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1 December 2016

DOCUMENT
C-M(2016)0064-AS1 (INV)

IBAN AUDIT ON THE 2015 FINANCIAL STATEMENTS OF THE NATO EF2000 AND TORNADO DEVELOPMENT, PRODUCTION AND LOGISTICS MANAGEMENT AGENCY (NETMA)

ACTION SHEET

On 30 November 2016, under the silence procedure, the Council noted the IBAN report on the 2015 financial statements of NETMA and agreed the RPPB recommendation regarding public disclosure.

(Signed) Rose E. Gottemoeller
Deputy Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2016)0064 (INV).

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16 November 2016

DOCUMENT
C-M(2016)0064 (INV)
Silence Procedure ends:
30 Nov 2016 18:00

IBAN AUDIT ON THE 2015 FINANCIAL STATEMENTS OF THE NATO EF2000 AND TORNADO DEVELOPMENT, PRODUCTION AND LOGISTICS MANAGEMENT AGENCY (NETMA)

1. I attach the International Board of Auditors for NATO (IBAN) report on the audit of the 2015 financial statements of the NATO EF2000 and TORNADO Development, Production and Logistics Management Agency (NETMA).

2. The IBAN report on NETMA sets out an unqualified opinion on the financial statements and an unqualified opinion on compliance.

3. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB) (see Annexes) which has concluded that the unqualified audit opinion on the 2015 financial statements of NETMA reflects the hard work by the Agency's management and staff to implement the range of measures approved by Council in recent years to improve financial and accounting regulations, governance, transparency and accountability.

4. I do not believe that this matter requires discussion in the Council. Consequently, **unless I hear to the contrary by 18:00 hours on Wednesday, 30 November 2016**, I shall assume that the Council has noted the IBAN report on the 2015 financial statements of NETMA and agreed the RPPB recommendation regarding public disclosure.

(Signed) Rose E.Gottemoeller

4 Annexes
1 Enclosure

Original: English

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ANNEX 1
C-M(2016)0064 (INV)

IBAN AUDIT ON THE 2015 FINANCIAL STATEMENTS OF THE NATO EF2000 AND TORNADO DEVELOPMENT, PRODUCTION AND LOGISTICS MANAGEMENT AGENCY (NETMA)

Report by the Resource Policy and Planning Board

References:
a) IBA-A(2016)93 – IBAN audit report
b) Letter from General Manager of NETMA dated 29 March 2016

Introduction

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

Discussion

2. The Board is pleased to note that the IBAN have issued an unqualified audit opinion on the financial statements of NETMA and an unqualified opinion on compliance. The IBAN made one observation and recommendation relate to the application of the articles in the NATO Financial Regulations (NFRs) dealing with internal control, risk management and internal audit.

3. The Board notes the progress that NETMA has already made in complying with these articles and the openness to further improve existing controls and internal audit. The Board invites the Head of Financial Reporting Policy to encourage the sharing of best practice across NATO entities in this area and invites NETMA to contribute in this regard.

4. With regards to public disclosure the RPPB welcomes the clear recommendation from the General Manager of NETMA (reference b)) that the financial statements can be publicly disclosed.

Recommendation

5. The RPPB recommends that Council:

a) note the IBAN report (IBA-A(2016)93) along with the present report;
b) agree to the public disclosure of this report, the IBAN audit (reference a) and the associated 2015 financial statements of NETMA, in line with the agreed policy in PO(2015)0052).

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Summary Note for Council
by the International Board of Auditors for NATO (Board)
on the audit of the Financial Statements of the
NATO EF2000 and Tornado Development,
Production and Logistics Management Agency (NETMA)
for the year ended 31 December 2015

NETMA manages the NAMMO and NEFMO Production and Logistics Organisations programmes and their related budgets.

The Board audited the Financial Statements of the Administrative Budget of NETMA for the year ended 31 December 2015. The total expenditure in 2015 for the Administrative Budget amounted to EUR 49.1 million.

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

There is one observation with recommendations.

For the NETMA General Manager's formal comments, see Annex 4.

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INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF

THE NATO EF 2000 AND TORNADO DEVELOPMENT, PRODUCTION AND LOGISTICS MANAGEMENT AGENCY

(NETMA)

FOR THE YEAR ENDED 31 DECEMBER 2015

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

Report on the Financial Statements

The International Board of Auditors for NATO (Board) audited the accompanying Financial Statements of NETMA, which comprised the Statement of Financial Position as at 31 December 2015, and the Statement of Financial Performance, the Cash Flow Statement and the Statement of Changes in Net Assets/Equity for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies. The Board also audited the Statement of Comparison of Budget and Actual Amounts for the year ended 31 December 2015.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion on Financial Statements

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

Report on Compliance

Management's Responsibility for Compliance

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

Auditor's Responsibility

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

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

Opinion on Compliance

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

Brussels, 23 August 2016

Lyn Sachs
Chairman

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INTERNATIONAL BOARD OF AUDITORS FOR NATO

LETTER OF OBSERVATIONS AND RECOMMENDATIONS

FOR THE THE NATO EF 2000 AND TORNADO DEVELOPMENT, PRODUCTION AND LOGISTICS MANAGEMENT AGENCY

(NETMA)

FOR THE YEAR ENDED 31 DECEMBER 2015

Introduction

The International Board of Auditors for NATO (Board) audited the NETMA Financial Statements for the year ended 31 December 2015, and issued an unqualified opinion on the financial statements and on compliance.

