

	<b>NATO</b>	NORTH ATLANTIC COUNCIL
	<b>OTAN</b>	CONSEIL DE L'ATLANTIQUE NORD

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21 October 2016

**DOCUMENT**  
C-M(2016)0056-AS1 (INV)

**IBAN REPORT ON THE AUDIT OF THE 2015 FINANCIAL STATEMENTS OF THE NATO  
AIRBORNE EARLY WARNING & CONTROL PROGRAMME MANAGEMENT AGENCY  
(NAPMA)**

**ACTION SHEET**

On 21 October 2016, under the silence procedure, the Council noted the IBAN report on the 2015 financial statements of NAPMA attached to C-M(2016)0056 (INV) 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)0056 (INV).

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17 October 2016

**DOCUMENT**  
C-M(2016)0056 (INV)  
**Silence Procedure ends:**  
**21 Oct 2016 15:00**

**IBAN REPORT ON THE AUDIT OF THE 2015 FINANCIAL STATEMENTS OF THE  
NATO AIRBORNE EARLY WARNING & CONTROL PROGRAMME MANAGEMENT  
AGENCY (NAPMA)**

**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 the NATO Airborne Early Warning & Control Programme Management Agency (NAPMA).
2. The IBAN report on NAPMA sets out an unqualified opinion on the financial statements and an unqualified opinion on compliance. The 2015 financial statements contain a clear statement, approved by the NAPMO Board of Directors, that they can be publicly disclosed.
3. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB) (see Annexes) which has concluded that the unqualified audit opinion on the 2015 financial statements of NAPMA reflects the hard work by the Agency's management and staff to implement the range of measures approved by Council in recent years to improve financial and accounting regulations, governance, transparency and accountability.
4. I do not believe that this matter requires discussion in the Council. Consequently, **unless I hear to the contrary by 15:00 hours on Friday, 21 October 2016**, I shall assume that the Council has noted the IBAN report on the 2015 financial statements of NAPMA and agreed the RPPB recommendation regarding public disclosure.

(Signed) Rose E. Gottemoeller

4 Annexes  
1 Enclosure

Original: English

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**IBAN REPORT ON THE AUDIT OF THE 2015 FINANCIAL STATEMENTS OF THE  
NATO AIRBORNE EARLY WARNING & CONTROL PROGRAMME MANAGEMENT  
AGENCY (NAPMA)**

**Report by the Resource Policy and Planning Board**

**References:**

- a) IBA-A(2016)78 – IBAN report
- b) C-M(2016)0023 – NATO Accounting Framework
- c) PO(2015)0751 – NAPMA Financial Regulations
- d) PO(2015)0052 – Wales Summit tasker on transparency and accountability

**Introduction**

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

**Discussion**

2. The Board is pleased to note that the IBAN have issued an unqualified opinion on the financial statements of NAPMA and an unqualified opinion on compliance for the 2015 financial year. The Board also notes that there are also no outstanding observations from previous years' audit.

3. The IBAN audit contains an emphasis of matter paragraph<sup>1</sup> to draw attention to the accounting treatment of purchases from the United States Foreign Military Sales (FMS) programme which are presented on a modified cash basis of accounting rather than on an accruals basis. The IBAN also note, however, that this approach is in accordance with the revised NATO Accounting Framework (reference b)) approved by Council on 29 April 2016 with retrospective application as from 1 January 2015. This temporary deviation<sup>2</sup> from the International Public Sector Accounting Standards was included to deal with a matter that was effectively beyond the ability of NATO entities to resolve.

4. The Board notes that NAPMA issued its 2015 financial statements before Council approved (reference b)) the revised disclosure requirements associated with accounting for purchases from the United States FMS programme and therefore expects NAPMA to comply with them in future financial statements.

5. The Board welcomes the significant progress that the IBAN have observed towards complying with the articles on internal control, risk management and internal audit contained in the financial regulations for the agency approved by Council (reference

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<sup>1</sup> An emphasis of matter paragraph, as the name suggests, is a paragraph that is included by the auditor to draw attention to something in the financial statement which is of such importance that it is fundamental to the users' understanding of the financial statement.

<sup>2</sup> The RPPB agreed to keep the situation under review and to decide not later than March 2020 whether the temporary adaptation should remain in place, be modified or become permanent (reference b)).

c)). The Board notes that NAPMA has made more progress in this regard than some other NATO entities and welcomes the commitment by NAPMA to further improve the processes established. The Board invites the Head of Financial Reporting Policy to encourage the sharing of best practice across NATO entities in this area and invites NAPMA to contribute in this regard.

6. The Board is also encouraged by the progress that NAPMA and the NAPMO Board of Directors have made since last year to improve financial transparency. The 2015 financial statements contain a clear declaration, approved by the NAPMO Board of Directors, that they can be publicly disclosed without any need for other releasable versions as was the case previously. The Board takes this opportunity to remind the Agency of the decision by Council that, with effect from 1 January 2016, the unclassified annual reports prepared by customer-funded and/or multi-nationally funded NATO Agencies could be made publicly available (reference d)).

### **Conclusions**

7. The Board is pleased with the unqualified audit opinion on the 2015 financial statements of NAPMA which reflects the hard work by the Agency's management and staff to implement the range of measures recommended by the Board and approved by Council in recent years to improve financial and accounting regulations, governance, transparency and accountability. The Board notes that further work needs to be done to fully implement these measures.

### **Recommendation**

8. The RPPB recommends that Council:
- a) note the IBAN report on the 2015 financial statements of NAPMA together with this report by the Board;
  - b) endorse the Board's conclusions at paragraph 7;
  - c) agree to the public disclosure of this report, the IBAN audit (reference a)) and the associated 2015 financial statements of NAPMA, in line with the policy set out at reference d).

**Summary Note for Council**  
**by the International Board of Auditors for NATO (Board)**  
**on the audit of the Financial Statements of the**  
**NATO Airborne Early Warning & Control Programme Management Agency**  
**(NAPMA)**  
**for the year ended 31 December 2015**

The NATO Airborne Early Warning & Control Programme Management Organisation (NAPMO), including the NATO Airborne Early Warning & Control Programme Management Agency (NAPMA) was established to assume the direction, co-ordination, and the execution of the coordinated acquisition programme of the NATO Airborne Early Warning and Control (NAEW&C) system. The management of the program consists of overseeing the acquisition of the operating assets needed to establish NAEW&C capability and subsequent acquisitions of enhancements thereof. NAPMA expenditure in 2015 – including additions to modernisation assets – was approximately USD 93 million.

The Board issued an unqualified opinion on the NAPMA Financial Statements and an unqualified opinion on compliance for the year ended 31 December 2015.

We draw attention to the accounting treatment of purchases from the United States Foreign Military Sales (FMS) programme which are presented on a modified cash basis of accounting rather than the accrual basis of accounting. Also, values related to indirect contracting by Agent Contracts under U.S. Government Acquisition Agreement are accounted using data/billing reports as provided by the U.S. Government. This is in accordance with the revised NATO Accounting Framework approved by the North Atlantic Council on 29 April 2016, with retrospective application for FMS purchases and Indirect Contracting as from 01 January 2015. Our audit opinion is not qualified in respect to this matter.

During the audit, the Board identified two observations and provided related recommendations:

1. Incomplete disclosure of NATO Accounting Framework requirements for indirect contracts/FMS cases.
2. 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 followed up on the status of observations from the previous years' audit and noticed that two were settled, one was lapsed due to adaptations made to the NATO Accounting Framework, and one was lapsed due to a deviation from the NATO Financial Regulations granted to NAPMO by the North Atlantic Council.

