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22 December 2016

DOCUMENT
C-M(2016)0079-AS1 (INV)

**IBAN AUDIT ON THE 2015 FINANCIAL STATEMENTS OF THE NATO HELICOPTER
FOR THE 1990s (NH90) DESIGN AND DEVELOPMENT, PRODUCTION AND
LOGISTICS MANAGEMENT ORGANIZATION (NAHEMO)**

ACTION SHEET

On 21 December 2016, under the silence procedure, the Council noted the IBAN report on the 2015 financial statements of NAHEMO and agreed the RPPB recommendation regarding public disclosure.

(Signed) Rose E. Gottemoeller
Deputy Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2016)0079 (INV).

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14 December 2016

DOCUMENT
C-M(2016)0079 (INV)
Silence Procedure ends:
21 Dec 2016 17:00

**IBAN AUDIT ON THE 2015 FINANCIAL STATEMENTS OF THE NATO HELICOPTER
FOR THE 1990s (NH90) DESIGN AND DEVELOPMENT, PRODUCTION AND
LOGISTICS MANAGEMENT ORGANIZATION (NAHEMO)**

Note by the Deputy Secretary General

1. I attach the International Board of Auditors for NATO (IBAN) report on the audit of the 2015 financial statements of NAHEMO.
2. The IBAN report sets out a qualified opinion on the financial statements of NAHEMO and on compliance for the year 2015. The issues highlighted by the IBAN are being dealt with by the appropriate governing body of NAHEMO. The IBAN report has also been reviewed by the Resource Policy and Planning Board (RPPB) (see Annexes) which has provided its own report with conclusions and recommendations to Council. The Board concluded that the nature of the issues highlighted by the IBAN are a concern and relate in particular to compliance with the NATO Financial Regulations. NAHEMO have accepted the recommendations made by the IBAN and it is therefore expected that the underlying issues will not be a recurring theme in future audits of the financial statements of NAHEMO.
3. I do not believe that this matter requires discussion in the Council. Consequently, **unless I hear to the contrary by 17:00 hours on Wednesday 21 December 2016**, I shall assume that the Council has noted the IBAN report on the 2015 financial statements of NAHEMO and agreed the RPPB recommendation regarding public disclosure

(Signed) Rose E. Gottemoeller

Annexes

Original: English

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**IBAN AUDIT ON THE 2015 FINANCIAL STATEMENTS OF THE NATO HELICOPTER
FOR THE 1990s (NH90) DESIGN AND DEVELOPMENT, PRODUCTION AND
LOGISTICS MANAGEMENT ORGANISATION (NAHEMO)**

Report by the Resource Policy and Planning Board

References:

- a) IBA-A(2016)88 – IBAN Report
- b) C-M(2015)0025 – NATO Financial Regulations (NFRs)
- c) NH/ADM/DLA/04822/2016 - Letter from General Manager of NAHEMA
- d) C-M(2008)116 - Public Disclosure of NATO information
- e) NH/MGT/DGM/06581/2016 – Letter from General Manager of NAHEMA

INTRODUCTION

1. This report contains the RPPB's observations and recommendations on the IBAN audit of the 2015 financial statements of NAHEMO (reference (a)).

BACKGROUND

2. The International Board of Auditors for NATO (IBAN) has issued a qualified opinion on the financial statements of NAHEMO and an adverse opinion on compliance with the NFRs (reference b) for the year 2015. The IBAN has issued five observations with recommendations. Contract management procedures at NAHEMO were found to be not in compliance with the NFRs and this had an impact on the audit opinion on compliance. An understatement of payables to suppliers had an impact on the audit opinion on the financial statements. Material weaknesses in internal control over financial reporting had an impact on the audit opinion on both the financial statements and on compliance. Two other observations did not impact the audit opinion.
3. The Board acknowledges that the issues highlighted in the IBAN audit report will be/have already been dealt with by the participating Nations represented on the appropriate governing bodies of NAHEMO. That said, the RPPB is still mandated under Article 15 of the NFRs (reference (b) to provide Council with comments and recommendations on the audit opinion.
4. The Board recalls its discussions on proposed changes to the NAHEMO Financial Regulations in September 2016 and the request made to the Chairman of the NAHEMO Steering Committee to re-examine certain elements of them to bring them into line with the NFRs.

Audit Opinion on Compliance

5. Observation 1 – contract management procedures not in compliance with the NFRs: Following a similar observation on contract management procedures in the audit opinion on the 2014 financial statements of NAHEMO, the IBAN found that the new Contracting Management Process instituted by the General Manager in November 2015 does not comply with Article 12 (Internal Control) of the NFRs. This observation impacted the audit opinion on compliance.

6. In particular, the IBAN found that the sending of invoices directly to Senior Management prevents the Financial Controller (FC) from exercising responsibility for internal financial and budgetary control. To ensure the establishment of sound internal control by the FC in compliance with the NFRs, the IBAN recommend that invoices should be sent by suppliers directly to the office of the FC thus enhancing transparency and traceability of invoices and full availability of data in the financial system. The receipt and rejection of invoices should be done under the supervision of the FC not by the Agency's Senior Management. NAHEMA have stated that they will comply with the IBAN recommendation.

Audit Opinion on the Financial Statements

7. Observation 2 - understatement of payables to suppliers: Accounts payable are amounts due to other parties arising from claims. Due to weaknesses in how invoices are managed by the Agency which results in invoices being recorded in the register maintained by NAHEMA outside of the financial system, the IBAN estimate the value of payables to suppliers to be understated by at least EUR 27 million. This observation impacted the audit opinion on the financial statements. Following on from the recommendation on observation 1 above (para 4), the IBAN recommend that invoices are recorded as first received by NAHEMA in a central list in the financial system; only invoices rejected for valid and documented reasons should be deducted from the payables balance. Since September 2015, NAHEMA is in the process of migrating to a new accounting system and NAHEMA have agreed to follow the IBAN recommendation.

Audit Opinion on the Financial Statements and Compliance

8. Observation 3 – material weaknesses in internal control: The IBAN found a number of material weaknesses in internal control over financial reporting that resulted in misstatements and incomplete disclosure of financial information by the Agency. This observation impacted the audit opinion on both the financial statements and on compliance. The IBAN recommended that NAHEMA strengthen its system of internal control by improving the preparation, review and reporting processes, highlighting the need for management to take responsibility and for review procedures to provide a reasonable basis for obtaining assurance that financial statements are in compliance with the applicable financial reporting framework. NAHEMA have acknowledged making a number of technical errors in its financial statements and have undertaken to comply with the IBAN recommendation.

IBAN Observations

9. Observation 4 – Problems with the handling of national contributions: This observation did not impact the audit opinion. The IBAN found that the return of a national contribution of EUR 20 million already received by NAHEMA was not in compliance with the NAHEMO Financial Rules and Regulations. The IBAN recommended that NAHEMO Nations should adhere to the regulations governing calls for contributions as approved by them. The IBAN added that if NAHEMO Nations consider that the rules in force are not fit for purpose they should assess and amend them accordingly. NAHEMO formally commented that they will adhere to or amend their regulations accordingly.

10. Observation 5 - further steps needed to ensure full compliance with the NFRs: The RPPB notes the progress that the IBAN have observed towards complying with the articles on internal control, risk management and internal audit contained in the NFRs (reference b)). The Board understands 2015 to be a transition year and therefore expects NAHEMO to make more progress in the near future. The Board notes that under the auspices of the Head of Financial Reporting Policy, FCs of NATO entities (including NAHEMO) have already met to share their experience in implementing these NFR articles and share best practice across NATO entities in this area.

11. The Board is however particularly concerned that the NAHEMO FC deliberately did not sign the statement of Internal Control as per Article 3 (Responsibility and Accountability) of the NFRs, because the Contract Management Process (see paras 5 and 6) overrode his financial internal control responsibilities. While this is one way for the FC to express any concerns, the Board takes this opportunity to remind the NAHEMA FC that under Article 7 (Recourse of the FC) of the NFRs, he also has the right, when required, to bring to the Board, for resolution, any persistent doubt or disagreement of any proposed measure or decision which he feels is not in compliance with the provisions of the NFRs.

Status of Prior Year Observations

12. The IBAN also followed up on the status of observations from previous years' audit and found that two had been superseded, two had been settled and one remained outstanding. The IBAN found that NAHEMA has made good progress towards reducing the unnecessarily high holdings of cash, continued effort is needed to work with the NAHEMA Nations to restrict total currency holdings to the minimum required to meet forecast payments prior to receipt of the following contribution instalment.

Public Disclosure

13. At reference c) the General Manager of NAHEMO put forward a request under exemption categories 3 and 9 of the NATO Guidance on the Public disclosure of NATO information¹ (reference (d) for the non-disclosure of elements of the 2015 financial

¹ NATO 3 – confidential commercial information

statements. Specifically the letter requested the deletion of a portion of the text in page 18 on the notes to the financial statements covering receivables from Nations which names the Nation that was subject to an IBAN observation (see paragraph 8). The Board accepts this request.

14. Additionally the General Manager of NAHEMO requested withholding public disclosure of all annexes to the financial statements². Following the Board's request for clarification of the rationale for not disclosing annex 1 (the statement of budget execution), the General Manager has clarified (reference (e) that the Agency is now only seeking (under exemption category 3 of reference d) to redact two tables from the annex and not the whole annex as originally requested. The Board accepts that the two tables identified should be redacted in the version of the audited financial statements to be publicly disclosed.

15. The Board accepts the non-disclosure of annex 2 to the NAHEMO financial statements on the grounds that it contains confidential commercial information.

16. As for annex 3 of the NAHEMO financial statements, the Board notes that while some NATO entities do include the statement of internal control as an integral part of their financial statements there is no requirement under the NFRs to do so (the statement of internal control was not part of the 2014 NAHEMO financial statements which were publicly disclosed). On the other hand, the Board also notes that although not a basis for qualification, the IBAN did make an observation about the fact that the NAHEMO Financial Controller deliberately did not sign the statement of internal control (paragraph 11 above). On balance the Board accepts the request to withhold annex 3 from public disclosure.

CONCLUSIONS

17. The IBAN has issued a qualified opinion on the 2015 financial statements of NAHEMO. The nature of the issues raised by the IBAN are a significant cause for concern. Internal control, accountability and the roles and responsibilities of the Financial Controller have all been significantly strengthened in the NFRs approved by Council in May 2015. The NFRs direct the financial administration of all NATO bodies (including agencies such as NAHEMO) and provide key policy guidance to ensure effective, economical budgetary and financial administration. The Board understands 2015 to be a transition year. The Board expects NAHEMO to make more progress towards full compliance with the NFRs specifically on risk management policy and on development of an internal control framework in the near future. The Board recognises that NAHEMO has accepted the recommendations made by the IBAN to address the concerns and therefore expects that the underlying issues will not be a recurring theme in future audits on the financial statements of NAHEMO.

NATO 9 – details about current internal or external NATO political discussions and sensitivities

² Annex 1 – statement of budget execution; Annex 2 – details of contract amendment; annex 3 – statement of internal control.

RECOMMENDATIONS

18. The Resource Policy and Planning Board recommends that the Council:
- (a) note the IBAN report IBA-A(2016)88;
 - (b) endorse the conclusions in paragraph 17; and,
 - (c) approve the public disclosure of this report, the IBAN audit (reference a)) and the redacted version of the 2015 financial statements of NAHEMO (enclosure 1).

