a disclosures on any senior management related party transactions in our annual financial statements.

Oversight is provided by the NATO Military Committee (MC), its various sub-committees, who routinely scrutinize NDC Senior Management reports on strategic operational matters.

On Financial matters, interim Budgetary Execution Reports are presented to, and reviewed by, the NATO Budget Committee three times a year. In addition, NDC financial requirements comprising the yearly budget proposals are screened and reviewed by the Nations at various oversight fora.

The overall mission and structure of the NDC was recently reviewed by the Military Committee, resulting into a revised "Policy Guidance for the NATO Defense College" (Document MC 123/9) noted by the North Atlantic Council (NAC) in July 2016.

Risk Assessment

The NDC continues to develop internal Risk Management policies and procedures. Risk Management will be undertaken throughout all staff Divisions.

¹ Committee of Sponsoring Organizations of the Treadway Commission.

Control Activities

The NDC, through its Command Group (CG) and "Commandant Update Brief" (CUB) monitors and controls ongoing progress towards management's operational requirements, in accordance with deadlines and operational priorities.

In the financial domain, the NDC accounting system -'FinS'- has built-in approval workflows and controls, together with audit trails. The controls are designed in order that transactions are recorded consistently, accurately and in accordance with the NFRs.

Information and Communication

NDC internal communications are enhanced by strong reporting lines, based on military principles. The NDC has a Standard Operating Procedure (SOP 97) for a secure user access to Communication & Information resources. This provides for effective communications in pursuit of operational objectives.

Communication also provides for the effective functioning of internal control. The Audit Advisory Panel, for example, reports directly to the Commandant.

The NDC also communicates externally on matters affecting the functioning of internal control. Mechanisms include the Statement of Internal Control, comprising part of the Financial Statements, which is released to the general public. External Audits include examinations of internal controls and compliance with authorities. The results of these audits are circulated outside to the NDC to be discussed by various oversight authorities, and for disclosure to the general public.

Monitoring

An outsourced Internal Audit service provider is engaged on a periodic basis, to undertake on behalf of the Financial Controller. The NDC is also subject to annual external audits from the International Board of Auditors for NATO (IBAN).

Recommendations and observations arising from audits are assessed by the Audit Advisory Panel reporting to the Commandant. The results are then assessed, and appropriate actions initiated, in accordance with the provisions of NFRs Article 16.

The recently revised NATO Financial Regulations (NFRs), and Financial Rules and Procedures (FRPs) are important pillars of the NDC internal control framework. The NFRs were endorsed by the Nations in May 2015, and the FRPs were approved by the Budget Committee in February 2016. In May 2018 a revision of the Financial Rules and Procedures (FRPs) was issued.

The Commandant of the NDC and the Financial Controller, have a collective responsibility for reviewing the effectiveness of the system of internal control. Our review is informed by the above five COSO components, and by the work of NDC Senior Managers, External Audits, and Internal Audits.

No significant issues regarding financial or operational matters were raised in 2018. The IBAN External Audit of the 2017 Financial Statements -undertaken in 2018- resulted in an unqualified opinion. However, one observation was raised by the IBAN about the formal documentation of existing internal controls and risk management procedures as well as undertaking internal audit activities.

Overall, we are satisfied that the Risk Management and Internal Financial Control systems in operation across the NDC during the year 2018 were reasonably adequate and effective.

The year 2018 was the second full year under the new NFR/FRP regime. The NDC continues to work towards full compliance with the new NFRs and FRPs.



Christine Whitecross,
Lieutenant General, Royal Canadian Air Force,
Commandant,
NATO Defense College



Peter Bontinck,
Financial Controller:
NATO Defense College;
International Military Staff;
Science and Technology Organization

Introduction by the Financial Controller

1. The NATO Defense College's (NDC) mission and organisation is formally established by the Military Committee. The mission is to contribute to the effectiveness and cohesion of the Alliance by serving as the cornerstone of Alliance education, playing a strong role in public outreach efforts, acting as a forum of excellence for transatlantic security studies and conducting research projects contributing to the identification and analysis of issues important for the Alliance.
2. The IMS Budget Group covers a number of budgets and entities linked together for financial management purposes by a Financial Controller. The IMS Financial Controller is also the Financial Controller of the Science and Technology Organisation (STO). The STO and IMS are therefore related parties under a common Financial Controller.
3. These Financial Statements are specific to the NDC. The NDC statements reflect the financial position, the financial performance, the budget execution, the cash flow and the change in net assets for the reporting period. Notes provide further disclosures on key transactions following the materiality principle. The financial statements have been prepared primarily using the common IMS Budget Group accounting software (FinS), where the NDC has a separate set of financial books. The statements cover the execution of the main NDC budget, and include the elements of Outreach budgets for which the NDC has operational control.
4. The Financial Statements 2018 have been produced in accordance with the NATO Accounting Framework. This Accounting Framework is based on International Public Sector Accounting Standards (IPSAS), as adapted by NATO. The Financial Statements are also produced in accordance with the NATO Financial Regulations and presented in a commonly adopted layout.
5. As the NATO Accounting Framework is continuously evolving, compliance is a dynamic process that requires staff to keep updating their knowledge. Also it requires that the accounting tools are suitably maintained and, when appropriate, upgraded. An on-going challenge is that NATO entities undertake financial reporting in a consistent way. Therefore the NDC, through the IMS FC and his Office, maintains a dialogue with the other NATO entities and plays a full part in the NATO Accounting Working Group and the Working Group of Financial Controllers. The NDC remains committed to developing its Financial Reporting expertise and producing Financial Statements fully compliant with the applicable standards and instructions as issued by Nations. The NDC will also continue to work openly and constructively with the IBAN.



Peter BONTINCK
BELCV - Financial Controller
International Military Staff &
Science and Technology Organisation

**NATO DEFENSE COLLEGE
STATEMENT OF FINANCIAL POSITION**

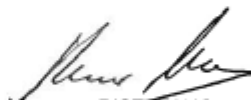
As at 31 December 2018

(in EUR)

	Notes	2018	2017
ASSETS			
Current Assets			
Cash and Cash Equivalents	2	2,929,973	3,081,452
Receivables	3	36,022	65,499
Advances and other Current Assets	4	5,149	4,339
Non-Current Assets			
Fixed Assets - Property, Plant & Equipment	5	13,049,302	12,914,855
TOTAL ASSETS		16,020,445	16,066,144
LIABILITIES			
Current Liabilities			
Payables	6	(442,964)	(678,936)
Unearned Revenue & Advance Contributions	7	(2,528,179)	(2,472,353)
Non-Current Liabilities			
Deferred Revenue	8	(13,049,302)	(12,914,855)
TOTAL LIABILITIES		(16,020,445)	(16,066,144)
TOTAL NET ASSETS/EQUITY		0	0



Chris WHITECROSS
Lieutenant General, CANAF
Commandant



Vincenzo DISTEFANO
ITACV
Financial Controller (Delegated)

**NATO DEFENSE COLLEGE
STATEMENT OF FINANCIAL PERFORMANCE**

for the year ended 31 December 2018

(in EUR)

	<i>Notes</i>	<u>2018</u>	<u>2017</u>
OPERATING PERFORMANCE			
Total Revenue	9	<u>(10,123,317)</u>	<u>(9,026,715)</u>
Expenses			
BCode 303 Expenses			
Personnel	10.1.1	5,535,425	5,367,068
Contractual Supplies and Services	10.1.2	3,049,214	2,506,711
Capital and Investments	10.1.3	140,806	23,731
Total BCode 303 Expenses		<u>8,725,446</u>	<u>7,897,510</u>
Non-BCode 303 Expenses			
Personnel	10.2.1	93,520	65,191
Contractual Supplies and Services	10.2.2	866,099	660,495
Total Non-BCode 303 Expenses		<u>959,619</u>	<u>725,686</u>
Financial Expenses	10.3	882	555
Depreciation PP & E	5 - 10.4	437,370	402,964
Total Expenses		<u>10,123,317</u>	<u>9,026,715</u>
SURPLUS / DEFICIT FOR THE PERIOD			
		<u>0</u>	<u>0</u>

NATO DEFENSE COLLEGE STATEMENT OF CASH FLOWS

for the year ended 31 December 2018
(in EUR)

	<i>Notes</i>	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
<i>Surplus/Deficit from ordinary activities</i>		-	-
Non-cash movements			
Depreciation / Amortization	5	437,370	402,964
Increase - <u>(Decrease)</u> in payables		(235,972)	314,763
<u>Increase</u> - (Decrease) in other current liabilities		55,826	150,096
(Increase) - <u>Decrease</u> in receivables		29,477	221
<u>(Increase)</u> - Decrease in other current assets		(810)	(189)
(Increase) - <u>Decrease</u> in Long-term Provisions		134,447	(55,891)
NET CASH FLOWS FROM OPERATING ACTIVITIES		<u>420,338</u>	<u>811,964</u>
Purchase of property plant and equipment	13.1	(571,817)	(347,073)
Proceeds from sale of property plant and equipment		-	-
Proceeds from sale of investments		-	-
NET CASH FLOWS FROM INVESTING ACTIVITIES		<u>(571,817)</u>	<u>(347,073)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		750,000	800,000
Repayment of borrowings		(750,000)	(800,000)
NET CASH FLOWS FROM FINANCING ACTIVITIES		-	-
Net Increase - <u>(Decrease)</u> in cash and cash equivalents		<u>(151,479)</u>	<u>464,891</u>
Cash and cash equivalents at the beginning of the period		<u>3,081,452</u>	<u>2,616,561</u>
Cash and cash equivalents at the end of the period		<u>2,929,973</u>	<u>3,081,452</u>

NATO DEFENSE COLLEGE
STATEMENT OF CHANGES IN NET ASSETS

for the year ended 31 December 2018

(in EUR)

	Total
Balance at the beginning of the period 2017	0
Surplus / (deficit) for the period	0
Change in net assets for the year ended 2017	0
Balance at the beginning of the period 2018	0
Surplus / (deficit) for the period	0
Change in net assets for the year ended 2018	0
Balance at the end of the period 2017	0
Balance at the end of the period 2018	0

NATO DEFENSE COLLEGE
STATEMENT OF THE BUDGET EXECUTION AS AT 31 DECEMBER 2018 AND FOR THE YEAR ENDED
 (Annex as per the NFRs para 34.4)

Budget Currency EURO	BUDGET 303 - 2018											
	Initial Budget BA-1	Transfers	BA-2	Transfers	BA-3	Transfers	Final Budget	Commitments	Expenses	Total Spent	Carry Forward	Lapsed
Chapter 1	5,689,613	0	5,689,613	0	5,689,613	(60,503)	5,629,110	0	5,535,425	5,535,425	0	93,685
Chapter 2	3,277,909	0	3,277,909	(60,000)	3,217,909	2,116	3,220,025	4,303	3,065,669	3,069,973	4,303	150,053
Chapter 3	690,079	0	690,079	0	690,079	18,386	708,465	12,298	696,168	708,465	12,298	0
TOTAL FY 2018	9,657,601	0	9,657,601	(60,000)	9,597,601	(40,000)	9,557,601	16,601	9,297,263	9,313,863	16,601	243,738
GRAND TOTAL BUDGET 303 ALL FYs	9,657,601	0	9,657,601	(60,000)	9,597,601	(40,000)	9,557,601	16,601	9,297,263	9,313,863	16,601	243,738

Expenses are recognized / recorded on an accrual basis

NATO DEFENSE COLLEGE NOTES TO THE FINANCIAL STATEMENTS

1. Significant Accounting Policies

1.1. Basis Preparation

The Financial Statements 2018 have been produced in accordance with the NATO Accounting Framework. This Accounting Framework is based on International Public Sector Accounting Standards (IPSAS), as adapted by NATO under C-M(2016)0023 dated 21 April 2016. The NATO Financial Regulations were amended by the Nations in May 2015 (C-M(2015)0025), and the associated Financial Rules and Procedures (FRPs) were approved by the Budget Committee in February 2016 (BCD(2015)0260-REV1). The Financial Statements are presented in the improved common layout applying the RPPB Notice AC/335-N(205)0088 dated 11 December 2015.

The Financial Statements have been prepared on a going-concern basis.

In accordance with Article 2 of the NATO Financial Regulations (NFRs), the financial year at the NDC begins on 01 January and ends on 31 December of the year.

The accounting principles recognized as appropriate for the recognition, measurement and reporting of the financial position, performance and cash flows on an accrual based accounting using historical costs have been applied consistently throughout the reporting period to ensure that the financial statements provide information that is relevant to the decision-making and reliable, comparable, and understandable in light of the qualitative characteristics of financial reporting as well as of the principle of the right balance between the benefits derived from the information and the costs of providing it as required by IPSAS 1.29 and further summarized in Appendix A of IPSAS 1. The principle accounting policies are set out below.

1.2. Significant Accounting Judgments and Estimates

In accordance with Generally Accepted Accounting Principles, the Financial Statements necessarily include amounts based on estimates and assumptions made by the management and based on historical experience as well as on the most reliable information available. In exercising the judgments to make the estimates, a degree of caution was included in light of the principle of 'prudence' required by IPSAS in order not to overstate assets or revenue or understate liabilities or expenses.

The estimates and underlying assumptions are reviewed on an ongoing basis. These estimates and assumptions affect the amounts of assets, liabilities, revenues and expenses reported. By their nature, these estimates are subject to measurement uncertainty. The effect of changes to such estimates and assumptions in future periods could be significant to the financial statements.

1.3. New and revised pronouncements in issue but not yet effected

No accounting standard has been adopted earlier than the application date as stated in the IPSAS standards. The following IPSASs are either not relevant for the NDC Financial Statements 2018 or have no material impact on the presentation of the Financial Statements: IPSAS 5, 10, 11, 16, 18, 26, 27, 32, 34, 35, 36, 37 and 38.

1.4. Foreign Currency Transactions

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

Transactions in currencies other than the functional currency are converted into Euro at the NATO exchange rates prevailing at the time of the transaction.

Realized gains and losses resulting from the settlement of such transactions are recognized in the Statement of Financial Performance.

