

	NATO	NORTH ATLANTIC COUNCIL
	OTAN	CONSEIL DE L'ATLANTIQUE NORD

NATO SANS CLASSIFICATION

13 novembre 2017

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C-M(2017)0054-AS1

RAPPORTS DU COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES DE L'OTAN SUR LA VÉRIFICATION DES ÉTATS FINANCIERS 2016 DE LA NETMA ET DE LA NAMMO

NOTE SUR LA SUITE DONNÉE

Le 10 novembre 2017, au terme d'une procédure d'accord tacite, le Conseil a pris note des rapports, joints au C-M(2017)0054, que le Collège international des commissaires aux comptes de l'OTAN (IBAN) a établis suite à la vérification des états financiers 2016 de la NETMA et de la NAMMO, et il a approuvé la communication au public du rapport annexé au C-M(2017)0054, des deux rapports de l'IBAN et des états financiers correspondants, en vertu de la politique agréée dans le PO(2015)0052.

(signé) Jens Stoltenberg
Secrétaire général

NB : La présente note fait partie du C-M(2017)0054 et doit être placée en tête de ce document.

NATO SANS CLASSIFICATION



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3 novembre 2017

DOCUMENT

C-M(2017)0054

Procédure d'accord tacite :

10 nov 2017 15:30

**RAPPORTS DU COLLÈGE INTERNATIONAL
DES COMMISSAIRES AUX COMPTES DE L'OTAN
SUR LA VÉRIFICATION DES ÉTATS FINANCIERS 2016
DE LA NETMA ET DE LA NAMMO**

Note du secrétaire général

1. On trouvera ci-joint les rapports que le Collège international des commissaires aux comptes de l'OTAN (IBAN) a établis suite à la vérification des états financiers 2016 de l'Agence de gestion OTAN pour le développement, la production et la logistique de l'ACE 2000 et du Tornado (NETMA) et des états financiers 2016 de l'Organisation de gestion OTAN pour la mise au point, la production et le soutien en phase d'exploitation d'un avion de combat polyvalent (NAMMO).
2. L'IBAN a émis une opinion sans réserve sur les états financiers de la NETMA et de la NAMMO ainsi qu'une opinion sans réserve sur la conformité.
3. Les rapports de l'IBAN ont été examinés par le Bureau de la planification et de la politique générale des ressources (RPPB) (voir annexe). Je ne pense pas que cette question nécessite un débat au Conseil. Par conséquent, **sauf avis contraire me parvenant d'ici au vendredi 10 novembre 2017 à 15h30**, je considérerai que le Conseil aura pris note de ces deux rapports de l'IBAN et aura approuvé la communication au public du rapport figurant en annexe, des deux rapports de l'IBAN et des états financiers correspondants, en vertu de la politique agréée dans le PO(2015)0052.

(signé) Jens Stoltenberg

Annexe 1 : Rapport du RPPB
Pièce jointe 1 : NETMA – Rapport de l'IBAN
Pièce jointe 2 : NETMA – États financiers
Pièce jointe 3 : NAMMO – Rapport de l'IBAN
Pièce jointe 4 : NAMMO – États financiers

1 annexe
4 pièces jointes

Original : anglais

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**RAPPORTS DU COLLÈGE INTERNATIONAL
DES COMMISSAIRES AUX COMPTES DE L'OTAN
SUR LA VÉRIFICATION DES ÉTATS FINANCIERS 2016
DE LA NETMA ET DE LA NAMMO**

**Rapport du Bureau de la planification et de la politique générale des ressources
(RPPB)**

Références :

- A. IBA-AR(2017)21 Rapport de l'IBAN sur la vérification des états financiers 2016 de la NETMA
- B. IBA-AR(2017)14 Rapport de l'IBAN sur la vérification des états financiers 2016 de la NAMMO
- C. C-M(2015)0025 Règlement financier de l'OTAN

Introduction

1. Le présent document porte sur les observations formulées par l'IBAN dans ses rapports sur la vérification des états financiers 2016 de la NETMA¹ et de la NAMMO².

Examen de la question

2. Le RPPB note que l'IBAN a émis une opinion sans réserve sur les états financiers de la NETMA et de la NAMMO ainsi qu'une opinion sans réserve sur la conformité. Il note également que l'IBAN n'a pas formulé d'observations sur les états financiers 2016 de la NAMMO et que, suite à une réduction sensible du montant des liquidités, une question ayant fait l'objet d'une observation précédemment est désormais réglée.

3. Pour ce qui est de la NETMA, l'IBAN a constaté que l'Agence avait continué de bien progresser sur la voie de la conformité avec le Règlement financier de l'OTAN (document de référence C), et en particulier avec les articles relatifs au contrôle interne, à la gestion des risques et à l'audit interne.

Recommandation

- 4. Le RPPB recommande au Conseil :
 - a) de prendre note des rapports de l'IBAN indiqués en références A et B ainsi que du présent rapport ;

¹ Agence de gestion OTAN pour le développement, la production et la logistique de l'ACE 2000 et du Tornado.

² Organisation de gestion OTAN pour la mise au point, la production et le soutien en phase d'exploitation d'un avion de combat polyvalent.

- b) d'approuver la communication au public du présent rapport, des rapports de l'IBAN et des états financiers 2016 de la NETMA et de la NAMMO, en vertu de la politique agréée dans le PO(2015)0052.

**Note succincte
du Collège international des commissaires aux comptes de l'OTAN
à l'intention du Conseil
sur la vérification des états financiers
de l'Agence de gestion OTAN pour le développement,
la production et la logistique de l'ACE 2000 et du Tornado (NETMA)
pour l'exercice clos le 31 décembre 2016**

La NETMA gère les programmes des organisations de production et de logistique que sont la NAMMO et la NEFMO, ainsi que les budgets correspondants.

Le Collège a vérifié les états financiers relatifs au budget administratif de la NETMA pour l'exercice clos le 31 décembre 2016. En 2016, le montant total des dépenses relevant du budget administratif s'est établi à 439 millions d'euros.

Le Collège a émis une opinion sans réserve sur les états financiers de la NETMA et sur la conformité pour l'exercice clos le 31 décembre 2016.

Le Collège a formulé une observation, assortie d'une recommandation.

Les commentaires officiels du directeur général de la NETMA figurent à l'annexe 3.

25 août 2017

COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES DE L'OTAN

OPINION SUR LES ÉTATS FINANCIERS

**DE L'AGENCE DE GESTION OTAN POUR LE DÉVELOPPEMENT,
LA PRODUCTION ET LA LOGISTIQUE DE L'ACE 2000 ET DU TORNADO**

(NETMA)

POUR L'EXERCICE CLOS LE 31 DÉCEMBRE 2016

**OPINION DU COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES
DE L'OTAN À L'INTENTION DU CONSEIL DE L'ATLANTIQUE NORD**

Rapport sur les états financiers

Le Collège international des commissaires aux comptes de l'OTAN a procédé à la vérification des états financiers de la NETMA, composés de l'état de la situation financière au 31 décembre 2016 et de l'état de la performance financière, du tableau des flux de trésorerie et de l'état des variations de l'actif net/situation nette pour l'exercice clos à cette date, ainsi que de notes explicatives, y compris un résumé des méthodes comptables importantes. Le Collège a également vérifié l'état de comparaison entre les dépenses budgétisées et les dépenses effectives pour l'exercice clos le 31 décembre 2016.

Responsabilité de la direction

La direction est chargée d'établir les états financiers conformément au cadre comptable OTAN et aux dispositions du Règlement financier de l'OTAN tels qu'ils ont été fixés par le Conseil de l'Atlantique Nord, et de veiller à ce qu'ils donnent une image fidèle de la situation de l'entité. Elle est ainsi responsable de la conception, de l'application et de la tenue d'un système de contrôle interne de nature à permettre l'établissement et la présentation d'états financiers qui soient exempts d'inexactitudes significatives, que celles-ci relèvent d'une fraude ou d'une erreur.

Responsabilité du Collège

Il incombe au Collège de formuler sur ces états financiers une opinion qui soit fondée sur son travail de vérification, lequel aura été effectué conformément aux dispositions de sa charte et aux normes internationales d'audit. Ces normes exigent que le Collège respecte certains principes déontologiques, et qu'il planifie et effectue sa vérification de manière à parvenir à une assurance raisonnable sur le point de savoir si les états financiers sont exempts d'inexactitudes significatives.

Un audit consiste à appliquer des procédures permettant d'obtenir des éléments probants relatifs aux montants et aux informations figurant dans les états financiers. Les procédures retenues à cette fin sont laissées à l'appréciation de l'auditeur, qui évalue notamment les risques d'inexactitudes significatives dans les états financiers, que celles-ci relèvent d'une fraude ou d'une erreur. Pour l'évaluation de ces risques, le système de contrôle interne sur lequel s'appuie l'établissement et la présentation des états financiers de l'entité concernée est pris en considération, le but étant d'élaborer des procédures d'audit qui soient adaptées à la situation considérée et non pas d'exprimer une opinion sur l'efficacité du système de contrôle interne. Il s'agit aussi de déterminer si les méthodes comptables appliquées sont appropriées et si les estimations comptables faites par la direction sont raisonnables, ainsi que d'évaluer la présentation générale des états financiers.

Le Collège estime qu'il a obtenu par son audit les éléments probants nécessaires et suffisants pour lui permettre de formuler une opinion.

Opinion sur les états financiers

L'opinion du Collège est qu'à tous égards significatifs, les états financiers donnent une image fidèle, conforme au cadre comptable OTAN, de la situation financière de la NETMA au 31 décembre 2016, ainsi que de sa performance financière et de ses flux de trésorerie pour l'exercice clos à cette date.

Rapport sur la conformité

Responsabilité de la direction

En plus d'être responsable, comme il est dit plus haut, de l'établissement et de la présentation des états financiers, la direction est chargée de veiller à ce que les opérations financières et les informations présentées dans les états financiers soient conformes aux dispositions du Règlement financier de l'OTAN et du Règlement du personnel civil de l'OTAN telles qu'elles ont été fixées par le Conseil de l'Atlantique Nord.