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**Summary Note for Council
by the International Board of Auditors for NATO (Board)
on the audit of the Financial Statements of the
NATO Helicopter Management Organisation (NAHEMO)
for the year ended 31 December 2015**

The NATO Helicopter for the 1990s Design and Development, Production and Logistics Management Organisation (NAHEMO) is a NATO subsidiary body established with a view to meet the NH90 Helicopters requirements of France, Germany, Italy, The Netherlands and Belgium. NAHEMO consists of a Steering Committee (SC) composed of representatives of the Participants with the responsibility of the overall management of the programme and of the Agency called NAHEMA. The agency is located in Aix-en-Provence (France).

For 2015, the NAHEMO operational and administrative budgets' expenses were EUR 904 million and EUR 11 million (including brought forward) respectively.

During the audit the Board identified five observations, and issued a qualified opinion on the NAHEMO Financial Statements and an adverse opinion on compliance for the year ended 31 December 2015 due to the following reasons:

Observation 1 impacts the audit opinion on compliance:

1. Contract management procedure does not comply with NATO Financial Regulations.

Observation 2 impacts the audit opinion on financial statements:

2. Payables to suppliers in the Statement of Financial Position understated for at least EUR 26.9 million.

Observation 3 impacts both the audit opinion on financial statements and compliance:

3. Lack of review on the financial statements revealed material weaknesses in internal control over financial reporting.

Observations 4 and 5 do not impact the audit opinion:

4. Return of a National contribution already received by NAHEMA does not comply with NAHEMO Financial Rules and Regulations.
5. Further steps are required to achieve full compliance with the revised NATO Financial Regulations, particularly those articles on internal control, risk management and internal audit

These observations are summarised in the Letter of Observations and Recommendations (Annex 4).

The Board also followed up on the status of observations from its previous years' audits and noted that two were settled, one was outstanding, and two were superseded by Observations 1 and 3 (Annex 4).

For NAHEMO's Formal Comments see the Letter of Observations and Recommendations (Annex 4).

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF

THE NATO HELICOPTER MANAGEMENT ORGANISATION

(NAHEMO)

FOR THE YEAR ENDED 31 DECEMBER 2015

**REPORT OF THE INTERNATIONAL BOARD OF AUDITORS
FOR NATO TO THE NORTH ATLANTIC COUNCIL**

Report on the Financial Statements

The International Board of Auditors for NATO (Board) audited the accompanying Financial Statements of NAHEMO, which comprised the Statement of Financial Position as at 31 December 2015, and the Statement of Financial Performance, Statement of Changes in Equity and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The Board also audited the Statement of Budget Execution for the year ended 31 December 2015.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the NATO Accounting Framework and the requirements of the NATO Financial Regulations as authorized by the North Atlantic Council (NAC). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit, which is conducted in accordance with our Charter and international standards on auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, due to fraud or error. In making those risk assessments, internal control relevant to the entity's preparation and presentation of financial statements is considered in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. An audit also includes evaluating the appropriateness of accounting policies used, the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Basis for Qualified Opinion on the Financial Statements

The Board found that Payables to Suppliers were understated by at least EUR 26.9 million in the Statement of Financial Position. This is because the process followed by the entity in managing invoices received is done out of the financial system, and only after all validations are completed the invoices are recognized as payables. This results in a systematic delay in invoices being recognised as liabilities for the entity.

The Board also found material weaknesses in internal control over financial reporting, including an insufficient review of the financial statements, which have led to material misstatements in the financial statements. The details of these misstatements are reported in Observation 3 of the Letter of Observations and Recommendations accompanying this report.

Opinion on Financial Statements

In our opinion, except for the effects and possible effects of the matters described in the *Basis for Qualified Opinion on the Financial Statements*, the financial statements present fairly, in all material respects, the financial position of NAHEMA as of 31 December 2015, and of its financial performance and its cash flows for the year then ended are in accordance with the NATO Accounting Framework.

Report on Compliance

Management's Responsibility for Compliance

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the financial transactions and information reflected in the financial statements are in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations as authorized by the North Atlantic Council (NAC).

Auditor's Responsibility

In addition to the responsibility to express an opinion on the restated financial statements described above, our responsibility includes expressing an opinion on whether the financial transactions and information reflected in the financial statements are, in all material respects, in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations. This responsibility includes performing procedures to obtain reasonable assurance about whether the funds have been used for the settlement of authorized expenditure and whether their operations have been carried out in compliance with the financial and personnel regulations in force. Such procedures include the assessment of the risks of material non-compliance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Basis for Adverse Opinion on Compliance

The NATO Financial Regulations requires the establishment of a system of internal control. NAHEMA has implemented new contracting management procedures that do not comply with the concept of internal control as described in the revised NATO Financial Regulations. The details of these instances of non-compliance are reported in Observation 1 of the Letter of Observations and Recommendations accompanying this report.

Furthermore, the Board found material weaknesses in internal control over financial reporting.

Opinion on Compliance

In our opinion, because of the significance of the matters described in the *Basis for Adverse Opinion on Compliance*, the financial transactions and information reflected in the financial statements are not in compliance with the NATO Financial Regulations. The opinion in respect to compliance with the NATO Civilian Personnel Regulations is not modified.

Brussels, 23 August 2016

Lyn Sachs
Chairman

INTERNATIONAL BOARD OF AUDITORS FOR NATO

LETTER OF OBSERVATIONS AND RECOMMENDATIONS

FOR THE NATO HELICOPTER MANAGEMENT ORGANISATION

(NAHEMO)

FOR THE YEAR ENDED 31 DECEMBER 2015

Introduction

The International Board of Auditors for NATO (Board) audited the NAHEMO Financial Statements for the year ended 31 December 2015, and issued a qualified opinion on the financial statements and an adverse opinion on compliance with the NATO Financial Regulations. The opinion in respect to compliance with the NATO Civilian Personnel Regulations is not modified.

Observations and Recommendations

During the audit, the Board identified five observations and provided recommendations. Observation 1 impacts the audit opinion on compliance; Observation 2 impacts the audit opinion on financial statements; Observation 3 impacts both the audit opinion on financial statements and compliance; Observations 4 and 5 do not impact the audit opinion. The observations are summarised below:

1. Contract management procedure does not comply with NATO Financial Regulations.
2. Payables to suppliers in the Statement of Financial Position understated for at least EUR 26.9 million.
3. Lack of review on the financial statements revealed material weaknesses in internal control over financial reporting.
4. Return of a National contribution already received by NAHEMA does not comply with NAHEMO Financial Rules and Regulations.
5. Further steps are required to achieve full compliance with the revised NATO Financial Regulations, particularly those articles on internal control, risk management and internal audit

The Board also followed up on the status of observations from its previous years' audits and noted that two were settled, one was outstanding, and two were superseded by Observations 1 and 3.

This Letter of Observations and Recommendations was formally cleared with NAHEMO and the formal comments are included.

1. CONTRACT MANAGEMENT PROCEDURE DOES NOT COMPLY WITH REVISED NATO FINANCIAL REGULATIONS

Reasoning

1.1 Article 12 of the NATO Financial Regulations (NFRs) states that “*Heads of NATO bodies shall ensure the necessary internal management functions are in place to support effective internal control.*” In order to meet the desired internal control standards, the Financial Controller shall establish a system of internal financial and budgetary control, embracing all aspects of financial management.

1.2 Article 12.3 of NFRs states that “*internal control activities shall include, but not be limited to: segregation of duties, and (...) adequate audit trails and data confidentiality, integrity and availability in information systems.*”

1.3 Segregation of duties, where tasks for a specific business process are disseminated among multiple users, is a fundamental concept of internal control. The objective of segregation of duties is to minimize the risk of fraud and error.

1.4 An Internal Note on the contract management process, signed by the prior General Manager on 16 April 2013, presents a detailed description of all phases of the contracting cycle in NAHEMA. Phase 4 describes how the contract execution and follow-up is to be performed. Specifically, it states “When a milestone is deemed as achieved, the contractor sends directly the related invoices with the associated evidence to NAHEMA Administrative Division (NAHEMA/ADM) for payment.”

Observations

1.5 The Board found that the General Manager formalized a new NAHEMA Contracting Management Process, through NAHEMA Internal Note 60/2015, dated 09 November 2015. This process contains a modification for the delivery of the invoices sent by NAHEMA contractors. According to it, invoices shall now be sent directly to the NAHEMA Senior Central Secretary, where they will be managed and checked preliminarily by the Agency’s Senior Management in order to verify if invoices meet the initial requirements, after which they will be sent to the Administration Division to initiate the payment process.

1.6 The Board found that this modification happened without the formalization of the new procedure since April 2014, and recommended in the audit report to the 2014 Financial Statements to finalize the documentation of the Internal Contracting Process Directive, ensuring compliance with the NFRs.

1.7 The Board found that the new Contracting Management Process does not comply with the concept and content of Internal Control as described in Article 12 of the NFRs. Sending the invoices directly to Senior Management prevents the Financial Controller from

exercising his responsibility on internal financial and budgetary control. It therefore represents management's override of internal control.

1.8 In addition, the contract management process implies that invoices are not recorded in the financial system until they have been received, dated by Senior Management, validated by Contracting Section and sent to Finance. This process hinders the traceability and transparency of invoices' management and thus does not comply with Article 12.3 of NFRs, which states that internal control shall include adequate audit trails and data confidentiality, integrity and availability in information systems.

1.9 The Board also found that the new contract management procedure resulted in invoices related to goods and services received in 2015 not being properly tracked or recorded in the financial statements. Even though these invoices were supported by certifications and letters of achievement, and invoices received by NAHEMA, the procedure followed by NAHEMA prevents to report the correct value of invoices at year-end as "Payables to Suppliers". The financial impact of the misstatement is described below in Observation 2.

Recommendation

1.10 The Board recommends that NAHEMA modify the Contracting Management Process to ensure the establishment of a sound internal financial control by the Financial Controller, in line with the NFRs. Invoices should be sent by suppliers directly to the Financial Controller's office, to ensure full visibility and full availability of data in the financial system. The receipt and rejection of invoices should be done under the supervision of the Financial Controller, who is responsible for the administration of financial and budgetary controls, in a transparent manner that includes traceability and appropriate documentation of other parties' participation to the process (Contract division and/or others).

NAHEMO's Formal Comment

NAHEMA will comply with the IBAN's recommendation.

The risk conditions (structural and technical) that called for the process review as per the Financial Statements 2014 have been mitigated nowadays.

2. PAYABLES TO SUPPLIERS IN THE STATEMENT OF FINANCIAL POSITION UNDERSTATED BY AT LEAST EUR 26.9 MILLION.

Reasoning

2.1 Accounts Payable are amounts due to other parties arising from claims to cash or other assets and are recorded as liabilities when other entities establish claims against the reporting entity either based upon legal provisions, such as due date or the date goods or services were provided.

2.2 Payables shall be recognized when the outflow of resources embodying economic benefits from the entity is probable, and the cost/value of the obligation can be measured reliably.

Observations

2.3 The Board found that NAHEMA recognizes Payables to Suppliers only when most of the activities related to management of invoices were completed, as explained in Observation 1. The process followed by the agency means that actual management of invoices is done out of the financial system, and only after all validation is completed are the invoices recorded for payment in the financial system. This creates a systematic delay in recognising invoices as liabilities for the entity.

2.4 The balance of Payables to Suppliers reported by the entity in the Financial Statements only includes the value of invoices recorded in the system. Invoices received, but still under “pre-check” and/or validation, are not included in the balance of payables. As a result, the value of Payables to Suppliers at year-end is systematically understated. The Board estimates that the understatement at 31 December 2015 is at least EUR 27 million. Due to weaknesses in how invoices are recorded in the register maintained by NAHEMA outside of the financial system, it is not possible to fully estimate the amount of understatement.

Recommendation

2.5 The Board recommends that all invoices are recorded, as first received by NAHEMA, in a central list in the financial system before the validation process done by different entity’s Sections. At that moment, invoices shall be recorded as Payables to Suppliers, and at year-end all amounts of outstanding payables should be reported in the financial statements. Only invoices rejected for valid and documented reasons should be deducted from the payable balance.