1.5. Services In-Kind

Services in-kind are services provided by individuals to public sector entities in a non-exchange transaction. These services meet the definition of an asset because the entity controls a resource from which future

economic benefits or service potential is expected to flow to the entity. An entity may, but is not required to, recognize services in-kind as revenue and as an asset, and a decrease in an asset and an expense upon consumption of the service in-kind. Due to many circumstances surrounding services in-kind, including the ability to exercise control over the services, and measuring the fair value of the services, IPSAS does not require the recognition of services in-kind.

1.6. Financial Instruments Disclosure/Presentation

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

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

Credit Risk: In the normal course of business, NDC incurs credit risk from trade receivables and transactions with banking institutions (local and in Belgium). NDC manages its exposure to credit risk by:

- Holding current account bank balances and short-term deposits with registered banking institutions, concentrating assets in bank(s) with a minimum rating of "B";
- Maintaining credit control procedures over receivables.

The maximum exposure as at 31 December 2018 is equal to the total amount of bank balances, short-term deposits, and receivables disclosed in the Statement of Financial Position. Receivables considered uncollectible are adequately provided for. There is a very limited credit risk associated with the realization of these instruments.

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

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

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

1.7. Cash and Cash Equivalents

Cash and Cash Equivalents are defined as short-term assets. They include cash on-hand, petty cash, current bank accounts, deposits held with banks, other short-term highly liquid investments.

1.8. Receivables

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

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

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

1.9. Prepayments

This reflects prepayments given to suppliers and to other NATO entities in advance of the period to which it pertains.

1.10. Property, Plant and Equipment

Basic Principles:

- Buildings are offered to be used by the NDC by the MOD Italy. The amounts shown represent the historic cost as provided by the MOD Italy and will be revalued whenever any relevant information is received from the MOD Italy;
- All other property, plant and equipment are stated at historical cost less accumulated depreciation and any recognized impairment loss;
- No external evaluator to set values for assets except Buildings (MOD IT, see above);
- No grouping of assets;
- Depreciation is calculated on a straight-line basis;
- Full depreciation / amortization in the month of acquisition, and nil in the month of disposal.
- As an accounting principle, land cannot be depreciated. The land value shown represents its fair value after internal investigation.

PP&E categorizations for purposes of determining the appropriate depreciable life of the assets is listed in the tables below - the categories for both tangible and intangible assets complete with the years in which the asset is to be depreciated.

Straight-line depreciation method is used for all categories; however the depreciable life of an asset is dependent on the particular category it is in.

For assets acquired on or after 1 January 2013 the NATO Accounting Framework has been applied, which includes adaptations to IPSAS 17 PPE. NDC continues to recognize assets acquired pre-2013.

Capitalization Thresholds.

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

Category	Threshold – per item (no grouping)	Depreciation life	Method
Land	€ 200,000	N/A	N/A
Buildings	€ 200,000	40 years	Straight line
Installed equipment (e.g. aircon)	€ 5,000	10 years	Straight line
Machinery	€ 5,000	10 years	Straight line
Furniture	€ 5,000	10 years	Straight line
Automated information systems	€ 5,000	3 years	Straight line

1.11. Impairment of tangible assets

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

1.12. Leases (IPSAS 13)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rental payments under such leases are charged and presented in the Statement of Financial Performance.

1.13. Payables

Payables are amounts due to third parties for goods received or services provided that remain unpaid as of the reporting date. Accruals are estimates of the cost for goods and services received at year-end but not yet invoiced. They are recognized at their fair value.

1.14. Unearned Revenue and Advances

Unearned revenue represents contributions from Nations and/or third parties that have been called for current or prior years' budgets but that have not yet been recognized as revenue. Contributions called for following-year budgets are recorded as advances.

1.15. Provisions - Including Long-term Provisions for PP&E

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

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

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

1.16. Revenue

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

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

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

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

Bank interests earned as of 31 December 2018, exchange rate revenue due to transactions in foreign currency and realized exchange rate revenue in accordance with the entity Policy IPSAS 4 - Effect of the foreign exchange rate - are recognized as financial revenue.

1.17. Employee benefits

The NDC civilian employees either participate in the Defined Contribution Pension Scheme (DCPS) or the Coordinated Pension Scheme (NATO Defined Benefit Plan) administered by NATO.

The assets and liability for the above NATO pension schemes and the Retirees Medical Contribution Fund (RMCf) are accounted for centrally at NATO Headquarters by the International Staff and therefore are not recognized in these financial statements.

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

Certain employees who have joined NATO before 1 July 2005 are members of the NATO Coordinated Pension Scheme, which is a funded defined benefit plan. Under the plans and upon completion of 10 years employment with NATO, the employees are entitled to retirement benefits of 2% per year of service of final basic salary on attainment of a retirement age of 60. Staff members whose length of service is not sufficient to entitle them to a retirement pension are eligible for a leaving allowance.

2. Cash and Cash Equivalents

	31-Dec-2018	31-Dec-2017
a. Cash Accounts	71,408	27,960
b. Petty Cash and Advances	1,500	1,500
c. Current Bank Accounts in Euros	2,857,065	3,051,992
Total	2,929,973	3,081,452

Cash and cash equivalents are short-term liquid assets. They include the current bank accounts, deposit accounts, credit card accounts and cash in hand.

3. Accounts Receivable

	31-Dec-2018	31-Dec-2017
a. Receivables from NATO Entities	17,322	26,722
b. Receivables from Governments / Gov. Agencies	18,699	30,145
c. Receivable Financial Result BC 28/29N	0	8,632
Total	36,022	65,499

Receivables mainly include reimbursements from other NATO entities. None of the balances are past their due date.

4. Prepayments and Miscellaneous Assets

	31-Dec-2018	31-Dec-2017
Advances - Non Assigned Expenditures	5,149	4,339
Total	5,149	4,339

Advances are made in respect of prepaid travel arrangements.

5. Property, Plant and Equipment

Property, Plant and Equipment contain the book value of the items that meet the capitalization threshold. The deletions refer to assets entirely depreciated. The assets by categories are as follows:

	AIS and Communication Systems	Furniture	Machinery	Installed Equipment	Land	Building	Totals
Cost							
Balance at 1 January 2017	150,488	26,961	75,550	1,893,724	7,718,220	6,938,780	16,803,722
Additions	77,785	0	0	160,372	0	108,915	347,073
Disposals/deletions	-70,756	0	0	-127,164	0	0	-197,920
Balance at 31 December 2017	157,517	26,961	75,550	1,926,932	7,718,220	7,047,696	18,862,876
Additions	6,500	0	7,888	485,699	0	71,730	671,817
Disposals/deletions	-11,505	0	0	-13,539	0	0	-25,044
Balance at 31 December 2018	152,512	26,961	83,438	2,399,093	7,718,220	7,119,426	17,488,849
Accumulated depreciation							
Balance at 1 January 2017	-106,549	-21,569	-31,082	-755,041	0	-2,918,736	-3,832,976
Depreciation expense	-36,954	-2,696	-7,555	-181,155	0	-174,604	-402,964
Disposals/deletions	70,756	0	0	127,164	0	0	197,920
Balance at 31 December 2017	-72,747	-24,265	-38,637	-809,032	0	-3,093,340	-4,038,020
Depreciation expense	-42,932	-2,696	-7,621	-206,136	0	-177,986	-437,370
Disposals/deletions	11,505	0	0	13,539	0	0	25,044
Balance at 31 December 2018	-104,174	-26,961	-46,258	-1,001,629	0	-3,271,325	-4,460,347
Net book value							
Balance at 31 December 2017	84,770	2,696	36,913	1,117,900	7,718,220	3,954,356	12,814,856
Balance at 31 December 2018	48,338	0	37,180	1,397,464	7,718,220	3,848,101	13,048,302

The depreciation charge for the year was 437,370 EUR (2017: 402,964 EUR)

6. Payables

	31-Dec-2018	31-Dec-2017
a. Payables to Suppliers	54,792	63,104
b. Payable Accruals	348,172	550,832
c. Payable Budget Decrease thru IYR BC 28/29N	40,000	65,000
Total	442,964	678,936

Payables are short-term (less than 1 year) liabilities to third parties directly related to the activities and operations of the NDC.

The average credit period on purchases is 30 days. NDC has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

7. Unearned Revenue and Advances

	31-Dec-2018	31-Dec-2017
a. Unearned Revenue BCode 303	16,601	0
b. Liabilities to Nations	261,578	221,072
c. BC Advance Contributions	2,250,000	2,250,000
d. Advance Contributions National borne costs	0	1,281
Total	2,528,179	2,472,353

Unearned Revenue consists of contributions and other transfers received or receivable, but for which corresponding charges will be incurred after the reporting date (carry-forward credits).

Breakdown of liabilities to Nations:

	31-Dec-2018	31-Dec-2017
a. Liabilities from Operational Result	30,412	3,971
b. Liabilities from Financial Result ¹	-12,571	0
c. Liabilities from Lapsed Budget Authorization	243,738	217,101
Total	261,578	221,072

8. Deferred Revenue: PP&E and Intangible Assets

The deferred revenue for the capitalization of property, plant and equipment represents depreciation not yet expended. The revenue will be recognized in the year that the depreciation expenses will be recognized (see para 5).

9. Revenue

Revenue recognition is based on the accounting policies, outlined in note 1.16. Revenue for depreciation represents revenue released in respect of PPE depreciation.

The table below shows the breakdown of the operating revenue between different sources:

	31-Dec-2018	31-Dec-2017
a. Revenue from BCode 303 Operating Activities	8,725,446	7,897,510
b. Revenue from Non-BCode 303 Operating Activities	959,619	725,686
c. Revenue from Financial Activity	882	555
d. Revenue for Depreciation	437,370	402,964
Total	10,123,317	9,026,715

¹ Offsetting the financial result with the overall liability in accordance with IPSAS 28 – Financial Instruments: Presentation
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9.1. Revenue from BCode 303 Operating Activities

The revenue recognition is matched with the recognition of expenses exclusively against the NATO Defense College Budget (303). **The amount is net of the capitalized PP&E.** (see note 10.1.3).

9.2. Revenue from Non-BCode 303 Operating Activities

The revenue is the total from NATO/Other Entities, Trust Fund and Nations matched with the recognition of expenses (see note 10.2.) for several activities such as:

- Outreach/Cooperation activities (PfP, MED, ICI and OMC) - 859,158 EUR
- Reimbursable Activities (Trust Funds) - 99,180 EUR
- National borne expenses - 1,281 EUR.

Field Study Program's expenses paid for on behalf of Nations are not included (see the NON-BCode 303/Reimbursable Budget Execution Statement) since the NDC acts as a "Procurement Agent" for those services i.a.w. IPSAS 9, Paragraph 12 - Revenue from Exchange Transactions.

9.3. Revenue from Financial Activity

The Financial Revenue consists of the bank interest earned and realized exchange rate gains and is recognized up to the amount of financial expenses incurred (see note 10.3.).

9.4. Revenue for Depreciation

The revenue is matched to the depreciation in order to match revenue earned with the consumption of the Assets which is in line with the Accrual Accounting assumption in IPSAS 1 and the income method described in IAS 20 (see notes 10.4. and 5).

Reconciliation between Revenue and Unearned Revenue

The table below explains to what extent the unearned revenue from previous years and the net calls in the current year are recognized as operating revenue in the current year. The remaining balance is unearned revenue for the funds that are carried-forward to future years.

Unearned Revenue Opening Balance on 1st January 2018		0
a.	Contributions called for the year detailed by call	
	1 st call received from Italy	7,243,201
	2 nd call received from Italy	2,354,400
	Total Contributions called	9,597,601
b.	Revenue earned in 2018 (Budget Execution including Chapter 73)	-9,297,262
c.	Assessment call for next year – Decrease of the Budget Authorization	-40,000
d.	Lapses	-243,738
Unearned Revenue Closing Balance on 31st December 2018		16,601

10. Expenses

Expenses are recognized by nature within the following groups:

	31-Dec-2018	31-Dec-2017
a. BCode 303 Expenses		
1. Personnel (Chapter 1)	5,535,425	5,367,068
2. Contractual Supplies and Services (Chapter 2)	3,049,214	2,506,711
3. Capital and Investment (Chapter 3)	140,806	23,731
Total BCode 303 Expenses	8,725,446	7,897,510

b. Non-BCode 303/Reimbursable Expenses		
1. Personnel (Chapter 1)	93,520	65,191
2. Contractual Supplies and Services (Chapter 2)	866,099	660,495
Total Non-BCode 303/Reimbursable Expenses	959,619	725,686
c. Financial Expenses	882	555
d. Depreciation Expenses	437,370	402,964
Total	10,123,317	9,026,715

10.1. BCode 303 Expenses

10.1.1. Personnel Expenses

All civilian Personnel expenses as well as other non-salary related expenses, in support of common funded activities, include expenses for salaries and emoluments for approved NATO permanent civilian positions and temporary personnel; other salary related and non-related allowances, such as overtime; medical examinations; recruitment; installation; removal expenses etc. The line also includes outsourced consultants / contractors / experts.

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

Peacetime Establishment (PE)

	Authorized PE	Filled Positions
Civilians	53	51
Military (IMP)	52	42
National Manpower Overage	1	1
Voluntary National Contribution (VNC)	-	3
Host Nation	32	31
Partnership Posts	4	2
Total	142	130

The breakdown of salaries and employee benefits are as follows:

	31-Dec-2018	31-Dec-2017
a. Employee benefits	4,193,110	4,178,809
b. DCPS	212,501	217,488
Total	4,405,611	4,396,297

The untaken leave at the end of 2018 is 486.5 days (2017: 373 days). Since the estimated amount involved (82,466 EUR) is not material (less than 1% of the budget), no adjusting entry has been recorded for untaken leave.

10.1.2. Contractual Supplies and Services

Contractual Supplies and Services expenses are required for administrative support to the NDC and include expenses for general administrative overheads, and the maintenance costs of buildings/grounds, communications and information systems, transportation, travel expenses, representation/hospitality and miscellaneous expenses. Lease payments under an operating lease are recognized as an expense on a straight-line basis over the lease term and are included in Contractual Supplies and Services expenses.

10.1.3. Capital and Investments

Budget instructions require including the expenditures costing more than 50% of level A of the EFL in Capital & Investments (Chapter 73). Only the ones above capitalization threshold (see note 1.10.) are capitalized; the others are considered expenses and not investments.

