

	NATO	NORTH ATLANTIC COUNCIL
	OTAN	CONSEIL DE L'ATLANTIQUE NORD

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1 February 2017

DOCUMENT
C-M(2017)0001-AS1 (INV)

IBAN AUDIT ON THE 2015 FINANCIAL STATEMENTS OF THE NATO SUPPORT AND PROCUREMENT ORGANISATION

ACTION SHEET

On 1 February 2017, under the silence procedure, the Council noted the IBAN report on the 2015 financial statements of the NSPO attached to C-M(2017)0001 (INV) and agreed the RPPB recommendation regarding public disclosure.

(Signed) Rose E. Gottemoeller
Deputy Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2017)0001 (INV).

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27 January 2017

DOCUMENT
C-M(2017)0001 (INV)
Silence Procedure ends:
01 Feb 2017 17:00

**IBAN AUDIT ON THE 2015 FINANCIAL STATEMENTS OF THE NATO SUPPORT AND
PROCUREMENT ORGANISATION**

Note by the Deputy Secretary General

1. I attach the International Board of Auditors for NATO (IBAN) report on the audit of the 2015 financial statements of the NATO Support and Procurement Organisation (NSPO).
2. The IBAN report sets out a qualified opinion on the financial statements of NSPO and on compliance for the year 2015. The IBAN report, although showing improvements by NSPO in many areas, also illustrates that many of the weaknesses identified in previous audit reports have not yet been fully corrected. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB) (see Annexes) which has provided its own report with conclusions and recommendations to Council.
3. I do not believe that this matter requires discussion in the Council. Consequently, **unless I hear to the contrary by 17:00 hours on Wednesday, 01 February 2017**, I shall assume that the Council has noted the IBAN report on the 2015 financial statements of NSPO and agreed the RPPB recommendation regarding public disclosure.

(Signed) Rose E. Gottemoeller

Original: English

4 annexes
1 enclosure

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**IBAN AUDIT ON THE 2015 FINANCIAL STATEMENTS OF THE NATO SUPPORT AND
PROCUREMENT ORGANISATION (NSPO)**

Report by the Resource Policy and Planning Board

References:

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|------------------|---------------------------------------|
| a) IBA-A(2016)84 | (IBAN Audit report) |
| b) C-M(2015)0025 | (NATO Financial Regulations) |
| c) C-M(2016)0023 | (NATO Accounting Framework) |
| d) CH/2016/0037 | (Letter from Chairperson of NSPO ASB) |

BACKGROUND

1. This report covers the audit of the financial statements of the NATO Support and Procurement Organisation (NSPO) for 2015. It is based on the report by the Budget Committee (BC) which was approved on Wednesday 30 November 2016 (reference: BC-D(2016)0192-FINAL (INV)).

2. The International Board of Auditors for NATO (IBAN) has issued a qualified opinion on the financial statements of NSPO and a qualified opinion on compliance for 2015 (reference a).

3. The RPPB acknowledges that the issues highlighted in the IBAN audit report will be/have already been dealt with by the appropriate governing bodies of NSPO. That said, the Board is still mandated under Article 15 of the NFRs (reference b) to provide Council with comments and recommendations on the audit opinion.

DISCUSSION

4. The IBAN has issued seven observations with recommendations. Material weaknesses in internal control over financial reporting impacted the audit opinion on compliance. Incomplete reporting of assets of the Central European Pipeline System (CEPS) impacted the audit opinion on the financial statements. The remaining five observations did not impact the audit opinion.

5. The IBAN audit contains an emphasis of matter paragraph¹ to draw attention to the accounting treatment of purchases from the United States Foreign Military Sales (FMS)

¹ An emphasis of matter paragraph, as the name suggests, is a paragraph that is included by the auditor to draw attention to something in the financial statement which is of such importance that it is fundamental to the users' understanding of the financial statement.

programme which are presented on a modified cash basis of accounting rather than on an accruals basis. The IBAN also note, however, that this approach is in accordance with the revised NATO Accounting Framework (reference c)) approved by Council on 29 April 2016 with retrospective application as from 1 January 2015.

Audit opinion on compliance

6. Observation 1 – material weaknesses in internal control over financial reporting: The IBAN found that the financial statements issued to the Board by NSPO on 31 March 2016 contained numerous misstatements, inaccuracies and omissions. Many of these were of a detailed technical nature which, with a few exceptions, were corrected by NSPA during the audit. The IBAN made eight recommendations to tackle these reporting errors and while the Agency accepted seven of these it should be noted that on two occasions the Agency highlighted the challenges to implement them in practice due to resource constraints. The Agency only partially accepted the IBAN recommendation with regards to related party disclosures as it does not feel that there is added value in making related party disclosures for all members of NSPO Boards or Committees. The RPPB notes that the Finance, Administration and Audit Committee (FAA) of NSPO has now agreed that the information will be requested from members of all NSPO Boards and Committees although the FAA acknowledged that there will be difficulties in collecting the required information.

7. The RPPB recalls that material weaknesses in internal control over financial reporting was the basis for the qualified audit opinion on compliance on the 2014 financial statements of NSPO. The Agency has underestimated the scale of the task involved and a new Improvement Plan was put in place in 2015 to tackle these weaknesses. While the IBAN note some improvements, it is clear that problems in the accounting processes followed by NSPO continue to require high-level management attention. Dealing with these problems are not the sole responsibility of the Financial Controller (FC). The General Manager has established an internal working group to address the situation and the Agency plans to spend €150k on consultants to assist development of an internal control framework. The RPPB welcomes these efforts and notes also that FCs have established a working group on internal control and risk management (similar to the arrangement they have previously set up for dealing with accounting issues of common interest) and a collaborative platform has been created to support the working group. Furthermore, the RPPB notes the continuing technical and investment challenges to integrate different financial tools at NSPO to support the effective application of the necessary accounting policies and processes in order to deal with the audit observations made by the IBAN. The FC expects this observation to be closed in the audit of the 2016 financial statements.

Audit opinion on financial statements

8. Observation 2 – incomplete reporting of assets of the CEPS programme: Good progress has been made to comply with the decision that all of the assets, liabilities, revenues, expenses and cash flows of the CEPS programme should be reported in the financial statements of NSPO. The IBAN found that the 2015 financial statements include

all such balances with the only exception being PP&E related to the pipeline system that has been acquired since 1 January 2013. This has been disclosed in the financial statements and the RPPB notes that the Agency expects to be able to report PP&E information related to the pipeline for the first time in its 2016 financial statements.

IBAN observations

9. Observation 3 – further steps needed to ensure compliance with the NATO Financial Regulations (NFRs): The IBAN found that NSPO still needed to improve its efforts to implement the articles in the revised NFRs (reference b) on internal control, internal audit and risk management.

10. The main issue faced by NSPO (and other NATO entities) is the lack of additional resources to cope with the consequences resulting from some of the changes in the NFRs. Building internal control frameworks and a risk management culture extends further than the FCs and their staff and requires time and resources and is stretching beyond existing capabilities. NSPO do not expect their internal control framework to be complete until the end of 2018.

11. Observation 4 – improvements needed in the monitoring and control of potential conflicts of interest in procurement: The IBAN issued the same observation in its management letter to the Agency following the audit of the 2014 financial statements related to procurement activity but did not find improvements in this area during its 2015 audit. In the IBAN's view, this highlights that there is not a comprehensive regulatory framework dedicated to dealing with potential conflicts of interest. The IBAN found that the person assigned to be Competition Advocate (CA) in the Agency is also the Deputy Director of Procurement and Information System Support and the dual hatted nature of this position jeopardizes its function. The RPPB notes that NSPA have sought to address these concerns by making the CA report directly to the Agency General Manager; ideally it would be better to have two separate positions but given the resource issues involved the way ahead seems a reasonable compromise.

12. Separately, the IBAN found that the NSPA Director of Finance (FC) continues to have a limited oversight role in procurement and contracting. The IBAN found that the Director of Finance is a member of the Contract Award Committee (CAC) for common-funded activity only and does not appear to have the ability to chair the CAC if deemed necessary based on an assessment of risks and control.

13. The RPPB notes the response by NSPO that discussions are on-going on how to implement the NFRs with regards to procurement in the context of finalising the NSPO Financial Rules and Procedures (FRPs). Adherence to the NFRs in this regard is proving a challenge for NSPO in terms of resources, procedures and governance; historically the FC has had no involvement in the business activities of the logistics operation division in NSPO where the bulk of the business activity has traditionally been managed by procurement and logistics personnel. Arrangements have been developed to strengthen the checks and

balances and a trial is being conducted to actively involve the FC in compliance with the underlying intent of the NFRs. The NSPO governing bodies (FAA and the ASB) are being kept fully engaged but the NSPO FRPs are not expected to be finalised until the beginning of 2017. The RPPB will then assess the consistency and comparability of the supporting FRPs proposed for NSPO with those developed to cover common-funded NATO bodies.

14. While further noting the nature of NSPO's business activities, the RPPB recalls that the FC is always a member of the Contract Award Board in the NATO Communication and Information Organisation (NCIO) and invites NSPA to actively consider a similar arrangement.

15. Observation 5 – improvements needed in monitoring and control over prepayments made to vendors: The IBAN recommended NSPA ensure that prepayments to vendors are properly tracked to limit the risk of overpayment or improper accounting treatment. NSPA accepted the recommendation but again noted that the Agency will have to evaluate the cost and resource implications of activating the suggested SAP module. To put things in perspective the Agency also made the point that the specific sum of €57million highlighted by the IBAN as the basis for the observation was to less than 50 vendors out of a total of 2,800 vendors with payments in 2015 of over €3 billion.

16. Observation 6 – improvements needed in monitoring and control over the process of billing customers: NSPA accepted the IBAN recommendations to tighten the processes for billing customers pointing out the efforts the Agency already follows to promote operational efficiency and verify the accuracy and reliability of accounting data and records as set out in the NFRs.

17. Observation 7 – monitoring the cash held by NSPO: The IBAN has again highlighted the high cash holdings of NSPO, specifically by the NATO Airlift Management (NAM) where despite budget related measures to reduce the calls for contributions from Nations, the level of cash held continues to increase. In general, the Agency notes that the decision on utilisation and the return of funds held by it rests with the Nations.

Previous years' observations

18. The IBAN followed up the status of observations and recommendations from previous years' audits noting that five had been settled, two had been partially settled, seven had been superseded and six remained outstanding. The RPPB is concerned with the recurring nature of some of the IBAN observations and the apparent lack of action by NSPO to address these, most notably the lack of significant improvements in the internal audit function and the failure to return excess cash to the Nations. The RPPB notes that all outstanding observations are being addressed by the Agency in consultation with its customers and that the final decisions rest with Nations in the Agency's governing bodies.

Public Disclosure

19. The General Manager of NSPA has confirmed in the financial statements that he is content for them to be publicly disclosed but notes that the decision to do so rests with the ASB and the NAM and CEPS Programme Boards respectively. The Chairperson of the ASB confirmed (reference e) that a redacted version of the 2015 financial statements has been provided for public disclosure.

CONCLUSIONS

20. The IBAN have submitted a qualified opinion on the NSPO financial statements for 2015 which follows on from the qualified opinions issued for 2013 and again in 2014. The recurring nature of some of the audit observations, the resource constraints and challenges highlighted by NSPO reveal that the full financial integration of the different entities within one Organisation still has not yet been achieved and that strains on financial effectiveness and efficiency remain a challenge requiring high-level attention by Agency management (not just the FC) and its governing bodies. The RPPB welcomes the efforts that the Agency is making to address the audit observations and looks forward to seeing them resolved as quickly as possible.

21. While noting that the appropriate governing bodies of NSPO will continue to oversee the Agency's response to all of the observations raised by the IBAN, the RPPB will also pay particular attention to progress in addressing the material weaknesses in internal control that were the basis for the qualified audit opinion on compliance as well as the response by the Agency to deal with the IBAN observation on the potential conflict of interest in procurement; both of which are related to implementation of the NFRs.

RECOMMENDATIONS

22. The RPPB recommend that the Council:
- a) note the IBAN report IBA-A(2016)84;
 - b) endorse the conclusions in paragraphs 20 and 21; and,
 - c) approve the public disclosure of this report, the IBAN audit (reference a)) and the redacted version of the 2015 financial statements of NSPO.

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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 2015

The Board issued a qualified opinion on the NSPO 2015 Financial Statements and on compliance for the year ended 31 December 2015.

One observation impacts the audit opinion on compliance:

1. Material weaknesses in internal control over financial reporting.

One observation impacts the audit opinion on the financial statements:

2. Incomplete reporting of assets of the Central Europe Pipeline System (CEPS) Programme.

The remaining five observations do not impact the audit opinions:

3. Further steps are required to achieve full compliance with the revised NATO Financial Regulations, particularly those Articles on Internal Control, Risk Management and Internal Audit.
4. Improvements needed in the monitoring and control over potential conflicts of interest in procurement.
5. Improvement needed in the monitoring and control over prepayments made to vendors.
6. Improvement needed in monitoring and control over the process of billing customers.
7. Monitoring of the cash held at NSPO.

The Board also included in its audit opinion, without further modifying its opinion, an emphasis of matter paragraph highlighting to the reader of the financial statements the change made to the NATO Accounting Framework in respect to purchases from the United States Foreign Military Sales (FMS) programme.

The Board followed up on the status of observations and recommendations from previous years' audits. The observations and their status are summarised in this appendix. The Board noted that five have been settled, two have been partially settled, seven have been superseded by a current year observation and six remain outstanding. These have been summarised in the follow-up section, Annex 4.

NSPO's formal comments, and the Board's position on those comments where necessary, have been inserted into the report (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 2015

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

Report on the Financial Statements

The International Board of Auditors for NATO (Board) audited the accompanying financial statements of the NATO Support and Procurement Organisation (NSPO), which comprised the Statement of Financial Position as at 31 December 2015, 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. The Board also audited the NSPO Financial Plan Execution Statements included as an annex to the financial statements.

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 disclosed in the financial statements, the value of the CEPS pipeline improvements made since 1 January 2013, of which the value has not been determined, is not yet reported as an asset in the Statement of Financial Position. This is required by the NATO Accounting Framework. The 2014 comparative information on CEPS pipeline improvements was also not reported, so 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 2014 figures.

In addition, some of the balances presented in the Cash Flow Statement could not be fully supported. This includes the 'Effect of exchange rate changes on cash and cash equivalents', the 'Net Purchase of PPE, Intangible Assets and Inventories' and the 'Financing of PPE, Intangible assets and inventories' line items.

Furthermore, Notes 3 and 4 to the financial statements include tables disclosing the changes in PP&E and intangible assets, respectively, from 1 January to 31 December 2015. The Board is not able to reconcile the depreciation and amortisation balances presented in these tables to the 'Depreciation and Amortisation' balances presented in the Statement of Financial Performance, Statement of Cash Flows and the Statement of Changes in Net Assets. As a result, the Board is not able to provide assurance as to the accuracy of these notes.

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 2015, and of its financial performance and its cash flows for the year then ended are in accordance with the NATO Accounting Framework.

Emphasis of Matter

We draw attention to the accounting treatment of purchases from the United States Foreign Military Sales (FMS) programme, which are presented on a "modified cash" basis of accounting rather than the accrual basis of accounting. This is in accordance with the revised NATO Accounting Framework approved by the North Atlantic Council on 29 April 2016, with retrospective application for FMS purchases as from 01 January 2015. Our opinion is not qualified in respect to this matter.

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 require the establishment of a system of internal control. The Board found material weaknesses in internal control over financial reporting at NSPO. Material misstatements were identified by the Board during the audit which had not been prevented and detected by internal controls over financial reporting. These misstatements were corrected by NSPO.

Opinion on Compliance

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

Brussels, 23 August 2016

Lyn Sachs
Chairman

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ANNEX 3
C-M(2017)0001 (INV)

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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 2015

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 2015, 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.

One observation impacts the audit opinion on the financial statements:

2. Incomplete reporting of assets of the Central Europe Pipeline System (CEPS) Programme.

The remaining five observations do not impact the audit opinions:

3. Further steps are required to achieve full compliance with the revised NATO Financial Regulations, particularly those Articles on Internal Control, Risk Management and Internal Audit.
4. Improvements needed in the monitoring and control over potential conflicts of interest in procurement.
5. Improvement needed in the monitoring and control over prepayments made to vendors.
6. Improvement needed in monitoring and control over the process of billing customers.
7. Monitoring of the cash held at NSPO.

The Board also included in its audit opinion, without further modifying its opinion, an emphasis of matter paragraph highlighting to the reader of the financial statements the change made to the NATO Accounting Framework in respect to purchases from the United States Foreign Military Sales (FMS) programme.

The Board followed up on the status of observations and recommendations from previous years' audits. The observations and their status are summarised in this appendix. The Board noted that five have been settled, two have been partially settled, seven have been superseded by a current year observation and six remain outstanding. These have been summarised in the follow-up section.

This Letter of Observations and Recommendations was formally cleared with NSPO, and the formal comments are included, with the Board's position on those comments where necessary.

OBSERVATIONS AND RECOMMENDATIONS

1. MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Reasoning

1.1 The financial statements are due to be presented by 31 March per the revised NATO Financial Regulations (NFRs) that were approved by the North Atlantic Council (Council) in May 2015. This reporting deadline is a month earlier than the requirement under the previous NFRs.