NAHEMO’s Formal Comment

NAHEMA is tracking and tracing invoices with an Excel spreadsheet in the so called pre-check phase. This has been current procedure since a lot of years and was created because it was, due to the accounting system and the lack of capacity,

impossible to register all invoices directly in the accounting system. Especially due to the high percentage of rejections in those days (40%) this would have caused a tremendous additional workload compared with the potentiality of NAHEMA's resources. Nowadays the percentage of rejections is decreasing. After the pre-check phase invoices are ready for finance and registered in the accounting system. As already stated during the Audit of the Financial Statement 2014, in September 2015 the migration to a new version of accounting system started and it is currently on going.

NAHEMA will follow IBAN's recommendation and will continue to implement additional functionalities in the new accounting system/suite to optimize the flow.

3. LACK OF REVIEW ON THE FINANCIAL STATEMENTS REVEALED MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Reasoning

3.1 The NFRs include several aspect related to internal financial and budgetary control. In this line, Article 6 states that Heads of NATO bodies shall have a Financial Controller who exercises in their name responsibilities for the budgeting, accounting and reporting activities of the NATO body.

3.2 Article 12.2 states that *“in order to meet the desired internal control standards the Financial Controller shall establish a system of internal financial and budgetary control, embracing all aspects of financial management (...).”*

3.3 According to Article 12.3, internal control activities shall include, among others, segregation of duties. Segregation of duties where tasks for a specific business process are disseminated among multiple users, is a fundamental concept of internal control. The objective of segregation of duties is to minimize the risk of fraud and error. In the exercise of those control functions, it is essential to have in place a process for the review of the financial statements. This will help to ensure that they contain all the relevant information, as well as ensure compliance with accounting principles and practices.

Observations

3.4 The Board found material weaknesses in internal control over financial reporting. The Board found little evidence of management review of the financial statements, including by the Financial Controller. This resulted in the following misstatements and incomplete disclosure of information in the financial statements:

Lack of disclosure of the value of milestones achieved and certified at year end

3.4.1 When NAHEMO is acting as agent on behalf of the nations, when milestones have been achieved by industry and certified but invoices not yet received, disclosure of these amounts should be made in a note to the financial statements, as recommended by the Board over the last two years.

3.4.2 The Board found that at least EUR 26.44 million certified as milestones achieved were not disclosed as required above. This figure corresponds only to the amounts certified in November and December 2015, therefore, the total value of works received could exceed this amount.

Classification of Revenue in the Statement of Financial Performance is incorrect

3.4.3 The Statement of Financial Performance discloses Financial Revenue as EUR 10,797,000. However, this balance actually corresponds to Revenue, while Financial Revenue is actually zero. There is therefore an error in the classification of the accounts.

Incorrect balance of Payables to Nations in 2014 in Note 6

3.4.4 Note 6 discloses as balance of Payables to Nations in respect of the Operating Budget for the year 2014 a balance of EUR 792,022,000. This figure is incorrect, as it corresponds to the balance of the year 2013 instead of 2014. The correct figure should be EUR 873,620,255.

3.4.5 Also, the total balance of Payables to Nations in respect of the Administrative Budget is presented as EUR 1,504,000, whereas the correct value is EUR 1,808,000.

Incorrect disclosure of lapses for the Administrative Budget in the Budget Execution Statement

3.4.6 Amounts disclosed as lapses for the year 2015 are incorrect. Due to following errors for funds carried forward from 2014 to 2015, the lapsed funds 2015 are disclosed for a value of EUR 659,000. Lapsed funds in 2015 should be total commitments less total expenses, or EUR 639,000.

3.4.7 Nevertheless, the total sum of lapsed funds in 2013, 2014 and 2015 presented for Administrative Budget are correct.

Statement of Cash Flow presents an incorrect value of surplus/deficit and depreciation

3.4.8 The value of surplus/deficit disclosed in the Statement of Cash Flow is zero. However, the correct value is a deficit of EUR 32,000, as disclosed in the Statement of Financial Performance (for the administrative budget). Also, the Statement of Cash Flow does not adjust surplus/deficit for the amount of depreciation expense for Property, Plant and Equipment or intangible assets, for a value of EUR 32,000.

Disclosure of incorrect information

3.4.9 The first part of the financial statements, which discloses General Information, presents an incorrect statement. It states that "NAHEMO Financial Regulations, compliant with the NFR (dated May 2015), were approved by the SC in December 2015 and sent for assessment to NATO on 29th December 2015." This is incorrect, because these NAHEMO Financial Regulations were not complying with the NFRs, and as a result, were not officially approved by the North Atlantic Council.

3.4.10 Note 2 discloses a negative Receivable from Nations related to Administrative Budget for EUR 1,287,000. This balance should be shown as "Payable to Nations", since they offset it from the 2nd 2016 call for funds on 18 March 2016.

3.4.11 In the table of Payables to Nations related to the Operational Budget in Note 6, an amount of EUR 774,763,000 is disclosed as Unearned Revenue. Since NAHEMA considers itself acting as an agent for its Nations, as stated in the accounting policies, these amounts never become 'revenue' of NAHEMA and thus should not be disclosed as Unearned Revenue.

3.4.12 Note 7 refers to a change in accounting policy in respect to Unearned Revenue and advances for Operational Budget. This change actually took place in 2012, and was consistently applied since that year.

Recommendation

3.5 The Board recommends that NAHEMA strengthen its system of internal control by improving the preparation, review and reporting process of the Financial Statements. The Board highlights that management takes responsibility for the preparation and presentation of the entity's financial statements. The review procedures are necessary to provide a reasonable basis for obtaining assurance that financial statements are in compliance with the applicable financial reporting framework.

NAHEMO's Formal Comment

Observation number 3.4.1 + 3.4.2 "Lack of disclosure of the value of milestones achieved and certified at year end":

As there is no official record on this IBAN's recommendation arising from the past, the requested note was not included in the notes to the Financial Statements.

NAHEMA will comply with this recommendation in the future.

Board's position

This was discussed verbally with NAHEMA during the past two years, and led to a restatement of the 2013 financial statements. The 2014 financial statements, though, did not present these disclosures.

Observation number 3.4.3 "Classification of Revenue in the Statement of Financial Performance is incorrect":

As NAHEMA has changed to the new layout of the Statement of Financial Performance, the revenue has been shown in the row "Financial Revenue" instead of showing it in the row "Revenue" due to a copying error.

Observation number 3.4.4+ 3.4.5 "Incorrect balance of Payables to Nations in 2014 in Note 6":

Note 6 to the Statement of Financial Position shows in column year 2014 two figures of the year 2013 due to a copying error. The 2015 figures in the Notes are all correct. The figures in the Statement of Financial Position are correct for both years, 2014 as well as 2015.

Observation number 3.4.6 + 3.4.7 "Incorrect disclosure of lapses for the Administrative Budget in the BES":

IBAN states: "the total sum ... presented for admin budget are correct". Hence it is understood by NAHEMA that the figures are disclosed correct, transparent and verifiable to the reader of the Financial Statements.

Board's position

While the total for the three years was correct, the value presented for 2015 lapses was not correct. This also meant that the values presented for the three years did not actually sum to the total presented.

Observation number 3.4.8 "Statement of Cash Flow presents an incorrect value of surplus/deficit and depreciation":

As the Statement of Cash Flow has been made based on the "Indirect Method" for several years and therefore the value of surplus/deficit presented in the Statement of Cash Flow has always been shown at zero (never questioned by IBAN before), it has been done like that for 2015 as well.

NAHEMA will add the actual value of surplus/deficit disclosed in the Statement of Financial Performance in the row surplus/deficit as well as in the row depreciation

of the Statement of Cash Flow with reversed +/- value as requested by IBAN in the following years' Financial Statements.

Observation "Disclosure of incorrect information":

3.4.9: NAHEMO Financial Regulations have been endorsed by SC and sent to NAC for approval in December 2015. Following some NATO remarks and further recommendations in March 2016 (only after the Financial Statement issue), a new proposal of NAHEMO FR have been re-drafted and sent back to NAC for approval end of June 2016. NAHEMA is waiting for NAC decision.

3.4.10: In order to offset payables from calls for funds, credit memos have to be created in the accounting system, thus converting payables accounting into called assessments accounting in order to match the credit memos to the calls for funds. The credit memos (representing a liability, payable to Nations) were finally applied to the calls for funds on 18 March 2016, what is explained in detail in the Financial Statements notes. This was common practice without any IBAN remark in the past.

Board's position

The Board maintains its position, and is simply stating that a negative receivable should be presented in the financial statements as a liability rather than an asset.

3.4.11: NAHEMA has just continued to use commonly used wording as done in previous years without IBAN comments on that. Following IBAN recommendation, NAHEMA will replace the wording "unearned revenue" by the wording "unused contributions" in the following years' Financial Statements.

3.4.12: NAHEMA will remove the sentence in the following years' Financial Statements. NAHEMA will comply with IBAN's recommendation.

4. RETURN OF A NATIONAL CONTRIBUTION ALREADY RECEIVED BY NAHEMA DOES NOT COMPLY WITH NAHEMO FINANCIAL RULES AND REGULATIONS

Reasoning

4.1 Article 9.2 of the NAHEMO General Memorandum of Understanding (MOU) states that *"each participant will provide the funds required by the International Program Office."*

4.2 Article 8.1 of NAHEMO MOU relating to the Production Phase (PI&P) states that *"the general principles with regard to funding and payment as laid down in Section IX of the General MOU and the NAHEMO Financial Rules and Regulations will apply."*

4.3 NAHEMA Financial Rules and Regulations includes a detailed description of the program funding and process for call for contributions. Article 21 states that *“Contributions shall be assessed on the basis of the approved budget authorisations and in accordance with the actual cash requirements of NAHEMA.”* According to Article 27, the amounts shown in the Operational Budget will be requested by NAHEMA, according to NAHEMA's assessment of the funds required. Article 29 describes how contributions due from Nations are assessed, taking into account cash available on the Nations related bank accounts from previous years calls for funds, credits carried over from the preceding financial year, and miscellaneous income of the preceding financial.

Observations

4.4 A first call for funds for 2015 PI&P budget to one NAHEMO Nation was made on 20 November 2014 for EUR 132.3 million. The amount called was calculated according to the contributions assessment as described in NAHEMA Financial Rules and Regulations, approved by NAHEMO Nations. The call was observed and funds received in NAHEMA's bank account.

4.5 On 10 November 2015, that same Nation requested a transfer of EUR 20 million from the NAHEMA bank account back to its National Government account. The request was supported by a statement from that Nation that funds available in NAHEMA's account exceeded by EUR 20 million the expected payments by year end.

4.6 By letter sent on 23 November 2015, the General Manager agreed to the requested transfer, but confirmed that those EUR 20 million were needed to cover the expected payments for the first months of 2016. Consequently, on 26 November 2015 NAHEMA called the EUR 20 million in addition to the second 2015 PI&P call for funds, to cover the difference of cash available in relation to the payment's forecast. Eventually, that Nation returned the money back on 7 January 2016.

4.7 The Board found that it is not for the Nations to assess the need for money to cover expected payments. That is NAHEMA's responsibility, as stated in the NAHEMO General MOU and NAHEMA Financial Rules and Regulations. In fact, NAHEMA's assessment of the first call was correctly estimated, as supported by the General Manager's letter and confirmed by the immediate inclusion of an additional EUR 20 million to the second 2015 call for funds, issued on the very same date the funds were returned to the Nation.

