

NATO UNCLASSIFIED
Releasable to Sweden

12 January 2024

DOCUMENT
PO(2023)0471-AS1 (INV)

**IBAN AUDIT REPORT ON THE 2022 FINANCIAL STATEMENTS OF NAMMO,
NAPMA AND NETMA**

ACTION SHEET

On 12 January 2024, under the silence procedure, the Council noted the RPPB report at annex to PO(2023)0471 (INV) and its conclusions, and noted the IBAN Audit Reports enclosed to PO(2023)0471 (INV), and approved the public disclosure of this report, the IBAN Audit Reports and associated 2022 Financial Statements of NAMMO, NAPMA and NETMA enclosed to PO(2023)0471 (INV).

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to PO(2023)0471 (INV).

NATO UNCLASSIFIED





NATO UNCLASSIFIED
Releasable to Sweden

20 December 2023

DOCUMENT
PO(2023)0471 (INV)
Silence Procedure ends:
12 Jan 2024 - 15:30

To: Permanent Representatives (Council)

From: Secretary General

**IBAN AUDIT REPORT ON THE 2022 FINANCIAL STATEMENTS OF NAMMO, NAPMA
AND NETMA**

1. I attach the Resource Policy and Planning Board (RPPB) report on the International Board of Auditors for NATO (IBAN) Audit Report on the 2022 Financial Statements of the NATO Multi-Role Combat Aircraft Development Production and In Service Support Management Organisation (NAMMO), NATO Airborne Early Warning & Control Programme Management Agency (NAPMA), and NATO EF2000 and Tornado Development, Production and Logistics Management Agency (NETMA). The IBAN issued unqualified opinions on the Financial Statements and on compliance for the year ended 31 December 2022 of the NAMMO, NAPMA and NETMA.

2. I do not believe this issue requires further discussion in Council. Therefore, **unless I hear to the contrary by 15:30 hours on Friday, 12 January 2024**, I shall assume the Council noted the RPPB report and its conclusions, and noted the IBAN Audit Reports, and approved the public disclosure of this report, the IBAN Audit Reports and associated 2022 Financial Statements of NAMMO, NAPMA and NETMA.

(Signed) Jens Stoltenberg

1 Annex
2 Enclosures

Original: English



**IBAN AUDIT REPORT ON THE 2022 FINANCIAL STATEMENTS OF NAMMO, NAPMA
AND NETMA**

Report by the Resource Policy and Planning Board

References:

A.	IBA-AR(2023)0027	IBAN Audit Report on the 2022 Financial Statements of the NATO Multi-Role Combat Aircraft Development Production and In Service Support Management Organisation (NAMMO) for the year ended on 31 December 2022
B.	IBA-AR(2023)0025	IBAN Audit Report on the 2022 Financial Statements of the NATO Airborne Early Warning & Control Programme Management Agency (NAPMA) for the year ended on 31 December 2022
C.	IBA-AR(2023)0026	IBAN Audit Report on the 2022 Financial Statements of the NATO EF2000 and Tornado Development, Production and Logistics Management Agency (NETMA) for the year ended on 31 December 2022
D.	C-M(2015)0025	NATO Financial Regulations (NFR)
E.	PO(64)379	NATO Civilian Personnel Regulations (CPR)
F.	C-M(2016)0023	NATO Accounting Framework (NAF)
G.	PO(2015)0052	Wales Summit tasker on transparency and accountability

INTRODUCTION

1. This report by the Resource Policy and Planning Board (RPPB) addresses the IBAN Audit Reports on the 2022 Financial Statements of the NATO Multi-Role Combat Aircraft Development Production and In Service Support Management Organisation (NAMMO), NATO Airborne Early Warning & Control Programme Management Agency (NAPMA), and NATO EF2000 and Tornado Development, Production and Logistics Management Agency (NETMA). The IBAN issued unqualified opinions on the Financial Statements and on compliance for the year ended 31 December 2022 (references A, B and C).

AIM

2. This report highlights key issues in the IBAN Audit Reports with the aim to enable the RPPB to reflect on strategic challenges resulting from the audit of Financial Statements of NATO entities and to recommend courses of action to Council as applicable, in order to improve transparency, accountability and consistency.

3. The RPPB acknowledges that the observations highlighted in the IBAN Audit Report have been discussed and dealt with by the participating Nations, represented on the appropriate governing bodies. The RPPB is mandated under Article 15 of the NATO Financial Regulations (NFR) (reference D) to examine the IBAN Audit Reports and to provide comments and recommendations to Council as required.

4. To distinguish among the three different NATO reporting entities, the main highlights for the NAMMO, NAPMA and NETMA are covered in their respective Chapters.

OBSERVATIONS AND RPPB VIEW

5. During the audit of 2022 Financial Statements, the IBAN made no observations nor recommendations for the NAMMO and made two observations and recommendations for the NAPMA and four for the NETMA. The IBAN also raised an Emphasis of Matter¹ paragraph on compliance regarding the NETMA Statement of Budget Execution. The two observations for the NAPMA relate to the need to strengthen internal controls over the preparation of the Financial Statements and non-compliance with the NATO Civilian Personnel Regulations (CPR) (reference E) regarding the justification for the class of air travel and reporting to the appropriate budget committee. The four observations for the NETMA relate to the weaknesses in the presentation of the Statement of Budget Execution, absence of a reconciliation between the expenditure presented in the Statement of Budget Execution and the expenses reported in the Statement of Financial Performance, internal control weaknesses in the area of allowances provided to NETMA personnel under the NATO CPR, and weaknesses identified in recording of supplier invoices. These observations and recommendations did not affect the audit opinion on the Financial Statements, neither on compliance.

6. Also, the IBAN followed up on the status of observations and recommendations from the previous years' audits and found that one was superseded by current year's observation, one remains in-progress and three were closed in total for three NATO entities. Observations are detailed in documents at reference A to C.

CHAPTER 1 NAMMO

7. In 2022, the IBAN made no observations nor recommendations for NAMMO. The IBAN followed up on the status of observations from the previous years' audits. All observations and recommendations from the previous years' audits were closed. During the audit, IBAN closed the observations on the improvements needed in the presentation of the Statement of Budget Execution and on the missing approval of commitments, and estimates of carry-forward of commitments and accruals for spare parts². The observations are detailed at reference A.

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

² In 2022, NETMA requested a deviation from Articles 24 and 25 of the NATO Financial Regulations (NFR) for NAMMO in relation to prior approval of commitments for purchases of spare parts, carry-forward of commitments and lapses. The North Atlantic Council approved these deviations from the NFR on 24 June 2022, which retroactively apply from 1 January 2021 onwards.

8. The RPPB notes improvements made by the NAMMO in implementing IBAN's observations and recommendations, especially the complete implementation of the recommendation related to the IBAN qualified opinion on compliance for financial year 2020.

CHAPTER 2 NAPMA

9. During 2022, the IBAN made two observations and recommendations for NAPMA.

9.1. Observation 1: The RPPB supports IBAN's recommendation that NAPMA strengthen internal controls over the preparation of the Financial Statements to provide a reasonable basis for obtaining assurance that the Financial Statements are in compliance with the NATO Accounting Framework (reference F) and NFR.

9.2. Observation 2: In respect to non-compliance with the CPR regarding the justification for the class of air travel and reporting to the appropriate budget committee, the RPPB supports IBAN's recommendation that NAPMA comply with the provisions of the NATO CPR by ensuring that the service necessity justification on special decisions for air travel by the NAPMA General Manager are documented, and by providing quarterly reports on the use of business class air travel to the NAPMO Policy and Finance Committee.

9.3. Furthermore, the IBAN followed up on the status of observations and recommendations from the previous years' audits and found that one was superseded by a current year observation, and one remains in-progress. The observations are detailed at reference B.

CHAPTER 3 NETMA

10. For the financial year 2022, IBAN made four observations and recommendations for the NETMA, one of which was raised in an Emphasis of Matter paragraph on compliance regarding the NETMA Statement of Budget Execution.

10.1. Observation 1: With regard to weaknesses in the presentation of the Statement of Budget Execution, the RPPB supports IBAN's recommendation that NETMA ensure a consistent presentation of the lapsed appropriations in the Statement of Budget Execution, specifically by not including already lapsed credits in the total of lapsed appropriations presented and include in the Notes to the Financial Statements explanations for any restatements of previous year balances.

10.2. Observation 2: The RPPB supports IBAN's recommendation that NETMA include in their Annual Financial Statements a reconciliation between the expenditure presented in the Statement of Budget Execution and the expenses presented in the Statement of Financial Performance, together with any explanations concerning the nature of the adjustments made for the purposes of this reconciliation.

10.3. Observation 3: The RPPB supports IBAN's recommendation that NETMA strengthen internal control in the area of allowances provided to NETMA personnel under the NATO CPR, specifically by implementing the management actions recommended by the internal NETMA Audit Team and ensuring the recovery of any undue amounts from the concerned personnel.

10.4. Observation 4: In respect to weaknesses identified in recording of supplier invoices, the RPPB supports IBAN's recommendation that NETMA review the process of recording supplier invoices at year-end in order to ensure that assets and liabilities are recognised in the correct financial period. In particular, the NETMA should record supplier invoices as payables to suppliers based on the invoice date and to accrue or defer expenses based on the delivery information of the goods or services concerned, if required.

10.5. Emphasis of Matter on Compliance: The IBAN raised an Emphasis of Matter paragraph as NETMA Statement of Budget Execution presents an inconsistent view as regards lapses. This is because the "Lapsed" column in the Statement of Budget Execution for 2022 includes lapsed appropriations related to the 2022 year budget (EUR 0.414 million) and also previous year lapsed credits (EUR 1.097 million). Previous year lapsed credits do not form part of lapsed appropriations for 2022, in accordance with the definition of lapsed appropriations from the NFR.

10.6. In addition, the IBAN followed up on the status of observations from the previous years' audits. All observations and recommendations from the previous years' audits were closed. The observations are detailed at reference C.

CONCLUSIONS

11. The IBAN issued unqualified opinions on the 2022 NAMMO, NAPMA and NETMA Financial Statements and on compliance. The IBAN made no observations nor recommendations for the NAMMO and made two observations and recommendations for the NAPMA and four for the NETMA. As of the date of the IBAN Audit Reports, one previous years' observation was superseded by current year's observation, one remains in-progress and three were closed in total for three NATO entities.

12. The RPPB supports IBAN's recommendation that NAPMA strengthen internal controls over the preparation of the Financial Statements, and comply with the CPR regarding the justification for the class of air travel and reporting to the appropriate budget committee. Furthermore, the RPPB supports IBAN's recommendation that NETMA ensure a consistent presentation of the lapsed appropriations in the Statement of Budget Execution, include in the Annual Financial Statements reconciliation between the expenditure presented in the Statement of Budget Execution and the expenses reported in the Statement of Financial Performance, strengthen internal control in the area of allowances provided to NETMA personnel under the NATO CPR, and review the process of recording supplier invoices at year-end in order to ensure that assets and liabilities are recognised in the correct financial period.

NATO UNCLASSIFIED

Releasable to Sweden

ANNEX TO
PO(2023)0471 (INV)

13. The RPPB welcomes improvements made by both NAMMO and NETMA in implementing previous IBAN's observations and recommendations, especially the complete implementation of recommendation related to the IBAN qualified opinion on compliance for financial year 2020.

RECOMMENDATIONS

14. The Resource Policy and Planning Board recommends that Council:

14.1. note this report and the IBAN Audit Reports at references A to C;

14.2. approve the conclusions at paragraphs 11 to 13;

14.3. approve the public disclosure of the 2022 Financial Statements for the NAMMO, NAMPA and NETMA, their associated IBAN Audit Reports and this report in line with agreed policy at reference G.

PUBLICLY DISCLOSED - PDN(2024)0007 - MIS EN LECTURE PUBLIQUE



International Board of Auditors for NATO
Collège international des auditeurs externes de l'OTAN

Brussels - Belgium



NATO UNCLASSIFIED

IBA-A(2023)0124
22 November 2023

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

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

Subject: ***International Board of Auditors for NATO (IBAN) Audit Report on the audit of the NATO Multi-Role Combat Aircraft Development Production and In Service Support Management Organisation (NAMMO) Financial Statements for the year ended 31 December 2022 – IBA-AR(2023)0027***

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

IBAN's report sets out an unqualified opinion on the Financial Statements of the NATO Multi-Role Combat Aircraft Development Production and In Service Support Management Organisation (NAMMO) and on compliance for financial year 2022.

Yours sincerely,

Radek Visinger
Chair

Attachments: As stated above.

NATO UNCLASSIFIED

-1-

**Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Financial Statements of the
NATO Multi-Role Combat Aircraft Development Production and
In Service Support Management Organisation (NAMMO)
for the year ended 31 December 2022**

NAMMO is the NATO reporting entity for the Tornado Programme. The participating Nations for NAMMO are Germany, Italy and the United Kingdom. The NATO EF 2000 and Tornado Development, Production and Logistics Management Agency (NETMA) manages this Programme and its Operational Budget. NETMA also manages the procurement and the administration of the EF2000 Programme, for which the NATO European Fighter Aircraft Development Production and Logistic Management Organisation (NEFMO) is the NATO reporting entity.

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

IBAN audited the NAMMO Financial Statements for the year ended 31 December 2022. The total expenditure in 2022 for the NAMMO Operational Budget amounts to EUR 608 million.

IBAN issued an unqualified opinion on the Financial Statements and on compliance for the year ended 31 December 2022.

IBAN made no observations and recommendations.

IBAN followed up on the status of observations from the previous years' audit. All the observations and recommendations from the previous years' audit were closed.

In 2022, NETMA requested a deviation from Articles 24 and 25 of the NATO Financial Regulations (NFRs) for NAMMO in relation to prior approval of commitments for purchases of spare parts, carry-forward of commitments and lapses. The North Atlantic Council approved these deviations from the NFRs on 24 June 2022, which retroactively apply from 1 January 2021 onwards.

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

NATO UNCLASSIFIED

IBA-AR(2023)0027

22 November 2023

INTERNATIONAL BOARD OF AUDITORS FOR NATO

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

(NAMMO)

FOR THE YEAR ENDED 31 DECEMBER 2022

PUBLICLY DISCLOSED - PDN(2024)0007 - MIS EN LECTURE PUBLIQUE

NATO UNCLASSIFIED

INDEPENDENT EXTERNAL AUDITOR'S REPORT TO THE NORTH ATLANTIC COUNCIL

Financial Statements

Opinion on the Financial Statements

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of NAMMO, for the 12 month period ended 31 December 2022, issued and submitted to IBAN on 31 March 2023. These Financial Statements comprise the Statement of Financial Position as at 31 December 2022, the Statement of Financial Performance, the Statement of Changes in Net Assets/Equity and the Statement of Cash Flow, for the 12 month period ended 31 December 2022, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a Budget Execution Statement for the 12 month period ended 31 December 2022.

In our opinion, the Financial Statements give a true and fair view of the financial position of NAMMO as at 31 December 2022, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2022, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF).

Basis for Opinion on the Financial Statements

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

We have conducted our audit in accordance with the International Organisation of Supreme Audit Institutions (INTOSAI) Principles as per our Charter, and standards consistent with the International Standards of Supreme Audit Institutions (ISSAI 2000-2899).

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

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

Management's Responsibility for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are required to communicate with the bodies charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. Our Independent External Auditor's Report is prepared to assist North Atlantic Council in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

Compliance

Opinion on Compliance

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

Basis for Opinion on Compliance

We have conducted our compliance audit in accordance with the International Organisation of Supreme Audit Institutions (INTOSAI) Principles as per our Charter, and standards consistent with the International Standards of Supreme Audit Institutions (ISSAI 4000-4899).

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

Management's Responsibility for Compliance

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

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

Auditor's Responsibilities for Compliance

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

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

Brussels, 22 November 2023



Radek Visinger
Chair

OBSERVATIONS AND RECOMMENDATIONS

IBAN made no observations and recommendations.

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

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

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

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

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>(1) NAMMO FY 2020 IBA-AR(2021)0027, paragraph 1.23</p> <p>MISSING APPROVAL OF COMMITMENTS, AND ESTIMATES OF CARRY-FORWARD OF COMMITMENTS AND ACCRUALS FOR SPARE PARTS</p> <p>IBAN's Recommendation IBAN recommends that NAMMO:</p> <p>a) Prevent third parties from entering into a commitment of funds for spare parts on behalf of NAMMO;</p> <p>b) Introduce internal controls or procedures that ensure prior approval of commitment by the NETMA Financial Controller, or other relevant NETMA staff with delegated authority, for spare parts purchases;</p> <p>c) Revise the FRRs on the role, the responsibilities and the authority of the NETMA Financial Controller where necessary, in order to ensure conformity with the NFRs;</p>	<p>a) Closed in IBA-AR(2022)0013.</p> <p>b) Closed in IBA-AR(2022)0013.</p> <p>c) The North Atlantic Council (NAC) approved in June 2022 NETMA's request for a deviation from Articles 24 and 25 of the NFRs. Following this, the NETMA</p>	<p>Observation Closed.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>d) Ensure compliance with Article 25.3 of the NFRs by quantifying the commitments to be carried-forward to the next two financial years for all purchases of spare parts;</p> <p>e) Ensure completeness of accruals for all purchases of spare parts.</p>	<p>Financial Rules and Regulations (FRRs) were updated to incorporate the approved deviations. The FRRs were subsequently approved by the NAMMO Board of Directors and circulated to the Nations. Closed.</p> <p>d) Closed in IBA-AR(2022)0013.</p> <p>e) Closed in IBA-AR(2022)0013.</p>	
<p>(2) NAMMO FY 2020 IBA-AR(2021)0027, paragraph 2.24</p> <p>IMPROVEMENTS NEEDED IN THE PRESENTATION OF THE STATEMENT OF BUDGET EXECUTION</p> <p>IBAN's Recommendation IBAN recommends that NAMMO:</p> <p>a) Amend its current procurement and budget processes in order to comply with Article 24 and 25 of the NFRs, or request Council to approve a deviation from the NFRs which better reflects the specific NAMMO procurement and budget needs;</p> <p>b) Assess whether NAMMO's multiannual programme could hinder compliance with other relevant articles of the NFRs that start from the principle of annual budgets, and take appropriate action where necessary by amending internal processes or by requesting Council to approve a deviation from the NFRs which better reflects the specific NAMMO needs;</p> <p>c) Revise the FRRs where necessary in order to ensure compliance with the Articles of the NFRs concerned, or to ensure compliance with approved deviations from the NFRs.</p>	<p>a) Closed in IBA-AR(2022)0013.</p> <p>b) Closed in IBA-AR(2022)0013.</p> <p>c) The North Atlantic Council (NAC) approved in June 2022 NETMA's request for a deviation from Articles 24 and 25 of the NFRs. Following this, the NETMA Financial Rules and Regulations (FRRs) were updated to incorporate the approved deviations. The</p>	<p>Observation Closed.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
	FRRs were subsequently approved by the NAMMO Board of Directors and circulated to the Nations. Closed.	

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

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

GLOSSARY OF TERMS

In accordance with International Standards of Supreme Audit Institutions (ISSAI 2705), audit opinions on financial statements and on compliance can be unqualified, qualified, a disclaimer, or adverse:

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

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

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



NATO UNCLASSIFIED

IBA-A(2023)0120
22 November 2023

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

Cc: NATO Permanent Representatives
Chair, NATO Airborne Early Warning & Control Programme Management
Organisation (NAPMO) Board of Directors
General Manager, NATO Airborne Early Warning & Control Programme
Management Agency (NAPMA)
Financial Controller, NATO Airborne Early Warning & Control Programme
Management Agency (NAPMA)
Chair, Resource Policy & Planning Board
Branch Head, Resource Management Branch, NATO Office of Resources
Private Office Registry

Subject: ***International Board of Auditors for NATO (IBAN) Audit Report on the audit of the NATO Airborne Early Warning & Control Programme Management Agency's (NAPMA) Financial Statements for the year ended 31 December 2022 – IBA-AR(2023)0025***

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

IBAN's report sets out an unqualified opinion on the Financial Statements of the NATO Airborne Early Warning & Control Programme Management Agency and on compliance for financial year 2022.

Yours sincerely,

Radek Visinger
Chair

Attachments: As stated above.

NATO UNCLASSIFIED

-1-

**Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Financial Statements of the
NATO Airborne Early Warning and Control
Programme Management Agency (NAPMA)
for the year ended 31 December 2022**

The NATO Airborne Early Warning & Control Programme Management Organisation (NAPMO), including the NATO Airborne Early Warning & Control Programme Management Agency (NAPMA) was established to assume the direction, the co-ordination, and the execution of the NATO Airborne Early Warning and Control (NAEW&C) system. The management of the Programme consists of overseeing the acquisition of the operating assets needed to establish NAEW&C capability and subsequent acquisitions of enhancements thereof. Total NAPMA expenses in 2022 amounted to USD 20.2 million and additions to modernisation assets amounted to USD 137 million.

IBAN issued an unqualified opinion on the Financial Statements resubmitted to IBAN on 4 October 2023 and on compliance for the year ended 31 December 2022.

IBAN made two observations and recommendations. These observations do not impact the audit opinion on the financial statements and on compliance:

1. Need to strengthen internal controls over the preparation of the financial statements.
2. Non-compliance with the NATO Civilian Personnel Regulations regarding the justification for the class of air travel and reporting to the appropriate budget committee.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that one was superseded by current year's observation, and one remains in progress.

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

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

NATO UNCLASSIFIED

IBA-AR(2023)0025

22 November 2023

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE

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

(NAPMA)

FOR THE YEAR ENDED 31 DECEMBER 2022

PUBLICLY DISCLOSED - PDN(2024)0007 - MIS EN LECTURE PUBLIQUE

NATO UNCLASSIFIED

INDEPENDENT EXTERNAL AUDITOR'S REPORT TO THE NORTH ATLANTIC COUNCIL

Financial Statements

Opinion on the Financial Statements

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of NAPMA, for the 12-month period ended 31 December 2022, issued under document reference NAPMA/FC(23)50-00/008, and resubmitted to IBAN on 4 October 2023. These Financial Statements comprise the Statement of Financial Position as at 31 December 2022, the Statement of Financial Performance, the Statement of Changes in Net Assets/Equity and the Statement of Cash Flow, for the 12-month period ended 31 December 2022, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a Budget Execution Statement for the 12-month period ended 31 December 2022.

In our opinion, the Financial Statements give a true and fair view of the financial position of NAPMA as at 31 December 2022, and of its financial performance, its cash flows and budget execution for the 12-month period ended 31 December 2022, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF).

Basis for Opinion on the Financial Statements

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

We have conducted our audit in accordance with the International Organisation of Supreme Audit Institutions (INTOSAI) Principles as per our Charter, and standards consistent with the International Standards of Supreme Audit Institutions (ISSAI 2000-2899).

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

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

Management's Responsibility for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are required to communicate with the bodies charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. Our Independent External Auditor's Report is prepared to assist North Atlantic Council in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

Compliance

Opinion on Compliance

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

Basis for Opinion on Compliance

We have conducted our compliance audit in accordance with the International Organisation of Supreme Audit Institutions (INTOSAI) Principles as per our Charter, and standards consistent with the International Standards of Supreme Audit Institutions (ISSAI 4000-4899).

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

Management's Responsibility for Compliance

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

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

Auditor's Responsibilities for Compliance

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

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

Brussels, 22 November 2023



Radek Visinger
Chair

OBSERVATIONS AND RECOMMENDATIONS

IBAN made two observations and recommendations. These observations do not impact the audit opinion on the Financial Statements and on compliance:

1. Need to strengthen internal controls over the preparation of the financial statements.
2. Non-compliance with the NATO Civilian Personnel Regulations regarding the justification for the class of air travel and reporting to the appropriate budget committee.

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

The observations and recommendations that are not in the Audit Report are included in a Management Letter addressed to NAPMA management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under executive responsibility.

1. NEED TO STRENGTHEN INTERNAL CONTROLS OVER THE PREPARATION OF THE FINANCIAL STATEMENTS**Reasoning**

1.1 According to the NATO Accounting Framework (NAF) *“Financial statements shall present fairly the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSASs. The application of IPSASs, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation.”*

1.2 According to the NATO Financial Regulations (NFRs) Article 34.1: *“NATO bodies shall adhere to the accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council”*.

1.3 A key part of any system of internal control is to ensure adequate processes are in place for the preparation, review and reporting of the Financial Statements. Adequate review procedures are necessary to provide a reasonable basis for obtaining assurance that the financial statements are in compliance with the applicable financial reporting framework.

