EUROPEAN FREE TRADE ASSOCIATION

Ref. 27536

15 March 2011

EFTA Secretariat – Financial reports 2009

This document includes the following:

1. Excerpt from the Council Summary Record of 7 February 2011
2. Letter from EFTA Board of Auditors (EBOA) on the Audit of the 2009 Accounts
3. Audit Report – EFTA Secretariat
4. Statement of Account 2009
5. Letter from the Chairman of the Council to the Chairman of EBOA, 29 September 2010
6. Letter from the Chairman of EBOA to the Chairman of the Council, 4 November 2010
7. Letter from the Chairman of the Council to the Chairman of EBOA, 19 January 2011

Ref. 27517

7 February 2011

FIRST MEETING OF THE COUNCIL
Geneva, 7 February 2011

SUMMARY RECORD

Statement of accounts for 2009

26. The Council approved the Statement of accounts 2009 and discharged the Secretary-General of his responsibilities for the financial period in question.

EUROPEAN FREE TRADE ASSOCIATION

BOARD OF AUDITORS

The Chairman

EFTA ref. 1099624
18/2010
18 June 2010

Audit of the 2009 Accounts

At their last meeting in Brussels on 2 and 3 June 2010, the Members of the EFTA Board of Auditors (EBOA) reviewed the accounts of the **EFTA Secretariat** covering the period from 1 January to 31 December 2009.

On the basis of the audit report from the mandated external auditor (BDO), EBOA decided to issue a certificate for the 2009 accounts.

EBOA would like to convey the external audit team's (BDO) satisfaction with the cooperation with the EFTA Secretariat. BDO has noted that the documentation provided was more thorough than in the previous year.

EBOA would like to bring the following matters to the attention of the EFTA Council:

1. Savings Fund

EBOA notes with satisfaction that the EFTA Secretariat has included the Savings Fund's contributions in the Financial Statements for 2009 as was suggested by

To: H. E. Mr Kristinn Árnason
Chair of the EFTA Council
Permanent Mission of Iceland
49, Avenue Blanc
Case Postale 86
1211 Geneva 20
Switzerland

CC: Kare Bryn, Secretary General, EFTA Secretariat

EBOA in the 2008 audit. EBOA considers this as very important since the institutions do carry a responsibility in the management of the savings fund.

EBOA notes that the issue of the liability for the savings fund has been handled differently by the three EFTA institutions given the differences of the systems of savings fund. The Secretariat has put the matter forward to the Council. However the question of liability in case of insolvency of the financial institutions or in case of changes in the fair value of these assets remains to be solved, since the risk could increase due to the situation of the financial markets.

The Council and the ESA/Court Committee will need to coordinate their views in order to address this matter in the future.

2. Compliance with IFRS

EBOA noted with satisfaction that the Financial Statements have been presented in compliance with the International Financial Reporting Standards (IFRS). There are however two exceptions:

- Not all disclosure notes and presentation requirements have been included in the financial statements,
- A statement of changes in equity is missing from the financial statements.

EBOA notes that the existing Financial Rules and Regulations currently do not comply with the IFRS in relation to the above mentioned exceptions.

3. Harmonisation of the EFTA Institutions' financial Statements

In the audit letter regarding the 2008 accounts, EBOA recommended that, for the sake of clarity and transparency, all three Institutions should harmonise the format of their financial statements. Since the three EFTA Institutions are still using a different format, EBOA urges the Institutions to reach an agreement on a common format.

4. Daily Subsistence Allowance

EBOA noted that the Daily Subsistence Allowance Rates differ between the staff members of the Secretariat, being slightly higher for the Secretary-General and the Deputy Secretary-General than for the rest of the staff members. EBOA would like to receive an explanation as to the justification for this difference.

Additionally, EBOA would like to regularly receive the minutes of the Council meetings once they have been adopted. This has been the practice with the ESA/Court Committee in recent years and it has proven to be useful for the exchange of information between the two bodies.

EBOA would like to receive a reply to this letter by 1 September 2010 as a meeting to plan the audit of the accounts for 2010 will take place in early autumn. As a response to the recommendations presented in this letter, the Board kindly requests that a list of all actions foreseen be included in the reply.

Respectfully yours,

Per A. Engeseth

Chairman of the EFTA Board of Auditors

EUROPEAN FREE TRADE ASSOCIATION

3 June 2010

EFTA ref. 1099493

2 Annexes

Distribution Special

AUDIT REPORT - EFTA SECRETARIAT

CERTIFICATE OF THE BOARD OF AUDITORS ON THE AUDIT OF THE ACCOUNTS OF THE EFTA SECRETARIAT FOR THE PERIOD 1 JANUARY TO 31 DECEMBER 2009

1. The Board of Auditors has examined the accounts of the EFTA Secretariat for the period 1 January to 31 December 2009 as outlined in its Rules of Procedure and the Terms of Reference of the Financial Regulations. The audit is carried out according to generally accepted auditing principles and standards, including such tests and other supporting evidence as considered necessary. The audit work has been performed by BDO on behalf of the Board of Auditors on basis of the contract between the two parties.

2. The Board has reviewed the transactions reflected in the books and have controlled whether these are in accordance with the Financial Regulations and Rules. The various items on the Balance Sheet have been checked and monies on deposit in banks have been verified. Other assets and liabilities as presented in the Balance Sheet have been verified by procedures considered appropriate under the circumstances. The examination of expenditures and income has been carried out on a test basis to the extent considered necessary.

3. The EFTA Board of Auditors states that:

   (a) the financial statements give a true and fair view of the financial position as at the end of the period and the results of the operations for the period;

   (b) the financial statements were prepared in accordance with the stated accounting principles;

   (c) the accounting principles were applied on a basis consistent with that of the preceding financial year;

   (d) transactions were in accordance with the Financial Regulations and Rules of the Secretariat.

SIGNATURES OF THE BOARD OF AUDITORS

Per A. Engeseth (Norway) Chairman	Arthur Taugwalder (Switzerland) Vice-Chairman
René Melliger (Liechtenstein) Member	Sveinn Arason (Iceland) Member

Annex: EFTA Secretariat Financial Statement for the year ended 31 December 2008 and Auditor's Report by BDO

Distribution: EFTA Ref. 1097761

31 March 2010

Statement of Account

Financial Year 2009

Note by the Secretariat

1. In accordance with Financial Regulation 14, the Secretary-General shall submit the final accounts for the period just ended to the Council as soon as practicable following the close of the period, and no later than three months after the end of the financial year in question.

2. The EFTA Board of Auditors is entrusted with the audit of the accounts. The Board's external auditor, the international auditing firm BDO, performed its audit of the accounts for the financial year ending 31 December 2009 between 26 and 29 October 2009 (interim audit) and between 15 and 19 March 2010.