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ANNEX 2  
C-M(2016)0056 (INV)

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28 July 2016

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE**

**NATO AIRBORNE EARLY WARNING AND CONTROL  
PROGRAMME MANAGEMENT AGENCY**

**(NAPMA)**

**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 the NATO Airborne Early Warning and Control Programme Management Agency (NAPMA), which comprised the Statement of Financial Position as at 31 December 2015, the Statement of Financial Performance, the Statement of Changes in Net Assets / Equity, the Cash Flow Statement for the year then ended, and Notes to the Financial Statements, including a Statement of Accounting Policies. 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.

*Opinion on Financial Statements*

In our opinion, the financial statements present fairly, in all material respects, the financial position of NAPMA as of 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with the NATO Accounting Framework.

*Emphasis of Matter*

We draw attention to the accounting treatment of purchases from the United States Foreign Military Sales (FMS) programme which are presented on a modified cash basis of accounting rather than the accrual basis of accounting. Also, values related to indirect contracting by Agent Contracts under U.S. Government Acquisition Agreement are accounted using data/billing reports as provided by the U.S. Government. This is in accordance with the revised NATO Accounting Framework approved by the North Atlantic Council on 29 April 2016, with retrospective application for FMS purchases and Indirect Contracting as from 01 January 2015. Our audit opinion is not qualified in respect to this matter.

**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 authorised by the North Atlantic Council (NAC).

*Auditor's Responsibility*

In addition to the responsibility to express an opinion on the 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 authorised 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.

*Opinion on Compliance*

In our opinion, in all material respects the financial transactions and information reflected in the Financial Statements are in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

Brussels, 28 July 2016

Lyn Sachs  
Chairman

28 July 2016

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**LETTER OF OBSERVATIONS AND RECOMMENDATIONS**  
**FOR THE NATO AIRBORNE EARLY WARNING AND CONTROL**  
**PROGRAMME MANAGEMENT AGENCY**  
**(NAPMA)**

**FOR THE YEAR ENDED 31 DECEMBER 2015**

## **Introduction**

The International Board of Auditors for NATO (Board) audited the NATO Airborne Early Warning and Control Programme Management Agency (NAPMA) Financial Statements for the year ended 31 December 2015, and issued an unqualified opinion on the financial statements and an unqualified opinion on compliance.

## **Observations and Recommendations**

During the audit, the Board identified the following two observations and provided recommendations:

1. Incomplete disclosure of NATO Accounting Framework requirements for indirect contracts/FMS cases.
2. 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.

None of the observations impact the audit opinion on the financial statements or on compliance.

The Board followed up on the status of observations from the previous years' audit and noticed that two were settled, one was lapsed due to adaptations made to the NATO Accounting Framework, and one was lapsed due to a deviation from the NATO Financial Regulations granted to NAPMO by the North Atlantic Council.

## **OBSERVATIONS AND RECOMMENDATIONS**

### **1. INCOMPLETE DISCLOSURE OF NATO ACCOUNTING FRAMEWORK REQUIREMENTS FOR INDIRECT CONTRACTS/FMS CASES**

#### **Reasoning**

1.1 Article 6.1 of the NATO Accounting Framework, approved on 29 April 2016, states that “ISPAS 1, Adapted for Presentation of Financial Statements” has the objective to clarify the accounting treatment and disclosure requirements for Indirect contracting by Agent Contracts under the U.S Government Acquisition Agreement in case no supporting invoices from the supplier are made available. NATO Reporting Entities are allowed for purchases from the United States’ Foreign Military Sales (FMS) programme to use data on a modified cash basis to account for FMS and indirect contracting via the United States’ System Program Office (SPO), if they are unable to satisfy themselves that the data is presented on a reliable accruals basis.

1.2 As disclosure requirements, the NATO Accounting Framework requires that the NATO Reporting Entity shall:

- disclose in the Accounting Policies section of its financial statements that the data is presented on a modified cash basis;
- present as a separate line item on the Statement of Financial Performance (e.g. FMS) with a footnote directly under the statement to reflect the fact that the figure is on a cash rather than accrual basis with an appropriate reference to the Accounting Policy section;
- present in the Statement of Financial Position as a footnote stating that not all balances provided are based on an accrual basis with a reference to the line items impacted and that more information can be found in the relevant note disclosure in relation to the line items concerned and an appropriate reference to the Accounting Policy section.

1.3 The NATO Reporting Entity implementing this requirement for Indirect contracting by Agent Contracts shall disclose in the Accounting Policies of its financial statements that the financial reporting as presented in the financial statements is based on financial data and/or reports as provided by the United States. Government (USG) under the USG Acquisition Agreement.

#### **Observations**

1.4 The Board found that NAPMO Financial Statements do not fully comply with the disclosure requirements set in the NATO Accounting Framework as stated above. NAPMA has several separate multi-year projects, both direct and indirect. Approximately

29% of the total project expenses (both capitalized as Work in Progress and reported as Project Expenses) corresponds to indirect contract FMS cases.

1.5 The Board is aware of the fact that the approval of the NATO Accounting Framework took place after the financial statements were issued. The Board expects NAPMA to comply with these disclosure requirements in future financial statements.

## **Recommendations**

1.6 The Board recommends NAPMA to:

- disclose in the Accounting Policies Section of its Financial Statements that the data related to FMS cases is presented on a modified cash basis.
- present as a separate line item on the Statement of Financial Performance for expenses (specifying they relate to indirect contracts) with a footnote directly under the statement to reflect the fact that the figure is on a cash rather than accrual basis, with an appropriate reference to the Accounting Policy section.
- present in the Statement of Financial Position as a footnote stating that not all balances provided are based on an accrual basis, with a reference to the line items impacted, and that more information can be found in the relevant note disclosure in relation to the line items concerned and an appropriate reference to the accounting Policy Section. The relevant notes impacted are Work in Progress, Prepayments and Other Non-current Liabilities (deliverables).
- perform a reconciliation of the total physical delivery of goods and services against the total amount of expenditures after completion of a purchase case, once information from US Government and price audit from United States Defense Contract Audit Authority is made available.

## **Comments of NAPMO**

*NAPMO concurs with the recommendations. The revised article 6.1 of the NATO Accounting Framework (NAF), adapted IPSAS 1 for presentation of Financial Statements was modified to clarify the accounting treatment and disclosure requirements for indirect contracting by Agent contracts under the U.S. Government Agreement. NAPMA is allowed to account for FMS/indirect contracting via the U.S. System Program Office (SPO) on a modified cash basis and to use data/billing reports as provided by the U.S. Government for accounting purposes. However the adaption was approved after the issuance/submission of the 2015 Financial Statements.*

**2. 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**

2.1 The North Atlantic Council (Council) approved revised NATO Financial Regulations (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.”*

2.2 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 on Internal Control be signed by both the NATO Head of Body and Financial Controller.

2.3 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**

2.4 The Board found that NAPMA has made significant progress, but more steps are still needed, to achieve full compliance with all of the revised NFRs.

2.5 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, were not approved by the Budget Committee until the end of February 2016. 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 compliance audit opinion will not be impacted in 2015 as a result of these observations. This will begin as from 2016, though.

2.6 The Board reports the status of the following areas:

Article 3 Responsibility and Accountability

2.6.1 The Board found that both the NAPMA Head of Body and Financial Controller signed both the Statement of Internal Control and the Financial Statements. This is in full compliance with the new NFRs.

Article 11 Risk Management

2.6.2 The Board found that since 2006, NAPMO has had risk management included in the NAPMO Corporate Governance Policy, approved by NAPMO BOD on 5 September 2006, and aligned with the NAPMO overall strategic goals and objectives. Since then, Risk Management in NAPMO has continuously evolved; the last version of Risk Management Plan (RMP) has been approved on 10 June 2016. The RMP is modelled after project risk management and assessment processes outlined in standard project management literature, in line with the NATO Standard ARAMP-1 and is tailored to the current NAPMA core business activities.

