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03 January 2019

DOCUMENT
C-M(2018)0073-AS1

**IBAN AUDIT ON THE 2017 FINANCIAL STATEMENTS OF NATO SUPPORT AND
PROCUREMENT ORGANISATION**

ACTION SHEET

Reference: C-M(2018)0073-COR1

On 21 December 2018, under the silence procedure, the Council noted the IBAN report on the 2017 financial statements of NSPO attached to C-M(2018)0073, endorsed the RPPB report, and agreed to the public disclosure of the report, the IBAN audit report and redacted 2017 financial statements of NSPO.

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2018)0073.

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21 December 2018

DOCUMENT
C-M(2018)0073-FINAL

**IBAN AUDIT ON THE 2017 FINANCIAL STATEMENTS OF NATO SUPPORT AND
PROCUREMENT ORGANISATION**

Note by the Secretary General

1. Attached is the final version of the International Board of Auditors for NATO (IBAN) report on the audit of the 2017 financial statements of NATO Support and Procurement Organisation reviewed by the Resource Policy and Planning Board and noted by the Council.

(Signed) Jens Stoltenberg

1 Annex
2 Enclosures

Original: English

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**IBAN AUDIT ON THE 2017 FINANCIAL STATEMENTS OF NATO SUPPORT AND
PROCUREMENT ORGANISATION (NSPO)**

Report by the Resource Policy and Planning Board (RPPB)

References:

- | | |
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| A. IBA-A(2018)0094 | IBAN Audit on the 2017 Financial Statements of NSPO |
| B. CM(2015)0025 | NATO Financial Regulations (NFRs) |
| C. PO(2015)0052 | Wales Summit tasker on transparency and accountability |

BACKGROUND

1. This report by the RPPB addresses the IBAN audit of the 2017 financial statements and compliance of NSPO. The IBAN audit set out qualified opinions on the financial statements and on compliance by NSPO in 2017 (reference A).
2. The RPPB acknowledges the issues highlighted in the IBAN audit report have already been dealt with by the appropriate governing bodies of NSPO (the Finance, Administration and Audit Committee (FAA) and the Agency Supervisory Board (ASB)). However, the RPPB is mandated under Article 15 of the NFRs (reference B) to provide Council with comments and recommendations on the audit opinion.

DISCUSSION

3. The IBAN identified six observations during the audit: two observations impacted the IBAN's opinion on the financial statements and one observation impacted the opinion on compliance. The IBAN issued a qualified opinion on the financial statements because of inaccurate methodologies used to calculate accrued liabilities and the improper presentation of customer advances and unbilled sales. The IBAN issued a qualified opinion on compliance due to non-compliance in a number of significant areas such as management of commitments and their approval, the Financial Controller's contract awards responsibilities and the implementation of risk management and a system of internal controls. The remaining three observations, which did not impact the audit opinion, related to inventory at third party locations, internal audit's independence, and central management of possible litigation, claims or legal cases.
4. The IBAN also followed up on the status of recommendations from previous years' audits noting 16 recommendations were settled, 17 recommendations were superseded by current year observations, and 11 recommendations remained outstanding. The open recommendations related to year-end confirmations with other NATO Bodies, management of cash and unused funding, general computer controls, internal controls over financial reporting, and monitoring and control over potential conflicts of interest. Finally, the IBAN highlighted the NSPO's achievement during 2017 of settling most of the observations regarding the Central Europe Pipeline System (CEPS).

5. The RPPB notes the NSPO FAA and ASB had detailed discussions about the status of all observations and recommendations made by the IBAN based on a thorough review by the Agency's management. The Agency's management provided its plan of action, assessment of resource implications¹, and estimated date they plan to settle each outstanding recommendation. The RPPB notes the Agency's management expects to settle the majority of the IBAN's recommendations in 2018 and 2019. Additionally, the Agency's management has classified all outstanding IBAN observations and corresponding recommendations as either open², in-progress³, or closed⁴. More information on each IBAN observation including the detailed management action being taken by the Agency to address them has been provided to the ASB (enclosure 1).

6. The ASB approved a redacted version of the 2017 financial statements for public disclosure (enclosure 2).

CONCLUSION

7. The IBAN submitted a qualified opinion on the NSPO financial statements for 2017 which follows on from the qualified opinions issued since 2013. The RPPB acknowledges the efforts the Agency is making to address the issues identified by the IBAN and recognises the authority and responsibilities of the NSPO FAA and ASB to monitor the status of outstanding observations. The RPPB is satisfied that sufficient attention is being paid by the Agency's management and at the governance level of NSPO to progress on all outstanding audit observations.

RECOMMENDATIONS

8. The RPPB recommends the Council:

8.1. note the IBAN report at reference A;

8.2. endorse the conclusion at paragraph 7; and,

8.3. agree to the public disclosure of this report, the IBAN audit report and the redacted 2017 financial statements of NSPO in line with the agreed policy in reference C.

¹ Management identified ten IBAN recommendations with potential resource implications for the Agency.

² Management identified six open recommendations where management is currently reviewing how best to address them or will address them at a later date.

³ Management identified 21 in-progress recommendations where management is actively working on the resolution of the recommendation and has made good progress in resolving the issue.

⁴ Management identified one closed recommendations where management considers the issue satisfactorily closed or considers it is unable to take further corrective action.

NSPO FINANCIAL STATEMENTS 2017
STATUS OF OUTSTANDING IBAN AUDIT REPORT RECOMMENDATIONS
AS AT 11 SEPTEMBER 2018

Reference: IBA-AR(2018)0094 dated 29 August 2018 “*International Board of Auditors for NATO (Board) Auditor's Report and Letter of Observations and Recommendations on the audit of the NATO Support & Procurement Organisation (NSPO) Financial Statements for the year ended 31 December 2017*”

1. BACKGROUND

1.1 A Key Performance Indicator (KPI) of the Agency relates to its accountability; one of the ways in which the Agency's management monitors its accountability is through proactively addressing recommendations made by its external auditors, the International Board of Auditors for NATO (IBAN).

1.2 This report provides details of the status of the outstanding recommendations reflected in the latest available IBAN audit report on NSPO (reference).

2. STATUS OF OUTSTANDING IBAN RECOMMENDATIONS

2.1 IBAN makes recommendations in the spirit of attempting to enhance NSPA's internal control environment or through helping to ensure that the information provided in its financial statements is compliant with the NATO Accounting Framework. IBAN recommendations are non-binding on NSPO and it is up to the ASB whether NSPA management should implement a recommendation or not; NSPA management reviews all recommendations in detail and advises the ASB on whether it believes it can, or should, implement the recommendation at the time the General Manager issues his comments on the draft IBAN Audit Report.

2.2 The FAA reviews the status of each outstanding IBAN recommendation at both of its annual meetings and this leads to an updating of this report to incorporate FAA comments before it is presented at each of the ASB's meetings.

2.3 The Appendix to this document provides the status of outstanding IBAN recommendations based on the 2017 audit report (Reference) and how these are being addressed by NSPA management. Management classifies the status of recommendations as follows:

2.3.1 **Open** – NSPA management is currently reviewing how best to address the recommendation or will address the recommendation at a later date.

2.3.2 **In-progress** – NSPA management is actively working on the resolution of the recommendation and has made good progress in resolving the issue.

2.3.3 **Closed** – NSPA management considers the issue satisfactorily closed or considers it is unable to take further corrective action.

2.4 In its 2017 Audit Report, the IBAN issued 6 new recommendations and followed up on the status of recommendations from previous years' audits, noting that 16 had been settled, 17 had been superseded by a current year observation and 11 were still outstanding. This gives a total of 17 recommendations that the IBAN consider to be open.

2.5 When NSPA management reviews the IBAN recommendations it breaks some recommendations into their component parts for ease of tracking (e.g. Recommendation 1 in 2017 had 4 distinct components which are tracked as 4 separate recommendations). This means that NSPA management is currently tracking 28 recommendations, of these,

- 6 are Open (Spring FAA status: 2 were Open)
- 21 are In-progress (Spring FAA status: 19 were In-progress)
- 1 is Closed (Spring FAA status: 25 were Closed)

3. RECOMMENDATIONS WITH RESOURCE IMPLICATIONS

The IBAN's most recent audit report, on the NSPO Financial Statements 2017, included ten recommendations with potential resource implications for the Agency to implement, whether now or in the future. During the Agency's coordination of its response to the audit report, two nations requested an assessment of the resource impact to implement certain IBAN Observations. The relevant recommendations, with the associated resource implications to implement are listed below:

#	Issue	Estimated resource requirements
1	Accounting for unbilled sales as both current and long-term receivables	The Agency will attempt to implement the recommendation within current resources although this will have an opportunity cost in terms of deferring other work.
1	Accounting for customer advances as both current and long-term liabilities	The Agency will attempt to implement the recommendation within current resources although this will have an opportunity cost in terms of deferring other work.
5,6	Accruals	The assessment of year-end accruals is a cross-business unit function and any extra resources to do this under a revised accruals methodology are still to be assessed.
9,14	Internal Control	The Agency has presented the ASB with the preliminary assessment of resources required for full implementation. Implementation by 30 June 2019 is dependent on timely approval of the additional staffing requirements.

#	Issue	Estimated resource requirements
11	Handling of legal cases	From 0.3 to 0.4 man-years at A3 level.
13	Inventory checking and valuation	The Quality Assurance manager estimates that to ensure checks of all NATO Furnished Property are carried out over a 5-year period, with stock valuation control, would lead to the requirement for two additional staff at B3 and B5 level plus associated TDY costs.
7,26	Procurement (Contract Award Committees)	The Agency has presented the ASB with the preliminary assessment of resources required for full implementation. Implementation by 30 June 2019 is dependent on timely approval of the additional staffing requirements that are linked to the prior-approval of commitments.

4. **RECOMMENDATION**

The ASB is requested to note this report.

**SUMMARY OF THE PRIOR YEARS OUTSTANDING IBAN OBSERVATIONS
WITH MANAGEMENT'S COMMENTS**

No.	OBSERVATION / RECOMMENDATION	NSPA MANAGEMENT COMMENT	INTERNAL STATUS OF RECOMMENDATION	TIMELINE FOR RESOLUTION	OWNER
	2017 NSPO Audit Report				
1	<p>Recommendation 1 (para 1.14)</p> <p>The Board recommends NSPA to perform an analysis of the balance of unbilled sales as well as the balance of customer advances to determine which portion is current and non-current and present them appropriately in the Statement of Financial Position. For the balance of unbilled sales, this will require a detailed analysis of individual customer agreements to determine what part is expected to be realised within one year and beyond one year. Likewise for the customer advances, a detailed assessment of the expected settlement (i.e. use of the advances) needs to be performed to ensure correct disclosure of advances as current and non-current.</p>	<p>This is the first year that the IBAN has raised the subject of unbilled sales in this way.</p> <p>An analysis of unbilled sales into amounts due within one year and over one year would require an analysis of all individual customer agreements; this would be a resource intensive task that would have to be performed for the production of each year's financial statements.</p> <p>Initial research into the issue has been conducted and although the Agency does not currently anticipate additional resources to implement the recommendation, there will be an opportunity cost in that some other tasks will be deferred while this analysis is performed.</p> <p>In terms of customer advances, the Agency continues to consider that all advances backed by cash are current</p>	In-progress	Issuance of NSPO Financial Statements 2018	FC

No.	OBSERVATION / RECOMMENDATION	NSPA MANAGEMENT COMMENT	INTERNAL STATUS OF RECOMMENDATION	TIMELINE FOR RESOLUTION	OWNER
		<p>liabilities in that there is nothing to prevent those funds being returned to the customer on demand.</p> <p>However, for customer advances, the Agency is currently evaluating its processes to determine what changes are required within the ERP to flag specific advances to purchase orders and related contractual documents both for the aging of those advances (and thus presenting current and non-current liabilities), but also to determine if the Agency can offset those advances against the current liabilities due to suppliers and service providers. T</p> <p>The Agency believes this review and system change will not be completed until at least 2020, but will provide IBAN with additional details as we proceed. Although the Agency does not currently anticipate additional resources to implement the recommendation, there will be an opportunity cost in that some other tasks will be deferred while this analysis is performed.</p>		Issuance of NSPO Financial Statements 2021 at the earliest	

No.	OBSERVATION / RECOMMENDATION	NSPA MANAGEMENT COMMENT	INTERNAL STATUS OF RECOMMENDATION	TIMELINE FOR RESOLUTION	OWNER
2	<p>Recommendation 1 (para 1.15)</p> <p>Specifically for customer advances, the Board recommends NSPA to proactively coordinate with its customers to ensure the use of available advances to fund re-billings before sending additional invoices to the customers.</p> <p>Further, any excess customer advances and replenishment credits no longer needed should be returned as soon as possible. The Board also recommends NSPA to increase transparency by disseminating information on unallocated credits to all nations and programmes on a regular basis.</p>	<p>The Agency consults with its customers on whether to use advances to set-off invoices.</p> <p>The ASB has never informed the Agency to return excess customer advances and replenishment credits to customers; how to use customer funds held at the Agency is a customer prerogative. This approach has been reported to, and noted by, the Council. On a monthly basis, the Agency informs customers of all credits allocated to them.</p> <p>Unallocated credits represent miscellaneous income and expense items including interest earned or paid, foreign currency gains and losses, and excess transportation surcharges. The non-allocation of some unallocated credits provides a buffer for foreign currency losses and negative bank interest, so that the Agency can avoid invoicing customers for the impact of those systemic losses.</p> <p>To increase transparency, the Agency can provide information on the total of unallocated credits (i.e. the total of all credits that have not yet been allocated to customers) in future financial statements.</p>	Open	Information on unallocated credits will be disclosed in the NSPO Financial Statements 2018	FC

No.	OBSERVATION / RECOMMENDATION	NSPA MANAGEMENT COMMENT	INTERNAL STATUS OF RECOMMENDATION	TIMELINE FOR RESOLUTION	OWNER
3	<p>Recommendation 1 (para 1.16)</p> <p>Further, the Board recommends NSPA improve the internal controls over the preparation of the financial statements and financial reporting to ensure that the financial statements are free of material misstatements and other errors or omission. Specifically, NSPA should ensure that the financial statements fully reconcile to individual segment reporting for CEPS and NAMP and any inconsistencies are corrected at consolidation level. A detailed review and second level control of the CEPS and NAMP reporting packages should be performed in order to ensure consistent accounting treatment and accurate disclosure as well as ensuring that restated balances are properly reported in the NSPO financial statements.</p>	<p>The Agency notes that the IBAN found that there have been improvements in the preparation of the 2017 Financial Statements compared with the previous year; this in itself builds upon improvements that the IBAN also noted in the 2016 Financial Statements.</p> <p>The Agency's consolidation processes aim to ensure a consistent financial reporting approach between Log Ops, CEPS and NAMP occurs.</p> <p>The Agency will increase its oversight during the reconciliation and consolidation process when preparing future financial statements.</p>	Open	This will be done as a matter of course during the preparation of the NSPO Financial Statements 2018.	FC
4	<p>Recommendation 1 (para 1.17)</p> <p>In regards to inventory and PP&E in NAMP, NSPA should ensure correct classification of spare parts in accordance with the NATO Accounting Framework based on the advice of aircraft technical specialists.</p>	<p>This shall be done as part of the preparation of the NSPO Financial Statements 2018.</p>	In-progress	Issuance of NSPO Financial Statements 2018	FC

No.	OBSERVATION / RECOMMENDATION	NSPA MANAGEMENT COMMENT	INTERNAL STATUS OF RECOMMENDATION	TIMELINE FOR RESOLUTION	OWNER
5	<p>Recommendation 2 (para 2.7)</p> <p>The Board recommends NSPA that:</p> <p>a) Finance requires the Programmes and Divisions to provide them with their assessment of accrued liabilities at year end, including the follow up of the goods and services received before year-end.</p>	<p>The Agency acknowledges that its accrual methodology did not work as anticipated in respect of the 2017 Financial Statements. It is very difficult to estimate accruals because this requires:</p> <ul style="list-style-type: none"> ▪ A reasonable assessment of what goods and services have been received, but not billed, at the year-end; ▪ A reasonable assessment of the costs that will be billed; and, ▪ For work-in-progress, it would require an assessment of the percentage of goods or services delivered by the year-end. <p>To do this to the level of accuracy expected by the IBAN would require that the Agency contact customers and vendors at the year-end to assess the status of good and service deliveries.</p>	In-progress	Issuance of NSPO Financial Statements 2018	FC

No.	OBSERVATION / RECOMMENDATION	NSPA MANAGEMENT COMMENT	INTERNAL STATUS OF RECOMMENDATION	TIMELINE FOR RESOLUTION	OWNER
		<p>In respect of the NSPO Financial Statements 2018, the Agency will use a methodology that incorporates using in-house knowledge of the status of goods and service received and/or rendered in the year, combined with contacting both vendors and customers in respect of potential high value accruals to determine if deliveries of goods and/or services were received or rendered before year-end.</p> <p>The assessment of year-end accruals is a cross-business unit function and any extra resources to do this under a revised accruals methodology are still to be assessed.</p>			
6	<p>Recommendation 2 (para 2.7)</p> <p>The Board recommends NSPA that:</p> <p>b) Set up an action plan to improve the measurement of the value of the goods and services received before year-end for which no invoice was received.</p>	Please refer to answer # 5.	Open	Issuance of NSPO Financial Statements 2018	FC

No.	OBSERVATION / RECOMMENDATION	NSPA MANAGEMENT COMMENT	INTERNAL STATUS OF RECOMMENDATION	TIMELINE FOR RESOLUTION	OWNER
7	<p>Recommendation 3 (para 3.13)</p> <p>The Board recommends that NSPO:</p> <p>a) Ensure compliance with the NSPO FRPs in the area of commitments and the role of the Financial Controller in the Contract Award Committee.</p>	<p>The attendance at Contract Award Committees is linked to the Financial Controller's responsibility to undertake prior-approval of commitments.</p> <p>The Financial Controller, or his delegate, is already attending Contract Award Committees with a value over 2 MEUR and the process for the attendance at these Committees will be documented as part of a prior-approval of commitments Agency Operating Instruction. Currently, attendance at Contract Award Committees under 2 MEUR is not routine.</p>	In-progress	<p>The ASB approved transition plan also gives the Agency until June 2019 to implement the undertaking the prior-approval of commitments.</p> <p>The Agency has presented the ASB with the preliminary assessment of resources required for full implementation. Implementation is dependent on timely approval of these resources.</p>	FC
8	<p>Recommendation 3 (para 3.13)</p> <p>b) Ensure a complete and comprehensive risk register for the Agency is finalised including risk responses and mitigation plans. This includes an appropriate review and control of risks identified at the level of Programmes and Divisions, ensuring consistency between risks at operational level and strategic level.</p>	<p>The Agency is currently working to optimise its system of risk management.</p>	In-progress	<p>The ASB approved transition plan also gives the Agency until June 2019 to implement risk management.</p>	COS

No.	OBSERVATION / RECOMMENDATION	NSPA MANAGEMENT COMMENT	INTERNAL STATUS OF RECOMMENDATION	TIMELINE FOR RESOLUTION	OWNER
9	Recommendation 3 (para 3.13) c) Perform a systematic, detailed assessment and documentation of its internal control and risk management procedures to support compliance with its approved internal control framework.	The ASB has approved a transition plan that gives the Agency until June 2019 to implement a system of internal control.	In-progress	The ASB approved transition plan also gives the Agency until June 2019 to implement a system of internal control. The Agency has presented the ASB with the preliminary assessment of resources required for full implementation. Implementation is dependent on timely approval of these resources.	EMB
10	Recommendation 3 (para 3.13) d) Internal Audit fully evaluate internal control and risk management throughout NSPO, and that this work be clearly documented to conclude on NSPO's compliance with the chosen framework.	The 2018 Internal Audit Plan, as presented at the May 2018 meeting of the Finance, Administration and Audit Committee covers the evaluation of internal control and risk management.	In-progress	On completion of 2018 Audits	Auditor General

No.	OBSERVATION / RECOMMENDATION	NSPA MANAGEMENT COMMENT	INTERNAL STATUS OF RECOMMENDATION	TIMELINE FOR RESOLUTION	OWNER
11	<p>Recommendation 4 (para 4.7)</p> <p>The Board recommends NSPA put in place procedures to ensure legal cases are properly handled and managed. Management of any potential legal cases and their financial consequences should be the responsibility of a knowledgeable professional under the direct and exclusive control of the Legal Office. All potential legal cases should be reported to the Legal Office by the Programmes and Divisions to ensure a complete and comprehensive understanding of the legal risks that the Agency faces.</p>	<p>While the Agency agrees in principle with the observations and recommendations, the Legal Advisor's Office is currently not adequately staffed or equipped to handle legal risks in the manner recommended.</p> <p>The Legal Advisor estimates that the resources required to do this work would be between 0.3 and 0.4 man-years at A3 level each year.</p>	Open	The Agency will cost the resolution of this recommendation and present it to the FAA/ASB by the end of 2018	Legad
12	<p>Recommendation 4 (para 4.8)</p> <p>The Board recommends that regular and documented communication be established between the Legal Office and the Financial Controller to ensure complete disclosure of contingent liabilities and provisions in the financial statements.</p>	Communication between the Legal Office and the FC shall be ongoing throughout the preparation of the NSPO Financial Statements 2018.	Open	This will be done as a matter of course during the preparation of the NSPO Financial Statements 2018	FC/ Legad

No.	OBSERVATION / RECOMMENDATION	NSPA MANAGEMENT COMMENT	INTERNAL STATUS OF RECOMMENDATION	TIMELINE FOR RESOLUTION	OWNER
13	<p>Recommendation 5 (para 5.8)</p> <p>The Board recommends that the Agency, under the responsibility of the General Manager, ensure that an independent control over the quantities and valuation of inventory held at third parties be performed on time for the preparation of the Financial Statements in view of assessing the potential adjustments on the valuation of inventory to be reported in the Financial Statement.</p>	<p>While the Quality Assurance Office has dedicated personnel available to undertake stock counts, the resources currently available are not sufficient to undertake independent year-end checks at national depots and contractors; currently, the resources allocated to the Quality Assurance Office allow it to only perform independent checks at two national depots and two contractors. These resources only allow the checking of all NATO Furnished Property over 17 years.</p> <p>The ASB and the relevant customers must decide whether the benefits of doing this resource intensive work exceeds the costs of the extra resources required to do this work each year.</p> <p>The Quality Assurance manager estimates that in order to ensure checks of all NATO Furnished Property are carried out over a 5-year period, combined with stock valuation control, would lead to the requirement for two additional staff at B3 and B5 level plus associated TDY costs.</p>	Open	The Agency will cost the resolution of this recommendation and present it to the FAA/ASB by the end of 2018.	COS

No.	OBSERVATION / RECOMMENDATION	NSPA MANAGEMENT COMMENT	INTERNAL STATUS OF RECOMMENDATION	TIMELINE FOR RESOLUTION	OWNER
14	<p>Recommendation 5 (para 5.9)</p> <p>Further, the Board recommends that increased appropriate internal controls are put in place in order to ensure the safeguard of assets, the accuracy and reliability of accounting data and records and compliance with established managerial and operational policies.</p>	<p>The Agency is addressing internal control as part of its implementation of the NSPO Financial Rules and Procedures.</p>	<p>In-progress</p>	<p>The ASB approved transition plan also gives the Agency until June 2019 to implement a system of internal control.</p> <p>The Agency has presented the ASB with the preliminary assessment of resources required for full implementation. Implementation is dependent on timely approval of these resources.</p>	<p>COS</p>
15	<p>Recommendation 6 (para 6.8)</p> <p>The Board recommends that NSPO re-enforce the independence of Internal Audit by strengthening the relationship with the FAA in order to ensure independence in line with internationally accepted Internal Auditing standards as mentioned in Article 13.2 of the NFR's. This may require modifications to the NSPO FRPs and OIs.</p>	<p>The Agency does not believe that there is an issue concerning the independence of the Auditor General.</p>	<p>The Agency consider the issue In-progress but this is subject to the concurrence of the FAA/ASB.</p>	<p>Guidance required from FAA/ASB</p>	<p>FAA/ASB</p>