3. Once the EFTA Board of Auditors has received the audit report from BDO, the Board will report back to the EFTA Council. This shall be no later than six months after the end of the financial year in question.

4. For any further information about EFTA's activities during 2009, reference is made to the Performance and Budget report 2009, Ref. 24890.

I. Main Activities

5. The EFTA Secretariat's activities centre on the management and monitoring of: (i) the relationships among the EFTA States on the basis of the EFTA Convention; (ii) the worldwide network of free trade and partnership agreements between EFTA States and non-EU countries; and (iii) the European Economic Area (EEA) Agreement which enables Iceland, Liechtenstein and Norway to participate in the EU's Internal Market.

6. The servicing of the EFTA Council and its committee structure is carried out with the support of the Secretariat in Geneva. In 2009 the EFTA Council met ten times at official level (Heads of Permanent Delegations to EFTA in Geneva) and twice at ministerial level. Norway held the EFTA Chair during the first six months, and Liechtenstein for the second six months of the year.

7. In the area of free trade relations, comprehensive support is provided from the EFTA Secretariat's Geneva headquarters to Member States for the preparation and negotiations on Free Trade Agreements and Declarations of Cooperation, as well as for the implementation of such agreements through Joint Committees.

8. Under the EEA Agreement, the main body of work consists of monitoring the preparation of legislation and policy on the EU side with a view to giving timely input,

preparing for the incorporation of legislation into the EEA Agreement. The Secretariat services committees and working groups under the Standing Committee of the EFTA States and the Joint Committee.

9. The EFTA Statistical Office in Luxembourg co-ordinates EFTA's participation in Eurostat and provides statistical support for various other EFTA purposes.

II. Review of Financial Results

10. The budget for the period 1 January to 31 December 2009 was adopted by the EFTA Council on 8 December 2008 in Decision No. 2 of 2008 (Doc. No 22202 of 8 December 2008). The approved net budget for the financial year 2009 totalled EUR 10,937,000 and CHF 8,191,000 on the basis of which amounts the contributions of Member States were assessed and set out in Decision No. 3 of 8 December 2008 (Doc. No. 22204 of 8 December 2008).

11. The financial year 2009 was the sixth year with the new budgeting method as decided by the EFTA Council on 17 December 2003 in Decision No. 7 of 2003. The activities for the Secretariat have been defined in the Performance Plan for the budget year 2009 (Doc. No. 1085678).

12. The total expenditure (Part I and Part II) for the financial year ended 31 December 2009 totalled CHF 24,028,019 (CHF 26,271,770 in 2008) against a total income of CHF 25,317,597 (CHF 26,190,681 in 2008), leading to a budget surplus of CHF 1,289,578 before financial items (deficit of CHF 81,089 in 2008). Adding other items, i.e. write-offs, interest income, realised and unrealised exchange rate differences and bank charges, having a cost effect of CHF 205,560 (revenue of CHF 168,077 in 2008), the end-surplus amounts to CHF 1,084,018 (CHF 86,988 in 2008).

13. Net results of Part I and part II were as follows:

a) The net expenditure in Part I was CHF 20,714.544 or 98.1% of the budget. The total spending resulted in a surplus of CHF 398,939.

b) The net expenditure in Part II was CHF 2,637,921 or 79.4% of the budget resulting in a surplus of CHF 685,079.

14. The surplus is due to economies made in both Part I and Part II. The possibility of a surplus, and how to deal with it, is foreseen in the Financial Regulations and Rules (see Regulations 10 and 11).

The overview of the actual expenditure and budget is as follows:

	Budget 2009	Actual 2009	Actual in %	Remainder	In %
Part I	21,114,000	20,508,984	97.1%	605,016	2.9%
Part II	3,323,000	2,637,921	79.4%	685,079	20.6%
Total Expenses as Budgeted:	**24,437,000**	**23,146,905**	**94.7%**	**1,290,095**	**5.3%**
Add Reimbursed Expenses	631,925	881,114	139.4%	(249,189)	
Total Expenses	**25,068,925**	**24,028,019**	**95.8%**	**1,040,906**	**4.2%**
Part I					
Contributions	21,114,000	21,113,483	100.0%	517	0.0%
From Surplus Account		-		-	
Part II					
Contributions	3,323,000	3,323,000	100.0%	-	0.0%
From Reserve Fund Part II				-	
Total Income as Budgeted:	**24,437,000**	**24,436,483**	**100.0%**	**517**	**0.0%**
Add Reimbursements	631,925	881,114	139.4%	881,114	
Total Income	**25,068,925**	**25,317,597**	**101.0%**	**881,631**	**3.5%**
Net Result Before Financial Items	-	1,289,578		1,289,578	
Interest Income (Expenses)					
Exchange Gains (Losses)					
Bank Charges					
Write-off					
Financial Items, Net		(205,560)		(205,560)	
TOTAL 2009		**1,084,018**		**1,084,018**	
Transferred to Reserve Funds		**(357,819)**			
Net Surplus to Member States		**726,199**			

BREAKDOWN PART I/II

	Budget 2009	Actual 2009	Actual in %	Remainder
Total Part I	21,114,000	20,714,544	98.1%	399,456
Contributions	21,114,000	21,113,483	100.0%	517
Net Part I	-	398,939		(398,939)
Total Part II	3,323,000	2,637,921	79.4%	685,079
Contributions	3,323,000	3,323,000	100.0%	0
Net Part II	-	685,079		(685,079)
TOTAL 2009	**-**	**1,084,018**		**(1,084,018)**

PERFORMANCE & BUDGET REPORT

	Budget 2009	Actual 2009
Total Expenses		24,028,019
Deduct Reimbursed Expenses		(881,114)
Financial Items, Net		205,560
TOTAL PERFORM. & BUD. REPORT	24,438,000	23,352,465

Special Funds

15. In accordance with the Financial Regulation and Rules, the Secretariat reports the status of the Special Funds as per 31 December of each year. At present, there are four Special Funds in EFTA's accounts:

1. Special Fund 1: Financial Instrument / Mechanism

Net assets on 31/12/2009:	CHF -47,421 / EUR -31,925 (CHF -85,132 / EUR -50,877 in 2008)
Legal basis:	Decisions of the Financial Instrument / Mechanism Committee based on a budget proposal of the EFTA Secretariat and approved by the European Commission.
Operational procedures:	EFTA operates the office for the Financial Mechanism Liaison Officer and his assistant. EFTA sends invoices to the European Investment Bank in Luxembourg in accordance with the approved budget.
Establishing date:	1 July 1995
Comments:	Net assets have been evaluated at the date of the Balance Sheet. The balance belongs to the EEA EFTA Member States and the European Commission. The FMO is informed and will adjust this balance.

