Ref. 24459

3 December 2009

EFTA Secretariat – Financial reports 2008

This document includes the following:

1. Excerpt from the Council Summary Record of 19 November 2009
2. Letter from EFTA Board of Auditors (EBOA) on the Audit of the 2008 Accounts
3. Audit Report –EFTA Secretariat
4. Statement of Account 2008
5. Letter by EFTA's Secretary-General to EBOA on the Audit of the Accounts

Ref. 24307

8 December 2009

TENTH MEETING OF THE COUNCIL

Geneva, 19 November 2009

SUMMARY RECORD

EXCERPT

Statement of account for 2008

33. The Council approved the Accounts for 2008 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. 1092807
14/2009
26 June 2009

Audit of the 2008 Accounts

At their last meeting in Brussels on 18 and 19 June 2009, the Members of the EFTA Board of Auditors (EBOA) reviewed the accounts of the **EFTA Secretariat** covering the period 1 January to 31 December 2008.

On the basis of the audit report of the mandated external auditor (BDO) and complementary information given by the Head of Administration, EBOA decided to issue a certificate for the 2008 accounts.

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

1. **Savings Fund**

The Savings Fund contributions are neither mentioned in the Secretariat's Financial Statement note or in the Financial Statement itself. This is however only justified to the extent that there is no legal obligation to compensate the employees for any possible losses. Such losses might result from either insolvency of the financial institutions that are holding and managing the Savings Fund assets or changes in the fair value of these assets. EBOA therefore suggests that the Secretariat clarifies the question of liability linked to the Savings Fund. Furthermore, should the Institution not be liable, EBOA suggests that the total amount of the Savings Fund contributions is mentioned in the note accompanying the Financial Statement.

2. **Purchase order**

EBOA noticed that purchase orders were missing for several transactions. The missing purchase orders concerned IT consultancy, external support and newspapers. EBOA

Kåre Bryn, Secretary General, EFTA Secretariat
CC: Members of the EFTA Council

would very much appreciate if the Secretariat could clarify the reason for the missing purchase orders.

3. Harmonisation of the EFTA Institution's financial Statements

EBOA noted that the Financial Statements of each EFTA Institution are presented in a different format. EBOA recommends that for the sake of clarity and transparency, all three Institutions should harmonise the format in the future.

EBOA would like to receive a reply to this letter by 1 September 2009 as a meeting to plan the audit of the accounts for 2009 will take place in early autumn. As a response to its recommendations in this letter, the Board kindly requests that a list of all actions foreseen be included in the reply.

Yours respectfully,

Per A. Engeseth

Per A. Engeseth
Chairman of the EFTA Board of Auditors

EUROPEAN FREE TRADE ASSOCIATION

19 June 2009

EFTA ref. 1092552
11/2009

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 2008

1. The Board of Auditors has examined the accounts of the EFTA Secretariat for the period 1 January to 31 December 2008 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

EUROPEAN FREE TRADE ASSOCIATION

Distribution: EFTA

Ref. 1090686, rev.1
14 May 2009

Statement of Account (Revised)

Financial Year 2008

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 2008 between 24 November 2008 and 28 November 2008 (interim audit) and between 16 and 20 March 2009.

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 2008, reference is made to the Performance and Budget report 2008, Ref. 1089586.

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, as well as of the Joint Committees relating to the Free Trade Agreements and Declarations on cooperation with third countries, is carried out with the support of the Secretariat in Geneva.

7. The EFTA Council met twelve times at official level (Heads of Permanent Delegations to EFTA in Geneva) in 2008 including two Ministerial Council meetings. Switzerland held the EFTA Chair during the first six months, and Iceland for the second six months of the year.

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 and the Joint Committee of the EFTA States.

9. In the area of free trade relations, comprehensive support is provided from the EFTA Secretariat's Geneva headquarters to Member States in regard of the preparation and conduct of negotiations on Free Trade Agreements as well as of the implementation of such agreements.

