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6 February 2017

DOCUMENT
 C-M(2017)0003-AS1 (INV)

IBAN REPORT ON THE AUDIT OF THE 2014 NSPO FINANCIAL STATEMENTS

ACTION SHEET

On 3 February 2017, under the silence procedure, the Council noted the IBAN report IBA-AR(2015)23 and agreed the recommendations, including on public disclosure, contained in the RPPB report attached to C-M(2017)0003 (INV).

(Signed) Rose E. Gottemoeller
 Deputy Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2017)0003 (INV).

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31 January 2017

DOCUMENT
C-M(2017)0003 (INV)
Silence Procedure ends:
03 Feb 2017 16:00

IBAN REPORT ON THE AUDIT OF THE 2014 NSPO FINANCIAL STATEMENTS

Note by the Deputy Secretary General

1. I attach the International Board of Auditors for NATO (IBAN) report on the audit of the financial statements of the NATO Support Organisation (NSPO) for the year ended 31 December 2014. The IBAN has issued a qualified opinion on the financial statements, and a qualified opinion on compliance for the financial year 2014.
2. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB), which has provided its own report (see annexes) with conclusions and recommendations to Council.
3. I consider that no further discussion regarding this report is required. Consequently, **unless I hear to the contrary by 16:00 hours on Friday, 03 February 2017**, I shall assume that the Council has noted the IBAN report IBA-AR(2015)23 and agreed the recommendations, including on public disclosure, contained in enclosed the RPPB report.

(Signed) Rose E. Gottemoeller

4 Annexes
1 enclosure

Original: English

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**IBAN REPORT ON THE AUDIT OF THE NATO SUPPORT AND PROCUREMENT
AGENCY (NSPO) 2014 FINANCIAL STATEMENTS**

Report by the Resource Policy and Planning Board

References:

1. IBA-A(2015)0142 & IBA-AR(2015)23
2. BC-D(2016)0020
3. CH/2016/0032, dated 18 November 2016

Background

1. The present report by the Resource Policy and Planning Board (RPPB) contains the RPPB's observations and recommendations concerning the International Board of Auditors for NATO (IBAN) report (reference (a)).
2. The RPPB notes and agrees with the conclusions and recommendations of the BC as laid out in their report (reference (b)), which form the basis of the Board's discussions.
3. The report takes full account of the RPPB's recommendations on accounting for the CEPS Programme, agreed with AC/335-N(2015)0036-REV1 on 26 May 2015, which have been incorporated into the overall advice in the present report to Council.

Discussion

4. The Board notes that the IBAN has submitted a qualified opinion on the NATO Support and Procurement Agency (NSPO) 2014 financial statements and a qualified opinion on compliance for financial year 2014. This follows on from a qualified opinion on the NSPO financial statements for 2013.¹
5. The audit observation impacting on compliance results from material weaknesses in internal control over financial reporting at the NATO Airlift Management (NAM) Programme where there have been long outstanding weaknesses reported on by the IBAN.
6. Of the six observations which impact on the audit opinion on the financial statements, the three first of these observations essentially result from situations that were known and form part of the 2013 IBAN report. These observations are reflective of the need for ongoing efforts to integrate the financial procedures and systems of the NSPO while maintaining and growing programme output and achieving efficiencies.

¹ IBA-A(2014)229 & IBA-AR(2014)21

- Scope limitations on Foreign Military Sales (FMS)² balances in respect of the NATO Airlift Management (NAM) Programme;
- Incomplete reporting in respect of the Central Europe Pipeline System (CEPS) Programme;
- Scope limitation on NAM Programme Customer Advances and 'Unused Authorised Credits and Commitments Brought/Carried Forward' in the Financial Plan Execution Statement;
- Misstatements due to accounting not being consistent with customer funding on a "no-profit / no-loss" basis;
- Incorrect translation of NAM Programme functional currency (USD) into NSPO presentation currency (EUR);
- Limited audit assurance is given in respect to the 2013 comparative information.

7. The three additional observations that do not impact the audit opinion involve inaccurate inventory reporting, limited internal audit work in some areas of the NSPO and the retention of unused national funding by the NSPA, albeit at the request of Nations. The Board considers, based on the BC report, that the NSPO has adequately addressed these observations.

8. The difficulties in reconciling the expenditures related to the United States System Programme Office (indirect contracting under the United States Government Acquisition Agreement) has been an ongoing issue. The Board notes that in April 2016 Council approved adaptations to the NATO Accounting Framework **which should resolve the issue for NSPO (and other NATO entities) where the inability to represent accrued costs has led to qualification.**³

9. The Board notes that the NSPO in their response to the audit report indicate that the activities of the whole CEPS programmes revenues and expenses would be shown in their 2015 financial statements. The issue of the placing the fully reporting of revenue, expenses, assets, liabilities and cash flows of the Central Europe Pipeline System (CEPS) Programme within the NSPO Financial Statements has been under consideration by the NATO Head of Financial Reporting Policy in full coordination with NSPO/ACO and the IBAN. The recommendations on accounting for the CEPS Programme were agreed by the Board on 26 May 2015.⁴

10. The Board notes, also based on the BC report, that the integration of different entities and financial support systems within one organisation was underestimated at the start of NATO Agencies Reform. There is a need to reach full financial integration of the different entities and move from different financial tools and processes which has hindered financial

² United States System Programme Office (indirect contracting under the US Government Acquisition Agreement)

³ C-M(2016)0023

³ AC/335-N(2015)0036-REV1

support. At the NSPO this lack of integration in 2014, when combined with reductions in financial manpower and a growing demand for services, have not allowed for ideal financial effectiveness and efficiency.

11. Specifically in respect of NSPO Asset management and inaccurate inventory reporting, the Board notes, taking the BC report into account, that steps have been taken to improve inventory management. The Board has long stressed the criticality of completing and verifying the handover/takeover (HO/TO) of inventory and Property, Plant & Equipment (PP&E)⁵, in particular in the context of the NATO Agencies Reform.⁶ Sufficient management priority needs to be given to the transfer, recording and maintenance of PP&E.

12. The Board notes the response by the NSPA⁷ that an Improvement Plan has been put in place and that this has resulted in progress being achieved in the accounting processes, the sufficiency of which would only be confirmed with the IBAN audit of the 2015 NSPO financial statements. As the sufficiency of progress is likely to impact on both the compliance qualification and the qualified opinion on the financial statements, the Board, also noting the BC report, considers this will be an indicator of progress for the NSPO in carrying out its Charter responsibilities.⁸ The Board would expect that the plan and follow-on actions NSPO has put in place would be regularly reported on and reviewed by senior management.

13. The Board notes, based on the BC report, that NSPA intends to meet all observations by the end of 2016; including previous years' observations and recommendations. While generally satisfied with the responses and actions taken by the NSPA, in looking at the qualified opinion on the NSPO financial statements for 2014, the Board nonetheless urges the NSPA to make every effort to ensure that the qualifications do not reoccur in the IBAN audit report on the 2015 financial statements.

14. With regard to public disclosure, the NSPO Agency Supervisory Board (ASB), having reviewed the statements in accordance with agreed policies⁹, originally had concerns related to sensitive information falling within the NATO exemptions 1, 3, 7, 8 and 9¹⁰ contained in the financial statements. As a result, and further to discussions held between the IBAN and the entity, it was agreed to remove those elements which should not be

⁵ International Public Sector Accounting Standards (IPSAS). IPSAS 17 -Property, Plant and Equipment.

⁶ E.g. C-M(2016)0019

⁷ NSPO formal comments included in IBA-AR(2015)23

⁸ C-M(2015)0012 and C-M(2011)0047

⁹ C-M(2008)0116; AC/324-D(2014)0010-REV1

¹⁰ NATO 1: Information, the public disclosure of which would be likely to endanger NATO internal cohesion, members, missions, infrastructure or personnel; NATO 3: confidential commercial information, unless the parties concerned consent to its public disclosure; NATO 7: details about current weapons systems; NATO 8: details about current political or military plans, policies and operations; NATO 9: details about current internal or external NATO political discussions and sensitivities

disclosed to the public.¹¹ The IBAN confirm that the findings reflected in their original audit report remain valid.

15. The Board has been very concerned that the IBAN audit of the 2014 NSPO financial statements has still not been noted by Council due to the lack of a conclusion regarding public disclosure of the financial statements. The Board is therefore pleased to note that a solution has finally been found to this long ongoing issue. After due consideration of the arguments presented, the RPPB, in line with PO(2015)0052, recommends to Council the publication of the redacted 2014 NSPO financial statements and the associated IBAN report.

RPPB Conclusions

16. The Board notes the qualified audit opinion and the reasons for the qualification. This follows on from a qualified opinion on the NSPO Financial Statements for 2013. The Board concludes that the ongoing compliance and scope limitations need to receive urgent follow-on action and urges the NSPA to make every effort to ensure that the qualifications do not reoccur in future IBAN audit reports; also recalling the encouraging NSPO audit responses and the Improvement Plan. The success of these actions will only be known in future IBAN audit reports and will require the continued engagement by NSPA senior management and the provision of adequate financial tools and personnel throughout.

17. The NSPO engagement and inputs into the development of the proposals on financial handling of accounting in respect of the **Foreign Military Sales** cases contained in the NATO Accounting Framework¹² should aid to resolve this wider NATO difficulty.

18. Taking the BC report into account, the Board concludes that for the NSPO there is a need to finalise the full financial integration of the different entities within one Organisation. To the end of 2014 at least the need to integrate different financial tools and processes has hindered financial support; when combined with reductions in financial manpower and growing demand, financial effectiveness and efficiency have been strained. This is forecast to only be resolved and a Financial Manual standardising process in place for the 2016 NSPO financial statements. NSPO will need to focus on improvements set in motion if observations are not to reoccur in IBAN audit reports.

19. There is difficulty in obtaining accurate inventory reports within NSPO Asset Management. The NSPO difficulties with Property, Plant & Equipment (PP&E)¹³ control and reporting of assets have started to be dealt with. Positive steps to reconcile stocks held by National Depots have been initiated and need to be proactively followed up and reported on if they are to be successful.

20. After due consideration of the arguments presented by NSPA and the NSPO ASB regarding public disclosure, and noting the IBAN view on the matter, the Board, in line with

¹¹ CH/2016/0032, dated 18 November 2016

¹² C-M(2016)0023

¹³ International Public Sector Accounting Standards (IPSAS). IPSAS 17 -Property, Plant and Equipment.

PO(2015)0052, recommends to Council the publication of the public release version of the 2014 NSPO financial statements and the associated IBAN report.

RPPB recommendations

21. The Resource Policy and Planning Board (RPPB) recommends that Council:
- a) note the IBAN report IBA-AR(2015)23 along with the present report;
 - b) endorse the conclusions outlined in paragraphs 16 through 20;
 - c) invite NSPO to implement the IBAN recommendations by the end of 2016;
 - d) invite NSPO to ensure that all CEPS Programme related assets, liabilities, revenues, expenses and cash flows, including the operational CEPS balances and activities of the National Organisations, be reported in the NSPO Statement of Financial Position, the Statement of Financial Performance and the Cash Flow Statement.
 - e) note that the Resource Committees intend to continue to monitor the status of outstanding audit observations;
 - f) in line with the agreed policy in PO(2015)0052, agree to the public disclosure of the publicly releasable version of the NSPO 2014 financial statements and the associated IBAN report (IBA-AR(2015)23).

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**Summary Note for Council
by the International Board of Auditors for NATO (Board)
on the audit of the Financial Statements of the
NATO Support and Procurement Organisation (NSPO)
for the year ended 31 December 2014**

The Board issued a qualified opinion on the NSPO 2014 Financial Statements and on compliance for the year ended 31 December 2014 due to the following reasons:

One observation impacts the audit opinion on compliance:

1. Material weaknesses in internal control over financial reporting.

Six observations impact the audit opinion on the financial statements:

2. Incomplete reporting of revenue, expenses, assets, liabilities and cash flows of the Central Europe Pipeline System (CEPS) Programme.
3. Scope limitation on NAM Programme Foreign Military Sales (FMS) balances.
4. Scope limitation on NAM Programme Customer Advances and 'Unused Authorised Credits and Commitments Brought/Carried Forward' in the Financial Plan Execution Statement.
5. Misstatements due to accounting not being consistent with customer funding on a "no-profit / no-loss" basis.
6. Incorrect translation of NAM Programme functional currency (USD) into NSPO presentation currency (EUR).
7. Limited audit assurance is given in respect to the 2013 comparative information.

The remaining three observations do not impact the audit opinions:

8. Inaccurate inventory reporting.
9. Limited internal audit work in certain areas of NSPO.
10. NATO Member States often decide that unused funding should remain at NSPA rather than being returned to national treasuries.

The Board also followed up on the status of observations and recommendations from previous years' audits and noted that one has been settled, one has been partially settled, 13 have been superseded by a current year observation and six are still outstanding. These have been summarised in the follow-up section, Annex 4.

NSPO's formal comments have been included in the Letter of Observations (Annex 4).

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INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE
THE NATO SUPPORT AND PROCUREMENT ORGANISATION
(NSPO)

FOR THE YEAR ENDED 31 DECEMBER 2014

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

Report on the Financial Statements

The International Board of Auditors for NATO (Board) audited the accompanying Financial Statements of the NATO Support and Procurement Organisation (NSPO), which comprised the Statement of Financial Position as at 31 December 2014, the Statement of Financial Performance, the Statement of Changes in Net Assets and the Statement of Cash Flows for the year then ended, and Notes to the Financial Statements, including a Statement of Accounting Policies.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion on the Financial Statements

As explained in the Accounting Policies note to the financial statements, the operational assets, liabilities, revenue, expenses and cash flows of the Central Europe Pipeline System (CEPS) Programme have not been included in the financial statements. The Board's opinion is that the NSPO Financial Statements shall present all CEPS Programme activities and balances, including those of the National Organisations, which are part of NSPO as per the NSPO Charter. These activities and balances are material to the NSPO Financial Statements. The amount of assets and liabilities not included in the Statement of Financial Position is EUR 200 million, including about EUR 163 million of Cash and Cash Equivalents, EUR 22 million of Accounts Receivable, and EUR 165 million of Advances received. Inventory, Fixed and Intangible Assets and Accounts Payable and Accruals are also impacted, but by smaller amounts. Furthermore, the value of the pipeline, of which the value has not been determined, is also not included. The amount of Services and Support to Customers revenue and expenses not included in the Statement of Financial Performance as a result of the above decision is about EUR 130 million, including about EUR 78 million of non-military revenue. The Statement of Cash Flows is also impacted by these exclusions.

Also, due to the material weaknesses in internal control over financial reporting of the NATO Airlift Management (NAM) Programme, the Board does not have sufficient appropriate audit evidence on EUR 191 million of Customer Advances because it was recorded as a balancing figure and not supported by supporting documentation.

Furthermore, the Board also does not have sufficient appropriate audit evidence on the opening "Unused Authorised Credits and Unpaid Commitments Brought Forward" balance and the closing "Unused Authorised Credits and Unpaid Commitments Carried Forward" balance in the NAM Programme Financial Plan Execution Statement in Note 19 to the financial statement.

In addition, as explained in Note 1 to the financial statements, NSPO is not able to accrue for certain costs related to the NAM Programme because the reporting from the United State's Foreign Military Sales (FMS) Programme are not on the accruals basis of accounting.

The Board also found that the financial statements do not fairly present, on an accrual basis, the customer funded 'no-profit / no-loss' basis in which NSPO operates. The "Operating Surplus / (Deficit) for the Year" is generated during the consolidation process, and results in revenue being understated by EUR 9.9 million. The full impact of this misstatement on the Statement of Financial Position is not known. Also, the NSPO Statement of Changes in Net Assets incorrectly presents EUR 328 million of movements whose nature is customer advances (i.e. liabilities). The NSPO Statement of Change in Net Assets also presents "Effect of Currency Translation on Capital Assets Contributed" and "Effect of Currency Translation on Depreciation and Amortisation of Capital Assets Contributed" that does not meet the definition of a currency translation difference as per the NATO Accounting

Framework. The net amount presented as currency translation is EUR 53 million; however, the Board estimates the amount to be EUR 2 million.

Lastly, the Board is not able to provide audit assurance on the 2014 Financial Statements in respect to the 2013 comparative information presented in those statements. This limitation is due to the fact that the reasons for the Board's prior year qualifications on the 2013 NSPO Financial Statements were not resolved. As a result, our opinion on the current period's financial statements is also modified because of the potential effect of these matters on the comparability of the current period's figures and corresponding 2013 figures.

Qualified Opinion on the Financial Statements

In our opinion, except for the effects and possible effects of the matters described in the *Basis for Qualified Opinion on the Financial Statements* paragraph, the financial statements present fairly, in all material respects, the financial position of NSPO as of 31 December 2014, and of its financial performance and its cash flows for the year then ended are in accordance with the NATO Accounting Framework.

Report on Compliance

Management's Responsibility for Compliance

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

Auditor's Responsibility

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

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

Basis for Qualified Opinion on Compliance

The NATO Financial Regulations requires the establishment of a system of internal control. The Board found material weaknesses in internal control over financial reporting at the NAM Programme.

Opinion on Compliance

In our opinion, except for the matter described above in the *Basis for Qualified Opinion on Compliance*, in all material respects the financial transactions and information reflected in the Financial Statements are in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

Brussels, 08 October 2015

Lyn Sachs
Chairman

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INTERNATIONAL BOARD OF AUDITORS FOR NATO

LETTER OF OBSERVATIONS AND RECOMMENDATIONS

FOR THE NATO SUPPORT AND PROCUREMENT ORGANISATION

(NSPO)

FOR THE YEAR ENDED 31 DECEMBER 2014

Introduction

The International Board of Auditors for NATO (Board) audited the NATO Support and Procurement Organisation (NSPO) Financial Statements for the year ended 31 December 2014, and issued a qualified opinion on the financial statements and a qualified opinion on compliance. The reasons for the qualified opinions, as well as other observations and recommendations, are summarised in the Observations and Recommendations section below.