Responsabilité du Collège

En plus d'être responsable, comme il est dit plus haut, de la formulation d'une opinion sur les états financiers, le Collège est chargé de se prononcer sur le point de savoir si les opérations financières et les informations présentées dans les états financiers sont, à tous égards significatifs, conformes au Règlement financier de l'OTAN et au Règlement du personnel civil de l'OTAN. Il lui incombe notamment d'appliquer des procédures lui permettant d'obtenir une assurance raisonnable sur le point de savoir si les fonds ont été utilisés pour le règlement de dépenses autorisées et si les opérations correspondantes ont été exécutées conformément à la réglementation en vigueur dans le domaine financier et en matière de personnel. De telles procédures prévoient notamment l'évaluation des risques de non-conformité significative.

Le Collège estime qu'il a obtenu par son audit les éléments probants nécessaires et suffisants pour lui permettre de formuler une opinion.

Opinion sur la conformité

Le Collège estime que les opérations financières et les informations présentées dans les états financiers sont, à tous égards significatifs, conformes au Règlement financier de l'OTAN et au Règlement du personnel civil de l'OTAN.

Bruxelles, le 25 août 2017

Hervé-Adrien Metzger
Président

25 août 2017

COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES DE L'OTAN

**LETTRE D'OBSERVATIONS ET DE RECOMMANDATIONS
CONCERNANT**

**L'AGENCE DE GESTION OTAN POUR LE DÉVELOPPEMENT, LA PRODUCTION
ET LA LOGISTIQUE DE L'ACE 2000 ET DU TORNADO**

(NETMA)

POUR L'EXERCICE CLOS LE 31 DÉCEMBRE 2016

Introduction

Le Collège international des commissaires aux comptes de l'OTAN a procédé à la vérification des états financiers de la NETMA pour l'exercice clos le 31 décembre 2016, et il a émis une opinion sans réserve à leur sujet ainsi que sur la conformité.

Observation et recommandation

À l'issue de l'audit, le Collège a formulé une observation, assortie d'une recommandation, concernant l'avancement de la mise en conformité avec la version révisée du Règlement financier de l'OTAN, et en particulier avec les articles relatifs au contrôle interne, à la gestion des risques et à l'audit interne.

Le Collège a par ailleurs adressé au directeur général de la NETMA une lettre (IBA-AML(2017)13) contenant des observations à l'intention de la direction.

OBSERVATIONS ET RECOMMANDATIONS

1. BONNE PROGRESSION SUR LA VOIE DE LA CONFORMITÉ AVEC LE RÈGLEMENT FINANCIER DE L'OTAN, ET EN PARTICULIER AVEC LES ARTICLES RELATIFS AU CONTRÔLE INTERNE, À LA GESTION DES RISQUES ET À L'AUDIT INTERNE

Contexte

1.1 Le Conseil de l'Atlantique Nord a approuvé la version révisée du Règlement financier de l'OTAN (NFR) en date du 4 mai 2015. Il s'agissait de la première révision de ce texte en plus de trente ans. Bien que l'article 36 de cette nouvelle version prévoie que le Règlement entre en vigueur dès son approbation (à savoir le 4 mai 2015), le Conseil a reconnu que l'on ne pouvait s'attendre à sa pleine application avant la fin de 2015. Par ailleurs, il est stipulé à l'article 4 que « le comité financier [...] adopte [...] une série de règles et procédures financières [FRP] qui donnent des orientations supplémentaires propres à assurer la bonne exécution du présent Règlement ».

1.2 Les dispositions révisées du NFR sont plus explicites que celles de la version précédente s'agissant de la gestion des risques (article 11), du contrôle interne (article 12), de l'audit interne (article 13) et de l'établissement d'une commission consultative sur l'audit (article 16). Selon ces dispositions, il faut définir des procédures de gestion des risques conformes aux critères d'efficacité, d'efficience et d'économie, mettre en place les fonctions de gestion nécessaires à un contrôle interne efficace, donner aux organismes OTAN accès à une fonction d'audit interne permanente, dotée de ressources suffisantes et exercée conformément aux normes d'audit interne reconnues au niveau international, et établir une commission consultative sur l'audit. De plus, l'article 3 stipule que, dans un souci de saine gestion financière et aux fins du respect de l'obligation de rendre compte, les états financiers et les déclarations sur le contrôle interne doivent être signés chaque année par le chef d'organisme OTAN et par le contrôleur des finances.

1.3 La nouvelle version du NFR est l'occasion pour les organismes OTAN de renforcer et de codifier leur cadre général de contrôle interne, y compris la gestion des risques. Elle prévoit aussi la mise en place de fonctions d'audit interne, l'objectif déclaré étant d'obtenir une capacité d'analyse approfondie de l'efficacité et de l'efficience des activités et des contrôles internes, y compris la gestion des risques. Il importe de souligner que le nouveau texte exige par ailleurs qu'un environnement de contrôle robuste soit en place pour la préparation des états financiers, de manière à garantir que les informations financières répondent aux normes les plus rigoureuses en termes de qualité et d'exactitude étant donné qu'elles sont désormais rendues publiques.

Observations

1.4 Le Collège a constaté que la NETMA avait continué de bien progresser sur la voie de la conformité avec le NFR révisé.

1.5 Pour la NETMA, 2016 reste une année de transition. Le Collège attend de l'Agence qu'elle se conforme pleinement au NFR en 2017. Il a décidé de rendre compte des progrès réalisés en ce qui concerne l'application de certains des articles révisés du NFR et de formuler une recommandation sur cette base. Les observations ainsi formulées n'auront pas d'incidence sur l'opinion relative à la conformité pour l'exercice 2016.

1.6 Le Collège fait le point de la situation dans les domaines énumérés ci-après.

Article 11 – Gestion des risques

1.6.1 Le Collège a constaté que la NETMA avait développé et consigné par écrit une politique de gestion des risques ainsi que des procédures en la matière. Une telle politique est indispensable pour garantir et pour montrer clairement à tous que des procédures de gestion des risques conformes aux exigences d'efficacité, d'efficience et d'économie sont en place et que la gestion des risques cadre avec les objectifs opérationnels et financiers globaux de la NETMA.

Article 12 – Contrôle interne

1.6.2 Le Collège a constaté que la NETMA avait adopté, en juin 2016, le cadre de contrôle interne du COSO (*Committee of Sponsoring Organizations of the Treadway Commission*). Un tel cadre, étayé par des documents et des procédures appropriés, est indispensable pour garantir et pour montrer clairement à tous qu'un système complet de contrôle interne est en place.

1.6.3 La NETMA a récemment fait le point sur sa mise en conformité avec le cadre COSO et a montré, documents à l'appui, qu'un système complet de contrôle interne et de gestion des risques était en place. Bien qu'il n'émette pas d'opinion sur les contrôles internes, le Collège a pu constater que l'approche était conforme au NFR.

Article 13 – Audit interne

1.6.4 Le Collège a constaté que l'auditeur interne de la NETMA s'était servi du registre des risques pour établir le plan d'audit interne 2015-2017. L'auditeur interne a ainsi réalisé deux audits au cours de l'exercice considéré, portant sur différents aspects et domaines du contrôle interne. Le Collège reste toutefois d'avis qu'on ne peut affirmer à ce stade que l'auditeur interne de la NETMA a pleinement évalué, dans l'ensemble de l'organisme, l'exposition aux risques et l'efficacité des contrôles internes pour ce qui est de la gestion des risques inhérents à la gouvernance, à l'exploitation et aux systèmes d'information, ainsi que le prévoit l'article 13.

1.6.5 Le Collège a constaté par ailleurs que le service d'audit interne de la NETMA avait élaboré un projet de manuel d'audit interne prévoyant l'utilisation des normes internationales pour la pratique professionnelle de l'audit interne établies par l'Institut des

auditeurs internes. Il s'agit là d'un développement positif, qui satisfait aux prescriptions de l'article 13.2 du NFR. Le service d'audit interne doit maintenant pouvoir démontrer la conformité avec ces normes d'audit, notamment en ce qui concerne l'indépendance organisationnelle.

Article 16 – Commission consultative sur l'audit

1.6.6 Le Collège a constaté que, comme le prévoit l'article 16, la NETMA avait établi une commission consultative sur l'audit à la fin de 2015, qui a tenu sa première réunion officielle en janvier 2016.

Recommandation

1.7 Le Collège formule la recommandation suivante :

- a) le manuel d'audit interne de la NETMA devrait être finalisé et le service d'audit interne de la NETMA devrait faire en sorte de pouvoir démontrer la conformité avec les normes d'audit énoncées dans le manuel (normes internationales pour la pratique professionnelle de l'audit interne (ISPPIA)), d'évaluer pleinement, dans l'ensemble de l'organisme, la gestion des risques et le contrôle interne, ainsi que d'établir des documents clairs sur ces tâches de manière à démontrer la conformité avec le cadre de contrôle interne choisi par la NETMA, à savoir le COSO.

Commentaires officiels de la NETMA

Compte tenu du nombre d'inexactitudes factuelles présentes dans l'observation du Collège, la NETMA est d'avis que celui-ci n'a pas procédé à une revue appropriée de la fonction d'audit interne de l'Agence dans le cadre de la vérification de ses états financiers de 2016. Aucun des documents clés n'a été examiné et aucune discussion n'a été engagée avec le personnel responsable de l'audit interne lors des vérifications effectuées sur place par le Collège.

Le Collège n'a pas examiné des documents aussi fondamentaux que le manuel d'audit interne et la grille de conformité aux ISPPIA alors qu'il suffisait de demander à les consulter.

Plus décevant encore, ni l'avancement de l'évaluation de la fonction d'audit interne ni l'observation du Collège n'ont été discutées en détail avec le chef du service d'audit interne, le chef du service comptabilité ou le contrôleur des finances à l'occasion des diverses réunions tenues en leur présence. L'équipe de l'IBAN présente à la NETMA durant la dernière semaine de l'audit n'a à aucun moment évoqué les constatations faites au sujet de la revue de l'audit interne ni laissé entendre que ces constatations figureraient dans le rapport final. En d'autres termes, le contrôleur des finances n'a pas eu la possibilité de contester

les conclusions de l'équipe ni de rectifier les inexactitudes à la fin des vérifications sur le terrain.

La NETMA estime par conséquent que le Collège n'a pas recueilli suffisamment d'informations pour formuler dans le rapport d'audit sur les états financiers de 2016 une opinion ou une recommandation sur l'état de la fonction d'audit interne à la NETMA.

Par ailleurs, bien que ce soit sans lien direct avec la recommandation sur l'audit interne, il y a une erreur dans la numérotation des paragraphes et les coordonnées du contrôleur des finances n'ont pas été actualisées.