10. 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

11. The budget for the period 1 January to 31 December 2008 was adopted by the EFTA Council on 13 December 2007 in Decision No. 7 of 2007 (Doc. No 19576 of 14 December 2007). The approved net budget for the financial year 2008 totalled EUR 10,383,000 and CHF 7,954,000 on the basis of which amounts the contributions of Member States were assessed and set out in Decision No. 8 of 13 December 2007 (Doc. No. 19577 of 14 December 2007).

12. The financial year 2008 was the fifth 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 2008 (Doc. No. 1077768).

13. The total expenditure (Part I and Part II) for the financial year ended 31 December 2008 totalled CHF 26,271,770 (CHF 24,413,773 in 2007) against a total income of CHF 26,190,681 (CHF 25,151,473 in 2007), leading to a budget deficit of CHF 81,089 before financial items (surplus of CHF 737,000 in 2007). Adding other items, i.e. write-offs, interest income, realised and unrealised exchange rate differences and bank charges, amounting to CHF 168,077 (CHF 205,248 in 2007), the end-surplus amounts to CHF 86,988 (CHF 942,949 (CHF 413,949 excluding Reserve Fund income) in 2007).

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

a) The net expenditure in Part I was CHF 22,204,662, or 101.6% of the budget. The total spending resulted in a deficit of CHF 339,300.

b) The net expenditure in Part II was CHF 3,053,712, or 87.8% of the budget resulting in a surplus of CHF 426,288.

15. The deficit is due to unforeseen salary increase of 5.2% for the Brussels duty station as of June 2008 amounting to CHF 251,000 and impacting the operational costs in Part I. Additionally, FMO interest of CHF 82,500 for the year 2007 added to the deficit. A transfer of CHF 339,300 was made from Reserve Fund Part I to cover the overspending in Part I. 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 2008	Actual 2008	Actual in %	Remainder	In %
Part I	21,848,000	22,393,286	102.5%	(545,286)	-2.5%
Part II	3,480,000	3,053,712	87.8%	426,288	12.2%
Total Expenses as Budgeted:	**25,328,000**	**25,446,998**	**100.5%**	**(118,998)**	**-0.5%**
Add Reimbursed Expenses	631,925	824,772	130.5%	(192,847)	
Total Expenses	**25,959,925**	**26,271,770**	**101.2%**	**(311,845)**	**-1.2%**
Part I					
Contributions	21,848,000	21,865,363	100.1%	(17,363)	-0.1%
From Surplus Account		20,546		(20,546)	
Part II				-	
Contributions	3,480,000	3,480,000	100.0%	-	0.0%
From Reserve Fund Part II				-	
Total Income as Budgeted:	**25,328,000**	**25,365,909**	**100.1%**	**(37,909)**	**-0.1%**
Add Reimbursements	631,925	824,772	130.5%	824,772	
Total Income	**25,959,925**	**26,190,681**	**100.9%**	**786,863**	**3.0%**
Net Result Before Financial Items	-	(81,089)		(81,089)	
Financial Items, Net		168,077		168,077	
TOTAL 2008		**86,988**		**86,988**	
Transferred from Reserve Funds		**263,807**			
Net Surplus to Member States		**350,795**			

BREAKDOWN PART I/II				
Total Part I	21,848,000	22,204,662	101.6%	(356,662)
Contributions	21,848,000	21,865,363	100.1%	(17,363)
Net Part I	0	(339,300)		339,300
Total Part II	3,480,000	3,053,712	87.8%	426,288
Contributions	3,480,000	3,480,000	100.0%	0
Net Part II	0	426,288		(426,288)
TOTAL 2008	**0**	**86,988**		**(86,988)**

PERFORMANCE & BUDGET REPORT	
Total Expenses	26,271,770
Deduct Reimbursed Expenses	(824,772)
Financial Items, Net	(168,077)
TOTAL AS PER PERF. & BUD. REPORT	25,278,921

Special Funds

16. 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 31/12/2008:	CHF -85,132 / EUR -50,877 (CHF -157,719 in 2007)
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 negative balance is covered by positive balances in the other special funds. The FMO is informed and will adjust this balance.

