	NATO	NORTH ATLANTIC COUNCIL
	OTAN	CONSEIL DE L'ATLANTIQUE NORD

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25 March 2022

DOCUMENT
PO(2022)0120-AS1

**IBAN AUDIT REPORT ON THE AUDIT OF 2020 FINANCIAL STATEMENTS OF
NATO MULTI-ROLE COMBAT AIRCRAFT DEVELOPMENT, PRODUCTION AND IN-
SERVICE SUPPORT MANAGEMENT ORGANISATION (NAMMO)**

ACTION SHEET

On 24 March 2022, under the silence procedure, the Council noted the RPPB report attached to PO(2022)0120, agreed its conclusions and recommendations, noted the IBAN Audit Report and agreed to the public disclosure of the report, the IBAN Audit Report and associated 2020 financial statements of NAMMO.

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to PO(2022)0120.

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10 March 2022

DOCUMENT

PO(2022)0120

**Silence Procedure ends:
24 Mar 2022 17:30**

To: Permanent Representatives (Council)

From: Secretary General

**IBAN AUDIT REPORT ON THE AUDIT OF 2020 FINANCIAL STATEMENTS OF NATO
MULTI-ROLE COMBAT AIRCRAFT DEVELOPMENT, PRODUCTION AND IN-
SERVICE SUPPORT MANAGEMENT ORGANISATION (NAMMO)**

1. I attach the Resource Policy and Planning Board (RPPB) report on the International Board of Auditors for NATO (IBAN) Audit Report on the audit of the 2020 financial statements of the NATO Multi-Role Combat Aircraft Development, Production and In-Service Support Management Organisation (NAMMO). This IBAN Audit Report sets out an unqualified audit opinion on the 2020 financial statements and a qualified audit opinion on compliance.
2. The IBAN Audit Report has been reviewed by the 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 Thursday, 24 March 2022**, I shall assume the Council noted the RPPB report, agreed its conclusions and recommendations, noted the IBAN Audit Report and agreed to the public disclosure of this report, the IBAN Audit Report and associated 2020 financial statements of NAMMO.

(Signed) Jens Stoltenberg

1 Annex
1 Enclosure

Original: English

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IBAN AUDIT REPORT ON THE AUDIT OF 2020 FINANCIAL STATEMENTS OF NATO MULTI-ROLE COMBAT AIRCRAFT DEVELOPMENT, PRODUCTION AND IN-SERVICE SUPPORT MANAGEMENT ORGANISATION (NAMMO)

Report by the Resource Policy and Planning Board (RPPB)

References:

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| A. | IBA-A(2020)0119 | IBAN Audit Report on the audit of 2020 financial statements of the NATO Multi-Role Combat Aircraft Development Production and In-Service Support Management Organisation (NAMMO) |
| B. | C-M(2015)0025 | NATO Financial Regulations (NFR) |
| C. | PO(2015)0052 | Wales Summit tasker on transparency and accountability |

INTRODUCTION

1. This report by the RPPB addresses the IBAN Audit Report on the audit of 2020 financial statement of the NAMMO. The IBAN Audit Report sets out an unqualified opinion on the financial statements and a qualified opinion on compliance for the NAMMO for financial year 2020 (reference A).

AIM

2. This report highlights key issues in the IBAN Audit Report 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 Audit Report 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 B) to examine the Audit Report and to provide comments and recommendations as required.

OBSERVATIONS

4. In 2020, IBAN made two observations with recommendations, neither observation impacted the audit opinion on the financial statements but impacted the audit opinion on compliance. The two new observations covered the missing approval of commitments and estimates of carry-forward of commitments and accruals for spare parts as well as necessary improvements in the presentation of the Budget Execution Statement (BES). Also, the IBAN followed up on the status of observations and recommendations from the previous years' audits and found that one was closed and one remains in-progress.

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5. Observation 1 (basis for Qualified Opinion on Compliance): The NATO EF 2000 and Tornado Development, Production and Logistics Management Agency (NETMA) Financial Controller (FC), which serves as the FC of NAMMO and NATO European Fighter Aircraft Development, Production and Logistic Management Organisation (NEFMO) has the responsibility to ensure prior approval of commitments in line with NFRs. However, the NETMA is not notified of the purchase request nor does any internal procedure of control exist to ensure prior approval of commitments by the NETMA FC, before the purchase request for spare parts is shared with the supplier. The actual approval of the commitment by the NETMA FC takes place only after the receipt of the supplier invoice that could in principle result in an excess of budgetary commitments. The Board notes there is a process in place to track commitments, which includes monthly commitment and budget reports sent to Nations, which allows the NETMA to alert Nations if there is a risk that the budget ceiling may be exceeded.

5.1. Purchase requests can be made without a predetermined price, as suppliers are not contractually obliged to communicate prices in advance. The IBAN found that in 2020, the NAMMO committed the amount of EUR 106.7 million for spare parts purchases that excludes those commitments that cannot be quantified due to missing spare part prices and therefore the actual commitment made by the NAMMO exceeded that amount. These commitments were not prior approved in line with the NFRs article 25. Consequently, the IBAN noted that missing information on spare part prices does not allow the NAMMO to quantify the commitment to be carried forward nor to quantify the accrual amount for those spare parts that were delivered before the end of the financial year. The current estimation is that the amount of missing accruals at 31 December 2020 is immaterial.

5.2. The Board recognizing the issues raised by IBAN, recommends that the NAMMO revise the NETMA Financial Rules and Regulations (FRRs) on the role, responsibilities and authority of the NETMA FC, in order to ensure conformity with the NFRs or request Council to approve a deviation from NFRs to better reflect the specific NAMMO needs.

6. Observation 2 (basis for Qualified Opinion on Compliance): In the course of the audit, the IBAN found that in the BES the expenditure incurred during the financial year includes EUR 42 million that relates to payables and accruals at 31 December 2019, and does not contain EUR 52.1 million that relates to payables and accruals at 31 December 2020, which results in an understatement of the expenditure by approximately EUR 10.1 million. Also the BES is drawn on a cash basis, rather than on accrual basis, which is not compliant with Article 25.2 of the NFRs. The IBAN also found some further incompleteness and inaccuracies resulting in the understatement of open commitments by EUR 47.2 million. When implementing a multiannual programme, the precise timing of when goods and services will actually be received is often not known or can be subject to change. In this respect, the nature of the NAMMO's multiannual programme could hinder compliance with certain NFR articles.

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6.1. The Board supports the IBAN recommendation to take appropriate action where necessary by amending internal processes or by requesting Council to approve a deviation from the NFRs which better reflects the specific NAMMO needs. One nation expressed the view that they would not consider a deviation request favourably, unless provided with compelling arguments why compliance cannot be reached otherwise. The RPPB will provide a separate advice to the Council on that matter as necessary. Furthermore, the IBAN, supported by the Board, recommends the NAMMO to assess if its multiannual programme could hinder compliance with other articles of the NFRs.

7. Emphasis of Matter¹ on the Financial Statements: The NAMMO disclosed in its BES open commitments that include both the carry-forward of commitments and future commitments in relation to contract authority. The IBAN draw attention to understatement of the total of open commitments by EUR 47.2 million in the BES due to the incomplete information used in the NAMMO's calculation of open commitments.

8. Prior year closed observations: The closed observation for NAMMO was superseded by the IBAN's observation on the need for improvements in the presentation of the BES for the operational budget with 2020 financial year observation 2.

9. Prior year observations in-progress: During the 2020 audit, the IBAN noted the progress made by NAMMO in management of cash holdings in the context of increased financial costs through the NETMA's analysis of bank accounts and development of exchange rates policy. However, the NETMA still has to present its Cash Holdings Policy to the BoD for approval and implement it in full during 2021.

