

**NATO UNCLASSIFIED**

16 December 2020

**DOCUMENT**  
C-M(2020)0051-AS1

**IBAN AUDITOR'S REPORT ON THE 2019 FINANCIAL YEAR STATEMENTS OF  
NAGSMO, NAHEMO, NAMMO AND NETMA**

**ACTION SHEET**

On 15 December 2020, under the silence procedure, the Council noted the RPPB report attached to C-M(2020)0051, agreed its conclusions and recommendations, and agreed to the public disclosure of this report, the IBAN Auditor's Reports, the NAGSMO, NAMMO and NETMA 2019 financial statements and the redacted NAHEMO 2019 financial statements.

(Signed) Jens Stoltenberg  
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2020)0051.

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8 December 2020

**DOCUMENT**  
C-M(2020)0051  
**Silence Procedure ends:**  
**15 Dec 2020 17:30**

**IBAN AUDITOR'S REPORT ON THE 2019 FINANCIAL YEAR STATEMENTS OF  
NAGSMO, NAHEMO, NAMMO AND NETMA**

**Note by the Secretary General**

1. I attach the International Board of Auditors for NATO (IBAN) Auditor's Report on the 2019 financial statements of the NATO Alliance Ground Surveillance Management Organisation (NAGSMO), NATO Helicopter for the 1990s Design and Development, Production and Logistics Management Organisation (NAHEMO), NATO Multi-Role Combat Aircraft Development Production and In-Service Support Management Organisation (NAMMO) and NATO EF2000 and Tornado Development, Production and Logistics Management Agency (NETMA). The IBAN Auditor's Reports set out unqualified opinions on both the 2019 financial statements and on compliance for NAGSMO, NAMMO and NETMA and on 2019 redacted financial statements and on compliance for NAHEMO.
2. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB) (see Annex 1).
3. I do not believe this issue requires further discussion. Therefore, **unless I hear to the contrary by 17:30 hours on Tuesday, 15 December 2020**, I shall assume the Council noted the RPPB report, agreed its conclusions and recommendations, and agreed to the public disclosure of this report, the IBAN Auditor's Reports, the NAGSMO, NAMMO and NETMA 2019 financial statements and the redacted NAHEMO 2019 financial statements.

(Signed) Jens Stoltenberg

1 Annex  
1 Enclosure

Original: English

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-1-



**IBAN AUDITOR'S REPORT ON THE 2019 FINANCIAL YEAR STATEMENTS OF  
NAGSMO, NAHEMO, NAMMO AND NETMA**

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

**References:**

- |    |                 |   |
|----|-----------------|---|
| A. | IBA-A(2020)0078 | IBAN's Auditor's Report on the audit of 2019 financial statements of the NATO Alliance Ground Surveillance Management Organisation (NAGSMO)   |
| B. | IBA-A(2020)0076 | IBAN's Auditor's Report on the audit of 2019 restated financial statements of the NATO Helicopter for the 1990s Design and Development, Production and Logistics Management Organisation (NAHEMO) |
| C. | IBA-A(2020)0082 | IBAN's Auditor's Report on the audit of 2019 financial statements of the NATO Multi-Role Combat Aircraft Development Production and In-Service Support Management Organisation (NAMMO)            |
| D. | IBA-A(2020)0081 | IBAN's Auditor's Report on the audit of 2019 financial statements of the NATO EF2000 and Tornado Development, Production and Logistics Management Agency (NETMA)                                  |
| E. | C-M(2015)0025   | NATO Financial Regulations (NFR)  |
| F. | PO(2015)0052    | Wales Summit tasker on transparency and accountability  |

**INTRODUCTION**

1. This report by the Resource Policy and Planning Board (RPPB) addresses the International Board of Auditors for NATO (IBAN) Auditor's Reports on the 2019 financial statement of NATO Alliance Ground Surveillance Management Organisation (NAGSMO), NATO Helicopter for the 1990s Design and Development, Production and Logistics Management Organisation (NAHEMO), NATO Multi-Role Combat Aircraft Development Production and In-Service Support Management Organisation (NAMMO) and NATO EF2000 and Tornado Development, Production and Logistics Management Agency (NETMA). The IBAN Auditor's Reports set out unqualified opinions on both the financial statements and compliance for NAGSMO, NAHEMO, NAMMO and NETMA in 2019 (reference A, B, C, and D).

**AIM**

2. This report highlights key issues in the IBAN Auditor's Report (reference from A to D) to enable the Board to reflect on strategic challenges emanating from the audit of financial statements of NATO entities and to recommend courses of action to Council as applicable, which has the potential to improve transparency, accountability and consistency.

3. The Board acknowledges the observations highlighted in the Auditor's Reports that have been discussed and dealt with by the participating Nations represented on the appropriate governing bodies. The RPPB is mandated under Article 15 of the NFRs (reference F) to examine the Auditor's Reports and to provide comments and recommendations as required.

4. To help NATO Nations distinguish between the four different NATO Reporting Entities, the main highlights for the NAGSMO, NAHEMO, NAMMO and NETMA are covered in their respective Chapters.

## DISCUSSION

### CHAPTER 1 NAGSMO

5. In 2019 IBAN issued two observations with recommendations, neither observation impacted the audit opinion on the financial statements or on compliance. The two new observations covered the NAGSMO's liquidation and associated transfer of assets to NATO Support and Procurement Organization (NSPO). Also, IBAN followed up on the status of observations and recommendations from the previous years' audits and noted that two were closed and one remains in-progress.

5.1. NAGSMO's transfer of the Alliance Ground Surveillance (AGS) Core System Assets to NATO Support and Procurement Organisation (NSPO): IBAN found that NAGSMO's transfer of the AGS Core System Assets to NSPO is not formalised. Although the transfer has been coordinated among these two bodies, IBAN recommends that NAGSMO join a formal Working Group (WG) established with NSPO's AGS technical experts and Finance teams.

5.2. NAGSMO feels that the establishment of a WG is a responsibility of the lead, NSPA, though NAGSMA is in charge of providing accurate accounting data. The Board agrees with the IBAN that NAGSMO will not be recognizing the NATO AGS assets in its financial statements but that NAGSMO should proactively join a WG with NSPO.

5.3. NAGSMO's liquidation and completeness of disclosure in the 2019 Financial Statements. IBAN believe that drafting a disclosure note is necessary to inform external users of the financial statements of the upcoming closure of NAGSMO's activities. The Board support the IBAN's recommendation that NAGSMO prepares the disclosure note regarding the dissolution process.

5.4. Prior year closed observations: During 2019, IBAN found no issues regarding supporting documents on funds requested from the Nations and confirmed that significant progress has been achieved in terms of audit readiness process and financial reporting.

5.5. Prior year observations in-progress: During the 2019 audit, IBAN found that more progress was required to disclose additional information on the legal obligations committed in the Budget Execution Statement. The Board supports IBAN's recommendation that improvements are needed in the disclosure of commitments in the note to the Budget Execution statement of the Operational Budget for NAGSMO.

**CHAPTER 2 NAHEMO**

6. In 2019 IBAN issued two observations with recommendations, neither observation impacted the audit opinion on the financial statement or on compliance. The two new observations covered the agreement on Revised Operational Budget and estimations related to Operation Budget Milestones. Also, IBAN followed up on the status of observations and recommendations from the previous years' audits and noted that three were closed, of which one was superseded by a current year observation, and four remain in-progress.

6.1. Revised Operational Budget not agreed in advance by the Steering Committee (SC). IBAN found that NAHEMA did not obtain an official agreement from the SC ahead of a budget increase which is not in compliance with Article 23.5 of the NAHEMO Financial Regulations. The Board supports the IBAN recommendation that NAHEMA complies with Article 23.5 of the NAHEMO Financial Regulations, by ensuring that any increase in budgetary provisions is previously agreed by the SC.

6.2. Improvement needed in the valuation of estimates related to Operational Budget Milestones achieved in 2019 but not paid in 2019. During the assessment of Operational Budget Milestones achieved in 2019 but not yet paid, IBAN noticed that the total value of Operational Budget milestones declared as achieved was understated by a material amount of at least EUR 24 million. As a result, NAHEMO issued Restated Financial Statements with a revised figure of EUR 94.64 million of Operational Budget milestones achieved but not yet invoiced at the end of 2019. The Board upholds the IBAN recommendation that NAHEMO provides an accurate year-end figure of Operational Budget milestones achieved but not paid.

6.3. Prior year closed observations: In the course of 2019 audit, IBAN closed two NAHEMO recommendations related to the improvements in the area of risk management, internal control, internal audit, and the use of the ERP System.

6.4. Prior year observations in-progress: In response to IBAN recommendations raised in 2016, NAHEMO implemented an ERP module for fixed assets and recruited a Disbursing Officer to segregate accounting and payment roles. The Board notes an improvement in the accuracy of asset registers however, a completely reliable and coordinated process for capitalising assets has not been established yet. Additionally, the Board welcomes the future work of the IBAN to assess the impact of the assignment of the new Disbursing Officer.

6.5. In 2018, IBAN recommended that NAHEMA ensures that calls for contributions are only made to meet the payments of the financial year, and total currency holdings are restricted to the minimum in accordance with NAHEMO FRPs. The Board supports the IBAN observation on the improvements needed in the adjustment of calls for funds process and restrictions of the level of cash holdings and proposes that the issue regarding the compliance with NAHEMO FRPs is discussed in the framework of upcoming FRPs review. IBAN's recommendation that the budget process should be better aligned with the planned

commitments and payments through an analysis of the pending targets is supported by the Board.

### **CHAPTER 3 NAMMO**

7. In 2019 IBAN issued one observation and recommendation that does not impact the audit opinion on the financial statement or on compliance. The observation relates to the organization of cash holdings in the context of increased financial costs. Also, IBAN followed up on the status of observations and recommendations from the previous years' audits and noted that two were closed and one remains in-progress.

7.1. Management of cash holdings in the context of increased financial costs. During its audit, IBAN found that NETMA for NAMMO has not developed a written policy regarding the management of cash holdings in light of the commercial bank charging negative interest rates on cash holdings. The Board support the IBAN recommendation that NETMA develops and implements procedures regarding significant cash holdings of NAMMO to avoid additional unforeseen costs to Nations and to mitigate potential liquidity risk.

7.2. Prior year closed observations: In 2019, NAMMO closed two observations as the determination of accrued expenses and accounting of receivables has improved.

7.3. Prior year observations in-progress: In 2018, IBAN recommended that NETMA for NAMMO improves the presentation of Statement of Budget Execution and implements controls on information produced for the same. The Board, supported by IBAN recognises improvements in the presentation of NAMMO budget execution statement and in the quality of figures disclosed but still requires additional work.

### **CHAPTER 4 NETMA**

8. In 2019 IBAN made no observations and recommendations. Also, IBAN followed up on the status of observations and recommendations from the previous years' audits and found that one remained open and one remained in-progress.

8.1. Prior year observations in-progress: In 2017, IBAN recommended NETMA to ensure that the Head of Internal Audit and audit staff are not involved in NETMA's business operations. Therefore, NETMA Nations have setup an Audit Committee and Audit Advisory Panel and approved an external consultancy to assess NETMA's internal audit function that will be reviewed by IBAN during 2020 financial audit. The same year, IBAN recommended NETMA to improve the verification procedures of financial statements data and to enhance the internal control procedures to address potential mistakes before the issuance of the Financial Statements. NETMA made improvements by performing more controls and cross-checking reviews; however IBAN still discovered errors in the Financial Statements. The Board support the IBAN recommendation that NETMA carries out the independent assessment of the internal audit function, to continue making further progress in checking the financial data and to improve the internal controls over financial reporting.

## **CONCLUSIONS**

### ***NAGSMO***

9. No new observations impacted the audit opinion for NAGSMO in 2019. Two new observation were raised for NAGSMO. As of the date of the IBAN Auditor's Reports on the 2019 financial statements one prior year observation for NAGSMO was in-progress and two were closed.

10. IBAN recommended that NAGSMO's liquidation process including transfer of the AGS Core System Assets to NSPO should be adequately defined, organised and monitored. In this sense, the Board supports the IBAN recommendation for NAGSMO to join a formal Working Group established with NSPO's AGS technical experts and Finance teams, to make financial data available and to prepare the disclosure note regarding the dissolution process.

11. In respect of prior year observations, the Board notes the improvement made by NAGSMO in relation to the supporting documents on funds requested and financial reporting and audit readiness process. Furthermore, it upholds IBAN recommendation that disclosure note to the Operational Budget Execution Statement with information on legal obligations is drafted by NAGSMO.

### ***NAHEMO***

12. No new observations impacted the audit opinion for NAHEMO in 2019. Two new observation were raised for NAHEMO. As of the date of the IBAN Auditor's Report on the 2019 financial statements four prior year observation for NAHEMO were in-progress and three were closed.

13. IBAN recommended that NAHEMO's Revised Operational Budget is agreed in advance by the SC and that valuation of estimates related to Operational Budget Milestones are improved. In this regard, the Board supports the IBAN recommendation for NAHEMO that any increase in budget is agreed by the SC beforehand and that NAHEMO provides accurate year-end Operational Budget milestones achieved but not paid.

14. In the context of the prior year observations, the Board welcomes the improvement made by NAHEMO in the area of risk management, internal control, internal audit, and the use of ERP System. Furthermore, the Board supports IBAN's recommendation that further improvements are needed in the adjustment of calls for funds process and restriction of the level of cash holdings as well as in the operational budgeting process. In this context, the Board upholds the IBAN recommendation that NAHEMO segregates duties in finance process and maintains accurate asset register.

**NAMMO**

15. No new observations impacted the audit opinion for NAMMO in 2019. One new observation was raised for NAMMO. As of the date of the respective IBAN Auditor's Report on the 2019 financial statements one prior year observation for NAHEMO remains in-progress and two were closed.

16. The Board supports the IBAN recommendation that NETMA develops and implements procedures for the significant cash holdings of NAMMO to avoid additional unexpected costs to Nations and to mitigate possible liquidity risk.

17. Given the prior year observations, the Board welcomes the improvement made by NAMMO in the determination of accrued expenses and accounting of receivables. Additionally, the Board supports the IBAN recommendation that further improvements are needed in the presentation of the NAMMO budget execution statement.

**NETMA**

18. No observation was raised for NETMA in 2019. As of the date of the IBAN Auditor's Report on the 2019 financial statements one remained open and one remained in-progress.

19. As regards the prior year observations, the Board supports the IBAN recommendation that internal controls over financial reporting need to be improved and that the role of the Head of Internal Audit should be assessed to ensure it remains independent.

**RECOMMENDATIONS**

20. The Resource Policy and Planning Board recommends that the Council;

20.1. note this report and the IBAN Auditor's Reports at reference A-D;

20.2. agree the conclusions at paragraphs 9 to 11 for NAGSMO, 12 to 14 for NAHEMO, 15 to 17 for NAMMO and 18 to 19 for NETMA ; and

20.3. agree to the public disclosure of the 2019 financial statements for NAGSMO, NAMMO and NETMA, the redacted NAHEMO 2019 financial statements, their associated IBAN Auditor's Reports and this report in line with agreed policy at reference F.





NORTH ATLANTIC TREATY ORGANIZATION  
ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD  
INTERNATIONAL BOARD OF AUDITORS  
COLLÈGE INTERNATIONAL DES AUDITEURS EXTERNES DE L'OTAN

Enclosure to  
C-M(2020)0051

**NATO UNCLASSIFIED**

IBA-A(2020)0078  
21 August 2020

To: Secretary General  
(Attn: Director of the Private Office)

Cc: NATO Permanent Representatives  
Chairman, NAGSMO Board of Directors  
General Manager, NAGSMA  
Financial Controller, NAGSMA  
Chairman, Resource Policy & Planning Board  
Branch Head, Secretariat and Finance Branch, NATO Office of Resources  
Private Office Registry

Subject: ***International Board of Auditors for NATO (IBAN) Auditor's Report and Letter of Observations and Recommendations on the audit of the NATO Alliance Ground Surveillance Management Organisation's (NAGSMO) Financial Statements for the year ended 31 December 2019 – IBA-AR(2020)0014***

IBAN submits herewith its approved Auditor's Report (Annex 2) and Letter of Observations and Recommendations (Annex 3) with a Summary Note for distribution to the Council (Annex 1).

IBAN's report sets out an unqualified opinion on the Financial Statements of the NATO Alliance Ground Surveillance Management Organisation (NAGSMO) and on compliance for financial year 2019.

Yours sincerely,

Daniela Morgante  
Chairman

Attachments: As stated above.

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-1-

**Summary Note for Council  
by the International Board of Auditors for NATO (IBAN)  
on the audit of the Financial Statements of the  
NATO Alliance Ground Surveillance Management Organisation (NAGSMO)  
for the year ended 31 December 2019**

IBAN audited the Financial Statements for the year ended 31 December 2019. The NATO Alliance Ground Surveillance Management Organisation (NAGSMO) was created within NATO for the acquisition of the Alliance Ground Surveillance (AGS) Core System. NAGSMO is responsible for the overall management of the AGS program. It comprises a Board of Directors (BoD) and Working Groups with representatives from the participating Nations. It also comprises a NATO Management Agency led by a General Manager.

The budgetary expenditure for the administrative budget in 2019 was EUR 8.01 million. The budgetary expenditure for the operational budget in 2019 was EUR 35.12 million and USD 105.25 million.

IBAN issued an unqualified opinion on the Financial Statements and on compliance for the year ended 31 December 2019.

During the audit, IBAN made two observations and recommendations. These findings are in the Letter of Observations and Recommendations (Annex 3).

The main findings are listed below and do not impact the audit opinion on the financial statements and on compliance:

1. NAGSMO's transfer of the AGS Core System Assets to NSPO.
2. NAGSMO's liquidation and completeness of disclosure notes in the 2019 Financial Statements.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that two were closed and one remains in progress.

The Auditor's Report (Annex 2) and the Letter of Observations and Recommendations (Annex 3) were issued to NAGSMO whose comments have been included, with the IBAN's position on those comments where necessary, see the Appendix to Annex 3.

21 August 2020

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

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

**NATO ALLIANCE GROUND SURVEILLANCE  
MANAGEMENT ORGANISATION**

**(NAGSMO)**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

**INDEPENDENT EXTERNAL AUDITOR'S REPORT  
TO THE NORTH ATLANTIC COUNCIL**

**Report on the Audit of the Financial Statements**

**Opinion on the Financial Statements**

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of NATO Alliance Ground Surveillance Management Organisation (NAGSMO), for the 12 month period ended 31 December 2019, issued under document reference NAGSMA/FC/L/(2020)004305, and submitted to IBAN on 16 March 2020. These Financial Statements comprise the Statement of Financial Position as at 31 December 2019, the Statement of Financial Performance, the Statement of Changes in Net Assets/Equity and the Statement of Cash Flow, for the 12 month period ended 31 December 2019, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a budget execution report for the 12 month period ended 31 December 2019.

In our opinion, the Financial Statements give a true and fair view of the financial position of NATO Alliance Ground Surveillance Management Organisation as at 31 December 2019, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2019, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework.

**Basis for Opinion on the Financial Statements**

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies and reporting entities pursuant to the North Atlantic Treaty shall be performed by IBAN.

We have conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAIs 1000-1810) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

We are independent in accordance with the INTOSAI Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter.

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

## **Management's Responsibility for the Financial Statements**

Management's responsibility for the financial statements is laid down in the NFRs. The Financial Statements of NATO Alliance Ground Surveillance Management Organisation are drawn up in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council. The Financial Controller is responsible for submitting the Financial Statements for audit to IBAN not later than 31<sup>st</sup> March following the end of the financial year.

The Financial Statements are signed by the Head of the NATO reporting entity and the Financial Controller. In signing the Financial Statements, the Head of the NATO reporting entity and the Financial Controller confirm the establishment and maintenance of financial governance, resource management practices, internal controls and financial information systems to achieve the efficient and effective use of resources.

This confirmation covers the design, implementation and maintenance of internal controls relevant to the preparation and presentation of financial statements that are auditable and free from material misstatement, whether due to fraud or error. This also covers reporting on the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there are plans to liquidate the entity or to cease its operations, or there is no realistic alternative but to do so.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

The objectives of the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgement and maintain professional scepticism throughout the planning and performance of the audit. This involves taking into account Considerations Specific to Public Sector Entities. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are required to communicate with the bodies charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our Independent External Auditor's Report is prepared to assist North Atlantic Council in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

## **Report on Compliance**

### **Opinion on Compliance**

Based on the procedures we performed, nothing has come to our attention, as part of our audit of the Financial Statements that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

### **Basis for Opinion on Compliance**

We have conducted our compliance audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 4000) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

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

### **Management's Responsibility for Compliance**

All NATO staff, military and civilian, are obligated to comply with the NATO Financial Regulations, associated Financial Rules and Procedures and internal implementing directives. These include the NATO Civilian Personnel Regulations.

The Head of the NATO reporting entity is responsible and accountable for sound financial management. The financial administration of NATO bodies and reporting entities must incorporate the principles of propriety, sound governance, accountability, transparency, risk management and internal control, internal audit, external audit, and fraud prevention and detection.

### **Auditor's Responsibilities for Compliance**

In addition to the responsibility to provide reasonable assurance about whether the financial statements as a whole are free from material misstatement, the IBAN Charter requires IBAN to provide independent assurance and report annually to the North Atlantic Council about whether funds have been properly used for the settlement of authorised expenditure (propriety) and are in compliance with the regulations in force (regularity). Propriety relates to the observance of the general principles governing sound financial management and the conduct of public officials. Regularity concerns the adherence to formal criteria such as relevant regulations, rules and procedures.

This responsibility includes performing procedures to obtain independent assurance about whether funds have been properly used for the settlement of authorized expenditure and whether they have been used in compliance with the regulations in force. Such procedures include consideration of the risks of material non-compliance.

Brussels, 21 August 2020



Daniela Morgante  
Chairman

21 August 2020

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**LETTER OF OBSERVATIONS AND RECOMMENDATIONS**

**FOR THE NATO ALLIANCE GROUND SURVEILLANCE  
MANAGEMENT ORGANISATION**

**(NAGSMO)**

**FOR THE YEAR ENDED 31 DECEMBER 2019**



## **Introduction**

The International Board of Auditors for NATO (IBAN) audited the NATO Alliance Ground Surveillance Management Organisation (NAGSMO) Financial Statements for the year ended 31 December 2019, and issued an unqualified opinion on the financial statements and an unqualified opinion on compliance.

## **Observations and Recommendations:**

During the audit, IBAN made two observations and recommendations.

These observations do not impact the audit opinion on the financial statements and on compliance:

1. NAGSMO's transfer of the AGS Core System Assets to NSPO.
2. NAGSMO's liquidation and completeness of disclosure notes in the 2019 Financial Statements.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that two were closed and one remains in progress.

## OBSERVATIONS AND RECOMMENDATIONS

### 1. NAGSMO'S TRANSFER OF THE AGS CORE SYSTEM ASSETS TO NSPO

#### Reasoning

1.1 The NATO Alliance Ground Surveillance Management Organisation (NAGSMO) and the NATO Support and Procurement Organisation (NSPO) operate under the juridical personality possessed by the North Atlantic Treaty Organisation (NATO) by virtue of the Ottawa Agreement. These NATO Reporting Entities constitute an integral part of the Organisation. As set out in their Charters, the juridical personality of NAGSMO and NSPO is an intrinsic part of that of NATO and cannot be distinguished from it.

1.2 As per the NSPO – Alliance Ground Surveillance Support Partnership Agreement n° 1817 (AGS Partnership Agreement), paragraph 3.1, *the AGS Core System Assets are acquired under the authority of NAGSMO. The AGS Core System includes the following: Global Hawk Unmanned Air Vehicle, Air Vehicle Mission Command & Control, Ground Segment and Support Segment.* As per paragraph 3.2, *upon introduction of the AGS Core System assets for operation by the NATO Alliance Ground Surveillance Force (NAGSF), the exercise of rights of ownership of these assets will be transferred from NAGSMO to the AGS Support Partnership which is part of NSPO and who shall exercise all rights enjoyed by NATO in line with the NSPO Charter.*

1.3 According to the Organisational Framework for the Operations and Support of NATO Alliance Ground Surveillance with reference PO(2015)0342-AS1, paragraph 2.2.3, *NATO AGS Force (NAGSF) is an organisation activated by the NAC, as an International Military Headquarters pursuant to the Paris Protocol 1952. The NAGSF, subordinate to Supreme Headquarters Allied Powers Europe (SHAPE) / Allied Command Operations (ACO), will be responsible for operating the NATO AGS Core System at its Main Operating Base and at deployed locations when directed.* However, according to the AGS Partnership Agreement, although the NAGSF will be the end user of the AGS assets, they will not be recognised in ACO's financial statements.

1.4 As per the Alliance Ground Surveillance (AGS) Transition Plan with reference NAGSMO/BOD/D/2016/0025REV1, paragraph 11.5.4, *NSPA, as the executive body of the AGS Support Partnership will exercise ownership and will be responsible for:*

- i) The registration of ownership and accountability for each asset at the granularity level defined by the Transition Plan.*
- ii) The financial accounting, depreciation and financial reporting in their own financial statements of the AGS Core System Assets in accordance with Council-approved regulations, including those related to NATO Accounting Framework and International Public Sector Accounting Standards (IPSAS).*

1.5 According to paragraph 11.1 of the AGS Transition Plan, Transfer of AGS core system assets, documentation and data: *the elements subject to transfer will include the system's Air and Ground Segments, AGS support assets, the system's technical data and documentation and the necessary conformance documentation and proof of certification to requirements, applied standards, safety, security and air and roadworthiness.* As per paragraph 11.5.6, *for the AGS Core System, data should be provided at the highest level of granularity possible for each part of the system. The items which make up that part of the system should be listed and categorized according to the NATO Accounting Framework. The purchase date and price (historic cost) of each item should be listed along with the expected useful economic life of the item. If the item does not fall under the generic title of the NATO Accounting Framework, another more suitable description can be used. NAGSMA is responsible for the submission of the initial asset accounting list in accordance with the minimum data requirements specified in LW-A/2016/088/IS/II Asset Accounting Minimum Data Requirements. NAGSMA will provide data for all transferred assets and inventory. This data will comply with the NATO Accounting Framework and any specific NATO accounting policies. The data will transfer at or before the transfer of exercise of ownership.*

1.6 The NATO Accounting Policy for Property, Plant and Equipment (PP& E) with reference AC/335-N(2016)0088-REV3, section 3.5 provides a list of the relevant financial information and level of granularity that must be provided by all relevant internal and external stakeholders. In addition, the NATO Accounting Policy on Inventory (C-M(2017)0043 - Section 10) and the NATO Accounting Policy on Intangible Assets (C-M(2017)0044 – Section 7) contain similar lists of necessary information which must be provided by all relevant internal and external stakeholders.

1.7 Financial Statements, including the notes, shall be free of inconsistencies, and any other errors or omissions caused by lack of control during preparation. Entities should have proper internal controls, including reviews and reconciliations in place to ensure the consistency and the accuracy of information presented in the Financial Statements.

## Observations

1.8 The transfer of exercise of ownership rights from NAGSMO to the NSPO AGS Support Partnership is planned to take place asset by asset following completion of a successful System Level Performance Verification (SLPV) and Contractual Acceptance of each asset of the AGS Core System. The SLPV consists of the final tests to be done which allow the prime contractor to demonstrate that all criteria are met at system level.

1.9 NAGSMO is well aware of its responsibility as concerns the provision of detailed, complete and accurate data that will be reflected in the NSPO financial reporting of PP&E. However, so far NAGSMO has not received financial data at the level of granularity defined by the AGS Transition Plan from the prime contractor.

1.10 As per NAGSMO 2019 Financial Statements, among the main activities foreseen in 2020 are the execution of the completion of verification and SLPV. Therefore, the handover from NAGSMO to NSPO is currently planned to take place in 2020 and the protocol will follow the AGS Transition Plan. Many AGS related activities have already been transferred to NSPO and former NAGSMA staff members have been employed by the NSPO AGS Support Partnership (four engineers, one Project Coordinator). NAGSMO and NSPO are coordinating on this matter and have already called for a diversified team of technical and financial experts to meet in September 2020 in order to discuss the modalities of collaboration and the valuation of AGS financial data for the accounting of assets. However, IBAN believes that a formal Working Group needs to be established by NAGSMO and NSPO, in a collaborative effort in order to ensure that all roles and responsibilities are clearly defined, including regarding the valuation of assets transferred to NSPO.

1.11 As per page 12 of the 2019 Financial Statements: *In order to comply with the NATO Accounting Framework, it was decided that the end user will account for all NAGSMA procured assets in the future. In accordance with the NATO Accounting Framework and the NATO Accounting Policy for PP&E, NAGSMA informed the end user that no material items were procured in the financial year ending December 2019. As per page 35 of the 2019 Financial Statements, it is expected that NSPA will account for the AGS Core System once the system will be transitioned to them.*

1.12 However, as per the Partnership Agreement, the ownership of the AGS assets will be transferred from NAGSMO to NSPO (as asset holder and future contracting agent for the operator). Meanwhile, the capability is intended to be delivered to the NAGSF which will operate the AGS assets as the end user. Therefore, the disclosure notes to the 2019 Financial Statements regarding the AGS, do not accurately reflect the rights of ownership of NSPO and operation by the NAGSF as end user. Although the financial data presented in the NAGSMO Financial Statements are subject to internal controls to ensure their accuracy and correctness, additional internal controls are also needed to ensure the completeness of the disclosure notes.

## Recommendations

1.13 IBAN recommends that NAGSMO:

- Ensure that, before the official handover of the AGS system to NSPO, financial data is made available by the prime contractor, at the level of granularity defined by the Transition Plan and required by NSPO accounting policies;
- Join a formal Working Group established with NSPO's AGS technical experts and Finance teams in a collaborative effort to reach an agreed cost valuation at the official handover of the AGS assets to the NSPO AGS Support Partnership. This Working Group should have clearly defined Terms of Reference and agreed responsibilities for both parties. This will ensure that complete, accurate and reliable data is used for the analysis

and calculation of the AGS assets and inventory to be recognised by NSPO;

- Implement the additional internal controls, including reviews and reconciliations to ensure the consistency and accuracy of the information presented in the notes to the Financial Statements regarding the transition phase.

## **2. NAGSMO'S LIQUIDATION AND COMPLETENESS OF DISCLOSURE NOTES IN THE 2019 FINANCIAL STATEMENTS**

### **Reasoning**

2.1 According to International Public Sector Accounting Standards (IPSAS) 1 Presentation of Financial Statements, paragraph 38-39, *Financial statements shall be prepared on a going concern basis unless there is an intention to liquidate the entity or to cease operating, or if there is no realistic alternative but to do so. When those responsible for the preparation of the financial statements are aware, in making their assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, those uncertainties shall be disclosed. Financial statements are normally prepared on the assumption that the entity is a going concern and will continue in operation and meet its statutory obligations for the foreseeable future. In assessing whether the going concern assumption is appropriate, those responsible for the preparation of financial statements take into account all available information about the future, which is at least, but is not limited to, twelve months from the approval of the financial statements.*

2.2 NAGSMO's dissolution, liquidation and close-out is regulated by C-M(66)9 – Rules governing the dissolution of NATO Production Organisations (1966), the NAGSMO Charter (2008), the AGS Programme MOU (2009), the Organisational Framework for the Operations and Support of NATO AGS (2015) and AGS Transition Plan (2016). As per the NAGSMO Charter, Section II - Modification and dissolution procedure, *only the North Atlantic Council (NAC) can dissolve NAGSMO.*

2.3 In accordance with the AGS Programme Memorandum of Understanding (PMOU), *the Board of Directors (BoD) will carry out a review of the AGS Programme to determine if the Programme objectives have been met. If these Programme objectives are accomplished, the NAGSMO will be dissolved unless otherwise directed by the BoD to manage the support of the AGS Core. Any request to dissolve NAGSMO, or to amend or revoke this Charter shall be submitted jointly by the member States of NAGSMO to the NAC through the Secretary General of NATO.* The main objective and primary focus of the disclosure notes to the financial statements is to facilitate clear communication of the information required by the IPSAS that is most important to the stakeholders for decision making and accountability purposes.

## **Observations**

2.4 As per the NAGSMO Board of Directors' decision (BOD/DS/2019/0005), on 04 December 2019 the NAGSMO Board of Directors approved the closure of NAGSMO on 30 June 2021 and the start of liquidation activities on 01 July 2021. Therefore, at 31 December 2019 NAGSMA was considered a going concern for the purposes of its financial statements, as these were approved on 16 March 2020.

2.5 As the NAGSMO Board of Directors agreed the date for liquidation, the next step in the pre-liquidation phase is for the Secretary General to be informed. The Secretary General will then present the liquidation / dissolution to the North Atlantic Council in order to seek its agreement. IBAN understands that this is the triggering event which determines when the financial statements of NAGSMO will be prepared on a non-going concern basis.

2.6 Although NAGSMO complies with the IPSAS 1 limitation in terms of timing for the preparation of the financial statements on a going concern basis, the 2019 financial statements do not contain any disclosure note regarding the upcoming closure of NAGSMO's activities and liquidation. While this is not a compliance issue with NATO Financial Regulations, from an accounting standards perspective, this disclosure is needed as a matter of principle to inform external users of the financial statements for decision making and accountability purposes.

## **Recommendations**

2.7 IBAN recommends that NAGSMO ensure the completeness and effectiveness of the disclosure notes regarding the liquidation process, by identifying and including relevant information to the users of the financial statements for decision making and accountability purposes.

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

IBAN followed up on the status of observations from the previous years' audit. The observations, actions taken by the auditee as reviewed by IBAN, and their status are summarised in the table below.

The Open status is used for recommendations that are open and for which no notable progress has been achieved to date. The In-progress status is used for open recommendations when the NATO Reporting Entity has started to implement the recommendation or when some (but not all) sub-recommendations are closed. The Closed status is used for recommendations that are closed because they have been implemented, are superseded, or have lapsed. In the case where there are sub-recommendations, the status related to each sub-recommendation is indicated in the Action Taken column.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p><b>(1) NAGSMO FY 2018</b> <b>IBA-AR(2019)0024, paragraph 1</b></p> <p><b>LACK OF SUPPORTING DOCUMENTATION REGARDING FUNDS REQUESTED TO COVER CHANGES TO THE CONTRACT SCHEDULE OF MILESTONES</b></p> <p><b>IBAN's Recommendation</b> In order to support the funds requested from Nations to cover current year commitments, IBAN recommends NAGSMO to ensure that changes to the contractual achievement dates of milestones are supported by appropriate documentation from industry.</p>	<p>IBAN found no issues during 2019 testing.</p>	<p>Observation <b>Closed</b></p>
<p><b>(2) NAGSMO FY 2018</b> <b>IBA-AR(2019)0024, paragraph 2</b></p> <p><b>IMPROVEMENTS NEEDED IN THE PRESENTATION AND DISCLOSURE OF COMMITMENTS IN THE NOTE TO THE BUDGET EXECUTION STATEMENT OF THE OPERATIONAL BUDGETS FOR NAGSMO</b></p> <p><b>IBAN's Recommendation</b> In order to facilitate the understanding of the readers and users of financial statements, especially in light of the NAGSMO programme completion, IBAN recommends to disclose in the note to the</p>	<p>IBAN found that the Operational Budget Execution Statement (USD part) did not include USD 1,182,006 in the column for 2019 Initial</p>	<p>Observation <b>In-Progress</b></p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>Budget Execution Statement information on legal obligations committed in the current financial year for the provision of goods and services for contracts in future financial years. In addition, IBAN recommends to use the word “expenditure” instead of “expenses” when referring to the execution of the budget.</p>	<p>Authorisation. This amount was a commitment carried forward for System Design, Development and Qualification from 2014. However, this amount was included in the totals and therefore the totals were correctly reported.</p> <p>In addition, IBAN found that in order to convert its Operational Budget Execution Statement (USD part) in EUR, NAGSMO uses the year-end foreign exchange rate from the European Central Bank, not the average rate for the year.</p>	
<p><b>(3) NAGSMO FY 2017</b> <b>IBA-AR(2018)0036, paragraph 1</b></p> <p><b>IMPROVEMENTS NEEDED IN THE FINANCIAL REPORTING AND AUDIT READINESS PROCESS</b></p> <p><b>IBAN’s Recommendation</b></p> <p>The Board recommends that NAGSMA:</p> <p>a) improves its financial reporting and audit readiness process. This can be achieved by ensuring that auditable financial statements are produced in a timely manner and that all balances and disclosures in the financial statements are fully reconciled and supported by documentation prior to the start of the audit.</p>	<p>Significant progress has been achieved by NAGSMA as compared to the 2018 audit, both in terms of audit readiness, as well as financial reporting.</p>	<p>Observation <b>Closed</b></p>



**NATO ALLIANCE GROUND SURVEILLANCE MANAGEMENT ORGANISATION  
(NAGSMO) FORMAL COMMENTS  
ON THE LETTER OF OBSERVATIONS AND RECOMMENDATIONS AND  
THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS**

**OBSERVATION 1:  
NAGSMO'S TRANSFER OF THE AGS CORE SYSTEM ASSETS TO NSPO**

***NAGSMO's Formal Comments***

*As per the Transition Plan, NAGSMA (a) has the responsibility for the provision of assets accounting information to NSPA in accordance with NATO and NSPA accounting policies and (b) should be responsive to NSPA request for collaboration. As already intensively discussed and clarified during the exit meeting with you and the IBAN-team on 13 July 2020, NAGSMA is not accounting for NATO AGS assets, but NSPA as the life cycle management agency for the NATO AGS Programme is leading this accounting exercise including the decision on the level and modality of the collaboration between NAGSMA and NSPA. Establishing a formal or informal Working Group (WG) is therefore a responsibility of NSPA to include the level of collaboration NSPA deems appropriate. I would like to clarify that it is the responsibility of NAGSMA to provide accurate and reliable accounting information in accordance with the applied policies and not a responsibility of such a WG once established. To that end, it is at the discretion of NSPA – as the life cycle management agency for the NATO AGS Programme – how they will account for the AGS assets and their depreciation.*

**IBAN's Position**

**IBAN acknowledges that NAGSMO will not be recognising the NATO AGS assets in its financial statements. However, IBAN maintains its recommendation that NAGSMO proactively joins a formal Working Group with NSPO, given its responsibility regarding the provision of detailed, complete and accurate data that will be reflected in the NSPO financial reporting of PP&E.**

*Observation 1, paragraph 9 reads:*

*"From the perspective of the prime contractor of the AGS assets, NAGSMO and NSPO are the same legal person, as these two organizations constitute an integral part of NATO".*

*NAGSMA is of the opinion that this sentence is not accurate nor legally correct. I ask the IBAN to further check on this assumption as the contractual obligation with the prime contractor (NGISSII) for the procurement phase*

*(AGS Core Contract) is exclusively with NAGSMA on behalf of NAGSMO and that this obligation is or will not be extended to NSPO or the SPC despite the fact that NAGSMA and NSPA are both part of the NATO Organization. Moreover, the statement: “Therefore, the financial data related to the AGS system to be provided by the contractor to NAGSMO at the required level of granularity will from a legal standpoint be readily made available to NSPO” is the result of an internal agreement by two NATO entities, approved by the NAC, and not the result of any negotiation or agreement with the prime contractor. As such the prime contractor’s obligation is only towards NAGSMA on behalf of NAGSMO. That said, it is important to note that NSPA requests for data which go beyond what is made available to NAGSMA by the prime contractor in good faith and according to the provisions of the AGS Core Contract and which may result in a claim by the prime contractor, needs to be funded by NSPA.*

*As per legal advice to me, “NAGSMA and NSPA are separate NATO bodies established with separate Charters. While we share the same legal personality and undertake activities on behalf of NATO, we are separate legal entities vis-à-vis NATO. (It is similar in our Nations: the Ministry of Defense is not the same as the Ministry of Finance while they both act on behalf of the Nation). From the perspective of NGISSII only NAGSMA on behalf of NAGSMO is the contracting party and the only legal personality that they are accountable to for the AGS Core Contract. NSPA is a third party and has nothing to do with the AGS Core Contract. Info sharing with NSPA is done on the basis of other legal instruments. Therefore, the above mentioned statement should be deleted.”*

#### **IBAN’s Position**

**Although, NAGSMO and NSPO are NATO reporting entities and do not have separate legal personalities, IBAN acknowledges that obligations will not necessarily be extended from one entity to another, without a Council decision. Furthermore, IBAN recognises that the sharing of information between each reporting entity may be carried out on the basis of other instruments approved by Council. Paragraph 1.9 has been amended accordingly.**

## **GLOSSARY OF TERMS**

In accordance with auditing standards, audit opinions on financial statements and on compliance can be unqualified, qualified, a disclaimer, or adverse:

- An unqualified opinion is when IBAN issues an opinion that the financial statements and budget execution report are stated fairly and that nothing has come to our attention that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the rules and regulations.
- A qualified opinion means that IBAN was generally satisfied with the presentation of the financial statements, but that some key elements of the statements were not fairly stated or affected by a scope limitation, or specific issues have come to our attention that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the rules and regulations.
- A disclaimer is issued when the audit scope is severely limited and IBAN cannot express an opinion, or when there are material uncertainties affecting the financial statements or the use of funds.
- An adverse opinion is issued when the effect of an error or disagreement is so pervasive and material to the financial statements that IBAN concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

# **NAGSMO**

## **2019**

### **FINANCIAL STATEMENTS**



**NATO UNCLASSIFIED**



**NATO ALLIANCE GROUND SURVEILLANCE MANAGEMENT AGENCY**

**NAGSMA**



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**NATO ALLIANCE GROUND SURVEILLANCE MANAGEMENT AGENCY**

**NAGSMA**



NAGSMA/FC/L/(2020)00 4305  
16 March 2020

International Board of Auditors for NATO

Attention: NAGSMO Board of Directors - Chairman and National Representatives

Subject: **NAGSMO Financial Statements - Year ending 31 December 2019**

Enclosed are the NAGSMO 2019 Financial Statements. Please note that the enclosed statements are subject to audit by the International Board of Auditors for NATO.