No.	OBSERVATION / RECOMMENDATION	NSPA MANAGEMENT COMMENT	INTERNAL STATUS OF RECOMMENDATION	TIMELINE FOR RESOLUTION	OWNER
16	<p>Recommendation 6 (para 6.9)</p> <p>The Board recommends that the Internal Audit Plan be approved by the FAA before the start of the year.</p>	<p>The approval of the Internal Audit Plan in May 2018 was exceptional, because the Auditor General post was vacant for the first 8 months of 2017 and also because it was the first time presenting the audit plan to the FAA after the release of the new NSPO Financial Rules and Procedures.</p> <p>Regarding the IBAN's opinion that the FAA Committee should approve the Internal Audit Plan, this will be recommended for review at the upcoming fall cycle of meetings.</p> <p>In the cover letter transmitting the 2018 Audit Plan to the Nations, the NSPO Chairperson highlighted that "the FAA Committee is invited to note that as a rule and in future, Internal Audit Plans will be submitted during the autumn cycle of meetings to ensure that any required resources are requested in the corresponding draft budgets of the following year."</p> <p>Accordingly, the "2019 Internal Audit plan" is already included in the proposed agenda of the FAA Committee of 24-25 October 2018, as item 11.</p>	In-progress	To be discussed by FAA/ASB in Fall 2018 meetings.	FAA

No.	OBSERVATION / RECOMMENDATION	NSPA MANAGEMENT COMMENT	INTERNAL STATUS OF RECOMMENDATION	TIMELINE FOR RESOLUTION	OWNER
17	Recommendation 6 (para 6.10) The Board also recommends that Internal Audit ensure that the Annual Internal Audit Plan be completed by the end of the year and that the backlog accumulated in 2017 and following year be either cleared or cancelled after specific advice given by the FAA committee.	Progress against the Internal Audit Plan is monitored by the Audit Advisory Panel as required by the NSPO Financial Rules and Procedures.	In-progress	Ongoing monitoring.	AAP
	2016 NSPO Audit Report				
18	Recommendation 1 (para 1.13b) Referring to PPE reporting, the Board recommends that: b) CEPS Programme Board liaise with the French National Organisation and its private company service provider to ensure that appropriate and up to date control is being performed by the National Organisation.	After discussions between the CEPS Programme Office, the French National Organisation (SNOI) and the private service provider (TRAPIL), an application called CODA has been put in place which provides financial data in real time for SNOI to be able to make appropriate and timely checks. The application has been accessible since December 2017; however, its use throughout 2018 should change the status of this observation to "closed" by the end of 2018.	In-progress	End of 2018	CEPS PM

No.	OBSERVATION / RECOMMENDATION	NSPA MANAGEMENT COMMENT	INTERNAL STATUS OF RECOMMENDATION	TIMELINE FOR RESOLUTION	OWNER
19	Recommendation 5 (para 5.4) The Board recommends that NSPA: a) Develop, in coordination with ACO, a common approach with appropriate references to ensure efficient and effective confirmation and reconciliation of transactions and positions.	<p>The last IBAN report observed <i>“Improvements were noted in the reconciliation process due to a better communication between ACO and NPSA. A common approach was developed but we note that several balances were still not fully confirmed and reconciled at year end”</i>.</p> <p>The process proves difficult because of the reliance on third parties to validate the data.</p> <p>The Agency also contacts other NATO bodies to reconcile data with limited success.</p>	In-progress	Unknown because the reconciliation is a two-way process and one-side of the process is outside of the control of the Agency.	FC
20	Recommendation 6 (para 6.12) The Board recommends that the CEPS Programme: c) Requests that the National Organisation to use a separate bank account for NATO funded activities. The Board should be able to request an independent confirmation to this bank.	<p>The German National Organisation (FBG) performed additional work in 2017 to make a bank reconciliation between CEPS funds and national funds visible within their ERP through a clear segmentation of the accounts. To confirm that ERP figures match with those at the common bank account, a specific audit was conducted finding that such segregation matched with total bank balances.</p>	In-progress	Dependent on outcome of discussions with FBG and SNOI.	CEPS PM

No.	OBSERVATION / RECOMMENDATION	NSPA MANAGEMENT COMMENT	INTERNAL STATUS OF RECOMMENDATION	TIMELINE FOR RESOLUTION	OWNER
		<p>The CEPS Programme Office has discussed with the German National Organisation (FBG) and the French National Organisation (SNOI) the opening of a separate bank account and are working together to define the details and possible costs related to changes in ERP.</p>			
21	<p>Recommendation 7 (para 7.5)</p> <p>The Board recommends NSPO to reinforce the controls over access rights and segregation of duties within the ERP by filling in the vacant position, updating the SoD Matrix, implementing the Governance Risk Compliance module within the accounting system and ensuring that regular SAA WG meetings are held.</p>	<p>NSPA currently lacks the resources to dedicate to the full scope of the Governance, Risk and Compliance (GRC) tool within the Agency's ERP.</p> <p>Segregation of duties is ensured by the fact that system permissions are granted only after appropriate review and approval and are cancelled based on human resource movements.</p>	In-progress	<p>The Agency lacks resources to implement the GRC tool but considers that it has satisfactory compensating controls in place.</p>	COS

No.	OBSERVATION / RECOMMENDATION	NSPA MANAGEMENT COMMENT	INTERNAL STATUS OF RECOMMENDATION	TIMELINE FOR RESOLUTION	OWNER
	2015 NSPO Audit Report				
22	<p>Recommendation 1.23(b)</p> <p>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.</p> <p>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.</p>	<p>While the Agency has in place a detailed plan to produce the financial statements, each task is currently not documented in detail.</p> <p>The Agency has recruited a staff member who arrived in September 2018 and will lead the implementation of this recommendation.</p>	In-progress	End of 2019	FC
23	<p>Recommendation 1.23(d)</p> <p>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.</p>	Please refer to the answer of # 19.	In-progress	Unknown because the reconciliation is a two-way process and one-side of the process is outside of the control of the Agency.	FC

No.	OBSERVATION / RECOMMENDATION	NSPA MANAGEMENT COMMENT	INTERNAL STATUS OF RECOMMENDATION	TIMELINE FOR RESOLUTION	OWNER
24	Recommendation 1.23(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.	Please refer to the response to # 19.	In-progress	Unknown because the reconciliation is a two-way process and one-side of the process is outside of the control of the Agency.	FC
25	Recommendation 4.8(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 take in to account the following criteria (as best practices). <ul style="list-style-type: none"> Establishing clear and objective criteria for assessment of declarations of interest and applying them consistently. 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. 	Most of these criteria should be fully addressed in the "NSPA Integrity and Ethics Operating Instruction" which was issued on 16 August 2018. The General Manager is also beginning the process of establishing whistle-blower procedures within the Agency. These will be incorporated into a Fraud and Corruption Operating Instruction which is under development.	In-progress	The NSPA Integrity and Ethics Operating Instruction has been issued. The Fraud and Corruption Operating Instruction is under development.	Competition Advocate and COS

No.	OBSERVATION / RECOMMENDATION	NSPA MANAGEMENT COMMENT	INTERNAL STATUS OF RECOMMENDATION	TIMELINE FOR RESOLUTION	OWNER
	<ul style="list-style-type: none"> • Ensure affidavits on independence are signed by all stakeholders before the signature of contracts. • Use of whistle-blower procedures. • Ensuring comprehensive and compulsory training on conflict of interest. 				
26	<p>Recommendation 4(e)</p> <p>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.</p>	Please refer to #7 above.	In-progress	<p>The ASB approved transition plan also gives the Agency until June 2019 to implement the undertaking the prior-approval of commitments.</p> <p>The Agency has presented the ASB with the preliminary assessment of resources required for full implementation.</p> <p>Implementation is dependent on timely approval of these resources.</p>	FC

No.	OBSERVATION / RECOMMENDATION	NSPA MANAGEMENT COMMENT	INTERNAL STATUS OF RECOMMENDATION	TIMELINE FOR RESOLUTION	OWNER
27	Recommendation 7(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.	The North Atlantic Council has endorsed the NSPO Financial Rules and Procedures, which reflect the Agency's and the Nation's view on cash holdings. The NAM Programme has in place a plan to reduce cash balances.	Closed		
	2014 NSPO Audit Report				
28	Section 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.	Please refer to #2 above. The allocation of unallocated customer credits can be complicated and resource intensive (e.g. the allocation of interest earned). It is not currently foreseen that this can be done before the issuance of the financial statements because key personnel involved in allocating credits are also supporting the preparation of the financial statements. The Agency is currently finalizing the 2012-2017 interest sharing calculations and will make that information available to the Nations at the LogFAA meeting in October 2018.	In-progress	End-2018.	FC



NORTH ATLANTIC TREATY ORGANIZATION
ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD
INTERNATIONAL BOARD OF AUDITORS
COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES

NATO UNCLASSIFIED



IBA-A(2018)0094
29 August 2018

To: Secretary General
Attn: Director of the Private Office

Cc: Chairman, NATO Support Organisation, Agency Supervisory Board (NSPO ASB)
General Manager, NATO Support Agency (NSPA)
Head, Permanent Secretariat to NSPO ASB
Secretary General's Liaison Officer to NSPO
Chairman, Resource Policy and Planning Board (RPPB)
Head, Plans and Policy Branch, NATO Office of Resources (NOR)
Private Office Registry

Subject: ***International Board of Auditors for NATO (Board) Auditor's Report and Letter of Observations and Recommendations on the audit of the NATO Support & Procurement Organisation (NSPO) Financial Statements for the year ended 31 December 2017 – IBA-AR(2018)0015***

The Board submits herewith its approved Auditor's Report (Annex 2) and Letter of Observations and Recommendations (Annex 3) with a Summary Note for distribution to the Council (Annex 1).

The Board's report sets out a qualified opinion on the financial statements of the NSPO and a qualified opinion on compliance for financial year 2017.

Yours sincerely,

Hervé-Adrien Metzger
Chairman

Attachments: As stated above.



**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 2017**

NSPO consists of the NATO Support and Procurement Agency (NSPA) and its governance structure. The mission of NSPA is to provide responsive, effective and cost-efficient acquisition, including armaments procurement; logistics; operational and systems support and services to NATO Member States, NATO Military Authorities and partner nations. In 2017, NSPO generated revenues of EUR 2.55 billion and incurred expenses of EUR 2.60 billion.

The Board issued a qualified opinion on the financial statements and on compliance for the year ended 31 December 2017.

During the audit, the Board made six observations with recommendations. These findings are in the Letter of Observations and Recommendations (Annex 3).

The main findings are listed below. Observation one and two impact the audit opinion on the financial statements. Observation 3 impacts the audit opinion on compliance.

1. Material weaknesses in internal control over financial reporting, and
2. Inaccurate methodology used for calculating accrued liabilities
3. Further improvements required to achieve compliance with the revised NATO Financial Regulations, particularly in the area of risk management, internal control and internal audit
4. No central overview and management of existing or possible litigations, claims or other legal cases,
5. Lack of controls over inventory held at third party locations, and
6. Strengthening the independence of internal audit.

The Board followed up on the status of observations and recommendations from previous years' audits and noted that 16 were settled, 17 were superseded by a current year observation and 11 remain outstanding. The Board recognise the achievement of Central European Pipeline System (CEPS) to settle most of the observations raised in the prior audits. The Board expects more progress to be made on these superseded and outstanding observations in the future.

The Auditor's Report and the Letter of Observations and Recommendations were issued to NSPA whose comments have been included, with the Board's position on those comments where necessary, see the Appendix to Annex 3.

The Board draws the Council's attention to the factual and formal comments of the Agency's Management. In several instances, in response to the Board's recommendation to comply with accounting standards and NATO financial rules for an improved truth and fairness of the financial reporting, Management states that: *"the ASB must decide whether the benefits in terms of financial reporting exceed the costs of extra resources to do this work each year"*.

It must first be noted that the Agency's financial statements not only benefits members of the ASB, but also Council and the general public. Secondly, the Board's observations and recommendations are based on NATO regulations and reporting standards, which the NSPA ASB cannot modify unless approved by Council.

The preparation of financial statements falls under the responsibility of Management and a lack of resources cannot be regarded as an acceptable justification for deviating from financial reporting standards and rules. Indeed applying these standards and rules ensure a true and fair presentation of the Agency's financial statements and compliance of the underlying financial transactions with the NATO Regulations.

29 August 2018

INTERNATIONAL BOARD OF AUDITORS FOR NATO

**AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE
NATO SUPPORT AND PROCUREMENT ORGANISATION**

(NSPO)

FOR THE YEAR ENDED 31 DECEMBER 2017

**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 2017, 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

The Statement of Financial Position discloses customer advances amounting to EUR 3.505 billion and unbilled sales (as part of Accounts Receivable) amounting to EUR 632 million as current liabilities and current assets respectively. This presentation does not meet the IPSAS 1 criteria to distinguish asset and liabilities between current (within one year) and non-current (beyond one year) as these accounts reports transactions due to be settled in more than one year. The Board believes this misstatement to have a significant impact on the fairness of the presentation.

The Board found that accrued liabilities are reported based on a statistics-based methodology using a fixed percentage and review of invoices received in the beginning of the year. The methodology does not ensure a complete, reliable and accurate measurement of accrued liabilities and the Board found that the minimum impact on expenses and accrued liabilities would be EUR 27 million.

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 at 31 December 2017, and of its financial performance and its cash flows for the year then ended are in accordance with the NATO Accounting Framework.

Report on Compliance*Management's Responsibility for Compliance*

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

Auditor's Responsibility

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

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

Basis for Qualified Opinion on Compliance

In our opinion, NSPO is not fully compliant with the revised NATO Financial Regulations (NFRs) which were approved by NATO Council in 2015 nor with the NSPO Financial Rules and Procedures (FRPs) approved by the Agency Supervisory Board in June 2017. This non-compliance is in a number of significant areas such as management of commitments and their approval, Financial Controller's responsibility in regards to contract awards and the implementation of risk management and a system of internal controls. This was confirmed in NSPO's Statement of Internal Control.

Qualified 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, 29 August 2018

A handwritten signature in blue ink, appearing to read 'H. Metzger', with a long horizontal stroke extending to the right.

Hervé-Adrien Metzger
Chairman

29 August 2018

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 2017

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 2017, and issued a qualified opinion on the financial statements and on compliance. The reasons for the qualified opinion, as well as other observations and recommendations, are summarised in the Observations and Recommendations section below.

Observations and Recommendations:

The Board's audit resulted in six observations and recommendations:

Two observations impact the audit opinion on the financial statements:

1. Material weaknesses in internal control over financial reporting, and
2. Inaccurate methodology used for calculating accrued liabilities

One observation impacts the audit opinion on compliance:

3. Further improvements required to achieve compliance with the revised NATO Financial Regulations, particularly in the area of risk management, internal control and internal audit

The remaining three observations do not impact the audit opinions:

4. No central overview and management of existing or possible litigations, claims or other legal cases,
5. Lack of controls over inventory held at third party locations, and
6. Strengthening the independence of internal audit.

The Board followed up on the status of observations and recommendations from previous years' audits. The observations and their status are summarised in the appendix. The Board noted that 16 were settled, 17 were superseded by a current year observation and 11 remain outstanding. The Board recognise the achievement of Central European Pipeline System (CEPS) to settle most of the observations raised in the prior audits. The Board expects more progress to be made on these superseded and outstanding observations in the future.

The Board also issued a Management Letter (reference IBA-AML(2018)0010) to NSPA management with 4 observations for management's attention.

OBSERVATIONS AND RECOMMENDATIONS**1. MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING****Reasoning**

1.1 The NATO Financial Regulations (NFRs) require the Financial Controller (FC) to exercise the responsibility of budgeting, accounting and reporting activities of the NATO entity. This includes being responsible for the financial internal control system established, and for the preparation of the financial statements in accordance with the NATO Accounting Framework.

1.2 According to International Public Sector Accounting Standards (IPSAS) 1, the financial statements shall present fairly the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSAS.

1.3 IPSAS 1, paragraph 70 states that an entity shall present current and non-current assets, and current and non-current liabilities as separate classifications on the face of its statement of financial position. IPSAS 1, paragraphs 76 and 80, set the criteria for current assets and current liabilities respectively. Generally, an asset shall be classified as current when it is expected to be realized within twelve months after the reporting date and a liability shall be classified as current when it is due to be settled within twelve months after the reporting date.

Observations

1.4 The Board found improvement in the preparation of the 2017 NSPO Financial Statements compared with the previous year. Specifically, improvements were noted in relation to accounting of Foreign Military Sales (FMS), disclosure of comparative balances, and reporting of CEPS pipeline assets under construction.

1.5 Nevertheless, while progress was made, we still identified a number of significant and material issues in the 2017 Financial Statements. These are as follows:

No distinction between current and non-current activities disclosed in the Statement of Financial Position.

1.6 NSPA discloses unbilled sales of EUR 632 million for Log Ops as part of Accounts Receivables. Unbilled sales represents amounts paid to suppliers, but not yet billed to individual customers. We found that a portion of the balance is unbilled sales from before 2017 and not yet invoiced to the customer. This is partly due to lack of timely billing, but in other cases, it is because the billing to customers only happens at the end of a project (for example after 3 years) in accordance with customer agreements. We found that NSPA did not make any assessment to determine the portion of unbilled sales that is

expected to be settled within one year and the portion that is due beyond one year, depending on individual customer agreements. The Board is unable to assess the impact on current and non-current unbilled sales disclosed in the Financial Statements.

1.7 Further, we found that no assessment of the EUR 3.505 billion of Customer Advances reported as current liabilities in the Statement of Financial Position was made in order to determine whether they were current or non-current liabilities. The impact on the Financial Statements is assessed to be material:

- EUR 978 million out of EUR 2,865 billion customer advance payments reported for Log Ops in Note 9 to the 2017 NSPO Financial Statements was received and recorded between 1998 and 2016. The Board is unable to assess the value of these advances to be settled within a year.
- The Board found that EUR 52 million of credits to Nations reported for Log Ops as part of EUR 157 million of customer and replenishment credits (allocated or to be allocated) in Note 9 to the 2017 NSPO Financial Statements are not committed for any current activities. EUR 44 million relates to credits provided before 2013. The Board understands that a part of this relates to surpluses generated on closed projects or earned interest which have not yet been distributed back to Nations.

1.8 We also found that provisions of EUR 6 million are not disclosed as current or non-current.

Improvements needed in control over the reporting provided by CEPS

1.9 CEPS generates revenue from French depots for non-military use. We found that EUR 1.26 million (25%) of the EUR 5.04 million generated revenue is reported and disclosed as revenue in the Statement of Performance and the remaining part is disclosed as a net in the Statement of Financial Position as "Reserve for funds for non-military depots". This presentation of revenue understated the non-military revenue of CEPS by EUR 3.7 million in 2017 (EUR 3.5 million in 2016) and related expenditures by EUR 3.9 million (EUR 3.4 million in 2016).

1.10 CEPS restated the 2016 comparative figures. We found that this restatement was not reported in the 2017 NSPO Financial Statements. The impact is an understatement of Cash and Cash Equivalent by EUR 0.8 million, an overstatement of pipeline assets by EUR 0.9 million, an overstatement of payables by EUR 1.18 million and an understatement of customer advances by EUR 2.2 million.

Improvements needed in control over the reporting provided by NATO Airlift Management Programme (NAMP)

1.11 We found that some spare parts were reclassified from inventory to Property, Plant and Equipment (PP&E) based on an assessment made by finance without the support and advice of the aircraft technical department. This reclassification included countermeasure equipment which was reported as PP&E although by nature it is inventory. The impact is an overstatement of PP&E by USD 0.7 million and an understatement of inventory by the same amount.

1.12 Further, we found several errors in the presentation of NAMP receivables having the following impact:

- Understatement of Accounts Receivable and Customer Advances by USD 17.8 million due to an incorrect classification of advances called, but not yet received at year end.
- Double entry error overstating the Accounts Receivable and the Accounts Payable and Accruals by USD 5.2 million.
- Undue netting of receivables from two nations with payables to another nation related to Military Personnel Costs. The impact is an understatement of Accounts Receivable and Accounts Payable and Accruals by USD 3.6 million.
- A long term receivable from one nation was settled in 2017, but not cleared correctly leading to an overstatement of Accounts Receivable by USD 1.4 million.
- Following a recommendation by the Board in its prior year audit, FMS accrued expenses were netted with prepayments. However, FMS accruals related to PP&E and intangible asset purchases were not netted against prepayments. This lead to an overstatement of NAMP accruals as well as prepayments by USD 8.16 million (EUR 6.8 million) in 2017 and USD 2.10 million (EUR 1.99 million) in 2016.

Inaccuracies and errors identified in the 2017 NSPO Financial Statements

1.13 We found numerous inaccuracies and errors in the 2017 NSPO Financial Statements that were not corrected before the issuance of the financial statements:

- The deficit reported in the Statement of Changes in Net Assets for Log Ops does not reconcile with the amount reported in the Statement of Financial Performance (difference of EUR 0.27 million). A footnote to the Statement of Changes in Net Assets states that part of the difference is due to provisions which does not impact Net Assets. Provisions increasing the net deficit should also reduce net assets so there is an accounting inconsistency.

- Note 3, PP&E, incorrectly presents the additions net of disposals for the Log Ops segment. The impact is EUR 0.7 million.
- The Net Book Value per asset category in Note 4, Intangible Assets does not reconcile to the detailed CEPS and NAMP reporting although the totals agreed.
- Note 8, Accounts Payable and Accruals does not disclose the impact of the restated comparative figures for CEPS.
- We found unexplained differences between Note 13, Employee Disclosures, and information provided at segment level.
- Note 22, Non-NSPA controlled inventories managed on behalf of third parties, does not present the complete inventory managed by NSPA on behalf of third parties (see observation 5 below).
- We found errors in Annex 2 Log Ops Business Unit – Jointly and Commonly Funded Operational Projects as follows:
 - Understatement of ‘Prior 2017 unpaid commitments brought forward’ by EUR 5.8 million related to Fuel Management.
 - Understatement of 2017 Commitments, Unpaid Commitments and Unused Credits by EUR 4.7 million related to Fuel Management.

Recommendations

1.14 The Board recommends NSPA to perform an analysis of the balance of unbilled sales as well as the balance of customer advances to determine which portion is current and non-current and present them appropriately in the Statement of Financial Position. For the balance of unbilled sales, this will require a detailed analysis of individual customer agreements to determine what part is expected to be realised within one year and beyond one year. Likewise for the customer advances, a detailed assessment of the expected settlement (i.e. use of the advances) needs to be performed to ensure correct disclosure of advances as current and non-current.

1.15 Specifically for customer advances, the Board recommends NSPA to proactively coordinate with its customers to ensure the use of available advances to fund billings before sending additional invoices to the customers. Further, any excess customer advances and replenishment credits no longer needed should be returned as soon as possible, unless cleared against customer billings. The Board also recommends NSPA to increase transparency by disseminating information on unallocated credits to all nations and programmes on a regular basis.

1.16 Further, the Board recommends NSPA improve the internal controls over the preparation of the financial statements and financial reporting to ensure that the financial

statements are free of material misstatements and other errors or omission. Specifically, NSPA should ensure that the financial statements fully reconcile to individual segment reporting for CEPS and NAMP and any inconsistencies are corrected at consolidation level. A detailed review and second level control of the CEPS and NAMP reporting packages should be performed in order to ensure consistent accounting treatment and accurate disclosure as well as ensuring that restated balances are properly reported in the NSPO financial statements.

1.17 In regards to inventory and PP&E in NAMP, NSPA should ensure correct classification of spare parts in accordance with the NATO Accounting Framework based on the advice of aircraft technical specialists.