10.2. Non-Budget Code 303/Reimbursable Expenses

These expenses are funded through various sources to include the IMS Cooperation/Outreach Budget 501 (PfP-MD-ICI-OMC), which is treated as Reimbursable Budget. Other portions are funded as Reimbursable Expenses from other NATO Entities, Partner Entities and Trust Funds for several activities. Field Study Program's expenses paid on behalf of Nations are not included.

For the detailed presentation see the Non-BCode 303/Reimbursable Budgets' Execution Statement.

10.2.1. Personnel

Personnel costs refer to Experts, Lecturers, Interpreters and Language Teachers. No Salary related credits are included in the Non-BCode 303/Reimbursable Budgets.

10.2.2. Contractual Supplies and Services

Supplies and Services refer to transport, subsidization and other organizational costs.

10.3. Financial Expenses

Financial costs include bank charges, realized exchange rate losses and rounding/corrections.

10.4. Depreciation expenses of the period

These expenses are detailed in note 5.

11. Related Parties Disclosure

The key management personnel of the NDC includes: the Commandant, the Dean, the Director of Management, the Chief Personnel & Administration Branch, the Purchasing & Contracting Officer and the Head of Budget & Finance Branch. The key management personnel of the entity have no significant known related party relationships that could affect the operation of this reporting entity. Key management is remunerated in accordance with the applicable National or NATO pay scales. They do not receive from NATO any additional remuneration for Board responsibilities or access to preferential benefits such as the entitlement to receive loans over and above those available to all NATO personnel under normal rules. The NDC Financial Controller is also the Financial Controller of the International Military Staff and the Science and Technology Organization. The NDC, IMS and STO are therefore related parties under a common Financial Controller.

During the year, the NDC entered into non material transactions with other NATO entities outside the IMS Budget Group. The fees charged for these transactions were an appropriate allocation of the costs incurred.

12. Representation Allowance

Representation Allowance is allocated to high level officials having the responsibility to establish and maintain relationships of value with external individuals. The 2018 budget allocation was 4,317 EUR and only 40% of it has been expended in accordance with the set rules.

13. Budget Execution

The Budget Execution Statement shows the budget allocations and their execution status for the fiscal year 2018.

There are two budget execution statements, one for the BCode 303 NDC Budget and another one for various reimbursable budgets, reimbursable expenses and multinational budgets.

In accordance with the NFRs, all the changes between the initial and the final budget, which were due to

reallocations, were either authorized by the BC or were within the authority of the Financial Controller. These changes are presented in the Budget Execution Statement that is prepared on a modified-cash basis.

13.1. Reconciliation between the NDC Budget Execution Report and the NDC Statement of Financial Performance:

	Statement of Financial Performance	Budget Execution Statement	Difference
a. Personnel	5,535,425	5,535,425	0
b. Contractual Supplies and Services	3,049,214	3,065,669	-16,455
c. Capital & Investments	140,806	696,168	-555,362
Total	8,725,446	9,297,263	-571,817

The Statement of Financial Performance and the Budget Execution Statement diverge due to the inclusion of the capitalized expenditures (new items/additions) in the Budget Execution Statement.

14. Write-Off

In accordance with the NATO Financial Regulations (NFR Art. 17), an annual summary of property written-off in 2018 is annexed to the annual financial statements at the following table. The table refers to items which were physically disposed in 2018 being no longer serviceable, and include both capitalized and non-capitalized items.

Items (Quantity)	Purchased in	Net Book value	Total cost	Report of Survey	Reason for write-off
Audio / Visual (16)	2003-2011	0	11,428	03/2008	Special Disposal
Furniture (53)	1997 → 2007	0	8,341	02-06/2018	Beyond state of repair. No longer serviceable
Mission/Mess Items (8)	1996 → 2013	0	8,897	01-04-05/2018	
Total		0	28,666		

In 2018 no cash was written-off.

15. Operating Lease

The NDC has 1 rental/lease contract which started in 2013 that has been classified as cancelable operating leases as it does not transfer substantially all the risks and rewards incidental to ownership. This approach is reviewed every year. The rental/lease Contract NDC 02/2013 for copiers signed in December 2013 for a period of 5 years with a yearly cost of 40,879 EUR is included in the Contractual Supplies and Services expenses.

16. Morale & Welfare Activity

Morale & Welfare Activity (MWA) is conducted at the NATO Defense College on a relatively limited scale. The majority of transactions refer to petrol products, rationed items and a small shop offering mementoes and other few items.

In accordance with the NATO Accounting Framework (C-M(2016)0023 dated 21 April 2016), there is no need to consolidate the MWA into the Entity's Financial Statements. An annual MWA report, including the NDC relevant information, is issued by the IMS for Budget Committee screening and assessment.

**NATO DEFENSE COLLEGE
STATEMENT OF NON BCcode 303 / REIMBURSABLE BUDGET EXECUTION AS AT 31 DECEMBER 2018
AND FOR THE YEAR ENDED**

Budget Currency EURO	Initial Budget	Transfers Adjustments	Final Budget	Commitments	Expenses	Total Spent	Lapsed
REIMBURSABLE BUDGETS							
BUDGET 2018 ZNC (501/IMS - PIP)*	490,000	(90,012)	399,988	0	399,988	399,988	0
BUDGET 2018 ZNC (501/IMS - MD)*	408,000	(108,349)	299,651	0	299,651	299,651	0
BUDGET 2018 ZNC (501/IMS - ICI)*	86,000	(78,799)	7,201	0	7,201	7,201	0
BUDGET 2018 ZNC (501/IMS - OMC)*	255,000	(102,681)	152,320	0	152,320	152,320	0
TOTAL 2018	1,239,000	(379,842)	859,158	0	859,158	859,158	0
TOTAL REIMBURSABLE BUDGETS							
	1,239,000	(379,842)	859,158	0	859,158	859,158	0
(*) According to the IMS Directives, since Budget 501 (Outreach PIP, MD, ICI and OMC) is reimbursable, the accrued and carried forward amounts are shown in both IMS and NDC books. Expenses are recognized / recorded on an accrual basis							
REIMBURSABLE EXPENSES							
BUDGET 2018 N04 (TRUST FUNDS)	85,000	14,180	99,180	0	99,180	99,180	0
BUDGET 2018 MC4 (NATIONAL BORNE EXPENSES)	1,281	0	1,281	0	1,281	1,281	0
TOTAL 2018	86,281	14,180	100,461	0	100,461	100,461	0
TOTAL REIMBURSABLE EXPENSES							
	86,281	14,180	100,461	0	100,461	100,461	0
TOTAL REIMBURSABLE BUDGETS & EXPENSES							
	1,325,281	(365,662)	959,619	0	959,619	959,619	0
MULTINATIONAL							
BUDGET FS1 (EUROPEAN PERSPECTIVES - SC 132)	146,172	0	146,172	0	146,172	146,172	0
BUDGET FS (NRCC-19)	44,974	0	44,974	0	44,974	44,974	0
BUDGET FS2 (TRANSATLANTIC LINK - SC 132)	200,531	0	200,531	0	200,531	200,531	0
BUDGET FS3 (REGIONAL APPROACH - SC 132)	164,565	0	164,565	0	164,565	164,565	0
BUDGET FS4 (EUROPEAN PERSPECTIVES - SC 133)	188,110	0	188,110	0	188,110	188,110	0
BUDGET FS (NRCC-20)	36,618	0	36,618	0	36,618	36,618	0
BUDGET FS5 (TRANSATLANTIC LINK - SC 133)	150,601	0	150,601	0	150,601	150,601	0
BUDGET FS6 (REGIONAL APPROACH - SC 133)	136,540	0	136,540	0	136,540	136,540	0
TOTAL 2018	1,068,112	0	1,068,112	0	1,068,112	1,068,112	0
TOTAL MULTINATIONAL - FIELD STUDY BUDGETS							
	1,068,112	0	1,068,112	0	1,068,112	1,068,112	0



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

INTERNATIONAL BOARD OF AUDITORS FOR NATO
COLLÈGE INTERNATIONAL DES AUDITEURS EXTERNES DE L'OTAN

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IBA-A(2019)0103
28 August 2019

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

Cc: Chairman/NATO Chief Scientist, Science and Technology Board
Chairman, Science and Technology Organisation Finance and Audit Sub-Group
Director, Centre for Maritime Research and Experimentation
Director, Science and Technology Collaboration Support Office
Financial Controller, International Military Staff/Science and Technology Organisation
Chairman, Resource Policy and Planning Board
Branch Head, Secretariat and Finance Branch, NATO Office of Resources
Private Office Registry

Subject: *International Board of Auditors for NATO (IBAN) Auditor's Report and Letter of Observations and Recommendations on the audit of the Science and Technology Organisation (STO) Financial Statements for the year ended 31 December 2018 – IBA-AR(2019)0010*

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

IBAN's report sets out an unqualified opinion on the Financial Statements of the STO and an unqualified opinion on compliance for the financial year 2018.

Yours sincerely,

Dr. Hans Leijtens
Chairman

Attachments: As stated above.

**Note succincte
du Collège international des auditeurs externes de l'OTAN
à l'intention du Conseil sur la vérification des états financiers
de l'Organisation pour la science et la technologie (STO)
pour l'exercice clos le 31 décembre 2018**

L'IBAN a procédé à la vérification des états financiers de l'Organisation pour la science et la technologie (STO), devenue un organisme OTAN le 1^{er} juillet 2012. La STO a pour mission de contribuer à ce que les investissements réalisés par les pays et par l'OTAN dans le domaine de la science et de la technologie jouent le rôle de catalyseurs stratégiques des savoirs et de l'avantage technologique pour la posture de défense et de sécurité des pays membres et des pays partenaires de l'OTAN.

La STO comporte trois organes exécutifs : le Bureau du conseiller scientifique (OCS), implanté à Bruxelles (Belgique) et placé sous l'autorité du conseiller scientifique, le Bureau de soutien à la collaboration (CSO), implanté à Neuilly-sur-Seine (France) et placé sous l'autorité de son directeur, et le Centre pour la recherche et l'expérimentation maritimes (CMRE), implanté à La Spezia (Italie) et placé sous l'autorité de son directeur.

L'IBAN a émis une opinion sans réserve sur les états financiers de la STO ainsi que sur la conformité pour l'exercice clos le 31 décembre 2018.

À l'issue de l'audit, l'IBAN a formulé deux observations, assorties de recommandations. Ces observations n'ont pas eu d'incidence sur les opinions émises. Les constatations de l'IBAN sont exposées dans la lettre d'observations et de recommandations (annexe 3).

1. Ventilation incorrecte des traitements et des prestations dans les notes jointes aux états financiers.
2. Nécessité d'apporter des améliorations au supplément technique à l'accord conclu entre le CMRE et l'ACT concernant les délais de validation des livrables du CMRE.

L'IBAN a par ailleurs fait le point sur la suite donnée aux observations formulées à l'issue de l'audit précédent, et il a constaté que deux questions restaient à traiter, que cinq questions étaient en cours de traitement et qu'une autre était traitée.

28 août 2019

COLLÈGE INTERNATIONAL DES AUDITEURS EXTERNES DE L'OTAN

**OPINION SUR LES ÉTATS FINANCIERS
DE L'ORGANISATION POUR LA SCIENCE ET LA TECHNOLOGIE**

(STO)

POUR L'EXERCICE CLOS LE 31 DÉCEMBRE 2018

**OPINION DU COMMISSAIRE AUX COMPTES
À L'INTENTION DU CONSEIL DE L'ATLANTIQUE NORD**

Vérification des états financiers

Opinion sur les états financiers

Le Collège international des auditeurs externes de l'OTAN (IBAN) a procédé à la vérification des états financiers de l'Organisation pour la science et la technologie (STO) portant sur la période de 12 mois ayant pris fin le 31 décembre 2018. Diffusés sous la cote STO-OCS(2019)0018 et soumis à l'IBAN le 27 mars 2019, ces états financiers se composent de l'état de la situation financière au 31 décembre 2018, 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 la période de 12 mois ayant pris fin le 31 décembre 2018, ainsi que d'un résumé des méthodes comptables importantes et d'autres notes explicatives. Ils contiennent en outre un rapport sur l'exécution du budget portant sur la période de 12 mois ayant pris fin le 31 décembre 2018.

L'opinion de l'IBAN est que les états financiers donnent une image fidèle et exacte de la situation financière de la STO au 31 décembre 2018 ainsi que de sa performance financière, de ses flux de trésorerie et de l'exécution du budget pour la période de 12 mois ayant pris fin le 31 décembre 2018, en application des dispositions comptables et des normes de compte rendu du cadre comptable OTAN.

Justification de l'opinion émise sur les états financiers

Le Règlement financier de l'OTAN (NFR) prévoit que l'audit externe des organismes OTAN établis en vertu du Traité de l'Atlantique Nord est effectué par le Collège international des auditeurs externes de l'OTAN (IBAN).

L'IBAN a effectué son audit sur la base des normes internationales des institutions supérieures de contrôle des finances publiques (ISSAI 1000-1810), définies par l'Organisation internationale des institutions supérieures de contrôle des finances publiques (INTOSAI), ainsi que des dispositions complémentaires figurant dans sa propre charte.

L'IBAN est indépendant, ainsi que le prévoit le Code de déontologie de l'INTOSAI, et il s'est acquitté de ses responsabilités dans le respect des dispositions de ce code. Les responsabilités des membres de l'IBAN sont décrites de manière plus détaillée dans la section « Responsabilités de l'IBAN concernant la vérification des états financiers » et dans sa charte.

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

Responsabilité de la direction concernant les états financiers

La responsabilité de la direction concernant les états financiers est définie dans le NFR. Les états financiers de la STO sont établis en application des dispositions comptables et des normes de compte rendu du cadre comptable OTAN tel qu'approuvé par le Conseil. Il incombe au contrôleur des finances de soumettre les états financiers à l'IBAN au plus tard le 31 mars qui suit la fin de l'exercice visé dans les états financiers.

Les états financiers sont signés par le chef de l'organisme OTAN concerné (le conseiller scientifique, en sa qualité de président du Comité pour la science et la technologie) et par le contrôleur des finances. En apposant leur signature sur ces documents, ceux-ci confirment que des mesures de gouvernance financière, des mécanismes de gestion des ressources, des contrôles internes et des systèmes d'information financière ont été mis en place et maintenus afin de garantir une utilisation efficace et efficiente des ressources.