2.6.3 NAPMA also maintains a comprehensive entity-level risk register and risk estimation matrix. The risk register has been last updated in June 2016. It presents the risks in four different groups in line with the four roles of the agency: Executive, Acquisition, Technical Airworthiness Authority and Life Cycle Management. The risks included cover governance, projects, financial, human resources and information management risks.

2.6.4 NAPMA refers as Risk Management framework the NATO standard ARAMP-1, risk management guide for acquisition programmes. This is a composite of agreed concepts, best practices and proven techniques for managing risks at all levels during all stages of projects and programmes. It is aimed at supporting acquisition programmes and projects objectives, and provides specific guidance on the use of tools and techniques for Risk Management. The Board found that this framework fully covers the project management side of the Agency; however, NAPMA has not determined a specific framework for entity-wide risk management.

Article 12 Internal Control

2.6.5 The Board found that NAPMA has not yet adopted an 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 control is in place.

2.6.6 The Board's audit of NAPMA in 2015 financial statements did not reveal significant weaknesses in internal control. However, until an 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

2.6.7 NAPMA has set-up a permanent in-house internal audit function, complying with internationally accepted Internal Auditing standards and the requirements of NAPMA. NAPMA Internal Audit has undertaken a large range of internal audit activities across the agency. These involve the evaluation, throughout the organisation, of the risk exposures and the effectiveness of internal controls in managing risk within the governance, operations and information systems. However, since an internal control framework is not yet fully implemented, NAPMA Internal Audit cannot comprehensively assess the effectiveness of the Internal Control Framework.

Article 16 Audit Advisory Panel

2.6.8 The Board found that NAPMA has established an Audit Board, who is taking the role of Audit Advisory Panel as required by Article 16. Terms of reference for the Audit Board has been established detailing the duties and responsibilities, specified in NAPMA Management Directive 06. The Audit Board approved the internal audit plan for 2016.

## **Recommendations**

2.7 The Board recommends that:

- a) NAPMA continue to develop an entity-wide risk management policy. In the Board's opinion, this should be coordinated to ensure consistent treatment across NATO Bodies.
- b) NAPMA adopt an Internal Control Framework, based on internationally accepted standards, 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 consistent treatment across NATO Bodies.

## **Comments of NAPMO**

*NAPMO notes the recommendation in 2.7 (a) and (b).*

*NAPMA's primary task is to manage modernization programmes. Consequently, all processes to include risk management, internal control, and governance are tailored to support this task.*

*NAPMA has established detailed documentation for risk management and internal control. The Agency is aiming to further improve the processes established. This is seen as a continuous effort. The COSO Enterprise Risk Management (ERM) guidance for Smaller Public Companies framework, being an internationally recognized framework, is used as a guideline and reference.*

## **FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS**

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

### **Status of previous years' observations**

<b>OBSERVATION / RECOMMENDATION</b>	<b>ACTION TAKEN</b>	<b>STATUS</b>
<p><b>1. Audit Report FY 2012</b>  <b>IBA-AR(2013)39, paragraph 4.1</b>  <b>Valuation of work in progress asset</b></p> <p><b>Observation</b>  The Board was unable to obtain sufficient and appropriate audit evidences on the expenditures conducted via the U.S. System Programme office (SPO). Therefore the Board was not able to assess the completeness and accuracy of the expenditures and related capitalizations that occurred during the year.</p> <p><b>Board's recommendation</b>  The Board recommended that NAPMA and the U.S. authorities continue their efforts to provide the Board with sufficient evidence to support the value of all work undertaken by U.S. contractors. In the Board's view, this should focus on the more timely delivery of DD250s to match physical deliverables with expenditure in a given year. In addition, NAPMA should explore with the U.S. authorities the possibility of providing additional information related to evidence of the delivered services.</p>	<p>Observation lapsed due to application of new NATO Accounting Framework retroactively applied to 2015 financial year.</p>	<p>Observation <b>Lapsed.</b></p>
<p><b>2. Audit Report FY 2012</b>  <b>IBA-AR(2013)39, paragraph 4.3</b>  <b>Call for Funds</b></p> <p><b>Observation</b>  The Board found that the total call against CNS-ATM budget for 2012 exceeded authorized credit (by USD 5,368,242).</p> <p>The article 17.5 of NAPMO Financial Regulations states that on exceptional basis, calls may be based on a BoD approved method of calculation such as a fixed contribution ceiling by calendar/financial year.</p> <p>The Board did not believe that the BoD has specifically approved the call that was over budget authority but within overall contract authority</p>	<p>For the year 2015, the total amount of calls was within authorized credit. In 2015, no Nation made an early payment on its future contribution requirement.</p> <p>In addition, NAPMO requested and obtained from the North Atlantic Council a deviation from the NATO Financial Regulations to include in the revised NAPMO Financial Regulations Article 29.5, according to which "on exceptional basis and due to budgetary cycles, Nations</p>	<p>Observation <b>Settled.</b></p>

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OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<b>Board's recommendation</b> The Board recommended that the agency ensure, in future, that all calls are made in accordance with its financial regulations and, if necessary, obtains approval from the BoD in accordance with art. 17.5 of its financial regulations.	may also make advance payments to secure their financial obligations to the programme".	
<b>3. Audit Report FY 2005</b> <b>IBA-AR(2006)21, paragraph 4.2</b> <b>Inconsistent calls for contributions letters</b>  a) NAPMA should issue consistent contribution letters to all nations and not tailor the overall cash requirement figure for the convenience of each nation; and  b) NAPMA should ensure that the contribution letters explicitly state which amounts are over and above actual cash requirements.	The Board found that NAPMA instituted a standardized invoice/letter as of 2014 for all calls for contributions.	Observations <b>Settled.</b>
<b>4. Audit Report FY 2003</b> <b>IBA-AR(2004)21, paragraph 4.1</b> <b>Unnecessarily high holdings of cash</b>  NAPMA should reduce its holdings of cash-at-bank.	Although at the end of 2015, cash holdings represented over 400% of the expenditures of the year, NAPMO requested and obtained a from the North Atlantic Council a deviation from the NATO Financial Regulations to include in the revised NAPMO Financial Regulations Article 29.5, according to which "on exceptional basis and due to budgetary cycles, Nations may also make advance payments to secure their financial obligations to the programme".	Observation <b>Lapsed.</b>

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**NAPMA FINANCIAL STATEMENTS FOR**  
**FINANCIAL YEAR 2015**

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### OVERVIEW

#### Overview of the NAEW&C Programme Management Organisation's Operations and Environment (NAPMO)

In 1975, the NATO Military Authorities established a "priority one" requirement for an Airborne Early Warning and Control (AEW&C) system to operate over both land and sea. The system was to be designed to provide an airborne warning and detection capability and to improve the Alliance's maritime surface surveillance capability. It would also contribute to the direction and control of tactical air forces and to the gathering of information on hostile ship and aircraft movements.

In December 1978, a number of NATO Nations joined together to establish and implement the NATO AEW&C Programme. As a result of the international agreements formally ratified at that time, the NAEW&C Programme Management Organisation (NAPMO) was created as a NATO Production and Logistics Organisation and established as a NATO civil organisation under the provisions of the 1951 Ottawa Agreement i.a.w. its charter.

Nations agreed to operate and support the NAEW&C Force under a single Force Commander subordinate to the Strategic Commanders (SCs). The Supreme Allied Commander Europe (SACEUR) acts as the executive agent for the SC's in NAEW&C matters. However with regard to the maintenance and supply concept the NAPMO retained responsibility to represent the NAPMO Nations' interest, in particular the NAPMO BOD is responsible for the Depot Level Maintenance (DLM) policy and its execution, while NAPMO at the same time is responsible for the achievement of industrial benefits.

Currently, the NATO AEW&C Programme is comprised of 16 Nations participating as full member – Belgium, Czech Republic, Denmark, Germany, Greece, Hungary, Italy, Luxembourg, The Netherlands, Norway, Poland, Portugal, Romania, Spain, Turkey, and the United States.

