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2 April 2024

DOCUMENT
PO(2024)0103-AS1

**IBAN AUDIT ON THE 2022 FINANCIAL STATEMENTS OF NATO HELICOPTER
MANAGEMENT ORGANISATION (NAHEMO)**

ACTION SHEET

On 2 April 2024, under the silence procedure, the Council noted the RPPB report and the IBAN Audit Report attached to PO(2024)0103, approved the conclusions in the RPPB report, and approved the public disclosure of the 2022 Financial Statements of NAHEMO, the associated IBAN Audit Report and the RPPB report.

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to PO(2024)0103.

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26 March 2024

DOCUMENT
PO(2024)0103
Silence Procedure ends:
2 Apr 2024 - 17:30

To: Permanent Representatives (Council)

From: Secretary General

**IBAN AUDIT ON THE 2022 FINANCIAL STATEMENTS OF NATO HELICOPTER
MANAGEMENT ORGANISATION (NAHEMO)**

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 Helicopter Management Organisation (NAHEMO). The IBAN issued an adverse opinion on the Financial Statements and a qualified opinion on compliance for the year ending 31 December 2022.

2. I do not believe this issue requires further discussion in Council. Therefore, **unless I hear to the contrary by 17:30 on Tuesday, 2 April 2024** I shall assume that Council has noted the RPPB report and the IBAN Audit Report, approved the conclusions in the RPPB report, and approved the public disclosure of the 2022 Financial Statements of NAHEMO, the associated IBAN Audit Report and the RPPB report.

(Signed) Jens Stoltenberg

Original: English

1 Annex
2 Enclosures



IBAN AUDIT REPORT ON THE 2022 FINANCIAL STATEMENTS OF NATO HELICOPTER MANAGEMENT ORGANISATION (NAHEMO)

Report by the Resource Policy and Planning Board

References:

A.	IBA-AR(2023)0024	IBAN Audit Report on the 2022 Financial Statements of the NATO Helicopter Management Organisation (NAHEMO) for the year ended on 31 December 2022
B.	C-M(2015)0025	NATO Financial Regulations (NFR)
C.	C-M(2016)0023	NATO Accounting Framework (NAF)
D.	PO(2017)0355	NAHEMO Financial Regulations
E.	NH/ADM/SLF/04345/2023	Action plan to IBAN audit on NAHEMO Financial Statements 2022
F.	PO(2015)0052	Wales Summit tasker on transparency and accountability

INTRODUCTION

1. This report by the Resource Policy and Planning Board (RPPB) addresses the IBAN Audit Report on the 2022 Financial Statements of the NATO Helicopter Management Organisation (NAHEMO). The IBAN issued an adverse opinion on the Financial Statements and a qualified opinion on compliance for the year ended 31 December 2022 (reference A).

2. The RPPB acknowledges that the observations highlighted in the IBAN Audit Report have been discussed and dealt with by the participating Nations¹, represented on the NAHEMO Steering Committee (SC), which is the relevant governing body. The RPPB is mandated under Article 15 of the NATO Financial Regulations (NFR) (reference B), to examine the IBAN Audit Report and to provide comments and recommendations to Council as required.

AIM

3. This report highlights key issues in the IBAN Audit Report 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.

OBSERVATIONS AND RPPB VIEW

4. During the audit, IBAN made two observations and recommendations for NAHEMO; one observation that impacts the audit opinion on the Financial Statements and on compliance and the other observation that does not impact the audit opinion on the Financial Statements and on compliance. These two observations relate to the pervasive and material

¹ France, Germany, Italy, Netherlands and Belgium.

misstatements in the Financial Statements and the Statements of Budget Execution, and to overdue submission of NAHEMO 2022 Financial Statements.

4.1. Observation 1 (basis for an adverse opinion on the Financial Statements and qualified opinion on compliance): The IBAN issued an adverse opinion on NAHEMO 2022 Financial Statements due to pervasive and material misstatements in the Administrative (AB) and Operational (OB) budgets, resulting from the lack of internal control procedures underlying the preparation of the Financial Statements. The NAHEMO Statement of Financial Position, the Statement of Financial Performance, the Cash Flow statement, the AB and OB Statements of Budget Execution, and several disclosure notes of the Financial Statements are affected. The IBAN also issued a qualified opinion on compliance as the “Expenses” disclosed in the Statement of Budget Execution for the AB were not presented in line with NAHEMO Financial Regulations (reference D) which stipulates that they should be recorded on accrual basis. Instead, they were presented on a modified cash basis, which resulted in an overstatement of “Expenses” and “Carry Forwards”.

4.1.1. The RPPB supports IBAN’s recommendation that NAHEMO strengthen internal controls over the preparation of Financial Statements and implement appropriate standard operating procedures in order to ensure that the Financial Statements are free of material errors and comply with the NATO Accounting Framework (NAF) at reference C and NAHEMO Financial Regulations. In addition, the RPPB supports IBAN’s recommendation that NAHEMO continue its efforts to improve the level of competence, knowledge, skills, and abilities of personnel responsible for the preparation of Financial Statements. Furthermore, the RPPB supports IBAN’s recommendation that NAHEMO improve the configuration of the accounting system, assess the risks associated with its financial reporting activities, and update the risk register accordingly.

4.2. Observation 2: With regard to the NAHEMO submission of 2022 Financial Statements after the deadline laid down in the NFR and NAHEMO Financial Regulations, the RPPB supports IBAN’s recommendation that NAHEMO strengthen its financial reporting processes in order to submit its Financial Statements within the set deadline.

4.3. Emphasis of Matter² on the Financial Statements: The IBAN raised an Emphasis of Matter paragraph regarding the note “OB milestones achieved 2022” disclosing the amount of OB contractual milestones achieved but not invoiced whose accuracy NAHEMO was not able to fully justify.

4.4. In addition, the IBAN followed up on the status of observations and recommendations from the previous years’ audits and found that two were closed (superseded by current year observation 1), two remain open and one remains in-progress. The observations are detailed at reference A.

² 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 IBAN’s judgement, is of such importance that it is fundamental to users’ understanding of the Financial Statements.

IBAN PREVIOUS YEARS' OBSERVATIONS AND RECOMMENDATIONS IN-PROGRESS OR OPEN FOR MORE THAN THREE YEARS

5. The NAHEMO's action plan to IBAN audit on NAHEMO 2022 Financial Statements (reference E) was presented to the RPPB at the meeting held on 22 February 2024. It includes the remedial actions to implement IBAN's 2016 financial year observation and recommendation on the lack of reliable and coordinated process for capitalising assets and updating asset registers, with July 2024 as implementation deadline.

5.1. When submitting their response on the IBAN audit of 2023 Financial Statements, NAHEMO may still have 2016 financial year observation and recommendation in-progress. If this is the case, the RPPB recommends that Council invite NAHEMO to include this observation and recommendation in the implementation report to Council with timelines on its implementation.

DISCUSSION

6. After IBAN's presentation of the reasons leading to the adverse opinion on the Financial Statements and qualified opinion on compliance, the acting Chair of Steering Committee, the NAHEMA General Manager and the Financial Controller presented NAHEMO's action plan to address IBAN's observations and recommendations with the focus on remedial actions to resolve issues that led to the adverse and qualified opinions.

6.1. The RPPB expressed its disappointment with the audit results and welcomed NAHEMO's acceptance of the IBAN audit report outcomes and its remedial action plan. Sharing RPPB's concern, NAHEMO clarified circumstances leading to IBAN's adverse and qualified opinions and highlighted that one of the main reasons for such audit opinion was rotation of the Accounting Officer function in the period of NAHEMO 2022 Financial Statements delivery and appointment of the new Accounting Officer without sufficient level of competence. The RPPB underlined the need for NAHEMO to have adequate personnel, with the necessary expertise and competences, including the Accounting Officer who would be able to rectify current errors and correctly draft NAHEMO Financial Statements.

6.2. In order to closely monitor follow-up actions taken by NAHEMO, the RPPB called for additional oversight and measures that could be introduced to ensure timely implementation of IBAN's recommendations. The IBAN explained that, due to annuality of follow-up of previous years' observations, the status of NAHEMO's actions would be disclosed in the IBAN audit report on NAHEMO 2023 Financial Statements³. Furthermore, the RPPB suggested that the Handling arrangements for 2023 Financial Statements Audit Reports might serve as the basis to ensure RPPB's additional monitoring of the implementation of the action plan.

³ As per the NFR Article 15.2: "The IBAN shall present its final reports, including factual and formal comments, together with the audited Financial Statement, to the Council not later than 31 August, following the end of the Financial Year".

6.3. The RPPB regrets to note the insufficient progress in relation to the 2016 financial year observation and recommendation on the lack of reliable and coordinated process for capitalising assets and updating asset registers and expects NAHEMO to take additional efforts to implement this in-progress observation and recommendation by the deadline set out in the action plan.

6.4. The RPPB notes that NAHEMO agreed to provide progress report every two months to the NAHEMO Steering Committee on the implementation of the remedial action plan addressing both 2016 and 2022 financial year observations and recommendations and to share it with the RPPB for information.

6.5. The RPPB emphasised the need for a strengthened oversight role of NAHEMO SC, especially in relation to assessing IBAN audit reports and implementing their observations and recommendations.

CONCLUSIONS

7. The IBAN issued an adverse opinion on the Financial Statements and a qualified opinion on compliance. Two observations and recommendations were raised for NAHEMO; one of them impacting the audit opinion on Financial Statements and compliance. As of the date of IBAN Audit Report, two previous years' observations for the NAHEMO were open, one was in-progress and two were closed (superseded by current year observation 1).

8. The RPPB supports IBAN's recommendation that NAHEMO strengthen internal controls over the preparation of Financial Statements to ensure they are free of material errors and comply with the NAF and NAHEMO Financial Regulations. In addition, the RPPB supports IBAN's recommendation that NAHEMO improve the level of competence, knowledge, skills, and abilities of personnel responsible for the preparation of Financial Statements. Furthermore, the RPPB supports IBAN's recommendation that NAHEMO improve the configuration of the accounting system, assess the financial reporting risks and update the risk register.

9. The RPPB supports NAHEMO's action plan in relation to observations and recommendations stemming from the IBAN audit report on NAHEMO 2022 Financial Statements and welcomes NAHEMO's commitment to continue addressing IBAN recommendations within the timelines set out in the action plan. The RPPB calls for the additional oversight to ensure timely implementation of NAHEMO action plan and notes that implementation of IBAN's observations and recommendations will be verified by the IBAN during its audit of NAHEMO Financial Statements for the financial year 2023.

10. In relation to the previous years' observations and recommendations, the RPPB considers NAHEMO should make more progress in applying remedial actions in order to implement the 2016 financial year recommendation.

11. The RPPB recommends that Council invite NAHEMO to provide the implementation report on the actions taken in order to implement the recommendations set out in the

NAHEMO action plan when submitting their response on the IBAN audit of 2023 Financial Statements.

RECOMMENDATIONS

12. The Resource Policy and Planning Board recommends that Council:
 - 12.1. note this report and the IBAN Audit Report at reference A;
 - 12.2. approve the conclusions at paragraphs 7 to 11;
 - 12.3. invite NAHEMO to provide the implementation report on the actions taken in order to implement the recommendations set out in the NAHEMO action plan when submitting their response on the IBAN audit of 2023 Financial Statements;
 - 12.4. approve the public disclosure of the NAHEMO 2022 Financial Statements, the associated IBAN Audit Report and this report, in line with agreed policy at reference F.



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

Brussels - Belgium



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IBA-A(2023)0121
22 November 2023

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

Cc: NATO Permanent Representatives
Chair, NATO Helicopter Management Organization (NAHEMO) Steering
Committee
General Manager, NATO Helicopter Management Agency (NAHEMA)
Division Leader, Administrative Division, NATO Helicopter Management
Organization (NAHEMA)
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 Helicopter Management Organization's (NAHEMO) Financial Statements for the year ended 31 December 2022 – IBA-AR(2023)0024***

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

IBAN's report sets out an adverse opinion on the Financial Statements of the NATO Helicopter Management Organization's (NAHEMO) and a qualified opinion on compliance for financial year 2022.

Yours sincerely,

Radek Visinger
Chair

Attachments: As stated above.