Observations

1.4 IBAN identified a material misstatement during the audit of the NAPMA Financial Statements first submitted to IBAN on 31 March 2023, as described below. This misstatement was corrected in the resubmitted Financial Statements submitted to IBAN on 4 October 2023.

1.5 The NAPMA Financial Statements, initially submitted, included a material overstatement of the 'Development Laboratories' value, classified as 'Property, Plant and Equipment' (PP&E) in the NAPMA Statement of Financial Position. This overstatement amounted to approximately USD 3 million in 2022 and USD 5 million in 2021, resulting in a corresponding understatement of the 'Work In Progress' value associated with these Development Laboratories, classified as 'Other non-current assets' in the NAPMA Statement of Financial Position in both periods.

1.6 IBAN also identified the following non-material errors:

- a) An accounting and presentation error related to a prior period initial error that NAPMA corrected prospectively rather than retrospectively. This initial error pertains to expenses totalling USD 0.3 million, which should have been capitalised as 'Work In Progress' within the "Other non-current assets" category in the Statement of Financial Position rather than being expensed in 2021. This error mistakenly corrected by NAPMA led to an overstatement of 2021 "Project Expenses" associated with an understatement of 2022 "Project expenses" reported on the face of the NAPMA Statement of Financial Performance.
- b) An accounting and presentation error resulting from a miscalculation of accrued interest, approximately USD 0.1 million, was not accounted for at year-end. This error led to an understatement of the accrued interest within the 'Receivables' asset category in the Statement of Financial Position and a corresponding understatement of "Financial Revenue" in the NAPMA Statement of Financial Performance.

1.7 The above misstatements demonstrate the need to ensure adequate processes are in place for the preparation, review and reporting of the Financial Statements to avoid material misstatements or errors in disclosures.

Recommendations

1.8 IBAN recommends that NAPMA strengthen internal controls over the preparation of the financial statements to provide a reasonable basis for obtaining assurance that the financial statements are in compliance with the NATO Accounting Framework and NATO Financial Regulations.

2. NON-COMPLIANCE WITH THE NATO CIVILIAN PERSONNEL REGULATIONS REGARDING THE JUSTIFICATION FOR THE CLASS OF AIR TRAVEL AND REPORTING TO THE APPROPRIATE BUDGET COMMITTEE

Reasoning

2.1 Article 40.2 of the NATO Civilian Personnel Regulations states that :
“40.2.1 Subject to the provisions of the following articles, travel shall be performed by the most rapid and economical means commensurate with the nature and urgency of the mission.

40.2.2 Travel by air:

(a) all members of the staff will be entitled to economy class air travel as the norm, except as noted in Article 40.2.2(b);

(b) air passages do not give the right to the use of business class travel, except for Unclassified grade officials or by special decision of the Head of the NATO body. Such special decisions must be justified by service necessity and backed up by quarterly reporting to the appropriate budget committee.”

2.2 On 31 January 2014, the NAPMA Chief of Staff (COS) formally informed NAPMA staff that the NAPMA General Manager has approved a decision to modify Business Class travel approval process. A-grade and B-grade staff who travel by air with a single leg trip duration of more than six hours or a total trip duration of more than eight hours within a 24-hour period are authorised to use business class.

2.3 On 25 July 2023, the NAPMA Chief of Human Resources and General Service issued a memorandum to staff to re-iterate that the NAPMA General Manager has taken the exceptional decision to allow the use of business class air travel and to clarify that A-grade personnel are not entitled to compensatory time off leave due to long-distance travel overtime. Furthermore, B-grade personnel who are authorised to fly business class are not entitled to compensatory time off leave upon their return.

2.4 In 2022, 218 flight tickets were booked for a total amount of approximately EUR 466,000, out of which 114 flights were in business class, totaling approximately EUR 420,000 and representing 90% of NAPMA annual flight expenditures.

Observations

2.5 IBAN found that the permanent special decision authorising the use of business class air travel for A-grade and B-grade, granted by the NAPMA General Manager and communicated by the NAPMA COS, does not mention the service necessity as a justification, in accordance with the provisions of the NATO Civilian Personnel Regulations.

2.6 In addition, IBAN found that NAPMA has not performed quarterly reporting on the use of business class air travel to the appropriate budget committee, namely the NAPMO Policy and Finance Committee.

2.7 The situations described above are not in compliance with the provisions of Article 40.2.2 of the NATO Civilian Personnel Regulations.

Recommendations

2.8 IBAN recommends NAPMA to comply with the provisions of the NATO Civilian Personnel Regulations by :

- a) Ensuring that the service necessity justification on special decisions for air travel by the NAPMA General Manager are documented;
- b) Providing quarterly reports on the use of business class air travel to the NAPMO Policy and Finance Committee.

FOLLOW-UP OF PREVIOUS YEARS’ OBSERVATIONS

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

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

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>(1) NAPMA FY 2021 IBA-AR(2022)0024, paragraph 1</p> <p>NEED TO STRENGTHEN INTERNAL CONTROLS OVER THE PREPARATION OF THE FINANCIAL STATEMENTS</p> <p>IBAN’s Recommendation IBAN recommends that NAPMA strengthen internal controls over the preparation of the financial statements to provide a reasonable basis for obtaining assurance that financial statements are in compliance with the NATO Accounting Framework and NATO Financial Regulations.</p>	<p>IBAN identified material misstatements in the 2022 NAPMA Financial Statements first submitted to IBAN for audit. As a result, IBAN considers this observation and this recommendation as superseded by the Observation 1 of the 2022 audit report.</p>	<p>Observation Closed.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>(2) NAPMA FY 2021 IBA-AR(2022)0024, paragraph 2</p> <p>CLARIFICATION AND APPROVAL FROM THE NORTH ATLANTIC COUNCIL WITH RESPECT TO THE COMPLIANCE OF THE CONTRACTUAL RECOUPMENT CLAUSES WITH THE NAPMO CHARTER</p> <p>IBAN's Recommendation IBAN recommends NAPMO to seek clarification and approval in principle from the North Atlantic Council on whether Article 10 of the NAPMO Charter provides for recoupment clauses that grant the right to the NAPMO Contractor, to act as an agent with non-NATO Member States, in the benefit of NAPMO and in the name of NATO.</p>	<p>In January 2023, the NAPMO Board of Directors issued a letter to the Resource Policy and Planning Board (RPPB) to request guidance concerning the clarification and approval from the North Atlantic Council with respect to the compliance of the contractual recoupment clauses with the NAPMO Charter. NAPMA informed IBAN that, as of the date of the audit fieldwork, NAPMO has not received any formal response from the RPPB.</p>	<p>Observation In-Progress.</p>

**NATO AIRBORNE EARLY WARNING AND CONTROL PROGRAMME
MANAGEMENT AGENCY (NAPMA) FORMAL COMMENTS ON THE AUDIT
REPORT AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS**

**OBSERVATION 1:
NEED TO STRENGTHEN INTERNAL CONTROLS OVER THE PREPARATION OF
THE FINANCIAL STATEMENTS**

NAPMA's Formal Comments

Agreed.

NAPMA concurs with the IBAN observation. In the Financial Statements that NAPMA submitted on 31 March 2023, the 'Development Laboratories' value (PP&E) was overstated by approximately USD 3 million in 2022 and USD 5 million in 2021. This overstatement is corrected in the Financial Statements that NAPMA resubmitted on 4 October 2023.

NAPMA concurs with the IBAN recommendation that as a consequence of the IBAN observation, NAPMA's internal controls over the preparation of the financial statements should be strengthened.

**OBSERVATION 2:
NON-COMPLIANCE WITH THE NATO CIVILIAN PERSONNEL REGULATIONS
REGARDING THE JUSTIFICATION FOR THE CLASS OF AIR TRAVEL AND
REPORTING TO THE APPROPRIATE BUDGET COMMITTEE**

NAPMA's Formal Comments

Agreed.

NAPMA concurs with the IBAN observation and recommendation. For future on special decisions for air travel by the NAPMA General Manager, the service necessity justification will be documented. NAPMA will provide quarterly reports on the use of business class air travel to the NAPMO Policy and Finance Committee.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

**(2) NAPMA 2021 FY
IBA-AR(2022)0024, paragraph 2**

**CLARIFICATION AND APPROVAL FROM THE NORTH ATLANTIC COUNCIL
WITH RESPECT TO THE COMPLIANCE OF THE CONTRACTUAL RECOUPMENT
CLAUSES WITH THE NAPMO CHARTER**

NAPMA's Formal Comments

Agreed.

The NAPMO Board of Directors has taken appropriate and timely action to address the IBAN observation by seeking guidance from the RPPB on the subject matter.

To date of this report, NAPMO has not received any formal guidance from the RPPB. Pending any formal guidance, NAPMA will continue to engage with the NATO office of Resources (NOR) to define the way forward.

GLOSSARY OF TERMS

In accordance with International Standards of Supreme Audit Institutions (ISSAI 2705), audit opinions on financial statements and on compliance can be unqualified, qualified, a disclaimer, or adverse:

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

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

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



NATO UNCLASSIFIED

IBA-A(2023)0122
22 November 2023

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

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

Subject: ***International Board of Auditors for NATO (IBAN) Audit Report on the audit of NATO EF2000 and Tornado Development Production and Logistics Management Agency (NETMA) Financial Statements for the year ended 31 December 2022 – IBA-AR(2023)0026***

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

IBAN's report sets out an unqualified opinion on the Financial Statements of the NATO EF 2000 and Tornado Development, Production and Logistics Management Agency (NETMA) and on compliance for financial year 2022.

Yours sincerely,

Radek Visinger
Chair

Attachments: As stated above.

NATO UNCLASSIFIED

-1-

**Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Financial Statements of the
NATO EF2000 and Tornado Development
Production and Logistics Management Agency (NETMA)
for the year ended 31 December 2022**

The NATO reporting entity NETMA is the agency that manages the procurement and the administration of two operational programmes on behalf of its member Nations: the Tornado Programme and the EF2000 Programme. The NATO Multi-Role Combat Aircraft Development Production and In Service Support Management Organisation (NAMMO) is the NATO reporting entity for the Tornado Programme, and the NATO European Fighter Aircraft Development Production and Logistic Management Organisation (NEFMO) for the EF2000 Programme.

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

IBAN audited the Financial Statements of NETMA for the year ended 31 December 2022. The total expenditure in 2022 for the Administrative Budget amounts to EUR 50.6 million.

IBAN issued an unqualified opinion on the Financial Statements and on compliance for the year ended 31 December 2022. IBAN also raised an Emphasis of Matter paragraph on Compliance regarding the NETMA Statement of Budget Execution for the year ended 31 December 2022.

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

1. Weaknesses in the presentation of the Statement of Budget Execution.
2. Absence of a reconciliation between the expenditure presented in the Statement of Budget Execution and the expenses reported in the Statement of Financial Performance.
3. Internal control weaknesses in the area of allowances provided to NETMA personnel under the NATO Civilian Personnel Regulations.
4. Weaknesses identified in recording of supplier invoices.

IBAN followed up on the status of observations from the previous years' audit. All the observations and recommendations from the previous years' audit were closed.

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

NATO UNCLASSIFIED

IBA-AR(2023)0026

22 November 2023

INTERNATIONAL BOARD OF AUDITORS FOR NATO

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

(NETMA)

FOR THE YEAR ENDED 31 DECEMBER 2022

PUBLICLY DISCLOSED - PDN(2024)0007 - MIS EN LECTURE PUBLIQUE

NATO UNCLASSIFIED

INDEPENDENT EXTERNAL AUDITOR'S REPORT TO THE NORTH ATLANTIC COUNCIL

Financial Statements

Opinion on the Financial Statements

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of NETMA, for the 12 month period ended 31 December 2022, issued and submitted to IBAN on 31 March 2023. These Financial Statements comprise the Statement of Financial Position as at 31 December 2022, the Statement of Financial Performance, the Statement of Changes in Net Assets/Equity and the Statement of Cash Flow, for the 12 month period ended 31 December 2022, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a Budget Execution Statement for the 12 month period ended 31 December 2022.

In our opinion, the Financial Statements give a true and fair view of the financial position of NETMA as at 31 December 2022, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2022, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF).

Basis for Opinion on the Financial Statements

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

We have conducted our audit in accordance with the International Organisation of Supreme Audit Institutions (INTOSAI) Principles as per our Charter, and standards consistent with the International Standards of Supreme Audit Institutions (ISSAI 2000-2899).

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

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

Management's Responsibility for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are required to communicate with the bodies charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. Our Independent External Auditor's Report is prepared to assist North Atlantic Council in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

Compliance

Opinion on Compliance

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

Basis for Opinion on Compliance

We have conducted our compliance audit in accordance with the International Organisation of Supreme Audit Institutions (INTOSAI) Principles as per our Charter, and standards consistent with the International Standards of Supreme Audit Institutions (ISSAI 4000-4899).

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

Emphasis of Matter on Compliance

We draw attention that the NETMA Statement of Budget Execution for the year ended 31 December 2022, included in the NETMA Annual Financial Statements 2022, presents an inconsistent view as regards lapses. This is because the “Lapsed” column in the Statement of Budget Execution for 2022 includes lapsed appropriations related to the 2022 year budget (EUR 0.414 million) and also prior year lapsed credits (EUR 1.097 million). Prior year lapsed credits do not form part of lapsed appropriations for 2022, in accordance with the definition of lapsed appropriations from the NATO Financial Regulations.

Our opinion is not modified in respect of this matter.

Management’s Responsibility for Compliance

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

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

Auditor’s Responsibilities for Compliance

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

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

Brussels, 22 November 2023



Radek Visinger
Chair

OBSERVATIONS AND RECOMMENDATIONS

IBAN made four observations and recommendations. These observations do not impact the audit opinion on the Financial Statements and on compliance:

1. Weaknesses in the presentation of the Statement of Budget Execution.
2. Absence of a reconciliation between the expenditure presented in the Statement of Budget Execution and the expenses reported in the Statement of Financial Performance.
3. Internal control weaknesses in the area of allowances provided to NETMA personnel under the NATO Civilian Personnel Regulations.
4. Weaknesses identified in recording of supplier invoices.

IBAN followed up on the status of observations from the previous years' audit. All the observations and recommendations from the previous years' audit were closed.

1. WEAKNESSES IN THE PRESENTATION OF THE STATEMENT OF BUDGET EXECUTION**Reasoning**

1.1 According to the NATO Financial Regulations (NFRs), a budget appropriation is *“an authorisation granted by the member nations as represented on the appropriate governing body or finance committee to allocate funds, incur legal obligations and make payments for specified purposes”*.

1.2 Also according to the NFRs, in NATO, a lapsed appropriation is *“an appropriation, in an approved budget, which has not been committed during the financial year and is therefore automatically cancelled”*.

1.3 The definition of a lapsed appropriation from the NFRs is also reflected in the NATO EF2000 and Tornado Development, Production and Logistics Management Agency (NETMA) Financial Rules and Regulations (FRRs), which specify that: *“20.1 Credits will be available for commitment only during the financial year for which they have been approved. The uncommitted balance of such credits will be cancelled at the end of the financial year (...).”*

1.4 According to the NETMA FRRs, on a yearly basis, *“20.1 (...) the unexpended balance of committed credits may be carried forward if a legal liability to pay exists (...). 20.2. Credits carried forward, in accordance with paragraph 20.1, which remain unexpended at the close of the second financial year, will normally be cancelled. (...) 20.3. Credits carried forward in accordance with paragraph 20.1, which are still outstanding at the end of the third financial year, will be finally cancelled.”*

1.5 Lapsed credits are lapsed appropriations from the current financial year, balances of lapsed appropriations from prior years that were not yet returned to Nations and lapses from uncommitted balances of carry forwards that were finally lapsed.

1.6 NETMA lapsed credits are returned to the Nations by offsetting against subsequent calls for contributions, as reflected in the NETMA FRRs: *“25.1 On making the final assessment of contributions, the Division Leader Finance will take into account (...) any credits available under paragraph 20 (...).”* Lapsed credits are presented as a liability balance in the Statement of Financial Position of NETMA.

1.7 The representatives of the Nations in the Board of Directors (BoD) of the NATO European Fighter Aircraft Development, Production and Logistics Management Organisation (NEFMO) and the BoD of the NATO Multi-Role Combat Aircraft Development, Production and In Service Support Management Organisation (NAMMO) approve the NETMA Administration budget on a yearly basis. Prior to approval, the budget estimates are internally reviewed and then screened by the Deputy General Manager of NETMA and by the NETMA Financial and Administrative Committee (FAC).

1.8 The NETMA Administration budget for 2022 was approved in 2021, in the amount of EUR 49.744 million. The approved budget covers personnel costs, agency support costs and costs related to process and information technology management (Chapters 1 to 3). NETMA also presents each year to the FAC and the BoDs the budget estimate for expenses for which reimbursement is expected, together with any other recurring miscellaneous income (Chapter 4).

1.9 In 2022, the North Atlantic Council (NAC) approved a special adjustment of salaries and allowances due to high inflation, for the staff employed in Germany, effective 1 May 2022 (PO(2022)0476-AS1 (INV), dated 22 November 2022).

1.10 In this context, in order to ensure the availability of funds for the implementation of the NAC decision, the NEFMO and NAMMO BoDs approved a supplementary budget of EUR 715,000 to the initially approved 2022 Administration budget. As agreed in the FAC meetings preceding the supplementary budget approval, the funds required for the special adjustment of salaries would be covered from the expected lapsed credits from financial year 2022 and from the supplementary budget for 2022, while the supplementary budget could be offset against the lapsed credits related to previous financial years. As at 1 January 2022, the NETMA balance of lapsed credits was EUR 1.107 million.

Observations

1.11 The NETMA Statement of Budget Execution for the year ended 31 December 2022, included in the NETMA Annual Financial Statements 2022, presents an inconsistent view as regards lapses. This is because the “Lapsed” column in the Statement of Budget Execution for 2022 includes lapsed appropriations related to the

2022 year budget (EUR 0.414 million) and also prior year lapsed credits (EUR 1.097 million). Prior year lapsed credits do not form part of lapsed appropriations for 2022, in accordance with the definition of lapsed appropriations from the NATO Financial Regulations.

1.12 The NETMA reasoning for this presentation aims to reflect the decision of the Nations to use the existing lapsed credits balance to fund in part the increase in salaries following the NAC decision, as well as to provide a reconciliation to the balance of lapsed credits for 2022 presented in the Statement of Position. However, IBAN considers that the presentation only creates further confusion considering the information shown on the rows of the Statement of Budget Execution that refer to carry-forward commitments from prior years. Specifically, the initial balance of carry forwards presented (EUR 0.611 million) should show a final lapses balance of zero after the expenses incurred in 2022 (EUR 0.611 million), and not a lapses balance equal to the prior year lapsed credits (EUR 1.097 million).

1.13 In addition to the above, following our review, we identified two cases in which accrued expenses were recorded by NETMA for services that had not been delivered in 2022, in the amount of EUR 51,782. Considering this, the carry-forward commitments related to the 2022 budget are understated in the Statement of Budget Execution by EUR 51,782, while the accrued expenses are overstated by the same amount.

1.14 Furthermore, we noted that the total of carry-forwards related to prior years presented in the 2022 Statement of Budget Execution (EUR 0.611 million) is different than the carry-forwards in the 2021 Financial Statements (EUR 0.608 million). Similarly, a discrepancy exists between the lapsed credits total presented in the 2022 Statement of Budget Execution (EUR 1.097 million) and the figure included in the 2021 Financial Statements (EUR 1.107 million). No explanation is provided in the Notes to the NETMA Annual Financial Statements 2022 regarding these differences.

Recommendations

1.15 IBAN recommends that NETMA:

- a) Ensure a consistent presentation of the lapsed appropriations in the Statement of Budget Execution, specifically by not including already lapsed credits in the total of lapsed appropriations presented;
- b) Include in the Notes to the Financial Statements explanations for any restatements of previous year balances.

2. ABSENCE OF A RECONCILIATION BETWEEN THE EXPENDITURE PRESENTED IN THE STATEMENT OF BUDGET EXECUTION AND THE EXPENSES REPORTED IN THE STATEMENT OF FINANCIAL PERFORMANCE

Reasoning

2.1 The NATO Accounting Framework (NAF), International Public Sector Accounting Standards (IPSAS) 1 – ‘Presentation of Financial Statements’ mentions that the *“general purpose financial statements are those intended to meet the needs of users who are not in the position to demand reports tailored to meet their particular information needs.”*

2.2 According to the NATO Financial Regulations (NFRs):

“34.3 In accordance with IPSAS a complete set of financial statements shall comprise: (...) (e) notes comprising a summary of significant accounting policies and other explanatory notes.

34.4 In addition to the above set out at paragraph 34.3, the financial statements of all NATO bodies shall also include, as a separate annex, a budget execution report.”

2.3 According to IPSAS 1, a fair presentation of the financial statements also requires an entity *“to present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information.”*

2.4 Comparability is one of the attributes that makes the information provided in the financial statements useful to users according to Appendix B of IPSAS 1. As per the latter, *“information in the financial statements is comparable when users are able to identify similarities and differences between that information and information in other reports. Comparability applies to the:*

- *Comparison of financial statements of different entities; and*
- *Comparison of the financial statements of the same entity over periods of time.”*

2.5 In accordance with the NFRs, *“35.1 (...) The IBAN audit report, together with the associated financial statements, shall be finally noted or approved by the Council not later than 31 December”*. Also, according to the NATO EF2000 and Tornado Development, Production and Logistics Management Agency (NETMA) Financial Rules and Regulations (FRRs), *“41.3 (...) The Steering Committee will approve the IPSAS compliant Annual Financial Statements after taking into account IBAN’s Report as well as comments, if any, from the Financial and Administrative Committee”*.

Observations

2.6 The NETMA Annual Financial Statements 2022 present a figure for expenditure in the Statement of Budget Execution (EUR 50.560 million) that is different

from the figure for expenses included in the Statement of Financial Performance (EUR 50.446 million). Similar to other NATO reporting entities, NETMA uses an accrual basis for the preparation of the Statement of Financial Performance and a modified cash basis for the Statement of Budget Execution, which results in differences between the amounts reported. These differences mainly refer to the impact of non-cash transactions and the treatment of asset additions.

2.7 However, in the NETMA Annual Financial Statements 2022 there is no reconciliation between the figures presented for expenditure and for expenses in the two Statements, and no explanation regarding the adjustments done for the purposes of such a reconciliation.

2.8 This is not consistent with the practice of the other reporting entities across NATO and with the NETMA practice from their previous Annual Financial Statements, which represents a departure from the IPSAS 1 requirement regarding the comparability of financial information.

2.9 In the absence of this reconciliation, IBAN considers that the reasons why the expenditure presented in the Statement of Budget Execution and the expenses presented in the Statement of Financial Performance are different are unclear to the users of the financial statements, and specifically to the North Atlantic Council (NAC) and to the Nations, as represented in the NETMA Steering Committee.

Recommendations

2.10 IBAN recommends NETMA to include in their Annual Financial Statements a reconciliation between the expenditure presented in the Statement of Budget Execution and the expenses presented in the Statement of Financial Performance, together with any explanations concerning the nature of the adjustments made for the purposes of this reconciliation.

3. INTERNAL CONTROL WEAKNESSES IN THE AREA OF ALLOWANCES PROVIDED TO NETMA PERSONNEL UNDER THE NATO CIVILIAN PERSONNEL REGULATIONS

Reasoning

- 3.1 Article 12 of the NATO Financial Regulations (NFRs) states that:
*“12.1 The Secretary General, the Supreme Commanders, subordinate commanders by delegation and the other Heads of NATO bodies shall ensure the necessary internal management functions are in place to support effective internal control, designed to provide reasonable assurance that the NATO body will achieve its objectives (...).
 (...)
 12.3 Internal control activities shall include, but not be limited to: (...)*

(d) procedures for monitoring of performance and for follow-up of identified internal control weaknesses and deviations from the procedures laid down in the internal control system.”

3.2 According to the NFRs, “13.2 All NATO bodies shall have access to a permanent, adequately resourced, internal audit function, compliant with internationally accepted Internal Auditing standards and the requirements of the NATO body concerned.” Following this requirement, the NETMA Audit Team (NAT) was established as a key component of the NETMA governance framework and provider of internal audit services to NETMA.

3.3 As per the Preamble of the NATO Civilian Personnel Regulations (CPRs), the CPRs are applicable throughout NATO and govern personnel administration in each NATO body for personnel of the following classes: international civilian personnel, consultants and temporary (civilian) staff.