2. INACCURATE METHODOLOGY USED FOR CALCULATING ACCRUED LIABILITIES

Reasoning

2.1 According to Article 34 of the NFRs, financial statements shall be prepared on an accrual basis of accounting. A sound control environment over the identification and reporting of transactions at the year-end is necessary. This includes the identification of goods received and services provided before year-end for which no invoice was received by year-end.

Observations

2.2 We found that the estimate of accrued liabilities reported in the financial statements is based on an analysis of invoices received by the Agency after year end until mid-February related to goods and services delivered in the financial year. To this accrual estimate, a mark-up of 15% is added.

2.3 As reported in our prior year audit, the Board does not concur with the use of a mark-up methodology that is not supported by estimates or individual receipts of goods and services.

2.4 Furthermore, in our testing of expenses, we found that accrued liabilities were understated by net EUR 9.5 million due to incorrect estimation of goods and services received. In some cases, this was because invoices were not yet received and therefore, because of the current methodology, accrual estimates were not booked.

2.5 After the issuance of the financial statements, NSPA conducted an analysis and review of invoices received up until April 2018 in order to assess the possible understatement of accrued liabilities. This analysis showed that accruals are understated by a minimum of EUR 27 million. This does not include cases where goods and services were received in 2017, but where the invoice was not yet received.

2.6 In the Board's opinion, the current methodology of measuring accrued liabilities using a fixed mark-up is not reliable and does not ensure a true and fair view of accruals at year end as required by the NATO Accounting Framework.

Recommendations

2.7 The Board recommends NSPA that:

- a) Finance requires the Programmes and Divisions to provide them with their assessment of accrued liabilities at year end, including the follow up of the goods and services received before year-end.
- b) Set up an action plan to improve the measurement of the value of the goods and services received before year-end for which no invoice was received.

3. FURTHER IMPROVEMENTS REQUIRED TO ACHIEVE COMPLIANCE WITH THE REVISED NFRS, PARTICULARLY IN THE AREA OF RISK MANAGEMENT, INTERNAL CONTROL, AND INTERNAL AUDIT

Reasoning

3.1 According to Article 11 of the NFRs, the Heads of NATO bodies shall ensure that effective, efficient and economical risk management procedures are in place to support the achievement of objectives as set by the Nations. Risks to the achievement of these objectives shall be identified, assessed and mitigated.

3.2 Article XI of the NSPO Financial Rules and Procedures (FRPs) states that the Financial Controller will be responsible for financial risk management including the establishment of financial risk management standards and an appropriate Internal Control framework to be reviewed by the Internal Control Officer. In addition, periodically, Internal Audit shall monitor and evaluate the effectiveness of the organization's risk management processes.

3.3 Article 12 of the NFRs requires that the Heads of NATO bodies shall ensure the necessary internal management functions are in place to support effective internal control and internal control activities shall include periodic assessment and review of the risk and the sound functioning of the internal control system. In order to meet the desired internal control standards the Financial Controller shall establish a system of internal financial and budgetary control, embracing all aspects of financial management.

Observations

3.4 The Board found that NSPO made progress towards achieving full compliance with the revised NFRs and FRPs.

3.5 In June 2017, the Agency Supervisory Board (ASB) approved the NSPO FRP's. The ASB gave the Agency until June 2019 to implement the revised NSPO FRP's since

these include a number of new requirements not previously applicable to NSPA. A transition plan was approved by the ASB for the implementation of the most complex rules and procedures. According to the NSPO Statement of Internal Control, the Agency is not yet fully compliant with the NFR's and the NSPO FRP's in the following areas:

- a) Accruals-based commitments for administrative budgets.
- b) Prior approval of commitments by the Financial Controller.
- c) Involvement of the Finance Controller in the Contract Award Committee.
- d) Implementation of Risk Management.
- e) Implementation of a standardized and fully documented system of Internal Control.

3.6 The Board considers the non-compliance in the above areas to be a significant weakness and thus, we are not in a position to state that NSPO is fully compliant with the NFR's and NSPO FRP's.

Risk Management

3.7 Risk management processes in NSPO are maturing and it is anticipated that a system of risk management will be fully implemented in 2018. The Agency issued an internal operating instruction on risk management in 2017 detailing the methodology for managing and mitigating risks. Risk registers exist at Programme Level and a risk management software tool is used to capture Agency wide risks and contribute to the practical implementation of risk management at NSPO. A complete and comprehensive risk register for NSPO does not yet exist.

3.8 Further, we found that:

- a) The bottom up and top down approach for risk identification was not performed in 2017.
- b) Quality Management review reported non conformities, weaknesses and areas of improvement in their report.
- c) Quality management in Finance was not assessed.
- d) Risks identified in Divisions and Programmes are not reviewed at higher level to ensure a complete risk review and consistency at Agency level.

3.9 In relation to financial risk management, a financial risk register exists, but is not yet complete. In addition, risk response and mitigation plans were not yet developed in all cases.

Internal controls

3.10 NSPO chose to implement their Internal Control Framework based on the principles of the Committee of Sponsoring Organisations of the Treadway Commission (COSO). NSPA is currently working with consultants to develop and document the internal control system and a specific operating instruction is under development, as well as training to be provided to staff. Therefore, formal mapping of critical processes, associated risks and existing internal controls is not yet completed. Documentation of specific internal controls is essential in order to ensure and to clearly demonstrate to others that a complete system of internal control and risk management is in place.

3.11 Until this assessment and documentation are completed, the Board is unable to state that there is a full system of internal control, including risk management, in place that is in accordance with Articles 11 and 12 of the NFRs.

Internal Audit

3.12 We found that NSPO Internal Audit has not fully evaluated, throughout the organization, the risk exposures and the effectiveness of internal controls in managing risk within the governance, operations and information systems as required by Article 13 of the NFRs.

Recommendations

3.13 The Board recommends that NSPO:

- a) Ensure compliance with the NSPO FRPs in the area of commitments and the role of the Financial Controller in the Contract Award Committee.
- b) Ensure a complete and comprehensive risk register for the Agency is finalised including risk responses and mitigation plans. This includes an appropriate review and control of risks identified at the level of Programmes and Divisions, ensuring consistency between risks at operational level and strategic level.
- c) Perform a systematic, detailed assessment and documentation of its internal control and risk management procedures to support compliance with its approved internal control framework.
- d) Internal Audit fully evaluate internal control and risk management throughout NSPO, and that this work be clearly documented to conclude on NSPO's compliance with the chosen framework.

4. NO CENTRAL OVERVIEW AND MANAGEMENT OF EXISTING OR POSSIBLE LITIGATIONS, CLAIMS OR OTHER LEGAL CASES

Reasoning

4.1 Article 12 of the NFRs require that a sound internal control environment based on identification and management of risks is adopted by the NATO bodies and agencies. NSPO manages numerous contracts which involves entering into legal obligations and committing Nations' funds and it exposes the agency to legal and contractual risks.

4.2 NATO bodies are required by the NATO Accounting Framework to recognize or disclose contingent liabilities and provisions in their financial statements. During its audits, the Board makes written inquiries to the Legal Advisors of NATO Bodies in order to obtain an understanding of the existence of any pending or threatened litigation, claims or assessments, unasserted claims, assessments, or other matters. This is done in order to determine the accuracy and completeness of the recognition or disclosure of contingent liabilities or provisions.

Observations

4.3 We found that the Finance Division requests from the various Programmes and Divisions a list of existing and potential litigations and claims for disclosure in the NSPA consolidated financial statements. The procedures are described in the Operating Instruction 4300-05 issued in 2017.

4.4 However, we found the following weaknesses in the process:

- Not all Programmes and Divisions provided a documented reply to Finance's request. Most of the items reported to the Financial Controller resulted from bilateral meetings after a reminder was sent to the head of Divisions and Programmes. In prior years, the Board observed formal answers documented in letters or emails.
- There is no formal request from the Legal Office to the Programmes and Divisions (including NAMP and CEPS) to report any potential legal threat or claims directly to the Legal Office.
- There is no systematic involvement of the Legal Office in claims and disputes with contractors and the Legal Office does not have a complete and comprehensive overview of all potential liabilities.
- There is no procedure or guidance in place to ensure that Programmes and Divisions report legal related risks to the Legal Office.

4.5 The current procedures in place are not sufficient to ensure completeness of provisions and contingent liabilities. This results in a risk that the financial statements' information reported for provisions and contingent liabilities is not complete or accurate.

We believe that an effective management of risks associated with actual and/or potential litigations, requires the Legal adviser, or another executive at the highest level, have a comprehensive view of all possible/potential liabilities

4.6 In addition, the Senior Legal Advisor position in NSPA was vacant for more than 6 months in 2017 due to the departure of the previous Senior Legal Advisor. The recruitment of a replacement took place in 2018. Due to this, the legal department was effectively reduced to one operational Legal Advisor being in charge of all legal aspects of the Agency for more than 6 months.

Recommendations

4.7 The Board recommends NSPA put in place procedures to ensure legal cases are properly handled and managed. Management of any potential legal cases and their financial consequences should be the responsibility of a knowledgeable professional under the direct and exclusive control of the Legal Office. All potential legal cases should be reported to the Legal Office by the Programmes and Divisions to ensure a complete and comprehensive understanding of the legal risks that the Agency faces.

4.8 The Board recommends that regular and documented communication be established between the Legal Office and the Financial Controller to ensure complete disclosure of contingent liabilities and provisions in the financial statements.

5. LACK OF CONTROLS OVER INVENTORY HELD AT THIRD PARTY LOCATIONS

Reasoning

5.1 As per Article 3.1 of the NFRs, the General Manager of NSPA is responsible and accountable for sound financial management and shall put in place the necessary governance arrangements to ensure and maintain this. This shall include, but is 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.

5.2 The NSPO Functional Directive No. 2300 on Responsibility and Accountability states that the General Manager, in consultation and agreement with the Financial Controller, and with the Director of Procurement as appropriate, shall ensure that qualified officials are assigned to execute the following roles and tasks:

- a) The performance of periodic controls and ad-hoc reports about the property accounting register and other financial report in accordance with the requirements set by the Nations.
- b) The receiving and maintaining of physical custody of all internationally funded property.

5.3 Also, according to Council agreement of the Logistic Support for the NATO Air Defence Systems (C-M(87)17), NSPO is responsible for maintaining auditable stock records and to certify that accounts and actual holdings agree.

Observations

5.4 The Board found that, as from 1 January 2018, the responsibility for independent inventory valuation control and control of quantities of stock held at third party locations on behalf of customers was transferred from the Auditor General Office to the Quality Assurance Office (QA). The transfer was approved by Office Notice ON-G-02/17 dated 21 December 2017.

5.5 We understand that Operating Instruction 4600-23, "Inventory of NSPA Operational Property" dated 5 November 2014 was applicable in 2017. This Operating Instruction establishes the responsibility for the Auditor General and the Auditor General Office to control, propose and execute adjustments as part of the inventory of operational assets. A new Operating Instruction OI 2401-05 "Inventory of Operational Property Managed by NSPA" was implemented in 2018.

5.6 No independent reconciliation of the valuation of stocks held at third parties as confirmed by the National Depots and contractors was performed in 2017 as required in OI 4600-23. Therefore, we are unable to assess whether the valuation of the stocks held at third parties is accurate and reliable.

5.7 During the previous years' audits of the NSPO Financial Statements, the Board found non-material differences between the inventory valuation reported in the NSPO Financial Statements and the inventory valuation reported by the National Depots and the contractors. The lack of an independent reconciliation and verification of the valuation of inventory in 2017 creates a risk that inventory is misstated.

Recommendations

5.8 The Board recommends that the Agency, under the responsibility of the General Manager, ensure that an independent control over the quantities and valuation of inventory held at third parties be performed on time for the preparation of the Financial Statements in view of assessing the potential adjustments on the valuation of inventory to be reported in the Financial Statements.

5.9 Further, the Board recommends that increased appropriate internal controls are put in place in order to ensure the safeguard of assets, the accuracy and reliability of accounting data and records and compliance with established managerial and operational policies.

6. STRENGTHENING THE INDEPENDENCE OF INTERNAL AUDIT

Reasoning

6.1 According to Article 13 of the NFRs, NATO bodies shall have access to a permanent, adequately resourced, internal audit function that is compliant with internationally accepted Internal Auditing Standards. The revised NFRs provide internal audit functions 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.

6.2 As reported by the Board in its prior year audit, Internal Audit should meet the requirements of the International Standards for the Professional Practice of Internal Auditing (Standards). Standard 1110 on the Organisational Independence of internal audit puts the emphasis on the organisational independence of the internal audit activity with direct communication between the chief audit executive and the Governing Body. This dual reporting is the key element of Internal Audit independence.

6.3 The NSPO FRP XIII states that the Head of Internal Audit and their staff shall be an integral part of the Office of the General Manager and shall report to the General Manager or to any other authority that the latter may designate.

Observations

6.4 As stated in the NSPO FRPs, the Agency's Internal Audit reports both functionally and administratively to the General Manager. This is also confirmed in the NSPA Operating Instruction 4600-21 for Internal Audit where it states that Internal Audit reports to the General Manager who also approves the internal audit plan.

6.5 Based on International Standards 1100 and 1110, the Internal Audit function shall report functionally to the ASB and the Audit Committee, (i.e. the Finance Administration and Audit Committee (FAA) for NSPO) and administratively Internal Audit shall report to the General Manager. Interpretation of these standards provides details of the content of the two reporting lines. In the Board's opinion, the current reporting lines for Internal Audit are not fully in compliance with internationally accepted Internal Auditing standards, as required by Article 13.2 of the NFR's.

6.6 Also, we found that the NSPA Operating Instruction 4600-21 based on the NSPA Functional Directive (FD) 2300 creates potential influence of the Audit Advisory Panel (AAP) over the Internal Audit Plan and does not support the provisions of International Standards for sound independence of the Internal Audit function:

- a) As per Article 4.4.2, the Internal Audit Plan is prepared and presented by the Internal Auditor to the AAP and the Executive Management Board (EMB) for advice and to the FAA for review and comment. The Board is of the opinion that the AAP shall only be a consultative and advisory body for the General Manager, thus only giving advice to the General Manager, as stipulated in the Terms of Reference of the AAP. The wording of the OI should be less

ambiguous in this respect so that it is understood that the AAP cannot advise the Head of Internal Audit directly.

- b) As per Article 4.4.4, the General Manager endorses the draft of the annual Internal Audit Plan and then, following the review and comments of the FAA, approves the annual Internal Audit Plan. The Board is of the opinion that the annual Internal Audit Plan should be approved by the FAA. In addition, we found that the current approval process is lengthy which resulted in the 2018 Internal Audit Plan being approved by the General Manager at the end of May 2018.

6.7 Internal Audit provided a follow-up on the status of their audits (2018 Internal Audit Plan – Monitoring as of 31 March 2018). We found that only 3 out of 9 audit reports from the 2017 Internal Audit plan were issued and none of the 10 audit reports planned for in the 2018 Internal Audit Plan were issued by the end of the first quarter of 2018. While recognizing that unforeseen circumstances may change planned implementation, the Board's opinion is that the non-issuance of approximate 2/3 of planned audit reports within a said year does not demonstrate a sound and effective internal control environment. The resulting audit backlog undermines the Agency's ability to assess and control possible risks.

Recommendations

6.8 The Board recommends that NSPO re-enforce the independence of Internal Audit by strengthening the relationship with the FAA in order to ensure independence in fact and in appearance in line with internationally accepted Internal Auditing standards as mentioned in Article 13.2 of the NFR's. This may require modifications to the NSPO FRPs and OIs.

6.9 The Board recommends that the Internal Audit Plan be approved by the FAA before the start of the year.

6.10 The Board also recommends that Internal Audit ensure that the Annual Internal Audit Plan be completed by the end of the year and that the backlog accumulated in 2017 and following year be either cleared or cancelled after specific advice given by the FAA committee.

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 summarized in the table below.

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
(1) NSPO FY 2016 IBA-AR(2017)12, paragraph 1 MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING Board's Recommendation 1.12 a) FMS expenditures incurred should be netted from prepaid expenses (asset) rather than being recorded as a liability. 1.12 b) The notes to the financial statements define more specifically what is meant by "modified cash basis" when recording FMS activities. 1.13 a) CEPS Programme Board ensure that sufficient and relevant control procedures are performed by the German National Organisation to ensure that there is a well-documented assessment of pipeline assets in progress. 1.13 b) CEPS Programme Board liaise with the French National Organisation and its private company service provider to ensure that appropriate and up to date control is being performed by the National Organisation. 1.13 c) NSPO Financial Statements record the estimate of dismantling, removing and restoring costs related to the pipeline assets or disclose why an assessment of the costs is not possible. 1.14 The Board recommends NSPA to determine which Customer Advances are current and which are non-current, and present them appropriately in the Statement of Financial Position. This could impact the audit opinion in the future if this is not carried out. 1.15 The Board recommends NSPA to liaise with the French tax administration to be able to support why this liability still exists. 1.16 The Board recommends that NSPO take appropriate follow-up actions when requests for declarations of related parties are not answered.	FMS expenditures were netted off from prepaid expenses. A disclosure note reports how FMS expenditures are measured The German National Organisation FBG reports assets in progress based on reporting provided by the German administration (MoD and Bauamt). No improvement identified A disclosure note was added in the Financial Statements CEPS assessed that the tax liability no longer exist. All ASB members signed the related party declaration, except one member who left the Organization.	Observation Settled . Observation Settled . Observation Settled . Observation Outstanding . Observation Settled . Observation Superseded by current year Observation 1 . Observation Settled . Observation Settled .

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p>1.17 The Board recommends that the NSPO Financial Statements separately disclose CEPS military and non-military operational activities from those coming from budget appropriations from the CEPS nations.</p> <p>1.18 Referring to the inaccuracies and errors identified in the reporting, IBAN recommends that:</p> <p>a) NSPA ensure a presentation of the financial statements that is compliant with the requirements of the NATO Accounting Framework.</p> <p>b) Sufficient and appropriate procedures be set-up to avoid the risk of errors in the Financial Statements and to be in compliance with the NFRs in respect to internal controls.</p>	<p>A disclosure note reports the CEPS military and non-military sales in NSPA Financial Statements</p>	<p>Observation Settled.</p> <p>Observation Superseded by current year Observation 1.</p> <p>Observation Superseded by current year Observation 1.</p>
<p>(2) NSPO FY 2016 IBA-AR(2017)12, paragraph 2</p> <p>EFFORTS TO ACHIEVE COMPLIANCE WITH THE NATO FINANCIAL REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT</p> <p>Board's Recommendation 2.7 The Board recommends that NSPO:</p> <p>a) Choose a specific internal control framework that it will use to assess its system of internal control. Since other NATO entities, including NCIO and ACO, have already adopted COSO as their internal control framework, and it is a framework that can be used by entities of all types, NSPO should consider adopting COSO as their internal control framework.</p> <p>b) Assess and document the system of internal control and risk management procedures to support compliance with the NFRs, FRPs and the internal control framework that it chooses.</p> <p>c) Prepare an entity-wide risk management policy throughout the organisation and that risk registers are developed and employed throughout all NSPO segments and operations.</p> <p>d) Perform internal audit activities that fully evaluate internal control and risk management throughout NSPO, and that this work be clearly documented so as to be able to conclude as to NSPO's compliance against the NFRs and FRPs.</p>		<p>Observation Superseded by current year Observation 3.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p>(3) NSPO FY 2016 IBA-AR(2017)12, paragraph 3</p> <p>STRUCTURAL WEAKENING IN THE POSITION OF THE INTERNAL AUDIT</p> <p>Board's Recommendation 3.5 The Board recommends that the Audit Advisory Panel (as described in Article 16 of the revised NFRs) shall only be a consultative and advisory body with no approval required before the issuance of the Internal Audit plan.</p> <p>3.6 The Board recommends that the Auditor General report functionally to the General Manager and also have the ability to report directly to the Audit Committee at ASB level.</p>		<p>Observation Superseded by current year Observation 6.</p>
<p>(4) NSPO FY 2016 IBA-AR(2017)12, paragraph 4</p> <p>ACCRUAL ESTIMATES WITHIN NSPO ARE TO BE IMPROVED</p> <p>Board's Recommendation 4.5 The Board recommends that NSPA: a) Improve the control environment over accrual estimates, including training of non-finance staff on how to identify, keep records and communicate transactions of an accrual nature at year-end.</p> <p>b) Ensure a systemic electronic filling of evidence received and used to validate the date of receipt of goods and services before year-end.</p> <p>c) Discontinue the use of the 15% mark-up methodology by improving the process to ensure that accrual estimates are based on the receipt of goods and services before year-end.</p> <p>d) Develop control activities which would prevent the possibility to cancel purchase order for items that have already been delivered.</p>		<p>Observation Superseded by current year Observation 2.</p>
<p>(5) NSPO FY 2015I IBA-AR(2016)12, paragraph 5</p> <p>WEAKNESSES IN THE RECONCILIATION AND REPORTING OF INTER-NATO ENTITIES</p> <p>Board's Recommendation 5.3 The Board recommends that NSPA: a) Develop, in coordination with ACO, a common approach with appropriate references to ensure</p>	<p>Improvements were noted in the reconciliation process due to a</p>	<p>Observation Outstanding.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p>efficient and effective confirmation and reconciliation of transactions and positions.</p> <p>b) Perform, with ACO, a reconciliation at least twice a year.</p>	<p>better communication between ACO and NPSA. A common approach was developed but we note that several balances were still not fully confirmed and reconciled at year end.</p> <p>A reconciliation was done at year end but differences exists and not all balances were confirmed.</p>	<p>Observation Settled.</p>
<p>(6) NSPO FY 2015 IBA-AR(2016)12, paragraph 6</p> <p>WEAKNESSES IN CASH CONTROL AND MANAGEMENT</p> <p>Board's Recommendation 6.11 The Board recommends that NSPA:</p> <p>a) Liaise with Nations to determine the preferred way to return the EUR 67 million of credits above that are not backed by financial commitments to the Nations, either through reimbursement or reductions in future calls for contributions.</p> <p>b) Set up procedures to close projects that have no activity and reimburse the funds to the Nations.</p> <p>c) Ensure the appropriate use of credits that are held for over 5 years.</p> <p>6.12 The Board recommends that the CEPS Programme:</p> <p>a) Provides an estimate of non-appropriated military and non-military revenue when preparing the annual budget, and that this be documented and supported by a robust estimation methodology.</p> <p>b) Restricts currency holdings to the minimum required to meet forecast payments prior to receipt of the following contribution instalment.</p> <p>c) Requests that the National Organisation to use a separate bank account for NATO funded activities. IBAN should be able to request an independent confirmation to this bank.</p>	<p>As recommended by the Board, a revised methodology was used when preparing the annual budget. This lead to a reduction of the contributions from the Nations.</p> <p>CEPS reduced the contributions from the Nations.</p> <p>The German and French National Organization shall ensure that a bank account is set up and used only for CEPS related activities.</p>	<p>Observation Superseded by current year Observation 1.</p> <p>Observation Superseded by current year Observation 1.</p> <p>Observation Superseded by current year Observation 1.</p> <p>Observation Settled.</p> <p>Observation Settled.</p> <p>Observation Outstanding.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p>(7) NSPO FY 2015 IBA-AR(2016)12, paragraph 7</p> <p>WEAKNESSES IN GENERAL COMPUTER CONTROL</p> <p>Board's Recommendation 7.5 The Board recommends NSPO to reinforce the controls over access rights and segregation of duties within the ERP by filling in the vacant position, updating the SoD Matrix, implementing the Governance Risk Compliance module within the accounting system and ensuring that regular SAA WG meetings are held.</p>	<p>The SoD Matrix is not complete.</p> <p>No activity identified for SAA WG in 2017.</p> <p>The Majority of the NSPO divisions and programs still need to review their access rights.</p> <p>The person in charge of granting and reviewing access rights in the ERP resigned in January 2017.</p> <p>Staff that left NSPO still have access rights and responsibilities in the ERP.</p>	<p>Observation Outstanding.</p>
<p>(8) NSPO FY 2015 IBA-AR(2016)12, paragraph 1</p> <p>MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING</p> <p>Board's Recommendation 1.23 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.</p> <p>1.23 b) as a follow up of the observation 1.3 of the audit report on the 2014 NSPO Financial Statements, IBAN 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.</p> <p>1.23 d) in order to ensure a better control environment over open positions and accruals, NSPO develops documented procedures to ensure a comprehensive and reliable</p>	<p>No detailed accounting manual has been prepared yet.</p> <p>While the Board notes improvements with regards to information exchanged between ACO and NSPO, it notes that there</p>	<p>Observation Superseded by current year Observation 1.</p> <p>Observation Outstanding.</p> <p>Observation Outstanding.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p>reconciliation process for all balances and activities with NATO bodies. The results should be monitored and controlled at a central level.</p> <p>1.23 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.</p> <p>1.23 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.</p>	<p>is no such reconciliation process done with other NATO entities.</p> <p>See above</p>	<p>Observation Superseded by current year Observation 3.</p> <p>Observation Outstanding.</p>
<p>(9) NSPO FY 2015 IBA-AR(2016)12, paragraph 4</p> <p>IMPROVEMENTS NEEDED IN THE MONITORING AND CONTROL OVER POTENTIAL CONFLICTS OF INTEREST IN PROCUREMENT</p> <p>Board's Recommendation</p> <p>4.8 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):</p> <ul style="list-style-type: none"> - 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. <p>4.8 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.</p> <p>4.8 f) the Director of Finance also chairs the</p>	<p>The position of the Competition Advocate was moved to another division to better ensure protection of the person's independence.</p> <p>As part of her new role, the Competition Advocate will issue Operating Instructions in 2018 to respond to the audit observations.</p> <p>Procedures are pledged to be issued by 2019 to reflect the new NFRs.</p>	<p>Observation Outstanding.</p> <p>Observation Outstanding.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
Contracts Awards Committee when he or she, based on his/her assessment of risks, deems necessary and as allowed under the revised NFRs.	The Financial Controller may chair the CAC.	Observation Settled.
<p>(10) NSPO FY 2015 IBA-AR(2016)12, paragraph 5</p> <p>IMPROVEMENT NEEDED IN THE MONITORING AND CONTROL OVER PREPAYMENTS MADE TO VENDORS</p> <p>Board's Recommendation 5.5 The Board recommends NSPA 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.</p>	<p>A control is performed in SAP by Finance on vendor line items. This control presents the advances and the invoices per PO. The consumption of the advance can be monitored and the indication of the advance in SAP is reported, allowing the procurement validating the invoice to control that advances have been paid.</p>	Observation Settled.
<p>(11) NSPO FY 2015 IBA-AR(2016)12, paragraph 6</p> <p>IMPROVEMENT NEEDED IN MONITORING AND CONTROL OVER THE PROCESS OF BILLING CUSTOMERS</p> <p>Board's Recommendation 6.6 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.</p> <p>6.6 d) NSPA ensure that, for accounting presentation purposes, customer advances are being properly net from billed and unbilled receivables as appropriate.</p>	<p>The customer advances are not automatically used to settle the invoices, as it is the case for FMS transactions.</p>	<p>Observation Superseded by current year Observation 1.</p> <p>Observation Settled.</p>
<p>(12) NSPO FY 2015 IBA-AR(2016)12, paragraph 7</p> <p>MONITORING OF THE CASH HELD AT NSPO</p> <p>Board's Recommendation 7.7 a) LN and the other NSPO programmes identify all candidates for closure and release the reserved funds back to the customers and Nations.</p>	<p>Following the Board's recommendation, in total 13.864 Funds reservations have been closed and 6 Million EUR of funds have been released for 2016 and</p>	Observation Settled.