For the General Manager

A handwritten signature in blue ink, appearing to read 'Grazia M. D'Arcangelo'.

Grazia M. D'Arcangelo  
NAGSMA Financial Controller

Encl.: NAGSMO Financial Statements for the year ending 31 December 2019.

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These Financial Statements represent the consolidated activities of the NATO Alliance Ground Surveillance Management Organisation (NAGSMO) and its executive body NATO Alliance Ground Surveillance Management Agency (NAGSMA).

## **THE NATO ALLIANCE GROUND SURVEILLANCE PROGRAMME**

NAGSMO is acquiring as an agent a NATO owned and operated Alliance Ground Surveillance (AGS) system that will give commanders an up-to-date picture of the situation on the ground throughout a wide area of interest. The AGS Core will be compliant with NATO Standardization Agreements (STANAGs) in order to ensure interoperability with interoperable national and NATO systems.

The AGS Core capability will enable the Alliance to perform persistent surveillance over wide areas from high-altitude, long-endurance (HALE), unmanned air platforms operating at considerable stand-off distances and in any weather or light condition. Using advanced radar sensors, the AGS Core will continuously detect and track moving objects throughout the observed areas, as well as providing radar imagery of areas and stationary objects.

The NAGSMO and its executive body NAGSMA are responsible for the procurement of the NATO AGS Core capability. NAGSMA was established in September 2009, after all Participating Nations signed the AGS Programme Memorandum of Understanding.

In late 2011, NAGSMA completed negotiations of the AGS Core procurement contract which was subsequently approved by the Participating Nations. The AGS Programme contract award was signed on 20 May 2012 in the margins of the NATO Summit in Chicago. In parallel, all 28 NATO nations negotiated the AGS Programme's practical funding solution for the related Capability Package for the future operations and support of the system.

## **THE AGS CORE**

The AGS Core will be an integrated system consisting of an air segment, a ground segment and a support segment.

The air segment will be based on the Block 40 version of the US RQ-4B Global Hawk high-altitude, long-endurance (HALE) unmanned aerial vehicle (UAV). The UAV will be equipped with the state-of-the-art Multi-Platform Radar Technology Insertion Program (MP-RTIP) ground surveillance sensor, and also with an extensive suite of communications and data links. The air segment will also include the ground-based UAV control stations, which will be located at the AGS Main Operating Base (MOB) at Sigonella Air Base, Italy.

The ground segment will consist of deployable ground stations in mobile and transportable and maritime configurations, and dedicated mission operations support facilities at the MOB. The ground segment entities will provide data link connectivity, data processing and



exploitation capabilities, and interoperable interfaces between the AGS Core System and a wide range of NATO and national Command, Control, Intelligence, Surveillance and Reconnaissance systems. This will enable the AGS Core to interconnect with and provide data to multiple deployed and non-deployed operational users in a flexible, timely and effective manner.

The AGS support segment provides items needed to train the air and ground segment operators and maintainers, to support the AGS System at its main operating base, and to enable maintenance and repair during deployed operations.

The AGS Core System will be supplemented by interoperable national airborne ground surveillance systems from NATO countries, as part of NATO's broader Joint Intelligence, Surveillance and Reconnaissance (JISR) capability.

### **NATO ALLIANCE GROUND SURVEILLANCE MANAGEMENT ORGANISATION**

The NATO Alliance Ground Surveillance Management Organisation (NAGSMO) is a NATO body

- created within the framework of NATO for the acquisition of the AGS Core System and established by the North Atlantic Council pursuant to Article IX of the North Atlantic Treaty and within the meaning of the Agreement on the Status of the North Atlantic Treaty Organisation, National Representatives and International Staff, signed in Ottawa 20 September 1951;
- to which the North Atlantic Council grants, within the framework of the NATO, a clearly defined organisational, administrative and financial status as specified below; and
- established with a view to meeting the NATO requirement, by Bulgaria, Czech Republic, Denmark, Estonia, Germany, Italy, Latvia, Lithuania, Luxembourg, Norway, Poland, Romania, Slovakia, Slovenia, and the United States of America in the field of implementation of the NATO AGS Programme described in the AGS Programme Memorandum of Understanding (PMOU).

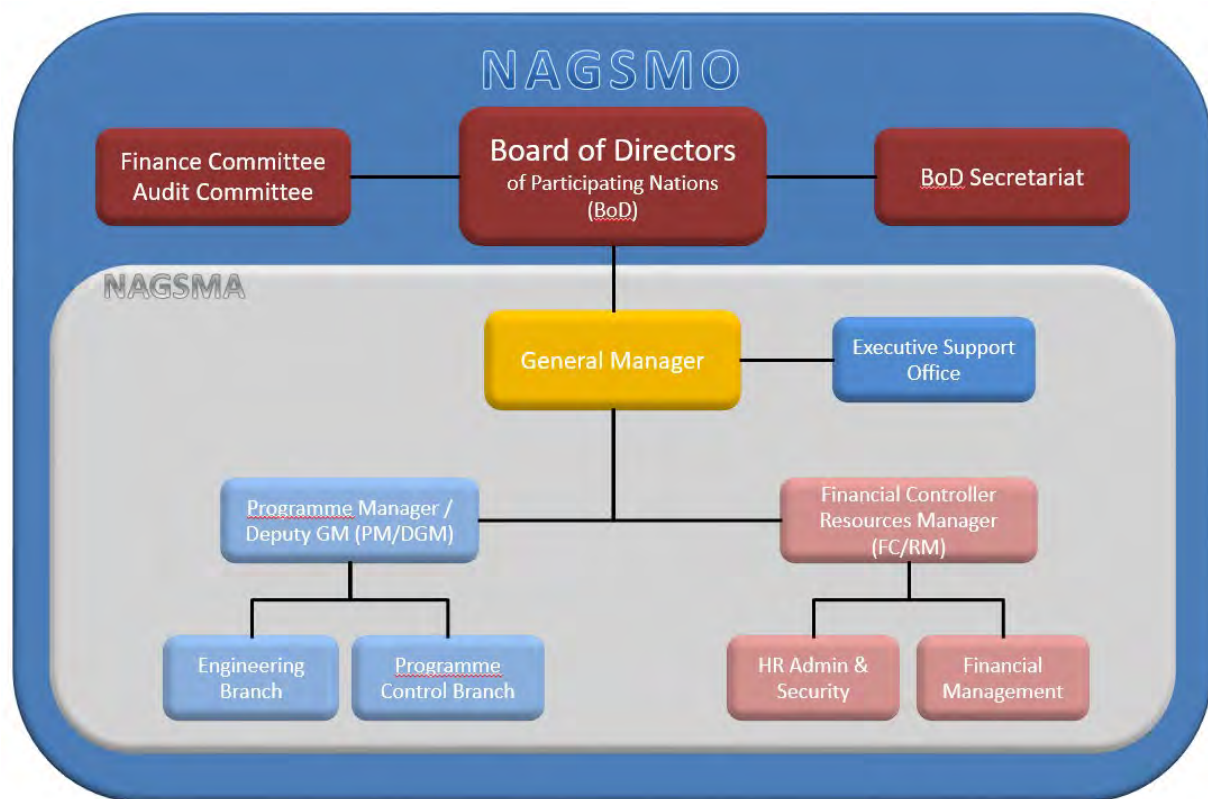
In June 2010, Denmark announced her intent to withdraw from the AGS Programme, a process that under the terms of the PMOU came into effect on 31 March 2011. Subsequently, in July 2011, Canada also announced her intent to withdraw, effective as of 30 April 2012. Later in 2012 Denmark announced her interest and intent to re-join the AGS Programme. Denmark re-joined the AGS Programme in December 2012. Poland announced to the NAGSMO Board of Directors their interest in joining the AGS Programme in August 2012. An amendment to the PMOU was sent to Participating Nations for signature in August 2013. Poland signed the Amendment 1 to the AGS PMOU in April 2014. With the signature of all of the Participating Nations, the Amendment 1 to the AGS PMOU has come into effect on the 19th of June 2014.

The principal task of the NAGSMO is to ensure the planning and implementation of a harmonised AGS Programme, which satisfies the operational requirements, in accordance with the provisions of the PMOU, and with due regard to the NAGSMO Member States' views on political, economic, industrial and technological factors. NAGSMO shall assume the functions of overall management of the AGS Programme, including:

- overall governance of the AGS Programme;
- general administration of the NAGSMA and procurement of the AGS Core System;
- examination of all issues that might impact the AGS Programme;
- coordination, as necessary, of the policy and working methods of the NAGSMO Member States' services, such as quality assurance and auditing; and
- support integration of the AGS Core System with the NATO Joint Intelligence, Surveillance and Reconnaissance (JISR) architecture.

NAGSMO comprises a Board of Directors (BoD) with Representatives from the Participating Nations, and NAGSMA as the Executive Body, led by a General Manager (GM).

The diagram below depicts the NAGSMO and NAGSMA organizational structure in 2019.



### **NAGSMA and Service Support/Level Agreement**

NAGSMA has signed service support agreements with the NATO IS and the NCI Agency in a number of areas necessary for the day-to-day operations of the Agency. In all respects of NAGSMA related activities, the GM and his staff remain fully accountable for the responsibilities assigned to them and make the final decisions on all matters related to the execution of NAGSMA's mandate. The SSA with the NCI Agency included a partial support services in the area of accounting and financial support in accordance with the NATO Financial Regulations (NFRs).

### **NAGSMO Financial Management Procedures Document and Financial Rules and Procedures (FMPD-FRP)**

The NAGSMO FMPD-FRP conforms to the provision of the NATO Financial Regulations. The NAGSMO BoD approved the latest revised NAGSMO FMPD-FRP in November 2019 that foresees a creation of Annex 7 to the FMPD-FRP tables, specifying the Voluntary National Financial Contributions. The NAGSMO FMPD-FRP recognises the withdrawal of Canada and the re-entry of Denmark, the conversion parameters from Then-Year to Base-Year, the call for contribution structure and the proposed structure of the Operational Budget.

### **NAGSMA 2019 Administrative Budget**

In November 2018 the NAGSMO BoD approved the 2019 NAGSMA Administrative Budget. The 2019 Administrative Budget funded NAGSMA's expenditures from 1 January to 31 December 2019. In 2019 NAGSMA continued finding cost-effective manpower and increased performance solutions.

In 2019 NAGSMA's administrative expenditures were considerably lower than what had been anticipated. 48% of the total savings were in Chapter I. The majority of savings were generated in basic salary and payroll related costs as well as consultancy. Savings in basic salary resulted from early departures of staff as well as delays in filling the vacancies.

In Chapter II, Operations and Maintenance, the Agency successfully negotiated two amendments for the Service Support Agreement and an annual Service Support Package with the NCI Agency for external administrative and IT support. It also received administrative and operational support from the NATO IS under the Memorandum of Agreement. 47% of the total savings were in Chapter II, these are primarily related to lower administrative cost allocations after the move to a new NATO HQ building, lower scope of financial and accounting support from NCI Agency as well as less travel on duty. The remaining 5% of administrative savings were in risk management.

## **NAGSMA 2019 Operational Budget**

The 2019 NAGSMA Operational budget was approved In November 2018 by the NAGSMO BoD. At the same time the NAGSMO BoD approved the updated Mid-Point Factor (MPF) methodology, converting the Then Year values of the different contracts in place to the respective Base Year values 2007. This resulted from the alignment of the Period of Performance of the originally signed AGS Core Contract to the Period of Performance of the re-baselined AGS Core Contract including the Initial In-Service Support (I-ISS) with the estimated end date of July 2020.

In April 2019, the NAGSMO BoD approved the revised 2019 NAGSMA Operational Budget that included the updated Mid-Point Factor effect. The budget primarily covers the completion of the AGS Core System Design, Development and Production including ferry flight, completion of SLPV and SDDQ as well as delivery and handover of the AGS Core System. In addition it covers the execution of the contracts in place with Terma (Denmark), EXENCE, PITRADWAR & ITWL (Poland), ALIS (Italy) and Kongsberg (Norway).

At Mid-Year Review 2019, the 2019 Operational Budget was increased to include Contract Amendment 0026 to the AGS Core Contract with NGISSII. This amendment incorporates changes by realigning the Milestone-Based payment plan with the revised Verification strategy that cancels three milestones originally planned for completion in 2018 and adds five new milestones with the corresponding values to the 2019 Operational budget. The NAGSMO BoD approved the 2019 Operational Budget increase on 30 September 2019.

### *Major Achievements FY 2019:*

In 2019, the AGS Programme achieved the following important milestones:

- Completion of Developmental Flight Test with a dual-aircraft test flight;
- Title Transfer to NATO of NA-03 and NA-04;
- Issuance of the Limited Military Type Certificate (MTC) N° 108 of the AGS Air Segment by the Italian Ministry of Defence Directorate of Air Armaments and Airworthiness (DAAA);
- Technical Publications accepted by DAAA for Certification (conditional);
- Factory Acceptance of NA-01, NA-02, and the AVMC2;
- Issuance of Temporary Registration Numbers to NATO-01, NA-02, and AVMC2;
- Ferry Flight of the first two AGS air vehicles, NA-01 and NA-02, to the Main Operating Base in Sigonella, Sicily;
- Completion of Annex R Airworthiness Milestones and closing of the Airworthiness Claim;
- Delivery of all Ground Entities to the Main Operating Base (MOB) in Sigonella (with the exception of DUCE 2), and initiation of Production MGGS Early Acceptance;

- Ku-Band SATCOM SKYWAN integration between Ground Entities;
- Training Courses and Courseware complete and delivered;
- Completion of all Spares orders and initial delivery and acceptance of over 3000 spares ongoing;
- Approval of Contract Amendments CA-0026, CA-0027, and CA-0028;
- Trainer Entity integration, test, and certification ongoing;
- Test and Verification (T&V) completion. As of the end of December, 2019, percent (%) complete are as follows:

<i>Element</i>	<i>% Complete</i>
AVMC2	84%
MGGS	99%
MOS	94%
TGGS	91%
Trainer	29%
UAV	77%
<b>Entity-Level</b>	<b>85%</b>
System-Level	34%
<b>Overall</b>	<b>82%</b>

- Phase I of Danish company TERMA contract is completed, including ATR/ATID hardware installation, Site Activation, and Security Testing at MOB.

Phase II of ATR/ATID was approved by the BoD on 9 May 2019. It provides software integration into the MOS/TGGS and other categorization features, currently only at the SIL in TERMA and Leonardo facilities. System Design Review (SDR) and Critical Design Review (CDR) has been executed. An assessment on options for ATR/ATID integration into MGGS and further development of the simulation tool chain is on-going.

- A contract with the Polish company EXENCE S.A. was signed on 6 December 2016 to design/develop/qualify/produce the Phase I of NATO AGS Test System Environment Capability (TSEC). In 2019 major part of Phase I activities has been completed; Phase I Capability deployment was postponed due to ongoing AGS Core integration tests. An Amendment (Phase II) to the contract has been signed on 10 April 2019. Before end of 2019 the System Design Review (SDR) and the Critical Design Review (CDR) have been executed. Contract Amendment 002 which includes Airbus as a subcontractor together with other changes had been approved by BoD on 19 December 2019 and a additional work package "AGS Configuration Analysis" was added within the TSEC scope. TSEC completion and shipment to the MOB is planned for April 2020.
- NAGSMA signed a contract with the Polish company ITWL on 17 October 2017 to design/develop/qualify/produce the AGS Battle-Laboratory. In 2019 ITWL conducted three (3) Contract Management Reviews (CMR) , successfully exited SDR as well as completed System Security Working Group. Furthermore, the Systems Integration Laboratory (SIL) facility was completed at ITWL premises. Accreditation, Integration and SW are development ongoing. AGS Battle Lab CONOPS has been developed with

Stakeholders.

- A contract with the Polish company PIT-RADWAR was signed in October 2017 to design/develop/qualify/produce the NATO AGS Core Software Only Package (CSOP). In 2019 multiple CMRs and SDR have been completed, CSOP Lab has been finalized. A Contract for Backup SMARF Hardware, which NAGSMA has to provide as CAFX has been awarded and the HW was delivered in December 2019 by NAGSMA to PIT-RADWAR.
- The NATO AGS Logistic Information System (ALIS) “Go Live” was achieved with the System Integration & Interoperability (SI&I) Phase completed. Security Accreditation issues are in progress and Full Operational Capability (FOC) for the ALIS system is expected in May 2020.
- The Norwegian company Kongsberg is providing support to the SMARF performing activities like the SMARF Mediation Service and BiSC AIS Integration CSD to SMARF test activity. Amendment 01 to the support contract has been approved by BoD 16 December 2019. It foresees a support to the Contracts with Polish and Danish industries as well as I-ISS activities.

The main activities foreseen in 2020 are the execution/completion of the following:

- Core Contract:
  - Completion of Verification and SLPV;
  - I-ISS activities, which are going to start 1st quarter 2020 for the;
    - Air-Segment with NGISSII (Part 6 of the AGS Core Contract).
    - MGGS with Airbus.
    - TGGS/MOS with Leonardo.
    - SMARF with Kongsberg.
  - Activities to complete SDDQ, including closeout ECPs (e.g., NAR retrofit).
  - Activities to complete Handover, including potential retrofits (e.g., Radar software).
- Execution of the Industrial Participation Contracts:
  - POL- EXENCE for TSEC;
  - POL - PITRADWAR for CSOP;
  - POL - ITWL for the BattleLab;
  - DEN - ATR/ATID with TERMA;
  - NOR - SMARF with Kongsberg;
  - IT - ALIS with Leonardo.

### **NAGSMA Assets**

Office space, including furniture is provided by NATO IS via MoU. IT and other equipment is provided by the NCI Agency via the SSA.

**NAGSMO & NAGSMA Acting as a Procurement Agent**

The North Atlantic Council (NAC) established NAGSMO by approving its Charter. The Charter clearly establishes that NAGSMO is a subsidiary body of NATO and states that the objective is to procure the AGS Core which will be owned, controlled and operated by NATO. NAGSMA is an entity acting as an agent with no control over the assets procured. The AGS Participating Nations reiterated the specific nature of the AGS Programme: temporary existence of the Agency and that the Agency will not own any asset. In order to comply with the NATO Accounting Framework, it was decided that end user will account for all NAGSMA procured assets in the future. NAGSMA will fully disclose and provide at the end of each reporting period to the relevant NATO entity all financial data regarding the assets procured. In accordance with the NATO Accounting Framework and the NATO Accounting Policy for Property, Plant and Equipment, NAGSMA informed the end user that no material items were procured in the financial year ending in December 2019.



**CERTIFICATION**

1. The NAGSMO 2019 Financial Statements are submitted to the International Board of Auditors for NATO.
2. The Financial Statements will be audited in accordance with the following reference documents:
  - a. The NAGSMO FMPD-FRP conform to the NFRs, Part II as approved by the North Atlantic Council (NAC) in C-M(2015)0025.
  - b. PO(2002)109, dated 23 July 2002: the document from the NAC adopting IPSAS, including the accrual and going concern assumptions, as the applicable accounting standards for all NATO entities effective for the financial year of 2006.
  - c. The NATO Accounting Framework has been developed to provide minimum requirements for financial reporting for all NATO Reporting Entities following approval of C-M(2016)0023 by the North Atlantic Council on 29 April 2016 of an IPSAS-adapted accounting framework for the Alliance.
3. The NAGSMO Financial Statements are certified by the NAGSMA Financial Controller to the best of her knowledge and according to the applicable accounting standards to give a true and fair view of the assets, liabilities, financial position and financial performance of NAGSMO and to be in accordance with the books and records maintained by the NCI Agency and NAGSMA.
4. The NAGSMO Financial Statements may be disclosed to the general public.



BrigGen Volker Samarin  
NAGSMA General Manager



Grazia M. D'Arcangelo  
NAGSMA Financial Controller



## STATEMENT ON INTERNAL CONTROL

This statement of internal control applies to the Financial Statements of NAGSMA, as the executive body of NAGSMO, for the year ended 31 December 2019.

### Scope of responsibility

- The General Manager acknowledges responsibility to maintain a sound system of internal control that supports the achievement of NAGSMA's mandate under its NATO Charter.
- The Financial Controller acknowledges responsibility for the correct use of funds made available to NAGSMA and for maintaining a sound system of internal control that supports the achievement of NAGSMA's goals and objectives, whilst safeguarding the public funds and assets.
- Funds received are recorded, accounted and managed through the NCI Agency core financial system.

The NAGSMO Board of Directors approved the NAGSMO Financial Management Procedures Document-Financial Rules and Procedures (FMPD-FRP) to provide guidance on the proper handling and reporting of public funds. The FMPD-FRP sets out the relevant financial rules and procedures in accordance with the NATO Financial Regulations, emphasises the need for economy, efficiency and effectiveness, and promotes good practice and high standards of propriety.

### Purpose of the System of Internal Control

The system of internal control is designed to ensure that NATO assets are used for the purposes intended and that the transactions relating to their usage reflect the highest standards of integrity to justify continued confidence of the AGS Programme Participating Nations.

The process within NAGSMA accords with the NAGSMO FMPD-FRP and has been in place for the year ending 31 December 2019 and up to the date of approval of the Financial Statements.

### Risk and Control Framework

The NAGSMA system of internal control is based on an ongoing process designed to identify the key risks to the achievement of NAGSMA goals and objectives, to evaluate the nature and extent of those risks and to manage them efficiently and effectively.

NAGSMA is committed to a process of continuous development and improvement: developing systems in response to any relevant reviews and developments in best practice in this area.

Since the NCI Agency carries out transactions on behalf of NAGSMA under the Service Support Agreement, NAGSMA's processes need to be compatible to the NCI Agency financial management system.

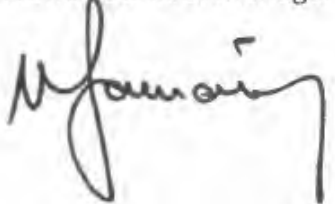
### **Review of Effectiveness**

The Financial Controller has responsibility for reviewing the effectiveness of the system of internal control. The review is informed by:

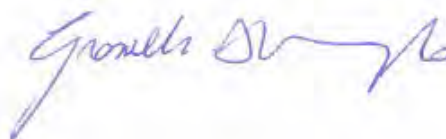
- The executive managers within the organisation who have responsibility for the development and maintenance of the internal control framework;
- Periodic Internal Audits performed on selected areas of activity within the FC/RM division; and
- Comments made by the external auditors in their management letters and other reports.

Appropriate action is in place to address any weaknesses identified and to ensure the continuous improvement of the system. During 2019, no material instances of failure to the internal control system were reported that should be brought to your attention.

BrigGen Volker Samanns  
NAGSMA General Manager



Grazia M. D'Arcangelo  
NAGSMA Financial Controller



**NAGSMO – Statement of Financial Position**  
**as at 31 December 2019**  
**(all amounts in Euro)**

	Notes	Current Year	Prior Year
	ANNEX B	31-Dec-19	31-Dec-18
<b>ASSETS</b>			
Cash and cash equivalents	B01	253,795,547	276,334,169
Short-term investments	B02	0	0
Receivables	B03	21,394,354	54,817,049
Other current assets and prepayments	B04	157,906	162,007
<b>Current assets</b>		<b>275,347,806</b>	<b>331,313,226</b>
<b>TOTAL ASSETS</b>		<b>275,347,806</b>	<b>331,313,226</b>
<b>LIABILITIES</b>			
Payables	B05	642,690	2,007,272
Advances and deferred revenue	B06	253,635,373	309,034,587
Short term provisions	B07	150,206	162,007
Other current liabilities	B08	20,919,537	20,109,360
<b>Current liabilities</b>		<b>275,347,806</b>	<b>331,313,226</b>
<b>NET ASSETS/EQUITY</b>			
Accumulated surpluses/(deficits)		0	0
<b>Net Assets/Equity</b>		<b>0</b>	<b>0</b>
<b>TOTAL LIABILITIES</b>		<b>275,347,806</b>	<b>331,313,226</b>

**NAGSMO – Statement of Financial Performance**  
**for the year ended 31 December 2019**  
**(all amounts in Euro)**

	Notes	Current Year	Prior Year
	ANNEX C	2019	2018
<b>REVENUE</b>			
Revenue from non-exchange transactions	C01	7,997,409	8,559,856
<b>Revenue</b>		<b>7,997,409</b>	<b>8,559,856</b>
<b>EXPENSES</b>			
Personnel	C02	6,330,735	6,510,239
Contractual supplies and services	C03	1,666,674	2,049,617
<b>Expenses</b>		<b>7,997,409</b>	<b>8,559,856</b>
<b>NET SURPLUS/(DEFICIT)</b>		<b>0</b>	<b>0</b>
<b>NET SURPLUS/(DEFICIT) ALLOCATION</b>			
Reserves		0	0
Accumulated surpluses/(deficits)		0	0
<b>Net surplus/(deficit) allocation</b>		<b>0</b>	<b>0</b>

**NAGSMO – Cash Flow Statement (Indirect Method)**  
**for the year ended 31 December 2019**  
**(all amounts in Euro)**

	Notes	Current Year	Prior Year
	ANNEX D	2019	2018
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
<b>Cash flow from operating and other activities</b>			
Net surplus/(deficit)		0	0
<b>Total cash flow from operating and other activities</b>		<b>0</b>	<b>0</b>
<b>Decrease/(increase) Current assets</b>			
Decr./(incr.) Other current assets and prepayments		4,102	(17,609)
Decr./(incr.) Receivables		33,422,696	(43,846,613)
<b>Total decrease/(increase) Current assets</b>		<b>33,426,797</b>	<b>(43,864,221)</b>
<b>Increase/(decrease) Current liabilities</b>			
Incr./(decr.) Short term provisions		(11,802)	22,797
Incr./(decr.) Other current liabilities		810,177	(141,901,456)
Incr./(decr.) Payables		(1,364,582)	611,327
Incr./(decr.) Advances and deferred revenue		(55,399,214)	134,982,994
<b>Total increase/(decrease) Current liabilities</b>		<b>(55,965,420)</b>	<b>(6,284,337)</b>
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>		<b>(22,538,622)</b>	<b>(50,148,559)</b>
<b>NET CASH FLOW FROM INVESTING ACTIVITIES</b>		<b>0</b>	<b>0</b>
<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>		<b>0</b>	<b>0</b>
<b>NET INCREASE/(DECREASE) CASH AND CASH EQUIVALENTS</b>		<b>(22,538,622)</b>	<b>(50,148,559)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>		<b>276,334,169</b>	<b>326,482,728</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>		<b>253,795,547</b>	<b>276,334,169</b>

**NAGSMO – Statement of Changes in Net Assets/Equity  
for the year ended 31 December 2019  
(all amounts in Euro)**

<b>BALANCE AT 31-DECEMBER-2018</b>	<b>0</b>
Net surplus for the period	0
<b>BALANCE AT 31-DECEMBER-2019</b>	<b>0</b>
<b>NET CHANGE IN ASSETS/EQUITY (OPERATING FUND) FOR THE YEAR ENDED 31-DECEMBER-2019</b>	<b>0</b>

**NAGSMO Budget Execution Statement - Administrative Budget**  
**for the year ended 31 December 2019**  
**(All amounts in Euro)**

	Notes		Initial Authorisation	Mid-year Review (MYR)	Final Approval - MYR	Transfers	Final Authorisation	Net Commitment	Expenses*	Total	Carry Forward	Lapsed
	ANNEX E											
Personnel												
2018 - Personnel	E02	0	0	0	0	0	0	0	-3,887	-3,887	0	3,887
2019 - Personnel	E03	8,321,766	0	8,321,766	-125,826	8,195,940	0	0	6,346,424	6,346,424	0	1,849,516
Total Personnel		8,321,766	0	8,321,766	-125,826	8,195,940	0	0	6,342,537	6,342,537	0	1,853,403
Contractual supplies and services												
2017 - Contractual supplies and services		0	0	0	0	0	0	0	-62	-62	0	62
2018 - Contractual supplies and services	E04	0	0	0	0	0	0	0	-63,306	-63,306	0	63,306
2019 - Contractual supplies and services	E05	3,391,000	0	3,391,000	125,826	3,516,826	0	0	1,730,042	1,730,042	0	1,786,784
Total Contractual supplies and services		3,391,000	0	3,391,000	125,826	3,516,826	0	0	1,666,674	1,666,674	0	1,850,152
Capital and investment budgeting												
2018 - Capital and investment budgeting		0	0	0	0	0	0	0	0	0	0	0
2019 - Capital and investment budgeting	E06	5,000	0	5,000		5,000	0	0	0	0	0	5,000
Total Capital and investment budgeting		5,000	0	5,000	0	5,000	0	0	0	0	0	5,000
Budget contingencies												
2018- Budget contingencies		0	0	0	0	0	0	0	0	0	0	0
2019 - Budget contingencies	E07	200,000	0	200,000		200,000	0	0	0	0	0	200,000
Total Budget contingencies		200,000	0	200,000	0	200,000	0	0	0	0	0	200,000
TOTAL BUDGET EXECUTION		11,917,766	0	11,917,766	0	11,917,766	0	0	8,009,211	8,009,211	0	3,908,555

Note: Negative amounts in Expenses include the impact of reversal of unspent accruals from previous periods.

**NAGSMO Budget Execution Statement - Operational Budget Total  
for the year ended 31 December 2019  
(All amounts in Euro equivalent)**

Notes	Initial Authorisation	Transfers Effected	Revised Budget Authorisation	Mid Year - Review (MYR)*	Final Approval - MYR	Budget transfers approved by BoD**	Transfers	Final Authorisation	Net Commitment	Actual Expenses	Total Spend	Carry Forward	Lapsed
<b>Annex F</b>													
<b>AGS Core System Procurement</b>													
2014 - AGS Core System Procurement	1,078,178	0	1,078,178	0	1,078,178	0	0	1,078,178	0	1,078,178	1,078,178	0	0
2015 - AGS Core System Procurement	1,000,956	0	1,000,956	0	1,000,956	0	1,000,956	1,000,956	518	1,000,438	1,000,956	518	0
2016 - AGS Core System Procurement	393,524	0	393,524	0	393,524	0	393,524	393,524	170,800	-948	169,853	170,800	223,671
2017 - AGS Core System Procurement	1,705,416	0	1,705,416	0	1,705,416	0	1,705,416	1,705,416	144,635	1,537,147	1,681,782	144,635	23,634
2018 - AGS Core System Procurement	114,223,014	0	114,223,014	0	114,223,014	0	114,223,014	114,223,014	22,541,989	75,265,050	97,807,039	22,541,989	16,415,975
2019 - AGS Core System Procurement	187,039,937	24,710,309	211,750,245	11,485,317	223,235,562	-14,228,490	209,007,072	209,007,072	154,824,492	52,245,634	207,070,126	154,824,492	1,936,946
<b>TOTAL AGS Core System Procurement</b>	<b>305,441,024</b>	<b>24,710,309</b>	<b>330,151,332</b>	<b>11,485,317</b>	<b>341,636,649</b>	<b>-14,228,490</b>	<b>326,329,981</b>	<b>327,408,159</b>	<b>177,682,434</b>	<b>131,125,500</b>	<b>308,807,933</b>	<b>177,682,434</b>	<b>18,600,226</b>

Note: \* At MYR 2019, the 2019 Operational Budget was increased to include Contract Amendment 0026 to the AGS Core Contract with NGISII.