DISCUSSION

10. The Board welcomes the NETMA's presentation and recognises the NAMMO's important role in managing the Tornado Programme. Furthermore, the Board notes that the NAMMO does not comply with the requirements of Article 25.1 of the NFRs with regard to purchase of spare parts and of Articles 24 and 25 regards presentation of BES.

10.1. While welcoming the NAMMO's efforts towards full compliance, the Board acknowledges that the compliance issue is under consideration at the NAMMO's BoD level. One nation expressed the view that they would not consider a deviation request favourably, unless provided with compelling arguments why compliance cannot be reached otherwise. The RPPB will provide a separate advice to the Council on that matter as necessary.

CONCLUSIONS

¹ Emphasis of Matter is used when the IBAN consider it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in its' judgement, is of such importance that it is fundamental to users' understanding of the financial statements.

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11. The IBAN Audit Report sets out an unqualified audit opinion on the financial statements and a qualified audit opinion on compliance for the NAMMO for the 2020 financial year. The IBAN raised two new observations in the NAMMO audit report during the audit of 2020 financial year; both of them impacted the audit opinion on compliance for the NAMMO in 2020. As of the date of the respective IBAN Audit Report on the 2020 financial statements one prior year observation for the NAMMO remains in-progress and one was closed (superseded by 2020 observation).

12. In 2020, the IBAN recommended that the NAMMO avoid that third party stakeholders independently purchase a material amount of spare parts on behalf of the NAMMO without the prior approval by the NETMA FC. The IBAN also recommended that the NAMMO amend its FRRs in order to comply with the NFRs or request Council to approve a deviation from NFRs to better reflect the specific NAMMO procurement and budget needs and to assess if its multiannual programme could hinder compliance with NFRs.

13. The Board supports the IBAN's recommendation that NAMMO take appropriate action where necessary by amending internal processes or by requesting Council to approve a deviation from the NFRs, which better reflects the specific NAMMO needs. One nation expressed the view that they would not consider a deviation request favourably, unless provided with compelling arguments why compliance cannot be reached otherwise. The RPPB will provide a separate advice to the Council on that matter as necessary. In addition, the IBAN takes note on the Emphasis of Matter highlighted in the IBAN Audit Report.

14. Given the prior year observations, the Board welcomes the improvement made by the NAMMO in the management of cash holdings in the context of increased financial costs and call for approval and implementation of Cash Holdings Policy in 2021.

RECOMMENDATIONS

15. The Resource Policy and Planning Board recommend that the Council:

15.1. note this report and the IBAN Audit Report at reference A;

15.2. agree the conclusions at paragraphs 11 to 14; and

15.3. agree to the public disclosure of the 2020 financial statements for the NAMMO, its associated IBAN Audit Report and this report in line with agreed policy at reference C.



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 PO(2022)0120

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IBA-A(2021)0119
25 August 2021

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)
Chair, Resource Policy & Planning Board
Branch Head, Resource Management Branch, NATO Office of Resources
Private Office Registry

Subject: ***International Board of Auditors for NATO (IBAN) Audit Report on the audit of the NATO Multi-Role Combat Aircraft Development Production and In-Service Support Management Organisation's (NAMMO) Financial Statements for the year ended 31 December 2020 – IBA-AR(2021)0027***

IBAN submits herewith its approved Audit Report with a Summary Note for distribution to the Council.

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 and a qualified opinion on compliance for financial year 2020.

Yours sincerely,

Daniela Morgante
Chair

Attachments: As stated above.

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**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 2020**

NAMMO is the NATO reporting entity for the Tornado Programme. 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 its Operational Budget.

NETMA also manages the procurement and the administration of the EF2000 Programme, for which the NATO European Fighter Aircraft Development Production and Logistic Management Organisation (NEFMO) is the NATO reporting entity.

NETMA considers NETMA, NAMMO and NEFMO to be separate NATO reporting entities and annually issues a separate set of general purpose financial statements for each of the three budgets under its management and administration.

IBAN audited the NAMMO Financial Statements for the year ended 31 December 2020. The total expenditure in 2020 for the NAMMO Operational Budget amounts to EUR 565 million.

IBAN issued an unqualified opinion on the financial statements and a qualified opinion on compliance for the year ended 31 December 2020.

IBAN made two observations and recommendations. These findings are listed below and do not impact the audit opinion on the financial statements but impact the audit opinion on compliance:

1. Missing approval of commitments, and estimates of carry-forward of commitments and accruals for spare parts.
2. Improvements needed in the presentation of the Statement of Budget Execution.

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

The Audit Report was issued to NETMA whose comments have been included, with the IBAN's position on those comments where necessary.

The observations and recommendations and the follow-up of the previous years' observations and recommendations that are not in the Audit Report 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.

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25 August 2021

INTERNATIONAL BOARD OF AUDITORS FOR NATO

**AUDIT 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 2020

PUBLICLY DISCLOSED - PDN(2022)0013 - MIS EN LECTURE PUBLIQUE

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INDEPENDENT EXTERNAL AUDITOR'S REPORT TO THE NORTH ATLANTIC COUNCIL***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 2020, issued under document reference N/8301000N/28411070/204777/21/NU, and submitted to IBAN on 31 March 2021. These Financial Statements comprise the Statement of Financial Position as at 31 December 2020, 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 2020, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a Budget Execution Statement for the 12 month period ended 31 December 2020.

In our opinion, the Financial Statements give a true and fair view of the financial position of NAMMO as at 31 December 2020, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2020, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF).

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 (ISSAI 2200-2899) 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.

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Emphasis of Matter on the Financial Statements

NAMMO disclosed in its Statement of Budget Execution open commitments that include both the carry-forward of commitments and future commitments in relation to contract authority, as defined by the NFRs. We draw attention to the total of open commitments amounting to EUR 750.6 million in the Statement of Budget Execution, which is understated by EUR 47.2 million, as the information used in NAMMO's calculation of the open commitments was incomplete. As this specific disclosure is not required by the NATO Accounting Framework, our audit opinion on the Financial Statements is not modified in respect of this matter.

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 31st 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

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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.

Compliance**Qualified Opinion on Compliance**

Based on the procedures we performed, except for the matter described in the basis of qualification paragraph, 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 Qualified Opinion on Compliance

Third party stakeholders of Participating Nations to NAMMO independently purchased a material amount of at least EUR 106.7 million of spare parts on behalf of NAMMO, and thereby entered into legally binding commitments with NAMMO funds without the prior approval of commitment by the NETMA Financial Controller. This is not compliant with Article 25 of the NFRs.

In addition, the Statement of Budget Execution was drawn on a cash basis, rather than an accrual basis. This is not compliant with Article 25.2 of the NFRs, which states that appropriated funds for which goods and services have been rendered but for which the invoice has not been received by the end of the financial year, shall be recorded as an accrued liability and the commitment shall be reduced. As a result, the expenditure incurred during the financial year includes EUR 42 million that relates to payables and accruals at 31 December 2019, and does not contain EUR 52.1 million that relates to payables and accruals at 31 December 2020. This results in an understatement of the expenditure by approximately EUR 10.1 million.

We have conducted our compliance audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 4000-4899) 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.

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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, 25 August 2021



Daniela Morgante
Chair

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OBSERVATIONS AND RECOMMENDATIONS

IBAN made two observations and recommendations. These findings are listed below and do not impact the audit opinion on the financial statements but impact the audit opinion on compliance:

1. Missing approval of commitments, and estimates of carry-forward of commitments and accruals for spare parts.
2. Improvements needed in the presentation of the Statement of Budget Execution.