The United Kingdom exercises limited participation as a NAPMO member; but its fleet of E-3D aircraft is an integral part of the NAEW&C Force.

France has an observer role and maintains continual coordination to ensure her four E-3F aircraft remain interoperable with the other E-3 fleets. France also often assists in coordinated operations with the NAEW&C Force.

#### Role of the NAEW&C Programme Management Agency (NAPMA)

As NAPMO executive agent, the NAEW&C Programme Management Agency (NAPMA) is accountable to the Board of Directors for planning and coordinating acquisition strategy, managing projects associated with modernisation of the E-3A fleet, providing sustainment support services, and overseeing the technical aspects of the NAEW&C airworthiness programme.

NAPMA is a programme management and budgetary organization funded through contributions made by the participating nations.

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NAPMA's Peace Establishment (PE) is 116 posts, manned by seconded military officers and civilian personnel drawn from all of the Nations participating in the Programme. While most are located in Brunssum, the Netherlands, a small number perform their duties at the NATO Headquarters in Brussels, Belgium; in Manching, Germany; in Seattle and in Boston, the United States of America. The legal status of NAPMA, as an integral part of the North Atlantic Treaty Organisation, is laid down in the Ottawa Agreement as of 20 September 1951. Based on this agreement, NAPMA is, inter alia, exempt from all taxes and customs duties. The NAPMA General Manager (GM) is responsible for the Technical Airworthiness of the NAEW&C Fleet.

### **How NAPMA's operating environment affects its financial statements**

NAPMA's overall activities are funded by Member Nations through projects and related Administrative Budgets; "separate and distinct from the International Staff, other NPLSOs or other NATO Organs" and approved annually by the NAPMO Board of Directors. Both these budgets, the acquisition budgets and the administrative budget jointly, are to remain within the overall Programme ceiling as agreed in the respective MMoU. The Administrative Budget covers all expenditures for the internal functioning of the Agency. The Acquisition Budgets contain the credits for the modification of the NAEW&C fleet. Aside from its own budgeted activities, NAPMA also supports other NATO entities such as NAEW&C Force Command, NATO E-3A Component and NATO Support and Procurement Agency.

NAPMO has an agreement with the US Government (USG) that they can act as an exclusive general agent which has responsibility and authority to procure and manage the aircraft modernisation efforts. This gives NAPMO also a special arrangement in the Foreign Military Sales (FMS) process but more specifically the USG acts as the Agent for NAPMO resulting in Agent Contracts between NAPMO and US industry. The System Program Office (SPO) at Hanscom Airforce Base, Massachusetts to perform the day-to-day functions for the US Agent.

### **Compliance with Financial Regulations**

NAPMA Financial Statements have been prepared in accordance with the accounting requirements of the NAPMO Financial Regulations (NFRs) approved by the NAC on 08 January 2016, and the Financial Implementing Rules and Procedures (FRP).

The NAPMA Financial Statements have also been prepared on the accrual basis of accounting in accordance with the NATO Accounting Framework which is based upon the International Public Sector Accounting Standards (IPSAS).

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### **How NAPMA's mission and strategies relate to its financial position, financial performance and cash flows**

NAPMA's mission is to plan, acquire and deliver improvements to the NATO AEW&C capabilities following the guidance of the NAPMO nations taking into account the life cycle considerations.

In relation to the financial position NAPMA has several separate multi-year projects, both direct and indirect (administered by US agent), which require maintaining high annual cash levels to satisfy requirements which may be required for the support of the procurement effort.

### **Analysis of NAPMA's Financial Statements**

Key points to note in respect of the financial statements are:

- NAPMA's functional and reporting currency used throughout these Financial Statements is stated in USD (\$) equivalent. Therefore realised and unrealised gains and losses resulting from the translation into USD and from the revaluation at the reporting dates of monetary assets and liabilities in currencies other than USD are recognized in the Statement of Financial Performance.
- Existing funds (revenue recognized in previous years) are used to cover dedicated project expenditures which are recognized in the Statement of Financial Performance.

### **Risks and Uncertainties that affect NAPMA's Financial Position and Performance**

Currently there are no specific risks that affect NAPMA's financial position and performance.

### **Public disclosure of NAPMA's Financial Statements**

The NAPMO Board of Directors have approved that these Financial Statements, in accordance with PO(2015)0052, can be publicly disclosed.

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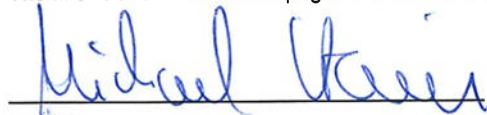
# NAPMA Statement of Financial Position

as at 31 December 2015

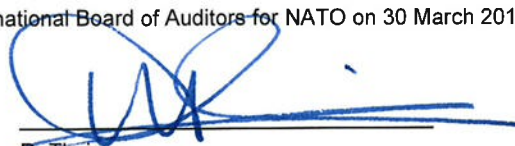
(in USD equivalent)

	Note	2015	2014
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	1	377,301,476	327,163,543
Receivables	2	5,898,181	46,339,753
Prepayments	3	1,257,048	6,319,799
Other current assets	4	0	390
		<u>384,456,705</u>	<u>379,823,485</u>
<b>Non-current assets</b>			
Property, plant & equipment	5	748,494	729,165
Other non-current assets	6	196,692,528	131,889,074
		<u>197,441,021</u>	<u>132,618,239</u>
<b>TOTAL ASSETS</b>		<b><u>581,897,726</u></b>	<b><u>512,441,724</u></b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Payables and Accruals	7	4,489,238	3,102,331
Unearned Contributions	8	338,191,468	292,802,615
		<u>342,680,707</u>	<u>295,904,946</u>
<b>Non-current liabilities</b>			
Advances	9	40,381,734	83,597,349
Reimbursables NATO Entities	9	1,150,749	1,022,209
Other non-current liabilities	10	196,692,528	131,889,074
		<u>238,225,011</u>	<u>216,508,632</u>
<b>TOTAL LIABILITIES</b>		<b><u>580,905,717</u></b>	<b><u>512,413,579</u></b>
<b>Net assets/equity</b>		<b>992,009</b>	<b>28,146</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>		<b><u>581,897,726</u></b>	<b><u>512,441,724</u></b>

The financial statements on pages 5 to 25 were issued to the International Board of Auditors for NATO on 30 March 2016.



M. Hain  
NAPMA General Manager



R. Thuis  
NAPMA Financial Controller

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**NAPMA Statement of Financial Performance**

for the year ended 31 December 2015  
(in USD equivalent)

	<b>Note</b>	<b>2015</b>	<b>2014</b>
<b>Revenue</b>			
Revenue from Contributions	11	26,380,041	23,744,808
Financial Revenue	11	3,721,979	0
Other Revenue	11	297,072	604,526
<b>Total Revenue</b>		<b>30,399,091</b>	<b>24,349,334</b>
<b>Expenses</b>			
Projects	12	8,977,187	2,764,118
Administrative	12	18,128,910	22,206,813
Depreciation and amortization	12	131,234	138,287
Finance Expenses	12	0	740,761
<b>Total expenses</b>		<b>27,237,331</b>	<b>25,849,978</b>
<b>Surplus/(Deficit) for the period</b>	13	<b>3,161,760</b>	<b>(1,500,645)</b>

**NAPMA Statement of changes in net assets / equity**

for the year ended 31 December 2015

(in USD equivalent)