2. Special Fund 4: Statistical Cooperation

Net assets on 31/12/2008:	CHF 21,720 / EUR 12,980 (CHF 12,590 in 2007)
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 31/12/2008:	CHF 223,220 / EUR 133,401 (CHF 362,579 in 2007)
Legal basis:	Decision of the Standing Committee of the EFTA States No. 1/2004/SC of 5 February 2004.

Operational procedures:	The Financial Mechanism Office is administratively part of the EFTA Secretariat. The Administrative budget is made by the Secretariat and 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.

4. Special Fund 7: Norwegian Financial Mechanism

Net assets on 31/12/2008:	CHF 344,093/ EUR 205,637 (CHF 291,348 in 2007)
Legal basis:	Decision of the Standing Committee of the EFTA States No. 1/2004/SC of 5 February 2004.
Operational procedures:	The Financial Mechanism Office is administratively part of the EFTA Secretariat. The Administrative budget is made by the Secretariat and 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.

Special Cooperation Programmes

17. 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.

18. 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 even more 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 2008

19. The financial year 2008 resulted in a deficit of CHF 339,300 in Part I and a surplus of CHF 426,288 in Part II, giving a total surplus of CHF 86,988. In accordance with the introduction of the new budgeting method and the following revision of 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 result for 2008 has been distributed as follows:

	Reserve Fund Part I	Reserve Fund Part II	Member States	Total
Part I	(339,300)		-	(339,300)
Part II		75,493	350,795	426,288
Total	(339,300)	75,493	350,795	86,988

Member States: the Status

20. 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
Deficit Part I 2008	0	0	0	0	0
Surplus Part II 2008	16,101	3,403	185,921	145,369	350,795
Total	**54,839**	**14,578**	**428,954**	**612,988**	**1,111,363**

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

Balance Sheet 31 December		2008			2007			
	Note	Consolidated	Geneva	Brussels	Consolidated	Geneva	Brussels	Consolidated
Current Assets		CHF	CHF	euro	CHF-2008 exch rate	CHF	euro	CHF-2007 exch rate
Cash		4,670,098	907,705	2,248,486	3,319,680	3,148,311	102,414	3,311,128
Receivables	4	1,201,181	94,786	661,206	1,832,018	896,422	559,133	1,785,331
		5,871,279	1,002,491	2,909,692	5,151,698	4,044,733	661,546	5,096,459
Long-Term Assets								
Fixed Assets	6	554,476	206,395	208,021	768,752	322,080	266,940	746,462
Fixed Assets FMO	6	533,817	0	319,021	1,022,467	0	611,048	971,444
Building Brussels	6	1,002,083	0	598,867	1,202,500	0	718,640	1,142,494
Receivables	4	43,356	30,320	7,791	34,114	30,148	2,370	33,916
		2,133,732	236,714	1,133,699	3,027,832	352,228	1,598,998	2,894,316
Total Assets		8,005,011	1,239,205	4,043,391	8,179,530	4,396,961	2,260,545	7,990,775
Current Liabilities								
Payables	9	2,168,323	243,186	1,150,503	2,189,081	427,666	1,052,659	2,101,184
Special Funds	9	503,901	0	301,142	535,522	0	320,039	508,799
Building Funds	11	1,002,083	0	598,867	1,202,345	0	718,547	1,142,347
Reserve Funds	12	864,031	864,031	0	1,127,838	1,127,838	0	1,127,838
		4,538,338	1,107,217	2,050,512	5,054,786	1,555,504	2,091,246	4,880,167
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	928,398	237,991	412,602	900,611	260,931	382,286	868,690
Provision for Repatriation FMO	7	174,644	0	104,371	0			
Other Long-Term Liabilities	7	43,171	0	25,800				
		2,355,310	1,447,088	542,773	2,109,708	1,470,028	382,286	2,077,787
Total Liabilities		6,893,649	2,554,305	2,593,285	7,164,494	3,025,533	2,473,532	6,957,954
Exchange rate differences	16				17,784			
NET ASSETS		1,111,363			1,032,821			1,032,821
Surplus Account	11	1,111,363			1,032,821			1,032,821