2. Special Fund 4: Statistical Cooperation

Net assets on 31/12/2009:	CHF 19,281 / EUR 12,980 (CHF 21,720 / EUR 12,980 in 2008)
Legal basis:	Article 82(1) (a) of the EEA Agreement; Budget line B-5600 and Point 5 of Protocol 30 of the EEA Agreement. Exchange of letters between Eurostat and the EFTA Secretariat establishing a mechanism to remove this particular matter from the general EU programmes.
Operational procedures:	EFTA recruits national experts from the EFTA Member States and covers all related costs. EFTA makes service contracts with Eurostat in Luxembourg in order to recover costs.
Establishing date:	1 July 1995
Comments:	Net assets have been evaluated at the date of the Balance Sheet. The balance belongs to the EEA EFTA Member States.

3. Special Fund 6: EEA Financial Mechanism

Net assets on 31/12/2009:	CHF -44,754 / EUR -30,130 (CHF 223,220 / EUR 133,401 in 2008)
Legal basis:	Decision of the Standing Committee of the EFTA States No. 1/2004/SC of 5 February 2004.

Operational procedures:	The EFTA Secretariat carries out administrative functions for the Financial Mechanism Office (FMO) based on a service agreement. The budget of the FMO is approved by the Financial Mechanism Committee.
Establishing date:	1 May 2004
Comments:	Net assets have been evaluated at the date of the Balance Sheet. The balance belongs to the EEA EFTA Member States. The negative balance results from non-cash affecting cost items (repatriation provision). On cash basis, the FMO has covered its expenses.

4. Special Fund 7: Norwegian Financial Mechanism

Net assets on 31/12/2009:	CHF -29,413/ EUR -19,801 (CHF 344,093/ EUR 205,637 in 2008)
Legal basis:	Decision of the Standing Committee of the EFTA States No. 1/2004/SC of 5 February 2004.
Operational procedures:	The EFTA Secretariat carries out administrative functions for the Financial Mechanism Office (FMO) based on a service agreement. The budget of the FMO is approved by the Financial Mechanism Committee.
Establishing date:	1 May 2004
Comments:	Net assets have been evaluated at the date of the Balance Sheet. The balance belongs to Norway. The negative balance results from non-cash affecting cost items (repatriation provision). On cash basis, the FMO has covered its expenses.

Special Cooperation Programmes

16. EFTA participates in a number of cooperation programmes with the EU. In monetary terms, standardisation programmes are the most important ones, not only because they cover the largest sums, but also because they carry multi-year obligations. It is recalled that the EFTA-EU cost split of standardisation is based on the 5%-95% rule.

17. Up to 1 July 1995, nearly all cooperation programmes were modelled on the percentage cost splitting rule (14%-86% for EFTA at 7). After the new EFTA came into existence on that date, it has become common for EFTA to be more active in the practical implementation of a programme, using 5% as a target level of contributions to that programme. In real terms EFTA is carrying out specific tasks within the programme, supervising these tasks and financing them. Examples of such cooperation programmes are technical cooperation in the field of statistics, training of European statisticians and customs cooperation programmes.

Financial Result 2009

18. The financial year 2009 resulted in a surplus of CHF 398,939 in Part I and a surplus of CHF 685,079 in Part II, giving a total surplus of CHF 1,084,018. In accordance with Financial Regulation 10, budgetary surpluses for Part I and Part II not exceeding 5% of the budget for that Part shall be transferred to the Reserve Funds for Part I and Part II respectively. Surpluses exceeding 5% shall be transferred to the Surplus Account pending a decision by the Council

on their use. Deficits are covered by transfers from the respective Reserve Funds. The Reserve Fund for Part II has been decreased in line with the lowering of the annual budget figure for Part II due to the strengthening of the Swiss franc. The result for 2009 has been distributed as follows:

	Reserve Funds	Member States	Total
Part I	365,669	33,269	398,939
Part II	(7,850)	692,930	685,079
Total	357,819	726,199	1,084,018

Member States: the Status

19. The current status is as follows:

Source	Iceland	Liechtenstein	Norway	Switzerland	TOTAL
Surplus Part I 2004	0	0	0	0	0
Surplus Part II 2004	14,424	3,474	163,889	149,035	330,822
Returned to Member States 2004	0	0	-81,945	0	-81,945
Transfer to Part II fund 2004	-7,212	-1,737	-81,945	-74,518	-165,411
Surplus Part I 2005	0	0	0	0	0
Surplus Part II 2005	22,008	5,475	268,882	235,232	531,598
Returned to MS, rent comp FMO	1,592	225	33,406	0	35,224
Transfer to Part II fund 2005	-4,140	-1,030	-50,580	-44,250	-100,000
Surplus Part I 2006	0	0	0	0	0
Surplus Part II 2006	11,824	2,993	151,073	127,512	293,402
Returned to Member States 2007	-7,212	0	0	0	-7,212
Surplus Part I 2007	8,325	1,983	102,708	83,328	196,344
Surplus Part II 2007	0	0	0	0	0
Returned to Member States 2008	0	0	-251708	0	-251,708
FIPOI 2007 Invoice	-871	-208	-10,747	-8,720	-20,546
Surplus Part I 2008	0	0	0	0	0
Surplus Part II 2008	16,101	3,403	185,921	145,369	350,795
Surplus Part I 2009	1,567	306	18,025	13,371	33,269
Surplus Part II 2009	32,637	6,375	375,429	278,488	692,930
Total	**89,043**	**21,259**	**822,409**	**904,848**	**1,837,562**

The Financial Statements and notes thereto are contained in the following pages.