	<b>Restricted</b>	<b>Unrestricted</b>	<b>Accumulated Surpluses/ (Deficits)</b>	<b>Investment in Capital Assets</b>	<b>Accumulated Currency Transactions</b>	<b>Total 2015</b>	<b>Total 2014</b>
<b>Net Assets, beginning of year</b>	20,338,282	8,388,653	(26,989,451)	729,165	(2,438,502)	<b>28,146</b>	<b>3,461,306</b>
Surplus/-Deficit for the year (excl. Depreciation)			3,292,995			3,292,995	(1,362,358)
Excess of Revenue over Expenditure	579,547	(579,547)				0	0
Transfer for Expenses						0	53,550
Net change in Investment in Capital Assets	(150,562)			19,328		(131,234)	(138,287)
Revaluation adjustment for current period					(2,197,898)	(2,197,898)	(1,986,065)
<b>Net Assets, end of year</b>	<b>20,767,267</b>	<b>7,809,106</b>	<b>(23,696,456)</b>	<b>748,494</b>	<b>(4,636,400)</b>	<b>992,009</b>	<b>28,146</b>

**NAPMA Statement of Cash Flow**

for the year ended 31 December 2015

(in USD equivalent)

	2015	2014
<b>Cash Flow from Operating Activities</b>		
Surplus/(Deficit) from Operating Activities	3,161,761	(1,500,645)
<b>Add: Non-Cash Movements</b>		
Depreciation	131,234	138,287
Increase in Receivables	40,441,572	(2,350,524)
Decrease in Advance Payments	5,062,751	3,773,951
Decrease in Accruals/Deferrals	417	(35,944)
Increase in Payables	738,420	(282,348)
Increase in Unearned Contributions	45,388,854	36,351,862
Decrease in Advances Received	(43,087,075)	50,012,149
Change of Value in Asset Deliverable	66,008,483	43,342,466
Decrease in Goods Receipt	648,460	1,199,020
<b>Net Cash Flow from Operating Activities</b>	<b>118,494,876</b>	<b>130,648,273</b>
<b>Cash Flow from Investing Activities</b>		
Purchase of Assets	(150,562)	(20,842)
Correction to Assets	0	0
Purchase of Assets in Progress	(66,008,483)	(43,342,466)
<b>Net Cash Flow from Investing Activities</b>	<b>(66,159,045)</b>	<b>(43,363,307)</b>
<b>Cash Flow from Financing Activities</b>		
Fund Transfer from Net Assets	0	53,550
<b>Effect of Currency Valuations</b>		
Currency Valuation Operating Activities	0	0
Currency Valuation Financing Activities	(2,197,898)	(1,986,065)
<b>Total Currency Valuations</b>	<b>(2,197,898)</b>	<b>(1,986,065)</b>
<b>Net Increase (Decrease) in Cash/Cash Equival.</b>	<b>50,137,933</b>	<b>85,352,451</b>
<b>Cash and Cash Equiv. Beginning of Period</b>	<b>327,163,543</b>	<b>241,811,092</b>
<b>Cash and Cash Equiv. End of Period</b>	<b>377,301,476</b>	<b>327,163,543</b>

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### ACCOUNTING POLICIES

#### Basis of Preparation

NAPMA Financial Statements have been prepared in accordance with the accounting requirements of the NAPMO Financial Regulations (NFR) and the Financial Implementing Rules and Procedures (FRP). NAPMA uses an Enterprise Resource Planning (ERP) System based on SAP to record and report financial information.

The NAPMA Financial Statements have also been prepared on the accrual basis of accounting in accordance with the NATO Accounting Framework which is based upon International Public Sector Accounting Standards (IPSAS) issued by the IPSAS Board (IPSASB) and relevant to NAPMA as decided by the North Atlantic Council in 2002.

IPSAS 12 – Inventories, IPSAS 17 - Property, Plant and Equipment and IPSAS 31 - Intangible Assets were adapted by the North Atlantic Council (the "NAC") in August 2013 for reporting periods beginning on 1 January 2013.

The accounting principles recognized as appropriate for the recognition, measurement and reporting of the financial position, performance, and cash flows are on an accrual based accounting using historical costs. The accounting principles have been applied consistently throughout the reporting period. This ensures that the financial statements provide information that is relevant to the decision-making and that is reliable, comparable, and understandable in light of the qualitative characteristics of financial reporting.

For the accounting of the expenditures related to indirect contracts, NAPMA records the amounts in the financial statements based on data/billing reports as provided by the US Government.

A slight difference in summation may occur due to the fact that all the figures have been rounded to the nearest dollar.

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

In accordance with IPSAS and generally accepted accounting principles, the financial statements necessarily include amounts based on estimates and assumptions made by the management and based on historical knowledge as well as on the most reliable information available. In exercising the judgements to formulate 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 on-going 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. The most significant estimate used in these financial statements is the estimation of goods / services received.

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### **Accounting Period**

The 2015 Financial Statements are based on the accounting records of NAPMA as of 31 December 2015. In accordance with the NAPMO Financial Regulations (NFR), the financial year at NAPMA begins on 1 January and ends on 31 December.

### **Reporting Currency**

The functional and reporting currency used throughout these Financial Statements is the USD equivalent (\$). The Financial Statements are prepared using data based on the actual multi-currency execution of the approved budget credits. The non USD expenditures are converted to the USD equivalent using the weekly posted NATO exchange rates for booking of transactions during the year, and to the NATO rate in effect at the end of the year to report the Statement of Financial Position.

### **Cash Flow Statement**

IPSAS 2 – Cash Flow Statement allows the choice between presenting the cash flow based on the direct method or indirect method. NAPMA has selected the indirect method of presentation in these financial statements.

### **Revenue and Expense Recognition**

Revenue is recognized from various sources including nations' contributions and currency gains. Effective 1 January 2007, all interest and other miscellaneous income is returned or credited to the Nations in accordance with Board of Directors (BOD) instructions.

Expenses are recognized as incurred to satisfy both miscellaneous project requirements and administrative related activities. Disbursements made for the acquisition of assets are not considered to be expenses; however, they are capitalized under Property, Plant & Equipment (PP&E).

### **Changes in Accounting Policy**

In 2015 the accounting policies have been applied consistently throughout the reporting period.

### **Foreign Currency Transactions**

Transactions in currencies, other than the functional currency, are translated into USD at the NATO exchange rates prevailing at the time of the transaction. Monetary assets and liabilities at year-end, which are in currencies other than USD, were translated into USD using the NATO exchange rates that were applicable on 31 December 2015.

Realised and unrealised gains and losses resulting from the translation into USD and from the revaluation at the reporting dates of monetary assets and liabilities in currencies other than USD are recognized in the Statement of Financial Performance.

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### Assets – Current Assets

The current assets of NAPMA are cash and cash equivalents, accounts receivables and prepayments. They are measured at fair value. Changes in fair value are recognized in the Statement of Financial Performance.

#### Cash and Cash Equivalents

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

#### Receivables

Receivables are reported at fair value in the Statement of Financial Position. No provisions are made against national debts as they deemed to be collectable.

In accordance with IPSAS, receivables are broken down into amounts receivables from Nations, NATO Entities, Non-NATO Entities, Staff Members and other receivables, receivables from bank interest and long outstanding receivables.

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

#### Prepayments and Accrued Interest

Prepayments made to suppliers and to other NATO entities are reflected in the Statement of Financial Position. The same applies for bank interest accrued in one year but received only the following year and not distributed to Nations.

### Assets – Non - Current Assets

In this category, NAPMA is reporting all assets invested for more than 12 months.

#### Property, Plant and Equipment

In accordance with IPSAS 17 on PP&E, these accounts have been established to capitalize expenditures on administrative assets and show the amortization accumulated against those assets. Administrative assets include those used specifically by the Agency itself in supporting its programme management activities. The building and the land that NAPMA occupies are provided by the Host Nation as a "right of use".

All property, plant and equipment are stated at historical acquisition value less accumulated depreciation.

PP&E categorizations for purposes of determining the appropriate depreciable life of the assets is listed in the table below as well as the associated capitalisation thresholds per item.