4.8 The request of the contribution refund from that Nation implied that the objective process for calculation of contributions was deviated from the rules. The Board found that this is not in line with the funding concept of the NAHEMO programme and General Manager's responsibility, as defined in NAHEMO Charter and MOUs.

Recommendation

4.9 The Board recommends the NAHEMO Nations adhere to the regulations applicable and approved by them. Otherwise, if NAHEMO Nations consider that rules in force are not fit for purpose of the objectives of the program, they should assess and amend them accordingly.

NAHEMO's Formal Comment

NAHEMO will adhere to or amend their regulations.

5. FURTHER STEPS ARE REQUIRED TO ACHIEVE FULL COMPLIANCE WITH THE REVISED NATO FINANCIAL REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT

Reasoning

5.1 The North Atlantic Council (Council) approved revised NFRs effective as from 4 May 2015. This was the first time in more than 30 years that the NFRs have been revised. While Article 36 of the revised NFRs states that “*the NFRs will take effect immediately (i.e. 4 May 2015)*”, Council also agreed that full implementation was only expected by the end of 2015. Furthermore, Article 4 of the revised NFRs states that “*the finance committee shall approve a set of Financial Rules and Procedures (FRPs) that provide additional guidance to ensure the effective implementation of the revised NFRs.*”

5.2 The revised NFRs are more explicit than the previous version in the areas of Risk Management (Article 11), Internal Control (Article 12), Internal Audit (Article 13) and the establishment of an Audit Advisory Panel (Article 16). They require the establishment of effective, efficient and economical risk management procedures, that there are necessary management functions in place to support effective internal control, and that NATO bodies have access to a permanent, adequately resourced, internal audit function that is compliant with internationally accepted Internal Auditing Standards. They also require the establishment of an Audit Advisory Panel. Furthermore, Article 3 requires, as a demonstration of responsibility and accountability, that both the annual Financial Statements and Statements of Internal Control be signed by both the NATO Head of Body and Financial Controller

5.3 These revised NFRs provide an opportunity for NATO bodies to solidify and codify their overall internal control framework, including risk management. They also provide internal audit functions, whether in-house or outsourced, with clear expectations that they must be in a position to fully evaluate the effectiveness and efficiency of operations and internal controls, including risk management. Finally, the Council will ensure that the detailed FRPs are consistent, to the maximum extent possible, across NATO.

Observations

5.4 The Board found that NAHEMA made some progress, but more steps are still needed, to achieve full compliance with all of the revised NFRs. This result, though, is not unexpected considering that the revised NFRs were only approved by Council in May 2015 and that the more detailed FRPs, which were required by Article 4 of the revised NFRs, have still not yet been approved by the NAHEMO nations.

5.5 Due to the lack of detailed regulations throughout 2015, the Board considers 2015 to be a transition year. It has chosen to report on the progress against certain of these revised Articles of the NFRs, and to make recommendations against that progress. The Board reports the status of the following areas:

Article 3 Responsibility and Accountability

5.5.1 The Board found that only the NAHEMA General Manager signed the Statement on Internal Control. The Financial Controller deliberately did not sign it because the revised Contracting Management Process overrides his financial internal control responsibility. Both the General Manager and Financial Controller, however, signed the financial statements.

Article 11 Risk Management

5.5.2 The Board found that NAHEMA has not yet developed a Risk Management Plan, nor documented a Risk Management policy or framework, and procedures. Such a policy is essential in order to ensure and to clearly demonstrate to others that efficient, effective and economic risk management procedures are in place and that risk management is aligned with NAHEMA's overall operational and financial objectives.

5.5.3 The Head of Management Cell, designated as risk manager, developed an entity-wide risk register. It identifies risks relevant to Information Technology, Personnel, Financial, Facilities/Equipment, Processes and Programme output. It is updated every year, its last update was done in January 2016. The risk register includes for each risk a description, risk assessment, and mitigation plan. However, it does not set risk tolerance limits nor suggests actions in case the risk is realised.

Article 12 Internal Control

5.5.4 The Board found that NAHEMA has not yet adopted and complied with a specific Internal Control Framework. Also, no common NATO-wide Internal Control Framework has been chosen. Such a framework, with the appropriate supporting documentation and procedures, is essential in order to ensure and to clearly demonstrate to others that a complete system of internal financial and budgetary controls is in place.

5.5.5 The Board's audits of NAHEMA for 2014 and 2015 Financial Statements revealed material weaknesses in internal control which led to audit qualifications in respect to compliance with the internal control requirements of the NFRs. In addition, until a specific Internal Control Framework is adopted and supported via a systematic documentation of internal control procedures, the Board will not be in a position to state that there is a full system of internal control in place that is in accordance with Article 12 of the revised NFRs.

Article 13 Internal Audit

5.5.6 NAHEMA does not have a specific dedicated position of Internal Auditor. The agency carried out three Internal Audit tasks: two of them were performed by the Finance and Accounting Committee (FAC) members, and a third one was carried out by the Deputy General Manager. However, the generally accepted standards for internal audit, namely professionalism and independence, were not complied with.

5.5.7 The Board found that internal audit activities were very limited in volume and substance. Acknowledging the limitation of resources for internal audit activity that NAHEMA faces, the Board, also notes that NAHEMA did not seek alternative solutions, such as outsourcing or sharing internal audit function with other NATO entities. As a result, it cannot be stated that NAHEMA has undertaken internal audit activities to fully evaluate, throughout the organisation, the risk exposures and the effectiveness of internal controls in managing risk within the governance, operations and information systems as required by Article 13.

Article 16 Audit Advisory Panel

5.5.8 The Board found that the NAHEMA has not yet established an Audit Advisory Panel as required by Article 16.

Recommendations

5.6 The Board recommends that:

- a) NAHEMA prepare an entity-wide risk management policy and a risk management plan, and that risk register is further developed and employed throughout all of the NAHEMA departments and operations. In the Board's opinion, this should be coordinated to ensure consistent treatment across NATO Bodies.
- b) NAHEMA develop a specific, internationally accepted standards based Internal Control Framework, and that there be a systematic and detailed documentation of internal control procedures supporting the framework. In the Board's opinion, this should be coordinated to ensure that a consistent framework is chosen across NATO Bodies.

- c) NAHEMA, through outsourcing or sharing with other NATO entities if considered to be more cost effective, ensure internal audit activities are evaluating risk management and internal control.
- d) NAHEMA establish an Audit Advisory Panel.
- e) NAHEMA take the necessary steps to strengthen internal control, as stated in Observations 1 and 3.

NAHEMO's Formal Comment

Article 11 Risk Management and Article 12 Internal Control

NAHEMA acknowledges that new NFRs call for reinforced risk management and internal control frameworks. NAHEMA will take into consideration the IBAN recommendations.

Article 13 Internal Audit

In addition to yearly IBAN external audit, since 2013, NAHEMA has set up 3 to 4 internal Audits per year according to SC guidelines. NAHEMA will take into consideration the IBAN recommendations on the basis of a cost-efficiency assessment.

Article 16 Audit Advisory Panel

Once approved by NAC the new NAHEMO FRs, the AAP will be established accordingly.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

The Board reviewed the status of the observations and recommendations arising from previous audits. The observations and their status are summarised in the table below.

NAHEMO's Formal Comment

NAHEMA has no comments.

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
1. 2014 Financial Statements Audit Report IBA-AR(2015)29 Contract management procedure changed without due process.	NAHEMA documented in 2015 the Contracting Procedure Directive formalized by Internal Note, signed by the General Manager. However, it does not comply with the NATO Financial Regulations.	Observation Superseded by current year Observation 1.
2. 2014 Financial Statements Audit Report IBA-AR(2015)29 Doubtful collection of EUR 126 million of receivables related to the operational budget not recognized or disclosed.	NAHEMA corrected in June 2015 the accounting posting of Receivables from Nations for EUR 126 million, since the call for funds was considered cancelled.	Observation Settled.
3. 2014 Financial Statements Audit Report IBA-AR(2015)29 Steering Committee National Representatives did not sign the declarations of related parties.	All Steering Committee's members have signed the declarations of related parties.	Observation Settled.
4. 2014 Financial Statements Audit Report IBA-AR(2015)29 Lack of review on the financial statements revealed material weaknesses in Internal Control over financial reporting.	Observation outstanding, but misstatements found in 2015 F.S. audit differ of those reported in 2014 F.S. audit. Therefore, this observation is superseded by Observation number 3, which include misstatements and errors found this year.	Observation superseded by current year Observation 3.

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
	<p>Actions taken on prior year observation:</p> <ul style="list-style-type: none"> - Statement of Financial Position presents assets and liabilities not balanced due to payables to Nations in respect of Operational Budget understated for EUR 43,918. Corrected, 2015 Statement of Financial Position is balanced. - Incomplete presentation of Budget Execution Statement: Corrected, both Operational and Administrative Budget Execution Statements contain disclosure's requirements. - Recording of accruals for Administrative Budget: Corrected, accruals are shown in Budget Execution Statement for Administrative Budget. - No disclosure of Representation Allowance in the Financial Statements: Corrected, Financial Statements contain Representation allowance disclosures. 	
<p>5. 2011 Restated Financial Statements Audit Report IBA-AR(2013)15</p> <p>Unnecessarily high holdings of cash</p>	<p>The Board found that following the new budgetary approach based on expected milestones to be achieved and paid, the average level of cash on NAHEMA bank accounts has been reduced by 39.2% from 2014 to 2015 after a reduction of 14.6% from 2013 to 2014. This is good progress.</p> <p>However, cash level still exceeds the limits as per Article 29.3 of the revised NATO Financial Regulations. The monthly average cash balances</p>	<p>Observation Outstanding.</p>

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OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
	<p>represent 59% of expenses in 2015.</p> <p>The Board recommends continued efforts to work with Nations to restrict total currency holdings to the minimum required to meet forecast payments prior to receipt of the following contribution instalment.</p>	

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NAHEMA

"UNITE TO SUCCEED"

**NATO HELICOPTER D&D PRODUCTION AND LOGISTICS
MANAGEMENT AGENCY**



NAHEMO FINANCIAL STATEMENTS FOR
FINANCIAL YEAR 2015

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NAHEMO Financial Statements 2015

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ANNEX I

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ANNEX II

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Statement on Internal Control

GENERAL INFORMATION

The "NATO Helicopter for the 1990s Design and Development, Production and Logistics Management Organisation" (NAHEMO) is a NATO subsidiary body established with a view to meet the requirements of the French Republic, the Federal Republic of Germany, the Republic of Italy and the Kingdom of The Netherlands for the Design and Development, Production and In-Service Support of a NATO Helicopter for the 1990s (NH90). The NATO Council approved the NAHEMO Charter on 7th February 1992.

NAHEMO consists of the Steering Committee (SC) composed of representatives of the Participants and the Agency called NAHEMA.

On 8th June 2000 the Memorandum of Understanding (MOU) for the Production (P) Phase of the NH90 including Production Investment (PI) and Initial In-Service Support (IISS) was signed.

With the signature of the Addendum No. 1 to the MOU on 21st June 2001 Portugal joined the Programme.

On 17th July 2004 the NH90 Community MOU (CMOU) between NAHEMO Nations and Nordics Standard Helicopter Programme (NSHP) Nations (Finland, Norway and Sweden) has been signed with the aim that NAHEMA provides support in standardisation, qualification and interoperability to the Nordics. Australia and Belgium were admitted to the CMOU in 2008/2009.

The Programme Arrangement No. 1 to the CMOU, signed on 6th December 2004, establishes the NSHP Participants' contribution to the NAHEMA Administrative Budget (AB) starting from 2005.

With the signature of the NH90 Belgian Production MOU on 12th June 2007, Belgium joined the Programme.