Balance Sheet 31 December		2009			2008			
	Note	Cons.	*Geneva*	*Brussels*	Cons.	*Geneva*	*Brussels*	*Consolidated*
Current Assets		**CHF**	***CHF***	***euro***	**CHF-2009 exch rate**	***CHF***	***euro***	***CHF-2008 exch rate***
Cash		**5,738,453**	*1,537,714*	*2,828,019*	**4,247,607**	*907,705*	*2,248,486*	4,670,098
Receivables	4	**511,324**	*39,441*	*317,681*	**1,076,941**	*94,786*	*661,206*	1,201,181
Special Funds, negative balance	4,9	**121,588**	*0*	*81,855*	**0**	*0*	*0*	0
		6,371,365	1,577,155	3,227,555	**5,324,548**	1,002,491	2,909,692	5,871,279
Long-Term Assets								
Fixed Assets	6	**529,170**	*196,161*	*224,188*	**515,389**	*206,395*	*208,021*	554,476
Fixed Assets FMO	6	**246,760**	*0*	*166,124*	**473,873**	*0*	*319,021*	533,817
Building Brussels	6	**711,645**	*0*	*479,093*	**889,556**	*0*	*598,867*	1,002,083
Receivables	4	**33,938**	*30,418*	*2,370*	**41,892**	*30,320*	*7,791*	43,356
		1,521,514	*226,579*	*871,775*	**1,920,710**	*236,714*	*1,133,699*	2,133,732
Total Assets		**7,892,879**	***1,803,734***	***4,099,330***	**7,245,258**	***1,239,205***	***4,043,391***	**8,005,011**
Current Liabilities								
Payables	9	**1,291,386**	*171,283*	*754,075*	**1,952,143**	*243,186*	*1,150,503*	2,168,323
Unearned revenues	9	**69,742**	*2,648*	*45,169*	**0**	*0*	*0*	0
Special Funds	9	**19,281**	*0*	*12,980*	**447,316**	*0*	*301,142*	503,901
Building Funds	11	**711,645**	*0*	*479,093*	**889,556**	*0*	*598,867*	1,002,083
Reserve Funds	12	**1,221,850**	*1,221,850*	*0*	**864,031**	*864,031*	*0*	864,031
		3,313,904	*1,395,781*	*1,291,318*	**4,153,047**	*1,107,217*	*2,050,512*	4,538,338
Long-Term Liabilities								
Provision for Programmes	7	**1,209,097**	*1,209,097*	*0*	**1,209,097**	*1,209,097*	*0*	1,209,097
Provision for Repatriation	7	**1,132,849**	*349,597*	*527,300*	**850,870**	*237,991*	*412,602*	928,398
Provision for Repatriation FMO	7	**361,144**	*0*	*243,129*	**155,033**	*0*	*104,371*	174,644
Other Long-Term Liabilities	7	**38,323**	*0*	*25,800*	**38,323**	*0*	*25,800*	43,171
		2,741,413	*1,558,694*	*796,229*	**2,253,323**	*1,447,088*	*542,773*	2,355,310
Total Liabilities		**6,055,317**	***2,954,475***	***2,087,547***	**6,406,370**	***2,554,305***	***2,593,285***	**6,893,649**
Exchange Rate Differences	16				**272,475**			
NET ASSETS		**1,837,562**			**1,111,363**			**1,111,363**
Surplus Account	11	**1,837,562**			**1,111,363**			**1,111,363**

Statement of Operation and Surplus
for the financial year ended 31 December

	Note	2009	2008
		CHF	CHF
Member States Contribution		24,436,483	25,365,909
Other income:			
Part I		881,114	824,772
Part II		0	0
Total Income		25,317,597	26,190,681
Expenditure			
Part I		21,390,098	23,218,057
Part II		2,637,921	3,053,712
Total Expenditure		24,028,019	26,271,770
Net Result Before Interest, etc		1,289,578	(81,089)
Interest Income	20	72,422	255,861
Exchange Gains / (Losses) realised	20	16,948	28,131
Exchange Gains / (Losses) unrealised	20	(272,974)	
Interest Expense	20	(124)	(82,511)
Bank Charges		(20,852)	(23,686)
Write-off		(980)	(9,718)
Net Surplus / (Deficit)		1,084,018	86,988
Opening Surplus Account	11	1,111,363	1,032,822
Amount transferred (to) / from Surplus Account	11		(272,254)
Amount transferred (to) / from Reserve Funds	12	(357,819)	263,807
Closing Surplus Account		1,837,562	1,111,363

Cash Flow Statement	Year:	2009	Year:	2008
Excess of income over expenditure for the year	1,084,018		86,988	
Adjustments for:				
Depreciation (excluding fitting out of offices Brussels)	584,479		863,822	
Increase (decrease) in provision for repatriation	281,978		27,787	
Increase (decrease) in provision for repatriation FMO	206,111		174,644	
Interest income	(72,422)		(255,861)	
Surplus before working capital changes	2,084,164		897,380	
Decrease (increase) in current receivables	565,617		630,837	
Decrease (increase) in long term receivables	7,953		(9,242)	
Increase (decrease) in payables	(660,757)		(20,758)	
Increase (decrease) in unearned revenues	69,742			
Increase (decrease) in long term payables	0		43,171	
Increase (decrease) in Special Funds	(549,623)		(31,621)	
Net cash provided from (used in) operating activities		**1,517,096**		**1,509,768**
Investing activities				
Purchase of property, plant and equipment	(358,669)		(152,173)	
Purchase of property, plant and equipment FMO	(12,478)		(8,568)	
Investments new Office building Brussels	0		0	
Interest income	72,422		255,861	
Net cash provided from (used in) investing activities		**(298,725)**		**95,120**
Financing activities				
Member States contribution, transfer to Surplus Account	0		0	
Member States contribution transfer from Surplus Account	0		(272,254)	
Net cash provided in (used from) financing activities		**0**		**(272,254)**
Net increase in cash and cash equivalents		**1,218,371**		**1,332,633**
Cash and cash equivalents at the beginning of the period		**4,670,098**		**3,319,680**
Exchange rate adjustment		(150,016)		17,784
Cash and cash equivalents at the end of the period		**5,738,453**		**4,670,098**

Notes to the Financial Statements

1. Significant accounting policies

The significant accounting polices adopted in the preparation of these financial statements of the EFTA Secretariat are set out below:

(a) Basis of Preparation

The financial statements of the Association have been prepared in accordance with the accounting standards of the present Financial Regulations and Rules of the Association. The statements have been prepared under the historical cost system and are prepared in Swiss francs (CHF).

The present Financial Regulations and Rules were approved by the EFTA Council on 18 December 1997 and entered into force on 31 December 1997. The Regulations have to be approved and amended by the EFTA Council. Since then there have been three amendments. The first amendment, made in 2002, concerned part VII – Audit and approval of the accounts and the second in 2004, in parts I, II, III and IV. The second amendment was done as a natural consequence of the introduction of the new budgeting method. The last amendment was made in 2009 and it related to the streamlining of the approval process of financial commitments.

In line with the Financial Regulations the statements shall be prepared according to the international accounting standards (IFRS/IAS).

(b) Principles of Combined Statements

The accounting policies have been consistently applied by the two duty stations of the Association, i.e. in Geneva and Brussels (including four staff members and two national experts in Luxembourg). All balances and transactions between the duty stations have been eliminated.

(c) Fixed Assets

Assets are stated at their acquisition cost less depreciation using the straight-line depreciation method over the estimated useful lives. Expenditure on repairs or maintenance (leased buildings, computers, furniture, cars, etc.), made to restore or maintain future economic benefits expected from the assets, is recognised as an expense when incurred, while improvements on the same mentioned “items” are capitalised in line with other fixed assets.