Observations and Recommendations

One observation impacts the audit opinion on compliance:

1. Material weaknesses in internal control over financial reporting.

Six observations impact the audit opinion on the financial statements:

2. Incomplete reporting of revenue, expenses, assets, liabilities and cash flows of the Central Europe Pipeline System (CEPS) Programme.
3. Scope limitation on NAM Programme Foreign Military Sales (FMS) balances.
4. Scope limitation on NAM Programme Customer Advances and 'Unused Authorised Credits and Commitments Brought/Carried Forward' in the Financial Plan Execution Statement.
5. Misstatements due to accounting not being consistent with customer funding on a "no-profit / no-loss" basis.
6. Incorrect translation of NAM Programme functional currency (USD) into NSPO presentation currency (EUR).
7. Limited audit assurance is given in respect to the 2013 comparative information.

The remaining three observations do not impact the audit opinions:

8. Inaccurate inventory reporting.
9. Limited internal audit work in certain areas of NSPO.
10. NATO Member States often decide that unused funding should remain at NSPA rather than being returned to national treasuries.

NSPO's formal comments, and the Board's position on those comments where necessary, have been inserted into the report.

The Board also followed up on the status of observations and recommendations from previous years' audits and noted that one has been settled, one has been partially settled, 13 have been superseded by a current year observation and six are still outstanding. These have been summarised in the follow-up section (Annex 3).

OBSERVATIONS AND RECOMMENDATIONS

1. MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Reasoning

1.1 The financial statements are due to be presented by 30 April per the NATO Financial Regulations (NFRs) in place in 2014. Revised NFRs issued in 2015 will require future financial statements to be issued by 31 March.

1.2 The NFRs also require the establishment of a system of internal financial and budgetary control. The NFRs state that the Financial Controllers of NATO bodies are responsible for exercising the administration of this system of internal control.

1.3 During the Board's 2013 audit, the Board found significant weaknesses in respect to NAM Programme financial reporting. These have been long outstanding weaknesses. The Board recommended that an appropriate action plan be put in place and communicated to appropriate persons, roles and positions to ensure proper accountability for changes and improvements in the production of the NAM Programme financial reporting. The Board also recommended that NSPA Finance should continually monitor the progress of such improvements to ensure the timely identification and correction of problems.

1.4 The Board also found consolidation weaknesses in its 2013 audit. The Board recommended that NSPA develop a detailed, written accounting manual that includes details of the consolidation process such as timelines, inter-segment account reconciliation and specific consolidation entries.

Observations

1.5 The Board found that the 2014 NSPO Financial Statements were issued on 29 May 2015, one month after the NFR deadline of 30 April. Furthermore, they were subsequently restated on 2 July 2015. The following financial reporting control weaknesses contributed to these delays.

NAM Programme Financial Reporting Control Weaknesses

1.6 The Board found continued weaknesses in the NAM Programme Financial Reporting. An Improvement Plan was presented by the NSPA Director of Finance to the NAM Programme, Policy and Finance Committee in July 2014. Actions identified in this plan included: a validation of the work done by a full review of the prior years' transactions and accounting, the development of processes and procedures in key financial areas, the implementation of regular accounting, and a review of the Chart of Accounts. The Board found that very few of the actions identified in the plan have been implemented.

1.7 The Board found that there was no improvement made to the in-year processes or controls. This includes that there was no regular accounting implemented during the year. As a result, a significant amount of manual intervention was again needed to try to correct the NAM Programme balances in the financial accounting system. This led to material and pervasive differences between what was reported in the financial accounting system and what was reported in the financial statements. While the Board understands the theoretical reasoning for many of the manual adjustments, it was not fully able to obtain sufficient appropriate audit evidence that all such manual adjustments were complete or accurate. For example, the Board found that a balancing entry of EUR 191 million was recorded in Customer Advances, but no detail of this amount could be provided. There was also no clear review of the results of the manual intervention.

1.8 The Board also found that it was not clearly documented who was responsible for what in the financial reporting process, and there was limited monitoring of the progress of the implementation of the plan. Furthermore, communication weaknesses existed between the NSPA Finance Directorate, the NSPA Finance Division and NAM Programme personnel. These again contributed to the late issuance of the financial statements because issues were not identified by NSPA management in a timely manner during the year.

1.9 Overall, in the Board's view, there has been no discernible improvement in respect to internal control over financial accounting and reporting of the NAM Programme. These are material weaknesses, and as a result, the Board qualifies its audit opinion in respect to compliance with the NFR requirement to have a system of internal control.

NSPO Comments

For the 2014 Financial Statements NSPA management decided to use Excel as the basis for the financial reporting of the NAM Programme. This decision was taken on the grounds that while SAP figures in relation to the NAM Programme's Financial Position (i.e. balance sheet) were considered correct, a methodology to transform figures in SAP for the NAM Programme's financial performance (i.e. profit and loss account) in accordance with its FMS based accounting policies had not been fully established (see observation 3).

It is management's plan that the NAM Programme's input into the NSPO Financial Statements for 2015 will be fully based on SAP figures.

Board's position

An analysis, prepared by the NSPA during the audit at the request of the Board, highlighted significant differences between the SAP figures and those presented in the financial statements. These differences are not only related to the FMS based accounting policies.

Consolidation Financial Reporting Control Weaknesses

1.10 The Board found that there continued to be weaknesses in the consolidation of the segments into NSPO. The consolidation process was again difficult to follow and understand. Certain elimination entries were made in consolidation that incorrectly reversed entries at the segment level (see Observation 5 below) and the translation of NAM Programme USD balances into EUR were not translated in accordance with the requirement of the NATO Accounting Framework (see Observation 6 below). The Board also found that NSPA has not yet developed a detailed, written accounting manual that includes details of the consolidation process such as timelines, inter-segment account reconciliation and specific consolidation entries.

NSPO Comments

The Agency uses the BPC consolidation tool (Business, Planning and Consolidation) to accomplish the process of consolidation and to provide an audit trail. The consolidation process will be further clarified with a detailed process flow chart and associated Operating Instructions.

NSPA uses “transformational” accounting rather than “transactional” accounting. This means that at the year-end a number of balances must be “transformed” into IPSAS compliant financial reporting data. This lengthens the audit trail and requires that an auditor must often reverse into a transaction from a transformed balance to understand it. In a “transactional” accounting system, the transaction is IPSAS compliant when entered into the accounting system.

Board’s position

The Board reiterates its observation. NSPO should ensure that transactional accounting is implemented as soon as possible. This does not only shorten the audit trail but will also provide NSPA with better management information throughout the year. It will also help in reducing the risk of errors and the amount of time needed to prepare end-of-year figures for consolidation into the NSPO Financial Statements, thereby removing a significant obstacle to preparing reliable financial statements by the deadline set in the NATO Financial Regulations.

Recommendations

1.11 The Board recommends that the NSPA Director of Finance, as a matter of urgency and without further delay, implement the Improvement Plan in respect to the NAM Programme. This may also require a critical reconsideration of how best to address these long-standing weaknesses.

1.12 The Board further recommends the following in respect to the NAM Programme:

- Detailed written policies and procedures be developed and implemented as soon as possible.
- Responsibilities need to be clarified in writing and those responsible should be managed and held accountable.
- Detailed control activities should be developed, including a monthly financial closure and reconciliation process, timely management reviews, periodic reporting to NSPA senior management, and internal audit monitoring.
- Improvements in the communication between the NSPA Finance Directorate, the NSPA Finance Division and the NAM Programme.

1.13 The Board reiterates its recommendation that NSPA develop a detailed, written accounting manual that includes details of the consolidation process such as timelines, inter-segment account reconciliation and specific consolidation entries.

NSPO Comments

The ASB accepts the recommendation.

An Improvement Plan was presented by the NSPA Director of Finance to the NAM Finance Committee in July 2014 with the following key deliverables:

- *The validation, by a full review, of prior years' transactions and accounting*
- *The development of processes and procedures in key financial areas*
- *The implementation of regular accounting, and*
- *A review of the Chart of Accounts*

While NSPA acknowledges that mistakes were made, and it was unable to implement the full Improvement Plan as anticipated, it disagrees with the IBAN that very few of the actions identified in the Improvement Plan have been implemented, in fact there was progress made in many areas despite limitations in staff resource's due to the absence of key action officers such as:

- *Significant work has been undertaken to ensure that SAP balances in relation to the NAM Programme Statement of Financial Position (i.e. Balance Sheet) are complete and accurate and can be supported by an audit trail*
- *A review of processes and procedures in key financial areas of the NAM Programme has been undertaken and resulted in the issuance of a number of updated NAM Programme internal operating instructions. These are being implemented, but, as commented in the responses to the IBAN Audit Report from 2013 "It is anticipated that processes and procedures will become embedded for the preparation of the NSPO Financial Statements in 2015"*
- *Regular accounting is gradually being established due to ongoing support and training from the central Finance Division in Capellen*

- *The review of the SAP Chart of Accounts is ongoing to ensure that transformational accounting can be successfully implemented in respect of the NAM Programme's Statement of Financial Performance (i.e. Profit and Loss Account) where financial reporting must follow the modified cash basis of accounting needed to record FMS expenditures and revenues*

Despite these considerable improvements the Improvement Plan has been updated and coordinated under the direction of the General Manager with monthly progress reports.

Board's position

The Board appreciates that the Improvement Plan has been updated and assumes that the updated plan addresses the weaknesses as highlighted by the Board. Further, the Board recommends that, as with the original plan, the updated plan will be presented to the NAM Finance Committee, as well as periodic reports on progress against the plan.

2. INCOMPLETE REPORTING OF REVENUE, EXPENSES, ASSETS, LIABILITIES AND CASH FLOWS OF THE CENTRAL EUROPE PIPELINE SYSTEM (CEPS) PROGRAMME

Reasoning

2.1 Per the NATO Accounting Framework, financial statements are to present fairly the financial position, financial performance and cash flows of an entity. In addition, the information in the financial statements should be complete.

2.2 The NSPO Charter states that the CEPS Programme, including the National Organisations, is part of NSPO. As a result, the financial position, financial performance and cash flows of the CEPS Programme, including the National Organisations, should be included in the NSPO Financial Statements. This provides the user of the financial statements with a complete picture of NSPO's activities.

2.3 During its 2013 audit, the Board found that the 2013 NSPO Financial Statements had not reported the assets, liabilities, revenue, expenses and cash flows related to the operation and maintenance of the pipeline in the National Organisations. This was because NSPO did not believe that the CEPS Programme collectively controlled the pipeline from a financial reporting perspective. The Board did not agree with this assessment and recommended that the North Atlantic Council (NAC) ensures that all the CEPS Programme related assets, liabilities, revenues, expenses and cash flows, including the operational CEPS balances and activities of the National Organizations, be reported in the NSPO Financial Statements.

Observations

2.4 Based on the Board's audit results, the NATO Office of Resources (NOR) prepared a detailed analysis of this issue. This analysis concluded that NSPO should report the CEPS operational balances and activities in the NSPO Financial Statements. On 26 May 2015, based on the NOR's analysis, NATO's Resource Policy and Planning Board (RPPB) recommended in its report to the NAC on the Board's audit that *"that all CEPS Programme related assets, liabilities, revenues, expenses and cash flows, including the operational CEPS balances and activities of the National Organisations, be reported in the NSPO Statement of Financial Position, the Statement of Financial Performance and the Cash Flow Statement."* The RPPB has not yet sent its report to the NAC for decision.

2.5 Consequently, the Board found that also the 2014 NSPO Financial Statements did not present the balances and activities related to the operation and maintenance of the pipeline in the National Organisations. Rather, only the administrative balances and activities of the CEPS Programme Office (CEPS PO) in Versailles, France, were reported.

2.6 The Board estimates that the amount of assets and liabilities not included in the Statement of Financial Position is at least EUR 200 million, including about EUR 163 million of Cash and Cash Equivalents, EUR 22 million of Accounts Receivable, and EUR 165 million of Advances received. Inventory, Fixed and Intangible Assets and Accounts Payable and Accruals are also impacted, but by smaller amounts. Furthermore, the value of the pipeline, of which the value has not been determined, is also not included. The amount of Services and Support to Customers revenue and expenses not included in the Statement of Financial Performance as a result of the above decision is about EUR 130 million, including about EUR 78 million of non-military revenue. The Cash Flow Statement is also impacted by these exclusions.

2.7 The decision to exclude these assets, liabilities, revenue, expenses and cash flows has a material impact on the financial statements. Since these are not included in the primary NSPO Financial Statements, the Board's audit opinion is qualified in respect to these activities and balances.

Recommendation

2.8 The Board recommends that NSPO be in a position to quickly implement NAC decisions regarding the financial reporting of the CEPS Programme.

NSPO Comments

The ASB's position in respect of NSPO's control of the Central Europe Pipeline System from a financial reporting perspective is already well known.

To ensure that NSPO is in a position to quickly implement NAC decisions regarding the financial reporting of the CEPS Programme, a working group has already been

established and is working to review options for potential future financial reporting for the Central Europe Pipeline System.

In the notes to the NSPO Financial Statements 2014, NSPA management has provided extra disclosures not required by IPSAS but which enable the users of the financial statements to gain an understanding of the financing of CEPS including the National Organisations.

3. SCOPE LIMITATION ON NAM PROGRAMME FOREIGN MILITARY SALES (FMS) BALANCES

Reasoning

3.1 According to the NATO Accounting Framework, accrual basis means a basis of accounting under which transactions and other events are recognised when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions and events are recorded in the accounting records and recognised in the financial statements of the periods to which they relate.

3.2 In its 2013 financial statements, NSPO reported that transactions through the United States' Foreign Military Sales (FMS) program are only able to be reported by the United States Government on the cash basis of accounting. As a result, the Board's opinion on the 2013 financial statements was qualified due to a scope limitation in respect to the reporting of FMS activities. During its 2013 audit, the Board recommended that NSPO coordinate with the Head of Financial Reporting Policy at NATO Headquarters to try to develop a consistent and definitive approach towards accounting for and reporting FMS transactions in the financial statements.

Observation

3.3 The Board found that in 2014, the NSPA Director of Finance made a request to the Head of Financial Reporting Policy at NATO Headquarters to begin the process of coordinating a NATO-wide approach to accounting for and reporting FMS activities. The work on this issue is still ongoing. As a result, the FMS issue identified in the prior year audits was still not resolved. The Board's opinion on the 2014 financial statements is again qualified in respect to the reporting of FMS activities. This primarily impacts Prepayments in the Statement of Financial Position and Services and Support to Customers expenses in the Statement of Financial Performance.

Recommendation

3.4 The Board recommends that NSPO continue its coordination with the Head of Financial Reporting Policy at NATO Headquarters to try to develop a consistent and definitive approach towards accounting for and reporting FMS transactions in the financial

statements.

NSPO Comments

The clarification of FMS accounting will be addressed at the NATO level in the context of the review of the NATO Accounting Framework proposed for late 2015/2016.

NSPO's financial reporting of FMS is based on the most accurate data available for the financial year in question, which is that provided in regular financial reports from the Defense Finance and Accounting Service. In August 2014, the United States Defense Security Cooperation Agency confirmed to the General Manager that,

"Financial reporting systems currently used by DFAS/IN, the United States Army, Navy and Air Force neither permit reporting to NSPA on an accruals basis nor permit NSPA to make a reliable estimate of goods and services delivered to NSPA in a financial reporting period. This situation arises because there are currently no mechanisms to require vendors to provide timely financial reporting data which can be reconciled to the goods and services which they deliver in a particular reporting period."

It is anticipated that the NATO Accounting Framework will adopt the accounting policy of NSPO in relation to FMS. This is based on United States' Government DD645 reports which show the cash expended by the US Government on goods and services for NSPO in the financial reporting period. Amounts of cash expended are recognized as NSPO's expenditure in the financial reporting period and these amounts are matched as revenues which must be reimbursed by customers.

Board's position

The Board highlights that it remains to be seen whether the NAC will accept further adaptations to the NATO Accounting Framework as anticipated by NSPO.

4. SCOPE LIMITATION ON NAM PROGRAMME CUSTOMER ADVANCES AND 'UNUSED AUTHORISED CREDITS AND COMMITMENTS BROUGHT/CARRIED FORWARD' IN THE FINANCIAL PLAN EXECUTION STATEMENT

Reasoning

4.1 Per the NATO Accounting Framework, financial statements are to present fairly the financial position, financial performance and cash flows of an entity. The information in the financial statements should be accurate and complete.

Observations

4.2 The Board found that, due to weaknesses in internal control over NAM Programme financial reporting identified in Observation 1 above, the Board found that the following balances could not be supported by appropriate, sufficient audit evidence:

4.2.1 Due to the significant amount of manual intervention in the accounting, the Board found that EUR 191 million of Customer Advances is not based on a detailed listing of advances outstanding at 31 December 2014, but rather, is a balancing figure.

NSPO Comment

While it is correct that the Euro 191m of Customer Advances presented in Excel was not based on a detailed listing of advances outstanding at 31 December 2014, and was a balancing figure, it should be noted that NSPA has spent significant manpower resources ensuring that SAP balances in relation to the Statement of Financial Position (i.e. Balance Sheet) are considered to be fully supported (see observation 3). Therefore, although the observation is factually correct, conversely, support for the balances does exist in SAP.

Board's position

As this is a material balance, the Board specifically asked for the detail of the EUR 191 million of Customer Advances to support the balance of customer advances. However, no detail was provided by NSPA during the audit and until the date of this report.

4.2.2 Note 19 of the financial statements presents the NAM Programme Financial Plan Execution Statement. The Board found that the opening 2014 balance brought forward from 2013 does not agree to the ending balance in the 2013 financial statements. The difference is USD 19 million.

NSPO Comments

It is factually correct that the opening brought forward balance for 2014 does not agree to the ending balance shown in the 2013 Financial Statements; the difference is USD 19 million. The ending balance in the 2013 Financial Statements was incorrect and was corrected in the opening balance of the 2014 Financial Statements.

Board's position

Transparency needs to be improved in respect to the NAM Programme financial plan execution.

NSPO should have clearly identified by USD 19 million difference as the correction of an error in the section of the Accounting Policies note of the 2014 financial statements entitled “Restatement of 2013 Financial Statements”.