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p>7.7 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.</p> <p>7.7 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.</p> <p>7.7 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.</p> <p>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.</p>	<p>this process continued also in 2017.</p> <p>While the NFRs does not mention a specific rule for the level of cash held, a good cash management requires to understand the level of commitment required, the use of the cash for those commitments for real actual and active projects and to reduce the fund's request if necessary to tie with appropriate and lean budget.</p> <p>The Board is of the opinion that more work can be done to reduce the level of cash in NAMP.</p>	<p>Observation Superseded by current year Observation 1.</p> <p>Observation Outstanding.</p> <p>Observation Superseded by current year Observation 1.</p> <p>Observation Superseded by Follow Up Observation 6 (IBA-AR(2016)12)</p>
<p>(13) NSPO FY 2014 IBA-AR(2015)23, paragraph 1</p> <p>MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING</p> <p>Board's Recommendation</p> <p>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</p>	<p>There is not yet a detailed accounting manual.</p>	<p>Observation Superseded by Follow Up Observation 8 (IBA-AR(2016)12)</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
entries.		
<p>(14) NSPO FY 2014 IBA-AR(2015)23, paragraph 8</p> <p>INACCURATE INVENTORY REPORTING</p> <p>Board's Recommendation 8.3 The Board recommends that NSPA implements appropriate procedures to ensure that any differences observed during the reconciliation process between the confirmations received from the national depots or contractors and the figures reported by NSPA are resolved in a timely manner and are accurately reported to both the third party owners and in the notes to the financial statements.</p>	No independent reconciliation process was performed in 2017.	Observation Superseded by current year Observation 4.
<p>(15) NSPO FY 2014 IBA-AR(2015)23, paragraph 10</p> <p>NATO MEMBER STATES OFTEN DECIDE THAT UNUSED FUNDING SHOULD REMAIN AT NSPA RATHER THAN BEING RETURNED TO NATIONAL TREASURIES</p> <p>Board's Recommendation 10.8 The Board recommends that NSPO allocate the unallocated customer credits as soon as possible and return this excess cash to nations. In the future, such an allocation should be performed more timely. It should be done before the issuance of the financial statements.</p>	NSPO's formal comments on this observation reported time constraints preventing the allocation of credits. No improvement was observed during the audit.	Observation Outstanding.
<p>(16) NAMSA FY 2011 IBA-AR(2012)29, paragraph 5.3</p> <p>POTENTIAL FUTURE LIABILITIES FOR NATIONS UPON WITHDRAWAL FROM ACTIVITIES</p> <p>Board's Recommendation The Board recommends that the NSPA analyses the existing situation especially for the activities supported by a limited number of Nations or by non-NATO Nations to make sure that at all times members supporting NSPA activities clearly understand the potential future liabilities.</p>	The issue is addressed through Procedure XIX (13) d) of the NSPO Financial Rules and Procedures, which requires that "Liabilities stemming from the closure of a project (including personnel costs for direct and indirect manpower as well as indemnities for loss of job or any other administrative and operating expenditure) shall be charged to the members of the project at the time of its closure in accordance with the cost allocation	Observation Settled.

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
	procedures outlined in paras a) to c). This follows the NATO principle that 'costs lie where they fall'.	
<p>(17) CEPMO 2008 AUDIT REPORT IBA-AR(2009)28, paragraph 5.6</p> <p>FBG: EXISTENCE OF A PLUG ACCOUNT IN OTHER PAYABLES</p> <p>Board's 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>FBG modified its Enterprise Resource Planning tool to report on CEPS activities on a separate set of books and reallocated appropriate cash balances.</p>	<p>Observation Settled.</p>

**NATO SUPPORT AND PROCUREMENT ORGANISATION
(NSPO) FORMAL COMMENTS ON THE LETTER OF OBSERVATIONS AND
RECOMMENDATIONS AND THE INTERNATIONAL BOARD OF AUDITORS
(BOARD) POSITIONS**

**OBSERVATION 1:
MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

**Paragraph 1.14:
NSPA Formal Comments**

The Agency notes that the IBAN found that there have been improvements in the preparation of the 2017 Financial Statements compared with the previous year; this in itself builds upon improvements that the IBAN also noted in the 2016 Financial Statements.

This is the first year that the IBAN has raised the subject of unbilled sales in this way. The Agency's position in respect of its financial reporting has been that if an issue was not raised by the IBAN it was not considered material to the financial statements and hence did not impact on the truth and fairness of the financial statements to their potential users.

An analysis of unbilled sales into amounts due within one year and over one year would require an analysis of all individual customer agreements; this would be a resource intensive task that would have to be performed for the production of each year's financial statements. The ASB must decide whether the benefits in terms of financial reporting exceed the costs of extra resources to do this work each year.

In terms of customer advances, the Agency continues to consider that all advances backed by cash are current liabilities in that there is nothing to prevent those funds being returned to the customer on demand. The ASB must decide whether the benefits in terms of financial reporting exceed the costs of extra resources to do this work each year.

Board's position

We maintain our position regarding the assessment and classification of customer advances in current or non-current, and had also done so in the prior years' audit reports. The fact that we do not address an issue one year, does not mean it cannot become material in future years and it is for the Board to consider materiality.

In addition, the Board maintains its position concerning the distinction to be made between current and non-current unbilled sales. This is a recurring issue for which

the Board is still unable to assess the cumulative impact on current and non-current unbilled sales to be disclosed in the Financial Statements.

The Agency's management is responsible for the preparation and fair presentation of the Financial Statements in accordance with the NATO Accounting Framework and the requirements of the NATO Financial Regulations. The Board emphasizes that sufficient appropriate resources should be allocated by the Agency in order to ensure adequate internal controls enable the preparation of financial statements that are free from material misstatements. In case the resources currently available are not sufficient, it is the responsibility of the General Manager to request the additional support from the ASB.

Paragraph 1.15:
NSPA Formal Comments

The Agency consults with its customers on whether to use advances to set-off invoices. The ASB has never informed the Agency to return excess customer advances and replenishment credits to customers; how to use customer funds held at the Agency is a customer prerogative. This approach has been reported to, and noted by, the Council. To increase transparency, the Agency can provide information on the total of unallocated credits (i.e. the total of all credits that have not yet been allocated to customers) in future financial statements.

Paragraph 1.16:
NSPA Formal Comments

The Agency's consolidation processes aim to ensure a consistent financial reporting approach between Log Ops, CEPS and NAMP occurs. Although the Agency's consolidation processes aim to ensure a consistent financial reporting approach between Log Ops, CEPS and NAMP occurs, the Agency will increase its oversight during the reconciliation and consolidation process.

Paragraph 1.17:
NSPA Formal Comments

This recommendation is accepted.

**OBSERVATION 2:
INACCURATE METHODOLOGY USED FOR CALCULATING ACCRUED LIABILITIES**

NSPA Formal Comments

The Agency acknowledges that its accrual methodology did not work as anticipated in respect of the 2017 Financial Statements. It is very difficult to estimate accruals because this requires:

- A reasonable assessment of what goods and services have been received, but not billed, at the year-end;*
- A reasonable assessment of the costs that will be billed; and,*
- For work-in-progress, it would require an assessment of the percentage of goods or services delivered by the year-end.*

To do this to the level of accuracy expected by the IBAN would require that the Agency contact customers and vendors at the year-end to assess the status of good and service deliveries. The ASB must decide whether the benefits of doing this resource intensive work exceed the costs of extra resources required to do this work each year.

**OBSERVATION 3:
FURTHER IMPROVEMENTS REQUIRED TO ACHIEVE COMPLIANCE WITH THE
REVISED NFRS, PARTICULARLY IN THE AREA OF RISK MANAGEMENT,
INTERNAL CONTROL, AND INTERNAL AUDIT**

**Paragraph 3.8:
*NSPA Formal Comments***

The Agency has fully implemented a comprehensive risk management Programme which has been reviewed favourably by the TÜV and is currently optimising its risk management. While there are still gaps between its current and optimised position, the gaps are not considered to be significant.

The IBAN's observations should be also be balanced by the fact that the Agency was the first NATO entity to achieve ISO 9001:2015 [Quality management systems — Requirements] accreditation, and the first business/enterprise in Luxembourg to do so.

**Paragraph 3.9:
*NSPA Formal Comments***

Since the audit was completed, financial risks with their attendant mitigation plans have been developed and are presented in the Agency's risk management tool.

Paragraph 3.12:
NSPA Formal Comments

The Auditor General presented the results of his analysis on risk exposure and internal controls at the May 2018 session of the Finance, Administration and Audit Committee.

Paragraph 3.13:
NSPA Formal Comments

The Agency is currently working to optimise its system of risk management and to implement a system of internal control; in terms of internal control, the ASB has approved a transition plan that gives the Agency until June 2019 to implement a system of internal control.

The ASB approved transition plan also gives the Agency until June 2019 to implement the prior approval of commitments. The Financial Controller, or his delegate, is already attending Contract Award Committees with a value over 2 MEUR and the process for the attendance at these Committees will be documented as part of a prior-approval of commitments Agency operating Instruction.

The 2018 Internal Audit Plan, as presented at the May 2018 meeting of the Finance, Administration and Audit Committee covers the evaluation of internal control and risk management.

OBSERVATION 4:
NO CENTRAL OVERVIEW AND MANAGEMENT OF EXISTING OR POSSIBLE LITIGATIONS, CLAIMS OR OTHER LEGAL CASES

NSPA Formal Comments

While the Agency agrees in principle with the observations and recommendations, the Legal Advisor's Office is currently not adequately staffed or equipped to handle legal risks in the manner recommended; this would require extra resources. The ASB must decide whether the benefits of doing this resource intensive work exceeds the costs of the extra resources required to do this work each year.

**OBSERVATION 5:
LACK OF CONTROLS OVER INVENTORY HELD AT THIRD PARTY LOCATIONS****Paragraph 5.4:
NSPA Formal Comments**

The Agency's Operating Instruction 4600-23 required the Office of the Auditor General to be in charge of stocktaking, rather than control of valuation and quantities. The new Auditor General considered that performing such activities was not in compliance with auditing standards and, following his proposal, the General Manager transferred stocktaking to the Quality Assurance Office.

**Paragraph 5.6:
NSPA Formal Comments**

The respective National Depot Commander and contractor routinely perform stock counts at National Depots and contractors. The statement "No independent control of stock held at third parties and of its valuation and quantities reported was performed in 2017" is incorrect; stock statements were reviewed by Programmes and the L Directorate. In addition, a sample of stocks were independently checked by the Auditor General's office (now transferred to the Quality Assurance Office) in Portugal and Norway and by Programmes in seven different locations.

Board's position

Agreed.

**Paragraph 5.9:
NSPA Formal Comments**

While the Quality Assurance Office has dedicated personnel available to undertake stock counts, the resources currently available are not sufficient to undertake independent year-end checks at national depots and contractors; currently, the resources allocated to the Quality Assurance Office allow it to only perform independent checks at two national depots and two contractors. The ASB and the relevant customers must decide whether the benefits of doing this resource intensive work exceeds the costs of the extra resources required to do this work each year.

Board's position

It is the General Manager's responsibility to make available sufficient adequate resources in order to ensure the accuracy of the valuation of stocks held at third parties which implies an independent control over quantities, as well as a timely reconciliation of the year-end confirmations received from National Depots and

contractors, in view of assessing the potential adjustments on the valuation of inventory to be reported in the Financial Statements.

Paragraph 5.10:
NSPA Formal Comments

The Agency is addressing internal control as part of its implementation of the NSPO Financial Rules and Procedures.

OBSERVATION 6:
STRENGTHENING THE INDEPENDENCE OF INTERNAL AUDIT

Paragraph 6.5:
NSPA Formal Comments

The NSPA Auditor General, as required by the NSPO Financial Rules and Procedures has the authority to report directly to the FAA Committee, and this can be done in restricted session if considered necessary.

In his internal assessment of the Office of the Auditor General performed at the end of 2017, the NSPA Auditor General considered himself to be satisfied with his independence.

Paragraph 6.6(a):
NSPA Formal Comments

The Audit Advisory Panel has no direct influence over the internal audit plan. The Audit Advisory Panel does not advise the Auditor General; the Panel advises the General Manager without any influence of the Auditor General.

Paragraph 6.6(b):
NSPA Formal Comments

The approval of the Internal Audit Plan in May 2018 was exceptional, because the Auditor General post was vacant for the first 8 months of 2017 and also because it was the first time presenting the audit plan to the FAA after the release of the new NSPO Financial Rules and Procedures.

Regarding the IBAN's opinion that the FAA Committee should approve the Internal Audit Plan, this will be recommended for review at the upcoming fall cycle of meetings.

In the cover letter transmitting the 2018 Audit Plan to the Nations, the NSPO Chairperson highlighted that "the FAA Committee is invited to note that as a rule and in future, Internal Audit Plans will be submitted during the autumn cycle of

meetings to ensure that any required resources are requested in the corresponding draft budgets of the following year.”

**Paragraph 6.7:
NSPA Formal Comments**

The Agency believes that it has executed more than 1/3 of the 2017 Internal Audit Plan.

**Paragraph 6.8:
NSPA Formal Comments**

The Agency does not believe that there is an issue concerning the independence of the Auditor General; however, this is a recommendation addressed to the ASB.

**Paragraph 6.9:
NSPA Formal Comments**

In the cover letter transmitting the 2018 Audit Plan to the Nations, the NSPO Chairperson highlighted that “the FAA Committee is invited to note that as a rule and in future, Internal Audit Plans will be submitted during the autumn cycle of meetings to ensure that any required resources are requested in the corresponding draft budgets of the following year.”

FOLLOW-UP OF PREVIOUS YEARS’ OBSERVATIONS

**OBSERVATION:
NSPO 2016 AUDIT REPORT - IBA-AR(2017)12, SECTION 1
MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

1.13(b) – NSPA Formal Comments

The Programme believes progress is being made in this area.

**OBSERVATION:
NSPO 2015 AUDIT REPORT - IBA-AR(2016)12, SECTION 7
WEAKNESSES IN GENERAL COMPUTER CONTROL**

7.5 – NSPA Formal Comments

Access rights by post are reviewed by a number of personnel across different directorates and divisions to ensure that there are no conflicts of interest before new or revised roles are authorized.

OBSERVATION:

NSPO 2015 AUDIT REPORT - IBA-AR(2016)12, SECTION 1

MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

1.23(b) – NSPA Formal Comments

The Agency has recruited a new staff member who will have this task as part of his responsibilities.

OBSERVATION:

NSPO 2015 AUDIT REPORT - IBA-AR(2016)12, SECTION 4

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

4.8(b) – NSPA Formal Comments

Most of these criteria should be fully addressed in the forthcoming “NSPA Integrity Policy” which is currently under review by the Agency’s Executive Management Board. The General Manager is also beginning the process of establishing whistle-blower procedures within the Agency through an Operating Instruction.

OBSERVATION:

NSPO 2015 AUDIT REPORT - IBA-AR(2016)12, SECTION 7

MONITORING OF THE CASH HELD AT NSPO

7.7(d) – NSPA Formal Comments

The Council is aware that the Agency holds funds based on customer discretion. The level of cash holdings is the prerogative of the NAM Programme Board that has approved a process to use excess operations budget cash to offset future calls.

7.7(e) – NSPA Formal Comments

The Council is aware that the Agency holds funds based on customer discretion. The CEPS fund is an operational fund that is permitted by the new NFR (Art. 27.3); it is up to the CEPS Programme Board to decide on the level of funds that it wishes to maintain. The cash held in the CEPS fund is now approximately 5 years of budgetary contributions and the Programme has a plan in place to reduce this further.

OBSERVATION:

NSPO 2014 AUDIT REPORT - IBA-AR(2015)23, SECTION 10

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

10.8 – NSPA Formal Comments

This cannot currently be done before the issuance of the financial statements. Allocating all such credits on a timely basis would also reduce customer's flexibility in case exchange rate losses should occur because these are written off against unallocated credits. The Council is aware that the Agency holds funds based on customer discretion.



AC/338-D(2018)0008

Financial Statements 2017 (Redacted Version)



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

Role of the NATO Support and Procurement Organisation

The NATO Support and Procurement Organisation is a NATO body with the mission 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.

The NSPO consists of Log Ops Business Unit, the Central Europe Pipeline System Programme Business Unit, the NATO Airlift Management Programme Business Unit plus the Agency Supervisory Board's Chairperson's Office.

Governance and oversight are provided to the various business units by the Agency Supervisory Board (ASB).

All twenty-nine NATO Nations are members of the NSPO¹. 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; and,
- performing other missions as assigned by the NAC.

¹ The accession of Montenegro to NATO, and by extension to NSPO, took place on 5 June 2017

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

Chairperson's Office

The Chairperson's Office is the secretariat of the ASB and the NAMP and CEPS Programme Boards.

Log Ops Business Unit

The Log Ops Business Unit provides a number of capabilities which are available to participating nations. It provides support to NATO operations, procures and facilitates the exchange of goods and services at the most advantageous rates, and provides support to twenty-eight active Support Partnerships.

Log Ops activities are paid 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.

Support and/or Procurement Partnerships can be established within the NSPO, subject to precise terms and conditions, on the initiative of two or more NATO nations wishing to organize jointly, or commonly, the support and services of activities within the scope of the NSPO's Mission and guidance provided by the Council.

At times, the partnerships will procure goods and/or services through a commonly (i.e. all twenty-nine NATO nations) or jointly (i.e. more than one but less than twenty-nine NATO nations) agreed budget, while at other times, members of the partnership will procure goods and services individually through purchase requests. NSPA procures goods and/or services for the Support Partnerships.

For financial reporting purposes in 2017, the Log Ops business unit segment incorporates the NSPA Headquarters, Logistics Operations, and NSPA Support Divisions. On 1 January 2018 Logistics Operations was split into Life Cycle Management and Support to Operations, however, this will have no impact on

financial reporting in 2018; the activities of the whole Logistics Operations business unit segment will continue to be reported as one segment.

Central Europe Pipeline System (CEPS) Programme 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 pipeline network, pump stations, input and delivery points, and storage depots. The United States contributes to the operation of the CEPS as a user nation.

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

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 NAMP 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). Strategic airlift capability is provided by three Globemaster C-17 aircraft that are flown and operated by

multinational military aircrews, and supported by military and civilian staff of the twelve Participating Nations. In addition, the SAC Programme obtains 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 NAMP owned aircraft, within pre-agreed parameters, to meet national requirements including those in support of NATO and multinational commitments.

The NAMP is governed by the NAM Programme Board. This Board exercises all rights of ownership of assets but aircraft operation is outside scope of the NSPO Charter. The NAMP'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 nations and partner nations making use of its capabilities. As such, the financial position and performance of NSPO depends on the operational requirements of NATO nations and its partner nations.

Compliance with Financial Regulations

In June 2017, the ASB approved the NSPO Financial Rules and Procedures (NFRPs) and this decision was subsequently endorsed by the North Atlantic Council. The NFRPs are consistent with the NATO Financial Regulations. A number of the NFRPs are complex in their nature and the ASB has given the Agency until the end of June 2019 to implement the most complex of these as they will have increased process, system and resource implications.

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 nations and partner nations. It does not have any financial objectives, such as a private sector enterprise could, in relation to its financial position, financial performance and its cash flows, other than to have enough funding available to cover its administration costs and the operational requirements of its customers. NSPO holds significant balances of customers' funds, which are mainly offset by future financial commitments; this situation that has been endorsed by Council.

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

NSPO's Financial Position and Financial Performance are based on the usage made of its capabilities by NATO nations and its partner nations. As such, its performance is impacted by NATO operations and the demand of its nations and partners 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 what to make publically available rests with the North Atlantic Council.



NSPA General Manager

Statement on Internal Control

Background

The North Atlantic Council issued revised NATO Financial Regulations (NFRs) in May 2015, which increased the emphasis on internal control and risk management within NATO entities.

In June 2017 the Agency's governing body, the ASB approved the NFRPs which contain the same provisions in respect of internal control and risk management as the NFRs.

The NFRPs 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 a strong system of internal control.

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.

Internal Control

Scope of Responsibility and Purpose of Internal Control

The General Manager is responsible and accountable to the ASB 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 internal control objectives in the following categories:

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

The Agency's Financial Controller reports to the General Manager and operates within the system of internal controls established by the General Manager. The

Financial Controller is accountable to the NSPO Finance, Administration and Audit Committee on the management of appropriated and non-appropriated funds. The NFRs require that in order to meet the desired internal control standards, the Financial Controller shall:

- establish a system of internal financial and budgetary controls, 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 authorize commitments, disburse and receive funds on his behalf; and,
- establish and maintain comprehensive accounting records of all assets and liabilities.