The fixed assets recognised at 31 December 2009 are the three EFTA cars in Geneva and Brussels, various IT and non-IT equipment (furniture and infra-structure installations), fitting out of the new office premises in Brussels for the Secretariat and the FMO as well as assets for the FMO which is administratively part of the EFTA Secretariat. The rates of depreciation used are as follows:

Vehicles:	20%
IT-equipment:	33%
Other equipment:	20%

Fitting out offices EFTA: 11.11% (9 years – length of the lease contract)
Fitting out offices FMO: 16.67% (6 years – length of the lease contract)

The assets have been depreciated from the date of acquisition, see also Note 6.
For fitting out of offices the actual date of the relocation to the premises has been used.

(d) Foreign Currency

(i) Transactions

All transactions are booked in EUR (Brussels) and CHF (Geneva). All exchange rate differences are identified immediately. For reporting reasons any transactions between the duty stations are converted at the rate of exchange used for establishing the budget, 1 euro = CHF 1.4854. For the balance sheet, the rate of exchange used for the budget has been used both for the opening balance (1 January 2009) as well as for closing balance (31 December 2009). This has resulted in an unrealised exchange rate loss for the opening balance which is reflected in the profit & loss (see also note 16).

(ii) Translation of financial statements

The operations of foreign duty stations of the Association are considered an integral part of EFTA's operations. Accordingly, assets and liabilities at foreign duty stations are translated at the rate of exchange used for the budget, 1.4854. Both the opening balance (1 January 2009) as well as the closing balance (31 December 2009) have been converted to CHF using the rate of exchange for the budget. Resulting exchange differences are recognised in operations.

(e) Taxation

The Association is exempt from most taxes at all duty stations, see Note 2. Taxes payable, and non-recoverable, are expensed directly with the goods and services received if the amount is CHF 100 (Switzerland) or EUR 100 (Belgium/Luxembourg) or less, while invoices exceeding CHF 100 or EUR 100 are recovered directly through the supplier. The local tax in Brussels (to cover local utility costs such as garbage collection) is recorded in operations.

Swiss withholding taxes are fully recoverable and are therefore recorded separately among debtors.

(f) Inventories

Inventories are not recorded in the accounts. However lists of inventories of equipment and furniture are maintained.

(g) Leased Assets

Leases of equipment under which the Association assumes substantially all risks and rewards incidental to ownership are classified as finance leases. Such equipment has historically consisted of computers, photocopy machines and fax machines but currently the Association has no finance leases. Other leases are classified as operating leases. Such leases are rental contracts for the office buildings in Geneva and Brussels.

Finance leases are not recognised in the balance sheet and leased assets in general are not depreciated in the accounts. Payments made under operating leases are expensed directly to the relevant expense account.

(h) Revenue Recognition

Contributions from Member States are recognised on an accrual basis in accordance with the Budget. Contributions made in euros during 2009 are recognised at the exchange rate of the Budget.

In relation to both the sale of goods and to the rendering of services, revenue is recognised at the delivery date of the goods or services.

2. Taxation

Headquarters Agreements in Switzerland, Belgium, and Luxembourg grant tax exemptions for normal activities with the following exceptions:

Two types of local taxes for the office building in Brussels have to be paid. The amounts paid in 2009 were EUR 58,756 (CHF 87,276 [56,228 / 94,087 in 2008]) for real estate tax and EUR 17,304 (CHF 25,703 [16,997 / 28,441 in 2008]) for regional tax.

Value Added Taxes of amounts less than EUR 100 have to be paid in Belgium and Luxembourg. Purchases of higher amounts are tax-free.

3. Adjustment to opening surplus

No corrections were made to the opening surplus brought forward from 31 December 2008.

4. Receivables

	Receivables 31 December		**2009**			**2008**		
a)	**Current**	Cons. **CHF**	*Geneva* ***CHF***	*Brussels* ***euros***	Cons. **CHF** *2009 rate*	*Geneva* ***CHF***	*Brussels* ***euros***	Cons. **CHF** *2008 rate*
	Accounts Receivable – Normal Operations	7,632	*3,282*	*2,928*	101,666	*19,800*	*55,114*	112,022
	Advances and Loans to Staff Members	25,382	*0*	*17,087*	74,093	*33,203*	*27,528*	79,265
	Receivables from Member States	0	*0*	*0*	91,079	*0*	*61,316*	102,601
	Prepaid Expenses	478,311	*36,159*	*297,665*	810,102	*41,783*	*517,247*	907,293
		511,324	*39,441*	*317,681*	1,076,941	*94,786*	*661,206*	1,201,181

Receivables 31 December	2009			2008			
aa) **Special funds, negative balances**							
Special Fund 1: Financial Instrument / Mechanism	47,421	*0*	*31,925*	See payables			
Special Fund 6: EEA Financial Mechanism	44,754	*0*	*30,130*	See payables			
Special Fund 7: Norwegian Financial Mechanism	29,413	*0*	*19,801*	See payables			
	121,588	*0*	*81,855*				
b) **Long-Term**							
Guarantee deposits	33,938	*30,418*	*2,370*	41,892	*30,320*	*7,791*	43,356

5. Inventories

Inventory lists of equipment and furniture are maintained, but the aggregate balance at 31 December 2009 of items of less than CHF 1,500 / EUR 1,000 is not recorded among assets. These items have already been expensed in previous years.

6. Fixed assets

The carrying value of property and equipment is calculated as follows:

2009	Vehicles		IT		Other		Total
Cost	***Geneva (CHF)***	***Brussels (euros)***	***Geneva (CHF)***	***Brussels (euros)***	***Geneva (CHF)***	***Brussels (euros)***	***Consolidated (CHF)***
At 1/1	77,787	41,704	519,638	929,753	478,323	265,171	2,912,636
Additions	0	0	38,556	125,315	90,360	29,360	358,669
Disposals	0	0	0	0	0	0	0
Cost at 31/12	77,787	41,704	558,194	1,055,068	568,683	294,530	3,271,304
Accumulated depr.							
At 1/1	29,418	27,412	441,562	807,684	398,372	193,512	2,397,248
Depr for year	15,557	4,900	61,622	95,655	61,970	37,952	344,887
Disposals	0	0	0	0	0	0	0
Exch. Diff.							
Acc. Depr. 31/12	44,975	32,312	503,184	903,339	460,342	231,464	2,742,135
NBV at year end	**32,812**	**9,392**	**55,009**	**151,729**	**108,341**	**63,067**	**529,170**

The carrying value of equipment for the Financial Mechanism Office is calculated as follows:

2009	FMO BRU (CHF)	FMO BRU (€)
Opening carrying value	473,873	319,021
Additions	12,478	8,401
Disposals	-	-

Depreciation	239,591	161,298
Closing carrying value	**246,760**	**166,124**

The carrying value of the fitting out of office premises in Brussels is calculated as follows:

2009	Building BRU (CHF)	Building BRU (€)
Opening carrying value	889,556	598,867
Additions	-	-
Disposals	-	-
Depreciation	177,911	119,773
Closing carrying value	**711,645**	**479,093**

7. Provision Funds and other long-term payables

7.1 Provision for Repatriation

The Association has a contractual obligation to repatriate all non-locally recruited staff members at the end of their term of service. Based on the present Staff Regulations and Rules, the cost of each staff member has been estimated and provisions recorded assuming an average lifetime of four years in EFTA. Repatriation provisions for the FMO staff is also calculated (first calculated in 2008), see separate line in the balance sheet.