Recommendation

4.3 The Board refers to its recommendation from Observation 1 above that the NSPA Director of Finance, as a matter of urgency and without further delay, implement the Improvement Plan in respect to the NAM Programme. This may also require a critical reconsideration of how best to address these long-standing weaknesses.

NSPO Comments

The ASB accepts the recommendation.

For the 2014 Financial Statements NSPA management decided to use Excel as the basis for the financial reporting of the NAM Programme. This decision was taken on the grounds that while SAP figures in relation to the NAM Programme’s financial position (i.e. balance sheet) were considered correct, a methodology to transform figures in SAP in relation to the NAM Programme’s financial performance (i.e. profit and loss account) in accordance with the requirements of the Programme’s FMS based accounting policies had not been fully established (see observation 3).

Board’s position

Refer to the Board’s position on the NSPO’s Comment at paragraph 1.9 above.

5. MISSTATEMENTS DUE TO ACCOUNTING NOT BEING CONSISTENT WITH CUSTOMER FUNDING ON A “NO-PROFIT / NO-LOSS” BASIS

Reasoning

5.1 NSPO is a customer-funded body and operates under a mandate of “no-profit, no-loss”. This means that all costs incurred by NSPO will need to be fully funded by customers. Alternatively, any excess funding should be returned to customers. The financial reporting, which is based on NATO Accounting Framework under the accrual basis of accounting, should reflect this.

5.2 During its 2013 audit, the Board found that in the 2013 Statement of Financial Performance, revenue did not equal to expenses, despite there being no surplus or deficit for the year. The Board recommended that, in future financial statements, the allocation of the result at the programme level should be included in the financial statements to properly present on an accrual basis and that this more accurately represents NSPO’s actual business.

Observations

5.3 The Board found that there were some improvements in the allocation of items previously presented as “amounts to be (returned to) / Reimbursed by Nations” to revenue and expenses. However, there is still the presentation of a net deficit for the year, and as a result, the financial statements do not fairly present, on an accrual basis, NSPO as a “no-profit, no-loss” entity. The Statement of Financial Performance presents a deficit of EUR 9.9 million. Consolidation entries created this deficit by reversing closing entries that had been made at the segment level. In the Board’s opinion, ‘Services and Support to Customers’ and ‘Reimbursement of Administrative Costs’ revenue are understated by a total EUR 9.9 million. Accounts Receivables, Prepayments, and Accruals/Customer Advances in the Statement of Financial Position may also be misstated, but this impact has not been determined due to the high number of closing segment entries that were reversed.

NSPO Comment

NSPO is chartered to elaborate its Financial Plan on a no-profit/no-loss basis globally over the planning period, which is three years. This does not prohibit the realization of profits and losses in a financial reporting period. The ASB’s acknowledgement that accounting profits and losses can occur in a financial reporting period reflects the accounting policy approved as part of the NSPO Financial Statements 2013.

NSPA reviewed the observation in last year’s audit report on the same subject which it considered was a presentational issue which could be rectified. On the IBAN’s request NSPA management sent a paper in early February 2015 outlining how it proposed to amend the presentation of profits and losses to enhance a user’s understanding. NSPA was informed that the proposed presentation was unsatisfactory on Wednesday 28 May, the day before the financial statements were formally issued to the IBAN and the ASB.

5.4 Furthermore, the Board also found it not correct that advance funding from customers are first reported like contributions from owners in the Statement of Changes in Net Assets, are then transferred to Customer Advances (a liability), and finally, recognized as revenue when the advance is ultimately used. Advance customer funding should be recorded as a liability until it is earned, at which point revenue is recognised. As a result, the Statement of Changes in Net Assets is misstated as it should not present either the EUR 328 million of ‘Net Change in Customer Advances’ or the EUR 328 million of ‘Reflected in Customer Advances (Note 9)’.

NSPO Comment

The presentation of Statement of Changes in Net Assets was revised in 2014 to demonstrate the link between profits and losses, currency translation effects (see observation 6), advance funding, and Customer Advances as reflected in Note 9 of

the Financial Statements. Users of the financial statements should not consider advance funding from customers to be synonymous to contributions from owners; advance customer funding is recorded as a liability until it is earned, at which point revenue is recognized.

Recommendation

5.5 The Board recommends NSPO to develop a detailed accounting manual in order to clarify the accounting within NSPO. The accounting manual should reflect customer funding on a “no-profit, no-loss” basis, and should also ensure that inefficiencies in the accounting process, such as reversing closing entries made at the segment level, are eliminated.

NSPO Comments

The ASB notes the recommendation.

The need for a clearer and more understandable presentation of profits and losses in a way which is meaningful for users of the financial statements, especially in light of the Council's decision to publish NATO bodies' financial statements, is being taken forward by the NATO Accounting Working Group and will be considered in the context of the review of the NATO Accounting Framework proposed for late 2015/2016.

In an attempt to address the recommendation, NSPA management will consider presenting the NSPO Financial Statements 2015 in such a way that there is no profit and no loss and the NSPO Accounting Policies will be updated to reflect this revised accounting treatment. This revised accounting treatment will impact on the Statement of Financial Position, Statement of Financial Performance and Statement of Changes in Net Assets.

Board's position

The Board reiterates its position that a detailed accounting manual be developed in order to clarify the accounting within NSPO.

The Board notes that the restated financial statements were issued on 2 July 2015.

6. INCORRECT TRANSLATION OF NAM PROGRAMME FUNCTIONAL CURRENCY (USD) INTO NSPO REPORTING CURRENCY (EUR)

Reasoning

6.1 Financial statements prepared in accordance with the NATO Accounting Framework shall comply with IPSAS 4, *The Effect of Changes in Foreign Exchange Rates*. As per the

requirements of paragraphs 43, 44 and 47 of IPSAS 4, exchange differences due to translation result from translating revenue and expenses at the exchange rates at the dates of the transactions, and assets and liabilities at the closing exchange rate, and translating the opening net assets/equity at a closing rate that differ from the previous closing rate.

Observations

6.2 The Board found that the NAM Programme financial reporting in USD, its functional currency, is not properly translated into EUR, which is the NSPO financial presentation currency.

6.3 The net amount disclosed as exchange difference in the Statement of Changes of Net Assets is EUR 53 million: 'Effect of currency translation on Capital Assets contributed', EUR 66 million minus 'Effect of Currency translation on depreciation and Amortization of Capital Assets Contributed, EUR 13 million.

NSPO Comments

As NSPO has no "net assets" (all assets are owned by customers) the opening and ending balances on the Statement of Changes of Net Assets are Zero. The items shown in the Statement of Changes of Net Assets in relation to currency translation effects were shown to allow users of the financial statements to understand how foreign exchange affects USD denominated NAM Programme assets (e.g. the C17s) when translated into Euros.

The Euro 53m in relation to the NAM Programme is transferred into the Statement of Changes of Net Assets so that users of the financial statements can see the currency exchange effect on the asset balance (e.g. the C17s) which is then transferred out of the Statement of Changes of Net Assets into Capital Contributed (see Note 9 of the Financial Statements) to reflect the impact of liability balances.

6.4 The net amount disclosed is only the exchange adjustment of the NAM Programme's 'Capital assets contributed' portion of Customer advances (see note 9 of the financial statements). Taking into account that the net exchanges differences should be the result form translation of all NAM programme balances, the Board estimates the exchange differences to be approximately EUR 2 million.

Recommendation

6.5 The Board recommends that net translation exchange differences be properly calculated and disclosed as required by IPSAS 4.

NSPO Comments

The ASB accepts the recommendation.

NSPA will review the accounting in this area with a view to changing the presentation of the Statement of Changes of Net Assets in the NSPO Financial Statements 2015.

7. LIMITED AUDIT ASSURANCE IS GIVEN IN RESPECT TO THE 2013 COMPARATIVE INFORMATION

Reasoning

7.1 Financial statements prepared in accordance with the NATO Accounting Framework are required to disclose comparative information in respect of the previous period for all amounts reported in the financial statements. As a result, the Board's audit opinion covering current period financial statements includes the comparability of the current period figures to the corresponding prior period figures.

Observation

7.2 The Board issued a qualified audit opinion on the 2013 NSPO Financial Statements in respect to the incomplete reporting of the CEPS Programme, unreliable accrual based accounting at the NAM Programme related to procurements from the U.S. FMS program and to the presentation of the Statement of Financial Performance related to "amounts to be (returned to) / Reimbursed by Nations". These matters have not been fully resolved. As a result, the Board is required to modify its audit opinion on the 2014 NSPO Financial Statements in respect to the corresponding 2013 balances in these areas.

NSPO Comment

The ASB notes the observation.

8. INACCURATE INVENTORY REPORTING

Reasoning

8.1 Note 21 of the financial statements states that NSPO manages EUR 270 million of inventories on behalf of third parties. Allied Command Operations is one of these third parties. This inventory is not controlled by NSPO, and as a result, is not reported as inventories of NSPO. Much of this third party inventory is held at national depots used by NATO. Both the amount of such inventory reported in this note and the amount reported to the third party owners of the inventory should be accurate.

Observation

8.2 NSPA obtained confirmations from National Depots and contractors as to the quantities of NSPO managed inventory items held by those entities. The Board found that there were differences between the confirmations and the amount reported in the note to financial statements. It is estimated that inventories are overstated by approximately EUR 17 million as a result of this. Furthermore, one of the national depots did not respond to the confirmation request made by NSPA.

Recommendation

8.3 The Board recommends that NSPA implements appropriate procedures to ensure that any differences observed during the reconciliation process between the confirmations received from the national depots or contractors and the figures reported by NSPA are resolved in a timely manner and are accurately reported to both the third party owners and in the notes to the financial statements.

NSPO Comments

The ASB notes the observation and recommendation, which, as stated in the IBAN report, 'does not impact the audit opinion'.

The recommendation of the IBAN will be followed, i.e. from 2015 onwards, further efforts will be made to expedite the inventory confirmation receipts from the AD(G) National Depots so that in case of inventory differences, the corresponding stock values can be corrected in time for the production of the 2015 Financial Statement.

9. LIMITED INTERNAL AUDIT ACTIVITIES IN CERTAIN AREAS OF NSPO

Reasoning

9.1 An adequately funded, properly trained and clearly mandated internal audit function is an important element of internal control. Such a function will allow a body to better understand its own processes and identify areas of operational and financial risk.

9.2 During its 2013 audit, the Board found that NSPA Internal Audit Division has not yet performed any internal audit activities at the CEPS National Organisations, had not been able to perform sufficient inventory test counts at third-party contractors and national depots because the Member Nations participating in the Programmes were not approving the necessary funding for such activities, and had not been involved with improving internal controls over financial reporting at the NAM Programme.

9.3 The Board recommended a review of the NSPA Internal Audit function, including how it is funded, to ensure that it adequately able to cover all NSPO activities, including

those of the CEPS National Organisations and inventory test counts at third-party contractors and national depots and that its resources are being focused, in coordination with NSPA management, on the priority risks of NSPO.

Observations

9.4 During its audit, the Board was not informed on the results of the review asked to be performed by the Board. However, the Board received strong support and cooperation from the NSPA Internal Audit Division. This cooperation was important for the proper understanding of internal risks and is a success factor for an efficient and economical audit. The Board had access to all reports issued during 2014 and reviewed them as part of its audit.

NSPO Comments

NSPA management is pleased to read that the IBAN received “strong support and cooperation” from the NSPA Internal Audit Division despite the latter’s limited resources linked to its funding streams. This support thus provided to the IBAN is not subject to any reimbursements

NSPA conducted a review of the internal audit function in 2014. In the NSPO Annual Financial Plan 2016 the Auditor General has proposed additional financial resources to permit the internal audit function to increase its activities in areas such as inventory counts.

9.5 The observations raised in the 2013 audit observation letter have not been fully settled. No internal audits have been performed at the CEPS Programme National Organisations and the Internal Audit Division has not been significantly involved with improving internal controls over financial reporting at the NAM Programme. In addition, while the Internal Audit Division performed inventory counts at four national depots in 2014, it is still heavily dependent upon funding from the programmes to be able to do so.

NSPO Comments

While internal audit is authorized through the NSPO Charter to audit the National Organisations of CEPS, the extant financial regulations of CEPMO, which are applicable to CEPS, acknowledge that responsibility for carrying out the internal audit rests primarily with the CEPS National Organisations.

The Auditor General, in coordination with the CEPS PO and national authorities as required, will conduct a review of how best to gain audit assurance that controls are well designed and are operating effectively within the CEPS National Organisations, fully taking into account the specific legal status of those organisations and all

legislation and regulations applicable to them. The outcome of this review will be presented to the CEPS PB and to the ASB for validation.

The Internal Audit plan for 2015/16 in relation to the NAM Programme financial area will assess specific aspects of the NAM Improvement Plan.

Recommendation

9.6 The Board recommends that NSPO gives priority to this review of its internal audit function.

NSPO Comment

The ASB notes the recommendation.

10. NATO MEMBER STATES OFTEN DECIDE THAT UNUSED FUNDING SHOULD REMAIN AT NSPA RATHER THAN BEING RETURNED TO NATIONAL TREASURIES

Reasoning

10.1 NATO bodies should not be used by NATO Member States as a place to hold unused funds until a future use can be found. These funds should be returned to the national treasuries of the nations. The NATO Financial Regulations support the principle that NATO bodies shall not have excessive cash holdings.

10.2 Furthermore, paragraph 127 of IPSAS 1, *Presentation of Financial Statements*, states that notes to the financial statements shall provide additional information that is not presented on the face of the financial statements, but that is relevant to an understanding of any of them.

10.3 During its 2013 audit, the Board found that the 2013 financial statements disclosed that “NSPA management has no powers to limit the sums advanced or prepaid by its customers.” and that nations are allowed to keep any unused cash from completed projects at NSPA until such a time that the customer decides on another use for it (e.g. allocate to another project, return cash to nation, etc.). This puts the risk of managing those funds, including the risk of theft or error, on NSPA. It also risks that NSPA be used by its customers, which are mainly national governments of NATO Member States, to hold unused funds that should be returned to national treasuries. National rules often prevent nations from using their cash balances for purposes other than that for which they were approved.

10.4 The Board recommended that NSPO disclose the advances by nation in the financial statements. The Board also recommended that NSPA determines which of the customer advances are currently committed to be used for specific customer projects and

which are waiting to be either re-allocated to another project or returned to the nations, and that this breakdown should also be presented in the annual financial statements.

10.5 Lastly, the Board also recommended that the NSPO Agency Supervisory Board and the NATO Resource Policy and Planning Board (RPPB) confirm the NSPA opinion that it is not in a position to limit customer advances.

Observations

10.6 The RPPB has not yet discussed this topic. Furthermore, since NSPO disagreed with the Board's observation from the 2013 audit, the situation has not changed. Total customer advances remain at over EUR 2 billion, and the only disclosure on this balance in the financial statements is in Note 9, which simply states that "*Customer advance payments are the net amount of all other assets owned by customers.*"

10.7 The Board found that the financial statement also disclose an additional EUR 97 million of "Customer and replenishment credits (allocated or to be allocated)". This is in addition to the over EUR 2 billion of customer advance payments. Note 9 states that these "represent amount owned by customers and consist of bank interest earned, losses by exchange and miscellaneous income, while replenishment credits represent amounts owned by customers for the replenishment of spare parts." A majority of this balance is unallocated credits whereby there is no direct attribution on those funds to customers yet.

Recommendation

10.8 The Board recommends that NSPO allocate the unallocated customer credits as soon as possible and return this excess cash to nations. In the future, such an allocation should be performed more timely. It should be done before the issuance of the financial statements.

NSPO Comments

The ASB accepts the recommendation

While NSPA acknowledges that In the future, such an allocation should be performed on a timelier basis, it is unlikely that this can be done before the issuance of the financial statements; this is because so many staff resources are involved in the preparation of the financial statements in this time period.

The issue of the financial reporting of cash management at NSPA, which includes the amounts advanced by customers, was referred by the ASB at its June 2015 session to the FAA for advice.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

The Board followed up on the status of observations and recommendations from previous years' audits. The observations and their status are summarised in the appendix. The Board noted that one has been settled, one has been partially settled, 13 have been superseded by a current year observation and six are still outstanding.

Status of Previous Years' Observations

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
NSPO 2013 AUDIT REPORT		
NSPO 2013 audit report – Annex II IBA-AR(2014)21, section 1		
Observation - 2013 Financial reporting		
Recommendations		
(1.7) The Board recommends that NSPA develop a detailed, written accounting manual that includes details of the consolidation process such as timelines, inter-segment account reconciliation and specific consolidation entries.	No improvements observed.	Observation Superseded by observation 1.
(1.8) In respect to the NAM Programme weaknesses, the Board recommends that an appropriate action plan be put in place and communicated to appropriate persons, roles and positions to ensure proper accountability for changes and improvements in the production of the NAM Programme financial reporting. NSPA Finance should continually monitor the progress of such improvements to ensure the timely identification and correction of problems.	No improvements observed.	Observation Superseded by observation 1.
(1.9) In the case of NLSE, the Board recommends that, in order to be able to properly account for and present NSPO's wide range of activities, NSPA Finance should continue to develop its understanding of all of NSPO's activities, workflows and documentation and identify areas where improvements in communication between NSPA Finance and the Heads of Programmes could be made.	The Board still identified communication issues.	Observation Superseded by observation 1.