1.2 The NSPO Operating Instruction 4300-04 states that “The Annual Financial Statements will be provided by the Financial Controller to the General Manager with sufficient lead time to ensure an adequate review of the documents and supporting schedules. In accordance with reference b, The General Manager and the Financial Controller will sign the statements, acknowledging adherence with sound financial management. The General Manager will submit the Annual Financial Statements to the NSPO Agency Supervisory Board (ASB) and the International Board of Auditors (IBAN) and no later than 31 March”.

1.3 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.

1.4 During the Board’s prior year audit of the 2014 financial statements, the Board found significant weaknesses in respect to internal control over financial reporting, including long outstanding weaknesses over the NAM Programme financial reporting. The Board recommended the development of an appropriate action plan identifying stakeholders that shall take part of this plan, and continuous monitoring of the improvement by the NSPO Financial Controller.

1.5 The Board also found significant weaknesses in its prior year audits of the 2013 and 2014 financial statements in respect to the combining of the various NSPO segments into NSPO Financial Statements. The Board recommended that NSPA develop a detailed, written accounting manual that includes details of the combination process such as timelines, inter-segment account reconciliation and specific combination entries.

Observations

1.6 The Board found that the 2015 NSPO Financial Statements issued to the Board on 31 March 2016 included numerous misstatements, inaccuracies and omissions. Many, but not all, of these have been corrected by NSPA during the audit. These are detailed below. However, the extent of these issues indicates that NSPA was not fully ready to issue their financial statements on 31 March, and that there continues to be significant weaknesses in

financial reporting controls. The Board also found that the financial statements issued on 31 March were not provided to the NSPO Finance Committee at the time of issuance. Corrected financial statements were issued to the Board on 20 June 2016.

NSPO's Formal Comment

The Agency put in place a process to meet the challenging deadline of issuing the NSPO Financial Statements 2015 to the IBAN by 31 March 2016. The revised NATO Financial Regulations, issued in 2015, made the deadline for issuing the financial statements one month earlier than in previous years.

The Agency followed the NATO Financial Regulations which do not require the issuance of the NSPO Financial Statements to the Finance, Administration and Audit Committee. Following the issuance of the NSPO Financial Statements to the IBAN they were requested by, and sent to, the Finance, Administration and Audit Committee.

1.7 That being said, the Board found improvements in the NAMP financial reporting. Although some misstatements were identified during the audit, the Board believes that overall the balances are better supported as significant efforts were made to clean-up the balances as previously reported. Furthermore, some improvements were also noted in the process of combining the separate segments into NSPO financial statements. Again, despite the misstatements, inaccuracies and omissions identified during the audit, it was easier for the Board this year to understand and follow the process of combining the segments.

1.8 A summary of the misstatements, inaccuracies and omissions found during the audit are as follows:

2014 comparative information

1.9 An incorrect version of the 2014 NSPO Financial Statements was used for the 2014 comparative information included in the 2015 NSPO Financial Statements issued on 31 March 2016. This created errors in many of the 2014 balances presented, but was corrected during the audit.

1.10 Note 22 of the financial statements describes the impact on the issued 2014 balances of changes in accounting policies and the correction of errors. The Board found that this note did not disclose the nature and amounts of some reclassifications that were also made to the 2014 balances. These disclosures are required by the NATO Accounting Framework. Also, the table presented in the note does not clearly distinguish between changes due to changes in accounting policies and those due to the correction of errors.

NSPO's Formal Comment

There were numerous corrections made to the figures originally issued in the NSPO Financial Statements for 2014. The reasons to support these "restated" figures are given in Note 22. The Agency chose to present and explain these restatements in a way which would be understandable to the primary users of the financial statements; full disclosures to support the restatements required by the NATO Accounting Framework would have added many pages to the note, been hard for the primary users of the financial statements to understand and added minimal extra value.

Cash Flow Statement

1.11 The Board found that some of the balances presented in the Cash Flow Statement could not be fully supported. This includes the 'Effect of exchange rate changes on cash and cash equivalents', the 'Net Purchase of PPE, Intangible Assets and Inventories' and the 'Financing of PPE, Intangible assets and inventories' line items.

NSPO's Formal Comment

NSPA did not have in place a system to accurately allocate cash flows to their nature (operating, financing and investing) during the production of the financial statements. A process will be in place for the production of the financial statements in 2016.

Disclosures related to Property, Plant and Equipment and Intangible Assets

1.12 The Board found that the note disclosures for Property, Plant and Equipment and Intangible Assets were not complete since they did not include disclosure of additions, disposals and other valuation adjustments during the year. These are required by the NATO Accounting Framework, and have since been corrected with additional disclosures in Note 3 and 4 to the financial statements. However, the Board found that the depreciation and amortisation balances presented in these tables does not agree to the 'Depreciation and Amortisation' balances presented in the Statement of Financial Performance, Statement of Cash Flows and the Statement of Changes in Net Assets. As a result, the Board is not able to provide assurance as to the accuracy of these notes.

NAMP receivables and customer advances

1.13 The Board found that NAMP receivables and customer advances were both overstated by approximately EUR 26 million due to the fact that payments received before the end of 2015 were not internally cleared from receivables. This was corrected by NSPA during the audit.

NSPO's Formal Comment

Internal controls implemented during the NAM Financial Management Project Plan reduced the probability that this will occur in the future.

Foreign Military Sales (FMS) programme

1.14 The Board found that NSPA had not disclosed the amount of FMS purchases in the Log Ops segment as required by the NATO Accounting Framework. The amount is approximately EUR 46 million and was corrected during the audit.

1.15 The Board found that NAMP and Log Ops prepayments and payables were overstated by approximately EUR 15 million in total due to the fact that payables relating to the FMS programme were recorded as liabilities rather than reducing prepayments that had already been made to the United States. This was not corrected by NSPA during the audit.

NSPO's Formal Comment

Most of the Agency's United States FMS purchases are funded through prepayments to the United States Government; however, on occasions, the United States Government does not deduct invoiced amounts from prepayments and hence the Agency's Accounts Payable to the United States Government can increase.

IPSAS 15, "Financial Instruments: Disclosure and Presentation", which forms part of the NATO Accounting Framework, provides the requirements for the offsetting of financial assets (e.g. a prepayment) against a financial liability (e.g. an account payable) and the Agency did not consider these requirements to be met. As such, the Agency considers its accounting treatment to be correct.

Board's position

The Board maintains its observation and reminds the reader that IPSAS 15 has been superseded by IPSAS 28 with effective date 1 January 2013.

1.16 The Board found an overstatement of tangible assets of EUR 3.1 million in the NAMP Programme. This is due to the type of FMS (Type 1) that only becomes property of the NAM Programme when it is attached to the aircraft, which not happened in 2015. Also, it was being depreciated while it hadn't yet been put into service.

NSPO's Formal Comment

The Agency considers that the asset in question was under its control from a financial reporting perspective at the year-end and as such was correctly considered to be a tangible asset; however, the Agency also acknowledges that the asset was not in use at the year-end and was depreciated in error.

The Agency therefore considers that Tangible Assets are not overstated by EUR 3.1 million but by the amount of depreciation charged in error which was EUR 150k.

Board's position

The Board maintains its observation.

Statement of Changes in Net Assets

1.17 The Board found that the Statement of Changes in Net Assets did not separately disclose the allocation of the deficit reported for the period, which is primarily depreciation expense, to the Capital contributions reserve, which is primarily related to PP&E and intangible assets. This was corrected during the audit.

NSPO's Formal Comment

The Agency followed the recommendations issued by the NATO Resource, Policy and Planning Board in respect of the Financial Statements layout, and this included the Statement of Changes in Net Assets. In consultation with the IBAN audit team, the presentation of the Statement of Changes in Net Assets was changed from the recommended layout, into one that more fairly presented the Agency's activities.

Completeness of related party disclosures

1.18 Note 13 of the financial statements states that NSPA has not validated that those charged with governance do not have related party transactions. The NATO Accounting Framework requires disclosure of such transactions for key management personnel, which includes members of the governing bodies.

NSPO's Formal Comment

The Agency considers that circulating all members of its governance boards and committees, of which there are over 30, and for which it does not currently have the authority to do so, would be a labour intensive task that may not lead to any improvement in financial reporting information.

Board's position

This is a financial statement reporting requirement of the NATO Accounting Framework, which was approved by the North Atlantic Council. As such, this provides NSPA with the authority to make such inquiries. Furthermore, NSPA does not have a basis to state that this "may not lead to any improvement in financial reporting information."

The Board maintains its observation.

1.19 Furthermore, Note 13 of the financial statements presents a table disclosing key management personnel. However, it does not disclose the remuneration of these personnel as required by the NATO Accounting Framework. Lastly, the Board's view is that the listing of key management personnel should include the Programme Managers and the Competition Advocate for the Log Ops segment.

NSPO's Formal Comment

In previous years, the Grade and Step Point of these staff members was shown as a proxy for their remuneration. Actual remuneration and benefits received can be misleading because these are dependent on the staff member's family circumstances.

The Agency will include Log Ops Programme Managers and the Competition Advocate in future years' financial statements; the Programme Managers of CEPS and NAM Programmes are already disclosed.

Board's position

The Board maintains its observation and reminds that IPSAS 20 para. 34 (a) requires the disclosure of aggregate remuneration determined on a full-time equivalent basis.

Process of ensuring completeness of provisions and contingent liabilities

1.20 The Board did not find improvement in the processes within NSPO to ensure that a complete understanding of litigation, claims and provisions is obtained at the combined level (i.e. Log Ops, NAMP and CEPS) despite a 2014 management letter observation on this. The Board is of the opinion that this does not ensure a strong and independent control environment over the legal risks pertaining to NSPO.

NSPO's Formal Comment

For litigations and claims with the contractors, the Procurement Operating Instruction 4200-01 para 15 requires that "should any dispute or arbitration be foreseen that a report be submitted to the Legal Advisor through the Procurement Directorate."

A meaningful number of Discrepancy Reports are handled as a matter of routine by the Procurement Division during the Contract Administration phase of the contracts awarded by the Agency, without triggering any Arbitration or formal amicable dispute settlement procedures which remain very exceptional.

Board's position

The Board maintains its observation.

Other areas

1.21 The Board identified other miscellaneous and non-material errors, such as transposition errors for inventory valuation, the incorrect translation effect in PP&E, incorrect disclosure of CEPS National Organization Personnel, the lack of elimination of inter-segment accruals in the Statement of Financial Position and revenues and expenses in the Statement of Financial Performance, and inconsistent reporting between segments.

NSPO's Formal Comment

While, there is some inconsistency in the reporting of performance between the Business Unit this is reflective of their different business operating models.

Board's position

The Board maintains its observation. The Board reminds the reader that the NATO Accounting Framework requires that the NSPO Financial Statements shall include the financial position and performance of the segments based on a consistent presentation, accounting policies and estimates.

1.22 In follow-up to a 2013 audit recommendation, the Board understands that there is a sharing of information between the Log Ops programs and related ACO entities. However, the Board found that there is no documented reconciliation at the end of this process, leading to unexplained differences between NATO entities. The Board also found that there is no documented procedure to ensure the completeness, existence and valuation of the open positions between NSPO and other NATO bodies and entities.

Recommendations

1.23 The Board recommends that:

- a) internal control activities be developed to ensure appropriate second level control for improved quality using reasonableness checks before the final issuance of the NSPO Financial Statements. See also the internal control recommendations in observation 3 below.

NSPO's Formal Comment

The Agency accepts the recommendation, but notes that it is challenging to implement in practice. The timeframe to issue the financial statements has been brought forward by a month, to 31 March, following the release of revised NATO Financial Regulations.

- b) as a follow up of the observation 1.3 of the audit report on the 2014 NSPO Financial Statements, the Board reiterates its recommendation to prepare a detailed accounting manual where common chart of accounts, accounting policies, accounting estimates, the intercompany reconciliation process, timelines, and details of journal entries booked at both the segment and central levels are detailed. This should also detail the information to be requested from the segments in order to ensure a proper combination into NSPO, such as segment cash flow information.

NSPO's Formal Comment

The Agency accepts the recommendation but notes that it is unlikely to be implemented until the 2017 calendar year due to resource constraints.

- c) NSPA issue the NSPO Financial Statements to the NSPO Finance Committee at the same time they are issued to the Board for audit, referring to them as "unaudited" at that time. This has been requested by the NSPO Finance Committee during their May 2016 meeting.

NSPO's Formal Comment

The Agency accepts the recommendation and will issue future Financial Statements simultaneously to the Agency Supervisory Board in the same language that they are issued to the IBAN. A translated version will follow as soon as practically possible afterwards.

- d) in order to ensure a better control environment over open positions and accruals, NSPO develops documented procedures to ensure a comprehensive and reliable reconciliation process for all balances and activities with NATO bodies. The results should be monitored and controlled at a central level.

NSPO's Formal Comment

The Agency accepts the recommendation and will issue an Operating Instruction on the reconciliation process between NSPA and other NATO bodies. This instruction will be used when preparing the 2016 NSPO Financial Statements.

- e) the NSPA Director of Finance ensure that all legal issues are reported and communicated by all directorates to the NSPA legal advisor if any, as part of his new responsibilities under the art. 12 of the NFRs.

NSPO's Formal Comment

The Agency accepts the recommendation. The Director of Finance will circulate a letter to senior management in the Agency in early 2017 to remind them of the need to do this, in order to ensure compliance.

- f) NSPA fully comply with the requirements of the NATO Accounting Framework in respect to related party disclosures, including making inquiries of governing bodies to ensure the completeness of related party transactions. Key management personnel disclosures should include remuneration and, in the Board's view, should also include NAMP and CEPS Programme Managers and the NSPA Competition Advocate.

NSPO's Formal Comment

The Agency partly accepts the recommendation.

- *It does not believe that there is value to be added in making related party enquiries to members of NSPO Boards or Committees and it currently has no ability to enforce such a request.*
- *It will re-evaluate which senior managers should be disclosed in the financial statements.*
- *NAMP and CEPS Programme Managers are already disclosed.*

Board's position

This is a financial statement reporting requirement of the NATO Accounting Framework, which was approved by the North Atlantic Council. As such, this provides NSPA with the authority to make such inquiries. Furthermore, NSPA does not have a basis to state that "It does not believe that there is value to be added in making related party enquiries to members of NSPO Boards or Committees". The Board maintains its observation.

- g) the detailed impact of changes in accounting policies, the correction of errors and reclassification be separately disclosed.

NSPO's Formal Comment

The Agency accepts the recommendation, but notes that the disclosure challenges faced in reporting the restatement of comparative 2014 figures in the 2015 Financial Statements, are probably a one-off event.

- h) information, including open positions at 31 December, between NSPA and other NATO bodies be fully confirmed and reconciled. This process should be monitored and controlled at a centralised level.

NSPO's Formal Comment

The Agency accepts the recommendation, as noted in 1.23 d) above, and will reconcile open positions between NSPA and other NATO bodies in accordance with an Operating Instruction to be published in 2016. This process will be monitored for compliance when preparing the 2016 NSPO Financial Statements.

2. INCOMPLETE REPORTING OF ASSETS OF THE CENTRAL EUROPE PIPELINE SYSTEM (CEPS) PROGRAMME

Reasoning

2.1 The NSPO Charter states that the CEPS Programme is part of NSPO and is composed of the Programme Office and the National Organisations. As a result, the NSPO Financial Statements shall disclose all of the assets, liabilities, revenues, expenses and cash flows of the CEPS Programme to ensure a true and fair presentation of NSPO.

Observation

2.2 It is now agreed by NSPO that all of the assets, liabilities, revenues, expenses and cash flows of the CEPS Programme shall be reported in the NSPO Financial Statements. The Board found that the 2015 NSPO Financial Statements include all such balances, with the only exception being PP&E related to the Pipeline System that has been acquired since 1 January 2013. This has been disclosed in the financial statements, and it is expected that this PP&E will be presented in the 2016 financial statements for the first time. As a result, the Board's audit opinion on the 2015 NSPO Financial Statements will be qualified in respect to this PP&E, including for the comparative 2014 period.

Recommendation

2.3 The Board recommends that NSPO continue working ensure that Pipeline System related PP&E can be presented in the 2016 NSPO Financial Statements. This should include ensuring that there are understandable, reliable and consistent recognition criteria for the accounting and presentation of such assets.

NSPO's Formal Comment

The Agency accepts the recommendation and currently has a project in place to achieve this.

3. FURTHER STEPS ARE REQUIRED TO ACHIEVE FULL COMPLIANCE WITH THE REVISED NATO FINANCIAL REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT

Reasoning

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

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

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

Observations

3.4 The Board found that NSPO still needs to improve documentation and monitoring of the risk management, internal control and audit. The Board will report observations and recommendations in this report as well as in a Management Letter, in the field of Internal Control and Audit that are in strong support for efficient, effective Risk Management.

3.5 This result, though, is not unexpected considering that the revised NFRs were only approved by Council in May 2015 and that the more detailed FRPs, which were required by Article 4 of the revised NFRs, were not approved by the Budget Committee until the end of February 2016.

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

3.7 The Board reports the status of the following areas:

Article 3 Responsibility and Accountability

3.7.1 The Board found that the NSPA General Manager and the NSPA Director of Finance electronically (i.e. '[Signed] name') signed both the financial statements and the Statement on Internal Control. However, as reported in observation 1 above, many corrections needed to be made to these financial statements.