Observations

3.4 An internal audit report issued by the NETMA Audit Team (NAT) in April 2023 identified multiple findings in the area of allowances provided to NETMA personnel under the NATO Civilian Personnel Regulations (CPRs), specifically as regards family and education allowances.

3.5 Concerning family allowances, the report highlighted overpayments of approximately EUR 70,000 to NETMA personnel, identified both following the work of the NAT and following a process put in place by the NETMA Human Resources (HR) team to confirm and review on a yearly basis with the staff the information used for the calculation of allowances.

3.6 In addition to this, the report documents findings such as the lack of formalisation of the annual HR confirmation process and its insufficient level of detail, the lack of clarity regarding eligibility for child expatriation allowance, absence of procedures in case of under/over payments, disputes with staff and disciplinary consequences regarding allowances fraud, as well as weaknesses as regards personnel information storage and record keeping.

3.7 As regards education allowance, the report refers to shortcomings in compliance with the CRPs because of the misinterpretation of the conditions for prorating the education allowance and to instances of miscommunication between the various NETMA Human Resources (HR) sections, highlighting the need for a centralised database for all documents on all staff members.

3.8 NETMA Management have initiated specific actions to address the findings of the internal audit report and the NETMA Risk Register has been updated to reflect the related risks identified by the NAT. The NAT is also following-up on the implementation of the management actions.

3.9 IBAN has reviewed the supporting documentation concerning the cases of overpayment of allowances identified through the work of the NAT and the subsequent work of the NETMA HR team. Based on this, we found an amount of EUR 81,547 of overpayments, related to the 2019–2022 period, which includes the amount of approximately EUR 70,000 referred to in the Internal Audit Report. In addition to this, IBAN has detected an additional instance of overpayment of allowances of EUR 3,214, linked to an already identified case. From the revised overall total of overpayments of EUR 84,761, as at the date of the IBAN audit, NETMA already recovered EUR 61,613. In the 2022 Statement of Financial Performance, the amount of expenses recorded by NETMA for family related allowances and education allowance is EUR 3,206,437.

Recommendations

3.10 IBAN recommends NETMA to strengthen internal control in the area of allowances provided to NETMA personnel under the NATO Civilian Personnel Regulations, specifically by implementing the management actions recommended by the internal NETMA Audit Team and ensuring the recovery of any undue amounts from the concerned personnel.

4. WEAKNESSES IDENTIFIED IN RECORDING OF SUPPLIER INVOICES

Reasoning

4.1 The NATO Accounting Framework (NAF), International Public Sector Accounting Standards (IPSAS) 1 ‘Presentation of Financial Statements’ defines the accrual basis of accounting as *“a basis of accounting under which transactions and other events are recognized when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognized in the financial statements of the periods to which they relate. The elements recognized under accrual accounting are assets, liabilities (...).”*

4.2 IPSAS 1 further defines liabilities as *“present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.”*

4.3 IPSAS 28 ‘Financial instruments: Presentation’ states that financial liabilities are *“a contractual obligation to deliver cash or another financial asset to another entity (...).”*

4.4 IPSAS 29 ‘Financial instruments: Recognition and measurement’ details the approach for the recognition and classification of liabilities: *“16. An entity shall recognise a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes a party to the contractual provisions of the instrument.”*

Observations

4.5 As part of our testing, we identified one invoice that was not correctly accounted for by NETMA at year-end 2022. One of the NETMA suppliers invoiced NETMA in December 2022 an amount of EUR 224,940, representing software licenses for the period 19 December 2022 to 18 December 2023. The NETMA Finance team only checked and validated the invoice in January 2023, after the NATO holiday period. Following the validation, NETMA recorded in the 2022 accounts an accrued liability of EUR 7,395, to account for the period in 2022 when the licenses were used. However, the remaining amount of EUR 217,545 related to the invoice was recorded as a liability (payable) in the 2023 accounts.

4.6 In order to comply with the NAF-IPSAS provisions regarding accrual accounting and the recognition of financial liabilities, NETMA should have recognised in the 2022 accounts a financial liability (payable) for the entire amount of the supplier invoice (EUR 224,940). A corresponding asset (prepaid expense/deferred charge) should have further been recorded in 2022 as regards the part of the invoice referring to the deferred expenses for 2023, together with any related tax receivable (up to a total of EUR 217,545).

4.7 We consider that the error in accounting treatment occurred since NETMA does not currently record in a systematic manner supplier invoices as payables based on the invoice date.

4.8 Considering the above, we conclude that the NETMA liabilities balance and the corresponding asset balance are understated by EUR 217,545 at year-end 2022.

Recommendations

4.9 IBAN recommends NETMA to review the process of recording supplier invoices at year-end in order to ensure that assets and liabilities are recognised in the correct financial period. Specifically, IBAN recommends NETMA to record supplier invoices as payables to suppliers based on the invoice date and to accrue or defer expenses based on the delivery information of the goods or services concerned if required.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

IBAN followed up on the status of observations from the previous years' audit. All the observations and recommendations from the previous years' audit were closed.

**NATO EF 2000 AND TORNADO DEVELOPMENT PRODUCTION AND LOGISTICS
MANAGEMENT AGENCY (NETMA) FORMAL COMMENTS ON THE AUDIT
REPORT AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS**

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

GLOSSARY OF TERMS

In accordance with International Standards of Supreme Audit Institutions (ISSAI 2705), audit opinions on financial statements and on compliance can be unqualified, qualified, a disclaimer, or adverse:

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

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

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

NAMMO



ANNUAL FINANCIAL STATEMENTS 2022

For the period ended 31 December 2022



NETMA

NATO EF2000 AND TORNADO DEVELOPMENT, PRODUCTION AND
LOGISTICS MANAGEMENT AGENCY

Section	Page
<u>Overview</u>	
Introduction to the 2022 Financial Statements	4-7
NAMMO Statement of Internal Control	8
<u>2022 Financial Statements</u>	
Statement of Financial Position	10
Statement of Financial Performance	11
Statement of Cash Flow	12
Statement of Changes in Net Assets / Equity	13
Statement of Budget Execution	14
<u>Notes to the NAMMO Accounts</u>	
A. Significant Accounting Policies	16-19
B. Notes to Statement of Financial Position	20-21
C. Notes to Statement of Financial Performance	21
D. Notes to Statement of Cash Flow	22-23
E. Notes to Statement of Budget Execution	23
F. Contingent Liabilities / Provisions	23
G. Related Parties Disclosure	23
H. Write-Off and Donations	23

These statements are produced in Thousands of Euros. For example:
 34,632 = Thirty Four Million Six Hundred and Thirty Two Thousand Euros
 132 = One Hundred and Thirty Two Thousand Euros

The photographs in this publication have been provided:

- Courtesy of PANAVIA Aircraft GmbH;
- Courtesy of the Italian Ministero della Difesa —Aeronautica Militare photo gallery; and
- Under the [UK MOD Consent License](#) (© Crown copyright 2022) and the OGL (UK Open Government License). To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3

Overview

2022 Financial Statements

Notes to the NAMMO Accounts



PUBLICLY DISCLOSED - PDN(2024)000 - MIS EN LECTURE PUBLIQUE

Introduction to the 2022 Financial Statements



The Foundation of NAMMO

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

A NAMMO Board of Directors (BoD), comprising of representatives from the three NAMMO nations, provides strategic direction and

governance to the Tornado Programme. NETMA provides support in the delivery of this direction.

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

Key Achievements 2022

In order to make improvements toward Weapon System sustainment, the Supply Chain Management of Tornado via an End-to-End Supply Chain Management Task has been implemented since May 2022, for the first time ever in Programme history. Nations agreed to assess the 2023 process and implement recommended changes in 2024.

The Tornado Deactivation Strategy is now well established as a multi-work stream activity that considers all aspects of drawing down and deactivating the Tornado programme. In terms of budgetary planning, the NAMMO Asset Disposal work stream is establishing a profiled and costed asset draw-down plan which will assist Nations in making budgetary provision for their share of the cost of those draw-down activities.

Tornado Division, in conjunction with industry and Nations, has established a joint portfolio of risks which will provide governance during the Tornado programme's journey to final OSD.

Germany's major upgrade engineering tasks were to be redirected after cancellation of the ASSTA 5 programme. There is still a need for further development, because the hardware that comes with MET28 and MET 32 still has to be integrated into the software suite of the aircraft. The upgrade of the Global Positioning and Inertial Navigation Unit is a further enhancement to capability of the Tornado aircraft beyond 2025. In addition, despite the approaching OSDs, several other engineering measures are still underway to integrate new capabilities into the fleets or to remove obsolescence items.

NETMA and the industrial partners were able to handle the management of the TOR Programme during the COVID-19 pandemic which is considered to be under control now. The effects of COVID – 19 were mostly only slight delays. The Tornado fleets for both Italy and Germany remain in active service and all three NAMMO partner Nations continue to support the programme.

NAMMO's financial statements have therefore been prepared on a going concern basis, in line with the assumption that NAMMO will operate as an active management agency for the foreseeable future.

Key points from the Annual Financial Statements

Basis of Preparation

The NAMMO accounts have been presented on the basis of an Agent status.

Addressing Previous Audit Observations

The IBAN audit report for the 2021 NAMMO Financial Statements included recommendations for improvements to the production and presentation of the 2022 Financial Statements.

Revise the FRRs on the role, the responsibilities and the authority of the NETMA Financial Controller where necessary, in order to ensure conformity with the NFRs.

NAMMO applied for a deviation from the relevant NATO Financial Rules, Article 24 & 25, to be replaced by one that is more appropriate to NAMMO's multi year contract Activity. This was approved by Council in June 22 and this has now been incorporated into the NETMA FRRs.

Improvements have been made in the estimation of prices used for the calculation of the spare parts accrual contained in the Statement of Budget Execution.

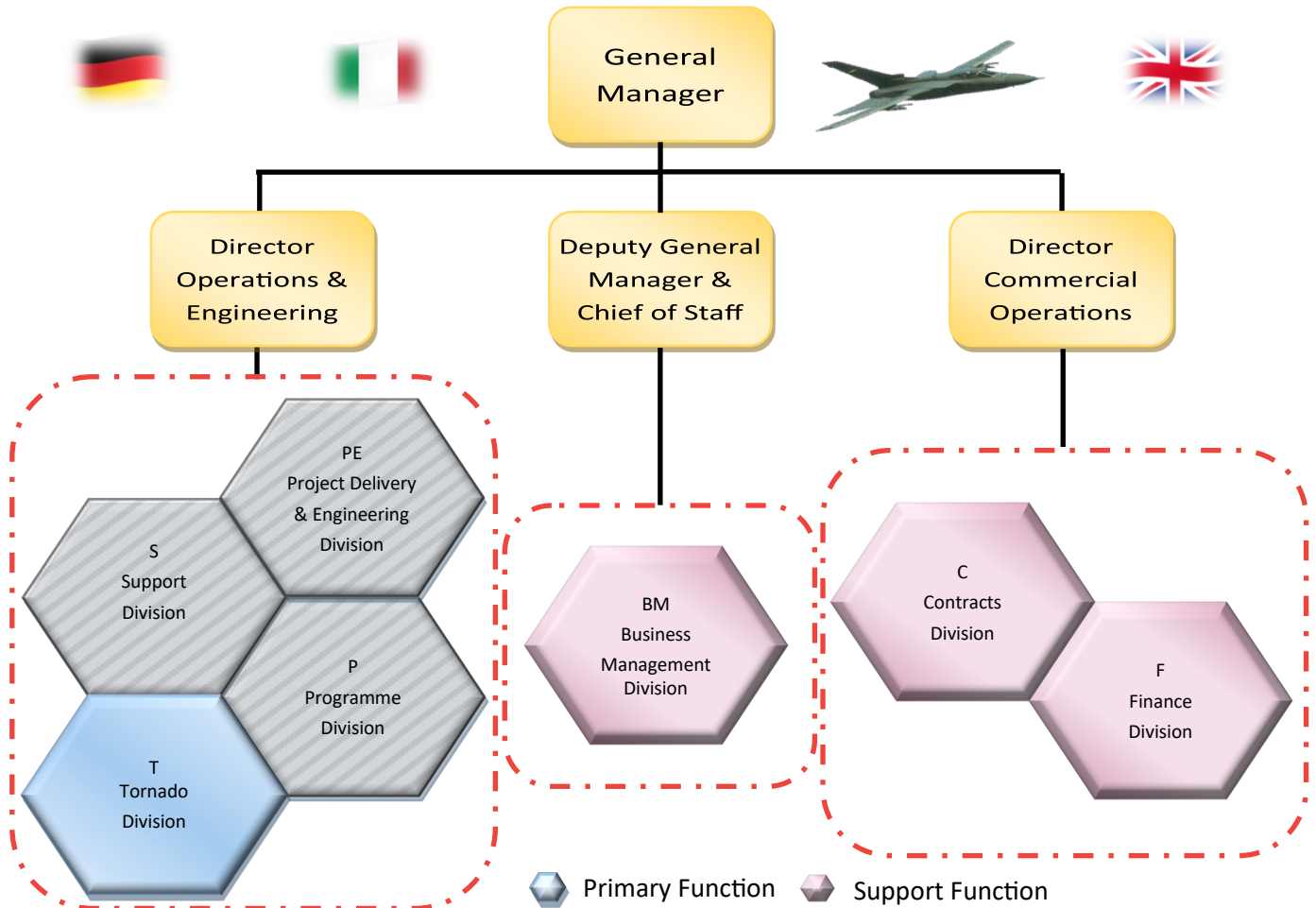
Revise the FRRs where necessary in order to ensure compliance with the articles of the NFRs concerned, or to ensure compliance with approved deviations from NFRs.

As part of the deviation application outlined above, NAMMO does not carry forward budget from one year to the next. This would mean that NAMMO does not provide carry forward figures. This was approved by Council in June 22 and this has now been incorporated into the NETMA FRRs.

The Statement of Budget Execution has been prepared on an accruals basis in line with the NATO Financial Rules.

NAMMO at a glance

NETMA operates using a functional organisational structure, grouping its staff into agency divisions based on their specific skills and knowledge across the agency. The NETMA organisational structure has been provided below to illustrate this:



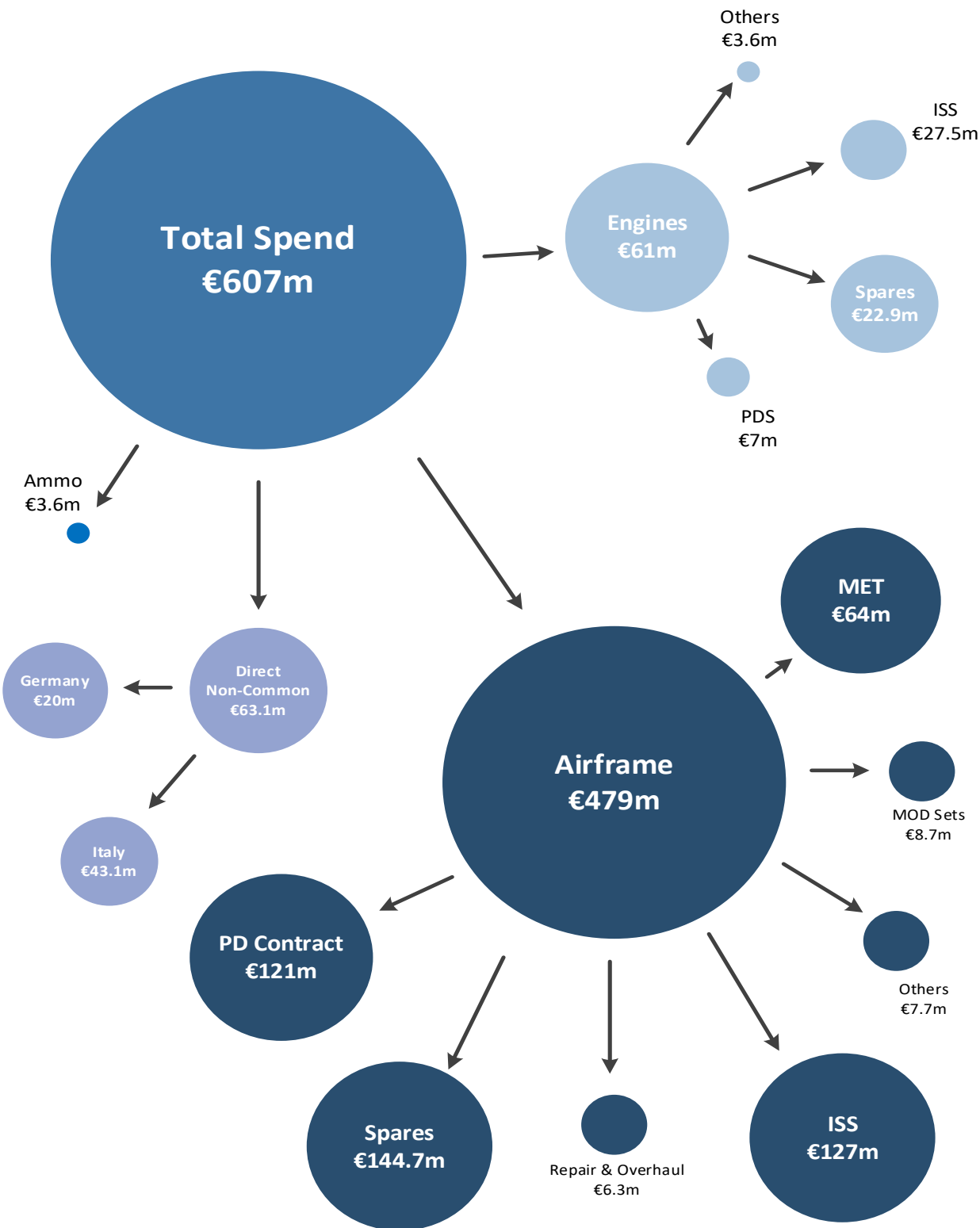
In support of the NAMMO BoD and the Tornado Weapon System, with the last batch of aircraft produced in 1998, the NAMMO structure is organised to deliver the In-Service Support (ISS) requirements. T (Tornado) Division is responsible for the engineering operations and management of the sustainment of the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

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

NAMMO Expenditure Breakdown 2022

The total expenditure on the Tornado programme through NETMA in 2022 was €607m. This has increased slightly from last year due to the major engineering tasks requested by Germany, as well as an increased requirement of spare parts, as is to be expected in the future due to the ageing nature of the programme and aircraft.

Spend on Tornado is largely focused on the airframe, totalling 79% of all costs, with a further 10% relating to the engine, as illustrated below:



PUBLICLY DISCLOSED - PDN(2024)0007 - MIS EN LECTURE PUBLIQUE

NAMMO Statement of Internal Control



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

The Board has established appropriate structures, reporting lines and responsibilities to support the delivery of objectives. These responsibilities are set out in the NETMA Financial Rules and Regulations (NFRR) as governed by the NATO Financial regulations (NFR) and Financial Rules and Procedures (FRP).

The system of internal control is based on an ongoing evidence based process designed to identify the principle risks to the achievement of my Agency's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently and effectively on a continual year round basis.

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

- NETMA has an annual Management Plan which identifies NETMA's strategic priorities, objectives & the associated performance metrics. The Management Plan focuses on agency planning and improvements, including identification of key business risks which are mitigated and owners appointed to monitor and report on these on a regular basis as part of NETMA's wider Risk Management system.
- Management checks are undertaken and the internal audit function performs a range of audit activities, based on an annual audit plan agreed by the Audit Advisory Panel and approved by the Audit Committee. NETMA Audit Team also conduct audits on our Industry Partners, which involve the checking of property held in industry, and Self-Certified Milestones to ensure appropriate internal controls are in place and adhered to. The Internal Audit process complies with the International Standards for the Professional Practice of Internal Auditing in accordance with previous IBAN recommendations.
- The Agency operates 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. It is well established and part of our normal internal control system. The annual COSO review was undertaken as scheduled for the year 2022, with the Directors confirming we meet those requirements.

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

I am content that the processes in place within the organisation provide reasonable assurance of the effectiveness and efficiency of the organisation's operations, the reliability of its financial information and its integrity with regards to application and compliance to applicable rules and regulations. Whilst we always seek to improve our processes each year there were no material internal control weaknesses currently identified that need specific intervention from Senior Management in 2022. The continuing pandemic has not had any major adverse effect on these controls.

LT GEN MIGUEL ÁNGEL MARTÍN PÉREZ
General Manager

WENDY BRADBURY
Financial Controller

Overview

2022 Financial Statements

Notes to the NAWMIO Accounts

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2022

(in thousands of Euros)	Note	2022	2021
Assets			
Current assets			
Cash and cash equivalents	B1	236,578	128,407
Short term investments		0	0
Receivables	B1	528	19,101
Prepayments		0	0
Inventories		0	0
		<u>237,106</u>	<u>147,508</u>
Non-current assets			
Property, plant & equipment		0	0
Intangible assets		0	0
		<u>0</u>	<u>0</u>
Total assets		<u>237,106</u>	<u>147,508</u>
Liabilities			
Current liabilities			
Payables	B2	6,713	17,696
Unearned revenue	B3	212,177	104,811
Advances	B4	18,216	25,000
		<u>237,106</u>	<u>147,508</u>
Non-current liabilities			
Provisions		0	0
		<u>0</u>	<u>0</u>
Total liabilities		<u>237,106</u>	<u>147,508</u>
Surplus / (deficit)		0	0
Reserves		0	0
Total net assets		<u>0</u>	<u>0</u>

The financial statements on pages 10 to 14 and their associated notes were issued to the International Board of Auditors for NATO on 31st March 2023.



LT GEN MIGUEL ÁNGEL MARTIN PÉREZ
General Manager



WENDY BRADBURY
Financial Controller

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 DECEMBER 2022

(in thousands of Euros)	Note	2022	2021
Revenue	C1		
Revenue		0	0
Financial revenue		0	0
Other revenue		0	0
Total revenue		0	0
Expenses	C1		
Personnel		0	0
Contractual supplies and services		0	0
Depreciation and amortisation		0	0
Impairment		0	0
Provisions		0	0
Other expenses		0	0
Finance costs		0	0
Total expenses		0	0
Surplus / (deficit) for the period		0	0

STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2022

(in thousands of Euros)	Note	2022	2021
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	(10,983)	10,113
Increase / (decrease) in unearned revenue	D3	107,366	(91,928)
Increase / (decrease) in advances	D4	(6,784)	25,000
Increase / (decrease) in provisions		0	0
(Gains) / losses on sale of property, plant and equipment		0	0
(Increase) / decrease in receivables	D5	18,573	(19,073)
Net cash flow from operating activities		108,171	(75,888)
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		108,171	(75,888)
Cash and cash equivalents at the beginning of the period		128,407	204,295
Cash and cash equivalents at the end of the period		236,578	128,407

STATEMENT OF CHANGE IN NET ASSETS/EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

	PP&E Asset Reserve	Revaluation Reserves	Accumulated Surplus / (Deficit)	Total
(in thousands of Euros)				
Balance at the beginning of the period 2021	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 2021	0	0	0	0
Changes in accounting policy	0	0	0	0
Restated balance	0	0	0	0
Transfer from accumulated surplus / (deficit)	0	0	0	0
Surplus / (deficit) for the period	0	0	0	0
Balance for the period ended 2022	0	0	0	0

Note

STATEMENT OF BUDGET EXECUTION

FOR THE YEAR ENDED 31 DECEMBER 2022

	(in thousands of Euros)	Note	Transfers and Budget Adjustments		Accrued expenditure		Expenditure 2021	Accrued expenditure 2022	Total Expenditure 2022	Unused Budget
			Initial Budget	Final Budget	2021	2022				
Budget 2022										
Chapter 3		E1	596,409	698,170	101,761	570,231	(39,326)	76,597	607,502	90,668
Total FY 2022			596,409	698,170	101,761	570,231	(39,326)	76,597	607,502	90,668

Overview

2022 Financial Statements

Notes to the NAMMO Accounts

A. Significant Accounting Policies

Basis of preparation

The 2022 Annual Financial Statements have been prepared on the basis that NAMMO is an Agent. This is consistent with the Annual Financial Statements presented in 2021. NETMA considers that it is acting as an Agent for the NAMMO member states in relation to managing the TORNADO programme. NETMA is not exposed to the risks or rewards of the programme and is paying industry on behalf of NAMMO member states with funding received from member states.

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

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

The financial statements have been prepared on a going-concern basis and it is considered that there are no impediments to continuing with this assumption for the foreseeable future.

The financial statements have been prepared on a historical cost basis except for financial instruments that are measured at fair value at the end of each reporting period. The accounting principles are recognised as appropriate for the recognition, measurement and reporting of the financial position, financial performance and cash flow on the basis of the entity being an Agent and have been applied consistently throughout the reporting period. The Budget Execution Statement has been prepared on an accruals basis in accordance with the NFRs.