\*\* Transfers effected after the Mid-Year review include the special carry forwards of uncommitted appropriations from the 2019 NAGSMA Operational Budget to the 2020 NAGSMA Operational Budget, approved by BoD on 7 January 2020 (NAGSMO/BOD/D/2019/0028-AS1)



**NAGSMO Budget Execution Statement - Operational Budget (EUR part)**  
for the year ended 31 December 2019  
All amounts in Euro

Notes Annex F	Initial Authorisation	Transfers Effected	Revised Budget Authorisation	Mid Year - Review (MYR)	Final Approval - MYR	Transfers	Final Authorisation	Net Commitment	Expenses	Total Spend	Carry Forward	Lapsed*
<b>BL 6604011</b>				<b>MYR</b>			<b>FA</b>					
<b>System Design, Development and Qualification</b>												
2016 - System Design, Development and Qualification	1,000,000	0	1,000,000	0	1,000,000	0	1,000,000	0	1,000,000	1,000,000	0	0
2018 - System Design, Development and Qualification	2,640,000	0	2,640,000	0	2,640,000	0	2,640,000	100,000	0	100,000	100,000	2,540,000
2019 - System Design, Development and Qualification	20,464,648	117,226	20,581,874	0	20,581,874	2,540,000	23,121,874	20,180,479	2,941,395	23,121,874	20,180,479	0
<b>Total System Design, Development and Qualification</b>	<b>24,104,648</b>	<b>117,226</b>	<b>24,221,874</b>	<b>0</b>	<b>24,221,874</b>	<b>2,540,000</b>	<b>26,761,874</b>	<b>20,280,479</b>	<b>3,941,395</b>	<b>24,221,874</b>	<b>20,280,479</b>	<b>2,540,000</b>
<b>Production</b>												
2018 - Production	5,743,020	0	5,743,020	0	5,743,020	0	5,743,020	1,474,166	1,780,395	3,254,561	1,474,166	2,488,459
2019 - Production	18,879,753	1	18,879,754	0	18,879,754	2,488,459	21,368,213	19,576,091	1,792,122	21,368,213	19,576,091	0
<b>Total Production</b>	<b>24,622,773</b>	<b>1</b>	<b>24,622,774</b>	<b>0</b>	<b>24,622,774</b>	<b>2,488,459</b>	<b>27,111,233</b>	<b>21,050,257</b>	<b>3,572,517</b>	<b>24,622,774</b>	<b>21,050,257</b>	<b>2,488,459</b>
<b>Management Reserve</b>												
2016 - Management Reserve	169,853	0	169,853	0	169,853	0	169,853	170,800	-948	169,853	170,800	0
2017 - Management Reserve	660,829	0	660,829	0	660,829	0	660,829	86,189	574,640	660,829	86,189	0
2018 - Management Reserve	361,528	0	361,528	0	361,528	0	361,528	254,564	100,374	354,937	254,564	6,591
2019 - Management Reserve	341,112	4,079,898	4,421,010	1,301,702	5,722,712	-5,221,003	501,709	370,090	131,619	501,709	370,090	0
<b>Total Management Reserve</b>	<b>1,533,322</b>	<b>4,079,898</b>	<b>5,613,220</b>	<b>1,301,702</b>	<b>6,914,922</b>	<b>-5,221,003</b>	<b>1,693,919</b>	<b>881,643</b>	<b>805,685</b>	<b>1,657,328</b>	<b>881,643</b>	<b>6,591</b>
<b>CAFEX</b>												
2016 - CAFEX	1,156	0	1,156	0	1,156	0	1,156	0	0	0	0	1,156
2017 - CAFEX	23,634	0	23,634	0	23,634	0	23,634	0	0	0	0	23,634
2018 - CAFEX	148,522	0	148,522	0	148,522	0	148,522	2,425	22,554	24,979	2,425	123,543
2019 - CAFEX	4,480,237	950,000	5,430,237	1,931,678	7,361,915	-327,292	7,034,623	902,301	5,879,822	6,782,123	902,301	252,500
<b>Total CAFEX</b>	<b>4,653,549</b>	<b>950,000</b>	<b>5,603,549</b>	<b>1,931,678</b>	<b>7,555,228</b>	<b>-327,292</b>	<b>7,207,935</b>	<b>904,726</b>	<b>5,902,376</b>	<b>6,807,102</b>	<b>904,726</b>	<b>400,833</b>
<b>ISS</b>												
2017 - ISS	0	0	0	0	0	0	0	0	0	0	0	0
2018 - ISS	7,680,152	0	7,680,152	0	7,680,152	0	7,680,152	6,632,519	1,047,633	7,680,152	6,632,519	0
2019 - ISS	806,692	14,100,000	14,906,692	-6,700,000	8,206,692	-6,280,000	1,926,692	1,226,692	700,000	1,926,692	1,226,692	0
<b>Total ISS</b>	<b>8,486,844</b>	<b>14,100,000</b>	<b>22,586,844</b>	<b>-6,700,000</b>	<b>15,886,843</b>	<b>-6,280,000</b>	<b>9,606,844</b>	<b>7,859,210</b>	<b>1,747,633</b>	<b>9,606,843</b>	<b>7,859,210</b>	<b>0</b>
<b>ATR / ATID</b>												
2019 - ATR / ATID	0	3,740,000	3,740,000	2,330,000	6,070,000	0	6,070,000	0	6,070,000	6,070,000	0	0
<b>Total ATR / ATID</b>	<b>0</b>	<b>3,740,000</b>	<b>3,740,000</b>	<b>2,330,000</b>	<b>6,070,000</b>	<b>0</b>	<b>6,070,000</b>	<b>0</b>	<b>6,070,000</b>	<b>6,070,000</b>	<b>0</b>	<b>0</b>
<b>T CB</b>												
2017 - TSEC, CSOP & Battle Lab. Capability	153,542	0	153,542	0	153,542	0	153,542	58,446	95,096	153,542	58,446	0
2018 - TSEC, CSOP & Battle Lab. Capability	7,117,645	0	7,117,645	0	7,117,645	0	7,117,645	39,372	7,078,273	7,117,645	39,372	0
2019 - TSEC, CSOP & Battle Lab. Capability	18,710,127	6,071,362	24,781,489	-1,674,476	23,107,013	-1,043,541	22,063,472	16,099,867	5,911,924	22,011,792	16,099,867	51,680
<b>Total TCB</b>	<b>25,981,314</b>	<b>6,071,362</b>	<b>32,052,676</b>	<b>-1,674,476</b>	<b>30,378,200</b>	<b>-1,043,541</b>	<b>29,334,559</b>	<b>16,197,686</b>	<b>13,085,293</b>	<b>29,282,979</b>	<b>16,197,686</b>	<b>51,680</b>
	<b>89,382,450</b>	<b>29,058,487</b>	<b>118,440,937</b>	<b>-2,811,096</b>	<b>115,629,841</b>	<b>-7,843,377</b>	<b>107,786,464</b>	<b>67,174,002</b>	<b>35,124,898</b>	<b>102,298,900</b>	<b>67,174,002</b>	<b>5,487,564</b>

Note: Transfers effected after the Mid-Year review include the special carry forwards of uncommitted appropriations from the 2019 NAGSMA Operational Budget to the 2020 NAGSMA Operational Budget approved by BoD on 7 January 2020 (NAGSMO/BOD/D/2019/0028-AS1)

**NAGSMO Budget Execution Statement - Operational Budget (USD part)**  
for the year ended 31 December 2019  
All amounts in USD

Notes	Initial Authorisation	Transfers Effected	Revised Budget Authorisation	Mid Year - Review (MYR)	Final Approval - MYR	Transfers Effected*	Final Authorisation	Net Commitment	Expenses	Total Spend	Carry Forward	Lapsed
<b>Annex F</b>												
<b>BL 6604010</b>							FA					
<b>System Design, Development and Qualification</b>												
2018 - System Design, Development and Qualification	59,909,581	0	59,909,581	0	59,909,581	0	59,909,581	3,109,181	44,673,504	47,782,685	3,109,181	12,126,896
2019 - System Design, Development and Qualification	39,869,165	0	39,869,165	9,805,762	49,674,927	12,126,896	61,801,823	46,667,997	15,133,826	61,801,823	46,667,997	0
<b>Total System Design, Development and Qualification</b>	<b>100,960,752</b>	<b>0</b>	<b>100,960,752</b>	<b>9,805,762</b>	<b>110,766,514</b>	<b>12,126,896</b>	<b>122,893,410</b>	<b>49,777,178</b>	<b>60,989,336</b>	<b>110,766,514</b>	<b>49,777,178</b>	<b>12,126,896</b>
<b>Production</b>												
2018 - Production	19,492,737	0	19,492,737	0	19,492,737	0	19,492,737	7,673,765	11,818,972	19,492,737	7,673,765	0
2019 - Production	51,590,609	0	51,590,609	0	51,590,609	2,852,048	54,442,657	45,982,984	8,449,673	54,442,657	45,982,984	0
<b>Total Production</b>	<b>71,083,346</b>	<b>0</b>	<b>71,083,346</b>	<b>0</b>	<b>71,083,346</b>	<b>2,852,048</b>	<b>73,935,394</b>	<b>53,666,749</b>	<b>20,268,645</b>	<b>73,935,394</b>	<b>53,666,749</b>	<b>0</b>
<b>Management Reserve</b>												
2017 - Management Reserve	950,943	0	950,943	0	950,943	0	950,943	0	950,943	950,943	0	0
2018 - Management Reserve	1,220,127	0	1,220,127	0	1,220,127	0	1,220,127	0	1,005,556	1,005,556	0	214,571
2019 - Management Reserve	6,766,908	-4,766,908	2,000,000	15,026,896	17,026,896	-16,076,896	950,000	0	0	0	0	950,000
<b>Total Management Reserve</b>	<b>8,937,978</b>	<b>-4,766,908</b>	<b>4,171,070</b>	<b>15,026,896</b>	<b>19,197,966</b>	<b>-16,076,896</b>	<b>3,121,070</b>	<b>0</b>	<b>1,956,499</b>	<b>1,956,499</b>	<b>0</b>	<b>1,164,571</b>
<b>CAFX</b>												
2015 - CAFX	1,048	0	1,048	0	1,048	0	1,048	568	480	1,048	568	0
2016 - CAFX	243,943	0	243,943	0	243,943	0	243,943	0	0	0	0	243,943
2018 - CAFX	8,500,000	0	8,500,000	0	8,500,000	0	8,500,000	0	8,500,000	8,500,000	0	0
2019 - CAFX	10,000	0	10,000	840,500	850,500	0	850,500	0	10,500	10,500	0	840,000
<b>Total CAFX</b>	<b>8,754,991</b>	<b>0</b>	<b>8,754,991</b>	<b>840,500</b>	<b>9,595,491</b>	<b>0</b>	<b>9,595,491</b>	<b>568</b>	<b>8,510,980</b>	<b>8,511,548</b>	<b>568</b>	<b>1,083,943</b>
<b>IISS</b>												
2018 - IISS	10,127,947	0	10,127,947	0	10,127,947	0	10,127,947	4,607,947	5,520,000	10,127,947	4,607,947	0
2019 - IISS	37,000,000	0	37,000,000	-10,000,000	27,000,000	-5,902,048	21,097,952	13,097,952	8,000,000	21,097,952	13,097,952	0
<b>Total IISS</b>	<b>47,127,947</b>	<b>0</b>	<b>47,127,947</b>	<b>-10,000,000</b>	<b>37,127,947</b>	<b>-5,902,048</b>	<b>31,225,899</b>	<b>17,705,899</b>	<b>13,520,000</b>	<b>31,225,899</b>	<b>17,705,899</b>	<b>0</b>
<b>TOTAL BUDGET EXECUTION</b>	<b>236,865,014</b>	<b>-4,766,908</b>	<b>232,098,106</b>	<b>15,673,158</b>	<b>247,771,264</b>	<b>-7,000,000</b>	<b>240,771,264</b>	<b>121,150,394</b>	<b>105,245,459</b>	<b>226,395,853</b>	<b>121,150,394</b>	<b>14,375,410</b>

Note: Transfers effected after the Mid-Year review include the special carry forwards of uncommitted appropriations from the 2019 NAGSMA Operational Budget to the 2020 NAGSMA Operational Budget that, approved by BoD on 7 January 2020 (NAGSMO/BOD/D/2019/0028-AS1)

## **Notes to the Financial Statements for the year ending 31 December 2019**

### **Index Page**

- A. Basis of Preparation and Accounting Policies
- B. Notes to the Statement of Financial Position
- C. Notes to the Statement of Financial Performance
- D. Notes to the Cash Flow Statement
- E. Notes to the Budget Execution Statement – Administrative Budget
- F. Notes to the Budget Execution Statement – Operational Budget
- G. General Notes to the Financial Statements

## **ANNEX A Basis of Preparation and Accounting Policies**

### **A01 Basis of preparation**

The financial statements of the NAGSMO, including NAGSMA being the executive body of the NATO Alliance Ground Surveillance Management Organisation (NAGSMO), have been prepared on the accrual basis of accounting in accordance with the International Public Sector Accounting Standards (IPSAS) and based on International Financial Reporting Standards (IFRS/IAS), as adopted by the North Atlantic Council (NAC) in 2002. In 2013 and in 2016, the NAC approved an adaptation to IPSAS to better suit the specific requirements of the Alliance and an associated NATO Accounting Framework.

The financial statements have been prepared in accordance with the NATO Accounting Framework, the NATO Financial Regulations (NFRs) and the Financial Rules and Procedures (FRPs) and the relevant entity directives and policies.

In accordance with Article 2.1 of the NFRs, the financial year at NAGSMA begins on 1 January and ends on 31 December of the year.

The NAGSMO financial statements have been prepared on a going concern basis. During the Lisbon Summit in 2010 the Heads of State and Government approved the consolidation and rationalisation of the functions and programmes of the 14 NATO agencies into three agencies and the reorganisation of the military commands. NAGSMA is recognized as the NATO Procurement, Logistics and Support Organisation (NPLSO) in the framework of NATO Agencies' Reform initiative.

These financial statements represent the consolidated activities of the NATO Alliance Ground Surveillance Management Organisation (NAGSMO) and its executive body NAGSMA.

NAGSMA's significant accounting policies are set out below. The accounting policies have been applied consistently to all periods presented.

### **A02 Use of estimates**

In accordance with IPSAS and generally accepted accounting principles, the financial statements necessarily include amounts based on estimates and assumptions by management, based on historical experience as well as the most reliable information available, judgement and assumptions. Estimates include accrued revenue and expenses. The majority of goods and services are provided by third parties and other NATO entities; therefore, accrued expenses and the related revenue recognition are based on estimates. By nature, these estimates are subject to measurement uncertainty. Actual results could differ from those estimates. Changes in estimates are reflected in the period in which they become known.

### A03 Significant Accounting Policies

#### *Accounting as a Procurement Agent*

IPSAS draws a distinction between transactions that an entity undertakes on its own behalf (principal) and those on behalf of others (agent). The distinction is whether the economic benefits arising from the procurement effort accrue to the entity or to the extent that a fee may be levied for providing an agency service.

Agency activities are those activities carried out by the reporting entity, but which are not its own activities. Where an entity undertakes agency activities, it is identified as the agent in relation to those activities.

NAGSMA is considered as a procurement agent in respect of its operations since:

- It was created for the sole purpose of procuring the AGS Core System on behalf of the AGS Participating Nations;
- It does not bear any inventory risk before or after the customer order;
- It does not bear the credit risk for the amounts receivable from the customer;
- It does carry out acceptance of goods and services on behalf of Nations/NATO;
- It does not receive a fixed fee per transaction or a stated percentage of the amount billed, as it is reimbursed for the running costs of the Agency via the Administrative Budget.

NAGSMA provides contract administration function to NAGSMO. NAGSMA acts as an agent in accordance with a mandate set by the NAGSMO Participating Nations in the PMOU, which defines the role of the Agency in the procurement of a NATO owned and operated core AGS capability. NAGSMO is as well considered an Agent in respect of its operations, as a subsidiary body of NATO, with the sole objective to procure the AGS Core which will be owned, controlled and operated by the 29 Nations of NATO. NAGSMO and its executive body NAGSMA do not have and will not have control in the future of the assets procured as per the criteria in the NATO Accounting Framework. Transactions are treated accordingly in the NAGSMO Financial Statements.

#### *Foreign Currency Translation*

The functional and reporting currency of NAGSMA is the EUR. Transactions in currencies other than EUR are translated into EUR at the prevailing NATO rates of exchange at the time of transaction. Monetary assets and liabilities denominated in currencies other than EUR are translated into EUR at the prevailing NATO year-end closing rate. Resulting foreign exchange unrealised gains and losses are recognised as Advances from Nations. Realised exchange differences are recognised as Payables to Nations in the Statement of Financial Position.

#### *Financial Instruments*

Financial instruments are recognised at the contract date and initially measured at fair value. Their subsequent measurement depends on their classification. Loans and receivables and

other liabilities are not re-valued (except for changes in exchange rates). Financial instruments are not recognised on expiry or when all contractual rights and obligations are transferred.

Management is aware of the risks associated with financial instruments and is bound by NAGSMO's Financial Rules and Procedures to keep these risks very low. NAGSMA uses only non-derivative financial instruments as part of its normal operations, such as bank accounts, deposit accounts.

**Currency risk:** To limit the exposure to foreign currency exchange risk, NAGSMA is forecasting the yearly expected expenditures in foreign currencies. In order to have the required funding, NAGSMA asks the Participating Nations to provide their contributions in the necessary currencies.

**Liquidity risk:** The liquidity risk is based on the assessment of 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 for the total approved budget. The accuracy of forecasts that result in the calls for contributions as well as the delay in payment represents the main liquidity risks. There is a clause in the NAGSMO FMPD-FRP art. 28 Contributions, that deals with unpaid contributions giving the Agency the authority to determine the appropriate course of action in case of a delay or a non-payment and the financial consequences of such, borne by the Participating Nation.

**Credit Risk:** There is a very limited credit risk as the contributing Nations generally have a high credit rating. NAGSMA uses three banks to deposit its cash holdings. UniCredit S.p.A. bank was selected after a competitive review and approved as a service bank for NAGSMA by the BoD in February 2019 in order to avoid negative interests on EUR holdings charged by other banks. UniCredit bank is a SIFI bank – subject to stricter regulations and supervision by the European Central Bank. The credit ratings of the banks used by NAGSMA are as follows:

DNB Bank ASA: AA- (S&P)

Banque et Caisse d'Épargne de l'État: AA+ (S&P)

UniCredit S.p.A. : BBB (S&P)

#### *Cash and Cash Equivalents*

Cash and cash equivalents includes cash held with the bank in current and savings accounts.

#### *Receivables*

Receivables are stated at net realisable value, after provision for doubtful and uncollectible debts. No allowance for loss is recorded with respect to Member States' assessed contributions receivable except for exceptional and agreed technical reasons.



### *Other Current Assets and Prepayments*

Other current assets include prepayments which are payments in advance of the period to which it pertains as well as bank interest receivable at year-end.

### *Payables*

Payables are amounts due to third parties based on goods received or services provided that remain unpaid. This includes an estimate of accrued obligation to third parties for goods and services received but not yet invoiced.

### *Advances and Deferred Revenue*

Advances are contributions called or received related to future years' budgets. Advances include future budget funding.

Deferred revenue represents contributions from Nations and/or third parties that have been called for current or prior years' budgets but that have not yet been recognised as revenue. Funds are called in advance of their need because the entity has no capital that would allow it to pre-finance any of its activities.

### *Provisions and Contingent Liabilities*

Provisions are recognised when NAGSMA has a present obligation as a result of a past event, and it is probable that NAGSMA will be required to settle that obligation. Provisions are measured at the General Manager's best estimate of the expenditure required to settle the obligation at the date of the statement of financial position, and are discounted to present value where the effect is material.


Other commitments, which do not meet the recognition criteria for liabilities, are disclosed in the notes to the financial statements as contingent liabilities when their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the control of NAGSMA.

### *Budget Execution Statement*

The Board of Directors approves the annual budgets which include budgeted amounts for the administration of the Agency and Programme costs. Budgets may be subsequently amended by the Board of Directors or through the exercise of delegated authority. The budget execution statement provides a comparison of budgeted and actual amounts calculated on accrual basis.

### *Revenue and Expense Recognition*

Revenue comprises contributions from Participating Nations to fund the entity's budgets. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably. Where a transfer is subject to conditions that, if unfulfilled, require the return of the transferred resources, NAGSMA recognises a liability until the condition is fulfilled.



*Revenue for the Administrative Budget*

Contributions to the budget are initially recorded as advances from nations. They are recognised as revenue in the statement of financial performance when such contributions are used for their intended purpose as envisioned in its approved budget.

*Interest*

Interest receivable is credited as payables to Participating Nations in the statement of financial position.

*Representation Allowance*

As from 1 June 2013, a summary of the operations related to the Representation Allowance is included in the Financial Statements. Transactions occurring in respect of Representation Allowance are expensed in the period to which they relate, and were paid directly from payroll or reimbursed.

*Post-employment benefits**Defined Contribution Plans*

NAGSMA employees are members of the NATO-wide Defined Contribution Pension Scheme (DCPS). The assets of the plans are held separately from those of NAGSMA in funds under the control of trustees. NAGSMA is required to contribute a specified percentage of payroll costs to the DCPS to fund the benefits. Payments to the DCPS are recognised as an expense when employees have rendered service entitling them to the contributions. The only obligation of NAGSMA with respect to the DCPS is to make the specified contributions.

*Defined Benefit Plans*

NAGSMA 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 65. 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 recognised in these financial statements.



**ANNEX B Notes to the Statement of Financial Position**

Notes Reference	Current Year	Prior Year
	31-Dec-19	31-Dec-18
The Statement of Financial Position details the assets and liabilities of NAGSMA as of 31 December.		
<b>B01 Cash and cash equivalents</b>	<b>253,795,547</b>	<b>276,334,169</b>
Cash and Cash equivalents are short-term liquid assets. NAGSMA operates highly reliable and interest bearing bank accounts in EUR and USD currencies.		
<b>B02 Short-term investments</b>	<b>0</b>	<b>0</b>
Short-term investments are bank deposits maturing in less than 3 months.		
<b>B03 Receivables</b>	<b>21,394,354</b>	<b>54,817,049</b>
Accounts receivable are kept in separate sub-ledgers that provide detailed insight into the outstanding calls for contribution and provide accurate and up-to-date cash forecast information. The receivables as of 31 December 2019 are primarily outstanding calls for contributions towards the Administrative Budget 2019 and the Operational Budget 2019 which have not yet past their due date.		
<b>B04 Other current assets and prepayments</b>	<b>157,906</b>	<b>162,007</b>
Other current assets match provisions for annual leave entitlements accrued but untaken at year-end as well as a short-term loan for an employee.		
<b>B05 Payables</b>	<b>642,690</b>	<b>2,007,272</b>
These short-term payables are accruals for goods and services received in 2019 such as consulting contracts, communication, travel and personnel related invoices.		



<b>B06</b>	<b>Advances and deferred revenue</b>	<b>253,635,373</b>	<b>309,034,587</b>
	Advances from NATO entities	462,064	1,319,696
	Advances from Nations	75,490,876	151,905,272
	Deferred revenue	177,682,433	155,809,619

Advances from NATO entities relate to NSIP contribution provided through NSPA for ALIS implementation, which is co-funded by NAGSMA.

Advances from Nations are funds called and/or received from Nations in respect of 2020 Administrative and Operational Budgets and unrealised exchange rate gains and losses. Advances include future budget funding as well as the cumulative effect of unrealised foreign exchange impact over the periods.

Deferred revenue comprises unspent funding from prior periods.

<b>B07</b>	<b>Short-term provisions</b>	<b>150,206</b>	<b>162,007</b>
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The provision includes annual leave entitlements accrued matched with Other current assets and prepayments.

Balance at 1 January 2019	162,007
Provision decrease	-11,801
Balance at 31 December 2019	150,206

<b>B08</b>	<b>Other current liabilities</b>	<b>20,919,537</b>	<b>20,109,360</b>
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Other payables mainly include lapsed credits 2019 and the 2019 financial result that will have to be refunded upon national decision.

<b>B09</b>	<b>Contingent Liabilities</b>		
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On 16 August 2019, NAGSMA received a notification from the NATO Administrative Tribunal where a decision taken on the suspension of a NAGSMA staff member was contested. The case will be resolved with a decision by the Tribunal. Moreover, NAGSMA made a decision on February 2020 on the termination of the staff member's employment contract on disciplinary offenses' grounds, which potentially will be also subject to an appeal at the Tribunal. The costs in case of materialization of a contingent liability will be borne by NAGSMO Nations.



## ANNEX C Notes to the Statement of Financial Performance

Notes Reference	Current Year	Prior Year	
	2019	2018	
The Statement of Financial Performance details the revenue and expenses that NAGSMA incurred during the year ending 31 December.			
<b>C01</b>	<b>Revenue from non-exchange transactions</b>	<b>7,997,409</b>	<b>8,559,856</b>
Revenue represents funding from Nations for expenses incurred during the financial year.			
<b>C02</b>	<b>Personnel</b>	<b>6,330,735</b>	<b>6,510,239</b>
Personnel costs 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.			
NAGSMA had 32 staff members at the year-end 2019 (2018: 38 staff members).			
The breakdown of wages, salaries and employee benefits is as follows:			
	Year ended 31/12/19	Year ended 31/12/18	
	EUR	EUR	
Employee benefits expense, consultants and contractors	5,924,344	6,032,595	
Post-employment benefits			
for defined contribution pension scheme	418,193	454,847	
for defined benefit pension scheme	0	0	
Termination benefits	0	0	
Provision for annual leave entitlements accrued	-11,802	22,796	
Total employee benefits expense	6,330,735	6,510,239	
<b>C03</b>	<b>Contractual supplies and services</b>	<b>1,666,674</b>	<b>2,049,617</b>
Supplies and consumables are costs of goods and services used by NAGSMA associated with the general management and administrative activities under the SSA and SLA, such as information management, finance, human resources, building and facilities, security, travel expenses, etc. These costs are linked to the approved NAGSMA Staffing Plan. It also includes hospitality funds, communications services (i.e. telephones), and NATO Headquarters support (MOA).			

## **ANNEX D    Notes to the Cash Flow Statement**

The Cash Flow Statement is prepared using the indirect method.

The Cash Flow Statement summarises the cash movements in and out of the Agency during the financial year.

## **ANNEX E Notes to the Budget Execution Statement – Administrative Budget**

The Administrative Budget is prepared and presented using the accrual basis.

The classification basis adopted for the Administrative Budget is to show expenditure in three chapters for Personnel costs, Contractual supplies and services costs as well as Capital and Investment expenditure.

The actual expenses presented in the budget execution statement include accruals (expenses for goods and services delivered before the year-end but not yet invoiced) and therefore reconcile to the expenses in the statement of financial performance after excluding the reversal for the provision for annual leave entitlement (decrease of 11,802 EUR). The net commitments are those commitments for which a contractual obligation has been created before the year-end without the goods and services delivered before the year-end.

### *Personnel, E01 – E02*

The expenses with regard to Personnel mainly covered basic salary, allowances, contributions to the employees' pension scheme and consultancy. Lapses are due to savings that were generated in basic salary and education allowance, following the lower personnel strength than what was approved in the NAGSMA staffing plan 2019.

### *Contractual supplies and services, E03 – E04*

The commitments and expenditures as regards Contractual Supplies and Services were mainly related to travel for duty and telecommunication services.

### *Capital and investment budgeting, E05*

Expenditures incurred with regard to Capital and investment budgeting are to provide for business equipment and software not provided by NCI Agency via the Service Support Agreement.

### *Budget contingencies, E06*

Lapses are due to unused budget contingencies.

## **ANNEX F Notes to the Budget Execution Statement – Operational Budget**

The accounting basis used in preparation and presentation of the Operational Budget is the same as the one used in the financial statements, the accrual basis for recording of the actual expenditures. Due to the Agency's role as an agent acting with no control over the assets being procured, it is not accounting for the operational budget expenditures as an asset under construction. Rather, it is expected that NSPA will account for the AGS Core System once the system will be transitioned to them.

The classification basis adopted for the Operational Budget is to show expenditure for AGS Core System Procurement.

The exchange rate used to translate the USD portion of expenditure to the presentation currency EUR in the Operational Budget Total table is the official NATO rate applicable as at 31 December 2019 of 1.0963.

The Operational Budget is presented to Participating Nations in two currencies, EUR and USD. The Budget Execution Statements by currency show the Budget's net commitments, expenditures and lapses by sub-categories, as presented to and approved by Participating Nations.

### *System Design, Development and Qualification*

The AGS Core System Design, Development and Qualification covers the design and development for the AGS Core System. The Budget includes provisions for milestones which cover: Programme Design Review of the AGS Core System in accordance with the mandatory TRD requirements; Technical Interchange Meetings; the beginning of Critical Design Review and Working Group meetings and Programme design reviews.

### *Production*

Contractual milestones under the production sub-category are related to production progress payments and advance procurement authority to meet the contract timeline for production of deliverable SSS items and related placement of purchase orders for long-lead-time items. Long lead items include parts, components, equipment and sub-assemblies that must be ordered by the Contractor well in advance of actual final assembly such as the structural carbon fibre and metal components, nacelles, communication equipment, navigation equipment.

### *I/ISS*

I/ISS includes NGISSII's effort for Initial In-Service Support as Part 6 of the AGS Core Contract and includes sustaining services for a period of 15 months starting at SLPV of the AGS Core Contract. This budget line also includes payments for the NATO Alliance Logistics Information System contract. It covers the Test Readiness Review of Final Operational Capability (FOC), System and Factory Acceptance training and the Final System Acceptance. Two milestones

have been paid for in 2019, with the remaining funds carried forward to 2020 due to delays in the programme.

#### *Management Reserve*

The Management Reserve was used to provide financial coverage for Phase 2 of Terma contract related to the ATR/ATID capability, I-ISS procurement based on Work Order signed with NGISSII later in October 2019, Italy's Non-Financial Contribution as well as for the impact of Core Contract Amendment 26, where a number of milestones committed in 2018 were lapsed and shifted to 2019 instead.

#### *CAFX*

Funds to provide items for the Prime Contractor in accordance with Contracting Authority Furnished Property. Commitments and expenditures for the NCI Agency were for the NATO CIS support to the AGS programme. CAFX funds were also used to pay for SMARF Re-use, Support and Sustainment Security services provided by Kongsberg based on NAGSMA-CON-0025, NATO AGS Backup SMARF Hardware Configuration Items (HWCI)s provided by Exence, support of MP-RTIP and Integrated Mission Management Computer (IMMC) maintenance during IISS, repair/shipping of COMSEC equipment from NSPA storage to their final destination to Sigonella AB Italy as well as additional furniture items for prefabricated containers in MOB Sigonella.

#### *ATR/ATID*

Danish funds committed and expensed for contractual milestones for the acquisition of the NATO AGS Automatic Target Recognition/ Automatic Target Identification Capability Development & Integration Phase II.

#### *TCB*

Expenditures comprised milestones for CMR3 & CMR4, SDR, CDR and Site acceptance related to Battle Laboratory capabilities provided by Exence and ITWL.

#### *Carry Forwards*

In December 2019 the NAGSMO Finance Committee provided an exceptional extension of the carry forward of 2015, 2016 and 2017 commitments to be expensed in 2020. The exceptional carry forward of funds was requested for commitments mainly related to the Italian Non-Financial Contributions, Collaborative Environment as well as Foreign military sales.

Carry forwards from 2018 are primarily related to IISS support to be provided by Leonardo as well as 7 NGISSII milestones related to Factory Acceptance of AVMCs, completion of Mission Crew Trainer & UAV Pilot Trainer & Training Management System (TMS) and Test Team Training.

Carry forwards from 2019 mainly relate to remaining outstanding AGS Core Contract milestones, I-ISS related milestones as well as remaining Battle-Lab and CSOP milestones.

The Table below represents the cumulative NAGSMA Operational budget per year from 2012 to 2019 expended, carried forward and lapsed in two currencies EUR and USD.

In 2019, some of the milestones have been re-planned as part of the Amendment 0026 to complete the remainder of the program. As a result 3 milestones initially planned for completion in 2018 have been moved to 2019. The corresponding funds carry forward from 2018 have been lapsed and added to the Operational Budget 2019 as a part of Mid-Year Review exercise. The Amendment has impacted SDDQ, Production and MR.

The Budgets are presented below by currency showing the actual expenditures, carry forwards and lapses as of the 31.12.2019.

#### NAGSMA Operational Budget EUR

	Budget	Actual Expenses	Carry Forward	Lapsed
<b>2012</b>	107,086,412	107,086,412	0	0
<b>2013</b>	137,794,865	137,794,865	0	0
<b>2014</b>	122,977,865	117,257,630	0	5,720,236
<b>2015</b>	109,014,294	91,671,063	0	17,343,231
<b>2016</b>	63,924,048	12,590,190	170,800	51,163,058
<b>2017</b>	34,822,414	9,312,331	144,635	25,365,447
<b>2018</b>	42,137,943	24,898,599	8,503,046	8,736,298
<b>2019</b>	82,095,181	23,426,882	58,355,520	304,181
<b>Total</b>	<b>699,853,023</b>	<b>524,037,971</b>	<b>67,174,002</b>	<b>108,632,451</b>

#### NAGSMA Operational Budget USD

	Budget	Actual Expenses	Carry Forward	Lapsed
<b>2012</b>	204,865,340	204,865,340	0	0
<b>2013</b>	238,445,262	238,445,262	0	0
<b>2014</b>	373,468,465	365,689,392	0	7,779,073
<b>2015</b>	169,456,878	104,644,827	568	64,811,483
<b>2016</b>	193,990,813	51,246,428	0	142,744,385
<b>2017</b>	103,520,795	86,303,846	0	17,216,949
<b>2018</b>	157,284,201	125,991,933	15,390,893	15,901,375
<b>2019</b>	139,142,933	31,593,998	105,758,933	1,790,001
<b>Total</b>	<b>1,580,174,687</b>	<b>1,208,781,026</b>	<b>121,150,394</b>	<b>250,243,268</b>

Note to the table:

The Carry Forwards from the Financial Statements 2014-2018 which have been expended in 2019 have been added to the Actual Expenses of 2014-2018 respectively.



## ANNEX G General Notes to the Financial Statements

### G01 Related Party Disclosures

NAGSMO and NAGSMA have related party relationships with the Members of the NAGSMO Board of Directors and a number of other NATO bodies.

#### *Transactions with NATO bodies*

	Current Year 2019	Prior Year 2018
	EUR	EUR
NATO Communications and Information Agency	1,523,431	2,148,977
NATO Support and Procurement Agency	8,432,857	8,172
NATO International Staff	250,310	279,892
SHAPE	475	0
NATO School	900	0
	<b>10,207,973</b>	<b>2,437,041</b>

In 2019, the NCI Agency provided administrative services for NAGSMA under the Support Services and Service Level Agreements.

NSPA provided support of MP-RTIP and Integrated Mission Management Computer (IMMC) maintenance during IISS, logistics support services as well as Technical Engineering Services support.

NATO IS provided operating, Human Resources, administrative, medical and telephone services for NAGSMA.

SHAPE, the NATO School and NATO IS provided NAGSMA with training support in 2019.

*Compensation of key management personnel*

The remuneration of Directors and other members of key management personnel (NATO civilian grade A5 and above) is determined by the NATO salary scales and was as follows during the year:

	<b>Current Year 2019</b>	<b>Prior Year 2018</b>
	EUR	EUR
Basic salaries	599,252	642,942
Allowances	125,503	111,494
Post-employment benefits	81,564	86,313
Employer's contribution to Insurance	70,967	77,057
	<b>877,286</b>	<b>917,806</b>

The compensation of key management personnel in 2019 is lower than the previous year due to an A5 vacancy that was filled in on 1 August 2019.

	<b>Current Year 2019</b>	<b>Prior Year 2018</b>
Number of individuals at year-end on a full time equivalent basis		
General Manager	1	1
Programme Manager	1	1
Key management personnel	3	3
	<b>5</b>	<b>5</b>

## G02 Representation Allowance

The purpose of the Representation Allowance is to help meet the reasonable representational expenses of certain designated high level officials of the Agency whose positions entail responsibility for establishing and maintaining relationships of value with individuals or groups external to NATO.

As from 1 June 2013, a new procedure is in place in respect of Representation Allowance; as all recipients are now reimbursed permitted expenses within the limits of their individual Representation Allowance allocation. All representation allowance disbursements for the 2019 reporting period were administered by the Agency in in line with the guidelines which apply to the use of the representation allowance as of 1 February 2017.

<b>Expenditures</b>	<b>EUR</b>
Rental Supplement	2,673
Functions	543
Total	3,216
 <b>Entitlements</b>	 <b>EUR</b>
Representation Allowance annual entitlement	10,692
<i>of which: Rental Supplement annual entitlement</i>	2,673
 <b>Transactions</b>	 <b>EUR</b>
Rental Supplement January-December	2,673
Dinners and Luncheons	543
Total	3,216

## G03 Post balance sheet events

With the rapid development of the coronavirus disease 2019 (COVID-19) outbreak in the 1<sup>st</sup> quarter 2019, many countries have required entities to limit or suspend business operations and have implemented travel restrictions and quarantine measures. In March 2019 NATO also has taken preventive measures at its headquarters, based on guidance from the World Health Organization, to reduce the risk of the infection.

These measures include the temporary suspension of staff travel, conferences and meetings, encouraging staff to work from home, and the temporary suspension of group visits to NATO HQ in Brussels. Considering NATO has robust business continuity measures ensuring that the essential work continues, NAGSMA foresees the following key risks exposures as a result of the impact of COVID-19.

### *Interruptions of production and supply chain disruptions*

Mid-March 2020, the contract with PITRADWAR & ITWL (Poland) was put on hold after the Polish Government decided to close its borders and take preventive measures. Considering

global responses to COVID-19 continue to rapidly evolve, a lot of uncertainty exists as regards the full extent and duration of possible interruptions of production and supply chain productions.

*Unavailability of personnel and disruptions in business travel*

Global restrictions rise as more and more countries close borders and take drastic steps to slow the spread of COVID-19. Accordingly, disruptions in business travel, including to the AGS Main Operating Base at Sigonella Air Base (Italy), the U.S. and European countries may possibly result in a slow down of the Test and Verification (T&V) phase (among others).

Looking ahead, the impact of COVID-19 on the global economy is expected to continue to evolve in a context of uncertainty, and may possibly result in further delays in the full programme completion.

**G04 Approval of Financial Statements**

The financial statements were approved by the Financial Controller and authorised to be issued on 16 March 2020.

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NATO Alliance Ground Surveillance  
Management Organisation  
(NAGSMO)

NAGSMO  
NATO Headquarters  
1110 Brussels  
Belgium



NORTH ATLANTIC TREATY ORGANIZATION  
ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD  
INTERNATIONAL BOARD OF AUDITORS  
COLLÈGE INTERNATIONAL DES AUDITEURS EXTERNES DE L'OTAN

**NATO UNCLASSIFIED**

IBA-A(2020)0076  
21 August 2020

To: Secretary General  
(Attn: Director of the Private Office)

Cc: NATO Permanent Representatives  
Chairman, NATO Helicopter Management Organization (NAHEMO) Steering Committee  
General Manager, NATO Helicopter Management Organization (NAHEMA)  
Division Leader, Administrative Division, NATO Helicopter Management Organization (NAHEMA)  
Chairman, Resource Policy & Planning Board  
Branch Head, Secretariat and Finance Branch, NATO Office of Resources  
Private Office Registry

Subject: ***International Board of Auditors for NATO (IBAN) Auditor's Report and Letter of Observations and Recommendations on the audit of the NATO Helicopter Management Organization (NAHEMO)'s Restated Financial Statements for the year ended 31 December 2019 – IBA-AR(2020)0011***

IBAN submits herewith its approved Auditor's Report (Annex 2) and Letter of Observations and Recommendations (Annex 3) with a Summary Note for distribution to the Council (Annex 1).

IBAN's report sets out an unqualified opinion on the Restated Financial Statements of the NATO Helicopter Management Organization and on compliance for financial year 2019.

Yours sincerely,

Daniela Morgante  
Chairman

Attachments: As stated above.

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-1-



**Summary Note for Council  
by the International Board of Auditors for NATO (IBAN)  
on the audit of the Restated Financial Statements of the  
NATO Helicopter for the 1990s Design and Development, Production and  
Logistics Management Organisation (NAHEMO)  
for the year ended 31 December 2019**

The International Board of Auditors for NATO (IBAN) audited the NATO Helicopter for the 1990s Design and Development, Production and Logistics Management Organization (NAHEMO) Restated Financial Statements for the year ended 31 December 2019. 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 2019 the NAHEMO operational and administrative budgets' expenditures were EUR 1.109 billion and EUR 11.60 million, respectively.

