EUROPEAN FREE TRADE ASSOCIATION

Ref. 22855, rev. 1

24 March 2009

EFTA Secretariat – Financial reports 2006

This document includes the following:

1. Excerpt from the Council Summary Record of 13 December 2007
2. Letter from EFTA Board of Auditors (EBOA) on the Audit of the 2006 Accounts
3. Audit Report – EFTA Secretariat
4. Statement of Account 2006
5. Council letter to EBOA on the Audit of the Accounts

EUROPEAN FREE TRADE ASSOCIATION

[redacted]

Ref. 19556

Distribution: EFTA

31 January 2008

TWELFTH MEETING OF THE COUNCIL

Geneva, 13 December 2007

SUMMARY RECORD

EXCERPT

Statement of account for 2006

19. The Council approved the Accounts for 2006, and discharged the Secretary-General of his responsibilities for the financial period in question.

To:
Cc
Re
Re 2 6 JUN 2007

EUROPEAN FREE TRADE ASSOCIATION
ASSOCIATION EUROPEENNE DE LIBRE-ECHANGE

BOARD OF AUDITORS

The Chairman

Ref.: 1076287
09/2007
12 June 2007

Your Excellency,

Audit of the 2006 Accounts

At its last meeting in Brussels on 5 and 6 June 2007, the EFTA Board of Auditors (EBOA) reviewed the accounts of the EFTA Secretariat covering the period 1 January to 31 December 2006. On the basis of the audit report of the mandated external auditor and complementary information given by the Administration, the EBOA decided to issue the attached certificate for the 2006 accounts.

Furthermore the EBOA would like to bring the following matters to the attention of the EFTA Council. Point 1 will be brought to the attention of the ESA/Court Committee as well:

1. In connection with the audit of the 2004 accounts the EBOA requested the external auditor to look into the application of the so-called "six-year rule", in all 3 EFTA institutions (i.e. Staff Regulation 13, in particular point iv) of Paragraph 1 where it says "an appointment may normally be renewed only once, for a period of up to three years, and only if this is in the interest of the..." (Association/Authority/Court respectively). This examination has revealed that the application of Regulation 13 seems to vary considerably. The EFTA Secretariat applies the regulation quite strictly, allowing only for prolongations exceeding six years in exceptional cases. ESA and the Court

H.E. Ambassador Norbert Frick
Chairman of the EFTA Council
Permanent Mission of the Principality of Liechtenstein
35-37, Avenue Giuseppe-Motta
P.O. Box 158
CH-1211 Geneva 20
Switzerland

Encl.

cc: Members of the EFTA Council
Mr. Kåre Bryn, Secretary General, EFTA

however seem to regard Regulation 13 more as guidelines and are more flexible when it comes to prolonging employment contracts. This has led to the fact that ESA, in three cases, has allowed employment periods of more than 13 years.

The EBOA has noted that Staff Regulation 13 does not stipulate how to treat cases when staff members are promoted, re-appointed or, as has happened in a few cases in the past, are transferred between institutions. The EBOA has noted that the Administrations of the three organisations strive to ensure equal working conditions for all of the three EFTA institutions, as called for in the Ministerial decision of 1992.

In 2004, the EBOA recommended the EFTA Council and the ESA/Court Committee to invite the Secretary-General and the two Presidents to clarify and harmonise this matter.

The EBOA took note of a letter from Mr Norbert Frick, Ambassador; Chairman of the EFTA Council dated 8 May 2007, where he informed the EBOA that a meeting between the Secretary General and the Presidents of the EFTA Surveillance Authority and the EFTA Court had taken place. The Secretary-General and the two Presidents had concurred with the importance of the 6-year rule for the employment policy of the institutions. The Secretary-General emphasized that the three heads of the EFTA institutions agreed that according to Regulation 13.1(iv), the renewal of contracts can only take place if this is in the interest of the institution concerned, and he confirmed that this would continue to be the guiding principle. The Council had welcomed this meeting and its conclusions and asked the Secretary General to give regular presentations about the status of application of the relevant Regulation. In addition, Mr Frick noted that the Council acknowledges that in order to implement an effective human resources strategy, taken into account risk management, and to ensure the necessary transfer of knowledge and proper handover of key positions, it is in certain cases important to prolong contracts for an appropriate, but nevertheless limited, period of time. He underlines that the need for this may differ for the three institutions as their different sizes and functions must be taken into account as well as the concrete situation at a given time.