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p>NSPO 2013 audit report – Annex II IBA-AR(2014)21, section 2</p> <p>Observation - 2013 Financial reporting</p> <p>Recommendation (2.9) The Board recommends that the North Atlantic Council ensures that the whole CEPS Programme related activities, including the operational CEPS activities of the National Organizations, shall be reported in the NSPO Financial Statements.</p>	<p>The operational CEPS balances and activities were not reported in the NSPO Financial Statements. It is expected that they will be reported in the 2015 NSPO Financial Statements.</p>	<p>Observation Superseded by Observation 2.</p>
<p>NSPO 2013 audit report – Annex II IBA-AR(2014)21, section 3</p> <p>Observation - 2013 Financial reporting</p> <p>Recommendation (3.5) The Board recommends that NSPO coordinate with the NATO Head of Financial Reporting Policy with the aim to develop a NATO-wide approach to the financial reporting of FMS activities.</p>	<p>FMS activities were still reported on cash basis of accounting. The Board understands that no NATO-wide approach has been defined yet.</p>	<p>Observation Superseded by observation 3.</p>
<p>NSPO 2013 audit report – Annex II IBA-AR(2014)21, section 4</p> <p>Observation - 2013 Financial reporting</p> <p>Recommendations (4.7) The Board's recommends that, in future financial statements, the allocation of the result at the programme level should be included in the financial statements to properly present on an accrual basis. The Board believes that this more accurately represents NSPA's actual business (no-profit, no-loss, with very few historical write-offs of receivables).</p> <p>(4.8) The Board also recommends that all items presented in the Statement of Financial Performance be properly recorded as either revenue or expenses, including any appropriate impacts on assets and liabilities.</p>	<p>The presentation of the financial statements changed in 2014, with impacts on this specific caption. Reference is made to current year observation 5 above.</p> <p>The presentation of the financial statements changed in 2014, with impacts on this specific caption. Reference is made to current year observation 5 above.</p>	<p>Observation Superseded by observation 5.</p> <p>Observation Superseded by observation 5.</p>
<p>NSPO 2013 audit report – Annex II IBA-AR(2014)21, section 5</p> <p>Observation - 2013 Financial reporting</p>		

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
Recommendations (5.5) The Board recommends that, in the future, all changes in accounting policies are clearly observed along with the reasons for doing so. (5.6) The presentation of full year comparative information when the body only existed for a partial year is a transition issue. As such, there is no specific recommendation for this aspect of the observation.	No improvements were observed. We observed a restatement of the consolidated financial statements for 2013 figures. No specific detail is provided on these modifications. No longer applicable.	Observation Outstanding . Observation Settled .
NSPO 2013 audit report – Annex II IBA-AR(2014)21, section 6 Observation - 2013 Financial reporting Recommendation (6.6) The Board recommends NSPA to clarify the position of the Director of Finance in the procurement process and to inform the appropriate NATO committees at NATO HQ if it is decided not to apply the NSPO Charter in this respect. This communication is important as the NATO Financial Regulations are currently being revised.	The Board did not observe modifications for this in the new Operating Instruction for Procurement released in 2014.	Observation Outstanding .
<p style="text-align: center;"><i>(1) NSPO Comment</i></p> <p style="text-align: center;"><i>The box highlighting actions taken is factually incorrect. The statement “The Board did not observe modifications for this in the new Operating Instruction for Procurement released in 2014” should refer to draft NSPO Financial Procedures which will now be discussed by an Ad-hoc Working Group of the Finance, Audit and Administration Committee in September 2015.</i></p> <p>Board’s position</p> <p>The Board notes that draft Financial Procedures are now currently being discussed. The Board will review the results of these discussions during it audit of the 2015 NSPO Financial Statements.</p>		
NSPO 2013 audit report – Annex II IBA-AR(2014)21, section 7 Observation - 2013 Financial reporting Recommendation (7.6) The Board recommends a review of the NSPA Internal Audit function, including how it is funded, to ensure that it is able to adequately able to cover all NSPO activities, including those of the CEPS National Organisations and inventory test counts at	No improvements have yet been agreed.	Observation Superseded By observation 9 .

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
third-party contractors and national depots and that its resources are being focused, in coordination with NSPA management, on the priority risks of NSPO.		
<p>NSPO 2013 audit report – Annex II IBA-AR(2014)21, section 8</p> <p>Observation - 2013 Financial reporting</p> <p>Recommendation (8.5) The Board reiterates its prior recommendation that NSPA and ACO should develop an action plan to come to formal agreements between ACO and NSPA to enable reliable information to be provided in appropriate timeframes.</p>	<p>The Board found that there were some improvements in communication between ACO and NSPO. However, there are still some further improvements to be made. For example, improvements are needed in communicating the status of NSIP projects in Afghanistan to ACO.</p>	<p>Observation Partially Settled.</p>
<p>NSPO Comment</p> <p><i>The box highlighting actions taken is factually incorrect. The statement “The Board found that there were some improvements in communication between ACO and NSPO. However, there are still some further improvements to be made. For example, improvements are needed in communicating the status of NSIP projects in Afghanistan to ACO”, does not correctly reflect the fact that NSPA provided ACO with a full reporting of NSIP projects in Afghanistan for which NSPA acts as host nation.</i></p> <p>Board’s position</p> <p>During its audit of the 2014 ACO Financial Statements, the Board found continued weaknesses in the reporting of NSIP projects delivered by NSPA to ACO in-theatre.</p>		
<p>NSPO 2013 audit report – Annex II IBA-AR(2014)21, section 9</p> <p>Observation - 2013 Financial reporting</p> <p>Recommendations (9.4) Since NSPA does not believe that it is in a position to limit the amount of funds provided to it or retained in it by customers, the Board recommends a better transparency to disclose the advances by nation in the financial statements.</p>	<p>The Board observed the presentation of the net position by Nation in the 2014 NSPO Financial Statements issued on 29 May 2015. However, this presentation was removed in the restated financial statements received on 2 July 2015. The Board did not observe improvement.</p>	<p>Observation Superseded by Observation 10.</p> <p>Observation</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p>(9.5) The Board also recommends that NSPA determine which of the customer advances are currently committed to be used for specific customer projects and which are awaiting to be either re-allocated to another project or returned to the nations. This breakdown should also be presented in the annual financial statements.</p> <p>(9.6) The Board also recommends that the NSPO Agency Supervisory Board and the NATO Resource Policy and Planning Board confirm the NSPA opinion that it is not in a position to limit customer advances.</p>	This has not yet happened.	<p>Superseded by Observation 10.</p> <p>Observation Superseded by Observation 10.</p>
<p>NSPO 2013 audit report – Annex II IBA-AR(2014)21, section 10</p> <p>Observation - 2013 Financial reporting</p> <p>Recommendation (10.3) The Board recommends NSPA, as from 2014, to confirm the outstanding asset and liability balances it has with other NATO bodies as part of the preparation of the financial statements to increase the reliability of the data.</p>	This has not yet happened.	Observation Outstanding.
NSPO 2012 AUDIT REPORT		
<p>NSPO 2012 audit report IBA-AR(2013)27, section 5.2 NSPO Log-Ops: Observations and Recommendations</p> <p>Observation - 5.2.1 Inventory held at Contractors</p> <p>Recommendation 3 5.2.1.7 The Board recommends that logistics improve the timeliness of the confirmation process.</p> <p>Observation - Significant cash holdings held by the NAM Programme</p> <p>Recommendation 11 7.2.5.4 The Board recommends that NAM Programme reduces cash levels and calls future funds based on actual cash requirements.</p>	<p>The timeliness of the confirmation process was improved. However, adjustments resulting from this confirmation process were not performed on a timely basis to allow for the amounts presented in the financial statements to be accurate.</p> <p>Cash levels have increased by 75% compared to the prior</p>	<p>Observation Superseded by Observation 8.</p> <p>Observation Outstanding.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
	year (EUR 122 million to EUR 213 million) while payments have decreased by 15% (EUR 172 million to EUR 146 million).	
<p>NSPO Comment</p> <p><i>The box highlighting actions taken states that “Cash levels have increased by 75% compared to the prior year (Euro 122 million to Euro 213 million) while payments have decreased by 15% (Euro 172 million to Euro 146 million)”. Cash calls are based on a budget approved by the NAM Programme. If cash requirements to pay invoices are less than budgeted then cash balances will increase. In addition, the Programme received a refund of Euro 30m (USD 37m) from the US government in relation to FMS at the end of December 2014.</i></p> <p>Board’s position</p> <p>The Board reiterates its position that the level of such cash holdings are considered as excess per the NFRs.</p>		
NAMSA 2011 AUDIT REPORT		
<p>NAMSA 2011 audit report C-M(2013)0015 & IBA-AR(2012)29, section 5.3</p> <p>Observation - Potential future liabilities for Nations upon withdrawal from activities</p> <p>Recommendation 4 The Board recommends that the NSPA analyses the existing situation especially for the activities supported by a limited number of Nations or by non-NATO Nations to make sure that at all times members supporting NSPA activities clearly understand the potential future liabilities.</p>	<p>It is NSPA's intention to propose amendments to programme directives for customers and to obtain Agency Supervisory Board (ASB) approval to ensure that future liabilities related to the dissolution of a project are funded over time. This will ensure that nations that leave a project pay their fair share of liquidation costs prior to leaving. However, it is not foreseen that NSPA will retroactively charge liquidation costs to customers that have already left a project.</p>	<p>Observation Outstanding.</p>
NAMSA 2010 AUDIT REPORT		
<p>NAMSA 2010 audit report C-M(2012)0021 & IBA-AR(2011)20, section 5.1</p> <p>Observation - Accountability for risk management on financial reporting</p>		

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p>Council document C-M(2005)0087 sets out the requirements of Corporate Governance for NATO Agencies on Risk Management.</p> <p>Recommendation The Board recommends NAMSA to review its risk management procedures including the areas that have directly impacted the agency's audit opinion on the financial statements in recent years: (1) Stock valuation (2) Accrued expenses (3) IPSAS compliance, to ensure that effective risk management procedures are in place.</p> <p>This review will subsequently impact the design of NAMSA's Internal Controls. The Board also recommends NAMSA to explicitly define roles and responsibilities in the redesigned Internal Controls, with a single point of accountability.</p>	<p>Issues continued in respect to financial reporting controls in 2013. Operating instructions and internal controls, with explicitly defined roles and responsibilities, have still not yet been issued. Also see current year observation 2.</p>	<p>Observation Outstanding.</p>
<p>NAMSA 2010 audit report C-M(2012)0021 & IBA-AR(2011)20, section 5.5</p> <p>Observation - Customer Financial Situation reports</p> <p>Recommendations 5.5.4 The Board recommends that NAMSA should use the same lay-out as the quarterly Customer Financial Situation reports in the summary of the Customer Financial Situation reports in the notes to the financial statements, including potential liabilities. Potential liabilities should be clearly defined in the financial statements. This will ensure a more complete presentation of the financial situation at the year-end.</p> <p>5.5.5 The Board also recommends that NAMSA disclose the specific reasons, by nation, why there are material net financial positions.</p> <p>5.5.6 The Board also recommends that the quarterly reports include Logistics Operations and other NATO bodies.</p>	<p>NSPA did not agree with these recommendations. NAMSA Functional Directive 410, though, stipulates that a summary of the Customer Financial Situation reports needs to be disclosed in the notes of the financial statements.</p> <p>See also current year observation 10 in respect to better transparency on unused funding that nations decide should remain at NSPA.</p>	<p>Observation Superseded by Observation 10.</p>
CEPMO 2008 AUDIT REPORT		
<p>CEPMO 2008 audit report C-M(2011)0016 & IBA-AR(2009)28, section 5.6</p> <p>Observation FBG: Existence of a plug account in other payables</p>		

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ANNEX 4
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OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
Recommendation FBG should determine the cause of the plug account. Additionally, a separate set of books for the international activities should be created in SAP and should be used to process the international FBG transactions.	NSPA has stated that FBG is currently working on this issue and plans to have the issue resolved by 2016.	Observation Outstanding.



Enclosure to
C-M(2017)0003 (INV)

Financial Statements 2014 (Redacted Version)

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Overview of the NATO Support and Procurement Organisation's Operations and Environment

The NATO Support and Procurement Organisation stood up on 1 April 2015 with the merger of the NATO Support Organisation and the NATO Procurement Organisation. The NATO Procurement Organisation, despite being set up on 1 July 2012 has never had any financial activity and never produced financial statements.

These financial statements cover the financial activities of the NATO Support Organisation for the year 2014.

NATO Support Organisation

The NATO Support Organisation (NSPO) came into being on 1 July 2012 with the merging of the former NATO Maintenance and Supply Organisation (NAMSO), NATO Airlift Management Organisation (NAMO) and Central European Pipeline Management Organisation (CEPMO). The NSPO is made up of the former executing agencies of NAMSO, NAMO and CEPMO plus the Agency Supervisory Board's Chairman's Office, the National Organisations of the former CEPMO and the Support Partnerships.

The mission of the NSPO is to provide responsive, effective and cost-efficient logistics, operational and systems support and services to the Allies, NATO Military Authorities and partner Nations, individually and collectively, in time of peace, crisis and war, and where required, to maximize the ability and flexibility of their armed forces, contingents, and other relevant organisations, within the guidance provided by the North Atlantic Council (NAC), to execute their core missions.

All NATO Nations are members of the NSPO. Non-NATO Nations may apply for association with the NSPO if they wish to participate in NSPO activities. Their participation shall be subject to such conditions, consistent with present Regulations and the NSPO Charter, as the participating NATO Nations and the non-NATO Nations agree.



Role of the NATO Support Agency

The NATO Support Agency (NSPA) is the executive arm of NSPO and is chartered to execute the NSPO's mission, the responsibilities of NSPA include the following tasks, while continuously striving for improved effectiveness, efficiency and cost savings:

- acting as Host Nation for NATO Security Investment Programme (NSIP) projects as assigned by the Resource Policy and Planning Board (RPPB) or the Investment Committee (IC);
- planning and management of contracting for NATO operations, including in support of Allied Command Operations, including contracting for required strategic lift in all transport modes;
- providing logistics support for operations, including in support of Allied Command Operations, including real-life support and environmental solutions; providing supply management;
- performing maintenance, including sustainment management;
- providing services to contribute to life-cycle support of assigned systems; conducting off-the-shelf agency mission required specific procurement; providing technical assistance;
- supporting to organic airlift capabilities;
- managing the provision of lift/transport capabilities;
- fulfilling the operational requirements during peace, crisis and war for the transport, storage and delivery of fuel for military and civilian customers;
- performing other missions as assigned by the NAC.

The NSPA itself is made up of three business units and support functions; these are derived from the activities of the former NATO Maintenance and Supply Agency (NAMSA), the NATO Airlift Management Programme (NAMP), and, the Central Europe Pipeline System Programme (CEPS).



The Activities of NATO Support Organisation's Segment Parts

Chairman's Office

The Chairman's Office is the secretariat of the Agency Supervisory Board and the NAMP and CEPS Programme Boards.

Log Ops Business Unit

Log Ops provides a number of capabilities which participating nations can take advantage of. It provides support to NATO operations; it procures and facilitates the exchange of goods and services for at the most advantageous rates, and, provides support to the twenty-six Support Partnerships.

Log Ops activities are paid for through customer-funding on a no profit, no loss basis. All costs incurred by Log Ops activities are borne by NSPO Member Nations, by NATO bodies, or, by other authorised customers.

Within the Log Ops business unit at the end of 2014 there were twenty-seven Support Partnerships. These may be established within the NATO Support Organisation, subject to precise terms and conditions, on the initiative of two or more NATO nations wishing to organize in common the support and services of activities within the scope of the NATO Support Organisation's Mission and guidance provided by the Council.

At times the partnerships will procure goods and/or services in common through a commonly agreed budget while at other times members of the partnership will procure goods and services individually through purchase requests. NSPA procures goods and/or service for the Support Partnerships.

Central Europe Pipeline System Programme (CEPS) Business Unit

Under the authority of the CEPS Programme Board, the CEPS Programme manages a NATO pipeline system which crosses the host nations of [REDACTED] and is responsible for the transportation, storage and delivery of petroleum products in Central Europe for

military and non-military activities. For that purpose, the CEPS Programme operates and maintains the Central Europe Pipeline System, a system of pipelines, pump stations, input and delivery points, and depots.

CEPS is funded through various channels. The NATO Security Investment Programme (NSIP) supports some of the costs of the acquisition and restoration of pipeline assets corresponding to military requirements. Income is also generated by its authorised activities which are the sales of transport and storage activities for military and non-military customers. Contributions by Member Nations cover that part of the budget not financed by NSIP or generated revenue.

NATO Airlift Management Programme (NAMP) Business Unit

The mission of the NAMP is to meet to the best advantage the requirements of the Nations contributing to the NATO Airlift Management Programme as described in the Strategic Airlift Capability Memorandum of Understanding. The NAM Programme participants are: Bulgaria, Estonia, Finland, Hungary, Lithuania, The Netherlands, Norway, Poland, Romania, Slovenia, Sweden and the United States of America

The Strategic Airlift Capability (SAC) Programme was created by ten NATO and two Partnership for Peace Nations (Finland and Sweden). Initial strategic airlift capability is provided by three Globemaster C-17 aircraft that are flown and operated by multinational military aircrew, and supported by military and civilian staff by the twelve Participating Nations. In addition the SAC Programme obtains required logistic and maintenance services for C-17 operations under a Contractor Logistic Support contract arranged through U.S. Foreign Military Sales procedures. The SAC Participating Nations control and use SAC flying hours generated by NAM Programme owned aircraft, within pre-agreed parameters, to meet national requirements, including those in support of NATO and multinational commitments.

The NAM Programme is governed by the NAM Programme Board. The NAM Programme Board exercises all rights of ownership of assets but aircraft operation is outside scope of the NSPO Charter. The NAM Programme's overall activities are funded by the Participating Nations through SAC Acquisition, Operations and

Administrative financial plans that are endorsed annually by the NAM Programme Board, after endorsement by the SAC Steering Board.

How NSPO's operating environment affects its financial statements

NSPO makes available the following capabilities which can be used for the benefit of NATO:

- Support to Operations and Exercises
- Strategic Transport and Storage
- Logistics Services and Project Management
- Fuel Management
- System Procurement and Life Cycle Management

Those charged with the governance of NSPO do not set management targets in relation to the expected business it should generate and hence NSPO's revenue and expenditures are purely dependent on NATO and the members of NATO making use of its capabilities. As such the financial position and performance of NSPO depends on the operational requirements of NATO and its member nations.

Compliance with Financial Regulations

The Financial Regulations that are applicable to NSPO are described in the Charter under General Provisions (Section 46):

"The NATO Support Organisation shall be governed by the provisions of the NATO Financial Regulations, subject to such derogations as may be approved by the NAC upon recommendation by the Resource Policy and Planning Board".