Article 11 Risk Management

3.7.2 The Board found that NSPA issued a Risk Management Operating Instruction (OI) dated 20 July 2015 which defines the type of risks, the methodology and responsibilities. Such a policy is essential in order to ensure and to clearly demonstrate to others that efficient, effective and economic risk management procedures are in place and that risk management is aligned with the NSPO's overall operational and financial objectives. However, the Board was told by NSPA personnel that the effect of this OI will only be visible in the coming years as it has not yet been embedded throughout NSPO.

NSPO's Formal Comment

The risk management Operating Instruction is a policy level document that applies to all Agency staff from the time of publication and describes the function and process of risk management and how it will be applied across the Agency. However, the introduction of a risk management culture across the Agency, as in any organisation, is a complex undertaking that is being carefully managed. At present, the Executive level risks have been captured and are being managed. The next stage is for critical acquisition projects to be included. Once this process is proved to work at the project level the remaining Agency projects will be captured and included in the Risk Management process.

At the same time, the various Agency Processes will also undergo risk capture and risk management. Under ISO 9001:2015 standards the risk culture must be in place by 2018, allowing at least two years for the culture to be put in place and for it to be properly exercised. TUV Audit recently awarded NSPA ISO 9001:2015 certification, recognizing the effective plan the Agency has in place for risk management.

Article 12 Internal Control

3.7.3 The Board found that NSPO has not yet adopted and complied with a specific Internal Control Framework. Such a framework, with the appropriate supporting documentation and procedures, is essential in order to ensure and to clearly demonstrate to others that a complete system of internal financial and budgetary controls is in place.

3.7.4 The Board's audit of NSPO in 2015 financial statements did reveal significant weaknesses in internal control over financial reporting which are described in this report and in a separate management letter. Until a specific Internal Control Framework is adopted and supported via a systematic documentation of internal control procedures, the Board will not be in a position to state that there is a full system of internal control in place that is in accordance with Article 12 of the revised NFRs.

Article 13 Internal Audit

3.7.5 The Board found that the Internal Audit Function suffers from lack of appropriate budget to ensure its independence vis-a-vis the different programmes within Log Ops, CEPS and NAMP. Since 2013, the Board has issued several observations identifying weaknesses that limits their activities, but unfortunately, no significant improvements have been made.

3.7.6 While performing internal audit activities within Log Ops and NAMP, the Board observed that no internal audit activity has been performed at CEPS level. As such, it cannot yet be stated that NSPO has undertaken internal audit activities to fully evaluate, throughout the organisation, the risk exposures and the effectiveness of internal controls in managing risk within the governance, operations and information systems as required by Article 13.

NSPO's Formal Comment

At the end of November 2015, one internal audit review had been undertaken at CEPS on HR activities and the final report was delivered in March 2016. This report was made available to the IBAN auditors.

In addition, and in agreement with the CEPS Programme Manager, a study is currently ongoing with CEPS with the aim of developing a strategy to implement internal control processes in line with NSPA-wide practices; this approach will take care of the Governance, Internal Control and Internal Audit strategy.

Board's position

The Board maintains its observation on the lack of internal audit activities on the operations and administration of the CEPS which is composed of the Programme Office and National Organisations.

Article 16 Audit Advisory Panel

3.7.7 The Board found that NSPA already has an Internal Audit Committee, and is composed of the General Manager, the Chief of Staff, the Directors of Finance, Logistics and Procurement, and the Programme Managers of CEPS and NAMP. This committee fulfils the role of an Audit Advisory Panel.

Recommendations

3.8 The Board recommends that:

- a) NSPO ensure that its Risk Management Operating Procedure is embedded throughout the organisation. Risk registers should be developed and employed throughout all of the NSPO segments' divisions and operations, and be centralised at the NSPO level.

NSPO's Formal Comment

The Agency is currently in the process of embedding its Risk Management Operating Procedure within the Agency (refer to the Agency's comment at 3.7.2 for further details).

- b) NSPO develops a specific, internationally accepted standards based, Internal Control Framework, and that there be a systematic and detailed documentation of internal control procedures supporting the framework. In the Board's opinion, this should be coordinated to ensure consistent frameworks are adopted across NATO bodies.

NSPO's Formal Comment

The Agency accepts the recommendation.

- c) NSPO ensure that NSPA Internal Audit is fully evaluating risk management and internal control throughout NSPO, and that this work is clearly documented so as to demonstrate compliance against NSPO's chosen Internal Control Framework. Furthermore, NSPO should ensure that the independence of the Internal Audit function is safeguarded, including sufficient funding, and that the Internal Audit plan includes the CEPS Programme as a whole with no restrictions in his scope of work.

NSPO's Formal Comment

The Agency has yet to specify and define its internal control framework. However, the Agency has established a Risk Management Tiger Team which is working in close cooperation with one programme as a "pilot project" and with the Logistic Directorate to develop a risk analysis model for all logistics activities. Internal audit is permanently represented in the Tiger Team. It is planned that this process will soon to be rolled out to supporting divisions. The final goal will be to have a complete risk analysis for the whole Agency; this risk analysis will provide a solid base for formulating future internal audit work plans. It should be noted that the Agency currently has a top-down risk assessment.

The Agency has two initiatives in relation to the independence of internal audit: one is to establish a core-funded independent budget for 2017 and the second has been to transform the NSPA's Internal Audit Committee into an NSPA Audit Advisory Panel.

All NSPA Business Units are covered in the risk-based internal audit plan; however, there are limits to the amount of work that can be covered due to the size of the audit team. A study to improve the internal control framework for CEPS is ongoing and is being piloted by the CEPS Programme Manager.

4. IMPROVEMENTS NEEDED IN THE MONITORING AND CONTROL OVER POTENTIAL CONFLICTS OF INTEREST IN PROCUREMENT

Reasoning

4.1 NSPA's main activity is the procurement of goods and services for its customers. A strong control environment with a focus on preventing and detecting conflicts of interest is of utmost importance to NSPO.

4.2 The Board issued two Management Letter observations following its audit of the 2014 Financial Statements (ref. IBA-AML(2015)10) relating to procurement activities. They are as follows:

- lack of centralised tracking of deviations from procurement regulations.
- need for more detailed implementing policies and procedures relating to the effective control and management of conflicts of interest.

4.3 Article 32 of the revised NFRs states that the Financial Controller shall ensure and verify that procurement and contracting principles are being adhered to and are in line with the principles of sound financial management. Furthermore, it also states that the Financial Controller, after a risk assessment and taking into account internal control procedures, may chair the Contracts Awards Committee.

Observations

4.4 During its 2015 audit, the Board found improvement for the first observation related to centralised tracking of deviations from procurement regulations. On the other hand, the Board did not find improvement for the second observation relating to the need for more effective control over conflicts of interest. A sound control environment is the best answer to threats against fair competition, transparency and integrity which are the pillars of the Article 32 of the NFRs.

4.5 The Board became aware of a specific case which happened during its audit and which presented a potential for conflicts of interest. In the Board's view, NSPA did not fully act to mitigate such potential conflicts. This highlights that there is not a comprehensive regulatory framework dedicated to conflicts of interest which would ensure comparable minimum requirements when potential conflicts arise and help to promote independence and transparency applicable to all key players that influence strategy, operations and

decision making.

4.6 The Board found that within NSPA there is the position of Competition Advocate. The functions of this position are to develop relationships with industries and government, authorize single source procurements and protect fair competition supported by the source file, and ensure that this source file is up to date and complete to ensure a fair distribution of industries and Nations over the procurement activity. However, the person assigned to be the Competition Advocate is also the Deputy Director of Procurement and Information System Support. In the Board's view, the dual-hatted nature of this position jeopardizes its function. First, there is a potential conflict simply based on the fact that the person is also dual-hatted as the Deputy Director of Procurement. Secondly, the level of procurement activity within NSPA limits the time that this individual has to perform the function of Competition Advocate, limiting its ability to be a real advocate for competition.

4.7 Separately, the Board found that the NSPA Director of Finance continues to have a limited oversight role in procurement and contracting. For example, Article 32 of the revised NFRs states that the Financial Controller shall be part of the contracts approval process and, after a risk assessment and taking into account internal control procedures, may chair the Contract Awards Committee (CAC). The Board found that the Director of Finance is a member of the CAC for common funded activities only, and does not appear to have the ability to chair the CAC if he or she deems it necessary based on an assessment of risk and controls.

Recommendations

4.8 The Board recommends that:

- a) the position of the Competition Advocate is put outside the area of influence of procurement to ensure a real independence of the position and fairness in the procurement process.
- b) the Competition Advocate, in protecting the interests of NSPA, monitor and control the risks related to potential conflict of interests among staff, including contractors, consultants, and technical experts that are involved in the procurement process and develop procedures which takes in to account the following criteria (as best practices):
 - establishing clear and objective criteria for assessment of declarations of interest and applying them consistently.
 - ensure affidavits on independence are signed by all stakeholders before the signature of contracts.
 - ensuring comprehensive and compulsory training on conflict of interest.

- addressing and monitoring post-employment related risks by including cool down periods and non-competition clauses for all actors involved in the award of a contract.
 - use of whistle-blower procedures.
- c) the Competition Advocate keeps records of exceptions in the sourcing and contract terms and conditions.
- d) the Competition Advocate issues an annual report on its activities to NSPA Senior Management and the Agency Supervisory Board.
- e) in relation to Articles 3 and 32 of the revised NFRs, and ensuring the segregation of functions between the Directors of Finance and Procurement, that the Director of Finance (or delegate) ensure that the appropriate funding and procurement procedures have been followed before contracts are signed.
- f) the Director of Finance also chair the Contracts Awards Committee when he or she, based on his/her assessment of risks, deems necessary and as allowed under the revised NFRs.

NSPO's Formal Comment

The Finance, Audit and Administration Committee Working Group on the NSPO Financial Rules and Procedures is currently discussing how to implement the NATO Financial Regulations with regard to procurement.

5. IMPROVEMENT NEEDED IN THE MONITORING AND CONTROL OVER PREPAYMENTS MADE TO VENDORS

Reasoning

5.1 NSPA, based on contract with vendors, may provide advances of up to 30% of the contract value. Exceptionally, the advance given may exceed 30%. Total prepayments to vendors reported in the financial statements is EUR 57 million.

5.2 The proper tracking of such advances is important to reduce the risk of future overpayment and incorrect accounting treatments.

Observations

5.3 The Board found that the SAP module for prepayments to vendors is not activated or used. As a result, such prepayments are only identified when they are mentioned on the vendor invoices received or specifically identified as such by the procurement officer.

5.4 The Board understands that the control over the advances and their use can be improved, to reduce the risks of overpayment or misuse of advances. Specifically, during the audit the Board observed a misuse of advances used to finance one project on food services.

Recommendation

5.5 The Board recommends NSPO to ensure that prepayments to vendors are identified as such in SAP and that their use is properly monitored and controlled by using the prepayments module to limit the risk of overpayment or improper accounting treatment.

NSPO's Formal Comment

The Agency accepts the recommendation to ensure that prepayments to vendors are identified, properly monitored and controlled. The Agency will have to evaluate the costs and resources required to activate the prepayment module within SAP before implementing this recommended change.

As an interim procedure, Finance has implemented a step in the Central Invoice Management Office processes to create a "Priority Code" for vendor invoices linked to prepayments. Those invoices are automatically blocked for payment until the Third Party Accounts (TPA) Section analyses and makes the necessary adjustment to the invoice to account for the prepayment. Previously, the TPA Section was reviewing the vendor advances (prepayments) and coordinating on the validity of advances with the Material Management Centres (MMC) personnel. To put this in perspective, it should be noted that the 70 advances totaling Euro 57 million at year-end 2015 were to less than 50 vendors out of a total of 2,800 vendors with 2015 vendor payments over Euro 3 billion.

6. IMPROVEMENT NEEDED IN MONITORING AND CONTROL OVER THE PROCESS OF BILLING CUSTOMERS

Reasoning

6.1 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 re-billed to the customers.

6.2 Article 12.1 of the revised NFRs states that internal control procedures shall promote operational efficiency and verify the accuracy and reliability of accounting data and records.

Observations

6.3 The process of re-billing is only triggered once the invoice is paid to the vendor. Furthermore, the process of re-billing within the programmes could be delayed due to many manual interventions that are required. As a consequence, invoices sent to the customers can be sent with a more than six months delay. Specifically, the Board found a case where

the purchase order was linked to quarterly payments to the vendor, yet the customer re-billing was only being made for the complete amount at the end of the year.

6.4 As a follow-up to a prior year Board audit finding, NSPA Internal Audit conducted an audit to analyse issues related to IT license management. It reported findings that there was a need for an improved internal control environment on the re-billing process.

6.5 In addition, the Board also found that re-billings are done even though there are customer advances being held by NSPA for a customer. Based on information from NSPA, the amount of such billings not yet settled against customer advances was approximately EUR 400 million. NSPA stated that it is up to the customer to either tell them to use a customer advance to settle the invoice or to separately pay the invoice itself despite having advances already being held at NSPA.

Recommendations

6.6 The Board recommends that:

- a) the re-billing process shall start when the invoice is posted (i.e. agreed for payment).
- b) manual interventions in the billing process shall only happen on exceptional cases and that any such delays should be documented without delay at Division and Programme level.
- c) NSPA proactively coordinate with customers to use available customer advances that aren't legally committed for another purpose to fund re-billings before sending additional invoices for payment to the customers.
- d) NSPA ensure that, for accounting presentation purposes, customer advances are being properly net from billed and unbilled receivables as appropriate.

NSPO's Formal Comment

The Agency accepts the recommendation that to the maximum extent possible, the rebilling of customers after vendor payments could be done expeditiously. There are numerous reasons why a rebilling may be delayed, for example, if only a partial payment to the vendor has been done and the customer wishes to be billed only upon final settlement on account with the vendor. Provided that the customer has paid a call for advance to NSPA, the Agency is not incurring a negative cash flow with the customer to make the vendor payments. This is the case with many of the Agency's customers.

Manual interventions in rebilling the customers are also minimized to ensure an efficient accounts receivable process. Recent delays in rebilling some of the other NATO bodies was well documented, but was due to a change in the cost sharing formulae for the troop contributing nations, and required a significant amount of manual intervention by the Agency.

NSPA does closely coordinate with its customers on the uses of the customers' advances. When allowed by the customer and documented in writing, the Agency will offset the rebilled invoices against the customer advances. Without specific agreement from the customer, the Agency is not in a position to automatically offset amounts due from customers with amounts held for the customers by the Agency.

The Agency will ensure it properly reflects in the 2016 NSPO Financial Statements the amounts of customer advances (a liability) and the amounts outstanding from customers (an asset).

7. MONITORING OF THE CASH HELD AT NSPO

Reasoning

7.1 NSPO shall ensure to have sufficient cash to cover the expenses incurred. However, the cash received as customer advance payments (EUR 2.7 billion at 31 December 2015 (Log Ops EUR 2.3 billion, NAM EUR 385 million and CEPS 16 million)) and customer and replenishment credits (EUR 311 million at 31 December 2015 (Log Ops EUR 142 million, NAM EUR 14 million and CEPS EUR 155 million), which are actually funds owned by customers that they elect to keep at NSPA, is very significant and can incur risks. Among these risks recently is interest risk: while bank interest rates decrease, the threat of negative interest rates would require finding solutions for these customers.

7.2 The Board has issued observations on the large amount of cash held by customers and Nations at NSPA in its audit report on the 2014 NSPO Financial Statements, and specifically for NAM Programme in audit report on the 2012 NSPO Financial Statements, recommending a reduction of the cash levels. Cash levels at NAM Programme have increased by 11% compared to the prior year (EUR 213 million to EUR 237 million). 2015 expenses, excluding depreciation expense, were EUR 87 million.

7.3 Furthermore, the CEPS Programme shall ensure that its cash is readily and separately monitored and controlled at both the Programme and National Organisation level.

Observations

7.4 While auditing the open commitments of the LN programme, the Board found that many funds remain committed although there has been no activity for many years. Funding remains open still in this programme relating to very old SAP fund reservations. The reason for this is that the final invoice indicator is not automatically set in SAP when the final invoice is processed in AMOSS, which is the interface between the supplier and customer. Normally this is an automated process in SAP, but in the case for LN it has been deactivated. The Board found a cash surplus of EUR 75 million for one Nation relating to this programme.

7.5 In respect to the NAM programme, the Board found that, despite budget related measures to reduce the calls from the Nations, the level of cash held at the NAM Programme continues to increase. The Board understands that the programme may use this cash for potential additional investments.

7.6 The Board found that the controls over the cash balance for FBG, SNOI and BPO are not satisfactory for the following reasons:

- The Board observed that the German and French National Organisations do not have specific bank accounts for their activities related to CEPS – NATO.
- The Board observed that the Belgian National Organisation uses a bank account at the Ministry of Finance for which the final balance can only be provided after the audit of the Belgium National Court of Auditors.

NSPO's Formal Comment

With regards to the bank accounts for the CEPS National Organisations, the following update is provided:

- *For the German National Organisation (FBG), the currently ongoing SAP modification project (split international & national accounts) should solve the issue.*
- *For the French National Organisation (SNOI), due to its complex organisation (TRAPIL outsourcing), further analysis will be undertaken.*
- *For the Belgian National Organisation (BPO), negotiations between BPO and Belgian MOD regarding a separate bank account are ongoing.*

Recommendations

7.7 The Board recommends that:

- a) LN and the other NSPO programmes identify all candidates for closure and release the reserved funds back to the customers and Nations.