Cette confirmation couvre l'élaboration, la mise en place et le maintien d'un ensemble de contrôles internes de nature à permettre l'établissement et la présentation d'états financiers qui soient auditables et exempts d'inexactitudes significatives, que celles-ci relèvent d'une fraude ou d'une erreur. Elle couvre aussi le compte rendu relatif à la capacité de l'entité à poursuivre son activité, la présentation, le cas échéant, des questions relatives à la continuité de l'activité, et l'application du principe comptable de continuité d'activité, à moins qu'il soit prévu de liquider l'entité ou de mettre un terme à son activité ou qu'il ne soit pas réaliste de procéder de la sorte.

Responsabilités de l'IBAN concernant la vérification des états financiers

L'audit a pour objectif de permettre à l'IBAN d'obtenir une assurance raisonnable sur le point de savoir si les états financiers considérés dans leur ensemble sont exempts d'inexactitudes significatives, que celles-ci relèvent d'une fraude ou d'une erreur, et de formuler une opinion à leur sujet. L'assurance raisonnable correspond à un degré de certitude élevé, mais elle ne garantit pas qu'un audit effectué conformément aux ISSAI permettra dans tous les cas de détecter les inexactitudes significatives. Les inexactitudes, qui peuvent résulter d'une fraude ou d'une erreur, sont considérées comme significatives lorsque l'on peut raisonnablement s'attendre à ce que, considérées isolément ou collectivement, elles influent sur les décisions économiques que les utilisateurs des états financiers prennent en se fondant sur ceux-ci.

Dans le cadre d'audits effectués conformément aux ISSAI, les auditeurs font appel à leur jugement professionnel et à leur esprit critique tout au long de la planification et de la réalisation du travail. Cela nécessite de tenir compte des particularités que présentent les entités du secteur public. L'IBAN s'attache aussi :

- à recenser et à évaluer les risques d'inexactitudes significatives dans les états financiers, que celles-ci relèvent d'une fraude ou d'une erreur, à concevoir et à

mettre en œuvre des procédures d'audit sensibles à ces risques ainsi qu'à obtenir par son audit les éléments probants nécessaires et suffisants pour lui permettre de formuler une opinion ; le risque de non-détection d'une inexactitude significative relevant d'une fraude est plus élevé que le risque de non-détection d'une inexactitude significative relevant d'une erreur car la fraude peut résulter d'une collusion, d'une falsification, d'omissions intentionnelles, de fausses déclarations ou du contournement du contrôle interne ;

- à acquérir une connaissance du contrôle interne qui soit pertinente pour l'audit, 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 de l'entité ;
- à déterminer si les méthodes comptables appliquées sont appropriées et si les estimations comptables et les informations connexes fournies par la direction sont raisonnables ;
- à se prononcer sur le caractère approprié ou non de l'utilisation du principe comptable de la continuité d'activité et à déterminer, à partir des éléments probants obtenus par l'audit, s'il existe une incertitude significative du fait d'événements ou de circonstances susceptibles de remettre fondamentalement en cause la capacité de l'entité à poursuivre son activité ; si l'IBAN juge qu'une telle incertitude existe, il est tenu d'appeler l'attention, dans son opinion, sur les informations correspondantes figurant dans les états financiers ou, si ces informations sont incomplètes, de formuler une opinion modifiée ; les conclusions de l'IBAN sont fondées sur les éléments probants en sa possession à la date d'établissement de son rapport d'audit ; il n'est toutefois pas exclu que l'entité soit amenée à cesser son activité en raison d'événements ou de circonstances futurs ;
- à évaluer la présentation générale, la structure et le contenu des états financiers, y compris les informations fournies, et à déterminer si les états financiers rendent compte fidèlement des opérations et des événements qui en font l'objet.

L'IBAN est tenu de communiquer avec les organes chargés de la gouvernance, et notamment de les informer du périmètre et du calendrier de la mission d'audit qu'il prévoit d'effectuer, des principales conclusions de l'audit et des lacunes significatives qu'il aura éventuellement constatées dans le contrôle interne au cours de l'audit.

L'opinion que l'IBAN formule à l'intention du Conseil de l'Atlantique Nord doit aider ce dernier à s'acquitter de son rôle. C'est la raison pour laquelle l'IBAN est responsable de ses travaux et de son opinion devant le seul Conseil.

Vérification de la conformité

Opinion sur la conformité

Sur la base des procédures qu'il a appliquées, l'IBAN estime que rien, dans son audit des états financiers, ne lui donne de raison de penser que les fonds n'ont pas été régulièrement employés à l'acquittement de dépenses autorisées ou qu'ils ne sont pas conformes au Règlement financier de l'OTAN et au Règlement du personnel civil de l'OTAN.

Justification de l'opinion émise sur la conformité

L'IBAN a effectué la vérification portant sur la conformité sur la base des normes internationales des institutions supérieures de contrôle des finances publiques (ISSAI 4000), définies par l'Organisation internationale des institutions supérieures de contrôle des finances publiques (INTOSAI), ainsi que des dispositions complémentaires figurant dans sa propre charte.

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

Responsabilité de la direction concernant la conformité

Tous les membres du personnel – civils et militaires – de l'OTAN sont tenus de respecter le Règlement financier de l'OTAN ainsi que les règles et procédures financières qui s'y rattachent et les directives d'application particulières, dont le Règlement du personnel civil de l'OTAN fait partie.

Le Comité pour la science et la technologie, présidé par le conseiller scientifique, est responsable et tenu comptable d'une saine gestion financière. Les organismes OTAN doivent administrer leurs finances en s'appuyant sur les principes suivants : adéquation, bonne gouvernance, obligation de rendre compte, transparence, gestion des risques et contrôle interne, audit interne, audit externe, prévention et détection des fraudes.

Responsabilité de l'IBAN concernant la conformité

Selon sa charte, en plus d'être responsable de fournir une assurance raisonnable quant à la question de savoir si les états financiers considérés dans leur ensemble sont exempts d'inexactitudes significatives, l'IBAN doit chaque année rendre au Conseil un avis indépendant lui assurant que les fonds ont été régulièrement employés à l'acquittement de dépenses autorisées (adéquation) et qu'ils sont conformes aux règles en vigueur (régularité). Par « adéquation », on entend le respect des principes généraux régissant une gestion financière saine ainsi que la conduite des membres de l'administration. Par « régularité », on entend le respect de critères officiels tels que les règlements, règles et procédures applicables.

Il incombe ainsi à l'IBAN d'appliquer des procédures lui permettant d'obtenir en toute indépendance une assurance sur le point de savoir si les fonds ont été régulièrement employés à l'acquittement de dépenses autorisées et si les opérations correspondantes ont été exécutées conformément à la réglementation en vigueur. De telles procédures prévoient notamment la prise en compte des risques de non-conformité significative.

Bruxelles, le 28 août 2019



Hans Leijtens
Président

28 août 2019

COLLÈGE INTERNATIONAL DES AUDITEURS EXTERNES DE L'OTAN

**LETTRE D'OBSERVATIONS ET DE RECOMMANDATIONS
CONCERNANT L'ORGANISATION POUR LA SCIENCE ET LA TECHNOLOGIE**

(STO)

POUR L'EXERCICE CLOS LE 31 DÉCEMBRE 2018

Introduction

Le Collège international des auditeurs externes de l'OTAN (IBAN) a procédé à la vérification des états financiers de l'Organisation pour la science et la technologie (STO) pour l'exercice clos le 31 décembre 2018, et il a émis une opinion sans réserve à leur sujet ainsi qu'une opinion sans réserve sur la conformité.

La STO se compose du Comité pour la science et la technologie (STB), de trois organes exécutifs ainsi que de comités scientifiques et techniques. Les trois organes exécutifs de la STO sont : le Bureau du conseiller scientifique (OCS), le Bureau de soutien à la collaboration (CSO) et le Centre pour la recherche et l'expérimentation maritimes (CMRE).

Observations et recommandations

À l'issue de l'audit, l'IBAN a formulé deux observations, assorties de recommandations. Ces observations n'ont pas eu d'incidence sur les opinions émises.

1. Ventilation incorrecte des traitements et des prestations dans les notes jointes aux états financiers.
2. Nécessité d'apporter des améliorations au supplément technique à l'accord conclu entre le CMRE et l'ACT concernant les délais de réception des livrables du CMRE.

L'IBAN a fait le point sur la suite donnée aux observations formulées à l'issue de l'audit précédent, et il a constaté que deux questions restaient à traiter, que cinq questions étaient en cours de traitement et qu'une autre était traitée.

L'IBAN a par ailleurs adressé à la direction de la STO une lettre faisant le point sur la suite donnée aux observations formulées lors de précédents audits (référence : IBA-AML(2019)0007).

OBSERVATIONS ET RECOMMANDATIONS

1. VENTILATION INCORRECTE DES TRAITEMENTS ET DES PRESTATIONS DANS LES NOTES JOINTES AUX ÉTATS FINANCIERS

Contexte

1.1 Comme le prévoit le Règlement financier de l'OTAN (NFR), il incombe au contrôleur des finances d'exécuter les activités de l'entité OTAN qui concernent l'établissement du budget, la comptabilité et le compte rendu. Ainsi, le contrôleur des finances est notamment responsable du système de contrôle financier interne et de l'établissement des états financiers conformément au cadre comptable OTAN.

1.2 Conformément au cadre comptable OTAN, les notes jointes aux états financiers donnent des explications et des précisions sur les informations présentées dans les états financiers de base, notamment dans l'état de la performance financière.

Constatations

1.3 L'IBAN a relevé des erreurs dans la ventilation des dépenses de personnel (entre traitements et prestations) présentée dans la note 14 jointe aux états financiers de la STO. En effet, les montants figurant dans cette note ne correspondent pas au montant total des dépenses de personnel qui apparaît dans l'état de la performance financière, à savoir 17,9 MEUR. La différence, qui est de 2,5 MEUR pour 2018 (et de 1,9 MEUR pour 2017) tient à deux erreurs. Premièrement, les montants figurant dans la colonne afférente à 2017 (pour un total de 15,5 MEUR) sont en réalité ceux de 2018, et inversement. La différence de 2,4 MEUR qui subsiste n'a quant à elle pas pu être expliquée par la STO.

1.4 Il est important de veiller à ce que les informations fournies dans les notes jointes aux états financiers correspondent aux montants présentés dans les états financiers de base afin d'éviter d'induire en erreur les utilisateurs des états financiers.

Recommandation

1.5 Afin d'éviter les erreurs, l'IBAN recommande à la STO de veiller à l'efficacité du contrôle interne associé à l'établissement des états financiers et des notes qui y sont jointes. Cela pourrait se faire moyennant l'élaboration d'une liste de contrôle qualité permettant de documenter le travail de rapprochement entre les états financiers de base et les notes.

2. NÉCESSITÉ D'APPORTER DES AMÉLIORATIONS AU SUPPLÉMENT TECHNIQUE À L'ACCORD CONCLU ENTRE LE CMRE ET L'ACT CONCERNANT LES DÉLAIS DE VALIDATION DES LIVRABLES DU CMRE

Contexte

2.1 La STO se compose de trois entités, dont le CMRE. Au cours de l'exercice 2018, 79 % des produits générés par le CMRE, qui se sont établis à 27,3 MEUR, étaient liés à des projets menés avec l'ACT et concernaient, dans 95 % des cas, des projets FUSOL (*Future Solutions*).

2.2 Les opérations entre l'ACT et le CMRE s'inscrivent dans le cadre du mémorandum d'accord signé par les deux entités et entériné par le Comité des budgets (BC-D(2013)0009), dont les dispositions prévoient qu'il est susceptible d'être modifié à l'issue d'un réexamen semestriel (article 9.2). Le mémorandum stipule en particulier que l'ACT « gère les réunions de revue des projets pour s'assurer que tous les travaux sont effectués dans le respect de l'ordre d'achat » (article 5.1.c). Le supplément technique 1 au mémorandum dispose par ailleurs à l'article 8 que « le coordonnateur de programme de l'ACT met tout en œuvre pour obtenir l'approbation/l'acceptation du rapport de projet par le promoteur dans les deux à trois semaines qui suivent sa communication par le CMRE ».

Constatations

2.3 L'IBAN a constaté que les montants à recevoir de l'ACT avaient augmenté de 4,1 MEUR en 2018, pour atteindre 6 MEUR à la fin de l'exercice. Cette augmentation réduit inévitablement les liquidités dont dispose le CMRE pour régler en temps voulu les dépenses qui lui incombent.

2.4 L'augmentation des montants à recevoir tient en grande partie à la réception tardive des observations de l'ACT concernant les relevés de livraison que le CMRE lui communique tous les trimestres au sujet des projets FUSOL. L'IBAN note qu'il faut jusqu'à six semaines à l'ACT pour transmettre ses observations. Ce délai a une incidence sur les montants à recevoir car ce n'est qu'après avoir reçu ces observations que le CMRE peut facturer à l'ACT les services fournis.

2.5 Il est important que la STO réduise les montants à recevoir en lien avec le CMRE afin que ce dernier dispose de fonds suffisants pour pouvoir verser les traitements, payer les réparations et régler d'autres dépenses associées aux projets. Cela pourrait se faire en modifiant le supplément technique au mémorandum d'accord conclu entre le CMRE et l'ACT

de manière à y faire figurer des délais pour la validation ou le rejet des livrables du CMRE concernant les projets FUSOL.

Recommandation

2.6 Afin d'accélérer le processus de validation des livrables du CMRE, l'IBAN recommande au CMRE de se mettre en liaison avec l'ACT en vue de modifier le supplément technique au mémorandum, éventuellement en y faisant figurer des délais pour la validation ou le rejet des livrables du CMRE concernant les projets FUSOL.

SUITES DONNÉES AUX OBSERVATIONS ANTÉRIEURES

L'IBAN a fait le point sur la suite donnée aux questions ayant fait l'objet d'observations lors de précédents audits. On trouvera dans le tableau ci-après un récapitulatif de ces observations et des mesures prises par l'entité ainsi qu'un état de la question.