Statement of Operation and Surplus for the financial year ended 31 December	Note	2008	2007
		CHF	CHF
Member States Contribution		25,365,909	24,027,853
Other income:			
Part I		824,772	1,053,620
Part II		0	70,000
Total Income		26,190,681	25,151,473
Expenditure			
Part I		23,218,057	20,906,738
Part II		3,053,712	3,507,035
Total Expenditure		26,271,770	24,413,773
Net Result Before Interest, etc		(81,089)	737,700
Interest Income	20	255,861	239,241
Exchange Gains / (Losses)		28,131	(7,001)
Interest Expense	20	(82,511)	0
Bank Charges		(23,686)	(26,071)
Write-off		(9,718)	(920)
Amounts Transferred to Surplus Account		0	0
Net Surplus / (Deficit)		86,988	942,949
Opening Surplus Account	11	1,032,822	843,690
Amount transferred to/from Surplus Fund	11	(272,254)	(7,212)
Amount transferred to/from Reserve Funds	12	263,807	(746,605)
Closing Surplus Account		1,111,363	1,032,822

Cash Flow Statement	Year:	2008	Year:	2007
Excess of income over expenditure for the year	86,988		196,344	
Adjustments for:				
Depreciation	1,064,084		907,137	
Interest income	(255,861)		(239,241)	
Surplus before working capital changes	895,211		864,241	
Decrease (increase) in current receivables	630,837		(1,089,552)	
Decrease (increase) in long term receivables	(9,242)		25,709	
Increase (decrease) in payables	(20,758)		584,950	
Increase (decrease) in long term payables	43,171		0	
Increase (decrease) in Special Funds	(31,621)		(1,325,919)	
Increase (decrease) in Building Funds	(200,262)		(190,391)	
Increase (decrease) in Reserve Funds	0		217,605	
Increase (decrease) in provision for programmes	0		0	
Increase (decrease) in provision for repatriation	27,787		(98,394)	
Increase (decrease) in provision for repatriation FMO	174,644		0	
Net cash used in operation activities		**1,509,768**		**(1,011,751)**
Investing activities				
Purchase of property, plant and equipment	(152,173)		(376,383)	
Purchase of property, plant and equipment FMO	(8,568)		(444,035)	
Investments new Office building Brussels	0		0	
Interest income	255,861		239,241	
Net cash provided from (used in) investing activities		**95,120**		**(581,177)**
Financing activities				
Member States contribution transfer to fund	0		0	
Member States contribution transfer from fund	(272,254)		(7,212)	
Net cash provided in (used from) financing activities		**(272,254)**		**(7,212)**
Net increase in cash and cash equivalents		**1,332,633**		**(1,600,141)**
Cash and cash equivalents at the beginning of the period		**3,319,680**		**4,906,148**
Foreign exchange difference on balance sheet Brussels		17,784		5,121
Cash and cash equivalents at the end of the period		**4,670,097**		**3,311,128**

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 two amendments, the first in 2002, in 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. 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 as well as one staff member in Paris). All balances and transactions between the duty stations have been eliminated.

(c) Fixed Assets

Until 31 December 1997, in accordance with the previous Financial Regulations and Rules, investment goods were expensed immediately upon delivery. Investment properties were non-existent and no depreciation had been recognised. As of 1 January 1998 this has been changed: 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 2008 are the three EFTA cars in Geneva and Brussels, various IT equipment 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 1.6733. For the balance sheet, the rate of exchange used for the budget has been used both for the opening balance (1 January 2008) as well as for closing balance (31 December 2008). 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, 1.6733. Both the opening balance (1 January 2008) 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 consists of computers, photocopy machines and fax machines. 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 2008 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 date delivery 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 2008 were EUR 55,225 (CHF 94,087 [55,225/87,797 in 2007]) for real estate tax and EUR 16,997 (CHF 28,441 [16,698 /26,546 in 2007]) 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

The opening surplus brought forward from 31 December 2007 was reduced by CHF 20,546 due to an invoice from FIPOI, received late in 2008 but relating to 2007, see the Budget Committee report to the Council 3 December 2008, Ref. 21838.