Observations and Recommendations

During the audit, the Board identified one observation and provided one recommendation related to:

- the status in respect to the revised NATO Financial Regulations, particularly those Articles on Internal Control, Risk Management and Internal Audit (Letter of Observations and Recommendations.

The Board also issued a Management Letter (reference IBA-AML(2016)10) to the NETMA General Manager with observations for management's attention.

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

OBSERVATIONS AND RECOMMENDATIONS

1. STATUS IN RESPECT TO THE REVISED NATO FINANCIAL REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT (LETTER OF OBSERVATIONS AND RECOMMENDATIONS)

Reasoning

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

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

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

Observations

1.4 The Board found that NETMA believes that it has many of these elements in place, and has taken additional steps in 2016 to further improve.

1.5 The revised NFRs were only approved by Council in May 2015. In 2014, the Board recommended to the Nations that it would be better to have the revised NFRs become effective as from the beginning of the year following approval. However, the Nations did not agree with these recommendations.

1.6 The Board considers 2015 to be a transition year. It has chosen to report on the progress against certain of these revised Articles of the NFRs, and to make recommendations against that progress. The compliance audit opinion will not be impacted in 2015 as a result of these observations. This will begin as from 2016, though.

1.7 The Board reports the status of the following areas:

Article 11 Risk Management

1.7.1 The Board found that NETMA has developed a documented Risk Management policy and procedures. Such a policy is essential in order to ensure and to clearly demonstrate to others that efficient, effective and economic risk management procedures are in place and that risk management is aligned with NETMA's overall operational and financial objectives.

Article 12 Internal Control

1.7.2 The Board found that NETMA adopted, in June 2016, the internal control framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Such a framework, with the appropriate supporting documentation and procedures, is essential in order to ensure and to clearly demonstrate to others that a complete system of internal controls is in place. NETMA will be working to document compliance with this recently adopted framework.

1.7.3 The Board's audit of the NETMA 2015 Financial Statements did not reveal significant weaknesses in internal control.

Article 13 Internal Audit

1.7.4 The Board found that the NETMA Internal Auditor has used the risk register to help determine the 2015 - 2017 internal audit plan. The NETMA Internal Auditor has performed two audits during the year that have touched upon different topics and areas of internal control. The Board believes that it cannot yet be demonstrated that the NETMA Internal Auditor has fully evaluated, throughout the organisation, the risk exposures and the effectiveness of internal controls in managing risk within the governance, operations and information systems as required by Article 13.

1.7.5 The Board also found that NETMA Internal Audit developed a draft Internal Audit Manual which identified its internal audit standards as the International Standards for the Professional Practice of Internal Auditing as issued by the Institute of Internal Auditors. This is a positive development. Once approved, Internal Audit will need to be able to demonstrate compliance with these auditing standards.

Article 16 Audit Advisory Panel

1.7.6 The Board found that NETMA established an Audit Advisory Panel at the end of 2015 and the first proper meeting was in January 2016 as required by Article 16.

Recommendations

1.8 The Board recommends that:

a) NETMA continue its process of systematically documenting internal control procedures supporting the framework in compliance with the recently adopted COSO. In the Board’s opinion, this should be coordinated to ensure a common framework across NATO Bodies.

b) the draft NETMA Internal Audit Manual be finalised, and that NETMA Internal Audit should ensure that it is able to demonstrate compliance with the auditing standards included in the manual (International Standards for the Professional Practice of Internal Auditing), and is fully evaluating risk management and internal control throughout NETMA, and that this work is clearly documented so as to demonstrate compliance against NETMA’s chosen Internal Control Framework.

Comments of the General Manager, NETMA

The agency welcomes your assessment at paragraphs 1.7.1, 1.7.3 and 1.7.6 that NETMA is already in compliance with the revised NFRs regarding risk management, internal control and audit advisory panel.

The agency notes the board's concern over the scope of internal audit at paragraph 1.7.4 and the corresponding recommendation at paragraph 1.8(b) and will review this issue prior to the audit of the 2016 Annual Financial Statements.

With respect to the board's recommendation at 1.8(a), the agency wishes to reiterate that adoption of COSO, or any other formal internal control framework, is not mandated by the NFRs. The IBAN audit did not identify any weaknesses in the current system of internal control maintained by NETMA and the agency believes that the current system of internal control is robust. The COSO methodology is being adopted by the agency primarily to help describe the existing system of control to external stakeholders, in a more transparent manner, which may also offer opportunities, in parallel, to further improve existing controls and internal audit. Adoption of such a framework remains optional and therefore, the maturity of implementation of it should not form part of the assessment for compliance audit purposes, either now or in the future.