While the General Manager and the Financial Controller have specific responsibilities in relation to internal control, all Agency staff have a responsibility for complying with the internal controls in place to ensure NSPA is being a good steward of the funds entrusted to it by the Nations.

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. The cost of the internal controls should not outweigh the risks they are mitigating.

Compliance with the NATO Financial Regulations and NSPO Financial Rules and Procedures

Revised NFRs were issued in May 2015 and NSPO fell fully under their remit until the ASB issued the NFRPs in June 2017. The decision of the ASB was subsequently endorsed by the North Atlantic Council.

The NFRPs contain a number of complex requirements, which are consistent with the NFRs, but which were new to the Agency. The Agency was not able to implement these complex requirements on the issuance of the NFRs or the subsequent issuance of the NFRPs and hence the ASB granted the Agency until the end of June 2019 to implement the following complex requirements:

- **Accruals-based commitments for administrative budgets**

For its Administrative Budgets which make up approximately 5 per cent of turnover, NSPO is required to commit funds in the year in which a good or service will be delivered. This is a change to previous practice where a commitment was made when a contract was signed, regardless of when goods and services would be delivered.

- **The prior-approval of commitments by the Financial Controller**

The prior-approval of commitments by the Financial Controller requires that he ensure that the financial (e.g. funding availability, correct use of budgets etc.) and technical requirements (e.g. that customers' wishes are expressed accurately in a Statement of Work etc.) of a commitment are met for all the Agency's expenditures before he gives his prior-approval (the assurance that procurement requirements are met is provided by the Director of Procurement). The Agency is currently implementing a pilot-project to assess how to do this in practice.

- **Involvement of the Financial Controller in Contract Award Committees**

This is linked to the prior-approval of commitments by the Financial Controller. The Financial Controller may as required attend Contract Award Committees with a contract value over Euro 2 million and provide his approval for the decision made by the Committee. The Financial Controller has been doing this since October 2017; however, the process needs to be documented in an Agency operating instruction.

- **Implementation of Risk Management**

Risk Management is also a requirement of the NSPO Charter and the Agency has been working on implementing risk management since it was established. It is anticipated that a system of risk management will be fully embedded in 2018.

- **Implementation of a standardised and fully documented system of Internal Control**

The Agency is currently working with a firm of consultants to establish how best to implement a system of internal control. The Agency's system of internal control will follow the principles of COSO (Committee of Sponsoring Organizations of the Treadway Commission). The remit of the consultants is to

develop and document the NSPA Internal Control Framework as a specific NSPA Operating Instruction in coordination with the Agency's executive management. The contractor shall make proposals for the optimisation and standardisation of Agency processes and activities, and deliver training on the framework and support to its implementation. The timeline for the delivery of the contractor's deliverables is the end of July 2018.

The Agency acknowledges that it is currently not compliant with these requirements of the NFRPs but is working diligently to assess and analyse system, process and resource needs to implement these complex requirement by the end of June 2019 as agreed by the ASB.

Internal Control - General Manager Priorities

The General Manager has set a tone at the top to highlight the importance of internal control in all areas of NSPA operations. For 2017 he set the following priorities to focus on internal control over the coming year:

- Remediation of known internal control weaknesses as highlighted by internal Agency reviews as well as reviews conducted by the International Board of Auditors NATO (IBAN)
 - The work is still ongoing.
- The implementation of the NFRs
 - As noted above the ASB has now approved specific NFRPs and the Agency has been given until the end of June 2019 to implement the most complex of these requirements. The Agency has put in place an ASB approved Transition Plan to implement the most complex rules and procedures.
- The implementation of IBAN recommendations
 - A Key Performance Indicator of the Executive Management Board is the implementation of IBAN recommendations and this is monitored on a monthly basis. In addition, the Financial, Audit and Administration Committee of the ASB reviews the Agency's management progress against implementing IBAN recommendation bi-annually.

With the issuance of the NSPO Financial Statements 2017 the Agency considers that over 80 percent of observations will be closed or resolution is in-progress.

- The selection and implementation of an internal control system
 - The Agency has chosen to implement a system of internal control based on the principles of COSO (see bullet point titled Implementation of a standardised and fully documented system of Internal Control above).

General Manager's Internal Control Priorities for 2018

- The Agency shall work to reduce outstanding audit recommendations and strong effort will be applied to achieve this through the issuance of the NSPO Financial Statements 2017. The IBAN's recommendations are aimed at increasing internal control and to ensure compliance with the NATO Accounting Framework.
- The Agency shall make progress on implementing the most complex parts of the NFRPs.
- The Agency shall continue its planning to enhance its financial procedures and processes with a view to updating its financial system when its current Enterprise Resource and Planning System is upgraded or changed when its current system becomes obsolete in the middle of the 2020s. This planning should work to ensure that the Agency has both effective and efficient internal controls.

Control over the preparation of the Financial Statements

While the IBAN found that there had been much improvement in the preparation of the 2016 NSPO Financial Statements compared with previous years, the IBAN issued a "qualified audit opinion" on whether, in all material respects, the financial transactions and information contained within the NSPO Financial Statements for 2016 were in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations. This qualification was due to insufficient internal controls over the production of the Financial Statements. The process of enhancing internal control over the over the production of the Financial Statements has steadily improved since the creation of the Agency and the Agency is hopeful that this qualification will finally be removed with the issuance of the NSPO Financial Statements for 2017.

Control over financial management

We believe that strong controls exist over financial management functions such as treasury functions and accounts payable. While adequate controls exist over Accounts Receivable, the Agency is focusing efforts on ensuring that balances on

Accounts Receivable are reduced. The Agency holds and manages significant sums of money on the instruction of its customers. While the Agency has uncollected debts, these are controlled through regular review and dealings with customers. To ensure the effective and efficient financial management of the significant amount of funds held at the Agency and to reduce the risk resulting from negative interest, the ASB authorised a deviation from the NFRPs at its December 2017 meeting to allow the Agency to make exceptional time deposits not to exceed two years and up to a cumulative value of Euro 500m. This deviation was approved for two years. At the date that these Financial Statements are issued the Agency has yet to make use of this authority.

Risk Management

The Agency is required to have risk management processes in place by:

- The NSPO Charter, which states that the ASB will "ensure that effective risk management measures are in place and monitor performance execution on that basis";
- The NFRs and NFRPs, which require that Heads of NATO bodies shall ensure effective, efficient and economical risk management procedures are in place to support the achievement of objectives as set by the Nations, and shall identify, assess and mitigate the risks to the achievement of these objectives.;
- ISO 9001:2015, which requires a comprehensive risk management culture across the Agency;
- AQAP 2110 D(2016) NATO Quality Assurance requirements for design, developments and production, which mandates adhering to ISO31000; and,
- NATO's 2005 Guidelines on Corporate Governance.

In 2017, Agency management issued an updated internal operating instruction dealing with Risk Management. This instruction guides 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 and up to ASB level.

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 Executive Management Board if the identified risk exceeds acceptable limits.

NSPA management provides annual updates to the ASB which highlight to those charged with its governance the top risks faced by the Agency. At the June 2017 meeting of the ASB, Agency management highlighted its top 6 risks as:

1. Cyber security
2. Physical security
3. Continuity of operations
4. Continued relevance
5. Compliance
6. Inadequate resourcing

Currently the Agency is focusing its efforts on capturing Agency Risks from the bottom-up in a specialised risk management software tool. The Agency is categorising risks at different levels (Executive Management Level, Programme Manager Level, and Project Manager Level) in order to ensure the risk is addressed at the appropriate level of the management chain. Once risks have been captured the Agency will focus its efforts on reviewing risk treatment and risk reporting plans. The Agency is continuing to train its personnel in risk management at both basic and advanced level.

The Agency was awarded ISO9001:2015 accreditation by the TUV Auditors in March 2016. This is the first NATO Agency and the first organisation within Luxembourg to receive this level of accreditation and this has been largely based on the progress made in developing the risk management processes. In early March 2018, the TUV's audit in respect of continuing the Agency's certification in ISO 9001:2015 focused on risk management, although at the time this statement was signed the results have not been formally provided to the Agency.

Internal Audit

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

Internal Audit works in accordance with the *"International Standards for the Professional Practice of Internal Auditing"*. While the Auditor General reports to the General Manager, he also presents a report at each meeting of the Finance,

Administration and Audit Committee, which can be in restricted session if necessary. The General Manager is supported by an Audit Advisory Panel which is made up of three internal members and an external member. The Audit Advisory Panel reviews systems, processes and controls, and also endorses the internal audit plan and reviews internal audit reports.

Statement of the General Manager and the Financial Controller

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 2017 and up to the date of approval of the financial statements, in respect of:

- safeguarding assets;
- promoting operational efficiency; and
- verifying the accuracy and reliability of accounting data and records.

We are currently unable to attest that the Agency is:

- complying consistently and fully with all established governance and managerial policies. This is because the Agency is in the process of implementing the NFRPs. The Agency has been given until June 2019 by the ASB to implement the NFRPs.

While the Agency has not complied consistently with all established governance and managerial policies, it is committed to, and working hard in the area of ensuring that all personnel are aware of policies and are implementing them in their work.



General Manager
29 March 2018



Financial Controller
29 March 2018

NSPO Statement of Financial Position

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

		NSPO TOTAL		
		Restated	Original	
	Note	2017	2016	2016
Current Assets				
Cash and Cash Equivalents	2	2,565,663	2,443,042	2,443,042
Accounts Receivable	6	1,177,508	1,079,113	1,079,113
Prepayments	7	236,496	210,190	226,406
Long Term Receivables		6,424	6,531	6,531
Inventory	5	369,194	364,878	364,878
Fixed and Intangible Assets				
Property Plant and Equipment	3	1,003,733	741,140	741,140
Intangible Assets	4	17,621	24,491	24,491
Total Assets		5,376,639	4,869,385	4,885,601
Current Liabilities				
Accounts Payable and Accruals	8	387,730	380,704	396,920
Customer Advances	9	3,505,265	3,318,346	3,318,346
Provisions	16	6,091	6,845	6,845
Total Liabilities		3,899,087	3,705,895	3,722,111
Net Assets		1,477,552	1,163,490	1,163,490

Restatement: Further details on 2016 comparative "Restated" figures can be found within the Accounting Policies (page 17) and in Note 24 (pages 45 to 47).

The financial statements on pages 10 to 55 were issued to the International Board of Auditors for NATO on 29 March 2018.



NSPA General Manager



NSPA Financial Controller

NSPO Segments' Statement of Financial Position

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

		Chairperson's Office		Log Ops		NAM		CEPS		Inter-business unit eliminations		NSPO TOTAL		
	Note	2017	2016	Restated 2017	Restated 2016	Restated 2017	Restated 2016	2017	2016	2017	2016	Restated 2017	Restated 2016	Original 2016
Current Assets														
Cash and Cash Equivalents	2	0	0	2,192,643	2,044,302	191,524	216,381	181,496	182,359	0	0	2,565,663	2,443,042	2,443,042
Accounts Receivable	6	0	0	1,150,035	1,052,313	5,973	6,691	23,872	22,692	-2,372	-2,583	1,177,508	1,079,113	1,079,113
Prepayments	7	0	0	124,916	83,467	111,460	126,650	120	73	0	0	236,496	210,190	226,406
Long Term Receivables		0	0	3,857	3,857	0	0	2,567	2,674	0	0	6,424	6,531	6,531
Inventory	5	0	0	360,473	355,958	2,074	2,538	6,647	6,382	0	0	369,194	364,878	364,878
Fixed and Intangible Assets														
Property Plant and Equipment	3	0	0	435,864	114,102	411,709	494,798	156,160	132,240	0	0	1,003,733	741,140	741,140
Intangible Assets	4	0	0	0	0	15,227	22,118	2,394	2,373	0	0	17,621	24,491	24,491
Total Assets		0	0	4,267,788	3,653,999	737,967	869,176	373,256	348,793	-2,372	-2,583	5,376,639	4,869,385	4,885,601
Current Liabilities														
Accounts Payable and Accruals	8	0	0	359,388	339,949	21,075	25,158	9,639	18,180	-2,372	-2,583	387,730	380,704	396,920
Customer Advances	9	0	0	3,022,762	2,811,357	287,881	322,096	194,622	184,893	0	0	3,505,265	3,318,346	3,318,346
Provisions	16	0	0	2,298	2,120	0	0	3,793	4,725	0	0	6,091	6,845	6,845
Total Liabilities		0	0	3,384,448	3,153,426	308,956	347,254	208,055	207,798	-2,372	-2,583	3,899,087	3,705,895	3,722,111
Net Assets		0	0	883,340	500,573	429,011	521,922	165,201	140,995	0	0	1,477,552	1,163,490	1,163,490

Restatement: Further details on 2016 comparative "Restated" figures can be found within the Accounting Policies (page 17) and in Note 24 (pages 45 to 47).

The financial statements on pages 10 to 55 were issued to the International Board of Auditors for NATO on 29 March 2018.

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NSPA General Manager

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NSPA Financial Controller

NSPO Statement of Financial Performance

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

		NSPO TOTAL	
Revenue	Note	2017	2016
Services and Support to Customers		2,402,024	2,274,332
Administrative Support		156,809	144,265
Bank interest	10	72	291
Unrealised foreign currency effects	10	-15,676	-441
Miscellaneous Revenue		9,721	5,129
Total Revenue		2,552,950	2,423,576
Expenses			
Services and Support to Customers	11	-2,262,964	-2,100,744
Commercial Discounts Earned *		3,760	3,833
USA Foreign Military Sales **	11	-73,589	-84,884
Personnel	13	-170,831	-160,085
Depreciation and Amortisation		-41,560	-41,064
Provisions	16	-178	-2,120
Other Expenses	11	-50,985	-49,365
Transfers to customer credits		-6,770	-29,907
Total Expenses		-2,603,118	-2,464,336
Surplus / (Deficit) for the year		-50,168	-40,760

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

** The figure given in respect of USA Foreign Military Sales are presented on a "cash" (i.e. non-accruals) basis; more information can be found in the Accounting Policies (see page 19).

NSPO Segments' Statement of Financial Performance

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

		Chairperson's Office		Log Ops		NAM		CEPS		Inter-business unit eliminations		NSPO TOTAL	
	Note	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Revenue													
Services and Support to Customers		0	0	2,219,934	2,035,498	92,404	123,345	89,871	115,779	-185	-290	2,402,024	2,274,332
Administrative Support		840	754	136,577	124,646	6,723	6,614	15,053	14,735	-2,384	-2,484	156,809	144,265
Bank Interest	10	0	0	-12	20	0	0	84	271	0	0	72	291
Unrealised foreign currency effects	10	0	0	-15,853	-612	177	171	0	0	0	0	-15,676	-441
Miscellaneous Revenue		0	0	0	0	41	0	9,680	5,130	0	-1	9,721	5,129
Total Revenue		840	754	2,340,646	2,159,552	99,345	130,130	114,688	135,915	-2,569	-2,775	2,552,950	2,423,576
Expenses													
Services and Support to Customers	11	0	0	-2,183,224	-2,009,079	-48,193	-59,541	-31,732	-32,414	185	290	-2,262,964	-2,100,744
Commercial Discounts Earned *		0	0	3,760	3,817	0	0	0	16	0	0	3,760	3,833
USA Foreign Military Sales **	11	0	0	-29,364	-23,532	-44,225	-61,352	0	0	0	0	-73,589	-84,884
Personnel	13	-753	-694	-105,016	-96,753	-3,930	-3,763	-61,132	-58,875	0	0	-170,831	-160,085
Depreciation and Amortisation		0	0	-4,357	-5,199	-26,905	-28,189	-10,298	-7,676	0	0	-41,560	-41,064
Provisions	16	0	0	-178	-2,120	0	0	0	0	0	0	-178	-2,120
Other Expenses	11	-87	-60	-35,409	-31,752	-2,820	-5,303	-15,053	-14,735	2,384	2,485	-50,985	-49,365
Transfers to customer credits		0	0	0	0	0	0	-6,770	-29,907	0	0	-6,770	-29,907
Total Expenses		-840	-754	-2,353,788	-2,164,618	-126,073	-158,148	-124,986	-143,591	2,569	2,775	-2,603,118	-2,464,336
Surplus / (Deficit) for the year		0	0	-13,142	-5,066	-26,728	-28,018	-10,298	-7,676	0	0	-50,168	-40,760

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

** The figure given in respect of USA Foreign Military Sales are presented on a "cash" (i.e. non-accruals) basis; more information can be found in the Accounting Policies (see page 19).

NSPO Cash Flow Statement for the year-ended 31 December

(all figures are in Euro '000)

	2017	2016	2016
		Restated	Original
Cash Flows from Operating Activities			
Cash Receipts from Customers	2,666,764	2,685,557	2,687,521
Bank Interest Received	3,598	4,724	4,724
Cash Paid to Suppliers	(2,414,911)	(2,319,513)	(2,321,477)
Cash Paid to and on behalf of Employees	(164,846)	(154,850)	(154,850)
Net Other Payments and Receipts	10,759	41,291	41,291
Net Cash Flows from Operating Activities	101,364	257,208	257,208
Cash Flows from Investing Activities			
Net purchase of PPE, Intangible Assets and Inventory	(352,925)	(150,703)	(148,738)
Net Cash Flows from Investing Activities	(352,925)	(150,703)	(148,738)
Cash Flows from Financing Activities			
Net proceeds from borrowings	0	(655)	(655)
Capital Contributed by Countries	419,257	123,225	121,260
Net Cash Flows from Financing Activities	419,257	122,570	120,605
Foreign currency effects	(45,075)	9,752	9,752
Cash and Cash Equivalents at Beginning of Period	2,443,042	2,204,215	2,204,215
Net Increase/(Decrease) in Cash and Cash Equivalents	122,621	238,827	238,827
Cash and Cash Equivalents at End of Period	2,565,663	2,443,042	2,443,042

Restatement: Parts of the 2016 Cash Flow Statement have been restated to reflect the fact that cash outflows from investing activities were understated by Euro 2m.

Due to the structure of banking arrangements in some CEPS National Organisations, the CEPS Business Unit controls Euro 8m (2016: Euro 10m) of “non-CEPS Cash” which is owned by the specific National Organisations. These CEPS Business Unit cash assets are offset by liabilities in the Statement of Financial Position.

NSPO Statement of Changes in Net Assets

	2017					2016				
NSPO	Capital contributions	Revaluation Reserves	Other Reserves	Accumulated surplus/deficit	Total	Capital contributions	Revaluation Reserves	Other Reserves	Accumulated surplus/deficit	Total
Balance at the end of prior period	1,099,396	2,809	61,285	0	1,163,490	874,128	2,880	34,870	0	911,878
Changes in accounting policy to correct errors	0	0	0	0	0	101,724	12	0	0	101,736
Balance at 31 December of prior-period	1,099,396	2,809	61,285	0	1,163,490	975,852	2,892	34,870	0	1,013,614
Net gains/(losses) recognised directly in net assets	434,241	-83	-8,557	0	425,601	146,817	-83	23,984	0	170,718
Depreciation and Amortisation	-41,560	0	0	41,560	0	-41,064	0	0	41,064	0
Exchange difference on translating foreign operations	-61,712	0	75	0	-61,637	17,791	0	-20	0	17,771
Net Unrealised Foreign exchange gains and losses	0	0	-15,676	15,676	0	0	0	-441	441	0
Inventory disposals, donations and increases	0	0	4,502	-4,502	0	0	0	866	-866	0
Inventory sales	0	0	2,832	-2,832	0	0	0	2,026	-2,026	0
Surplus/(deficit) for the period *	0	0	0	-49,902	-49,902	0	0	0	-38,613	-38,613
Change in net assets for the year ended	330,969	-83	-16,824	0	314,062	123,544	-83	26,415	0	149,876
Balance at 31 December of year-ended	1,430,365	2,726	44,461	0	1,477,552	1,099,396	2,809	61,285	0	1,163,490

	2017					2016				
Log Ops Business Unit	Capital contributions	Revaluation Reserves	Other Reserves	Accumulated surplus/deficit	Total	Capital contributions	Revaluation Reserves	Other Reserves	Accumulated surplus/deficit	Total
Balance at the end of prior period	438,592	0	61,981	0	500,573	357,825	0	35,717	0	393,542
Changes in accounting policy to correct errors	0	0	0	0	0	0	0	0	0	0
Balance at 31 December of prior-period	438,592	0	61,981	0	500,573	357,825	0	35,717	0	393,542
Net gains/(losses) recognised directly in net assets	404,200	0	-8,557	0	395,643	85,966	0	23,984	0	109,950
Depreciation and Amortisation	-4,357	0	0	4,357	0	-5,199	0	0	5,199	0
Exchange difference on translating foreign operations	0	0	0	0	0	0	0	0	0	0
Net Unrealised Foreign exchange gains and losses	0	0	-15,853	15,853	0	0	0	-612	612	0
Inventory disposals, donations and increases	0	0	4,502	-4,502	0	0	0	866	-866	0
Inventory sales	0	0	2,832	-2,832	0	0	0	2,026	-2,026	0
Surplus/(deficit) for the period *	0	0	0	-12,876	-12,876	0	0	0	-2,919	-2,919
Change in net assets for the year ended	399,843	0	-17,076	0	382,767	80,767	0	26,264	0	107,031
Balance at 31 December of year-ended	838,435	0	44,905	0	883,340	438,592	0	61,981	0	500,573

* The deficit for the period as per the Statement of Financial Performance is (13,142) KEUR in 2017 and (5,066) KEUR in 2016; the deficit is made up of non-budgeted amounts. The deficit recorded in Statement of Changes in Net Assets was (12,876) KEUR in 2017 and (2,919) KEUR in 2016. The Log Ops Business Unit's Net Assets are made up of capital contributed by nations to fund PPE and Intangibles as well as net forex gain or losses as a result of revaluation. Other amounts which are not budgeted (e.g. write-offs and provisions for doubtful debts) and which hit the Statement of Financial Performance do not impact Net Assets.

NSPO Statement of Changes in Net Assets (continued)

	2017					2016				
NAMP Business Unit	Capital contributions	Revaluation Reserves	Other Reserves	Accumulated surplus/deficit	Total	Capital contributions	Revaluation Reserves	Other Reserves	Accumulated surplus/deficit	Total
Balance at the end of prior period	522,618	0	-696	0	521,922	498,996	0	-847	0	498,149
Changes in accounting policy to correct errors	0	0	0	0	0	0	0	0	0	0
Balance at 31 December of prior-period	522,618	0	-696	0	521,922	498,996	0	-847	0	498,149
Net gains/(losses) recognised directly in net assets	-4,546	0	0	0	-4,546	34,020	0	0	0	34,020
Depreciation and Amortisation	-26,905	0	0	26,905	0	-28,189	0	0	28,189	0
Exchange difference on translating foreign operations	-61,712	0	75	0	-61,637	17,791	0	-20	0	17,771
Net Unrealised Foreign exchange gains and losses	0	0	177	-177	0	0	0	171	-171	0
Inventory disposals, donations and increases	0	0	0	0	0	0	0	0	0	0
Inventory sales	0	0	0	0	0	0	0	0	0	0
Surplus/(deficit) for the period	0	0	0	-26,728	-26,728	0	0	0	-28,018	-28,018
Change in net assets for the year ended	-93,163	0	252	0	-92,911	23,622	0	151	0	23,773
Balance at 31 December of year-ended	429,455	0	-444	0	429,011	522,618	0	-696	0	521,922

	2017					2016				
CEPS Business Unit	Capital contributions	Revaluation Reserves	Other Reserves	Accumulated surplus/deficit	Total	Capital contributions	Revaluation Reserves	Other Reserves	Accumulated surplus/deficit	Total
Balance at the end of prior period	138,186	2,809	0	0	140,995	17,307	2,880	0	0	20,187
Changes in accounting policy to correct errors	0	0	0	0	0	101,724	12	0	0	101,736
Balance at 31 December of prior-period	138,186	2,809	0	0	140,995	119,031	2,892	0	0	121,923
Net gains/(losses) recognised directly in net assets	34,587	-83	0	0	34,504	26,831	-83	0	0	26,748
Depreciation and Amortisation	-10,298	0	0	10,298	0	-7,676	0	0	7,676	0
Exchange difference on translating foreign operations	0	0	0	0	0	0	0	0	0	0
Net Unrealised Foreign exchange gains and losses	0	0	0	0	0	0	0	0	0	0
Inventory disposals, donations and increases	0	0	0	0	0	0	0	0	0	0
Inventory sales	0	0	0	0	0	0	0	0	0	0
Surplus/(deficit) for the period	0	0	0	-10,298	-10,298	0	0	0	-7,676	-7,676
Change in net assets for the year ended	24,289	-83	0	0	24,206	19,155	-83	0	0	19,072
Balance at 31 December of year-ended	162,475	2,726	0	0	165,201	138,186	2,809	0	0	140,995

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 12 – Inventories, IPSAS 17 - Property, Plant and Equipment and IPSAS 31 - Intangible Assets were adapted by the North Atlantic Council (the “Council”) in August 2013 and IPSAS 1 – Presentation of Financial Statements, was adapted by the Council in April 2016.