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 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.

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. Where the change in presentation of NAMMO to an Agent has affected some estimates and assumptions, these changes have been highlighted throughout the notes to the accounts (Notes B-E). Further changes to such estimates and assumptions in future periods could be significant to the financial statements.

Changes in accounting policy and standards

There have been no changes in the accounting policies applied by NAMMO since the accounts were presented in 2021.

Changes in pronouncements

No accounting standard has been adopted earlier than the application date as stated in the IPSAS standards. The following IPSAS are not relevant for the NAMMO Financial Statements 2022: IPSAS 26 (Impairment of Cash-Generating Assets), IPSAS 27 (Agriculture). The following IPSAS have no material effect on the financial statements: IPSAS 5, IPSAS 10, IPSAS 11, IPSAS 16, IPSAS 18, IPSAS 32, IPSAS 39 and IPSAS 40. No revisions to IPSAS were introduced in 2022.

Restatements

For the 2022 Financial Statements there has been no requirement to restate the 2021 figures.

Changes in financial rules and regulations

During 2015 NATO adopted new financial rules and regulations and there were no additional changes in 2022. These financial statements have been produced in line with these financial rules and regulations. NETMA updated its Financial Rules and Regulations in 2022, to ensure that they were in line with NATO NFRs. Only minor adjustments were made in the NETMA FRRs, and none of these changes affected the process in the preparation of the NAMMO Financial Statements.

Foreign currency

These financial statements are presented in Euros, which is the NAMMO functional and reporting currency. Foreign currency transactions are translated into Euros at the NATO exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at year-end are translated into Euros using the NATO exchange rates applicable at 31 December 2022, with the resulting realised and unrealised gains and losses are recognised in the general ledger.

NAMMO used the following NATO-promulgated exchange rates as at 31st Dec 2022:

EUR – GBP = 1 : 0.87118

EUR – USD = 1 : 1.0598

EUR – SEK = 1 : 11.0063

Consolidation

The NAMMO financial statements are not consolidated, with the administration elements of the programme presented in the NETMA financial statements.

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 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 consulted with a view to covering any shortages.

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

As an Agent NAMMO does not bear the currency risk of the programme, however processes are implemented to reduce the currency risk for the Nations. 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.

Interest rate risk

NAMMO is restricted from entering into borrowings and investments, and therefore there is no significant interest rate risk identified. The European Central Bank increased interest rates during 2022 that have now removed the risk that Nations will have to pay negative interest on monies held in its bank accounts..

Assets

NAMMO holds the following types of current assets:

Cash and cash equivalents

Cash and cash equivalents represents cash held on NAMMO current bank accounts.

Receivables

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

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

Inventories

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

Property, plant and equipment

NETMA considers that industry controls the assets in production until they are delivered to Nations and therefore does not recognise these assets in the NAMMO accounts. The subject of knowing the stage of completion of programme assets from an accounting perspective is not relevant due to the change in accounting policy. Nations assets held in industry are still maintained and recorded, and NETMA continues to conduct audits to ensure these records are accurate.

Leases

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

Intangible assets

Similarly to property, plant and equipment, NAMMO does not own any intangible assets.

Impairment of tangible and intangible assets

As there are no assets owned by NAMMO 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.

For the 2022 Financial statements estimates of accrued obligations for goods and services received at year-end but not yet invoiced are recognised only in the Statement of Budget Execution in line with the NATO Financial Regulations. Acting as an Agent of the programme, NAMMO recognises payables only if the invoice has been received and so these accrued estimates are not included in the Statements of Financial Position and Cash Flow.

Unearned revenue

Unearned revenue represents contributions from member nations for current or prior years' budgets, for services that have not yet been delivered.

Advances

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

Employee benefits

The personnel costs for operating the Agency's headquarters are accounted for in the NETMA Financial Statements.

Provisions

As an Agent NAMMO does not have any provisions.

Net assets

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

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

Revenue and expenses recognition**Revenue and Expenses**

From 2021, NAMMO transitioned to an Agent resulting in NETMA changing its accounting policy for the treatment of accounting for revenues and expenditure. Therefore, these revenues and expenditures are excluded from the Statement of Financial Performance. Liabilities for accrued expenses are excluded from the Annual Financial Statements but are included in the Budget Execution Statement.

Cash flow statement

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

B. Notes to Statement of Financial Position

(in thousands of Euros)

Assets

1. Current Assets

	2022	2021
Cash accounts	0	0
Clearing cash accounts	0	0
Petty cash and advances	0	0
Current bank accounts	236,578	128,407
Receivables	528	19,101
Bank accounts interest	0	0
Total	237,106	147,508

Current bank accounts

The Tornado Programme has a number of bank accounts relating to the various funding offices from which payments are made and contributions are received. These include accounts for payments to be made in CAD, GBP, USD, SEK and EUR. The accounting system (PARMIS) functionality necessitates that each cash and bank account separately identified has an associated clearing account to enable the sub-ledger to interface with the general ledger. The carrying balance on all these clearing accounts is zero at the end of the reporting period.

The overall levels of cash holdings has increased in 2022 due to a number of calls for funds made in November and December.

Receivables

At 31st December 2021 receivables were made up of credit notes sent into the agency that were unpaid (€9.101M), as well as amounts called for the 2021 Operational Budget but not yet received (€10.000M). These have been cleared in year with the remaining balance as at 31st December 2022 being credit notes due from industry (€0.528M).

Liabilities

2. Payables

	2022	2021
Payables to suppliers	6,375	17,370
Payables to non-consolidated entities	0	0
Payables to staff members	0	0
Payables to governments	0	0
Other payables	339	326
Total	6,713	17,696

Payables to suppliers

Payables to suppliers include invoices received from commercial vendors not settled by the reporting date. This account is reconciled to the payables sub-ledger within the financial system operated by NAMMO on a monthly basis. Any outstanding currency liabilities have been translated at the respective closing exchange rates as promulgated by NATO. The payable as at 31st December 2022 is €6.375M compared with the 2021 amount of €17.370M. This decrease is largely due to an outstanding funding key adjustment for a major task, as at 31 December 2021, that has been paid in 2022.

Other payables

Other payables represents the income received by NAMMO which is yet to be transferred to another operational account or to national treasuries.

3. Unearned Revenue

The movement on unearned revenue can be reconciled as follows:

	2022	2021
Unearned revenue b/f	104,811	196,740
National contributions	678,784	499,824
Miscellaneous Revenue (excl. bank interest)	2,463	888
Bank Interest received	13	10
Operational Expenditure	(570,231)	(590,071)
Miscellaneous Expenditure	(2,463)	(888)
Bank interest returned to Nations	(13)	(10)
Miscellaneous financial income / (charges)	(2)	(10)
Foreign exchange gains / (losses)	(1,184)	(1,672)
Unearned revenue c/f	212,177	104,811

Unearned revenue represents the excess of national contributions and miscellaneous revenue over expenditure on the NAMMO programme to date. It is similarly reflected in the level of cash holdings within the NAMMO bank accounts.

The increase in unearned revenue represents the increase in the calls for contributions made in November and December 2022 as mentioned in B1.

4. Advances

	2022	2021
Advances	18,216	25,000
Total	18,216	25,000

Advance contributions represent funds received for future year's operational budgets. In December 2022 a call for funds was sent to a nation in order to meet cash requirements at the start of 2023.

C. Notes to Statement of Financial Performance**1. Revenue and Expenditure**

NAMMO has been presented on the basis of being an Agent of the operational Multi-Role Combat Aircraft programme. On this basis, it is recognised that NAMMO as an entity does not generate revenue from its activities in managing the programme on behalf of the member nations and so nil values have been presented against revenue and expenditure for the current and prior years.

D. Notes to Statement of Cash Flow

(in thousands of Euros)

Cash flow from operating activities

1. Surplus / (deficit)

	2022	2021
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. As an Agent NAMMO does not have ownership of any assets and does not generate revenue from its activities and so it does not recognise any surplus / deficit.

Non-cash movements

2. Increase / (decrease) in payables

	2022	2021
Payables to suppliers	(10,996)	9,789
Other payables	13	324
Total	(10,983)	10,113

Payables to suppliers represent invoices presented but not yet paid. As stated in the Notes to Statement of Financial Position, the decrease in payables between 2022 and 2021 is due to the greater value of unpaid invoices at 31st December 2021 (€9.789M). The 2022 statement recognises these liabilities as paid .

3. Increase / (decrease) in unearned revenue

	2022	2021
Unearned revenue	107,366	(91,928)
Total	107,366	(91,928)

The movement on unearned revenue represents the accumulated surplus / (deficit) of contributions over expenditure for 2022. In 2021 the unearned revenue has increased due to the increased closing balance on NETMA bank accounts.

4. Increase / (decrease) in advances

	2022	2021
Advance contributions	(6,784)	25,000
Total	(6,784)	25,000

As stated in note B4, one call for funds was raised in December 2022 relating to the 2023 NAMMO Operational Budget.

5. (Increase) / decrease in receivables

	2022	2021
National contributions	10,000	(10,000)
Other receivables	8,573	(9,073)
Total	18,573	(19,073)

The movement on National Contributions receivable represents the change in the nations' debt to the programme from the previous financial year. This balance was €10M at the end of 2021 and has now been cleared in 2022.

Receivables include credit invoices received on PARMIS from industry which were offset against payables in 2022.

E. Notes to Statement of Budget Execution

(in thousands of Euros)

1. Budget analysis - 2022

	2022 Budget	2022 Expenditure
All nations initial approved budget	596,409	607,502
In-year budget adjustments	101,761	
Total	698,170	607,502

The budget and actual expenditure figures in the budget execution statement are presented on an accrual basis and are therefore different to the amounts entered in the general ledger. The budget is compiled based on the advice and assistance of a number of sources including nations, commercial and technical staff within NETMA and industry. It has been based on the best information available and takes into account known payment plans and estimates of new work in line with advice on technical progress. During 2022 the NAMMO nations chose to uplift their budget from the original values by €101.761M to reflect additional Air Force operational requirements.

For its Operational budget, NAMMO does not formally lapse budget called for but unspent in the following year. The excess of funds is viewed as "unused budget". The unused budget is caused largely by various milestone slippages into 2023 which, as budget is not lapsed, will be reflected in the Operational Budget 2023 for Tornado.

F. Contingent Liabilities / Provisions

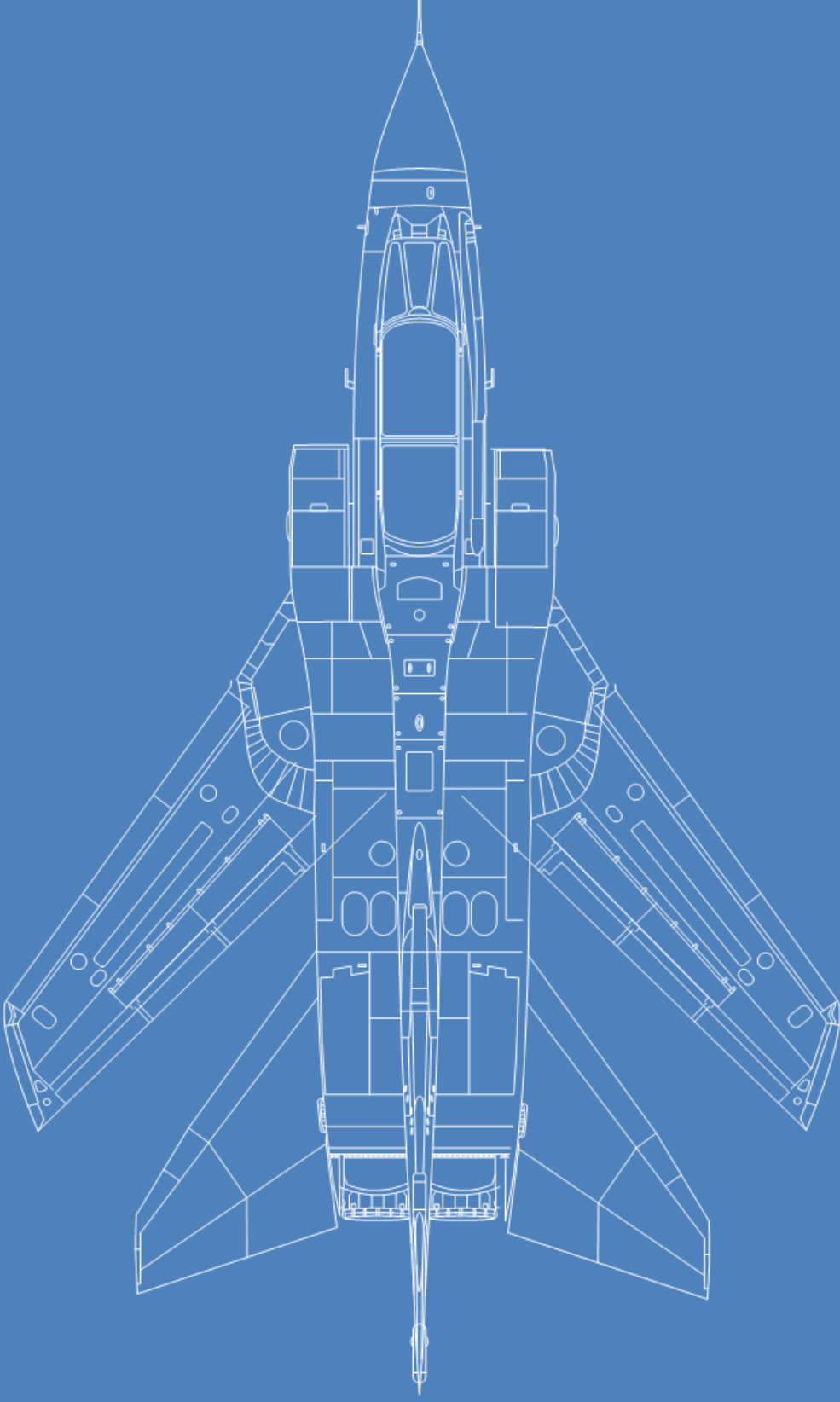
NAMMO has no contingent liabilities or provisions.

G. Related Parties Disclosure

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

H. Write-Off and Donations

In accordance with the NATO Financial Regulations, where a global statement of write-offs and donations shall be reported in the Annual Financial Statements, NAMMO as an Agent has nothing to disclose for 2022. Write-offs/strike-offs are administered by the NETMA Tornado Sustainment Section when items are deemed surplus to requirements, obsolete, damaged beyond economic repair or lost.



NATO UNCLASSIFIED



NAPMA

FINANCIAL STATEMENTS 2022

NATO UNCLASSIFIED

Contents NAPMA Financial Statements

Page

Overview	Page 1 - 4
Statement of Financial Position	Page 5
Statement of Financial Performance	Page 6
Statement of Changes in Net Assets/Equity	Page 7
Cash Flow Statement	Page 8
Accounting Policies	Page 9 - 18
Notes to the Financial Statements	Page 19 - 37
Annex A - Budget Execution Statement	Page A1
Annex B - Statement of Internal Control	Page B1 - B4

OVERVIEW

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

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

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

Nations agreed at the time to operate and support the NAEW&C Force under a single Force Commander, subordinate to the Strategic Commanders (SCs). The Supreme Allied Commander Europe (SACEUR) acts as the executive agent for the SCs in NAEW&C Force matters. However, with regard to the maintenance and supply concept, the NAPMO retained responsibility to represent the NAPMO Nations' interest, in particular the NAPMO Board of Directors (BOD) is responsible for the Depot Level Maintenance (DLM) policy and its implementation as well as establishing goals how Industrial Benefits (IB) shall be achieved through a prime (main) contractor selected by them.

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

The United Kingdom (UK) exercises limited participation as a NAPMO Member, but its fleet of Airborne Warning & Control System aircraft (AWACS) is an integral part of the NAEW&C Force. The UK E-3 Sentry airborne early warning aircraft fleet was retired in September 2021 with their replacement, the E-7 Wedgetail, not expected to reach Initial Operating Capability with the Royal Air Force before 2024.

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

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

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

NAPMA is a programme management organisation, mainly funded through contributions made by the Member Nations.

NAPMA's 2019 implemented Final Lifetime Extension Programme (FLEP) Peacetime Establishment (PE) is 113 posts plus a few remaining posts closing the FUP projects, manned by personnel, drawn from all of the Nations participating in the Programme (A-Grades) and from all NATO Nations (B-Grades). While most are located in Brunssum (The Netherlands), a small number perform their duties in Geilenkirchen (Germany), Tesserà (Italy) and in Mons (Belgium). The legal status of NAPMA, as an integral part of the North Atlantic Treaty Organisation, is laid down in the Ottawa Agreement as of 20 September 1951. Based on this agreement, NAPMA is, inter alia, exempt from all taxes and customs duties. The NAPMA General Manager (GM) is responsible for the Technical Airworthiness of the NAEW&C Force Fleet.

How NAPMA's operating environment affects its Financial Statements

NAPMA's financial management is "separate and distinct from the International Staff, other NPLSOs or other NATO Organs¹". The overall activities of NAPMA are funded by Member Nations, the income generated by NAPMA's authorised activities and funds otherwise made available to NAPMA. The budgets are approved annually by the NAPMO BOD. The Nations' Contributions are to remain within the overall Programme ceiling, as agreed in the respective MMoU addendum amendment. The Administrative Budget covers all expenditures for the internal functioning of the Agency. The Project Budgets contain the appropriations for the modification of the NAEW&C Force fleet. Aside from its own budgeted activities, NAPMA also supports other NATO entities, such as the HQ NAEW&C Force GK, and relies on the support of NATO Support and Procurement Agency (NSPA) and NATO Communications and Information Agency (NCIA).

NAPMO has an agreement with the US Government (USG) that they can act as an exclusive general agent which has responsibility and authority to procure and manage aircraft modernisation efforts. This gives NAPMO a special arrangement in the Foreign Military Sales (FMS) process, more specifically, the USG can act as the Agent for NAPMO, resulting in Agent Contracts between NAPMO and US industry. System Programme Office (SPO) support at Hanscom Air Force Base (Massachusetts) performs the day-to-day support functions for US Agent contracts. Since 2017, NAPMO also uses regular agreements under the FMS with the United States.

Compliance with Financial Regulations

The NAPMA Financial Statements have been prepared on the accrual basis of accounting in accordance with the NATO Accounting Framework (NAF), as adopted by the North Atlantic Council (NAC). The NAF is based upon the International Public Sector Accounting Standards (IPSAS), issued by the IPSAS Board (IPSASB), and relevant to NAPMA, as decided by the NAC in 2002, and revised again in 2013 and 2016, to adapt IPSAS 12 – Inventories, IPSAS 17 – Property Plant and Equipment, IPSAS 31 – Intangible Assets and IPSAS 1 – Presentation of Financial Statements.

NAPMA Financial Statements have been prepared in accordance with the accounting requirements of the NAPMO Financial Regulations (NFRs), Version 2.0, approved by the NAC on 07 December 2017, and the accompanying NAPMO Financial Rules and Procedures (FRPs).

¹ NAPMO Charter paragraph 37 (a)

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

NAPMA's mission is to plan and coordinate acquisition strategy, manage projects associated with modernisation of the NE3A fleet, provide initial sustainment support services, and oversee the technical aspects of the NAEW&C airworthiness programme.

Programme schedule risks and national budgetary cycles require NAPMA to maintain appropriate annual cash levels.

Basis for the preparation of NAPMA's Financial Statements

NAPMA has prepared the Financial Statements for the financial year ended 31 December 2022 on a going concern bases, which assumes continuity of current business activities, the realization of assets and the settlement of liabilities in the ordinary course of business.

NAPMA's functional and reporting currency, used throughout these Financial Statements, is USD (\$) equivalent.

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

Early 2022, the COVID-pandemic receded and did not further affect NAPMA's operations during the year. Although the COVID-pandemic has caused disruption of global supply chains, NAPMA's management does not expect significant consequences of the pandemic for its future activities.

Final Lifetime Extension Programme (FLEP)

At the Wales Summit in 2014, the NATO Council stated: "NATO's Airborne Early Warning and Control Force will continue to be modernized to maintain its full operational capability."

Accordingly, at the Warsaw summit it was stated that "NATO's Airborne Early Warning and Control Force (AWACS) continues to prove itself instrumental not only to monitor our airspace, but also as a critical part of NATO's command and control capabilities and that NATO AWACS will continue to be modernised and extended in service until 2035. By 2035, the Alliance needs to have a follow-on capability to the E-3 AWACS".

Upon receipt of the last signature of a financially contributing NAPMO Nation, the 6th Amendment to the Addendum to the Multilateral Memorandum of Understanding (MMOU) entered into effect the 23 September 2019, committing the Nations to the USD 1,000,000,000 at Base-Year 2016 ceiling amount for the FLEP. This allowed for the necessary Contract Authority to enter into the main contract for this modernisation programme and secured the related Administrative budgets for the Agency. The main contract with Boeing was formally awarded on 27 November 2019.

According to the 6th Amendment, the contribution ceiling for the FLEP includes the costs for administration. Other sources to fund the overall activities of NAPMA are the income

generated by NAPMA's authorised activities and funds otherwise made available to NAPMA (NAPMO Charter Section X Financial Management).

NAPMA's Future

Should the NAPMO Nations not agree on another Amendment to the Addendum to the MMOU, NAPMO's remaining responsibilities are to ensure the Technical Airworthiness and perform configuration management of the fleet. NAPMO may choose to continue performing these activities via its executive agent NAPMA, right-sized for the tasks. In accordance with the NAPMO Charter (Section V par 15.), in the event of dissolution of NAPMO, the difference between the proceeds derived from the sale of assets and any liabilities of NAPMO shall be shared or borne by the Member States of NAPMA in accordance with a formula to be established by the Board of Directors.

NATO UNCLASSIFIED

NAPMA Statement of Financial Position

as at 31 December 2022

(in USD equivalent)

	Note	2022	Restated ** 2021	Original *** 2021
ASSETS				
Current assets				
Cash and cash equivalents	1	88,756,059	103,193,487	103,193,487
Receivables	2	74,288,903	80,553,330	80,647,192
Prepayments	3	8,642,704	5,290,297	5,290,297
Investments	4	281,000,000	291,000,000	291,000,000
		<u>452,687,666</u>	<u>480,037,114</u>	<u>480,130,976</u>
Non-current assets				
Receivables >12 Months	5	295,118	312,522	0
Prepayments >12 Months	6	95,888	15,851	15,851
Property, Plant & Equipment	7	24,020,022	27,092,890	31,868,013
Other non-current assets *	8	362,777,121	228,728,151	223,953,029
		<u>387,188,149</u>	<u>256,149,414</u>	<u>255,836,892</u>
TOTAL ASSETS		<u>839,875,815</u>	<u>736,186,528</u>	<u>735,967,868</u>
LIABILITIES				
Current liabilities				
Payables	9	2,097,792	2,092,751	1,874,092
Accruals	10	2,423,235	597,677	597,677
Deferred Revenue	11	287,279,870	302,953,118	303,103,898
Advances	12	91,781,344	98,906,881	99,013,935
Risk Mitigation Fund Nations	13	32,383,827	24,043,659	24,043,659
		<u>415,966,069</u>	<u>428,594,087</u>	<u>428,633,262</u>
Non-current liabilities				
Deferred Revenue	14	60,188,514	78,087,842	81,232,498
Advances > 12 Months	15	0	0	1,372,633
Other non-current liabilities	16	362,777,121	228,728,151	223,953,029
		<u>422,965,635</u>	<u>306,815,993</u>	<u>306,558,160</u>
TOTAL LIABILITIES		<u>838,931,704</u>	<u>735,410,080</u>	<u>735,191,422</u>
Net assets/equity	17	<u>944,112</u>	<u>776,448</u>	<u>776,448</u>
TOTAL LIABILITIES AND NET ASSETS		<u>839,875,815</u>	<u>736,186,528</u>	<u>735,967,868</u>

* The figures given in respect of FMS and indirect contracting via the U.S. System Program Office (SPO) are presented on a modified cash basis.

** Restated column presents the new adjusted figures for 2021 after taking into account the correction.

*** Original figures are those which were published in the NAPMA Financial Statements for 2021.

We hereby certify that to the best of our knowledge the attached financial statements and notes present a true and fair view of the financial performance and position of NAPMA as at 31 December 2022.