NETMA ANNUAL FINANCIAL STATEMENTS

PERIOD ENDED 31 DECEMBER 2015

NATO
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NETMA
NATO EF2000 AND TORNADO DEVELOPMENT, PRODUCTION AND LOGISTICS MANAGEMENT AGENCY

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NETMA Background

NATO EF2000 and Tornado Development, Production and Logistics Management Agency (NETMA) is an agency formed jointly by NAMMO (NATO Multi-Role Combat Aircraft Development, Production and In-Service Support Management Organisation) and NEFMO (NATO European Fighter Aircraft Development, Production and Logistics Support Management Organisation). in 1996 to manage procurement for and the administration of the two programmes within the framework of NATO and established by the North Atlantic Council pursuant of Article 9 of the North Atlantic Treaty and within the meaning of the Agreement on the Status of the North Atlantic Treaty Organisation, National Representatives and International Staff, signed in Ottawa on 20th September 1951. The operations of NETMA concerning NAMMO and NEFMO are controlled by a Joint Steering Committee of the three NAMMO nations and the four NEFMO nations involved in the programmes.

It is based in Halbergmoos, Germany (having moved from Unterhaching, Germany in May 2015) and is an Executive Body created by charter to administer the functions of two NATO Production and Logistic Organisations (NPLOs). The two NPLOs are NAMMO and NEFMO.

The budgetary organisation of NETMA is funded by the four member nations – Germany, Italy, Spain and United Kingdom. Budget approval is given jointly by the Boards of Directors of NAMMO and NEFMO. As a NATO agency, NETMA is exempt from taxation relating to operating revenue and expenses, where VAT is incurred this is recovered directly from the host nation’s tax office.

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STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2015

(in thousands of Euros)	Notes	2015	2014
Assets			
Current assets			
Cash and cash equivalents	B1	21,253	16,997
Short term investments		0	0
Receivables	B2	497	1,548
Prepayments	B3	0	420
Inventories		0	0
		21,750	18,965
Non-current assets			
Property, plant & equipment	B4	215	351
Intangible assets		0	0
		215	351
Total assets		**21,965**	**19,316**
Liabilities			
Current liabilities			
Payables	B5	1,096	1,471
Deferred revenue		0	0
Advances	B6	19,870	17,494
		20,966	18,965
Non-current liabilities			
Provisions		0	0
Other Long Term Liabilities	B7	784	0
		784	0
Total liabilities		**21,750**	**18,965**
Surplus/Deficit	B8	(136)	112
Reserves	B9	351	239
Total net assets		**215**	**351**

The financial statements on pages 7 to 11 and their associated notes were issued to the International Board of Auditors for NATO on 31st March 2016.

AVM GRAHAM FARNELL CB OBE RAF
General Manager

MR LESLIE MILLAR
Financial Controller

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 DECEMBER 2015

(in thousands of Euros)	Notes	2015	2014
Revenue			
Revenue	C1	48,980	50,923
Financial revenue		0	0
Other revenue		0	0
Total revenue		**48,980**	**50,923**
Expenses			
Personnel	C2	36,069	35,639
Contractual supplies and services - Buildings & Maintenance	C3	7,684	9,981
Contractual supplies and services - IT Services	C4	5,091	4,932
Depreciation and amortisation	C5	194	160
Impairment		0	0
Provisions		0	0
Other expenses		0	0
Finance costs	C6	78	99
Total expenses		**49,116**	**50,811**
Surplus/(Deficit) for the period		**(136)**	**112**

STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2015

(in thousands of Euros)	Notes	2015	2014
Cash flow from operating activities			
Surplus/(deficit)	D1	(136)	112
Non-cash movements			
Depreciation/ amortisation	D2	194	160
Impairment			
Increase /(decrease) in payables	D3	(375)	290
Increase/ (decrease) in advances	D4	2,376	(294)
Increase/ (decrease) in other liabilities	D5	784	0
Increase/ (decrease) in provisions	D6	420	(420)
(Gains)/losses on sale of property, plant and equipment		0	0
Decrease/ (Increase) in receivables	D7	1,051	(790)
Net cash flow from operating activities		**4,315**	**(942)**
Cash flow from investing activities			
Purchase of property plant and equipment / Intangible assets	D8	(58)	(272)
Proceeds from sale of property plant and equipment		0	0
Net cash flow from investing activities		**(58)**	**(272)**
Cash flow from financing activities		0	0
Net cash flow from financing activities		**0**	**0**
Net increase/(decrease) in cash and cash equivalents		**4,257**	**(1,214)**
Cash and cash equivalent at the beginning of the period		**16,997**	**18,211**
Cash and cash equivalent at the end of the period		**21,253**	**16,997**

STATEMENT OF CHANGE IN NET ASSETS/EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2015