NATO has issued specific Accounting Policies on Property, Plant and Equipment, Inventory and Intangible Assets which come into effect in the 2018 financial year.

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/or 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.

Change in Accounting Policies to correct errors

The following change in accounting policy was required to correct errors stemming from the audit of the 2016 Financial Statements. The changes in accounting policy have been applied to the comparative figures for 2016 which have been restated:

- The Agency’s external auditor (the International Board of Auditors for NATO) qualified the NSPO Financial Statements 2016 in part due to the fact that the Agency did not set-off prepayments made for United States Foreign Military Sales against amounts accruing at the year end. For the NSPO Financial Statements 2017 and their comparative figures for 2016 there has been set-off of these figures (see Note 24 for further details).

2016 Audit Qualification issues leading to no change in financial reporting

In respect of the NSPO Financial Statements 2016, the external auditors were of the opinion that CEPS assets in the course of construction could not be supported at the German National Organisation which relies on information passed to it by parts of German government. The implementation of the NATO Accounting Policy on Property, Plant and Equipment, which comes into effect in the 2018 financial year, stipulates

“If a territorial Host Nation [i.e. the German government] constructs an asset and the NATO entity does not receive timely the complete and reliable financial information, the NATO entity is allowed to capitalise these assets after construction has been completed and the assets have been handed over.”

This stipulation should lead to the removal of this qualification with the issuance of the NSPO Financial Statements 2018.

The NSPO Financial Statements 2016 did not include 2015 comparative information with respect to the Statement of Change in Net Assets, Note 3 Property, Plant and Equipment, and Note 4 Intangible Assets and inter-business segment eliminations. The Agency will show both 2017 and 2016 figures in these financial statements but has no requirement to restate figures in respect of 2015 which are not published in this financial statement.

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 accounting for segment parts

The ASB considers that the financial statements of NSPO present the results of NSPO's business unit segment parts as a single entity. The ASB controls the segment parts of the NSPO through its Charter. Inter-business unit segment part transactions and balances are therefore eliminated in full at both the NSPO level and the relevant 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, position and net assets by the following segments: Chairperson's Office, Log Ops Business Unit, CEPS Programme Business Unit and NAM Programme Business Unit.

Changes in Accounting Standards

At the end of the 2017 financial year, the following IPSAS had been issued which will become effective in the financial years specified:

- **IPSAS 34 - Separate Financial Statements (effective 1 January 2017)**
 - This standard does not impact NSPO.
- **IPSAS 35 - Consolidated Financial Statements (effective 1 January 2017)**
 - This standard does not impact NSPO. NSPO is one legal entity where no one part of the organisation controls another.
- **IPSAS 36 - Investments in Associates and Joint Ventures (effective 1 January 2017)**
 - This standard does not impact NSPO.
- **IPSAS 37 - Joint Arrangements (effective 1 January 2017)**
 - This standard does not impact NSPO.
- **IPSAS 38 - Disclosure of Interests in Other Entities (effective 1 January 2017)**
 - This standard does not impact NSPO.

- **IPSAS 39 – Employee Benefits (effective 1 January 2018)**
 - This standard will impact NSPO in the future because it will require extra senior management personnel disclosures.
- **IPSAS 40 - Public Sector Combinations (effective 1 January 2019)**
 - This standard could impact NSPO in the future should the NATO Council decide to restructure, reorganise or transfer operations from NATO bodies to NSPO.

Revenue Recognition

NSPO Financial Statements are prepared on the accruals' basis of accounting. The effects of transactions (e.g. the transfer of property, goods or services) are recognised when they occur (not only when cash is received) and they are recorded as revenues in the financial year to which they relate.

For contributions called in respect of the current financial year, the revenue is recognised when called.

For contributions called in the current financial year for following financial years, these are recognised as contributions called in advance, and only accounted for as revenue in the relevant 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 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. Revenue is recognised at the moment an expense is incurred as the revenue is guaranteed to be funded by member nations.

Foreign Military Sales (FMS)

In accordance with the NATO Accounting Framework's adaption of *IPSAS 1 - Presentation of Financial Statements*, the Agency reports data on a cash basis where the Agency is unable to satisfy itself that the data is presented on a reliable accrual basis. The modified cash basis reflects that FMS goods and services delivered according to United States DD645 reports and for which the United States government has received cash payment.

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 jointly or commonly by more than one national customer.

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.

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 ruling exchange rates set by NATO Headquarters in Brussels that are updated on a weekly basis.

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 (2017: 1.1993 USD to Euro, 2016: 1.0541 USD to Euro);
- translating revenue and expenses into Euros at the average yearly exchange rates for the Euro relative to the USD (2017: 1.1297 USD to Euro, 2016: 1.1069 USD to Euro).

Current Assets:

Cash and Cash Equivalents

NSPO holds cash and cash equivalents in financial institutions as current accounts and as term deposits, and at the Agency in petty cash and cash on hand for operational requirements. These cash balances are held in Euro, US dollar and Hungarian Forint.

Receivables

NSPO considers that an amount becomes receivable on the issuance of a call for funds or call for contributions. Receivables are measured at Net Realisable Value after taking bad and doubtful debts into account.

Receivables are not set-off against customer advance payments without the written authorisation of the customer.

Prepayments

When the Agency makes 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 bases; 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 █████, 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 – up to 40 Years, Euro 1,000 (USD 1,000 for NAMP Business Unit)
- Other Infrastructure – up to 40 Years, Euro 1,000 (USD 1,000 for NAMP Business Unit)
- Installed equipment – 10 Years, Euro 1,000 (USD 1,000 for NAMP Business Unit)
- Mission equipment – 10 Years, Euro 1,000 (USD 1,000 for NAMP Business Unit)
- Machinery – 10 years, Euro 1,000 (USD 1,000 for NAMP Business Unit)
- Vehicles – 5 Years, Euro 1,000 (USD 1,000 for NAMP Business Unit)
- Aircraft – 26 years, Euro 200k
- Furniture - 10 years, Euro 1,000 (USD 1,000 for NAMP Business Unit)
- Communications - 3 years, Euro 1,000 (USD 1,000 for NAMP Business Unit)
- Automated IT systems - 5 years, Euro 1,000 (USD 1,000 for NAMP Business Unit)
- Office Automation Equipment – 3 years, 1,000 (USD 1,000 for NAMP Business Unit)
- Pipeline System – 10 to 40 years depending on type of component, Euro 1,000

Starting with the 2016 Financial Statements, NSPO has capitalised the additions and enhancement made to the Central Europe Pipeline System since 1 January 2013. The NATO Accounting Framework allows NATO bodies the choice between capitalising PPE after, or before, the cut-off date 1 January 2013.

PPE - Land and Buildings

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

As the 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).

PPE – Assets in the Course of Construction (Aircraft)

Assets in the Course of Construction related to aircraft are based on milestone payments to vendors that are taken as a proxy for the asset's stage of completion.

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 owing for goods and services, which are not supported yet by an invoice at the year-end.

Accounts payable and accruals cannot be set-off against customer receivables without the written authorisation of the customer.

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.

Advances are cannot be set-off against customer receivables without the written authorisation of the customer.

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.

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. Since 2016 the Agency has made provisions for bad and doubtful debts for national customer debts in exceptional circumstances when it considers the reimbursement of debts cannot be made by national customers.

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 organisation's 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.

Operating Surplus / (deficit) in the year

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

For the Log Ops and NAMP Business Units only, unrealised foreign currency translation effects impact the Statement of Financial Performance. Bank interest and realised foreign exchange effects "pass through" the Log Ops and NAMP Business Units only, and belong to customers, rather than NSPO, and hence do not affect revenue.

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 *(amounts are given in Euro '000 unless stated otherwise)*

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) Revenue and expenditure recognition for goods and services delivered under the United States Foreign Military Sales Program

The Agency purchases goods and services through the United States Foreign Military Sales (FMS) Program. On a quarterly basis, the United States Government provides the Agency with reports which detail goods and services delivered. The Agency reconciles the delivery of goods to these quarterly reports and is confident 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.

b) NAMP Mission Costs

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

c) 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.

d) 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.

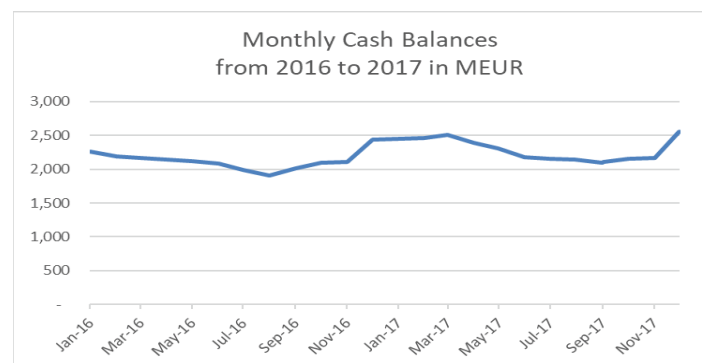
Application of these accounting principles to legal cases requires NSPA's management to make determinations about various factual and legal matters beyond its control. The Agency reviews outstanding legal cases following developments in the legal proceedings and at each reporting date, in order to assess 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	
	2017	2016	2017	2016	2017	2016	2017	2016
Cash available on demand	474,277	304,729	10,630	7,716	12,208	13,759	497,115	326,204
Short-term deposits	1,718,366	1,739,573	180,894	208,665	169,288	168,600	2,068,548	2,116,838
Total	2,192,643	2,044,302	191,524	216,381	181,496	182,359	2,565,663	2,443,042

The value of cash and cash equivalents controlled by NSPA should be considered in the context of the total liabilities, both actual and potential, for all NSPA customers at the year-end being Euro 2.7 billion (2016: Euro 2.3 billion); potential liabilities are not reported in the Statement of Financial position; they represent contracts signed with vendors but for which no invoice has been received.

Cash balances tend to peak around the year-ends as can be seen in the graph below.



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 one day to twelve months.

To ensure the effective and efficient financial management of the significant amount of funds held at the Agency and to reduce the risk resulting from negative interest, the ASB authorised a deviation from the NFRPs at its December 2017 meeting to allow the Agency to make exceptional time deposits not to exceed two years and up to a cumulative value of Euro 500m. This deviation was approved for two years. At the date that these Financial Statements are issued the Agency has yet to make use of this authority.

Due to the structure of banking arrangements in some CEPS National Organisations, the CEPS Business Unit controls Euro 8m (2016: Euro 10m) of “non-CEPS Cash” which is owned by the specific National Organisations. These CEPS Business Unit cash assets are offset by liabilities in the Statement of Financial Position.

3. Property, Plant and Equipment (PPE)

2017	Cost at 1 January	Additions in Year	Disposal Transfer /Impairment in Year	Currency Transaction Adjustment	Cost at 31 December	Depreciation at 1 January	Change in Depreciation	Currency Translation Adjustment	Depreciation at 31 December	Net book value at 1 January 2017	Net book value at 31 December 2017
Land	195	0	0	0	195	0	0	0	0	195	195
Buildings	53,443	2,652	0	-7	50,652	-8,514	-1,456	440	-9,530	44,929	41,122
Installed Equipment	5,783	-44	-4	-27	5,256	-4,335	-325	381	-4,279	1,448	977
Machinery	101,472	4,924	0	-47	106,349	-94,844	-1,889	0	-96,734	6,627	9,615
Vehicles	8,941	917	0	-386	9,195	-6,135	-293	166	-6,261	2,806	2,934
Aircraft	611,636	-3,118	0	0	534,648	-168,162	-21,780	21,623	-168,318	443,475	366,330
Pipeline System	83,472	7,837	29,004	0	120,313	-11,779	-9,170	0	-20,949	71,693	99,364
Mission Equipment	31,546	908	74	-654	29,726	-20,068	-1,632	1,161	-20,538	11,479	9,188
Furniture	6,274	338	0	-187	6,315	-4,798	-152	61	-4,890	1,476	1,426
Automated information System	25,444	2,202	0	-231	27,211	-20,960	-2,062	194	-22,828	4,484	4,383
Communication System	3,409	252	4	-107	3,362	-3,076	-49	195	-2,930	333	432
Assets in the course of construction	152,195	344,656	-29,078	0	467,767	0	0	0	0	152,195	467,767
Total	1,083,810	361,524	0	-1,646	1,360,990	-342,670	-38,809	24,222	-357,257	741,140	1,003,733

The Net Book Value of PPE of each of the Business Segments at the end of 2017 was:

	Chairperson's Office	Log Ops	NAM	CEPS	TOTAL
Land	0	0	0	195	195
Buildings	0	28	37,062	4,032	41,122
Installed Equipment	0	167	285	525	977
Machinery	0	9,189	0	426	9,615
Vehicles	0	389	855	1,690	2,934
Aircraft	0	0	366,330	0	366,330
Pipeline System	0	0	0	99,364	99,364
Mission Equipment	0	0	6,521	2,667	9,188
Furniture	0	534	342	550	1,426
Automated information System	0	3,726	293	364	4,383
Communication System	0	69	0	363	432
Assets in the course of construction	0	421,762	21	45,984	467,767
Total	0	435,864	411,709	156,160	1,003,733

2016	Cost at 1 January	Additions in Year	Transfer	Disposal /Impairment in Year	Currency Transaction Adjustment	Cost at 31 December	Depreciation at 1 January	Change in Depreciation	Currency Translation Adjustment	Depreciation at 31 December	Net book value at 1 January 2016	Net book value at 31 December 2016
Land	195	0	0	0	0	195	0	0	0	0	195	195
Buildings	25,632	13,591	12,399	0	1,821	53,443	-6,429	-1,961	-124	-8,514	19,202	44,929
Installed Equipment	5,023	699	0	-66	127	5,783	-3,239	-987	-109	-4,335	1,784	1,448
Machinery	100,341	1,444	133	-447	0	101,472	-92,610	-2,234	0	-94,844	7,731	6,627
Vehicles	8,560	1,192	0	-881	70	8,941	-6,340	250	-44	-6,135	2,220	2,806
Aircraft	580,834	11,178	0	0	19,625	611,636	-140,329	-22,119	-5,714	-168,162	440,505	443,475
Pipeline System	70,129	5,264	8,079	0	0	83,472	-6,392	-5,387	0	-11,779	63,736	71,693
Mission Equipment	30,042	1,361	51	-482	574	31,546	-18,016	-1,744	-308	-20,068	12,026	11,479
Furniture	5,917	471	0	-143	29	6,274	-4,558	-224	-16	-4,798	1,359	1,476
Automated information System	23,134	2,380	0	-113	44	25,444	-18,321	-2,588	-52	-20,960	4,813	4,484
Communication System	3,197	216	11	-66	51	3,409	-2,967	-58	-51	-3,076	230	333
Assets in the course of construction	51,316	121,755	-20,672	0	-204	152,195	0	0	0	0	51,316	152,195
Total	904,321	159,552	0	-2,199	22,136	1,083,810	-299,202	-37,051	-6,418	-342,670	605,119	741,140

The Net Book Value of PPE of each of the Business Segments at the end of 2016 was:

	Chairperson's Office	Log Ops	NAM	CEPS	TOTAL
Land	0	0	0	195	195
Buildings	0	77	40,528	4,324	44,929
Installed Equipment	0	118	802	528	1,448
Machinery	0	6,156	0	472	6,628
Vehicles	0	291	875	1,641	2,807
Aircraft	0	0	443,476	0	443,476
Pipeline System	0	0	0	71,693	71,693
Mission Equipment	0	0	8,737	2,740	11,477
Furniture	0	421	427	629	1,477
Automated information System	0	4,286	-121	319	4,484
Communication System	0	117	0	215	332
Assets in the course of construction	0	102,636	74	49,484	152,194
Total	0	114,102	494,798	132,240	741,140

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 and/or Procurement Partnerships collectively.

Assets in the Course of Construction are measured based on the stage of completion; this is based either on the results of a technical inspection or on contracted milestone payments; the main item in the Log Ops Business Unit represents the purchase of Multi-Role Tanker Transport Aircraft, while for the CEPS Business Unit it represents assets for the Pipeline System.

The value of the Central Europe Pipeline System's PPE does not include an estimate of dismantling, removing and restoring costs. This is because there is no timeline for such events and it is therefore not considered feasible to make a reliable estimate. In addition, any costs would be borne by host nations or through NSIP funding and hence would not fall upon NSPO.

Allied Ground Systems Support Partnership

The NATO Allied Ground System Management Organisation (NAGSMO) is in the process of procuring 5 unmanned aerial vehicles ("UAVs" which are commonly referred to as "drones") for the Alliance. The NSPO Allied Ground Systems Support Partnership will be responsible for managing the in-life service support of these UAVs. When the UAVs are completed ownership will be handed over from NAGSMO to the Allied Ground Systems Support Partnership and NSPO will be responsible for the financial reporting of these core-system assets; the approximate value of which is USD 1.5 Billion. Currently NSPO is only capitalising non-core system assets over which it has control over and which will provide support to managing the UAVs.

4. Intangible Assets

2017	Cost at 1 January	Additions in Year	Transfer	Disposal /Impairment in Year	Currency Transaction Adjustment	Cost at 31 December	Amortisation at 1 January	Change in Amortisation	Currency Translation Adjustment	Amortisation at 31 December	Net book value at 1 January 2017	Net book value at 31 December 2017
Software	10,153	712	4	-26	-482	10,362	-6,289	-1,345	241	-7,393	3,864	2,969
Rights to Spare Engine	24,776	-3,318	0	0	-2,807	18,650	-4,882	-672	630	-4,924	19,893	13,726
Assets in course of Construction	734	196	-4	0	0	926	0	0	0	0	734	926
Intangible Assets	35,662	-2,410	0	-26	-3,289	29,938	-11,171	-2,017	871	-12,317	24,491	17,621

The Net Book Value of intangible assets of each of the Business Segments at the end of 2017 was:

	Chairperson's Office	Log Ops	NAM	CEPS	TOTAL
Software	0	0	1,057	2,394	3,451
Rights to Spare Engine	0	0	14,170	0	14,170
Assets in course of Construction	0	0	0	0	0
Intangible Assets	0	0	15,227	2,394	17,621

2016	Cost at 1 January	Additions in Year	Transfer	Disposal / Impairment in Year	Currency Transaction Adjustment	Cost at 31 December	Amortisation at 1 January	Change in Amortisation	Currency Translation Adjustment	Amortisation at 31 December	Net book value at 1 January 2016	Net book value at 31 December 2016
Software	6,166	1,842	2,001	-10	154	10,153	-4,986	-1,242	-61	-6,289	1,180	3,864
Rights to Spare Engine	21,519	2,428	0	0	828	24,776	-3,816	-896	-170	-4,882	17,703	19,893
Assets in course of Construction	2,740	4	-2,001	0	-9	734	0	0	0	0	2,740	734
Intangible Assets	30,425	4,274	0	-10	973	35,662	-8,802	-2,138	-231	-11,171	21,624	24,491

The Net Book Value of intangible assets of each of the Business Segments at the end of 2016 was:

	Chairperson's Office	Log Ops	NAM	CEPS	TOTAL
Software	0	0	2,225	1,639	3,864
Rights to Spare Engine	0	0	19,893	0	19,893
Assets in course of Construction	0	0	0	734	734
Intangible Assets	0	0	22,118	2,373	24,491

The intangible assets of NSPO are:

- Various versions 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

For the first time in 2016, NSPA capitalised Central Europe Pipeline System Intangible Assets which have been added since 1 January 2013.

5. Inventories

	Log Ops		NAM		CEPS		NSPO TOTAL	
	2017	2016	2017	2016	2017	2016	2017	2016
Consumables	183	170	252	322	2,776	2,698	3,211	3,190
Spare parts	0	0	1,822	2,216	3,871	3,684	5,693	5,900
Strategic stock	360,290	355,788	0	0	0	0	360,290	355,788
Total	360,473	355,958	2,074	2,538	6,647	6,382	369,194	364,878

Each Business Unit carries different types of inventory to reflect their different business lines of activity:

Log Ops

- Log Ops Support or Procurement Partnerships control inventories paid for jointly or commonly 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 as inventory, which is in accordance with the NATO Accounting Framework.

6. Accounts Receivable – current assets

	Log Ops		NAM		CEPS		Inter-business unit eliminations		NSPO TOTAL	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Receivables	487,947	411,087	4,107	4,131	23,855	22,669	-2,370	-2,583	513,539	435,304
Personnel	0	0	0	0	0	0	0	0	0	0
Recoverable taxes	2	2	489	1,322	0	0	0	0	491	1,324
Other NATO Entities	29,900	16,922	0	0	6	4	-2	0	29,904	16,926
Unbilled sales to customers	631,981	624,057	0	0	0	0	0	0	631,981	624,057
Bank interest	205	245	1,377	1,238	12	19	0	0	1,594	1,502
Total	1,150,035	1,052,313	5,973	6,691	23,872	22,692	-2,372	-2,583	1,177,508	1,079,113

The gross and net amount of receivables and unbilled sales, taking into account provisions for doubtful debts (see *Note 16: Provisions* for further information) can be seen in the table below:

	Log Ops		NAM		CEPS		Inter-business unit eliminations		NSPO TOTAL	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Receivables - Gross	488,523	411,485	4,107	4,131	24,083	22,936	-2,370	-2,583	514,343	435,969
Provision for doubtful Debts	-576	-398	0	0	-229	-267	0	0	-805	-665
Receivables - Net Realisable Value	487,947	411,087	4,107	4,131	23,855	22,669	-2,370	-2,583	513,539	435,304
Unbilled sales to customers - Gross	633,703	625,779	0	0	0	0	0	0	633,703	625,779
Provision for doubtful Debts	-1,722	-1,722	0	0	0	0	0	0	-1,722	-1,722
Unbilled sales to customer - Net Realisable Value	631,981	624,057	0	0	0	0	0	0	631,981	624,057

Receivables should be taken in the context that while customers owe amounts to the Agency, the same customers often have made substantial advances to the Agency; however, such amounts can only be “netted-off” each other with the permission of the customer.

Receivables includes an amount due of Euro 8 million from a vendor which provided services to NSPA in Theatre and which is currently involved in a legal dispute with NATO (see *Note 17: Contingent Liabilities*).

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.

7. Prepayments

	Log Ops		NAM		CEPS		NSPO TOTAL		
	Restated		Restated				Restated	Original	
	2017	2016	2017	2016	2017	2016	2017	2016	2016
Prepayments to employees	80	101	17	9	0	0	97	110	110
Prepayments to vendors	103,286	63,114	2,376	1	120	73	105,782	63,188	63,188
Prepayments to USA Foreign Military Sales	21,550	20,252	109,067	126,640	0	0	130,617	146,892	163,108
Total	124,916	83,467	111,460	126,650	120	73	236,496	210,190	226,406

Restatement: Accruals have been restated to take into account that FMS related accruals have been offset against FMS related prepayments. Further information can be found in the *Accounting Policies Note* and in *Note 24: Restatements of 2016 Financial Statements due to the correction of prior-period errors*.