OBSERVATION/RECOMMANDATION	MESURES PRISES	ÉTAT DE LA QUESTION
(1) Exercice 2017 IBA-AR(2018)0017, paragraphe 1 FAILLES SUR LE PLAN DE LA CONFORMITÉ AVEC LES DISPOSITIONS DU RÈGLEMENT DU PERSONNEL CIVIL (RPC) DE L'OTAN CONCERNANT L'ÉVALUATION DES PERFORMANCES, LES PROMOTIONS ET L'OCTROI D'INDEMNITÉS 1.1 L'IBAN recommande au CMRE de mettre en place, pour la fin de l'exercice 2018, un système efficace de gestion des performances, comme le prévoit le RPC. 1.2 L'IBAN formule les recommandations suivantes : a) le CMRE devrait se conformer aux dispositions du RPC et de la charte de la STO s'agissant de la rémunération et des changements de grade et ne devrait pas accorder de promotion avec effet rétroactif ;	Une évaluation des performances pour 2018 a eu lieu au premier trimestre 2019. Toutefois, l'IBAN a constaté que les évaluations de 2018 n'avaient pas été systématiquement consignées comme il est prévu à l'annexe VIII - II du RPC sur les « Principes de base de la gestion des performances et critères d'évaluation des performances ». Il a été indiqué à l'IBAN qu'un système d'évaluation des performances pleinement conforme au RPC serait mis en place pour le cycle 2019, sur la base des instructions de février 2019 signées par le directeur. Les objectifs ont été fixés en février 2019 et le bilan à mi-parcours est prévu pour juin 2019. Question en cours de traitement. L'IBAN n'a pas relevé de changements de grade avec effet rétroactif en 2018. Question traitée.	Question en cours de traitement.

b) en sa qualité de conseiller financier principal du directeur du CMRE, le contrôleur des finances devrait être associé aux décisions relatives à la gestion des autorisations budgétaires et des fonds extrabudgétaires et veiller au respect des principes de saine gestion énoncés dans le NFR. 1.3 L'IBAN recommande également au CMRE : a) de se conformer, pour la fin de l'exercice 2018, aux dispositions du RPC relatives à l'octroi d'indemnités de suppléance ; b) de procéder tous les six mois à une évaluation des performances des agents qui sont officiellement désignés pour assumer toutes les responsabilités afférentes à un poste de grade supérieur.	Aucun poste ni grade n'a été modifié avec effet rétroactif. Question traitée. L'IBAN a constaté qu'au 1^{er} janvier 2019, aucune indemnité de suppléance n'apparaissait dans les fichiers de paie. Question traitée.	
(2) Exercice 2017 IBA-AR(2018)0017, paragraphe 2 FAILLES DANS L'ENVIRONNEMENT DE CONTRÔLE ET L'UTILISATION DES CONGÉS Le Collège recommande au CMRE de mettre en place un environnement de contrôle fiable s'agissant de l'utilisation du système d'enregistrement des temps de travail, et en particulier : a) d'établir par écrit des procédures définissant les rôles et les responsabilités des agents, des supérieurs hiérarchiques et de la Section Ressources humaines s'agissant de la gestion du temps (y compris les demandes de congé) ; b) de procéder régulièrement à un rapprochement entre les demandes de congé transmises à la Section Ressources humaines et les congés notifiés dans le système d'enregistrement des temps de travail, et de prendre si nécessaire des mesures correctives ;	Le CMRE a procédé, fin 2018 et début 2019, à un rapprochement entre les congés notifiés dans le système d'enregistrement des temps de travail et les demandes de congé transmises par les agents, afin de déterminer avec précision le solde des congés de chaque agent. Question en cours de traitement. L'IBAN a constaté qu'en plus d'effectuer un rapprochement en fin d'exercice, le Centre avait entrepris de tester un nouveau système d'enregistrement des temps de travail, appelé à remplacer le système actuel au 1^{er} janvier 2020.	Question en cours de traitement.

c) de veiller à ce que des certificats médicaux soient présentés pour les congés de maladie de plus de deux jours consécutifs et à ce que les jours de congé de maladie non couverts par un certificat soient convertis, si nécessaire, en jours de congé annuel ; d) de mettre en place un suivi de l'utilisation des jours de repos compensateur et notamment d'appliquer les dispositions du RPC concernant les jours de repos compensateur non utilisés.	Ce nouveau système devrait faciliter la gestion des temps de travail, y compris les demandes de congé. Question en cours de traitement. L'IBAN a constaté que le CMRE n'avait procédé à aucun contrôle des congés de maladie en 2018. Aucun justificatif n'a pu être présenté à l'IBAN pour trois des cinq agents considérés. Pour que cette question puisse être considérée comme traitée, l'IBAN attend du CMRE qu'il procède effectivement à des contrôles en 2019 et que ceux-ci soient documentés. Question à traiter. De nouvelles instructions devraient être appliquées en 2019, visant à ce que les jours de repos compensateur soient payés directement. L'IBAN recommande au CMRE de préciser comment sont calculés les jours de repos compensateur, de manière à garantir la conformité avec les dispositions du RPC, et de procéder à des contrôles pour s'assurer que le nombre de jours de repos compensateur indiqué dans le nouveau système d'enregistrement des temps de travail est correct. Question en cours de traitement.	
(3) Exercice 2017 IBA-AR(2018)0017, paragraphe 3 CMRE – NÉCESSITÉ DE SE CONFORMER PLEINEMENT AUX DISPOSITIONS DU RPC CONCERNANT LA DURÉE DE L'EMPLOI DES CONSULTANTS 3.1 L'IBAN recommande au CMRE de mettre à jour les instructions 90 relatives au programme de chercheurs invités afin de se conformer aux dispositions du RPC sur le recours aux consultants.	Des instructions tenant compte des critères fixés à l'article 69 du RPC, relatif à la durée de l'emploi des consultants, ont été publiées en avril 2019. Cette question devrait pouvoir être considérée comme	Question en cours de traitement.

3.2 L'IBAN recommande au CMRE de définir et de consigner les circonstances et les circonstances exceptionnelles susceptibles de l'amener à proposer des contrats d'une durée supérieure à 90 et 180 jours.	traitée en 2019. Question en cours de traitement. Il a été indiqué à l'IBAN qu'un nouveau modèle serait d'application à partir du second semestre 2019, pour garantir un contrôle plus efficient et plus efficace des circonstances et des circonstances exceptionnelles susceptibles d'amener le CMRE à proposer des contrats d'une durée supérieure à 90 et 180 jours. Question en cours de traitement.	
(4) Exercice 2017 IBA-AR(2018)0017, paragraphe 4 NÉCESSITÉ D'APPORTER DE NOUVELLES AMÉLIORATIONS DANS LES DOMAINES DE LA GESTION DES RISQUES, DU CONTRÔLE INTERNE ET DE L'AUDIT INTERNE Le Collège formule les recommandations suivantes : a) la STO devrait mettre en place une politique de gestion des risques applicable à l'échelle de l'entité ainsi qu'un cadre de contrôle interne approprié pour chacune de ses trois composantes (CMRE, CSO et OCS) et veiller à ce que des registres des risques soient créés et utilisés par toutes les entités qui la composent ; b) la STO devrait mener à bien son travail d'évaluation et de consignation du fonctionnement du système de contrôle interne et des procédures de gestion des risques, afin de se conformer aux articles 11 et 12 du NFR, aux FRP XI et XII et au cadre de contrôle interne qu'elle aura choisi ; c) la STO devrait faire en sorte que les activités d'audit interne portent notamment sur la gestion des risques et le contrôle interne dans l'ensemble de l'Organisation.	Le Comité pour la science et la technologie a publié une politique de gestion des risques en janvier 2019. Cette politique doit être mise en œuvre par le CMRE, le CSO et l'OCS. Question traitée. Le travail d'évaluation et de consignation du fonctionnement du système de contrôle interne est en cours. Question en cours de traitement. L'audit est prévu pour le second semestre 2019. Question en cours de traitement.	Question en cours de traitement.

(5) Exercice 2017 IBA-AR(2018)0017, paragraphe 5 NÉCESSITÉ D'APPORTER DES AMÉLIORATIONS À LA DÉCLARATION SUR LE CONTRÔLE INTERNE Le Collège recommande à la STO de faire figurer dans sa déclaration sur le contrôle interne les confirmations requises par les FRP XII.	La déclaration sur le contrôle interne a été mise en conformité avec les dispositions des FRP.	Question traitée.
(6) Exercice 2016 IBA-AR(2017)16, paragraphe 2 CMRE – AMÉLIORATIONS À APPORTER À L'ENVIRONNEMENT DE CONTRÔLE DES RESSOURCES HUMAINES Le Collège recommande au CMRE de diffuser une note de service indiquant clairement les pièces justificatives à joindre à une demande de modification de l'adresse pour le congé dans les foyers.	Aucun éclaircissement n'a été apporté ni aucune note de service diffusée.	Question à traiter.
(7) Exercice 2016 IBA-AR(2017)16, paragraphe 4 NON-COMMUNICATION PAR LE COMITÉ POUR LA SCIENCE ET LA TECHNOLOGIE (STB) DE DÉCLARATIONS RELATIVES AUX PARTIES LIÉES Recommandation du Collège La STO devrait se conformer pleinement aux dispositions du cadre comptable OTAN s'agissant de la présentation des informations relatives aux parties liées, notamment en demandant aux organes directeurs de fournir toutes les informations requises à cet égard.	Quatre membres du STB sur 28 n'ont pas signé la déclaration relative aux parties liées.	Question en cours de traitement.

(8) Exercice 2014 IBA-AR(2015)36, paragraphe 1 CMRE – NÉCESSITÉ D'ADAPTER LES PRATIQUES COMPTABLES AU STATUT D'ENTITÉ FINANCÉE PAR LE CLIENT / NÉCESSITÉ D'AMÉLIORER LA COMPTABILITÉ DE GESTION PAR PROJET Recommandation du Collège Le Collège recommande au CMRE de mettre au point une méthode lui permettant de déterminer les coûts par projet, et notamment les frais généraux imputables sur chacun d'eux. Il pourra ainsi calculer le montant du bénéfice ou de la perte propre à chaque projet et fournir à la direction des informations utiles pour la gestion de l'activité.	La comptabilité par projet n'a pas été instaurée de manière fiable en 2018 en raison d'informations incomplètes et d'outils inadéquats.	Question à traiter.
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Une question est considérée comme étant « à traiter » lorsqu'aucun progrès notable n'a encore été réalisé en vue de son règlement. Une question est considérée comme étant « en cours de traitement » lorsque l'organisme OTAN visé a commencé à mettre en œuvre la recommandation correspondante ou lorsque certains éléments de la recommandation (mais pas tous) ont été suivis d'effets. Une question est considérée comme étant « traitée » lorsque la recommandation correspondante a été mise en œuvre ou qu'elle a été rendue ou est devenue caduque.

**COMMENTAIRES OFFICIELS DE L'ORGANISATION POUR LA SCIENCE
ET LA TECHNOLOGIE (STO) CONCERNANT LA LETTRE D'OBSERVATIONS
ET DE RECOMMANDATIONS ET POSITION DU COLLÈGE INTERNATIONAL
DES AUDITEURS EXTERNES DE L'OTAN**

**OBSERVATION 1 :
VENTILATION INCORRECTE DES TRAITEMENTS ET DES PRESTATIONS DANS LES
NOTES JOINTES AUX ÉTATS FINANCIERS**

Commentaires officiels de la STO

La STO souscrit à la recommandation.

La direction du CMRE et celle de la STO s'emploient à améliorer l'environnement de contrôle relatif à l'établissement des états financiers.

**OBSERVATION 2 :
NÉCESSITÉ D'APPORTER DES AMÉLIORATIONS AU SUPPLÉMENT TECHNIQUE À
L'ACCORD CONCLU ENTRE LE CMRE ET L'ACT CONCERNANT LES DÉLAIS DE
VALIDATION DES LIVRABLES DU CMRE**

Commentaires officiels de la STO

La STO souscrit à la recommandation.

Les opérations entre l'ACT et le CMRE s'inscrivent dans le cadre du mémorandum d'accord signé par les deux entités et entériné par le Comité des budgets (BC-D(2013)0009), dont les dispositions prévoient qu'il est susceptible d'être modifié à l'issue d'un réexamen semestriel (article 9.2). Le mémorandum stipule en particulier que l'ACT « gère les réunions de revue des projets pour s'assurer que tous les travaux sont effectués dans le respect de l'ordre d'achat » (article 5.1.c). Le supplément technique 1 au mémorandum dispose par ailleurs à l'article 8 que « le coordonnateur de programme de l'ACT met tout en œuvre pour obtenir l'approbation/l'acceptation du rapport de projet par le promoteur dans les deux à trois semaines qui suivent sa communication par le CMRE ». La direction du CMRE a déjà contacté l'ACT pour procéder au réexamen du mémorandum d'accord et apporter les modifications requises.

SUITES DONNÉES AUX OBSERVATIONS ANTÉRIEURES

Commentaires officiels de la STO

La STO prend note du point de situation et des progrès constatés. La direction du CMRE et celle de la STO s'attachent à donner suite dans les meilleurs délais à toutes les observations encore en suspens.



NATO UNCLASSIFIED

27 March 2019

STO-OCS(2019)0018

Mr Hervé Adrien Metzger
Chair

International Board of Auditors for NATO (IBAN)

Subject : The Science and Technology Organization consolidated Financial Statements for the Year ended 31 December 2018

1. Please find attached the 2018 Science and Technology Organisation (STO) Financial Statements, issued in accordance with NATO Financial Regulation (NFR) Article 35.1, and the STO Charter C-M(2012)0046 Article 25.
2. I can confirm that, in accordance with NFR Financial Rules and Procedures (FRP) XXXV (4), the STO can agree to public disclosure of these Financial Statements.
3. Notwithstanding the above, as stated in C-M(2012)0041, public disclosure of IBAN Audit Reports is a matter for Council decision, based upon the recommendation of the RPPB. Decisions are informed by the NATO policy on public disclosure of documents (C-M(2008)0116).
4. The IBAN Audit Report covering these Financial Statements has not been completed, but should be issued to Council prior to 31st August 2019 (NFR 15.2). As such, the STO is not yet in a position to anticipate any potential representations that may be made to the RPPB, regarding the Audit Report.
5. The STO therefore reserves its position on public disclosure of the eventual IBAN Audit Report.