NSPO's Formal Comment

For the LN programme many activities are subject to pricing audits from National Pricing Authorities (NPAs) which agree on final prices. Until final prices are established, only preliminary invoices are submitted for an agreed percentage of the price to be audited. Once final prices are agreed, industry can submit final invoices adjusting the preliminary invoices and thus resulting in the open items being de-committed and the fund reservations being closed. Timing issues in this regard can lead to significant delays beyond the control of the Agency; this is an issue of which customers are well aware and which impacts on cash holdings.

Whilst the LN Programme acknowledges that there are significant open commitments, there has been a concerted effort between the Programme and its customers in the last 18 months to reduce the value of open commitments, resulting

in Euro 107 million of old (2015 & earlier) open items being cleared. Further as a one-off cleaning exercise, all candidates for fund reservation closure have been identified and closed. This resulted in the closure of 8,933 fund reservations releasing Euro 3.04 million.

b) the final invoice indicator be reactivated in SAP.

NSPO's Formal Comment

May 2016, the LN Programme re-introduced the automated transmission of the final invoice indicator from the LN Logistic Automation System (AMOSS) to SAP via the dedicated interface in a coordinated approach together with the PP, FF and IT representatives.

c) the programmes follow a stricter policy on cash holdings and relate them to current and future legal commitments. They should contact the customers and Nations to identify any cash balances in excess of these commitments and reduce them via returns to the customers and Nations or a reduction in future calls or invoicing.

NSPO's Formal Comment

By the end of May 2016, the cash balance for the nation referred to in the report was down from the Euro 75m quoted by the IBAN to Euro 48 million.

d) NAM programme continue budget related measures to reduce the calls and that a documented action plan be put in place to reduce the amount of cash held on behalf of Nations. This should include a return to the Nations of any unused and uncommitted funds remaining in the Acquisition budget.

NSPO's Formal Comment

While the Agency concurs with the recommendation in principle, the decision on the utilisation and the return of funds lies with the Nations.

e) NSPA return the customer and replenishment credits to the customers and Nations. This would include for the CEPS programme, where such credits equals approximately 7 years of the budgetary contributions needed to fund operations based on the current level of military and non-military revenues.

NSPO's Formal Comment

The CEPS Programme is customer funded. Due to its business model, and in accordance with Article 27.3 of the NATO Financial Regulations, the CEPS Programme has an Operating Fund comprised of a Financial Balance Reserve (to allow for direct action in case of incident), a financial Balance (at 6-Nations) and a Host nations Fund (at 5-Nations). At 31 Dec 2015, this operating Fund amounted to Euro 74 million (uncommitted funds), which is about twice the annual operational deficit of the CEPS Programme. At its

June 2016 meeting, the CEPS Programme Board noted that the CEPS Programme Office would present a recommendation to the CEPS Budget Committee (CBC) at the October 2016 meeting to gradually reduce the funds to an adequate level while keeping the contributions stable.

The total cash holdings, amounting to 171 MEUR consist of:

- *Euro 74 million – Operating Fund*
- *Euro 50 million – Carry forwards O&M Budget*
- *Euro 3.2 million – NP2 balance*
- *Euro 2.5 million – NP3 Balance*
- *Euro 7.3 million – Carry forwards NP2 Budget*
- *Euro 2.7 million – Carry forwards NP3 Budget*
- *Euro 1.5 million – Carry forwards Non-Military Use of Depots Budgets*
- *Euro 5.2 million – Reserve fund for Non-Military Use of Depots*
- *Euro 17 million – Unearned Revenues*
- *Euro 8.4 million – Infra France Funds (Non-CEPS Funds)*

7.8 The Board also recommends that the National Organisations in Germany and France create and use a bank account that is specifically for the NATO related activities only, and that the National Organisation in Belgium ensures that monthly cash reconciliation are performed and documented, and if possible, request to create and use a bank account that is not a direct account at the Ministry of Finance.

NSPO's Formal Comment

See comments under Para 7.6.

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 this appendix. The Board noted that five have been settled, two have been partially settled, seven have been superseded by a current year observation and six remain outstanding.

(1) Status of Previous Years' Observations

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
NSPO 2014 AUDIT REPORT		
NSPO 2014 audit report – Annex II IBA-AR(2015)23, section 1		
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.	The Board observed that an action plan has been issued and put in place.	Observation Settled.
1.12 The Board further recommends the following in respect to the NAM Programme: <ul style="list-style-type: none"> 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. 	<p>The Board observed that procedures have been issued in 2015 and 2016, involving the internal auditor.</p> <p>The Board observed that some improvements remains to be done in the monthly financial closure and reconciliations.</p>	Observation Partially Settled.
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.	There is no detailed accounting manual yet.	Observation Outstanding.

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p>NSPO's Formal Comment</p> <p><i>The Agency considers that items under 1.12 are settled because they have been addressed.</i></p> <p>Board's position</p> <p>The Board maintains its position.</p> <p>NSPO's Formal comment</p> <p><i>The Agency has provided a comment at 1.23(b)</i></p>		
<p>NSPO 2014 audit report – Annex II IBA-AR(2015)23, section 2</p> <p>2.8 The Board recommends that NSPO be in a position to quickly implement NAC decisions regarding the financial reporting of the CEPS Programme.</p>	<p>NSPO is implementing the decisions regarding the financial reporting of the CEPS Programme. The only balances remaining to be reported are PP&E related to the pipelines. This is expected to be reported in the 2016 NSPO Financial Statements.</p>	<p>Observation Partially Settled.</p>
<p>NSPO 2014 audit report – Annex II IBA-AR(2015)23, section 3</p> <p>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.</p>	<p>The Council approved a revision to the NATO Accounting Framework in 2016, effective retrospectively to 1 January 2015, which allows FMS expenses to be recorded in the financial statements based on reporting from the United States Government which is not on the accrual basis of accounting.</p>	<p>Observation Lapsed due to a change made to the NATO Accounting Framework that was retrospectively applied.</p>
<p>NSPO 2014 audit report – Annex II IBA-AR(2015)23, section 4</p> <p>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</p>	<p>The accounting has been restated and the reporting can now be traced to the NAM Programme trial balance.</p>	<p>Observation Settled.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
require a critical reconsideration of how best to address these long-standing weaknesses.		
<p>NSPO 2014 audit report – Annex II IBA-AR(2015)23, section 5</p> <p>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.</p>	<p>The Board found that the methodology to combine the segments into NSPO financial statements has improved.</p> <p>However, there is still no detailed accounting manual. See the outstanding observation above related to the manual.</p>	Observation Settled.
<p>NSPO 2014 audit report – Annex II IBA-AR(2015)23, section 6</p> <p>6.5 The Board recommends that net translation exchange differences be properly calculated and disclosed as required by IPSAS 4.</p>	The Board found that IPSAS 4 is properly calculated and disclosed.	Observation Settled.
<p>NSPO 2014 audit report – Annex II IBA-AR(2015)23, section 7</p> <p>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.</p>	The only matter not fully resolved in respect to comparative 2014 balances is in relation to the lack of reporting the PP&E related to the CEPS pipeline.	Observation Superseded by current year observation 2.
<p>NSPO 2014 audit report – Annex II IBA-AR(2015)23, section 8</p> <p>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</p>	The Board still found unexplained differences and missing confirmations.	Observation Outstanding.

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
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.	The Board, during the 2015 audit, identified a lack of control over the inventory in transfer, as many items have been under customer consignment for several years and the Board understands that the current location and status was not controlled. The impact is an understatement of inventory in the amount of EUR 3.6 million.	
NSPO 2014 audit report – Annex II IBA-AR(2015)23, section 9 9.6 The Board recommends that NSPO gives priority to this review of its internal audit function.	The Board did not observe any significant improvements.	Observation Outstanding.
NSPO 2014 audit report – Annex II IBA-AR(2015)23, section 10 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.	The Board did not observe improvements.	Observation Outstanding.
NSPO's Formal Comment <i>The Agency does not consider the timing feasible; during the period recommended to do this, key Agency personnel are working on financial statement production.</i> Board's position The Board maintains its position.		
NSPO 2013 AUDIT REPORT		
NSPO 2013 audit report – Annex II IBA-AR(2014)21, section 5 Observation - 2013 Financial reporting 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.	The financial statements disclosed information on changes in accounting policies, however, further improvements can be made	Observation Superseded by current year observation 1

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
	in more clearly distinguishing changes in accounting policies, corrections of errors and reclassifications and their specific impact on the balances reported.	
<p>NSPO 2013 audit report – Annex II IBA-AR(2014)21, section 6</p> <p>Observation - 2013 Financial reporting</p> <p>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.</p>	The Board did not find modifications for this in the new Operating Instruction for Procurement released in 2014.	Observation Superseded by current year observation 4
<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>	The Board found that there were 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.	Observation Superseded by current year observation 1
<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</p>	This has not yet happened.	Observation Superseded by current year observation 1

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
financial statements to increase the reliability of the data.		
NSPO 2012 AUDIT REPORT		
NSPO 2012 audit report IBA-AR(2013)27, section 5.2 NSPO Log-Ops: Observations and Recommendations Observation - Significant cash holdings held by the NAM Programme Recommendation 11 7.2.5.4 The Board recommends that NAM Programme reduces cash levels and calls future funds based on actual cash requirements.	Cash levels have increased by 11% compared to the prior year (EUR 213 million to EUR 237 million). The 2015 expenses, excluding depreciation, were EUR 87 million.	Observation Superseded by observation 7
NAMSA 2011 AUDIT REPORT		
NAMSA 2011 audit report C-M(2013)0015 & IBA-AR(2012)29, section 5.3 Observation - Potential future liabilities for Nations upon withdrawal from activities 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.	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.	Observation Outstanding.

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
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> <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. 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 2015. Operating instructions and internal controls, with explicitly defined roles and responsibilities, have still not yet been issued.</p>	<p>Observation Superseded by observations 1 and 3</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> <p>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.</p>	<p>NSPA has stated that FBG is currently working on this issue and plans to have the issue resolved by 2016.</p>	<p>Observation Outstanding.</p>



Enclosure to
C-M(2017)0001 (INV)

Financial Statements 2015 (Redacted Version)

Contents	Page
Overview	2
Statement of Internal Control	5
NSPO Statement of Financial Position	8
NSPO Segments' Statement of Financial Position	9
NSPO Statement of Financial Performance	10
NSPO Segments' Statement of Financial Performance	11
NSPO Statement of Cash Flows	12
NSPO Statement of Changes in Net Assets	13
Accounting Policies	15
Notes to the Financial Statements	21
Annex: Financial Plan Execution	42

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

The NATO Support and Procurement Organisation (NSPO) stood up on 1 April 2015 with the merger of the NATO Support Organisation and the NATO Procurement Organisation.

The NATO Support Organisation had come 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.

NSPO is headquartered in Luxembourg with some of its staff located in Hungary (NATO Airlift Management Programme), France (Central Europe Pipeline System Programme), and, a Southern Operational Centre in Italy. NSPO shares the same legal identity as NATO.

Role of the NATO Support and Procurement Agency

The NATO Support and Procurement 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:

- conducting agency mission required specific procurement;
- 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, the NATO Airlift Management Programme (NAMP), and, the Central Europe Pipeline System Programme (CEPS). The activities of the former NAMSA are now commonly referred to as Log Ops.

The Activities of the NATO Support and Procurement Organisation's Business Units

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 are made available to participating nations. 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-seven 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 2015 there were twenty-seven Support Partnerships and no Procurement Partnerships. These can be established within the NATO Support and Procurement 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 and Procurement Organisation's Mission and guidance provided by the Council.

At times the partnerships will procure goods and/or services in common through a jointly 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 Belgium, France,

Germany, Luxembourg and the Netherlands 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 and Procurement 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".

The North Atlantic Council issued revised NATO Financial Regulations on 4 May 2015 with the aim that they would be implemented in full by the end of 2015.

However, by the end of 2015 the revised NATO Financial Regulations have not been implemented in full; a working group of the Organisation's Finance Committee is currently working on producing detailed Financial Rules and Procedures for NSPO, which are consistent with the NATO Financial Regulations.

Until revised NSPO Financial Procedures and Rules are in place the Log Ops, CEPS and NAM Business Units are following the Financial Procedures and Rules of their former organisations where they are not in contradiction to the Revised NATO Financial Regulations.

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 and the demand of its member nations for the capabilities that it offers.

Public Disclosure of Financial Information

At the Wales Summit of 2014 the nations tasked NATO bodies to increase their financial transparency. While I am content for all the information in the financial statements to be publically disclosed 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.

, NSPA General Manager

Statement on Internal Control

Background

Council issued revised financial regulations on 4 May 2015 which reflected the need for an increased emphasis on risk management and internal control in NATO entities.

The regulations stipulate that the Agency's General Manager is responsible and accountable for sound financial management, and to that end, shall put in place the necessary governance arrangements to ensure and maintain this. These arrangements include, but are not limited to, the establishment and maintenance of financial governance, resource management practices, internal controls and financial information systems to achieve the efficient and effective use of resources.

Scope of Responsibility and Purpose of Internal Control

The General Manager is responsible and accountable to the Agency's Supervisory Board for ensuring that the necessary internal management functions are in place to support effective internal control, and are designed to provide reasonable assurance that the Agency will achieve its objectives in the following categories:

- safeguarding assets;
- verifying the accuracy and reliability of accounting data and records;
- promoting operational efficiency; and
- complying with established managerial policies.

The Agency's Director of Finance reports to the General Manager and operates within the system of internal controls established by the General Manager. The regulations require that in order to meet the desired internal control standards the Director of Finance shall:

- establish a system of internal financial and budgetary control, embracing all aspects of financial management including transactions for which appropriations have been approved and those funded from such non-appropriated fund accounts as they may authorise within their jurisdiction;
- designate and formally delegate authority to officials who may disburse and receive funds on his behalf;

- establish and maintain comprehensive accounting records of all assets and liabilities.

The Limitations of a System of Internal Control

A system of internal control is designed to reduce and manage, rather than eliminate, the risk of failure to achieve an entity's aims and objectives. It can provide reasonable but not absolute assurance that an entity's aims and objectives will be achieved. It is based on a continuous process designed to: identify the principal risks that threaten the achievement of objectives; evaluate the nature and extent of those risks; and, manage them effectively, efficiently and economically.

Risk Management, Internal Control, and Internal Audit

Risk Management

The NSPO Charter requires the Agency Supervisory Board to "ensure that effective risk management measures are in place and monitor performance execution on that basis," and it requires the General Manager to report regularly to the Agency Supervisory Board on the risk management processes in place. In addition, the revised NATO Financial Regulations require the General Manager to identify, assess and mitigate the risks to the achievement of NSPA's objectives while ensuring that the process to do this is effective, efficient and economical.

In 2015, the General Manager, after consultation with Multinational Programme Boards and Support Partnership Committees, presented the Agency Supervisory Board with a paper highlighting the Agency's proposed risk management process which is based on *ISO 31000: Risk Management - Principles and Guidelines*, a global standard which was issued by the International Organization for Standardization in Nov 2009.

At present, the Agency has captured the high-level risks it faces through a top-down, executive management led, analysis; and these risks have been communicated to the Agency Supervisory Board.

In 2015 the Agency also issued an internal operating instruction dealing with risk management. This instruction introduced Enterprise Risk Management (ERM) to the Agency which is the internal process of identifying, analysing and managing risks. The operating instruction provides the methodology for mitigating risk at every level within the Agency.

Formalised risk management will be cascaded down to the programme and project levels throughout 2016 and specific risk management training will be delivered to staff, initially to those actively engaged in Agency risk management. This will be followed by a general orientation for all members of staff.

It is proposed that the Agency's Executive Management Board will review current risks and approve and monitor proposed risk reduction action plans on a quarterly basis. In exceptional circumstances key and emerging risks will be highlighted to the EMB if the identified risk exceeds acceptable limits. NSPA management will provide annual updates to the Agency Supervisory Board (ASB) meetings.

Internal Control

The Agency's management considers that it has controls in place to: safeguard assets; verify the accuracy and reliability of accounting data and records; promote operational efficiency; and comply with established managerial and policies, through a series of regulations, procedures, and operating instructions. However, these internal control processes are not currently specifically mapped to identified risks; this process will occur as the Agency implements its approach to risk management across the Agency.

Throughout 2016 and early 2017 the Agency will roll out a pilot project within the Finance area to map risks it identifies over the accuracy and reliability of financial reporting data to the internal controls that currently exist, and to identify gaps which need to be closed or areas of over-control which can be relaxed.

The lessons learnt from this pilot project will inform the development of an effective, efficient and economical internal control system in other areas.

Internal Audit

Internal Audit's role is to provide assurance to management that internal controls are designed appropriately and operating effectively; as such internal audit is not an internal control in itself but provides independent assurance on internal control.

Internal Audit undertakes its activities in part on a risk assessment and in part on regulatory requirements. The NSPA Auditor General currently reports at least twice a year on his activities to the NSPA Internal Audit Committee.

Significant Risk and Internal Control Matters

Due to the nature of NSPA's activities in the military sphere, management has chosen not to publically disclose what it considers to be its key risks in relations to its operations, and how it plans to manage these risks, on security grounds.