The EBOA is still of the opinion that it is of equal importance that Staff Regulation 13 shall be understood and applied in the same way for the three institutions. The EBOA therefore kindly requests that all three institutions supply the EBOA with an overview of the number of present staff members whose employment contracts have been prolonged beyond six years (including employment category, starting date, end date of the second 3 year contract and the length of the extension).

2. The EBOA noted an unusal cash transaction of 24,500 EUR involving the purchase of a second hand car. The EBOA wishes to encourage the Secretariat not to undertake cash transactions on this scale. The aim should be that cash transactions are components of petty cash systems only.

4. As regards the running of the FMO Office the administration costs shall be covered by the grants, and should not exceed 5% of the total amount. The EBOA would like to know how the FMO Office and the EFTA Secretariat monitors the 5% to be used for running the FMO Office. The EBOA regards it as important that records are kept on this issue in order to ensure transparency.

5. If the printed versions of the annual reports of the EFTA institutions are printed before the results of the annual audit, the EBOA is of the opinion that the EBOA should in any case be referred to in the annual report. It should be mentioned that EBOA reports and the accompanying letters to the EFTA Council and the ESA/Court Committee will be published, when finalized, on the websites of the three institutions. This was agreed to by representatives of the Secretariat and ESA in a meeting with EBOA 5 June 2007. The Court was invited to this meeting but was not represented.

6. EBOA would like to receive a reply to this letter by 1. September 2007 as a meeting planning the audit of the accounts for 2007 will take place early in the 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

E U R O P E A N   F R E E   T R A D E   A S S O C I A T I O N

To: SG DSG DL CO MB TM GV

Cc:

File no.

Rec: 8 JUN 2007

Annex
6 June 2007
EFTA ref. 1076284

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 2006

1. The Board of Auditors has examined the accounts of the EFTA Secretariat for the period 1 January to 31 December 2006 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 Deloitte Bedrijfsrevisoren 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 Audit Highlights Memorandum at Annex contains additional information submitted to the Board of Auditors from Deloitte Bedrijfsrevisoren.

4. 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: Audit Highlights Memorandum, Deloitte Bedrijfsrevisoren

E U R O P E A N   F R E E   T R A D E   A S S O C I A T I O N

[redacted]

Ref. 1073748
26 February 2007

Distribution: EFTA

Statement of Account

Financial Year 2006

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 Deloitte, plans to carry out the actual audit of the accounts for the financial year ending 31 December 2006 in the period 19 – 30 March 2007.

3. Once the EFTA Board of Auditors has received the report from Deloitte, 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 2006, reference is made to the Performance and Budget report 2006, Doc. No 1073269.

I. Main Activities

5. The EFTA Secretariat's activities centre on the monitoring and management of relationships between the EFTA States on the basis of the EFTA Convention and the management of the EEA Agreement.

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 eleven times at official level (Heads of Permanent Delegations to EFTA in Geneva) in 2005 including two Ministerial Council meetings. Iceland held the EFTA Chair during the first six months, and Switzerland 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. 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 2006 was adopted by the EFTA Council on 30 March 2006 in Decision No. 2 of 2006 (Doc. No 13921 of 30 March 2006). The approved net budget for the financial year 2006 totalled euros 9,856,706 and CHF 7,716,922 on the basis of which amount the contributions of Member States were assessed and set out in Decision No. 3 of 30 March 2006 (Doc. No. 13922 of 30 March 2006).

11. The financial year 2006 has been the third 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 2006 (Doc. No. 1057678).

12. The gross expenditure for the financial year ended 31 December 2006 totalled CHF 23,333,084 (CHF 22,153,288 in 2005) against a total income of CHF 23,572,432 (CHF 22,874,947 in 2005), leading to a budget surplus of CHF 239,348 (CHF 721,658 in 2005). Due to external operations (write offs, interest, realised and unrealised exchange rate differences and bank charges) amounting to CHF 58,368 (CHF 16,678 in 2005), the surplus amount increased to CHF 297,734 (CHF 738,336 in 2005).

13. 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).