Position du Collège

Lors des vérifications effectuées sur le terrain en février 2017, le Collège a été informé par le chef adjoint de l'équipe d'audit de la NETMA que le manuel d'audit interne n'était pas encore finalisé. Comme la vérification portait sur l'exercice 2016, le Collège en a conclu que les dispositions du manuel d'audit interne ne pouvaient pas avoir été appliquées durant la période considérée. Par ailleurs, un organigramme de la NETMA datant d'octobre 2016 montre que les membres de l'équipe d'audit de l'Agence rendent compte au chef de la Section F3 (Trésorerie, Comptabilité, Facturation et Audit), qui rend compte à son tour au responsable de la Division Finances.

Le Collège reconnaît qu'il n'est pas revenu spécifiquement sur la question lors de ses vérifications finales sur place, en mai et en juin 2017, et qu'il ne l'a pas non plus soulevée à la réunion de clôture de sa visite. Toutefois, lorsque la NETMA a appelé son attention sur ce point après avoir reçu son projet de rapport pour commentaires factuels/officiels, il a indiqué qu'il était disposé à modifier son rapport et il a dès lors demandé des documents et des informations supplémentaires.

Malheureusement, la NETMA a refusé de fournir les informations et les documents demandés pour étayer ses arguments, faisant valoir que le travail de vérification sur le terrain était terminé. Ce n'est pas là une réponse acceptable. L'article 13 de la charte de l'IBAN, approuvée par le Conseil de l'Atlantique Nord, prévoit que les membres du Collège bénéficient à tout moment d'un accès direct, libre et sans entrave à la totalité des documents et informations de l'OTAN.

L'inflexibilité de la NETMA a donné à cette question une importance qu'elle ne méritait pas. Le rapport du Collège n'en était qu'au stade de projet à l'époque, et tant qu'un rapport n'est pas transmis au Conseil, le processus de vérification n'est pas achevé. Par ailleurs, c'est au Collège et à lui seul qu'il revient de déterminer si un audit est terminé et non à l'entité faisant l'objet de la vérification.

Le Collège attend de la NETMA qu'elle coopère désormais pleinement, même si des difficultés ou des problèmes surviennent au cours de l'audit. Le Collège maintient sa position et fera le point sur cette question lors de sa vérification des états financiers 2017.

SUITES DONNÉES AUX OBSERVATIONS ANTÉRIEURES

Le Collège a fait le point sur la suite donnée aux observations et recommandations formulées à l'issue de précédents audits. On en trouvera un récapitulatif dans le tableau ci-dessous.

SUITES DONNÉES AUX OBSERVATIONS ANTÉRIEURES

OBSERVATION/RECOMMANDATION	MESURES PRISES	ÉTAT DE LA QUESTION
Rapport sur l'audit des états financiers de 2015 IBA-AR(2016)20 Point sur l'application du règlement financier révisé de l'OTAN, et en particulier des articles relatifs au contrôle interne, à la gestion des risques et à l'audit interne Recommandations Le Collège a formulé les recommandations ci-après : a) la NETMA devrait poursuivre son processus d'établissement systématique de documents sur les procédures de contrôle interne à l'appui du cadre COSO qu'elle a récemment adopté ; de l'avis du Collège, une coordination devrait être assurée de façon à ce que l'ensemble des organismes OTAN disposent d'un cadre commun ; b) le manuel d'audit interne de la NETMA devrait être finalisé et le service d'audit interne de la NETMA devrait faire en sorte de pouvoir démontrer la conformité avec les normes d'audit énoncées dans le manuel (Normes internationales pour la pratique professionnelle de l'audit interne (ISPPIA)), d'évaluer pleinement, dans l'ensemble de l'organisme, la gestion des risques et le contrôle interne, ainsi que d'établir des documents clairs sur ces tâches de manière à démontrer la conformité avec le cadre de contrôle interne appliqué par la NETMA.		Question rendue caduque par l'observation formulée à la section 1.

NETMA ANNUAL FINANCIAL STATEMENTS

PERIOD ENDED 31 DECEMBER 2016



NETMA

NATO EF2000 AND TORNADO DEVELOPMENT, PRODUCTION
AND LOGISTICS MANAGEMENT AGENCY

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Introduction

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. 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.



NETMA is based in Hallbergmoos, Germany and is an Executive Body created by charter to administer the functions of two NATO Production and Logistic Organisations (NPLOs). The two NPLOs are NAMMO and NEFMO.

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

Key points from the Annual Financial Statements

NETMA Liabilities

The agency's office accommodation is the subject of an operating lease and is therefore not capitalised as PP&E. The office accommodation has been determined as an operating lease and, in accordance with IPSAS 13, must be expensed on a straight line basis over the lease term. IPSAS 13 mandates that operating leases are accounted for in this way irrespective of cash payments made. As NETMA were able to negotiate a rent free period at the start of the lease, these expenses are accrued as a long term liability which will be unwound over the term of the lease. This only impacts on the Financial Statements and does not impact on either the budget or cash spent in 2016.

Addressing Previous Audit Observations

The IBAN audit report for the 2015 NETMA Financial Statements included two recommendations associated with the adoption of the new NATO Financial Regulations in 2015:

- 1) *To continue systematic documenting of internal control procedures* – This has been addressed by the adoption of the COSO (Committee of Sponsoring Organisations) internal control framework which has now been fully implemented.
- 2) *To finalise the Internal Audit Manual and ensure that Internal Audit is fully evaluating risk management and internal control throughout NETMA* – The Internal Audit Manual remains under construction but is intended to be completed and implemented before the summer of 2017.

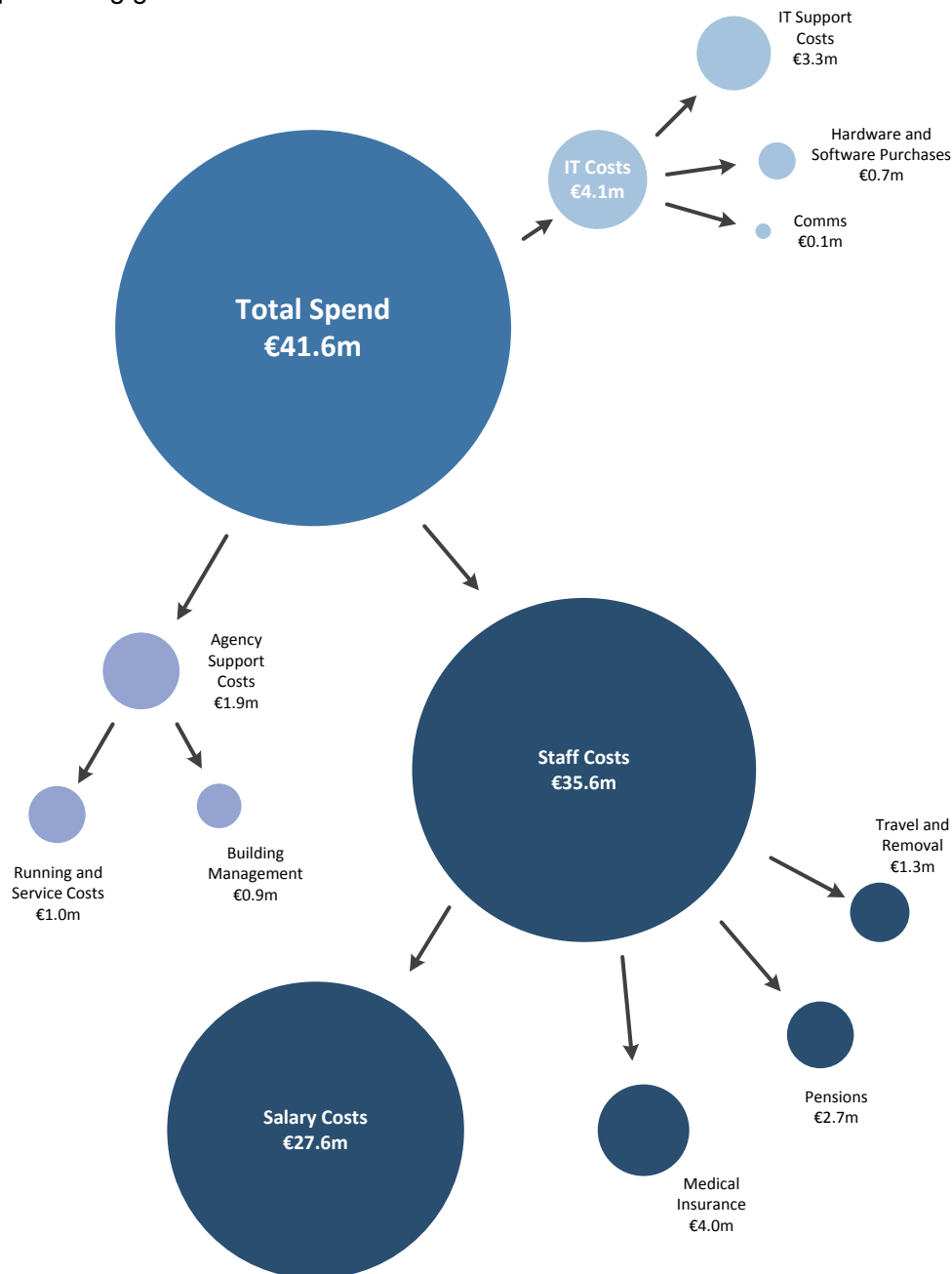
Action has been taken to address both of the recommendations made by the IBAN for the 2015 financial statements and the agency is optimistic that this will result in the removal of the final observation for the audit of the 2016 financial statements.

NETMA Expenditure Breakdown 2016

The NETMA spend in the Administration Budget, as reported in the NETMA financial statements, was €42m in 2016. The majority (86%) of this expenditure is taken up in the staffing costs of the agency with the remainder spent on the rent and running costs of the NETMA Headquarters at Hallbergmoos and the provision and support of IT and communications equipment and infrastructure.

NETMA continues to look for opportunities to increase efficiency in the admin budget and the 2016 figures reflect a reduction in the cost of IT consultancy support brought about by a robust negotiation of the existing support contract during 2014 as well as a reduced cost of property rental following relocation to Hallbergmoos in 2015

In total, the costs of running the agency equate to a little over one cent per programme Euro spent representing good value to our customer nations.



Statement of Internal Control



As General Manager of NETMA, I have responsibility for maintaining a sound system of internal control that supports the achievement of my Agency's policies, aims and objectives, set by NETMA's Four Nations and BoD, 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 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. The board has established appropriate structures, reporting lines and responsibilities to support the delivery of objectives.