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 Log Ops Business Unit uses United States Foreign Military Sales and the NAMP Business Unit uses United States Foreign Military Sales to manage and support its airlift assets; FMS requires NAM to pre-finance its activities.

8. Accounts Payable and Accruals

	Log Ops		NAM		CEPS		Inter-business unit eliminations		NSPO TOTAL		
	Restated		Restated						Restated	Original	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2016
Payables to vendors	40,746	75,646	2,545	128	4,396	1,932	-2,372	-2,583	45,315	75,123	75,963
Health care contributions	813	778	0	0	0	0	0	0	813	778	778
Pension contributions	614	109	0	0	0	0	0	0	614	109	109
Accruals	273,937	232,191	18,530	25,030	5,847	7,016	0	0	298,314	264,237	305,849
Taxes	0	0	0	0	0	8,514	0	0	0	8,514	8,514
Other	43,278	31,225	0	0	-604	718	0	0	42,674	31,943	5,707
Total	359,388	339,949	21,075	25,158	9,639	18,180	-2,372	-2,583	387,730	380,704	396,920

Restatement: Accruals have been restated to take into account that FMS related accruals have been offset against FMS related prepayments. Further information can be found in the *Accounting Policies Note* and in *Note 24: Restatements of 2016 Financial Statements due to the correction of prior-period errors*.

9. Customer Advances

	Log Ops		NAM		CEPS		NSPO TOTAL	
	2017	2016	2017	2016	2017	2016	2017	2016
Customer advance payments	2,865,425	2,676,436	284,837	309,810	12,000	17,148	3,162,262	3,003,394
Customer and replenishment credits (allocated or to be allocated)	157,337	134,921	3,044	12,286	182,622	167,745	343,003	314,952
Total	3,022,762	2,811,357	287,881	322,096	194,622	184,893	3,505,265	3,318,346

Customer Advance Payments

“Customer Advance Payments” represent the offsetting of legal commitments entered into by the Agency to purchase goods or services on Customers’ behalf for individual, joint and common expenditures 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 29 NATO nations and other NATO entities, this amount of actual and potential liabilities at 31 December 2017 which were offsetting customer advance payments was Euro 2.7 Billion (2016: 2.3 Billion), related primarily to individual expenditures.

Customer Advances Payments are considered to be current liabilities because when advances are called from customers there are no stipulations which prevent the customer requesting a return of the advance.

Customer and replenishment credit

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. In addition there can be credits to be allocated on the closure of a Support Partnership or project.

Not all customer and replenishment credits are backed by commitments. These credits are either allocated to customers in accordance with an appropriate cost sharing mechanism or are due to be allocated (i.e. currently unallocated).

10. Bank Interest and foreign currency effects

Bank Interest

For the Log Ops Business Unit's operational activities and the NAMP Business Unit (but not the Log Ops Business Unit's administrative activities and the CEPS Business Unit), bank interest does not belong to the respective Business Unit or part thereof, but to their respective customers; these returns "pass through" the business unit or part thereof, and are reflected in the Statement of Financial Position under Customer Advances (Note 9) as "Customer and replenishment credits (allocated or to be allocated)". For the Log Ops Business Unit's operational activities and the NAMP Business Unit these amounts are not shown in the Statement of Financial Performance.

<i>Bank Interest</i>	Log Ops		NAM		CEPS		NSPO TOTAL	
	2017	2016	2017	2016	2017	2016	2017	2016
Bank interest earned on cash balances	1,332	1,804	3,016	2,177	84	271	4,432	4,252
<i>Of which "Passes through" directly to customers</i>	1,344	1,784	3,016	2,177	0	0	4,360	3,961
Reflected in Statement of Financial Performance	-12	20	0	0	84	271	72	291

The Agency is currently exposed to very low or negative interest rates when investing customer funds in Euros.

Realised Foreign Exchange Gains and Losses

For the Log Ops Business Unit and the NAMP Business Unit realised foreign exchange gains and losses does not belong to the respective Business Unit or part thereof, but to their respective customers; these returns "pass through" the business units and are reflected in the Statement of Financial Position under Customer Advances (Note 9) as "Customer and replenishment credits (allocated or to be allocated)".

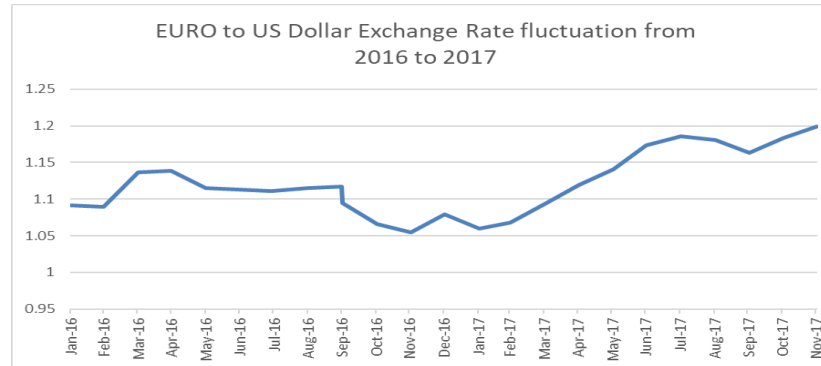
<i>Realised Foreign Exchange gains and losses</i>	Log Ops		NAM		CEPS		NSPO TOTAL	
	2017	2016	2017	2016	2017	2016	2017	2016
Net realised foreign exchange gains and (losses) in year	-729	-5,266	-170	-144	0	0	-899	-5,410
<i>Of which "Passes through" directly to customers</i>	-729	-5,266	-170	-144	0	0	-899	-5,410
Reflected in Statement of Financial Performance	0	0	0	0	0	0	0	0

Unrealised Foreign Exchange Gains and Losses

Unrealised foreign exchange gains and losses, where received or incurred, pass through the Statement of Financial Performance for all business units.

<i>Unrealised Foreign Exchange gains and losses</i>	Log Ops		NAM		CEPS		NSPO TOTAL	
	2017	2016	2017	2016	2017	2016	2017	2016
Net unrealised foreign exchange gains and (losses) in year	-15,853	-612	177	171	0	0	-15,676	-441
<i>Of which "Passes through" directly to customers</i>	0	0	0	0	0	0	0	0
Reflected in Statement of Financial Performance	-15,853	-612	177	171	0	0	-15,676	-441

Foreign exchange gains and losses are due to the relative strength of the Euro vis-à-vis other currencies in the financial reporting period. Such gains and losses are greatest in an unhedged environment, an environment in which NSPA operates. The graph below shows the relative weakening of the Euro against the US Dollar in 2016 and its relative strengthening against the US Dollar in 2017.



11. Expenses

Services and Support to Customers

	Chairperson's Office		Log Ops		NAM		CEPS		Inter-business unit eliminations		NSPO TOTAL	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Services and Support to Customers												
Common Support (including ACO and AWACS)	0	0	192,072	174,049	0	0	0	0	0	0	192,072	174,049
Individual brokerage	0	0	672,793	637,572	0	0	0	0	0	-80	672,793	637,492
Individual maintenance and services	0	0	627,658	569,019	0	0	0	0	0	-2	627,658	569,017
Operational logistics support	0	0	195,290	304,052	0	0	0	0	0	0	195,290	304,052
Transportation services	0	0	127,292	84,924	0	0	0	0	0	-208	127,292	84,716
Airlift Services	0	0	0	0	48,152	59,541	0	0	-185	0	47,967	59,541
Fuel Management	0	0	361,134	230,476	0	0	31,732	32,414	0	0	392,866	262,890
Net proceeds from changes in inventory	0	0	6,985	8,987	41	0	0	0	0	0	7,026	8,987
Other services	0	0	0	0	0	0	0	0	0	0	0	0
Total	0	0	2,183,224	2,009,079	48,193	59,541	31,732	32,414	-185	-290	2,262,964	2,100,744
USA Foreign Military Sales	0	0	29,364	23,532	44,225	61,352	0	0	0	0	73,589	84,884

Many of the expenses in relation to “Common Support (including ACO and AWACS)” may also appear in the financial statements of other NATO entities such as Allied Command Operations and the NAEW&C Programme Management Organization (NAPMO). AWACS refers to NATO’s fleet of Airborne Early Warning and Control System aircraft which are ultimately under the operational control of the Supreme Allied Commander Europe but where much of the cost is borne through NAPMO.

Other Expenses

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. Inter-Business Unit eliminations on consolidation

The following represent inter-business unit segment eliminations needed to create the NSPO Financial Statements 2017.

Statement of Financial Position	2017			2016		
	Receivable by Log Ops from NAMP	Receivable by Log Ops from CEPS	Total Inter- business unit	Receivable by Log Ops from NAMP	Receivable by Log Ops from CEPS	Total Inter- business unit
Current Assets						
Accounts Receivable: Receivables	2,370	2	2,372	2,581	2	2,583
Current Liabilities	Payable from NAMP to Log Ops	Payable from CEPS to Log Ops	Total Inter- business unit	Payable from NAMP to Log Ops	Payable from CEPS to Log Ops	Total Inter- business unit
Accounts Payable: Payables to vendors	2,370	2	2,372	2,581	2	2,583
Statement of Financial Performance	2017			2016		
	Log Ops revenue from NAMP	Log Ops revenue from CEPS	Total Inter- business unit	Log Ops revenue from NAMP	Log Ops revenue from CEPS	Total Inter- business unit
Revenue						
Services and Support to Customers						
Individual Brokerage	0	0	0	62	18	80
Individual Maintenance and Services	0	0	0	2	0	2
Airlift Services	185	0	185	208	0	208
Administrative Support	2,384	0	2,384	2,484	0	2,484
Miscellaneous Revenue	0	0	0	0	1	1
Total	2,569	0	2,569	2,756	19	2,775
	NAMP expenditure at Log Ops	CEPS expenditure at Log Ops	Total Inter- business unit	NAMP expenditure at Log Ops	CEPS expenditure at Log Ops	Total Inter- business unit
Expenditure						
Services and Support to Customers						
Individual Brokerage	0	0	0	62	18	80
Individual Maintenance and Services	0	0	0	2	0	2
Airlift Services	185	0	185	208	0	208
Other Expenses						
Information Systems	2,384	0	2,384	2,484	0	2,484
Training	0	0	0	0	1	1
Total	2,569	0	2,569	2,756	19	2,775

13. Employee Disclosures

Personnel Costs (including key management personnel)

	Chairperson's Office		Log Ops		NAM		CEPS *		NSPO TOTAL	
	2017	2016	2017	2016	2017	2016	2017	2016 *	2017	2016 *
Salaries	560	534	73,134	67,800	2,484	2,435	35,610	34,022	111,788	104,791
Allowances	92	76	16,934	15,669	640	546	9,293	9,372	26,959	25,663
Pension contributions	32	26	4,704	3,999	325	326	1,893	1,841	6,954	6,192
Health care contributions	65	58	8,865	8,494	403	389	13,039	12,383	22,372	21,324
Loss-of-Job Indemnities (LOJI)	0	0	303	0	0	0	0	38	303	38
Other	4	0	1,076	791	78	67	1,297	1,219	2,455	2,077
Total	753	694	105,016	96,753	3,930	3,763	61,132	58,875	170,831	160,085

* Please note that in 2016 there was a transposition error in the CEPS Business Unit between Pension Contributions and Health Care Contributions. The amounts now correctly disclosed for Pension Contributions [Euro 1,841k] and Health Care Contributions [Euro 12,383k] were originally wrongly shown the other way round.

Personnel Numbers

At 31 December, the following posts were filled:

	Chairperson's Office		Log Ops		NAM		CEPS		NSPO TOTAL	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
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 (2016: █); the majority of these consultants were working in Theatre.

Retirement benefits of NSPA Personnel

NSPA personnel, past and present, are enrolled in various 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.

14. 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

The Chairperson contacted members of the Agency Supervisory Board at the 2017 year-end asking for details of any related party transactions they had with the Agency. Of the twenty-nine Agency Supervisory Board members from whom a response was sought 28 replied; no response was received from one member who had left the Agency Supervisory Board. No member who replied disclosed that they had any related party transactions.

Related Party Transactions of Management Personnel

The Financial Controller contacts all management personnel which he considers to have positions of influence at the end of the financial year to garner information in respect of possible related party transactions. The personnel contacted include key management personnel (see Note 15) and other personnel such as programme managers, the competition advocate, and the chiefs of support divisions. None of the personnel contacted considered that they had related transactions with the Agency in 2017.

15. Key Management Personnel

Key management personnel hold positions of responsibility within NSPA. They are responsible for implementing the strategic direction, which is approved by the ASB, and carrying out the operational management of NSPA; they are entrusted with significant authority.

In theory, their responsibilities may enable them to influence the benefits of office that flow to them or their related parties (such as family members) and hence certain financial reporting disclosures must be made about:

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

Name	Nationality	Role	Grade/step	Loans received from NSPA	Family members receiving income from NSPA	Other revenue from NSPA or NATO
■	NLD	General Manager	A7/2	Nil	Nil	Nil
■	GBR	Chief of Staff (until 26 July 2017)	A6/6	Nil	Nil	Nil
■	GBR	Chief of Staff (from 27 July 2017)	A6/1	Nil	Nil	Nil
■	DEU	Financial Controller* (until 28 February 2017)	A6/8	Nil	Nil	Nil
■	USA	Financial Controller* (from 21 March 2017)	A6/4	Nil	Nil	Nil
■	FRA	Director Procurement	A6/8	Nil	Nil	Nil
■	DEU	Director Logistics	A6/3	Nil	Nil	Nil
■	BEL	CEPS Programme Manager	A6/3	Nil	Nil	Nil
■	NLD	NAM Programme Manager	A6/5	Nil	Nil	Nil

* The functions of the Financial Controller were assumed by the Agency's Chief Financial Reporting Officer from 1 to 20 March 2017.

During the year there were seven Full-time Equivalent key management personnel; one FTE was of Grade A7 while six FTE staff were of Grade A6.

Salaries and benefits paid to key management personnel

Remuneration type	2017	2016
Basic salaries	939,767	914,911
Allowances	163,902	187,729
Employer's contribution to insurance	115,814	119,611
Employer's contribution to pension	94,173	91,781
Total	1,313,656	1,314,032

Representative Allowance of the General Manager

The General Manager, in addition to other allowances to which all staff are entitled, received representation allowance for 2017 of Euro 10,107 (2016: Euro 10,107), due to the requirement to represent NSPA at events, of which Euro 8,044 was spent (2016: Euro 8,827). Expenditure made against this allowance is supported by invoices and is approved by the Financial Controller. This representation allowance includes a 25 per cent contribution to the rent of accommodation.

Hospitality Allowances of Directors

NSPA Directors receive a total hospitality allowance of Euro 5,000 (2016: Euro 5,000) between them, of which Euro 1,754 (2016: Euro 2,998) was spent in 2017.

Hospitality Allowance of the ASB's Secretariat

The ASB approved a Euro 22,000 (2016: Euro 20,000) hospitality allowance to its Secretariat for 2016 of which Euro 12,715 was spent (2016: Euro 13,626). Expenditure made against this allowance is supported by invoices. The Chairperson of the ASB and the Chairperson of the CEPS and NAM Programme Boards respectively, do not receive a Representation Allowance.

Remuneration of the Chairperson of the NSPO Agency Supervisory Board

The Chairperson of the NSPO Agency Supervisory Board, [REDACTED], does not receive a salary from NSPO. She is reimbursed her travel expenses while working on NSPO business in accordance with the NATO Civilian Personnel Regulations. In 2017, it was decided by the General Manager and the Financial Controller that for the purposes of her travel, economy class travel, which is permitted by the NATO Civilian Regulations, can be interpreted to include a specific type of fully flexible premium-economy class ticket. In 2017, the Chairperson's travel costs (including transportation and per diems) from Canada totalled Euro 28,495. In 2016, the travel costs of the two ASB Chairpersons, travelling from Canada and Brussels respectively, totalled Euro 11,826.

16. Provisions

IPSAS defines a provision as “a liability of uncertain timing or amount”. The following table shows changes in provisions:

	2017				2016			
	Log Ops 2017				Log Ops 2016			
	Opening Balance	Additions	Reductions	Closing Balance	Opening Balance	Additions	Reductions	Closing Balance
Doubtful Debts	2,120	178	0	2,298	0	2,120	0	2,120
	CEPS 2017				CEPS 2016			
	Opening Balance	Additions	Reductions	Closing Balance	Opening Balance	Additions	Reductions	Closing Balance
Doubtful Debts	267	0	-38	229	267	0	0	267
Early Retirement Provisions of the German National Organisation	4,458	0	-894	3,564	6,605	0	-2,147	4,458
Total	4,725	0	-932	3,793	6,872	0	-2,147	4,725
	NSPO 2017				NSPO 2016			
	Opening Balance	Additions	Reductions	Closing Balance	Opening Balance	Additions	Reductions	Closing Balance
Doubtful Debts	2,387	178	-38	2,527	267	2,120	0	2,387
Early Retirement Provisions of the German National Organisation	4,458	0	-894	3,564	6,605	0	-2,147	4,458
Total	6,845	178	-932	6,091	6,872	2,120	-2,147	6,845

17. 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 considered an appeal lodged by a national from a NATO member nation in 2017. The issue is related to recruitment and an alleged breach of employment contract. The claimed amount was Euro 450k. The proceedings before the Tribunal were suspended in order to find an amicable settlement. A settlement agreement was reached in February 2018 and the disbursed settlement amount was Euro 158k (see Note 24. Events after the financial reporting date of 31 December 2017). This was not recorded as a provision at the reporting date because at that date it represented a possible obligation only.
- The NATO Administrative Tribunal is considering an appeal lodged by a former NSPA staff member in 2017 in relation to termination of contract and alleged harassment. The claimed amount is a total of Euro 32k. The Administrative Tribunal dealt with an appeal from the same person in 2014; the appeal was dismissed as not receivable by the Tribunal. The hearing in current case was held before the Tribunal on 15 March 2018. Considering the result of past appeal case, the likelihood of an adverse outcome of the litigations is considered to be moderate.
- The NATO Administrative Tribunal was considering one appeal lodged by a NSPA staff member in 2016; the issue is related to a former staff member's request for an Invalidity Board to be convened and the termination of her contract with NSPA. In 2017 the proceeding was suspended until April 2018. No estimation of the likely cost to the Agency can be provided at this stage.
- A NATO body is currently in legal dispute with a contractor. This contractor provided service to the Agency in Theatre and owes the Agency Euro 8m which has been outstanding for over two years. The Agency is currently working with the contractor and the NATO body involved in resolving the dispute; a likely resolution is that the Agency will be paid the money that it is owed.
- At the year-end, the Agency was involved in a dispute with a vendor after the Agency cancelled the vendor's contract because of issues related to the vendor's responses during the contract solicitation phase. The cost of arbitration was Euro 75k. No more contingent liabilities are anticipated as a result of this dispute.

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

- In one host nation, a 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. New decrees dated 3 October 2010, 4 October 2010, 29 December 2011 and 2 May 2012 may have financial impacts. It is not yet possible to quantify the efforts and costs of the implementation of those decrees.
- In 2005, an accident in one of the Programme's member nations led 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. It is not yet known if third parties will submit claims against the Programme's member nation.
- In 2008, an accident in one of the Programme's member nations led 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 is now prosecuting the local administration which asked both cases to be juridically linked. In the meantime, the owners of the nearby land joined the prosecution. The litigation is pending.
- In 2015, an attempted theft on the pipeline system resulted in damages and significant pollution. The repairs and depollution have already been budgeted by the CEPS for a value of Euro 1.4m and the repair of the line is complete. The owner of the ground has officially filed a complaint against the relevant member nation; the amount of any future claim is not yet known.

18. 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.

19. Financial Instruments

NSPO's financial requirements are met from its customers who are members or partners of NATO. Generally, NSPO has no powers to borrow money; although the CEPS National Organisations can have short-term borrowing facilities. Other than financial assets and liabilities which are generated by day-to-day business 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 not exposed to material credit risks.

Foreign currency risk

NSPO has limited exposure to foreign currency risk which is borne by its customers.

20. Write-offs

In 2017 the Log Ops Business Unit wrote-off assets with a net book value of Euro 93k (2016: Euro 19k). In 2017, the NAMP Business Unit wrote-off assets with a net book value of USD 70k (2016: USD Nil). The CEPS Business Unit wrote-off assets with a net book value of Euro 25k (2015: Euro Nil).

21. Financial Plan Execution

NSPO is not required to follow "*IPSAS 24 - Presentation of Budget Information in Financial Statements*" because it prepares an Annual Financial Plan which includes a Statement of Planned Income and Expenditures. However, NSPA provides a high-level summary of the approved administrative cost elements of the financial plan of the Log Ops Business Unit, and full summary plans for the CEPS and the NAM Business Units, with the authorised commitments and expenditures made against them. In addition, NSPA chooses 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.

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

NSPA manages some inventories on behalf of third-parties such as NATO member states and other NATO Bodies; however, it does not always control these inventories from a financial reporting perspective and hence, where they are not controlled, they are not shown in the NSPO Statement of Financial Position. These 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 on behalf of Allied Command Operations (ACO) at the year-end was Euro 276m (2016: Euro 267 m). It is important to note that while the inventories are managed on behalf of ACO they are not considered to be "controlled" by ACO from a financial reporting perspective and hence are not capitalised in ACO's financial statements.

23. CEPS Revenues

CEPS is funded by a number of revenue streams, these being; the use of the pipeline system by military and non-military customers, funding provided by the programme nations and other revenue.

Sources of Revenue	2017	2016
Military use of the Pipeline-System	16,672	17,003
Non-military use of the Pipeline-System	88,102	81,453
Provided by Programme Nations	34,652	51,174
Other revenue	9,764	5,399
Total	149,191	155,029
Revenue as per Statement of Financial Performance	114,688	135,915
Difference relating to asset purchases	34,503	19,114

24. Restatements of 2016 Financial Statements

Cash Flow Statement

Parts of the 2016 Cash Flow Statement have been restated to reflect the fact that cash outflows from investing activities were understated by Euro 2m (see page 14).

No setting-off of United States Foreign Military Sales assets and liabilities in 2016

The Agency has restated elements of its 2016 Financial Statements due to a change in accounting policy which resulted from an external auditor observation.

The Agency's external auditor (the International Board of Auditors for NATO) qualified the NSPO Financial Statements for 2016 in part due to the fact that the Agency did not set-off prepayments made to United States Foreign Military Sales against amounts accruing at the year end. For the NSPO Financial Statements 2017 and their comparative figures for 2016 there has been no set-off of these figures. This has led to a restatement of Prepayments and Accounts Payable in the Log Ops and NAMP business units respectively.