The key risks which management can disclose are:

- 1) Concerns over the accuracy and reliability of financial reporting data in so far as complies with the requirements of the NATO Accounting Framework which is an adapted version of International Public Sector Accounting Standards (IPSAS).
 - For the last two financial years the NSPO Financial Statements have been qualified; while some of the reasons for qualification are beyond the control of management, some concern the reliability of financial data, which has been caused by difficulties in consolidating data from the Log Ops, CEPS and NAM Business Units in accordance with a common set of accounting policies.
 - For the 2015 Financial Statements management has expended significant time implementing an improvement plan to ensure that financial information in relation to the NAM Business Unit is supported.
 - In 2015 the full CEPS Programme (including National Organisations) will also be consolidated for the first time, but the fact that two National Organisations are managed by private organisations which must report financially in accordance with national norms rather than IPSAS raises the concern that information may not be compliant with the NATO Accounting Framework. As the National Organisations are not part of the Agency (note: they are part of the NSPO) the Agency is limited in the due diligence it can perform on such data. Going forward the Agency will work with the CEPS Programme to analyse how the financial reporting data of National Organisations can be verified by the Agency before it will be consolidated into the NSPO Financial Statements.
 - The Agency currently lacks a process to provide accurate cash flow information as required in an IPSAS compliant cash-flow statement. The Agency is working to resolve this issue in time for the production of the 2016 NSPO Financial Statements.

Concerns over the accuracy and reliability of financial reporting data has led to a number of figures in relation to the comparative 2014 figures within the Financial Statements been reviewed and restated; more details can be found in the Accounting Policies (pages 15 to 16) and in Note 22 (pages 35 to 39).

2) Concerns over the full implementation of the Revised NATO Financial Regulations.

The Secretary General's cover letter to the Agency's General Manager concerning the Revised NATO Financial Regulations advised that:

"The revised NFRs take immediate effect and supersede all previous versions. In terms of next steps, it is important that detailed implementing financial rules and procedures are developed and agreed as a matter of urgency. It is recognised that some articles, primarily those dealing with internal audit and with the management of appropriations, may require phased implementation during the course of 2015. If any amendments to the revised NFRs are needed by the Heads of NATO Procurement, Logistics and Support Organisations, it is important that these should be submitted to Council for approval as soon as possible. I look to you, and your Financial Controllers, to ensure that the necessary actions are taken to ensure that the NFRs are implemented in full by the end of 2015."


By the end of 2015 the revised NFRs have not been implemented in full; a working group of the Organisation's Finance Committee is currently working on


producing detailed rules and procedures for NSPO, which are consisted with the NFRs. The Chairman of the Agency Supervisory Board wrote to the Secretary General towards the end of 2015 to explain the process that the Agency Supervisory Board is following. At the date of issuance of these Financial Statements the Committee's work is not concluded.

Statement

All internal controls have inherent limitations, including the possibility of circumvention, and therefore can provide only reasonable assurance. Further, because of changing conditions, the effectiveness of internal controls may vary over time.

Based on the above, we consider, to the best of our knowledge and information, that the Agency operated satisfactory systems of internal control for the year ended 31 December 2015 and up to the date of approval of the financial statements, except in the area of exerting its own due diligence on figures provided by CEPS Programme National Organisations in the preparation of the financial statements.


General Manager
31 March 2016


Director of Finance
31 March 2016

NSPO Statement of Financial Position

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

		NSPO TOTAL		
		Restated		Original
	Note	2015	2014	2014
Current Assets				
Cash and Cash Equivalents	2	2,204,215	1,935,267	1,772,778
Accounts Receivable	6	1,045,954	843,325	861,898
Prepayments	7	196,094	182,700	182,644
Long Term Receivables		9,354	6,653	3,857
Inventory	5	362,641	361,713	354,897
Fixed and Intangible Assets				
Property Plant and Equipment	3	503,383	458,451	455,239
Intangible Assets	4	21,624	21,378	18,981
Total Assets		4,343,265	3,809,487	3,650,294
Current Liabilities				
Accounts Payable and Accruals	8	400,756	298,765	267,559
Customer Advances	9	3,023,759	2,643,149	3,377,688
Provisions	14	6,872	4,255	5,047
Total Liabilities		3,431,387	2,946,169	3,650,294
Net Assets		911,878	863,318	0

“**Original**” figures are those which were published in the NSPO Financial Statements for 2014.

“**Restated**” figures adjust the figures which were published in the NSPO Financial Statements for 2014 for the correction of errors and for changes in accounting policies.

Restatement: Further details on 2014 comparative figure restatements can be found within the Accounting Policies (pages 15 and 16) and in Note 22 (pages 37 to 40).

Figures in relation to the CEPS Business Unit exclude the addition of Euro 20.2m in 2015 (2014: 18.5m) of Pipeline System assets as the Agency transitions towards the full reporting of Pipeline System assets in 2016. These figures are not reflected in the Statement of Financial Performance.

The financial statements on pages 8 to 48 were issued to the International Board of Auditors for NATO on 31 March 2016.


NSPA General Manager


NSPA Director of Finance

NSPO Segments' Statement of Financial Position

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

	Note	Chairman's Office		Log Ops		NAM		CEPS *		NSPO TOTAL		
		2015	2014	2015	2014	2015	2014	2015	2014	Restated 2015	Restated 2014	Original 2014
Current Assets												
Cash and Cash Equivalents	2	0	0	1,799,143	1,558,496	237,621	213,833	167,451	162,938	2,204,215	1,935,267	1,772,778
Accounts Receivable	6	0	0	1,006,768	809,699	14,612	11,820	24,574	21,806	1,045,954	843,325	861,898
Prepayments	7	0	0	55,850	68,113	140,190	114,526	54	61	196,094	182,700	182,644
Long Term Receivables		0	0	3,857	3,857	0	0	5,497	2,796	9,354	6,653	3,857
Inventory	5	0	0	355,090	354,407	1,207	490	6,344	6,816	362,641	361,713	354,897
Fixed and Intangible Assets												
Property Plant and Equipment	3	0	0	12,702	14,359	479,410	435,491	11,271	8,601	503,383	458,451	455,239
Intangible Assets	4	0	0	0	0	19,052	18,896	2,572	2,482	21,624	21,378	18,981
Total Assets		0	0	3,233,410	2,808,931	892,092	795,056	217,763	205,500	4,343,265	3,809,487	3,650,294
Current Liabilities												
Accounts Payable and Accruals	8	0	0	360,393	253,348	21,114	26,971	19,249	18,446	400,756	298,765	267,559
Customer Advances	9	0	0	2,479,475	2,163,965	372,829	314,283	171,455	164,901	3,023,759	2,643,149	3,377,688
Provisions	14	0	0	0	0	0	0	6,872	4,255	6,872	4,255	5,047
Total Liabilities		0	0	2,839,868	2,417,313	393,943	341,254	197,576	187,602	3,431,387	2,946,169	3,650,294
Net Assets		0	0	393,542	391,618	498,149	453,802	20,187	17,898	911,878	863,318	0

Restatement: Further details on 2014 comparative figure restatements can be found within the Accounting Policies (pages 15 and 16) and in Note 22 (pages 37 to 40).

*Figures in relation to the CEPS Business Unit exclude the addition of Euro 20.2m in 2015 (2014: 18.5m) of Pipeline System assets as the Agency transitions towards the full reporting of Pipeline System assets in 2016. These figures are not reflected in the Statement of Financial Performance.

The financial statements on pages 8 to 48 were issued to the International Board of Auditors for NATO on 31 March 2016.


NSPA General Manager


NSPA Director of Finance

NSPO Statement of Financial Performance

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

		NSPO TOTAL		
	Note	Restated	Original	
Revenue		2015	2014	2014
Services and Support to Customers		2,314,178	1,931,606	1,813,974
Administrative Support		148,811	136,044	133,050
Bank interest *		621	798	5,422
Unrealised foreign currency effects *	10	3,036	7,767	1,621
Miscellaneous Revenue		6,157	4,512	219
Total Revenue		2,472,803	2,080,726	1,954,286
Expenses				
Services and Support to Customers	11	(2,141,233)	(1,796,114)	(1,814,715)
Commercial Discounts Earned **		3,813	4,402	4,383
USA Foreign Military Sales ***	11	(96,806)	(54,993)	0
Personnel	12	(165,682)	(160,473)	(101,886)
Depreciation and Amortisation		(33,198)	(27,810)	(25,982)
Provisions	14	(2,617)	853	0
Other Expenses	11	(50,239)	(42,345)	(25,979)
Transfers to customer credits		(18,649)	(15,292)	0
Total Expenses		(2,504,611)	(2,091,771)	(1,964,179)
Surplus / (Deficit) for the year		(31,808)	(11,045)	(9,893)

“Original” figures are those which were published in the NSPO Financial Statements for 2014.

“Restated” figures adjust the figures which were published in the NSPO Financial Statements for 2014 for the correction of errors and for changes in accounting policies.

Restatement: Further details on 2014 comparative figure restatements can be found within the Accounting Policies (pages 15 and 16) and in Note 22 (pages 37 to 40).

* In 2014 the lines “Bank Interest” and “Unrealised foreign exchange effects” were titled “Financial Revenue”, refer to the Accounting Policies on page 15 (Point 2) for more details.

** “Commercial discounts Earned” reduce the costs incurred in delivering “Services and Support to Customer”.

*** The figure given in respect of FMS are presented on a “modified cash” (i.e. non-accruals) basis; more information can be found in the Accounting Policies (see page 16, Point 4).

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	Original	
	Note	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2014
Revenue												
Services and Support to Customers		0	0	2,124,395	1,764,426	77,564	59,557	112,219	107,623	2,314,178	1,931,606	1,813,974
Administrative Support		850	829	123,961	113,423	9,554	7,694	14,446	14,098	148,811	136,044	133,050
Bank interest *		0	0	0	0	0	0	621	798	621	798	5,422
Unrealised foreign currency effects *	10	0	0	3,580	8,749	(544)	(982)	0	0	3,036	7,767	1,621
Miscellaneous Revenue		0	0	0	0	0	0	6,157	4,512	6,157	4,512	219
Total Revenue		850	829	2,251,936	1,886,598	86,574	66,269	133,443	127,030	2,472,803	2,080,726	1,954,286
Expenses												
Services and Support to Customers	11	0	0	(2,080,099)	(1,729,744)	(26,704)	(28,384)	(34,430)	(37,986)	(2,141,233)	(1,796,114)	(1,814,715)
Commercial Discounts Earned **		0	0	3,795	4,383	0	0	18	19	3,813	4,402	4,383
USA Foreign Military Sales ***	11	0	0	(45,837)	(25,659)	(50,969)	(29,334)	0	0	(96,806)	(54,993)	0
Personnel	12	(768)	(711)	(97,340)	(95,331)	(4,255)	(3,904)	(63,319)	(60,527)	(165,682)	(160,473)	(101,886)
Depreciation and Amortisation		0	0	(5,454)	(6,258)	(25,741)	(19,376)	(2,003)	(2,176)	(33,198)	(27,810)	(25,982)
Provisions	14	0	0	0	0	0	0	(2,617)	853	(2,617)	853	0
Other Expenses	11	(82)	(118)	(30,520)	(22,500)	(5,191)	(5,629)	(14,446)	(14,098)	(50,239)	(42,345)	(25,979)
Transfers to customer credits		0	0	0	0	0	0	(18,649)	(15,292)	(18,649)	(15,292)	0
Total Expenses		(850)	(829)	(2,255,455)	(1,875,109)	(112,860)	(86,627)	(135,446)	(129,206)	(2,504,611)	(2,091,771)	(1,964,179)
Surplus / (Deficit) for the year		0	0	(3,519)	11,489	(26,286)	(20,358)	(2,003)	(2,176)	(31,808)	(11,045)	(9,893)

Restatement: Further details on 2014 comparative figure restatements can be found within the Accounting Policies (pages 15 and 16) and in Note 22 (pages 37 to 40).

* In 2014 the lines "Bank Interest" and "Unrealised foreign exchange effects" were titled "Financial Revenue", refer to the Accounting Policies on page 15 (Point 2) for more details.

** "Commercial discounts Earned" reduce the costs incurred in delivering "Services and Support to Customer".

*** The figure given in respect of FMS are presented on a "modified cash" (i.e. non-accruals) basis; more information can be found in the Accounting Policies (see page 16, Point 4).

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

	2015	2014
Cash flow from operating activities		
Surplus/(Deficit)	(31,808)	(11,045)
Non-cash movements		
Depreciation/ Amortisation	33,198	27,810
Increase / (decrease) in payables	101,991	40,275
Increase / (decrease) in Customer Advances	380,610	248,171
Increase / (decrease) in provisions	2,617	(853)
Increase / (decrease) in 'operating' inventories	1,063	19,578
Decrease / (Increase) in prepayments	(13,393)	(13,457)
Decrease / (Increase) in receivables	(202,629)	(207,013)
Decrease / (Increase) in long-term receivables	(2,701)	1,103
Net cash flow from operating activities	268,948	104,569
Cash flow from investing activities		
Net purchase of PPE, Intangible assets and Inventories	45,043	16,048
Net cash flow from investing activities	45,043	16,048
Cash flow from financing activities		
Financing of PPE, Intangible assets and Inventories	(45,043)	(16,048)
Net cash flow from investing activities	(45,043)	(16,048)
Net increase/(decrease) in cash and cash equivalents	268,948	104,569
Cash and cash equivalent at the beginning of the period	1,935,267	1,830,698
Effect of exchange rate changes on cash and cash equivalents	25,994	46,911
Net increase/(decrease) in cash and cash equivalents	242,954	57,658
Cash and cash equivalent at the end of the period	2,204,215	1,935,267

This Statement reflects an indication of cash flows only; the Agency is working on developing a tool to reflect actual cash flows.

NSPO Statement of Changes in Net Assets

NSPO	Capital contributions	Revaluation Reserves	Other Reserves	Accumulated surplus/deficit	Total
Balance at the end of 2014	0	0	0	0	0
Changes in accounting policy	821,493	2,956	38,869	0	863,318
Balance at 31 December 2014	821,493	2,956	38,869	0	863,318
Net gains/(losses) recognised directly in net assets	85,833	(76)	(5,523)	0	80,234
Depreciation and Amortisation	(33,198)	0	0	33,198	0
Exchange difference on translating foreign operations	0	0	(502)	502	0
Net Unrealised Foreign exchange gains and losses	0	0	3,504	(3,542)	(38)
Inventory disposals, donations and increases	0	0	757	(757)	0
Inventory sales	0	0	(2,235)	2,235	0
Surplus/(deficit) for the period *	0	0	0	(31,636)	(31,636)
Change in net assets for the year ended 2015	52,635	(76)	(3,999)	0	48,560
Balance at 31 December 2015	874,128	2,880	34,870	0	911,878

Log Ops Business Unit	Capital contributions	Revaluation Reserves	Other Reserves	Accumulated surplus/deficit	Total
Balance at the end of 2014	0	0	0	0	0
Changes in accounting policy	352,485	0	39,133	0	391,618
Balance at 31 December 2014	352,485	0	39,133	0	391,618
Net gains/(losses) recognised directly in net assets	10,794	0	(5,523)	0	5,271
Depreciation and Amortisation	(5,454)	0	0	5,454	0
Exchange difference on translating foreign operations	0	0	0	0	0
Net Unrealised Foreign exchange gains and losses	0	0	3,585	(3,585)	0
Inventory disposals, donations and increases	0	0	757	(757)	0
Inventory sales	0	0	(2,235)	2,235	0
Surplus/(deficit) for the period *	0	0	0	(3,347)	(3,347)
Change in net assets for the year ended 2015	5,340	0	(3,416)	0	1,924
Balance at 31 December 2015	357,825	0	35,717	0	393,542

* The Surplus/(deficit) for the year also included Euro 172k which was allocated to "Customer and replenishment credits (allocated or to be allocated)" (see Note 9) and did not impact upon Net Assets.

NSPO Statement of Changes in Net Assets (continued)

NAMP Business Unit	Capital contributions	Revaluation Reserves	Other Reserves	Accumulated surplus/deficit	Total
Balance at the end of 2014	0	0	0	0	0
Changes in accounting policy	454,066	0	(264)	0	453,802
Restated balance at the end of 2014	454,066	0	(264)	0	453,802
Net gains/(losses) recognised directly in net assets	70,671	0	0	0	70,671
Depreciation and Amortisation	(25,741)	0	0	25,741	0
Exchange difference on translating foreign operations	0	0	(502)	502	0
Net Unrealised Foreign exchange gains and losses	0	0	(81)	43	(38)
Inventory disposals, donations and increases	0	0	0	0	0
Inventory sales	0	0	0	0	0
Surplus/(deficit) for the period	0	0	0	(26,286)	(26,286)
Change in net assets for the year ended 2015	44,930	0	(583)	0	44,347
Balance at the end of 2015	498,996	0	(847)	0	498,149

CEPS Business Unit	Capital contributions	Revaluation Reserves	Other Reserves	Accumulated surplus/deficit	Total
Balance at the end of 2014	0	0	0	0	0
Changes in accounting policy	14,942	2,956	0	0	17,898
Restated balance at the end of 2014	14,942	2,956	0	0	17,898
Net gains/(losses) recognised directly in net assets	4,368	(76)	0	0	4,292
Depreciation and Amortisation	(2,003)	0	0	2,003	0
Exchange difference on translating foreign operations	0	0	0	0	0
Net Unrealised Foreign exchange gains and losses	0	0	0	0	0
Inventory disposals, donations and increases	0	0	0	0	0
Inventory sales	0	0	0	0	0
Surplus/(deficit) for the period	0	0	0	(2,003)	(2,003)
Change in net assets for the year ended 2015	2,365	(76)	0	0	2,289
Balance at the end of 2015	17,307	2,880	0	0	20,187

Accounting Policies

Basis of preparation

These financial statements have been prepared in accordance with the NATO Accounting Framework as adopted by the NATO Council.