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

a) In Part I, costs were slightly higher than anticipated mainly due to recruitment of extra personnel in the Administration to serve the FMO. The extra costs have been compensated by a similar increase in the income from the FMO. The compensation for rent from the FMO from the EEA EFTA Member States was based on the FMO moving out of the EFTA premises as of 1 May 2006. As the move was delayed until 1 July 2006, and the Secretariat was successful in subletting one of the vacant offices, part of this compensation has been returned to the EEA EFTA Member States, leading to a reduction in funding from Member States of CHF 35,224. In relation to one of the projects under technical cooperation in Part II an amount of CHF 57,400 was transferred from Part I to Part II to cover extra salary costs, reducing the total budget from CHF 19,666,547 to CHF 19,609,147 in Part I. In total, CHF 19,573,757 was spent in Part I, or 99.82% of the budget. Taking the CHF 35,224 returned to the EEA EFTA Member States into consideration the total spending ended up at 99.999%, giving a surplus of CHF 166.

b) In Part II, the activities within the fields of customs and technical co-operation were lower than foreseen. Due to the transfer from Part I of CHF 57,400 the budget for Part II was increased from CHF 3,286,280 to CHF 3,343,680. Overall, the costs under Part II ended up at CHF 3,046,112, or 91.10% of the budget.

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

Part	Budget 2006	Transfer 2006	Total 2006	Actual 2006	Actual in %	Remainder	In %
Part I	20,007,248	(57,400)	19,949,848	20,286,972	101.69%	(337,124)	-1.69%
Part II	3,286,280	57,400	3,343,680	3,046,112	91.10%	297,568	8.90%
Total Expenses:	**23,293,528**	**-**	**23,293,528**	**23,333,084**	**100.17%**	**(39,556)**	**-0.17%**
Part I	(340,701)		(340,701)	(693,503)	203.55%	352,802	-103.55%
Part II	-		-	-		0	
Contributions	(22,952,827)		(22,952,827)	(22,917,603)	99.85%	(35,224)	0.15%
Reserve Fund Part I				(19,712)		19,712	
Total Income:	**(23,293,528)**	**-**	**(23,293,528)**	**(23,630,818)**	**101.45%**	**337,290**	**-1.45%**
Total Part I	19,666,547	(57,400)	19,609,147	19,573,757	99.82%	35,390	0.18%
Total Part II	3,286,280	57,400	3,343,680	3,046,112	91.10%	297,568	8.90%
Contributions	(22,952,827)		(22,952,827)	(22,917,603)	99.85%	(35,224)	0.15%
TOTAL 2006	**-**	**-**	**-**	**(297,734)**		**297,734**	**1.30%**
Transferred to Reserve Funds				**4,332**			
Net Surplus to Member States				**(293,402)**			

Special Funds

15. In accordance with the Financial Regulation and Rules, the Secretariat makes the status of the Special Funds explicitly clear as they are on the 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 31/12/2006:	CHF 101,023 / euros 65,356 (CHF -63,446 in 2005)
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.

2. Special Fund 4: Statistical Cooperation

Net assets on 31/12/2006:	CHF 1,959 / euros 1,267 (CHF 3,097 in 2005)
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 31/12/2006:	CHF 870,757 / euros 563,327 (CHF 342,803 in 2005)
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 31/12/2006:	CHF 810,131 / euros 524,106 (CHF 298,805 in 2005)
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

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 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: Medstat, the statistical PHARE programmes, Training of European Statisticians and customs cooperation programmes.

Financial Result 2006

18. The financial year 2006 resulted in a surplus of CHF 166 in Part I and CHF 297,568 in Part II, giving a total surplus of CHF 297,734. 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. The surplus for 2006 has been distributed as follows:

	Reserve Fund Part I	Reserve Fund Part II	Member States	Total
Part I	166			166
Part II		4,166	293,402	297,568
Total	166	4,166	293,402	297,734

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
Total	**38,496**	**9,400**	**402,782**	**393,012**	**843,690**