As General Manager, I have responsibility for reviewing the effectiveness of the system of internal control. The processes in place or to be introduced to achieve this are summarised below:

- NETMA has a Management Plan which identifies NETMA's objectives. The Management Plan has been improved to increase focus on business change objectives and Program risks. Key Business risks have now been identified and owners have been appointed to monitor and report on these on a regular basis.
- Management checks are undertaken and the internal audit function performs a range of audit activities, including the audit of property held in industry, to ensure appropriate internal controls are in place and adhered to. The Internal Audit guidance is currently being updated to ensure compliance with the International Standards for the Professional Practice of Internal Auditing in accordance with IBAN recommendations.
- During 2016 the agency has, under recommendation from the IBAN and as agreed by the Audit Advisory Panel, introduced 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.

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

There were no material internal control issues that required action during 2016.

AVM GRAHAM FARNELL CB OBE RAF
General Manager

MR MARK GANFIELD
Financial Controller

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STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

(in thousands of Euros)

	Notes	2016	2015
Assets			
Current assets			
Cash and cash equivalents	B1	23,649	21,253
Short term investments		0	0
Receivables	B2	418	497
Prepayments	B3	160	0
Inventories		0	0
		<u>24,227</u>	<u>21,750</u>
Non-current assets			
Property, plant & equipment	B4	76	215
Intangible assets		0	0
		<u>76</u>	<u>215</u>
Total assets		<u>24,303</u>	<u>21,965</u>
Liabilities			
Current liabilities			
Payables	B5	1,215	1,096
Deferred revenue		0	0
Advances	B6	21,743	19,870
		<u>22,958</u>	<u>20,966</u>
Non-current liabilities			
Provisions		0	0
Other Long Term Liabilities	B7	1,269	784
		<u>1,269</u>	<u>784</u>
Total liabilities		<u>24,227</u>	<u>21,750</u>
Surplus/Deficit	B8	(139)	(136)
Reserves	B9	215	351
Total net assets		<u>76</u>	<u>215</u>

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 2017.



AVM GRAHAM FARNELL CB OBE RAF
General Manager



MR MARK GANFIELD
Financial Controller

NATO UNCLASSIFIED

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 DECEMBER 2016

(in thousands of Euros)

	Notes	2016	2015
Revenue			
Revenue	C1	43,726	48,980
Financial revenue		0	0
Other revenue		0	0
Total revenue		43,726	48,980
Expenses			
Personnel	C2	36,099	36,069
Contractual supplies and services - Buildings & Maintenance	C3	2,862	7,684
Contractual supplies and services - IT Services	C4	4,596	5,091
Depreciation and amortisation	C5	139	194
Impairment		0	0
Provisions		0	0
Other expenses		0	0
Finance costs	C6	169	78
Total expenses		43,865	49,116
Surplus/(Deficit) for the period		(139)	(136)

STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2016

(in thousands of Euros)

	Notes	2016	2015
Cash flow from operating activities			
Surplus/(deficit)	D1	(139)	(136)
Non-cash movements			
Depreciation/ amortisation	D2	139	194
Impairment		0	
Increase /(decrease) in payables	D3	119	(375)
Increase/ (decrease) in advances	D4	1,873	2,376
Increase/ (decrease) in other liabilities	D5	485	784
Increase/ (decrease) in provisions	D6	(160)	420
(Gains)/losses on sale of property, plant and equipment		0	0
Decrease/ (Increase) in receivables	D7	79	1,051
Net cash flow from operating activities		2,396	4,315
Cash flow from investing activities			
Purchase of property plant and equipment / Intangible assets	D8	0	(58)
Proceeds from sale of property plant and equipment		0	0
Net cash flow from investing activities		0	(58)
Cash flow from financing activities		0	0
Net cash flow from financing activities		0	0
Net increase/(decrease) in cash and cash equivalents		2,396	4,257
Cash and cash equivalent at the beginning of the period		21,253	16,997
Cash and cash equivalent at the end of the period		23,649	21,253

STATEMENT OF CHANGE IN NET ASSETS/EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

(in thousands of Euros)

		PP&E Asset Reserve	Revaluation Reserves	Accumulated surplus/deficit	Total
Balance at the beginning of the period 2015		239	0	112	351
Changes in accounting policy		0	0	0	0
Restated balance		239	0	112	351
Transfer from Accumulated Surplus / Deficit		112	0	(112)	0
Surplus/(deficit) for the period		0	0	(136)	(136)
Balance at the end of the period 2015		351	0	(136)	215
Changes in accounting policy		0	0	0	0
Restated balance		351	0	(136)	215
Transfer from Accumulated Surplus / Deficit	D1	(136)	0	136	0
Surplus/(deficit) for the period	D1	0	0	(139)	(139)
Balance for the year ended 2016		215	0	(139)	76

STATEMENT OF BUDGET EXECUTION

FOR THE YEAR ENDED 31 DECEMBER 2016

(in thousands of Euros)

		Initial budget	Transfers	BA1	Transfers	Final budget	Commitments	Expenses	Carry forward	Lapsed
Budget 2016										
Chapter 1										
Personnel costs	E1	39,446	0	0	0	39,446	35,634	35,575	58	3,812
Chapter 2										
Agency support costs	E1	3,226	0	0	0	3,226	2,213	1,914	299	1,013
Chapter 3										
Process and IT management	E1	4,930	0	0	0	4,930	4,552	4,114	438	379
Total FY 2016		47,602	0	0	0	47,602	42,398	41,603	795	5,204
Chapter 1 c/o from 2015		168	0	0	0	168	103	103	0	65
Chapter 2 c/o from 2015		106	0	0	0	106	86	86	0	20
Chapter 3 c/o from 2015		462	0	0	0	462	269	269	0	193
Historical c/o		50	0	0	0	50	30	23	7	20
Total		48,388	0	0	0	48,388	42,887	42,085	802	5,501

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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 2016 Financial Statements the accounting policies have been applied consistently throughout the reporting period. There have been no changes to NETMA accounting policy in 2016.

Restatements

NETMA has not restated any balances in the 2015 financial statements.

Changes in financial rules and regulations

During 2015 NATO adopted new financial rules and regulations. During 2016 there were no additional changes. These financial statements have been produced in line with the 2015 changes to 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 2016. The resulting realised and unrealised gains and losses are recognised in the Statement of Financial Performance.

NETMA used the following exchange rates as at 31st Dec 2016:

EUR – GBP = 1:0.848

EUR – USD = 1:1.049

Consolidation

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

Financial instruments disclosure/presentation

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

Financial risk factors

Credit risk

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

Liquidity risk

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

Currency risk

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

Interest rate risk

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

Assets

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. In 2015 this resulted in the creation of a long term liability due to a rent free period at the start of the contract on the new premises in Hallbergmoos. This liability will be unwound against rental payments on a straight line basis over the 10 year duration of the lease.

Office Furniture and Equipment: This includes items of non-aggregated office furniture, 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. A full months depreciation is only charged if the item is purchased in the first half of the month (ie: before 15th Month), otherwise the first month of depreciation starts from the following period.

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

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

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

	2016	2015
Cash accounts	23,648	21,251
Clearing cash accounts	0	0
Petty cash and advances	1	2
Current bank accounts	0	0
Cash equivalents	0	0
Bank accounts interest	0	0
Total	23,649	21,253

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 2016 and 2015 on the main account is that funding has been received as an advance from the UK, Germany and Italy relating to 2017's first quarter Call For Funds whilst repayment of Lapsed Credits relating to 2014 will occur during 2017 rather than during 2016.

2. Receivables

	2016	2015
Contribution receivable from nations	0	0
Receivables from non-consolidated entities	408	489
Recoverable from taxes	0	0
Receivables from staff members	9	8
Other receivables	0	0
Total	418	497

Receivables from non-consolidated entities

Represent receivables recoverable from MoD Germany with regards to VAT charged in 2016.

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

	2016	2015
Suppliers	160	0
Staff	0	0
Total	160	0

Prepayments were made to suppliers in respect of invoices paid for services received during 2016 and future rental payments for January 2017.

4. Property, Plant and Equipment

	2016	2015
PP&E	76	215
Total	76	215

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The 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 2016 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.

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

	2016	2015
Cost		
Opening Balance	215	351
Additions	0	58
Disposals	0	0
Depreciation	(139)	(194)
Closing Balance	76	215
Gross carrying amount	1,240	1,240
Accumulated depreciation	(1,163)	(1,025)
Net Carrying Amount	76	215

5. Payables

	2016	2015
Payables to suppliers	3	7
Payables to non-consolidated entities	0	0
Payables to staff members	0	0
Payables to governments	0	0
Other payables	1,212	1,089
Total	1,215	1,096

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 2016, an estimate is undertaken by reviewing invoices paid in January and the first 2 weeks of February 2017. The estimated accrual for goods and services as at 31 December 2016 is €774K. The other element is the estimated accrual relating to unpaid leave, this is based on the untaken leave carried forward as at 31 December 2016 multiplied by the average salary costs per day. This results in an accrual of €436K.

6. Advances

	2016	2015
Advance contributions	10,167	12,915
Other advances	11,576	6,954
Total	21,743	19,870

Advance contributions

Advances include funding for NETMA relocation as well as an amount from the UK, Germany and Italy received in December 2016 for the first call for funds of 2017.

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.

	2016	2015
Unearned revenue b/f	6,954	3,668
National contributions	48,252	52,141
Miscellaneous revenue (excl bank interest)	97	126
Bank interest	0	0
Less:		
Operational expenditure	42,950	48,454
Bank Interest offset in future CFFs	0	0
Bank interest returned to nations	0	0
Miscellaneous financial charges / (income)	0	78
Yr End adjustments / FX gains / (losses)	776	449
Unearned revenue c/f	11,576	6,954

7. Other long term liabilities

	2016	2015
Operating lease liability	1,269	784
Total	1,269	784

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)

	2016	2015
Accumulated surpluses / (deficits)	(139)	(136)
Total	(139)	(136)

The accumulated deficit balance represents in year movements relating to PP&E. The deficit for 2016 results solely from in year depreciation charges totalling (€139K). This deficit is transferred to Reserves at the close of each financial year.

9. Reserves

	2016	2015
PP&E asset reserve	215	351
Total	215	351

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 2015, the PP&E asset reserve was decreased by the accumulated deficit of €136K resulting in an opening Net Assets balance as at 1st January 2016 of €215K.