IBAN issued an unqualified opinion on the NAHEMO Restated Financial Statements and on compliance for the year ended 31 December 2019.

During the audit, IBAN made two observations with recommendations. These findings are in the Letter of Observations and Recommendations (Annex 3).

The main findings are listed below. Following a restatement of the Financial Statements received by IBAN on the 25<sup>th</sup> June 2020, these observations do not impact the audit opinion on the financial statements and on compliance.

1. Revised Operational Budget not agreed in advance by the Steering Committee.
2. Improvements needed in the valuation of estimates related to Operational Budget Milestones achieved in 2019 but not paid in 2019.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that three were closed, of which one was superseded by a current year observation, and four remain in progress.

The Auditor's Report (Annex 2) and the Letter of Observations and Recommendations (Annex 3) were issued to NAHEMO whose comments have been included, with IBAN's position on those comments where necessary (Appendix to Annex 3).

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ANNEX 2  
IBA-AR(2020)0011

21 August 2020

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**AUDITOR'S REPORT ON THE RESTATED FINANCIAL STATEMENTS OF THE  
NATO HELICOPTER MANAGEMENT ORGANISATION**

**(NAHEMO)**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

**NATO UNCLASSIFIED**

**INDEPENDENT EXTERNAL AUDITOR'S REPORT  
TO THE NORTH ATLANTIC COUNCIL**

**Report on the Audit of the Restated Financial Statements**

**Opinion on the Financial Statements**

The International Board of Auditors for NATO (IBAN) has audited the Restated Financial Statements of NAHEMO, for the 12 month period ended 31 December 2019, issued under document reference NH/ADM/ACC-1/03004/2020 and submitted to IBAN on 25 June 2020. These Restated Financial Statements comprise the Statement of Financial Position as at 31 December 2019, the Statement of Financial Performance, the Statement of Changes in Net Assets/Equity and the Statement of Cash Flow, for the 12 month period ended 31 December 2019, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include an annex with a statement of budget execution for the 12 month period ended 31 December 2019.

In our opinion, the Restated Financial Statements give a true and fair view of the financial position of NAHEMO as at 31 December 2019, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2019 in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework.

**Basis for Opinion on the Restated Financial Statements**

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies and reporting entities pursuant to the North Atlantic Treaty shall be performed by IBAN.

We have conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAIs 1000-1810) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

We are independent in accordance with the INTOSAI Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter.

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

## **Management's Responsibility for the Financial Statements**

Management's responsibility for the financial statements is laid down in the NFRs. The Restated Financial Statements of NAHEMO are drawn up in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council. The Financial Controller is responsible for submitting the Financial Statements for audit to IBAN not later than 31<sup>st</sup> March following the end of the financial year.

The Financial Statements are signed by the Head of the NATO reporting entity and the Financial Controller. In signing the Financial Statements, the Head of the NATO reporting entity and the Financial Controller confirm the establishment and maintenance of financial governance, resource management practices, internal controls and financial information systems to achieve the efficient and effective use of resources.

This confirmation covers the design, implementation and maintenance of internal controls relevant to the preparation and presentation of financial statements that are auditable and free from material misstatement, whether due to fraud or error. This also covers reporting on the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there are plans to liquidate the entity or to cease its operations, or there is no realistic alternative but to do so.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

The objectives of the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these restated financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgement and maintain professional scepticism throughout the planning and performance of the audit. This involves taking into account Considerations Specific to Public Sector Entities. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional

omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are required to communicate with the bodies charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our Independent External Auditor's Report is prepared to assist North Atlantic Council in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

## **Report on Compliance**

### **Opinion on Compliance**

Based on the procedures we performed, nothing has come to our attention, as part of our audit of the Restated Financial Statements that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

### **Basis for Opinion on Compliance**

We have conducted our compliance audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 4000) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

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

### **Management's Responsibility for Compliance**

All NATO staff, military and civilian, are obligated to comply with the NATO Financial Regulations, associated Financial Rules and Procedures and internal implementing directives. These include the NATO Civilian Personnel Regulations.

The General Manager is responsible and accountable for sound financial management. The financial administration of NATO bodies must incorporate the principles of propriety, sound governance, accountability, transparency, risk management and internal control, internal audit, external audit, and fraud prevention and detection.

### **Auditor's Responsibilities for Compliance**

In addition to the responsibility to provide reasonable assurance about whether the financial statements as a whole are free from material misstatement, the IBAN Charter requires IBAN to provide independent assurance and report annually to the North Atlantic Council about whether funds have been properly used for the settlement of authorised expenditure (propriety) and are in compliance with the regulations in force (regularity). Propriety relates to the observance of the general principles governing sound financial management and the conduct of public officials. Regularity concerns the adherence to formal criteria such as relevant regulations, rules and procedures.

This responsibility includes performing procedures to obtain independent assurance about whether funds have been properly used for the settlement of authorized expenditure and whether they have been used in compliance with the regulations in force. Such procedures include consideration of the risks of material non-compliance.

Brussels, 21 August 2020



Daniela Morgante  
Chairman

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ANNEX 3  
IBA-AR(2020)0011

21 August 2020

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**LETTER OF OBSERVATIONS AND RECOMMENDATIONS  
FOR THE NATO HELICOPTER MANAGEMENT ORGANISATION  
(NAHEMO)**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

**NATO UNCLASSIFIED**

## **Introduction**

The International Board of Auditors for NATO (IBAN) audited the NAHEMO Restated Financial Statements for the year ended 31 December 2019 and issued an unqualified opinion on the financial statements and on compliance.

## **Observations and Recommendations:**

During the audit, IBAN made two observations and recommendations.

These observations do not impact the audit opinion on the financial statements and on compliance:

1. Revised Operational Budget not agreed in advance by the Steering Committee.
2. Improvements needed in the valuation of estimates related to Operational Budget Milestones achieved in 2019 but not paid in 2019.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that three were closed, of which one was superseded by a current year observation, and four remain in progress.

The observations and recommendations raised during the audit as well as the follow-up of the previous years' observations, which have not been included in the IBAN's Letter of Observations and Recommendations are included in a Management Letter addressed to NAHEMA management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under NAHEMA's executive responsibility.



## OBSERVATIONS AND RECOMMENDATIONS

### 1. REVISED OPERATIONAL BUDGET NOT AGREED IN ADVANCE BY THE STEERING COMMITTEE

#### Reasoning

1.1 As per the NAHEMO Financial Regulations, Article 23 “Revised Budgets” paragraph 5: *“Any increase in budgetary provision required by NAHEMA shall, in all case, be agreed in advance by the Steering Committee”*.

#### Observations

1.2 In December 2019, NAHEMA increased the operational budget by EUR 344.27 million from EUR 1,938 million to EUR 2,282 million in order to provide sufficient credits to proceed with commitments regarding new contracts and contract amendments.

1.3 NAHEMA officially informed members of the Steering Committee of the operational budget increase in March 2020, before the issuance of the NAHEMO 2019 Financial Statements. However, NAHEMA did not obtain a formal agreement from the Steering Committee in advance of the budget increase as required by Article 23.5 of the NAHEMO Financial Regulations. NAHEMA obtained the Steering Committee agreement at the 35<sup>th</sup> Community Steering Committee in June 2020.

1.4 Therefore, NAHEMA entered into contractual commitments with an additional budget that was not formally agreed by Nations, as required by the NAHEMO Financial Regulations.

#### Recommendations

1.5 IBAN recommends that NAHEMA comply with Article 23.5 of the NAHEMO Financial Regulations, by ensuring that any increase in budgetary provisions is always agreed in advance by the Steering Committee.

### 2. IMPROVEMENTS NEEDED IN THE VALUATION OF ESTIMATES RELATED TO OPERATIONAL BUDGET MILESTONES ACHIEVED IN 2019 BUT NOT PAID IN 2019

#### Reasoning

2.1 NAHEMO acts as an agent for its member Nations in relation to managing the NATO Helicopter 90 (NH90) programme through its Operational Budget. Operational Budget expenditures are therefore not included in the Statement of Financial Performance. Moreover, the Operational Statement of Budget Execution is prepared

on a modified cash basis of accounting and therefore Operational Budget accrued expenditures for milestones achieved in 2019 but not paid in 2019 are not included in the Statement of Budget Execution.

2.2 In order to provide additional information to users of the financial statements, a note in the Statement of Budget Execution Annex of NAHEMO's 2019 Restated Financial Statements discloses the value of Operational Budget milestones declared achieved in 2019 but not invoiced at the end of 2019.

### **Observations**

2.3 The NAHEMO Financial Statements included a disclosure note for the Operational Budget milestones achieved in 2019 for an amount of EUR 46.50 million.

2.4 IBAN tested the accuracy and completeness of milestones declared achieved in 2019 but not yet invoiced. We found that based on a sample of 20 milestones tested, the total value of milestones achieved in 2019 but not yet paid, was understated by a material amount of at least EUR 24 million. NAHEMO issued as a result, a Restated Financial Statements with a revised figure of EUR 94.64 million of milestones achieved but not paid at the end of 2019. We reviewed this revised Operational Budget milestones achieved amount and found no further misstatements.

2.5 The large variance of the two figures disclosed in the same note between the Financial Statements and the Restated Financial Statements exposes the difficulties the Agency is facing when required to provide the list of milestones achieved but not yet invoiced.

### **Recommendations**

2.6 IBAN recommends that NAHEMO provide in the notes to the Statement of Budget Execution an accurate figure of milestones achieved but not paid during a specific budget year.

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

IBAN followed up on the status of observations from the previous years' audit. The observations, actions taken by the auditee as reviewed by IBAN, and their status are summarised in the table below.

The Open status is used for recommendations that are open and for which no notable progress has been achieved to date. The In-progress status is used for open recommendations when the NATO Reporting Entity has started to implement the recommendation or when some (but not all) sub-recommendations are closed. The Closed status is used for recommendations that are closed because they have been implemented, are superseded, or have lapsed. In the case where there are sub-recommendations, the status related to each sub-recommendation is indicated in the Action Taken column.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p><b>(1) NAHEMO FY 2018</b> <b>IBA-AR(2019)0011, paragraph 1</b></p> <p><b>IMPROVEMENTS NEEDED IN THE ADJUSTMENT OF CALLS FOR FUNDS PROCESS AND RESTRICTION OF THE LEVEL OF CASH HOLDINGS</b></p> <p><b>IBAN's Recommendation</b> IBAN recommends that NAHEMA ensure that calls for contributions are only made to meet the payments of the financial year in accordance with the NAHEMO FRPs. Accordingly, NAHEMA should also restrict total currency holdings to the minimum required to meet forecast payments prior to receipt of the following contribution instalment and clear unused contributions to the same extent.</p>	<p>IBAN notes that the Steering Committee was informed about IBANs recommendation. However, IBAN still recommends to encourage Nations to comply with internal regulations to ensure compliance with NAHEMO FRPs.</p>	<p>Observation <b>In-Progress</b></p>
<p><b>(2) NAHEMO FY 2018</b> <b>IBA-AR(2019)0011, paragraph 2</b></p> <p><b>IMPROVEMENTS NEEDED IN THE OPERATIONAL BUDGETING PROCESS</b></p> <p><b>IBAN's Recommendation</b> IBAN recommends that NAHEMA:</p> <p>Make the necessary budgetary adjustments during the mid-year review in order to correct the overestimated operational budget and align it to the planned commitments and payments in the year.</p>	<p>IBAN notes that the budget process is going to be better aligned with the planned commitments and payments through an analysis of the pending milestones. Furthermore, NAHEMO governance sub-committees, the National Joint Executive Committees (JECs) / Community</p>	<p>Observation <b>In-Progress</b></p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>Review and document the justification of all commitments carried forward every year and ensure that lapses are deducted from future calls for the operational budget.</p> <p>In addition, IBAN reiterates the prior year's observation that no analysis has been done to identify if credits committed should be carried forward or lapsed.</p> <p>All relevant information on commitments carried forward shall be shared with the Steering Committee so that Nations are aware of the availability of budgetary credits for the following year.</p>	<p>JECs, have been notified about the availability of budgetary credits and carry forwards. In addition all contracts and associated milestones are being reviewed to be more adherent to the actual budget. Yet, IBAN notes that out of 2019 resources of EUR 2,968 million (budget 2019 + carry forward from previous years) only EUR 1,108 million are actual expenses at year end 2019, the rest have been carried forward to the following year.</p>	
<p><b>(3) NAHEMO FY 2017</b> <b>IBA-AR(2018)23, paragraph 1</b></p> <p><b>MATERIAL MISTAKES IN THE PRESENTATION OF THE BUDGET EXECUTION STATEMENT FOR THE OPERATIONAL BUDGET</b></p> <p><b>IBAN's Recommendation</b> The Board recommends NAHEMA to perform the necessary calculations, checks, reconciliations and reviews to ensure that the Budget Execution Statement presents the correct balances for each budgetary concept and can be relied upon by the Nations for decision making purposes.</p>	<p>IBAN notes that since 2018 the Statement of Budget Execution presents the correct figures. NAHEMA improved its use of the Enterprise Resource Planning System in order to avoid miscalculations. In addition, newly assigned personnel was trained on these specific matters to avoid and detect possible discrepancies.</p>	<p>Observation <b>Closed</b></p>
<p><b>(4) NAHEMO FY 2017</b> <b>IBA-AR(2018)23, paragraph 2</b></p> <p><b>INTERNAL CONTROL DEFICIENCIES OVER FINANCIAL REPORTING LED TO MISSTATEMENTS, ERRORS AND INCORRECT DISCLOSURE OF INFORMATION IN THE FINANCIAL STATEMENTS</b></p> <p><b>IBAN's Recommendation</b> The Board recommends NAHEMA strengthens 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. Review procedures are necessary to provide a reasonable</p>	<p><u>Disclosure issue impacting the Operational Budget.</u></p> <p>In a note to the 2019 Financial Statements the disclosure of the value of milestones achieved but not paid at year end has been understated by a material amount of at least EUR 24 million. In a new</p>	<p>Observation <b>Closed</b></p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>basis for obtaining assurance that financial statements are in compliance with the applicable financial reporting framework as well as prevent and detect errors before their issuance.</p> <p>The Board recommends NAHEMA ensures that the presentation and classification of items in the financial statements shall be retained from one period to the next. When the presentation or classification of items in the financial statements is amended, comparative amounts shall be reclassified, including a disclosure of the nature of the reclassification, the amount of each item or class of items that is reclassified, and the reason for the reclassification.</p>	<p>note in the Restated Financial Statements the value of these milestones has been multiplied by two. This part of the observation has been superseded by observation # 2 of the 2019 audit report.</p> <p><u>Error impacting the Administrative Budget.</u></p> <p>Multiple errors have been detected in the accounting treatment of Property Plant and Equipment (PP&amp;E) and accrued expenditures. These errors have been partially corrected through the 2019 Restated Financial Statements. This part of the observation has been superseded by observations included in the 2019 management letter.</p> <p>No issues found regarding comparative presentation and classification of items in the 2018 and 2019 financial statements.</p> <p>Observation <b>Superseded</b> by Observation number 2 in this report.</p>	
<p><b>(5) NAHEMO FY 2017</b> <b>IBA-AR(2018)23, paragraph 3</b></p> <p><b>IMPROVEMENTS REQUIRED IN THE AREA OF RISK MANAGEMENT, INTERNAL CONTROL AND INTERNAL AUDIT</b></p> <p><b>IBAN's Recommendation</b> The Board recommends that NAHEMA:</p> <p>a) Ensure approval and implementation of the Risk Management Plan.</p> <p>b) Determine the risk appetite taking three steps: 1) Define and set the risk appetite, 2) Communicate the risk appetite, 3) Monitor and update the risk appetite on an on-going</p>	<p>a) Observation <b>Closed</b> See IBAN letter IBA-AR(2019)0011.</p> <p>b) Observation <b>Closed</b> See IBAN letter IBA-AR(2019)0011.</p>	<p>Observation <b>Closed</b></p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>basis. In doing so, NAHEMA should ensure the NAHEMO Governing Body's review and concurrence.</p> <p>c) Perform a systematic and detailed assessment and documentation of its internal control and risk management procedures to support compliance with its approved internal control framework.</p> <p>d) Fully evaluate internal control and risk management throughout the agency and that this work be clearly documented so as to be able to conclude as to NAHEMA's compliance against internal control framework.</p> <p>e) End the role of the Deputy General Manager as Head of Internal Audit and implement an effective internal audit activity either through outsourcing or sharing internal audit function with other NATO entities, ensuring independence both in fact and in appearance and compliance with generally accepted professional standards for internal audit.</p>	<p><b>c) Observation Closed</b> Based on the Internal note 01/2019 related to the Internal mapping of Agency documentation, NAHEMA initiated the analysis of financial/contractual processes with the help of the newly assigned Risk Manager.</p> <p><b>d) Observation Closed</b> See c) above.</p> <p><b>e) Observation Closed</b> To ensure the independence of the internal audit function, starting from 2 December, the Risk Manager and Audit post was activated with a dedicated staff member who is responsible for the internal audit function reporting directly to the General Manager and to NAHEMA Heads of Delegations, through the Audit Advisory Panel Working Group. IBAN notes that the Deputy General Manager is no longer Head of Internal Audit.</p>	
<p><b>(6) NAHEMO FY 2016</b> <b>IBA-AR(2017)29, paragraph 2</b></p> <p><b>LACK OF RELIABLE AND COORDINATED PROCESSES FOR CAPITALISING ASSETS AND UPDATING ASSET REGISTERS</b></p> <p><b>IBAN's Recommendation</b> The Board recommends NAHEMA to update and maintain complete and accurate asset registers, in line with Article 12 of the NFRs. These registers need to be properly controlled at the appropriate level and regular property counts should be performed to keep the registers accurate and reliable.</p>	<p>This recommendation relates to the purchase of assets funded from the Administrative Budget. IBAN notes that the accuracy of asset registers was improved in compliance with the directive in place.</p> <p>As an additional improvement to the register's consistency, NAHEMA is implementing the use</p>	<p>Observation <b>In-Progress</b></p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
The Board also recommends NAHEMA to put in place reliable and coordinated processes to ensure that new assets acquired are capitalized as PP&E or Intangible Assets.	of a dedicated Enterprise Resource Planning module for fixed assets. Effectiveness and reliability of the system should be assessed in the future to decide of the status of the observation.	
<p><b>(7) NAHEMO FY 2016</b> <b>IBA-AR(2017)29, paragraph 3</b></p> <p><b>INADEQUATE SEGREGATION OF DUTIES IN FINANCE PROCESSES</b></p> <p><b>IBAN's Recommendation</b> The Board recommends NAHEMA to ensure adequate segregation of duties assigning the responsibilities of initiating payments to a staff member different from those that have the accounting responsibilities.</p>	In order to ensure an adequate segregation of duties, a Disbursing Officer is being recruited with a planned starting date in September 2020. IBAN has not yet gained assurance on the effectiveness of segregation of duties and will assess in the future the impact of the assignment of the new Disbursing Officer.	Observation <b>In-Progress</b>

**NATO HELICOPTER MANAGEMENT ORGANISATION (NAHEMO) FORMAL  
COMMENTS ON THE LETTER OF OBSERVATIONS AND RECOMMENDATIONS  
AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS**

**OBSERVATION 1:  
REVISED OPERATIONAL BUDGET NOT AGREED IN ADVANCE BY THE  
STEERING COMMITTEE**

***NAHEMO's Formal Comments***

*NAHEMO acknowledges the remark.*

**OBSERVATION 2:  
IMPROVEMENTS NEEDED IN THE VALUATION OF ESTIMATES RELATED TO  
OPERATIONAL BUDGET MILESTONES ACHIEVED IN 2019 BUT NOT PAID IN  
2019**

***NAHEMO's Formal Comments***

*NAHEMO acknowledges the remark.*

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

**(1) NAHEMO 2018 FY  
IBA-AR(2019)0011, paragraph 1  
IMPROVEMENTS NEEDED IN THE ADJUSTMENT OF CALLS FOR FUNDS  
PROCESS AND RESTRICTION OF THE LEVEL OF CASH HOLDINGS**

***NAHEMO's Formal Comments***

*NAHEMO acknowledges the remark.*

*SC has been informed about IBAN recommendation. However, Nations have to comply with their own internal regulations that sometimes are not in line with NAHEMO FRPs.*



**(2) NAHEMO 2018 FY**  
**IBA-AR(2019)0011, paragraph 2**  
**IMPROVEMENTS NEEDED IN THE OPERATIONAL BUDGETING PROCESS**

***NAHEMO's Formal Comments***

*NAHEMO acknowledges the remark. The budget process will be better aligned with the planned commitments and payments through an analysis of the pending milestones. Furthermore National JECs/CJECs were notified about the availability of budgetary credits and carry forwards. In addition all contracts and associated milestones are being reviewed to be more adherent to the actual budget.*

**(6) NAHEMO 2016 FY**  
**IBA-AR(2017)29, paragraph 2**

**LACK OF RELIABLE AND COORDINATED PROCESSES FOR CAPITALIZING ASSETS AND UPDATING ASSET REGISTERS**

***NAHEMO's Formal Comments***

*NAHEMO acknowledges the IBAN statement; the accuracy of asset registers was improved in compliance with the directive in place.*

*As an additional improvement to the registers consistency, NAHEMA is implementing the use of a dedicated OEBS module for capitalizing assets.*

**(7) NAHEMO 2016 FY**  
**IBA-AR(2017)29, paragraph 3**  
**INADEQUATE SEGREGATION OF DUTIES IN FINANCE PROCESSES**

***NAHEMO's Formal Comments***

*On the basis of HoDs approval provided during the Steering Committee 82, a new Post will be activated starting from September 2020, ensuring the adequate segregation.*

## **GLOSSARY OF TERMS**

In accordance with auditing standards, audit opinions on financial statements and on compliance can be unqualified, qualified, a disclaimer, or adverse:

- An unqualified opinion is when IBAN issues an opinion that the financial statements and budget execution report are stated fairly and that nothing has come to our attention that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the rules and regulations.
- A qualified opinion means that IBAN was generally satisfied with the presentation of the financial statements, but that some key elements of the statements were not fairly stated or affected by a scope limitation, or specific issues have come to our attention that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the rules and regulations.
- A disclaimer is issued when the audit scope is severely limited and IBAN cannot express an opinion, or when there are material uncertainties affecting the financial statements or the use of funds.
- An adverse opinion is issued when the effect of an error or disagreement is so pervasive and material to the financial statements that IBAN concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.



**NAHEMA**

*"UNITE TO SUCCEED"*

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



**RE-STATEMENT**  
**NAHEMO FINANCIAL STATEMENTS FOR**  
**FINANCIAL YEAR 2019**

**NATO UNCLASSIFIED**

## **NAHEMO Financial Statements 2019**

### **Table of Contents**

<b>GENERAL INFORMATION .....</b>	<b>3</b>
<b>NAHEMO STATEMENT OF FINANCIAL POSITION .....</b>	<b>5</b>
<b>NAHEMO STATEMENT OF FINANCIAL PERFORMANCE .....</b>	<b>6</b>
<b>NAHEMO STATEMENT OF CHANGES IN NET ASSETS/EQUITY .....</b>	<b>7</b>
<b>NAHEMO 2019 CASH FLOW STATEMENT .....</b>	<b>8</b>
<b>A. ACCOUNTING POLICIES .....</b>	<b>8</b>
<i>Accounting Period .....</i>	<i>9</i>
<i>Reporting Currency .....</i>	<i>9</i>
<i>Basis of preparation .....</i>	<i>9</i>
<i>Changes in accounting policy .....</i>	<i>10</i>
<i>Assets – Current Assets .....</i>	<i>10</i>
<i>Assets – Non - Current Assets .....</i>	<i>11</i>
<i>Current liabilities .....</i>	<i>13</i>
<i>Non-Current liabilities .....</i>	<i>14</i>
<i>Net Assets .....</i>	<i>14</i>
<i>Revenue and expense recognition .....</i>	<i>14</i>
<i>Surplus or Deficit for the Period .....</i>	<i>14</i>
<i>Cash Flow Statement .....</i>	<i>14</i>
<b>B. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES .....</b>	<b>15</b>
<b>C. NOTES TO STATEMENT OF FINANCIAL POSITION .....</b>	<b>15</b>
<b>ASSETS – CURRENT ASSETS .....</b>	<b>15</b>
1. <i>Cash and cash equivalents .....</i>	<i>15</i>
2. <i>Accounts receivable .....</i>	<i>16</i>
3. <i>Prepayments .....</i>	<i>17</i>
<b>ASSETS – NON-CURRENT ASSETS .....</b>	<b>18</b>
4. <i>Property, plant and equipment .....</i>	<i>18</i>
5. <i>Intangible Assets .....</i>	<i>19</i>
<b>LIABILITIES – CURRENT LIABILITIES .....</b>	<b>20</b>
6. <i>Payables .....</i>	<i>20</i>
7. <i>Unearned Revenue and Advances .....</i>	<i>22</i>
<b>NET ASSETS .....</b>	<b>22</b>
8. <i>PP&amp;E and Intangible Asset Reserve .....</i>	<i>22</i>
<b>D. NOTES TO STATEMENT OF FINANCIAL PERFORMANCE .....</b>	<b>23</b>
9. <i>Revenue .....</i>	<i>23</i>
10. <i>Expenses .....</i>	<i>24</i>
11. <i>Surplus or Deficit for the Period .....</i>	<i>26</i>
<b>E. EVENTS AFTER REPORTING DATE .....</b>	<b>26</b>
<b>F. RELATED PARTIES DISCLOSURE .....</b>	<b>27</b>
<b>G. EMPLOYEE DISCLOSURE .....</b>	<b>28</b>
<b>H. FINANCIAL INSTRUMENTS DISCLOSURE/PRESENTATION .....</b>	<b>29</b>
<b>I. BANK GUARANTEES .....</b>	<b>29</b>

**ANNEX      Statement of Budget Execution**

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### 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 7<sup>th</sup> February 1992.

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

On 8<sup>th</sup> 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 21<sup>st</sup> June 2001 Portugal joined the Programme.

On 17<sup>th</sup> 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.

With the signature of the NH90 Belgian Production MOU on 12<sup>th</sup> June 2007 Belgium joined the Programme.

On 23<sup>rd</sup> 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 25<sup>th</sup> October 2006 was admitted to the ISS MOU.

On 29<sup>th</sup> 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 6 to the NAHEMO Charter dealing with Portugal withdrawal from the NH90 programme was brought in force on 16<sup>th</sup> January 2015. The modification to the General MOU dealing with the same issue was brought in force on October 2017. The withdrawal of PRT from the CMOU is under finalization.

The NATO Financial Regulations are the basis of NAHEMO financial and administrative processes and procedures. The NAHEMO Financial Regulations have been approved on July, 27<sup>th</sup>, 2017.

The main goals of NAHEMO for years 2019 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 develop the affordability and cost efficiency of the programme;
- To develop the efficiency of the NH90 Programme Organization.

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In 2019, in order to support the above mentioned goals, the following main operational activities have been performed:

- Preparation and signature of international agreements (MoU,...) amongst Nations;
- Preparation of budgets;
- Preparation of Statements of Work, negotiation and awarding of contracts;
- Assessment of the achievement of the technical Milestones of the awarded contracts;
- Assessment of invoices and execution of payments;
- Development of internal directives and guidance to streamline and improve procedures;
- Management of the execution of the NH90 programme, including qualification of the NH90 variants, configuration management, quality assurance, production of helicopters, logistic support, risks management;
- Management of NH90 Programme and Enterprise Risk in accordance with the new relevant approved documents;
- Implementation of Active Risk Management and Risk Express Software tools to improve and standardize risks treatment in NAHEMA.

On a financial point of view, NAHEMA is maintaining two different budget types:

- The Administrative Budget (AB) for the administrative costs of NAHEMA;
- The Operational Budget (OB), 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 Financial Statements on pages 1 to 29 and the Annex hereto were issued to the International Board of Auditors for NATO on 23 June 2020.

**Giorgio Gomma**  
General Manager

**Adrianus van de Geijn**  
Financial Controller

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## NAHEMO Statement of Financial Position

As of 31 December 2019 (in € '000)			
	2019	2018	Note
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	709,816	675,035	1
Short term investments (over 3 month)	0	0	
Receivables	183,983	127,353	2
Prepayments	0	0	3
Other current assets	0	0	
Inventories	0	0	
	893,799	802,388	
<b>Non-current assets</b>			
Receivables	0	0	
Property, plant & equipment	257	171	4
Intangible assets	177	104	5
Other non-current assets	0	0	
	434	275	
<b>Total assets</b>	<b>894,233</b>	<b>802,663</b>	
<b>Liabilities</b>			
<b>Current liabilities</b>			
Payables to suppliers	463	35,649	6
Payables to nations in respect of AB	2,229	2,489	6
Payables to nations in respect of OB	885,924	763,296	6
Unearned revenue	424	(42)	7
Advances	4,758	992	7
Short term provisions	0	0	
Other current liabilities:	1	4	7
	893,799	802,388	
<b>Non-current liabilities</b>			
Payables	0	0	
Long term provisions	0	0	
Deferred revenue	0	0	
Other non-current liabilities	0	0	
<b>Total liabilities</b>	<b>893,799</b>	<b>802,388</b>	
<b>Net assets</b>			
PP&E intangible assets reserves	275	304	8
Acquisition of PP&E and Intangible Assets	322	82	8
Surplus/(Deficit) for the Period	(163)	(111)	11
<b>Total net assets / equity</b>	<b>434</b>	<b>275</b>	

## NAHEMO

### Statement of Financial Performance

For the year ended 31 December 2019

(in € '000)

	2019	2018	Note
<b>Revenue</b>			<b>9</b>
Other revenue	11,639	11,621	
Financial revenue			
<b>Total revenue</b>	<b>11,639</b>	<b>11,621</b>	
<b>Expenses</b>			<b>10</b>
Personnel	(10,170)	(9,818)	
Operating	(1,195)	(1,217)	
Capital not capitalized	(47)	(202)	
Depreciation PP&E	(81)	(51)	
Amortisation Intangible Assets	(82)	(60)	
Provisions	0	0	
Value Added Tax	(215)	(205)	
Finance costs	0	0	
Accrued expenses	(12)	(179)	
<b>Total expenses</b>	<b>(11,802)</b>	<b>(11,732)</b>	
<b>Surplus (Deficit) for the period</b>	<b>(163)</b>	<b>(111)</b>	<b>11</b>



NAHEMO			
Statement of Changes in Net Assets/Equity			
For the year ended 31 December 2019			
(in € '000)			
	Reserves	Accumulated surplus / (deficit)	Total
<b>Balance at the beginning of the period 2018</b>	304	0	304
Changes in accounting policy			
<b>Restated balance</b>			
Exchange difference on translating foreign operations			
Gain / (losses) on property revaluation			
Acquisition of property	82		82
Surplus /(deficit) for the period		(111)	(111)
Change in net assets/equity for the year ended 2018	(111)	111	0
<b>Balance at the end of the period 2018</b>	275	0	275
Changes in accounting policy			
<b>Restated balance</b>			
Exchange difference on translating foreign operations			
Gain / (losses) on property revaluation			
Acquisition of property	322		322
Surplus /(deficit) for the period		(163)	(163)
Change in net assets/equity for the year ended 2019	(163)	163	0
<b>Balance at the end of the period 2019</b>	434	0	434

# NAHEMO

## Statement of Cash Flow

For the year ended 31 December 2019

(in € '000)

	2019	2018	Comments
<b>Cash flow from operating activities</b>			
Surplus / (Deficit)	(163)	(111)	
<b>Non cash movements</b>			
Depreciation/amortisation	163	111	
Impairment	0	0	
Increase / (decrease) in payables to suppliers	(35,186)	35,077	
Increase / (decrease) in payables to Nations	122,368	259,545	
Increase / (decrease) in unearned revenue	466	(182)	
Increase / (decrease) in provisions	0	0	
(Gains) / losses on sale of property, plant and equipment	0	0	
Decrease / (Increase) in net assets	322	82	
Decrease / (Increase) in receivables	(56,630)	(105,092)	
Increase / (decrease) in advances	3,766	105	
Increase / (decrease) in other current liabilities	(3)	4	
<b>Net cash flow from operating activities</b>	<b>35,103</b>	<b>189,539</b>	
<b>Cash flow from investing activities</b>			
Purchase of property plant and equipment / Intangible assets	(322)	(82)	
Proceeds from sale of property plant and equipment	0	0	
<b>Net cash flow from investing activities</b>	<b>(322)</b>	<b>(82)</b>	
<b>Cash flow from financing activities</b>	<b>0</b>	<b>0</b>	
<b>Net cash flow from financing activities</b>	<b>0</b>	<b>0</b>	
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>34,781</b>	<b>189,457</b>	
<b>Cash and cash equivalent at the beginning of the period</b>	<b>675,035</b>	<b>485,578</b>	
<b>Cash and cash equivalent at the end of the period</b>	<b>709,816</b>	<b>675,035</b>	

## **A. Accounting Policies**

### ***Accounting Period***

These 2019 Financial Statements are based on the accounting records of NAHEMO as of 31 December 2019. 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 in accordance with NATO Accounting Framework (NAF) which is based upon International Public Sector Accounting Standards (IPSAS). In addition, where certain financial reporting requirements are required by the NATO Financial Regulations (NFR), these were also met. The financial statements are prepared on a going-concern basis, which means that those in charge with governance of NAHEMA believe NAHEMA will continue in existence for at least a year from the date the financial statements are issued.

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 of the principle of the right balance between the benefits derived from the information and the costs of providing it.

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

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. 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.

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NAHEMO considers that it is acting as an agent for its member states in relation to managing the NH90 programme. As NAHEMO is not exposed to the risks or rewards of the programme and is paying Industry on behalf of NAHEMO 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 NAHEMO's AB. NAHEMO'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.

NAHEMO 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.

NAHEMO 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 not shown as assets in the Statement of Financial Position.

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

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 2019 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.

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### ***b. Receivables***

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

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 not 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.

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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.

Category	Capitalisation Threshold	Useful life	Depreciation method
Land	€200,000	N/A	N/A
Buildings	€200,000	40 years	Straight line
Other infrastructure	€200,000	40 years	Straight line
Installed equipment	€30,000	10 years	Straight line
Machinery	€30,000	10 years	Straight line
Vehicles	€10,000	5 years	Straight line
Aircraft	€200,000	Dependent on type	Straight line
Vessels	€200,000	Dependent on type	Straight line
Mission equipment (e.g. deployable assets)	€50,000	3 years	Straight line
Furniture	€30,000	10 years	Straight line
Communication systems	€1,000	3 to 5 years	Straight line
Automated information systems	€1,000	3 to 5 years	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 2019 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. NCIA Microsoft Licence Software Assurance was not capitalised in accordance with IPSAS 31 no. 93 and NATO Policy for Intangible Assets no. 4.1 and 5. Amortisation is calculated using the straight line method to allocate the cost to the residual values over the estimated useful lives.

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### ***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 years' 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.

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.

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 2019 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.

## ***Cash Flow Statement***

The Cash Flow Statement is prepared using the indirect method and the format follows the layout provide by IPSAS 2 (Cash Flow Statement).



## 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 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.

## C. Notes to Statement of Financial Position

### Assets – Current Assets

#### 1. Cash and cash equivalents

	December 31, 2019	December 31, 2018
	€ '000	€ '000
Petty Cash	1	1
Current Bank Accounts	511,018	395,044
Cash equivalents	198,797	279,991
<b>Total Cash and cash equivalents</b>	<b>709,816</b>	<b>675,035</b>

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.

# NATO UNCLASSIFIED

## 2. Accounts receivable

	December 31, 2019	December 31, 2018
	€ '000	€ '000
<b>Contributions from Member Nations</b>		
Receivable from Nations related to AB	(35)	(35)
Receivable from Nations related to OB	183,753	127,139
<b>Other receivables</b>		
Receivables VAT reimbursement 2017	0	25
Receivables VAT reimbursement 2018	8	205
Receivables VAT reimbursement 2019	239	0
Receivable accrued interest	18	19
<b>Total Receivables</b>	<b>183,983</b>	<b>127,353</b>

### 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 and Belgium), and the Non-NH90-Programme Contributing Participants Finland, Norway and Sweden (the so called NORDIC Nations) and Australia, Spain and New Zealand.

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 6<sup>th</sup> 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 within the scope of the AB are considered as administrative expenses.

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In 2019, the NAHEMO Nations were invited to pay EUR 11,084,032.99 the NORDIC Nations share was EUR 1,390,620.00 and the share for Australia, New Zealand and the Kingdom of Spain was EUR 794,640.00.

Lapsed funds 2017 in the amount of EUR 96,500.20 were to be offset from call for funds in 2019. Respective credit memos were created and credited against the 2<sup>nd</sup> call for funds 2019.

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.

### ***Receivables from Nations related to OB funding***

At the end of Budget Year 2019, a total OB receivables of EUR 183,753,683.00 was recorded.

### ***Receivables VAT reimbursement***

These are receivables for outstanding VAT reimbursements from 2018 in the amount of EUR 7,935.00 and from 2019 in the amount of EUR 238,775.07 from the French Minister of Finance for a total of EUR 246,710.07.

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). This practise was confirmed per decision 35th Financial Administrative Committee Meeting 16-18 October 2018.