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**Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Financial Statements of the
NATO Helicopter Management Organisation (NAHEMO)
for the year ended 31 December 2022**

The International Board of Auditors for NATO (IBAN) audited the NATO Helicopter Management Organization (NAHEMO) Financial Statements for the year ended 31 December 2022. NAHEMO is a NATO subsidiary body established with a view to meet the NH90 Helicopters requirements of France, Germany, Italy, The Netherlands and Belgium. NAHEMO consists of a Steering Committee (SC) composed of representatives of the Participants with the responsibility of the overall management of the programme and of the Agency called NAHEMA. The Agency is located in Aix-en-Provence (France).

For 2022 NAHEMO reported in the Financial Statements operational and administrative budget expenditures amounting respectively to EUR 1,236.5 million and EUR 15.4 million.

IBAN issued an adverse opinion on the NAHEMO 2022 Financial Statement submitted to IBAN on 14 April 2023. IBAN found pervasive and material misstatements in NAHEMO's financial statements for the year ended 31 December 2022, relating to both the Administrative Budget (AB) and Operational Budget (OB). These errors are due to a lack of internal control procedures underlying the preparation of the financial statements. They affect in a pervasive manner, the Statement of Financial Position, the Statement of Financial Performance, the Statement of Cash Flow, the AB and OB Statements of Budget Execution, and several disclosure notes of the Financial Statements.

In our opinion, because of the significance and pervasiveness of the matter described above and in the Basis for Adverse Opinion section of our report, the Financial Statements do not give a true and fair view of the financial position of NAHEMO 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).

IBAN also issued a qualified opinion on compliance for the year ended 31 December 2022. IBAN draws attention to the fact that 'Expenses' disclosed in the Statement of Budget Execution for the Administrative Budget were presented on a modified cash basis (including paid and payable expenditures), whereas article 25.2 of the NAHEMO Financial Regulations stipulates that they should be recorded on an accrual basis. This results in an understatement of 'Expenses' as they did not include accruals for EUR 1.3 million and, conversely, an overstatement of 'Carry forwards'. In addition, the designation of unused appropriation from previous year disclosed in the Statement of Budget Execution for the Administrative Budget is not compliant with NAHEMO Financial Regulations' definitions. The Statement of Budget Execution for

the Administrative Budget refers to an uncommitted Special Carry Forward (SCFW) from 2020 of EUR 0.898 million. This was incorrect as the 2020 SCFW was fully committed in 2021 and should therefore have been reclassified in 'Carry forwards 2021'.

Furthermore, IBAN raised an Emphasis of Matter paragraph on the Financial Statements regarding the note 'OB milestones achieved 2022' disclosed in Annex 1 to the Financial Statements.

IBAN made two observations and recommendations.

One observation impacts the audit opinion on the Financial Statements and on compliance:

1. Pervasive, material misstatements in the Financial Statements and the Statements of Budget Execution.

The other observation does not impact the audit opinion on the Financial Statements and on compliance:

2. NAHEMO did not submit its Financial Statements within the deadline stipulated by the NAHEMO Financial Regulations.

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

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

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IBA-AR(2023)0024

22 November 2023

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE

NATO HELICOPTER MANAGEMENT ORGANISATION

(NAHEMO)

FOR THE YEAR ENDED 31 DECEMBER 2022

PUBLICLY DISCLOSED - PDN(2024)0024 - MIS EN LECTURE PUBLIQUE

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INDEPENDENT EXTERNAL AUDITOR'S REPORT TO THE NORTH ATLANTIC COUNCIL***Financial Statements*****Adverse Opinion on the Financial Statements**

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of NATO Helicopter Management Organisation, for the 12 month period ended 31 December 2022, issued under document reference NH/ADM/ACC-1/01411/2023, and submitted to IBAN on 14 April 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, because of the significance and pervasiveness of the matter described in the Basis for Adverse Opinion section of our report, the Financial Statements do not give a true and fair view of the financial position of NAHEMO 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 Adverse Opinion on the Financial Statements

We found pervasive and material misstatements in NAHEMO's financial statements for the year ended 31 December 2022, relating to both the Administrative Budget (AB) and Operational Budget (OB). These errors are due to a lack of internal control procedures underlying the preparation of the financial statements.

These misstatements affect in a pervasive manner, the Statement of Financial Position, the Statement of Financial Performance, the Statement of Cash Flow, the AB and OB Statements of Budget Execution, and several disclosure notes of the Financial Statements. The misstatements related to AB include for example in the Statement of Financial Position, an understatement of the gross value of Property, Plant & Equipment and Intangible Assets by EUR 1.5 million, and an overstatement of Unearned Revenue by EUR 2.3 million. The misstatements related to OB include for example in the Statement of Financial Position the understatement of Payables to suppliers by EUR 27.7 million, and in the Statement of Financial Performance the understatement of Revenue for the period by EUR 1.8 million.

Due to the large number of individual misstatements affecting several parts of the Financial Statements, it is not practicable to present the complete gross and net financial effects of these misstatements in this Basis of Opinion. The main items of the Financial Statements materially misstated are the following:

Statement of Financial Position:

- Receivables: VAT receivables reimbursement 2020, 2021, 2022, and note C.2 on Receivables from Nations related to OB funding;
- Recoverable VAT and Payables VAT;
- Property, Plant & Equipment and Intangible assets, and notes C.4 and C.5;
- Payables to suppliers: Payables AB and OB suppliers, and note C.6;
- Unearned revenue: Unearned Revenue AB and note C.7;
- Total net assets / equity.

Statement of Financial Performance:

- Revenue: Other revenue and Note D.9 on the Reconciliation between Revenue and Unearned Revenue;
- Expenses: Capital capitalised and Accrued expenses, and note D.10 on Operating Leases;
- Surplus (Deficit) for the period and note D.11.

Statement of Change in Net Assets/Equity/

- Balance at the end of the period 2021;
- Surplus for the period;
- Balance at the end of the period 2022.

Statement of Cash Flow:

- Increase in payables to suppliers;
- Increase in payables to Nations.

Note I. on Bank Guarantees.

Annex 1 Statements of Budget Execution for OB and AB:

- 'Expenses' incurred related to OB and AB;
- 'Carry Over 2022' related to OB and 'Carry forwards' related to AB;
- 'Uncommitted amounts authorised as SCFW 2020' related to AB and detailed figures.

Annex 1 Notes to the Statement of Budget Execution:

- Reconciliation between the NAHEMO Budget Execution Statements and the NAHEMO Statement of Financial Performance;
- Reconciliation between the NAHEMO Budget Execution Statements and the NAHEMO Trial Balance;
- Reconciliation of ADM [AB] Budget Execution to Cash Flow Statement;
- Reconciliation of OP [OB] Budget Execution to Cash Flow Statement.

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 adverse opinion.

Emphasis of Matter on the Financial Statements

We draw attention to the note 'OB milestones achieved 2022' in Annex 1 to the Financial Statements, which sets out the amount of EUR 12,315,412 Operational Budget contractual milestones achieved at 31 December 2022, but not invoiced before the closing date. As NAHEMO is an agent for the Operational Budget, which is prepared on a modified cash basis, this information is not required by the NATO Accounting Framework, nor by the NAHEMO Financial Regulations. Nevertheless, NAHEMO was not able to fully justify the accuracy of this amount disclosed in Annex 1 to the Financial Statements. Our opinion is not modified in respect of this matter.

Management's Responsibility for the Financial Statements

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

Qualified Opinion on Compliance

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

Basis for Qualified Opinion on Compliance

We draw attention to the fact that 'Expenses' disclosed in the Statement of Budget Execution for the Administrative Budget were presented on a modified cash basis (including paid and payable expenditures), whereas article 25.2 of the NAHEMO Financial Regulations stipulates that they should be recorded on an accrual basis. This results in an understatement of 'Expenses' as they did not include accruals for EUR 1.3 million and, conversely, an overstatement of 'Carry forwards'.

In addition, the designation of unused appropriation from previous year disclosed in the Statement of Budget Execution for the Administrative Budget is not compliant with NAHEMO Financial Regulations' definitions. The Statement of Budget Execution for the Administrative Budget refers to an uncommitted Special Carry Forward (SCFW) from 2020 of EUR 0.898 million. This was incorrect as the 2020 SCFW was fully committed in 2021 and should therefore have been reclassified in 'Carry forwards 2021'.

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 General Manager 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.

One observation impacts the audit opinion on the Financial Statements and on compliance:

1. Pervasive, material misstatements in the Financial Statements and the Statements of Budget Execution.

The other observation does not impact the audit opinion on the Financial Statements and on compliance:

2. NAHEMO did not submit its Financial Statements within the deadline stipulated by the NAHEMO Financial Regulations.

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

1. PERVASIVE, MATERIAL MISTATEMENTS IN THE FINANCIAL STATEMENTS AND THE STATEMENTS OF BUDGET EXECUTION

Reasoning

1.1 The preparation of the NAHEMO's Financial Statements (FS) is driven by the NATO Accounting Framework (NAF) and NAHEMO Financial Regulations (FRs) which require, as per Article 34.2, that *"financial statements shall be prepared on an accrual basis of accounting"*.

1.2 NAHEMO FRs provide budgetary rules that clearly stipulate that the Statement of Budget Execution (SBE) should be drawn up on an accrual basis, as follows:

- a) Article 25.2 provides that *"Appropriated funds which have been committed and for which goods and services have been rendered but the invoice has not been received by the end of the financial year, shall be recorded as an accrued liability and the commitment shall be reduced."*
- b) Article 25.3 states that *"appropriated funds which have been committed, supported by a legal obligation, and for which goods and services have not yet been rendered by the end of the financial year shall be automatically carried forward to be used as soon as possible within the next two following financial years. Appropriated funds committed and carried forward shall be used only for the requirement, supported by a legal obligation, for which they were originally approved."*

- c) According to Article 25.5 *“At the close of the third financial year, balances of unused appropriations that have been carried forward in accordance with sub-article 3 above shall be finally cancelled, unless exceptionally approved for further carry forward by the SC or relevant committees”*

1.3 NAHEMO FRs Glossary also defines a Special Carry Forward (SCFW) as *“An exceptional procedure whereby appropriated funds that have not been committed may be retained for use in the following financial year, based on a case-by-case approval by the SC.”*

1.4 In addition, NAHEMO’s Basis of Preparation of the FS states that NAHEMO acts as principal for the implementation of the Administrative Budget (AB) and as an agent for the implementation of the Operational Budget (OB). NAHEMO Financial Rules and Procedures (FRPs) provide additional guidance on the operational budget execution of NAHEMO.

1.5 According to the NATO Accounting Framework (IPSAS 1), *“the 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 IPSAS.3.”*

1.6 Article 6 of the NAHEMO FRs requires the Financial Controller to exercise the responsibility of budgeting, accounting and reporting activities of the NATO entity. This includes being responsible for the financial internal control system established and the preparation of the financial statements in accordance with NATO Accounting Framework.

1.7 Article 11 of the NAHEMO FRs, states that *“The General Manager shall:*

- a) *Ensure effective, efficient and economical risk management procedures are in place to support the achievement of objectives as set by the NAHEMO Nations;*
- b) *Identify, assess and mitigate risks to the achievement of these objectives.”*

1.8 In addition, Article 12.3 of the NAHEMO FRs states that *“Internal control activities shall include, [...] adequate audit trails and data confidentiality, integrity and availability in information systems;”*

1.9 Financial statements shall be free of misstatements, mathematical errors, non-reconciling items, or any other errors or omissions caused by lack of control during preparation. Entities should have proper internal controls, including reviews and reconciliations in place to ensure the consistency and the accuracy of information presented in the financial statements.

1.10 Finally, the NATO Code of Conduct (ON2022)0004) reaffirms the principles of transparency and accountability in its preamble, and that *“skills, competencies,*

professionalism and integrity are key to helping the Organization to fulfil its core mission and goals". As such NATO Staff professionalism encompasses maintaining "the highest level of competence in [their] assigned areas and strive for continuous improvement of [their] knowledge, skills, and abilities."

Observations

1.11 We found pervasive and material misstatements in NAHEMO's financial statements for the year ended 31 December 2022 affecting both the Administrative Budget (AB) and Operational Budget (OB). These errors are due to a lack of internal control procedures underlying the preparation of the financial statements. The extent of the misstatements are a potential indication that further improvements may be needed regarding the competence, knowledge, skills and abilities of personnel responsible for the preparation of the financial statements.