Dr Thomas H. KILLION
NATO Chief Scientist
STB Chairman

Annex 1: STO Financial Statements FY 2018

1 Annex

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Financial Statements of the

NATO SCIENCE AND TECHNOLOGY ORGANIZATION

31 December 2018



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Executive Summary

The role of NATO Science and Technology (S&T) is to cover basic and applied research broadly in the engineering, physical, information, human, medical and social sciences, and to deliver a range of products and services essential to NATO and NATO Nations. They are:

- Supporting the core tasks of the Alliance as set out in the NATO Strategic Concept;
- Supporting technological and knowledge advantages, thereby being a critical force multiplier;
- Providing the evidence-base to support informed decision-making; and
- Helping to mitigate evolving threats and risks, including supporting public diplomacy.

The STO is composed of the Science and Technology Board (STB); three Executive Bodies; and Scientific and technical committees.

Governance of the STO is vested in the STB which reports to the NAC through the Military Committee and the Conference of National Armaments Directors (CNAD). Leadership of the STO is exercised by the Chief Scientist through his roles as Chair of the STB and Senior Scientific Advisor to NATO leadership.

The three executive bodies of the STO are:

- a. The Office of the Chief Scientist (OCS), located within NATO Headquarters, Brussels, provides executive and administrative support to the NATO Chief Scientist in fulfilling his/her roles as the Chair of the Science & Technology Board (STB) and the Senior Scientific Advisor at NATO Headquarters.
- b. The S&T Collaboration Support Office (CSO), located in Neuilly sur Seine, Paris, provides the executive and administrative support to the collaborative S&T activities conducted through the STO level 2 committees and level 3 working groups.
- c. The Centre for Maritime Research and Experimentation (CMRE) located in La Spezia, Italy, organizes and conducts scientific research and technology development and delivers innovative and field-tested S&T solutions to address the defence and security needs of the Alliance.

The STO Financial Statements 2018 have been produced in accordance with the NATO Accounting Framework. This Accounting Framework is based on International Public Sector Accounting Standards (IPSAS), as adapted by NATO. The Financial Statements are also produced in accordance with the NATO Financial Regulations (NFRs) and are presented in a commonly adopted layout.



Dr Thomas Killion
NATO Chief Scientist
Chairman, NATO Science and Technology Board



Peter Bontinck
Financial Controller
Science and Technology Organisation

Statement on Internal Control

The Chief Scientist and Chairman of the Science and Technology Board (STB), together with the Directors of the Centre for Maritime Research and Experimentation (CMRE) and the Collaborative Support Office (CSO), as Heads of the three Executive Bodies of the STO, collectively exercise overall responsibility for the maintenance of a sound system of Risk Management and Internal Control, in accordance with Articles 11.1 and 12.1 of the NATO Financial Regulations (NFRs).

The STO Financial Controller is responsible for financial risk management, and for establishing financial risk management standards (NFR Financial Rules and Procedures XI.3 and XI.4). In addition, the Financial Controller is responsible for the system of internal financial and budgetary control (NFR 11.2).

The systems of Risk Management and Internal Financial Control are based on an on-going process designed to identify the principal risks to the achievement of STO policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 December 2018 and up to the date of these Financial Statements.

The systems of Risk Management and Internal Financial Control are designed to manage and minimize risk at the STO. Risk Management and Internal Financial Controls can therefore provide only a reasonable, but not absolute, assurance of effectiveness. The risks addressed at the STO include risks to: STO operational aims and objectives; compliance with the NFRs; the reliability of financial information; and the safeguarding of assets.

The Risk Management and Financial Control processes at the STO provide a network of internal controls that can be assessed using the five key components of the COSO Framework:

Control Environment

The culture and ethical values of the overall control environment are established by senior management. Measures for the promotion of ethical values include: STO participation in the NATO-wide 'Building Integrity' Initiative; the promulgation of the NATO Code of Conduct to all STO staff; and disclosures on any senior management related party transactions in the annual financial statements.

Oversight is provided by the Science and Technology Board (STB), supported by various subgroups, who routinely scrutinize STO Senior Management reports.

On Financial matters, interim Budgetary Execution Reports are presented to and reviewed by the NATO Budget Committee three times a year for the common-funded entities. In addition, STO financial requirements comprising the yearly budget proposals are screened and reviewed by the Nations. For the customer-funded entity, the financial execution and the annual financial plan are submitted to and screened by the STB Finance and Audit Sub-Group (FASG).

Risk Assessment

The heads of each executive body regularly monitor actions mitigating the significant risks identified. Risk Management processes continue to be developed, with the assistance of external consultants when necessary.

The Science & Technology Board (STB) is routinely informed about risks affecting the STO, via the work of the STB Finance and Audit Sub Group (FASG).

Control Activities

In the financial domain, the STO finance and accounting system - 'FinS' - has built-in approval workflows and controls, together with audit trails. The controls are designed so that the transactions are recorded consistently, accurately and in accordance with the applicable rules and regulations.

The heads of each executive body are supported by an executive management board meeting routinely to review internal processes and to inform decision making.

Information and Communication

STO internal communications are enhanced by strong reporting lines. The STO has extensive guidance on the management of information and communications. This promotes effective communications in pursuit of operational objectives.

The STO also communicates externally on matters affecting the functioning of internal control mechanisms including the Statement on Internal Control, comprising part of the Financial Statements, which is released to the public. External Audits include examinations of internal controls and compliance. The results of these audits are made available and discussed by various oversight authorities.

Monitoring

An outsourced Internal Audit service provider is engaged on a periodic basis, to undertake internal reviews on behalf of the STO Financial Controller. The STO is also subject to annual external audits from the International Board of Auditors for NATO (IBAN). Recommendations and observations arising from audits are assessed by the FASG reporting to the STB.

The Chairman of the STB and Financial Controller have collective responsibility for reviewing the effectiveness of the system of internal control. The review is informed by the above five COSO components, and by the work of STO Senior Managers, External Audits, Internal Audits, and the work of various sub-committees reporting to the STB, including the Finance and Audit Sub-Group (FASG).

No significant issues regarding financial or operational matters were raised in 2018. The IBAN External Audit of the 2017 Financial Statements - undertaken in 2018 - resulted in a qualified opinion, observing in all executive bodies, the need for more formal documentation on risk management and internal financial control. The STO is addressing the formal documentation and has issued the STO Risk Management Policy.

In CMRE, the External Audit also observed control weaknesses and lack of compliance with the Civilian Personnel Regulations (CPRs) in a number of significant areas related to management of human resources. The CMRE has taken steps to improve processes and procedures to comply with the CPRs.

Overall, we are satisfied that the Risk Management and Internal Financial Control systems in operation across the STO during the year 2018 were reasonably adequate and effective.



Dr Thomas Killion
NATO Chief Scientist
Chairman, NATO Science and Technology Board



Peter Bontinck
Financial Controller
Science and Technology Organisation

STO Consolidated Statement of Financial Position

as at 31 December 2018
(in EUR)

		2018	2017
	Notes		
Assets			
Current assets			
Cash and cash equivalents	1	9,283,716	14,099,707
Receivables	2	8,498,559	3,267,303
Prepayments	3	361,533	580,833
		<u>18,143,808</u>	<u>17,947,843</u>
Non-current assets			
Property, plant & equipment	4	3,963,783	3,976,289
		<u>3,963,783</u>	<u>3,976,289</u>
Total assets		<u>22,107,591</u>	<u>21,924,132</u>
Liabilities			
Current liabilities			
Payables	5	4,088,927	3,524,626
Deferred revenue	6	246,442	19,056
Advances	7	3,398,539	2,535,489
Cash advance	8	-	2,000,000
Provisions	9	1,012,000	41,778
Other current liabilities	10	56,233	27,505
		<u>8,802,141</u>	<u>8,148,454</u>
Non-current liabilities			
Deferred revenue	11	273,715	207,547
		<u>273,715</u>	<u>207,547</u>
Total liabilities		<u>9,075,856</u>	<u>8,356,001</u>
Surplus/Deficit		(536,396)	1,053,674
Retained earnings	12	13,568,131	12,514,457
Total net assets		<u>13,031,735</u>	<u>13,568,131</u>
Total net assets and liabilities		<u>22,107,591</u>	<u>21,924,132</u>



Dr Thomas Killian
NATO Chief Scientist
Chairman, NATO Science and Technology Board



Peter Bontinck
Financial Controller
Science and Technology Organisation

The notes on pages 17 to 27 form an integral part of these financial statements.
The financial statements were issued to the International Board of Auditors for NATO on 29 of March 2019

STO Consolidated Statement of Financial Performancefor the year ended 31 December 2018
(in EUR)

	<u>2018</u>	<u>2017</u>
	Notes	
Revenue	13	
Revenue	34,055,081	32,187,130
Financial revenue	18,084	22,043
Total revenue	<u>34,073,165</u>	<u>32,209,173</u>
Expense	14	
Personnel	17,908,633	18,494,824
Contractual supplies and services	15,762,925	11,792,728
Depreciation and amortization	863,618	753,297
Finance costs	74,385	114,650
Total expense	<u>34,609,561</u>	<u>31,155,499</u>
Surplus/(Deficit) for the period	<u>(536,396)</u>	<u>1,053,674</u>

STO Consolidated Statement of Cash Flow

(in EUR)

	2018	2017
Cash flow from operating activities		
Surplus/(Deficit)	(536,396)	1,053,674
Non-cash movements		
Depreciation/ Amortisation	863,618	753,297
Increase in payables and provision	1,534,523	1,050,357
Increase / (decrease) in other current liabilities	1,107,408	(843,182)
Increase / (decrease) in deferred revenue	66,168	(131,433)
(Increase) in other current assets	219,300	54,325
(Increase) / Decrease in receivables	(5,219,500)	3,919,514
Net cash flow from operating activities	(1,964,879)	5,856,552
Cash flow from investing activities		
Purchase of property plant and equipment / Intangible assets	(851,112)	(1,486,902)
Net cash flow from investing activities	(851,112)	(1,486,902)
Cash flow from financing activities	(2,000,000)	500,000
Net cash flow from financing activities	(2,000,000)	500,000
Net increase/(decrease) in cash and cash equivalents	(4,815,991)	4,869,650
Cash and cash equivalent at the beginning of the period	14,099,707	9,230,057
Cash and cash equivalent at the end of the period	9,283,716	14,099,707

STO Consolidated Statement of Change in Net Assetsfor the year ended 31 December 2018
(in EUR)

	Commitments / Legal Obligations	Depreciation Reserve	Vessels Reserve	Net Equity Fund	General Reserve	Total
Balance at the end of the period 2016	1,575,192	2,903,705	1,608,946	3,500,000	2,926,614	12,514,457
Surplus/(deficit) for the period	996,504	865,038	(493,460)	-	(314,408)	1,053,674
Change in net assets/equity for the year ended 2017	996,504	865,038	(493,460)	-	(314,408)	1,053,674
Balance at the end of the period 2017	2,571,696	3,768,743	1,115,486	3,500,000	2,612,206	13,568,131
Surplus/(deficit) for the period	(1,251,012)	(78,676)	(500,486)	-	1,293,778	(536,396)
Change in net assets/equity for the year ended 2018	(1,251,012)	(78,676)	(500,486)	-	1,293,778	(536,396)
Balance at the end of the period 2018	1,320,684	3,690,067	615,000	3,500,000	3,905,984	13,031,735

NOTES TO THE STO CONSOLIDATED FINANCIAL STATEMENTS

Basis for Preparation

The STO financial statements have been prepared in accordance with the NATO Accounting Framework (NAF) as adopted by the NATO Council. The NATO Accounting Framework is an adaptation of the International Public Sector Accounting Standards (IPSAS).

The financial statements comply with the financial requirements of the NATO Financial Regulations (NFRs) and the relevant entity directives and policies. In instances where there is a conflict between IPSAS and the NFRs this has been noted.

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

The financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair value at the end of each reporting period. The principal accounting policies are set out below. They have been applied consistently to all periods presented. The accounting principles recognized as appropriate for the recognition, measurement and reporting of the financial position, performance and cash flows on an accrual-based accounting using historical costs have been applied consistently throughout the reporting period.

In accordance with Article 2.1 of the NFRs, the financial year of the STO is 1 January to 31 December.

The STO is composed of the Science and Technology Board (STB) and three executive bodies: the Centre for Maritime Research and Experimentation (CMRE), the Collaboration Support Office (CSO) and the Office of the Chief Scientist (OCS).

Accounting estimates and judgments

In accordance with IPSAS and generally accepted accounting principles, the financial statements necessarily include amounts based on estimates and assumptions made by the management and based on historical experience as well as on the most reliable information available. In exercising the judgements to make the estimates, a degree of caution was included in light of the principle of 'prudence' required by IPSAS in order not to overstate assets or revenue or understate liabilities or expenses.

The estimates and underlying assumptions are reviewed on an ongoing basis. These estimates and assumptions affect the amounts of assets, liabilities, revenue and expenses reported. By their nature, these estimates are subject to measurement uncertainty. The effect of changes to such estimates and assumptions in future periods could be significant to the financial statements.

Changes in pronouncements

No accounting standard has been adopted earlier than the application date as stated in the IPSAS standards.

IPSAS 39 (Employee benefits) became effective 1 January 2018 and replaced IPSAS 25. IPSAS 40 (Public Sector Combinations) will become effective 1 January 2019. It has not been adopted by the STO for the 2018 Financial Statements.

Cash Basis IPSAS is a new standard with effective dates as noted in the standard.

None of these new standards is expected to have a material effect on the financial statements of the STO.

Foreign Currency Transactions

These financial statements are presented in Euro, which is the STO functional and reporting currency. Foreign currency transactions are converted into Euro at the NATO exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at year-end are converted into Euro using the NATO exchange rates applicable at 31 December 2018. Resulting realized and unrealized gains and losses are recognized in the Statement of Financial Performance.