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

The Audit Report was issued to NETMA whose comments have been included, with the IBAN's position on those comments where necessary.

The observations and recommendations and the follow-up of the previous years' observations and recommendations that are not in the Audit Report are included in a Management Letter addressed to NAMMO management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under NAMMO executive responsibility.

1. MISSING APPROVAL OF COMMITMENTS, AND ESTIMATES OF CARRY-FORWARD OF COMMITMENTS AND ACCRUALS FOR SPARE PARTS

Reasoning

1.1 The NATO reporting entity NETMA is the agency that manages the procurement and the administration of two operational programmes: the Tornado Programme and the EF2000 Programme. NAMMO is the NATO reporting entity for the Tornado Programme and NEFMO for the EF2000 Programme.

1.2 Article 1 of the NATO Financial Regulations (NFRs) states that these 'Regulations shall govern the financial administration of all civilian and military headquarters and other organizations established pursuant to the North Atlantic Treaty'. The NFRs therefore apply to NETMA, NAMMO and NEFMO.

1.3 In accordance with Article 6 of the NFRs, the Heads of NATO bodies shall "*have a Financial Controller on their staff to be their principal financial advisor and who exercises responsibilities in their name*", among which the responsibility to ensure prior approval of commitments consistent with Article 25 of the NFRs. The NETMA Financial Controller, also referred to as the NETMA Division Leader Finance, serves as the Financial Controller of NAMMO and NEFMO.

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Prior approval of commitments

1.4 With regard to prior approval of commitments, Article 25.1 of the NFRs authorises the Heads of NATO bodies, on approval of their annual and supplementary budget and subject to the concurrence of the Financial Controller, to enter into *“commitments for goods and services to be rendered during the financial year”* and *“contract authority to incur legal obligations in the current financial year for the provision of goods and services for contracts in future financial years.”*

1.5 Concerning the role and the responsibilities of the NETMA Financial Controller, Article 100.1 and 101.2 of the NETMA Financial Rules and Regulations (FRRs) respectively require the NETMA Financial Controller to *“control expenditure on the budgets against budgetary ceilings as approved per Chapter’ and to ‘ensure that the annual Operational Budget (including any supplementary budget approved) is not exceeded.”*

Carry-forward of commitments

1.6 In accordance with Article 25.3 of the NFRs, appropriated funds *“which have been committed, supported by a legal obligation, and for which goods and services have not yet been rendered by the end of the financial year shall be automatically carried forward to be used as soon as possible within the next two following financial years. Appropriated funds committed and carried forward shall be used only for the requirement, supported by a legal obligation, for which they were originally approved.”*

Observations

1.7 Prior to the start of a financial year, the NAMMO Member Nations approve budget appropriations for spare parts. Throughout the financial year, budgetary commitments of funds in relation to spare parts are the result of purchases made on the basis of actual needs for spare parts identified during repair and maintenance activities by the Member Nations.

1.8 Purchases of spare parts are made in conformity with the existing contracts on spare parts between NETMA and its industry partners. These contracts take the form of a framework contract that stipulates the applicable general terms and conditions when purchasing spare parts at industry partners in relation to the Tornado programme.

1.9 The framework contracts result in a contractual commitment since all spare parts have to be purchased in accordance with the applicable contractual terms and conditions. However, a commitment of funds will only exist from the moment that a purchase order of spare parts is released through which NAMMO enters into a legal liability to expend funds.

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1.10 Based on the general terms and conditions of the framework contracts on spare parts, a software platform was set up in 1999 between NETMA, the NAMMO Member Nations and the suppliers of spare parts, which is used for the purposes of:

- Communicating, and consulting, the availability of spare parts;
- Communicating, and consulting, the prices of spare parts. This does however not apply to all spare parts, as suppliers are not contractually obliged to communicate prices in advance (i.e. before issuing supplier invoices);
- Making, and accepting, purchase requests;
- Releasing purchase orders, and as such entering into a commitment of funds;
- Sharing delivery information, and confirming receipt and acceptance of delivery;
- Issuing, and receiving, supplier invoices.

1.11 As part of our review of the NETMA IT environment, IBAN noted that access to the software platform is granted to users that are employed by NETMA, the suppliers of spare parts and the Ministry of Defence (MoD) of NAMMO Member Nations.

1.12 As part of our review of the spare parts purchase process, IBAN found that software users employed by the MoD of NAMMO Member Nations initiate the purchase process by consulting the availability of the spare parts required, after which they can independently issue a purchase request to the supplier through the software platform without any intervention from NETMA.

1.13 It should be noted that purchase requests can be made without a predetermined price in the software system, as suppliers are not contractually obliged to communicate prices in advance (i.e. before issuing supplier invoices).

1.14 NETMA is not notified of the purchase request made on the software platform, nor does any internal procedure or control exist to ensure prior approval of commitment by the NETMA Financial Controller, or other relevant NETMA staff with delegated authority, before the purchase request for spare parts is shared with the supplier.

1.15 Software users employed by the suppliers of spare parts will be notified of the purchase request, after which they can decide to accept or reject the purchase request. If the suppliers accept the purchase request, the software platform will automatically create a purchase order on the basis of the accepted purchase request. The creation of a purchase order results in a commitment of funds on behalf of NAMMO.

1.16 Suppliers can accept purchase requests, and as such accept purchase orders, without agreed prices for spare parts. A commitment of NAMMO funds will exist after the creation of a purchase order, however the value of the existing commitment is unknown.

1.17 When the spare parts are delivered, software users within the MoD will confirm receipt and acceptance of the delivery. The supplier will be notified of this confirmation, and will start preparing an invoice. Once the invoice is received in the software platform, the invoice information will be imported into NETMA's accounting software where the invoice will be approved and processed for payment by the NETMA Finance Division through delegation of authority.

Prior approval of commitments

1.18 The actual approval of the commitment by the NETMA Financial Controller through delegation of authority, only takes place after the receipt of the supplier invoice. This could potentially result in budgetary commitments that exceed budgetary appropriations as any exceeding of the spare parts budget will only be identified after a commitment, and as such a legal liability to expend NAMMO funds, already exists, and after receipt of an invoice.

1.19 In 2020, based on the available prices in the software system, NAMMO committed a material amount of EUR 106.7 million of funds for spare part purchases in accordance with the process described above. This amount does not include those commitments that cannot be quantified due to missing spare parts prices, therefore the actual commitment made by NAMMO exceeds the amount mentioned above. The NETMA Financial Controller, who serves as the Financial Controller of NAMMO and NEFMO was therefore not able to ensure prior approval of commitments consistent with Article 25 of the NFRs, as required by Article 6 of the NFRs.

1.20 Whilst budget appropriations in relation to spare parts are not approved by the NETMA Financial Controller prior to being committed, there is a process in place to track commitments. This includes monthly commitment and budget reports sent to Nations, which allows NETMA to alert Nations if there is a risk that the budget ceiling may be exceeded. However, this process does not ensure 'that the annual Operational Budget (including any supplementary budget approved) is not exceeded' as required by Article 101.2 of the FRRs.

Carry-forward of commitments and accruals

1.21 Missing information on spare part prices does not allow NAMMO to quantify the commitment to be carried forward for those appropriated funds which have been committed, and for which goods and services have not yet been rendered by the end of the financial year. As a result, the "Open Commitments" disclosed in the Statement of Budget Execution are not complete. Presently, NAMMO is unable to provide an estimate of the amount concerned.