However, it must be noted that parts of the charters of the former NAMSO, CEPMO and NAMO remain open and these include financial management provisions which include details of the financial regulations to be followed. In practice this means that Log Ops, CEPS Programme and the NAM Programme are following the

Financial Regulations of their former organisations until revised NATO Financial Regulations are issued, probably in 2015.

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

As noted above NSPO makes capabilities available to NATO and its member nations. As such the NSPO does not have any objectives and strategies in relation to its financial position, performance and cash flows other than to have enough funding available to cover its administration costs and the operational requirements of its customers.

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

NSPO's performance is based on the usage made of its capabilities by NATO. As such its performance is impacted by NATO operations. [REDACTED]

Public Disclosure of Financial Information

At the Wales Summit of 2014 the nations tasked NATO bodies to increase their financial transparency. The decision on whether to make these financial statements publically available rests with the Agency Supervisory Board and the NAM and CEPS Programme Boards respectively.

[Signed] [REDACTED]
NSPA General Manager

NSPO Statement of Financial Position

*As of 31 December
(all figures are in Euro '000)*

		NSPO TOTAL	
		*Restated	
	Note	2014	2013
Current Assets			
Cash and Cash Equivalents	2	1,772,778	1,679,717
Accounts Receivable	6	861,898	620,635
Prepayments	7	182,644	169,243
Long Term Receivables		3,857	3,857
Inventory	5	354,897	353,613
Fixed and Intangible Assets			
Property Plant and Equipment	3	455,239	421,712
Intangible Assets	4	18,981	16,443
Total Assets		3,650,294	3,265,220
Current Liabilities			
Accounts Payable and Accruals	8	267,559	239,653
Customer Advances	9	3,377,688	3,021,339
Provisions	14	5,047	4,228
Total Liabilities		3,650,294	3,265,220
Net Assets		0	0

***Restatement:** Balances in relation to Accounts Receivable, Accounts Payable and Accruals, and, Customer Advances for the Log Ops Segment have been restated to reflect more accurate accounting data. These changes are not considered to be material.

The financial statements on pages 5 to 40 were originally issued to the International Board of Auditors for NATO on 29 May 2015. They were reissued on 2 July 2015.

[Signed] [REDACTED]
NSPA General Manager

[Signed] [REDACTED]
NSPA Director of Finance

NSPO Segments' Statement of Financial Position

As of 31 December
(all figures are in Euro '000)

		Chairman's Office		Log Ops		NAM		CEPS		NSPO TOTAL	
										*Restated	
	Note	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Current Assets											
Cash and Cash Equivalents	2	0	0	1,558,496	1,556,446	213,833	122,880	449	391	1,772,778	1,679,717
Accounts Receivable	6	0	0	822,243	609,319	35,001	7,382	4,654	3,934	861,898	620,635
Prepayments	7	0	0	68,113	45,539	114,510	123,668	21	36	182,644	169,243
Long Term Receivables		0	0	3,857	3,857	0	0	0	0	3,857	3,857
Inventory	5	0	0	354,407	353,333	490	280	0	0	354,897	353,613
Fixed and Intangible Assets											
Property Plant and Equipment	3	0	0	14,357	18,137	437,562	400,153	3,320	3,422	455,239	421,712
Intangible Assets	4	0	0	0	0	18,073	15,467	908	976	18,981	16,443
Total Assets		0	0	2,821,473	2,586,631	819,469	669,830	9,352	8,759	3,650,294	3,265,220
Current Liabilities											
Accounts Payable and Accruals	8	0	0	253,533	228,852	13,726	10,390	300	411	267,559	239,653
Customer Advances	9	0	0	2,567,940	2,357,779	805,743	659,440	4,005	4,120	3,377,688	3,021,339
Provisions	14	0	0	0	0	0	0	5,047	4,228	5,047	4,228
Total Liabilities		0	0	2,821,473	2,586,631	819,469	669,830	9,352	8,759	3,650,294	3,265,220
Net Assets of NSPO		0	0	0	0	0	0	0	0	0	0

***Restatement:** Balances in relation to Accounts Receivable, Accounts Payable and Accruals, and, Customer Advances for the Log Ops Segment have been restated to reflect more accurate accounting data. These changes are not considered to be material.

The financial statements on pages 5 to 40 were originally issued to the International Board of Auditors for NATO on 29 May 2015. They were reissued on 2 July 2015.

[Signed] [REDACTED]
NSPA General Manager

[Signed] [REDACTED]
NSPA Director of Finance

NSPO Statement of Financial Performance

*For the year-ended 31 December
(all figures are in Euro '000)*

		NSPO TOTAL	
		*Restated	
Revenue	Note	2014	2013
<i>Exchange Activities</i>			
Reimbursement of Administrative costs		119,898	128,044
Services and Support to Customers		1,813,974	1,950,092
Commercial Discounts Earned		4,383	3,394
Financial Revenue	10	7,043	2,748
Miscellaneous Revenue		219	277
<i>Non-Exchange Activities</i>			
Funding of Chairman's Office		824	728
Reimbursement of Administrative costs		12,328	12,098
Total Revenue		1,958,669	2,097,381
Expenses			
Services and Support to Customers	11	(1,814,715)	(1,952,434)
Personnel Costs	12	(101,886)	(108,218)
Other Expenses	11	(51,961)	(48,638)
Total Expenses		(1,968,562)	(2,109,290)
Operating Surplus / (Deficit) for the year	20	(9,893)	(11,909)

Restatement: A presentational restatement has been made in respect of the "Operating Surplus / (Deficit) for the year"; more details can be found in the Accounting Policies section of the Financial Statements under the heading "Restatement of 2013 Financial Statements". NSPO is chartered to plan its activities on a no-profit/no-loss basis globally over the planning period; however, this does not prohibit the realisation of operating surpluses or deficits in the financial reporting period (see Note 20). Currency translation gains and losses are no longer shown in the Statement of Financial Performance but are shown in the Statement of Changes in Net Assets; however, these are then transferred into Customer Advances. Some balances in relation to the Log Ops Segment have been restated to reflect more accurate accounting data. These changes are not considered to be material.

NSPO Segments' Statement of Financial Performance

For the year-ended 31 December
(all figures are in Euro '000)

		Chairman's Office		Log Ops		NAM		CEPS		NSPO TOTAL	
										*Restated	
Revenue	Note	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
<i>Exchange Activities</i>											
Reimbursement of Administrative costs		0	0	119,898	128,044	0	0	0	0	119,898	128,044
Services and Support to Customers		0	0	1,750,109	1,842,533	63,865	107,559	0	0	1,813,974	1,950,092
Commercial Discounts Earned		0	0	4,383	3,394	0	0	0	0	4,383	3,394
Financial Revenue	10	0	0	7,164	2,532	(120)	215	(1)	1	7,043	2,748
Miscellaneous Revenue		0	0	0	0	90	58	129	219	219	277
<i>Non-Exchange Activities</i>											
Funding of Chairman's Office		824	728	0	0	0	0	0	0	824	728
Reimbursement of Administrative costs		0	0	0	0	6,665	6,498	5,663	5,600	12,328	12,098
Total Revenue		824	728	1,881,554	1,976,503	70,500	114,330	5,791	5,820	1,958,669	2,097,381
Expenses											
Services and Support to Customers	11	0	0	(1,750,849)	(1,844,612)	(63,866)	(107,822)	0	0	(1,814,715)	(1,952,434)
Personnel Costs	12	(711)	(667)	(93,517)	(99,555)	(3,910)	(3,986)	(3,748)	(4,010)	(101,886)	(108,218)
Other Expenses	11	(113)	(61)	(27,346)	(23,972)	(22,236)	(22,517)	(2,266)	(2,088)	(51,961)	(48,638)
Total Expenses		(824)	(728)	(1,871,712)	(1,968,139)	(90,012)	(134,325)	(6,014)	(6,098)	(1,968,562)	(2,109,290)
Operating Surplus / (Deficit) for the year	20	0	0	9,842	8,364	(19,512)	(19,995)	(223)	(278)	(9,893)	(11,909)

Restatement: A presentational restatement has been made in respect of the "Operating Surplus / (Deficit) for the year"; more details can be found in the Accounting Policies section of the Financial Statements under the heading "Restatement of 2013 Financial Statements". NSPO is chartered to plan its activities on a no-profit/no-loss basis globally over the planning period; however, this does not prohibit the realisation of operating surpluses or deficits in the financial reporting period (see Note 20). Currency translation gains and losses are no longer shown in the Statement of Financial Performance but are shown in the Statement of Changes in Net Assets; however, these are then transferred into Customer Advances. Some balances in relation to the Log Ops Segment have been restated to reflect more accurate accounting data. These changes are not considered to be material.

NSPO Statement of Cash Flows *For the year-ended 31 December (all figures are in Euro '000)*

	Note	2014	2013
Cash flows from operating activities			*Restated
Surplus/(deficit)		(9,893)	(11,909)
Non-cash movements			
Depreciation of PPE	11	26,162	25,023
Amortisation of intangible assets	11	(180)	896
Increase / (Decrease) in Accounts Payables and Accruals	8	27,906	(50,836)
Increase / (Decrease) in Customer Advances	9	366,242	150,579
Increase / (Decrease) in Provisions	14	819	797
(Increase) / Decrease in Long-term Receivables		0	0
(Increase) / Decrease in Accounts Receivable	6	(241,263)	12,621
(Increase) / Decrease in Prepayments	7	(13,401)	42,865
Net cash flows from operating activities		156,392	170,036
Other non-cash movements (through Statement of Changes in Net Assets)			
Currency translation on PPE and Intangible assets		(66,072)	21,639
Depreciation and Amortisation on currency translation on PPE and Intangible assets		13,282	(2,674)
Total of other non-cash movements		(52,790)	18,965
Cash flows from investing activities			
Purchases of PPE, Intangibles Assets and Inventories		(10,541)	(7,513)
Net cash flows from investing activities		(10,541)	(7,513)
Opening cash and cash equivalent balance	2	1,679,717	1,498,229
Net cash flows from operating and investing activities		93,061	181,488
Closing cash and cash equivalent balance	2	1,772,778	1,679,717

Restatement: A presentational restatement has been made in respect of the “Operating Surplus / (Deficit) for the year which impacts upon cash flows from operating activities.

NSPO Statement of Changes in Net Assets 2014

	Log Ops 2014			CEPS 2014			NAMP 2014			NSPO 2014		
	Capital Assets Contributed (PPE, Intangible Assets and Inventory)	Customer Advances (including replenishment credits)	Operating Surplus	Capital Assets Contributed (PPE, Intangible Assets and Inventory)	Customer Advances (including replenishment credits)	Operating Surplus	Capital Assets Contributed (PPE, Intangible Assets and Inventory)	Customer Advances (including replenishment credits)	Operating Surplus	Capital Assets Contributed (PPE, Intangible Assets and Inventory)	Customer Advances (including replenishment credits)	Operating Surplus
Opening Balance	0	0	0	0	0	0	0	0	0	0	0	0
Net Change in Capital Assets Contributed before currency translation effects	(2,706)	0	0	(170)	0	0	(12,566)	0	0	(15,442)	0	0
Effect of Currency translation on Capital Assets Contributed	0	0	0	0	0	0	66,072	0	0	66,072	0	0
Effect of Currency translation on Depreciation and Amortisation of Capital Assets Contributed	0	0	0	0	0	0	(13,281)	0	0	(13,281)	0	0
Net Change in Customer Advances	0	203,025	0	0	278	0	0	125,590	0	0	328,893	0
Operating Surplus / (deficit) in year	0	0	9,842	0	0	(223)	0	0	(19,512)	0	0	(9,893)
Sub-Total	(2,706)	203,025	9,842	(170)	278	(223)	40,225	125,590	(19,512)	37,349	328,893	(9,893)
Reflected in Customer Advances (Note 9)	2,706	(203,025)	(9,842)	170	(278)	223	(40,225)	(125,590)	19,512	(37,349)	(328,893)	9,893
Closing Balance	0	0	0	0	0	0	0	0	0	0	0	0

	Log Ops 2014	CEPS 2014	NAMP 2014	NSPO 2014
Opening Balance of Customer Advances	2,357,779	4,120	659,440	3,021,339
Change in Capital Assets Contributed	(2,706)	(170)	40,225	37,349
Change in Customer Advances	203,025	278	125,590	328,893
Operating Surplus / (deficit) in year	9,842	(223)	(19,512)	(9,893)
Closing Balance of Customer Advances	2,567,940	4,005	805,743	3,377,688

Restatement: A presentational restatement has been made in respect of the “Operating Surplus / (Deficit) for the year”; more details can be found in the Accounting Policies section of the Financial Statements under the heading “Restatement of 2013 Financial Statements”. NSPO is chartered to plan its activities on a no-profit/no-loss basis globally over the planning period; however, this does not prohibit the realisation of operating surpluses or deficits in the financial reporting period (see Note 20). Currency translation gains and losses are no longer shown in the Statement of Financial Performance but are shown in the Statement of Changes in Net Assets; however, these are then transferred into Customer Advances.

NSPO Statement of Changes in Net Assets 2013 (Restated)

	Log Ops 2013 Restated			CEPS 2013 Restated			NAMP 2013 Restated			NSPO 2013 Restated		
	Capital Assets Contributed (PPE, Intangible Assets and Inventory)	Customer Advances (including replenishment credits)	Operating Surplus	Capital Assets Contributed (PPE, Intangible Assets and Inventory)	Customer Advances (including replenishment credits)	Operating Surplus	Capital Assets Contributed (PPE, Intangible Assets and Inventory)	Customer Advances (including replenishment credits)	Operating Surplus	Capital Assets Contributed (PPE, Intangible Assets and Inventory)	Customer Advances (including replenishment credits)	Operating Surplus
Opening Balance	0	0	0	0	0	0	0	0	0	0	0	0
Net Change in Capital Assets Contributed before currency translation effects	(4,398)	0	0	677	0	0	(13,205)	0	0	(16,926)	0	0
Effect of Currency translation on Capital Assets Contributed	0	0	0	0	0	0	(21,639)	0	0	(21,639)	0	0
Effect of Currency translation on Depreciation and Amortisation of Capital Assets Contributed	0	0	0	0	0	0	2,674	0	0	2,674	0	0
Net Change in Customer Advances	0	211,662	0	0	325	0	0	(15,026)	0	0	196,961	0
Operating Surplus / (deficit) in year	0	0	8,364	0	0	(278)	0	0	(19,995)	0	0	(11,909)
Sub-Total	(4,398)	211,662	8,364	677	325	(278)	(32,170)	(15,026)	(19,995)	(35,891)	196,961	(11,909)
Reflected in Customer Advances (Note 9)	4,398	(211,662)	(8,364)	(677)	(325)	278	32,170	15,026	19,995	35,891	(196,961)	11,909
Closing Balance	0	0	0	0	0	0	0	0	0	0	0	0

	Log Ops 2013	CEPS 2013	NAMP 2013	NSPO 2013
Opening Balance of Customer Advances	2,142,151	3,396	726,631	2,872,178
Change in Capital Assets Contributed	(4,398)	677	(32,170)	(35,891)
Change in Customer Advances	211,662	325	(15,026)	196,961
Operating Surplus / (deficit) in year	8,364	(278)	(19,995)	(11,909)
Closing Balance of Customer Advances	2,357,779	4,120	659,440	3,021,339

Restatement: A presentational restatement has been made in respect of the “Operating Surplus / (Deficit) for the year”; more details can be found in the Accounting Policies section of the Financial Statements under the heading “Restatement of 2013 Financial Statements”. NSPO is chartered to plan its activities on a no-profit/no-loss basis globally over the planning period; however, this does not prohibit the realisation of operating surpluses or deficits in the financial reporting period (see Note 20). Currency translation gains and losses are no longer shown in the Statement of Financial Performance but are shown in the Statement of Changes in Net Assets; however, these are then transferred into Customer Advances.

Accounting Policies

Basis of preparation

These financial statements have been prepared in accordance with the NATO Accounting Framework which is based upon International Public Sector Accounting Standards (IPSAS). IPSAS relating to *IPSAS 12 – Inventories*, *IPSAS 17 - Property, Plant and Equipment* and *IPSAS 31 - Intangible Assets* were adapted by the North Atlantic Council (the “NAC”) in August 2013 for reporting periods beginning on 1 January 2013. In addition, where certain financial reporting requirements are required by the NATO Financial Regulations, these are also met.

The Financial Statements are prepared on the going-concern basis which means that those charged with governance of NSPO and its integral Programmes and Support Partnerships (its “segments”) consider that they believe NSPO and its segments will continue in existence for at least a year from the date the financial statements are issued.

The preparation of financial statements in compliance with the NATO Accounting Framework requires the use of certain critical accounting estimates and requires that those responsible for preparing and presenting the financial statements of NSPO use judgement in applying these accounting policies. The areas where significant judgements and estimates have been made in preparing the financial statements and their effect are disclosed in the notes to the financial statements.

The policies have been consistently applied to all the years presented.

Restatement of 2013 Financial Statements

In 2013 the NSPO Statement of Financial Performance did not clearly show how the “Surplus / (Deficit) for the year” had been calculated. The Statement showed “Total Revenues” and “Total Expenditures” but provided no line item which showed the difference between these amounts; in the 2014 Financial Statements a clear reference has been made to show the difference between these two amounts as “Operating Surplus / (Deficit) for the year”.

In the 2013 Statement of Financial Performance, NSPO showed lines under “Total Expenses” reflecting “Amounts to be (Returned to) / Reimbursed by Nations” which were represented by: “Non-Planned Revenues”, “Net Timing Difference on calls to

customers in year”, “Depreciation and Amortisation”, and “Revaluation of PPE, Intangibles and Inventory” and which led to the “Surplus / (Deficit) for the year”. In retrospect, NSPA management considers that this may have been confusing to some users of the statements. Hence, in 2014, NSPO has redesigned this section of the Statement to clearly show an “Operating Surplus / (Deficit) for the year”.

NSPO is chartered to plan its activities on a no-profit/no-loss basis globally over the planning period; however, this does not prohibit the realisation of operating surpluses or deficits in the financial reporting period. Operating surpluses or deficits can be caused through non-monetary transactions (such as depreciation), or through transactions with an actual or potential monetary impact (such as the receipt of investment income, realised exchange rate gains or losses, or unbilled sales at the year-end). More details can be found in Note 20.