1.12 All these misstatements affect simultaneously, with cascading effects, the Statement of Financial Position (SFPos), the Statement of Financial Performance (SFPerf), the Cash Flow statement, the AB and OB Statements of Budget Execution, and several notes and tables of the Financial Statements. The following is a summary list of the misstatements found.

1.13 Material findings related to the Administrative Budget (AB)

- a) Understatement of Revenue in the SFPerf by EUR 0.541 million due to an omission in the reconciliation of revenue with AB expenditure and incorrect recording of revenue due to various technical problems in the accounting system.
- b) Overstatement of Unearned Revenue in the SFPos by EUR 1.033 million explained by a lack of recognition of revenue amounting to EUR 0.706 million and by a misallocation of cumulative VAT accounting flows for a maximum net amount of EUR 0.327 million.
- c) Overstatement of the overall disclosure related to VAT Receivables, VAT Recoverable assets and Current liabilities by at least EUR 0.909 million. This error was due to an incorrect accounting scheme that resulted in the recognition of liabilities and assets that should be reclassified and offset to reflect the actual net position of the expected VAT refund from the tax authorities.
- d) Understatement of expenses to capitalise and therefore of the balance of Property, Plant & Equipment (PPE) and Intangible assets, amounting to EUR 0.804 million. These costs, which complied with the NAF's asset control criteria, corresponded mainly to interior fittings at the new premises prior to NAHEMO's relocation.

- e) Understatement of Accrued Expenses of EUR 1.256 million of which at least EUR 0.704 million should be capitalised in addition to the EUR 0.804 million stated before. These missing accruals for 2022 were mainly related to the completion of the interior fitting of the new premises, various consultancy services and software, all delivered in 2022 but invoiced in 2023. This also led to an additional underestimation of Revenue and overestimation of Unearned Revenue of the same amount. Therefore, taking into account the above mentioned error in revenue recognition of EUR 0.541 million, and considering provision in Note D.11 regarding 'Surplus or Deficit for the Period, the overall understatement of revenue amounted to EUR 1.797 million. For the same reasons, taking into account the previously stated overstatement of Unearned Revenue of EUR 1.033 million, the overall overstatement of Unearned Revenue reached EUR 2.289 million.
- f) Non-compliance in the presentation of SBE 'Expenses' and carry forwards. SBE 'Expenses' was presented on a modified cash basis (i.e. including paid and payable expenditures), whereas Article 25.2 of NAHEMO's FR stipulates that expenditure must include accrued expenses, as indicated above. This resulted in an understatement of expenditure as it did not include accruals and, conversely, an overstatement of carry forwards.
- g) Non-compliant designation of unused appropriation from the previous year disclosed in the SBE. The SBE referred to a Special Carry Forward (SCFW) from 2020 of EUR 0.899 million. This was incorrect as the 2020 SCFW was fully committed in 2021 and should therefore have been reclassified in 'Carry forwards 2021'has since become a standard carry forward.

1.14 Material findings related to the Operational Budget (OB)

- a) Understatement of Payables to suppliers for an amount of EUR 27.7 million and overstatement of Payables to Nations in respect of OB by the same amount. Several invoices were received in 2022 but not recorded in the accounts.

1.15 Material findings in Notes and Annex to the FS

- a) NAHEMO reported in Note C.2 by mistake Receivables (OB) of EUR 1.47 billion when the actual receivables amounted to EUR 159 million.
- b) Incorrect disclosure and breakdown of Receivable VAT reimbursement (AB) in Note C.2. The note referred to a total recoverable VAT outstanding of EUR 0.932 million broken down in EUR 0.041 million for 2020, EUR 0.220 million for 2021 and EUR 0.671 million for 2022. In fact, the correct VAT claim to the tax administration amounted to EUR 0.627 million and concerned only the year 2022.

- c) Incorrect VAT disclosure in Note D.9 'Revenue' (AB). It was stated that VAT reimbursement recognised in 2022 was EUR 0.885 million when it was in fact EUR 0.257 million. In addition, contrary to what was stated in the Reconciliation between Revenue and Unearned Revenue, VAT is neither revenue nor expenses but an item reported on the Statement of Financial Position.
- d) Non-updated disclosure of bank guarantees information (AB). This mainly concerned the absence of the EUR 1.18 million guarantee payment for the rental of the new premises.
- e) Non-updated and inconsistent disclosures in Note D.10 'Expenses' (AB) regarding Operating Leases of future minimum lease payments.
- f) Incorrect and inconsistent expenditure input value used as a basis for the Reconciliations of AB and OB Statements of Budget Execution expenditure to the Statement of Cash Flow in Annex 1. OB expenditure (cash based) was mistakenly reported for EUR 1,275 million when it should be EUR 1,209 million. Similarly, AB expenditure (modified cash based) amounted to EUR 16.25 million when it should be EUR 15.37 million.

1.16 Other audit findings

- a) Overstatement of 'Expenses' in the OB SBE due to an unjustified and not compliant change in OB SBE basis of presentation. The OB SBE was presented on a modified cash basis in 2022 when a cash basis presentation was in force in prior years. The difference on expenditure disclosure between the two presentations amounted to EUR 26 million.
- b) Misstatement in the cash flow statement's disclosure of payables in the amount of EUR 23 million. This was because the cash flow was constructed using the closing balance of 2021 before resubmission of the 2021 FS, instead of the resubmitted 2021 FS.
- c) Understatement of the bank balance amounting to EUR 30,710. This was due to an unresolved technical problem in the bank reconciliation module and report of the accounting system since 2020. Although the amount was not significant, any issue affecting the cash position and its reconciliation with account balances must be addressed promptly given their critical nature.
- d) Incorrect netting of receivables with Payables to suppliers for AB and OB amounting to EUR 6.1 million.
- e) Non-disclosure of lapses in the SBE (AB) amounting to EUR 0.21 million. This was due to a formatting issue in the FS.

- f) Overstatement of Receivables (OB) amounting to EUR 0.335 million. This was because the corresponding payments had not been reconciled correctly.
- g) Overstatement of the payables disclosure in Note C.6 '*Payables*' (OB) to the FS amounting to EUR 0.490 million due to an arithmetic error.
- h) Inconsistent and misleading disclosure in SBE Annex 1 of the amount of 'OB Milestones achieved 2022' invoiced in 2023. We found approximately EUR 50 million of additional invoices received during the 1st quarter 2023 and relating to milestones completed by the suppliers in 2022 but however not included in the note. EUR 3.5 million was due to an error in the assessment of the amount of invoices and the identification of certification letters issued in 2022. The remaining EUR 47 million difference was explained by the fact that the corresponding NAHEMO certification letters were not issued in 2022, but at the beginning of 2023. The recognition event should be the supplier's milestone completion period and not the date of administrative certification by NAHEMO.

However, as NAHEMO is an agent for the Operational Budget, which is prepared on a modified cash basis, this information is not required by the NATO Accounting Framework, nor by the NAHEMO FRs. Nevertheless, NAHEMO was not able to fully justify the accuracy of this amount disclosed in Annex 1 to the FS. The content of this note should be examined as part of the clarification of NAHEMO's accounting policy and financial information, in line with a recommendation made in last year's IBAN Audit Report (IBA-AR(2022)0019, observations 2 and 3).

- i) Various: Typos in Note D.10 '*Expenses*'; Inconsistency in the presentation of rounding units in SFPOs for the year 2021; Incorrect disclosures in Notes 7 '*Unearned Revenue and Advance*', Note C.8 '*PP&E and Intangible Asset Reserve*', Note D.9 '*Revenue*' and the Statement of Change in Net Asset Equity, resulting from the material misstatements mentioned above.
- j) Discrepancy between the accounting trial balance of the Financial Statements and the trial balance extracted from the accounting information system. These differences mainly affected net equity and liabilities balances. They were due to incorrect configuration of the financial information system and mapping issues of the chart of accounts that are manually corrected in the FS. This poses problems in terms of audit traceability and data integrity, as the accounting information system must be a reliable accounting source that faithfully reflects the balances in the FS and should not be subject to any manual changes.

1.17 Finally, we found that NAHEMO's risk register did not mention any risks relating to financial activities, the organisation of the financial function or internal control procedures for financial operations, including the preparation of NAHEMO's financial statements.

Recommendations

1.18 IBAN recommends that NAHEMO:

- a) strengthen internal controls over the preparation of the financial statements and implement appropriate standard operating procedures in order to ensure that the financial statements are free of material errors and comply with the NATO Accounting Framework and NAHEMO Financial Regulations.
- b) continue its efforts to improve the level of competence, knowledge, skills, and abilities of personnel responsible for the preparation of the financial statements, including through appropriate trainings.
- c) improve the configuration of the accounting system to facilitate the preparation of the financial statements and address promptly any technical problems relating to the accounting system.
- d) assess the risks associated with its financial reporting activities and functions and update the risk register accordingly.

2. NAHEMO DID NOT SUBMIT ITS FINANCIAL STATEMENTS WITHIN THE DEADLINE STIPULATED BY THE NAHEMO FINANCIAL REGULATIONS

Reasoning

2.1 Article 35.1 of the NAHEMO Financial Regulations (FRs) states that *“An annual financial statement for each NATO body, consolidated where applicable and appropriate, shall be submitted for audit to the International Board of Auditors for NATO by the Financial Controller not later than 31st March following the end of the financial year.”*

2.2 Furthermore, the NAHEMO Financial Rules and Procedures (FRPs) 56.1 establishes that: *“The General Manager shall submit the annual Financial Statements on NAHEMA's financial transactions on the Administrative Budget to the International Board of Auditors for NATO as well as to the members of the FAC, no later than 31st March following the closure of the financial year.”*

Observations

2.3 NAHEMO submitted the signed annual financial statements for the year ending 31 December 2022 on 14 April 2023, therefore failing to comply with the deadline of the 31 March 2023 as laid down in Article 35 of the FRs.

Recommendations

2.4 IBAN recommends that NAHEMO strengthen its financial reporting processes in order to submit its financial statements within the deadline set by the NAHEMO Financial Regulations.

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) NAHEMO FY 2022 IBA-AR(2022)0019, paragraph 1</p> <p>IMPROVEMENTS NEEDED IN THE PREPARATION OF THE FINANCIAL STATEMENTS AND STRENGTHENING INTERNAL CONTROL OVER FINANCIAL CLOSING PROCE</p> <p>IBAN's Recommendation IBAN recommends that NAHEMO strengthen internal controls over the preparation of the financial statements in order to ensure that they are free of material error and comply with the NATO Accounting Framework and NAHEMO FRs.</p>	<p>Observation Closed as superseded by current year observations 1.</p>	<p>Observation Closed.</p>