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

Balance Sheet 31 December		2006			2005			
Current Assets	Notes	**Consolidated CHF**	*Geneva CHF*	*Brussels euros*	**Consolidated CHF** ***2006 rate***	*Geneva CHF*	*Brussels euros*	Consolidated CHF ***2005 rate***
Cash		**4,861,594**	*3,298,524*	*1,011,212*	**4,014,288**	*1,965,580*	*1,325,390*	3,998,927
Receivables	4	**677,568**	*38,680*	*413,322*	**681,632**	*171,880*	*329,779*	677,810
		5,539,162	3,337,203	1,424,534	**4,695,921**	*2,137,460*	*1,655,169*	4,676,737
Long-Term Assets								
Fixed Assets	6	**716,689**	*224,594*	*318,356*	**626,869**	*261,947*	*236,082*	624,133
Fixed Assets FMO	6	**859,010**	-	*555,727*	**202,184**	-	*130,801*	200,668
Building Brussels	6	**1,295,969**	-	*838,413*	**1,545,099**	-	*999,585*	1,533,514
Receivables	4	**59,515**	*55,660*	*2,494*	**29,450**	*25,595*	*2,494*	29,421
		2,931,183	*280,254*	*1,714,990*	**2,403,602**	*287,543*	*1,368,962*	2,387,736
Total Assets		**8,470,345**	***3,617,457***	***3,139,524***	**7,099,523**	***2,425,003***	***3,024,131***	7,064,474

	Note							
Current Liabilities								
Payables	9	**1,477,949**	*134,794*	*868,940*	**1,435,171**	*242,612*	*771,513*	1,426,229
Special Funds	9	**1,783,870**	-	*1,154,056*	**585,649**	-	*378,880*	581,258
Building Funds	11	**1,295,802**	-	*838,305*	**1,480,916**	-	*958,063*	1,469,813
Reserve Funds	12	**910,233**	*910,233*	-	**925,614**	*925,614*	-	925,614
		5,467,854	*1,045,027*	*2,861,300*	**4,427,350**	*1,168,225*	*2,108,456*	4,402,913
Long-Term Liabilities								
Provision for Programmes	7	**1,209,097**	*1,209,097*	-	**943,686**	*943,686*	-	943,686
Provision for Repatriation	7	**949,704**	*339,967*	*394,463*	**859,103**	*372,436*	*314,844*	855,454
		2,158,801	*1,549,064*	*394,463*	**1,802,789**	*1,316,122*	*314,844*	1,799,140
Total Liabilities		**7,626,655**	***2,594,092***	***3,255,763***	**6,230,140**	***2,484,347***	***2,423,300***	6,202,054
Exchange rate differences	16				**(6,964)**			
NET ASSETS		**843,690**			**862,420**			862,420
Surplus Account	11	**843,690**			**862,420**			862,420

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

	Notes	2006	2005
		CHF	CHF
Member States Contribution		22,917,603	22,265,258
Other income:			
Part I		654,829	609,689
Part II		0	0
Total Income		23,572,432	22,874,947
Expenditure			
Part I		20,286,972	19,504,387
Part II		3,046,112	2,648,901
Total Expenditure		23,333,084	22,153,288
Interest Income		94,834	34,083
Exchange Gains / (Losses)		(18,445)	30,343
Interest Expense		0	0
Bank Charges		(18,004)	(14,797)
Write Off		0	(32,951)
Amounts Transferred to Surplus Account		0	0
Excess of income over expenditure		297,734	738,336
Opening Surplus Account	11	862,420	330,822
Amount transf to/from Surplus Fund	11	-312,132	
Amount transferred to Reserve Funds	12	-4,332	-206,738
Closing Surplus Account		843,690	862,420

Cash Flow Statement	Year:	2006	Year:	2005
Excess of income over expenditure for the year	293,402		531,599	
Adjustments for:				
Depreciation	708,924		726,432	
Interest income	(94,834)		(34,083)	
Surplus before working capital changes	907,491		1,223,948	
Decrease (increase) in current receivables	4,064		338,566	
Decrease (increase) in long term receivables	(30,065)		8,111	
Increase (decrease) in payables	42,778		393,667	
Increase (decrease) in Special Funds	1,198,221		464,857	
Increase (decrease) in Building Funds	(185,115)		531,198	
Increase (decrease) in Reserve Funds	(15,380)		77,601	
Increase (decrease) in provision for programmes	265,411		0	
Increase (decrease) in provision for repatriation	90,601		(20,174)	
Net cash used in operation activities		**2,278,006**		**3,017,775**
Investing activities				
Purchase of property, plant and equipment	(381,512)		(547,359)	
Purchase of property, plant and equipment FMO	(824,927)		(189,739)	
Investments new Office building Brussels	-		(1,157,921)	
Interest income	94,834		34,083	
Net cash provided from (used in) investing activities		**(1,111,605)**		**(1,860,936)**
Financing activities				
Member States contribution transfer to fund	35,224		-	
Member States contribution transfer from fund	(347,356)		-	
Net cash provided in (used from) financing activities		**(312,132)**		**0**
Net increase in cash and cash equivalents		**854,270**		**1,156,839**
Cash and cash equivalents at the beginning of the period		**4,014,288**		**2,835,292**
Foreign exchange difference on balance sheet Brussels		(6,964)		6,797
Cash and cash equivalents at the end of the period		**4,861,593**		**3,998,927**

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. The Financial Regulations explicitly state that the statements shall be prepared in accordance with the accounting standards issued by the International Accounting Standards Committee (IASC).