C. Notes to Statement of Financial Performance

1. Revenue

	2016	2015
National contributions	48,252	52,141
National contributions to be called for	0	0
Other reimbursements	(4,526)	(3,161)
Total	43,726	48,980

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

	2016	2015
Pay and overtime	22,647	22,198
Allowance	5,096	5,371
Pension	2,684	2,606
Medical and insurance	3,987	4,068
Travel	1,685	1,827
Total	36,099	36,069

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

NATO introduced the Defined Contribution Pension Scheme (DCPS) on 1st July 2005. The scheme is a money purchase pension scheme which is funded by NETMA and the staff member. This pension scheme is compulsory for all new entrants. NETMA's contribution is 12% (Staff contribution is 8% of Basic Salary and the Additional Voluntary Contribution AVC (up to 5% of Basic Salary). Pension costs are predominantly for those members in the DCPS. The scheme is administered and accounted for centrally by NATO IS.

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

At the year-end, NETMA has 254 established posts (up from 252 in 2015). 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 2016 applied to all staff and the additional staff.

	2016	2015
Employee benefits expense	31,720	31,626
Post employee benefits		
- For defined contribution pensions scheme	2,684	2,606
Untaken leave accrued	437	517
Total employee benefits expense	34,841	34,749

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.

	2016	2015
Key management remuneration	916	898

The figure for 2016 is higher than 2015 due to increases in the step amounts each director earned during the year.

Representation allowance

As per PO(2014)0154 dated 27 March 2013, expenditure on the representation allowance by the qualifying officials totalled €11,739 and is broken out below.

	2016	2015
Rent supplement	3,173	3,173
Hospitality expenses	8,566	9,506
Total	11,739	12,679

3. Expenses - buildings and maintenance

Contractual supplies and services

	2016	2015
Building rent and maintenance	1,887	6,544
Security	578	581
Other costs	397	560
Total	2,862	7,684

Building costs include rent of the Agency's accommodation (€1.887M), 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 (they have not changed in this reporting period). The contract includes an option to extend the lease for a further two periods of 5 years.

In accordance with IPSAS 13 – Leases, the table below details obligations under the Operating Leases as at 31 December 2016: (For the new building, both building and garage costs are combined)

	2016	2015
Buildings:		
Not later than one year	239	239
Later than one year and not later than five years	3,537	3,537
Later than five years	4,347	4,347
Utilities:		
Not later than one year	272	272
Later than one year and not later than five years	1,089	1,089
Later than five years	1,338	1,338
Garage: (included in Buildings from 2015)		
Not later than one year	0	0
Later than one year and not later than five years	0	0
Later than five years	0	0

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4. Expenses - IT services**Contractual supplies and services**

	2016	2015
Communication	165	278
Information technology support	4,431	4,813
Total	4,596	5,091

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

5. Depreciation and amortisation

	2016	2015
Depreciation and amortisation	139	194
Total	139	194

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

	2016	2015
Foreign exchange gain /loss	(7)	1
Other charges	176	77
Total	169	78

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 postage 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 and expensed movements in the manual accrual.

D. Notes to Statement of Cash Flow

1. Surplus / (deficit) from operating activities

	2016	2015
Surplus / (deficit)	(139)	(136)
Total	(139)	(136)

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

2. Depreciation / amortisation

	2016	2015
Depreciation and amortisation	139	194
Total	139	194

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

3. Payables

	2016	2015
Payables to suppliers	119	(376)
Other payable	0	1
Total	119	(375)

The movement on payables to suppliers in 2016 represents an increase in the outstanding liabilities from 2015. The increase is attributable to a higher estimate for accrued expenditure based on a review of invoices accounted for in early 2017 with 2016 invoice dates.

4. Advances

	2016	2015
Advance contributions	(1,592)	3,153
Other contributions	(1,157)	(4,064)
Unearned revenue	4,622	3,286
Total	1,873	2,376

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 (expenditure on this will continue into 2017).

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

	2016	2015
Operating lease liability	485	784
Total	485	784

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

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6. Increase / (decrease) in prepayments

	2016	2015
Prepayments	(160)	420
Total	(160)	420

Prepayments in 2016 equated to rent paid on the first quarter of 2017 accommodation in Hallbergmoos and some small IT licence renewals due by 1st January 2017.

7. (Increase) / decrease in receivables

	2016	2015
National contributions	0	0
VAT	78	1,022
Other receivables	2	29
Total	79	1,051

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.

	2016	2015
PP&E additions	0	(58)
Total	0	(58)

There were no assets purchases during 2016 that met the Agency's capitalisation threshold.

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E. Notes on Statement of Budget Execution

1. Budget analysis - 2016

	2016	2015
Chapter 1 -2016	39,446	39,387
Total	39,446	39,387

There was an underspend of €3,812M against the budget for 2016 due to lower than budgeted staff costs, lower removals and installation costs than previous anticipated. The return of the lapsed credits will be agreed with nations in 2017.

	2016	2015
Chapter 2 – 2016	3,226	4,019
Total	3,226	4,019

In 2016 for Chapter 2 NETMA spent 40% less than budget due to the previously mentioned “free” rental period, lower than anticipated expenditure on security and maintenance costs. The return of the lapsed credits will be agreed with nations in 2017.

	2016	2015
Chapter 3 – 2016	4,930	5,081
Total	4,930	5,081

In 2016 for Chapter 3 NETMA spent 17% (€816K) 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 2017.

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

	2016	2015
NET CASH INFLOW FROM OPERATING ACTIVITIES	2,396	4,315
- Cash contributions received in year	(48,252)	(52,141)
- Bank interest in year	0	0
- VAT reimbursement from Germany MoD	(893)	(2,347)
- Other cash revenue in year	404	0
GROSS CASH OUTFLOW FROM OPERATING ACTIVITIES	(46,345)	(50,173)
- Recoverable VAT paid in year	401	479
- Madrid line funded by Spain	27	30
- Duty Travel Spend - Italy	415	0
- Lapsed credits returned to nations	8	423
- 2012 lapsed credit offset against contributions	0	0
- Prepayments to suppliers	160	0
- Other movements	1,970	446
- Other cash payments in year	388	13
- NETMA relocation costs excluded from budget	387	3,891
PREDICTED BUDGET CASH PAYMENTS	(42,589)	(44,891)
SCHEDULE 5: EXPENSES	(42,085)	(44,957)

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

	2016	2015
SCHEDULE 2: EXPENSES	43,865	49,116
Add: opening payables and accruals	1,096	1,471
Less: closing payables and accruals	(1,215)	(1,096)
Property, Plant and Equipment adjustments	(139)	(136)
Repayment of UK Advance	355	0
Operating lease liability	484	(784)
CASH PAYMENTS	44,447	48,571
Closing payables and accruals included in/(excluded from) budget	(1,365)	667
Less: AP movement on interest payable to Treasury	0	0
Less: Italian duty travel expenses excluded from budget	(415)	(269)
Less: NETMA relocation costs excluded from budget	(387)	(3,891)
PREDICTED BUDGET CASH PAYMENTS	42,280	45,078
SCHEDULE 5: EXPENSES	42,085	44,957

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 9,116 items were submitted and approved for write off through the NETMA Internal Audit section in 2016 in accordance with NETMA delegated authorities. These write offs cover items that are obsolete, damaged beyond economic repair or lost.

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NATO SANS CLASSIFICATION

ANNEXE 1
IBA-AR(2017)14

**Note succincte
du Collège international des commissaires aux comptes de l'OTAN
à l'intention du Conseil
sur la vérification des états financiers de l'Organisation de gestion OTAN
pour la mise au point, la production
et le soutien en phase d'exploitation d'un avion de combat polyvalent (NAMMO)
pour l'exercice clos le 31 décembre 2016**

La NAMMO est une organisation de production et de logistique de l'OTAN. Les pays qui y participent sont l'Allemagne, l'Italie et le Royaume-Uni. L'Agence de gestion OTAN pour le développement, la production et la logistique de l'ACE 2000 et du Tornado (NETMA) gère ce programme et le budget correspondant.

Le Collège a vérifié les états financiers de la NAMMO pour l'exercice clos le 31 décembre 2016. Les dépenses imputées sur le budget opérationnel se sont élevées à 400 millions d'euros.

Le Collège a émis une opinion sans réserve sur les états financiers de la NAMMO et sur la conformité pour l'exercice clos le 31 décembre 2016. Il n'y a pas d'observations pour l'exercice considéré.

Par ailleurs, le Collège a fait le point sur une observation formulée lors d'un audit précédent, portant sur le solde élevé du poste Trésorerie et équivalents de trésorerie. Cette question est évoquée brièvement dans la lettre d'observations et de recommandations (annexe 3).

La NETMA a fait savoir qu'elle n'avait pas d'observation à formuler sur le rapport.

NATO SANS CLASSIFICATION

25 août 2017

COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES DE L'OTAN

**OPINION SUR LES ÉTATS FINANCIERS
DE L'ORGANISATION DE GESTION OTAN POUR LA MISE AU POINT,
LA PRODUCTION ET LE SOUTIEN EN PHASE D'EXPLOITATION D'UN AVION DE
COMBAT POLYVALENT**

(NAMMO)

POUR L'EXERCICE CLOS LE 31 DÉCEMBRE 2016

**OPINION DU COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES
DE L'OTAN À L'INTENTION DU CONSEIL DE L'ATLANTIQUE NORD**

Rapport sur les états financiers

Le Collège international des commissaires aux comptes de l'OTAN a procédé à la vérification des états financiers de la NAMMO, composés de l'état de la situation financière au 31 décembre 2016 et de l'état de la performance financière, du tableau des flux de trésorerie et de l'état des variations de l'actif net/situation nette pour l'exercice clos à cette date, ainsi que de notes explicatives, y compris un résumé des méthodes comptables importantes. Le Collège a également vérifié l'état de comparaison entre les dépenses budgétisées et les dépenses effectives pour l'exercice clos le 31 décembre 2016.

Responsabilité de la direction

La direction est chargée d'établir les états financiers conformément au cadre comptable OTAN et aux dispositions du Règlement financier de l'OTAN tels qu'ils ont été fixés par le Conseil de l'Atlantique Nord, et de veiller à ce qu'ils donnent une image fidèle de la situation de l'entité. Elle est ainsi responsable de la conception, de l'application et de la tenue d'un système de contrôle interne de nature à permettre l'établissement et la présentation d'états financiers qui soient exempts d'inexactitudes significatives, que celles-ci relèvent d'une fraude ou d'une erreur.