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OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>(2) NAHEMO FY 2022 IBA-AR(2022)0019, paragraph 2</p> <p>NEED TO REVIEW AND UPDATE NAHEMO'S FINANCIAL REGULATORY FRAMEWORK</p> <p>IBAN's Recommendation Taking into account the fact that NAHEMO acts as a principal for its Administrative Budget and as an agent for its Operational Budget, IBAN recommends NAHEMO to:</p> <p>a) review the provisions of its Financial Regulations for the purpose of avoiding de facto non-compliance or a persistent doubt regarding its compliance, and obtain resolution by the appropriate governing body in accordance with Article 7.1 of the NAHEMO FRs, and if required by a Council-approved deviation of the NAHEMO FRs;</p> <p>b) clarify in the NAHEMO FRPs the financial statements disclosure requirements for the Statement of Budget Execution of the Administrative Budget where NAHEMO is principal and of the Operational Budget where NAHEMO is an agent.</p>	<p>a) b) The issues are still under discussion in the NATO Account Working Group and in the Financial Controllers Working Group. No progress was made related to changing the NAHEMO FRs.</p> <p>Given the magnitude of audit findings in Observation 1 of this Report and the persistent doubt regarding operational budget presentation and disclosures, it is important for NAHEMO to review and update its financial regulatory framework. This in order to clarify its financial reporting and accounting policy and the scope of the information to be provided in the financial statements.</p>	<p>Observation Open.</p>
<p>(3) NAHEMO FY 2022 IBA-AR(2022)0019, paragraph 3</p> <p>IMPROVEMENT NEEDED IN THE FINANCIAL POLICY AND DISCLOSURE OF THE STATEMENT OF BUDGET EXECUTION OF THE OPERATIONAL BUDGET</p> <p>IBAN's Recommendation Given the fact that NAHEMO is an agent for its Operational Budget, IBAN recommends NAHEMO to strengthen the disclosure requirements for the Statement of Budget Execution of the Operational Budget by clarifying these in the NAHEMO FRPs. The budgetary disclosure requirements for multi-annual and multi-national programmes should provide the Nations with relevant financial information to assist in the governance of the programme budgeting and funding.</p>	<p>NAHEMO did not make any changes or improvements to the financial policy and disclosure to provide relevant information of the operating budget, particularly with regard to overall existing programme commitments and execution forecasts.</p>	<p>Observation Open.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>(4) NAHEMO FY 2022 IBA-AR(2022)0019, paragraph 4</p> <p>IMPROVEMENTS NEEDED IN THE PROCESS OF EVALUATING ASSET CONTROL AND CAPITALISATION OF COSTS RELATED TO THE MOVE TO THE NEW PREMISES</p> <p>IBAN's Recommendation a) assess the control of items paid for in connection with the move to the new premises in accordance with the control criteria of the NATO Accounting Framework.</p> <p>b) assess the amount of fixed assets to be capitalised and assets under construction to be recognised in the financial statements if they meet the control criteria.</p> <p>c) update the asset register accordingly.</p>	<p>Observation Closed as superseded by current year observations 1.</p>	<p>Observation Closed.</p>
<p>(5) NAHEMO FY 2016 IBA-AR(2017)29, paragraph 2</p> <p>LACK OF RELIABLE AND COORDINATED PROCESSES FOR CAPITALISING ASSETS AND UPDATING ASSET REGISTER</p> <p>IBAN's Recommendation IBAN recommends NAHEMA to update and maintain complete and accurate asset registers, in line with Article 12 of the NFRs. These registers need to be properly controlled at the appropriate level and regular property counts should be performed to keep the registers accurate and reliable.</p> <p>IBAN also recommends NAHEMA to put in place reliable and coordinated processes to ensure that new assets acquired are capitalized as PP&E or Intangible Assets.</p>	<p>Following the move to the new premises, additional assets were added to the inventory. However, the level of detail provided by this inventory is not sufficiently precise to list every item in the installations set up at component level.</p> <p>As indicated in Observation 1 of this report, numerous errors were found in the accounting process of capitalising new assets. This reflects the fact that coordinated processes are not yet in place. In addition, NAHEMO is no longer implementing the project to interface its asset inventory register with the accounting system.</p>	<p>Observation In-Progress.</p>

NATO HELICOPTER MANAGEMENT ORGANISATION (NAHEMO) FORMAL COMMENTS ON THE AUDIT REPORT AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS

**OBSERVATION 1:
PERVASIVE, MATERIAL MISTATEMENTS IN THE FINANCIAL STATEMENTS AND THE STATEMENTS OF BUDGET EXECUTION**

NAHEMO's Formal Comments

Agreed.

NAHEMA acknowledges the remark and will take into account the recommendation.

- a) NAHEMO will start the revision and improvement of internal directives in order to better control the financial reporting processes.*
- b) This action has not yet been completed. Our Accounting Manager has taken part in a training courses on IPSAS in August and we will start on-the-job-training with the support of Deloitte in which all staff members in the finance section can take part.*
- c) We will take a further step to develop a better setup of our OEBS in close cooperation with support of technical and consultancy companies.*
- d) We will make a risk assessment.*

**OBSERVATION 2:
NAHEMO DID NOT SUBMIT ITS FINANCIAL STATEMENTS WITHIN THE DEADLINE STIPULATED BY THE NAHEMO FINANCIAL REGULATIONS**

NAHEMO's Formal Comments

Agreed.

NAHEMA acknowledges the remark and will implement it.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(2) NAHEMO 2022 FY
IBA-AR(2022)0019, paragraph 2

NEED TO REVIEW AND UPDATE NAHEMO'S FINANCIAL REGULATORY FRAMEWORK

NAHEMO's Formal Comments

Agreed.

The issues are still under discussion in the NATO Accounting Working Group and in the Financial Controller Working Group. Awaiting this solution, no progress was made changing the NAHEMO FRs. NAHEMA nevertheless prefers an adjustment of the NAHEMO FRs to provide a custom solution.

(3) NAHEMO 2022 FY
IBA-AR(2022)0019, paragraph 3

IMPROVEMENT NEEDED IN THE FINANCIAL POLICY AND DISCLOSURE OF THE STATEMENT OF BUDGET EXECUTION OF THE OPERATIONAL BUDGET

NAHEMO's Formal Comments

Agreed.

NAHEMA agrees on the improvements recommended, but deems it necessary to complete the ongoing full review of the OEBS database, before proceeding with the budgetary disclosure requirements for multi-annual and multi-national programmes. To this regard, several challenging digitalization processes where ADMIN staff are currently heavily engaged are shortly before finalisation (electronic registration of invoices, electronic execution of payments, contractual milestone database, etc.), the concerned improvements in the "Statement of Budget execution" for the OB are considered achievable for the FS 2024.

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

LACK OF RELIABLE AND COORDINATED PROCESSES FOR CAPITALISING ASSETS AND UPDATING ASSET REGISTERS

NAHEMO's Formal Comments

Agreed.

NAHEMA will take into account the IBAN recommendation.

As an additional improvement to the registers consistency, NAHEMA will resume the action to implement the use of a dedicated OEBS module for capitalising assets.

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.

**NAHEMA**

"UNITE TO SUCCEED"

**NATO HELICOPTER D&D PRODUCTION AND
LOGISTICS MANAGEMENT AGENCY**NH/ADM/ACC-1/ *NAHEMA* /2023

Aix-en-Provence,

14 AVR. 2023

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Subject: NAHEMO Financial Statements for Financial Year 2022

Encl. NAHEMO Financial Statements for Financial Year 2022

1. Please find attached NAHEMO's 2022 Financial Statements.
2. This document can be made available to the public, with the exception of page 1 and 2 of the Annex 1 to enclosure.

Giorgio GOMMA
General Manager

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NAHEMMA

“UNITE TO SUCCEED”

NATO HELICOPTER D&D PRODUCTION AND
LOGISTICS MANAGEMENT AGENCY



NAHEMMA FINANCIAL STATEMENTS FOR
FINANCIAL YEAR 2022

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NAHEMO Financial Statements 2022

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ANNEX 1 Statement of Budget Execution

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GENERAL INFORMATION

The "NATO Helicopter for the 1990s Design and Development, Production and Logistics Management Organisation" (NAHEMO) is a NATO subsidiary body established to meet the requirements of the French Republic, the Federal Republic of Germany, the Republic of Italy and the Kingdom of The Netherlands for the Design and Development, Production and In-Service Support of a NATO Helicopter for the 1990s (NH-90). The NATO Council approved the NAHEMO Charter on 7th February 1992.

NAHEMO consists of the Steering Committee (SC), composed of representatives of the Participants, and the NATO Helicopter Management Agency (NAHEMA).

On 8th June 2000 the Memorandum of Understanding (MOU) for the Production (P) Phase of the NH-90 including Production Investment (PI) and Initial In-Service Support (IISS) was signed.

With the signature of the Addendum No. 1 to the MOU on 21st June 2001 Portugal joined the Programme.

On 17th July 2004 the NH90 Community MOU (CMOU) between NAHEMO Nations and Nordics Standard Helicopter Programme (NSHP) Nations (Finland, Norway and Sweden) has been signed with the aim that NAHEMA provides support in standardisation, qualification and interoperability to the Nordics. Australia and Belgium were admitted to the CMOU in 2008/2009.

With the signature of the NH-90 Belgian Production MOU on 12th June 2007 Belgium joined the Programme.

On 23rd December 2004 the NH-90 ISS (In-Service Support) MOU between NAHEMO Nations has been signed to set out the framework for the In-Service Support Phase of the NH-90. With the signature of the amendment No. 1 Belgium on 25th October 2006 was admitted to the ISS MOU.

On 29th May 2013 the amendment No. 4 to the CMOU has been signed concerning the admission of the Kingdom of Spain and New Zealand.

In the year 2014 Portugal decided to withdraw from the NH-90 programme. The Addendum 6 to the NAHEMO Charter dealing with Portugal withdrawal from the NH-90 programme was brought in force on 16th January 2015. The modification to the General MoU dealing with the same issue was brought in force on October 2017. The withdrawal of PRT from the CMOU is under finalization.

In 2022 Norway has announced to leave the NH-90 Programme: NOR is dealing with the NATO Helicopter Industries (NHI) to dissolve the contracts.

The NATO Financial Regulations are the basis of NAHEMO financial and administrative processes and procedures. The NAHEMO Financial Regulations were approved on July 27th, 2017.

The NAHEMO main goals for years 2022 and after are listed below.

- Ensure the delivery of serviceable and sustainable NH-90 helicopters (production and retrofits).
- Ensure the fleet homogeneity in terms of software through the Software Release contracts.
- Put into service the contracted capacities and to develop new operational capabilities.
- Put in place an effective and efficient in-service support.
- Develop the affordability and cost efficiency of the Programme.
- Develop the efficiency of the NH-90 Programme Organization.

In 2022, the following main operational activities were performed in order to support the above-mentioned goals.

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- Preparation and signature of international agreements and relevant amendments (MoU,...) amongst Nations.
- Preparation and execution of budgets.
- Preparation of Statements of Work, negotiation and awarding of contracts.
- Assessment of the achievement of the technical Milestones of the awarded contracts.
- Assessment of invoices and execution of payments.
- Management of the NH90 Programme duties including qualification of the NH-90 variants, configuration management and quality assurance.
- The delivery of 18 production helicopters to Community Nations.
- Finalization of E-Banking.
- Signature of Life Time Extension contract.
- Signature of NH-90 Operational Support (NOS) contract for DEU and FRA
- Relocation of NAHEMA in a new premises.

NAHEMA is maintaining two different budget types:

- The Administrative Budget (AB) for the administrative costs of NAHEMA;
- The Operational Budget (OB), composed of the following three chapters:
 - Chapter 1: expenditures related to Design and Development activities for FRA, DEU, ITA, and NLD, under the legal framework of the D&D MOU;
 - Chapter 2: expenditures related to Production Investment, Production, Integrated Logistics Support and Initial In-Service Support for FRA, DEU, ITA, NLD under the legal framework of the PI/P MOU and for BEL under the BEL Prod MOU;
 - Chapter 3: expenditures related to In-Service Support activities for all NH90 Community Nations (NAHEMO and non-NAHEMO) under the legal framework of the CMOU.

The Financial Statements on pages 1 to 29 and the Annex hereto were issued to the International Board of Auditors for NATO on 14 April 2023.