The NATO Accounting Framework 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 the governance of NSPO and its integral Programmes and Support and Procurement Partnerships consider that NSPO 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 Note 1 to the financial statements.

Changes in Accounting Policies and Restatements of 2014 Financial Statements

The following represent the correction of errors stemming from the audit of the 2014 Financial Statements. These corrections have been applied to the comparative figures for 2014 which have been restated:

1. CEPS Pipeline

In light of an anticipated Council decision to capitalise the Central Europe Pipeline System’s assets and liabilities, and to reflect its associated revenues and expenses, NSPO has included the Pipelines System’s revenues and expenses in 2015, and will capitalise the Pipeline System Property, Plant and

Equipment and Intangible Assets with the issuance of the 2016 financial statements.

2. Operating Surplus / (Deficit) for the year

In its 2014 financial statements, NSPO showed an Operating Deficit, which in part reflected the fact that there could be timing differences between incurring an expense and its subsequent recognition as revenue when customers are invoiced. NSPO has now decided to no longer recognise differences between revenue and expenses due to timing differences; revenue shall now be recognised in the same fiscal year that the expense, which shall be borne by a customer, is incurred.

Operating surpluses and deficits can still occur when non-budgeted expenses or revenues occur; of which examples are depreciation, the sales and disposals of inventory, and the unrealised results of foreign exchange transactions

For the Log Ops and NAMP Business Units, only the unrealised foreign currency translation effects impact the Statement of Financial Performance. In previous years the effects of bank interest, and both realised and unrealised currency translation effects had been shown as revenue; bank interest and realised foreign exchange effects “pass through” the Log Ops and NAMP Business Units only, and belong to customers, rather than NSPO.

The following represent changes in accounting policies for 2015. These have been applied to the figures for comparative figures for 2014 which have been restated:

3. Capitalisation threshold for PPE and Intangible Assets

NSPO has changed its capitalisation threshold from Euro Nil to Euro 1,000 (USD 1,000 for NAMP) for all categories of assets, excluding Aircraft which have a Euro 200k capitalisation threshold.

This change results in a reduction of the Historic Cost of PPE controlled by the Log Ops Business Unit of almost Euro 800k; the Net Book Value of these assets is substantially lower. NSPA management considers that the cost of adjusting its accounting system to reflect this change is greater than the benefit to users of these financial statements, and as such the balances of PPE in respect of this change have not been restated.

4. Change in presentational layout of financial statements

Following guidance issued by the NATO Resource Planning and Policy Board, there has been minor presentational changes to the layout of the financial statements. Further details can be found in Note 22 (pages 34 to 38).

5. Assets contributed-in-kind

The Agency no longer capitalises assets contributed-in-kind by the Host Nation to the NAMP Business Unit on account of asset “control” criteria not being met (see Note 3).

In the case of the NAMP Business Unit restatements have been made following a detailed review of balances.

More information in respect of how changes in Accounting Policies have affected comparative year figures is shown in *Note 22 - Changes in Accounting Policies and Restatements of 2014 Financial Statements*.

Deviation from IPSAS 12 - Inventories (as adapted by the North Atlantic Council)

NSPO holds strategic stocks on behalf of its customers which often, due to their nature, are slow moving. NSPA management, with the approval of the ASB, has chosen to value these stocks on the weighted average cost (WAC).

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.

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 by the following segments: Chairman's Office, Log Ops Business Unit, CEPS Programme Business Unit and NAM Programme Business Unit.

Changes in Accounting Standards

At the end of the 2015 financial year the following IPSAS had been issued which 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

These standards do not impact on NSPO's financial reporting.

Revenue Recognition

NSPO Financial Statements are prepared on the accrual basis of accounting. The effects of transactions (transfer of property of goods or services and others) are recognised when they occur (not only when cash is received) and they are recorded as revenues in the fiscal year to which they relate. For the contributions, the revenue is recognized when called.

The expensed amount of the contributions received from the member Nations is indicated in the Statement of Financial Performance, as it is a source of funds. The non-expensed portion of revenue is accounted for as deferred revenue.

The contributions called in the current year, for the following year are recognized as contributions called in advance, and only accounted for as revenue in the following year.

Income received for the purchase of PPE, intangible assets and inventory does not pass through the Statement of Financial Performance, but is reflected directly as Capital Contributed in Net Assets.

Revenue measurement and timing

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 meeting the customers' requirements. 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.

Expenses Recognition

Expenses are recognized when the transaction or event causing the expense occurs regardless of the timing of the payment, in accordance with accrual basis principle.

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 make its approved financial plans publicly available; NSPO is not therefore required to follow IPSAS 24. Instead, NSPO presents a high-level summary of the financial plan execution of its main segments as well as for the parts of its projects which are funded in common by more than one national customer.

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.

Unrealised foreign currency exchange differences arising on the translation 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 (2015: 1.0887 USD to Euro, 2014: 1.2141 USD to Euro);
- translating its revenue and expenses into Euros at the average yearly exchange rates for the Euro relative to the USD (2015: 1.1095 USD to Euro, 2014: 1.3285 USD to Euro).

Current Assets

Cash and Cash Equivalents

NSPO has cash and cash equivalents in financial institutions as current and time deposits accounts, and certificates of deposits, and at the Agency in petty cash and cash on hand for operational requirements. These cash are in Euro, US dollar and Hungarian Forint.

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.

Prepayments

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

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"). The exception is fuel which is measured at current replacement cost and Patriot Programme operational inventories maintained at a contractor premise which are valued at historical cost.
- NAM Programme inventories are measured on a First-In, First-Out (FIFO) basis.
- CEPS Programme inventories are measured on a weighted average cost (the "WAC") basis.

Capitalisation thresholds for all inventory are Euro nil.

Non-current Assets

Income received for the purchase of PPE, intangible assets and inventory does not pass through the Statement of Financial Performance, but is reflected directly as Capital Contributed in Net Assets.

Property, Plant and Equipment (PPE)

NSPO follows the NATO Accounting Framework for PP&E, which uses an adaption of IPSAS 17 for its accounting treatment.

PP&E is valued at initial cost less accumulated depreciation. Any subsequent expenditure on the asset, which enhances its value, is included in the amount. The only exception is the CEPS Program Office building at [REDACTED], which was revalued at fair market value (FMV).

Depreciation is calculated on a straight-line basis on all PP&E other than land.

The expected lives of PPE and their associated capitalisation thresholds per item are:

- Buildings – 40 Years, Euro 1,000

- Other Infrastructure – 40 Years, Euro 1,000
- Installed equipment – 10 Years, Euro 1,000
- Mission equipment – 10 Years, Euro 1,000
- Machinery – 10 years, Euro 1,000
- Vehicles – 5 Years, Euro 1,000
- Aircraft – 26 years, Euro 200k
- Furniture - 10 years, Euro 1,000
- Communications - 3 years, Euro 1,000
- Automated IT systems - 5 years, Euro 1,000
- Office Automation Equipment – 3 years, 1,000

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.

As NAM Programme was established for 26 years, this means the maximum useful economic life of Buildings and Other Infrastructure assets is limited to 2034 (26 years after the establishment of the programme).

Starting with the 2016 Financial Statements, NSPO will capitalise the additions made to the Central Europe Pipeline System since 1 January 2013.

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.

The NAM Programme's rights to its spare engine are amortised over the life of the Aircraft, which is 26 years.

The NAM Programme re-values intangible assets in line with changes in the Euro relative to USD and HUF respectively.

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.

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.

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.

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.

Contingent Liabilities

NSPO discloses in the notes to the financial statements any contingent liabilities common to the whole or specific to a project 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.

NSPO Net Assets

Net Assets reflected in the Financial Statements represent the net assets of NSPO's customers. These net assets comprise the capital contributed by customers to fund

the acquisition of PPE, intangible assets and inventories. Capital contributed is reduced by the effects of depreciation and amortisation and can be increased or decreased due to the effects of currency translation effects.

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.

NSPA management has chosen to account for the value of the services delivered based on the values provided in the reports, and which are based on cash payments made by the United States Government to contractors in the period. In 2015 the NAM Programme expensed Euro 51m under this basis compared to Euro 29.3m in 2014 and Euro 70.6m in 2013 respectively.

The costs of NAM missions (e.g. Fuel and Airport Services) are made with the best estimates available at the time the financial statements are produced.

b) Accruals and cut-off date

Revised NATO Financial Regulations issued in May 2015 moved the date for the issuance of the NSPO Financial Statements for audit from 30 April after the financial year end to 31 March. This requires a subsequent bringing forward of the cut-off date for capturing year-end accruals supported by invoices and increased the need to estimate non-invoiced accruals after this cut-off date.

c) Legal proceedings both real and possible

In accordance with the NATO Accounting Framework, 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		
							Restated	Original	
	2015	2014	2015	2014	2015	2014	2015	2014	2014
Cash available on demand	228,802	229,039	17,175	47,312	22,751	16,158	268,728	292,509	276,801
Short-term deposits	1,570,341	1,329,457	220,446	166,521	144,700	146,780	1,935,487	1,642,758	1,495,977
Total	1,799,143	1,558,496	237,621	213,833	167,451	162,938	2,204,215	1,935,267	1,772,778

The significant difference between the original and restated figure is predominantly due to the inclusion of the CEPS National Organisations within CEPS Business Unit activities in 2015; previously only the CEPS Programme Office was included in the results of the CEPS Business Unit.

The value of cash and cash equivalents controlled by NSPA is the result of calls for funding issued to customers. The value should be considered in the context of the turnover of the agency (2015: Euro 2.5 Billion, 2014: Euro 2.1 Billion) and the fact that in some instances the Agency acts as an agent for customers and holds cash balances to execute these requirements.

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 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)

	Cost at 1 January 2015	Additions in year	Disposals / impairment in year	Currency Translation Adjustment	Cost at 31 December 2015	Depreciation at 1 January 2015	Change in Depreciation	Currency Translation Adjustment	Depreciation at 31 December 2015	Net book value at 1 January 2015	Net book value at 31 December 2015
Land	195	0	0	0	195	0	0	0	0	195	195
Buildings	17,033	9,766	(8,225)	1,498	20,073	(2,008)	(455)	(129)	(2,592)	15,025	17,481
Installed Equipment	4,806	172	(298)	333	5,013	(2,932)	(346)	(172)	(3,450)	1,874	1,563
Machinery	100,063	371	(137)	0	100,296	(89,972)	(2,641)	0	(92,613)	10,090	7,682
Vehicles	7,898	545	(60)	178	8,560	(6,203)	(37)	(99)	(6,340)	1,694	2,220
Aircraft	517,235	5,686	(1,739)	59,652	580,834	(105,753)	(21,975)	(12,601)	(140,329)	411,482	440,505
Mission Equipment	27,963	2,307	(1,975)	1,623	29,919	(15,817)	(1,591)	(577)	(17,985)	12,146	11,933
Furniture	5,902	205	(277)	84	5,914	(4,607)	80	(30)	(4,557)	1,295	1,357
Automated information System	22,006	3,717	(2,737)	142	23,129	(17,866)	(342)	(108)	(18,316)	4,140	4,813
Communication System	3,181	63	(207)	161	3,197	(2,811)	(7)	(149)	(2,967)	370	230
Assets in the course of construction	140	15,674	(648)	236	15,402	0	0	0	0	140	15,402
Total	706,421	38,506	(16,303)	63,908	792,532	(247,970)	(27,315)	(13,864)	(289,149)	458,451	503,383

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 or Procurement 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.

NSPO has changed its Accounting Policy in relation to its capitalisation threshold from Euro Nil to Euro 1,000 (USD 1,000 for NAMP) for all categories of assets, excluding Aircraft which have a Euro 200k capitalisation threshold. This change results in a reduction of the Historic Cost of PPE controlled by the Log Ops Business Unit of almost Euro 800k; the Net Book Value of these assets is substantially lower. NSPA management considers that the cost of adjusting its accounting system to reflect this change is greater than the benefit to users of these financial statements, and as such the balances of PPE in respect of this change have not been restated.

NSPO has changed its Accounting Policy in relation to the capitalisation of host nation assets contributed-in-kind to the NAM Programme Business Unit. Now that these items are no longer capitalised, the effect on the NBV of PPE is to reduce the amount by Euro 4.16m in 2015 and Euro 3.7m in 2014.

It is important to note that the CEPS Programme Business Unit will not capitalise its Pipeline System PPE until the presentation of the Financial Statements for 2016, when it will capitalise all Pipeline System PPE which became controlled after 1 January 2013. In 2015 the CEPS Programme Business Unit expensed Euro 20.2m on such assets (2014: Euro 18.5m); these are not reflected in either the Statement of Financial Position or the Statement of Financial Performance.

4. Intangible Assets

	Cost at 1 January 2015	Additions in year	Disposals / impairment in year	Currency Translation Adjustment	Cost at 31 December 2015	Amortisation at 1 January 2015	Change in Amortisation	Currency Translation Adjustment	Amortisation at 31 December 2015	Net book value at 1 January 2015	Net book value at 31 December 2015
Software	7,914	394	(115)	182	8,374	(4,372)	(408)	(206)	(4,986)	3,542	3,388
Rights to spare engine	20,591	0	(1,416)	2,345	21,519	(2,754)	(870)	(192)	(3,816)	17,836	17,703
Assets in the course of construction	0	522	0	10	532	0	0	0	0	0	532
Total	28,504	916	(1,531)	2,536	30,425	(7,126)	(1,278)	(398)	(8,802)	21,378	21,624

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
- The CEPS Programme's management, planning and coordination systems

5. Inventories

	Log Ops		NAM		CEPS		NSPO TOTAL		
							Restated	Original	
	2015	2014	2015	2014	2015	2014	2015	2014	2014
Consumables	165	239	364	289	3,219	3,734	3,748	4,262	528
Spare parts	0	0	843	201	3,125	3,082	3,968	3,283	201
Strategic stock	354,925	354,168	0	0	0	0	354,925	354,168	354,168
Total	355,090	354,407	1,207	490	6,344	6,816	362,641	361,713	354,897

The significant difference between the original and restated figure is predominantly due to the CEPS Programme, where the original figures which were published in the 2014 Financial Statements did not include the CEPS National Organisations; the 2015 figures and the restated 2014 figures now include the CEPS National Organisations.

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Log Ops

- Log Ops Support or Procurement Partnerships control inventories paid for in common by members of the Support or Procurement 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

- The CEPS Programme's inventories include raw materials, spare-parts and consumables.

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.

6. Accounts Receivable – current assets

	Log Ops		NAM		CEPS		NSPO TOTAL		
							Restated	Original	
	2015	2014	2015	2014	2015	2014	2015	2014	2014
Receivables	373,467	292,487	13,032	10,357	24,492	21,611	410,991	324,455	343,661
Personnel	0	4	0	3	0	0	0	7	53
Recoverable taxes	1	2	797	1,290	0	0	798	1,292	1,373
Other NATO Entities	14,444	22,336	0	0	6	8	14,450	22,344	26,302
Unbilled sales to customers	618,146	493,805	0	0	0	0	618,146	493,805	489,274
Bank interest	710	1,065	783	170	76	187	1,569	1,422	1,235
Total	1,006,768	809,699	14,612	11,820	24,574	21,806	1,045,954	843,325	861,898

The significant difference between the original and restated figure is due to:

- for the CEPS Programme, the original figures which were published in the 2014 Financial Statements did not include the CEPS National Organisations; the 2015 figures and the restated 2014 figures now include the CEPS National Organisations, and,
- significant data cleansing of the NAM Programme Business Unit in response to previous external audit findings.

Unbilled sales represent amounts that have been paid to suppliers of goods and services but which have not yet 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		
							Restated	Original	
	2015	2014	2015	2014	2015	2014	2015	2014	2014
Prepayments to employees	153	59	62	0	0	0	215	59	59
Prepayments to vendors	56,033	63,951	1,578	0	54	61	57,665	64,012	63,972
Prepayments to USA Foreign Military Sales	(336)	4,103	138,550	114,526	0	0	138,214	118,629	118,613
Total	55,850	68,113	140,190	114,526	54	61	196,094	182,700	182,644

The significant difference between the original and restated figure is due to significant data cleansing of the NAM Programme Business Unit in response to previous external audit findings. On occasions, the Log Ops Business Unit is contractually required to provide advance payments to vendors which are providing its customers with goods and services. The NAMP Business Unit uses United States Foreign Military Sales (FMS) to manage and support its airlift assets; FMS requires NAM to pre-finance its activities.

8. Accounts Payable and Accruals

	Log Ops		NAM		CEPS		NSPO TOTAL		
							Restated	Original	
	2015	2014	2015	2014	2015	2014	2015	2014	2014
Payables to vendors	85,206	49,140	(318)	646	5,622	4,986	90,510	54,772	52,822
Health care contributions	797	744	0	0	0	0	797	744	744
Pension contributions	582	573	(37)	(36)	0	0	545	537	574
Accruals	269,481	202,276	21,475	26,369	5,405	6,566	296,361	235,211	213,371
Taxes	0	0	0	0	7,565	6,644	7,565	6,644	0
Short-term borrowings (overdraft facilities)	0	0	0	0	655	0	655	0	0
Other	4,327	615	(6)	(8)	2	250	4,323	857	48
Total	360,393	253,348	21,114	26,971	19,249	18,446	400,756	298,765	267,559

The significant difference between the original and restated figures are due to:

- for the CEPS Programme, the original figures which were published in the 2014 Financial Statements did not include the CEPS National Organisations; the 2015 figures and the restated 2014 figures now include the CEPS National Organisations, and,
- significant data cleansing of the NAM Programme Business Unit in response to previous external audit findings.