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

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The table for purchases in 2015 were as follows:

PPE Category	Description	Threshold per item	useful life
Buildings	Building	200,000	40
Installed Equipment	Equipment/building improvements as part of the building such as heating & cooling systems, security systems, renovation, replacements and fixtures	30,000	10
Vehicles	Transportation equipment	10,000	5
Furniture	Desks, Chairs, Cabinets, Safes, etc.	5,000	10
Automated Information Systems	NIMS, major Hardware and Software	20,000	5
Communication and IT Equipment	Equipment/Tools required for daily office operations such as PC's, Laptops, Software, etc.	5,000	3
Government Furnished Equipment	Miscellaneous Equipment provided to Contractors	50,000	10

### Leases

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

All other leases are classified as operating leases. NAPMA does not have any finance leases.

### Work in Progress (other non-current assets)

The value of work in progress for an acquisition project will be transferred to the NAEW&CF E3A Component based on the declaration of Full Operational Capability (FOC) and the final amount upon completion. That amount is valued at its historical acquisition value at the exchange rate in effect on the date of the expenditure transactions.

### Current Liabilities

#### Payables and Accruals

Payables are reported at fair value in the Statement of Financial Position. They represent amounts for which goods and services, supported by an invoice, have been received due to NATO and Non-NATO entities, commercial vendors and NAPMA Staff for goods received or services provided that remain unpaid as of reporting date. Accruals are estimates of the cost for goods and services received but not yet supported by an invoice at year-end.

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### **Unearned Contributions**

Unearned revenue represents contributions from Nations and/or third parties that have been called for current or previous years' budgets but that have not yet been recognized as revenue.

### **Liabilities – Non - Current Liabilities**

#### **Advance Contributions**

Advances on contributions represent the amounts of funds held on behalf of the Contributing Nations, which arise from a variety of sources including advances from some nations on calls for the following fiscal year, interest earnings on Nations' cash balances, sales of residual assets and R&D recoupment.

#### **Reimbursables NATO Entities**

Advances received from NATO Entities to support Third Party Projects. Funds are received and expended on behalf of other NATO entities, predominantly the NAEW&C Force, for execution of projects and activities for Operations and Support.

#### **Deliverables to NAEW&C Force (other non-current liabilities)**

These amounts represent the cumulative amount of work in progress that is still to be transferred to NAEW&CF E3A Component based on the declaration of FOC and the final amount upon completion.

#### **Provisions and Contingent Liabilities**

Provisions are recognized for liabilities of uncertain timing or amount. It's a present obligation at the reporting date as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation. A provision is measured at the best estimate of the General Manager and the amount can be measured reliably.

Contingent liabilities are disclosed in the notes to the financial statements. It could be a possible obligation NAPMA is exposed to a current financial liability that arose from an event which occurred before year-end and where the confirmation of the existence of the liability will only be known through the occurrence or non-occurrence of one or more uncertain future events not wholly within the organisations control. This liability does not appear on the face of the financial statements.

#### **Net Assets**

Net assets represent the net result of revenues and expenditures, and the accumulation of inventory, capital and retained earnings over the life-time of the NAPMA Programme. The net assets are displayed into three components: Restricted net assets, unrestricted net assets and Investment in capital assets.

The restricted net assets represent the funds used from unrestricted net assets to cover disbursements/expenditures for the year. This is due to the fact that recognition of non-contributing funds were already reported as revenue when it was earned in previous years.

Therefore it is recognized as a transfer from unrestricted to restricted net assets in the column of "excess of revenue over expenditure".

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Unrestricted net assets are non-contributing funds from past net result of revenues (including additional contributions subsequently received from new joiners to the programme).

Invested capital is the accumulated amount of fixed admin assets. This includes all purchases less disposals and depreciation. The fixed admin assets purchases during the year are reflected in the column titled "Net change in Investment in Capital Assets".

### **Revenue and Expense Recognition**

#### **Revenue**

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

Revenue comprises contributions from Member Nations and other customers to fund NAPMA budgets. It is recognized as revenue in the statement of financial performance when such contributions are used for their intended purpose as envisioned by operational and administrative budgets. The balance of unspent contributions and other revenues that relate to future periods are deferred accordingly.

Exchange rate revenue due to transactions in foreign currency (unrealised – changes in valuations only) and realized exchange rate revenue in accordance with IPSAS 4 – Effect of the foreign exchange rate, are recognized as financial revenue.

#### **Expenses**

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

Exchange rate losses due to transaction in foreign currency (unrealised – changes in valuations only) and realized exchange rate losses in accordance with IPSAS 4 – Effect of the foreign exchange rate, are recognized as financial expenses.

### **Surplus or Deficit for the Period**

Accounting surpluses or deficits can occur. The reason for this can be using existing funds to cover project expenditures, currency translation adjustments at year-end in accordance with IPSAS 4, and the depreciation expenses of the fixed administrative assets.

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### NOTES TO THE STATEMENT OF FINANCIAL POSITION

#### Assets – Current Assets

##### 1. Cash and Cash Equivalents

<u>Cash and cash equivalents</u>	<u>2015</u>	<u>2014</u>
Current Bank Accounts	57,303	128,943
Investment/Deposit Accounts	377,244,173	327,034,600
<b>Total</b>	<b>377,301,476</b>	<b>327,163,543</b>

Cash balances are held in current and deposit accounts spread between two reliable financial institutions. Multiple currencies are held in separate accounts.

The calls for contributions to participating nations are issued according to the 2015 approved budget based on the Medium Term Financial Plan (MTFP) approved by the Board of Directors (BOD). The increase in cash holdings in 2015 is due to higher cash requirements approved in the MTFP formulated to accommodate national budgetary requirements of participating nations and financial prerequisites to support the procurement effort.

##### 2. Accounts Receivable

<u>Accounts receivable</u>	<u>2015</u>	<u>2014</u>
Receivables from Nations	5,502,311	46,257,484
Receivables from NATO Entities	0	75,079
Receivables from Staff Members	2,681	7,190
Other Receivables/Recoverable	802	0
Receivables from Bank interest	730	0
Long outstanding Receivables	391,657	
<b>Total</b>	<b>5,898,181</b>	<b>46,339,753</b>

Most receivables are due from the contributing nations. It is deemed that all accounts receivable activities will be closed within 12 months from the end of the reporting period. No provisions are made against debts as they are deemed to be collectible.

Long outstanding receivables represent an amount from FY 2012 not yet received from Germany.

##### 3. Prepayments

<u>Prepayments</u>	<u>2015</u>	<u>2014</u>
Prepayments to NATO Entities	120,313	1,074,301
Prepayments to DFAS	1,136,735	5,245,498
<b>Total</b>	<b>1,257,048</b>	<b>6,319,799</b>

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Prepayments were made to NSPA (NATO Entities) and DFAS (Non-NATO Entities) against Taskings and Case Directive Amendments (CDAs).

### 4. Other current assets

<u>Other current assets</u>	<u>2015</u>	<u>2014</u>
Accrued Interest	0	390
<b>Total</b>	<b>0</b>	<b>390</b>

Accrued interest is the interest earned that has been recognised but was not received in the bank account yet.

### 5. Property, Plant and Equipment

During 2015, there were additions to PP&E for automated information system and office furniture. Acquisitions for the year ended 31 December 2015 totalled USD 150,562. The appropriate threshold for capitalization was applied.

Additions in PP&E of USD 150,562 are reported in the Statement of Financial Position and the depreciation expense for the year of USD 131,234 is reported in the Statement of Financial Performance.