Giorgio Gomma
General Manager



Dick Kreiter
Financial Controller



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NAHEMO

Statement of Financial Position

As of 31 December 2022

(in € '000)

	2022	2021 Resubmitted	2021 Initial	Note
Assets				
Current assets				
Cash and cash equivalents	823,737	600,416	600,416	1
Short term investments (over 3 month)	0	0	0	2
Receivables	161,023	132,013	126,010	2
Recoverable VAT(713000)	604	239	239	3
Prepayments	0	0	0	
Other current assets	0	0	0	
Inventories	985,364	732,668	726,665	
Non-current assets				
Receivables	0	0	0	
Property, plant & equipment	1,473	217	217	4
Intangible assets	145	58	58	5
Other non-current assets	1,618	275	274	
Total assets	986,982	732,943	726,940	
Liabilities				
Current liabilities				
Payables to suppliers	34,290	38,738	9,059	6
Payables to nations in respect of AB	490	2,466	2,465	6
Payables to nations in respect of OB	945,908	686,400	710,077	6
Unearned revenue	3,597	2,979	2,979	7
Advances	1,073	1,901	1,901	7
Short term provisions	0	0	0	
Payables VAT(5122000)	624	261	262	
Other current liabilities	0	0	0	7
	985,982	732,746	726,743	
Non-current liabilities				
Payables	0	0	0	
Long term provisions	0	0	0	
Deferred revenue	0	0	0	
Other non-current liabilities	0	0	0	
Total liabilities	985,982	732,746	726,743	
Net assets				
Accumulated Surplus/(Deficit)	197	346	346	8
Surplus/(Deficit) for the Period	803	(71)	(71)	11
Restatement/Corrections Surplus/(Deficit)	0	0	(78)	
Total net assets / equity	1,000	274,518	197	
Technical Corrections	0	(78)	0	7

NAHEMO Statement of Financial Performance

For the year ended 31 December 2022

(in € '000)

	2022	2021 Resubmitted	2021 Initial	n
Revenue				
Other revenue	14,819	12,696	12,774	
Financial revenue				
Total revenue	14,819	12,696	12,774	
Expenses				
Personnel	(11,883)	(11,212)	(11,212)	
Operating	(3,346)	(1,451)	(1,451)	
Capital not capitalized	(141)	(92)	(92)	
Capital capitalized (new account 711005)	1,606	99	99	
Depreciation PP&E	(188)	(100)	(100)	
Amortisation Intangible Assets	(74)	(71)	(71)	
Provisions	0	0	0	
Value Added Tax	0	0	0	
Finance costs/Bank Charges	(3)	(0)	(0)	
Changes in Accrued Expenses	17	78	0	
Accrued expenses	(4)	(18)	(18)	
Total expenses	(14,016)	(12,767)	(12,845)	
Surplus (Deficit) for the period	803	(71)	(71)	

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NAHEMO Statement of Changes in Net Assets/Equity

For the year ended 31 December 2022	Accumulated surplus / (deficit)	Total
<i>(in € '000)</i>		
Balance at the beginning of the period 2021	346	346
Changes in accounting policy		
Restated balance		
Exchange difference on translating foreign operations		
Surplus /(deficit) for the period	(71)	(71)
Change in net assets/equity for the year ended 2021	(71)	(71)
Technical corrections	(78)	(78)
Balance at the end of the period 2021	197	197
Changes in accounting policy		
Restated balance		
Exchange difference on translating foreign operations		
Gain / (losses) on property revaluation		
Correction Surplus/(deficit)	0	0
Surplus /(deficit) for the period	803	803
Change in net assets/equity for the year ended 2022	803	803
Balance at the end of the period 2022	1,000	1,000

NAHEMO Statement of Cash Flow

For the year ended 31 December 2022

(in € '000)

	2022	2021 Resubmitted	2021 Initial	Comments
Cash flow from operating activities				
Surplus / (Deficit)	803	(71)	(71)	
Restatement/Correction Surpluses / (Deficits)		(78)	(78)	
Non cash movements				
Depreciation/amortisation	262	170	170	
Impairment				
Increase / (decrease) in payables to suppliers	25,230	38,633	8,954	
Increase / (decrease) in payables to Nations	234,218	(163,723)	(140,046)	
Increase / (decrease) in unearned revenue	618	1,771	1,771	
Increase / (decrease) in provisions	0	0	0	
(Gains) / losses on sale of property, plant and equipment	0	0	0	
Decrease / (Increase) in net assets	0	0	0	
Decrease / (Increase) in receivables	-35,378	38,715	44,717	
Increase / (decrease) in advances	-828	954	954	
Increase / (decrease) in other current liabilities	0	50	50	
Net cash flow from operating activities	224,925	(83,579)	(83,579)	
Cash flow from investing activities				
Purchase of property plant and equipment / intangible assets	(1,605)	(99)	(99)	
Proceeds from sale of property plant and equipment				
Net cash flow from investing activities	(1,605)	(99)	(99)	
Cash flow from financing activities				
Net cash flow from financing activities				
Net increase / (decrease) in cash and cash equivalents	223,320	(83,678)	(83,678)	
Cash and cash equivalent at the beginning of the period	600,417	684,094	684,094	
Cash and cash equivalent at the end of the period	823,737	600,416	600,416	

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A. Accounting Policies

Accounting Period

These 2022 Financial Statements are based on the accounting records of NAHEMO as of 31 December 2022. In accordance with Article 2 of the NFR, the financial year at NAHEMO begins on 1 January and ends on 31 December of the year.

Reporting Currency

The functional and reporting currency used throughout these Financial Statements is the Euro (€). All call for funds and contributions are made in Euro.

Basis of preparation

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

The accounting principles recognized as appropriate for the recognition, measurement and reporting of the financial position, performance and cash flows on an accrual based accounting using historical costs have been applied consistently throughout the reporting period to ensure that the financial statements provide information that is relevant to the decision-making and reliable, comparable, and understandable in light of the qualitative characteristics of financial reporting as well as of the principle of the right balance between the benefits derived from the information and the costs of providing it.

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

In December 2012 NAHEMO changed its accounting policy for the treatment of accounting for revenues and expenditures in relation to operational programme revenues and expenditures. Therefore, these revenues and expenditures are excluded from the Statement of Financial Performance. The subject of knowing the stage-of-completion of operational programme assets from an accounting perspective is not relevant due to the change in accounting policy.

NAHEMO considers that it is acting as an agent for its member states in relation to managing the NH-90 programme. As NAHEMO is not exposed to the risks or rewards of the programme and is paying Industry on behalf of NAHEMO member states it considers that it should show the net consideration received from member states for running the programme and match this to expenditures; this revenue and expenditure is equivalent to NAHEMO's AB. NAHEMO's management considers that this information provides more reliable and transparent financial reporting to users of the financial statements. The change in accounting policy is in accordance with IPSAS 9: Revenue from Non-Exchange Transactions.

NAHEMO considers that Industry controls the assets like helicopters, training media, AGE and spares until they are delivered to Nations. Liabilities for accrued expenses for the OBS are excluded from the Statement of Financial Performance and these assets are excluded from the Statement of Financial Position.

NAHEMO makes prepayments on behalf of member nations to Industry. However, these prepayments are not considered assets of NAHEMO (they are assets of the member nations) and as such are not shown as assets in the Statement of Financial Position.

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

Expenditure, on a cash basis, in respect of the OB can be found in the Budget Execution Statement.

Changes in accounting policy

A change in the accounting policy related to the presentation of VAT flows was applied to the 2021 Financial Statements. The purpose of the change is to enhance the quality of the financial reporting by applying uniform, internationally accepted accounting principles.

As of 2021, VAT flows are only reflected in the Statement of Financial Position rather than the Statement of Financial Performance. The change meets the criteria of IPSAS 1, 9 and 23 and seeks to improve the true and fair presentation of VAT flows.

Assets – Current Assets

The entity holds the following types of current assets:

a. Cash and cash equivalents

Cash and cash equivalents are defined as short-term assets. They include cash on hand, petty cash, current bank accounts and deposits held with banks.

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b. Receivables

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

In accordance with IPSAS, receivables are broken down into amounts receivable from user charges, taxes, receivables from related parties, etc.

Contribution receivables are recognized when a call for contribution has been issued to the member nations.

c. Inventories

NAHEMO does not hold inventory. In this respect, purchases which might be considered inventory consist entirely of administrative operating material and regularly consumed supplies. All such supplies are expensed when purchased. The total of all such items in stock at any one date is deemed to be immaterial to these financial statements.

d. Prepayments

A prepayment is a payment in advance of the period to which it pertains and is mainly in respect of advance payments made to third parties. NAHEMO acts as an agent on behalf of member states. It makes prepayments on behalf of member nations to Industry. However, these prepayments are not considered assets of NAHEMO (they are assets of the member nations) and as such are not shown as assets in the Statement of Financial Position.

Assets – Non - Current Assets

In this category, NAHEMO is reporting all assets invested for more than 12 months or receivable beyond 12 months from the closing date of the financial statements.

a. Property, Plant and Equipment

Basic Principles

- Buildings are shown at their re-valued amounts, being the fair value based on internal valuations at each reporting date. NAHEMO has rented the building.
- All other property, plant and equipment are stated at historical cost less accumulated depreciation and any recognised impairment loss.
- No external evaluator to set values for assets.
- Best available information from procurement sources, industry estimates or any relevant source of information as a basis for valuation.

PP&E categorizations for purposes of determining the appropriate depreciable life of the assets is listed in the table below. The categories for both tangible and intangible assets complete with the years in which the asset is to be depreciated.

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Straight-line depreciation method is used for all categories; however, the depreciable life of an asset is dependent on the particular category it is in.

Category	Capitalisation Threshold	Useful life	Depreciation method
Land	€200,000	N/A	N/A
Buildings	€200,000	40 years	Straight line
Other infrastructure	€200,000	40 years	Straight line
Installed equipment	€30,000	10 years	Straight line
Machinery	€30,000	10 years	Straight line
Vehicles	€10,000	5 years	Straight line
Aircraft	€200,000	Dependent on type	Straight line
Vessels	€200,000	Dependent on type	Straight line
Mission equipment (e.g. deployable assets)	€50,000	3 years	Straight line
Furniture	€30,000	10 years	Straight line
Communication systems	€1,000	3 to 5 years	Straight line
Automated information systems	€1,000	3 to 5 years	Straight line

Impairment of tangible assets

The carrying values of fixed assets are reviewed for impairment if events or changes in circumstances indicate that they may be not recoverable. In 2022 no indication existed to review the values of fixed assets for impairment.

b. Intangible assets

According to IPSAS 31 (Intangible Assets), NAHEMO recognized the set-up costs for the implementation of ORACLE modules as intangible assets. In the financial statements these set-up costs have been expensed. NCIA Microsoft Licence Software Assurance was not capitalised in accordance with IPSAS 31 no. 93 and NATO Policy for Intangible Assets no. 4.1 and 5. Amortisation is calculated using the straight line method to allocate the cost to the residual values over the estimated useful lives.

Current liabilities

a. Payables

Payables are amounts due to third parties for goods received or services provided that remain unpaid as of reporting date. Accruals are estimates of the cost for goods and services received at year-end but not yet invoiced.

b. Unearned revenue, advances and amounts owing to nations

Unearned revenue represents contributions from Nations that have been called for current or prior year ABs but that have not yet been recognised as revenue. Funds are called in advance of their need because the agency has no capital that would allow it to pre-finance any of its activities.

Advances are contributions received related to future years' ABs.

Amounts owing to nations are amounts held by or owed to NAHEMO in respect of the AB or OB. Until these amounts are expensed they are considered as owing to the member nations.

c. Employee benefits

IPSAS 25 prescribes the accounting treatment of the following employee benefits:

1. Short term benefits which fall due wholly within twelve months after the end of the accounting period in which employees render the related service;
2. Post-employment benefits and
3. Termination benefits.

Employees participate in the New Defined Contribution Pension Scheme administered by NATO. Contributions to these Plans are limited to matching the employees' contributions for current service.

The assets and liability for NATO's Defined Benefit Plan are accounted for centrally at NATO Headquarters and therefore are not recognized in these financial statements, whilst the employer's contribution made to the New Defined Contribution Pension Plan are expensed during the reporting period.

Non-Current liabilities

Provisions

Provisions are recognised when the entity has a legal or constructive obligation as a result of past event, and where it is probable that an outflow of resources will be required to settle the obligation, and where a reliable estimate of the amount of the obligation can be made. In 2022 NAHEMO has no provisions.

Net Assets

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

Revenue and expense recognition

a. Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to NAHEMO and the revenue can be measured reliably. Contributions to the NAHEMO AB when called are booked as unearned revenue and subsequently recognized as revenue when it is earned.

Revenue comprises contributions from Member Nations to fund the NAHEMO AB. It is recognized as revenue in the statement of financial performance when such contributions are used for their intended purpose as envisioned by the AB. Revenue is recognized to the extent that it is probable that the economic benefits will flow to NAHEMO and the revenue can be measured reliably. The balance of unspent contributions and other revenues that relate to future periods are deferred accordingly.

Where a transfer is subject to conditions that, if unfulfilled, require the return of the transferred resources, NAHEMO recognizes a liability until the condition is fulfilled.

b. Expenses

NAHEMO AB expenses are recognized when occurred. Accruing of expenses is based on the concept of accruing when goods and services are received.

Surplus or Deficit for the Period

In accordance with NAHEMO accounting policies NAHEMO AB revenue is recognized up to the amount of the matching AB expenses.

Cash Flow Statement

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

B. Significant Accounting Judgements and Estimates

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

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

C. Notes to Statement of Financial Position

Assets – Current Assets

1. Cash and cash equivalents

	December 31, 2022	December 31, 2021
	€ '000	€ '000
Petty Cash	1	1
Current Bank Accounts	786,785	390,070
Cash equivalents	36,951	210,345
Total Cash and cash equivalents	823,737	600,416

Petty cash is cash on hand locked in a safe at NAHEMA.

Deposits are partly held in interest-bearing current bank accounts in immediately available funds. Current bank accounts are held in EURO.

Cash equivalents are funds invested on short-term deposit bank accounts held in EURO.