Responsabilité du Collège

Il incombe au Collège de formuler sur ces états financiers une opinion qui soit fondée sur son travail de vérification, lequel aura été effectué conformément aux dispositions de sa charte et aux normes internationales d'audit. Ces normes exigent que le Collège respecte certains principes déontologiques, et qu'il planifie et effectue sa vérification de manière à parvenir à une assurance raisonnable sur le point de savoir si les états financiers sont exempts d'inexactitudes significatives.

Un audit consiste à appliquer des procédures permettant d'obtenir des éléments probants relatifs aux montants et aux informations figurant dans les états financiers. Les procédures retenues à cette fin sont laissées à l'appréciation de l'auditeur, qui évalue notamment les risques d'inexactitudes significatives dans les états financiers, que celles-ci relèvent d'une fraude ou d'une erreur. Pour l'évaluation de ces risques, le système de contrôle interne sur lequel s'appuient l'établissement et la présentation des états financiers de l'entité concernée est pris en considération, le but étant d'élaborer des procédures d'audit qui soient adaptées à la situation considérée et non pas d'exprimer une opinion sur l'efficacité du système de contrôle interne. Il s'agit aussi de déterminer si les méthodes comptables appliquées sont appropriées et si les estimations comptables faites par la direction sont raisonnables, ainsi que d'évaluer la présentation générale des états financiers.

Le Collège estime qu'il a obtenu par son audit les éléments probants nécessaires et suffisants pour lui permettre de formuler une opinion.

Opinion sur les états financiers

L'opinion du Collège est qu'à tous égards significatifs, les états financiers donnent une image fidèle, conforme au cadre comptable OTAN, de la situation financière de la NAMMO au 31 décembre 2016, ainsi que de sa performance financière et de ses flux de trésorerie pour l'exercice clos à cette date.

Rapport sur la conformité

Responsabilité de la direction

En plus d'être responsable, comme il est dit plus haut, de l'établissement et de la présentation des états financiers, la direction est chargée de veiller à ce que les opérations financières et les informations présentées dans les états financiers soient conformes aux dispositions du Règlement financier de l'OTAN et du Règlement du personnel civil de l'OTAN telles qu'elles ont été fixées par le Conseil de l'Atlantique Nord.

Responsabilité du Collège

En plus d'être responsable, comme il est dit plus haut, de la formulation d'une opinion sur les états financiers, le Collège est chargé de se prononcer sur le point de savoir si les opérations financières et les informations présentées dans les états financiers sont, à tous égards significatifs, conformes au Règlement financier de l'OTAN et au Règlement du personnel civil de l'OTAN. Il lui incombe notamment d'appliquer des procédures lui permettant d'obtenir une assurance raisonnable sur le point de savoir si les fonds ont été utilisés pour le règlement de dépenses autorisées et si les opérations correspondantes ont été exécutées conformément à la réglementation en vigueur dans le domaine financier et en matière de personnel. De telles procédures prévoient notamment l'évaluation des risques de non-conformité significative.

Le Collège estime qu'il a obtenu par son audit les éléments probants nécessaires et suffisants pour lui permettre de formuler une opinion.

Opinion sur la conformité

Le Collège estime que les opérations financières et les informations présentées dans les états financiers sont, à tous égards significatifs, conformes au Règlement financier de l'OTAN et au Règlement du personnel civil de l'OTAN.

Bruxelles, le 25 août 2017

Hervé-Adrien Metzger
Président

25 août 2017

COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES DE L'OTAN

**LETTRE D'OBSERVATIONS ET DE RECOMMANDATIONS CONCERNANT
L'ORGANISATION DE GESTION OTAN POUR LA MISE AU POINT,
LA PRODUCTION ET LE SOUTIEN EN PHASE D'EXPLOITATION D'UN AVION DE
COMBAT POLYVALENT**

(NAMMO)

POUR L'EXERCICE CLOS LE 31 DÉCEMBRE 2016

Introduction

Le Collège international des commissaires aux comptes de l'OTAN a procédé à la vérification des états financiers de la NAMMO pour l'exercice clos le 31 décembre 2016, et il a émis une opinion sans réserve à leur sujet ainsi que sur la conformité.

Observations et recommandations

À l'issue de l'audit, le Collège n'a pas fait d'observations pour l'exercice considéré.

Par ailleurs, le Collège a fait le point sur la suite donnée à une observation formulée lors de précédents audits, et il a constaté que la question était à présent réglée.

Le Collège a adressé au directeur général de la NETMA une lettre (IBA-AML(2017)13) contenant des observations à l'intention de la direction.

SUITES DONNÉES AUX OBSERVATIONS ANTÉRIEURES

Le Collège a fait le point sur la suite donnée aux observations et recommandations formulées à l'issue de précédents audits. On en trouvera un récapitulatif dans le tableau ci-dessous.

SUITES DONNÉES AUX OBSERVATIONS ANTÉRIEURES

OBSERVATION/RECOMMANDATION	MESURES PRISES	ÉTAT DE LA QUESTION
Rapport sur l'audit des états financiers de 2011 C-M(2013)0010 // IBA-AR(2012)32 Rapport sur l'audit des états financiers de 2013 IBA-AR(2014)33 Rapport sur l'audit des états financiers de 2015 IBA-AR(2016)19 Montant élevé du poste Trésorerie et équivalents de trésorerie Recommandation Le Collège a recommandé que, comme indiqué dans les notes jointes aux états financiers de la NAMMO, l'Agence continue de s'employer avec les pays à réduire les liquidités qu'elle détient en vue de les faire correspondre aux dépenses prévues, conformément au Règlement financier de la NETMA, section 11, paragraphe 91.1.	Le Collège constate que les avoirs en caisse de la NAMMO ont été ramenés de 431 millions d'euros à la fin de 2013 à 276 millions d'euros à la fin de 2015, ce qui représente une réduction de 36 %. Il s'agit d'un très net progrès sur la voie de la conformité avec le Règlement financier de l'OTAN. À la fin de 2016, la situation s'était encore améliorée puisque les liquidités ne s'élevaient plus qu'à 193 millions d'euros et représentaient, pour la première fois depuis des années, moins de 50 % du montant des dépenses annuelles, couvrant 177 jours de dépenses. Cette situation montre que les efforts se sont poursuivis en vue de limiter le montant des avoirs en caisse au minimum requis pour couvrir les paiements prévus jusqu'à la réception de la contribution suivante. Le Collège espère que le montant des liquidités sera réduit davantage encore en 2017.	Question réglée.

NAMMO ANNUAL FINANCIAL STATEMENTS

PERIOD ENDED 31 DECEMBER 2016



NETMA

NATO EF2000 AND TORNADO DEVELOPMENT, PRODUCTION
AND LOGISTICS MANAGEMENT AGENCY

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Introduction to the 2016 Financial Statements

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 United Kingdom to develop, produce and support the Tornado aircraft.



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

Funding for NAMMO is wholly through contributions made by the three NATO member nations. As a NATO organisation two NAMMO nations are exempt from taxation relating to operating revenue and expenses. However in

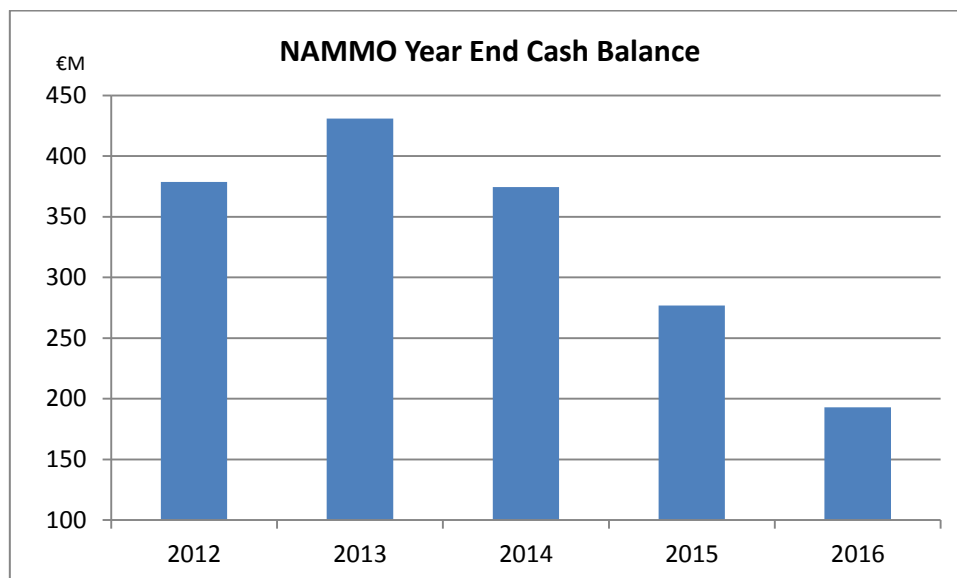
the case of the Federal Republic of Germany VAT is levied.

The Tornado has been deployed extensively throughout 2016 including involvement in coalition operations against Daesh in Iraq and Syria and involvement in a number of national and joint exercises.

Addressing Previous Audit Observations - *NAMMO Cash Balances*

Whilst giving an unqualified audit opinion for the NAMMO financial statements for 2015, in their formal report the IBAN did maintain their existing observation relating to high cash balances in 2015.