On 23rd December 2004 the NH 90 ISS (In-Service Support) MOU between NAHEMO Nations has been signed to set out the framework for the In-Service Support Phase of the NH90. With the signature of the amendment No. 1 Belgium on 25th October 2006 was admitted to the ISS MOU.

On 29th May 2013 the amendment No. 4 to the CMOU has been signed concerning the admission of the Kingdom of Spain and New Zealand.

In the year 2014 Portugal decided to withdraw from the NH90 Programme. The Addendum n°6 to the NAHEMO Charter dealing with Portugal's withdrawal from the NH90 Programme was brought in force on 16th January 2015. Amendments to the existing MOU are under the approval process.

NAHEMA is applying the NATO Financial Regulations (NFR). The NAHEMO Financial Rules and Regulations were approved in September 1994 by the SC and have been implemented since (last issue approved by the SC on 4th December 2012).

NATO Resource and Planning Board, AC/335-N(2015)0088, dated 11 December 2015, requires all NATO entities to consider the recommended new common layout structure for the preparation of the 2015 financial statements. NAHEMA has followed this recommendation by adopting the new layout for the NAHEMO 2015 Financial Statements in order to improve the comparability of its financial statements with the financial statements prepared by other NATO bodies.

NAHEMO Financial Regulations, compliant with the NFR (dated May 2015), were approved by the SC in December 2015 and sent for assessment to NATO on 29th December 2015.

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The main goals of NAHEMO for years 2015 and after are:

- To ensure the delivery of serviceable and sustainable H/C (production and retrofits)
- To put into service the contracted capacities and to develop new operational capabilities
- To put in place an effective and efficient in-service support
- To enhance the affordability and cost efficiency of the programme
- To further develop the efficiency of the NH90 programme organization

NAHEMA is maintaining two different budget types:

The Administrative Budget (AB) for the administrative costs of NAHEMA.

The Operational Budget (OB) is composed of the following three chapters:

- Chapter 1: expenditures related to Design and Development activities for FRA, DEU, ITA, and NLD, under the legal framework of the D&D MOU;
- Chapter 2: expenditures related to Production Investment, Production, Integrated Logistics Support and Initial In-Service Support for FRA, DEU, ITA, NLD under the legal framework of the PI/P MOU and for BEL under the BEL Prod MOU;
- Chapter 3: expenditures related to In-Service Support activities for all NH90 Community Nations (NAHEMO and non-NAHEMO) under the legal framework of the CMOU.

The progress and status of the programme during year 2015 led to evolution regarding the financial situation 2015 compared to 2014, including:

No payment related to chapter 1, considering that the associated Design and Development activities are mostly completed and the remaining last payments should occur in 2016.

Increase of number of invoices, due to increasing activities in the scope of Chapters 2 and 3.

Forty (40) contracts (new contracts, amendments to existing contracts, purchase orders...) have been awarded to Industry in 2015, mostly in the field of In-Service-Support.

Statement of Financial Position

As of 31 December 2015
(in € '000)

	2015	2014	Note
Assets			
Current assets			
Cash and cash equivalents	393,048	646,467	1
Short term investments (over 3 month)	0	0	
Receivables	405,163	278,704	2
Prepayments	0	0	3
Other current assets	0	0	
Inventories	0	0	
	798,211	925,171	
Non-current assets			
Receivables	0	0	
Property, plant & equipment	69	68	4
Intangible assets	13	21	5
Other non-current assets	0	0	
	82	89	
Total assets	798,293	925,260	
Liabilities			
Current liabilities			
Payables to suppliers	12,535	47,790	6
Payables to nations in respect of AB	594	1,808	6
Payables to nations in respect of OB	782,739	873,619	6
Unearned revenue	515	1,909	7
Advances	1,828	0	7
Short term provisions	0	0	
Other current liabilities	0	0	6
	798,211	925,126	
Non-current liabilities			
Payables	0	0	
Long term provisions	0	0	
Deferred revenue	0	0	
Other non-current liabilities	0	0	
	0	0	
Total liabilities	798,211	925,126	
Net assets			
Capital contributions	0	0	
PP&E intangible assets reserves	114	170	8
Accumulated surpluses / (deficits)	(32)	(81)	11
Total net assets / equity	82	89	

The Financial Statements on pages 1 to 28 and the Annexes I, II and III hereto were issued to the International Board of Auditors for NATO on 31 March 2016.

Fortunato di Marzio
General Manager

Marius van Zeijts
Financial Controller

Statement of Financial Performance			
For the year ended 31 December 2015			
(in € '000)			
	2015	2014	Note
Revenue			9
<i>Revenue</i>			
Other revenue	0	0	
Financial revenue	10,797	10,933	
Total revenue	10,797	10,933	
Expenses			10
Personnel	(9,311)	(9,501)	
Operating	(1,237)	(1,171)	
Capital not capitalized	(55)	(46)	
Depreciation PP&E	(24)	(34)	
Depreciation Intangible Assets	(8)	(46)	
Provisions	0	0	
Value Added Tax	(194)	(215)	
Finance costs	0	0	
Total expenses	(10,829)	(11,013)	
Surplus (Deficit) for the period	(32)	(81)	11

Statement of Changes in Net Assets/Equity

For the year ended 31 December 2015

(in € '000)

	Capital contributions	Reserves	Accumulated surplus / (deficit)	Total
Balance at the beginning of the period 2014		133		133
Changes in accounting policy				
Restated balance				
Exchange difference on translating foreign operations				
Gain / (losses) on property revaluation				
Acquisition of property		37		37
Surplus /(deficit) for the period			(81)	(81)
Change in net assets/equity for the year ended 2014		(81)	81	0
Balance at the end of the period 2014		89	0	89
Changes in accounting policy				
Restated balance				
Exchange difference on translating foreign operations				
Gain / (losses) on property revaluation				
Acquisition of property		25		25
Surplus /(deficit) for the period			(32)	(32)
Change in net assets/equity for the year ended 2015		(32)	32	0
Balance at the end of the period 2015		82	0	82

Statement of Cash Flows

For the year ended 31 December 2015

(in € '000)

	2015	2014	Comments
Cash flow from operating activities			
Surplus / (Deficit)	0	0	
Non cash movements			
Impairment	0	0	
Increase / (decrease) in payables	(127,349)	129,623	
Increase / (decrease) in unearned revenue	(1,395)	(753)	
Increase / (decrease) in provisions	0	0	
(Gains) / losses on sale of property, plant and equipment	0	0	
Increase / (decrease) in net assets	8	44	
Decrease / (Increase) in receivables	(126,459)	(239,071)	
Increase / (decrease) in advances	1,828	(487)	
Adjustment of revenue recognition error 2014	(44)		IBA-A(2015)182, 04/11/2015, Observation 4.2
Net cash flow from operating activities	(253,411)	(110,644)	
Cash flow from investing activities			
Purchase of property plant and equipment / Intangible assets	(8)	(44)	
Proceeds from sale of property plant and equipment	0	0	
Net cash flow from investing activities	(8)	(44)	
Cash flow from financing activities	0	0	
Net cash flow from financing activities	0	0	
Net increase / (decrease) in cash and cash equivalents	(253,419)	(110,644)	
Cash and cash equivalent at the beginning of the period	646,467	757,110	
Cash and cash equivalent at the end of the period	393,048	646,467	

A. Accounting Policies

Accounting Period

These 2015 Financial Statements are based on the accounting records of NAHEMO as of 31 December 2015. In accordance with Article 2 of the NFR, the financial year at NAHEMO begins on 1 January and ends on 31 December of the year.

Reporting Currency

The functional and reporting currency used throughout these Financial Statements is the Euro (€). All call for funds and contributions are made in Euro.

Basis of preparation

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

Financial Reporting Framework

The NAHEMO financial statements have been prepared on the accrual basis of accounting in accordance with the International Public Sector Accounting Standards (IPSAS) issued by the IPSAS Board (IPSASB) and relevant to NAHEMO as decided by the North Atlantic Council in 2002. A list of standards issued by the IPSAS Board can be found on the following website www.ifac.org.

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

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

These financial statements represent the consolidated activities of NAHEMO and its executing agency NAHEMA.

NAHEMO financial statements have also been prepared in accordance with the accounting requirements of the NATO Financial Regulations (NFR) and the Financial Rules and Procedures (FRP) and the relevant entity directives and policies. In instances where there is a conflict between IPSAS and the NFR and FRP this has been noted.

In December 2012 NAHEMO changed its accounting policy for the treatment of accounting for revenues and expenditures in relation to operational programme revenues and expenditures.

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Therefore, these revenues and expenditures are excluded from the Statement of Financial Performance. The subject of knowing the stage-of-completion of operational programme assets from an accounting perspective is not relevant due to the change in accounting policy.

NAMEMO considers that it is acting as an agent for its member states in relation to managing the NH90 programme. As NAMEMO is not exposed to the risks or rewards of the programme and is paying Industry on behalf of NAMEMO member states it considers that it should show the net consideration received from member states for running the programme and match this to expenditures; this revenue and expenditure is equivalent to NAMEMO's AB. NAMEMA's management considers that this information provides more reliable and transparent financial reporting to users of the financial statements. The change in accounting policy is in accordance with IPSAS 9: Revenue from Non-Exchange Transactions.

NAMEMO considers that Industry controls the assets like helicopters, training media, AGE and spares until they are delivered to Nations. Liabilities for accrued expenses for the OBs are excluded from the Statement of Financial Performance and these assets are excluded from the Statement of Financial Position.

NAMEMO makes prepayments on behalf of member nations to Industry. However, these prepayments are not considered assets of NAMEMO (they are assets of the member nations) and as such are not shown as assets in the Statement of Financial Position.

Expenditure, on a cash basis, in respect of the OB can be found in the Budget Execution Statement.

Changes in accounting policy

The same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria set in IPSAS 3. For the 2015 Financial Statements the accounting policies have been applied consistently throughout the reporting period.

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

Assets – Current Assets

The entity holds the following types of current assets:

a. Cash and cash equivalents

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

b. Receivables

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

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

Contribution receivables are recognized when a call for contribution has been issued to the member nations.

c. Inventories

NAHEMO does not hold inventory. In this respect, purchases which might be considered inventory consist entirely of administrative operating material and regularly consumed supplies. All such supplies are expensed when purchased. The total of all such items in stock at any one date is deemed to be immaterial to these financial statements.

d. Prepayments

A prepayment is a payment in advance of the period to which it pertains and is mainly in respect of advance payments made to third parties. NAHEMO acts as an agent on behalf of member states. It makes prepayments on behalf of member nations to Industry. However, these prepayments are not considered assets of NAHEMO (they are assets of the member Nations) and as such are no longer shown as assets in the Statement of Financial Position.

Assets – Non - Current Assets

In this category, NAHEMO is reporting all assets invested for more than 12 months or receivable beyond 12 months from the closing date of the financial statements.

a. Property, plant and Equipment

Basic Principles

- Buildings are shown at their re-valued amounts, being the fair value based on internal valuations at each reporting date. NAHEMO has rented the building.
- All other property, plant and equipment are stated at historical cost less accumulated depreciation and any recognised impairment loss.
- No external evaluator to set values for assets.
- Best available information from procurement sources, industry estimates or any relevant source of information as a basis for valuation.

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

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

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PPE Category	Description	Year Depreciation	Method
Land		N/A	N/A
Structures	Buildings, Roads, Bridges	40	Straight line
Installed equipment	Equipment as part of structure such as Air conditioning units.	10	Straight line
Machinery	On board for production that can be displaced	10	Straight line
Transportation equipment		5	Straight line
Mission equipment (military Assets)	Classes to be determined	TBD	Straight line
Furniture		10	Straight line
Communication Systems	Communication equipment required for daily office operations	3 to 5	Straight line
Automated information systems	Hardware and software	3 to 5	Straight line

Impairment of tangible assets

The carrying values of fixed assets are reviewed for impairment if events or changes in circumstances indicate that they may be not recoverable. In 2015 no indication existed to review the values of fixed assets for impairment.

b. Intangible assets

According to IPSAS 31: Intangible Assets; NAHEMO recognized the set-up costs for the implementation of ORACLE modules as intangible assets. In the financial statements these set-up costs have been expensed. Depreciation is calculated using the straight line method to allocate the cost to the residual values over the estimated useful lives.