4. Receivables

Receivables 31 December	2008			2007		
Current	Consolidated CHF	*Geneva CHF*	*Brussels euros*	Consolidated CHF	*Geneva CHF*	*Brussels euros*
Accounts Receivable – Normal Operations	112,022	*19,800*	*55,114*	1,485,184	*837,028*	*407,696*
Advances and Loans to Staff Members	79,265	*33,203*	*27,528*	13,493	*230*	*8,343*
Receivables from Member States	102,601	*0*	*61,316*	30,289	*0*	*19,052*
Prepaid Expenses	907,293	*41,783*	*517,247*	256,364	*59,163*	*124,041*
	1,201,181	*94,786*	*661,206*	1,785,331	*896,422*	*559,133*
Long-Term						
Guarantee deposits	43,356	*30,320*	*7,791*	33,916	*30,148*	*2,370*

5. Inventories

Inventory lists of equipment and furniture are maintained, but the aggregate balance at 31 December 2007 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:

2008	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	512,027	855,959	473,613	255,387	2,992,825
Additions	0	0	7,611	73,795	4,710	9,784	152,173
Disposals	0	0	0	0	0	0	0
Cost at 31/12	77,787	41,704	519,638	929,753	478,323	265,171	3,144,998
Accumulated depr.							
At 1/1	13,861	22,512	383,134	705,185	344,352	158,412	2,224,073
Depr for year	15,557	4,900	58,428	102,500	54,020	35,099	366,450
Disposals	0	0	0	0	0	0	0
Exch. Diff.							
Acc. Depr. 31/12	29,418	27,412	441,562	807,684	398,372	193,512	2,590,523
NBV at year end	**48,369**	**14,292**	**78,076**	**122,069**	**79,951**	**71,659**	**554,475**

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

2008	FMO BRU (CHF)	FMO BRU (€)
Opening carrying value	1,022,467	611,048
Additions	8,568	5,120
Disposals	0	0
Depreciation	497,217	297,148
Closing carrying value	**533,817**	**319,021**

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

2008	Building BRU (CHF)	Building BRU (€)
Opening carrying value	-	718,640
Additions	-	-
Disposals	-	-
Depreciation	-	119,773
Closing carrying value	-	**598,867**

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. The provisions are now in two parts: one for the Geneva-based staff and another for the Brussels/Luxemburg-based staff. These are both calculated in Swiss francs. Repatriation provisions for the FMO staff has been calculated for the first time 2008, see separate line in the balance sheet.

2008	Consolidated CHF	Repatriation in Geneva CHF	Repatriation in Brussels CHF	Repatriation in Brussels Euro	Consolidated 2007
Opening carrying value	900,611	260,931	639,680	382,286	967,084
Into the Fund	332,762	105,074	227,688	136,071	286,937
Out of the Fund	-304,975	-128,014	-176,961	-105,755	-385,331
Closing carrying value	**928,398**	**237,991**	**690,407**	**412,602**	**868,690**

The provision calculated for FMO staff in 2008 amounts to CHF 174,644 (EUR 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 2,514,667 (EUR 1,502.819) as per 31 December 2008 (2,734,879/1,720,266 in 2007).
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 2008, no funds have been transferred to or from the fund. See also Note 10.

Part II Funds	2008	2007
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 2008.