2009	Consolidated CHF	Repatriation in Geneva CHF	Repatriation in Brussels Euro	Consolidated 2008
Opening carrying value	850,870	237,991	412,602	900,611
Into the Fund	422,714	139,127	190,916	332,762
Out of the Fund	-140,735	-27,521	-76,218	-304,975
Closing carrying value	**1,132,849**	**349,597**	**527,300**	**928,398**

The provision calculated for FMO staff is as follows:

FMO 2009	CHF	EUR	EUR 2008
Opening carrying value	155,033	104,371	-
Into the Fund	210,863	141,957	104,371
Out of the Fund	-4,752	-3,199	-
Closing carrying value	**361,144**	**243,129**	**104,371**

7.2 Provision for Cooperation Programmes (Part II Fund)

Since 1985, the Association has participated, with the European Union, in numerous standardisation programmes. The carrying value of EFTA commitments totals CHF 2,533,038 (EUR 1,705.290) as per 31 December 2009 (2,514,667/1,502,819 in 2008).

In order to make provisions to cover up for the commitments under Part II, the EFTA Council has established a Part II Fund (see C 3/99 of 10 March 1999). Its purpose is to meet long-term commitments related to cooperation programmes in Part II of the EFTA budget, including standardisation, as well as to provide a buffer, should disbursements accelerate in any one year beyond budgetary planning. During the year 2009, no funds have been transferred to or from the fund. See also Note 10.

Part II Funds	**2009**	**2008**
Balance at 1 January	1,209,097	1,209,097
Transferred to the fund during the year	-	-
Provisions made during the year	-	-
Closing carrying value	**1,209,097**	**1,209,097**

8. Loans and borrowing

No loans were taken in 2009.

9. Payables

Payables 31 December	**2009**			**2008**			
	Cons. **CHF**	*Geneva* ***CHF***	*Brussels* ***euros***	Cons. **CHF** *2009 rate*	*Geneva* ***CHF***	*Brussels* ***euros***	Cons. **CHF** *2008 rate*
Accounts payable - Normal Operations	1,291,386	*171,283*	*754,075*	1,952,143	*243,186*	*1,150,503*	2,168,323
Due to Member States	0	*0*	*0*	0	*0*	*0*	0
Unearned revenues (prepayments received)	69,742	*2,648*	*45,169*				
Special Fund 1: Financial Instrument / Mechanism	See receivables			-75,572	*0*	*(50,877)*	-85,132
Special Fund 4: Statistical Cooperation	19,281	*0*	*12,980*	19,281	*0*	*12,980*	21,720
Special Fund 6: EEA Financial Mechanism	See receivables			198,154	*0*	*133,401*	223,220
Special Fund 7: Norwegian Financial Mechanism	See receivables			305,454	*0*	*205,637*	344,093
Total	1,380,409	*173,931*	*812,225*	2,399,459	*243,186*	*1,451,645*	2,672,224

10. Other liabilities and provisions

The Association has signed a number of multi-year cooperation programmes with the EU (technical cooperation in the filed of statistics, statistical training). The total commitments have not been entered into the accounting system. At 31 December 2009, authorised standardisation commitments - not yet expensed - amounted to CHF 2,533,038 (CHF 2,514,667 on 31 December 2008). See also note 7.2.

11. Member States

The EFTA Council determines the distribution keys. For the period 1 July 1995 to 31 December 2009, the keys are as follows:

Distribution keys of EFTA Member States

	Iceland	Liechtenstein	Norway	Switzerland	
	%	%	%	%	%
1995: All	4.37	1.27	43.37	50.99	100.00
1995: EEA	8.92	2.59	88.49	-	100.00
1996: All	4.28	1.23	44.1	50.39	100.00
1996: EEA	8.63	2.48	88.89	-	100.00
1997: All	4.08	1.25	43.92	50.75	100.00
1997: EEA	8.28	2.54	89.18	-	100.00
1998: All	3.79	1.26	44.26	50.69	100.00
1998: EEA	7.69	2.55	89.76	-	100.00
1999: All	3.68	1.26	44.58	50.48	100.00
1999: EEA	7.43	2.55	90.02	-	100.00
2000: All	3.73	1.19	46.13	48.95	100.00
2000: EEA	7.31	2.33	90.36	-	100.00
2001: All	4.2	1.14	46.94	47.72	100.00
2001: EEA	5.09	0.72	94.19	-	100.00
2002: All	4.47	1.12	47.3	47.11	100.00
2002: EEA	5.16	0.71	94.14	-	100.01
2003: All	4.5	1.08	48.17	46.25	100.00
2003: EEA	4.69	0.66	94.65	-	100.00
2004: All	4.36	1.05	49.54	45.05	100.00
2004: EEA	4.43	0.63	94.94	-	100.00
2005: All	4.14	1.03	50.58	44.25	100.00
2005: EEA	4.36	0.64	95	-	100.00
2006: All	4.03	1.02	51.49	43.46	100.00
2006: EEA	4.52	0.64	94.84	-	100.00
2007: All	4.24	1.01	52.31	42.44	100.00
2007: EEA	4.84	1.01	94.15	-	100.00
2008: All	4.59	0.97	53.00	41.44	100.00
2008: EEA	4.84	0.97	94.19	-	100.00
2009: All	**4.71**	**0.92**	**54.18**	**40.19**	100.00
2009: EEA	**4.84**	**1.02**	**94.14**	**-**	100.00

Based on these keys, the status on the balance sheet of the accounts of Member States within the Association is as follows:

Source	Iceland	Liechtenstein	Norway	Switzerland	TOTAL
Surplus Part I 2004	0	0	0	0	0