### ***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.

NATO UNCLASSIFIED

**Assets – Non-current Assets**

**4. Property, plant and equipment**

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

	<b>Vehicle</b>	<b>Automated Information Systems</b>	<b>Total</b>
	<b>EUR</b>	<b>EUR</b>	<b>EUR</b>
<b>Cost</b>			
<b>Net book value</b>			
<b>Balance at 31 December 2018</b>	<b>29,477.25</b>	<b>141,988.73</b>	<b>171,465.98</b>
Additions	-	165,577.75	165,577.75
Disposals	-	-	-
Revaluation	-	-	-
<b>Balance at 31 December 2019</b>	<b>29,477.25</b>	<b>307,566.48</b>	<b>337,043.73</b>
<b>Accumulated depreciation</b>			
Depreciation expense	6,131.40	74,379.95	80,511.35
<b>Balance at 31 December 2019</b>	<b>6,131.40</b>	<b>74,379.95</b>	<b>80,511.35</b>
<b>Net book value</b>			
<b>Balance at 31 December 2019</b>	<b>23,345.85</b>	<b>233,186.53</b>	<b>256,532.38</b>

In 2019 NAHEMA replaced and purchased automated information systems for EUR 165,577.75 that are capitalized on NAHEMO's Statement of Financial Position. The total depreciation charge for the year 2019 was EUR 80,511.35 and results in a total net book value of EUR 256,532.38 for property, plant and equipment.

NATO UNCLASSIFIED

**5. Intangible assets**

Changes in Intangible assets and related amortisation for the year were as follows:

	Computer Software (off the shelf)	Computer Software (bespoke)	Total
	EUR	EUR	EUR
<b>Cost</b>			
<b>Net book value</b>			
<b>Balance at 31 December 2018</b>	<b>94,069.93</b>	<b>9,547.22</b>	<b>103,617.15</b>
Additions	156,193.99	-	156,193.99
Disposals	-	-	-
Revaluation	-	-	-
<b>Balance at 31 December 2019</b>	<b>250,263.92</b>	<b>9,547.22</b>	<b>259,811.14</b>
<b>Accumulated amortisation</b>			
Amortisation expense	79,191.15	3,273.33	82,464.48
<b>Balance at 31 December 2019</b>	<b>79,191.15</b>	<b>3,273.33</b>	<b>82,464.48</b>
<b>Net book value</b>			
<b>Balance at 31 December 2019</b>	<b>171,072.77</b>	<b>6,273.89</b>	<b>177,346.66</b>

In 2019 NAHEMA purchased computer software for EUR 156,193.99 that are capitalized on NAHEMO's Statement of Financial Position. The total amortisation charge for the year 2019 was EUR 82,464.48 and results in a total net book value of EUR 177,346.66 intangible assets.

NATO UNCLASSIFIED

***Liabilities – Current Liabilities***

**6. Payables**

	December 31, 2019	December 31, 2018
	€ '000	€ '000
Payables AB suppliers	12	370
Payables OB suppliers	451	35,278
<b>Payables to suppliers</b>	<b>463</b>	<b>35,649</b>
Payables to Nations in respect of AB	2,229	2,489
Payables to Nations in respect of OB	885,924	763,296
<b>Payables to Nations</b>	<b>888,153</b>	<b>765,786</b>
<b>Other Payables</b>	<b>0</b>	<b>0</b>
<b>Total Payables</b>	<b>888,616</b>	<b>801,434</b>

***Payables to AB Suppliers***

In 2019 there are payables to AB suppliers for the purchase of goods and services of EUR 1,013.80. Payables also contain liabilities for accrued expenses in the amount of EUR 12,168.42.

***Payables to OB Suppliers***

For 2019 there are payables to OB suppliers in the amount of EUR 450,239.16.

***Payables to AB funding nations in respect of AB***

This represents the net revenue containing interest, bank charges, lapses, and over/under call in 2019. The net result in the amount of EUR 2,228,630.55 has to be reimbursed to the nations following the MOU cost sharing agreement and NAHEMO SC decisions towards the NAHEMO AB funding.

Lapsed funds 2018 in the amount of EUR 854,053.22 will be offset from call for funds in 2020. Respective credit memos will be created and credited against the 2<sup>nd</sup> call for funds 2020.

Lapsed funds 2019 in the amount of EUR 1,362,009.66 will be offset from call for funds in 2021. Respective credit memos will be created and credited against the 2<sup>nd</sup> call for funds 2021.

# NATO UNCLASSIFIED

## ***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, miscellaneous receipts and unused contributions.

The amount of EUR 885,923,819.09 represents balances held by NAHEMO or owed from member Nations which are in turn owed to nations until they are expensed on the OB. Due to a change in accounting policy in 2013, contributions for next year's OB are shown as payables to Nations.

In the table below, the details of the total payables to Nations of EUR 2,228,630.55 (AB) and EUR 885,923,819.09 (OB) are explained.

Interest held on operational bank accounts have accumulated since 2007 to EUR 1,910,338.11.

<b>Payables to Nations at the end of 2019</b>	
<b>Payables to Nations in respect of AB</b>	
	<b>EURO € '000</b>
Misc. Payables	13
Lapsed Funds related to Budget Year 2018	854
Lapsed Funds related to Budget Year 2019	1,362
	<b>2,229</b>
<b>Payables to Nations in respect of OB</b>	
	<b>EURO € '000</b>
Interest	1,911
Lapsed Funds NSPA related to Budget Year 2011	106
Unallocated Contributions	5,900
Unused Contributions	878,007
Misc. Payables	1
<b>Total OB Related</b>	<b>885,924</b>

## ***Other Payables***

In 2019 there are no other payables.

## NATO UNCLASSIFIED

### 7. Unearned Revenue and Advances

	December 31, 2019	December 31, 2018
	€ '000	€ '000
Unearned Revenue AB	424	(42)
Advances AB	4,758	992
<b>Total</b>	<b>5,182</b>	<b>950</b>

#### *Unearned Revenue AB*

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 2019 was EUR 424,357.54.

In note 9, it is explained how the unearned revenue 2018, contributions and revenue recognition in 2019 result in the unearned revenue 2019.

#### *Advances AB*

Advances related to the AB are contributions called in advance relating to the 2020 Budget. EUR 4,758,137.13 was an advanced contribution from Germany, Italy and Norway.

#### *Other current liabilities*

The amount of EUR 438.87 is connected to an error in the ORACLE system at the fiscal year change. Together with ORACLE consultants NAHEMA is working on a solution

### **Net Assets**

#### **8. PP&E and Intangible Asset Reserve**

Net assets of EUR 433,879.01 are represented by PP&E and intangible asset reserve of EUR 275,083.13 plus acquisition for 2019 of 321,771.74 EUR minus the depreciation/amortisation for 2019 of EUR 162,975.83.

NATO UNCLASSIFIED



## 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 2018 and 2019.

	December 31, 2019	December 31, 2018
	€ '000	€ '000
Revenue AB		
Contributions	11,424	11,417
<b>Revenue</b>	<b>11,424</b>	<b>11,417</b>

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 2019 is EUR 949,826,82. The reversal for accrued expenses is EUR 179,465.72, the total amount called in 2019 reads EUR 17,035,507.59. EUR 204,650.32 was recorded for the VAT paid in 2018 to be reimbursed in 2019. EUR 214,677.37 was recorded for the VAT paid in 2019 to be reimbursed in 2020. The revenue recognized in 2019 is EUR 11,423,793.75 for expenses and EUR 419,198.76 for VAT expenses; lapsed funds to be returned to Nations are for an amount of EUR 1,366,296.49. EUR 192,301.73 correspond to capitalized expenditure incurred within the year. This results in unearned revenue of EUR 5,182,494.67.

NATO UNCLASSIFIED

Reconciliation of Unearned Revenue AB 2018 with 2019	
	EURO € '000
<b>Unearned Revenue 31 December 2018</b>	950
Reversal accruals 2018	179
Call for Funds 2019	12,278
Call for Funds 2020	4,758
VAT paid 2018 to be reimbursed in 2019	205
VAT paid 2019 to be reimbursed in 2020	215
Flow of capitalized expenditure in 2019	(192)
Accrued Expenses 2019	(12)
Revenue earned 2019	(11,412)
Bank Charges	(1)
Revenue earned in 2019 for VAT 2018	(215)
Payable to Governments 31 December 2019	(1,366)
VAT 2018 reimbursed 2019	(173)
VAT 2018 reimbursed 2019	(32)
<b>Total unearned revenue 31 December 2019</b>	<b>5,182</b>

### 10. Expenses

Expense recognition for the 2019 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 2019 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.

## NATO UNCLASSIFIED

### ***Operating Leases***

NAHEMA rents premises on an operating lease. The annual rent for the premises is EUR 482,486.36 inclusive accessory charges. The lease for buildings A and B will terminate in 2020.

### ***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 below shows the breakdown of the expense from AB exchange transactions:

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
	<b>€ '000</b>	<b>€ '000</b>
Personnel	10,170	9,818
Operating	1,195	1,217
Capital	47	202
Depreciation PP&E	81	51
Depreciation Intangible Assets	82	60
VAT	215	205
Finance Costs	0	0
Accrued Expenses	12	179
<b>Total Expenses AB</b>	<b>11,802</b>	<b>11,732</b>

AB expenses are recognized when occurred. Accruing of expenses is based on the concept of accruing when goods and services are received. The accrued expenses are composed as follows:

Personnel	1,573.72 EUR
Operating	10,594.70 EUR
Capital	0.00 EUR
<b>Total</b>	<b>12,168.42 EUR</b>

NATO UNCLASSIFIED

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### ***Reconciliation between Revenue and Expenses***

The Revenue related to the AB that has been recognized in 2019 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 2019 for a total of EUR 11,801,473.95.

The depreciation for PP&E and amortisation for intangible assets are reflected as expense and cannot be matched with the Revenue and therefore result in a net surplus/deficit for the year 2019 of EUR 162,975.83.

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

In the Statement of Financial Performance the surplus/deficit of the period of EUR 162,975.83 represent the annual depreciation expense for PP&E and annual amortisation expense for intangible assets.

### ***12. Bank Charges / Negative Interest***

In 2019 bank charges exceeded the interest earned.

For the AB, charges were expensed and recognized as revenue in accordance with 76<sup>th</sup> NH90 Steering Committee decision.

For the OB, charges were offset from payable interest of previous years in accordance with respective Nations' requests.

In 2019 two NAHEMO Nations were charged with negative interest on their operational bank accounts.

For one Nation, negative interest in the amount of EUR 3,534.70 was offset from payable interest of previous years in accordance with respective Nation's request. For the other Nation negative interest in the amount of EUR 60,798.10 was recognized as expenses in accordance with respective Nation's request.

## **E. Events after Reporting Date**

Under IPSAS 14 (Events after the reporting date) reporting entities are required to disclose any event, both favourable and unfavourable, which occurs between the reporting date and the date when the financial statements are authorized for issue.

At the end of 2019, two OB Calls for Funds (CFF) out of 2019 for Chapter 8 were still unpaid. These CFF with the amount of EUR 16,033,683.00 and EUR 220,000.00 were paid in January and February 2020. One OB Call for Funds (CFF) out of 2019 for Chapter 3 was partly paid at the end of 2019. The outstanding amount of EUR 6,600,000.00 will be paid in 2020 to avoid negative interest in accordance with respective Nation's request.

There have been no other events between reporting date and the date when the financial statements were authorized for issue that would affect the amounts recognized in these financial statements.

## F. 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, 2019	December 31, 2018
	€ '000	€ '000
Basic salaries	781	740
Allowances	124	133
Post-employment benefits	74	74
Employer's contribution to Insurance	79	75
<b>TOTAL</b>	<b>1.058</b>	<b>1.022</b>

The Salary adjustment was +2.5% in 2019.

# NATO UNCLASSIFIED

Number of individuals on a full time equivalent basis	December 31, 2019	December 31, 2018
General Manager	1	1
Deputy General Manager	1	1
Other key management personnel (Division Leaders)	3	3
<b>TOTAL</b>	<b>5</b>	<b>5</b>

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).

## G. 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, 2019	December 31, 2018
	€ '000	€ '000
Employee benefits expense	9,632	9,311
Post-employment benefits		
for defined benefit pension scheme	0	0
for defined contribution pension scheme	781	763
<b>Total employee benefits expense</b>	<b>10,413</b>	<b>10,074</b>

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.

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Further to an analysis covering the last years of the history of death in service risks in relation to premiums paid by the Organisation during 2012-2015, a compensation of EUR 6 million at the NATO-wide level was agreed by the insurance company. End 2018, the NATO Secretary General decided that a fraction of this amount (circa EUR 1,7 million) should be paid to NATO staff who were members of the DCPS during the period 2012-2015 in proportion to the contributions they made to the DCPS. Staff employed by "NATO body" during the period 2012-2015 and affiliated to the DCPS is therefore entitled to a payment to be made from the NATO DCPS accounts. According to the NATO IS – Office of Financial Control the actual payment will take place in early 2020.

## H. 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.

## I. Bank Guarantees

NAHEMA's building rental contracts include two bank guarantees ("cautionnement bancaire") with Credit Agricole Bank in favour of société GENEPIERRE for EUR 258,805.00 and in favour of société ATLANTIQUE MUR REGIONS S.C.P.I. of EUR 19,308.58.

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.

NATO UNCLASSIFIED

ANNEX

NAHEMO FINANCIAL STATEMENTS 2019

Statement of Budget Execution as at 31 December 2019 and for the year ended (Annex as per the NFRs para. 34)

NATO UNCLASSIFIED

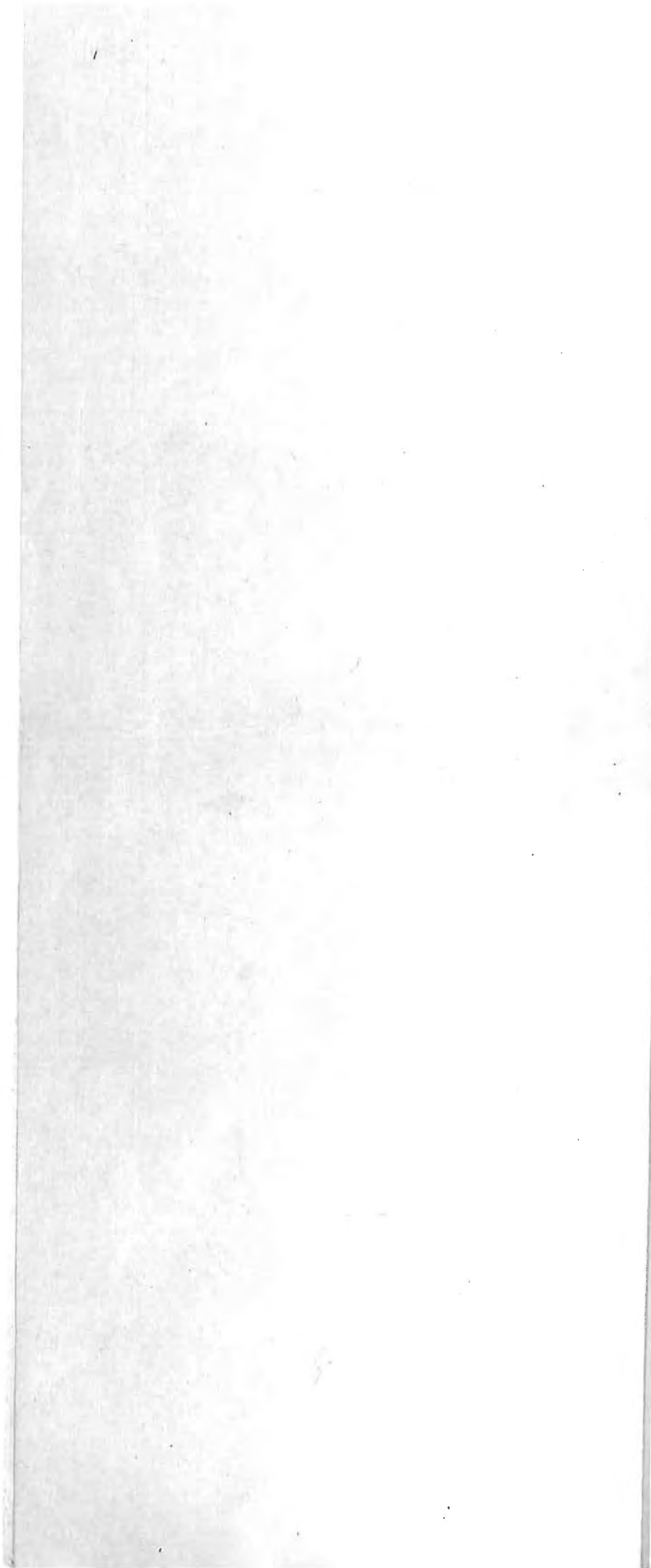


NATO UNCLASSIFIED

ANNEX

NAHEMO FINANCIAL STATEMENTS 2019

Statement of Budget Execution as of 31 December 2019 in EUR (Annex as per the NFRs para. 34)



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## 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 12,168.42, the depreciation amount of EUR 162,975.83 and the VAT paid amount of EUR 214,677.37.

The following table represents this reconciliation.

BUDGET	EXPENSE IN  BUDGET EXECUTION STATEMENT (including bank charges)  € '000	Adjustments for  Capitalized expenditure  Expenses	Adjustments for  Payables accrued  Expenses	Adjustments for  VAT paid	Adjustments for  Depreciation	EXPENSE IN  STATEMENT OF FINANCIAL PERFORMANCE  € '000
ADMINISTRATIVE BUDGET 2019	11,604	(192)	12	215	163	11,802
<b>TOTAL</b>	<b>11,604</b>	<b>(192)</b>	<b>12</b>	<b>215</b>	<b>163</b>	<b>11,802</b>

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

Due to the fact that the NAHEMO Budget Execution Statement is cash based and the NAHEMO Financial Statements are on the accruals basis please find below the reconciliation.

The ORIGINAL AB is based on estimates and has been approved by the NAHEMO Steering Committee during the The ORIGINAL AB is based on estimates and has been approved by the NAHEMO Steering Committee during the 32<sup>nd</sup> CSC meeting held on the 05<sup>th</sup> and 6<sup>th</sup> of

## NATO UNCLASSIFIED

## ANNEX

NAHEMO Steering Committee during the 32<sup>nd</sup> CSC meeting held on the 05<sup>th</sup> and 6<sup>th</sup> of December 2018, except for France and Italy, which approved ex-committee both on the 20<sup>th</sup> of December 2018.

The AB COMMITMENTS 2019 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 2019, EUR 1,366,296.49 were lapsed, and will be given back to Nations. Hence, payable lapses to Nations add up as follows: Coming from Budget 2018: EUR 4,286.83, coming from Budget 2019: EUR 1,362,009.66.

### RECONCILIATION OF ADM BUDGET EXECUTION TO CASH FLOW STATEMENT

Expenditure (modified cash based) on AB	(12,009,616.91)
Cash received on AB	15,716,881.16
Net inflow on AB	3,534,953.68
Net cash flow as per cash flow statement	3,596,528.87
Difference	(61,839.81)

Represented by:

(223.80)	Bank Charges
(110,511.58)	Misc. Payments
172,575.19	VAT reimbursed

In accordance with the new NAHEMO Financial Rules and Procedures, replacing the 5<sup>th</sup> issue of the NAHEMO Financial Rules and Regulations, 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 INI OB 2019 has been approved during the 32<sup>nd</sup> CSC meeting held on the 05<sup>th</sup> and 6<sup>th</sup> of December 2018, except for France and Italy, which approved ex-committee on the 19<sup>th</sup> of February 2019 and on the 1<sup>st</sup> of March 2019 respectively. The MYR OB 2019 has been approved during the 33<sup>rd</sup> CSC meeting held on the 27<sup>th</sup> and 28<sup>th</sup> of June 2019, except for France and Italy, which approved ex-committee on the 15<sup>th</sup> of July 2019 and on the 26<sup>th</sup> of July 2019 respectively. The

## NATO UNCLASSIFIED

## RECONCILIATION OF OP BUDGET EXECUTION TO CASH FLOW STATEMENT

Expenditure (modified cash based) on OB	(1,134,698,894.87)
Cash received on OB	1,165,943,550.38
Net inflow on OB	31,244,655.51
Net cash flow as per cash flow statement	(31,184,031.34)
Difference	60,586.73

Represented by:

18,028.40	Interest paid to Treasuries
2,864.30	Bank Charges
63,721.83	Negative Interest
(27,027.80)	Interest earned

**Statement of Credits carried forward**

The following table shows credits carried forward with a brief explanation of the unexpended balances at year end for which there is a legal liability.

NAHEMA AB 2019		
(EUR)	STATEMENT OF CREDITS CARRIED FORWARD TO 2019	
CHAPTER		REMARKS
01 PERSONNEL	73,219.51	Education allowances, overtime, removal, recruitment, home leave, medical examinations CEPMA costs to be finalized
02 SUPPLIES	261,616.51	Moved to new premise, maintenance, travel missions, computerization, technical assistance, leasing costs to be finalized
03 CAPITAL	41,917.22	Furniture, IT, security costs to be finalized
TOTAL	376,753.24	

***OB Milestones achieved 2019***

As of 31 December 2019 milestones in the amount of EUR 94,645,265.25 had been declared achieved but were not invoiced before closing of F.Y. 2019. Hence, they were not recognized as payables in F.Y. 2019.

**Statement of Transfers**

In accordance with the Section I art. 12 of the NAHEMO FINANCIAL RULES AND PROCEDURES (approved on 20/10/2017), a statement of budgetary transfers recorded in 2019 is presented in the following table:

<p align="center"><b>NAHEMA ADMINISTRATIVE BUDGET 2019</b>  <b>TRANSFERS AUTHORISED</b>  <b>IN ACCORDANCE WITH ARTICLE 12</b>  <b>OF NAHEMO FINANCIAL RULES AND PROCEDURES</b></p>
--

ORIGIN OF THE CREDITS			CREDITS NEEDED			GRAND TOTAL
BUDGET ITEM LINE	AMOUNT	TOTAL	BUDGET ITEM LINE	AMOUNT	TOTAL	
1110ADM	50,000.00 €	50,000.00 €	1515ADM	50,000.00 €	50,000.00 €	0.00 €
1111ADM	20,000.00 €	20,000.00 €	1110ADM	20,000.00 €	20,000.00 €	0.00 €
1112ADM	50,000.00 €	50,000.00 €	1110ADM	50,000.00 €	50,000.00 €	0.00 €
1113ADM	50,000.00 €	50,000.00 €	1110ADM	50,000.00 €	50,000.00 €	0.00 €
1119ADM	18,000.00 €	18,000.00 €	1515ADM	18,000.00 €	18,000.00 €	0.00 €
1210ADM	1,633.17 €	1,633.17 €	1215ADM	1,633.17 €	1,633.17 €	0.00 €
1211ADM	60,000.00 €	60,000.00 €	1110ADM	60,000.00 €	60,000.00 €	0.00 €
2110ADM	26,457.91 €	26,457.91 €	2810ADM	26,457.91 €	26,457.91 €	0.00 €
2110ADM	9,448.00 €	9,448.00 €	2810ADM	9,448.00 €	9,448.00 €	0.00 €
2112ADM	11,241.17 €	11,241.17 €	2810ADM	11,241.17 €	11,241.17 €	0.00 €
2112ADM	392.09 €	392.09 €	2810ADM	392.09 €	392.09 €	0.00 €
2113ADM	16,280.64 €	16,280.64 €	2810ADM	16,280.64 €	16,280.64 €	0.00 €
2114ADM	255.92 €	255.92 €	2710ADM	255.92 €	255.92 €	0.00 €

# NATO UNCLASSIFIED

## ANNEX

2114ADM	8,729.01 €	8,729.01 €	2810ADM	8,729.01 €	8,729.01 €	0.00 €
2114ADM	15,000.00 €	15,000.00 €	2810ADM	15,000.00 €	15,000.00 €	0.00 €
2116ADM	2,512.16 €	2,512.16 €	2810ADM	2,512.16 €	2,512.16 €	0.00 €
2117ADM	15,000.00 €	15,000.00 €	2810ADM	15,000.00 €	15,000.00 €	0.00 €
2210ADM	2,109.92 €	2,109.92 €	2810ADM	2,109.92 €	2,109.92 €	0.00 €
2211ADM	4,515.26 €	4,515.26 €	2811ADM	4,515.26 €	4,515.26 €	0.00 €
2212ADM	276.39 €	276.39 €	2810ADM	276.39 €	276.39 €	0.00 €
2412ADM	391.00 €	391.00 €	2413ADM	391.00 €	391.00 €	0.00 €
2810ADM	2,253.55 €	2,253.55 €	2811ADM	2,253.55 €	2,253.55 €	0.00 €
2811ADM	40,000.00 €	40,000.00 €	2810ADM	40,000.00 €	40,000.00 €	0.00 €
2911ADM	94.00 €	94.00 €	2413ADM	94.00 €	94.00 €	0.00 €
3211ADM	20,000.00 €	20,000.00 €	2810ADM	20,000.00 €	20,000.00 €	0.00 €
GRAND TOTAL		424,590.19 €			424,590.19 €	0.00 €

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**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 2018 was EUR 9,700.00 of which EUR 870.15 were expensed. Remaining commitments were closed and credits were lapsed. Expenses 2019 were as follows:

	December 31, 2019	December 31, 2018
	€	€
Rental supplement expenses	0.00	0.00
Hospitality expenses	870.15	808.40
<b>Total</b>	<b>870.15</b>	<b>808.40</b>







NORTH ATLANTIC TREATY ORGANIZATION  
ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD  
INTERNATIONAL BOARD OF AUDITORS  
COLLÈGE INTERNATIONAL DES AUDITEURS EXTERNES DE L'OTAN

**NATO UNCLASSIFIED**

IBA-A(2020)0082  
26 August 2020

To: Secretary General  
(Attn: Director of the Private Office)

Cc: NATO Permanent Representatives  
Chairman, NATO Multi-Role Combat Aircraft Development Production and In-Service Support Management Organisation (NAMMO), Board of directors  
General Manager, NATO EF 2000 and Tornado Development, Production and Logistics Management Agency (NETMA)  
Financial Controller, NATO EF 2000 and Tornado Development, Production and Logistics Management Agency (NETMA)  
Chairman, Resource Policy & Planning Board  
Branch Head, Secretariat and Finance Branch, NATO Office of Resources  
Private Office Registry

Subject: ***International Board of Auditors for NATO (IBAN) Auditor's Report and Letter of Observations and Recommendations on the audit of the NATO Multi-Role Combat Aircraft Development Production and In-Service Support Management Organisation (NAMMO)'s Financial Statements for the year ended 31 December 2019 – IBA-AR(2020)0013***

IBAN submits herewith its approved Auditor's Report (Annex 2) and Letter of Observations and Recommendations (Annex 3) with a Summary Note for distribution to the Council (Annex 1).

IBAN's report sets out an unqualified opinion on the Financial Statements of the NATO Multi-Role Combat Aircraft Development Production and In-Service Support Management Organisation (NAMMO) and on compliance for financial year 2019.

Yours sincerely,

Daniela Morgante  
Chairman

Attachments: As stated above.

**NATO UNCLASSIFIED**

-1-

**Summary Note for Council  
by the International Board of Auditors for NATO (IBAN)  
on the audit of the Financial Statements of the NATO Multi-Role  
Combat Aircraft Development Production and  
In-Service Support Management Organisation (NAMMO)  
for the year ended 31 December 2019**

NAMMO is a NATO Production, Logistics or Service Organisation. The participating Nations for NAMMO are Germany, Italy and the United Kingdom. The NATO EF 2000 and Tornado Development, Production and Logistics Management Agency (NETMA) manages this programme and the related budget.

IBAN audited the NAMMO Financial Statements for the year ended 31 December 2019. Expenditures of the year 2019 for the operational budget amount to EUR 477 million.

IBAN issued an unqualified opinion on the NAMMO Financial Statements and on compliance for the year ended 31 December 2019.

During the audit, IBAN made one observation and recommendation. This finding is in the Letter of Observations and Recommendations (Annex 3).

The main finding is listed below and does not impact the audit opinion on the financial statements and on compliance:

1. Management of cash holdings in the context of increased financial costs.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that one remain in progress and two were closed.

The Auditor's Report and the Letter of Observations and Recommendations were issued to NETMA whose comments have been included, with the IBAN's position on those comments where necessary, see the Appendix to Annex 3.

The observations and recommendations raised during the audit as well as the follow-up of the previous years' observations, which have not been included in the IBAN's Letter of Observations and Recommendations are included in a Management Letter addressed to NETMA management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under NETMA executive responsibility.

26 August 2020

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE  
NATO MULTI-ROLE COMBAT AIRCRAFT DEVELOPMENT PRODUCTION  
AND IN-SERVICE SUPPORT MANAGEMENT ORGANISATION**

**(NAMMO)**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

**INDEPENDENT EXTERNAL AUDITOR'S REPORT  
TO THE NORTH ATLANTIC COUNCIL**

**Report on the Audit of the Financial Statements**

**Opinion on the Financial Statements**

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of NAMMO, for the 12 month period ended 31 December 2019, issued and submitted to IBAN on 01 April 2020. These Financial Statements comprise the Statement of Financial Position as at 31 December 2019, the Statement of Financial Performance, the Statement of Cash Flow and the Statement of Change in Net Assets/Equity, for the 12-month period ended 31 December 2019, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a statement of budget execution for the 12 month period ended 31 December 2019.

In our opinion, the Financial Statements give a true and fair view of the financial position of NAMMO as at 31 December 2019, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2019, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework.

**Basis for Opinion on the Financial Statements**

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies and reporting entities pursuant to the North Atlantic Treaty shall be performed by IBAN.

We have conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAIs 1000-1810) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

We are independent in accordance with the INTOSAI Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter.

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

## **Management's Responsibility for the Financial Statements**

Management's responsibility for the financial statements is laid down in the NFRs. The Financial Statements of NAMMO are drawn up in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council. The Financial Controller is responsible for submitting the Financial Statements for audit to IBAN not later than 31<sup>st</sup> March following the end of the financial year.

The Financial Statements are signed by the Head of the NATO reporting entity and the Financial Controller. In signing the Financial Statements, the Head of the NATO reporting entity and the Financial Controller confirm the establishment and maintenance of financial governance, resource management practices, internal controls and financial information systems to achieve the efficient and effective use of resources.

This confirmation covers the design, implementation and maintenance of internal controls relevant to the preparation and presentation of financial statements that are auditable and free from material misstatement, whether due to fraud or error. This also covers reporting on the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there are plans to liquidate the entity or to cease its operations, or there is no realistic alternative but to do so.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

The objectives of the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgement and maintain professional scepticism throughout the planning and performance of the audit. This involves taking into account Considerations Specific to Public Sector Entities. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are required to communicate with the bodies charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our Independent External Auditor's Report is prepared to assist North Atlantic Council in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

## **Report on Compliance**

### **Opinion on Compliance**

Based on the procedures we performed, nothing has come to our attention, as part of our audit of the Financial Statements that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

### **Basis for Opinion on Compliance**

We have conducted our compliance audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 4000) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

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

### **Management's Responsibility for Compliance**

All NATO staff, military and civilian, are obligated to comply with the NATO Financial Regulations, associated Financial Rules and Procedures and internal implementing directives. These include the NATO Civilian Personnel Regulations.

The General Manager of NETMA is responsible and accountable for sound financial management. The financial administration of NATO bodies and reporting entities must incorporate the principles of propriety, sound governance, accountability, transparency, risk management and internal control, internal audit, external audit, and fraud prevention and detection.

### **Auditor's Responsibilities for Compliance**

In addition to the responsibility to provide reasonable assurance about whether the financial statements as a whole are free from material misstatement, the IBAN Charter requires IBAN to provide independent assurance and report annually to the North Atlantic Council about whether funds have been properly used for the settlement of authorised expenditure (propriety) and are in compliance with the regulations in force (regularity). Propriety relates to the observance of the general principles governing sound financial management and the conduct of public officials. Regularity concerns the adherence to formal criteria such as relevant regulations, rules and procedures.

This responsibility includes performing procedures to obtain independent assurance about whether funds have been properly used for the settlement of authorized expenditure and whether they have been used in compliance with the regulations in force. Such procedures include consideration of the risks of material non-compliance.

Brussels, 26 August 2020



Daniela Morgante  
Chairman



**NATO UNCLASSIFIED**

ANNEX 3  
IBA-AR(2020)0013

26 August 2020

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**LETTER OF OBSERVATIONS AND RECOMMENDATIONS**

**FOR NATO MULTI-ROLE COMBAT AIRCRAFT DEVELOPMENT PRODUCTION  
AND IN-SERVICE SUPPORT MANAGEMENT ORGANISATION**

**(NAMMO)**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

**NATO UNCLASSIFIED**

## **Introduction**

The International Board of Auditors for NATO (IBAN) audited the NAMMO Financial Statements for the year ended 31 December 2019, and issued an unqualified opinion on the financial statements and an unqualified opinion on compliance.

## **Observations and Recommendations:**

During the audit, IBAN made one observation and recommendation.

The observation does not impact the audit opinion on the financial statements and on compliance:

1. Management of cash holdings in the context of increased financial costs.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that one remained in progress and two were closed.

The observations and recommendations raised during the audit as well as the follow-up of the previous years' observations, which have not been included in the IBAN's Letter of Observations and Recommendations are included in a Management Letter addressed to NETMA management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under NETMA executive responsibility.

## OBSERVATIONS AND RECOMMENDATIONS

### 1. MANAGEMENT OF CASH HOLDINGS IN THE CONTEXT OF INCREASED FINANCIAL COSTS

#### Reasoning

1.1 At 31 December 2019, NAMMO had significant cash holdings (EUR 179 million). It is therefore particularly important to ensure that NETMA adheres to the principles of sound financial management regarding the cash holdings, in compliance with the rules agreed by the Nations. This involves ensuring that NAMMO's cash holdings are not subject to any unforeseen risks.

1.2 As per article 32.1 of NETMA Financial Rules and Regulations, *"Funds will be kept in banks of good financial standing which will be designated by the GM (following competitive tendering) and agreed by Nations."*

1.3 According to article 33.2 of NETMA Financial Rules and Regulations, *"Interests payables will be debited to the Nation's account on which it was charged and brought to account in the year in which it was received. Treatment of this interest will be applied in accordance with national requirements"*.

#### Observations

1.4 Following the decision by the European Central Bank to charge negative interest on central bank reserves held by commercial banks, a member Nation Bank has made the terms and conditions on its clients' EUR cash holdings more restrictive. As a result of these changes, this bank is charging negative interest on NAMMO cash holdings. NETMA received a written confirmation of those new terms and conditions in December 2019. In December 2019, NETMA issued a letter to Legal Financial and Contractual Committee (LFCCs) Heads of Delegations to inform them about these new conditions.

1.5 NAMMO has three accounts opened in this bank. These bank accounts relate to member Nation's accounts for the Tornado programmes.

1.6 Within these new terms and conditions, two main points have a significant effect on Year End Balances and Monthly Balances:

1.7 The allowable balance on the bank accounts at the year-end was previously EUR 200 million. This has now been reduced to EUR 115 million, as at 31 December 2019. There will now be a one off fee of 0.15% on the amount exceeding EUR 115 million.

1.8 The member Nation bank has communicated that there will be a reduction of the Free of Charge Average Monthly Balance. This balance, which is currently set at

EUR 200 million, will be reduced to EUR 50 million from 1 February 2020. Any amount over the average will be charged negative interests at a rate of 0.5% per annum.

1.9 Additionally, the member Nation Bank notified NETMA that they may further lower the Free of Charge Average Balance during the course of 2020 and that they will pass on any decreases in the ECB rate on central bank reserves.

1.10 To address these issues, NETMA has already taken the following mitigating measures, which include:

- Informing Heads of Legal Financial Contractual Committee (LFCC) Delegations that the Administrative Budget may need to be increased to reflect the negative interest and other fees charged by banks;
- Reviewing the conditions of bank accounts and considering to change banks in order to obtain better financial conditions;

1.11 IBAN acknowledges that NETMA started to implement mitigating procedures to reduce the impact of negative interest rates and other bank fees. However, NETMA has not developed a written policy regarding the management of cash holdings. In this period of uncertainty regarding negative interest rates and other bank fees across the Eurozone and the United Kingdom, NETMA needs to develop a policy and implement procedures to avoid additional unforeseen costs to Nations and to mitigate potential liquidity risks.

1.12 Furthermore, IBAN noticed an increase of finance costs related to foreign exchange rates for NAMMO, due to the volatility of GBP rates that affected a number of GBP transactions during the year 2019. For example, NAMMO foreign losses amounted to EUR 1.5 million compared to EUR 0.400 million at the end of 2018.

## **Recommendations**

1.13 IBAN recommends that NETMA complement existing procedures regarding the sound financial management of the significant cash holdings of NAMMO, by developing a policy and implementing further procedures to avoid additional unforeseen costs to Nations and to mitigate potential liquidity risks. This can be achieved by:

- a) Clearly communicating with NAMMO's Board of directors about all issues related to cash holdings and seeking their approval on solutions presented;
- b) Ensuring that an analysis is made covering all bank accounts and possible new bank accounts, and scenarios regarding forecast economic conditions;

- c) Developing a policy on exchange rates that addresses the impact of high exchange rate volatility during the year;
- d) Taking steps to reduce cash holdings per Nation, while mitigating the liquidity risk by ensuring that sufficient funds are available to pay commitments.

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

IBAN followed up on the status of observations from the previous years' audit. The observations, actions taken by the auditee as reviewed by IBAN, and their status are summarised in the table below.