(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 six 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 2006 are the four EFTA cars in Geneva and Brussels (one will be sold in February 2007), 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 removal to the premises has been used.

(d) Foreign Currency

(i) Transactions

All transactions are booked in euros (Brussels) and CHF (Geneva). All exchange rate differences are identified immediately. For reporting reasons all transactions in currencies other than CHF are converted at the rate of exchange used for establishing the budget, 1 euro = CHF 1.54574. For the balance sheet, the rate of exchange used for the budget has been used both for the opening balance (1 January 2006) as well as for closing balance (31 December 2006). 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, 1.54574. Both the opening balance (1 January 2006) as well as the closing balance (31 December 2006) 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 euros 100 (Belgium/Luxembourg) or less, while invoices exceeding CHF 100 or euros 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, office supplies and furniture are maintained as part of the depreciation procedure.

(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. Leased equipment was expensed upon receipt of invoice. 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 2006 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 of the two taxes in 2006 were euros 54,252 (CHF 83,859 at the date of the transaction [97,884 in 2005]) for the tax on the rental and euros 16,250 (CHF 25,111 at the date of the transaction [28,732 in 2005]) for the Regional tax.

Value Added Taxes of amounts less than euros 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 2005.

4. Receivables

Receivables 31 December	2006			2005			
	Consolidated CHF	*Geneva CHF*	*Brussels euros*	Consolidated CHF *2006 rate*	*Geneva CHF*	*Brussels euros*	Consolidated CHF *2005 rate*
a) **Current**							
Accounts Receivable – Normal Operations	39,230	*1,433*	*24,452*	39,158	*897*	*24,752*	38,871
Advances and Loans to Staff Members	24,253	*(1,830.30)*	*16,874*	31,741	*30,017*	*1,116*	31,728
Receivables from Member States	0	*0*	*0*	110,582	*0*	*71,540*	109,753
Prepaid Expenses	614,086	*39,077*	*371,996*	500,151	*140,966*	*232,371*	*497,458*
	677,568	*38,680*	*413,322*	681,632	*171,880*	*329,779*	677,810
b) **Long-Term**							
Guarantee deposits	59,515	*55,660*	*2,494*	29,450	*25,595*	*2,494*	*29,421*

5. Inventories

Inventory lists of office supplies are maintained, but the aggregate balance at 31 December 2006 of items of less than CHF 1,500 / euros 1,000 is not recorded among assets. These supplies have already been expensed in previous years.

6. Fixed assets

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

Year: 2006	Vehicles		IT		Other		Total
Cost	*Geneva (CHF)*	*Brussels (euros)*	*Geneva (CHF)*	*Brussels (euros)*	*Geneva (CHF)*	*Brussels (euros)*	*Consolidated (CHF)*
At 1/1	132,830	17,204	345,198.4	635,791	432,325	197,445	2,224,913
Additions		24,500	46,781	148,610	15,602	33,348	381,512
Disposals			-		-		-
Cost at 31/12	132,830	41,704	391,979	784,401	447,927	230,793	2,606,426
Accumulated depr.							
At 1/1	132,830	17,204	323,353	500,659	192,223	96,496	1,598,044
Depr for year	-	408	19,478	95,647	80,258	28,129	291,693
Disposals	-	-	-	-	-		-
Acc. Depr. 31/12	132,830	17,612	342,831	596,306	272,481	124,625	1,889,737
NBV at 31/12/06	**- 0**	**24,092**	**49,147.79**	**188,095.57**	**175,445.88**	**106,168.30**	**716,689**

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

Year: 2006	FMO BRU (CHF)	FMO BRU (€)
Opening carrying value	202,184	130,801
Additions	824,927	533,678
Disposals	-	-
Depreciation	168,101	108,751
Closing carrying value	**859,010**	**555,727**

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

Year: 2006	Building BRU (CHF)	Building BRU (€)
Opening carrying value	1,545,099	999,585
Additions	-	-
Disposals	-	-
Depreciation	249,130	161,172
Closing carrying value	**1,295,969**	**838,413**

7. Provision Funds

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 three parts: one for the Geneva-based staff and another for the Brussels/Luxemburg-based staff. These are both calculated in Swiss francs. The third part was established in 1999 and is for staff entering service in Brussels or Luxemburg after 1 January 1999. It is calculated in euros.