1.22 Missing information on spare part prices during the financial statement closure process does not allow NAMMO to quantify the accrual amount for those spare parts that were delivered before the end of the financial year. The current estimation is that the amount of missing accruals at 31 December 2020 is immaterial.

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Recommendations

1.23 IBAN recommends that NAMMO:

- a) Prevent third parties from entering into a commitment of funds for spare parts on behalf of NAMMO;
- b) Introduce internal controls or procedures that ensure prior approval of commitment by the NETMA Financial Controller, or other relevant NETMA staff with delegated authority, for spare parts purchases;
- c) Revise the FRRs on the role, the responsibilities and the authority of the NETMA Financial Controller where necessary, in order to ensure conformity with the NFRs;
- d) Ensure compliance with Article 25.3 of the NFRs by quantifying the commitments to be carried-forward to the next two financial years for all purchases of spare parts;
- e) Ensure completeness of accruals for all purchases of spare parts.

2. IMPROVEMENTS NEEDED IN THE PRESENTATION OF THE STATEMENT OF BUDGET EXECUTION

Reasoning

2.1 NAMMO is fully funded through contributions made by its three NATO member nations. Each of these nations individually approve their annual budget for the financial year based on the expenditure that they expect NAMMO to incur when executing their national activities as part of the NAMMO programme.

2.2 The NAMMO Board of Directors, comprising of representatives from the three NAMMO nations, approves an annual budget on a yearly basis, which is in fact the sum of the approved budgets by each nation individually.

2.3 NAMMO implements a multiannual programme during which it enters into legal obligations that have a multiannual nature. The existing legal obligations result in commitments for goods and services to be rendered during the financial year and during future financial years.

2.4 NAMMO creates purchase orders on the basis of multiannual contracts, which include separate purchase order lines for each contractual project milestone. The contractual completion date of each project milestone is added to the purchase order lines, and adjusted in case of contract amendments.

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2.5 In order to provide relevant information to its member nations, the NAMMO Statement of Budget Execution shows commitments in relation to its multiannual programme on a larger time frame than just the single year covered by the Statement of Budget Execution.

2.6 According to Article 25.1 (a) of the NFRs, on approval of NAMMO's annual and supplementary budget, the General Manager, subject to the concurrence of the Financial Controller, is authorized to enter into commitments for goods and services to be rendered during the financial year.

2.7 According to Article 25.1 (c) of the NFRs, on approval of NAMMO's annual and supplementary budget, the General Manager, subject to the concurrence of the Financial Controller, is authorized to enter into contract authority to incur legal obligations in the current financial year for the provision of goods and services for contracts in future financial years. These legal obligations will be reflected as commitments in future years and not against appropriated funds in the current financial year.

2.8 In accordance with Article 25.2 of the NFRs, appropriated funds *"which have been committed and for which goods and services have been rendered but the invoice has not been received by the end of the financial year, shall be recorded as an accrued liability and the commitment shall be reduced. There is no carry forward in these circumstances since the appropriated funds have been used for their intended purpose."*

2.9 In accordance with Article 25.3 of the NFRs, appropriated funds *"which have been committed, supported by a legal obligation, and for which goods and services have not yet been rendered by the end of the financial year shall be automatically carried forward to be used as soon as possible within the next two following financial years. Appropriated funds committed and carried forward shall be used only for the requirement, supported by a legal obligation, for which they were originally approved."*

2.10 Any appropriated funds which have not been committed shall lapse at the end of the financial year as described in Article 24.2 of the NFRs.

2.11 In relation to appropriated funds, Article 83 of the NETMA Financial Rules and Regulations (FRRs) states the following: *"Credits (funds) will normally be available for expenditure only during the financial year to which they relate. An exception exists however, subject to approval by the Nation concerned, relating to invoices validated and cleared during the financial year, for which funds have been called but not received. These invoices may be paid in the following year, but will be accounted for within the previous year's budget, and will be separately noted in the Annual Financial Statements."*

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Observations

2.12 In its Statement of Budget Execution for financial year 2020, NAMMO presents its approved budget for the financial year, expenditure incurred during the financial year, the unused budget and open commitments.

2.13 Call for funds in relation to the approved annual budget are triggered by the actual need for funds identified during the implementation of the multiannual programme. In practice this means that several call for funds are issued for each Nation individually throughout the financial year based on the invoices that NAMMO expects to pay during the financial year. Therefore the actual funds called do not necessarily match the approved annual budget.

2.14 Expenditure incurred during the financial year as per NAMMO's Statement of Budget Execution is calculated based on the actual payments made during the financial year. Therefore the expenditure for financial year 2020 includes payments made in relation to payables and accruals at 31 December 2019, and does not contain any expenditure incurred in relation to payables and accruals at 31 December 2020.

2.15 As a result, the expenditure incurred during the financial year includes EUR 42 million that relates to payables and accruals at 31 December 2019, and does not contain EUR 52.1 million that relates to payables and accruals at 31 December 2020. This results in an understatement of the expenditure by approximately EUR 10.1 million.

2.16 The Statement of Budget Execution is therefore drawn on a cash basis, rather than an accrual basis. This is not compliant with Article 25.2 of the NFRs, which states that appropriated funds for which goods and services have been rendered but for which the invoice has not been received by the end of the financial year, shall be recorded as an accrued liability and the commitment shall be reduced.

2.17 The unused budget corresponds to the difference between the final approved budget and the expenditure incurred. Any carry-forward of commitments by NAMMO are not taken into account when determining the amount of unused budget, given that these are not quantified and shown in the Statement of Budget Execution. Therefore the unused budget does not correspond to lapsed appropriations as defined in Article 24.2 of the NFRs. Lapsed appropriations as defined in the NFRs cannot be identified in NAMMO's Statement of Budget Execution.

2.18 The open commitments are disclosed by NAMMO as commitments that are *"based on unpaid contract milestones and other unfulfilled commitments. Due to the nature of the programme, commitments in NAMMO are effected for delivery over a period of multiple years."* NAMMO's Statement of Budget Execution presents all unpaid commitments as open commitments that will impact appropriated funds in future years, regardless of the appropriated funds against which they were committed. In practice the amount of open commitments was calculated by subtracting the total amount of payments made in relation to NAMMO's existing purchase orders at

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31 December from the total value committed by NAMMO in its existing purchase orders at 31 December 2020, regardless of the expected completion date of the project milestones.

2.19 The total of open commitments, which represent the unpaid commitments for the NAMMO multiannual programme as a whole at the end of the financial year, amounts to EUR 750.6 million in the Statement of Budget Execution. However this amount is understated by EUR 47.2 million as the information used in NAMMO's calculation of the open commitments was incomplete. The open commitments at 31 December 2020 should therefore amount to EUR 797.8 million in total. As the open commitments also contain commitments related to future budget years, they cannot be linked to the budget appropriations of the financial year.

2.20 IBAN found that NAMMO did not identify any committed funds to be carried-forward to the next financial years in accordance with Article 25.3 of the NFRs. When the appropriated funds were initially committed, and for how many years the appropriated funds have been carried-forward, cannot be identified in the NAMMO Statement of Budget Execution.

2.21 IBAN found that NAMMO did not present its future commitments in accordance with Article 25.1 (c) of the NFRs, which requires that any existing legal obligations through contract authority should be reflected as commitments in future years. In its Statement of Budget Execution, NAMMO does not differentiate between the commitments for goods and services that were initially expected to be rendered during the financial year (i.e. commitments to be carried-forward in the current financial year), and the commitments related to the provision of goods and services for contracts in future financial years (i.e. commitments in future years as a result of contract authority).