Currency translation gains and losses are shown in the Statement of Changes in Net Assets; however, these are then transferred into Customer Advances.

Some balances in relation to the Log Ops Segment’s Statements of Financial Performance and Position have been restated to reflect more accurate accounting data. These changes are not considered material.

In 2014 NSPO made an operating deficit of Euro 9.9m (2013: deficit of Euro 11.9m). As NSPO does not have equity any operating surpluses or deficits become reflected in the Statement of Financial Position as Customer Advances.

Non-compliance with parts of IPSAS 12 - Inventories (as adapted by the North Atlantic Council)

NSPO does not comply with two parts of IPSAS 12. These relate to:

1. The requirement to measure inventories where applicable at Net Realisable Value. This is not done on the basis that customers would have to pay the cost of regular inspections of inventory to determine valuation.
2. The requirement to calculate the cost of goods of inventory sold. The financial reporting system is not configured to allow this calculation to be made and funds have not been made available to configure the financial reporting system to do this. Due to the lack of systems in place to calculate the cost of goods sold NSPO shows in its Statement of Financial Performance a line item reflecting ‘Net proceeds from changes in Inventory’. The same system weakness applies to calculating the cost of items of PPE sold.

These areas of non-compliance with IPSAS are not considered to have a material effect on the performance or position of NSPO or its segments.

Inventories held in relation to the Patriot Programme are valued on different bases; the valuation for [REDACTED] located inventories is weighted average cost while at contractors the value is historic cost. These different bases are permitted under IPSAS 12, which permits “For inventories with different nature or use (for example, certain commodities used in one segment and the same type of commodities used in another segment), different cost formulas may be justified”; NSPA management considers that items held at contractors for contractor support allow the use of different cost formulas.

Basis of consolidation

The Agency Supervisory Board (ASB) considers that the consolidated financial statements of NSPO present the results of NSPO and its segment parts as a single entity. The ASB controls segment parts of the NSPO through its Charter. Intercompany transactions and balances between NSPO segment parts are therefore eliminated in full at both the consolidation level and the segment level.

CEPS Programme

In February 2014 the CEPS Programme Board validated a previous decision of the CEPMO Board of Directors that the CEPS Programme did not collectively control the Central Europe Pipeline System. This decision was subsequently further approved by the ASB. Under IPSAS control of an asset arises when an entity can use or otherwise benefit from an asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit. The CEPS Programme Board is unable to exclude or otherwise regulate the access of the SACEUR to the operational benefits of the Pipeline and hence the CEPS Programme cannot be considered the NATO entity which controls the Pipeline System.

As the Pipeline System is not controlled by the CEPS Programme collectively then by extension the associated revenues and expenditures are not controlled by the Programme. This has resulted in the Statements of Financial Performance only showing the revenues and expenditures of the CEPS Programme Office which oversees the Programme. To ensure that nations are aware of all the funding that passes through the CEPS Programme further note disclosures in relation to the CEPS are made at 19a and 22.

Segment Reporting

A segment is a distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information for the purpose of (a) evaluating the entity’s past performance in achieving its objectives and (b) making decisions about the future allocation of resources. In the primary statements NSPO discloses its performance and position amongst the following segments: Chairman’s Office, Log Ops Business Unit, CEPS Programme Business Unit and NAM Programme Business Unit.

Changes in Accounting Standards

IPSAS 32 – Service Concession Arrangements: Grantor, became effective on 1 January 2014; this standard does not impact NSPO.

The following IPSAS will become effective in future financial years:

- IPSAS 33 - First-time Adoption of Accrual Basis IPSASs
- IPSAS 34 - Separate Financial Statements
- IPSAS 35 - Consolidated Financial Statements
- IPSAS 36 - Investments in Associates and Joint Ventures
- IPSAS 37 - Joint Arrangements
- IPSAS 38 - Disclosure of Interests in Other Entities

NSPA has not yet made an assessment of whether these standards will impact NSPO Financial Reporting.

Revenue Recognition

Revenue from non-exchange transactions

In a non-exchange transaction, NSPO segments either receive value from another party without directly giving approximate value in exchange, or give value to another party without directly receiving approximate value in exchange. NSPO considers that the activities of the Chairman’s Office, NAM Programme and CEPS Programme’s administrative costs elements (e.g. CEPS Programme Office) represent revenues from non-exchange transactions because funding provided by the respective member nations does not necessarily equate to the value of goods or services delivered to them.

Revenue from exchange transactions

This represents revenue other than non-exchange transactions.

Revenue measurement and timing

Provided the amount of revenue can be measured reliably and it is probable that NSPO segments will receive payment, revenue for goods and services delivered is recognised when NSPO segments have transferred the significant risks and rewards of ownership and it is probable that NSPO segments will receive the previously agreed upon payment for delivering goods and services. These criteria are considered to be met when the goods or services are delivered to the customers' satisfaction. For all segments other than Log Ops revenue is recognised at the moment an expense is incurred as the revenue is guaranteed to be funded by member nations, however, for Log Ops there are timing differences because a customer is only liable to reimburse an expense if goods and services are delivered to its satisfaction.

Expenses Recognition

Expenses are recognised when an invoice is posted which reflects the point at which a good or service is received to NSPA's satisfaction.

Financial Plan Execution

IPSAS 24 - Presentation of Budget Information in Financial Statements applies to public sector entities which are required or elect to make their approved budgets publically available. NSPO does not have budgets; the NSPO Charter requires the ASB to authorise an annual financial plan which includes a statement of planned income and expenditure.

NSPO segments are neither required to, nor elect to make their approved financial plans publicly available. NSPO segments are therefore not required to follow IPSAS 24. Instead NSPO presents a high level summary of the financial plan execution of its main segments.

Cash Flow Statements

IPSAS 2 – Cash Flow Statements allows the choice between presenting the cash flow based on the direct method or indirect method. NSPO has elected to use the indirect method of presentation in these financial statements.

Foreign currency

Transactions entered into by NSPO segments in a currency other than the currency of the primary economic environment in which they operate (their "functional currency"; which is Euro for all segments of the NSPO except for the NAM Programme and some Log Ops projects where it is USD) are recorded at the exchange rates ruling when the transactions occur. The use of exchange rates does not materially impact the financial statements.

For all segments of NSPO, except the CEPS Programme, the ruling exchange rate is set in SAP and is only adjusted in SAP when there is a movement of 2.25 per cent or more against the reporting currency. The CEPS Programme uses ruling exchange rates set by NATO Headquarters in Brussels which are updated on a weekly basis.

Foreign currency assets and liabilities are translated at the rates ruling at the reporting date. For all parts of NSPO, except the CEPS Programme, the ruling exchange rate is that of the European Central Bank. The CEPS Programme uses rates set by the NATO Headquarters.

Exchange differences arising on the retranslation of monetary assets and liabilities are recognised immediately in the Statement of Financial Performance.

The functional currency of the NAM Programme is USD. The financial performance and financial position of the NAM Programme are recorded in the NSPO financial statements by:

- translating assets and liabilities on opening and closing reporting dates at the respective exchange rates ruling at the date of the statement of financial position;
- translating its revenue and expenses into Euros at the average yearly exchange rates for the Euro relative to the USD.

Financial assets

The financial assets of NSPO segments are cash and cash equivalents, accounts receivables and prepayments. They are measured at fair value. Changes in fair value are recognised in the Statement of Financial Performance.

Financial liabilities

The financial liabilities of NSPO segments are accounts payables and accruals, and customer advances. They are measured at fair value. Changes in fair value are recognised in the Statement of Financial Performance.

Receivables

Amounts receivable are reported at fair value in the Statement of Financial Position. Provisions for doubtful debts are only made once a legal process is started against a debtor and this is limited to only private sector entities; no provisions are made against national debts as they are deemed to be collectable.

Accounts Payable and Accruals

Accounts Payable represent amounts for which goods and services, supported by an invoice, have been received at the year-end but which remain unpaid. Accruals represent amounts for which goods and services, which are not supported yet by an invoice at the year-end.

Advances

In order to ensure that customer requirements can be met, NSPO segments can call for money in advance of need. The advance is shown as an asset at the NSPO consolidated and segment level but is matched by a liability because until the funds are used they are owed back to the customer who provided the funding.

Capital Assets contributed

This is the sum of the net book value of PPE, intangible assets and inventories.

Prepayments

When NSPO segments make advance payments to vendors these are reflected as prepayments in the Statement of Financial Position.

Retirement benefits: Defined contribution scheme

Contributions to NATO defined contribution pension scheme are charged to the statement of financial performance in the year to which they relate. NSPO segments are not exposed directly to any liabilities that may arise on the scheme and have no control over the assets of the scheme.

Retirement benefits: Defined benefit scheme

Contributions to the NATO defined benefit pension scheme are charged to the statement of financial performance in the year to which they relate. NSPO is not exposed directly to any liabilities that may arise on the scheme and has no control over the assets of the scheme.

Other long-term service benefits

Employment of NATO civilian staff is governed by the NATO Civilian Personnel Regulations. Different rules apply depending on the circumstances of employment. Where there is a liability for potential long-term service benefits at the year-end they are described and disclosed in the notes to the financial statements.

Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to NSPO segments (a "finance lease"), the asset is treated as if it had been purchased outright. NSPO segments have no finance leases.

Where substantially all of the risks and rewards incidental to ownership are not transferred to NSPO segments (an "operating lease"), the total rentals payable under the lease are charged to the statement of financial performance on a straight-line basis over the lease term. Examples of operating leases can include photocopiers and cars.

Externally acquired intangible assets

Externally acquired intangible assets represent information systems used by NSPO segments and the NAM Programme's rights to a spare engine. They are recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives. The useful economic lives of information and communication systems are deemed to be 4 years and all assets are capitalised irrespective of value. The NAM Programme revalues intangible assets in line with changes in the Euro relative to USD and HUF respectively.

Property, Plant and Equipment (PPE)

PPE is recognised when it is an asset controlled by an NSPO segment. Assets, of which PPE is a type, are defined by IPSAS as "Resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity". Control of an asset is defined by IPSAS as arising "when the entity can use or otherwise benefit from the asset in pursuit of its objectives, and can exclude or otherwise regulate the access of others to that benefit."

PPE - Central Europe Pipeline System Assets

Following a decision of the CEPS Programme Board the Central Europe Pipeline System assets are deemed not to be controlled by the CEPS Programme from a financial reporting perspective as per IPSAS.

PPE - Land and Buildings

The NSPO site at [REDACTED] is not controlled by NSPO. The CEPS Programme site at [REDACTED] is controlled by the CEPS Programme and parts of the NAM Programme site in [REDACTED] are controlled by the NAM Programme.

Most items of NSPO segments controlled property, plant and equipment are recognised at cost; however, Land and buildings are based on revalued estimated values provided by experts in real estate valuation (i.e. CEPS [REDACTED] building and assets donated to NAM Programme) or cost. The NAM Programme also revalues PPE in line with changes in the Euro to USD and HUF respectively.

Depreciation is provided on all items of property, plant and equipment so as to write off its carrying value over their expected useful economic lives. The expected lives of PPE and their associated capitalisation thresholds per item are:

- Buildings – 40 Years (*NAMP 26 Years*), Euro nil
- Other Infrastructure – 40 Years (*NAMP 26 Years*), Euro nil
- Installed equipment – 10 Years, Euro nil
- Mission equipment – 10 Years, Euro nil
- Machinery – 10 years, Euro nil
- Vehicles – 5 Years, Euro nil
- Aircraft – 26 years, Euro 200k
- Furniture - 10 years, Euro nil
- Communications - 3 years, Euro nil
- Automated IT systems - 3 years, Euro nil
- Freehold land - not depreciated, Euro nil.

As NAM Programme was established for 26 years, this means the maximum useful economic life of Buildings and Other Infrastructure assets is limited to 26 years.

Depreciation and amortisation

Assets are depreciated or amortised in the year of purchase but not the year of disposal.

Inventories

IPSAS allows different types of inventory to be valued on different basis; each segment of NSPO can hold different types of inventory.

- For the Log Ops segment most inventories are recognised at weighted average cost (the WAC) which reflects their slow turnover. The exceptions are fuel inventories which are measured at current cost and those of the Patriot Programme which are also measured at historic cost when at contractors and WAC when at [REDACTED].
- NAM Programme inventories are measured on a First-In First-Out (FIFO) basis primarily due to the rapid turnover of inventories.
- CEPS Programme inventories are measured on weighted average cost (the WAC) basis.

Capitalisation thresholds for all inventory are Euro nil.

Provisions

NSPO segments recognise provisions for liabilities of uncertain timing or amount including those for legal disputes. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

shown in the Statement of Changes in Net Assets; however, these are then transferred into Customer Advances.

Contingent Liabilities

NSPO segments disclose in the notes to the financial statements contingent liabilities where:

- the NSPO segment is exposed to possible financial liabilities that arose from events which occurred before the year-end, and where the confirmation of the existence of the liability will only be known through the occurrence or non-occurrence of one or more uncertain future events not wholly within the organisations control, or,
- the NSPO segment is exposed to a current financial liability which arose from events which occurred before the year-end where NSPO does not believe it will be required to pay for the financial liability, or, the amount of the financial liability cannot be measured with sufficient reliability.

In situations where there are potential contingent liabilities for less than the 28 member nations the NSPO Charter at article 19 (b) requires that “for activities undertaken by a subgroup of nations, only the participating nations shall jointly assume responsibility vis-à-vis NATO as a whole, and shall bear any resulting costs, in proportion to their financial contribution to that activity or according to any other rule as agreed among the participating nations.” Any such contingent liabilities are highlighted in the notes to the financial statements.

Reserves and Net Assets/Equity

NSPO is chartered to plan its activities on a no-profit/no-loss basis globally over the planning period; however, this does not prohibit the realisation of operating surpluses or deficits in the financial reporting period.

Operating surpluses or deficits can be caused through non-monetary transactions (such as depreciation), or through transactions with an actual or potential monetary impact (such as the receipt of investment income, realised exchange rate gains or losses, or unbilled sales at the year-end). Currency translation gains and losses are

NOTES TO THE FINANCIAL STATEMENTS

1. Critical Accounting Estimates and Judgements

NSPO makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. Some balances such as accruals and unbilled sales need to be assessed at the year-end to estimate the value of work and services delivered at the year-end. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimates and assumptions

a) NAM Programme: Revenue and expenditure recognition for goods and services

The NAM Programme purchases goods and services through the United States Foreign Military Sales Program. On a quarterly basis the United States Government provides the NAM Programme with reports which detail goods and services delivered. The NAM Programme reconciles the delivery of goods to these quarterly reports and is content that in respect of goods delivered the reports represent reliable accruals based accounting data.

However, in terms of services delivered, the data in the reports is not accruals based and NSPA management has no basis on which to make a reliable accruals based estimate of services delivered in the period; NSPA management has therefore chosen to account for the value of the services delivered based on the values provided in the reports, which totalled Euro 29.3m in 2014 (2013: Euro 70.6m), and which are based on cash payments made by the United States Government to contractors in the period.

The costs of NAM missions (e.g. Fuel and Airport Services) are subject to a degree of uncertainty as the final confirmation of these costs is not known until after the financial statements are issued.

b) Legal proceedings both real and possible

In accordance with IPSAS, NSPO recognises a provision where there is a present obligation from a past event, a transfer of economic benefits is probable and the amount of costs of the transfer can be estimated reliably. In instances where the criteria are not met, a contingent liability may be disclosed in the notes to the financial statements. Obligations arising in respect of contingent liabilities that have been disclosed, or those which are not currently recognised or disclosed in the financial statements could have a material effect on NSPO's financial position.

Application of these accounting principles to legal cases requires NSPA's management to make determinations about various factual and legal matters beyond its control. The Agency reviews outstanding legal cases following developments in the legal proceedings and at each reporting date, in order to assess the need for provisions and disclosures in its financial statements. Among the factors considered in making decisions on provisions are the nature of litigation, claim or assessment, the legal process and potential level of damages in the jurisdiction in which the litigation, claim or assessment has been brought, the progress of the case (including the progress after the date of the financial statements but before those statements are issued), the opinions or views of legal advisers, experience on similar cases and any decision of the ASB to how it will respond to the litigation, claim or assessment.

2. Cash and Cash Equivalents

	Log Ops		NAM		CEPS		NSPO TOTAL	
	2014	2013	2014	2013	2014	2013	2014	2013
Cash available on demand	229,040	320,157	47,312	10,642	449	391	276,801	331,190
Short-term deposits	1,329,456	1,236,289	166,521	112,238	0	0	1,495,977	1,348,527
Total	1,558,496	1,556,446	213,833	122,880	449	391	1,772,778	1,679,717

Cash available on demand is considered to be cash that can accessed at very short notice (e.g. 1 working day) while a short-term deposit is invested from typically one to twelve months. Cash and cash equivalents includes amounts advanced by customers for future usage. NSPA management has no powers to limit the sums advanced or prepaid by its customers. Cash balances are restricted to the use for which customers have provided the cash; NSPA has no unrestricted usages of the cash balances or parts thereof.

3. Property, Plant and Equipment (PPE)

NSPO capitalises all PPE which its segment parts control. Log Ops capitalises PPE which it controls as part of its administration duties or which are controlled by Support Partnerships collectively. The Chairman's Office uses PPE which is controlled by Log Ops and as such are shown as part of the Log Ops Segment. In accordance with a decision by the Agency Supervisory Board, which endorsed a decision by CEPS Programme Board that the CEPS Programme member nations do not collectively and inseparably control the Central Europe Pipeline System, the system's assets are not capitalised; however, assets controlled by the Programme Office are capitalised.