The Open status is used for recommendations that are open and for which no notable progress has been achieved to date. The In-progress status is used for open recommendations when the NATO Reporting Entity has started to implement the recommendation or when some (but not all) sub-recommendations are closed. The Closed status is used for recommendations that are closed because they have been implemented, are superseded, or have lapsed. In the case where there are sub-recommendations, the status related to each sub-recommendation is indicated in the Action Taken column.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p><b>(1) NAMMO FY 2018</b> <b>IBA-AR(2019)0013, paragraph 1</b></p> <p><b>IMPROVEMENTS NEEDED IN THE PRESENTATION OF THE STATEMENT OF BUDGET EXECUTION FOR THE OPERATIONAL BUDGET</b></p> <p><b>IBAN's Recommendation</b> In order to facilitate the understanding of the readers and users of financial statements, the Board recommends to:</p> <p>a) Improve the presentation of Statement of Budget Execution for NAMMO financial statements to ensure that the information is in line with the needs of the users on the operational budget.</p> <p>b) Implement documented controls on information produced for the Statements of Budget Execution.</p>	<p>IBAN acknowledges progress made in the presentation of NAMMO budget execution statement and in the quality of figures disclosed. However, IBAN found that the word "future commitments" could be misleading as commitments disclosed include also old open commitments. IBAN believes that "outstanding commitments" or "open commitments" are more appropriate.</p>	<p>Observation <b>In-Progress</b></p>
<p><b>(2) NAMMO FY 2018</b> <b>IBA-AR(2019)0013, paragraph 2</b></p> <p><b>WEAKNESSES AND ERRORS IN THE ACCOUNTING OF NAMMO RECEIVABLES</b></p> <p><b>IBAN's Recommendation</b> In order to ensure the completeness of contributions presented in the annual financial statements, the Board recommends that NETMA improves the</p>		<p>Observation <b>Closed</b></p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>methodology of accruals for contributions by:</p> <p>a) Taking into account the year end adjustment and cash contributions received in the following year but related to the operational budget of the current year.</p> <p>b) Developing controls and reconciliation of the revenues and receivables with annual confirmations of contributions received from Nations.</p>	<p>The policy for the annual recording of calls for funds was changed by NETMA to ensure these were captured in the accounting system at the time of calling, whereas in the past they were integrated upon receipt of the funds. According to NETMA, all letters issued to Nations for calls of contributions were checked.</p> <p>IBAN noted that a new process was put in place to ensure the completeness of NAMMO contributions.</p>	
<p><b>(3) NAMMO FY 2018</b> <b>IBA-AR(2019)0013, paragraph 3</b></p> <p><b>IMPROVEMENTS NEEDED IN THE DETERMINATION OF ACCRUED EXPENSES</b></p> <p><b>IBAN's Recommendation</b> In order to ensure a fair presentation of accruals in a context of a high staff turnover, taking into account the most reliable and complete information available, IBAN recommends NETMA for NAMMO to:</p> <p>a) Improve the IT systems (CADPS and AIMS) in order to obtain or develop reliable reports, which fully capture all goods and services rendered during the year but not yet invoiced.</p> <p>b) Determine accrued expenses based on these reports, which fully capture all goods and services rendered during the year but not yet invoiced.</p>	<p>The process for determining NAMMO accruals was reviewed and revised for 2019. A report was developed to capture CADPS and AIMS data to enable it to be used to produce the accruals. Additionally NAMMO finance staff, with inputs from technical staff, reviewed the data within the reports to ensure a reliable information.</p> <p>IBAN noted good improvements made in the determination of accrued expenses in line with its recommendation.</p>	<p>Observation <b>Closed</b></p>

**NATO MULTI-ROLE COMBAT AIRCRAFT DEVELOPMENT PRODUCTION  
AND IN-SERVICE SUPPORT MANAGEMENT ORGANISATION  
(NAMMO) FORMAL COMMENTS  
ON THE LETTER OF OBSERVATIONS AND RECOMMENDATIONS AND  
THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS**

***NAMMO's Formal Comments***

*NAMMO made no formal comments on the report and previous year observations.*



## **GLOSSARY OF TERMS**

In accordance with auditing standards, audit opinions on financial statements and on compliance can be unqualified, qualified, a disclaimer, or adverse:

- An unqualified opinion is when IBAN issues an opinion that the financial statements and budget execution report are stated fairly and that nothing has come to our attention that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the rules and regulations.
- A qualified opinion means that IBAN was generally satisfied with the presentation of the financial statements, but that some key elements of the statements were not fairly stated or affected by a scope limitation, or specific issues have come to our attention that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the rules and regulations.
- A disclaimer is issued when the audit scope is severely limited and IBAN cannot express an opinion, or when there are material uncertainties affecting the financial statements or the use of funds.
- An adverse opinion is issued when the effect of an error or disagreement is so pervasive and material to the financial statements that IBAN concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

# NAMMO



## ANNUAL FINANCIAL STATEMENTS 2019

FOR THE PERIOD ENDED 31 DECEMBER 2019



**NETMA**

NATO EF2000 AND TORNADO DEVELOPMENT, PRODUCTION AND  
LOGISTICS MANAGEMENT AGENCY

These statements are produced in Thousands of Euros.

For example:

34,632 = Thirty Four Million Six Hundred and Thirty Two Thousand Euros;

132 = One Hundred and Thirty Two Thousand Euros

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# Contents

## Section

## Page

### Overview

Introduction to the 2019 Financial Statements 5

NAMMO Statement of Internal Control 8

### 2019 Financial Statements

- Statement of Financial Position 10

- Statement of Financial Performance 11

- Statement of Cash Flow 12

- Statement of Changes in Net Assets / Equity 13

- Statement of Budget Execution 14

### Notes to the NAMMO Accounts

A. Significant Accounting Policies 16

B. Notes to Statement of Financial Position 22

C. Notes to Statement of Financial Performance 24

D. Notes to Statement of Cash Flow 25

E. Notes to Statement of Budget Execution 26

F. Contingent Liabilities / Provisions 27

G. Related Parties Disclosure 27

H. Write-Off and Donations 27



# Overview



# Introduction to the 2019 Financial Statements



The NATO Multi-Role Combat Aircraft Development, Production and In Service Support Management Organisation (NAMMO) is a subsidiary body created within the framework of NATO. NAMMO is based at Hallbergmoos, Germany and is a NATO Production and Logistics Organisation (NPLO) formed by the nations of Germany, Italy and the United Kingdom to develop, produce and support the Tornado aircraft.

A NAMMO Board of Directors (BoD), comprising of representatives from the three NAMMO nations, provides strategic direction and governance to the Tornado Programme and NETMA provides support in the delivery of this direction. In this activity, NAMMO is acting as a principal and these accounts

are put together on this basis.

NAMMO is funded wholly through contributions made by the three NATO member Nations. As a NATO organisation two of the NAMMO Nations are exempt from taxation relating to operating revenue and expenses however in the case of the Federal Republic of Germany VAT is levied.

Early 2019 saw the end of the Tornado's operation in Iraq and Syria as part of joint exercises against Daesh, upon the official retirement of the UK's fleet from RAF service on 1<sup>st</sup> April 2019.

## *Key points from the Annual Financial Statements*

As mentioned above, the United Kingdom withdrew its Tornado fleet from service on 1<sup>st</sup> April 2019. The UK, however, has continued its involvement in the NAMMO programme of work in order to support current export commitments.

The continued support from the three partner Nations means that NAMMO's status as a going concern for accounting purposes is unaffected. The Tornado fleets for both Italy and Germany remain in active service and managed through NAMMO on an understanding that NAMMO will operate as an active management agency for the foreseeable future.

## *Addressing Previous Audit Observations*

The IBAN audit report for the 2018 NAMMO Financial Statements included recommendations for improvements to the production and presentation of the 2019 Financial Statements.

### **Improvements to the presentation of the Statement of Budget Execution**

The Statement of Budget Execution for NAMMO has been reviewed and improved to provide a more accurate position on future commitments, as well as providing information in the Notes to the Accounts on how the budget has been executed in 2019.

### **Determination of NAMMO Accrued Expenses**

In line with IBAN recommendations, NETMA has reviewed the process for NAMMO accrued expenses and utilised available data from the CADPS and AIMS systems in order to increase accuracy.

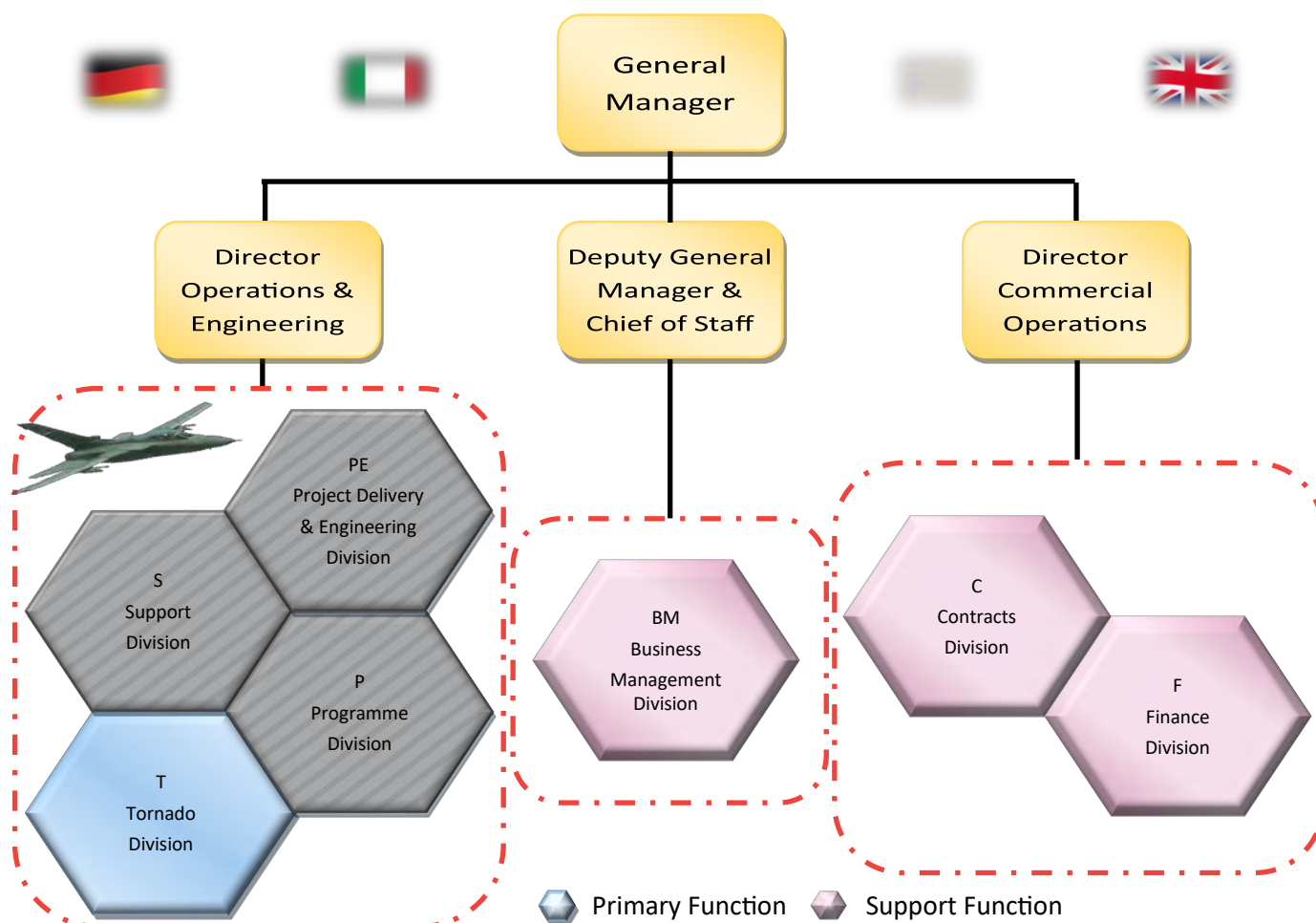
This is explained further in the Notes to Statement of Financial Position, on pages 22 and 23.



## NAMMO AT A GLANCE

NETMA operates using a functional organisational structure, grouping its staff into agency divisions based on their specific skills and knowledge across the agency.

The NETMA organisational structure has been provided below to illustrate this:



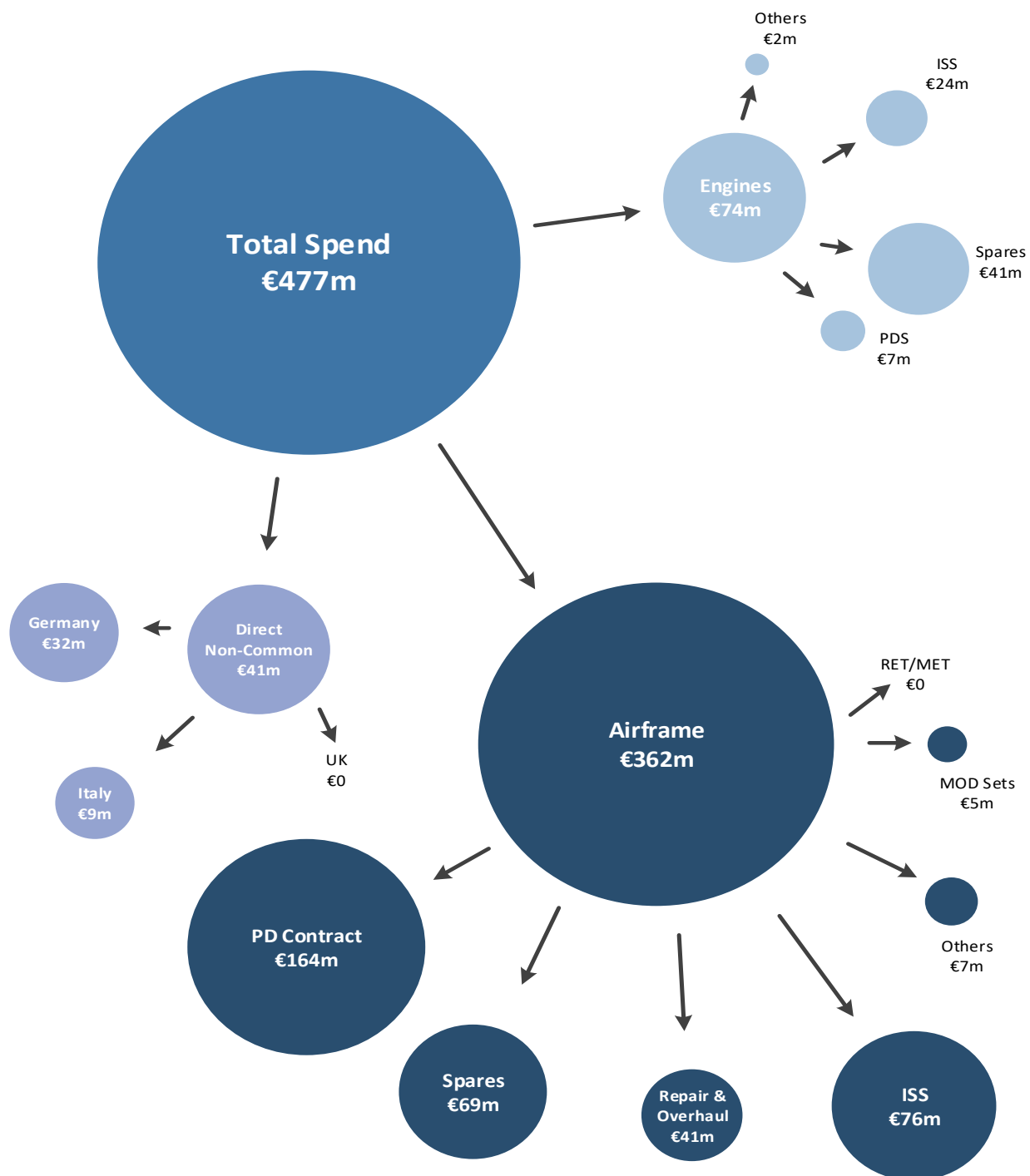
In support of the NAMMO BoD and the Tornado Weapon System, with the last batch of aircraft produced in 1998, the NAMMO structure is organised to deliver the In-Service Support (ISS) requirements. T (Tornado) Division is responsible for the engineering operations and management of the sustainment of the aircraft with our Tornado industry partners (PANAVIA Aircraft GmbH and Turbo-Union GmbH), acting as the focal point for primary NAMMO activities.

In support of these primary activities, the Contracts and Finance Divisions drive value through Contract and Financial management between Nations and Industry. Business Management Division, in addition to the Human Resources support and Corporate Business & Information Management to the entire NETMA agency, supports the IT Applications which enable the management of the Tornado Programme. These include (but are not limited to) the Agency Integrated Management System (AIMS) for Milestone/Task and Invoice Management, the Enhanced Procurement System-Central Automated Data Processing System (EPS-CADPS) for Procurement and Logistics Support Activities, and the Personnel & Accruals Reporting Management Information System (PARMIS) for Invoice to Payment & Banking processes.

### NAMMO Expenditure Breakdown 2019

The total spend on the Tornado programme through NETMA in 2019 was €477m, a €67m increase from 2018. This is mainly due to an increase in spend driven by Germany, who have considerably increased their spend on Spares.

Spend on Tornado is largely focused on the airframe, totalling 76% of all costs, with a further 15% relating to the engine, as illustrated below:





## NAMMO Statement of Internal Control



As General Manager of NETMA, I have responsibility for maintaining an effective system of internal control that supports the achievement of my Agency's policies, aims and objectives, set by NETMA's Four Nations and the Board of Directors, whilst safeguarding the funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me.

The system of internal control is designed to manage the risk of failure to achieve the organisation's policies, aims and objectives but it can only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing evidence based process designed to identify the principal risks to the achievement of my Agency's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage

them efficiently and effectively on a continual year round basis. The Board has established appropriate structures, reporting lines and responsibilities to support the delivery of objectives.

I have responsibility for reviewing the effectiveness of the system of internal control. The processes in place to achieve this are summarised below:

- NETMA has a Management Plan which identifies NETMA's objectives (and specifically NAMMO objectives). The Management Plan focuses on business change objectives and Program risks. Key Business risks have now been identified, mitigated and owners have been appointed to monitor and report on these on a regular basis.
- Management checks are undertaken and the internal audit function performs a range of audit activities, based on an annual audit plan agreed by the Audit Advisory Panel alongside the detailed audit of property held in industry, to ensure appropriate internal controls are in place and adhered to. The Internal Audit process complies with the International Standards for the Professional Practice of Internal Auditing in accordance with previous IBAN recommendations.

The Agency has been operating the integrated framework for internal control developed by the Committee of Sponsoring Organisations of the Treadway commission (COSO Framework) as a mechanism for formally documenting the internal control system and providing assurance that it is functioning effectively, since 2016. The annual COSO review was undertaken as scheduled in 2019, with the Directors confirming we meet those requirements.

My review of the effectiveness of the system of internal control is informed by the work of the executive managers within the organisation who have responsibility for the development and maintenance of the internal control framework, comments made by the external auditors in their management letters and other reports together with the results of the annual COSO review.

I am content that the processes in place within the organisation provide reasonable assurance of the effectiveness and efficiency of the organisation's operations, the reliability of its financial information and its integrity with regards to application and compliance to applicable rules and regulations. Whilst we always seek to improve our processes each year there are no material internal control weaknesses currently identified that need specific intervention from Senior Management in 2019.

MR GABRIELE SALVESTRONI

General Manager

MR MARK GANFIELD

Financial Controller

# 2019 Financial Statements

## STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

(in thousands of Euros)

	Note	2019	2018
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	B1	178,625	192,277
Short term investments		0	0
Receivables	B1	158	217
Prepayments		0	0
Inventories		0	0
		<u>178,783</u>	<u>192,494</u>
<b>Non-current assets</b>			
Property, plant & equipment		0	0
Intangible assets		0	0
		<u>0</u>	<u>0</u>
<b>Total assets</b>		<u><b>178,783</b></u>	<u><b>192,494</b></u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Payables	B2	48,491	37,028
Deferred revenue		0	0
Advances	B3	130,292	155,466
		<u>178,783</u>	<u>192,494</u>
<b>Non-current liabilities</b>			
Provisions		0	0
		<u>0</u>	<u>0</u>
<b>Total liabilities</b>		<u><b>178,783</b></u>	<u><b>192,494</b></u>
Surplus / (deficit)		0	0
Reserves		0	0
<b>Total net assets</b>		<u><b>0</b></u>	<u><b>0</b></u>

The financial statements on pages 10 to 14 and their associated notes were issued to the International Board of Auditors for NATO on 31<sup>st</sup> March 2020.



MR GABRIELE SALVESTRONI  
General Manager



MR MARK GANFIELD  
Financial Controller

## STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 DECEMBER 2019

(in thousands of Euros)

	Note	2019	2018
<b>Revenue</b>			
Revenue	C1	489,122	413,195
Financial revenue		0	0
Other revenue		0	0
<b>Total revenue</b>		<b>489,122</b>	<b>413,195</b>
<b>Expenses</b>			
Personnel		0	0
Contractual supplies and services	C2	(487,545)	(412,800)
Depreciation and amortisation		0	0
Impairment		0	0
Provisions		0	0
Other expenses		0	0
Finance costs	C3	(1,577)	(395)
<b>Total expenses</b>		<b>(489,122)</b>	<b>(413,195)</b>
<b>Surplus / (deficit) for the period</b>		<b>0</b>	<b>0</b>

## STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2019

(in thousands of Euros)

	Note	2019	2018
<b>Cash flow from operating activities</b>			
Surplus / (deficit)	D1	0	0
<b>Non-cash movements</b>			
Depreciation / amortisation		0	0
Impairment		0	0
Increase / (decrease) in payables	D2	11,463	3,789
Increase / (decrease) in advances	D3	(25,174)	27,642
Increase / (decrease) in other current liabilities		0	0
Increase / (decrease) in provisions		0	0
(Gains) / losses on sale of property, plant and equipment		0	0
(Increase) / decrease in receivables	D4	58	1,841
<b>Net cash flow from operating activities</b>		<b>(13,652)</b>	<b>33,272</b>
<b>Cash flow from investing activities</b>			
Purchase of property plant and equipment / intangible assets		0	0
Proceeds from sale of property plant and equipment		0	0
<b>Net cash flow from investing activities</b>		<b>0</b>	<b>0</b>
<b>Cash flow from financing activities</b>		<b>0</b>	<b>0</b>
<b>Net cash flow from financing activities</b>		<b>0</b>	<b>0</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>(13,652)</b>	<b>33,272</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>192,277</b>	<b>159,005</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>178,625</b>	<b>192,277</b>

## STATEMENT OF CHANGE IN NET ASSETS/EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	PP&E Asset Reserve	Revaluation Reserves	Accumulated Surplus / (Deficit)	Total
<b>Balance at the beginning of the period 2018</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Changes in accounting policy	0	0	0	0
<b>Restated balance</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Transfer from accumulated surplus / (deficit)	0	0	0	0
Surplus / (deficit) for the period	0	0	0	0
<b>Balance at the end of the period 2018</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Changes in accounting policy	0	0	0	0
<b>Restated balance</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Transfer from accumulated surplus / (deficit)	0	0	0	0
Surplus / (deficit) for the period	0	0	0	0
<b>Balance for the period ended 2019</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

(in thousands of Euros)

Note

**Balance at the beginning of the period 2018**

Changes in accounting policy

**Restated balance**

Transfer from accumulated surplus / (deficit)

Surplus / (deficit) for the period

**Balance at the end of the period 2018**

Changes in accounting policy

**Restated balance**

Transfer from accumulated surplus / (deficit)

Surplus / (deficit) for the period

**Balance for the period ended 2019**

# STATEMENT OF BUDGET EXECUTION

FOR THE YEAR ENDED 31 DECEMBER 2019

		Note	Initial Budget	Transfers	Budget Adjustments	Final Budget	Expenditure	Unused Budget	Future Commitments
(in thousands of Euros)									
<b>Budget 2019</b>									
	All nations	E1	470,147	0	34,280	<b>504,427</b>	477,356	27,071	578,071
	<b>Total FY 2019</b>		<b>470,147</b>	<b>0</b>	<b>34,280</b>	<b>504,427</b>	<b>477,356</b>	<b>27,071</b>	<b>578,071</b>



# Notes to the NAMMO Accounts



## A. Significant Accounting Policies

### *Basis of preparation*

The financial statements of NAMMO have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS) and based on International Financial Reporting Standards (IFRS/IAS), as adopted by the North Atlantic Council (NAC) in 2002. In 2013, the NAC adopted an adaptation to IPSAS to better suit the specific requirements of the Alliance and an associated NATO accounting framework, applicable for financial reporting periods beginning on 1 January 2013.

The financial statements comply with the accounting requirements of the NATO Financial Regulations (NFRs) and the relevant NAMMO directives and policies. In instances where there is a conflict between IPSAS and the NFRs this has been noted.

The financial statements have been prepared on a going-concern basis. NATO Agency reform, which was approved by the Heads of State and Government at the Lisbon Summit in 2010, continues to mature. A new integrated NATO Procurement entity will be established to meet the needs of new procurement programmes, but none of the existing NATO agencies intend to integrate into this new organisation. In addition, at this stage, there is no intent to merge additional NATO agency support activity into the NATO Support Agency (NSPA). It is considered that there are no impediments to continuing on a going concern basis for the foreseeable future.

The financial statements have been prepared on a historical cost basis except for financial instruments that are measured at fair value at the end of each reporting period. The principal accounting policies are set out below. They have been applied consistently to all periods presented. The accounting principles recognised as appropriate for the recognition, measurement and reporting of the financial position, performance and cash flows on an accrual based accounting system using historical costs have been applied consistently throughout the reporting period.

In accordance with Article 2.1 of the NFRs, the financial year of NAMMO is 1 January to 31 December.

### *Accounting estimates and judgments*

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 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, revenue 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.

### *Changes in accounting policy and standards*

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 2019 financial statements, the accounting policies have been applied consistently throughout the reporting period. There have been no changes to NAMMO accounting policy in 2019.

### *Changes in pronouncements*

No accounting standard has been adopted earlier than the application date as stated in the IPSAS standards. The following IPSAS are not relevant for the NAMMO Financial Statements 2019: IPSAS 26 (Impairment of Cash-Generating Assets), IPSAS 27 (Agriculture). The following IPSAS have no material effect on the financial statements: IPSAS 5, IPSAS 10, IPSAS 11, IPSAS 16, IPSAS 18, IPSAS 32 and IPSAS 39. IPSAS 40 (Public Sector Combinations) came into effect January 1st 2019, this new IPSAS standard has no material impact on the presentation of the NAMMO Financial Statements.

### *Restatements*

NAMMO has not restated any balances in the 2018 financial statements.

### *Changes in financial rules and regulations*

During 2015 NATO adopted new financial rules and regulations. During 2019 there were no additional changes. These financial statements have been produced in line with these financial rules and regulations. NETMA updated its Financial Rules and Regulations in 2019, to ensure that they were in line with NATO NFRs. Only minor adjustments were made in the NETMA FRRs, and none of these changes affected the process in the preparation of the NAMMO Financial Statements.

### *Foreign currency*

These financial statements are presented in Euros, which is the NAMMO functional and reporting currency. Foreign currency transactions are translated into Euros at the NATO exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at year-end are translated into Euros using the NATO exchange rates applicable at 31 December 2019, resulting realised and unrealised gains and losses are recognised in the Statement of Financial Performance.

NAMMO used the following exchange rates as at 31<sup>st</sup> Dec 2019:

EUR – GBP = 1: 0.8447

EUR – USD = 1: 1.0963

### *Consolidation*

The NAMMO financial statements are not consolidated in-line with the NETMA Agency charter.

### *Financial Instruments disclosure / presentation*

NAMMO uses only non-derivative financial instruments as part of its normal operations. These financial instruments include cash and cash equivalents, accounts receivable, liabilities, provisions and loans between NATO entities. Financial instruments are recognised in the statement of financial position at fair value.

### *Financial risk factors*

#### **Credit risk**

There is very limited credit risk as the contributing nations generally have a high credit rating. The risk of financial loss due to a participating nations' failure to raise funds is still assessed as very low. In the event that there is a shortage of funds by one or more nations to meet financial obligations, other nations will be expected to provide the necessary funding.

#### **Liquidity risk**

The liquidity risk is based on the assessment of whether the organisation will encounter difficulties in meeting its obligations associated with financial liabilities. There is limited exposure to liquidity risk because of the budget mechanism that seeks to guarantee contributions for the total approved budget. The accuracy of forecasts that result in the calls for contributions as well as the delay in receiving payments represent the main liquidity risks.

#### **Currency risk**

To limit the exposure to foreign currency risk, NAMMO forecasts yearly expected expenditures in foreign currencies where it is material (i.e. Great British Pound - GBP). In order to have the required funding, NAMMO asks the nations to provide their contributions in either Euros or GBP. Therefore the currency risk is deemed to be minimal and hedging the foreign currency exposure is not considered necessary. The transactions in foreign currencies are denominated in the functional currency at the date of the transaction.

#### **Interest rate risk**

NAMMO is restricted from entering into borrowings and investments, and therefore there is no significant interest rate risk identified.

## Assets

NAMMO holds the following types of current assets:

### Cash and cash equivalents

Cash and cash equivalents include cash on hand and current bank accounts.

### Receivables

Receivables are stated at net realisable value, after provision for doubtful and uncollectible debts. It can also include amounts due by other NATO entities.

Contributions receivable are recognised when a call for contribution has been issued to the member nations. No allowance for impairment loss is recorded with respect to member nations' assessed contributions receivable.

### Inventories

NAMMO does not hold any inventory assets. Any inventories held in industry to be consumed in the production process are expensed and any inventory assets held in the ordinary course of operations to support Tornado are owned by the benefiting nations.

### Property, plant and equipment

In accordance with IPSAS 17, Property, Plant and Equipment (PP&E) are recognised as tangible assets when it is probable that future economic benefits or service potential associated with the item will flow to the entity and the cost or fair value can be measured reliably. PP&E with the exception of land are stated at cost less accumulated depreciation and accumulated impairment losses. NAMMO's capitalisation threshold is €200,000, items with a purchase cost or fair value on acquisition above this threshold are capitalised and items falling below this threshold are fully expensed in the year of procurement.

For new asset additions during the year, the gross value of an asset is capitalised as PP&E on the Statement of Financial Position. The revenue for the full amount of the asset is accounted for in the year of purchase on the Statement of Financial Performance with a surplus on the Statement of Financial Performance being generated in the first year of purchase and transferred to the PP&E asset reserve account to increase accumulated asset reserves.

Depreciation is recognised so as to write off the cost of the assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Depreciation is accounted for as an expense which generates a deficit on the Statement of Financial Performance. This deficit is transferred to PP&E asset reserves at the end of each year to reduce the accumulated asset reserve.

An item of PP&E is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of PP&E is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Statement of Financial Performance.

Aircraft, government owned in-service equipment or nationally modified equipment are not included within NAMMO PP&E as these are national assets owned by the benefiting nation and are included within national financial statements and accounts accordingly.

The ownership of all Turbo-Union assets has been handed over to industry and for PANAIA an assessment has been made on information available. The asset base of PANAIA and its sub-contractors is large and consists of rigs, jigs, tools and test equipment. At the request of nations, the NAMMO Cost Reduction and Asset Rationalisation Programme was set up to develop a disposal strategy for rigs and tooling to reduce costs and identify rigs and tooling that are required to meet nations requirements up to the out of service dates. The assets to be retained are those required to support the remaining aircraft configurations and reduced fleet size.

Due to the age of these special type of assets and the evidence available as to their value, either initially or currently, it was not possible to establish reliable values for them and as such, in line with IPSAS 17 and the NATO Accounting Framework, the organisation has not recognised any assets acquired prior to 1<sup>st</sup> January 2013 on the financial statements. There were no new asset additions or modifications acquired during 2019 that meet the capitalisation criteria.

The PP&E classification for NAMMO has been reviewed in 2019 and a new set of PP&E asset categories have been defined, as per the following table:

Asset Category	Description	No. & Asset Sub-Category
Test Rigs	Apparatus / Test Rigs used for Development and Qualification of the Weapon System Design or modification at all levels.	1 Component/LRI test benches/equipment/rigs
		2 Sub-system integration test rigs
		3 System integration test rigs
		4 Rig Support Equipment (RSE)
		5 Test Support System
Large scale Component manufacturing/part processing equipment	Equipment used in the manufacturing and processing of parts.	6 Jigs and fixtures
		7 Lifting/hoist tools
Special to Type Tooling & Test Equipment (STTE) and Standard Tools and Equipment	STTE embraces special-to-type and special-to-order jigs, tools, Workshop Test and Ground Equipment (WSTGE) and test equipment used by the contractor to produce, embody modifications or repair items of the Weapon System or aircraft.	8 Aircraft component (e.g. LRI) Test Equipment
		9 Workshop Test and Ground Equipment
		10 Special Tools and Jigs
		11 Standard Tools and Equipment
Aerospace Ground Equipment (AGE) *	Support equipment needed for operation and maintenance of the Weapon System (hardware and software) by the customer (at Maintenance Levels (MLs) 1, 2 and 3).	12 On Aircraft AGE items
		13 Off Aircraft AGE Items
Instrumented Production Aircraft and Aircraft Parts	Production standard aircraft, engines and parts for dedicated flight testing and development purposes.	14 Aircraft
		15 Engine
		16 Aircraft parts (e.g. LRIs, CPSS)
Major Support Items (MSI)	MSIs are Ground Training Aids (GTA), Ground Support System (GSS), Aircrew Synthetic Training Aids (ASTA), and Operational Ground Support Equipment (OGSE).	17 GTA
		18 GSS (MSS, ESS, GLU, others)
		19 ASTA (also PSTS)
		20 OGSE

The major rigs, jigs and test equipment that are retained to support the programme are identified as part of the rigs disposal strategy. The NAMMO tooling strategy and implementation plan is still being developed with industry to determine the range and scale of tooling that is required to be retained to meet repair and overhaul and aircraft support tooling requirements of each nation. Given the age and value of the majority of tooling assets, it is assumed that the asset pool has been fully depreciated over the production period and any remaining residual value is negligible, small quantities of in-use tooling continue to be replaced or refurbished as required. When the tooling strategy and implementation plans have been agreed with nations, a reassessment will be made and adjustment included in future financial statements if considered material.

Using these asset categories, the list of NAMMO assets purchased prior to 2013 and still in use is disclosed below:

Asset Category	Asset Sub-Category	Number of Assets
Test Rigs	Component/LRI test benches/equipment/rigs	19
	Sub-system integration test rigs	3
	System integration test rigs	10

These 32 assets are held at a total of 3 different locations across 2 countries affiliated to the Tornado Programme. The number of assets is likely decrease in future years due to potential disposal action in place, with 2 assets already earmarked for disposal in 2020 and 2022 respectively.

During 2019, NAMMO can report that 3,586 items were submitted and approved for disposal through the NETMA Internal Audit section in accordance with NETMA delegated authorities. These disposals cover items that are surplus to requirements, obsolete, damaged beyond economic repair or lost. Any write-offs/strike-offs from the list of assets above are declared in Note H (Write-Off and Donations) on page 27.

**Leases**

The costs for operating the Agency's headquarters are accounted for in the NETMA administration budget and this includes leases and rental payments.

**Intangible assets**

There are no intangible assets to be capitalised for NAMMO under IPSAS 31 as they are not separately identifiable costs and are deemed to be an integral part of the production equipment construction costs. Development costs associated with the aircraft are delivered and accounted for as part of aircraft delivered and therefore owned by the nations.

**Impairment of tangible and intangible assets**

At the end of each accounting period, NAMMO reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated at the greater of the asset's fair value less costs to sell and value in use. Impairment losses, if any, are recognised in the statement of financial performance.

As there are no assets on the asset register for 2019 there has been no need to conduct an impairment review.

**Liabilities****Payables**

Payables (including amounts due to other NATO entities) are amounts due to third parties for goods and services received that remain unpaid as of the reporting date. They are recognised at their fair value. This includes estimates of accrued obligations for goods and services received at year-end but not yet invoiced.

**Deferred revenue**

Deferred revenue represents contributions from member nations and/or third parties that have been called for current or prior years' budgets and that have not yet been recognised as revenue.

**Advances**

Advances are contributions from member nations called for or received related to future years' budgets. Funds are called for in advance of their need because NAMMO has no capital that would allow it to pre-finance any of its activities. Unearned revenue includes miscellaneous income that nations have instructed remain on the programme accounts rather than be returned to the respective National Treasuries.

**Employee benefits**

The personnel costs for operating the Agency's headquarters are accounted for in the NETMA Administration Budget.

**Provisions**

Provisions are recognised when NAMMO has a legal or constructive obligation as a result of past events, 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.

**Net assets**

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

NATO entities perform their activities on a no-profit / no-loss basis globally over the reporting period. However, this does not prohibit the realisation of operating surplus or deficit in the financial reporting period.

## *Revenue and expenses recognition*

### **Revenue**

Revenue comprises contributions from member nations to fund NAMMO budgets. It is recognised in the year when these contributions are used for their intended purpose as envisioned by NAMMO budgets and is usually called for in advance on a quarterly basis. Revenue is recognised to the extent that it is probable that the economic benefits will flow to NAMMO and the revenue can be measured reliably. Unused contributions and other revenue that relate to future periods are deferred accordingly.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Bank interests earned and accrued as of 31 December 2019, exchange rate revenue due to transactions in foreign currency and realised exchange rate revenue in accordance with NAMMO Policy and IPSAS 4 – Effect of the foreign exchange rate are recognised as financial revenue.

### **Expenses**

NAMMO operates comparable to a construction manager for the purposes of IPSAS and payments made to industry are expensed accordingly. All expenses incurred on the Tornado Programme are related to the in-service support of the aircraft.

## *Cash flow statement*

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

## B. Notes to Statement of Financial Position

(in thousands of Euros)

### Assets

#### 1. Current Assets

	2019	2018
Cash accounts	0	0
Clearing cash accounts	0	0
Petty cash and advances	0	0
Current bank accounts	178,625	192,277
Receivables	158	217
Bank accounts interest	0	0
<b>Total</b>	<b>178,783</b>	<b>192,494</b>

#### Current bank accounts

The Tornado Programme has a number of bank accounts relating to the various funding offices from which payments are made and contributions are received. These include accounts for payments to be made in CAD, GBP, USD, SEK and EUR.

The accounting system (PARMIS) functionality necessitates that each cash and bank account separately identified has an associated clearing account to enable the sub-ledger to interface with the general ledger. The carrying balance on all clearing accounts is zero at the end of the reporting period.

The overall levels of cash holdings has reduced in 2019 in an effort to better manage the working capital held on the NAMMO bank accounts.

#### Receivables

Receivables show the value of the credit notes sent into the agency that are unpaid as at 31<sup>st</sup> December 2019.