2.22 When implementing a multiannual programme, the precise timing of when goods and services will actually be received is often not known or can be subject to change. The contractual milestone completion date included in NAMMO purchase orders is often not accurate, and cannot be used to make a reliable estimate of commitments for goods and services that are expected to be rendered during the financial year.

2.23 The nature of NAMMO's multiannual programme could hinder compliance with other articles of the NFRs that start from the principle of annual budgets such as Article 5 on financial planning, Article 18 on the preparation and submission of the annual budget, Article 19 on the format of the annual budget estimates, Article 22 on interim financing, and Article 23 on revised annual budgets.

Recommendations

2.24 IBAN recommends that NAMMO:

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- a) Amend its current procurement and budget processes in order to comply with Article 24 and 25 of the NFRs, or request Council to approve a deviation from the NFRs which better reflects the specific NAMMO procurement and budget needs;
- b) Assess whether NAMMO's multiannual programme could hinder compliance with other relevant articles of the NFRs that start from the principle of annual budgets, and take appropriate action where necessary by amending internal processes or by requesting Council to approve a deviation from the NFRs which better reflects the specific NAMMO needs;
- c) Revise the FRRs where necessary in order to ensure compliance with the Articles of the NFRs concerned, or to ensure compliance with approved deviations from the NFRs.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

IBAN followed up on the status of observations from the previous years' audit. The observations and recommendations, the 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) NAMMO FY 2019 IBA-AR(2020)0013, paragraph 1</p> <p>MANAGEMENT OF CASH HOLDINGS IN THE CONTEXT OF INCREASED FINANCIAL COSTS</p> <p>IBAN's Recommendation 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:</p>		<p>Observation In-Progress.</p>

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OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>a) Clearly communicating with NAMMO's Board of directors about all issues related to cash holdings and seeking their approval on solutions presented;</p> <p>b) Ensuring that an analysis is made covering all bank accounts and possible new bank accounts, and scenarios regarding forecast economic conditions;</p> <p>c) Developing a policy on exchange rates that addresses the impact of high exchange rate volatility during the year;</p> <p>d) Taking steps to reduce cash holdings per Nation, while mitigating the liquidity risk by ensuring that sufficient funds are available to pay commitments.</p>	<p>a) NETMA performed a review of its cash holdings in 2020, and drafted a NETMA Cash Holdings Policy. The policy was approved by the LFCC, which is responsible for the day to day running and approval of finance matters, but still has to be presented to the Board of Directors for approval. Observation: In-progress.</p> <p>b) During a review of its cash holdings, NETMA made an analysis covering all its bank accounts. NETMA concluded that it was not possible to get better conditions than those offered on its own bank accounts. In accordance with the NETMA Cash Holdings Policy, NETMA will formally ask NAMMO member nations every four years if they wish to run a competition to change their bank accounts given the applicable market conditions and forecasted economic conditions at that time. Observation: Closed</p> <p>c) NETMA explored the possibility of forward buying currency. However NAMMO member nations agreed that they do not wish NETMA to forward buy currency on their behalf, they are willing to accept the risk of buying currency at spot rates. Observation: Closed</p> <p>d) The NETMA Cash Holding Policy Document describes the steps to be followed to reduce the cash holdings to mitigate the liquidity risk. The policy was approved by the LFCC in November 2020, but will fully be implemented for the first time in 2021. Observation: In-progress.</p>	

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OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>(2) NAMMO FY 2018 IBA-AR(2019)0013, paragraph 1</p> <p>IMPROVEMENTS NEEDED IN THE PRESENTATION OF THE STATEMENT OF BUDGET EXECUTION FOR THE OPERATIONAL BUDGET</p> <p>IBAN's Recommendation 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>	Superseded by current year observation.	Observation Closed.

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**NATO EF2000 AND TORNADO DEVELOPMENT, PRODUCTION AND LOGISTICS
MANAGEMENT AGENCY (NETMA) FORMAL COMMENTS ON THE AUDIT
REPORT AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS**

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

GLOSSARY OF TERMS

In accordance with International Standards of Supreme Audit Institutions (ISSAI 2705), 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.

In accordance with auditing standards, three types of paragraphs may also be communicated in the auditor's report:

- Key Audit Matters (ISSAI 2701): Those matters that, in IBAN's professional judgement, were of most significance in the audit of the financial statements of the current period. Key Audit Matters are addressed to Council.
- Emphasis of Matter (ISSAI 2706): If IBAN considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.
- Other Matter (ISSAI 2706): If IBAN considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in our judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

NAMMO



ANNUAL FINANCIAL STATEMENTS 2020

FOR THE PERIOD ENDED 31 DECEMBER 2020



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

The photographs in the following publication have been provided:

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Overview

2020 Financial Statements

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Introduction to the 2020 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. NETMA provides support in the delivery of this direction.

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.

Key points from the Annual Financial Statements

Throughout 2020 NETMA continued to work on the procedural adjustment required by the out of service date of the UK in March 2019, to ensure that its business is carried out efficiently and effectively.

Germany drove major upgrade engineering tasks in 2020. In order to make improvements toward weapon system sustainment, the Supply Chain Management on Tornado was reviewed and a roadmap was created for an End-to-End Supply Chain Management Task approach that consolidates the statement of works for several tasks into one. This was agreed between NETMA and the partner Nations. NETMA is also implementing a NAMMO Assets Strategic Disposal Plan and a NAMMO Assets Disposal Management Plan in order to accelerate the process for disposal of the larger or strategic NAMMO assets which are no longer required.

During the year, in order to reduce the impact of the COVID-19 pandemic, NETMA and the industrial partners have adapted their working practices in order to ensure the health and security of personnel. NETMA liaises closely with its NAMMO prime contractors regarding the entire supply chain, ensuring risks to the programme are identified early and facilitating early intervention on emerging issues. The measures have helped to reduce the impact experienced on the Tornado programme to only slight delays due to COVID-19. Aside from the pandemic, NAMMO experiences strains to the supply chain due to ever-decreasing order quantities for spares, obsolescence issues and economic issues such as bankruptcy to our smaller suppliers.

The Tornado fleets for both Italy and Germany remain in active service and all three NAMMO partner Nations continue to support the programme. NAMMO's financial statements have therefore been prepared on a going concern basis, in line with the assumption that NAMMO will operate as an active management agency for the foreseeable future.

Addressing Previous Audit Observations

The IBAN audit report for the 2019 NAMMO Financial Statements included recommendations for improvements to the production and presentation of the 2020 Financial Statements.

Improvements to the presentation of the Statement of Budget Execution

NETMA has added clarity to the presentation of the NAMMO budget execution statement by changing the term "Future Commitments" used in 2019 to "Open Commitments" for the 2020 Financial Statements.