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in Euro '000

	Land	Buildings	Installed Equipment	Machinery	Vehicles	Aircraft	Mission Equipment	Furniture	Comms	Automated Information Systems	NSPO Total
Cost at 1 January 2014	195	15,817	1,763	100,497	1,642	454,664	11,587	3,533	2,118	19,546	611,362
Additions in year	0	4,124	874	607	48	713	784	139	49	1,846	9,184
Revaluations in year	0	0	0	0	0	61,857	1,648	0	0	0	63,505
Disposals in year	0	0	(26)	(1,494)	(21)	0	0	(10)	0	(484)	(2,035)
Balance at 31 December 2014	195	19,941	2,611	99,610	1,669	517,234	14,019	3,662	2,167	20,908	682,016
Depreciation at 1 January 2014	0	1,811	1,166	86,691	1,292	75,719	3,824	2,489	1,670	14,987	189,649
Depreciation	0	917	175	2,325	135	30,201	619	210	389	2,157	37,128
Balance at 31 December 2014	0	2,728	1,341	89,016	1,427	105,920	4,443	2,699	2,059	17,144	226,777
Net Book value at 1 January 2014	195	14,006	597	13,806	350	378,945	7,763	1,044	448	4,559	421,713
Net Book value at 31 December 2014	195	17,213	1,270	10,594	242	411,314	9,576	963	108	3,764	455,239

The Net Book value is represented (in Euro '000) by:

Chairman's Office	0
Log Ops	14,357
CEPS	3,320
NAMP	437,562
	455,239

4. Intangible Assets

The intangible assets of NSPO are:

- Various instances of SAP Enterprise Resource Planning (ERP) which are used within all segments
- The NAM Programme's right of use to a spare engine for its C-17 Aircraft which has an approximate value of Euro 18m
- The CEPS Programme office's management, planning and coordination systems

<i>in Euro '000</i>	Intangible Assets
Cost at 1 January 2014	20,341
Additions in year	108
Revaluations in year	2,539
Disposals in year	0
Balance at 31 December 2014	22,988
Amortisation at 1 January 2014	3,966
Amortisation	41
Balance at 31 December 2014	4,007
Net Book value at 1 January 2013	16,375
Net Book value at 31 December 2013	18,981

The Net Book value is represented (in Euro '000) by:

Chairman's Office	0
Log Ops	0
CEPS	908
NAMP	18,073
	18,981

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5. Inventories

	Log Ops		NAM		CEPS		NSPO TOTAL	
	2014	2013	2014	2013	2014	2013	2014	2013
Consumables	239	204	289	280	0	0	528	484
Spare parts	0	0	201	0	0	0	201	0
Strategic stock	354,168	353,129	0	0	0	0	354,168	353,129
Total	354,407	353,333	490	280	0	0	354,897	353,613

Log Ops

- Log Ops Support Partnerships control inventories paid for in common by members of the Support Partnerships. Most of these inventories are considered strategic stocks in that they are held for potential military operational use as part of weapon systems.

CEPS Programme

- CEPS Programme hosts nations, rather than the Programme collectively, control inventories related to the pipeline system. These inventories include raw materials, spare-parts and consumables; however, as they are not commonly controlled by the Programme they are not capitalised in the NSPO financial statement.

NAM Programme

- The NAM Programme controls inventories for its aircraft; these include oils and lubricants. The NAM Programme capitalises spare parts in relation to its C-17s as Property Plant and Equipment, rather than showing them an inventory, which is in accordance with the NATO Accounting Framework.

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6. Accounts Receivable

	Log Ops		NAM		CEPS		NSPO TOTAL	
	2014	2013	2014	2013	2014	2013	2014	2013
							Restated	
Receivables	310,173	143,391	33,488	6,503	0	0	343,661	149,894
Personnel	0	0	53	5	0	0	53	5
Recoverable taxes	2	10	1,290	794	81	55	1,373	859
Other NATO Entities	21,729	17,352	0	0	4,573	3,879	26,302	21,231
Unbilled sales to customers	489,274	447,359	0	0	0	0	489,274	447,359
Bank interest	1,065	1,207	170	80	0	0	1,235	1,287
Total	822,243	609,319	35,001	7,382	4,654	3,934	861,898	620,635

Unbilled sales represent amounts that have been paid to suppliers of goods and services but which have not been re-billed to individual customers (rather than common-funded sales to more than one customer which are billed through calls for contributions) at the year-end. Some balances in relation the Log Ops Segment have been restated to reflect more accurate accounting data. These changes are not considered to be material.

7. Prepayments

	Log Ops		NAM		CEPS		NSPO TOTAL	
	2014	2013	2014	2013	2014	2013	2014	2013
Prepayments to employees	59	142	0	0	0	0	59	142
Prepayments to vendors	63,951	42,357	0	0	21	36	63,972	42,393
Prepayments to United States FMS	4,103	3,040	114,510	123,668	0	0	118,613	126,708
Total	68,113	45,539	114,510	123,668	21	36	182,644	169,243

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8. Accounts Payable and Accruals

	Log Ops		NAM		CEPS		NSPO TOTAL	
	2014	2013	2014	2013	2014	2013	2014	2013
							Restated	
Payables to vendors	49,906	55,350	2,818	611	98	52	52,822	56,013
Health care contributions	744	739	0	0	0	0	744	739
Pension contributions	573	594	0	0	1	1	574	595
Accruals	202,276	172,127	10,908	9,776	187	348	213,371	182,251
Taxes	0	0	0	0	0	0	0	0
Other	34	42	0	3	14	10	48	55
Total	253,533	228,852	13,726	10,390	300	411	267,559	239,653

Some balances in relation the Log Ops Segment have been restated to reflect more accurate accounting data. These changes are not considered to be material.

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9. Customer Advances

	Log Ops		NAM		CEPS		NSPO TOTAL	
	2014	2013	2014	2013	2014	2013	2014	2013
							Restated	
Customer advance payments	2,091,560	1,896,551	369,130	263,535	0	0	2,460,690	2,160,086
Capital assets contributed	368,764	371,470	456,125	415,900	4,228	4,398	829,117	791,768
Customer and replenishment credits (allocated or to be allocated)	97,774	81,394	0	0	0	0	97,774	81,394
Operating Surplus / (deficit) in year	9,842	8,364	(19,512)	(19,995)	(223)	(278)	(9,893)	(11,909)
Total	2,567,940	2,357,779	805,743	659,440	4,005	4,120	3,377,688	3,021,339

Capital assets contributed represents the sum of the Net Book Value of Property, Plant and Equipment (Note 3), Intangible Assets (Note 4) and Inventory (Note 5); these amounts include currency translation gains and losses.

Customer credits represent amount owned by customers and consist of bank interest earned, losses by exchange and miscellaneous income, while replenishment credits represent amounts owned by customers for the replenishment of spare parts.

Customer advance payments are the net amount of all other assets owned by customers.

Some balances in relation the Log Ops Segment have been restated to reflect more accurate accounting data. These changes are not considered to be material.

10. Net Financial Revenue

	Log Ops		NAM		CEPS		NSPO TOTAL	
	2014	2013	2014	2013	2014	2013	2014	2013
Interest received on bank deposits	5,071	4,422	351	362	0	0	5,422	4,784
Net realised foreign exchange gain	(6,594)	(3,589)	511	(147)	(1)	1	(6,084)	(3,735)
Net unrealised foreign exchange gain	8,687	1,699	(982)	0	0	0	7,705	1,699
Total finance income	7,164	2,532	(120)	215	(1)	1	7,043	2,748

Net Finance Revenue is revenue which does not come directly from operations but from the returns or losses on financial assets and financial liabilities. Hence, it could come from the return on cash balances (e.g. bank interest), or, from exchange rate gains and losses on assets or liabilities denominated in currencies other than the Euro. Exchange rate gains and losses can be realised (they are real inflows or outflows of cash) or unrealised (they are changes in valuations only).

11. Expenses by nature

Many of the expenses in relation to Common Support may also appear in the financial statements of other NATO entities such as ACO and NAPMA.

	Chairman's Office		Log Ops		NAM		CEPS		NSPO TOTAL	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Delivery of services to customers										
Commons Support (including ACO and AWACS)	0	0	280,254	289,089	0	0	0	0	280,254	289,089
Individual brokerage	0	0	497,583	379,796	0	0	0	0	497,583	379,796
Individual maintenance and services	0	0	416,960	375,854	0	0	0	0	416,960	375,854
Operational logistics support	0	0	453,073	645,000	0	0	0	0	453,073	645,000
Transportation services	0	0	90,669	152,035	0	0	0	0	90,669	152,035
Airlift Services	0	0	0	0	63,866	107,559	0	0	63,866	107,559

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Fuel Management	0	0	11,200	0	0	0	0	11,200	0	
Net proceeds from changes in inventory	0	0	1,110	2,838	0	263	0	0	1,110	3,101
Sub-total	0	0	1,750,849	1,844,612	63,866	107,822	0	0	1,814,715	1,952,434

	Chairman's Office		Log Ops		NAM		CEPS		NSPO TOTAL	
Administration of NSPO	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Personnel costs	711	667	93,517	99,555	3,910	3,986	3,748	4,010	101,886	108,218
Depreciation of PPE	0	0	6,276	5,371	19,731	19,449	155	203	26,162	25,023
Amortisation of intangible assets	0	0	0	0	(248)	821	68	75	(180)	896
Buildings	3	6	3,179	2,843	0	21	156	156	3,338	3,026
Information systems	0	0	8,109	6,479	1,567	1,385	347	168	10,023	8,032
Communications	4	6	(717)	135	5	2	132	132	(576)	275
Administration	0	7	(7,497)	(5,340)	540	75	109	104	(6,848)	(5,154)
Services and supplies	47	0	4,859	7,838	0	0	10	11	4,916	7,849
Non-operational consultants	0	0	4,215	435	40	46	169	118	4,424	599
Travel	37	26	4,929	6,917	417	361	121	156	5,504	7,460
Transportation	1	0	133	147	4	229	13	13	151	389
Public Relations and Hospitality	12	10	96	115	4	7	4	8	116	140
Training	8	6	895	557	176	121	23	26	1,102	710
Miscellaneous	1	0	2,846	(1,653)	0	0	14	11	2,861	(1,642)
Taxes	0	0	0	0	0	0	945	907	945	907
Write-offs	0	0	23	128	0	0	0	0	23	128
Sub-total	824	728	120,863	123,527	26,146	26,503	6,014	6,098	153,847	156,856
Total	824	728	1,871,712	1,968,139	90,012	134,325	6,014	6,098	1,968,562	2,109,290

12. Employee Disclosures

	Chairman's Office		Log Ops		NAM		CEPS		NSPO TOTAL	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Salaries	545	515	64,132	68,430	2,465	2,547	2,679	2,845	69,821	74,337
Allowances	76	71	15,104	16,687	596	687	542	617	16,318	18,062
Pension contributions	24	21	3,294	3,366	312	308	499	525	4,129	4,220
Health care contributions	66	60	8,418	8,765	372	382	18	19	8,874	9,226
Loss-of-Job Indemnities (LOJI)	0	0	2,115	1,712	75	13	0	0	2,190	1,725
Other	0	0	454	595	90	49	10	4	554	648
Total	711	667	93,517	99,555	3,910	3,986	3,748	4,010	101,886	108,218

Staff Numbers

At 31 December the following posts were filled:

	Chairman's Office		Log Ops		NAM		CEPS PO		NSPO TOTAL	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Civilian	1	1	1	1	1	1	1	1	1	1
Consultant	1	1	1	1	1	1	1	1	1	1
Total	1	1	1	1	1	1	1	1	1	1

In addition to the figures presented the CEPS Programme National Organisations employ [REDACTED] who work on the pipeline system. These personnel are not employed on NATO personnel contracts. Their costs are reimbursed by the revenues of the CEPS Programme. At one time or another in 2014 there were [REDACTED] consultants employed by NSPO with [REDACTED] employed at the year-end (2013: [REDACTED] respectively). The costs of non-operational consultants are shown in Note 11 - Expenses by Nature.

Retirement benefits

NSPA personnel, past and present, are enrolled in various different NATO pension schemes. NSPA contributes to the schemes for existing employees at amounts laid out in the NATO Civilian Personnel Regulations.

NSPA does not control or manage any of the schemes or scheme assets and is not exposed to the risks and rewards of the schemes and hence does not record any assets or liabilities of the schemes on its statements of financial position. In 2014 NSPA contributed nearly Euro 4.20m (2013: Euro 4.14m) to the various NATO pension schemes.

13. Related Party Transactions

NSPO has no related party relationships where significant influence or control of the related party exists from a financial reporting perspective. NSPO is a military logistics support organisation which exists for its member nations and partners. Many member nations and partner countries have financial and operating control, or, significant influence over military suppliers based in their territories; as such NSPO can trade with military suppliers which may be controlled by its member nations. However, NSPO trades with such suppliers at “arms-length” and under transparent procurement regulations; while it aims to get the best value for money for its customers it does not do this through exerting control or significant influence over its suppliers.

NSPO is an integral part of NATO and it transacts in its normal business activities with other NATO bodies and these transactions occur at cost. On occasions NSPO segments transact with each other at the cost of providing goods or services; for example, Log Ops can provide services to the NAM and CEPS Programmes. The costs of inter-NSPO transactions are eliminated on the consolidation of the financial statements.

Related Party Transactions of Members of Boards and Committees

NSPO has over 30 Board and Committees which form part of its governance. While those charged with governance may also have potential related party transactions with NSPO this has not been validated.

Hospitality Allowance of the ASB’s Secretariat and the ASB, CEPS and NAM Chairmen

The ASB approved a Euro 21,000 hospitality allowance to its Secretariat for 2014 of which Euro 9,739 was spent (2013: Euro 9,513). Expenditure made against this allowance is supported by invoices. The Chairman of the ASB and the Chairmen of the CEPS and NAM Programme Boards respectively, do not receive a Representation Allowance.

Representative Allowance of the General Manager and Hospitality Allowances of Directors

The General Manager, in addition to other allowances to which all staff are entitled, receives a representation allowance of Euro 10,106 per-year (2013: Euro 10,106), due to the requirements to represent NSPA at events, of which Euro 8,265 was spent (2013: Euro 9,422). Expenditure made against this allowance is supported by invoices. This representation allowance includes a 25 per cent contribution to the rent of his accommodation. The other NSPA Directors receive a total hospitality allowance of Euro 6,000 (2013: Euro 8,000) between them, of which Euro 4,158.66 (2013: Euro 3,860) was spent in 2014.

Key Management Personnel

Key management personnel hold positions of responsibility within NSPA. They are responsible for implementing the strategic direction and carrying out the operational management of NSPA; they are entrusted with significant authority. In theory their responsibilities may enable them to influence the benefits of office that flow to them or their related parties (such as family members) and hence certain financial reporting disclosures must be made about:

- the remuneration of key management personnel and close members of the family of key management personnel during the reporting period,
- loans made to them, and
- payments provided to them for services they provide to the entity other than as an employee.

Name	Nationality	Role	Grade and step at year-end	Loans received from NSPA	Family members receiving income from NSPA	Other revenue from NSPA or NATO
██████████	USA	General Manager	A7 step 3	Nil	Nil	Nil
██████████	DEU	Director of Finance	A6 step 6	Nil	Nil	Nil
██████████████████	GBR	Chief of Staff (and Acting Director of Logistics Operations from 1 st October 2014)	A6 step 5	Nil	Nil	Nil
██████████████	USA	Director of Logistics Operations (until 30th September 2014)	A6 step 5	Nil	Nil	Nil
██████████████	FR	Director of Procurement	A6 step 8	Nil	Nil	Nil
██████████	NLD	NAM Programme Manager	A6 step 2	Nil	Nil	Nil
██████████	NLD	CEPS Programme Manager	A6 step 6	Nil	Nil	Nil
██████████████	BEL	Executive Officer (and Acting Chief of Staff from 1 st October 2014)	A5 step 7	Nil	Nil	Nil
██████████████	DEU	Chief Information Officer	A5 step 11	Nil	Nil	Nil
██████████	GBR	Human Resources Executive	A5 step 6	Nil	Nil	Nil

14. Provisions

IPSAS defines a provision as “a liability of uncertain timing or amount”. The CEPS Programme has made a provision for French tax liabilities.

15. Contingent Liabilities

IPSAS defines a contingent liability as *“A possible obligation that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, or, a present obligation that arises from past events, but is not recognized because: 1) It is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; or 2) The amount of the obligation cannot be measured with sufficient reliability”*.

For Log Ops the following represent contingent liabilities:

- The NATO Administrative Tribunal is currently considering seven appeals that were lodged by NSPA staff members in 2014. No estimation of the financial liability to the Agency in case of adverse rulings or outcomes can be provided at this stage.
- A Log Ops customer may face a possible tax liabilities of approximately Euro 275k in relation to tax which may be due with a member nation.
- Log Ops has received a claim from a contractor relating to the deactivation of a Depot Level Maintenance Contract. The financial details of the claim are not being disclosed as this may be prejudicial to the NSPA customer concerned.
- Log Ops has received a claim from a contractor providing military camp support. The financial details of the claim are not being disclosed as this may be prejudicial to the NSPA customer concerned.
- Log Ops has partly settled a claim from a contractor working in the Afghanistan theatre; however, as part of the settlement the contractor is entitled to further amounts if it can provide certain information, this is considered unlikely. The financial details of the claim are not being disclosed as this may be prejudicial to the NSPA customer concerned.

The CEPS Programme, is exposed to possible obligations that may require a collective outflow of resources if NSIP or national funding does not cover potential obligations in the in the following areas:

- In France, a new decree dated 4 August 2006 was issued regarding minimum safety regulations for pipelines. In December 2008 implementation guidelines were issued outlining the assessment procedures / studies to be followed for application to this decree / order. This decree may have a financial impact which cannot be measured with sufficient reliability. New decrees dated 03/10/2010, 04/10/2010, 29/12/2011 and 02/05/2012 may have financial impacts. It is not yet possible to quantify the efforts and costs of the implementation of those decrees.
- In 2005, an accident occurred in Wavre, Belgium where a leak produced pollution on site. In 2009 the “Office wallon des déchets”, the local administration in charge gave its authorization on the cleanup plan. The cleanup plan is foreseen to last from 2010 to 2023. The costs are common funding eligible, and the Belgian MOD has

transmitted its request to NATO on 19 March 2010 for an amount of Euro 10.1m payable in 2 parts. It is not yet known if third parties will submit claims against Belgian MOD.