(in thousands of Euros)		PP&E Asset Reserve	Revaluation Reserves	Accumulated surplus/deficit	Total
Balance at the beginning of the period 2014		**196**	**0**	**43**	**239**
Changes in accounting policy		0	0	0	**0**
Restated balance		**196**	**0**	**43**	**239**
Transfer from Accumulated Surplus / Deficit		43	0	(43)	0
Surplus/(deficit) for the period		0	0	112	112
Balance at the end of the period 2014		**239**	**0**	**112**	**351**
Changes in accounting policy		0	0	0	**0**
Restated balance		**239**	**0**	**112**	**351**
Transfer from Accumulated Surplus / Deficit	D1	112	0	(112)	0
Surplus/(deficit) for the period	D1	0	0	(136)	(136)
Balance for the year ended 2015		**351**	**0**	**(136)**	**215**

STATEMENT OF BUDGET EXECUTION

FOR THE YEAR ENDED 31 DECEMBER 2015

(in thousands of Euros)		Initial budget	Transfers	BA1	Transfers	Final budget	Commitments	Expenses	Carry forward	Lapsed
Budget 2015										
Chapter 1 Personnel costs	E1	39,386	0	0	0	**39,386**	35,575	35,407	168	3,811
Chapter 2 Agency support costs	E1	4,019	0	0	0	**4,019**	3,752	3,646	106	267
Chapter 3 Process and IT management	E1	5,081	0	0	0	**5,081**	4,866	4,404	462	215
Total FY 2015		**48,486**	**0**	**0**	**0**	**48,486**	**44,193**	**43,457**	**738**	**4,293**
Chapter 1 c/o from 2014		**188**	**0**	**0**	**0**	**188**	77	77	0	111
Chapter 2 c/o from 2014		**310**	**0**	**0**	**0**	**310**	304	304	0	6
Chapter 3 c/o from 2014		**964**	**0**	**0**	**0**	**964**	855	855	0	109
Historical c/o		491	0	0	0	491	345	265	50	176
Total		**50,439**	**0**	**0**	**0**	**50,439**	**45,774**	**44,958**	**788**	**4,695**

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A. Significant Accounting Policies

Basis of preparation

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

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

The financial statements have been prepared on a going-concern basis. NATO Agency reform, which was approved by the Heads of State and Government at the Lisbon Summit in 2010, continues to mature. A new integrated NATO Procurement entity will be established to meet the needs of new procurement programmes, but none of the existing NATO agencies intend to integrate into this new organisation. In addition, at this stage, there is no intent to merge additional NATO agency support activity into the NATO Support Agency (NSPA). The route to implement shared services across NATO continues to develop, with the decision to implement shared services for Human Resource and General Procurement activities, mandatory for the core NATO Bodies. The broadening of the use of these services to other NATO entities could be agreed at an appropriate time and NETMA, like other similarly funded NATO Agencies, has taken the view that integration with these activities could be considered when a proven benefits case for the specific activity can be demonstrated. In the light of the anticipated impact of these initiatives on the programme it is considered that there are no impediments to continuing on a going concern basis for the foreseeable future.

The financial statements have been prepared on the 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 using historical costs have been applied consistently throughout the reporting period.

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

Accounting estimates and 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 2015 Financial Statements the accounting policies have been applied consistently throughout the reporting period. There have been no changes to NETMA accounting policy in 2015.

Restatements

NETMA has not restated any balances in the 2014 financial statements.

Changes in financial rules and regulations

During 2015 NATO adopted new financial rules and regulations. These financial statements have been produced in line with these financial rules and regulations.

Foreign currency

These financial statements are presented in Euros, which is the NETMA functional and reporting currency. Foreign currency transactions are translated into Euros at the NATO exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at year-end are translated into Euros using the NATO exchange rates applicable at 31 December 2015. The resulting realised and unrealised gains and losses are recognised in the Statement of Financial Performance.

Consolidation

The NETMA financial statements are not consolidated.

Financial instruments disclosure/presentation

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

Financial risk factors

Credit risk

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

Liquidity risk

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

Currency risk

The majority of transactions associated with the administrative budget are contracted in Euros and in order to have the required funding, NETMA also asks nations to provide their contributions in Euros. Therefore the exposure of financial instruments to foreign currency exchange risk associated with the administrative budget is considered negligible.

Interest rate risk

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

Assets

The entity 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.

Contribution receivables are recognised when a call for contribution has been issued to the member nations. No allowance for impairment loss is recorded with respect to member nations' assessed contributions receivable. Other receivables include those from staff and external sources such as German MoD in relation to VAT receivable.

Property, Plant and Equipment

The categories of Property, Plant and Equipment (PP&E) relevant for NETMA are detailed below:

> Land and Buildings: The agency's office accommodation is subject of a building lease and therefore not capitalised as PP&E. The office accommodation has been determined as an operating lease and, in accordance with IPSAS 13 - Leases, is expensed on a straight-line basis over the lease term. For 2015 this has resulted in the creation of a long term liability due to a rent free period at the start of the contract on the new premises in Hallbergmoos. This liability will be unwound against rental payments on a straight line basis over the duration of the lease.