9. Payables

Payables 31 December	2008			2007		
	Consolidated CHF	*Geneva CHF*	*Brussels euros*	Consolidated CHF	*Geneva CHF*	*Brussels euros*
Accounts payable - Normal Operations	2,168,323	*243,186*	*1,150,503*	2,101,184	*427,666*	*1,052,659*
Due to Member States	0	*0*	*0*	0	*0*	*0*
Special Fund 1:	-85,132	*0*	*(50,877)*	-157,719	*0*	*(99,207)*
Special Fund 4:	21,720	*0*	*12,980*	12,590	*0*	*7,919*
Special Fund 6:	223,220	*0*	*133,401*	362,579	*0*	*228,066*
Special Fund 7:	344,093	*0*	*205,637*	291,348	*0*	*183,261*
Total	2,672,224	*243,186*	*1,451,645*	2,609,982	*427,666*	*1,372,699*

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 2008, authorised standardisation commitments - not yet expensed - amounted to CHF 2,514,667 (CHF 2,734,879 on 31 December 2007). See also note 7.2.

11. Member States

The EFTA Council determines the distribution keys. For the period 1 July 1995 to 31 December 2008, the keys are as follows (EEA activities are calculated by setting Switzerland at 0).

Distribution keys of EFTA Member States

	Iceland	Liechtenstein	Norway	Switzerland
	%	%	%	%
1995: All	4.37	1.27	43.37	50.99
1995: EEA	8.92	2.59	88.49	-
1996: All	4.28	1.23	44.10	50.39
1996: EEA	8.63	2.48	88.89	-
1997: All	4.08	1.25	43.92	50.75
1997: EEA	8.28	2.54	89.18	-
1998: All	3.79	1.26	44.26	50.69
1998: EEA	7.69	2.55	89.76	-
1999: All	3.68	1.26	44.58	50.48
1999: EEA	7.43	2.55	90.02	-
2000: All	3.73	1.19	46.13	48.95
2000: EEA	7.31	2.33	90.36	-
2001: All	4.20	1.14	46.94	47.72
2001: EEA	5.09	0.72	94.19	-
2002: All	4.47	1.12	47.30	47.11
2002: EEA	5.16	0.71	94.14	-
2003: All	4.50	1.08	48.17	46.25
2003: EEA	4.69	0.66	94.65	-
2004: All	4.36	1.05	49.54	45.05

	Iceland	Liechtenstein	Norway	Switzerland
2004: EEA	4.43	0.63	94.94	-
2005: All	4.14	1.03	50.58	44.25
2005: EEA	4.36	0.64	95.00	-
2006: All	4.03	1.02	51.49	43.46
2006: EEA	4.52	0.64	94.84	-
2007: All	4.24	1.01	52.31	42.44
2007: EEA	4.84	1.01	94.15	-
2008: All	**4.59**	**0.97**	**53.00**	**41.44**
2008: EEA	**4.84**	**0.97**	**94.19**	-

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**	**TOTA**
Surplus Part I 2004	0	0	0	0	
Surplus Part II 2004	14,424	3,474	163,889	149,035	330.
Returned to Member States 2004	0	0	-81,945	0	-81.
Transfer to Part II fund 2004	-7,212	-1,737	-81,945	-74,518	-165.
Surplus Part I 2005	0	0	0	0	
Surplus Part II 2005	22,008	5,475	268,882	235,232	531.
Returned to MS, rent comp FMO	1,592	225	33,406	0	35.
Transfer to Part II fund 2005	-4,140	-1,030	-50,580	-44,250	-100.
Surplus Part I 2006	0	0	0	0	
Surplus Part II 2006	11,824	2,993	151,073	127,512	293.
Returned to Member States 2007	-7,212	0	0	0	-7.
Surplus Part I 2007	8,325	1,983	102,708	83,328	196.
Surplus Part II 2007	0	0	0	0	
Returned to Member States 2008	0	0	-251708	0	-251.
FIPOI 2007 Invoice	-871	-208	-10,747	-8,720	-20.
Deficit Part I 2008	0	0	0	0	
Surplus Part II 2008	16,101	3,403	185,921	145,369	350.
Total	**54,839**	**14,578**	**428,954**	**612,988**	**1,111,**

The status of the Building Fund, in euro, is as follows:

Source	**Iceland (€)**	**Liechtenstein (€)**	**Norway (€)**	**Switzerland (€)**	**TOTAL in €**
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
Paid by Member States in 2005	0	0	466,007	0	466,007
Out of the fund 2005	-5,221	-1,257	-59,328	-53,951	-119,758
Out of the fund 2006	-5,221	-1,257	-59,328	-53,951	-119,758
Out of the fund 2007	-5,221	-1,257	-59,328	-53,951	-119,758
Out of the fund 2008	-5,218	-1,257	-59,290	-53,916	-119,681
Total	26,111	6,287	296,679	269,789	598,866

12. Reserve Funds Part I and Part II

Based on the split of the result of 2008, 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	206,738
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
Result 2008	(339,300)	75,493	(263,807)
Total	**690,030**	**174,000**	**864,031**
Max balance	1,092,400	174,000	1,201,392

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: 1) A former employee of the Association made in 2007 claims reparation relating to employment and non-renewal of contract. The claims were rejected by the Association's lawyers and the claimant has not proceeded with the matter for considerable time. The Association is of the opinion that the claim is unfounded and the lack of progress on behalf of the claimant might indicate that the matter will not be pursued further. The amount in question would in any case have negligible impact on the Association's finances; 2) A case of a former employee of FMO is still pending before the ILO Tribunal. FMO and the Association have not agreed upon the cost sharing of the legal costs involved.

The Service Sharing Arrangement with the FMO was amended in 2008. A booking of an agreed amount of CHF 629,000 was made and a provision of CHF 40,000 was made to cover an unsettled amount.

15. Savings Fund

The Staff Savings Fund is not included in the Secretariat financial statements. The Savings Fund is open to all employees. During 2008 EFTA contributed CHF 2,152,000 to the Savings Fund.
Savings fund contributions could be made in four currencies (CHF, EUR, NOK and ISK) with either the investment bank Nordea, the Swiss National Bank or Banca Monte Paschi in Brussels (since March 2008).

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 1.6733 (1.5898 in 2007). 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 1.6733 (budget and reporting rate 2008) instead of 1.5898 (rate used for the year-end balance 2007) has been identified in the Balance sheet overview for 2007 and the Cash Flow Statement for 2008. This exchange rate difference of CHF 17,784 is the difference between the exchange rate differences of the conversion of the surplus in Brussels 2007 (CHF 5,075) and the opening balance of the mirror accounts (CHF 12,709) 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.

18. Events subsequent to the balance sheet date

No significant events took place after 31 December 2008.

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 2008.

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 now 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 2008, 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. In 2008 the Association paid FMO EUR 49,300 for interest earned on FMO contributions in 2007.

EUROPEAN FREE TRADE ASSOCIATION

THE SECRETARY-GENERAL

Ref. 23666

Geneva, 28 July 2009

Audit of the 2008 Accounts

Dear Mr. Engeseth,

I acknowledge receipt of your letter dated 26 June 2009 regarding the audit of the 2008 accounts. The Secretariat welcomes EBOA's certificate for the 2008 accounts. As to the specific issues mentioned in your letter, I am pleased to reply as follows:

Savings Fund

At its last meeting on 15 July 2009, the Council has taken up the issue of the liability of the Secretariat's Savings Fund. Discussions have been initialised and will continue in autumn. As soon as a Council decision is taken, you will be informed accordingly.

Purchase order

Experience over the last couple of years has shown that formal purchase orders are less used than intended by the Financial Regulations and Rules. This is due to the fact that invoices are approved by the officer who has the authority, according to the Financial Regulations and Rules, to incur the obligation, and that this officer is often the one making the purchase. In light of this, the Secretariat is planning a review of the relevant sections of the Financial regulations and Rules.

Harmonisation of the EFTA Institution's financial Statements

The Secretariat is not opposed to looking into the matter of harmonising the formats of the financial statements. Consultations with the other institutions will take place in the course

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of the second half of 2009 and a possible harmonisation of the formats will discussed and eventually proposed.

Please accept the assurances of my highest consideration. I remain,

Sincerely yours,

Kåre Bryn

Cc: Norbert Frick, Chair of the EFTA Council

Per A. Engeseth
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