Year: 2006	Repatriation in Geneva CHF	Repatriation in Brussels CHF	Repatriation in Brussels CHF (Euro fund)	*Repatriation in Brussels Euro (Euro fund)*
			ex.rate	*1.5457*
Opening carrying value	303,265	69,171	486,667	*314,844*
Into the Fund	71,055	-	195,960	*126,774*
Out of the Fund	(103,525)	-	(72,890)	*(47,155)*
Exchange adjustments	-	-	-	-
Closing carrying value	**270,796**	**69,171**	**609,737**	*394,463*

The total carrying value is therefore:

	2006	2005
	CHF	CHF
Opening carrying value	859,103	875,628
Into the Fund	267,015	209,043
Out of the Fund	(176,414)	(229,216)
Exchange adjustments	0	0
Total Repatriation	**949,704**	**855,454**

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 2,271,571 as per 31 December 2006.

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 provide a buffer, should disbursements accelerate in any one year beyond budgetary planning. During the year 2006, CHF 265,411 was transferred to the fund, but no funds were transferred from the fund to Part II. See also Note 10.

Part II	2006	2005
Balance at 1 January	943,686	943,686
Transferred to the fund during the year	265,411	
Provisions made during the year		
Balance at 31 December	1,209,097	943,686

8. Loans and borrowing

No loans were taken in 2006.

9. Payables

Payables 31 December	2006			2005			
	Consolidated CHF	*Geneva CHF*	*Brussels euros*	Consolidated CHF *2006 rate*	*Geneva CHF*	*Brussels euros*	Consolidated CHF *2005 rate*
Accounts payable - Normal Operations	1,477,949	*134,794*	*868,940*	1,435,171	*242,612*	*771,513*	1,426,229
Due to Member States	0	*0*	*0*	0	*0*	*0*	0
Special Fund 1:	101,023	*0*	*65,356*	(63,926)	*0*	*(41,356)*	(63,446)
Special Fund 4:	1,959	*0*	*1,267*	3,121	*0*	*2,019*	3,097
Special Fund 6:	870,757	*0*	*563,327*	345,392	*0*	*223,448*	342,803
Special Fund 7:	810,131	*0*	*524,106*	301,062	*0*	*194,769*	298,805
Total	3,261,819	*134,794*	*2,022,995*	2,020,820	*242,612*	*1,150,393*	2,007,487

10. Other liabilities and provisions

The Association has signed a number of multi-year cooperation programmes with the EU (PHARE, Medstat, statistical training). The total commitments have not been entered into the accounting system. At 31 December 2006, authorised standardisation commitments - not yet expensed - amounted to CHF 2,270,571 (CHF 2,152,079 on 31 December 2005). See also note 7.2.

11. Member States

The EFTA Council determines the distribution keys. For the period 1 July 1995 to 31 December 2006, 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
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	-

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
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
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
Total	**38,496**	**9,400**	**402,782**	**393,012**	**843,690**

The statuses of the Building Funds, in euros, are as follows:

Source	Iceland (€)	Liechtenstein (€)	Norway (€)	Switzerland (€)	TOTAL (€)
From Surplus Fund	6,393	1,576	67,946	153,235	229,150
From Member States in 2004	40,600	9,741	0	332,323	382,664
From 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)
Total	36,550	8,802	415,297	377,656	838,305

12. Reserve Funds Part I and Part II

Based on the split of the surplus 2006, 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)	0	(129,137)
Surplus 2005	184,270	22,467	206,738
Out of fund 2006	(19,712)	0	(19,712)
Surplus 2006	166	4,166	4,332
Total	**745,919**	**164,314**	**910,233**
Max balance	983,327	164,314	1,147,641

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

The CESD case mentioned in the Statement of Account of previous years was solved in 2006. CESD lost its court case against the European Commission, hence the Secretariat had to book the outstanding euros 83,046 as a loss in Part II of the budget.
No other claims or possible claims exist.