Current liabilities

a. Payables

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

b. Unearned revenue, advances and amounts owing to nations

Unearned revenue represents contributions from Nations that have been called for current or prior year ABs but that have not yet been recognised as revenue. Funds are called in advance of their need because the agency has no capital that would allow it to pre-finance any of its activities.

Advances are contributions received related to future year's ABs.

Amounts owing to nations are amounts held by or owed to NAHEMO in respect of the AB or OB. Until these amounts are expensed they are considered as owing to the member nations.

c. *Employee benefits*

IPSAS 25 prescribes the accounting treatment of the following employee benefits:

- (1) Short term benefits which fall due wholly within twelve months after the end of the accounting period in which employees render the related service;
- (2) Post employment benefits; and
- (3) Termination benefits.

Certain employees participate in the New Defined Contribution Pension Scheme administered by NATO. Contributions to these Plans are limited to matching the employees' contributions for current service.

Certain employees who have joined NATO before 1 July 2005 are members of the NATO Coordinated Pension Scheme which is a funded defined benefit plan. Under the plans and upon completion of 10 years employment with NATO, the employees are entitled to retirement benefits of 2% per year of service of final basic salary on attainment of a retirement age of 60. No other post-retirement benefits are provided to these employees. Staff members whose length of service is not sufficient to entitle them to a retirement pension are eligible for a leaving allowance.

The assets and liability for NATO's Defined Benefit Plan are accounted for centrally at NATO Headquarters and therefore are not recognized in these financial statements, whilst the employer's contribution made to the New Defined Contribution Pension Plan are expensed during the reporting period.

Non-Current liabilities

Provisions

Provisions are recognised when the entity has a legal or constructive obligation as a result of past event, and where it is probable that an outflow of resources will be required to settle the obligation, and where a reliable estimate of the amount of the obligation can be made. In 2015 NAHEMO has no provisions.

Net Assets

Net assets represent the residual interest in the assets of the entity after deducting its liabilities.

Revenue and expense recognition

a. *Revenue*

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

Revenue comprises contributions from Member Nations to fund the NAHEMO AB. It is recognized as revenue in the statement of financial performance when such contributions are used for their intended purpose as envisioned by the AB. Revenue is recognized to the extent

that it is probable that the economic benefits will flow to NAHEMO and the revenue can be measured reliably. The balance of unspent contributions and other revenues that relate to future periods are deferred accordingly.

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

b. Expenses

NAHEMO AB expenses are recognized when occurred. Accruing of expenses is based on the concept of accruing when goods and services are received.

Surplus or Deficit for the Period

In accordance with NAHEMO accounting policies NAHEMO AB revenue is recognized up to the amount of the matching AB expenses.

B. Significant Accounting Judgements and Estimates

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

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

On 10 June 2015 the PI/P CA23 was signed. Details are to be found in Annex II.

At the end of 2015 there were still credit notes for 100.227 MEuro registered to compensate for invoices in years 2016 to 2019.

C. Notes to Statement of Financial Position

Assets – Current Assets

1. Cash and cash equivalents

	December 31, 2015	December 31, 2014
	€ '000	€ '000
Petty Cash	1	1
Current Bank Accounts	293,047	596,466
Cash equivalents	100,000	50,000
Total Cash and cash equivalents	393,048	646,467

Petty cash is cash on hand locked in a safe at NAHEMA.

Deposits are partly held in interest-bearing current bank accounts in immediately available funds. Current bank accounts are held in EURO.

Cash equivalents are funds invested on short-term deposit bank accounts held in EURO.

Cash and cash equivalents included in the Cash Flow Statement equal the above figures in the Statement of Financial Position.

2. Accounts receivable

	December 31, 2015	December 31, 2014
	€ '000	€ '000
Contributions from Member Nations		
Receivable from Nations related to AB	(1,287)	(258)
Receivable from Nations related to OB	406,067	278,716
Other receivables	383	247
Total Receivables	405,163	278,705

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Contributions from Member Nations

Contributions receivables from Member Nations are recognised when called.

Receivables from Nations related to the AB funding

The accounts receivable from Nations related to the NAHEMO AB are related to the NAHEMO Nations (France, Germany, Italy, The Netherlands, Portugal and Belgium), and the non NH 90 Programme Contributing Participants Finland, Norway and Sweden (the so called NORDIC Nations) and Australia, Spain and New Zealand.

Since the Amendment No. 1 to the Production MOU has been signed (21.06.2001) the new PI/P cost share considering the participation of Portugal has to be applied.

The total yearly Administrative Costs of NAHEMA have been fixed by the Production MOU for the NAHEMO community to a ceiling amount of EUR 6.6 Million based on economic conditions of 01/01/1999. The ceiling has been increased to EUR 7.85 Million since the Addendum No. 5 to the Production MOU has been signed in September 2009. The ceiling is annually escalated using the annual NATO salaries increase and the index "Indice mensuel des prix à la consommation" published in the Bulletin mensuel de l'INSEE.

With Programme Arrangement No. 1 to the NH90 Community MOU an additional ceiling amount of EUR 750,000 on economic conditions of 01/01/1999 has been fixed for the NAHEMA activities in favour of the NORDIC Nations depending on the agreed scope of work. The NORDIC Nations contribute to the AB starting from the financial year 2005.

Since the financial year 2007 Australia is contributing to the AB.

In June 2007 the NH 90 Belgian Production MOU was signed and Belgium became the 6th NAHEMO Nation. The yearly administrative ceiling amount of EUR 110,000 for an A3 post or an amount of EUR 124,000 for an A4 post on economic conditions 01/1999 has been agreed as Belgian participation.

In May 2013 with Programme Arrangement No.1 amendment 2 to the Community MOU an additional ceiling amount of EUR 140,000 each of the Spanish and the New Zealand Contributing Participant on economic conditions 01/1999 has been agreed as annual administrative participation.

All expenses including salaries and associated costs in the frame of the AB are considered as administrative expenses.

In 2015, the NAHEMO Nations were invited to pay EUR 9,884,102, the NORDIC Nations share was EUR 946,400 and the share for Australia, New Zealand and the Kingdom of Spain was EUR 189,280 each (= EUR 567,840).

Lapsed funds 2014 in the amount of EUR 1,320,599.75 were to be offset from call for funds in 2016 as per decision 32nd Financial Administrative Committee Meeting 22nd/23rd October 2015. Respective credit memos were created in 2015 but not yet credited against call for funds. Hence, there is a negative receivable at the end of 2015 that represents de facto a payable to nations. The lapsed funds 2014 were finally offset from the 2nd call for funds 2016 on 18th March 2016.

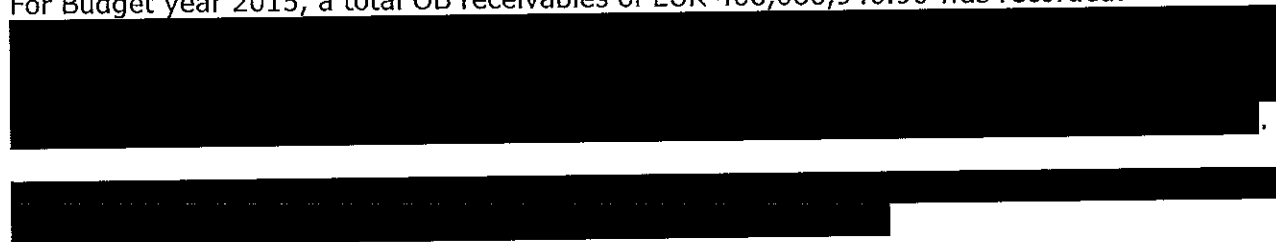
PRT shares will not be returned to PRT. The funds will remain in NAHEMA until the MOU related to the PRT withdrawal has been signed. After signature of this MOU it will be determined how the remaining PRT funds will be used.

At the end of March 2016 there were two unpaid calls for VAT reimbursement in the total amount of EUR 180,490.05.

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Receivables from Nations related to OB funding

For Budget year 2015, a total OB receivables of EUR 406,066,940.90 was recorded.



Other receivables

These are receivables as outstanding VAT reimbursements from 2014 in the amount of EUR 80,086.62 and from 2015 in the amount of 295,404.07 from the French Minister of Finance for a total of EUR 375,490.69 and accrued interest from the banks for a total of EUR 7,976.32.

According to the MOUs, VAT is payable by the country levying it, which is France in the case of the NH90 Programme. The Finance and Administrative Committee (FAC) decided that the AB is to be submitted exclusive of VAT. VAT payments are kept in a specific expense account and will be reimbursed by the French Ministry of Finance (MoF). VAT payments not reimbursed by MoF due to French internal regulations will be compensated by the French Ministry of Defence (MoD).

3. Prepayments

NAHEMO acts as an agent on behalf of member states. It makes prepayments on behalf of member nations to industry. However, these prepayments are not considered assets of NAHEMO (they are assets of the member nations) and as such are no longer shown as assets in the Statement of Financial Position.

Assets – Non-current Assets**4. Property, plant and equipment**

Changes in Property, Plant and Equipment and related depreciation for the year were as follows:

Description	Model	Quantity	Net book value € at 31/12/2014	Depreciation Years Depreciation %	2015 Depreciation €	Net book value € at 31/12/2015
Network	B	2	40.17	5 20%	40.17	0.00
Network	D	1	56.32	5 20%	56.32	0.00
Network	E	1	198.03	5 20%	198.03	0.00
Network	F	2	813.07	5 20%	813.07	0.00
Screens	A	24	680.00	4 25%	680.00	0.00
Laptop	B	30	8,990.00	4 25%	6,742.50	2,247.50
Storage	B	1	7,096.46	5 20%	2,240.99	4,855.47
Storage	C	1	14,395.75	5 20%	4,546.02	9,849.73
Network	E	1	1,209.76	5 20%	284.65	925.11
Network	F	2	9,029.86	5 20%	1,805.97	7,223.89
Server	C	1	3,887.99	5 20%	933.12	2,954.87
Server	D	2	17,766.00	5 20%	3,553.20	14,212.80
UPS	A	16	3,236.53	5 20%	732.80	2,503.73
Printer	A	2	880.69	5 20%	179.12	701.57
			68,280.63		22,805.96	45,474.67
New Acquisitions 2015						
Laptop	C	17	24,905.00	5 20%	1,209.76	23,695.24
			93,185.63		24,015.72	69,169.91

In 2015 NAHEMA purchased systems for EUR 24,905.00 that are capitalized on NAHEMO's Statement of Financial Position. The total depreciation for 2015 reads EUR 24,015.72 and results in a total net book value of EUR 69,169.91 for infrastructure, plant and equipment. According to the production contract specific PI-work tooling developed, manufactured or purchased by Industry shall be accounted on national level. This means that Nations control the tooling and they are not shown as NAHEMO's assets on its Statement of Financial Position.

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5. Intangible Assets

Changes in intangible assets and related depreciation for the year were as follows:

Description	Model	Quantity	Net book value € at 31/12/2014	Depreciation Years Depreciation %	2015 Depreciation €	Net book value € at 31/12/2015
Oracle Customization Adjustment OPSF module	OPSF module	1	5,816.80	4 25%	3,034.85	2,781.95
Oracle Customization Adjustment OPSF module Cash based	OPSF module	1	14,875.00	4 25%	5,250.00	9,625.00
			20,691.80		8,284.85	12,406.95

The total depreciation for 2015 reads EUR 8,284.85 and results in a total net book value of EUR 12,406.95 for intangible assets.