### Liabilities

#### 2. Payables

	2019	2018
Payables to suppliers	42,133	31,184
Payables to non-consolidated entities	0	0
Payables to staff members	0	0
Payables to governments	0	0
Other payables	6,358	5,844
<b>Total</b>	<b>48,491</b>	<b>37,028</b>

#### Payables to suppliers

Payables to suppliers include invoices received from commercial vendors not settled but accrued per reporting date. This account is reconciled to the payables sub-ledger within the financial system operated by NAMMO on a monthly basis. Any outstanding currency liabilities have been translated at the respective closing exchange rates as promulgated by NATO. The payable as at 31<sup>st</sup> December 2019 is €3.172M compared with the 2018 amount of €1.552M.

A manual accrual has been entered into the accounts by:

- Assessing invoices received between January and the 14<sup>th</sup> February 2020 with an invoice date prior to 31<sup>st</sup> December 2019,
- Assessing invoices dated 2020 but relating to work completed in 2019 or prior,

- Assessing milestone data held in the Agency Integrated Management System (AIMS) achieved prior to the 31<sup>st</sup> December 2019, and
- Reviewing Central Automatic Data Processing System (CADPS) orders delivered but not invoiced prior to the end of the reporting period.

As stated in the Introduction to the Financial Statements, NETMA has reviewed and improved the process for capturing NAMMO accrued expenses for goods and services in 2019, improving the accuracy of the final payables values. This has resulted in an increased estimated accrual of €38.961M, compared with the 2018 accrual of €29.632M.

### Other payables

Other payables include bank interest payable to National Treasuries (€0.767M) and income generated from levies (€5.591M).

### 3. Advances

	2019	2018
Advance contributions	0	0
Other advances	130,292	155,466
<b>Total</b>	<b>130,292</b>	<b>155,466</b>

### Other advances

Other advances equal accumulated unearned revenue which represents the excess of national contributions and miscellaneous revenue over expenditure on the NAMMO programme to date and is similarly reflected in the level of cash holdings within the NAMMO bank accounts.

The movement on unearned revenue can be reconciled as follows:

	2019	2018
<b>Unearned revenue b/f</b>	<b>155,466</b>	<b>127,824</b>
National contributions	463,948	444,247
Miscellaneous Revenue (excl. bank interest)	912	9,922
Bank Interest received	8	15
Operational Expenditure	(487,545)	(420,034)
Other Operational Expenditure	(912)	(6,097)
Bank interest returned to Nations	(6)	(8)
Miscellaneous financial income / (charges)	(1)	(1)
Foreign exchange gains / (losses)	(1,577)	(400)
<b>Unearned revenue c/f</b>	<b>130,292</b>	<b>155,466</b>



## C. Notes to Statement of Financial Performance

(in thousands of Euros)

### 1. Revenue

	2019	2018
National contributions	463,948	444,247
National contributions to be called for	0	0
Other reimbursements	25,174	(31,052)
<b>Total</b>	<b>489,122</b>	<b>413,195</b>

National contributions represent the funds provided by nations to support NAMMO in fulfilling its objectives.

The value assigned to "Other reimbursements" is the movement on unearned revenue which represents the deficit / (surplus) of revenue over expenditure in the financial year 2019. The practice is to adjust revenue to increase or reduce accordingly and account for it on the Statement of Financial Position within advances.

### Expenses

#### Personnel

The costs for operating the Agency's headquarters are accounted for in the NETMA administration budget.

### 2. Contractual supplies and services

	2019	2018
Operating expenses	(487,545)	(412,800)
PP&E movement	0	0
<b>Total</b>	<b>(487,545)</b>	<b>(412,800)</b>

Expenditure on the NAMMO programme is applied once invoices received from industry are validated into PARMIS and each invoice is identified by National Funding Office.

Where expenses have been generated from one nation undertaking work on behalf of another those expenses have been excluded in accordance with IPSAS 23. Expenses have increased by 18%, due to increased spend on spares by Germany.

### 3. Finance costs

	2019	2018
Foreign exchange gain / (loss)	(1,577)	(400)
Other financial income / (charges)	1	5
<b>Total</b>	<b>(1,577)</b>	<b>(395)</b>

Translation gains and losses occur when assets and liabilities held in foreign currencies are converted to a Euro value at the closing NATO-promulgated exchange rates for the financial period. Translation adjustments have been applied to the bank balance held in non-euro currencies and outstanding liabilities and advances.

Realised gains and losses occur when currency transactions are paid or received at a different rate to that which the expense or income was accounted or accrued for. The main driver for the higher foreign exchange losses experienced in 2019 was the uncertainty throughout the year of the EUR:GBP bank rate compared with the NATO-promulgated rate.

Other financial income includes bank interest earned on the accounts held to fund the NAMMO programme. Where income has not been refunded to National Treasuries the remaining balance is treated as unearned revenue.

## D. Notes to Statement of Cash Flow

(in thousands of Euros)

### Cash flow from operating activities

#### 1. Surplus / (deficit)

	2019	2018
Surplus / (deficit)	0	0
<b>Total</b>	<b>0</b>	<b>0</b>

This represents the surplus or deficit from normal operating activities before interest, depreciation and financial charges such as exchange differences arising from transactions.

### Non-cash movements

#### 2. Increase / (decrease) in payables

	2019	2018
Payables to suppliers	10,950	3,601
Other payables	514	188
<b>Total</b>	<b>11,463</b>	<b>3,789</b>

Payables to suppliers represent validated invoices presented but not yet paid and the manual accruals identified. As stated in the Notes to Statement of Financial Position, the increase in payables between 2019 and 2018 is largely due to the amended accruals process resulting in a greater manual accrual entered (€9.329M).

Other payables include bank interest received and held in NAMMO bank accounts and levies generated from defence programmes.

#### 3. Increase / (decrease) in advances

	2019	2018
Advance contributions	0	0
Unearned revenue	(25,174)	27,642
<b>Total</b>	<b>(25,174)</b>	<b>27,642</b>

Advance contributions represent the funds received from nations for the next financial year. The movement on unearned revenue represents the accumulated surplus / (deficit) of contributions over expenditure for 2019.

#### 4. (Increase) / decrease in receivables

	2019	2018
National contributions	0	0
Other receivables	58	1,841
<b>Total</b>	<b>58</b>	<b>1,841</b>

The movement on contributions due represents the change in the nations' debt to the programme from the previous financial year.

Receivables include credit invoices received on PARMIS payables which will be offset against payables in 2020.

## E. Notes to Statement of Budget Execution

(in thousands of Euros)

### 1. Budget analysis - 2019

	2019 Budget	2019 Expenditure
All nations initial approved budget	470,147	
In-year budget adjustments	34,280	477,356
<b>Total</b>	<b>504,427</b>	<b>477,356</b>

The budget and actual expenditure figures in the budget execution statement is presented on a cash basis and is therefore different to the accrual basis used to prepare the financial statements. The budget is compiled based on the advice and assistance of a number of sources including nations, commercial and technical staff within NETMA and industry. It has been based on the best information available and takes into account known payment plans and estimates of new work in line with advice on technical progress. During 2019 one nation chose to uplift their budget from the original values by €34,280M to reflect additional Air Force operational requirements.

For its Operational budgets, NETMA does not formally lapse budget called for but unspent in the following year. The excess of funds is viewed as an “unused budget”, this is then taken into consideration the following year when Calls for Funds are issued to nations to cover expenditure.

The unused budget is caused largely due to various milestone slippages into 2020, which, as budget is not lapsed, is reflected in the Operational Budget 2020 for Tornado.

For the 2019 Financial Statements the future commitments of NAMMO have been reported, based on unpaid contract milestones and other open commitments. Due to the nature of the programme, commitments in NAMMO are effected for delivery over a period of multiple years however it is currently not possible to split these commitments into individual years.

### 2. Reconciliation between Statement of Cash Flow and Statement of Budget Execution:

	2019
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>(13,652)</b>
- Cash contributions received in year	(463,948)
- Bank interest in year	(8)
- Other reimbursements	(1,443)
<b>GROSS CASH OUTFLOW FROM OPERATING ACTIVITIES</b>	<b>(479,051)</b>
- Bank interest returned to treasuries in year	6
- Other disbursements	1,457
<b>EXPENDITURE PRE EXCHANGE RATE VARIATIONS</b>	<b>(477,588)</b>
- Cash Equivalent Corporate vs actual (gains) / losses	(24)
- Operational Budget vs actual exchange (gains) / losses	256
<b>SCHEDULE 5: EXPENDITURE</b>	<b>(477,356)</b>

In accordance with IPSAS 24 – Presentation of Budget Information in Financial Statements the above reconciliation has been carried out for the financial year ending 31 December 2019. Under IPSAS 24 the reconciliation is carried out between the Statement of Cash Flow (net cash flow from operating activities) and the Statement of Budget Execution. To present budgeted and actual amounts on a comparable basis, as required under the IPSAS, actual amounts have been converted using the Operational Budget (OB) rates for the comparison with budgeted amounts.

**3. Reconciliation between Statement of Financial Performance and Statement of Budget Execution:**

	2019
<b>SCHEDULE 2: OPERATING EXPENSES</b>	<b>489,122</b>
- Add: Opening payables and accruals	37,028
- Less: Closing payables and accruals	(48,491)
- Add: Closing receivables	217
- Less: Opening receivables	(158)
- Finance costs	(1,577)
- Cost reimbursements between nations	(912)
<b>PREDICTED CASH PAYMENTS</b>	<b>475,228</b>
- Operational Budget vs actual exchange gains / (losses)	(256)
<b>PREDICTED EXPENDITURE</b>	<b>474,972</b>
<b>SCHEDULE 5: EXPENDITURE</b>	<b>477,356</b>

The above reconciliation is carried out between the Statement of Financial Performance and the Statement of Budget Execution for the financial year ending 31 December 2019. This reconciles accrual based expenditure that is reported on the Statement of Financial Performance and cash based expenditure reported as expenses on the Statement of Budget Execution. The residual variance between cash and budget is approx. 0.5% (€2.384M) and results from timing differences in payments.

**F. Contingent Liabilities / Provisions**

NAMMO has no contingent liabilities or provisions.

**G. Related Parties Disclosure**

The key management personnel of NAMMO have no significant related party relationships that could affect the operation of NAMMO. Board members receive no remuneration and senior management is remunerated in accordance with the published NATO pay scales. Both do not receive loans that are not available to all staff.

**H. Write-Off and Donations**

In accordance with the NATO Financial Regulations, where a global statement of write-offs and donations shall be reported in the Annual Financial Statements, NAMMO can report that no items were approved for write-off, but 1 item was approved for strike-off through the NETMA Audit section in 2019 in accordance with NETMA delegated authorities. These write-offs/strike-offs are effected when items are deemed surplus to requirements, obsolete, damaged beyond economic repair or lost.





NORTH ATLANTIC TREATY ORGANIZATION  
ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD  
INTERNATIONAL BOARD OF AUDITORS  
COLLÈGE INTERNATIONAL DES AUDITEURS EXTERNES DE L'OTAN

**NATO UNCLASSIFIED**

IBA-A(2020)0081  
26 August 2020

To: Secretary General  
(Attn: Director of the Private Office)

Cc: NATO Permanent Representatives  
Chairman, NATO European Fighter Aircraft Development Production and Logistic Management Organisation (NEFMO), Board of directors  
Chairman, NATO Multi-Role Combat Aircraft Development Production and In-Service Support Management Organisation (NAMMO), Board of directors  
General Manager, NATO EF 2000 and Tornado Development, Production and Logistics Management Agency (NETMA)  
Financial Controller, NATO EF 2000 and Tornado Development, Production and Logistics Management Agency (NETMA)  
Chairman, Resource Policy & Planning Board  
Branch Head, Secretariat and Finance Branch, NATO Office of Resources  
Private Office Registry

Subject: ***International Board of Auditors for NATO (IBAN) Auditor's Report and Letter of Observations and Recommendations on the audit of the NATO EF 2000 and Tornado Development, Production and Logistics Management Agency (NETMA)'s Financial Statements for the year ended 31 December 2019 – IBA-AR(2020)0012.***

IBAN submits herewith its approved Auditor's Report (Annex 2) and Letter of Observations and Recommendations (Annex 3) with a Summary Note for distribution to the Council (Annex 1).

IBAN's report sets out an unqualified opinion on the Financial Statements of the NATO EF 2000 and Tornado Development, Production and Logistics Management Agency (NETMA) and on compliance for financial year 2019.

Yours sincerely,

Daniela Morgante  
Chairman

Attachments: As stated above.

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-1-

**Summary Note for Council  
by the International Board of Auditors for NATO (IBAN)  
on the audit of the Financial Statements of the  
NATO EF2000 and Tornado Development  
Production and Logistics Management Agency (NETMA)  
for the year ended 31 December 2019**

NETMA manages the NAMMO and NEFMO Production, Logistics or Service Organisation programmes and their related budgets.

IBAN audited the Financial Statements of NETMA for the year ended 31 December 2019. The total expenditure in 2019 for the Administrative Budget amounted to EUR 45 million.

IBAN issued an unqualified opinion on the NETMA Financial Statements and on compliance for the year ended 31 December 2019.

During the audit, IBAN made no observations.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that one remain open and one was in progress.

The Auditor's Report and the Letter of Observations and Recommendations were issued to NETMA whose comments have been included, with the Board's position on those comments where necessary, see Appendix to Annex 3.

The observations and recommendations raised during the audit as well as the follow-up of the previous years' observations, which have not been included in the IBAN's Letter of Observations and Recommendations are included in a Management Letter addressed to NETMA management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under NETMA executive responsibility.

26 August 2020

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE  
NATO EF 2000 AND TORNADO DEVELOPMENT PRODUCTION AND  
LOGISTICS MANAGEMENT AGENCY**

**(NETMA)**

**FOR THE YEAR ENDED 31 DECEMBER 2019**



**INDEPENDENT EXTERNAL AUDITOR'S REPORT  
TO THE NORTH ATLANTIC COUNCIL**

**Report on the Audit of the Financial Statements**

**Opinion on the Financial Statements**

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of NETMA, for the 12 month period ended 31 December 2019, issued and submitted to IBAN on 01 April 2020. These Financial Statements comprise the Statement of Financial Position as at 31 December 2019, the Statement of Financial Performance, the Statement of Cash Flow and the Statement of Changes in Net Assets/Equity and for the 12 month period ended 31 December 2019, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a statement of budget execution for the 12 month period ended 31 December 2019.

In our opinion, the Financial Statements give a true and fair view of the financial position of NETMA as at 31 December 2019, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2019, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework.

**Basis for Opinion on the Financial Statements**

In accordance with the NATO Financial Regulations (NFRs), external audit of the NATO bodies and reporting entities pursuant to the North Atlantic Treaty shall be performed by IBAN.

We have conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAIs 1000-1810) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

We are independent in accordance with the INTOSAI Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter.

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

## **Management's Responsibility for the Financial Statements**

Management's responsibility for the financial statements is laid down in the NFRs. The Financial Statements of NETMA are drawn up in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council. The Financial Controller is responsible for submitting the Financial Statements for audit to IBAN not later than 31<sup>st</sup> March following the end of the financial year.

The Financial Statements are signed by the Head of the NATO reporting entity and the Financial Controller. In signing the Financial Statements, the Head of the NATO reporting entity and the Financial Controller confirm the establishment and maintenance of financial governance, resource management practices, internal controls and financial information systems to achieve the efficient and effective use of resources.

This confirmation covers the design, implementation and maintenance of internal controls relevant to the preparation and presentation of financial statements that are auditable and free from material misstatement, whether due to fraud or error. This also covers reporting on the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there are plans to liquidate the entity or to cease its operations, or there is no realistic alternative but to do so.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

The objectives of the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, we exercise professional judgement and maintain professional scepticism throughout the planning and performance of the audit. This involves taking into account Considerations Specific to Public Sector Entities. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are required to communicate with the bodies charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our Independent External Auditor's Report is prepared to assist North Atlantic Council in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

## **Report on Compliance**

### **Opinion on Compliance**

Based on the procedures we performed, nothing has come to our attention, as part of our audit of the Financial Statements that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

### **Basis for Opinion on Compliance**

We have conducted our compliance audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 4000) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

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

### **Management's Responsibility for Compliance**

All NATO staff, military and civilian, are obligated to comply with the NATO Financial Regulations, associated Financial Rules and Procedures and internal implementing directives. These include the NATO Civilian Personnel Regulations.

The General Manager of NETMA is responsible and accountable for sound financial management. The financial administration of NATO bodies and reporting entities must incorporate the principles of propriety, sound governance, accountability, transparency, risk management and internal control, internal audit, external audit, and fraud prevention and detection.

### **Auditor's Responsibilities for Compliance**

In addition to the responsibility to provide reasonable assurance about whether the financial statements as a whole are free from material misstatement, the IBAN Charter requires IBAN to provide independent assurance and report annually to the North Atlantic Council about whether funds have been properly used for the settlement of authorised expenditure (propriety) and are in compliance with the regulations in force (regularity). Propriety relates to the observance of the general principles governing sound financial management and the conduct of public officials. Regularity concerns the adherence to formal criteria such as relevant regulations, rules and procedures.

This responsibility includes performing procedures to obtain independent assurance about whether funds have been properly used for the settlement of authorized expenditure and whether they have been used in compliance with the regulations in force. Such procedures include consideration of the risks of material non-compliance.

Brussels, 26 August 2020



Daniela Morgante  
Chairman

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ANNEX 3  
IBA-AR(2020)0012

26 August 2020

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**LETTER OF OBSERVATIONS AND RECOMMENDATIONS**

**FOR NATO EF 2000 AND TORNADO DEVELOPMENT PRODUCTION AND  
LOGISTICS MANAGEMENT AGENCY**

**(NETMA)**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

**NATO UNCLASSIFIED**

## **Introduction**

The International Board of Auditors for NATO (IBAN) audited the NETMA Financial Statements for the year ended 31 December 2019, and issued an unqualified opinion on the financial statements and an unqualified opinion on compliance.

## **Observations and Recommendations:**

During the audit, IBAN made no observations and recommendations.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that one remained open and one remained in progress.

The observations and recommendations raised during the audit as well as the follow-up of the previous years' observations, which have not been included in the IBAN's Letter of Observations and Recommendations are included in a Management Letter addressed to NETMA management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under NETMA executive responsibility.

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

IBAN followed up on the status of observations from the previous years' audit. The observations, actions taken by the auditee as reviewed by IBAN, and their status are summarised in the table below.

The Open status is used for recommendations that are open and for which no notable progress has been achieved to date. The In-progress status is used for open recommendations when the NATO Reporting Entity has started to implement the recommendation or when some (but not all) sub-recommendations are closed. The Closed status is used for recommendations that are closed because they have been implemented, are superseded, or have lapsed. In the case where there are sub-recommendations, the status related to each sub-recommendation is indicated in the Action Taken column.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>(1) NETMA FY 2017 IBA-AR(2018)0021–REV1, paragraph1</p> <p><b>ROLE AND RESPONSIBILITIES OF THE HEAD OF INTERNAL AUDIT DOES NOT ENSURE SEGREGATION OF DUTIES AND INDEPENDENCE</b></p> <p><b>IBAN's Recommendation</b> The Board recommends NETMA to ensure compliance with the segregation of duties principle. NETMA should strengthen the organisation independence of Internal Audit by ensuring the Head of Internal Audit and audit staff is not involved and responsible for business operations of the entity.</p>	<p>The Head of Internal Audit has no functional responsibility over business operations of the entity.</p> <p>To ensure the independence of the internal audit function, NETMA Nations have set up an Audit Committee composed of representatives of the Nations. In addition, NETMA has set up an Audit Advisory Panel (AAP). Both the Audit Committee and AAP have discussed and approved internal audit plans for the next years and internal audit results related to the year 2019 and previous years.</p> <p>According to NETMA, the Head of Internal Audit reports to the Audit Advisory Panel for all internal audit matters and has access to the GM if required. Moreover, Nations have approved an external</p>	<p>Observation <b>In-Progress</b></p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
	<p>consultancy to review NETMA's internal audit function.</p> <p>IBAN acknowledges progress made by NETMA to ensure independence of the internal audit function. We will review the report produced by the external consultants and assess any potential improvements as part of next year's financial audit.</p>	
<p><b>(2) NETMA FY 2017</b> <b>IBA-AR(2018)0021-REV1, paragraph 2</b></p> <p><b>INTERNAL CONTROLS OVER FINANCIAL REPORTING NEED TO BE IMPROVED</b></p> <p><b>IBAN's Recommendation</b> The Board recommends NETMA to strengthen the verification procedures of figures and information provided in the financial statements and to improve the internal control procedures in order to prevent or detect mistakes before the issuance of the Financial Statements.</p>	<p>NETMA performed more controls and cross checking review of the financial statements and made improvements in spreadsheets used to produce the financial statements.</p> <p>However, despite the implementation of this new process, IBAN still found errors similar to previous years in the 2019 financial statements. NETMA acknowledges that there is still room of progress and will continue to explore improved ways of producing and checking the figures.</p>	<p>Observation <b>Open</b></p>



**NATO EF2000 AND TORNADO DEVELOPMENT  
PRODUCTION AND LOGISTICS MANAGEMENT AGENCY  
(NETMA) FORMAL COMMENTS  
ON THE LETTER OF OBSERVATIONS AND RECOMMENDATIONS AND  
THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS**

***NETMA's Formal Comments***

*NETMA made no formal comments on the report and previous year observations.*

## **GLOSSARY OF TERMS**

In accordance with auditing standards, audit opinions on financial statements and on compliance can be unqualified, qualified, a disclaimer, or adverse:

- An unqualified opinion is when IBAN issues an opinion that the financial statements and budget execution report are stated fairly and that nothing has come to our attention that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the rules and regulations.
- A qualified opinion means that IBAN was generally satisfied with the presentation of the financial statements, but that some key elements of the statements were not fairly stated or affected by a scope limitation, or specific issues have come to our attention that causes us to believe that funds have not been properly used for the settlement of authorised expenditure or are not in compliance with the rules and regulations.
- A disclaimer is issued when the audit scope is severely limited and IBAN cannot express an opinion, or when there are material uncertainties affecting the financial statements or the use of funds.
- An adverse opinion is issued when the effect of an error or disagreement is so pervasive and material to the financial statements that IBAN concludes that a qualification of the report is not adequate to disclose the misleading or incomplete nature of the financial statements.

# NETMA



## ANNUAL FINANCIAL STATEMENTS 2019

FOR THE PERIOD ENDED 31 DECEMBER 2019



**NETMA**

NATO EF2000 AND TORNADO DEVELOPMENT, PRODUCTION AND  
LOGISTICS MANAGEMENT AGENCY

These statements are produced in Thousands of Euros, unless otherwise stated.

For example:

34,632 = Thirty Four Million Six Hundred and Thirty Two Thousand Euros;

132 = One Hundred and Thirty Two Thousand Euros

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# Contents

## Section

## Page

### Overview

Introduction to the 2019 Financial Statements 5

NETMA Statement of Internal Control 8

### 2019 Financial Statements

- Statement of Financial Position 10

- Statement of Financial Performance 11

- Statement of Cash Flow 12

- Statement of Changes in Net Assets / Equity 13

- Statement of Budget Execution 14

### Notes to the NETMA Accounts

A. Significant Accounting Policies 16

B. Notes to Statement of Financial Position 20

C. Notes to Statement of Financial Performance 24

D. Notes to Statement of Cash Flow 27

E. Notes to Statement of Budget Execution 29

F. Contingent Liabilities / Provisions 30

G. Related Parties Disclosure 30

H. Write-Off and Donations 30

# Overview





# Introduction to the 2019 Financial Statements



NATO EF2000 and Tornado Development, Production and Logistics Management Agency (NETMA) is an agency formed jointly by NAMMO (NATO Multi-Role Combat Aircraft Development, Production and In-Service Support Management Organisation) and NEFMO (NATO European Fighter Aircraft Development, Production and Logistics Support Management Organisation) in 1996 to manage the procurement and the administration of the two programmes within the framework of NATO. The operations of NETMA concerning NAMMO and NEFMO are each controlled by a Joint Steering Committee of the three NAMMO nations and the four NEFMO nations involved in the programmes.

NETMA is based in Hallbergmoos, Germany and is an Executive Body created by charter to administer the functions of two NATO Production and Logistic Organisations (NPLOs). The two NPLOs are NAMMO and

NEFMO.

The budgetary organisation of NETMA is funded by the four member nations – Germany, Italy, Spain and United Kingdom. Budget approval is given jointly by the Boards of Directors (BoDs) of NAMMO and NEFMO. As a NATO agency, NETMA is exempt from taxation relating to operating revenue and expenses, where VAT is incurred this is recovered directly from the host nation's tax office.

## Key points from the Annual Financial Statements

### NETMA Liabilities

The agency's office accommodation is the subject of an operating lease and is therefore not capitalised as PP&E. In accordance with IPSAS 13, it must be expensed on a straight line basis over the lease term. IPSAS 13 mandates that operating leases are accounted for in this way irrespective of cash payments made. As NETMA were able to negotiate a rent free period at the start of the lease, these expenses are accrued as a long term liability which will be unwound over the term of the lease. This only impacts on the Financial Statements and does not impact on either the budget or cash spent in 2019.

## NETMA AT A GLANCE



### Vision

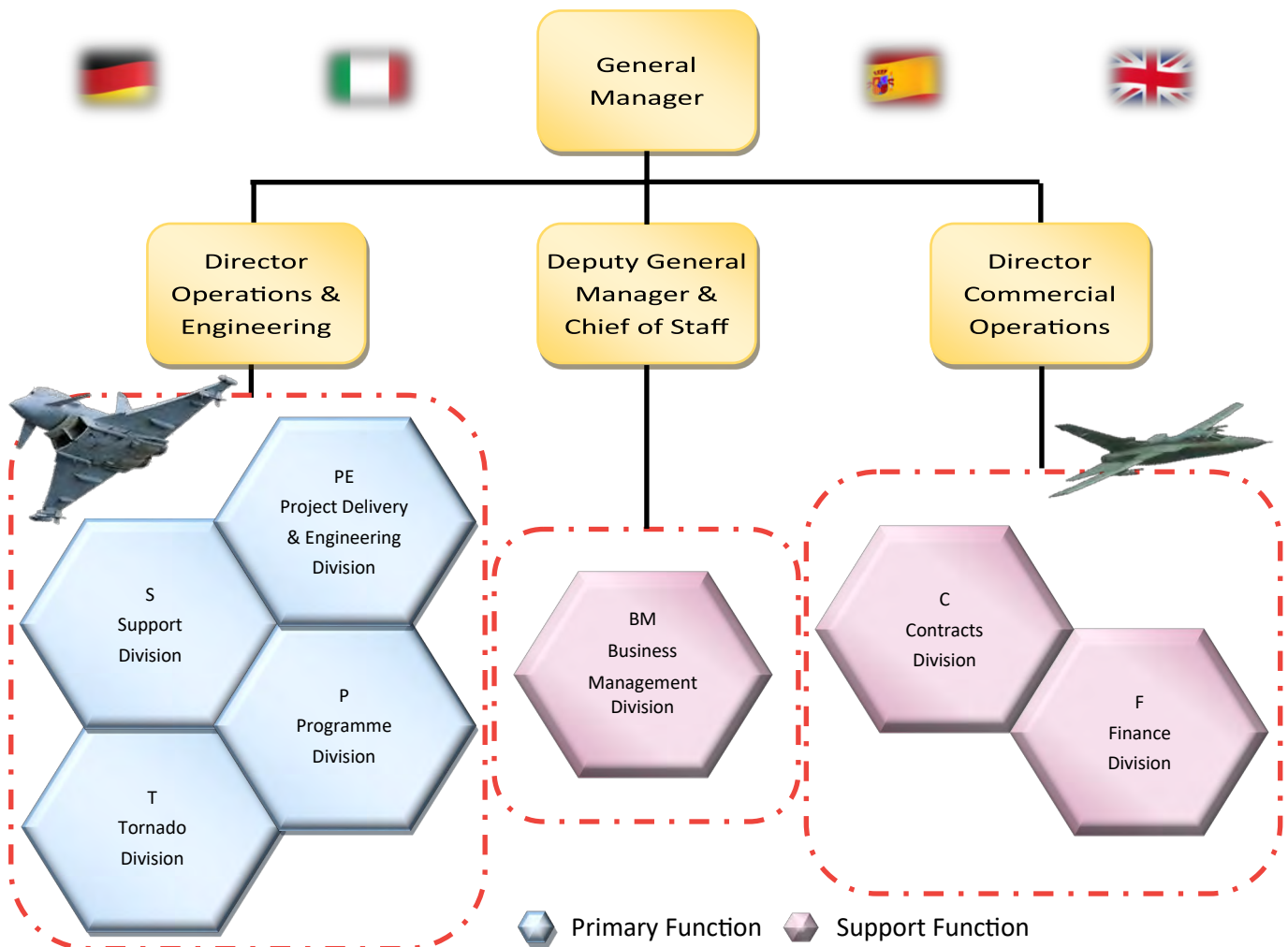
“To deliver In-service Support including Capability Enhancements to Nations, through excellence in Programme Management and Continuous Improvement”



### Mission

“Ensure Nations' requirements are satisfied in Enhancing & Sustaining a Eurofighter & Tornado Capability”

In order to deliver our operational programmes for the Nations, NETMA operates using a functional organisational structure, grouping its staff into agency divisions based on their specific skills and knowledge, as shown below:



In support of the NEFMO and NAMMO BoDs and the Typhoon and Tornado Weapon Systems, the NETMA structure is organised to deliver the agency's requirements. PE, S, and P Divisions manage on behalf of the contributing nations the logistics and operations activities with our industry partners for Typhoon (Eurofighter Jagdflugzeug GmbH and Eurojet Turbo GmbH), while T Division acts in the same manner with our industry partners for Tornado (PANAVIA Aircraft GmbH and Turbo-Union GmbH).

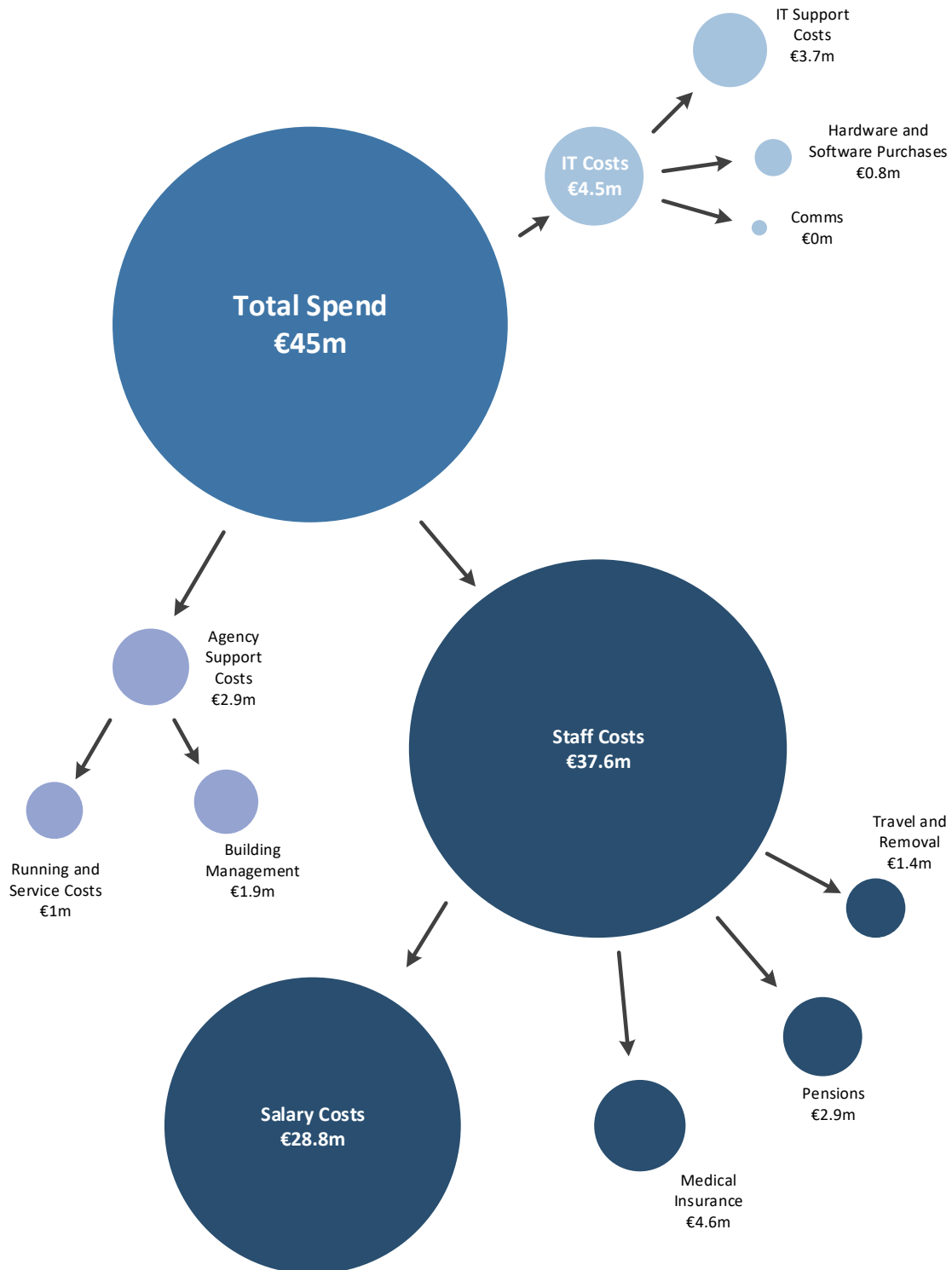
In support of these primary activities, the Contracts and Finance Divisions drive value through Contract and Financial management between the Nations and industry. BM Division provides corporate business & information management across the whole NETMA agency, technology development via the IT applications which enable management of the operational programme and human resource management. These include (but are not limited to) the Eurofighter Information Management System (EIMS) for Typhoon end-to-end project management, the Agency Integrated Management System (AIMS) for Tornado Milestone/Task and Invoice Management, the Enhanced Procurement System-Central Automated Data Processing System (EPS-CADPS) for Procurement and Logistics Support Activities, and the Personnel & Accruals Reporting Management Information System (PARMIS) for Invoice to Payment & Banking processes.



**NETMA Expenditure Breakdown 2019**

The total expenditure to deliver the Administration Budget, as reported in the NETMA financial statements, was €45m in 2019. The majority (83.5%) of this expenditure is taken up in the staffing costs of the agency with the remainder spent on the rent and running costs of the NETMA headquarters at Hallbergmoos and the provision and support of IT and communications equipment and infrastructure.

In total, the costs of running the agency equate to circa 1.5% of all spend on the NETMA programmes, representing good value to our customer nations.



## NETMA Statement of Internal Control



As General Manager of NETMA, I have responsibility for maintaining an effective system of internal control that supports the achievement of my Agency's policies, aims and objectives, set by NETMA's Four Nations and the Board of Directors, whilst safeguarding the funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me.

The system of internal control is designed to manage the risk of failure to achieve the organisation's policies, aims and objectives but it can only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing evidence based process designed to identify the principle risks to the achievement of my Agency's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them

efficiently and effectively on a continual year round basis. The Board has established appropriate structures, reporting lines and responsibilities to support the delivery of objectives.

I have responsibility for reviewing the effectiveness of the system of internal control. The processes in place to achieve this are summarised below:

- NETMA has a Management Plan which identifies NETMA's objectives. The Management Plan focuses on business change objectives and Programme risks. Key Business risks are identified, mitigated and owners appointed to monitor and report on these on a regular basis;
- Management checks are undertaken and the internal audit function performs a range of audit activities, based on an annual audit plan agreed by the Audit Advisory Panel alongside the detailed audit of property held in Industry, to ensure appropriate internal controls are in place and adhered to. The Internal Audit process complies with the International Standards for the Professional Practice of Internal Auditing in accordance with previous IBAN recommendations.

The Agency has been operating the integrated framework for internal control developed by the Committee of Sponsoring Organisations of the Treadway commission (COSO Framework) as a mechanism for formally documenting the internal control system and providing assurance that it is functioning effectively, since 2016. It is now well established and part of our normal internal control system. The annual COSO review was undertaken as scheduled for the year 2019, with the Directors confirming we meet those requirements.

My review of the effectiveness of the system of internal control is informed by the work of the executive managers within the organisation who have responsibility for the development and maintenance of the internal control framework, comments made by the external auditors in their management letters and other reports together with the results of the annual COSO review.

I am content that the processes in place within the organisation provide reasonable assurance of the effectiveness and efficiency of the organisation's operations, the reliability of its financial information and its integrity with regards to application and compliance to applicable rules and regulations. Whilst we always seek to improve our processes each year there are no material internal control weaknesses currently identified that need specific intervention from Senior Management in 2019.

MR GABRIELE SALVESTRONI  
General Manager

MR MARK GANFIELD  
Financial Controller

# 2019 Financial Statements



NATO UNCLASSIFIED

## STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

(in thousands of Euros)

	Note	2019	2018
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	B1	15,752	9,706
Short term investments		0	0
Receivables	B2	10,031	8,165
Prepayments	B3	0	0
Inventories		0	0
		<u>25,782</u>	<u>17,871</u>
<b>Non-current assets</b>			
Property, plant & equipment	B4	48	26
Intangible assets	B4	149	111
		<u>197</u>	<u>137</u>
<b>Total assets</b>		<b><u>25,980</u></b>	<b><u>18,008</u></b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Payables	B5	3,050	2,787
Deferred revenue	B6	7,470	6,127
Advances	B7	14,475	8,010
		<u>24,994</u>	<u>16,924</u>
<b>Non-current liabilities</b>			
Provisions		0	0
Other Long Term Liabilities	B8	788	948
		<u>788</u>	<u>948</u>
<b>Total liabilities</b>		<b><u>25,782</u></b>	<b><u>17,872</u></b>
Surplus / (deficit)	B9	60	130
Reserves	B10	137	6
<b>Total net assets</b>		<b><u>197</u></b>	<b><u>136</u></b>

The financial statements on pages 10 to 14 and their associated notes were issued to the International Board of Auditors for NATO on 31<sup>st</sup> March 2020.