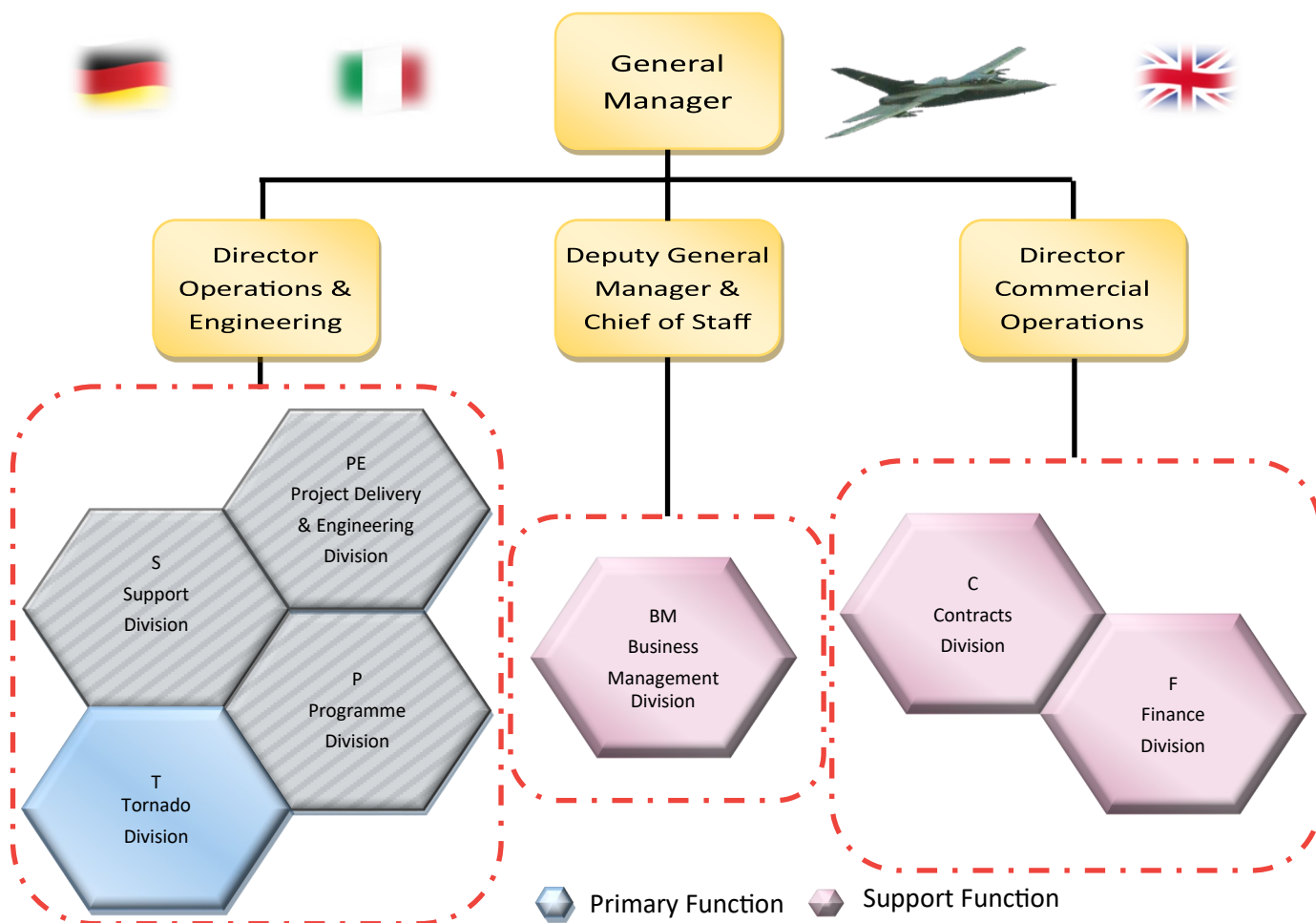
Management of cash holdings in the context of increased financial costs

The IBAN 2019 Report recommended that NETMA put in place a Cash Policy to formalise how it manages cash on the Nations behalf. In response to this issue, NETMA produced a Cash Policy in 2020 which was agreed by Nations.

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:



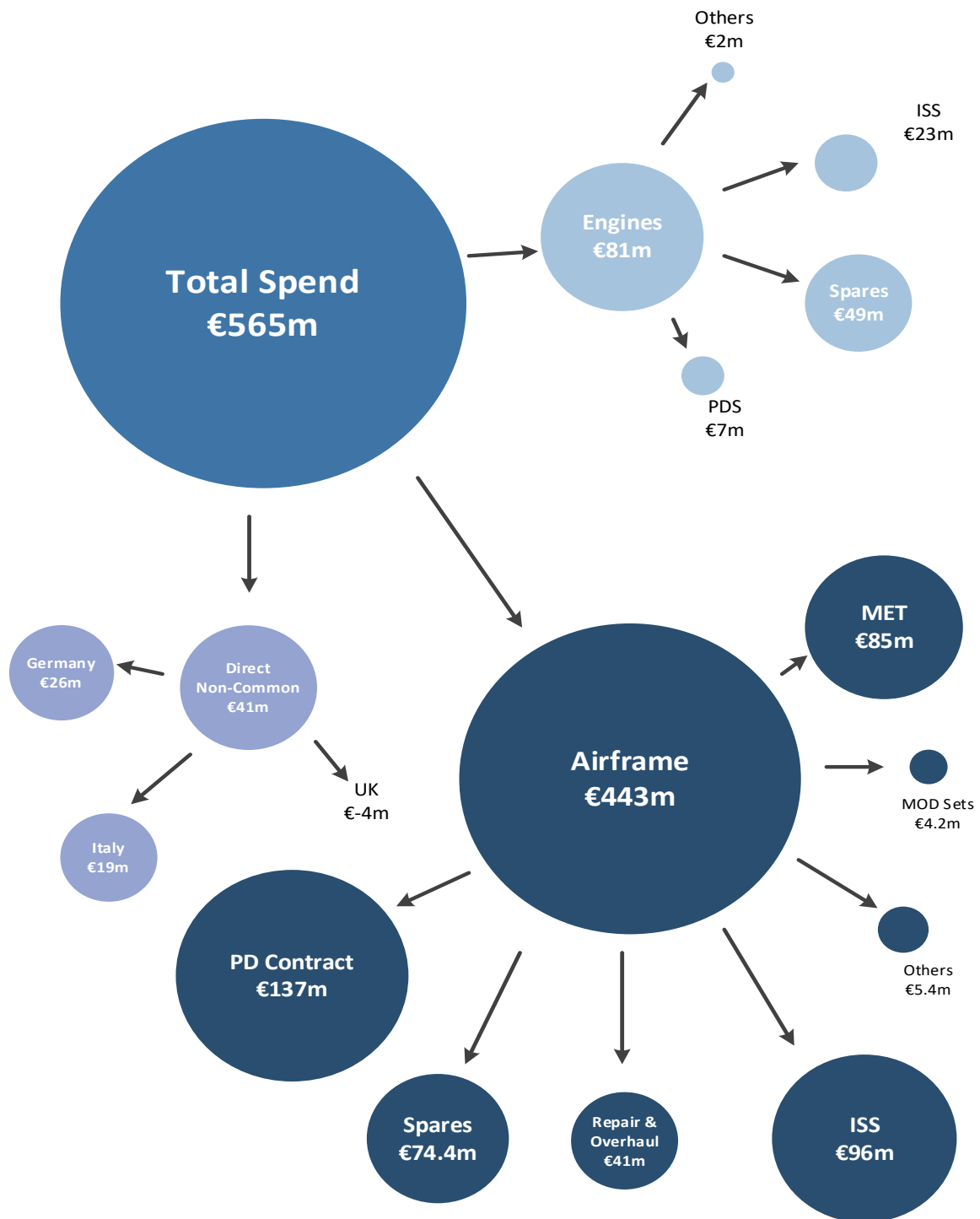
In support of the NAMMO BoD and the Tornado Weapon System, with the last batch of aircraft produced in 1998, the NAMMO structure is organised to deliver the In-Service Support (ISS) requirements. T (Tornado) Division is responsible for the engineering operations and management of the sustainment of the 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. The Business Management Division, made up of Human Resources, IT Management and Business Improvement and Performance, supports the entire NETMA agency. The IT Management department supports the IT Applications which enable Tornado Programme management. These include (but are not limited to) the Agency Integrated Management System (AIMS) for Milestone/Task and Invoice Management, the Enhanced Procurement System-Central Automatic 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 2020

The total expenditure on the Tornado programme through NETMA in 2020 was €565m, an €88m increase from 2019. This is mainly due to an increase in spend driven by Germany, who tasked major engineering upgrades and the integration of them onto their aircraft.