Cash and cash equivalents included in the Cash Flow Statement equal the above figures in the Statement of Financial Position.

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2. Accounts receivable

	December 31, 2022	December 31, 2021
	€ '000	€ '000
Contributions from Member Nations		
Receivable from Nations related to AB	1,038	1,025
Receivable from Nations related to OB	159,035	124,700
Other receivables		
Receivables VAT reimbursement 2020	41	44
Receivables VAT reimbursement 2021	220	241
Receivables VAT reimbursement 2022	671	0
Receivable accrued interest	18	0
Receivable by Suppliers		6,003
Total Receivables	161,023	132,013

Contributions from Member Nations

Contributions receivables from Member Nations are recognised when called.

Receivables from Nations related to the AB funding

The accounts receivable from Nations related to the NAHEMO AB are related to the NAHEMO Nations (France, Germany, Italy, The Netherlands and Belgium), and the Non-NH-90-Programme Contributing Participants Finland, Norway and Sweden (the so called NORDIC Nations) and Australia, Spain and New Zealand.

The total yearly Administrative Costs of NAHEMA have been fixed by the Production MOU for the NAHEMO community to a ceiling amount of EUR 6.6 Million based on economic conditions of 01/01/1999. The ceiling has been increased to EUR 7.85 Million since the Addendum No. 5 to the Production MOU has been signed in September 2009. The ceiling is annually escalated using the annual NATO salaries increase and the index "Indice mensuel des prix à la consommation" published in the "Bulletin mensuel de l'INSEE".

With Programme Arrangement No. 1 to the NH-90 Community MOU an additional ceiling amount of EUR 750,000 on economic conditions of 01/01/1999 has been fixed for the NAHEMA activities in favour of the NORDIC Nations depending on the agreed scope of work. The NORDIC Nations contribute to the AB starting from the financial year 2005.

Since the financial year 2007 Australia is contributing to the AB.

In June 2007 the NH-90 Belgian Production MOU was signed and Belgium became the 6th NAHEMO Nation. The yearly administrative ceiling amount of EUR 110,000 for an A3 post or an amount of EUR 124,000 for an A4 post on economic conditions 01/1999 has been agreed as Belgian participation.

In May 2013 with Programme Arrangement No.1 amendment 2 to the Community MOU an additional ceiling amount of EUR 140,000 each of the Spanish and the New Zealand Contributing Participant on economic conditions 01/1999 has been agreed as annual administrative participation.

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All expenses including salaries and associated costs within the scope of the AB are considered - as administrative expenses.

In 2022, the NAHEMO Nations were invited to pay EUR 11,073,156.27, the NORDIC Nations share was EUR 2,440,575.04 and the share for Australia, New Zealand and the Kingdom of Spain was EUR 1,708,840.69.

Lapsed funds 2020 in the amount of EUR 2,183,239.45 were to be offset from call for funds in 2022. Respective credit memos were created and credited against the 2nd call for funds 2022.

PRT shares will not be returned to PRT. The funds will remain in NAHEMA until the MOU related to the PRT withdrawal has been signed. After signature of this MOU it will be determined how the remaining PRT funds will be used.

Receivables from Nations related to OB funding

At the end of Budget Year 2022, a total OB receivables of EUR 1,470,415,279.05 was recorded.

At the end of 2022 two OB Call for funds (CFF) out of 2022 for Chapter 3 with the outstanding amounts of EUR 91,000,000.00 and of EUR 67,700,000.00. The first amount is still pending, while the latter was paid on March 7th 2023.

Receivables VAT reimbursement

These are receivables for outstanding VAT reimbursements from 2020 in the amount of EUR 41,022.71, from 2021 in the amount of EUR 220,313.25 and from 2022 in the amount of EUR 671,294.92 from the French Minister of Finance for a total of EUR 932,630.88.

According to the MOUs, VAT is payable by the country levying it, which is France in the case of the NH-90 Programme. The Finance and Administrative Committee (FAC) decided that the AB is to be submitted exclusive of VAT. VAT payments are kept in a specific expense account and will be reimbursed by the French Ministry of Finance (MoF).

VAT payments not reimbursed by MoF due to French internal regulations will be compensated by the French Ministry of Defence (MoD). This practise was confirmed per decision 35th Financial Administrative Committee Meeting 16-18 October 2018.

3. Prepayments

NAHEMO acts as an agent on behalf of member states. It makes prepayments on behalf of member nations to industry. However, these prepayments are not considered assets of NAHEMO (they are assets of the member nations) and as such are no longer shown as assets in the Statement of Financial Position.

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Assets – Non-current Assets

4. Property, plant and equipment

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

	Vehicle	Automated Information Systems	Furniture and Security System	Total
Cost	EUR	EUR		EUR
Net book value				
Balance at 31 December 2021	11,083.05	206,100.49	0	217,183.54
Additions	-	671,969.78	771,465.12	1,443,434.90
Disposals	-	-	-	-
Revaluation	-	-	-	-
Balance at 31 December 2022	11,083.05	878,070.27	771,465.12	1,660,618.44
Accumulated depreciation				
Depreciation expense	6,131.40	140,482.97	41,439.75	188,054.12
Balance at 31 December 2022	6,131.40	140,482.97	41,439.75	188,054.12
Net book value				
Balance at 31 December 2022	4,951.65	737,587.30	730,025.37	1,472,564.32

In 2022 NAHEMA replaced and purchased automated information systems for EUR 671,969.78, furniture for EUR 548,377.00 and Security system for EUR 223,088.12, that are capitalized on NAHEMO's Statement of Financial Position. The total depreciation charge for the year 2022 was EUR 188,054.12 and results in a total net book value of EUR 1,472,564.32 for property, plant and equipment.

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5. *Intangible assets*

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

	Computer Software (off the shelf)	Computer Software (bespoke)	Total
Cost	EUR	EUR	EUR
Net book value			
Balance at 31 December 2021	57,422.63	0.00	57,422.63
Additions	7,575.00	154,558.00	162,133.00
Disposals	-	-	-
Revaluation	-	-	-
Balance at 31 December 2022	64,997.63	154,558.00	219,555.63
Accumulated amortisation			
Amortisation expense	38,239.97	36,203.42	74,443.39
Balance at 31 December 2022	38,239.97	36,203.42	74,443.39
Net book value			
Balance at 31 December 2022	26,757.66	118,354.58	145,112.24

In 2022 NAHEMA purchased computer software for EUR 219,555.63 that are capitalized on NAHEMO's Statement of Financial Position. The total amortisation charge for the year 2022 was EUR 74,443.39 and results in a total net book value of EUR 145,112.24 intangible assets.

Liabilities – Current Liabilities

6. Payables

	December 31, 2022	December 31, 2021
	€ '000	€ '000
Payables AB suppliers	(139)	18
Payables OB suppliers	34,429	38,720
Payables to suppliers	34,290	38,738
Payables to Nations in respect of AB	490	2,465
Payables to Nations in respect of OB	945,908	686,400
Payables to Nations	946,398	688,865
Other Payables	0	0
Total Payables	980,688	727,603

Payables to AB Suppliers

In 2022 a reimbursement for a bank guarantee was received for a total amount of EUR 147,795.00 (decreasing the outstanding balance of payables AB suppliers at year end). Payables also contain liabilities for accrued expenses in the amount of EUR 4.697.94.

Payables to OB Suppliers

For 2022 there are payables to OB suppliers for the purchase of goods and services of EUR 34,429,485.97.

Payables to AB funding nations in respect of AB

This represents the net revenue containing interest, bank charges, lapses, and over/under call in 2022. The net result in the amount of EUR 490,354.81 has to be reimbursed to the nations following the MOU cost sharing agreement and NAHEMO SC decisions towards the NAHEMO AB funding.

Lapsed funds 2021 in the amount of EUR 126,751.38 will be offset from call for funds in 2023. Respective credit memos will be created and credited against the 2nd call for funds 2023.

Lapsed funds 2022 in the amount of EUR 198,421.65 will be offset from call for funds in 2024. Respective credit memos will be created and credited against the 2nd call for funds 2024.

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Payables to OB funding nations in respect of OB

This represents the net revenue containing interest, bank charges, contributions from other Nations for compensation, unallocated contributions, miscellaneous receipts and unused contributions.

The amount of EUR 946,398,171.91 represents balances held by NAHEMO or owed from member Nations which are in turn owed to nations until they are expensed on the OB. Due to a change in accounting policy in 2013, contributions for next year's OB are shown as payables to Nations.

In the table below, the details of the total payables to Nations of EUR 490,354.81 (AB) and EUR 946,398,171.91 (OB) are explained.

Interest held on operational bank accounts have accumulated since 2007 to EUR 1,250,848.28.

Payables to Nations at the end of 2022	
Payables to Nations in respect of AB	
Misc. Payables	EURO € '000
Lapsed Funds related to Budget Year 2021	165
Lapsed Funds related to Budget Year 2022	127
	198
490	
Payables to Nations in respect of OB	
	EURO € '000
Interest	1,672
Lapsed Funds NSPA related to Budget Year 2011	105
Unallocated Contributions	5,900
Unused Contributions	938,527
Misc. Payables	194
Total OB Related	946,398

Other Payables

In 2022 there are no other payables.

7. Unearned Revenue and Advances

	December 31, 2022	December 31, 2021
		€ '000
Unearned Revenue AB	3,597	2,979
Advances AB	1,073	1,901
Total	4,670	4,880

Unearned Revenue AB

Unearned revenue AB consists of contributions and other transfers received or receivable, but for which corresponding charges will be incurred after the reporting date. The unearned revenue liability as of 31 December 2022 was EUR 3,596,722.64.

In note 9, it is explained how the unearned revenue 2021, contributions and revenue recognition in 2022 result in the unearned revenue 2022.

Advances AB

Advances related to the AB are contributions called in advance relating to the 2023 Budget. EUR 1,073,224.64 was an advanced contribution from Germany.

Net Assets**8. PP&E and Intangible Asset Reserve**

Net assets of EUR 999,336.08 are represented by accumulated surplus/(deficit) of EUR 196,767.43 plus EUR 802,568.65 surplus for the period.

In 2020 a separate cost account (711005 "capital capitalized") was created in ORACLE to easily track the cost of acquisition and to avoid an overstatement of the expenses in the year the asset is purchased. Additions to asset are not to be recorded directly into the Net Assets/Equity, unless the asset will be donated by its owner as a contribution in kind (IPSAS 17).

D. Notes to Statement of Financial Performance

9. Revenue

The revenue recognition is matched with the recognition of expenses against the NAHEMO AB. Contributions when called are booked as an advance under unearned revenue and subsequently recognised as revenue when it is earned.

The table below shows the revenue from exchange transactions for the AB 2021 and 2022.

	December 31, 2022	December 31, 2021
	€ '000	€ '000
Revenue AB	14,819	12,674
Contributions	14,819	12,674
Revenue	14,819	12,674

The revenue recognition is matched with the recognition of expenses.

Reconciliation between Revenue and Unearned Revenue

The table below explains to what extent the unearned revenue from previous years and the net calls in the current year for the AB is recognized as revenue in the current year. The remaining balance is unearned revenue for the funds that are carried forward to future years and payables for the AB credits that are lapsed.

The starting balance of the unearned revenue at the beginning of 2022 is EUR 4,880,230.81. The reversal for accrued expenses is EUR 17,716.68. The total amount called in 2022 reads EUR 14,397,308.63. The total amount of VAT reimbursement recognized in 2022 is 885,007.60 EUR. The revenue recognized in 2022 is EUR 14,663,782.18 for expenses, 2,704.20 EUR for bank charges and EUR 628,442.95 for VAT expenses; lapsed funds to be returned to Nations are for an amount of EUR 207,998.42. This results in unearned revenue of EUR 4,669,947.28.

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Reconciliation of Unearned Revenue AB 2021 with 2022	
	EURO €'000
Unearned Revenue 31 December 2021	4,880
Reversal accruals 2021	18
Call for Funds 2022	13,324
Call for Funds 2023	1,073
VAT paid 2021 and 2022 to be reimbursed in 2023	885
Accrued Expenses 2022	(5)
Revenue earned 2022	(14,664)
Bank Charges	(3)
Revenue earned in 2022 for VAT 2022	(628)
Payable to Governments 31 December 2022	(208)
VAT reimbursement non-eligible 2020	(3)
Total unearned revenue 31 December 2022	4,670

10. Expenses

Expense recognition for the 2022 AB and previous years carried forward budgets activities are based upon actual payments made together with accrued expenses which are based on value of work completed by contractors or duty trips performed where invoices are not yet received. Depreciation for PP&E and Intangible Assets for 2021 is reflected as expense.