BrigGen Michael Gschossmann

General Manager NAPMA,

Date 4 OCT 2023



Kees Schulten

Financial Controller NAPMA,

Date 4 Oct 2023

NATO UNCLASSIFIED

NAPMA Statement of Financial Performance

for the year ended 31 December 2022

(in USD equivalent)

	Note	2022	2021
Revenue			
Revenue from Contributions	18	20,235,587	22,313,715
Financial Revenue	19	8,467,455	1,331,789
Revenue from received grants		0	4,071,103
Other Revenue	20	653,085	73,659
Total Revenue		29,356,127	27,790,266
Expenses			
Projects	21	421,660	1,249,596
Administrative	22	19,442,052	20,884,829
Depreciation	23	236,266	332,076
Disposal		0	2,618
Finance Costs	24	89,042	285,133
Total expenses		20,189,019	22,754,252
Surplus/(Deficit) for the period	25	9,167,107	5,036,014

NATO UNCLASSIFIED

NAPMA Statement of Changes in Net Assets/Equity

for the year ended 31 December 2022

(in USD equivalent)

PUBLICLY DISCLOSED - PDN(2024)0007 - MIS EN LECTURE PUBLIQUE

	Capital Assets Reserve	Dedicated Funds Reserve	Accumulated Surplus/Deficit	Total
Balance at the beginning of the period 2021	858,192	3,737,488	14,090,746	18,686,428
Net increase-decrease capital assets	(81,744)	0	81,744	0
Surplus/(Deficit) for the period (Restated)	0	0	5,036,014	5,036,014
Distribution to Nations/RMF (Restated)	0	(3,737,488)	(19,208,504)	(22,945,992)
Change in net assets/equity for the year ended 2021	(81,744)	(3,737,487)	(14,090,746)	(17,909,978)
Balance at the end of the period 2021	776,448	0	0	776,448
Balance at the beginning of the period 2022	776,448	0	0	776,448
Net increase-decrease capital assets	167,059	0	(167,059)	0
Surplus/(Deficit) for the period	0	0	9,167,107	9,167,107
Distribution to Nations/RMF	0	0	(8,999,444)	(8,999,444)
Change in net assets/equity for the year ended 2022	167,059	0	605	167,664
Balance at the end of the period 2022	943,507	0	605	944,112

NAPMA Statement of Cash Flow

for the year ended 31 December 2022

(in USD equivalent)

	<u>2022</u>	<u>Restated 2021</u>	<u>Original 2021</u>
Cash Flow from Operating Activities			
Surplus/(Deficit) from Operating Activities	9,167,107	5,036,014	5,036,014
Add: Non-Cash Movements			
Depreciation	236,266	332,076	332,076
Depreciation adjustment CAP	4,614,927	2,591,852	2,813,777
Unrealised Foreign Exchange Rate Gains/Losses	(605)	8,068	8,068
(Increase)/Decrease in Accounts Receivable	6,281,831	(73,891,235)	(73,673,665)
(Increase)/Decrease in Prepayments	(3,432,444)	(1,150,097)	(1,150,097)
Increase/(Decrease) in Accounts Payables	5,040	680,753	463,182
Increase/(Decrease) in Deferred Revenue	(33,572,576)	29,987,581	33,283,016
Increase/(Decrease) in Advances and Reimbursables NATO Entities	1,214,631	37,441,086	38,920,773
Change of Value in Deliverable to NAEW&C Force*	136,813,116	134,493,544	132,310,274
Increase/(Decrease) in Goods Receipt	1,825,558	(646,802)	(646,802)
Net Cash Flow from Operating Activities	123,152,849	134,882,839	137,696,616
Cash Flow from Investing Activities			
Additions to Other investments not included in cash and cash equivalent	10,000,000	9,000,000	9,000,000
(Purchase)/Disposal of Assets	(1,778,324)	(3,142,657)	(2,170,379)
Corrections to Assets	0	5,969,326	0
Additions to Work in Progress (WIP)**	(136,813,116)	(134,493,544)	(132,310,274)
Net Cash Flow from Investing Activities	(128,591,441)	(122,666,877)	(125,480,654)
Cash Flow from Financing Activities			
Fund Transfer from Net Assets	(8,999,444)	(22,945,992)	(22,945,992)
Effect of Currency Valuations			
Currency Valuation Operating Activities	605	(8,068)	(8,068)
Currency Valuation Financing Activities	0	0	0
Total Currency Valuations	605	(8,068)	(8,068)
Net Increase (Decrease) in Cash/Cash Equival.	(14,437,430)	(10,738,098)	(10,738,098)
Cash and Cash Equiv. Beginning of Period	103,193,487	113,931,585	113,931,585
Cash and Cash Equiv. End of Period	88,756,059	103,193,487	103,193,487

*For further details see Note 16.

**For further details see Note 8.

GENERAL INFORMATION

The NAPMA Financial Statements for the year ending 31 December 2022 were authorized for issuance, in accordance with NAPMO Financial Rules and Procedures, by the General Manager and the Financial Controller on 30 March 2023. Additionally, with approval from IBAN, the General Manager and the Financial Controller, on an exceptional basis and with the intent to correct a material misstatement or disclosure, can restate financial statements until one month from after the end of the field/remote audit work, as communicated in the notification letter.

ACCOUNTING POLICIES

Basis of Preparation

NAPMA Financial Statements have been prepared on the accrual basis of accounting, in accordance with the NAF, which is based on the IPSAS issued by the IPSAS Board. NAPMA uses an Enterprise Resource Planning System, based on SAP, to record and report financial information. NAPMA Financial Statements are prepared in accordance with the accounting requirements of the NAPMO FRs and FRPs.

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

For the accounting of the expenditures related to indirect contracts and FMS, in accordance with the NAF's adaptation of IPSAS 1 – Presentation of Financial Statements, NAPMA reports data on a cash basis where the agency is unable to satisfy that the data is presented on a reliable accrual basis. The modified cash basis reflects that FMS/indirect contracts goods and services delivered according to DD645 billing statements as provided by the US government and for which the US government has received cash payments.

Slight differences in summation may occur due to the fact that all the figures have been rounded to the nearest dollar.

The Financial Statements have been prepared on a going-concern basis which assumes that NAPMA will continue in operation for at least a year from the date the financial statements are issued.

In accordance with the NAF, the Financial Statements necessarily include amounts based on estimates and assumptions made by the management and based on historical knowledge as well as on the most reliable information available. In exercising the judgement to formulate the estimates, a degree of caution was included in light of the principle of 'prudence' required by IPSAS in order not to overstate assets or revenue or understate liabilities or expenses.

The estimates and underlying assumptions are reviewed on an on-going basis. These estimates and assumptions affect the amounts of assets, liabilities, revenues and expenses reported. The estimates are subject to a measure of uncertainty. The effect of changes to such estimates and assumptions in future periods could be significant to the Financial Statements.

The most significant estimate used in these Financial Statements is the estimation of goods/services received that are not yet supported by an invoice at year-end.

Accounting Period

The 2022 Financial Statements are based on the accounting records of NAPMA as of 31 December 2022. In accordance with the NAPMO FRs, the financial year at NAPMA begins on 1 January and ends on 31 December.

Functional and reporting Currency

The functional and reporting currency used throughout these Financial Statements is the USD (\$) equivalent. The Financial Statements are prepared using data based on the actual multi-currency execution of the approved budget appropriations.

Cash Flow Statement

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

Revenue and Expense Recognition

According to the NAPMO charter, NAPMA has an administrative budget and an operational (project) budget for the annual programme objectives and operating plans of NAPMO. The operational budget covers the disbursements which are directly related to the modernisation of the NE-3A aircraft. The administrative budget covers the expenses for the administration, acquisition, execution, support and other management activities related to the modernisation programmes. The administrative and operational budget are mainly funded through contributions made by the Member Nations.

NAPMA will recognize revenue when the administrative budget is used for its intended purpose as authorized by the BOD. This includes the (moment of) acquisition of Property, Plant and Equipment (PP&E).

NAPMA will recognize revenue when the operational budget is used (expenses incurred) for its intended purpose as authorized by the BOD, except when the outflow results in (1) a non-current liability to deliver assets to the NAEW&C Force (deliverable to NAEW&C Force) or (2) the recognition of Assets under Construction or Property, Plant and Equipment (PP&E). Depreciation of PP&E funded from the operational budget is simultaneously recognized as contract work in progress and as a deliverable to the NAEW&C Force. Depreciation of PP&E funded from the operational budget will therefore not result in gains or losses and will not be recognized in the statement of Financial Performance.

NAPMA will recognize other non-exchange revenues when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the fair value of the asset can be measured reliably. To the extent that there is a related condition attached that would give rise to a liability to repay the amount, recognition of revenue is deferred. NAPMA will not defer revenue for performance obligations that are also part of a modernisation programme approved by the NAPMO Nations, and that NAPMA has no alternative but to perform.

Revenues and expenses are accrued when goods and services are received or when economic benefits or expenses are incurred.

Foreign Currency Transactions and Presentation

Foreign currency monetary items, like cash, trade creditors or debtors, will for reporting purposes be translated into US Dollar (USD) equivalents using the closing rate.

Foreign currency non-monetary items are assets and liabilities whose value depends on economic conditions. Non USD expenditures for non-monetary items are translated using the weekly posted NATO exchange rates that apply on the date of the transaction.

Changes in Accounting Policies and Corrections

The same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy is required by a standard, or if the change results in the financial statements providing more reliable and relevant information.

For the 2022 Financial Statements there were no changes in accounting policies or corrections.

Prior year adjustments

NAPMA will retrospectively restate the opening balances of assets, liabilities and net assets for changes in accounting policies, initial or voluntary application of an IPSAS and corrections of prior period errors, except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change. When it is impracticable to determine the effects of an error on comparative information, NAPMA shall restate the opening balances for the earliest financial period when retrospective restatement is practicable, which may be the current financial period.

The NAPMA 2021 Financial Statements were restated. Original figures are those which were published in the NAPMA Financial Statements for 2021. The restated column presents the new adjusted figures for 2021 after taking into account corrections.

At the end of FY 2022, NAPMA has a receivable of 295,118 USD equivalent (312,522 USD equivalent at closing rate FY 2021) as a result of the recognition of revenue on the EU-grant of the Single European Sky Air Traffic Management Research (SESAR) in 2021. NAPMA has reported the receivable in its 2021 Financial Statements under the current assets. NAPMA has received documentation from the SESAR Deployment Manager indicating that the SESAR balance payment is not due until 2024. The receivable is therefore a non-current asset.

At the end of FY 2021, NAPMA had a receivable of 217,570 USD equivalent as a result of a Currency Clearinghouse payment² by the prime contractor for FLEP without any corresponding payables to subcontractors. In its 2021 Financial Statements, NAPMA has reported this current liability as a (negative) current asset (receivable).

In its 2021 Financial Statements, NAPMA has reported Net Carrying Amounts for Integrated Systems of 26,841,564 USD and Assets under Construction of 4,250,000 USD. These amounts represent the value of the Development Laboratories as reported by the Prime Contractor. Following additional clarifications provided by the Prime Contractor in 2023, the management of NAPMA concluded that the Gross Carrying Amounts of the Development Laboratories and the resulting Accumulated Depreciation have been overstated in the NAPMA 2021 Financial Statements. This error has been corrected by restating the Net Carrying Amounts for Integrated Systems and Assets under Construction. In the 2022 Opening Balance of the reconciliation for the current and prior period PP&E, the Net Carrying

² The Currency Clearinghouse (CCH) is a financial procedure established to eliminate the exchange rate fluctuation risk for the prime and major subcontractors.

NATO UNCLASSIFIED

Amount of Integrated Systems after correction is 26,316,442 USD and there are no Assets under Construction (see note 7). The management of NAPMA considers retrospective restatement prior 2021 impracticable. The tables below reflect the cumulative effect of the errors occurred over the period 2019-2021.

	Gross Carrying Amounts of Development Laboratories		
	2019	2020	2021
Integrated Systems - Initial	1,500,000	1,500,000	4,250,000
Assets under Construction -Initial	26,987,711	30,750,000	29,920,047
Total	28,487,711	32,250,000	34,170,047
Integrated Systems + Assets Under Construction - Updated	1,488,000	2,738,000	29,173,000
Total	1,488,000	2,738,000	29,173,000

* Refer to PPE table in note 7 for more details on movements

In its 2021 Financial Statements, NAPMA has reported a depreciable amount for CAP assets of 1,479,687 USD as advances NAPMO Nations (current and non-current liabilities). The depreciable amount for CAP assets represents an appropriated budget that will be recognized as contract work in progress simultaneously with the depreciation of PP&E funded from the operational budget. The depreciable amount for CAP assets should therefore be classified as deferred revenue.

These errors have been corrected by restating the 2021 comparative figures in NAPMA's 2022 Financial Statements for current and non-current receivables, current payables and current and non-current deferred revenue, PP&E, other non-current liabilities and advances NAPMO Nations. Because the errors only concern minor changes in the presentation of the Statement of Financial Position as at the end of the previous period (2021), the management of NAPMA believes that the restatement is inconsequential for future decision making.

Changes in Accounting Standards

NAPMA discloses when initial application of an IPSAS has or would have an effect on the current period of any prior period of the Financial Statements. For 2022, no new relevant standards had or would have had an effect on the Financial Statements.

Assets – Current Assets

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

Cash and Cash Equivalents

Cash and cash equivalents comprise cash at current and saving bank accounts and fixed-term deposits with an original maturity of three months or less.

Receivables

Receivables are reported at fair value in the Statement of Financial Position. No loss allowances and lifetime credit losses are recorded for the balance due as it is deemed to be collectable. Receivables are disaggregated into receivables from non-exchange transactions (contributions

NATO UNCLASSIFIED

from NAPMO Nations) and receivables from exchange transactions (NATO and Non-NATO Entities, Staff members, bank interest and other receivables). Contribution receivables are recognized when a call for contribution has been issued to the Member Nations.

Prepayments

Prepayments made to suppliers and to other NATO entities are reflected in the Statement of Financial Position.

Investments

NAPMA's current investments are held-to-maturity fixed term deposits with original maturities between three and six months. After initial measurement, held-to-maturity investments are measured at amortized cost using the effective interest method.

Assets – Non-Current Assets

In this category, NAPMA is reporting all assets which are not expected to realise within twelve months after the reporting period.

Property, Plant and Equipment

PP&E includes tangible items that support programme management activities and are expected to be used in more than one reporting cycle. PP&E is recognized if it is controlled by NAPMA in accordance with the criteria outlined in the NAF and if the acquisition cost exceed the NAPMA capitalisation thresholds. Where an asset is acquired in a non-exchange transaction the asset is initially measured at its fair value.

After recognition as an asset, an item of PP&E is carried at its historical cost less any accumulated depreciation and impairment losses. Cost includes all expenditure that is directly attributable to the acquisition of the items.

The building and the land that NAPMA occupies are provided by the Host Nation as a "right of use".

Contractor-held NATO Property

Contractor-held NATO Property concerns property that is NATO Furnished Property (NFP) or Contractor Acquired Property (CAP) for the performance of a contract and to which NAPMA has title.

Contract costs for CAP that is also a deliverable end-item pursuant to a contract, will be reported as contract work in progress until delivery of the asset to NATO.

Contract costs for CAP that is not a deliverable end-item pursuant to a contract, that it is acquired under a cost reimbursement contract and that is expected to meet the NAPMA criteria for PP&E, will be reported as assets under construction until it is serviceable.

Contract costs for CAP that is not a deliverable end-item pursuant to a contract and that it is acquired under a fixed price contract, will be reported as contract work in progress until the constructive delivery of the asset. At the time of constructive delivery to NATO, the fully burdened unit cost will be estimated and transferred to assets under construction.

Serviceable assets will be transferred from assets under construction to the appropriate PP&E categories (if the relevant capitalization criteria are met).

Development laboratories

For performing a modernisation contract, the contractor acquires development laboratories to simulate, test and evaluate integrated technologies in an as realistic operating environment. NATO holds title of the development laboratories when it has fully paid for them. Development laboratories are considered to be a combination of hardware and integrated software (i.e. the hardware cannot operate without the software) and together recognized as PP&E. No development laboratory software is separately recognized as an intangible asset.

Serviceable development laboratories will be reported in the PP&E category integrated systems (if the relevant capitalization criteria are met).

Depreciation of Property, Plant and Equipment

Depreciation is charged at rates calculated to allocate the cost or valuation of the assets, less their residual values, over their estimated useful lives, using the straight-line method. Depreciation of an asset begins the first month after it is available for use. PP&E categorization for purposes of determining the appropriate depreciable life of the assets and the associated capitalization thresholds per item, is listed in the table below.

Disposal of Property, Plant and Equipment

An item of PP&E is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal or retirement of an item is determined as the difference between the sales proceeds and the carrying amount of the asset and it is recognised in the statement of financial performance.

NATO UNCLASSIFIED

PP&E categories

Categories (classes) of PP&E is a grouping of assets of a similar nature or function in an entity's operation that is shown as a single item for the purpose of disclosure in the financial statements. The following table provides details per PP&E category on the expected useful life and their associated capitalization thresholds per item:

PPE Category	Description	Threshold per item	Useful life
Buildings	Building	200,000	40
Installed Equipment	Equipment/building improvements as part of the building such as heating & cooling systems, security systems, renovation, replacements and fixtures	30,000	10
Vehicles	Transportation equipment	10,000	5
Furniture	Desks, Chairs, Cabinets, Safes, Conference, etc.	30,000	10
Automated Information Systems	NIMS, major Hardware and Software	50,000	3
Communication and IT Equipment	Equipment/Tools required for daily office operations such as PC's, Laptops, Software, etc.	50,000	3
Government Furnished Equipment	Miscellaneous Equipment provided to Contractors	50,000	7-10
Integrated Systems	Development laboratories to simulate, test and evaluate integrated technologies	50,000	5-10
Assets under Construction			No depreciation

Leases

Leases are classified as finance leases whenever the terms of the lease transfers substantially all the risks and benefits incidental to ownership to the lessee. All other leases are classified as operating leases. NAPMA does not have any finance leases.

Work in Progress (other non-current assets)

Contract work in progress is the accumulated amount of expenses during the execution of a programme to modernize the NE-3A aircraft. Deliverable end-items pursuant to the contract, that are ready for their intended use and controlled by the NAEW&CF, will be de-recognized as contract work in progress in NAPMA's financial statements ("transferred to the NAEW&CF").

Contract work in progress is valued at its historical acquisition value at the exchange rate in effect on the date of the expenditure transactions. The expenditures for US FMS contracts and agent contracts are presented on a cash basis provided by the US Government under the US Government Acquisition Agreement. Contract work in Progress is presented on a modified cash basis in the financial statements.

Acquisition programmes have a full cost recovery basis for NAPMA, so no surpluses or deficits are recognized in relation to the contract work in progress with the provision that the budget is used for its intended purpose. Impairment or depreciation of the accumulated costs only starts after the operational capability has been transferred to the NAEW&C Force and put into service.

Liabilities – Current Liabilities

Payables and Accruals

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

Deferred Revenue – current

Deferred revenue - current are unearned contributions from Nations that are expected to be consumed in the first year after the end of the reporting period and payments from third parties subject to specific conditions that are expected to become unconditional in the first year after the end of the reporting period.

Advance NAPMO Nations

Advances NAPMO Nations represent the amounts of funds held on behalf of the Member Nations, arising from a variety of sources including received advanced payments from some Nations, sales of residual assets and Research and Development (R&D) recoupment.

Advances NATO Entities

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

Risk Mitigation Funds (RMF)

During BOD/96, the NAPMO BOD approved the creation of a fund comprised of revenue generated from gross interest earned and investments to mitigate currency and exchange risks. Upon dissolution of the fund, the fund will be redistributed to the Nations according to the then current MoU cost shares.

The RMF is comprised of income generated from interest earned on bank accounts, investments in term/time deposits or money market accounts and gains or losses from foreign currency exchanges. The liquidity held in the fund will have no denomination or link to a particular programme rate or inflation factor.

Employee Benefits

NAPMA employees participate in one of the two NATO pensions schemes: the Coordinated Pension Scheme (CPS) which is a benefit plan, and the Defined Contribution Pension Scheme (DCPS) which is a contribution plan. NATO IS operates the CPS for all NATO staff. NATO appointed Previnet SPA as the pension scheme administrator for the DCPS. The assets and liabilities for these pension schemes are accounted for centrally at NATO Headquarters and therefore are not recognized in these Financial Statements. NAPMA only accounts for the contributions paid during the year.

Provisions and Contingent Liabilities

Provisions are recognized when the NAPMA has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Liabilities – Non-Current Liabilities

Deferred Revenue – non-current

Deferred revenue – non-current are unearned contributions from Nations that are not expected to be consumed in the first year after the end of the reporting period and payments from third parties subject to specific conditions that are not expected to become unconditional in the first year after the end of the reporting period.

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

Deliverables to NAEW&C Force represent the obligation to transfer deliverable end-items to the NAEW&C Force pursuant to the contract. Deliverable end-items that are controlled by the NAEW&CF, will be de-recognized in NAPMA's financial statements ("transferred to the NAEW&CF").

Because work in progress is presented in the financial statements on a modified cash basis, deliverables to NAEW&C Force – being a derivative – is also presented on a modified cash basis.

Contingent Liabilities

NAPMA does not recognize a contingent liability, but discloses details of any contingencies in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits or service potential is remote.

Net Assets

Net assets is the residual interest of the NAPMO Nations in NAPMA's assets after deducting all its liabilities. Net assets are disaggregated into capital asset reserves, cash reserves and accumulated surpluses and deficits.

Nature and purpose of reserves

A capital assets reserve has been established for the depreciation and impairment of capitalized PP&E from the administrative budget. The capital assets reserve is increased with the expenditures for acquired PP&E and decreased with the depreciation and impairment of the PP&E. The capital assets reserve equals the carrying amount of the PP&E from the administrative budget. The capital assets reserve is not available for redistribution to Nations, programmes or budgets.

NOTES TO THE STATEMENT OF FINANCIAL POSITION

Assets – Current Assets

1. Cash and Cash Equivalents

<u>Cash and cash equivalents</u>	<u>2022</u>	<u>2021</u>
Current Accounts	1,418,990	3,008,860
Saving Accounts	87,337,069	100,184,627
Total	88,756,059	103,193,487

Cash balances are held in current and deposit accounts spread between various reliable financial institutions. Multiple currencies are held in separate accounts. As of the 31st of December 2022 NAPMA invested a part of the cash holding in high rated short fixed-term deposits.

Details of cash and cash equivalents:

Bank	Currency		USD equivalent
DNB Bank	EUR	19,514,865	20,681,853
	NOK	46,139,338	4,655,889
	USD	8,729,537	8,729,537
WELLS FARGO	USD	54,688,780	54,688,780
Grand Total			88,756,059

Savings are converted using the NATO weekly posted exchange rates applicable on 31 December 2022.

2. Accounts Receivable

<u>Accounts receivable</u>	<u>2022</u>	<u>Restated</u> <u>2021</u>	<u>Original</u> <u>2021</u>
Receivables from Nations	71,050,089	80,427,728	80,427,728
Receivables from NATO Entities	0	0	-1,090
Other Receivables/Recoverable	620,914	0	94,952
Receivables from Bank interest	2,615,161	125,601	125,601
Receivables from Staff	2,740	0	0
Total	74,288,903	80,553,330	80,647,192

Receivables are reported at fair value in the Statement of Financial Position. No loss allowances and lifetime credit losses are recorded for the balance due as it is deemed to be collectable. Receivables are disaggregated into receivables from non-exchange transactions (contributions from NAPMO Nations) and receivables from exchange transactions (NATO

NATO UNCLASSIFIED

Entities, other receivables, bank interest and staff members). Receivables from Nations/Contribution receivables are recognized when calls for contribution have been issued to the Member Nations.

Contributions from Nations primarily represent the amount not yet received from Member Nations for the first call for contributions 2023 and open balances from prior year calls. The decrease is due to payments of contributions received prior to the year end.

Other Receivables represent the balance reported on the DFAS holding accounts as at 31 December 2022.

3. Prepayments

<u>Prepayments</u>	<u>2022</u>	<u>2021</u>
NATO Entities	1,966,053	69,724
DFAS	6,438,556	5,039,856
ADMIN NON-NATO Entities	238,094	180,716
Total	8,642,704	5,290,297

Advance payments were made to NSPA and NCIA (NATO Entities) and DFAS against Taskings and Case Directive Amendments (CDAs).

Advance payments to Non-NATO entities are payments for which goods have not been received, or services have not been rendered. The advances relate, for the most part, to prepaid education allowances which covered the school year 2023, maintenance contracts, insurances and software licenses for 2023.