Office Furniture and Equipment: This includes items of non-aggregated office furniture, installed equipment (i.e. security installations and air conditioning units), and other miscellaneous office items (i.e. lamps, fans, projectors, printing equipment). Items in this category are depreciated on a straight line basis over a ten year period which equates to their useful life. It is assumed an item is fully depreciated with nil residual value at the end of its useful life.

IT and Communications Equipment: This consists of Commercial-Off-The-Shelf purchase of (COTS) computer systems (hardware and software), and communications equipment (i.e. telephones, faxes and accessories). Items in this category are depreciated on a straight line basis over a three year period. It is assumed an item is fully depreciated with nil residual value at the end of its useful life.

In accordance with IPSAS 17, PP&E are recognised as tangible assets when it is probable that future economic benefits or service potential associated with the item will flow to the entity and the cost or fair value can be measured reliably. PP&E with the exception of land are stated at cost less accumulated depreciation and accumulated impairment losses. NETMA's capitalisation threshold is €15,000, items with a purchase cost or fair value on acquisition above this threshold are capitalised and items falling below this threshold are fully expensed in the year of procurement.

For new asset additions during the year, the gross value of an asset is capitalised as PP&E on the Statement of Financial Position. The revenue for the 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.

Leases

As stated above the office accommodation has been determined as an operating lease and, in accordance with IPSAS 13 - Leases, is expensed on a straight-line basis over the lease term.

Liabilities

Payables

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

Unearned revenue

Unearned revenue represents contributions from member nations and/or third parties that have been called for in current or prior years' budgets and that have not yet been recognised as revenue. Unearned revenue also includes miscellaneous income that nations have instructed remain on the programme accounts rather than be returned to the respective National Treasuries.

Advances

Advances are contributions from member nations called or received related to future years' budgets. Funds are called for in advance of their need because NETMA has no capital that would allow it to pre-finance any of its activities.

Revenue and expense recognition

Revenue

Revenue comprises of contributions from the four contributing nations: Germany, Italy, Spain and United Kingdom and other revenue earned during the period. Contributions from the four nations are called for quarterly in advance. Other revenue earned during a financial period includes bank interest and miscellaneous recoveries from staff for car parking and telephone calls.

Revenue is recognised to the extent that it is probable that economic benefits will flow to NETMA and revenue can be measured reliably. Where a transfer is subject to conditions that, if unfulfilled, require the return of the transferred resources, NETMA recognises a liability until the condition is filled.

Nation's contributions to the administrative budget are initially recorded as unearned revenue liabilities. They are recognised as revenue on the statement of financial performance when such contributions are used for their intended purpose as envisioned within the approved budget.

Expenses

The NETMA financial statements cover the running costs of the agency and of the NAMMO and NEFMO programmes. These costs cover pay and personnel, utilities, rental payments and those costs associated with information management support.

Cash-flow statement

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

B. Notes to Statement of Financial Position

(in thousands of Euros)

1. Cash and cash equivalents

	2015	2014
Cash accounts	21,251	16,990
Clearing cash accounts	0	0
Petty cash and advances	2	1
Current bank accounts	0	0
Cash equivalents	0	0
Bank accounts interest	0	6
Total	**21,253**	**16,997**

NETMA operates one bank account into which all contributions are received and payments to suppliers are made. Interest earned is accumulated on an associated account and in the subsequent year is transferred to the main account to offset future Calls for Funds where permitted under National procedures. The petty cash accounts enable small, essential purchases to be made quickly and are reconciled on a monthly basis.

The reasons for the variance between 2015 and 2014 on the main account is that funding has been received as an advance from the UK and Italy relating to 2016's first quarter Call For Funds, this has been reflected within the advances.

2. Receivables

	2015	2014
Contribution receivable from nations	0	0
Receivables from non-consolidated entities	489	1,508
Recoverable from taxes	0	0
Receivables from staff members	8	40
Other receivables	0	0
Total	**497**	**1,548**

Receivables from non-consolidated entities

Represent receivables recoverable from MoD Germany with regards to VAT charged in 2015.

Receivables from staff members

Receivables from staff members relate to the outstanding recoveries from advances of salaries made in the year. This account has been reconciled with payroll records at year end.

3. Prepayments

	2015	2014
Suppliers	0	419
Staff	0	1
Total	**0**	**420**

Prepayments in 2014 were made to suppliers in respect of invoices paid for services received during 2014 and future rental payments for January 2015, there have been no prepayments in 2015 relating to 2016.

4. Property, Plant and Equipment

	2015	2014
PP&E	215	351
Total	**215**	**351**

The new office accommodation in Hallbergmoos is deemed to be under an operating lease arrangement and therefore is not capitalised. The Agency controls two types of PP&E and is responsible for replacement and maintenance of these assets; Office Furniture & Equipment, and IT & Communications Equipment. The capitalisation threshold for all PP&E is €15,000.