Liabilities – Current Liabilities

6. Payables

	December 31, 2015	December 31, 2014
	€ '000	€ '000
Payables AB suppliers	82	193
Payables OB suppliers	12,453	47,597
Payables to suppliers	12,535	47,790
Payables to Nations in respect of AB	594	1,504
Payables to Nations in respect of OB	782,739	792,022
Payables to Nations	783,333	875,427
Other Payables	0	0
Total Payables	795,868	923,217

Payables to AB Suppliers

In 2015 there are payables to AB suppliers for the purchase of goods and services of EUR 57,900.90 and staff members for duty trips done in 2015 of EUR 9,016.92. Payables also contain liabilities for accrued expenses in the amount of EUR 14,830.17.

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Payables to OB Suppliers

For 2015 there are payables to OB suppliers in the amount of EUR 12,453,032.20.

Payables to AB funding nations in respect of AB

This represents the net revenue containing interest, bank charges, lapses, and over/under call in 2015. The net result in the amount of EUR 594,133.08 has to be reimbursed to the nations following the MOU cost sharing agreement and NAHEMO SC decisions towards the NAHEMO AB funding.

Payables to OB funding nations in respect of OB

This represents the net revenue containing interest, bank charges, lapses, contributions from other Nations for compensation, unallocated contributions and unearned revenue. With reference to IBA-A(2015)182 dated 4 November 2015, Observation 4.2, the unearned revenue was adjusted in the amount of EUR 43,918.07. The amount of EUR 782,739,283.37 represents balances held by NAHEMO or owed from member Nations which are in turn owed to nations until they are expensed on the OB.

In the table below, the details of the total payables to Nations of EUR 594,133.08 (AB) and EUR 782,739,283.37 (OB) are explained.

Interest held on operational bank accounts have accumulated since 2007 to EUR 1,965,173.26.

Payables to Nations 2015	
Payables to Nations in respect of AB	
	EURO € '000
Interest	0
Lapse 2015	594
Total AB Related	594
Payables to Nations in respect of OB	
	EURO € '000
Interest	1,965
Lapse NSPA 2011	105
Contribution other Nations	6
Unallocated Contributions	5,900
Unearned Revenue	774,763
Total OB Related	782,739

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Other Payables

In 2015 there are no other payables.

7. Unearned Revenue and Advances

	December 31, 2015	December 31, 2014
	€ '000	€ '000
Unearned Revenue AB	515	1,909
Advances AB	1,828	0
Total	2,343	1,909

Unearned Revenue AB and OB

Due to the change in accounting policy, there is no longer unearned revenue in respect of the OB; such amounts are restated as payables to Nations in respect of the OB.

Unearned revenue AB consists of contributions and other transfers received or receivable, but for which corresponding charges will be incurred after the reporting date. The unearned revenue liability as of 31 December 2015 was EUR 514,506.06.

If the funds are not spent by the end of the second year following the year in which they have been approved, these funds will be returned to Nations.

In note 9, it is explained how the unearned revenue 2014, contributions and revenue recognition in 2015 result in the unearned revenue 2015.

Advances AB and OB

Advances related to the AB are contributions received in advance relating to the 2016 Budget. EUR 951,836.52 was advanced contribution from Germany. EUR 875,794.48 was advanced contribution from Italy.

Due to a change in accounting policy, there are no longer advances in respect of the OB; such amounts are restated as payables to Nations in respect of OB.

Net Assets

8. PP&E and Intangible Asset Reserve

Net assets of EUR 81,576.83 are represented by PP&E and intangible asset reserve of EUR 113,877.40 minus the depreciation for 2015 of EUR 32,300.57.

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D. Notes to Statement of Financial Performance

9. Revenue

The revenue recognition is matched with the recognition of expenses against the NAHEMO AB. Contributions when called are booked as an advance under unearned revenue and subsequently recognised as revenue when it is earned.

The table below shows the revenue from exchange transactions for the AB 2014 and 2015.

	December 31, 2015	December 31, 2014
	€ '000	€ '000
<i>Revenue AB</i>		
Contributions	10,797	10,933
Revenue	10,797	10,933

The revenue recognition is matched with the recognition of expenses.

Reconciliation between Revenue and Unearned Revenue

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

The starting balance of the unearned revenue at the beginning of 2015 is EUR 1,909,347.00. The reversal for accrued expenses is EUR 71,118.03, the total amount called in 2015 reads EUR 11,558,553.28. EUR 194,427.00 was recorded for the VAT paid in 2015 to be reimbursed in future.

The revenue recognized in 2015 is EUR 10,602,691.96 for expenses and EUR 194,427.00 for VAT expenses; lapsed funds to be returned to Nations are for an amount of EUR 594,133.08. This results in unearned revenue of EUR 2,342,137.06 at the end of 2015.

Reconciliation of Unearned Revenue AB 2014 with 2015	
	EURO € '000
Unearned Revenue 31 December 2014	1,909
Reversal accruals 2014	71
Call for Funds 2015	11,559
VAT paid in 2015 to be reimbursed	194
Revenue earned in 2015	(10,603)
Revenue earned in 2015 for VAT	(194)
Payable to Governments 31 December 2015	(594)
Total unearned revenue 31 December 2015	2,342

10. Expenses

Expense recognition for the 2015 AB and previous years carried forward budgets activities are based upon actual payments made together with accrued expenses which are based on value of work completed by contractors or duty trips performed where invoices are not yet received. Depreciation for PP&E and Intangible Assets for 2015 is reflected as expense.

AB Expenses are recognized by nature within the following groups.

Personnel

All civilian Personnel expenses as well as other non-salary related expenses, in support of common funded activities. The amounts include expenses for salaries, temporary personnel, for other salary related and non-related allowances including overtime, medical examinations, recruitment, installation, and removal and for contracted consultants and training.

Contractual Supplies and Services

Contractual Supplies and Services expenses include expenses for general administrative overheads, and the maintenance costs of buildings/grounds, communication and information systems, transportation, travel expenses, representation/hospitality and miscellaneous expenses. These expenses were mainly needed to meet NAHEMOs' requirements in order to fulfil NAHEMAS' management tasks.

Operating Leases

NAHEMA rents premises and photocopiers on an operating lease. The costs of the lease are expensed in the year. The lease for buildings A and B will terminate in 2017. If the leases are cancelled by NAHEMA before the maturity of the contract, NAHEMA will be liable to pay the rental fees until the end of the contracts. The annual rent for the premises is EUR 504.900 inclusive accessory charges. The annual rent for the photocopiers is EUR 43,620.

Capital & Investment

Capital investments are still reported as expenses against the AB. Acquired assets of PP&E which exceed the materiality thresholds would be in principle capitalized and depreciated over their useful life.

The table on the next page shows the breakdown of the expense from AB exchange transactions:

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	December 31, 2015	December 31, 2014
	€ '000	€ '000
Personnel	9,311	9,501
Operating	1,237	1,171
Capital	55	46
VAT	194	215
Depreciation PP&E	24	34
Depreciation Intangible Assets	8	46
Total Expenses AB	10,829	11,013

AB expenses are recognized when occurred. Accruing of expenses is based on the concept of accruing when goods and services are received.

Reconciliation between Revenue and Expenses

The Revenue related to the AB that has been recognized in 2015 relates directly to the expenses that can be attributed to the AB. For the AB the total revenue incurred is matched with the total expenses recognized in 2015 for a total of EUR 10,829,419.73.

The depreciation for PP&E and intangible assets are reflected as expense and cannot be matched with the Revenue and therefore result in a net surplus/deficit for the year 2015 of EUR 32,300.77.

11. Surplus or Deficit for the Period

In the Statement of Financial Performance the surplus/deficit of the period of EUR 32,300.77 represent the annual depreciation expense for PP&E and intangible assets.

12. Bank Charges

In 2015 bank charges exceeded the interest earned. Hence, an amount of EUR 124.55 could not be offset from interest.

E. Related Parties Disclosure

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

The key management personnel of NAHEMA have completed a declaration stating that they have no related party relationships that could affect the operation of this reporting entity. Also National Heads of Delegations as well as Joint Executive Committee Members have completed a declaration stating that they have no related party relationships that could affect the operation of this reporting entity. NAHEMA senior management is remunerated in accordance with published NATO pay scales and does not receive loans that are not available to all staff.

Key Management Personnel

GENERAL MANAGER, grade A7
DEPUTY GENERAL MANAGER, grade A6
ADM DIVISION LEADER, grade A6
SYS DIVISION LEADER, grade A6
LOG DIVISION LEADER, grade A6

The aggregate remuneration of key management personnel was as follows during the year:

	December 31, 2015	December 31, 2014
	€ '000	€ '000
Basic salaries	715	692
Allowances	124	118
Post-employment benefits	86	83
Employer's contribution to Insurance	99	96
TOTAL	1.024	989

The Salary adjustment was +2.1% in 2015.

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	December 31, 2015	December 31, 2014
Number of individuals on a full time equivalent basis		
General Manager	1	1
Deputy General Manager	1	1
Other key management personnel (Division Leaders)	3	3
TOTAL	5	5

In addition NAHEMA management has assessed that there are no related party transactions between the nations which are members of NAHEMO and the industrial contractors used to implement NAHEMO programmes. However, France and Germany have shareholdings of about 12% of EADS who owns Airbus Helicopters (formerly known as Eurocopter).

F. Employee Disclosure

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

The compensation consists of basic salary, various allowances, health insurance, pension plan and other benefits as agreed with each Host Nation and the Protocols of NATO. Cash compensations are exempt from income tax in accordance with NATO Nations agreement. NAHEMA is not reliable for retirement benefits.

The costs in Chapter 1 are for staff members hired under the NATO Civilian Personnel Regulations as well as for consultants and contractors. The figures represent the costs of personnel including basic salary, allowances, insurance and pension plan contributions.

	December 31, 2015	December 31, 2014
	€ '000	€ '000
Employee benefits expense	7,153	8,735
Post-employment benefits		
for defined benefit pension scheme	2	11
for defined contribution pension scheme	668	656
Total employee benefits expense	7,823	9,402

Different pension plans are applicable to employees in NAHEMA; defined benefit plan, and defined contribution plan. All pension plans are managed by NATO HQ and are therefore not included in the entity Financial Statements. Contributions to the plans are expensed when occurred.

G. Financial Instruments Disclosure/Presentation

NAHEMA uses only non-derivative financial instruments as part of its normal operations. These financial instruments include, cash, bank accounts, deposit accounts, and accounts receivable. All the financial instruments are recognised in the statement of financial position at their fair value.

NAHEMA is restricted from entering into borrowings and investments. NAHEMA's management have considered the following types of risks related to its financial assets and liabilities:

- Foreign currency exchange risk: NAHEMA is not exposed to foreign currency exchange risk because all contributions and payments are made in EURO
- Liquidity risk: The liquidity risk is based on the assessment whether the organisation will encounter difficulties in meeting its obligation associated with financial liabilities. There is a very limited exposure to liquidity risk because of the budget funding mechanism that guarantees contributions in relation to approved budgets. The limited risks are primarily the validity of forecasts that result in the calls for contributions.
- Credit Risk: There is a low credit risk as the contributing nations have high or sufficient credit ratings. NAHEMA's management does not believe that its customers' credit positions will directly impact on their ability to meet NAHEMA's funding commitments.
- Price Risk: There is a low price risk to NAHEMA due to programme price increases because Nations are contractually bound to meet such price changes and NAHEMA itself is not exposed to this price risk.