- In 2008, an accident occurred in Saint-Symphorien, Belgium where a leak produced pollution on site. The “Région wallonne”, the local administration ordered the cleanup and the bill amounted to Euro 1.5m. The Belgian MOD is prosecuting the owner of the ground and the farmer using the ground. The company which did the cleanup work is now prosecuting the local administration which asked both cases to be juridically linked. In the meantime the owners of the nearby land joined the prosecution. The litigation is pending.

16. Leases

IPSAS defines a lease as “*An agreement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time*”. Typical examples of leases are the rental of vehicles and photocopiers.

Finance leases

NSPO does not have any finance leases.

Operating leases

In year operating lease costs are charged to the Statement of Financial Performance. At the end of 2014 NSPO had the following commitments in respect of operating leases.

	Chairman's Office	Log Ops	NAM	CEPS	NSPO TOTAL
Amounts due in less than one year	0	96	0	3	99
Total amounts due in between one and five years	0	284	0	0	284
Total amounts due in more than five years	0	0	0	0	0
Total	0	380	0	3	383

17. Financial Instruments

NSPO's financial requirements are met from its customers who are members or partners of NATO. NSPO has no powers to borrow money or to invest surplus funds. Other than financial assets and liabilities which are generated by day-to-day operational activities, no financial instruments are held.

Liquidity risk

NSPO's financial requirements and capital expenditure are met by its customers and are typically funded in advance. NSPO is therefore not exposed to material liquidity risks.

Credit risk

NSPO's customers are member and partner nations of NATO and hence NSPO is therefore not exposed to material credit risks.

Foreign currency risk

NSPO has limited exposure to foreign currency because some of its work is denominated in currencies other than the Euro. However, all the risk of foreign currency is ultimately born by NSPO's customers who are members or partners of NATO.

18. Write-offs

The NATO Financial Regulations require NATO entities to disclose any amounts written-off in the year. In 2014 the Log Ops segment wrote off assets with a value of Euro 23,123 (2013: Euro 127,616).

19. Financial Plan Execution

NSPO is not required to follow *IPSAS 24 - Presentation of Budget Information in Financial Statements* as it prepares an annual financial plan which includes a statement of planned income and expenditures. However, NSPA management has chosen to provide a high level summary of the approved administrative cost elements of the financial plan of Log Ops, and full summary plans for the CEPS and the NAM Programmes, with the authorised commitments and expenditures made against them. In addition the amounts funded in common by members of Support Partnerships is shown (individual national procurement activity is not shown).

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a. Central Europe Pipeline System

	Budget Type	PRIOR 2014 AUTHORISED CREDITS CARRIED FORWARD	2014 AUTHORISED CREDITS	BUDGETARY EXPENDITURE AGAINST CREDITS	AUTHORISATIONS CARRIED FORWARD	LAPSED CREDITS
Operational Budgets						
Personnel	O&M	367,787	59,983,100	59,499,269	364,671	486,948
	NP2	501,399	636,700	801,374	336,725	-
	NP3	3,929	580,000	54,097	379,833	150,000
	Depots	-	465,600	445,523	-	20,077
		<u>873,115</u>	<u>61,665,400</u>	<u>60,800,263</u>	<u>1,081,228</u>	<u>657,025</u>
Outside temporary staff	O&M	63,885	1,133,900	1,077,309	71,331	49,145
	Depots	1,480	148,900	141,741	6,494	2,146
		<u>65,365</u>	<u>1,282,800</u>	<u>1,219,049</u>	<u>77,825</u>	<u>51,291</u>
Training of personnel	O&M	126,249	313,000	305,183	100,356	33,710
Travel and transportation	O&M	68,798	3,623,500	3,519,906	11,198	161,194
	Depots	-	52,000	51,583	-	417
		<u>68,798</u>	<u>3,675,500</u>	<u>3,571,489</u>	<u>11,198</u>	<u>161,611</u>
Hospitality	O&M	645	41,500	30,290	998	10,857
Operation	O&M	957,231	21,296,350	20,286,424	1,145,065	822,092
	Depots	1,774	130,000	127,637	1,700	2,437
		<u>959,005</u>	<u>21,426,350</u>	<u>20,414,061</u>	<u>1,146,765</u>	<u>824,529</u>
Maintenance	O&M	4,814,217	13,164,990	12,870,437	4,530,707	578,063
	NP2	8,293,902	1,520,300	4,255,060	5,159,365	399,777
	NP3	-	2,950,000	322,682	2,627,318	-
	Depots	390,379	902,200	928,812	362,507	1,260
		<u>13,498,499</u>	<u>18,537,490</u>	<u>18,376,991</u>	<u>12,679,897</u>	<u>979,100</u>

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General administrative expenses	O&M	1,159,026	11,087,950	10,282,571	1,728,783	235,622
	Depots	1,791	141,000	117,602	25,100	88
		<u>1,160,817</u>	<u>11,228,950</u>	<u>10,400,173</u>	<u>1,753,883</u>	<u>235,710</u>
Capital						
Fixed installations	NP2	3,220,000	-	859,846	2,360,154	-
Plant and Equipment	O&M	446,747	622,403	592,807	261,269	215,073
	Depots	-	10,900	10,673	-	227
		<u>446,747</u>	<u>633,303</u>	<u>603,480</u>	<u>261,269</u>	<u>215,300</u>
Vehicles	O&M	192,560	363,097	118,984	415,449	21,224
Office equipment	O&M	749,993	2,014,410	1,102,204	1,492,059	170,140
Long Term Investments						
Modernisation 100% CEPS	O&M	47,799,883	21,709,800	16,879,268	48,854,206	3,776,208
	Depots	1,751,780	1,257,000	1,298,897	1,709,148	735
		<u>49,551,663</u>	<u>22,966,800</u>	<u>18,178,165</u>	<u>50,563,355</u>	<u>3,776,943</u>
INFRA projects - cost shares	O&M	2,915,432	698,300	813,211	1,618,892	1,181,629
Grand Total		<u>73,828,888</u>	<u>144,846,900</u>	<u>136,793,388</u>	<u>73,563,329</u>	<u>8,319,070</u>

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b. Log Ops – Administrative cost elements

<i>All figures in Euro '000</i>	PRIOR 2014 UNPAID COMMITMENTS CARRIED FORWARD	2014 AUTHORISED CREDITS	PAYMENTS AGAINST COMMITMENTS & CREDITS	UNPAID COMMITMENTS (i.e. LEGAL OBLIGATIONS) CARRIED FORWARD	TOTAL CREDITS CONSUMED IN YEAR	LAPSED CREDITS
Personnel Expenditure	784	101,701	94,192	1,892	96,084	6,401
General Administrative, Operating & Maintenance	7,618	12,439	11,605	6,752	18,357	1,700
Project Specific Expenditure	4,930	20,459	13,961	4,766	18,727	6,662
Investments	2,535	3,919	3,231	2,532	5,763	691
Southern Operational Centre Regularisation for Programme Office and Division Expenditure	(284)	0	(35)	(213)	(248)	(36)
Total	15,583	138,518	122,953	15,730	138,683	15,418

c. Log Ops – Common Funded Costs

Operational Budget	Source of Funding	PRIOR 2014 UNPAID COMMITMENTS BROUGHT FORWARD	2014 PAYMENTS AGAINST PRIOR 2014 COMMITMENTS	PRIOR 2014 UNPAID COMMITMENTS CARRIED FORWARD	CREDITS MADE AVAILABLE IN 2014	COMMITMENTS MADE IN 2014	CASH PAYMENTS	UNPAID COMMITMENTS	UNUSED CREDITS
	NSIP	39,895	29,506	9,562	54,830	21,857	4,871	16,986	32,974
	Multinational Projects	6,254	4,930	958	10,554	6,191	2,598	3,594	4,362
	Support Partnership	1,586	136	1,413	627	489	121	368	137
	Support Partnership	1,253	79	1,159	7,769	7,376	4,032	3,344	393
	Support Partnership	736	399	330	1,612	1,604	889	715	8
	Support Partnership	879	149	622	960	511	170	340	449
	Support Partnership	0	0	0	0	0	0	0	0
	NATO bodies	771	166	73	0	0	0	0	0
	NATO bodies	52,083	52,127	13,704	96,566	81,221	50,659	30,562	15,345
	Support Partnership	47,870	10,806	33,059	32,116	29,553	2,044	27,509	2,563
	Support Partnership	52	52	0	152	84	0	83	68
	NATO bodies	0	0	0	0	0	0	0	0
	Support Partnership	0	0	0	5	0	0	0	5

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Operational Budget	Source of Funding	PRIOR 2014 UNPAID COMMITMENTS BROUGHT FORWARD	2014 PAYMENTS AGAINST PRIOR 2014 COMMITMENTS	PRIOR 2014 UNPAID COMMITMENTS CARRIED FORWARD	CREDITS MADE AVAILABLE IN 2014	COMMITMENTS MADE IN 2014	CASH PAYMENTS	UNPAID COMMITMENTS	UNUSED CREDITS
	Other customers	66	66	0	1,801	1,015	554	461	786
	Support Partnership	24	22	2	351	289	236	53	62
	Multinational Projects	60	60	0	94	94	33	61	0
	NATO bodies	14,640	11,906	2,113	18,938	18,929	6,039	12,891	9
	NATO bodies	966	604	278	2,388	2,269	777	1,492	119
	NSIP	19,713	10,604	5,218	109,172	14,079	10,469	3,610	95,093
	Support Partnership	0	0	0	8	8	8	0	0
	NATO bodies	5	0	5	0	0	0	0	0
	NATO bodies	6,058	5,105	636	9,471	9,328	3,588	5,740	143
	NATO bodies	33	0	33	0	0	0	0	0
	NATO bodies	3,723	3,195	456	3,169	3,127	1,104	2,023	41
	NATO bodies	2,995	2,680	165	3,538	2,135	576	1,559	1,403
	NSIP	1	0	1	3,010	0	0	0	3,010
	Support Partnership	10,304	957	8,929	3,550	3,259	1,606	1,653	291
	Support Partnership	99	26	73	0	0	0	0	0
	Support Partnership	299	0	298	360	53	50	2	307
	Support Partnership	62	0	0	0	0	0	0	0
	NATO bodies	4,800	0	4,800	0	0	0	0	0
	NATO bodies	407	395	4	1,189	1,022	344	677	167
	NATO bodies	137	68	19	173	172	61	111	0
	Support Partnership	1,680	243	1,405	113	105	0	105	8
	Support Partnership	9	2	7	55	37	10	27	18
	Nationally funded	15,364	1,647	12,235	8,749	10,085	5,865	4,220	(1,336)
	Support Partnership	116	0	116	0	0	0	0	0
	Multinational Projects	0	0	0	215	215	215	0	0
	Support Partnership	52,021	47,491	4,530	0	0	0	0	0
	Support Partnership	0	0	0	374	374	374	0	0
	Support Partnership	21	0	21	285	32	32	0	253
	Support Partnership	104	42	62	147	130	15	115	17
	Support Partnership	0	0	0	0	0	0	0	0
	Support Partnership	911	294	568	1,877	1,861	1,386	475	16
	Support Partnership	4,809	0	3,443	8,042	4,561	1,902	2,659	3,481
Common Funded Expenditure	Sub-total	290,806	183,755	106,298	382,259	222,065	100,629	121,436	160,194

The figures in the column “Prior 2014 unpaid commitments carried forward” do not represent the arithmetical differences between the amounts within column “Prior 2014 unpaid commitments brought forward” and “2014 payments against prior-2014 commitments”; these differences are mainly due to de-commitments/adjustments made during the reporting year 2013 against the open purchase orders/funds reservations from previous years forwarded in 2014. Unused Credits can be carried forward or lapsed depending on the rules governing the specific project of funder.

d. NAM Programme

The NAM Programme bases its financial plan in USD and as such the report on financial plan execution is being reported here in USD.

<i>All figures in USD '000</i>	UNUSED AUTHORISED CREDITS AND UNPAID COMMITMENTS BROUGHT FORWARD	2014 AUTHORISED CREDITS	PAYMENTS AGAINST COMMITTED AUTHORISED CREDITS	UNUSED AUTHORISED CREDITS AND COMMITMENTS CARRIED FORWARD		
Acquisition	\$282,034	\$567	\$38,372	\$244,229		
Operational	\$429,250	\$98,733	\$99,652	\$428,330		
Total	\$711,284	\$99,300	\$138,025	\$672,559		
<i>All figures in USD '000</i>	PRIOR 2014 UNPAID COMMITMENTS CARRIED FORWARD (1)	2014 AUTHORISED CREDITS (2)	PAYMENTS AGAINST COMMITMENTS (1) & AUTHORIZED CREDITS (2)	UNPAID COMMITMENTS (i.e. LEGAL OBLIGATIONS) CARRIED FORWARD	TOTAL CREDITS CONSUMED IN YEAR (A+B)	LAPSED CREDITS
Administration	\$1,416	\$12,722	\$8,472	\$828	\$9,300	\$4,837

20. Operating Surplus/(deficit) for the year

NSPO is chartered to plan its activities on a no-profit/no-loss basis globally over the planning period; however, this does not prohibit the realisation of operating surpluses or deficits in the financial reporting period. Operating surpluses or deficits can be caused through non-monetary transactions (such as depreciation), or, through transactions with an actual or potential monetary impact (such as the receipt of investment income, realised exchange rate gains or losses, or unbilled sales at the year-end). NSPO does not have net assets/equity because all assets and liabilities belong to its customers. Currency translation gains and losses are shown in the Statement of Changes in Net Assets; however, these are then transferred into Customer Advances.

In 2014 NSPO made an Operating deficit of Euro 9.9m (2013: deficit of Euro 11.9m). As NSPO in itself does not have equity any operating surpluses or deficits ultimately become reflected in the Statement of Financial Position as Customer Advances. Non-monetary and non-budgeted amounts such as depreciation contributed Euro 26m towards the deficit position (2013: contributed Euro 25.9m to the deficit position).

21. Non-NSPA controlled inventories managed on behalf of third parties

NSPA manages inventories on behalf of third parties such as NATO member states; however, it does not control these inventories from a financial reporting perspective. Inventories are valued at weighted average costs. Third party inventories managed by NSPA include inventories held in [REDACTED], as well as those which have been certified by the respective commanders of national depots used by NATO at the year-end. The value of inventories managed for third parties at the 2014 year-end were Euro 270 million (2013: Euro 268 million).

22. Central Europe Pipeline System Programme – information in relation to non-controlled assets, liabilities and revenues

In late 2014 the Agency Supervisory Board approved the accounting policy that NSPO does not control the CEPS; this followed a decision in February 2014 where the CEPS Programme Board validated a previous decision of the CEPMO Board of Directors that the CEPS Programme did not collectively control the Pipeline System. Under IPSAS control of an asset arises when an entity can use or otherwise benefit from an asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit. The CEPS Programme Board is unable to exclude or otherwise regulate the access of the NATO Military Authorities to the service potential of the Pipeline and hence NSPO, through the CEPS Programme, cannot be considered as the NATO entity which controls the Pipeline System.

As the Pipeline System is not controlled by the CEPS Programme collectively, then by extension, the associated revenues and expenditures, and assets and liabilities, are not controlled by the Programme. This has resulted in the Statements of Financial Performance only showing the revenues and expenditures of the CEPS Programme Office which oversees the Programme. To ensure that nations are aware of all the expenditure incurred by the CEPS Programme the following table shows the CEPS Financial Plan Execution (see Note 19a) and this is not anticipated to reconcile to the sources of funds; sources of funds are based on an accruals basis while the Financial Plan Execution is based on a modified accruals basis.

Sources of Revenue

The execution of the CEPS Financial Plan is financed through a mixture of commercial revenues and member nation funding. In 2014 [REDACTED]

NSIP Funding and the CEPS

The CEPS Programme Board has no authority over the NATO Investment Committee which approves NSIP (NATO Security Investment Programme) funding. The nature of the CEPS is that Host Nations are required to apply for NSIP funding in regard of additions, renovations and restorations to the Pipeline System, and, as these applications go directly to the NATO Investment Committee they do not necessarily pass through either the National Pipeline Organisations or the CEPS Programme Office. In 2014 less than Euro 1m of NSIP funding passed through CEPS Programme rather than through Host Nations.

The CEPS Programme Board collectively lacks transparency on how much NSIP funding is received and spent on the Pipeline System when it is applied for, and received, through Host Nations. However, this will improve in the future with the realisation of the NATO Headquarters' CIRIS project.

Estimated Value of the Pipeline System

NSPA management estimates the value of the CEPS at Euro 750m. This is an internal estimate which is based on the ratio of the cost relative to revenues of a commercial pipeline system on the territory of one of the members of the Programme, in which the member nation has a golden share.

Cash holdings of CEPS Programme

The CEPS Programme held cash or cash equivalents of Euro 163m at the year-end (2013: 149 m). The bulk of this balance was held by the National Organisations and only Euro 0.5m was held by the CEPS Programme Office; these cash holdings are supported by current and future pipeline projects.

23. Events after the financial reporting date of 31 December 2014

NSPO is required to disclose events, both favourable and unfavourable, that occurred between the reporting date of 31 December 2014 and the date when these financial statements were authorized for issue by the General Manager. IPSAS requires two types of events which should be identified:

- (a) Those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- (b) Those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

While management consider there are no events categorised under (a) they consider that the merger of the NATO Support Organisation and the NATO Procurement Organisation should be disclosed under category (b). The NATO Support and Procurement Organisation stood up on 1 April 2015 with the merger of the NATO Support Organisation and the NATO Procurement Organisation. The NATO Procurement Organisation, despite being set up on 1 July 2012 has never had any financial activity and never produced financial statements. These financial statements cover the financial activities of the NATO Support Organisation for the year 2014.

Also under category (b) it should be noted that in late May 2015 the NATO Resource Policy and Planning Board accepted a NATO Office of Resources Report which recommended that CEPS Programme related assets, liabilities, revenues, expenses and cash flows, including the operational CEPS balances and activities of the National Organisations, be reported in the NSPO Statement of Financial Position, the Statement of Financial Performance and the Cash Flow Statement. If this recommendation is subsequently accepted by NATO Council it will require NSPO to change its accounting policy in respect of the CEPS Pipeline.