As at 31 December 2015 only items within IT and Communications Equipment met the criteria for capitalisation. This consists of Commercial Off The Shelf purchase of (COTS) computer systems (hardware and software), and communications equipment (i.e. telephones, faxes and accessories). IT and Communications assets are measured at cost less depreciation. Depreciation is calculated on a straight-line basis over the useful life of IT and Communications Equipment. All new Office Furniture and Equipment purchases in 2015 have been expensed due to them not meeting capitalisation thresholds and the agency's policy on not aggregating this category of assets.

In accordance with IPSAS 17, below is a reconciliation of the carrying amounts for Property, Plant and Equipment:

	2015	2014
Cost		
Opening Balance	**351**	**239**
Additions	58	272
Disposals	0	0
Depreciation	(194)	(160)
Closing Balance	**215**	**351**
Gross carrying amount	1,240	1,182
Accumulated depreciation	(1,025)	(831)
Net Carrying Amount	**215**	**351**

5. Payables

	2015	2014
Payables to suppliers	7	45
Payables to non-consolidated entities	0	0
Payables to staff members	0	0
Payables to governments	0	0
Other payables	1,089	1,426
Total	**1,096**	**1,471**

Payables to suppliers

Amounts payable to suppliers represents invoices for work undertaken but not yet paid. This account is reconciled to the payables sub-ledger within the financial system operated by NETMA on a monthly basis.

Other payables

Other payables are made up of the manual accrual figure which is made up of two elements. The first element relates to goods and services provided during 2015, an estimate is undertaken by reviewing invoices paid in January and the first 2 weeks of February 2016. The estimated accrual for goods and services as at 31 December 2015 is €572K . The other element is the estimated accrual relating to unpaid leave, this is based on the untaken leave carried forward as at 31 December 2015 multiplied by the average salary costs per day. This results in an accrual of €517K compared with the 2014 accrual of €406K.

6. Advances

	2015	2014
Advance contributions	12,915	13,826
Other advances	6,954	3,668
Total	**19,870**	**17,494**

Advance contributions

Advances include funding for NETMA relocation and Business Model Review Benefits Tracking support activities as well as an amount from the UK and Italy received in December 2015 for the first call for funds of 2016.

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

	2015	2014
Unearned revenue b/f	**3,668**	**3,062**
National contributions	52,141	51,369
Miscellaneous revenue (excl bank interest)	126	160
Bank interest	0	6
Less:		
Operational expenditure	48,454	50,923
Bank Interest offset in future CFFs	0	5
Bank interest returned to nations	0	1
Miscellaneous financial charges / (income)	78	0
Yr End adjustments / FX gains / (losses)	449	0
Unearned revenue c/f	**6,954**	**3,668**

7. Other long term liabilities

	2015	2014
Operating lease liability	784	0
Total	**784**	**0**

In May 2015 the agency moved into new office accommodation in Hallbergmoos. Due to delays in this move, rent will not be charged until September 2016, despite the lease being signed from 1st December 2014. Therefore in accordance with IPSAS 13, a liability for rental payments over the rent free period has been created and will be unwound against actual payments over the life of the lease.

8. Accumulated surpluses / (deficits)

	2015	2014
Accumulated surpluses / (deficits)	(136)	112
Total	**(136)**	**112**

The accumulated deficit balance represents in year movements relating to PP&E. The deficit for 2015 results from in year depreciation charges totalling (-€194K) and recognition of new assets acquired and capitalised as PP&E (+€58K). This deficit is transferred to Reserves at the close of each financial year.

9. Reserves

	2015	2014
PP&E asset reserve	351	239
Total	**351**	**239**

The PP&E asset reserve represents the nations equity in PP&E. IT & Communications equipment assets are capitalised and accounted for at their net carrying amount (i.e. gross historical purchase costs less accumulated depreciation). At the end of 2014, the PP&E asset reserve was increased by the accumulated surplus of €112K resulting in an opening Net Assets balance as at 1st January 2015 of €351K. As a result of 2015 asset additions (+€58K) and depreciation charges (-€194K) the closing net assets as at 31 December 2015 have decreased by €136K to €215K.

C. Notes to Statement of Financial Performance

1. Revenue

	2015	2014
National contributions	52,141	51,369
National contributions to be called for	0	0
Other reimbursements	(3,161)	(446)
Total	**48,980**	**50,923**

National contributions represent the funds provided by nations to support NETMA in fulfilling its objectives under the administrative budget. Funding is normally called for quarterly in advance.

Other reimbursements includes recoveries from nations in support of the overall NETMA Programme, the movement on unearned revenue which represents the excess of revenue over expenditure in the financial year and recoveries from staff employed by the agency.

2. Expenses - personnel

	2015	2014
Pay and overtime	22,198	21,704
Allowance	5,371	5,529
Pension	2,606	2,541
Medical and insurance	4,068	4,319
Travel	1,827	1,546
Total	**36,069**	**35,639**

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

NATO introduced the Defined Contribution Pension Scheme (DCPS) on 1st July 2005. The scheme is a money purchase pension scheme which is funded by NETMA and the staff member. This pension scheme is compulsory for all new entrants. NETMA's contribution is 12% of the value of the Basic Salary. Pension costs are predominantly for those members in the DCPS, however one member remains on the old Provident Fund scheme. Both schemes are administered and accounted for centrally by NATO IS.