AB Expenses are recognized by nature within the following groups.

Personnel

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

Contractual Supplies and Services

Contractual Supplies and Services expenses include expenses for general administrative overheads, and the maintenance costs of buildings/grounds, communication and information systems, transportation, travel expenses, representation/hospitality and miscellaneous Expenses to fulfil the management tasks of NAHEMA.

Operating Leases

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NAHEMA rents the premises on an operating lease. The annual rent for the premises is EUR 488,000.51 including accessory charges. The lease for building A has an unlimited duration. The lease for building B was terminated in 2022.

The table below shows the total future minimum lease payments under non-cancellable operating leases:

	Cost in € '000		
	<1 year (2022)	1-5 years (2023-2027)	>5 years (2028-2032)
Rental Contracts			Total
Bâtiment A & B Route de Galice 1 w/o land & utility charges	361	0	0
La POMONE w/o land & utility charges and w/o escalation	295 (6months)	591 x 5	591 x 4.5
			5,910

Capital & Investment

Capital investments are reported as expenses against the AB. Acquired assets of PP&E which exceed the materiality thresholds will be in principle capitalized and depreciated over their useful life.

The table below shows the breakdown of the expenses from AB exchange transactions:

	December 31, 2022	December 31, 2021 Resubmitted	December 31, 2021 Initial
	€ '000	€ '000	€ '000
Personnel	11,883	11,212	11,212
Operating	3,346	1,451	1,451
Capital	141	92	92
Capital capitalized	(1,606)	(99)	(99)
Depreciation PP&E	188	100	100
Depreciation Intangible Assets	74	71	71
VAT	0	0	0
Finance Costs	3		0
Changes Accrued Expenses	(17)	(78)	0
Accrued Expenses	4	18	18
Total Expenses AB	14,016	12,767	12,845

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

Personnel	0.00 EUR
Operating Capital	4,697.94 EUR
	0.00 EUR
Total	4,697.94 EUR

11. Surplus or Deficit for the Period

In the Statement of Financial Performance the surplus/deficit of the period of EUR 802,568.65 represent the difference between total revenue and total expenses, which is composed of the annual depreciation expense for P&E and the annual amortisation expense for intangible assets, plus PP&E additions of the period (“capital capitalized”).

12. Bank Charges / Negative Interest

In 2022 bank charges exceeded the interest earned.

For the AB, charges were expensed and recognized as revenue in accordance with the 76th NAHEMO Steering Committee decision.

For the OB, charges were either offset from payable interest of previous years or expensed and recognized as revenue in accordance with respective Nations’ requests.

In 2022 four NAHEMO Nations were charged with negative interest on their operational bank accounts.

For three Nations, negative interest in the amount of EUR 122,856.09, EUR 83,957.54 and EUR 128,373.67 were offset from payable interest of previous years in accordance with respective Nations’ request. For the other Nation negative interest in the amount of EUR 41,387.21 was recognized as expenses in accordance with respective Nation’s request.

E. Events after Reporting Date

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

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

F. Related Parties Disclosure

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

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The key management personnel of NAHEMA have completed a declaration stating that they have no related party relationships that could affect the operation of this reporting entity. Also National Heads of Delegations as well as Joint Executive Committee Members have completed a declaration stating that they have no related party relationships that could affect the operation of this reporting entity.

NAHEMA senior management is remunerated in accordance with published NATO pay scales and does not receive loans that are not available to all staff.

Key Management Personnel

GENERAL MANAGER, grade A7
DEPUTY GENERAL MANAGER, grade A6
ADM DIVISION LEADER, grade A6
SYS DIVISION LEADER, grade A6
LOG DIVISION LEADER, grade A6

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

	December 31, 2022	December 31, 2021
	€ '000	€ '000
Basic salaries	849	813
Allowances	123	142
Post-employment benefits	95	98
Employer's contribution to Insurance	86	80
TOTAL	1.153	1.133

The Salary adjustment was +3.7% in 2022.

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	December 31, 2022	December 31, 2021
Number of individuals on a full time equivalent basis		
General Manager	1	1
Deputy General Manager	1	1
Other key management personnel (Division Leaders)	3	3
TOTAL	5	5

G. Employee Disclosure

Employees in NAHEMA are compensated for the service they provide in accordance with rules and amounts established by NATO.

The compensation consists of basic salary, various allowances, health insurance, pension plan and other benefits as agreed with each Host Nation and the Protocols of NATO. Cash compensations are exempt from income tax in accordance with NATO Nations agreement. NAHEMA is not reliable for retirement benefits.

The costs in Chapter 1 are for staff members hired under the NATO Civilian Personnel Regulations as well as for consultants and contractors. The figures represent the costs of personnel including basic salary, allowances, insurance and pension plan contributions.

	December 31, 2022	December 31, 2021 Resubmitted	December 31, 2021 Initial
Employee benefits expense	€ '000 10,357	€ '000 10,663	€ '000 10,663
Post-employment benefits for defined benefit pension scheme	0	0	0
for defined contribution pension scheme	923	890	890
Total employee benefits expense	11,280	11,553	11,553

Different pension plans are applicable to employees in NAHEMA; defined benefit plan, and defined contribution plan. All pension plans are managed by NATO HQ and are therefore not included in the entity Financial Statements. Contributions to the plans are expensed when occurred.

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H. Financial Instruments Disclosure/Presentation

NAHEMA uses only non-derivative financial instruments as part of its normal operations. These financial instruments include, cash, bank accounts, deposit accounts, and accounts receivable. All the financial instruments are recognised in the statement of financial position at their fair value.

NAHEMA is restricted from entering into borrowings and investments. NAHEMA's management have considered the following types of risks related to its financial assets and liabilities:

- Foreign currency exchange risk: NAHEMA is not exposed to foreign currency exchange risk because all contributions and payments are made in EURO
- Liquidity risk: The liquidity risk is based on the assessment whether the organisation will encounter difficulties in meeting its obligation associated with financial liabilities. There is a very limited exposure to liquidity risk because of the budget funding mechanism that guarantees contributions in relation to approved budgets. The limited risks are primarily the validity of forecasts that result in the calls for contributions.
- Credit Risk: There is a low credit risk as the contributing nations have high or sufficient credit ratings. NAHEMA's management does not believe that its customers' credit positions will directly impact on their ability to meet NAHEMA's funding commitments.
- Price Risk: There is a low price risk to NAHEMA due to programme price increases because Nations are contractually bound to meet such price changes and NAHEMA itself is not exposed to this price risk.

I. Bank Guarantees

NAHEMA's building rental contracts include two bank guarantees ("cautionnement bancaire") with Credit Agricole Bank in favour of société GENEPIERRE for EUR 258,805.00 and in favour of société ATLANTIQUE MUR REGIONS S.C.P.I. of EUR 21,130.36.

Société GENEPIERRE is the owner of the building (Bâtiment A) and société ATLANTIQUE MUR REGIONS S.C.P.I. is the owner of the building (Bâtiment B, ground floor) that are rented by NAHEMA. Société GENEPIERRE and société ATLANTIQUE MUR REGIONS S.C.P.I. insisted on these bank guarantees. These guarantees do not elapse before the end of the rental contract.

NAHEMO FINANCIAL STATEMENTS 2022

Statement of Budget Execution as at 31 December 2022 and for the year ended (Annex as per the NFRs para. 34)

NATIONS	Initial approved Budget 2022	Carry Over from FY 2021	Budgetary adjustments	Final revised Budget 2022	Commitments	Expenses	Carry Over 2022
	A	B	C	D (A+B+C)	E	F	G (E-F)
Chapter 1 D&D	6,835,450	0	-6,835,450	0	0	0	0
<i>FRA</i>	2,708,318	0	-2,708,318	0	0	0	0
<i>DEU</i>	1,285,808	0	-1,285,808	0	0	0	0
<i>ITA</i>	2,361,499	0	-2,361,499	0	0	0	0
<i>NLD</i>	479,825	0	-479,825	0	0	0	0
Chapter 2 PIP	784,904,341	409,486,718	-343,002,013	851,389,046	835,222,885	601,559,590	233,663,295
<i>FRA</i>	259,457,299	251,476,739	-87,089,278	423,844,760	420,481,337	244,700,748	175,780,589
<i>DEU</i>	303,920,565	120,787,290	-159,909,708	264,798,147	263,867,222	250,149,476	13,717,746
<i>ITA</i>	209,965,629	16,952,367	-85,029,874	141,888,121	138,720,926	100,920,004	37,800,922
<i>NLD</i>	10,731,185	17,871,833	-9,890,871	18,712,148	11,018,352	5,449,636	5,568,717
<i>BEL</i>	829,663	2,398,489	-1,082,282	2,145,870	1,135,047	339,726	795,321
Chapter 3 ISS	474,950,636	264,843,036	312,364,785	1,052,158,457	930,289,148	634,912,598	295,376,550
<i>FRA</i>	267,091,842	77,081,686	40,009,136	384,182,664	322,045,381	202,787,800	119,257,581
<i>DEU</i>	69,378,944	12,032,812	190,382,129	271,793,885	271,750,428	262,926,761	8,823,667
<i>ITA</i>	47,443,250	117,663,609	74,668,866	239,775,725	188,783,592	52,041,213	136,742,379
<i>NLD</i>	31,104,060	10,163,691	-7,524,597	33,743,154	33,701,704	32,979,678	722,026
<i>BEL</i>	18,083,315	11,701,297	4,783,259	34,567,871	33,439,007	25,858,877	7,580,130
<i>NOR</i>	9,582,119	10,032,793	7,891,427	27,506,338	27,045,264	17,494,127	9,551,137
<i>SWE</i>	7,859,998	5,481,976	452,140	13,794,114	11,655,887	8,676,525	2,979,362
<i>FIN</i>	4,880,268	3,325,051	573,212	8,778,531	6,946,176	4,954,598	1,991,578
<i>AUS</i>	14,007,263	9,818,646	580,746	24,406,655	22,699,064	16,974,184	5,724,880
<i>NZL</i>	5,519,577	7,541,475	548,468	13,609,520	12,222,644	10,218,835	2,003,809
Totals	1,266,690,426	674,329,754	-37,472,678	1,903,547,503	1,765,512,033	1,236,472,188	529,039,845

Definition Carry Over: A procedure whereby at the closure of the financial year, credits approved and needed to pay for work/services for which no payment have been made, will automatically be added to the next year budget of the relevant Nation.

Statement of Budget Execution as of 31 December 2022 in EUR (Annex as per the NFRs para. 34)

Chapters	Initial approved Budget 2022	Budgetary adjustments	Final revised Budget 2022	Carry forwards 2020 (*)	Carry forwards 2021	Uncommitted amounts authorized as SCFW 2020 (**)	Commitments	Expenses	Carry forwards	
	A	B	C (A+B)	D	E	F	G	H	I (G-H)	(C
Chapter 1	12,080,100.00	-40,000.00	12,040,100.00	4,506.00	24,679.14	0.00	11,986,914.87	11,882,678.13	104,236.74	
Chapter 2	2,970,672.00	-25,000.00	2,945,672.00	17,210.79	1,973,701.82	898,631.35	5,725,637.01	3,346,144.26	2,379,492.75	1
Chapter 3	171,800.00	65,000.00	236,800.00	348.26	14,172.29	0.00	232,567.13	141,218.91	91,348.22	
Total	15,222,572.00	0.00	15,222,572.00	22,065.05	2,012,553.25	898,631.35	1. 17,945,119.01	15,370,041.30	2,575,077.71	2

Definition Carry Forward: A procedure whereby at the closure of the financial year, the unexpended balances of committed credits for which there is a legal liability for payment, are authorized to be retained for use in the two following year.

Definition Lapses (Open Credit): A procedure whereby, at the closure of the financial year, credits against which no commitments have been made will automatically be cancelled.

NB.:

(*): CFW 2020 entirely paid in 2022.

(**): Special Carry Forward, as approved by SC in 2020 (SC85), entirely committed in 2021. It's an exceptional procedure allowing to retain appropriated funds that have not been committed for the use in the FY. Not subject to art 25.5 of the NFRs.