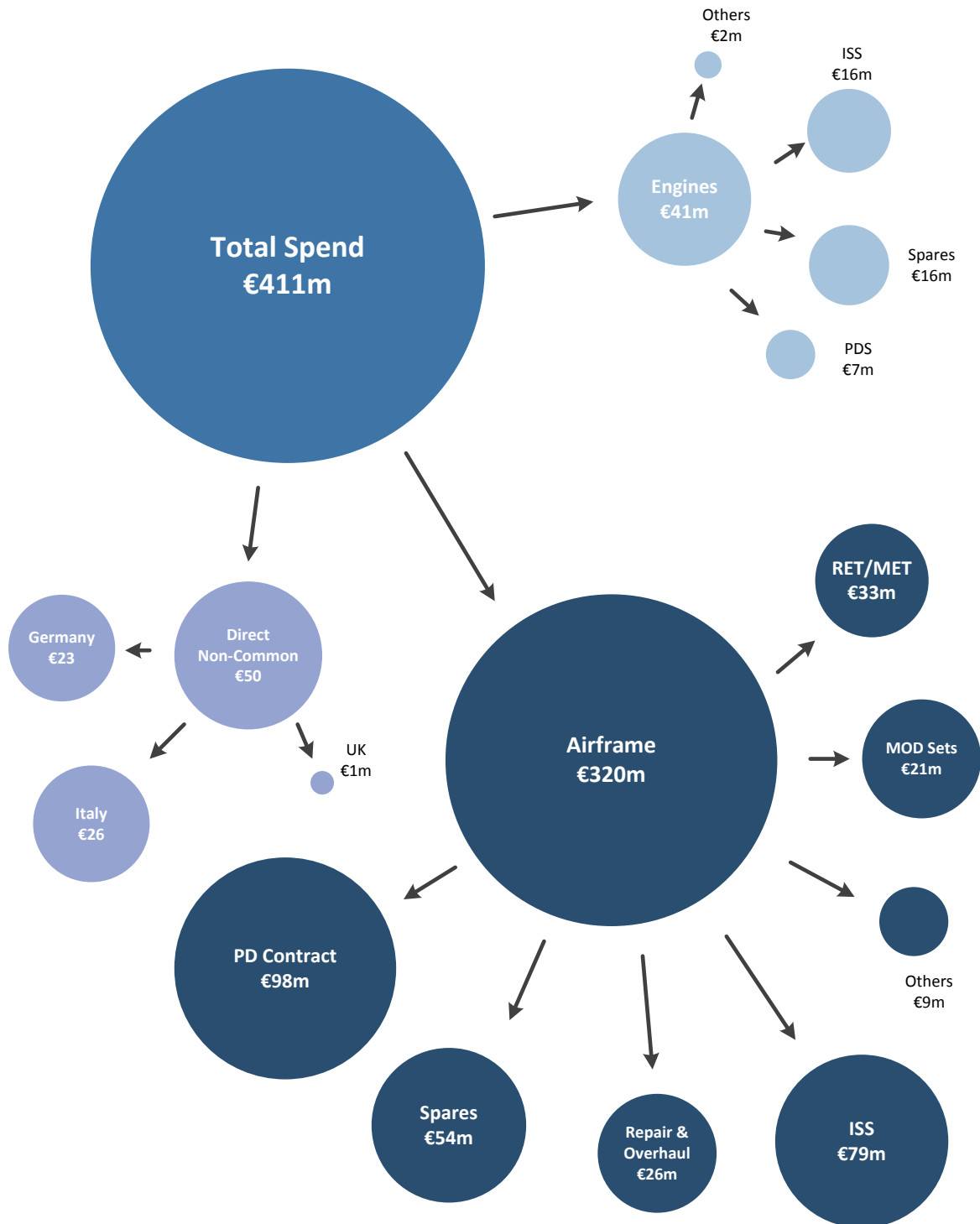
During 2016 NETMA has continued to reduce NAMMO cash holdings as a result the 2016 closing NAMMO cash balance has reduced by a further €84m from the 2015 position. Nations' support in this process is key as the level of inward cash flow is wholly dictated by National policies.



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NAMMO Expenditure Breakdown 2016

The total spend on the Tornado programme through NETMA in 2016 was €411m, a €33m increase from 2015. The spend on Tornado is dominated by the airframe with 10% of the annual spend relating to the engine. Additionally, there are significant areas of direct non-common contracting for national support.



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Statement of Internal Control



As General Manager of NETMA, I have responsibility for maintaining a sound system of internal control that supports the achievement of my Agency's policies, aims and objectives, set by NETMA's Four Nations and BoD, 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 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. The board has established appropriate structures, reporting lines and responsibilities to support the delivery of objectives.

As General Manager, I have responsibility for reviewing the effectiveness of the system of internal control. The processes in place or to be introduced to achieve this are summarised below:

- NETMA has a Management Plan which identifies NETMA's objectives. The Management Plan has been improved to increase focus on business change objectives and Program risks. Key Business risks have now been identified and owners have been appointed to monitor and report on these on a regular basis.
- Management checks are undertaken and the internal audit function performs a range of audit activities, including the audit of property held in industry, to ensure appropriate internal controls are in place and adhered to. The Internal Audit guidance is currently being updated to ensure compliance with the International Standards for the Professional Practice of Internal Auditing in accordance with IBAN recommendations.
- During 2016 the agency has, under recommendation from the IBAN and as agreed by the Audit Advisory Panel, introduced 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.

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

There were no material internal control issues that required action during 2016.

AVM GRAHAM FARNELL CB OBE RAF
General Manager

MR MARK GANFIELD
Financial Controller

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STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

(in thousands of Euros)

	Notes	2016	2015
Assets			
Current assets			
Cash and cash equivalents	B1	193,442	276,647
Short term investments		0	0
Receivables		31	0
Prepayments		0	0
Inventories		0	0
		<u>193,473</u>	<u>276,647</u>
Non-current assets			
Property, plant & equipment		0	0
Intangible assets		0	0
		<u>0</u>	<u>0</u>
Total assets		<u>193,473</u>	<u>276,647</u>
Liabilities			
Current liabilities			
Payables	B2	27,771	32,218
Deferred revenue		0	0
Advances	B3	165,702	244,429
		<u>193,473</u>	<u>276,647</u>
Non-current liabilities			
Provisions		0	0
		<u>0</u>	<u>0</u>
Total liabilities		<u>193,473</u>	<u>276,647</u>
Surplus/deficit		0	0
Reserves		0	0
Total net assets		<u>0</u>	<u>0</u>

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 2017.



AVM GRAHAM FARNELL CB OBE RAF
General Manager



MR MARK GANFIELD
Financial Controller

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 DECEMBER 2016

(in thousands of Euros)	Notes	2016	2015
Revenue			
Revenue	C1	399,786	386,098
Financial revenue		0	0
Other revenue		0	0
Total revenue		399,786	386,098
Expenses			
Personnel		0	0
Contractual supplies and services	C2	(400,653)	(385,171)
Depreciation and amortisation		0	0
Impairment		0	0
Provisions		0	0
Other expenses		0	0
Finance costs	C3	867	(927)
Total expenses		(399,786)	(386,098)
Surplus/(deficit) for the period		0	0

STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2016

(in thousands of Euros)

	Notes	2016	2015
Cash flow from operating activities			
Surplus/(deficit)	D1	0	0
Non-cash movements			
Depreciation/ amortisation		0	0
Impairment		0	0
Increase /(decrease) in payables	D2	(4,447)	293
Increase/ (decrease) in advances	D3	(78,727)	(98,031)
Increase/ (decrease) in other current liabilities		0	0
Increase/ (decrease) in provisions		0	0
(Gains)/losses on sale of property, plant and equipment		0	0
Decrease/ (increase) in receivables	D4	(31)	0
Net cash flow from operating activities		(83,205)	(97,738)
Cash flow from investing activities			
Purchase of property plant and equipment / Intangible assets		0	0
Proceeds from sale of property plant and equipment		0	0
Net cash flow from investing activities		0	0
Cash flow from financing activities		0	0
Net cash flow from financing activities		0	0
Net increase/(decrease) in cash and cash equivalents		(83,205)	(97,738)
Cash and cash equivalent at the beginning of the period		276,647	374,385
Cash and cash equivalent at the end of the period		193,442	276,647

STATEMENT OF CHANGE IN NET ASSETS/EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2016

(in thousands of Euros)

	PP&E Asset Reserve	Revaluation Reserves	Accumulated surplus/deficit	Total
Balance at the beginning of the period 2015	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 2015	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 year ended 2016	0	0	0	0

STATEMENT OF BUDGET EXECUTION

FOR THE YEAR ENDED 31 DECEMBER 2016

(in thousands of Euros)

		Initial budget	Transfers	Bud Adj 1	Bud Adj 2	Bud Adj 2	Final budget	Commitments	Expenses	Carry forward	Lapsed
Budget 2016											
All nations	E1	361,816	0	1,520	48,757	13,947	426,040	411,320	411,320	0	14,720
Total FY 2016		361,816	0	1,520	48,757	13,947	426,040	411,320	411,320	0	14,720

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A. Significant Accounting Policies

Basis of preparation

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

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

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

The financial statements have been prepared on 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 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 2016 financial statements, the accounting policies have been applied consistently throughout the reporting period. There have been no changes to NAMMO accounting policy in 2016.

Restatements

NAMMO has not restated any balances in the 2015 financial statements.

Changes in financial rules and regulations

During 2015 NATO adopted new financial rules and regulations. During 2016 there were no additional changes. 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 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 2016, resulting realised and unrealised gains and losses are recognised in the Statement of Financial Performance.

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

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.

Inventories

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

Property, Plant and Equipment

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

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

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

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

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

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

Due to the age of these special type of assets and the evidence available as to their value, either initially or currently, it was not possible to establish reliable values for them and as such, in line with IPSAS 17 and the NATO Accounting Framework, the organisation has not recognised any assets acquired prior to 1st January 2013 on the financial statements. There were no new asset additions or modifications acquired during 2016 that meet the capitalisation criteria.

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.

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, being 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 2016 there has been no need to conduct an impairment review.

Liabilities

Payables

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

Deferred revenue

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

Advances

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

Employee benefits

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

Provisions

Provisions are recognised when NAMMO has a legal or constructive obligation as a result of past events, where it is probable that an outflow of resources will be required to settle the obligation and where a reliable estimate of the amount of the obligation can be made.

Net assets

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

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

Revenue and expense recognition**Revenue**

Revenue comprises contributions from member nations to fund NAMMO budgets. It is recognised in the year when these contributions are used for their intended purpose as envisioned by NAMMO budgets and is usually called for quarterly in advance. 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 2016, 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 Weapons System Programme are for 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)

1. Cash and cash equivalents

	2016	2015
Cash accounts	0	0
Clearing cash accounts	0	0
Petty cash and advances	0	0
Current bank accounts	193,442	276,647
Cash equivalents	31	0
Clearing-bank accounts	0	0
Total	193,473	276,647

Current bank accounts

The Tornado Weapons System Program has a number of bank accounts relating to the various funding offices from which payments are made and contributions received. These include accounts for payments to be made in GBP, USD, SEK, USD and Euro although balances are only held on one account held in GBP and all Euro accounts. In 2016 new bank accounts were opened with a different supplier.

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

The overall levels of cash holdings have decreased over the year as NETMA actively worked with nations to lower cash holdings following previous IBAN audit observations.

Cash equivalents

Receivables include credit invoices received on PARMIS payables which will be offset against payables in 2017.