4. Investments

<u>Investments</u>	<u>2022</u>	<u>2021</u>
Investments	281,000,000	291,000,000
Total	281,000,000	291,000,000

NAPMA's current investments are held-to-maturity fixed term deposits with original maturities between three and six months. The carrying amounts for these deposits are a reasonable approximation of their fair value due to their short term maturities.

Fixed-Term Deposits held

Bank	Duration	Currency	Total amount
BBVA Bank	Up to 6 Months	USD	150,000,000
DNB Bank	Up to 6 Months	USD	131,000,000
Grand Total		USD	281,000,000

NATO UNCLASSIFIED

Assets – Non-Current Assets

5. Accounts Receivable > 12 Months

<u>Accounts receivable</u>	<u>2022</u>	<u>Restated 2021</u>	<u>Original 2021</u>
Other Receivables/Recoverable >12Months	295,118	312,522	0
Total	295,118	312,522	0

Other receivables/recoverable > 12 months represent the final payment from SESAR to be expected in 2024.

6. Prepayments > 12 Months

<u>Prepayments</u>	<u>2022</u>	<u>2021</u>
ADMIN NON-NATO Entities >12Months	95,888	15,851
Total	95,888	15,851

Advance payments to Non-NATO entities > 12 months are prepayments to vendors for maintenance contracts and licenses beyond the following fiscal year.

7. Property, Plant and Equipment (PP&E)

PP&E includes tangible items that support programme management activities and are expected to be used in more than one reporting cycle.

Based on the best available information provided by the contractor when the financial statements were prepared, development laboratories are considered to be a combination of hardware and integrated software (i.e. the hardware cannot operate without the software) and together recognized as property, plant and equipment. Serviceable development laboratories are categorized as integrated systems. No development laboratory software is separately recognized as an intangible asset.

The management of NAPMA, while preparing the 2022 financial statements, recognized that the Gross Carrying Amounts of the Development Laboratories and the resulting Accumulated Depreciation have been overstated in the NAPMA 2021 Financial Statements. This error has been corrected by restating the comparative amounts for Net Carrying Amounts for Integrated Systems and Assets under Construction (2021). For further details, see the explanation of the prior year adjustments in the summary of significant accounting policies.

In 2022 the following amounts were capitalized as PP&E:

- Assets funded from the administrative budget totaling 403,324 USD equivalent (Communication and IT Equipment and Installed Equipment);
- Additions to the development laboratory funded from the operational budget totaling 1,375,000 USD equivalent (Integrated Systems).

NATO UNCLASSIFIED

	Automated Inf. System (NIMS)	Communication and IT Equipment	Furniture	Vehicles	Buildings	Installed Equipment	Gov. Furnished Equipment	Integrated Systems	Assets under Construction	Totals
Opening Balance (01 January 2022)	0	238,000	80,432	35,728	342,512	79,777	0	26,316,442	0	27,092,891
Additions	0	314,079	0	0	0	89,245	0	1,375,000	0	1,778,324
Transfer to PP&E	0	0	0	0	0	0	0	0	0	0
Disposals/Corrections	0	0	0	0	0	0	0	0	0	0
Depreciation	0	177,761	8,655	23,144	15,097	11,608	0	4,614,927	0	4,851,193
Closing Balance (31 December 2022)	0	374,318	71,777	12,584	327,414	157,414	0	23,076,515	0	24,020,022
Gross Carrying Amount	7,275,057.57	1,585,718	632,269	115,722	603,899	190,934	0	30,548,000	0	40,951,599
Accumulated Depreciation	7,275,057.57	1,211,400	560,492	103,139	276,484	33,520	0	7,471,485	0	16,931,577
Net Carrying Amount	0	374,318	71,777	12,584	327,414	157,414	0	23,076,515	0	24,020,022

PUBLICLY DISCLOSED - PDN(2024)0007 - MIS EN LECTURE PUBLIQUE

NATO UNCLASSIFIED

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

<u>Work in Progress</u>	<u>2022</u>	<u>Restated 2021</u>	<u>Original 2021</u>
Work in Progress (WIP)	362,777,121	228,728,151	223,953,029
Total	362,777,121	228,728,151	223,953,029

WIP – The value of work in progress for the acquisition projects will be transferred to the NAEW&C Force when the related asset is ready for its intended use and controlled by the NAEW&C Force.

The amount of 7,379,073 USD equivalent was transferred to the NAEW&C Force in 2022 in compliance with the control criteria of assets as outlined in the NAF see note 16 on Deliverables.

In accordance with the NAF, NAPMA records the expenditures related to indirect contracts in the Financial Statements based on data/billing reports as provided by the US Government. The additions in the amount of 136,813,116 USD equivalent include 1,843,101 USD equivalent recorded on a modified cash basis.

The below summary table shows additions and transfers occurred during the financial year 2022 as well as the accumulated amounts:

	Work in Progress (WIP)
Opening Balance (01 January 2022)	228,728,151
Additions	136,813,116
Transferred to NAEW&C	-7,379,073
Disposals/Corrections	0
Adjustment depreciation	4,614,927
Closing Balance (31 December 2022)	362,777,121
Gross Carrying Amount	2,751,326,270
Accumulated Transfers	2,388,549,149
Net Carrying Amount	362,777,121

NATO UNCLASSIFIED

Liabilities – Current Liabilities

9. Accounts Payable

<u>Accounts Payable</u>	<u>2022</u>	Restated <u>2021</u>	Original <u>2021</u>
Payables to NATO Entities	236,138	190,547	189,457
Payables to Non-NATO Entities	284,289	393,048	393,048
Payables to Suppliers	1,559,111	1,507,469	1,289,899
Payables to Staff	18,254	1,687	1,687
Total	2,097,792	2,092,751	1,874,092

Payables to NATO Entities

Payables to NATO Entities include primarily invoices received from JFC HQ Brunssum and NATO Communications and Information Agency (NCIA) that were not settled at year-end.

Payables to Non-NATO Entities

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

Payables to Suppliers

Payables to suppliers include invoices received from commercial vendors not settled at year-end. There is an increase in payables to suppliers because the majority of the invoices were received after the deadline for the last payment date in December 2022 and therefore not paid at year-end.

Payables to staff members

Amounts due to staff members include travel expenses which were not submitted by staff members before the last payment date in December 2022 and therefore not settled at year-end.

10. Accruals

<u>Accruals</u>	<u>2022</u>	<u>2021</u>
Goods receipt – Invoices to be received	2,423,235	597,677
Total	2,423,235	597,677

Goods Receipt – Invoices to be received are the amounts based on estimates and assumptions made for goods/services that were delivered/performed during fiscal year 2022 and prior but not invoiced by 31 December 2022.

The variance between the comparative figures is explained by the receipt in invoicing from the prime contractor before the cut-off date.

NATO UNCLASSIFIED

NATO UNCLASSIFIED

11. Deferred Revenue - current

<u>Deferred Revenue</u>	<u>2022</u>	Restated <u>2021</u>	Original <u>2021</u>
Unearned Contribution - Current	282,664,943	298,567,358	298,567,358
Unearned depreciation PP&E - Current	4,614,927	4,385,760	4,536,540
Total	287,279,870	302,953,118	303,103,898

Revenue from contributions and other non-exchange transactions is deferred until it is deemed to have been earned.

Unearned Contributions - current represents the balance of BOD approved but not yet consumed budgets of the financial year and prior periods that are expected to be consumed in the twelve months after the end of the reporting period. Contract work in progress and deliverables to the NAEW&C Force are recognized simultaneously with the depreciation of PP&E funded from the operational budget to correspond with the consumption of the assets. The unearned depreciation PP&E - current is the expected depreciable amount funded from the operational budget in the twelve months after the end of the reporting period.

12. Advances NAPMO Nations and NATO Entities

<u>Advances</u>	<u>2022</u>	Restated <u>2021</u>	Original <u>2021</u>
Depreciable amount for CAP assets	0	0	107,054
Advances NAPMO Nations-Appropriated	59,183,103	58,686,691	58,686,691
Advances NAPMO Nations-Unappropriated	31,910,478	39,251,109	39,251,109
Advances NATO Entities	687,764	969,081	969,081
Total	91,781,344	98,906,881	99,013,935

Advances NAPMO Nations represent the amounts of funds held on behalf of the Member Nations, arising from a variety of sources including received advanced contributions from some Nations on calls for the following financial year, sales of residual assets, Research and Development (R&D) recoupment for the Radar System Improvement Project (RSIP) and interest earned on bank accounts for the years 2010 to 2013. The Advances NAPMO Nations is split into appropriated and unappropriated.

The depreciable amount for CAP assets is the amount funded from the operational budget that is expected to be recognized as revenue in the first year after the end of the reporting period. The 2021 figures were restated because the amount was reclassified as Unearned depreciation PP&E - Current.

NATO UNCLASSIFIED

Advances NAPMO Nations appropriated are refundable contributions, reimbursements or distributions payable allocated to NAPMO Nations including advance/discretionary payments from Nations.

Advances NAPMO Nations unappropriated are distributions not allocated to NAPMO Nations pending a NAPMO BOD decision on further use.

Advances NATO entities are funds received and expended in support of other NATO entities predominantly the NAEW&C Force for execution of projects and activities for Operations and Support.

13. Risk Mitigation Fund Nations

<u>Risk Mitigation Fund Nations</u>	<u>2022</u>	<u>2021</u>
Risk Mitigation Fund Nations	32,383,827	24,043,659
Total	32,383,827	24,043,659

During BOD/96, the NAPMO BOD approved the creation of a Risk Mitigation Fund (RMF) to mitigate currency and exchange risks. The RMF is comprised of income generated from interest earned on bank accounts, investments in term/time deposits or money market accounts and gains from foreign currency exchanges since 2014. The liquidity held in the fund will have no denomination or link to a particular programme rate or inflation factor. Risk management procedures are implemented specifically pertaining to measuring and managing liquidity risk in both normal and adverse conditions.

The RMF balance on 31 December 2022 is mainly made of interest generated in bank accounts held in USD and currency exchanges executed throughout the year. In 2022, interest paid in the amount of 89,042 USD equivalent was funded from the RMF without a budget and budget consumption. At the end of 2022 the net amount of 8,377,808 USD equivalent was distributed to the RMF. The currency revaluation in accordance with IPSAS 4 at year-end amounts to 37,640 USD.

A breakdown of P&L items distributed to the RMF can be found below:

	2022
Interest received	6,056,273
Interest paid	(89,042)
Accumulated exchange gains/losses	2,410,577
Total Distribution RMF	8,377,808
Currency revaluation at year-end	(37,640)
Total	8,340,168

NATO UNCLASSIFIED

NATO UNCLASSIFIED

Liabilities – Non-Current Liabilities

14. Deferred Revenue – non-current

<u>Deferred Revenue</u>	<u>2022</u>	Restated <u>2021</u>	Original <u>2021</u>
Unearned Contribution-Non-Current	41,726,926	56,157,160	56,157,160
Unearned depreciation PP&E-Non-Current	18,461,588	21,930,682	4,387,641
Total	60,188,514	78,087,842	81,232,498

Revenue from contributions and other non-exchange transactions is deferred until it is deemed to have been earned.

Unearned Contributions – non-current represents the balance of BOD approved but not yet consumed budgets of the financial year and prior periods that are not expected to be consumed in the first year after the end of the reporting period.

Revenue is recognized simultaneously with the depreciation of PP&E funded from the operational budget to correspond with the consumption of the assets. The unearned depreciation PP&E – non-current is the depreciable amount funded from the operational budget that is not expected to be recognized as revenue in the first year after the end of the reporting period.

15. Advances on Nations' Contributions > 12 Months

<u>Depreciable amount for CAP assets ></u>	<u>2022</u>	Restated <u>2021</u>	Original <u>2021</u>
Depreciable amount for CAP assets	0	0	1,372,633
Total	0	0	1,372,633

The depreciable amount for CAP assets is the amount funded from the operational budget that is not expected to be recognized as revenue in the first year after the end of the reporting period. The 2021 figures were restated because the amount was reclassified as Unearned depreciation PP&E - Non-Current.

16. Other non-current liabilities (Deliverables)

<u>Deliverable to NAEW&C Force</u>	<u>2022</u>	Restated <u>2021</u>	Original <u>2021</u>
Deliverables	362,777,121	228,728,151	223,953,029
Total	362,777,121	228,728,151	223,953,029

NATO UNCLASSIFIED

Deliverables to NAEW&C Force represent the cumulative amount that is still to be transferred to NAEW&C Force when the related asset is ready for its intended use and controlled by the NAEW&C Force.

The below summary table shows additions and transfers occurred during the financial year 2022 as well as the accumulated amounts.

	Deliverables
Opening Balance (01 January 2022)	228,728,151
Additions	136,813,116
Transferred to NAEW&C	-7,379,073
Disposals/Corrections	0
Adjustment depreciation	4,614,927
Closing Balance (31 December 2022)	362,777,121
Gross Carrying Amount	2,751,326,270
Accumulated Transfers	2,388,549,149
Net Carrying Amount	362,777,121

17. Net Assets

Net assets is the residual interest of the NAPMO Nations in NAPMA's assets after deducting all its liabilities.

Net assets are disaggregated into capital asset reserves and accumulated surpluses and deficits.

In 2022 the total distribution from net assets to the RMF and Nations amounted to 8,999,444 USD equivalent.

The BOD (BOD/96) instructed to distribute the difference of financial revenue and finance costs (except unrealized gains/losses) from net assets to the RMF at year-end. In 2022 the amount transferred to the RMF was 8,377,808 USD equivalent.

Furthermore the BOD/108 approved the amount of 620,913 USD equivalent to be put towards the funding of legacy programmes including CNS/ATM.

Also the amount of 722 USD was distributed to Advance Nation's account.

Further details can be found in the Statement of Changes in Net Assets/Equity (page 7).

NOTES TO THE STATEMENT OF FINANCIAL PERFORMANCE

REVENUE

18. Revenue from Contributions

<u>Revenue from Contributions</u>	<u>2022</u>	<u>2021</u>
Revenue from Contributions	20,235,587	22,313,715
Total	20,235,587	22,313,715

Revenue from Contributions has been recognized for project and administrative activities. Revenue recognition is matched with the recognition of expenses against NAPMA budgets. Contributions when called are booked as unearned revenue and recognized when earned.

19. Financial Revenue

<u>Financial Revenue</u>	<u>2022</u>	<u>2021</u>
Financial Revenue	8,467,455	1,331,789
Total	8,467,455	1,331,789

Financial revenue in the amount of 8,467,455 USD equivalent represents interest received, realized exchange rate gains and unrealized foreign exchange rate gains originating from the translation of the functional currency into the presentation currency.

Financial Revenue in USD equivalent:

	2022	2021
Interest received	6,056,273	724,072
Realised Exchange rate gains	2,410,577	607,717
Unrealised exchange gains	605	0
Total	8,467,455	1,331,789

20. Other Revenue

<u>Other Revenue</u>	<u>2022</u>	<u>2021</u>
Other Revenue	653,085	73,659
Total	653,085	73,659

Other revenue originates from 2018 and 2019 approved NAPMA budgets used to pay for Risk Reduction expenditures in 2022 in the amount of 31,449 USD equivalent, the recognition of the FMS holding accounts in the amount of 620,914 USD equivalent and sale of assets in the amount of 722 USD equivalent.

EXPENSES

21. Project Expenses

<u>Project Expenses</u>	<u>2022</u>	<u>2021</u>
Projects - direct NAPMA	691,125	980,131
Projects - indirect Agent	-269,465	269,465
Total	421,660	1,249,596

Project expenses are outlay costs in support of the modernisation programmes, funded from the operational budget but not directly related to deliverable assets to the NAEW&C Force or assets acquired by the contractor for the performance of a contract. Project costs are expensed as incurred and not capitalized as WIP or PP&E.

Project expenses are divided into direct NAPMA and indirect agent expenses. The project expenses in NAPMA's 2021 Statement of Financial Performance included 269,465 USD agent costs. During the preparation of the 2022 Financial Statements, NAPMA determined that in 2021 and 2022, no agent costs were expensed as incurred. The management of NAPMA believes that the error is inconsequential for future decision making. NAPMA has corrected this immaterial error in current year via the same financial statement lines through which the error originated, without restating comparative amounts.

22. Administrative Expenses

<u>Administrative Expenses</u>	<u>2022</u>	<u>2021</u>
Personnel	17,286,580	18,859,848
Operational	2,155,472	2,024,981
Total	19,442,052	20,884,829

The amounts for personnel include expenses for salaries and emoluments for NATO civilian positions and temporary personnel, for other salary related and non-related allowances including overtime, medical examinations, recruitment, installation, removal and training.

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

The lease for three staff cars and photocopiers have been qualified as operating leases and are therefore also included in the administrative costs.

NAPMA Personnel Costs (including key management personnel)

	2022	2021
Salaries	11,926,527	13,088,099
Allowances	2,422,656	2,593,393
Pension contributions	1,239,466	1,335,992
Health care contributions	1,278,408	1,538,493
Loss-of-Job Indemnities	0	0
Other	419,524	303,871
Total	17,286,580	18,859,848

Employee Disclosure

NAPMA personnel is enrolled in two NATO pension schemes. NAPMA contributes to the schemes for existing employees at amounts laid out in the NATO Civilian Personnel Regulations (NCPR's).

NAPMA does not control or manage any of the schemes or scheme assets and is not exposed to the risks and rewards of the schemes and hence does not record any assets or liabilities of the schemes on its statements of financial position. In 2022, NAPMA contributed 1,239,466 USD equivalent to the NATO pension schemes.

23. Depreciation Expenses

<u>Depreciation Expenses</u>	<u>2022</u>	<u>2021</u>
Depreciation and amortization	236,266	332,076
Total	236,266	332,076

Assets of PP&E are depreciated over their useful life (see also note 6).

The depreciation expense in the amount of 236,266 USD equivalent relates to the depreciation funded out of the administrative budget.

The annual depreciation related to PP&E funded from the operational budget has been allocated to WIP in accordance with IPSAS 11, Construction Contracts, see note 8.

24. Finance Expenses

<u>Finance Expenses</u>	<u>2022</u>	<u>2021</u>
Finance Expenses	89,042	285,133
Total	89,042	285,133

Finance expenses in the amount of 89,042 USD equivalent represent interest paid to bank institutions (non budgetary as per decision by the BOD/96, see also note 13).

25. Surplus for the Period

The 2022 surplus in the amount of 9,167,107 USD equivalent results from:

- The currency translation adjustments at the end of the year in accordance with IPSAS 4 presented under Financial revenue in the amount of 605 USD equivalent;
- The interest paid in the amount of (89,042) USD equivalent;
- The depreciation expenses in the amount of (236,266) USD equivalent;
- The interest received in the amount of 6,056,273 USD equivalent;
- The realized exchange rate gains in the amount of 2,410,577 USD equivalent;
- The recognition of FMS holding accounts in the amount of 620,913 USD equivalent;
- Sale of assets in the amount of 722 USD equivalent;
- The purchase of PP&E funded out of the administrative budget in the amount of 403,324 USD equivalent.

EVENTS AFTER THE REPORTING DATE

NAPMA’s reporting date is 31 December 2022 and the Financial Statements were authorized for issue by the General Manager on 30 March 2023.

No material events, favorable or unfavorable, which would have an impact on the statements have occurred between the reporting date and the date on which the Financial Statements were authorized for issue.

RELATED PARTY DISCLOSURE

Under IPSAS 20 parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial and operating decisions. IPSAS 20 requires the disclosure of the existence of related party relationships, where control exists, and the disclosure of information about transactions between the entity and its related parties. This information is required for accountability purposes and to facilitate a better understanding of the Financial Position and Performance of the reporting entity.

NATO UNCLASSIFIED

The BOD members receive no remuneration and do not receive loans from the entity. Based on the BOD annual declarations for 2022, received from all the BOD Members, no significant related party relationships could be identified which could affect the operation of NAPMA.

Based on the annual declaration for 2022 received from the key management personnel of NAPMA, there were no significant related party relationships identified which could affect the operation of NAPMA.

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

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

Number of individuals at year- end on a full time equivalent basis

Grades	2022	2021
A7/G24*	1	1
A6/G23*	3	3
A5/G22*	4	4
A4/G20*	7	7
A3/G17*	1	1
Total	16	16

**Reflects the SSS Scales for Staff members joining after 01 April 2021*

Salaries and benefits paid to key management personnel

Remuneration type	2022	2021
Basic salaries	2,251,907	2,462,730
Allowances	502,215	490,854
Employer's contribution to insurance	243,377	287,801
Employer's contribution to pension	241,346	253,995
Other	13,720	11,958
Total	3,252,566	3,507,336

The General Manager is entitled to receive a representation allowance as per DC(2016)0100. The amount spent in 2022 was 358 USD equivalent. Expenditures made against this allowance are supported by invoices.

NATO UNCLASSIFIED

BUDGET EXECUTION STATEMENT

Budget Execution Statement

The Budget Execution Statement (BES) is the comparison of budget amounts and the actual amounts arising from the implementation of the programs for which funds were appropriated. The execution of the budget during financial year 2022 is shown in annex A.

According to the NAPMO charter, NAPMA has an administrative budget and an operational (project) budget for the annual programme objectives and operating plans of NAPMO. The operational (project) and administrative budgets are approved in USD equivalent. The administrative budget is primarily executed in euros. For each programme a fixed euro/dollar exchange rate is established on a given date and set for the entire duration of the programme (Programme Exchange Rate).

The budgets are approved and may subsequently be amended by the BOD. Transfers of approved budgets (appropriations) require the prior a general or specific prior approval of the Policy and Finance Committee (PFC). The PFC authorized additional transfers of appropriations between projects and administrative chapters during PFC/30.

Reconciliation of Budget Consumption

The budget and accounting bases differ for the recognition of budget consumption. In accordance with IPSAS, the actual amounts that result from execution of the budget are reconciled with the financial performance or cash flow statements.

NAPMA's Financial Statements are prepared on an accrual basis. Expenses are recorded when incurred. Budgetary outlays in the financial statements include the capitalization of expenditures for both work in progress and the acquisition of PP&E funded from the administrative budget at market rate.

NAPMA's annual budget is approved and executed on a modified cash and commitment basis. Budgetary consumption is recognized when the Service Entry (Good Receipt) is posted and the budget is consumed by an individual project. This includes the acquisition of PP&E and the accrued budgetary outlays at the end of the financial year. Budget consumption is in multi-currencies and is expressed in USD equivalent at the established programme rate.

To eliminate the exchange rate fluctuation risk for the prime and major subcontractors, NAPMA uses NAPMO Nations contributions in foreign currency (EURO or NOK) to settle subcontractor invoices on behalf of the prime contractor. NAPMA receives prime contractor reimbursement in functional currency (USD at programme rate) to offset payments to subcontractors. Subcontractor payments result in budget consumption but are not recognized as incurred project costs for the accounting basis. The difference between the budget and accounting basis is cleared (project costs incurred) with the payment of the prime contractor in functional currency (USD).

Exchange rate differences are generated because the BES expenditures are calculated at programme rate while the Financial Statement expenditures are calculated at market rate (NATO Parity Rate).

NATO UNCLASSIFIED

The following table reconciles the differences between the actual amounts (budgetary outlays in the Financial Statements) and budget consumption in the BES.

2022 Budget Reconciliation (USD EQ)				
	Budget consumption in Financial Statements @Market Rate	Δ Payments to subcontractors and prime contractor	Exchange Difference Market Rate to Program Rate	Budget Consumption in Budget Execution Statement @Programme Rate
PROJECTS	138,609,776	(11,692,683)	440,614	127,357,707
ADMIN	19,845,376	0	531,254	20,376,631
TOTAL	158,455,152	(11,692,683)	971,869	147,734,338

Non-Budgetary Expenses

Depreciation expenses are not recognized as budgetary outlays. The purpose of the RMF is the mitigation of currency and exchange risks (see note 13). Interest paid and exchange losses are setoff in the RMF against received interest and exchange gains and are therefore also not considered as budgetary transactions.

Breakdown of non-budgetary transactions in 2022:

	2022
Interest paid	89,042
Exchange losses	0
Depreciation of PP&E	236,266
Total	327,330

WRITE OFF

Acquisition programmes have a full cost recovery basis for NAPMA. The NAEW&C Force is responsible for impairment (write off) after the operational capability has been transferred to the NAEW&C Force and put into service. NAPMA only reports write-offs of NAPMA fixed admin assets and inventory. This results from the implementation of the NAF.

In 2022, NAPMA wrote-off assets with a total historical value of 125,744 USD equivalent and in 2021 of 125,031 USD equivalent.