MR GABRIELE SALVESTRONI  
General Manager



MR MARK GANFIELD  
Financial Controller

NATO UNCLASSIFIED

## STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 DECEMBER 2019

(in thousands of Euros)	Note	2019	2018
<b>Revenue</b>			
Revenue	C1	44,675	44,270
Financial revenue		0	0
Other revenue		0	0
<b>Total revenue</b>		<b>44,675</b>	<b>44,270</b>
<b>Expenses</b>			
Personnel	C2	37,664	36,956
Contractual supplies and services - Buildings & Maintenance	C3	2,720	2,805
Contractual supplies and services - IT Services	C4	4,143	4,337
Depreciation and amortisation	C5	86	43
Impairment		0	0
Provisions		0	0
Other expenses		0	0
Finance costs	C6	1	(2)
<b>Total expenses</b>		<b>44,614</b>	<b>44,140</b>
<b>Surplus / (deficit) for the period</b>		<b>60</b>	<b>130</b>

NATO UNCLASSIFIED

## STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2019

(in thousands of Euros)

	Note	2019	2018
<b>Cash flow from operating activities</b>			
Surplus / (deficit)	D1	60	130
<b>Non-cash movements</b>			
Depreciation / amortisation	D2	86	43
Impairment		0	0
Increase / (decrease) in payables	D3	262	(1,451)
Increase / (decrease) in advances	D4	6,465	3,104
Increase / (decrease) in other liabilities	D5	(160)	(160)
Increase / (decrease) in provisions		0	0
Increase / (decrease) in deferred revenue	D6	1,342	(3,750)
(Increase) / decrease in receivables	D7	(1,864)	3,986
<b>Net cash flow from operating activities</b>		<b>6,192</b>	<b>1,902</b>
<b>Cash flow from investing activities</b>			
Purchase of property plant and equipment / intangible assets	D8	(146)	(174)
Proceeds from sale of property plant and equipment		0	0
<b>Net cash flow from investing activities</b>		<b>(146)</b>	<b>(174)</b>
<b>Cash flow from financing activities</b>		<b>0</b>	<b>0</b>
<b>Net cash flow from financing activities</b>		<b>0</b>	<b>0</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>6,046</b>	<b>1,728</b>
<b>Cash and cash equivalents at the beginning of the period</b>		<b>9,706</b>	<b>7,978</b>
<b>Cash and cash equivalents at the end of the period</b>		<b>15,752</b>	<b>9,706</b>

## STATEMENT OF CHANGE IN NET ASSETS / EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	PP&E Asset Reserve	Revaluation Reserves	Accumulated Surplus / (Deficit)	Total
(in thousands of Euros)					
<b>Balance at the beginning of the period 2018</b>		<b>76</b>	<b>0</b>	<b>(70)</b>	<b>6</b>
Changes in accounting policy		0	0	0	0
<b>Restated balance</b>		<b>76</b>	<b>0</b>	<b>(70)</b>	<b>6</b>
Transfer from accumulated surplus / (deficit)		(70)	0	70	0
Surplus / (deficit) for the period		0	0	130	130
<b>Balance at the end of the period 2018</b>		<b>6</b>	<b>0</b>	<b>130</b>	<b>136</b>
Changes in accounting policy		0	0	0	0
<b>Restated balance</b>		<b>6</b>	<b>0</b>	<b>130</b>	<b>136</b>
Transfer from accumulated surplus / (deficit)		130	0	(130)	0
Surplus / (deficit) for the period		0	0	60	60
<b>Balance for the period ended 2019</b>		<b>136</b>	<b>0</b>	<b>60</b>	<b>197</b>

## STATEMENT OF BUDGET EXECUTION

FOR THE YEAR ENDED 31 DECEMBER 2019

		Initial	Transfers	Budget	Final Budget	Commitments	Expenditure	Carry	Lapsed
(in thousands of Euros)	Note								
<b>Budget 2019</b>									
<b>Chapter 1</b>									
Personnel costs	E1	38,480	0	0	38,480	37,094	37,491	69	1,385
<b>Chapter 2</b>									
Agency support costs	E1	2,952	0	0	2,952	2,870	2,773	97	82
<b>Chapter 3</b>									
Process and IT management	E1	4,786	0	0	4,786	4,245	3,956	289	541
<b>Total FY 2019</b>		<b>46,217</b>	<b>0</b>	<b>0</b>	<b>46,217</b>	<b>44,209</b>	<b>44,219</b>	<b>456</b>	<b>2,008</b>
Chapter 1 c/o from 2018		139	0	0	139	131	131	0	8
Chapter 2 c/o from 2018		132	0	0	132	120	120	0	12
Chapter 3 c/o from 2018		583	0	0	583	514	514	0	69
Historical c/o		0	0	0	0	0	0	0	0
<b>Total</b>		<b>47,070</b>	<b>0</b>	<b>0</b>	<b>47,070</b>	<b>44,974</b>	<b>44,984</b>	<b>456</b>	<b>2,096</b>



# Notes to the NETMA Accounts



## A. Significant Accounting Policies

### *Basis of preparation*

The financial statements of NETMA have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS) and based on International Financial Reporting Standards (IFRS/IAS), as adopted by the North Atlantic Council (NAC) in 2002. In 2013, the NAC adopted an adaptation to IPSAS to better suit the specific requirements of the Alliance and an associated NATO accounting framework, applicable for financial reporting periods beginning on 1 January 2013.

The financial statements comply with the accounting requirements of the NATO Financial Regulations (NFRs) and the relevant NETMA directives and policies. In instances where there is a conflict between IPSAS and the NFRs this will be noted.

The financial statements have been prepared on a going concern basis. NATO Agency reform, which was approved by the Heads of State and Government at the Lisbon Summit in 2010, continues to mature. A new integrated NATO Procurement entity will be established to meet the needs of new procurement programmes, but none of the existing NATO agencies intend to integrate into this new organisation. In addition, at this stage, there is no intent to merge additional NATO agency support activity into the NATO Support Agency (NSPA). The route to implement shared services across NATO continues to develop, with the decision to implement shared services for Human Resource and General Procurement activities mandatory for the core NATO Bodies. The broadening of the use of these services to other NATO entities could be agreed at an appropriate time and NETMA, like other similarly funded NATO Agencies, has taken the view that integration with these activities could be considered when a proven benefits case for the specific activity can be demonstrated. In the light of the anticipated impact of these initiatives on the programme it is considered that there are no impediments to continuing on a going concern basis for the foreseeable future.

The financial statements have been prepared on a historical cost basis except for financial instruments that are measured at fair value at the end of each reporting period. The principal accounting policies are set out below. They have been applied consistently to all periods presented. The accounting principles recognised as appropriate for the recognition, measurement and reporting of the financial position, performance and cash flows on an accrual based accounting system using historical costs have been applied consistently throughout the reporting period.

In accordance with Article 2.1 of the NFRs, the financial year of NETMA is 1 January to 31 December.

### *Accounting estimates and judgements*

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 experience as well as on the most reliable information available. In exercising the judgments 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, revenue 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.

### *Changes in accounting policy and standards*

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 2019 Financial Statements the accounting policies have been applied consistently throughout the reporting period. There have been no changes to NETMA accounting policy for 2019.

### *Changes in pronouncements*

No accounting standard has been adopted earlier than the application date as stated in the IPSAS standards. The following IPSAS are not relevant for the NETMA Financial Statements 2019: IPSAS 26 (Impairment of Cash-Generating Assets), IPSAS 27 (Agriculture). The following IPSAS have no material effect on the financial statements: IPSAS 5, IPSAS 10, IPSAS 11, IPSAS 16, IPSAS 18, IPSAS 32, IPSAS 34, and IPSAS 35. IPSAS 40 (Public Sector Combinations) became effective January 1st 2019, this new IPSAS standard has no material impact on the presentation of the NETMA Financial Statements.

### *Restatements and prior period adjustments*

For the 2019 Financial statements, NETMA has made a prior period adjustment to the Property, Plant and Equipment balance presented in the 2018 NETMA Financial Statements to separate the elements that were related to Intangible Assets. As this adjustment does not materially affect the prior period, it is only corrected in the 2019 Financial statements and does not require a re-issue of the 2018 Financial Statements. No other balances in the 2018 Financial Statements have been restated.

### *Changes in financial rules and regulations*

During 2015 NATO adopted new financial rules and regulations. During 2019 there were no additional changes. These financial statements have been produced in line with these financial rules and regulations. NETMA updated its Financial Rules and Regulations in 2019, to ensure that they were in line with NATO NFRs. Only minor adjustments were made in the NETMA FRRs, and none of these changes affected the process in the preparation of the NETMA Financial Statements.

### *Foreign currency*

These financial statements are presented in Euros, which is the NETMA functional and reporting currency. Foreign currency transactions are translated into Euros at the NATO exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at year-end are translated into Euros using the NATO exchange rates applicable at 31 December 2019, resulting realised and unrealised gains and losses are recognised in the Statement of Financial Performance.

NETMA used the following exchange rates as at 31<sup>st</sup> Dec 2019:

EUR – GBP = 1: 0.8447

EUR – USD = 1: 1.0963

### *Consolidation*

The NETMA financial statements are not consolidated in-line with the NETMA Agency charter.

### *Financial instruments disclosure / presentation*

NETMA uses only non-derivative financial instruments as part of its normal operations. These financial instruments include cash and cash equivalents, accounts receivable, liabilities, provisions and loans between NATO entities. Financial instruments are recognised in the statement of financial position at fair value.

### *Financial risk factors*

#### **Credit risk**

There is very limited credit risk as the contributing nations generally have a high credit rating. The risk of financial loss due to a participating nation's failure to raise funds is still assessed as very low. In the event that there is a shortage of funds by one or more nations to meet financial obligations, other nations will be expected to provide the necessary funding.

#### **Liquidity risk**

The liquidity risk is based on the assessment of whether the organisation will encounter difficulties in meeting its obligations associated with financial liabilities. There is limited exposure to liquidity risk because of the budget mechanism that guarantees contributions for the total approved budget. The accuracy of forecasts that result in the calls for contributions as well as the delay in receiving payments represent the main liquidity risks.

#### **Currency risk**

The majority of transactions associated with the administrative budget are contracted in Euros and in order to have the required funding, NETMA also asks nations to provide their contributions in Euros. Therefore the exposure of financial instruments to foreign currency exchange risk associated with the administrative budget is considered negligible.

#### **Interest rate risk**

NETMA is restricted from entering into borrowings and investments, and therefore there is no significant interest rate risk identified.

## Assets

NETMA holds the following types of current assets:

### Cash and cash equivalents

Cash and cash equivalents include cash on hand and current bank accounts.

### Receivables

Receivables are stated at net realisable value, after provision for doubtful and uncollectible debts. It can also include amounts due by other NATO entities.

Contributions receivable are recognised when a call for contribution has been issued to the member nations. No allowance for impairment loss is recorded with respect to member nations' assessed contributions receivable. Other receivables include those from staff and external sources such as German MoD in relation to VAT receivable. During the 2017 audit NETMA was asked to record future year Calls for Funds as a receivable in the accounts. This has continued through 2018 and 2019 with the corresponding double entry against unearned revenue.

### Property, plant and equipment

The categories of Property, Plant and Equipment (PP&E) relevant for NETMA are detailed below:

Land and Buildings: The agency's office accommodation is subject of a building lease and therefore not capitalised as PP&E. Therefore, in accordance with IPSAS 13 - Leases, it is expensed on a straight-line basis over the lease term. In 2015 this resulted in the creation of a long term liability due to a rent free period at the start of the contract on the new premises in Hallbergmoos. This liability will be unwound against rental payments on a straight line basis over the 10 year duration of the lease.

Office Furniture and Equipment: This includes items of non-aggregated office furniture and other miscellaneous office items (i.e. lamps, fans, projectors, printing equipment). Items in this category are depreciated on a straight line basis over a ten year period which equates to their useful life. It is assumed an item is fully depreciated with nil residual value at the end of its useful life.

IT and Communications Equipment: This consists of Commercial-Off-The-Shelf (COTS) purchase of computer systems (hardware only), and communications equipment (i.e. telephones, faxes and accessories). Items in this category are depreciated on a straight-line basis over a three year period. It is assumed an item is fully depreciated with nil residual value at the end of its useful life.

In accordance with IPSAS 17, PP&E are recognised as tangible assets when it is probable that future economic benefits or service potential associated with the item will flow to the entity and the cost or fair value can be measured reliably. All PP&E, with the exception of land, are stated at cost less accumulated depreciation and accumulated impairment losses. NETMA's capitalisation threshold is €15,000, items with a purchase cost or fair value on acquisition above this threshold are capitalised and items falling below this threshold are fully expensed in the year of procurement.

For new asset additions during the year, the gross value of an asset is capitalised as PP&E on the Statement of Financial Position. The revenue for the gross asset value is accounted for in the year of purchase on the Statement of Financial Performance with a surplus on the Statement of Financial Performance being generated in the first year of purchase and transferred to the PP&E asset reserve account to increase accumulated asset reserves. A full months depreciation is only charged if the item is purchased in the first half of the month (i.e.: before 15<sup>th</sup> Month), otherwise the first month of depreciation starts from the following period.

Depreciation is recognised so as to write off the cost of the assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Depreciation is accounted for as an expense which generates a deficit on the Statement of Financial Performance. This deficit is transferred to PP&E Asset Reserves at the end of each year to reduce the accumulated asset reserve.

An item of PP&E is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of PP&E is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Statement of Financial Performance. NETMA has no assets purchased prior to 2013 that would still have an economic life still in active use within the agency.

During 2019, 413 items (comprising of defective laptops, monitors, printers and other miscellaneous IT equipment) were approved for disposal through the NETMA Internal Audit section in accordance with NETMA delegated authorities. None of these items had been previously included in the NETMA fixed asset register and therefore have not been declared in Note H (Write-Off and Donations) to the accounts on page 30.



## Intangible assets

The only categories of Intangible Assets relevant to NETMA are computer software and software development costs, which entails costs for licences over a period longer than 1 year and consultancy costs incurred for IT system change requests which meet the recognition criteria outlined below. NETMA intangible assets are amortised on a straight-line basis over a three year period. It is assumed an item is fully amortised with nil residual value at the end of its useful life.

In accordance with IPSAS 31, intangible assets are recognised as an identifiable non-monetary asset without physical substance, where it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. In line with its treatment of PP&E IT Equipment, the capitalisation threshold is €15,000 and all intangible assets are initially measured at cost less accumulated amortisation and accumulated impairment losses.

The estimated useful lives, residual values and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. NETMA has no assets purchased prior to 2013 that would still have an economic life still in active use within the agency.

## Leases

As stated above, the office accommodation has been determined as an operating lease and, in accordance with IPSAS 13 - Leases, is expensed on a straight-line basis over the lease term.

## Liabilities

### Payables

Payables (including amounts due to other NATO entities) are amounts due to third parties for goods and services received that remain unpaid as of the reporting date. They are recognised at their fair value. This includes estimates of accrued obligations for goods and services received at year-end but not yet invoiced.

### Unearned revenue

Unearned revenue represents contributions from member nations and/or third parties that have been called for in current or prior years' budgets and that have not yet been recognised as revenue. Unearned revenue also includes miscellaneous income, future years call for funds and double entry adjustments for lapsed credits which are now shown as a payable to nations.

### Advances

Advances are contributions from member nations called for or received related to future years' budgets. Funds are called for in advance of their need because NETMA has no capital that would allow it to pre-finance any of its activities.

## Revenue and expenses recognition

### Revenue

Revenue comprises of contributions from the four contributing nations: Germany, Italy, Spain and United Kingdom and other revenue earned during the period. Contributions from the four nations are called for in advance on a quarterly basis, while other revenue earned during a financial period includes bank interest and miscellaneous recoveries from staff for car parking and telephone calls.

Revenue is recognised to the extent that it is probable that economic benefits will flow to NETMA and revenue can be measured reliably. Where a transfer is subject to conditions that, if unfulfilled, require the return of the transferred resources, NETMA recognises a liability until the condition is filled.

National contributions to the administrative budget are initially recorded as unearned revenue liabilities. They are recognised as revenue on the statement of financial performance when such contributions are used for their intended purpose as envisioned within the approved budget.

### Expenses

The NETMA financial statements cover the running costs of the agency and of the NAMMO and NEFMO programmes. These costs cover pay and personnel, utilities, rental payments and those costs associated with information management support.

## Cash flow statement

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

## B. Notes to Statement of Financial Position

(in thousands of Euros)

### Assets

#### 1. Cash and cash equivalents

	2019	2018
Cash accounts	15,751	9,704
Clearing cash accounts	0	0
Petty cash and advances	1	2
Current bank accounts	0	0
Cash equivalents	0	0
Bank accounts interest	0	0
<b>Total</b>	<b>15,752</b>	<b>9,706</b>

NETMA operates two bank accounts into which all contributions are received and payments to suppliers are made. Interest earned is accumulated on an associated account and in the subsequent year is transferred to the main account to offset future Calls for Funds where permitted under national procedures. The petty cash accounts enable small, essential purchases to be made quickly and are reconciled on a monthly basis.

The reason for the variance between 2019 and 2018 on the main NETMA account balance is that one participating nation paid its total amount for 2020 contributions in 2019.

#### 2. Receivables

	2019	2018
Receivables from non-consolidated entities	485	431
Contributions receivable from nations following year	9,037	7,720
Receivables from staff members	35	14
Other receivables	474	0
<b>Total</b>	<b>10,031</b>	<b>8,165</b>

#### Receivables from non-consolidated entities

This value represents receivables recoverable from MoD Germany with regards to VAT charged in 2019.

#### Contributions receivable from nations following year

This represents receivables from nations that have been called for relating to the following years budget within the current year but not yet received as at 31<sup>st</sup> December 2019. Similarly to 2018, one nation has paid their element as at 31<sup>st</sup> December but as this was from a smaller contributing nation, the remaining amount due is higher than the previous year.

#### Receivables from staff members

Receivables from staff members relate to the outstanding recoveries from advances of salaries made in the year. This account has been reconciled with payroll records at year end.

#### Other Receivables

Other receivables include accrued credits from third parties relating to the period but still outstanding at the period end. At 31<sup>st</sup> December 2019 there were 2 outstanding credits, a €466K credit due from NATO HQ for DCPS Pension contributions reimbursement (this is explained further on page 25) and €7K due for the reconciled end of period canteen charge.

**3. Prepayments**

	2019	2018
Suppliers	0	0
Staff	0	0
<b>Total</b>	<b>0</b>	<b>0</b>

No prepayments were made to suppliers in 2019.

**4. Non-current assets**

	2019	2018
PP&E	48	26
Intangible Assets	149	111
<b>Total</b>	<b>197</b>	<b>137</b>

As highlighted on page 18 under the Significant Accounting Policies: Property, Plant and Equipment section, the office accommodation in Hallbergmoos is treated as an operating lease arrangement and therefore is not capitalised. The Agency controls two types of PP&E and is responsible for replacement and maintenance of these assets; Office Furniture & Equipment, and IT & Communications Equipment. Additionally, NETMA controls intangible assets relating to computer software licences and capitalised consultancy support to an approved system change. The capitalisation threshold for all PP&E and intangible assets is €15,000. Upon moving to Hallbergmoos, the Agency took a view that integrated purchases (Cabling, Air Con Units, Security enhancements etc.) were not to be capitalised due to no clear future ownership lines being in place and the ability to use such items if the Agency were to move premises in the future.

As at 31 December 2019 only items within IT and Communications met the criteria for capitalisation. This consists of Commercial Off The Shelf purchase of (COTS) computer systems (hardware and software), communications equipment (i.e. telephones, faxes and accessories) and capitalised IT consultancy costs for changes to NETMA IT applications. IT and Communications assets are measured at cost less depreciation or amortisation. Both depreciation and amortisation are calculated on a straight-line basis over the useful life of IT and Communications Equipment. During 2019 5 new Items of IT capability (2 PP&E, 3 intangible) valued at €146K were purchased that met the capitalisation criteria and have been added to the asset register.

In accordance with IPSAS 17, below is a reconciliation of the carrying amounts for NETMA non-current assets:

	2019	2018
<b>Opening Balance</b>	<b>137</b>	<b>6</b>
Additions	146	174
Disposals	0	0
Depreciation	(86)	(43)
<b>Closing Balance</b>	<b>197</b>	<b>137</b>
Gross Carrying Amount	1,560	1,414
Accumulated Depreciation	(1,363)	(1,277)
<b>Net Carrying Amount</b>	<b>197</b>	<b>137</b>

**Liabilities****5. Payables**

	2019	2018
Payables to suppliers	7	5
Payables to non-consolidated entities	0	0
Payables to staff members	0	0
Lapsed Credits to be offset from future CFFs	2,096	1,814
Other payables	947	969
<b>Total</b>	<b>3,050</b>	<b>2,787</b>

**Payables to suppliers**

Amounts payable to suppliers represents invoices for work undertaken but not yet paid. This account is reconciled to the payables sub-ledger within the financial system operated by NETMA on a monthly basis.

**Lapsed Credits to be offset from future CFFs**

These values align to the value reported in the Statement of Budget Execution, representing budget called for but not spent that will be offset from the following years call for funds.

**Other payables**

Other payables are made up of the manual accrual figure which is made up of two elements. The first element relates to goods and services provided during 2019, an estimate is undertaken by reviewing invoices paid in January and the first 2 weeks of February 2020. The estimated accrual for goods and services as at 31 December 2019 is €532K. The other element is the estimated accrual relating to unpaid leave, this is based on the untaken leave carried forward as at 31 December 2019 multiplied by the average salary costs per day. This results in an accrual of €414K.

**6. Deferred Revenue**

	2019	2018
Deferred Revenue	7,470	6,127
<b>Total</b>	<b>7,470</b>	<b>6,127</b>

Deferred Revenue represents accumulated unearned revenue which is the excess of national contributions and miscellaneous revenue over expenditure on the NETMA program to date. This value has increased for 2019 as per note B2 contributions receivable from nations for the following year has increased from the period ended 2018.

	2019	2018
<b>Unearned revenue b/f</b>	<b>6,127</b>	<b>9,877</b>
National Contributions	44,872	42,505
Miscellaneous Revenue (excl Bank Interest)	71	108
Movement in Receivable from nations for following year	38	39
Less:		
Operational Expenditure	44,984	43,750
Movement in Lapsed Credits	282	(1,605)
Movement in CFF called for but not received	(1,317)	3,736
Miscellaneous Financial Charges / (Income)	(312)	524
Foreign Exchange (Gains) / Losses	3	(4)
<b>Unearned revenue c/f</b>	<b>7,470</b>	<b>6,127</b>



**7. Advances**

	2019	2018
Advance contributions	14,475	8,010
<b>Total</b>	<b>14,475</b>	<b>8,010</b>

**Advance contributions**

Advances include funding received above the budget for that year, relating to 2020 Calls for Funds received in 2019 and nations individual travel requirements.

**8. Other long term liabilities**

	2019	2018
Operating lease liability	788	948
<b>Total</b>	<b>788</b>	<b>948</b>

In May 2015 the agency moved into new office accommodation in Hallbergmoos. Due to delays in this move, rent was not charged until September 2016, despite the lease being signed from 1<sup>st</sup> December 2014. Therefore in accordance with IPSAS 13, a liability for rental payments over the rent free period has been created and will be unwound against actual payments over the life of the lease.

**Net Assets****9. Surplus / (Deficits)**

	2019	2018
Surplus / (Deficits)	60	130
<b>Total</b>	<b>60</b>	<b>130</b>

The accumulated surplus balance represents in year movements relating to PP&E. The surplus for 2019 results from in year depreciation charges totalling €86K against asset purchases totalling €146K. This surplus / (deficit) is transferred to reserves at the close of each financial year.

**10. Reserves**

	2019	2018
Non-current asset reserve	136	6
<b>Total</b>	<b>136</b>	<b>6</b>

The non-current asset reserve represents the nation's equity in PP&E and intangible assets. IT & Communications equipment assets are capitalised and accounted for at their net carrying amount (i.e. gross historical purchase costs less accumulated depreciation / amortisation). At the end of 2018, the asset reserve increased by the accumulated surplus of €130K, resulting in an opening Net Assets balance as at 1<sup>st</sup> January 2019 of €136K.

## C. Notes to Statement of Financial Performance

(in thousands of Euros, unless otherwise stated)

### 1. Revenue

	2019	2018
National contributions	44,872	42,505
National contributions to be called for	0	0
Other reimbursements	(198)	1,765
<b>Total</b>	<b>44,675</b>	<b>44,270</b>

National contributions represents the funds provided by nations to support NETMA in fulfilling its objectives under the administrative budget. Funding is normally called for in advance on a quarterly basis.

Other reimbursements includes recoveries from nations in support of the overall NETMA Programme, the movement on unearned revenue representing the surplus or deficit of revenue over expenditure in the financial year and recoveries from staff employed by the agency.

### Expenses

### 2. Personnel

	2019	2018
Pay and overtime	24,063	23,435
Allowance	4,751	4,729
Pension	2,394	2,805
Medical and insurance	4,598	4,154
Travel and other costs	1,857	1,834
<b>Total</b>	<b>37,664</b>	<b>36,956</b>

Personnel expenses include civilian and military personnel expenses as well as other non-salary related 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 for contracted consultants and training.

NATO introduced the Defined Contribution Pension Scheme (DCPS) on 1st July 2005. The scheme is a money purchase pension scheme which is funded by NETMA and the staff member. This pension scheme is compulsory for all new entrants. NETMA's contribution is 12% (Staff contribution is 8% of Basic Salary and the Additional Voluntary Contribution AVC (up to 5% of Basic Salary). Pension costs are predominantly for those members in the DCPS. The scheme is administered and accounted for centrally by NATO IS.

Travel costs include duty travel, home leave travel, removals and travel for interviews and repatriation.

At the year-end, NETMA has 251 established posts. A breakdown of wages, salaries and employee benefits is provided below. Costs remained largely consistent in 2019, although there was a pay rise applied to all staff and a reduction in Agency pension contributions due to the finalisation of a Employer's Contribution compensatory refund accrued from NATO HQ.

	2019	2018
Employee benefits expense	33,882	32,318
Post employee benefits		
For defined contribution pensions scheme	2,394	2,805
Untaken leave accrued	414	418
<b>Total employee benefits expense</b>	<b>36,690</b>	<b>35,541</b>

## Untaken leave

Untaken leave at year-end may be carried-over to the following year. Under normal circumstances, NETMA takes measures to ensure all carried-over leave is taken by 30<sup>th</sup> April of the following year in accordance with the CPRs. However, due to the current situation of travel and movement restrictions as a result of the COVID-19 outbreak, this policy has been relaxed for 2019 carried-over leave, which now must be taken by the end of December 2020.

## DCPS Insurance Premium Refund

Further to an analysis covering the last years of the history of death in service risks in relation to premiums paid by the Organisation during 2012-2015, a compensation of EUR 6 million at the NATO-wide level was agreed by the insurance company. Part of this amount (circa EUR 1.7 million) was to be paid to NATO staff who were members of the DCPS during the period 2012-2015 in proportion to the contributions they made to the DCPS. Staff employed by each "NATO body" during the period 2012-2015 and affiliated to the DCPS were therefore entitled to a payment to be made directly to them from the NATO DCPS accounts during 2019. This element was therefore not accounted by NETMA.

At the end of 2019, NATO made the decision to disaggregate the remaining amount of the compensation (circa EUR 4.3 million) in a proportional payment to each "NATO body". NETMA expects the compensatory payment to be reimbursed to the bank account in 2020 and has created a receivable for this amount (circa EUR 466 thousand) as shown in Note B2 (page 20).

## Related Parties Disclosure

The key management personnel of NETMA have no significant related party relationships that could affect the operation of NETMA. NETMA is led by 4 directors, one for each participating Nation. They are remunerated in line with NATO pay scales as are all other NETMA staff.

	2019	2018
<b>Key management remuneration</b>	<b>983</b>	<b>925</b>

The figure for 2019 is higher than 2018 in-line with NATO wide pay increases and the senior management team being in post for a longer period of time, resulting in step rises not occurring in the year previous.

## Representation allowance (stated in Euros)

As per PO(2014)0154 dated 27 March 2013, expenditure on the representation allowance by the qualifying officials totalled €6,199 and is broken out below.

	2019	2018
Rent supplement	3,173	3,173
Hospitality expenses	3,026	2,411
<b>Total</b>	<b>6,199</b>	<b>5,583</b>

## 3. Buildings and maintenance

### Contractual supplies and services

	2019	2018
Building rent and maintenance	1,722	1,791
Security	635	655
Other costs	363	359
<b>Total</b>	<b>2,720</b>	<b>2,805</b>

Building costs include rent of the Agency's accommodation (€1.722M), utilities and cleaning. Security costs are predominantly those of the contracted out guard service. Other costs include office supplies, the rental of reprographic equipment and the costs for the canteen services that have been outsourced.

During 2015, NETMA moved from its previous accommodation in Unterhaching Munich to Hallbergmoos, North of Munich. For the new accommodation NETMA signed a contract on 27<sup>th</sup> September 2013 to lease the new office building to 30<sup>th</sup> November 2024. Although a firm price has been agreed, the contract incorporates a clause whereby a rental increase or reduction can be triggered after the first three years if inflation in Germany varies by more than 5% based on the consumer price index. Utility payments are subject to an annual review and can vary on the basis of actual usage of the previous year (they have not changed in this reporting period). The contract includes an option to extend the lease for a further two periods of 5 years.

In accordance with IPSAS 13 – Leases, the table below details obligations under the Operating Leases as at 31 December 2019: (For the new building, both building and garage costs are combined). For this reconciliation an assumption has been made that the lease will be extended for the later than five years calculation.

	2019	2018
<b>Buildings: (Includes Garage Charges)</b>		
Not later than one year	239	239
Later than one year and not later than five years	3,537	3,537
Later than five years	4,347	4,347
<b>Utilities:</b>		
Not later than one year	272	272
Later than one year and not later than five years	1,089	1,089
Later than five years	1,338	1,338

#### 4. IT services

	2019	2018
<b>Contractual supplies and services</b>		
Communication	144	202
Information technology support	3,999	4,136
<b>Total</b>	<b>4,143</b>	<b>4,337</b>

The major cost elements in this category are for consultancy and outsourced support costs for the Agency's information systems.

#### 5. Depreciation and amortisation

	2019	2018
Depreciation and amortisation	86	43
<b>Total</b>	<b>86</b>	<b>43</b>

PP&E and intangible assets are depreciated / amortised on a straight-line basis over the useful life of the asset. The depreciation charge relates to IT and Communication Equipment assets capitalised by NETMA.

#### 6. Finance costs

	2019	2018
Foreign exchange gain / (loss)	3	(0)
Other charges	(1)	(2)
<b>Total</b>	<b>1</b>	<b>(2)</b>

Translation gains and losses occur when assets held in foreign currencies are converted to a Euro value at the closing NATO-promulgated exchange rates for the financial period. While some Euro : GBP exchange rate fluctuations were experienced in 2019, due to the low value of GBP transactions made only immaterial values of €2,555 were incurred.

Realised gains and losses occur when currency transactions are paid or received at a different rate to that which the expense or income was accounted when accrued for.

Other charges include VAT expensed during the year and expensed movements in the manual accrual.

## D. Notes to Statement of Cash Flow

(in thousands of Euros)

### Cash flow from operating activities

#### 1. Surplus / (deficit)

	2019	2018
Surplus / (deficit)	60	130
<b>Total</b>	<b>60</b>	<b>130</b>

This represents the surplus / deficit from normal operating activities before interest, depreciation and financial charges such as exchange differences arising from transactions. The previous year's balance is transferred from Surplus/Deficit into Nation Reserves in the following year.

### Non-cash movements

#### 2. Depreciation / amortisation

	2019	2018
Depreciation and amortisation	86	43
<b>Total</b>	<b>86</b>	<b>43</b>

This represents the annual depreciation/amortisation on NETMA Assets which is calculated on a straight-line basis. The depreciation/amortisation charge for 2019 is higher than 2018 due to the 2019 purchased additions to the fixed asset register.

#### 3. Increase / (decrease) in payables

	2019	2018
Payables to suppliers	2	(4)
Other payable	260	(1,447)
<b>Total</b>	<b>262</b>	<b>(1,451)</b>

The movement on payables in 2019 represents an increase in the outstanding liabilities from 2018. The increase is attributable to a higher lapsed credit value to be returned to nations in 2019 compared to the 2018 Statement of Budget Execution.

#### 4. Increase / (decrease) in advances

	2019	2018
Advance contributions	6,465	3,104
<b>Total</b>	<b>6,465</b>	<b>3,104</b>

The increase in advances from nations results from one nation paying into NETMA the entire Call for Funds for 2020 in 2019.

*5. Increase / (decrease) in other liabilities*

	2019	2018
Operating lease liability	(160)	(160)
<b>Total</b>	<b>(160)</b>	<b>(160)</b>

This reflects the movement created by the operating lease liability explained at Note B8.

*6. Increase / (decrease) in deferred revenue*

	2019	2018
Deferred revenue	1,342	(3,750)
<b>Total</b>	<b>1,342</b>	<b>(3,750)</b>

Deferred revenue represents accumulated unearned revenue which is the excess of national contributions and miscellaneous revenue over expenditure on the NETMA program to date.

*7. (Increase) / decrease in receivables*

	2019	2018
National contributions	(1,317)	3,739
VAT	(54)	218
Other receivables	(494)	29
<b>Total</b>	<b>(1,864)</b>	<b>3,986</b>

The increase in national contributions receivable is explained in Note B2, it relates to an increase in the value of national contributions called for the administration budget for 2020 but not received in 2019. The decrease in VAT receivable relates to monies owed to the Agency from the German VAT office regarding VAT reclaimable expenditure in 2019. Other receivables relate to monies owed from NETMA Staff members.

*Cash flow from investing activities**8. Purchase of property plant and equipment / intangible assets*

	2019	2018
Asset additions	(146)	(174)
<b>Total</b>	<b>(146)</b>	<b>(174)</b>

Asset additions represents the 2019 expenditure, relating to hardware, software and consultancy costs which met the required criteria for capitalisation in line with IPSAS 17 & 31. This can be broken down into €34K PP&E and €112K intangible assets.

## E. Notes on Statement of Budget Execution

### 1. Budget analysis - 2019

	2019 Budget	2019 Expenditure
Chapter 1 - 2019	38,480	37,491
<b>Total</b>	<b>38,480</b>	<b>37,491</b>

There was an underspend of €0.990M against the budget for 2019 due to lower than budgeted removals expenses, reduced spend on duty travel and lower education allowance expenditure than previously anticipated. The return of the lapsed credits will be agreed with nations in 2020.

	2019 Budget	2019 Expenditure
Chapter 2 - 2019	2,952	2,773
<b>Total</b>	<b>2,952</b>	<b>2,773</b>

In 2019 for Chapter 2 NETMA spent 6% less than budget due to lower than expected security cost and lower than expected electricity, maintenance and repair costs. The return of the lapsed credits will be agreed with nations in 2020.

	2019 Budget	2019 Expenditure
Chapter 3 - 2019	4,786	3,956
<b>Total</b>	<b>4,786</b>	<b>3,956</b>

In 2019 for Chapter 3 NETMA spent 17% (€830K) less than the approved budget. This was caused by lower than budgeted costs for IT Consultancy, as well as lower than budgeted IT hardware and software purchases. Over a third of this underspend were committed at year end and have been carried forward into 2020 to complete work. Where applicable the return of the lapsed credits will be agreed with nations in 2020.

### 2. Reconciliation between Statement of Cash Flow and Statement of Budget Execution:

	2019
<b>SCHEDULE 3: NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>6,192</b>
- Cash contributions received for 2019	(44,872)
- Movement in funds received for following year budget	(6,396)
- Advances for Italian duty travel and Spanish phone line	(69)
- VAT reimbursed	(969)
- Other reimbursements	(118)
- Asset additions	(146)
<b>GROSS CASH OUTFLOW FROM OPERATING ACTIVITIES</b>	<b>(46,379)</b>
- Recoverable VAT paid in year	935
- Other payments	4
- Italian duty travel / Spanish phone line payments excluded from budget	435
- Exchange rate losses / (gains)	3
- Movement in staff salary advances	21
- Movement in unpaid accounted invoices (included in Expenditure)	(2)
<b>SCHEDULE 5: EXPENDITURE</b>	<b>(44,984)</b>

**3. Reconciliation between Statement of Financial Performance and Statement of Budget Execution:**

	2019
<b>SCHEDULE 2: TOTAL EXPENSES</b>	<b>44,614</b>
- Add: Opening manual accruals	969
- Less: Closing manual accruals	(384)
- Asset additions less depreciation / amortisation	60
- Finance costs: gains / (losses)	(1)
- Operating lease expense	160
<b>CASH PAYMENTS</b>	<b>45,418</b>
Less: Italian duty travel / Spanish phone line payments excluded from budget	(435)
<b>SCHEDULE 5: EXPENDITURE</b>	<b>44,984</b>

**F. Contingent Liabilities / Provisions**

NETMA has no contingent liabilities or provisions.

**G. Related Parties Disclosure**

The key management personnel of NETMA have no significant related party relationships that could affect the operation of NETMA. Board members receive no remuneration and senior management is remunerated in accordance with the published NATO pay scales. Both do not receive loans that are not available to all staff.

**H. Write-Off and Donations**

In accordance with the NATO Financial Regulations, where a global statement of write-offs and donations shall be reported in the Annual Financial Statements NETMA can report that no items were submitted and approved for write-off/strike-off through the NETMA Internal Audit section in 2019 in accordance with NETMA delegated authorities. These write-offs/strike-offs are effected when items are deemed surplus to requirements, obsolete, damaged beyond economic repair or lost.