15. Savings Fund

The Staff Savings Fund is not included in the Secretariat financial statements. The Savings Fund is open to all employees. During 2006, EFTA contributed CHF 1,985,538 to the Savings Fund.
Due to the introduction of the new salary system of the coordinated organisations savings fund contributions can be made in currencies other than CHF (euros, NOK, ISK). A contract was signed with Nordea Zurich to handle the savings fund contributions on behalf of EFTA and the staff in 2006.

16. Exchange rates

For reporting reasons all transactions in euros are converted to CHF using the exchange rate used when establishing the budget, 1 euro = CHF 1.54574 (1.53415 on 31 December 2005). This is in line with the new practice approved by the external auditors and was established in 2003. All balance sheet overviews in this report show both the euros and the CHF value for balances in Brussels. The exchange rate difference from converting the euro balances into CHF with the rate of 1.54574 (budget and reporting rate 2006) instead of 1.53415 (rate used for the year-end balance 2005) has been identified in the Balance sheet overview for 2005 and the Cash Flow Statement for 2006. This exchange rate difference of CHF 6,964 is the difference between the exchange rate differences of the conversion of the surplus in Brussels 2005 (- CHF 192) and the opening balance of the mirror accounts (CHF 7,156) 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 2006.

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 2006.

b) Credit risk

Cash is placed with international banks with high credit ratings. 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 2006, the Association did not enter into any forward exchange contracts in order to hedge foreign currency assets or liabilities.

EUROPEAN FREE TRADE ASSOCIATION

CHAIR OF THE EFTA COUNCIL

Our Ref. 18279

Geneva, 24 August 2007

AUDIT OF 2006 ACCOUNTS

Dear Mr Engeseth,

On behalf of the EFTA Council, I would like to thank you for your letter of 12 June 2007 regarding the audit of the 2006 accounts. Let me address the issues that you raised in your letter.

"Six-year rule"

With regards to the application of the Six-year rule, you requested an overview of the number of present staff members whose employment contracts have been prolonged beyond six years. I can inform you that there is currently one staff member in the Financial Mechanism Office who has started on a prolongation beyond six years, please see details below:

- Employment category: A professional
- Starting date: first fixed term contract 1/7/2000
- End date of the second 3 year contract: 30/6/2007
- Length of extension: 3 years until 30/6/2010

The reason for this prolongation was the need to maintain the special competence of this staff member.

Cash transaction

The EBOA noted an unusual cash transaction of € 24 500 involving the purchase of a second hand car and encouraged the Secretariat not to undertake cash transactions on this scale. The aim should be that cash transactions are components of petty cash systems only. I can inform you that the Secretariat is currently in the process of implementing a policy and procedures that limit cash transactions to €5 000/CHF 8 000 as a general rule. In exceptional cases a maximum amount of € 15 000/CHF 23 000 could be foreseen which should be subject to the explicit authorisation of the Secretary-General. This process will be finalised by the end of 2007.

Running of the Financial Mechanism Office

The Financial Mechanism Committee monitors the 4% (EEA Financial Mechanism) to be used for running of the Financial Mechanism Office (FMO). The monitoring is done by checking the cumulative actual expenses and projected expenses (budget) against the 4% ceiling. The running expenses as of today are within the ceiling.

Publishing of EBOA reports

Normally, the EFTA Annual Report is printed before the results of the annual audit. As stated in your letter, the Secretariat will make sure that EBOA is referred to in the EFTA Annual Report; mention will also be made that EBOA reports and the accompanying letters to the EFTA Council will be published, when finalized, on the EFTA website.

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

Yours sincerely,

Eirik Glenne
Chair of the EFTA Council

Annex: I

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

List of actions foreseen

"Six-year rule"
- The Secretary-General will give regular presentations to the EFTA Council about the status of application of the relevant Regulation.

Cash transactions
- The Secretariat will implement a policy and procedures that limit cash transactions to € 5 000/CHF 8 000 or in exceptional cases up to € 15 000/CHF 23 000, with explicit authorisation of the Secretary-General, by the end of 2007.

Running of the Financial Mechanism Office
The Financial Mechanism Committee will continue to monitor that the costs of running the Office do not exceed the 4% ceiling (EEA Financial Mechanism).
-

Publishing of EBOA reports
- Refer to EBOA in the EFTA Annual Reports and mention that EBOA reports and the accompanying letters to the EFTA Council will be published, when finalized, on the EFTA website.