2. Payables

	2016	2015
Payables to suppliers	22,926	25,360
Payables to non-consolidated entities	0	0
Payables to staff members	0	0
Payables to governments	0	0
Other payables	4,845	6,858
Total	27,771	32,218

Payables to suppliers

Payables to suppliers include invoices received from commercial vendors not settled but accrued per reporting date. This account is reconciled to the payables sub-ledger within the financial system operated by NAMMO on a monthly basis. Any outstanding currency liabilities have been translated at the respective closing exchange rates as promulgated by NATO. The payable as at 31 December 2016 is €3.1M compared with the 2015 amount of €0.1M.

A manual accrual has been assessed by analysing PARMIS invoices paid in January and the first 2 weeks of February 2017 with 2016 (and earlier) invoice dates. Central Automatic Data Processing System (CADPS) invoices and other material invoices during the same period were also reviewed to ensure they were accrued in the correct year. The estimated accrual for goods and services as at 31 December 2016 is €19.8M compared with the 2015 accrual of €25.2M.

Other payables

There are no cash in transit invoices that have been paid but not cleared from the bank in 2016. Other payables include bank interest payable to National Treasuries (€773K) and income generated from levies (€4.072M). Income generated from levies has decreased by €1.071M since 2015.

3. Advances

	2016	2015
Other advances	165,702	244,429
Total	165,702	244,429

Other advances

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

The movement on unearned revenue can be reconciled as follows:

	2016	2015
Unearned revenue b/f	244,429	342,460
National contributions	321,058	288,067
Miscellaneous revenue (excl bank interest)	5,763	12,290
Bank interest	10	16
<i>Less:</i>		
Operational expenditure	(402,940)	(387,266)
Other operational revenue	(3,476)	(10,195)
Bank interest returned to nations	(7)	(12)
<i>Add:</i>		
Miscellaneous financial charges / (income)	(1)	(2)
Foreign exchange gains / (losses)	866	(929)
Unearned revenue c/f	165,702	244,429

C. Notes to Statement of Financial Performance

1. Revenue

	2016	2015
National contributions	321,058	288,067
National contributions to be called for	0	0
Other reimbursements	78,728	98,031
Total	399,786	386,098

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

Other reimbursements are the movement on unearned revenue which represents the excess of revenue over expenditure in the financial year. The practice is to adjust revenue to reduce it accordingly and account for it on the Statement of Financial Position within advances.

2. Expenses

Personnel

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

Contractual supplies and services

	2016	2015
Operating expenses	(400,653)	(385,171)
PPE movement	0	0
Total	(400,653)	(385,171)

Expenditure on the NAMMO program is booked upon the validation of invoices received from industry and identified by 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.

3. Finance costs

	2016	2015
Foreign exchange gain / loss	866	(929)
Other financial income & charges	1	2
Total	867	(927)

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 GBP 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.

Other financial income includes bank interest earned on the accounts held to fund the NAMMO program. Where income has not been refunded to National Treasuries the remaining balance is treated as unearned revenue. The value of bank interest received is slightly lower in 2016 compared to 2015 due to low rates and reduced bank balances.

D. Notes to Statement of Cash Flow

1. Surplus / (deficit) from operating activities

	2016	2015
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.

2. Increase / (decrease) in payables

	2016	2015
Payables to suppliers	(2,434)	(1,876)
Other payables	(2,013)	2,169
Total	(4,447)	293

Payables to suppliers represent validated invoices presented but not yet paid and the manual accruals identified.

Other payables include bank interest and levy's generated from defence programmes.

3. Increase / (decrease) in advances

	2016	2015
Advance contributions	0	0
Unearned revenue	(78,727)	(98,031)
Total	(78,727)	(98,031)

Advance contributions represent the funds received from nations for the next financial year. The movement on unearned revenue represents the accumulated excess of contributions over expenditure for the financial year.

4. (Increase) / decrease in receivables

	2016	2015
National contributions	0	0
Other receivables	(31)	0
Total	(31)	0

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

Receivables include credit invoices received on PARMIS payables which will be offset against payables in 2017.

E. Notes to Statement of Budget Execution

1. Budget analysis - 2016

	2016	2015
All nations initial approved budget	361,816	377,326
In year budget adjustments	64,224	40,000
Total	426,040	417,326

The basis used for the budget and actual numbers in the budget execution statement is the cash basis and is therefore different to the accrual basis used to prepare the financial statements. The budget is compiled based on the advice and assistance of a number of sources including nations, commercial and technical staff within NETMA and industry. It has been based on the best information available and takes into account known payment plans and estimates of new work in line with advice on technical progress. No carry forward from 2015 was included in the estimate and no unused budget will be carried into 2017 with credits lapsing accordingly.

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

	2016	2015
NET CASH INFLOW FROM OPERATING ACTIVITIES	(83,205)	(96,808)
- Cash contributions received in year	(321,058)	(288,067)
- Bank interest in year	(10)	(16)
- Other reimbursements	(6,089)	(11,320)
GROSS CASH OUTFLOW FROM OPERATING ACTIVITIES	(410,362)	(396,212)
- Bank interest returned to Italy in year	11	167
- Other disbursements	6,216	10,212
EXPENSES PRE EXCHANGE RATE VARIATIONS	(404,135)	(385,833)
- Foreign exchange gains and losses	518	(809)
- Operational budget vs actual exchange gains and losses	(3,770)	9,967
PREDICTED BUDGET CASH PAYMENTS	(407,387)	(376,675)
SCHEDULE 5: EXPENSES	(411,320)	(377,657)

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 2016. 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.

The difference between expenses stated at the OB and the actual exchange rate is included as a reconciling movement. The residual variance between predicted expenses and budget is approximately 0.96% (€3.933M) and results from timing differences in payments.

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

	2016	2015
SCHEDULE 2: OPERATING EXPENSES	399,786	386,098
Add: opening payables and accruals	26,297	27,235
Less: closing payables and accruals	(22,926)	(26,297)
Exchange rate difference (OB v corporate)	3,770	(9,967)
Foreign exchange gains and losses	(518)	809
PREDICTED BUDGET CASH PAYMENTS	406,409	377,878
SCHEDULE 5: EXPENSES	411,320	377,657

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 2016. This reconciles accrual based expenditure that is reported on the Statement of Financial Position and cash based expenditure reported as expenses on the Statement of Budget Execution. The residual variance between cash and budget is approx. 1.2% (4.91M) and results from timing differences in payments.

F. Contingent Liabilities / Provisions

NAMMO has no contingent liabilities or provisions.

G. Related Parties Disclosure

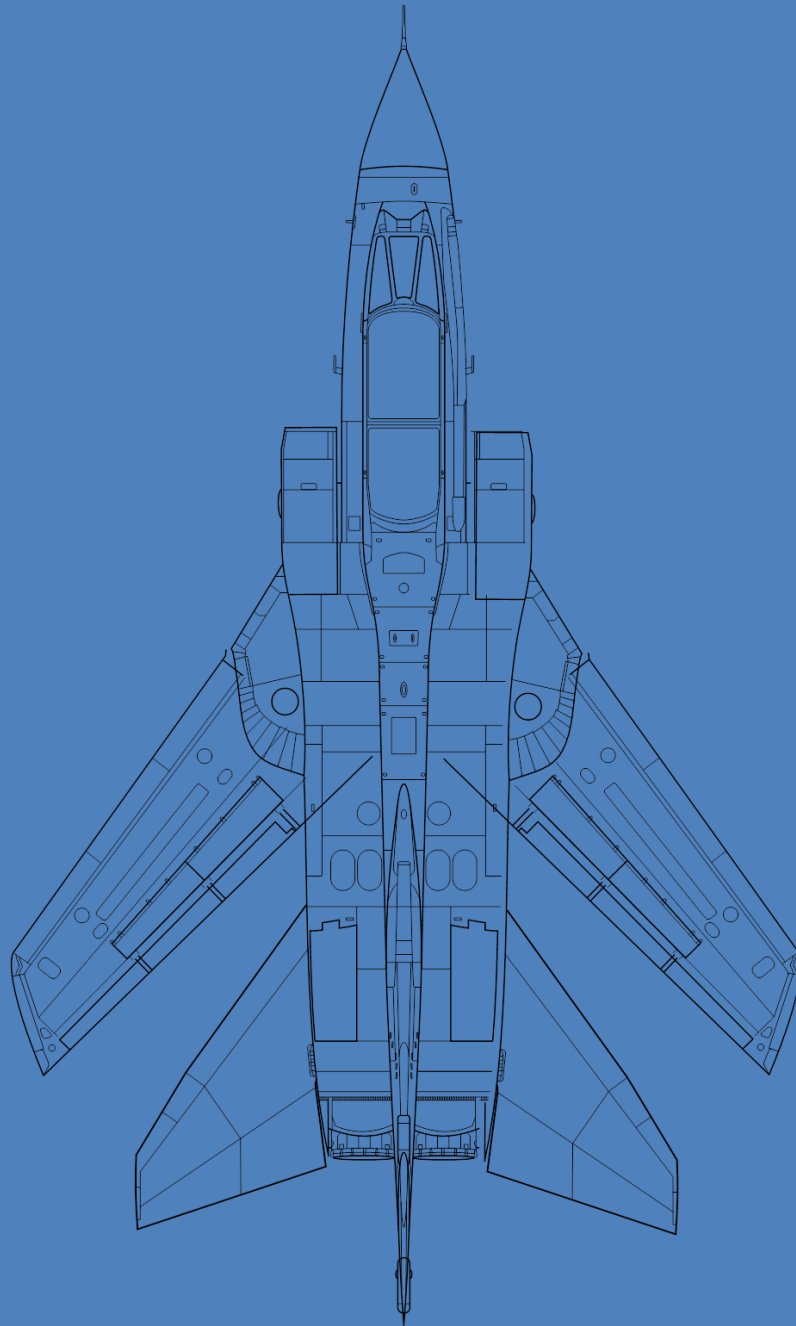
The key management personnel of NAMMO have no significant related party relationships that could affect the operation of NAMMO. Board members receive no remuneration and senior management is remunerated in accordance with the published NATO pay scales. Both do not receive loans that are not available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

H. Write Off and Donations

In accordance with the NATO Financial Regulations, where a global statement of write offs and donations shall be reported in the Annual Financial Statements NETMA can report that 4,548 items were submitted and approved for write off through the NETMA Internal Audit section in 2016 in accordance with NETMA delegated authorities. These write offs cover items that are obsolete, damaged beyond economic repair or lost.

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