Further details can be found in Note 22: Changes in Accounting Policies and Restatements of 2014 Financial Statements.

9. Customer Advances

	Log Ops		NAM		CEPS		NSPO TOTAL		
							Restated	Original	
	2015	2014	2015	2014	2015	2014	2015	2014	2014
Customer advance payments	2,336,955	2,055,914	358,288	302,631	16,925	14,811	2,712,168	2,373,356	2,460,690
Capital Assets contributed	0	0	0	0	0	0	0	0	829,117
Customer and replenishment credits (allocated or to be allocated)	142,520	108,051	14,541	11,652	154,530	150,090	311,591	269,793	87,881
Total	2,479,475	2,163,965	372,829	314,283	171,455	164,901	3,023,759	2,643,149	3,377,688

In 2014, Customer Advances originally included “Capital Assets Contributed”; “Capital Assets Contributed” are now reflected in the “Statement of Changes in Net Assets”.

In 2014, Customer Advances also included the surplus/deficit for the year, which in effect reduced “Customer and replenishment credits (allocated or to be allocated)”. In 2015, the impact of surplus/deficit for the year is shown in the Statement of Changes in Net Assets (Pages 13 and 14).

Customer credits represent amounts owned by customers and consist of bank interest earned, realised exchange rate gains and losses, and miscellaneous income; in the case of the CEPS Programme Business Unit it also includes surpluses for the period which are transferred to customer credits before they impact the “bottom line”. Replenishment credits represent amounts owned by customers of the Log Ops Business Unit for the replenishment of spare parts.

Of the balance on “Customer Advance Payments”, there are offsetting legal commitments by the Agency to purchase goods or services on Customers’ behalf which have either not been re-billed to the customer at the year-end (considered “potential liabilities”), or are actual liabilities billed but not yet settled against customer advances. For the 28 NATO nations and NATO entities, this amount at 31 December 2015 was Euro 1.983 Billion.

10. Bank Interest, Unrealised foreign currency effects, and, Financial Revenue

For the Log Ops and NAMP Business Units, bank interest and any realised foreign exchange returns do not belong to the respective Business Units but to their respective customers; these returns “pass through” those business units and are reflected in the Statement of Financial Position under Customer Advances (Note 9) as “Customer and replenishment credits

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(allocated or to be allocated)". These amounts are not shown in the Statement of Financial Performance. However, for the CEPS Business Unit, these balances are considered to belong to the Programme and as such are shown in both the Statement of Financial Position and the Statement of Financial Performance.

The only type of financial revenue which impacts directly upon the surplus or deficit for the year is unrealised foreign exchange gains and losses. As customers are financially liable for any losses made in the year, and share in any gains made in the year, unrealised gains or losses will ultimately impact upon Customer Advances (Note 9) as "Customer and replenishment credits (allocated or to be allocated)". These surplus/gains related to unrealised foreign exchange gains and losses are transferred to "Customer and replenishment credits (allocated or to be allocated)" through the Statement of Customers' Net Assets.

11. Expenses: Services and Support to Customers and Other Expenses

	Chairman's Office		Log Ops		NAM		CEPS		NSPO TOTAL		
									Restated	Original	
Services and Support to Customers	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2014
Common Support (including ACO and AWACS)	0	0	194,346	212,546	0	0	0	0	194,346	212,546	280,254
Individual brokerage	0	0	560,957	474,406	0	0	0	0	560,957	474,406	497,583
Individual maintenance and services	0	0	546,621	415,086	0	0	0	0	546,621	415,086	416,960
Operational logistics support	0	0	368,788	453,073	0	0	0	0	368,788	453,073	453,073
Transportation services	0	0	90,684	138,005	0	0	0	0	90,684	138,005	90,669
Airlift Services	0	0	0	0	26,704	28,384	0	0	26,704	28,384	63,866
Fuel Management	0	0	310,816	31,985	0	0	34,430	37,986	345,246	69,971	11,200
Net proceeds from changes in inventory	0	0	7,887	4,643	0	0	0	0	7,887	4,643	1,110
Other services	0	0	0	0	0	0	0	0	0	0	0
Total	0	0	2,080,099	1,729,744	26,704	28,384	34,430	37,986	2,141,233	1,796,114	1,814,715
USA Foreign Military Sales	0	0	45,837	25,659	50,969	29,334	0	0	96,806	54,993	0

Many of the expenses in relation to "Commons Support (including ACO and AWACS)" may also appear in the financial statements of other NATO entities such as ACO and NAPMA.

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Other expenses, shown on the face of the Statement of Financial Performance, are the expenses incurred in administering the respective Business Units; they include items such as communications, information systems, services and supplies, travel, transportation, non-operational consultants, public relations, training, utilities, and care of buildings.

12. Employee Disclosures

Personnel Costs

	Chairman's Office		Log Ops		NAM		CEPS		NSPO TOTAL		
									Restated	Original	
NATO Contracts	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2014
Salaries	590	545	68,221	65,434	2,662	2,465	2,753	2,679	74,226	71,123	69,821
Allowances	79	76	15,698	15,509	751	596	606	542	17,134	16,723	16,318
Pension contributions	25	24	3,543	3,373	333	312	513	499	4,414	4,208	4,129
Health care contributions	70	66	8,791	8,621	395	372	18	18	9,274	9,077	8,874
Loss-of-Job Indemnities (LOJI)	0	0	494	1,952	10	69	0	0	504	2,021	2,190
Other	4	0	593	442	104	90	21	(35)	722	497	554
Sub-Total	768	711	97,340	95,331	4,255	3,904	3,911	3,703	106,274	103,649	101,886
CEPS National Organisation Contracts	0	0	0	0	0	0	59,408	56,824	59,408	56,824	0
Total	768	711	97,340	95,331	4,255	3,904	63,319	60,527	165,682	160,473	101,886

Personnel Numbers

At 31 December, the following posts were filled:

	Chairman's Office		Log Ops		NAM		CEPS		NSPO TOTAL	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
NATO Contracts	■	■	■	■	■	■	■	■	■	■
NSPA Consultants	■	■	■	■	■	■	■	■	■	■
CEPS National Organisation	■	■	■	■	■	■	■	■	■	■
Total	■	■	■	■	■	■	■	■	■	■

The personnel of the CEPS Programme National Organisations are not employed on NATO personnel contracts. In total NSPA employed ■ consultants throughout the year.

Retirement benefits of NSPA Personnel

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 2015 NSPA contributed Euro 4.4m (2014: Euro 4.2m) 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 2015 of which Euro 17,073 was spent (2014: Euro 21,000 and Euro 9,739 respectively). 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 11,000 per-year (2014: Euro 10,106), due to the requirements to represent NSPA at events, of which Euro 9,661 was spent (2014: Euro 8,265). 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 (2014: Euro 6,000) between them, of which Euro 5,482 (2014: Euro 4,158) was spent in 2015.

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.

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Name	Nationality	Role	Loans received from NSPA	Family members receiving income from NSPA	Other revenue from NSPA or NATO
██████████	USA	General Manager	Nil	Nil	Nil
██████████	DEU	Director of Finance	Nil	Nil	Nil
██████████	GBR	Chief of Staff	Nil	Nil	Nil
██████████	DEU	Director of Logistics Operations	Nil	Nil	Nil
██████████	FR	Director of Procurement	Nil	Nil	Nil
██████████	NLD	NAM Programme Manager	Nil	Nil	Nil
██████████	BEL	CEPS Programme Manager (from 1 April 2015)	Nil	Nil	Nil
██████████	NLD	CEPS Programme Manager (until 31 March 2015)	Nil	Nil	Nil
██████████	DEU	Chief Information Officer	Nil	Nil	Nil
██████████	GBR	Human Resources Executive	Nil	Nil	Nil

14. Provisions

IPSAS defines a provision as “a liability of uncertain timing or amount”. The CEPS Programme Business Unit has made a provision for potential French tax liabilities of Euro 6.6m (2014: Euro 4m) and bad debts of Euro 267K (2014: Euro 267k).

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”*.

The following represent contingent liabilities:

- The NATO Administrative Tribunal is currently considering one appeal lodged by an NSPA staff member in 2015. Furthermore, one new appeal was lodged before the Tribunal in 2016 as well as a request for a re-hearing from a staff member whose case had been dismissed in 2015. No estimation of the financial liability of the Agency in case of adverse rulings or outcomes can be provided at this stage.
- In 2015, NSPA was notified of a Complaint and a Notice of a Lawsuit against NATO and NSPA, taken to the High Court in Ankara by a Turkish citizen. Turkish and Luxembourg authorities were invited to ensure that the Turkish courts respect the special legal status/immunities NATO and NSPA enjoy pursuant to the Ottawa Agreement. NSPA was notified that the Turkish citizen extended his Complaint and Lawsuit to Defence authorities of the Republic of Turkey. No estimation of the financial liability of the Agency in case of adverse rulings or outcomes can be provided at this stage
- A customer of the Log Ops Business Unit 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 four claims in relation to its activities in Theatre where more contractor work was required than originally planned. The estimated potential costs in relation to these claims is USD 3.75m.

The CEPS Programme specifically, 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 one host nation, a new decree dated 4 August 2006 was issued regarding minimum safety regulations for pipelines and which may have a financial impacts. It is not yet possible to quantify the efforts and costs of the implementation of those decrees.
- In 2005, an accident in one of the Programme’s member nations lead to a site being polluted for which a clean-up plan was foreseen to last until 2023. The costs of the clean-up are common funding eligible with an estimated cost of Euro 10.1m payable in 2 parts.
- In 2008, an accident in one of the Programme’s member nations lead to a site being polluted. The clean-up bill amounted to Euro 1.5m. The Member Nation’s MOD is prosecuting the owner of the ground and the farmer using the ground. The company which did the clean-up work in 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.

- In 2015 there was an attempted theft in one of the Programme's member nations which resulted in damages and pollution. The reparations and depollution of the site have been estimated at Euro 850k. The owner of the ground where the damages and pollution occurred has filed an official complaint against the Member Nations National Organisation; however, the amount is not yet known.

For details of a potential write-on of debt to Nations in respect of the purchases of software licences for which the Agency did not always have customers, refer to Note 18: Write-offs.

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. NSPO does not have any finance leases or significant operating leases.

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; although the CEPS National Organisations have short-term borrowing facilities (see note 8). 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 2015 the Log Ops Business Unit wrote off assets with a value of Euro 172k (2014: Euro 23k).

The Agency wishes to bring to the reader's attention future potential cost write-offs in relation to the purchase of software licences between 2011 and 2015. The Agency purchased software licences for which it did not always have customers. The vendor was paid for the software licences, but for the occasions when there was no customer for the licences Nations will be asked to write-on amounts that the Agency was not able to re-bill. The Agency currently estimates the potential future write-on of debts to nations at between Euro 1.8m and Euro 3.9m.

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, NSPA management has chosen to show the amounts funded jointly by members of Support or Procurement Partnerships (individual national procurement activity is not shown). Details of Financial Plan Execution are found in the Annex.

[REDACTED]	
[REDACTED]	
[REDACTED]	
[REDACTED]	

[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

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

NSPA manages inventories on behalf of third parties such as NATO member states and other NATO Bodies; 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 which are NATO bodies at the 2015 year-end were Euro 338 m (2014: Euro 341 m); of this amount Euro 264 m (2014: Euro 270 m) were held on behalf of ACO.

22. Changes in Accounting Policies and Restatements of 2014 Financial Statements

The NSPO Financial Statements for 2014 were qualified on a number of grounds, some of which were in the Agency's control and some which were not (e.g. the inability of third parties to provide the NAMP Business Unit with reliable accruals based data in respect of the delivery of FMS service). The Agency has decided to restate elements of its 2014 Financial Statements to take account of financial reporting weaknesses which were within its control.

a) Customers' Net Assets and Surplus and Deficits

Customers' Net Assets

In the NSPO Financial Statements 2014, the Agency reflected the fact that it did not have its own Net Assets on the grounds that the assets and liabilities of NSPO were owned by customers rather than NSPO in itself; the Agency chose to reflect its view by matching the assets it controlled to liabilities owned by customers.

In 2015, the Agency decided to show the "Net Assets of NSPO Customers" rather than include them within NSPO liabilities as "Capital Assets Contributed".

Surplus and Deficits

In the NSPO Financial Statements 2014, the Agency reported surpluses and deficits that included depreciation and amortisation, bank interest, realised and unrealised foreign exchange gains and losses (i.e. Financial Revenue) and the timing differences between incurring an expense and subsequently rebilling the expenses to customers.

In 2015, the Agency has decided that surpluses and deficits should only include non-budgeted expenses and revenues such as depreciation and amortisation, the sales and disposals of inventory, and the unrealised results of foreign exchange transactions (see Note 10).

b) Presentational Changes following a recommendation of the NATO Resource Planning and Policy Board

The 2015 Financial Statements include a number of minor presentational changes to the Statement of Financial Performance, which result from recommendation made by the NATO Resource Planning and Policy Board to ensure consistency of reporting amongst NATO entities.

The changes are:

- There is no longer a split between Revenue from “Exchange” and “Non-exchange” transactions.
- Expenses are further broken down on the face of the Statement of Financial Performance to show “depreciation and amortisation” and “provisions”; these amounts were previously aggregated into “Other Expenses”
- FMS expenses which are accounted for on a modified-cash basis are now reflected separately on the face of the Statement of Financial Performance; previously they were shown within “Services and Support to Customers.

c) Impact of Revisions to the NATO Accounting Framework

The revised NATO Accounting Framework required that FMS expenses which are accounted for on a modified-cash basis are now reflected separately on the face of the Statements of Financial Performance with a footnote under the Statement explaining that they are accounted for on a modified–cash basis; previously they were shown within “Services and Support to Customers”.

d) NAMP Business Unit

Statement of Financial Position

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

	Note	NAMP	
		Restated 2014	Original 2014
Current Assets			
Cash and Cash Equivalents	2	213,833	213,833
Accounts Receivable	6	11,820	35,001
Prepayments	7	114,526	114,510
Long Term Receivables		0	0
Inventory	5	490	490
Fixed and Intangible Assets			
Property Plant and Equipment	3	435,491	437,562
Intangible Assets	4	18,896	18,073
Total Assets		795,056	819,469
Current Liabilities			
Accounts Payable and Accruals	8	26,971	13,726
Customer Advances	9	314,283	805,743
Provisions	14	0	0
Total Liabilities		341,254	819,469
Net Assets of NSPO Customers		453,802	0

Statement of Financial Performance

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

	Note	NAMP	
		Restated 2014	Original 2014
Revenue			
Services and Support to Customers		59,557	63,865
Administrative Support		7,694	6,665
Bank interest *		0	351
Unrealised foreign currency effects *	10	(982)	(471)
Miscellaneous Revenue		0	90
Total Revenue		66,269	70,500
Expenses			
Services and Support to Customers	11	(28,384)	(34,252)
Commercial Discounts Earned		0	0
USA Foreign Military Sales*		(29,334)	(29,614)
Personnel Costs	12	(3,904)	(3,910)
Depreciation and Amortisation		(19,376)	(19,483)
Provisions		0	0
Other Expenses	11	(5,629)	(2,753)
Transfers to customer credits		0	0
Total Expenses		(86,627)	(90,012)
Surplus / (Deficit) for the year		(20,358)	(19,512)

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In 2015, the Agency devoted significant resources to validating account balances within the NAMP Business Unit which have historically been considered unreliable from a financial reporting perspective. This validation exercise has led the Agency to decide to restate 2014 balances in respect of both Financial Position and Financial Performance.

The NAMP Business Unit comparative figures presented reflect aforementioned changes such as the change in the Accounting Policy in respect of Customers' Net Assets and Surplus and Deficits, the change of no longer capitalising host nation assets given-in kind (see Note 3 for further details), and the separate presentation of FMS balances in the Statement of Financial Performance.

e) CEPS Business Unit

Statement of Financial Position

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

	Note	CEPS	
		Restated 2014	Original 2014
Current Assets			
Cash and Cash Equivalents	2	162,938	449
Accounts Receivable	6	21,806	4,654
Prepayments	7	61	21
Long Term Receivables		2,796	0
Inventory	5	6,816	0
Fixed and Intangible Assets			
Property Plant and Equipment	3	8,601	3,320
Intangible Assets	4	2,482	908
Total Assets		205,500	9,352
Current Liabilities			
Accounts Payable and Accruals	8	18,446	300
Customer Advances	9	164,901	4,005
Provisions	14	4,255	5,047
Total Liabilities		187,602	9,352
Net Assets of NSPO Customers		17,898	0

Statement of Financial Performance

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

	Note	CEPS	
		Restated 2014	Original 2014
Revenue			
Services and Support to Customers		107,623	0
Administrative Support		14,098	5,663
Bank interest *		798	0
Unrealised foreign currency effects *	10	0	(1)
Miscellaneous Revenue		4,512	129
Total Revenue		127,030	5,791
Expenses			
Services and Support to Customers	11	(37,986)	0
Commercial Discounts Earned		19	0
USA Foreign Military Sales*		0	0
Personnel Costs	12	(60,527)	(3,748)
Depreciation and Amortisation		(2,176)	(224)
Provisions		853	0
Other Expenses	11	(14,098)	(2,042)
Transfers to customer credits		(15,292)	0
Total Expenses		(129,206)	(6,014)
Surplus / (Deficit) for the year		(2,176)	(223)

In the NSPO Financial Statements for 2014, the Agency reflected only the Financial Position and Financial Performance of the CEPS Programme Office. In 2015, the Agency Supervisory Board decided to account for the revenues and expenses, and assets and liabilities, of the Central Europe Pipeline System. The decision followed an assessment from the NATO Resource Planning and Policy Board that NSPO controlled the Pipeline System from a financial reporting perspective, which was contrary to view held by the Agency Supervisory Board

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and CEPS Programme Board. The financial reporting of the Pipeline System will follow a phased approach with everything except for the assets of the Pipeline System (e.g. pipelines, pumping stations, storage tanks etc.) being accounted for in 2015; the Pipeline System assets will be reflected in the 2016 Financial Statements.