Consolidation

The STO comprises the Science and Technology Board (STB) and three separate executive bodies:

Entity NAME	LOCATION
Office of the Chief Scientist (OCS)	Brussels – Belgium
Collaboration Support Office (CSO)	Neuilly-sur-Seine – France
Centre for Maritime Research & Experimentation (CMRE)	La Spezia – Italy

According to Article 25 of the Charter of the NATO Science and Technology Organization, the Chief Scientist, supported by the STO Financial Controller, shall submit to the STB and the International Board of Auditors for NATO (IBAN) Consolidated Annual Financial Statements.

The three bodies have a separate Director (Head of NATO Body), and a separate budget or revenue stream. None of the bodies has control over the others, as defined in IPSAS 35 - para. 18-22.

Services In-Kind

The STO received services in-kind in the form of military personnel provided by the NATO Member Nations. Such personnel are assigned to specific military positions on the personnel establishments of the executive bodies and / or provided as voluntary contributions. This also includes military personnel

assigned to the crew of the research vessels ALLIANCE and LEONARDO. In these financial statements, services in-kind are recognized neither as revenue nor as an asset.

Financial Instruments disclosure/presentation

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

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

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

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

The maximum exposure as at 31 December 2018 is equal to the total amount of bank balances, short-term deposits, and receivables disclosed in the Statement of Financial Position. There is a very limited credit risk associated with the realization of these instruments. Receivables considered uncollectible are adequately accounted for.

Currency risk: The STO's exposure to foreign currency exchange risk is limited, as most of its transactions are dealt with in Euros. A limited number of transactions are accounted for in other currencies.

Liquidity risk: The liquidity risk is based on the assessment whether the organization will encounter difficulties in meeting its obligations associated with financial liabilities.

For CSO & OCS there is a very limited exposure to liquidity risk because of the budget funding mechanism that guarantees contributions in relation to approved budgets. The limited risks are primarily the validity of forecast that result in the calls for contributions. For CMRE liquidity risk is minimized by the cash available in the Net Equity Fund (NEF) and by the policy of requiring pre-payments & stage payments from customers.

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

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument.

Assets

a. Cash and cash Equivalents

Cash and cash equivalents include petty cash, current bank accounts, deposits held with banks, other short-term investments (with a maturity of three months or less).

b. Short-term investments

Short-term investments are with a maturity of more than three and less than twelve months.

c. Receivables

Receivables are stated at net realisable value, which approximates fair value, after provision for doubtful and uncollectible debts. It can also include amounts due from other NATO entities and/or staff members.

Contributions receivable are recognized when a call for contribution has been issued to the member nations.

d. Inventories

The STO assesses inventories under IPSAS 12 and the outcome of this assessment is that the value of the inventories is immaterial both in value and nature of the items. Consequently, inventory is fully expensed on receipt.

e. Prepayments

Prepayments are mainly in respect of advance payments made to third parties.

f. Property, Plant and Equipment (PP&E)

Property, plant and equipment, with the exception of land, are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognized so as to write off the cost of the assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effect of any changes in estimate are accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is

recognized in the Statement of Financial Performance.

PP&E categories for capitalized assets are listed in the table below:

Category	Threshold	Depreciation life	Method
Installed equipment	30,000	10	Straight line
Vehicles	10,000	5	Straight line
Mission equipment	50,000	3	Straight line
Automated information systems	50,000	3	Straight line

In accordance with the NATO Accounting Framework, PP&E acquired prior to 1 January 2013 has been fully expensed and the STO does not foresee any grouping of assets.

g. Impairment of tangible assets

At the end of each accounting period, the entity reviews the carrying amounts of its tangible assets to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated, being the greater of the asset's fair value less costs to sell and value in use. Impairment losses, if any, are recognized in the Statement of Financial Performance.

Liabilities

a. Payables

Payables (including amounts due to other NATO entities) are amounts due to third parties for goods and services received that remain unpaid at the reporting date. They are recognized at their fair value. This includes estimates of accrued obligations for goods and services received at year-end but not yet invoiced.

b. Deferred Revenue

For the common-funded entities, CSO and OCS, deferred revenue represents contributions from Nations that have been called for current or prior year budgets but for which corresponding charges will be incurred after the reporting period. Deferred revenue is recognized incrementally and equally with the depreciation expenses. The reserve for depreciation is the counterpart of the PP&E and Intangible Assets Net Book Value.

For CMRE, deferred revenue represents revenue from customers for current or prior year activities for which goods have not been delivered or services have not been rendered at year-end.

c. Advances

For CSO and OCS, advances are income or contributions from member nations or third parties called or received, that are related to future year budgets.

For CMRE, advances from customers are either cash received as working capital or result from advance billing to customers where the rate of expenditure has fallen behind the agreed payment milestones.

d. Provisions

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

e. Employee benefits

STO employees participate to the Coordinated Pension Scheme or the Defined Contribution Pension Scheme (DCPS). The STO also contributes to the Retirees' Medical Claims Fund (RMCF) that is a reserve to ensure that sufficient resources are available to enable NATO to meet its obligations under Art 51.2 of the Civilian Personnel Regulations (CPRs).

The assets and liabilities for the above NATO pension schemes and the RMCF are held and accounted for centrally at NATO International Staff (NATO IS) and therefore are not recognized in the STO financial statements.

DCPS: The STO contributes a specified percentage of payroll costs to the DCPS. In addition to the employer's contribution, a portion of the employees' salaries is deducted and contributed to the DCPS. The employer's contributions are recognized as an expense during the year the services are rendered and represent the total pension obligation of the STO.

Coordinated Pension Scheme: Employees who have joined NATO before 1 July 2005 are members of the NATO Coordinated Pension Scheme which is a defined benefit plan. Upon completion of 10 years employment with NATO, the employees are entitled to retirement benefits of 2% per year of service of final basic salary on attainment of a retirement age of 60. There is no further pension obligation for the STO, as the future liabilities have been transferred to NATO IS.

Net Assets

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

IATO entities perform their activities on a no profit / no loss basis over the reporting period. However, this does not prohibit the realisation of an operating surplus or deficit in the financial reporting period.

Revenue and Expense Recognition

a. Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably. Revenue includes contributions from Member Nations and income from customers to fund STO activities.

For common-funded bodies (CSO and OCS), revenue is recognized in the year when these appropriated funds are used for their intended purpose as envisioned for STO's programmes. Unused contributions and other revenue that relate to future periods are deferred accordingly.

For CMRE, revenue is recognized as goods and services are delivered to customers.

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

Bank interests earned and accrued as of 31 December 2018, realised and unrealised exchange rate revenue, in accordance with IPSAS 4 – Effect of the foreign exchange rate -, are recognized as financial revenue.

b. Expenses

Expenses are recognized when occurred. Expenses are accrued when goods and services are received.

Bank charges, realised and unrealized exchange rate losses are recognized as finance costs.

Surplus or Deficit for the Period

For CSO and OCS, no surplus or deficit is recorded because revenue is recognized up to the amount of the expenses incurred during the year. Any unused contributions and miscellaneous income are recorded as other current liability (see note 10). This amount represents a liability owed to the funding nations to be deducted from the contributions called in the following year.

For CMRE, surplus or deficit is recorded because revenue is recognized based on goods and services delivered to the customers.

NOTE 1. Cash and cash equivalents

	(in euro)	
	2018	2017
Petty Cash	1,206	2,430
Current accounts	9,282,510	14,097,277
Total	9,283,716	14,099,707

Bank accounts are held in highly liquid non-interest and interest-bearing accounts.

Current bank accounts are held in EUR, GBP and USD.

NOTE 2. Receivables

	(in euro)	
	2018	2017
Contributions receivable from Nations	-	38,530
Receivable from non consolidated NATO entities	6,962,044	1,950,930
Receivable from Governments	157,860	164,728
Other Receivables	588,655	1,113,115
Insurance	790,000	-
Total	8,498,559	3,267,303

Significant receivables from NATO Entities at year-end 2018 include CMRE invoices to NATO HQ SACT for the 2018 Programme of Work.

Other receivables are mainly invoices to be established for services that have been provided to CMRE customers at the end of the reporting period.

The insurance reimbursable for NRV alliance repairs is EUR 790,000 and has been recognized based on an assessment performed and the provision of the insurance coverage (see NOTE 9).

NOTE 3. Prepayments

In addition, STO entities have maintenance contracts that are financed over several fiscal years. The amount associated with future fiscal years is recorded as a prepayment.

NOTE 4. Property, Plant and Equipment

STO's PP&E include mission equipment (maritime vehicles and associated equipment), AIS equipment, vehicles and installed equipment as well as work in progress.

(in euro)						
	Mission Equipment	AIS Equipment	Vehicles	Installed Equipment	Working in progress	Total
Gross Book Value (1 Jan 2018)	1,896,861	404,826	21,650	2,601,763	1,322,953	6,248,053
Accumulated Depreciation	(1,389,953)	(325,230)	(4,330)	(552,251)	-	(2,271,764)
Net Book Value (1 Jan 2018)	606,908	79,696	17,320	2,049,512	1,322,953	3,976,289
Additions in 2018	686,530	104,589	33,958	-	80,382	905,459
Adjustments in 2018	-	-	-	-	(54,347)	(54,347)
Depreciation in 2018	(519,926)	(74,661)	(8,854)	(260,177)	-	(863,618)
Net Book Value (31 Dec 2018)	673,612	109,624	42,424	1,789,335	1,348,988	3,963,783
Gross Book Value (31 Dec 2018)	2,683,381	609,416	66,808	2,801,783	1,348,988	7,099,186
Accumulated Depreciation (31 Dec 2018)	(1,909,879)	(389,891)	(13,184)	(812,428)	-	(3,136,382)
Net Book Value (31 Dec 2018)	673,612	109,624	42,424	1,789,335	1,348,988	3,963,783

The depreciation charge for the year 2018 was EUR 863,618 (2017 EUR 753,297)

Write Off

In accordance with the NATO Financial Regulations (NFRs Art. 17.1 and 17.4), a global statement of amounts written-off shall be reported in the annual financial statements.

In 2018, CSO and CMRE wrote-off property with a Net Book Value of nil.

STO - Assets purchased prior to the implementation of the NATO Accounting Framework

CSO owns one staff car purchased before 1 January 2013.

CMRE owns around 100 assets purchased prior to the implementation of the NATO accounting framework (1 January 2013).

- *Vessels (custodian is Headquarter, Supreme Allied Command Transformation HQ SACT)*
 - *The NRV Alliance*
 - *The CRV Leonardo*
- *IT Equipment*
 - *Disaster recovery*
 - *Satellite communication system*
 - *Various workstations and servers*
- *Mission Equipment*
 - *Multiple types of autonomous vehicles*
 - *Towed acoustics arrays*
 - *Multiple types of sonar*
- *Vehicles (car and forklift)*
- *Machinery*
 - *Shredding machine*

- *Installed Equipment*
 - *Air condition systems for the new and old building*
 - *Uninterrupted Power Supply (UPS) systems*
 - *TV closed circuit system*

The premises of the three entities are generally provided by the Host Nation at no cost or at a nominal charge. Leaseholds improvements done post 1 January 2013 are capitalized in accordance with the STO accounting policies.

NOTE 5. Payables

	(in euro)	
	2018	2017
Payables to Suppliers	2,884,313	1,936,494
Accruals for Goods and Services	693,445	937,560
Accruals for Untaken Leave	511,169	650,572
Total	4,088,927	3,524,626

Payables are short-term (less than one year) liabilities to third parties directly related to the activities and operations of the STO.

The average credit period on purchases is 30 days. STO has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

Untaken leave is recognized as a short-term employee benefit where these benefits are expected to be settled totally within 12 months after the end of the annual reporting period in which the employees render the related employment service. Untaken leave is measured on an undiscounted basis using remuneration rates in force on the last day of the reporting period.

NOTE 6. Deferred revenue

The deferred revenue at year-end 2018 is related to Programme of Work activities and associated commitments not fully delivered by suppliers at 31 December 2018 due to delays from contractors unable to fulfil their deliveries as planned

NOTE 7. Advances

	(in euro)	
	2018	2017
From customers	1,646,118	853,379
Contributions	1,750,000	1,650,000
Other	2,421	32,110
Total	3,398,539	2,535,489

Advances from contributions are related to cash called from the Nations for the following financial year. This is only applicable to the common-funded organizations (CSO and OCS).

NOTE 8. Cash advance

Advances are received from another NATO entity to bridge the cash shortage due to the late payment of calls for contribution, at no cost.

NOTE 9. Provision

	Insurance
Balance at 1 January 2018	-
Addition provision in the year	1,115,000
Provision used during the course of the year	(103,000)
Balance at 31 December 2018	1,012,000

A provision has been recorded for the cost to repair the NATO Research Vessel ALLIANCE. In the fourth quarter of 2018, ALLIANCE suffered damage to the Number 2 Main Propulsion Generator and the Gas Turbine propulsion Generator. Based on an assessment performed in the fourth quarter of 2018, repairs will be undertaken in the first quarter of 2019 at an estimated cost of EUR 1,115,000. An amount of EUR 103,000 has been already paid, therefore the net provision that has been recorded is EUR 1,012,000. As the vessel is insured against such events, the CMRE estimates that an insurance compensation of EUR 790,000 should be received (see NOTE 2).

NOTE 10. Other current liabilities

Other current liabilities are mainly lapses from budget authorizations unspent during the financial year and miscellaneous income to be returned to the Nations.

NOTE 11. Deferred Revenue – Non-current liabilities

The deferred revenue for the capitalization of PP&E of the common funded entities (CSO and OCS) represents depreciation not yet expensed. The revenue is recognized in the year of depreciation expense..

NOTE 12. Retained Earnings

The loss of the period (EUR 536,396) reduced the retained earnings, which are allocated as follows:

Reserve	Commitments / Legal Obligations	Depreciation Reserve	Vessels Reserve	Net Equity Fund	General Reserve	Total
Net Equity 31st December 2017	2,571,696	3,768,743	1,115,486	3,500,000	2,612,206	13,568,131
Net change in Vessels Reserve			(500,486)			(500,486)
Net change in PPE		(78,676)				(78,676)
Net change in Commitment	(1,251,012)					(1,251,012)
Net change in General Reserve			-		1,293,778	1,293,778
Net Equity 31st December 2018	1,320,684	3,690,067	615,000	3,500,000	3,905,984	13,031,735

Commitments

The reserve for commitments represents the value of orders for goods and services placed in one fiscal year, but neither received nor invoiced until the following fiscal year(s).