Spend on Tornado is largely focused on the airframe, totalling 79% of all costs, with a further 14% 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 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 that outlines the Nations Priorities and NETMA's Strategic Objectives. The Management Plan focusses on the targets and initiatives developed in support of these, identifying existing plans and governance arrangements through which they are managed and reported. Key risks and dependencies are also captured as part of the planning process and are managed through NETMA processes.
- 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 2020 annual COSO review was undertaken as scheduled in Feb 2021, with the Directors confirming that NETMA meets those requirements.

My review of the effectiveness of the system of internal control is informed by the work of the executive managers within the organization. They 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 2020. The 2020 pandemic has not had any major adverse effect on these controls.

LT GEN MIGUEL ÁNGEL MARTÍN PÉREZ

General Manager

WENDY BRADBURY

Financial Controller

Overview

2020 Financial Statements

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STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

(in thousands of Euros)

	Note	2020	2019 Restated	2019
Assets				
Current assets				
Cash and cash equivalents	B1	204,295	178,625	178,625
Short term investments		0	0	0
Receivables	B1	2,863	158	158
Prepayments		0	0	0
Inventories		0	0	0
		<u>207,158</u>	<u>178,783</u>	<u>178,783</u>
Non-current assets				
Property, plant & equipment		0	0	0
Intangible assets		0	0	0
		<u>0</u>	<u>0</u>	<u>0</u>
Total assets		<u>207,158</u>	<u>178,783</u>	<u>178,783</u>
Liabilities				
Current liabilities				
Payables	B2	55,013	48,491	48,491
Deferred revenue	B3	152,144	130,292	0
Advances	B3	0	0	130,292
		<u>207,158</u>	<u>178,783</u>	<u>178,783</u>
Non-current liabilities				
Provisions		0	0	0
		<u>0</u>	<u>0</u>	<u>0</u>
Total liabilities		<u>207,158</u>	<u>178,783</u>	<u>178,783</u>
Surplus / (deficit)		0	0	0
Reserves		0	0	0
Total net assets		<u>0</u>	<u>0</u>	<u>0</u>

The financial statements on pages 10 to 14 and their associated notes were issued to the International Board of Auditors for NATO on 30th March 2020.



LT GEN MIGUEL ÁNGEL MARTIN PÉREZ

General Manager



WENDY BRADBURY

Financial Controller

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 DECEMBER 2020

(in thousands of Euros)

	Note	2020	2019
Revenue			
Revenue	C1	575,121	489,122
Financial revenue		0	0
Other revenue		0	0
Total revenue		575,121	489,122
Expenses			
Personnel		0	0
Contractual supplies and services	C2	(573,452)	(487,545)
Depreciation and amortisation		0	0
Impairment		0	0
Provisions		0	0
Other expenses		0	0
Finance costs	C3	(1,669)	(1,577)
Total expenses		(575,121)	(489,122)
Surplus / (deficit) for the period		0	0

STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2020

(in thousands of Euros)

	Note	2020	2019 Restated	2019
Cash flow from operating activities				
Surplus / (deficit)	D1	0	0	0
Non-cash movements				
Depreciation / amortisation		0	0	0
Impairment		0	0	0
Increase / (decrease) in payables	D2	6,523	11,463	11,463
Increase / (decrease) in advances	D3	0	0	(25,174)
Increase / (decrease) in deferred revenue	D3	21,852	(25,174)	0
Increase / (decrease) in provisions		0	0	0
(Gains) / losses on sale of property, plant and equipment		0	0	0
(Increase) / decrease in receivables	D4	(2,705)	58	58
Net cash flow from operating activities		25,670	(13,652)	(13,652)
Cash flow from investing activities				
Purchase of property plant and equipment / intangible assets		0	0	0
Proceeds from sale of property plant and equipment		0	0	0
Net cash flow from investing activities		0	0	0
Cash flow from financing activities				
		0	0	0
Net cash flow from financing activities		0	0	0
Net increase / (decrease) in cash and cash equivalents		25,670	(13,652)	(13,652)
Cash and cash equivalents at the beginning of the period		178,625	192,277	192,277
Cash and cash equivalents at the end of the period		204,295	178,625	178,625

STATEMENT OF CHANGE IN NET ASSETS/EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

	PP&E Asset Reserve	Revaluation Reserves	Accumulated Surplus / (Deficit)	Total
(in thousands of Euros)				
Balance at the beginning of the period 2019	0	0	0	0
Changes in accounting policy	0	0	0	0
Restated balance	0	0	0	0
Transfer from accumulated surplus / (deficit)	0	0	0	0
Surplus / (deficit) for the period	0	0	0	0
Balance at the end of the period 2019	0	0	0	0
Changes in accounting policy	0	0	0	0
Restated balance	0	0	0	0
Transfer from accumulated surplus / (deficit)	0	0	0	0
Surplus / (deficit) for the period	0	0	0	0
Balance for the period ended 2020	0	0	0	0

Note

STATEMENT OF BUDGET EXECUTION

FOR THE YEAR ENDED 31 DECEMBER 2020

		Note	(in thousands of Euros)	Initial Budget	Transfers	Budget Adjustments	Final Budget	Expenditure	Unused Budget	Open Commitments
	Budget 2020									
	All nations	E1		551,878	0	69,001	620,879	565,364	55,515	750,647
	Total FY 2020			551,878	0	69,001	620,879	565,364	55,515	750,647

Overview

2020 Financial Statements

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 and it is considered that there are no impediments to continuing with this assumption 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 2020 financial statements, the accounting policies have been applied consistently throughout the reporting period. There have been no changes to NAMMO accounting policy in 2020.

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 2020: 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. No revisions to IPSAS were introduced in 2020, therefore the presentation of the NAMMO Financial Statements 2020 has not been affected.

Restatements

NAMMO has restated the presentation of unearned revenue in the statements of Financial Position and Cash Flow from the 2019 financial statements, where previously this has been reported within advances. For the 2020 statements, unearned revenue has been shown as deferred revenue under current liabilities.

Changes in financial rules and regulations

During 2015 NATO adopted new financial rules and regulations. During 2020 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 2020, with the resulting realised and unrealised gains and losses are recognised in the Statement of Financial Performance.

NAMMO used the following NATO-promulgated exchange rates as at 31st Dec 2020:

EUR – GBP = 1 : 0.8973

EUR – USD = 1 : 1.2151

EUR – SEK = 1 : 10.35

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 €250,000, 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 1st January 2013 on the financial statements. There were no new asset additions or modifications acquired during 2020 that meet the capitalisation criteria.

The PP&E classification for NAMMO was reviewed in 2019 and the defined PP&E asset categories are as follows:

<i>Asset Category</i>	<i>Description</i>	<i>No. & Asset Sub-Category</i>
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/Engine 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 21 Computer/IT HW and SW

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 major NAMMO assets purchased prior to 2013 and still in use is disclosed below:

<i>Asset Category</i>	<i>Asset Sub-Category</i>	<i>Number of Assets</i>
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. One of the assets earmarked for disposal during 2020 still lies on this list, as disposal was not processed during the year.

A number of factors have slowed the disposal of both major and minor assets throughout 2020, such as the restrictions in attending the premises of NAMMO Asset holders in order to view assets to assess suitability for disposal due to the COVID-19 pandemic. In addition to this, significant quantities of disposals in previous years reduced the number of requests for some companies, while upgrade and Life Extension work on the programme has reduced the appetite previously seen for disposal of production assets held for work on extending the life of the airframe.