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

	Chairperson's Office		Log Ops		Change	NAM		Change	CEPS		Inter-business unit eliminations *	NSPO		Change
	2017	2016	Restated 2016	Original 2016		Restated 2016	Original 2016		2016	2016	2016	Restated 2016	Original 2016	
Current Assets														
Cash and Cash Equivalents	0	0	2,044,302	2,044,302		216,381	216,381		182,359	182,359	0	2,443,042	2,443,042	
Accounts Receivable	0	0	1,052,313	1,052,313		6,691	6,691		22,692	22,692	-2,583	1,079,113	1,079,113	
Prepayments	0	0	83,467	69,994	13,473	126,650	156,339	-29,689	73	73	0	210,190	226,406	-16,216
Long Term Receivables	0	0	3,857	3,857		0	0		2,674	2,674	0	6,531	6,531	
Inventory	0	0	355,958	355,958		2,538	2,538		6,382	6,382	0	364,878	364,878	
Fixed and Intangible Assets														
Property Plant and Equipment	0	0	114,102	114,102		494,798	494,798		132,240	132,240	0	741,140	741,140	
Intangible Assets	0	0	0	0		22,118	22,118		2,373	2,373	0	24,491	24,491	
Total Assets	0	0	3,640,526	3,640,526		869,176	898,865		348,793	348,793	-2,583	4,869,385	4,885,601	
Current Liabilities														
Accounts Payable and Accruals	0	0	339,949	326,476	13,473	25,158	54,847	-29,689	18,180	18,180	-2,583	380,704	396,920	-16,216
Customer Advances	0	0	2,811,357	2,811,357		322,096	322,096		184,893	184,893	0	3,318,346	3,318,346	
Provisions	0	0	2,120	2,120		0	0		4,725	4,725	0	6,845	6,845	
Total Liabilities	0	0	3,139,953	3,139,953		347,254	376,943		207,798	207,798	-2,583	3,705,895	3,722,111	
Net Assets	0	0	500,573	500,573	0	521,922	521,922	0	140,995	140,995	0	1,163,490	1,163,490	0

Prepayments

	Log Ops		Change	NAM		Change
	Restated 2016	Original 2016		Restated 2016	Original 2016	
Prepayments to employees	101	101		9	9	
Prepayments to vendors	63,114	63,114		1	1	
Prepayments to USA Foreign Military Sales	20,252	6,779	13,473	126,640	156,329	-29,689
Total	83,467	69,994		126,650	156,339	

Accounts Payable and Accruals

	Log Ops		Change	NAM		Change
	Restated 2016	Original 2016		Restated 2016	Original 2016	
Payables to vendors	75,646	76,486	-840	128	128	
Health care contributions	778	778		0	0	
Pension contributions	109	109		0	0	
Accruals	232,191	244,114	-11,923	25,030	54,719	-29,689
Taxes	0	0		0	0	
Other	31,225	4,989	26,236	0	0	
Total	339,949	326,476		25,158	54,847	

2016 Audit Qualification issues leading to no change in presentation

- In 2016, CEPS assets in the course of construction could not be supported at the German National Organisation. The implementation of the *NATO Accounting Policy on Property Plant and Equipment* which comes into effect in the 2018 financial year, allows capitalisation of assets-in-the-course-of-construction after assets have been handed over when the NATO body does not receive on a timely basis complete and reliable financial information during the construction phase. While 2017 figures are considered to be accurately stated, this provision of the NATO Accounting Policy on Property Plant and Equipment should irrevocably lead to the removal of this qualification with the issuance of the NSPO Financial Statements for 2018.
- The NSPO Financial Statements 2016 did not include 2015 comparative information with respect to the Statement of Change in Net Assets, Note 3 Property, Plant and Equipment (PP&E), and Note 4 Intangible Assets and inter-business segment eliminations. The Agency has shown comparative figures for 2017 and 2016 figures in these financial statements but has no requirement to restate figures in respect of 2015 which are not published in this financial statement.

24. Events after the financial reporting date of 31 December 2017

NSPO is required to disclose events, both favourable and unfavourable, that occurred between the reporting date of 31 December 2017 and the date when these financial statements were authorized for issue by the General Manager and the Financial Controller. IPSAS requires two types of events which should be identified:

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

Management considers there are no events categorised under (a) which need to be disclosed but two events under (b) which should be disclosed:

- i) At the meeting of the June 2017 ASB, the Board decided to split the Logistics Operations Directorate into two new directorates from 1 January 2018; these being the Life Cycle Management Directorate and the Support to Operations Directorate. In respect of the financial statements, it is considered unlikely that the split of the directorates will impact the financial reporting segment split and it is probable that the two directorates will continue to be reported under the Log Ops Business Unit segment.
- ii) The Financial Statements are audited in respect of their numerical accuracy, the accuracy of note disclosures and whether transactions have been made in compliance with the NFRPs. In the Financial Statements, the Agency disclosed a contingent liability in respect of a claimant who appealed to the NATO Administrative Tribunal in relation to his recruitment and an alleged breach of employment contract. The claimant subsequently claimed Euro 450k from the Agency for loss of earnings. In February 2018, the Agency was offered the opportunity to settle this case out-of-court and the General Manager and Financial Controller considered the financial risk to the Agency's customers of settling out-of-court to be significantly lower than the potential financial risk if the case was settled in court. As such, and with the financial interests of customers in mind, the General Manager and the Financial Controller authorised a payment of Euro 158k to settle the case out-of-court. To minimise the financial risk to customers, the General Manager and the Financial Controller made the decision to pay this amount despite the fact that it was not supported by an appropriation (i.e. an authorised budget) and hence contrary to the NFRPs. The Agency will work with the customer who sponsored the project for which the recruitment occurred to establish how the liability should be settled.

Annex: NSPO Financial Plan Execution

1. Log Ops Business Unit – Administrative Costs Elements

All figures in Euro '000	PRIOR 2017 UNPAID COMMITMENTS BROUGHT FORWARD	2017 AUTHORISED CREDITS (BEFORE TRANSFERS)	TRANSFERS	2017 AUTHORISED CREDITS (AFTER TRANSFERS)	PAYMENTS AGAINST COMMITMENTS & CREDITS	UNPAID COMMITMENTS (i.e. LEGAL OBLIGATIONS) CARRIED FORWARD	TOTAL CREDITS CONSUMED IN YEAR	LAPSED CREDITS
Personnel Expenditure	518	117,450	-968	116,482	104,493	1,043	105,537	10,945
General Administrative, Operating & Maintenance	6,049	20,696	529	21,225	11,760	6,085	17,845	3,380
Project Specific Expenditure	7,367	29,638	2,171	31,808	16,421	4,759	21,180	10,629
Investments	1,779	10,747	455	11,202	3,726	6,051	9,777	1,426
Southern Operational Centre Regularisation for Administrative Expenditure	-750	-750	0	-750	-595	0	-595	-155
Total	14,963	177,781	2,187	179,968	135,805	17,939	153,743	26,225

2017 Authorised Credits (after transfers) includes prior-2017 unpaid commitments brought forward.

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

2. Log Ops Business Unit – Jointly and Commonly Funded Operational Projects

Jointly funded projects are funded by between one and twenty-eight NATO nations, while commonly funded projects are funded by all twenty-nine NATO nations. The figures exclude individual customer requirements

OPERATIONAL BUDGETS	SOURCE OF FUNDING	PRIOR 2017 UNPAID COMMITMENTS BROUGHT FORWARD	2017 PAYMENTS AGAINST PRIOR 2017 COMMITMENTS	PRIOR 2017 UNPAID COMMITMENTS CARRIED FORWARD TO 2018	CREDITS AVAILABLE IN 2017	COMMITMENTS MADE IN 2017	ACCRUALS EXPENDITURE	UNPAID COMMITMENT S	UNUSED CREDITS
	NSIP	4,532	2,425	1,576	48,968	13,221	354	12,876	35,747
	MULTINATIONAL	8,430	2,886	3,971	18,194	6,698	2,327	4,403	11,495
	PARTNERSHIPS	1,327	189	1,076	368	279	124	155	89
	PARTNERSHIPS	5,480	2,658	2,456	4,868	4,779	2,272	2,507	89
	PARTNERSHIPS	2,223	958	1,244	2,951	2,655	1,455	1,244	296
	PARTNERSHIPS	493	290	154	775	424	177	270	351
	OTHER NATO BODIES	466	85	583	600	139	0	139	461
	OTHER NATO BODIES	56,875	77,825	23,067	140,429	89,760	45,555	44,280	50,668
	PARTNERSHIPS	39,443	11,209	24,959	35,944	32,042	5,252	26,816	3,901
	PARTNERSHIPS	71	70	2	1,299	1,047	559	488	253
	PARTNERSHIPS	4	4	0	160	121	25	96	38
	PARTNERSHIPS	391	28	353	147	140	4	137	7
	PARTNERSHIPS	1,220	497	723	1,782	1,116	448	668	666
	PARTNERSHIPS	4,033	3,144	609	13,143	6,577	2,974	3,656	6,566
	PARTNERSHIPS	2,810	1,792	382	6,322	5,801	1,144	4,664	521
	PARTNERSHIPS	390,583	107,430	283,153	1,231,565	1,215,665	233,609	982,056	15,900
	NSIP	1,819	0	1,819	5,536	100	31	69	5,436
	PARTNERSHIPS	0	0	0	3,618	3,483	1,589	1,893	135
	PARTNERSHIPS	0	0	0	2	0	0	0	2
	AUTHORISED CUSTOMERS	621	395	173	3,528	1,398	1,101	297	2,130
	PARTNERSHIPS	34	29	2	431	300	251	49	131
	OTHER NATO BODIES	13,202	11,365	1,014	18,999	18,498	9,462	9,341	501
	OTHER NATO BODIES	142	119	0	1,760	1,544	0	1,544	216
	NSIP	366	325	0	154,389	16,294	2,877	13,417	138,095
	OTHER NATO BODIES	2	0	0	0	0	0	0	0

Log Ops Business Unit – Jointly and Commonly Funded Operational Project Costs continues overleaf....

OPERATIONAL BUDGETS	SOURCE OF FUNDING	PRIOR 2017 UNPAID COMMITMENTS BROUGHT FORWARD	2017 PAYMENTS AGAINST PRIOR 2017 COMMITMENTS	PRIOR 2017 UNPAID COMMITMENTS CARRIED FORWARD TO 2018	CREDITS AVAILABLE IN 2017	COMMITMENTS MADE IN 2017	ACCRUALS EXPENDITURE	UNPAID COMMITMENT S	UNUSED CREDITS
	OTHER NATO BODIES	102	0	0	0	0	0	0	0
	OTHER NATO BODIES	10	0	0	0	0	0	0	0
	OTHER NATO BODIES	756	675	69	1,405	1,401	1,281	120	4
	NSIP	1	0	0	8,200	4,997	460	4,537	3,203
	PARTNERSHIPS	6,784	3,192	3,587	9,097	4,862	1,984	2,878	4,235
	PARTNERSHIPS	864	731	132	581	542	164	498	39
	PARTNERSHIPS	0	0	0	2	0	0	0	2
	OTHER NATO BODIES	882	538	276	5,300	4,930	4,509	448	370
	OTHER NATO BODIES	95	53	15	442	441	274	176	1
	PARTNERSHIPS	836	89	746	113	113	25	88	0
	PARTNERSHIPS	79	19	60	35	20	3	16	15
	NATIONAL PROJECTS	3,081	510	2,272	7,999	7,999	5,356	2,708	0
	PARTNERSHIPS	114	1	113	215	215	215	0	0
	PARTNERSHIPS	0	0	0	105,177	105,177	53,904	51,273	0
	PARTNERSHIPS	0	0	0	18,967	4,762	4,755	7	14,205
	MULTINATIONAL	707	548	0	18,528	11,741	11,741	0	6,786
	NATIONAL PROJECTS	1,038	815	44	71	56	49	8	15
	NATIONAL PROJECTS	44	17	0	686	653	172	482	33
	NATIONAL PROJECTS	82	0	26	0	0	0	0	0
	NATIONAL PROJECTS	16,761	14,117	2,119	87,230	78,002	66,611	12,528	9,228
	NATIONAL PROJECTS	963	658	205	6,007	4,303	3,691	612	1,703
	NATIONAL PROJECTS	9,269	6,868	1,833	22,645	18,027	15,511	2,515	4,618
	NATIONAL PROJECTS	54	53	0	10	2	2	0	8
	NATIONAL PROJECTS	7,851	7,692	2	17,141	15,430	13,064	2,488	1,710
	NATIONAL PROJECTS	6,217	4,938	40	48,873	44,411	35,677	9,061	4,462

Log Ops Business Unit – Jointly and Commonly Funded Operational Project Costs continues overleaf....

OPERATIONAL BUDGETS	SOURCE OF FUNDING	PRIOR 2017 UNPAID COMMITMENTS BROUGHT FORWARD	2017 PAYMENTS AGAINST PRIOR 2017 COMMITMENTS	PRIOR 2017 UNPAID COMMITMENTS CARRIED FORWARD TO 2018	CREDITS AVAILABLE IN 2017	COMMITMENTS MADE IN 2017	ACCRUALS EXPENDITURE	UNPAID COMMITMENTS	UNUSED CREDITS
	NATIONAL PROJECTS	530	43	7	954	864	739	128	90
	NATIONAL PROJECTS	879	239	0	2,402	2,035	1,860	236	366
	OTHER NATO BODIES	728	33	645	1,046	247	247	0	799
	NATIONAL PROJECTS	102	92	0	1,228	1,158	1,011	147	71
	NATIONAL PROJECTS	0	0	0	6,678	5,019	3,777	1,242	1,659
	NATIONAL PROJECTS	0	0	0	6,219	3,191	2,535	685	3,028
	MULTINATIONAL	0	0	0	4,500	0	0	0	4,500
	NATIONAL PROJECTS	29,007	1,544	23,806	2,162	2,162	108	2,054	0
	OTHER NATO BODIES	5,084	814	1,961	0	0	0	0	0
	NATIONAL PROJECTS	6,180	5,527	50	13,008	10,626	9,098	1,563	2,382
	MULTINATIONAL	1,223	912	0	8,375	8,192	6,672	1,561	183
	MULTINATIONAL	2,189	4,349	2,101	104,161	48,606	48,606	652	55,556
	MULTINATIONAL	0	0	0	721	312	312	0	409
	PARTNERSHIPS	599	268	25	1,995	578	328	263	1,418
	PARTNERSHIPS	1,795	1,170	477	4,775	1,173	430	746	3,602
	PARTNERSHIPS	28	23	5	173	5	4	1	168
	PARTNERSHIPS	67	67	0	4,080	114	13	101	3,967
	PARTNERSHIPS	2,087	1,807	234	7,528	1,780	799	982	5,748
	PARTNERSHIPS	0	0	0	172	3	3	0	169
	PARTNERSHIPS	0	0	0	23	1	1	0	22
	PARTNERSHIPS	1,588	945	63	1,633	1,181	440	749	452
	PARTNERSHIPS	0	0	0	60	0	0	0	60
	AUTHORISED CUSTOMERS	175	162	0	789	83	52	31	705
	MULTINATIONAL	4	4	0	3,823	0	0	0	3,823
	PARTNERSHIPS	7	0	2	974	0	0	0	974
	PARTNERSHIPS	1,555	1,274	163	3,152	3,010	805	2,258	142
	PARTNERSHIPS	0	0	0	3	0	0	0	3
		644,985	284,508	388,395	2,235,136	1,820,508	608,883	1,214,907	414,628

The figures in the column “Prior 2017 unpaid commitments carried forward to 2018” do not represent the arithmetical differences between the amounts within column “Prior 2017 unpaid commitments brought forward” and “2017 payments against prior-2017 commitments”; these differences are mainly due to de-commitments/adjustments made during the reporting year against the open purchase orders/funds reservations from previous years forwarded in 2017. 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 reported here in USD.

All figures in USD '000	UNUSED AUTHORISED CREDITS AND UNPAID COMMITMENTS BROUGHT FORWARD	2017 AUTHORISED CREDITS	PAYMENTS AGAINST COMMITTED AUTHORISED CREDITS	UNUSED AUTHORISED CREDITS AND COMMITMENTS CARRIED FORWARD	TOTAL CREDITS CONSUMED IN YEAR	LAPSED CREDITS
Acquisition	\$191,353	-\$42,840	\$15,146	\$64,590	\$79,736	\$68,777
Operational	\$314,750	\$286,009	\$129,698	\$163,038	\$292,736	\$308,023
Total	\$506,103	\$243,169	\$144,844	\$227,629	\$372,472	\$376,800

All figures in USD '000	PRIOR 2017 UNPAID COMMITMENTS CARRIED FORWARD	2017 AUTHORISED CREDITS	PAYMENTS AGAINST COMMITMENTS & AUTHORIZED CREDITS	UNPAID COMMITMENTS (i.e. LEGAL OBLIGATIONS) CARRIED FORWARD	TOTAL CREDITS CONSUMED IN YEAR	LAPSED CREDITS
Administration	\$175	\$8,411	\$7,558	\$442	\$8,000	\$586

During 2017, the Programme made a number of budget transfers, the main one being a USD 43m transfer from its FMS Support Case Acquisitions Budget to its Investments Operational Budget. There were also transfers within the Aircraft Procurement Acquisitions Budget, Flight Services Operational Budget and Administration related budgets that netted to USD Nil in each budget type.

The large amount of lapsed credits in the Acquisition and Operational budgets is due to a change in the way that the NAM Programme will start to budget in 2018 and future years to bring it into line with the requirements of the NFRPs.

4. Central Europe Pipeline System Business Unit

	Budget Type	PRIOR 2017 AUTHORISED CREDITS BROUGHT	2017 AUTHORISED CREDITS	BUDGETARY EXPENDITURE AGAINST CREDITS	AUTHORISATIONS CARRIED FORWARD	LAPSED CREDITS
Operational Budgets						
Personnel	O&M	288,079	59,673,600	59,563,696	22,376	375,606
	NP2	940,068	500,000	896,082	478,929	65,057
	NP3	557,419	175,000	373,713	358,535	171
	Depots	-	489,300	476,981	-	12,319
		<u>1,785,566</u>	<u>60,837,900</u>	<u>61,310,472</u>	<u>859,840</u>	<u>453,153</u>
Outside temporary staff	O&M	133,057	1,254,250	1,281,824	46,049	59,433
	Depots	2,724	275,800	269,733	2,874	5,917
		<u>135,781</u>	<u>1,530,050</u>	<u>1,551,558</u>	<u>48,924</u>	<u>65,350</u>
Training of personnel	O&M	75,201	327,300	262,761	119,672	20,068
Travel and transportation	O&M	17,295	3,619,600	3,499,840	52,763	84,291
	Depots	-	52,000	51,641	-	359
		<u>17,295</u>	<u>3,671,600</u>	<u>3,551,482</u>	<u>52,763</u>	<u>84,649</u>
Hospitality	O&M	2,506	42,500	40,805	749	3,451
Operations	O&M	1,454,438	20,177,900	19,181,803	1,363,863	1,086,672
	Depots	4,727	145,000	128,610	419	20,697
		<u>1,459,165</u>	<u>20,322,900</u>	<u>19,310,414</u>	<u>1,364,282</u>	<u>1,107,369</u>
Maintenance	O&M	5,043,870	13,955,560	12,442,623	5,856,139	700,668
	NP2	5,181,306	-	1,500,000	3,075,176	606,130
	NP3	1,107,239	-	86,077	1,021,142	20
	Depots	424,298	1,203,700	1,314,280	294,937	18,781
		<u>11,756,713</u>	<u>15,159,260</u>	<u>15,342,979</u>	<u>10,247,395</u>	<u>1,325,599</u>
General administrative expenses	O&M	1,504,974	11,018,580	10,894,581	1,204,414	424,559
	Depots	4,307	113,800	117,441	393	273
		<u>1,509,281</u>	<u>11,132,380</u>	<u>11,012,022</u>	<u>1,204,806</u>	<u>424,832</u>

Central Europe Pipeline System Business Unit continued

Budget Type		PRIOR 2017 AUTHORISED CREDITS BROUGHT	2017 AUTHORISED CREDITS	BUDGETARY EXPENDITURE AGAINST CREDITS	AUTHORISATIONS CARRIED FORWARD	LAPSED CREDITS
Capital						
Fixed installations	NP2	1,354,361	-	50,336	1,304,025	-
Plant equipment	O&M	781,252	1,264,860	853,725	1,046,331	146,056
	Depots	1,608	50,200	31,911	17,870	2,027
		<u>782,860</u>	<u>1,315,060</u>	<u>885,636</u>	<u>1,064,201</u>	<u>148,083</u>
Vehicles	O&M	288,675	510,900	514,289	261,954	23,333
Office equipment	O&M	1,622,842	1,035,800	984,806	1,621,347	52,489
Long-Term Investments						
Modernisation 100%	O&M	36,772,723	20,845,000	16,498,857	38,066,425	3,052,441
CEPS	Depots	1,203,105	980,000	1,268,421	897,968	16,716
		<u>37,975,828</u>	<u>21,825,000</u>	<u>17,767,278</u>	<u>38,964,393</u>	<u>3,069,157</u>
INFRA projects - cost shares	O&M	390,319	61,750	130,491	227,451	94,127
Grand Total		59,156,392	137,772,400	132,715,328	57,341,803	6,871,660

A summary of key transfers in respect of CEPS budgets made in the year is shown in the table below:

Chapter	National Organization	Amount	Description
1 - Personnel	Belgian	120,000	Transfer to budget of basic treatments
1 - Personnel	French	-	30,000 Transfer to Chapter 14
2 - Outside Temporary Staff	German	74,000	Additional outside staff required due to long time sick leaves
2 - Outside Temporary Staff	French Depots	-	26,000 Transfer to Chapter 07
2 - Outside Temporary Staff	CEPS Programme Office	-	26,700 Internal audit withdrawn from the intra-agency costs : amount transferred to additional costs for support from NSPA HQ
4 - Travel and Transportation	German	-	8,300 Transfer to chapter 16
6 - Operation	German	-	74,000 Overestimation IT/data lines
6 - Operation	French Depots	-	15,000 Transfer to Chapter 07
6 - Operation	CEPS Central	-	500,000 Transfer of the centralised pumping energy reserve according to the National Organisation's requirement
6 - Operation	Belgian	350,000	Transfer to budget petrol for pumping activities
6 - Operation	Dutch	150,000	Transfer to budget petrol for pumping activities
7 - Maintenance	Belgian	-	107,000 Cancellation maintenance of tanks - scheduled maintenance
7 - Maintenance	Belgian	-	10,000 Cancellation maintenance of the sites - scheduled maintenance
7 - Maintenance	Belgian	-	10,000 Cancellation control of lines - fixed contracts
7 - Maintenance	Belgian	-	10,000 Cancellation control of lines - routine maintenance
7 - Maintenance	Belgian	-	20,000 Cancellation mechanical & electromechanical spare parts
7 - Maintenance	Belgian	-	10,000 Cancellation maintenance of the sites - fixed contracts
7 - Maintenance	Belgian	-	40,000 Cancellation maintenance of rotary equipment - routine maintenance
7 - Maintenance	Belgian	-	20,000 Cancellation telecom & IT maintenance - fixed contracts
7 - Maintenance	Belgian	-	20,000 Cancellation industrial safety equipment
7 - Maintenance	German	-	4,000 Transfer to chapter 14 for replacement of floating oil barrier (6BHD)
7 - Maintenance	German	-	16,500 Transfer to chapter 14 for photovoltaic installation (6BHD)
7 - Maintenance	French Depots	19,200	Additional credits from Chapters 6 and 9 for maintenance
7 - Maintenance	French Depots	26,000	Additional credits required from chapter 2 for maintenance
9 - General Administration	French Depots	-	4,200 Transfer to Chapter 07
9 - General Administration	CEPS Programme Office	26,700	Transfer from Chapter 02
9 - General Administration	CEPS Central	-	29,000 Transfer to Chapter 17
14 - Plant equipment	Belgian	130,000	Transfer to budget Pipeline Integrity Management System - PIMS
14 - Plant equipment	German	4,000	Transfer from chapter 7 for replacement of floating oil barrier (6BHD)
14 - Plant equipment	German	16,500	Transfer from chapter 7 for photovoltaic installation (6BHD)
14 - Plant equipment	French	30,000	Transfer from 01-2 to purchase a colorimeter
14 - Plant equipment	CEPS Central	-	85,500 Transfer of the centralised laboratory equipment reserve according to the National Organisation's requirement
14 - Plant equipment	French	35,100	Transfer from the centralized budget for laboratory equipment
14 - Plant equipment	Belgian	5,400	Transfer from the centralized budget for laboratory equipment
14 - Plant equipment	German	45,000	Transfer from the centralized budget for laboratory equipment
16 - Vehicles	German	8,300	Underestimated results of public tenders for replacements (transferred from chapter 4)
17 - Office Equipment	Belgian	-	3,000 Transfer to Chapter 01
18 - Office Equipment	CEPS Central	29,000	Transfer for the SAP replication project
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