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

	Automated Inf. System (NIMS)	Office Furniture	Vehicles	Property / Structure	Installed and misc. Equipment	Gov. Furnished Equipment	Totals
Opening Balance (01 January 2015)	189,263	72,256	11,575	448,194	7,878	0	729,165
Additions	142,195	8,368	0	0	0	0	150,562
Disposals/Corrections	0	0	0	0	0	0	0
Depreciation	90,501	12,846	11,575	15,097	1,215	0	131,234
<b>Closing Balance (31 December 2015)</b>	<b>240,957</b>	<b>67,778</b>	<b>0</b>	<b>433,097</b>	<b>6,663</b>	<b>0</b>	<b>748,493</b>
Gross Carrying Amount	7,963,986	668,851	63,137	603,899	12,149	79,974	9,391,995
Accumulated Depreciation	7,723,030	601,073	63,137	170,802	5,486	79,974	8,643,502
<b>Net Carrying Amount</b>	<b>240,957</b>	<b>67,778</b>	<b>0</b>	<b>433,097</b>	<b>6,663</b>	<b>0</b>	<b>748,493</b>

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**6. Work in Progress (WIP) (other non-current assets)**

<b><u>Work in Progress</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
WIP	196,692,528	131,889,074
<b>Total</b>	<b>196,692,528</b>	<b>131,889,074</b>

WIP - The value of work in progress for an acquisition project will be transferred to the NAEW&C Force based on the declaration of Full Operational Capability (FOC) and the final amount upon completion. That amount is valued at its historical acquisition value at the exchange rate in effect on the date of the expenditure transactions.

Changes in Work in Progress for the year were as follows:

	<b>Work in Progress (WIP)</b>	<b>Totals</b>
Opening Balance (01 January 2015)	131,889,074	131,889,074
Additions	66,008,483	66,008,483
Transferred to NAEW&C	1,205,029	1,205,029
Disposals/Corrections	0	0
<b>Closing Balance (31 December 2015)</b>	<b>196,692,528</b>	<b>196,692,528</b>
Gross Carrying Amount	1,957,706,796	1,957,706,796
Accumulated Transfers	1,761,014,268	1,761,014,268
<b>Net Carrying Amount</b>	<b>196,692,528</b>	<b>196,692,528</b>

**Liabilities – Current Liabilities**

**7. Payables and Accruals**

<b><u>Payables</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
Payable to NATO Entities	2,889	141,121
Payable to Non-NATO Entities	282,471	633,028
Payable to Suppliers	1,344,815	103,200
Payable to Staff	23,211	37,617
<b>Total</b>	<b>1,653,386</b>	<b>914,966</b>

**Payable to NATO Entities**

Payables to NATO Entities include primarily an invoice received from NATO Support Agency that was not settled at year-end.

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### Payable to Non-NATO Entities

Payables to Non-NATO Entities include the DFAS US-Reimbursables that were not settled at year-end.

### Payable to Supplier

Payables to suppliers include invoices received from commercial vendors not settled at year-end.

### Payable to staff members

Amounts due to staff members such as travel expenses and education allowances.

<b><u>Accruals</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
Accrued Bank charges	354	327
Goods receipt – Invoices to be received	2,835,498	2,187,038
<b>Total</b>	<b>2,835,852</b>	<b>2,187,365</b>

Accrued bank charges are the amounts to be paid in 2015 but not yet debited to the bank accounts.

Goods receipt – Invoices to be received are the amounts based on estimates and assumptions made for goods/services that were delivered/performed during fiscal year 2015 but not invoiced by the 31 December 2015.

### 8. Unearned Contributions

<b><u>Unearned Contributions</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
Unearned Contribution	338,191,468	292,802,615
<b>Total</b>	<b>338,191,468</b>	<b>292,802,615</b>

Unearned contributions represent the balance of Nations' called contributions which are associated to the various programmes and those that are meant to fund administrative support that have not yet been recognized as revenue. The budgets and associated call for contributions are based on the Medium Term Financial Plan (MTFP) approved by the Board of Directors (BOD) increased from 2014 to 2015.

### Liabilities – Non-Current Liabilities

#### 9. Advanced Contributions and Reimbursables NATO Entities

<b><u>Advances on Nations' Contributions</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
Advance Nation accounts	40,381,734	83,597,349
<b>Total</b>	<b>40,381,734</b>	<b>83,597,349</b>

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Advances on Nations' contribution are funds held on behalf of the Participating Nations which arise from a variety of funding sources including calls for future year's budgets as stated in the NAPMO FR art.29.5, interest earnings on Nations' cash balances, sales of residual assets, R&D recoupment for the Radar System Improvement Project (RSIP).

The decrease from 2014 to 2015 results from the adjustment for the first call for contributions recorded on nation advance accounts at year end in 2014 and was adjusted accordingly in 2015.

<b><u>Reimbursables</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
Reimbursable NATO Entities	1,150,749	1,022,209
<b>Total</b>	<b>1,150,749</b>	<b>1,022,209</b>

This account tracks the financial activities to support Third Party NATO Entities. Funds are received and expended on behalf of other NATO entities predominantly the NAEW&C Force for execution of projects and activities for Operations and Support.

### 10. Deliverables

<b><u>Deliverable to NAEW&amp;C Force</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
Deliverable	196,692,528	131,889,074
<b>Total</b>	<b>196,692,528</b>	<b>131,889,074</b>

Deliverables to NAEW&C Force represent the cumulative amount of work in progress that is still to be transferred on the declaration of FOC and the remaining amount on completion.

Changes in Deliverables for the year were as follows:

	<b>Deliverables</b>	<b>Totals</b>
Opening Balance (01 January 2015)	131,889,074	131,889,074
Additions	66,008,483	66,008,483
Transferred to NAEW&C	1,205,029	1,205,029
Disposals/Corrections	0	0
<b>Closing Balance (31 December 2015)</b>	<b>196,692,528</b>	<b>196,692,528</b>
Gross Carrying Amount	1,957,706,796	1,957,706,796
Accumulated Transfers	1,761,014,268	1,761,014,268
<b>Net Carrying Amount</b>	<b>196,692,528</b>	<b>196,692,528</b>

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### NOTES TO STATEMENT OF FINANCIAL PERFORMANCE

#### 11. Revenue

The revenue recognition is matched with the recognition of expenses against NAPMA budgets. Contributions when called are booked as unearned revenue and recognized when earned. The table below shows the breakdown of the operating revenue.

<u>Revenue</u>	<u>2015</u>	<u>2014</u>
Revenue from Contributions	26,380,041	23,744,808
Financial Revenue	3,721,979	0
Other Revenue	297,072	604,526
<b>Total</b>	<b>30,399,091</b>	<b>24,349,334</b>

Revenue from Contributions was used to pay expenses related to project and administrative activities.

Financial revenue represents the accumulated exchange rate gains and losses due to transactions recorded in foreign currencies during the year, which only reflect an unrealised gain or loss required for reporting purposes.

Other revenue from "Advances on Nations contribution" was used to pay for the "Canadian Sources of Repair Relocation" (CANSORREL) requirement.

#### 12. Expenses

Expenses are recognized by nature within the following groups.

<u>Project Expenses</u>	<u>2015</u>	<u>2014</u>
Projects	8,977,187	2,764,118
<b>Total</b>	<b>8,977,187</b>	<b>2,764,118</b>

Project expenses contain indirect and direct expenditures and are not related to the capitalization of WIP assets.

<u>Administrative expenses</u>	<u>2015</u>	<u>2014</u>
Personnel	15,826,081	19,142,286
Operational	2,302,829	3,064,527
<b>Total</b>	<b>18,128,910</b>	<b>22,206,813</b>

The majority of the administrative expenses relate to personnel expenses, in support of common funded activities. The amounts include expenses for salaries and emoluments for approved NATO permanent civilian positions and temporary personnel, for other salary related and non-related allowances including overtime, medical examinations, recruitment, installation, removal, and training. There is a decrease in the administrative expenses due to the foreign currency valuation at the year end. This is due to the fact that NAPMA's reporting currency is in USD equivalent. Furthermore NAPMA has exercised a continuous efficiency approach regarding the agency during 2015.

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The General Manager is entitled to receive a representation allowance due to the requirements to represent NAPMA at events. The amount spent in 2015 was 9,046 USD equivalent. Expenditures made against this allowance are supported by invoices.