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 2020 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. Funds are called for prior to 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 to remain on the programme accounts rather than returned to the respective National Treasuries.

Advances

Advances are contributions from member nations called for or received related to future years' budgets.

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 of 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. 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 2020, 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

	2020	2019
Cash accounts	0	0
Clearing cash accounts	0	0
Petty cash and advances	0	0
Current bank accounts	204,295	178,625
Receivables	2,863	158
Bank accounts interest	0	0
Total	207,158	178,783

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 these clearing accounts is zero at the end of the reporting period.

The overall levels of cash holdings has increased in 2020 due to an underspend against one of the Nation's 2020 budgets, where the 2020 budget amount was contributed to the NAMMO bank accounts. This is reflected in the increase shown in Deferred Revenue (p23, note B3).

Receivables

Receivables show the value of the credit notes sent into the agency that are unpaid, as well as the amounts due for Commercial Exploitation Levies as at 31st December 2020.

Liabilities

2. Payables

	2020	2019
Payables to suppliers	52,176	42,133
Payables to non-consolidated entities	0	0
Payables to staff members	0	0
Payables to governments	0	0
Other payables	2,837	6,358
Total	55,013	48,491

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 31st December 2020 is €7.581M compared with the 2019 amount of €3.172M.

After reviewing the manual accrual process in 2019, NETMA carried out the adjustment entered into the accounts by:

- Assessing invoices received between January and the 12th February 2021 with an invoice date prior to 31st December 2020;
- Assessing invoices dated 2021 but relating to work completed in 2020 or prior;
- Assessing milestone data held in the Agency Integrated Management System (AIMS) achieved prior to the 31st December 2020; and
- Reviewing Central Automatic Data Processing System (CADPS) orders delivered but not invoiced prior to the end of the reporting period.

These measures resulted in a 2020 estimated accrual of €44.595M, compared with the 2019 accrual of €38.961M.

Other payables

Other payables mainly relates to income generated from levies (€2.835M).

3. Other Current Liabilities

	2020	2019 Restated	2019
Deferred revenue	152,144	130,292	0
Advances	0	0	130,292
Total	152,144	130,292	130,292

Deferred Revenue

Deferred revenue 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.

Advances

Advance contributions represent funds received for future year budgets. As outlined in notes A, unearned revenue was presented as advances in the 2019 Financial Statements and this presentation has been adjusted to deferred revenue.

The movement on unearned revenue can be reconciled as follows:

	2020	2019
Unearned revenue b/f	130,292	155,466
National contributions	596,839	463,948
Miscellaneous Revenue (excl. bank interest)	4,005	912
Bank Interest received	12	8
Operational Expenditure	(573,452)	(487,545)
Other Operational Expenditure	(3,871)	(912)
Bank interest returned to Nations	(10)	(6)
Miscellaneous financial income / (charges)	(3)	(1)
Foreign exchange gains / (losses)	(1,668)	(1,577)
Unearned revenue c/f	152,144	130,292

C. Notes to Statement of Financial Performance

(in thousands of Euros)

1. Revenue

	2020	2019
National contributions	596,839	463,948
National contributions to be called for	0	0
Other reimbursements	(21,718)	25,174
Total	575,121	489,122

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

The value assigned to "Other reimbursements" is mainly the movement on unearned revenue which represents the deficit / (surplus) of revenue over expenditure in the financial year 2020. The practice is to adjust revenue to increase or reduce accordingly and account for it on the Statement of Financial Position within deferred revenue.

Expenses

Personnel

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

2. Contractual supplies and services

	2020	2019
Operating expenses	(573,452)	(487,545)
PP&E movement	0	0
Total	(573,452)	(487,545)

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 major engineering projects by Germany.

3. Finance costs

	2020	2019
Foreign exchange gain / (loss)	(1,668)	(1,577)
Other financial income / (charges)	(1)	1
Total	(1,669)	(1,577)

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 2020 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)

	2020	2019
Surplus / (deficit)	0	0
Total	0	0

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

	2020	2019
Payables to suppliers	10,043	10,950
Other payables	(3,521)	514
Total	6,523	11,463

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 2020 and 2019 is due to both the greater amount of unpaid invoices at 31st December 2020 (€4.409M) and the change in 2020 manual accruals (€5.634M).

The decrease in other payables is mainly due to amounts previously held for bank interest and programme levies being sent back to National treasuries (€6.358M), offset by additional levies generated from defence programmes payable (€2.835M).

3. Increase / (decrease) in current liabilities

	2020	2019
Advance contributions	0	0
Unearned revenue	21,852	(25,174)
Total	21,852	(25,174)

The movement on unearned revenue represents the accumulated surplus / (deficit) of contributions over expenditure for 2020. The unearned revenue in 2019 was presented within "Increase / (decrease) in advances" and this has been adjusted.

4. (Increase) / decrease in receivables

	2020	2019
National contributions	0	0
Other receivables	(2,705)	58
Total	(2,705)	58

Contributions due represents the change in the nations' debt to the programme from the previous financial year, which was nil at the end of both 2019 and 2020.

Receivables include credit invoices received on PARMIS payables which will be offset against payables in 2021, and levies to the programme due to the NAMMO bank accounts which have caused the increase in receivables (€2.835M).

E. Notes to Statement of Budget Execution

(in thousands of Euros)

1. Budget analysis - 2020

	2020 Budget	2020 Expenditure
All nations initial approved budget	551,878	
In-year budget adjustments	69,001	565,364
Total	620,879	565,364

The budget and actual expenditure figures in the budget execution statement are presented on a cash basis and are 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 2020 the NAMMO nations chose to uplift their budget from the original values by €69.001M 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 by various milestone slippages into 2021 which, as budget is not lapsed, is reflected in the Operational Budget 2021 for Tornado.

For the 2020 Financial Statements the commitments of NAMMO have been reported as “Open Commitments”, based on unpaid contract milestones and other unfulfilled commitments. Due to the nature of the programme, commitments in NAMMO are effected for delivery over a period of multiple years.

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

	2020
NET CASH FLOW FROM OPERATING ACTIVITIES	25,670
- Cash contributions received in year	(596,839)
- Bank interest in year	(12)
- Other reimbursements	(69,824)
GROSS CASH OUTFLOW FROM OPERATING ACTIVITIES	(641,005)
- Bank interest returned to treasuries in year	777
- Other disbursements	75,236
EXPENDITURE PRE EXCHANGE RATE VARIATIONS	(564,992)
- Cash Equivalent Corporate vs actual (gains) / losses	404
- Operational Budget vs actual exchange (gains) / losses	(776)
SCHEDULE 5: EXPENDITURE	(565,364)

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 2020. 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:

	2020
SCHEDULE 2: OPERATING EXPENSES	575,121
- Add: Opening payables and accruals	42,133
- Less: Closing payables and accruals	(52,176)
- Add: Closing receivables	28
- Less: Opening receivables	(158)
- Other reimbursements	46
- Other Financial Income & Charges	(3)
PREDICTED CASH PAYMENTS	564,991
- Cash Equivalent Corporate vs Actual gains / (losses)	(404)
- Operational Budget vs Actual Exchange gains / (losses)	776
PREDICTED EXPENDITURE	565,363
SCHEDULE 5: EXPENDITURE	565,364

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 2020. 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.

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 in 2020, due to the reasons laid out in Part A, *Property, Plant and Equipment* (page 19). Any write-offs/strike-offs are effected through the NETMA Internal Audit section when items are deemed surplus to requirements, obsolete, damaged beyond economic repair or lost, in accordance with NETMA delegated authorities.