Depreciation Reserve

The depreciation reserve represents the NBV of assets and a source of future depreciation expense.

Vessels Reserve

The reserve is used to accumulate resources in current periods to fund future, major vessel upkeep projects. NRV Alliance undergoes one major and one minor upkeep period in a five year period.

The balance of EUR 1,115,486 has been used for the 2018 dry dock and an amount of 615,000 has been retained in the reserve in anticipation of the 2021 dry dock.

Net Equity Fund (NEF)

The STO Charter states that the governing board may establish a Net Equity Fund (NEF) to facilitate the CMRE operations (C-M(2012)0046 articles 23.3 and 24.1). The fund was established to provide

liquidity for projects, to act as a buffer for project gains and losses, and to be a source of funds for investments.

General Reserve

This represents accumulated surpluses (retained earnings) available for allocation in subsequent financial periods.

NOTE 13. Revenue

	(in euro)	
	2018	2017
Revenue from Contributions	6,707,176	6,625,298
Revenue from Services	27,347,905	25,561,832
Financial Revenue	18,084	22,043
Total	34,073,165	32,209,173

Revenue recognition is based on the STO accounting policies outlined at page 17.

NOTE 14. Expense**Personnel expenses**

Personnel expenses include civilian and military personnel expenses as well as other non-salary related expenses. The amounts include expenses for salaries and emoluments for approved NATO civilian and temporary personnel, for other salary related and non-related allowances including overtime, medical examinations, recruitment, installation, and removal and for contracted consultants and training.

The personnel establishments (PE) of the STO entities are shown in the table below.

Personnel Establishment	PE - Authorized			PE - Filled		
	Mil	Civ	Total	Mil	Civ	Total
CSO	14	35	49	10	31	41
OCS	4	5	9	2	4	6
CMRE - Customer Funded positions	9	0	9	7		7
International Manpower Ceiling	27	40	67	19	36	54
CMRE - Customer Funded positions		169	169		131	131
Voluntary National Contributions				2		2
Total	27	209	236	21	168	187

The figure above reflects the number of filled positions on 31 December 2018.

The breakdown of salaries and employment benefits is as follows:

	2018	2017
Basic Salary	12,179,179	11,931,476
Allowances	2,405,975	2,194,356
Post-employment Benefits	832,600	212,749
Employer's Contrib. to Insurance	1,173,857	1,121,244
Total	16,591,611	15,459,825

Untaken Leave

The balance of untaken leave as of 31 December 2018 is shown below:

	2018	2017
Entity	(in days)	
OCS	23.0	15.5
CSO	239.0	219.5
CMRE	1,682.5	2,006.0
Total	1,944.5	2,241.0

Contractual supplies and services expenses

Supplies and Services include expenses required for STO activities: general administrative costs, maintenance costs of buildings/grounds, communications and information systems, transportation, travel expenses, representation/hospitality and miscellaneous expenses.

NOTE 15. Contingent liabilities

Contingent Liabilities have been determined under the criteria set out in IPSAS 19 and are based on the realistic and prudent estimates of the expenditure required to settle future legal obligations.

In 2016, the Italian authorities re-issued a claim to the CMRE for contributions to the Italian National Health System. The claim covers all NATO entities in Italy, and dates back to the 1980's. The NATO HQ legal services are aware of this matter, and the claims are suspended pending resolution of the issue between NATO and Italy.

As of the date of the Financial Statement the CMRE is not aware that the claim will be substantiated, and can make no estimate as to when this case will be resolved. There is a remote possibility of a future obligation and the CMRE assessment is that no settlement will be made.

NOTE 16. Segment Reporting

In accordance with IPSAS 18, the STO discloses segment information for its three executive bodies as provided in the STO Charter: CSO, CMRE and OCS (detailed in Appendix 1).

The segment reporting includes the Statement of Financial Position, Performance and Budget Execution. CMRE does not report the Budget Execution Statement because the entity is customer funded.

NOTE 17. Related parties

The key management personnel of the STO, and the STB National Representatives, have no significant known related party relationships that could affect the operations of the STO. However, the STO Financial Controller is also the Financial Controller of the NATO Defence College (NDC) and the International Military Staff (IMS). The STO, IMS and NDC are therefore related parties.

Key management personnel include the following officials:

Science & Technology Board	NATO National Representatives on STB
Office of the Chief Scientist	NATO Chief Scientist
Centre for Maritime Research and Experimentation	- CMRE Director - CMRE Chief Operating Officer & Deputy Director
Collaborative Support Office	- CSO Director - CSO Deputy Director

Compensation of key management personnel

STO Board members receive no remuneration or access to preferential benefits such as the entitlement to receive loans from NATO for their Board responsibilities.

STO key management personnel are remunerated in accordance with the published NATO salary scales. The compensation consists of basic salary, various allowances, health insurance, pension plan and other benefits as agreed with each Host Nation.

	2018	2017
Basic salaries	431,001	436,400
Allowances	70,594	66,264
Post-employment benefits	50,253	52,368
Employer's contribution to Insurance	51,278	55,433
Total	603,126	610,465

Representation Allowance

The Heads of the STO Executive Bodies are entitled to and receive Representation Allowance for establishing and maintaining relationships of value for their organizations. In 2018, the total amount of Representation Allowance spent in accordance with the NATO Guidelines¹ was EUR 11,434.

¹ PO(2016)0100 dated 20 December 2016

NOTE 18. Events after reporting date

On the date of signing of these accounts there has been no material event, favourable or unfavourable incurred between the year-end and the date when the Financial Statements have been authorized for issue that would have affected these statements.

NOTE 19. Morale & Welfare activities

Morale and Welfare Activities (MWA) such as sport, community service, retail and concessionary activities are conducted by the CMRE.

In accordance with the NATO Accounting Framework, these activities shall not be consolidated into the respective financial statements of NATO reporting entities.

APPENDIX 1 – TO THE NOTES TO THE FINANCIAL STATEMENTS

Segment Reporting

COLLABORATIVE SUPPORT OFFICE STATEMENT OF FINANCIAL POSITION			
as at 31 December 2018 (in EUR)			
	Notes	2018	2017
Assets			
Current assets			
Cash and cash equivalents	1	1,726,823	3,439,291
Receivables	2	319,076	291,415
Prepayments	3	80,448	49,044
		<u>2,126,347</u>	<u>3,779,750</u>
Non-current assets			
Property, plant & equipment	4	273,715	207,547
		<u>273,715</u>	<u>207,547</u>
Total assets		<u>2,400,062</u>	<u>3,987,297</u>
Liabilities			
Current liabilities			
Payables	5	374,874	201,093
Deferred revenue	6	246,442	19,056
Advances	7	1,502,421	1,532,111
Cash advance	8	-	2,000,000
Provisions	9	-	-
Other current liabilities	10	2,610	27,490
		<u>2,126,347</u>	<u>3,779,750</u>
Non-current liabilities			
Deferred revenue	11	273,715	207,547
		<u>273,715</u>	<u>207,547</u>
Total liabilities		<u>2,400,062</u>	<u>3,987,297</u>
Surplus/Deficit		-	-
Retained earnings	12	-	-
Total net assets		<u>-</u>	<u>-</u>
Total net assets and liabilities		<u>2,400,062</u>	<u>3,987,297</u>

COLLABORATIVE SUPPORT OFFICE
STATEMENT OF FINANCIAL PERFORMANCEfor the year ended 31 December 2018
(in EUR)

		2018	2017
	Notes		
Revenue	13		
Revenue		5,781,191	5,751,804
Financial revenue		5,646	5,237
Total revenue		<u>5,786,837</u>	<u>5,757,041</u>
Expenses	14		
Personnel		3,735,538	4,086,220
Contractual supplies and services		2,017,831	1,638,215
Depreciation and amortization		27,822	27,369
Finance costs		5,646	5,237
Total expenses		<u>5,786,837</u>	<u>5,757,041</u>
Surplus/(Deficit) for the period		<u>-</u>	<u>-</u>

CENTRE FOR MARITIME RESEARCH & EXPERIMENTATION
STATEMENT OF FINANCIAL POSITIONas at 31 December 2018
(in EUR)

		2018	2017
	Notes		
Assets			
Current assets			
Cash and cash equivalents	1	7,276,892	10,292,459
Receivables	2	8,178,499	2,936,610
Prepayments	3	254,473	487,826
		<u>15,709,864</u>	<u>13,716,895</u>
Non-current assets			
Property, plant & equipment	4	3,690,067	3,768,742
		<u>3,690,067</u>	<u>3,768,742</u>
Total assets		<u>19,399,931</u>	<u>17,485,637</u>
Liabilities			
Current liabilities			
Payables	5	3,710,078	3,022,350
Deferred revenue	6	-	-
Cash advance	7	1,646,118	853,378
Loans	8	-	-
Provisions	9	1,012,000	41,778
Other current liabilities	10	-	-
		<u>6,368,196</u>	<u>3,917,506</u>
Non-current liabilities			
Deferred revenue	11	-	-
		<u>-</u>	<u>-</u>
Total liabilities		<u>6,368,196</u>	<u>3,917,506</u>
Surplus/Deficit		(536,396)	1,053,674
Retained earnings	12	13,568,131	12,514,457
Total net assets		<u>13,031,735</u>	<u>13,568,131</u>
Total net assets and liabilities		<u>19,399,931</u>	<u>17,485,637</u>

CENTRE FOR MARITIME RESEARCH & EXPERIMENTATION
STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 31 December 2018
(in EUR)

	2018	2017
Notes		
Revenue	¹³	
Revenue	27,347,905	25,561,832
Financial revenue	12,438	16,806
Total revenue	27,360,343	25,578,638
Expenses	¹⁴	
Personnel	13,333,632	13,586,316
Contractual supplies and services	13,658,572	10,103,307
Depreciation and amortization	835,796	725,928
Finance costs	68,739	109,413
Total expenses	27,896,739	24,524,964
Surplus/(Deficit) for the period	(536,396)	1,053,674

OFFICE OF THE CHIEF SCIENTIST
STATEMENT OF FINANCIAL POSITIONas at 31 December 2018
(in EUR)

		2018	2017
	Notes		
Assets			
Current assets			
Cash and cash equivalents	1	280,002	367,957
Receivables	2	984	39,278
Prepayments	3	26,612	43,963
		<u>307,598</u>	<u>451,198</u>
Non-current assets			
Property, plant & equipment	4	-	-
		<u>-</u>	<u>-</u>
Total assets		<u>307,598</u>	<u>451,198</u>
Liabilities			
Current liabilities			
Payables	5	3,974	301,183
Deferred revenue	6	-	-
Advances	7	250,000	150,000
Cash advance	8	-	-
Provisions	9	-	-
Other current liabilities	10	53,624	15
		<u>307,598</u>	<u>451,198</u>
Non-current liabilities			
Deferred revenue	11	-	-
		<u>-</u>	<u>-</u>
Total liabilities		<u>307,598</u>	<u>451,198</u>
Surplus/Deficit		-	-
Retained earnings	12	-	-
Total net assets		<u>-</u>	<u>-</u>
Total net assets and liabilities		<u>307,598</u>	<u>451,198</u>

OFFICE OF THE CHIEF SCIENTIST
STATEMENT OF FINANCIAL PERFORMANCEfor the year ended 31 December 2018
(in EUR)

	2018	2017
Notes		
Revenue	13	
Revenue	925,985	873,494
Financial revenue	-	-
Total revenue	925,985	873,494
Expenses	14	
Personnel	839,463	822,288
Contractual supplies and services	86,522	51,206
Depreciation and amortization	-	-
Finance costs	-	-
Total expenses	925,985	873,494
Surplus/(Deficit) for the period	-	-

Budget Execution Statement

For the common funded elements of the STO, expenses are presented on a different basis in the statement of financial performance when compared to the budget execution statement: the statement of financial performance includes finance costs, and the PP&E depreciation expenses, whereas the purchasing costs of PP&E are recognised in the budget execution statement.

The following table is a reconciliation of actual budget amounts per the budget execution statement to actual expenses per the statement of financial performance:

OFFICE OF CHIEF SCIENTIST

STATEMENT OF BUDGET EXECUTION AS AT 31 DECEMBER 2018

EURO	Final Budget	Commitments	Expenses	Total Spent	Carry Forward	Lapsed
BUDGET 907 (OCS) 2018						
Chapter 71	892,675	-	839,463	839,463	-	53,212
Chapter 72	86,895	-	86,522	86,522	-	373
Chapter 73	-	-	-	-	-	-
TOTAL BUDGET 907 (OCS)	979,570	-	925,985	925,985	-	53,585

COLLABORATIVE SUPPORT OFFICE

STATEMENT OF BUDGET EXECUTION AS OF 31 DECEMBER 2018

EURO	Final Budget	Commitments	Expenses	Total Spent	Carry-Forward	Lapsed
BUDGET 808 (C8O) 2018						
Chapter 71	3,738,114	2,576	3,735,538	3,738,114	2,576	-
Chapter 72	2,165,278	85,866	2,079,171	2,165,037	85,866	241
Chapter 73	171,608	158,000	13,608	171,608	158,000	-
TOTAL	6,075,000	246,442	5,828,317	6,074,769	246,442	241
BUDGET 808 (C8O) 2017						
Chapter 71	-	-	-	-	-	-
Chapter 72	19,056	-	19,042	19,042	-	14
Chapter 73	-	-	-	-	-	-
TOTAL	19,056	-	19,042	19,042	-	14
TOTAL BUDGET 808 (C8O)	6,094,056	246,442	5,847,359	6,093,811	246,442	255

Budget Execution vs Financial Performance

COLLABORATIVE SUPPORT OFFICE

	(in euro)
Expenses	Actuals
Personnel	3,735,538
Supplies and Services	2,098,214
Capital and Investments	13,608
Total Expenses as per Budget Execution	5,847,360
Property Plant and Equipment capitalized (Recognition from Capital and Investments)	(93,991)
Depreciation	27,822
Financial Costs	5,646
Total Expenses as per Financial Performance	5,786,837

For OCS there are no differences between the Budget Execution and the Financial Performance statement.