The remaining part of the administrative expenses relate to operational activities such as maintenance costs, travel expenses, communication and information systems. These expenses were needed to meet NAPMA's operational requirements.

The lease for two staff cars has been qualified as an operating lease and is therefore also included in the administrative costs.

### Capital

Acquired assets of PP&E were capitalized and depreciated over their useful life (see Note 6).

<u>Financial Expenses</u>	<u>2015</u>	<u>2014</u>
Financial Expenses	0	740,761
<b>Total</b>	<b>0</b>	<b>740,761</b>

### **13. Surplus for the Period**

The 2015 surplus results from the usage of existing funds to cover project expenditures, the currency translation adjustments at the end of the year in accordance with IPSAS 4, and the capitalization of the administrative assets minus the depreciation expenses for the year.

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### EVENTS AFTER THE REPORTING DATE

NAPMA's reporting date is 31 December 2015 and its financial statements were authorized for issue by the General Manager on 31 March 2016. No material events, favourable or unfavourable, which would have impacted upon the statements have been incurred between the reporting date and the date on which the financial statements were authorized for issue.

### CONTINGENT LIABILITIES

IPSAS defines a contingent liability as *"A possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, or, a present obligation that arises from past events, but is not recognized because: i) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or ii) The amount of the obligation cannot be measured with sufficient reliability"*.

The following item represents a contingent liability for NAPMA:

Currently, there is a dispute between Thales and the Belgian authorities on the tax exemption for NATO Mid-Term activities executed in the past. VAT in the amount of €1.6 million was assessed against Thales for work performed under NAPMA's NATO Mid-Term project with Thales as a subcontractor to Boeing. The tax exemption was denied by the Belgian tax authorities for the NMT contract and Thales subsequently paid the VAT with interest and fine and passed this invoice on to NAPMA.

Per guidance from the NAPMO BOD, NAPMA is not authorized to make any payment toward this invoice.

This case is currently under re-assessment by the Belgian authorities.

### 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 BOD members receive no remuneration and do not receive loans. Based on the BOD annual declarations for 2015, received from all the BOD Members, no significant related party relationships could be identified which could affect the operation of NAPMA.

Based on the annual declaration for 2015 received from the key management personnel of NAPMA, there were no significant related party relationships identified which could affect the operation of NAPMA.

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Senior management is remunerated in accordance with the published NATO pay scales. They do not receive loans that are not available to all staff.

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

<b>Remuneration of Key Management Personnel For Period ended December 31, 2015</b>			
<b>Number</b>	<b>Grade</b>	<b>Gross Salary (Euro)</b>	<b>USD Equiv. (At End Year Rate)</b>
1	A7	171,684	187,873
3	A6	513,970	562,438
4	A5	607,254	664,518
7	A4	772,968	845,859
<b>15</b>		<b>2,065,876</b>	<b>2,260,688</b>

## BUDGET EXECUTION

As per the new NFR's, the Budget Execution Report shall be an annex to the Financial Statements with immediate effect. The execution of the budget during fiscal year 2015 is shown in annex A.

The budget and accounting bases differ for NAPMA. The Financial Statements for NAPMA are prepared on an accrual basis, based on the nature of expenses in the financial statements whereas the Budgets are prepared on a commitment basis. Budgets are approved annually by programme/project, but cover multi-year requirements. All budgets are approved in US Dollar equivalent at an established rate at the beginning of each project. Execution of the approved budgets is in multi-currencies and is expressed in US Dollar equivalent at the established programme rate.

The BOD approves the budgets based on programme/projects including administrative costs. Budgets may be subsequently amended by the Board.

As previously stated, the budget and accounting bases differ due to different methodologies. Differences between budget expenses (commitment basis) and actual expenses (accrual accounting basis and restated at a programme rate) are driven primarily by Clearing House timing differences and accruals.

In the Clearing House process, actual expenditures are recognized when USD Equivalent payments are made through DFAS, while the Budgeted Expenditures are recognized when payments are made to subcontractors, in multi-currencies, by NAPMA.

Actual expenditures are recorded on an accrual basis. Budgeted expenditures are recognized when the Goods Receipt is posted and the budget is consumed by an individual project.

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### Reconciliation between budget expenditures and expenditures reported in the statement of financial performance:

The following reconciliation shows a minor difference between the budgetary results and the financial statements due to rounding in the execution of Clearing House throughout the year.

Comparison of Budget Execution and Statement of Financial Performance:

	Expenditure Comparison		Difference	Explanation			Net Difference
	BES Expense at Program Rate (\$EQ)	Financial Stmt Expense at Market Rate (LC)	BES Expense @ Program Rate less Fin Stmt Expense @ Mkt Rate	Exchange Difference Program Rate to Mkt Rate	Currency Clearing House Difference	Accrual Difference	
PROJECTS	76,022,746.64	74,985,669.98	1,037,076.66	2,460,497.31	(542,206.87)	(881,214.44)	0.65
ADMIN	21,874,982.06	18,279,471.94	3,595,510.12	3,524,571.88		70,938.24	-
<b>TOTAL</b>	<b>97,897,728.70</b>	<b>93,265,141.92</b>	<b>4,632,586.78</b>	<b>5,985,069.20</b>	<b>(542,206.87)</b>	<b>(810,276.20)</b>	<b>0.65</b>

### WRITE OFF

As assets which are currently providing operational service potential are deemed to be the reporting responsibility of NAEW&C FC, NAPMA does only report write-offs of NAPMA fixed admin assets and inventory. This results from the implementation of IPSAS 17 (PP&E).

### FINANCIAL INSTRUMENTS DISCLOSURE

NAPMA uses only non-derivative financial instruments as part of its normal operations. These financial instruments include bank accounts, deposit accounts, and accounts receivable. All financial instruments are recognized in the financial statements. In 2015 NAPMA on behalf of NAPMO Nations only drew advantage from "risk free investment" bank accounts.

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Annex A

**NAPMA Report of budget execution as at 31 December 2015 (Annex as per the new NFR's Article 34, para 34.4)  
(in USD equivalent)**

	BOD authorizations current Budget Year (\$EQ)	Changes to Previous Budget Year Authorizations (\$EQ)	Commitments Carried Forward from Previous FY (\$EQ)	Obligations Carried Forward from Previous FY) (\$EQ)	Lapse in current FY (\$EQ)	Total Authorities Available FY (\$EQ)	Expense at Program Rate (\$EQ)	Commitments Carried Forward (\$EQ)	Obligations Carried Forward into Following FY (\$EQ)	Total Authorities Used FY (\$EQ)	Delta (\$EQ)
PROJECTS	136,574,419.32	20,896.82	84,973,035.80	189,916,646.49	(1,460,549.98)	<b>410,024,448.43</b>	76,022,746.64	(124,847,192.36)	(209,280,323.42)	<b>(410,150,262.41)</b>	(125,813.98)
ADMIN	23,553,993.04	(0.00)	410,909.21	200,046.12	(2,188,609.42)	<b>21,976,338.96</b>	21,874,982.06	(0.30)	(59,770.64)	<b>(21,934,753.01)</b>	41,585.95
<b>TOTAL</b>	<b>160,128,412.36</b>	<b>20,896.82</b>	<b>85,383,945.01</b>	<b>190,116,692.61</b>	<b>(3,649,159.40)</b>	<b>432,000,787.39</b>	<b>97,897,728.70</b>	<b>(124,847,192.66)</b>	<b>(209,340,094.06)</b>	<b>(432,085,015.42)</b>	<b>(84,228.03)</b>

Deltas are caused by NAPMA ERP System Standard settings.

Projects - Delta is caused due to erroneous lapsing of funds in past years related to Purchase Order closure.

Admin - Delta results from incorrect Carry Forward due to Vendor change in past year Purchase Order.

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