FINANCIAL INSTRUMENTS DISCLOSURE

NAPMA's financial requirements are set by its Member Nations. NAPMA does not borrow money to meet any financial obligation. Other than financial assets and liabilities which are generated by day-to-day operational activities, no long term financial instruments are held. The Risk Mitigation Fund's purpose is to mitigate currency and exchange risks.

Liquidity risk

NAPMA's financial requirements and capital expenditures are met by its Member Nations and are typically funded in advance. NAPMA is therefore not exposed to material liquidity risks.

Sovereign default risk

NAPMO Nations are member and partner Nations of NATO, hence NAPMA is not exposed to material sovereign default risks.

Credit risk

NAPMA's Investment strategy is limited to short-term and low risk investments with approved creditworthy counterparties and in accordance with approved limits. In this way, NAPMA has mitigated any material credit risks.

Foreign currency risk

NAPMA has limited exposure to foreign currency because some of its work is denominated in currencies other than the USD. Each NAPMO Nation will contribute and be credited for its share in the ratio of currencies required at the time of contribution. The risk related to foreign currency transactions is ultimately borne by NAPMO Nations.

2022 Budget Execution Statement (USD EQ)

	Appropriations	Transfers Between Projects	Uncommitted Appropriations Carried Forward from Previous FY	Commitments Carried Forward from Previous FY	Total Appropriations	Budget consumption	Uncommitted Appropriations Carried Forward into Following FY	Commitments Carried Forward into Following FY	Lapses
	A	B	C	D	E=A+B+C+D	F	G	H	I
FLEP	109,072,388	0	11,895,076	206,140,649	327,108,113	(117,420,630)	(24,855,090)	(184,832,393)	
NMT	0	0	3,568,533	154,459	3,722,992	(281,412)	(120,634)	(40,037)	(3,280,910)
LAIRCM	0	0		1,418,682	1,418,682			(1,418,682)	
FUTUREMODII	0	(725,708)	554,140	10,814,392	10,642,824	(2,198,439)		(8,444,385)	(0)
LP AII	0	0		282,974	282,974			(282,974)	
MODE5/S-EMD	0	(1,072,077)	2,142,826	2,239,880	3,310,629	(285,317)		(2,147,801)	(877,511)
CNSA TM-EMD	6,000,000	1,797,785	4,348,672	11,062,541	23,208,998	(7,171,910)	(7,598,585)	(8,438,503)	
ADMIN	22,172,983	0	(9,352)	457,463	22,621,094	(20,376,631)		(488,881)	(1,755,582)
TOTAL	137,245,371	0	22,499,895	232,571,040	392,316,306	(147,734,338)	(32,574,309)	(206,093,655)	(5,914,004)

Statement of Internal Control

Scope of Responsibility

1. As General Manager of NAPMA, I am responsible and accountable to the agency's Board of Directors (BOD) for designing, implementing and maintaining an efficient, effective and economical system of Internal Control that supports the achievement of NAPMA's objectives. To this end, I have established an effective, efficient and economical Internal Control System, in accordance with NAPMO Financial Regulations (NFRs) and NAPMO Financial Rules and Procedures (FRPs), based on the principles of COSO Enterprise Risk Management (ERM) and Internal Control System, as described below.
2. As the NAPMA Financial Controller, I am responsible to the General Manager and accountable to the NAPMO Policy and Finance Committee (PFC) for establishing a system of internal financial and budgetary control, delegate authority to officials who may disburse and receive funds on my behalf, maintaining comprehensive accounting records of all assets and liabilities and the correct use of funds made available to the agency, in accordance with the NFR and FRP.

Purpose and Limitation of the System of Internal Control

3. The Internal Control System defines a process, carried out by NAPMA's management and staff, designed to provide reasonable assurance that the Agency will achieve its objectives while using the agency's resources in an efficient and effective manner.
4. NAPMA's system of internal control specifically addresses the efficiency and effectiveness of operations, accuracy and reliability of financial reporting and compliance with its legal framework and applicable laws and regulations.
5. Common limitations for an internal control system are collusion, human error and management override.
6. The cost of the internal controls should not outweigh the risks they are mitigating.

Oversight over NAPMA's Internal Control

7. Oversight on NAPMA's internal control is exercised by the NAPMO BOD and the PFC, pursuant to Articles 28 and 30 of the NAPMO Charter and paragraph 39 of the NAPMO Corporate Governance Policy (NCGP). The PFC's oversight role, as the Agency's Audit Advisory Panel, are pursuant to Article 16 of the NFR and paragraph 43 of the NCGP.
8. The revised and updated NAPMO Corporate Governance Policy (NCGP) document was approved during the 105th meeting of the NAPMO Board of Directors, on 22 June 2021.

9. In accordance with the NCGP, NAPMA has established an internal control process to provide reasonable assurance regarding the achievement of objectives, in accordance with COSO Risk Management and Internal Control principles.
10. In accordance with the NCGP, the NAPMA GM has implemented a risk management and internal control system that is consistent with the nature, complexity and risk inherent in the execution of the Agency's mission.

Risk Management

11. NAPMA manages risks at two distinct levels: the enterprise and the functional levels. NAPMA has established an Enterprise Risk Manager and an enterprise risk management plan to manage risks that can jeopardize NAPMA's abilities to successfully execute NAPMA Programme of Work and its Technical Airworthiness responsibilities.
12. Division Heads and Office Chiefs are responsible for managing risks within their functional areas and to evaluate, implement and maintain the necessary internal controls.
13. Division Heads and Office Chiefs shall record and maintain Key Internal Controls in the Key Internal Control Catalog (KICC) and annually, after the end-of-year, self-assess the effectiveness of the recorded internal controls, and update as necessary to ensure the appropriateness of the Internal Controls for the following year.
14. Designated responsible managers within NAPMA shall annually confirm in a signed Statement of Assurance to the General Manager - to the best of their knowledge - compliance with applicable rules and regulations, knowledge or awareness of fraud, safeguarding of the assets within their respective areas of responsibility and evaluation of key controls for the functional areas of their responsibility through the self-assessment of the recorded Key Internal Controls in the KICC.

Internal Control System

15. Other key elements of the Agency's Internal Control System include, but are not limited to:
 - Commitment of NAPMA's senior leadership to integrity and ethical values;
 - Standards of Behaviour in line with the NATO Code of Conduct with an annual signed declaration of adherence by each staff member;
 - Annual signature by NAPMA key personnel of a statement on related party disclosure;
 - Signature on an annual basis by the General Manager and the Financial Controller of a NAPMA Management Representation Letter, that provides assurance regarding the integrity, reliability, accuracy, completeness and consistency of information contained in the Financial Statements;
 - The NAPMO FR and NAPMO FRP;
 - NAPMA Management Directives, Operating Standards, Business Process Procedures and Instructions;
 - The use of the NAPMA Integrated Management System (NIMS), which incorporates the standard SAP Enterprise Resource Planning system with a budgeting module especially designed to manage, monitor and safeguard the funds appropriated to NAPMA;

- A Treasury Policy Group that periodically reviews cash management and issues regarding the financial institutions which are responsible for cash deposits;
- Signature on an annual basis by designated responsible managers within the NAPMA organisation of a Statement of Assurance declaring their assessment of the execution of their internal controls;
- Annual confirmation of the responsibility and accountability for NAPMA's system of internal control by the General Manager and the Financial Controller signature of the Statement of Internal Control.

Internal Audit

16. NAPMA has established the position of an Internal Auditor within the PE that independently evaluates the adequacy and effectiveness of the organisation's governance, risk management, and internal controls to help the GM to protect assets, reputation and sustainability of the organisation.

Important Developments that Influenced NAPMA's Internal Control in 2022

17. The effects of the COVID-pandemic have been receding in the beginning of 2022 and NAPMA returned to normal operations by ending its work-from-home-policy on 1 March 2022. In 2022, the COVID-19 pandemic did not have a significant effect on NAPMA's control activities, such as segregation of duties, physical controls and internal auditing.
18. Due to the job rotation of the Internal Auditor, NAPMA did not have an internal audit function during the first half of 2022.

Review of the Effectiveness of the System of Internal Control

19. The Financial Controller is responsible for evaluating the system of financial control.
20. The main basis for the assessment of the effectiveness of the system of internal control by the Financial Controller is direct observation. Other sources include, but are not limited to, reporting by internal and external auditors, self-assessment of identified key risks and key internal controls, as recorded in the KICC and the signed statements of assurance by designated responsible managers within NAPMA.
21. It is the Financial Controller's assessment that strong controls exist over accounting, budgeting, treasury and the non-expendable items controlled by NAPMA. Some items controlled by NAPMA are held at contractors' locations. The Financial Controller found that strong controls exist for the accounting and safeguarding of NAPMA furnished property, but that the accounting for the completeness of Contractor Acquired Property to which NATO has title is challenging.

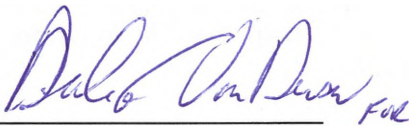
General Manager's Internal Control Priorities for the Year 2023

22. The General Manager's Internal Control Priorities for the Year 2023 are:
- Continue the implementation of a tailored NAPMA Internal Control System, inspired by the principles of the COSO framework;

- Implementing a structured framework of Directives, Standards, and Guidance's, clarifying the granular linking from strategy to processes, capturing those levels of responsibility, internal control artefacts and methods of reporting.

Confirmation of adherence to NAPMO Financial Regulations article 3.1

23. Based on the above, to the best of our knowledge and information available and within the scope of our respective responsibilities, we hereby confirm that the agency operated satisfactory systems of internal control for the year ended 31 December 2022 and up to the date of approval of the Financial Statements.



BrigGen Michael Gschossmann
General Manager NAPMA

4 Oct 2023



Kees Schulten
Financial Controller NAPMA

04 Oct 2023

NETMA



ANNUAL FINANCIAL STATEMENTS 2022

FOR THE PERIOD ENDED 31 DECEMBER 2022

PUBLICLY DISCLOSED - PDN(2024)0007 - MIS EN LECTURE PUBLIQUE



NETMA

NATO EF2000 AND TORNADO DEVELOPMENT, PRODUCTION AND LOGISTICS
MANAGEMENT AGENCY

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

For example:

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

132 = One Hundred and Thirty Two Thousand Euros

The photographs in the following publication have been provided:

- Courtesy of Eurofighter Jagdflugzeug GmbH
- Under the UK MOD Consent License (© Crown copyright 2023) and the OGL (UK Open Government License)
- Courtesy of the Italian Ministero della Difesa—Aeronautica Militare photo gallery

Contents

Section	Page
<u>Overview</u>	
Introduction to the 2022 Financial Statements	5
NETMA Statement of Internal Control	8
<u>2022 Financial Statements</u>	
- Statement of Financial Position	10
- Statement of Financial Performance	11
- Statement of Cash Flow	12
- Statement of Changes in Net Assets / Equity	13
- Statement of Budget Execution	14
<u>Notes to the NETMA Accounts</u>	
A. Significant Accounting Policies	16
B. Notes to Statement of Financial Position	20
C. Notes to Statement of Financial Performance	24
D. Notes to Statement of Cash Flow	27
E. Notes to Statement of Budget Execution	29
F. Contingent Liabilities / Provisions	30
G. Related Parties Disclosure	30
H. Write-Off and Donations	30
I. Morale and Welfare Activities (MWA)	30

Overview

2022 Financial Statements

Notes to the NETMA Accounts

PUBLICLY DISCLOSED - PDN(2024)0007 - MIS F - STRUCTURE PUBLIQUE

Introduction to the 2022 Financial Statements



NATO EF2000 and Tornado Development, Production and Logistics Management Agency (NETMA) is an agency formed jointly by NAMMO (NATO Multi-Role Combat Aircraft Development, Production and In-Service Support Management Organisation) and NEFMO (NATO European Fighter Aircraft Development, Production and Logistics Support Management Organisation) in 1996 to manage the procurement and the administration of the two programmes within the framework of NATO. The operations of NETMA concerning NAMMO and NEFMO are each controlled by a Joint Steering Committee of the three NAMMO nations and the four NEFMO nations involved in the programmes.

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

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

Key points from the Annual Financial Statements

NETMA Liabilities

The Agency’s office accommodation is the subject of an operating lease and is therefore not capitalised as PP&E. In accordance with IPSAS 13, it must be expensed on a straight-line basis over the lease term. IPSAS 13 mandates that operating leases are accounted for in this way irrespective of cash payments made. As NETMA were able to negotiate a rent free period at the start of the lease, these expenses are accrued as a long term liability which is 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 2022.



Vision

“To deliver In-service Support, Capability Enhancements and New Eurofighter Aircraft to Nations, through excellence in Programme Management and Continuous Improvement”

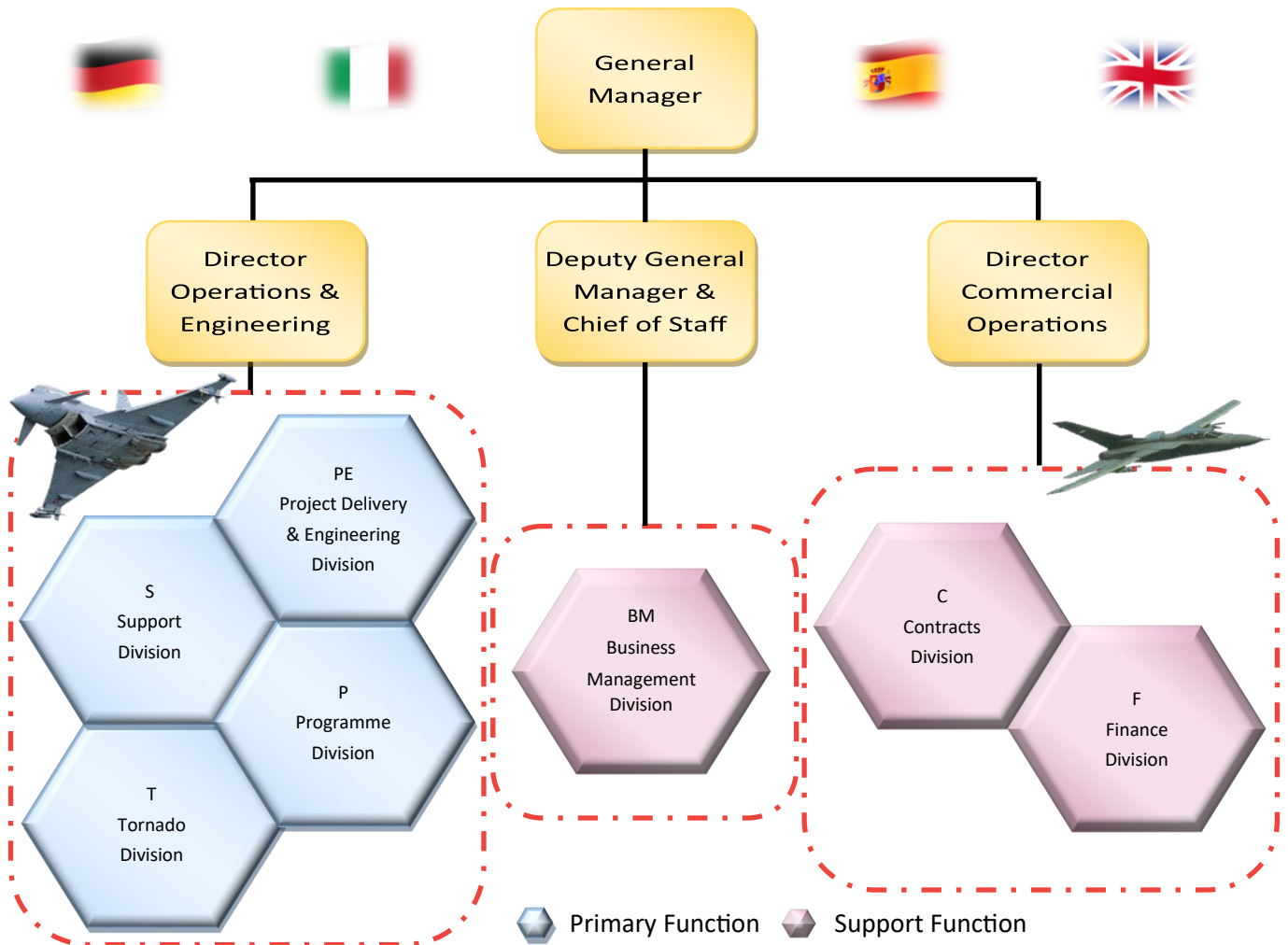


Mission

“Ensure Nations’ requirements are satisfied in the delivery of New Eurofighter Aircraft, and the Enhancement & Sustainment of the existing Eurofighter & Tornado Capabilities”

NETMA AT A GLANCE

In order to deliver our operational programmes for the Nations, NETMA operates using a functional organisational structure, grouping its staff into agency divisions based on their specific skills and knowledge, as shown below:



PUBLICLY DISCLOSED - PDN(2024)0007 - MIS EN LECTURE PUBLIQUE

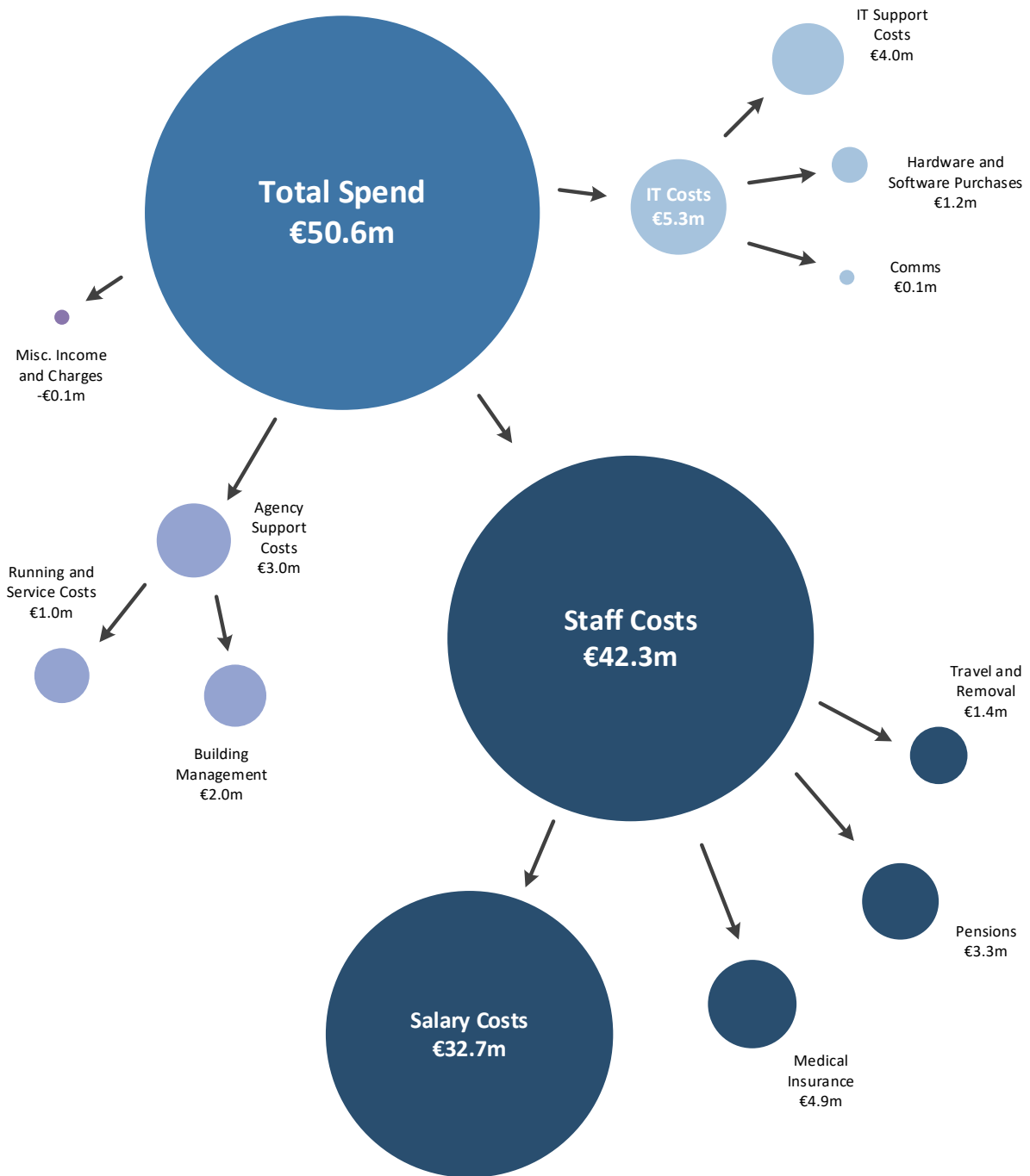
In support of the NEFMO and NAMMO BoDs and the Typhoon and Tornado Weapon Systems, the NETMA structure is organised to deliver the agency’s requirements. PE, S, and P Divisions manage, on behalf of the contributing nations, the logistics and operations activities with our industry partners for Typhoon (Eurofighter Jagdflugzeug GmbH and Eurojet Turbo GmbH). T Division acts in the same manner for Tornado (PANAVIA Aircraft GmbH and Turbo-Union GmbH).

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

NETMA Expenditure Breakdown 2022

The total expenditure to deliver the Administration Budget, as reported in the NETMA financial statements, was €50.6m in 2022. The majority (84%) of this expenditure is related to the staffing costs of the agency, with the remainder spent on the rent and running costs of the NETMA headquarters at Hallbergmoos and the provision and support of IT and communications equipment and infrastructure.

In total, the costs of running the agency equate to circa 0.9% of all spend on the NETMA programmes, representing good value to our customer nations.



PUBLICLY DISCLOSED - PDN(2024)0007 - MIS EN LECTURE PUBLIQUE

NETMA Statement of Internal Control



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

The Board has established appropriate structures, reporting lines and responsibilities to support the delivery of objectives. These responsibilities are set out in the NETMA Financial Rules and Regulations (NFRR) as governed by the NATO Financial regulations (NFR) and Financial Rules and Procedures (FRP).

The system of internal control is based on an ongoing evidence based process designed to identify the principle risks to the achievement of my Agency's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently and effectively on a continual year round basis.

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

- NETMA has an annual Management Plan which identifies NETMA's strategic priorities, objectives & the associated performance metrics. The Management Plan focuses on agency planning and improvements, including identification of key business risks which are mitigated and owners appointed to monitor and report on these on a regular basis as part of NETMA's wider Risk Management system.
- Management checks are undertaken and the internal audit function performs a range of audit activities, based on an annual audit plan agreed by the Audit Advisory Panel and approved by the Audit Committee. NETMA Audit Team also conduct audits on our Industry Partners, which involve the checking of property held in industry, and Self-Certified Milestones to ensure appropriate internal controls are in place and adhered to. The Internal Audit process complies with the International Standards for the Professional Practice of Internal Auditing in accordance with previous IBAN recommendations.
- The Agency operates 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. It is well established and part of our normal internal control system. The annual COSO review was undertaken as scheduled for the year 2022, with the Directors confirming we meet those requirements.

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

I am content that the processes in place within the organisation provide reasonable assurance of the effectiveness and efficiency of the organisation's operations, the reliability of its financial information and its integrity with regards to application and compliance to applicable rules and regulations. Whilst we always seek to improve our processes each year there were no material internal control weaknesses currently identified that need specific intervention from Senior Management in 2022. The continuing pandemic has not had any major adverse effect on these controls.

LT GEN MIGUEL ÁNGEL MARTÍN PÉREZ
General Manager

WENDY BRADBURY
Financial Controller

Overview

2022 Financial Statements

Notes to the NETMA Accounts

INFORMATION PUBLICQUE

PUBLICLY DISCLOSED

NATO UNCLASSIFIED
STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2022

(in thousands of Euros)

	Note	2022	2021
Assets			
Current assets			
Cash and cash equivalents	B1	5,843	8,879
Short term investments		0	0
Receivables	B2	516	10,111
Prepayments	B3	0	1
Inventories		0	0
		<u>6,359</u>	<u>18,990</u>
Non-current assets			
Property, plant & equipment	B4	114	49
Intangible assets	B4	14	26
		<u>128</u>	<u>75</u>
Total assets		<u>6,487</u>	<u>19,065</u>
Liabilities			
Current liabilities			
Payables	B5	2,073	2,173
Deferred revenue	B6	3,976	3,940
Advances	B7	0	12,410
		<u>6,049</u>	<u>18,523</u>
Non-current liabilities			
Provisions		0	0
Other Long Term Liabilities	B8	307	467
		<u>307</u>	<u>467</u>
Total liabilities		<u>6,356</u>	<u>18,990</u>
Surplus / (deficit)	B9	56	(69)
Reserves	B10	75	144
Total net assets		<u>131</u>	<u>75</u>

The financial statements on pages 10 to 14 and their associated notes were issued to the International Board of Auditors for NATO on 31st March 2023.