H. Bank Guarantees

NAHEMA's building rental contracts include two bank guarantees ("cautionnement bancaire") with Credit Agricole Bank in favour of société GENEPIERRE for EUR 258,805 and in favour of société ATLANTIQUE MUR REGIONS S.C.P.I. of EUR 18,125.

Société GENEPIERRE is the owner of the building (Bâtiment A) and société ATLANTIQUE MUR REGIONS S.C.P.I. is the owner of the building (Bâtiment B, ground floor) that are rented by NAHEMA. Société GENEPIERRE and société ATLANTIQUE MUR REGIONS S.C.P.I. insisted on these bank guarantees. These guarantees do not elapse before the end of the rental contract.

Statement of Budget Execution as of 31 December 2015 in EUR (Annex as per the NFRs para. 34)

ADM Bud 2015	Initial budget	Budget adjustment	Final budget	Commitments	Expenses	Carry forward	Lapsed
Chapter 1	9,892,020.00	104,000.00	9,996,020.00	9,441,503.92	9,279,282.48	162,221.44	557,516.08
Chapter 2	1,429,962.50	18,074.42	1,448,036.92	1,365,675.69	1,202,931.61	162,744.08	97,286.81
Chapter 3	76,360.00	227,925.58	304,285.58	282,162.60	44,597.32	237,565.28	4,197.40
Total FY 2015	11,398,342.50	350,000.00	11,748,342.50	11,089,342.21	10,526,811.41	562,530.80	659,000.29

ADM Bud 2014	Initial budget	Budget adjustment	Final budget	Commitments	Expenses	Carry forward	Lapsed
Chapter 1	30,424.84		30,424.84	26,896.34	23,765.45	3,130.89	3,528.50
Chapter 2	29,499.22		29,499.22	27,461.77	26,775.83	685.94	2,037.45
Chapter 3	10,509.10		10,509.10	10,509.10	10,509.10	0.00	0.00
Total FY 2014	70,433.16		70,433.16	64,867.21	61,050.38	3,816.83	5,565.95

ADM Bud 2013	Initial budget	Budget adjustment	Final budget 13	Commitments 13	Expenses	Carry forward	Lapsed
Chapter 1	0.00		0.00	0.00	0.00	0.00	0.00
Chapter 2	0.00		0.00	0.00	0.00	0.00	0.00
Chapter 3	0.00		0.00	0.00	0.00	0.00	0.00
Total FY 13	0.00		0.00	0.00	0.00	0.00	0.00

Total	11,468,775.66	350,000.00	11,818,775.66	11,154,209.42	10,587,861.79	566,347.63	664,566.24
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OP Bud 2014	Initial budget	Budget adjustment	Final budget	Commitments	Expenses	Carry forward	Lapsed
Chapter 1							
Chapter 2							
Chapter 3							
Total FY 14							

OP Bud 2013	Initial budget	Budget adjustment	Final budget	Commitments	Expenses	Carry forward	Lapsed
Chapter 1							
Chapter 2							
Chapter 3							
Total FY 13							

Notes to the Statement of Budget Execution

Comparison of Budget Execution and Statement of Financial Performance

Budget Execution**Reconciliation between the NAHEMO Budget Execution Statements and the NAHEMO Statement of Financial Performance:**

The difference between the Budget Execution Statement for the AB and the accrual based inputs in the Statement of Financial Performance is based on the payables accrued expenses amount of EUR 14,830.17, the depreciation amount of EUR 32,300.57 and the VAT paid amount of EUR 194,427.00.

The following table represents this reconciliation.

BUDGET	EXPENSE IN BUDGET EXECUTION STATEMENT € '000	Adjustments for Payables accrued Expenses € '000	Adjustments for VAT paid € '000	Adjustments for Depreciation € '000	EXPENSE IN STATEMENT OF FINANCIAL PERFORMANCE € '000
ADMINISTRATIVE BUDGET 2015	10,588	15	194	32	10,829
TOTAL	10,588	15	194	32	10,829

IPSAS 24 - Presentation of budget information in Financial Statements is applicable from the 2009 financial reporting period onwards.

The ORIGINAL AB is based on estimates and has been increased by EUR 350,000 in accordance with a Financial Administrative Committee (FAC) decision from October 2014. The ORIGINAL AB, the increase and the FINAL AB has been approved by the NAHEMO Steering Committee during the 74 SC meeting in June 2015.

The AB COMMITMENTS 2015 are mainly based on personal cost for the NAHEMA employees and purchase and service contracts signed in order to run the agency. In the "Statement of Budget Execution", the column "Carry forward" shows the remaining commitments at year end to be carried forward to the next year. Committed credits carried forward are allowed to be

carried forward for two years. At the end of the third year, they will be finally cancelled. The column "Expenses" shows the total amount expensed during the year. The column "Lapsed" shows the difference between the total amount of credits minus the total amount committed, lapsed at year end and to be given back to Nations.

At the end of 2014, the carry forward amount of EUR 70,433.16 was given back to Nations as lapsed credits instead of keeping it to cover commitments carried forward. Consequently, the lapsed credits in the amount of EUR 664,566.24 to be given back to Nations at the end of 2015 were reduced by this amount, leaving lapsed credits to be given back to Nations in 2016 in the amount of EUR 594,133.08

In accordance with the 5th issue of the NAHEMO Financial Rules and Regulations (NFRRs) the OB is composed of 3 Chapters, Chapter 1 (formerly known as D&D), Chapter 2 (formerly known as PIP) and Chapter 3 (formerly known as ISS and NAMSA).

The ORIGINAL OB for each Chapter indicates the total estimated amount of expected cash payments. This amount includes amounts for planned contracts to be signed during the actual Budget year and planned amendments of contracts as well. For the new frame contracts like the repair & overhaul contracts for the engine and the helicopter, Nations provided the budget figures based on their assumptions.

The OB 2015 has been approved during the 74 SC meeting in June 2015 except for Belgium and France, which approved ex-committee in July 2015 and June 2015 respectively.

RECONCILIATION OF OP BUDGET EXECUTION TO CASH FLOW STATEMENT

Expense on OB	(904,474,763.93)	See OB Budget Execution Statement
Cash received against OB	651,581,749.19	
Net outflow on OB	(252,893,014.74)	
Net cash flow as per cash flow statement	(253,397,487.43)	Cash flow statement
Difference	(504,472.69)	
		Represented by:
	(594,047.67)	Interest paid to Treasuries
	(515.62)	Bank Charges
	90,090.60	Interest earned

Statement of Credits carried forward

NATO Financial Regulations (NFR part III, Art 11), require a statement of credits carried forward to give a brief explanation of the unexpended balances at year end for which there is a legal liability.

NAHEMA AB 2015 STATEMENT OF CREDITS CARRIED FORWARD TO 2016		
CHAPTER		REMARKS
01 Personnel	165,352	Installation / education allowances, removal, recruitment, home leave, computer training costs to be finalized
02 SUPPLIES	163,430	Maintenance, travel missions, computerization technical assistance, leasing costs to be finalized
03 CAPITAL	237,565	Software, security costs to be finalized
TOTAL	566,347	

The exceptionally high amount in chapter 03 is mainly due to commitments for the acquisition of new desktops and workstations to replace aged hardware in use in the amount of EUR 53,987 and the NAHEMA OEBS Migration contract commitment milestones ORACLE2 and ORACLE3 in the amount of EUR 146,455.

Statement of transfers

In accordance with the NATO Financial Regulations (NFR III Art. 10), a statement of budgetary transfers recorded in 2015 is presented in the following table.

NAHEMA ADMINISTRATIVE BUDGET 2015 TRANSFERS AUTHORISED BY THE FINANCE AND ADMINISTRATIVE COMMITTEE (FAC) IN ACCORDANCE WITH ARTICLE 18 OF NAHEMO FINANCIAL RULES AND REGULATIONS						
ORIGIN OF THE CREDITS			CREDITS NEEDED			GRAND TOTAL
BUDGET ITEM LINE	AMOUNT	TOTAL	BUDGET ITEM LINE	AMOUNT	TOTAL	
1115ADM	30,000.00 €	30,000.00 €	1119ADM	30,000.00 €	30,000.00 €	0.00 €
1310ADM	20,000.00 €	20,000.00 €	1116ADM	20,000.00 €	20,000.00 €	0.00 €
1410ADM	21,300.00 €	21,300.00 €	1310ADM	21,300.00 €	21,300.00 €	0.00 €
1410ADM	5,000.00 €	3,000.00 €	1610ADM	5,000.00 €	3,000.00 €	0.00 €
1410ADM	3,000.00 €	3,000.00 €	1712ADM	3,000.00 €	3,000.00 €	0.00 €
1410ADM	15,000.00 €	15,000.00 €	1119ADM	15,000.00 €	15,000.00 €	0.00 €
1410ADM	2,500.00 €	2,500.00 €	1215ADM	2,500.00 €	2,500.00 €	0.00 €
1511ADM	5,000.00 €	5,000.00 €	1513ADM	5,000.00 €	5,000.00 €	0.00 €
1711ADM	3,000.00 €	3,000.00 €	2811ADM	3,000.00 €	3,000.00 €	0.00 €
2110ADM	18,873.69 €	18,873.69 €	2112ADM	18,873.69 €	18,873.69 €	0.00 €
2110ADM	1,936.32 €	1,936.32 €	3214ADM	1,936.32 €	1,936.32 €	0.00 €
2112ADM	15,830.28 €	15,830.28 €	3214ADM	15,830.28 €	15,830.28 €	0.00 €
2114ADM	479.50 €	479.50 €	2116ADM	479.50 €	479.50 €	0.00 €
2114ADM	740.00 €	740.00 €	3214ADM	740.00 €	740.00 €	0.00 €
2116ADM	242.99 €	242.99 €	3214ADM	242.99 €	242.99 €	0.00 €
2210ADM	89.00 €	89.00 €	3214ADM	89.00 €	89.00 €	0.00 €
2212ADM	209.70 €	209.70 €	3214ADM	209.70 €	209.70 €	0.00 €

2310ADM	58.00 €	58.00 €	3214ADM	58.00 €	58.00 €	0.00 €
2710ADM	1,700.00 €	1,700.00 €	3214ADM	1,700.00 €	1,700.00 €	0.00 €
2810ADM	10,100.00 €	10,100.00 €	2811ADM	10,100.00 €	10,100.00 €	0.00 €
2811ADM	32,358.27 €	32,358.27 €	2810ADM	32,358.27 €	32,358.27 €	0.00 €
2910ADM	119.29 €	119.29 €	3214ADM	119.29 €	119.29 €	0.00 €
3211ADM	3,000.00 €	3,000.00 €	2811ADM	3,000.00 €	3,000.00 €	0.0 €
GRAND TOTAL		190,537.04 €			190,537.04 €	0.00 €

Representation allowance

The NAHEMA General Manager is entitled to representation allowance to cover expenses associated with establishing and maintaining business relationships of value to NATO (e.g. hosting of functions such as dinners, luncheons and receptions). As per EM-HR(PSC)(2014)0008 dated 5 March 2014, including PO(2013)0154, the total entitlement to representation allowance for 2015 was EUR 9,602.52 of which EUR 2,425.00 were committed and EUR 1,592.10 were expensed. Remaining commitments were closed and credits were lapsed. Actual expenses during 2015 were as follows:

	December 31,	2015
		€
Rental supplement expenses		800.00
Hospitality expenses		792.10
Total		1,592.10

Details on the PI/P Contract Amendment 23 (CA23) signed on 10 June 2015.

[REDACTED]

STATEMENT ON INTERNAL CONTROL

To: International Board of Auditors for NATO

Subject: Statement on Internal Control

Date: March, 2016

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