Surplus Part II 2004	14,424	3,474	163,889	149,035	330,822
Returned to Member States 2004	0	0	-81,945	0	-81,945
Transfer to Part II fund 2004	-7,212	-1,737	-81,945	-74,518	-165,411
Surplus Part I 2005	0	0	0	0	0
Surplus Part II 2005	22,008	5,475	268,882	235,232	531,598
Returned to MS, rent comp FMO	1,592	225	33,406	0	35,224
Transfer to Part II fund 2005	-4,140	-1,030	-50,580	-44,250	-100,000
Surplus Part I 2006	0	0	0	0	0
Surplus Part II 2006	11,824	2,993	151,073	127,512	293,402
Returned to Member States 2007	-7,212	0	0	0	-7,212
Surplus Part I 2007	8,325	1,983	102,708	83,328	196,344
Surplus Part II 2007	0	0	0	0	0
Returned to Member States 2008	0	0	-251708	0	-251,708
FIPOI 2007 Invoice	-871	-208	-10,747	-8,720	-20,546
Surplus Part I 2008	0	0	0	0	0
Surplus Part II 2008	16,101	3,403	185,921	145,369	350,795
Surplus Part I 2009	1,567	306	18,025	13,371	33,269
Surplus Part II 2009	32,637	6,375	375,429	278,488	692,930
Total	**89,043**	**21,259**	**822,409**	**904,848**	**1,837,562**

The status of the Building Fund, is as follows:

Source	ICE (€)	LIE (€)	NOR (€)	SWI (€)	TOTAL (€)	Balance (€)	Balance (CHF)
Transferred from Surplus Fund	6,393	1,576	67,946	153,235	229,150		
Paid by Member States in 2004	40,600	9,741	0	332,323	382,664	611,814	
Paid by Member States in 2005	0	0	466,007	0	466,007	1,077,821	
Out of the fund 2005	-5,221	-1,257	-59,328	-53,951	-119,758	958,063	
Out of the fund 2006	-5,221	-1,257	-59,328	-53,951	-119,758	838,305	
Out of the fund 2007	-5,221	-1,257	-59,328	-53,951	-119,758	718,547	
Out of the fund 2008	-5,218	-1,257	-59,290	-53,916	-119,681	598,867	
Out of the fund 2009	-5,222	-1,258	-53,958	-59,336	-119,773	479,093	711,645
Total	20,888	5,030	242,721	210,453	479,093		

12. Reserve Funds Part I and Part II[1]

Based on the split of the result of 2009, the balances of the Reserve Fund Part I and the Reserve Fund Part II are as follows:

Source	Reserve Fund Part I	Reserve Fund Part II	Total
Surplus 2004	710,331	137,681	848,012
Out of fund 2005	(129,137)	-	(129,137)
Surplus 2005	184,270	22,467	206,737
Out of fund 2006	(19,712)	-	(19,712)
Surplus 2006	166	4,166	4,332
Out of fund 2007	(459,000)	(70,000)	(529,000)
Surplus 2007	742,412	4,193	746,605
Surplus 2008	-	75,493	75,493
Out of fund 2008	(339,299)	-	(339,299)
Surplus 2009	365,669	(7,850)	357,819
Total	**1,055,700**	**166,150**	**1,221,850**
Max balance	1,055,700	166,150	1,221,850

The Reserve Fund for Part II has been decreased in line with the lowering of the annual budget figure for Part II due to the strengthening of the Swiss franc.

13. Commitments

In Chapter 5, various commitments have been made in respect of cooperation programmes, see notes 7.2 and 10.

14. Evaluation of claims or possible claims

No claims or possible claims exist apart from the following: A staff member, dismissed in 2009, has brought a claim for financial compensation before an internal Advisory Board. The majority opinion of the Advisory Board supports the action of the Association. It is therefore not expected that the Association will be held liable for any compensation in relation to this case.

In last year’s Statement of Account, a case of a former employee of FMO before the ILO Tribunal, was mentioned. The judgement (no. 2899) was published in February 2010 and thereupon FMO and the Association agreed upon the sharing of the compensation involved. No agreement was reached on the legal costs since the FMO refused to cover any of these costs. Consequently, they had to be booked on the Association’s account.

15. Savings Fund

The Staff Savings Fund is not included in the Secretariat financial statements. The Savings Fund is open to all employees. During 2009 EFTA contributed CHF 2,017,350 to the Savings Fund.

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[1] The reserve funds were introduced in 2004.

Savings fund contributions can be made in three currencies (CHF, EUR, and NOK). Contributions are placed with the Swiss National Bank, Nordea S.A. Luxembourg (Zurich branch), or Banca Monte Paschi Belgio.

At 31 December 2009 the balance of the Staff Savings Fund (including FMO) was as follows:

Balance	EUR	CHF or CHF equivalent
BMP (deposits)	1,480,088	2,198,523
SNB (deposits)		2,875,170
Nordea, deposits (CHF, EUR, NOK)		2,892,152
Nordea, securities (bonds & shares)		2,561,473
Total		**10,527,318**
Total deposits		7,965,845

The credit ratings for long-term bank deposits, as per Moody's bank ratings,[2] for the parent companies (the local entities are not rated) of the private institutions are: A1 for Banca Monte dei Paschi di Siena[3] and Aa2 for Nordea Bank AB.[4] The Association does not consider itself liable for the assets of the Savings fund, whether deposits or securities.

16. Exchange rates

For reporting reasons all transactions in euros are converted to CHF using the exchange rate used when establishing the budget, 1 EUR = CHF 1.4854 (1.6733 in 2008). This is in line with the practice approved by the external auditors and was established in 2003. All balance sheet overviews in this report show both the euro and the CHF value for balances in Brussels. The exchange rate difference from converting the euro balances into CHF with the rate of 1.4854 (budget and reporting rate 2009) instead of 1.6733 (rate used for the year-end balance 2008) has been identified in the Balance sheet overview for 2008 and the Cash Flow Statement for 2009. This exchange rate difference of CHF 272,475 is the difference between the exchange rate differences of the conversion of the deficit in Brussels in 2008 (CHF 5,242) and the opening balance of the "mirror accounts" (CHF 277,717) which both have been recorded in the Profit and Loss in Geneva.

17. Cash flow statement

A cash flow statement is included with a comparison to the previous year.

[2] Moody's Investor Service, Bank Credit Research, March 8, 2010.

[3] Banca Monte dei Paschi di Siena holds of 77.5% of the shares of Banca Monte Paschi Belgio.

[4] Nordea S.A. Luxembourg is a majority owned subsidiary of Nordea Bank AB.

18. Events subsequent to the balance sheet date

No significant events took place after 31 December 2009.

19. Financial instruments

The financial assets of the Association include cash and trade receivables. The financial liabilities of the Association are trade payables. The accounting policies for financial assets and liabilities are set out in note 1. The Association has not entered into any foreign exchange contracts.

a) Interest rate risk

No loans were outstanding at 31 December 2009.

b) Credit risk

Cash is placed with international banks with high credit ratings. To further limit potential risks relating to banks, the FMO call for funds is as of 2009 made quarterly instead of twice a year. Credit risk on receivables is limited, as clients are usually national or international organisations with high credit ratings. Trade receivables are not shown net of provision for bad and doubtful receivables. Such receivables are, however, identified in separate lists of receivables.

c) Fair value

The fair values of cash, trade receivable, trade payables, loans and borrowing are the same as their carrying amounts.

d) Hedges of anticipated future transactions

In 2009, the Association did not enter into any forward exchange contracts in order to hedge foreign currency assets or liabilities.