The CEPS Business Unit comparative figures presented reflect aforementioned changes such as the change in the Accounting Policy in respect of Customers' Net Assets and Surplus and Deficits.

f) Log Ops Business Unit

Statement of Financial Position

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

	Note	Log Ops	
		Restated 2014	Original 2014
Current Assets			
Cash and Cash Equivalents	2	1,558,496	1,558,496
Accounts Receivable	6	809,699	822,243
Prepayments	7	68,113	68,113
Long Term Receivables		3,857	3,857
Inventory	5	354,407	354,407
Fixed and Intangible Assets			
Property Plant and Equipment	3	14,359	14,357
Intangible Assets	4	0	0
Total Assets		2,808,931	2,821,473
Current Liabilities			
Accounts Payable and Accruals	8	253,348	253,533
Customer Advances	9	2,163,965	2,567,940
Provisions	14	0	0
Total Liabilities		2,417,313	2,821,473
Net Assets of NSPO Customers		391,618	0

Statement of Financial Performance

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

	Note	Log Ops	
		Restated 2014	Original 2014
Revenue			
Services and Support to Customers		1,764,426	1,750,109
Administrative Support		113,423	119,898
Bank interest *		0	5,070
Unrealised foreign currency effects *	10	8,749	2,093
Miscellaneous Revenue		0	0
Total Revenue		1,886,598	1,877,170
Expenses			
Services and Support to Customers	11	(1,729,744)	(1,750,849)
Commercial Discounts Earned		4,383	4,383
USA Foreign Military Sales*		(25,659)	0
Personnel Costs	12	(95,331)	(93,517)
Depreciation and Amortisation		(6,258)	(6,276)
Provisions		0	0
Other Expenses	11	(22,500)	(21,070)
Transfers to customer credits		0	0
Total Expenses		(1,875,109)	(1,867,329)
Surplus / (Deficit) for the year		11,489	9,841

There are minor variations in the restated figures for the Log Ops Business Unit compared to those originally posted. This is predominantly due to the reclassification of some figures following a review of postings following a recommendation of Presentational Changes to the financial statements made by the NATO Resource Planning and Policy Board.

23. Events after the financial reporting date of 31 December 2015

NSPO is required to disclose events, both favourable and unfavourable, that occurred between the reporting date of 31 December 2015 and the date when these financial statements were authorized for issue by the General Manager and the Director of Finance. IPSAS requires two types of events which should be identified:

- (1) Those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- (2) 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 under category (b) one item should be disclosed:

- Revised NATO Financial Regulations (NFRs) were issued by Council on 4 May 2015. The Secretary General's cover letter to the Agency's General Manager advised that

"The revised NFRs take immediate effect and supersede all previous versions. In terms of next steps, it is important that detailed implementing financial rules and procedures are developed and agreed as a matter of urgency. It is recognised that some articles, primarily those dealing with internal audit and with the management of appropriations, may require phased implementation during the course of 2015. If any amendments to the revised NFRs are needed by the Heads of NATO Procurement, Logistics and Support Organisations, it is important that these should be submitted to Council for approval as soon as possible. I look to you, and your Financial Controllers, to ensure that the necessary actions are taken to ensure that the NFRs are implemented in full by the end of 2015."

At the time these Financial Statements were issued, the revised NFRs have not been implemented in full; a working group of the Organisation's Finance Committee is currently working on producing detailed rules and procedures for NSPO, which are consistent with the NFRs. The Chairman of the Agency Supervisory Board wrote to the Secretary General towards the end of 2015 to explain the process that the Agency Supervisory Board is following. At the date of issuance of these Financial Statements the Committee's work is not concluded.

Annex: NSPO Financial Plan Execution

1. Log Ops Business Unit – Administrative Costs Elements

<i>All figures in Euro '000</i>	PRIOR 2015 UNPAID COMMITMENTS BROUGHT FORWARD	2015 AUTHORISED CREDITS	PAYMENTS AGAINST COMMITMENTS & CREDITS	UNPAID COMMITMENTS (i.e. LEGAL OBLIGATIONS) CARRIED FORWARD	TOTAL CREDITS CONSUMED IN YEAR	LAPSED CREDITS
Personnel Expenditure	1,892	97,300	95,524	888	96,411	2,781
General Administrative, Operating & Maintenance	6,752	12,360	12,021	5,746	17,767	1,345
Project Specific Expenditure	4,766	20,901	14,617	5,886	20,503	5,164
Investments	2,532	3,928	4,085	2,123	6,208	252
Southern Operational Centre Regularisation for Administrative Expenditure	(252)	0	448	(655)	(207)	(45)
Total	15,691	134,489	126,694	13,988	140,682	9,498

Administrative cost elements do not include the costs charged by vendors for supplying goods and services to customers.

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2. Log Ops Business Unit – Jointly Funded Operational Project Costs

Operational Budget	Source of Funding	PRIOR 2015 UNPAID COMMITMENTS BROUGHT FORWARD	2015 PAYMENTS AGAINST PRIOR 2015 COMMITMENTS	PRIOR 2015 UNPAID COMMITMENTS CARRIED FORWARD	CREDITS MADE AVAILABLE IN 2015	COMMITMENTS MADE IN 2015	CASH PAYMENTS	UNPAID COMMITMENTS	UNUSED CREDITS
	NSIP	26,548	19,825	2,668	56,699	8,678	5,930	2,748	48,021
	Multinational	4,552	2,461	1,456	21,273	9,217	3,565	5,652	12,056
	Partnerships	1,781	97	1,680	611	310	111	199	300
	Partnerships	4,503	2,631	1,836	6,229	5,917	4,166	1,751	312
	Partnerships	1,045	465	576	1,975	1,658	889	769	317
	Partnerships	963	106	782	912	296	120	176	615
	Partnerships	0	0	0	0	0	0	0	0
	NATO Bodies	73	366	(8)	76	0	0	0	76
	NATO Bodies	44,266	58,380	15,110	110,044	89,230	55,931	33,299	20,814
	Partnerships	60,567	10,901	49,189	27,826	24,237	2,737	21,500	3,590
	Partnerships	83	83	0	195	145	90	55	50
	NATO Bodies	0	0	0	0	0	0	0	0
	Partnerships	0	0	0	2	0	0	0	2
	Other authorized Customers	461	352	109	876	873	639	234	3
	Partnerships	54	50	2	411	291	215	76	121
	Multinational	61	61	0	140	140	47	93	0
	NATO Bodies	15,003	7,700	5,329	17,192	17,191	6,257	10,933	1
	NATO Bodies	1,770	1,576	29	1,057	1,029	577	452	28
	NSIP	8,829	7,431	1,315	111,625	18,335	14,543	3,792	93,290
	Partnerships	0	0	0	0	0	0	0	0
	NATO Bodies	5	0	2	0	0	0	0	0
	NATO Bodies	6,377	5,153	1,065	0	0	0	0	0
	NATO Bodies	33	0	33	0	0	0	0	0
	NATO Bodies	2,479	2,267	63	97	89	89	0	9
	NATO Bodies	1,724	1,567	117	2,022	1,849	1,077	771	173
	NSIP	1	0	1	3,326	235	0	235	3,091
	Partnerships	10,582	8,258	2,030	3,717	3,571	2,516	1,055	146
	Partnerships	73	(0)	74	0	0	0	0	0

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Log Ops Business Unit – Jointly Funded Operational Project Costs Continued....

Operational Budget	Source of Funding	PRIOR 2015 UNPAID COMMITMENTS BROUGHT FORWARD	2015 PAYMENTS AGAINST PRIOR 2015 COMMITMENTS	PRIOR 2015 UNPAID COMMITMENTS CARRIED FORWARD	CREDITS MADE AVAILABLE IN 2015	COMMITMENTS MADE IN 2015	CASH PAYMENTS	UNPAID COMMITMENTS	UNUSED CREDITS
	Partnerships	301	300	0	1,354	1,204	60	1,144	150
	Partnerships	0	0	0	2	0	0	0	2
	NATO Bodies	4,800	0	4,800	0	0	0	0	0
	NATO Bodies	681	427	241	3,264	3,257	2,271	985	8
	NATO Bodies	130	75	16	227	227	114	112	0
	Partnerships	1,510	162	1,304	113	86	31	56	27
	Partnerships	34	4	30	50	39	4	35	11
	Nationally funded	16,456	1,767	13,723	7,408	11,378	7,223	4,155	(3,970)
	Partnerships	116	0	116	0	0	0	0	0
	Multinational	0	0	0	215	215	215	0	0
	Partnerships	4,530	4,530	0	96,460	96,460	47,471	48,988	0
	Partnerships	0	0	0	3,006	2,189	2,189	0	817
	Partnerships	21	0	21	50	42	30	12	8
	Partnerships	177	68	108	347	324	4	320	23
	Partnerships	0	0	0	0	0	0	0	0
	Partnerships	1,043	190	853	1,731	1,726	1,272	454	5
	Partnerships	6,102	1,782	3,472	6,056	3,309	1,910	1,400	2,747
	Partnerships	0	0	0	1,145	1,021	845	176	124
	NSIP	0	0	0	4,319	0	0	0	4,319
Grand Total		227,734	139,037	108,140	492,052	304,768	163,140	141,628	187,284

*For the “Transportation” operational budget, the negative figure in respect of “unused credits” is because the credits authorised by the Agency Supervisory Board were surpassed in the year by customer-authorised purchases which were supported by customer funding.

Jointly funded costs reflect the costs charged by vendors for supplying goods and services to customers acting jointly; this means that a budget exists and is agreed by more than one customer to jointly procure goods and services – it excludes individual customer requirements.

The figures in the column “Prior 2015 unpaid commitments carried forward” do not represent the arithmetical differences between the amounts within column “Prior 2015 unpaid commitments brought forward” and “2015 payments against prior-2015 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 2015. Unused Credits can be carried forward or lapsed depending on the rules governing the specific project of funder.

3. NAM Programme Business Unit

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

Brought forward figures have been restated to correct an error in the figures which were published last year.

	Original	Restated					
<i>All figures in USD '000</i>	UNUSED AUTHORISED CREDITS AND UNPAID COMMITMENTS BROUGHT FORWARD	UNUSED AUTHORISED CREDITS AND UNPAID COMMITMENTS BROUGHT FORWARD	2015 AUTHORISED CREDITS	PAYMENTS AGAINST COMMITTED AUTHORISED CREDITS	UNUSED AUTHORISED CREDITS AND COMMITMENTS CARRIED FORWARD	TOTAL CREDITS CONSUMED IN YEAR (A+B)	LAPSED CREDITS
Acquisition	\$244,229	\$243,252	\$0	\$28,732	\$214,810	\$243,541	\$0
Operational	\$428,330	\$415,007	\$70,027	\$103,854	\$361,530	\$465,384	\$19,653
Total	\$672,559	\$658,260	\$70,027	\$132,585	\$576,340	\$708,925	\$19,653
<i>All figures in USD '000</i>	PRIOR 2015 UNPAID COMMITMENTS CARRIED FORWARD	2015 AUTHORISED CREDITS	PAYMENTS AGAINST COMMITMENTS & AUTHORIZED CREDITS	UNPAID COMMITMENTS (i.e. LEGAL OBLIGATIONS) CARRIED FORWARD	TOTAL CREDITS CONSUMED IN YEAR	LAPSED CREDITS	
Administration	\$828	\$10,940	\$8,271	\$401	\$8,671	\$3,096	

4. Central Europe Pipeline System Business Unit

	Budget Type	PRIOR 2015 AUTHORISED CREDITS BROUGHT FORWARD	2015 AUTHORISED CREDITS	BUDGETARY EXPENDITURE AGAINST CREDITS	AUTHORISATIONS CARRIED FORWARD	LAPSED CREDITS
Operational Budgets						
Personnel	O&M	364,671	58,982,800	57,768,860	392,956	1,185,655
	NP2	2,204,198	606,700	926,522	1,884,376	-
	NP3	529,833	1,225,000	675,375	1,079,458	-
	Business Cases	-	397,650	394,865	1,800	985
	Depots	-	642,100	628,412	-	13,688
		<u>3,098,701</u>	<u>61,854,250</u>	<u>60,394,034</u>	<u>3,358,590</u>	<u>1,200,328</u>
Outside temporary staff	O&M	71,331	1,187,450	1,113,512	47,651	97,618
	Depots	6,494	286,400	280,036	5,781	7,077
		<u>77,825</u>	<u>1,473,850</u>	<u>1,393,548</u>	<u>53,433</u>	<u>104,695</u>
Training of personnel	O&M	100,356	306,500	283,447	93,359	30,050
	Business Cases	-	300	-	-	300
		<u>100,356</u>	<u>306,800</u>	<u>283,447</u>	<u>93,359</u>	<u>30,350</u>
Travel and transportation	O&M	11,198	3,676,750	3,556,638	29,613	101,697
	Business Cases	-	16,000	8,978	-	7,022
	Depots	-	82,000	77,758	-	4,242
		<u>11,198</u>	<u>3,774,750</u>	<u>3,643,374</u>	<u>29,613</u>	<u>112,961</u>
Hospitality	O&M	998	41,000	36,876	-	5,122
		<u>998</u>	<u>41,000</u>	<u>36,876</u>	<u>-</u>	<u>5,122</u>

Central Europe Pipeline System Business Unit Continued....

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	Budget Type	PRIOR 2015 AUTHORISED CREDITS BROUGHT FORWARD	2015 AUTHORISED CREDITS	BUDGETARY EXPENDITURE AGAINST CREDITS	AUTHORISATIONS CARRIED FORWARD	LAPSED CREDITS
Operational Budgets						
Operation	O&M	1,145,065	21,275,100	19,140,260	2,460,739	819,166
	Business Cases	-	68,800	51,270	1,284	16,245
	Depots	1,700	156,000	155,870	-	1,830
		<u>1,146,765</u>	<u>21,499,900</u>	<u>19,347,400</u>	<u>2,462,023</u>	<u>837,242</u>
Maintenance	O&M	4,530,707	13,437,800	12,461,768	4,857,097	649,643
	NP2	3,691,669	2,500,000	2,110,079	4,081,590	-
	NP3	2,477,318	500,000	423,786	1,573,532	980,000
	Business Cases	-	336,900	263,696	63,304	9,899
	Depots	362,507	839,700	891,181	280,219	30,808
		<u>11,062,201</u>	<u>17,614,400</u>	<u>16,150,509</u>	<u>10,855,743</u>	<u>1,670,350</u>
General administrative expenses	O&M	1,728,783	10,840,400	10,705,072	1,557,582	306,529
	Business Cases	-	8,450	6,107	60	2,283
	Depots	25,100	160,200	156,935	25,165	3,201
		<u>1,753,883</u>	<u>11,009,050</u>	<u>10,868,114</u>	<u>1,582,806</u>	<u>312,013</u>

Central Europe Pipeline System Business Unit Continued....

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	Budget Type	PRIOR 2015 AUTHORISED CREDITS BROUGHT FORWARD	2015 AUTHORISED CREDITS	BUDGETARY EXPENDITURE AGAINST CREDITS	AUTHORISATIONS CARRIED FORWARD	LAPSED CREDITS
Capital						
Fixed installations	NP2	2,360,154	-	1,005,793	1,354,361	-
		2,360,154	-	1,005,793	1,354,361	-
Plant equipment	O&M Depots	261,269	802,460	678,393	241,766	143,571
		-	18,000	-	17,244	756
		261,269	820,460	678,393	259,010	144,327
Vehicles	O&M	415,449	546,600	655,370	271,247	35,431
		415,449	546,600	655,370	271,247	35,431
Office equipment	O&M	1,492,059	679,440	794,630	1,313,998	62,871
		1,492,059	679,440	794,630	1,313,998	62,871
Long-Term Investments						
Modernisation 100% CEPS	O&M Depots	48,854,206	15,746,500	21,279,393	37,763,989	5,557,325
		1,709,148	1,299,100	1,866,160	1,116,539	25,549
		50,563,355	17,045,600	23,145,553	38,880,528	5,582,874
INFRA projects - cost shares	O&M	1,618,892	339,911	451,272	1,046,325	461,206
		1,618,892	339,911	451,272	1,046,325	461,206
Grand Total		73,963,106	137,006,011	138,848,312	61,561,035	10,559,770