Travel costs include duty travel, home leave travel, removals and travel for interviews and repatriation.

At the year-end, NETMA has 252 established posts. A breakdown of wages, salaries and employee benefits is provided below. An increase in pay costs relates to an increase in NATO pay scales starting in January 2015 applied to all staff.

	2015	2014
Employee benefits expense	31,626	31,543
Post employee benefits		
- For defined contribution pensions scheme	2,606	2,541
Untaken leave accrued	517	406
Total employee benefits expense	**34,749**	**34,490**

Untaken leave

Untaken leave at year-end may be carried-over to the following year. NETMA has taken measures to ensure all leave is taken by 30 April of the following year in accordance with the CPRs.

Related Parties Disclosure

The key management personnel of NETMA have no significant related party relationships that could affect the operation of NETMA. NETMA is led by 4 directors, one for each participating Nation. They are remunerated in line with NATO pay scales as are all other NETMA staff.

	2015	2014
Key management remuneration	**898**	**905**

The figure for 2015 is lower than 2014 due to a change in one of the 4 directors which resulted in the new incumbent being on a lower salary increment than the predecessor.

Representation allowance

As per PO(2014)0154 dated 27 March 2013, expenditure on the representation allowance by the qualifying officials totalled €12,679 and is broken out below.

	2015	2014
Rent supplement	3,173	3,173
Hospitality expenses	9,506	9,480
Total	**12,679**	**12,653**

3. Expenses - buildings and maintenance

Contractual supplies and services

	2015	2014
Building rent and maintenance	6,544	8,770
Security	581	576
Other costs	560	635
Total	**7,684**	**9,981**

Building costs include rent of the Agency's accommodation (€1.820M), utilities and cleaning. Security costs are predominantly those of the contracted out guard service. Other costs include office supplies, the rental of reprographic equipment and the costs for the canteen services that have been outsourced.

During 2015, NETMA moved from its previous accommodation in Unterhaching Munich to Hallbergmoos North of Munich. For the new accommodation NETMA signed a contract on 27th September 2013 to lease the new office building to 30th November 2024. Although a firm price has been agreed, the contract incorporates a clause whereby a rental increase or reduction can be triggered after the first three years if inflation in Germany varies by more than 5% based on the consumer price index. Utility payments are subject to an annual review and can vary on the basis of actual usage of the previous year. The contract includes an option to extend the lease for a further two periods of 5 years.

In accordance with IPSAS 13 – Leases, the table below details obligations under the Operating Leases as at 31 December 2015: (For the new building, both building and garage costs are combined)

Buildings:	**2015**	**2014**
Not later than one year	239	2,633
Later than one year and not later than five years	3,537	3,251
Later than five years	4,347	3,996
Utilities:		
Not later than one year	272	541
Later than one year and not later than five years	1,089	1,089
Later than five years	1,338	1,338
Garage: (included in Buildings from 2015)		
Not later than one year	0	163
Later than one year and not later than five years	0	286
Later than five years	0	352

4. Expenses - IT services

Contractual supplies and services

	2015	2014
Communication	278	78
Information technology support	4,813	4,854
Total	**5,091**	**4,932**

The major cost elements in this category are for consultancy and outsourced support costs for the Agency's information systems.

5. Depreciation and amortisation

	2015	2014
Depreciation and amortisation	194	160
Total	**194**	**160**

PP&E is depreciated on a straight-line basis over the useful life of the asset. The depreciation charge relates to IT and Communication Equipment assets capitalised by NETMA.

6. Finance costs

	2015	2014
Foreign exchange gain /loss	1	2
Other charges	77	97
Total	**78**	**99**

Translation gains and losses occur when assets held in foreign currencies are converted to a Euro value at the closing NATO-promulgated exchange rates for the financial period. The only balance affected by translation gains and losses is the holding of British stamps.

Realised gains and losses occur when currency transactions are paid or received at a different rate to that which the expense or income was accounted when accrued for.

Other charges include VAT expensed during the year.

D. Notes to Statement of Cash Flow

1. Surplus / (deficit) from operating activities

	2015	2014
Surplus / (deficit)	(136)	112
Total	**(136)**	**112**

This represents the deficit from normal operating activities before interest, depreciation and financial charges such as exchange differences arising from transactions. The previous years balance is transferred from Surplus / Deficit into Nation Reserves in PP&E in the following year.

2. Depreciation / amortisation

	2015	2014
Depreciation and amortisation	194	160
Total	**194**	**160**

This represents the annual depreciation on PP&E which is calculated on a straight line basis.

3. Payables

	2015	2014
Payables to suppliers	(376)	291
Other payable	1	(1)
Total	**(375)**	**290**

The movement on payables to suppliers in 2015 represents a decrease in the outstanding liabilities from 2014. The decrease is attributable to the lower estimate for accrued expenditure based on a review of invoices accounted for in early 2016 with 2015 invoice dates.