CFW AND SCFW DETAILED FIGURES:

	SCFW 2020			CFW 2021			CFW 2022	Total CFW
	INITIAL	PAYMENTS 2022	REMAINING SCFW	INITIAL	PAYMENTS 2022	REMAINING CFW 2021		
Chapter 1	0.00	0.00	0.00	24,679.14	24,677.83	1.31	104,235.43	104,236.74
Chapter 2	898,631.35	703,050.72	195,580.63	1,973,701.82	644,939.70	1,328,762.12	855,150.00	2,379,492.75
Chapter 3	0.00	0.00	0.00	14,172.29	14,172.29	0.00	91,348.22	91,348.22
Total	898,631.35	703,050.72	195,580.63	2,012,553.25	683,789.82	1,328,763.43	1,050,733.65	2,575,077.71

Notes to the Statement of Budget Execution

Comparison of Budget Execution and Statement of Financial Performance

Budget Execution**Reconciliation between the NAHEMO Budget Execution Statements and the NAHEMO Statement of Financial Performance:**

The difference between the Budget Execution Statement for the AB and the accrual based inputs in the Statement of Financial Performance is based on the depreciation & amortisation amount of EUR 262,497.51, the amount for capital capitalised of EUR (1,605,567.90), the bank charges amount of EUR 2,704.20, the payables accrued expenses amount of EUR 4,697.94 and the changes in accrued expenses amount previous year of EUR (17,716.68).

The following table represents this reconciliation.

Budget	Expenses in Budget Execution Statement	Adjustments for Depreciation & Amortisation	Adjustments for Capitalized	Adjustments for Bank Charges	Adjustments for Accrued Expenses	Adjustments for Changes Accrued Expenses	Expenses in Statement of Financial Performance
	€'000	€'000	€'000	€'000	€'000	€'000	€'000
ADM Budget 2022	15,370	262	(1,606)	3	4	(17)	14,016
TOTAL	15,370	262	(1,606)	3	4	(17)	14,016

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

Reconciliation between the NAHEMO Budget Execution Statements and the NAHEMO Trial Balance:

The following table represents this reconciliation.

Budget	Expenses in Budget Execution Statement €'000	Adjustments for Changes in Payables €'000	Expenses in Trial Balance €'000
OB Budget 2022	1,236,472	0	1,236,472
TOTAL	1,236,472	0	1,236,472

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

The AB is based on estimates and was approved by the NAHEMO Steering Committee during the 38 CSC meeting held on the 1st of December 2021.

The AB COMMITMENTS 2022 are mainly based on personal cost for the NAHEMA employees and purchase and service contracts signed in order to run the agency. In the "Statement of Budget Execution", the column "Carry forward" shows the remaining commitments at year end to be carried forward to the next year. Committed credits carried forward are allowed to be carried forward for two years (except Special Carry forward). At the end of the third year, they will be finally cancelled. The column "Expenses" shows the total amount expensed during the year. The column "Lapsed" shows the difference between the total amount of credits minus the total amount committed lapsed at year end and to be given back to Nations.

At the end of 2022, EUR 210,702.64 were lapsed, and will be given back to Nations. Hence, payable lapses to Nations add up as follows: Coming from Budget 2021: EUR 9.576.79 coming from Budget 2022: EUR 201,125.85

RECONCILIATION OF ADM BUDGET EXECUTION TO CASH FLOW STATEMENT

Expenditure (modified cash based) on AB	(16,251,092.09)
Cash received on AB	12,731,293.64
Net inflow on AB	(3,519,798.45)
Net cash flow as per cash flow statement	(3,293,791.50)
Difference	226,006.95

Represented by:

- Bank Charges:	(2,452.20)
- Misc. Payments:	(29,091.33)
- VAT reimbursed:	257,550.48

In accordance with the new NAHEMO Financial Rules and Procedures, replacing the 5th issue of the NAHEMO Financial Rules and Regulations, the OB is composed of three Chapters, Chapter 1 (formerly known as D&D), Chapter 2 (formerly known as PIP) and Chapter 3 (formerly known as ISS and NAMSA).

The OB for each Chapter indicates the total estimated amount of expected cash payments. This amount includes amounts for planned contracts to be signed during the actual Budget year and planned amendments of contracts as well. For the new frame contracts like the repair & overhaul contracts for the engine and the helicopter, Nations provided the budget figures based on their assumptions.

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The INI OB 2022 was approved during the 38 CSC meeting held on the 1st of December 2021, except for BEL, DEU, FRA, ITA, AUS and NOR, which approved ex-committee: FIN, NZL, SWE approved only the part related to Chapter 3. The MYR OB 2022 was approved ex-committee by BEL, DEU, FRA, ITA, NZL, while AUS, FIN, NLD, NOR, SWE approved during the 39 CSC meeting held on the 9th of June 2022.

RECONCILIATION OF OP BUDGET EXECUTION TO CASH FLOW STATEMENT

Expenditure (cash based) on OB	(1,275,361,414.02)
Cash received on OB	1,501,829,430.76
Net outflow on OB	226,468,016.74
Net cash flow as per cash flow statement	226,612,764.09
Difference	144,747.35

Represented by:

- Interest paid to Treasuries:	(10,328.83)
- Bank Charges:	(120,392.85)
- Negative Interest:	(481,444.15)
- Interest earned:	756,913.18

Statement of Credits carried forward

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

(EUR)	NAHEMA AB 2022	
	STATEMENT OF CREDITS CARRIED FORWARD TO 2023	
CHAPTER		REMARKS
01 PERSONNEL	104,236.74	Education allowances, overtime, removal, recruitment, home leave, medical examinations CEPMA costs to be finalized
02 SUPPLIES	2,379,492.75	Moved to new premise, maintenance, travel missions, computerization, technical assistance, leasing costs to be finalized
03 CAPITAL	91,348.22	Furniture, IT, security costs to be finalized
TOTAL	2,575,077.71	

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ANNEX 1

In accordance with the Section I art. 12 of the NAHEMO FINANCIAL RULES AND PROCEDURES (approved on 20/10/2017), a statement of budgetary transfers recorded in 2022 is presented in the following table:

NAHEMA ADMINISTRATIVE BUDGET 2022 TRANSFERS AUTHORIZED IN ACCORDANCE WITH ARTICLE 12 OF NAHEMO FINANCIAL RULES AND PROCEDURES		
CHAPTER DEBIT	CHAPTER CREDIT	AMOUNT
2110 (RENT OF PREMISES)	2111 (RELOCATION)	10,000.00 €
2110 (RENT OF PREMISES) (UNFORSEEN NECECITY)	2610 (HOSPITALITY)	6,000.00 €
2114 (MAINTENANCE OF BUILDING)	2116 (MAINTENANCE OF FURNITURE AND EQUIPMENT)	2,691.51 €
2114 (MAINTENANCE OF BUILDING)	2811 (TECHNICAL ASSISTANCE)	100,000.00 €
2117 (GUARDING)	2111 (RELOCATION)	16,794.80 €
2812 (PROCESS DIGITALIZATION)	2811 (TECHNICAL ASSISTANCE)	30,000.00 €
2114 (MAINTENANCE OF BUILDING)	2111 (RELOCATION)	100,000.00 €
2117 (GUARDING)	2111 (RELOCATION)	47,795.00 €
1110 (BASIC SALARY)	1111 (HOUSEHOLD ALLOWANCE)	16,000.00 €
1113 (EXPATRIATION ALLOWANCE)	1111 (HOUSEHOLD ALLOWANCE)	13,000.00 €
1210 (CONTINUED MEDICAL COVERAGE)	1111 (HOUSEHOLD ALLOWANCE)	1,000.00 €
1210 (CONTINUED MEDICAL COVERAGE)	1112 (DEPENDANTS ALLOWANCE)	8,000.00 €
1211 (ALLIANZ INSURANCE)	1112 (DEPENDANTS ALLOWANCE)	11,000.00 €
1211 (ALLIANZ INSURANCE)	1115 (INSTALLATION ALLOWANCE)	3,500.00 €
1211 (ALLIANZ INSURANCE)	1116 (OVERTIME)	51,000.00 €
1211 (ALLIANZ INSURANCE)	1119 (EDUCATION ALLOWANCE)	13,000.00 €
1211 (ALLIANZ INSURANCE)	1410 (REMOVAL)	10,500.00 €
1215 (PENSIONS)	1410 (REMOVAL)	6,000.00 €
1412 (HOME LEAVE)	1410 (REMOVAL)	5,000.00 €
1710 (LANGUAGE TRAINING)	1410 (REMOVAL)	7,000.00 €
1712 (OTHER TRAINING)	1410 (REMOVAL)	2,500.00 €
1712 (OTHER TRAINING)	1414 (STAFF ADMIN SUPPORT)	1,040.00 €
1712 (OTHER TRAINING)	1513 (NATO SHARED SERVICES)	3,500.00 €
2413 (INSURANCE OF THE STAFF CAR)	2412 (MAINTENANCE OF THE STAFF CAR)	203.21 €
1110 (BASIC SALARY)	1119 (EDUCATION ALLOWANCE)	19,500.00 €
2110 (RENT OF PREMISES)	2111 (RELOCATION)	86,000.00 €
2112 (UTILITIES / ELECTRICITY)	2111 (RELOCATION)	20,000.00 €

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2112 (UTILITIES / ELECTRICITY)	2111 (RELOCATION)	20,000.00 €
2113 (CLEANING)	2111 (RELOCATION)	4,000.00 €
2911 (INSURANCE FIRE, THEFT, AND CIVIL LIABILITY)	2114 (MAINTENANCE OF THE BUILDING)	8,000.00 €
3214 (SECURITY EQUIPMENT)	3211 (COMPUTERS, SOFTWARES)	5,000.00 €
1110 (BASIC SALARY)	3211 (COMPUTERS, SOFTWARES)	40,000.00 €
2112 (UTILITIES-ELECTRICITY)	3211 (COMPUTERS, SOFTWARES)	25,000.00 €
1210 (CONTINUED MEDICAL COVERAGE)	1111 (HOUSEHOLD ALLOWANCE)	1,705.12 €
1210 (CONTINUED MEDICAL COVERAGE)	1113 (EXPATRIATION ALLOWANCE)	684.71 €
1110 (BASIC SALARY)	1119 (EDUCATION ALLOWANCE)	30,799.81 €
1410 (REMOVAL)	1119 (EDUCATION ALLOWANCE)	35,000.00 €
1215 (PENSIONS)	1119 (EDUCATION ALLOWANCE)	3,961.24 €
3211 (UNFORSEEN NECESSITY DLA)	3211 (COMPUTERS, SOFTWARES)	20,000.00 €
2113 (CLEANING)	2812 (PROCESS DIGITALIZATION)	13,600.00 €
2810 (COMPUTERIZATION OPERATING COSTS)	2112 (UTILITIES / ELECTRICITY)	7,500.00 €
2111 (RELOCATION)	2110 (RENT OF PREMISES)	18,900.00 €
2811 (TECHNICAL ASSISTANCE)	2110 (RENT OF PREMISES)	25,000.00 €
2810 (COMPUTERIZATION OPERATING COSTS)	2110 (RENT OF PREMISES)	8,700.00 €
2210 (OFFICE SUPPLIES)	2110 (RENT OF PREMISES)	1,000.00 €
1211 (ALLIANZ INSURANCE)	1610 (WELFARE)	4,000.00 €
2111 (RELOCATION)	2812 (PROCESS DIGITALIZATION)	147,000.00 €
TOTAL AMOUNT TRANSFERRED		1,010,875.40 €

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OB Milestones achieved 2022

As of 31 December 2022 milestones in the amount of EUR 12,315,412.06 had been declared achieved by NAHEMA (Certified) but were not invoiced before closing of F.Y. 2022. Hence, they were not recognized as payables in F.Y. 2022.

Representation allowance

The NAHEMA General Manager is entitled to representation allowance to cover expenses associated with establishing and maintaining business relationships of value to NATO (e.g. hosting of functions such as dinners, luncheons and receptions). As per EM-HR(PSC)(2014)0008 dated 5 March 2014, including PO(2013)0154, the total entitlement to representation allowance for 2022 was EUR 0.00 There were no expenses in 2022.

	December 31, 2022	December 31, 2021
	€	€
Rental supplement expenses	0.00	0.00
Hospitality expenses	0.00	0.00
Total	0.00	0.00