LT GEN MIGUEL ÁNGEL MARTÍN PÉREZ
General Manager



WENDY BRADBURY
Financial Controller

NATO UNCLASSIFIED
STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 31 DECEMBER 2022

(in thousands of Euros)	Note	2022	2021
Revenue			
Revenue	C1	50,501	46,138
Financial revenue		0	0
Other revenue		0	0
Total revenue		50,501	46,138
Expenses			
Personnel	C2	42,244	38,854
Contractual supplies and services - Buildings & Maintenance	C3	2,878	2,759
Contractual supplies and services - IT Services	C4	5,225	4,488
Depreciation and amortisation	C5	87	95
Impairment		0	0
Provisions		0	0
Other expenses		0	0
Finance costs	C6	12	11
Total expenses		50,446	46,207
Surplus / (deficit) for the period		56	(69)

PUBLICLY DISCLOSED - PDN(2024)0007 - MIS EN LECTURE PUBLIQUE

NATO UNCLASSIFIED
STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2022

(in thousands of Euros)	Note	2022	2021
Cash flow from operating activities			
Surplus / (deficit)	D1	56	(69)
Non-cash movements			
Depreciation / amortisation	D2	87	95
Impairment		0	0
Increase / (decrease) in payables	D3	(100)	(673)
Increase / (decrease) in advances	D4	(12,410)	452
Increase / (decrease) in other liabilities	D5	(160)	(160)
(Increase) / decrease in prepayments		1	(1)
Increase / (decrease) in deferred revenue	D6	36	1,143
(Increase) / decrease in receivables	D7	9,595	2,301
Net cash flow from operating activities		(2,896)	3,089
Cash flow from investing activities			
Purchase of property plant and equipment / intangible assets	D8	(140)	(27)
Proceeds from sale of property plant and equipment		0	0
Net cash flow from investing activities		(140)	(27)
Cash flow from financing activities			
		0	0
Net cash flow from financing activities		0	0
Net increase / (decrease) in cash and cash equivalents		(3,036)	3,063
Cash and cash equivalents at the beginning of the period		8,879	5,816
Cash and cash equivalents at the end of the period		5,843	8,879

PUBLICLY DISCLOSED - PDN(2024)0007 - MIS EN LECTURE PUBLIQUE

STATEMENT OF CHANGE IN NET ASSETS / EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

	PP&E Asset Reserve	Revaluation Reserves	Accumulated Surplus / (Deficit)	Total
(in thousands of Euros)				
Balance at the beginning of the period 2021	197	0	(53)	144
Changes in accounting policy	0	0	0	0
Restated balance	197	0	(53)	144
Transfer from accumulated surplus / (deficit)	(53)	0	53	0
Surplus / (deficit) for the period	0	0	(69)	(69)
Balance at the end of the period 2021	144	0	(69)	75
Changes in accounting policy	0	0	0	0
Restated balance	144	0	(69)	75
Transfer from accumulated surplus / (deficit)	(69)	0	69	0
Surplus / (deficit) for the period	0	0	56	56
Balance for the period ended 2022	75	0	56	131

STATEMENT OF BUDGET EXECUTION

FOR THE YEAR ENDED 31 DECEMBER 2022

NATO UNCLASSIFIED

	Note	Budget 2022			Budget 2021			Budget 2022			Adjusted Budget Uplift Lapse	
		Initial Budget	Transfers	Budget Uplift	Final Budget	Expenditure	Accrued Expenses 2021	Accrued Expenses 2022	Total Expenditure	Carry Forward		Lapsed
Budget 2022												
Chapter 1												
Personnel costs	E1	41,385	239	715	42,339	42,105	0	71	42,176	0	163	0
Chapter 2												
Agency support costs	E1	3,079	0	0	3,079	2,878	0	145	3,024	0	55	0
Chapter 3												
Process and IT	E1	5,280	-239	0	5,041	4,462	0	396	4,857	0	190	0
Chapter 4												
(Income) and Bank	E1	(102)	0	0	(102)	(108)	0	0	(108)	0	5	0
Total FY 2022		49,641	0	715	50,356	49,337	0	612	49,949	0	414	0
Chapter 1 c/o from 2021		108	0	0	108	78	30	0	108	0	530	530
Chapter 2 c/o from 2021		10	0	0	10	120	(110)	0	10	0	205	205
Chapter 3 c/o from 2021		493	0	0	493	773	(280)	0	493	0	341	63
Historical c/o		0	0	0	0	0	0	0	0	0	21	0
Total		50,252	0	715	50,967	50,309	(360)	612	50,560	0	1,513	798

Overview

2022 Financial Statements

Notes to the NETMA Accounts

PUBLICLY DISCLOSED - PDN(2024)0007 - MIS EN LECTURE PUBLIQUE

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 and it is considered that there are no impediments to continuing with this assumption for the foreseeable future.

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

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

Accounting estimates and judgements

In accordance with IPSAS and generally accepted accounting principles, the financial statements necessarily include amounts based on estimates and assumptions made by the management and based on historical experience as well as on the most reliable information available. In exercising the judgments to make the estimates, a degree of caution was included in light of the principle of 'prudence' required by IPSAS in order not to overstate assets or revenue or understate liabilities or expenses.

The estimates and underlying assumptions are reviewed on an ongoing basis. These estimates and assumptions affect the amounts of assets, liabilities, revenue and expenses reported. By their nature, these estimates are subject to measurement uncertainty. The effect of changes to such estimates and assumptions in future periods could be significant to the financial statements.

Changes in accounting policy and standards

The same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria set in IPSAS 3. For the 2022 Financial Statements the accounting policies have been applied consistently throughout the reporting period. There have been no changes to NETMA accounting policy for 2022.

Changes in pronouncements

No accounting standard has been adopted earlier than the application date as stated in the IPSAS standards. The following IPSAS are not relevant for the NETMA Financial Statements 2022: IPSAS 26 (Impairment of Cash-Generating Assets), IPSAS 27 (Agriculture). The following IPSAS have no material effect on the financial statements: IPSAS 5, IPSAS 10, IPSAS 11, IPSAS 16, IPSAS 18, IPSAS 32, IPSAS 34, IPSAS 35 and IPSAS 40.

Restatements and prior period adjustments

For the 2022 Financial Statements, NETMA has not revised any of the figures presented in the 2021 Financial Statements.

Changes in financial rules and regulations

During 2015 NATO adopted new financial rules and regulations and there were no additional changes during 2022. These financial statements have been produced in line with these financial rules and regulations. NETMA updated its Financial Rules and Regulations in 2022, to ensure that they were in line with NATO NFRs. Only minor adjustments were made in the NETMA FRRs, and none of these changes affected the process in the preparation of the NETMA Financial Statements.

Foreign currency

These financial statements are presented in Euros, which is the NETMA functional and reporting currency. Foreign currency transactions are translated into Euros at the NATO exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at year-end are translated into Euros using the NATO exchange rates applicable at 31 December 2022, with the resulting realised and unrealised gains and losses are recognised in the Statement of Financial Performance.

NETMA used the following NATO-promulgated exchange rates as at 31st Dec 2022:

EUR – GBP = 1 : 0.87118

EUR – USD = 1 : 1.0598

Consolidation

The NETMA financial statements are not consolidated.

IPSAS 6 has been adapted by NATO and in accordance with Council decision (PO(2018)0329) Financial Reporting of Morale and Welfare Activities (MWA), these activities have not been consolidated into the NETMA Annual Financial Statements.

Financial instruments disclosure / presentation

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

Financial risk factors

Credit risk

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

Liquidity risk

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

Currency risk

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

Interest rate risk

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

Assets

NETMA holds the following types of current assets:

Cash and cash equivalents

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

Receivables

Receivables are stated at net realisable value, after provision for doubtful and uncollectible debts. It can also include amounts due by other NATO entities. Contributions receivable are recognised when a call for contribution has been issued to the member nations. 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. In accordance with IPSAS 13 - Leases, it is expensed on a straight-line basis over the lease term. In 2015 this resulted in the creation of a long term liability due to a rent free period at the start of the contract on the new premises in Hallbergmoos. This liability is unwound against rental payments on a straight-line basis over the 10 year duration of the lease.

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

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

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

For new asset additions during the year, the gross value of an asset is capitalised as PP&E on the Statement of Financial Position. The revenue for the gross asset value is accounted for in the year of purchase on the Statement of Financial Performance with a surplus on the Statement of Financial Performance being generated in the first year of purchase and transferred to the PP&E asset reserve account to increase accumulated asset reserves. A full months depreciation is only charged if the item is purchased in the first half of the month (i.e. before 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. NETMA has no assets purchased prior to 2013 that would still have an economic life still in active use within the agency.

During 2022 there were no items approved for disposal through the NETMA Internal Audit section in accordance with NETMA delegated authorities.

Intangible assets

The only categories of Intangible Assets relevant to NETMA are computer software and software development costs, which entails costs for licences over a period longer than 1 year and consultancy costs incurred for IT system change requests which meet the recognition criteria outlined below. NETMA intangible assets are amortised on a straight-line basis over a three year period. It is assumed an item is fully amortised with nil residual value at the end of its useful life.

In accordance with IPSAS 31, intangible assets are recognised as an identifiable non-monetary asset without physical substance, where it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. In line with its treatment of PP&E IT Equipment, the capitalisation threshold is €15,000 and all intangible assets are initially measured at cost less accumulated amortisation and accumulated impairment losses.

The estimated useful lives, residual values and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. NETMA has no assets purchased prior to 2013 that would still have an economic life still in active use within the agency.

Leases

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

Liabilities**Payables**

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

Unearned revenue

Unearned revenue represents contributions from member nations and/or third parties that have been called for in current or prior years' budgets and that have not yet been recognised as revenue. Unearned revenue also includes miscellaneous income and double entry adjustments for lapsed credits which are now shown as a payable to nations.

Advances

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

Revenue and expenses recognition**Revenue**

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

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

National contributions to the administrative budget are recognised as revenue on the statement of financial performance when such contributions are used for their intended purpose as envisioned within the approved budget.

Expenses

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

Cash flow statement

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

B. Notes to Statement of Financial Position

(in thousands of Euros)

Assets

1. Cash and cash equivalents

	2022	2021
Cash accounts	5,839	8,878
Clearing cash accounts	0	0
Petty cash and advances	3	1
Current bank accounts	0	0
Cash equivalents	0	0
Bank accounts interest	0	0
Total	5,843	8,879

NETMA operate 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 reason for the variance between 2022 and 2021 on the main NETMA account balance is that one participating nation paid their first Call for Funds amount for 2022 in 2021.

2. Receivables

	2022	2021
Receivables from non-consolidated entities	497	447
Contributions receivable from nations following year	0	9,648
Receivables from staff members	18	15
Other receivables	1	1
Total	516	10,111

Receivables from non-consolidated entities

This value represents receivables recoverable from MoD Germany with regards to VAT charged in 2022.

Contributions receivable from nations following year

This represents receivables from nations that have been called for the following years budget within the current year but not yet received as at 31st December 2022.

Receivables from staff members

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

Other Receivables

Other receivables include accrued credits from third parties relating to the period but still outstanding at the period end.

3. Prepayments

	2022	2021
Suppliers	0	0
Staff	0	1
Total	0	1

No prepayments were made to suppliers in 2022 .

4. Non-current assets

	2022	2021
PP&E	114	49
Intangible Assets	14	26
Total	128	75

As highlighted on page 18 under the Significant Accounting Policies: Property, Plant and Equipment section, the office accommodation in Hallbergmoos is treated as an operating lease arrangement and therefore is not capitalised. The Agency controls two types of PP&E and is responsible for replacement and maintenance of these assets: Office Furniture & Equipment, and IT & Communications Equipment. Additionally, NETMA controls intangible assets relating to computer software licences and capitalised consultancy support to an approved system change. The capitalisation threshold for all PP&E and intangible assets is €15,000. Upon moving to Hallbergmoos, the Agency took a view that integrated purchases (Cabling, Air Con Units, Security enhancements, etc.) were not to be capitalised due to no clear future ownership lines being in place and the ability to use such items if the Agency were to move premises in the future.

As at 31 December 2022 only items within IT and Communications met the criteria for capitalisation. This consists of Commercial Off The Shelf (COTS) computer systems (hardware and software), communications equipment (e.g. telephones, faxes and accessories) and capitalised IT consultancy costs for changes to NETMA IT applications. IT and Communications assets are measured at cost less depreciation or amortisation. Both depreciation and amortisation are calculated on a straight-line basis over the useful life of IT and Communications Equipment. During 2022 four new items of tangible IT capability, valued at €140K, were purchased that met the capitalisation criteria and has been added to the asset register.

In accordance with IPSAS 17, below is a reconciliation of the carrying amounts for NETMA non-current assets:

	2022	2021
Opening Balance	75	144
Additions	140	27
Disposals	0	0
Depreciation	(87)	(95)
Closing Balance	128	75
Gross Carrying Amount	1,793	1,653
Accumulated Depreciation	(1,665)	(1,577)
Net Carrying Amount	128	75

Liabilities**5. Payables**

	2022	2021
Payables to suppliers	0	0
Payables to non-consolidated entities	0	0
Payables to staff members	0	0
Lapsed Credits to be offset from future CFFs	798	1,107
Other payables	1,275	1,066
Total	2,073	2,173

Payables to suppliers

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

Lapsed Credits to be offset from future CFFs

These values align to the value reported in the Statement of Budget Execution, representing budget called for but not spent that will be offset from the following years call for funds. The lapsed credits have been adjusted to fund the 2022 special pay adjustment budget uplift of €715k as requested by nations

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 2022, where an estimate is made by reviewing invoices paid/received in 2023 up to mid-February. The estimated accrual for goods and services as at 31 December 2022 is €677K. The other element is the estimated accrual relating to unpaid leave, this is based on the untaken leave carried forward as at 31 December 2022 multiplied by the average salary costs per day. This results in an accrual of €598K which is an decrease of €78K compared to 2021, and is still above the normal average accrual of circa €400k due to more leave being carried-over by staff as a consequence of the COVID-19 situation.

6. Unearned Revenue

	2022	2021
Unearned Revenue	3,976	3,940
Total	3,976	3,940

Deferred Revenue represents accumulated deferred revenue which is the excess of national contributions and miscellaneous revenue over expenditure on the NETMA program to date.

The movement on unearned revenue can be reconciled as follows:

	2022	2021
Unearned revenue b/f	3,940	2,796
National Contributions	49,641	46,157
Miscellaneous Revenue (excl Bank Interest)	583	192
Movement in Receivable from nations for following year	42	37
Less:		
Operational Expenditure	50,608	46,172
Movement in Lapsed Credits	(309)	(485)
Movement in IT Duty Travel/SP Tel Line/Misc Advances	39	(410)
Miscellaneous Financial Charges / (Income)	(108)	(36)
Foreign Exchange (Gains) / Losses	2	1
Unearned revenue c/f	3,976	3,940

7. Advances

	2022	2021
Advance contributions	0	12,410
Total	0	12,410

Advance contributions

Advance contributions reflects the first Call for Funds for all Nations for 2023 that were raised in 2022. There were no advances raised as at 31 Dec 2022.

8. Other long term liabilities

	2022	2021
Operating lease liability	307	467
Total	307	467

In May 2015 the agency moved into new office accommodation in Hallbergmoos. Due to delays in this move, rent was not charged until September 2016, despite the lease being signed from 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.

Net Assets**9. Surplus / (Deficits)**

	2022	2021
PP&E additions / revaluations	140	27
PP&E depreciation and amortisation	(87)	(95)
Total	53	(69)

The accumulated surplus balance represents in year movements relating to PP&E and operational activities. The surplus for 2022 results from in year depreciation and amortisation charges totalling €87K against asset purchases totalling €140K. This surplus / (deficit) is transferred to reserves at the close of each financial year.

10. Reserves

	2022	2021
Non-current asset reserve	75	144
Total	75	144

The non-current asset reserve represents the nation's equity in PP&E and intangible assets. IT & Communications equipment assets are capitalised and accounted for at their net carrying amount (i.e. gross historical purchase costs less accumulated depreciation / amortisation). At the end of 2021, the asset reserve decreased by the accumulated deficit of €69K, resulting in an opening Net Assets balance as at 1st January 2022 of €75K.

C. Notes to Statement of Financial Performance

(in thousands of Euros, unless otherwise stated)

1. Revenue

	2022	2021
National contributions	49,641	46,157
National contributions to be called for	0	0
Other reimbursements	860	(19)
Total	50,501	46,138

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

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

Expenses

2. Personnel

	2022	2021
Pay and overtime	27,357	25,227
Allowance	5,329	5,086
Pension	3,281	3,039
Medical and insurance	4,852	4,469
Travel and other costs	1,425	1,032
Total	42,244	38,854

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-salary 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 249 established posts. A breakdown of wages, salaries and employee benefits is provided below. Costs remained largely consistent in 2022 although there was a special 7% pay adjustment awarded, backdated to March 2022, applied to all staff with a corresponding increase in DCPS payments.

	2022	2021
Employee benefits expense	36,939	34,128
Post employee benefits		
For defined contribution pensions scheme	3,281	3,039
Untaken leave accrued	599	655
Total employee benefits expense	40,818	37,822

Untaken leave

Untaken leave at year-end may be carried over to the following year. Under normal circumstances, NETMA takes measures to ensure all carried over leave is taken by 30th April of the following year in accordance with the CPRs. However, due to the current situation of travel and movement restrictions as a result of the COVID-19 outbreak, this has resulted in a larger than normal untaken leave accrual. However, this is a reduction from the figure presented in 2021.

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 four directors, one for each participating Nation. They are remunerated in line with NATO pay scales as are all other NETMA staff.

	2022	2021
Key management remuneration	993	974

The figure for 2022 is higher than 2021 owing to the special pay adjustment.

Representation allowance

(stated in Euros)

Representation Allowance has been utilised by the GM in line with the post entitlement. As per DC(2021)0143 dated 7 January 2021 expenditure on the representation allowance by the qualifying officials totalled €12,690 and is broken out below.

	2022	2021
Rent supplement	3,173	3,173
Hospitality expenses	9,517	8,956
Total	12,690	12,129

Contractual supplies and services**3. Buildings and maintenance**

	2022	2021
Building costs	1,895	1,842
Security costs	665	672
Other costs	318	245
Total	2,878	2,759

Building costs include rent of the Agency's accommodation, 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.

For the current accommodation at Hallbergmoos, 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 2022 (for the new building both building and garage costs are combined). For this reconciliation an assumption has been made that the lease will be extended for the later than five years calculation.

	2022	2021
Buildings: (Includes Garage Charges)		
Not later than one year	264	252
Later than one year and not later than five years	3,892	3,721
Later than five years	4,784	4,573
Utilities:		
Not later than one year	290	366
Later than one year and not later than five years	1,159	1,464
Later than five years	1,424	1,799

4. IT services

	2022	2021
Communication	161	152
Information technology support	5,064	4,336
Total	5,225	4,488

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

5. Depreciation and amortisation

	2022	2021
Depreciation	76	63
Amortisation	12	32
Total	87	95

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

6. Finance costs

	2022	2021
Foreign exchange gain / (loss)	(0)	1
Other charges	12	10
Total	12	11

Translation gains and losses occur when assets held in foreign currencies are converted to a Euro value at the closing NATO-promulgated exchange rates for the financial period. While some Euro : GBP exchange rate fluctuations were experienced in 2021, due to the low value of GBP transactions made only immaterial values were incurred in 2022.

Other charges include bank charges that are now being incurred on to NETMA bank accounts for transactions mainly attributed to cross border payroll allotments (€12k).

D. Notes to Statement of Cash Flow

(in thousands of Euros)

*Cash flow from operating activities**1. Surplus / (deficit)*

	2022	2021
Surplus / (deficit)	56	(69)
Total	56	(69)

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

*Non-cash movements**2. Depreciation / amortisation*

	2022	2021
Depreciation and amortisation	87	95
Total	87	95

This represents the annual depreciation/amortisation on NETMA Assets which is calculated on a straight-line basis.

3. Increase / (decrease) in payables

	2022	2021
Payables to suppliers	0	(0)
Other payable	(100)	(673)
Total	(100)	(673)

The movement on payables in 2022 represents an decrease in the outstanding liabilities for 2022. The decrease in other payables is attributable to a lower lapsed credit value to be returned to nations in 2023 compared to the 2022 Statement of Budget Execution.

4. Increase / (decrease) in advances

	2022	2021
Advance contributions	(12,410)	452
Total	(12,410)	452

The movement in advance contributions in 2022 reflects the fact that there were no advance contributions raised in 2022 for the 2023 budget.

5. Increase / (decrease) in other liabilities

	2022	2021
Operating lease liability	(160)	(160)
Total	(160)	(160)

This reflects the movement created by the operating lease liability explained at Note B8.

6. Increase / (decrease) in unearned revenue

	2022	2021
Unearned revenue	36	1,143
Total	36	1,143

Unearned revenue represents the excess of national contributions and miscellaneous revenue over expenditure on the NETMA program to date.

7. (Increase) / decrease in receivables

	2022	2021
National contributions	9,648	2,310
VAT	(50)	(17)
Other receivables	(3)	8
Total	9,595	2,301

The decrease in national contributions receivable is explained in Note B2, it relates to the value of national contributions called for the administration budget for 2022. The increase in VAT receivable relates to monies owed to the Agency from the German VAT office regarding VAT reclaimable expenditure in 2022. Other receivables relate to monies owed from NETMA Staff members.

*Cash flow from investing activities**8. Purchase of property plant and equipment / intangible assets*

	2022	2021
Asset additions	(140)	(27)
Total	(140)	(27)

Asset additions represents the expenditure relating to hardware, software and consultancy costs which met the required criteria for capitalisation in line with IPSAS 17 & 31. The 2022 addition is attributed to the purchase of four tangible assets.

E. Notes to Statement of Budget Execution

1. Budget analysis - 2022

	2022 Budget	2022 Expenditure
Chapter 1	42,339	42,284
Total	42,339	42,284

There was an underspend of €0.055M against the budget for 2022 mainly due to lower than budgeted spend on duty travel, removal expenses and education allowance expenditure. A budget uplift of €715k, together with a €239k transfer from chapter 3, was granted to fund the special cost of living increase that was triggered in Germany in May 2022. This budget uplift has been funded from lapsed credits and the adjusted lapse reflects this measure. The return of the remaining lapsed credits will be agreed with nations in 2023.

	2022 Budget	2022 Expenditure
Chapter 2	3,079	3,033
Total	3,054	3,033

In 2022 for Chapter 2 NETMA spent 1.5% less than budget due to lower than expected electricity costs. The return of the lapsed credits will be agreed with nations in 2023.

	2022 Budget	2022 Expenditure
Chapter 3	5,041	5,351
Total	5,041	5,351

In 2022 for Chapter 3 NETMA spent 6% more than the approved budget. This was caused by lower than budgeted costs for IT Consultancy, as well as lower than budgeted IT procurements. There was a transfer of €0.239M from this chapter to chapter 1 to fund the special pay adjustment. Where applicable the return of the lapsed credits will be agreed with nations in 2023.

	2022 Budget	2022 Expenditure
Chapter 4	(102)	(108)
Total	(102)	(108)

In 2022 for Chapter 4 NETMA spent 5% less than the approved budget due to lower than expected bank charges. The return of the lapsed credits will be agreed with nations in 2023.

F. Contingent Liabilities / Provisions

NETMA has no contingent liabilities or provisions.

G. Related Parties Disclosure

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

H. Write-Off and Donations

In accordance with the NATO Financial Regulations, where a global statement of write-offs and donations shall be reported in the Annual Financial Statements NETMA can report that no items were submitted and approved for write-off/strike-off through the NETMA Internal Audit section in 2022 in accordance with NETMA delegated authorities. These write-offs/strike-offs are effected when items are deemed surplus to requirements, obsolete, damaged beyond economic repair or lost.

I. Morale and Welfare Activities (MWA)

In line with the requirements of C-M(2019)0099, the following disclosures regarding the MWA are made:

Cash and Cash Equivalents: €11,460.27

Liabilities: €0.00

Full-time equivalent personnel directly supporting MWA as of year-end: Zero

The statement of Internal Control within these Annual Financial Statements includes MWA activities.



PUBLICLY DISCLOSED - PDN(2024)0007 - MIS EN LECTURE PUBLIQUE