4. Advances

	2015	2014
Advance contributions	3,153	(816)
Other contributions	(4,064)	(84)
Unearned revenue	3,286	606
Total	**2,376**	**(294)**

Advance contributions represent the funds received from nations for the next financial year. The movement is due to a large number of advance contributions being received.

Other Contributions represent the movement on Italian Duty Travel and expenditure on relocation from Unterhaching to Halbergmoos.

The movement on Unearned Revenue represents the surplus for the financial year that is reflected by an adjustment to the contributions received in year.

5. Increase / (decrease) in other liabilities

	2015	2014
Operating lease liability	784	0
Total	**784**	**0**

This reflects the movement created by the operating lease liability explained at Note B7.

6. Increase / (decrease) in prepayments

	2015	2014
Prepayments	420	(420)
Total	**420**	**(420)**

Prepayments in 2014 equated to rent paid on the first quarter of 2015 accommodation in Unterhaching. There were no rental prepayments in 2015.

7. (Increase) / decrease in receivables

	2015	2014
National contributions	0	0
VAT	1,022	(777)
Other receivables	29	(13)
Total	**1,051**	**(790)**

Decrease in VAT receivable is linked to the timing of the VAT refund from the host nation. Other receivables relate to monies owed from NETMA Staff members.

8. Purchase of Property Plant and Equipment.

	2015	2014
PP&E additions	(58)	(272)
Total	**(58)**	**(272)**

The balance represents the increase in PP&E for 2015 through the additional purchase of IT risk management products.

E. Notes on Statement of Budgets Execution

1. Budget analysis - 2015

	2015	2014
Chapter 1 -2015	39,386	38,286
Total	**39,387**	**38,286**

There was an underspend of €3,980M against the budget for 2015 due to NETMA experiencing lower staff churn than anticipated, delay's in replacement staff arriving and vacancies in post. There was an unexpected decrease of the Health Insurance premiums resulting in lower than anticipated spend against the pay budget. The return of the lapsed credits will be agreed with nations in 2016.

	2015	2014
Chapter 2 – 2015	4,019	4,198
Total	**4,019**	**4,198**

In 2015 for Chapter 2 NETMA spent 9% less than budget due to lower than anticipated expenditure on security and maintenance costs. The return of the lapsed credits will be agreed with nations in 2016.

	2015	2014
Chapter 3 – 2015	5,081	5,150
Total	**5,081**	**5,150**

In 2015 for Chapter 3 NETMA spent 13% (€677K) less than the approved budget. This was caused by lower than budgeted costs for IT Consultancy. Where applicable the return of the lapsed credits will be agreed with nations in 2016.

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

	2015	2014
NET CASH INFLOW FROM OPERATING ACTIVITIES	**4,315**	**(940)**
- Cash contributions received in year	(52,141)	(50,464)
- Bank interest in year	0	(7)
- VAT reimbursement from Germany MoD	(2,347)	(1,089)
- Other cash revenue in year	0	(205)
GROSS CASH OUTFLOW FROM OPERATING ACTIVITIES	**(50,173)**	**(52,705)**
- Recoverable VAT paid in year	479	1,500
- Madrid line funded by Spain	30	24
- Interest transferred to Treasury - Italy	0	2
- Lapsed credits returned to nations	423	1,639
- 2012 lapsed credit offset against contributions	0	(275)
- Prepayments to suppliers	0	(419)
- Other movements	446	0
- Other cash payments in year	13	99
- NETMA relocation costs excluded from budget	3,891	6,492
PREDICTED BUDGET CASH PAYMENTS	**(44,891)**	**(43,644)**
SCHEDULE 5: EXPENSES	**(44,957)**	**(43,656)**

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

	2015	2014
SCHEDULE 2: EXPENSES	**49,116**	**50,713**
Add: opening payables and accruals	1,471	1,181
Less: closing payables and accruals	(1,096)	(1,471)
Property, Plant and Equipment adjustments	(136)	112
Operating lease liability	(784)	0
CASH PAYMENTS	**48,571**	**50,535**
Closing payables and accruals included in/(excluded from) budget	667	(322)
Less: AP movement on interest payable to Treasury	0	(1)
Less: Italian duty travel expenses excluded from budget	(269)	(106)
Less: NETMA relocation costs excluded from budget	(3,891)	(6,492)
PREDICTED BUDGET CASH PAYMENTS	**45,078**	**43,614**
SCHEDULE 5: EXPENSES	**44,957**	**43,656**

F. Contingent Liabilities / Provisions

NETMA has no contingent liabilities or provisions.

G. Write Off and Donations

In accordance with the NATO Financial Regulations, where a global statement of write offs and donations shall be reported in the Annual Financial Statements NETMA can report that 5,748 items were submitted and approved for write off through the NETMA Internal Audit section in 2015 in accordance with NETMA delegated authorities. These write offs cover items that are obsolete, damaged beyond economic repair or lost.

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