20. Interest income

Interest income is based on the contributions from the Member States. Since June 2008 contributions for FMO are placed in bank accounts separate from those of the Association. Regular transfers are made from the FMO bank accounts to meet the payments made in relation to FMO. Interest on said FMO bank accounts is credited as income for FMO.

EUROPEAN FREE TRADE ASSOCIATION

The Chairman of the Council

Ref. 26053

29 September 2010

Dear Mr. Engeseth,

I refer to your letter dated 18 June 2010 on the audit of the 2009 accounts of the EFTA Secretariat.

The Council has the following reply to the four points raised in your letter.

1. Savings Fund

The Council is still considering the question raised.

2. Compliance with IFRS

The roughly 3,000 possible disclosure requirements according to the International Financial Reporting Standards (IFRS) cater for the needs e.g. of multinational corporations listed on one or more stock exchanges. For practical reasons the Secretariat has limited its disclosures to the most important subjects. The Council would welcome suggestions from the EBOA on which additional disclosures should be given priority.

The Secretariat will include a statement of changes in equity in the Statement of Account in the future.

3. Harmonisation of the EFTA Institutions' Financial Statements

The Council was informed that due to the exigencies of administrative matters in the EFTA institutions, the envisaged harmonisation of the format of their financial statements could not be achieved yet. Further cooperation between the three institutions will be encouraged by the Council.

4. Daily Subsistence Allowance

The different Daily Subsistence Allowance (DSA) rates applied for the Secretary-General and his Deputies on one hand and other staff members on the other hand, originate in the UN subsistence cost tables which, until recently, served as a basis for the EFTA DSAs. The Council will ask the Secretary-General for a recommendation in this matter.

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Concerning EBOA's request to receive copies of the Council Summary Record, the Council will revert to the matter when discussions on the Board's proposals for a revised mandate have been completed.

Yours sincerely,

Chairman of the Council

Luzius Wasescha

Mr Per A. Engeseth
EFTA Board of Auditors
Pilestredet 42
P. O. Box 8130 Dep.
N-0032 OSLO

cc: Mr. Kåre Bryn, Secretary-General of EFTA

EUROPEAN FREE TRADE ASSOCIATION

BOARD OF AUDITORS

The Chairman

EFTA ref. 1102513
28/2010

04 November 2010

Financial Statements and Financial Rules and Regulations

Your Excellency,

Reference is made to your letter dated 29 September 2010, where you provided your comments to the audit of the Financial Statements of 2009. The EFTA Board of Auditors would like to comment on the following matters.

1. Harmonisation of the Financial Statements

EBOA is of the opinion that the financial statements of the EFTA institutions would benefit from an increased level of harmonisation. It is the Board's view that the institutions, the ESA/Court Committee (ECC) and the EFTA Council should collaborate in order to determine a common standard for the EFTA Surveillance Authority, the EFTA Court and the EFTA Secretariat. This would provide improved clarity and transparency for all stakeholders.

2. Compliance with IFRS

EBOA's primary concern is that the EFTA institutions submit financial statements that present, in a fair and true manner, their financial position and their financial performance during the period in question. The IFRS is an international standard that provides a benchmark against which to measure the veracity of the financial statements. It has the added benefit of being the standard to which our external auditor makes reference. At present, the Board is of the opinion that the audit report provides guidance in terms of the necessary disclosure requirements. The Board would recommend that the Council, ECC

To: H. E. Mr Luzius Wasescha, Ambassador
Permanent Mission of Switzerland to EFTA
Case postale 107
1211 Geneva 20
Switzerland

CC: Kare Bryn, Secretary General, EFTA Secretariat

and institutions collaborate on determining the necessary disclosure requirements if they decide to work towards a harmonisation of the financial statements.

3. Daily Subsistence Allowance

In your letter it is stated that "*the Council will ask the Secretary General for a recommendation in this matter*." EBOA welcomes this initiative and would appreciate to receive information about the Secretary-General's recommendation to the Council, concerning his daily subsistence allowance.

4. Reports of the Council meetings

EBOA is mandated to perform an audit and report its findings to the Council. It is a common practice for the auditor to receive minutes and opinions issued by the governing body, because the auditor uses these, for example, to determine what issues the Council views as material in the administration of the Secretariat. As auditor, the Board is of the opinion that such communication is necessary in order for it to plan an audit that determines whether or not the institutions are in compliance with the decisions and intentions of their governing body. The Board is also of the opinion that such a routine is an example of good governance and transparency for a publicly funded organisation.

For the Council's information, EBOA has, as a matter of routine, received the minutes of the ESA/Court Committee meetings, once these have been approved. EBOA would like to reiterate its request to receive the Council reports, from January 2010 and onwards.

EBOA would be grateful to receive a response to the above mentioned issues by 15 December 2010.

Yours sincerely,

Per A. Engeseth

Per A. Engeseth
Chairman of the EFTA Board of Auditors

EUROPEAN FREE TRADE ASSOCIATION

The Chairman of the Council

Ref. 26966

19 January 2011

Dear Mr. Engeseth,

I refer to your letter dated 4 November 2010 (ref. 1102513) regarding the Council's comments of 29 September (ref. 26053) to the audit of the Financial statements of 2009.

The Council has the following reply to the four points raised in your letter.

1. Harmonisation of Financial Statements

The Council agrees with EBOA that the financial statements of the EFTA institutions would benefit from an increased level of harmonisation. There has already been contact between the three institutions and they plan to set up a working group to discuss a common template for the 2010 financial statements.

2. Compliance with IFRS

The Council notes the recommendation from EBOA with regard to collaboration between the EFTA institutions on determining the necessary disclosure requirements to the financial statements. The Council recalls that the Secretariat has already committed to include a statement of changes in equity in the Statement of Accounts for the future (letter of 29 September). The Secretariat will further look into the matter while working on a harmonised set of financial statements.

3. Daily Subsistence Allowance

Regarding the different Daily Subsistence Allowance (DSA) rates applied for the Secretary-General and his Deputies on one hand and other staff members on the other hand, the Council has decided to keep the current system.

4. Reports of the Council meetings

As stated in its letter of 29 September, the Council will revert to EBOA's request to receive copies of the Council Summary Record in light of the outcome of discussions on the Board's proposals for a revised mandate.

Yours sincerely,

Chairman of the Council
Norbert Frick

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cc: Mr. Kåre Bryn, Secretary-General of EFTA