

NATO UNCLASSIFIED

16 December 2020

DOCUMENT
C-M(2020)0049-AS1

**IBAN AUDITOR'S REPORT ON THE 2019 FINANCIAL YEAR STATEMENTS OF NATO
SUPPORT AND PROCUREMENT ORGANISATION (NSPO)**

ACTION SHEET

On 15 December 2020, under the silence procedure, the Council noted the RPPB report attached to C-M(2020)0049, agreed its conclusions and recommendations, and agreed to the public disclosure of this report, the IBAN Auditor's Report and associated 2019 financial statements of NSPO.

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2020)0049.

NATO UNCLASSIFIED



NATO UNCLASSIFIED

8 December 2020

DOCUMENT
C-M(2020)0049
Silence Procedure ends:
15 Dec 2020 17:30

**IBAN AUDITOR'S REPORT ON THE 2019 FINANCIAL YEAR STATEMENTS OF NATO
SUPPORT AND PROCUREMENT ORGANISATION (NSPO)**

Note by the Secretary General

1. I attach the International Board of Auditors for NATO (IBAN) Auditor's Report on the 2019 financial statements of NATO Support and Procurement Organisation (NSPO). The IBAN Auditor's Report set out unqualified opinions on both the 2019 financial statements and on compliance for NSPO.
2. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB) (see Annex 1).
3. I do not believe this issue requires further discussion. Therefore, **unless I hear to the contrary by 17:30 hours on Tuesday, 15 December 2020**, I shall assume the Council noted the RPPB report, agreed its conclusions and recommendations, and agreed to the public disclosure of this report, the IBAN Auditor's Report and associated 2019 financial statements of NSPO.

(Signed) Jens Stoltenberg

1 Annex
1 Enclosure

Original: English

NATO UNCLASSIFIED

-1-



IBAN AUDITOR'S REPORT ON THE 2019 FINANCIAL YEAR STATEMENTS OF NATO SUPPORT AND PROCUREMENT ORGANISATION (NSPO)

Report by the Resource Policy and Planning Board

References:

- | | | |
|----|--------------------|---|
| A. | IBA-A(2020)0077 | IBAN's Auditor's Report on the audit of 2019 financial statements of NATO Support and Procurement Organisation (NSPO) |
| B. | C-M(2015)0025 | NATO Financial Regulations (NFR) |
| C. | AC/338-R(2020)0017 | NSPO Financial Rules and Procedures (NSPO FRP) |
| D. | PO(2015)0052 | Wales Summit tasker on transparency and accountability |

INTRODUCTION

1. This report by the Resource Policy and Planning Board (RPPB) addresses the International Board of Auditors (IBAN) Auditor's Report on the 2019 financial statements and compliance of NATO Support and Procurement Organisation (NSPO) with the NATO Financial Regulations and the NATO Civilian Personnel Regulations. The IBAN Auditor's Report produced unqualified opinions on both the financial statements and compliance for NSPO (reference A).

AIM

2. This report highlights key issues in the IBAN Auditor's Report (reference A) to enable the Board to reflect on strategic challenges emanating from the audit of financial statements of NATO entities and to recommend courses of action to Council as applicable, which has the potential to improve transparency, accountability and consistency.

3. The Board acknowledges the observations highlighted in the Auditor's Report that have been discussed and dealt with by the participating Nations, represented on the NSPO Agency Supervisory Board (ASB), which is the appropriate governing body. The RPPB is mandated under Article 15 of the NATO Financial Regulations (NFRs) (reference B) to examine the Auditor's Report and to provide comments and recommendations as required.

DISCUSSION

4. In 2019, IBAN issued two observations and recommendations, neither observation impacted the audit opinion on the financial statement or on compliance. The two new observations relate to the improvements needed regarding NSPO's significant cash holdings and investments and NSPA's need to adapt to changes in the European Union's Value Added Tax (VAT) Regime. Also, IBAN followed up on the status of observations and recommendations from the previous years' audits and found that three were closed and eleven remain in progress.

4.1. Observation 1: IBAN found that NSPO holds substantial amounts of cash and investments in its accounts. NFRs (reference B) and NSPO FRPs (reference C) restrict the

investment of funds by NATO Reporting Entities. However, the NSPO ASB has authorised a deviation from NSPO Financial Rules and Procedures (FRPs) to reduce the potential impact of negative interest rates.

4.1.1. IBAN recommends that the ASB deviation is clarified and that the notes to the financial statements disclose additional information on the maturity of term deposits, the financial risks to which NSPO is exposed, and on when cash holdings and investments are held by NSPO on behalf of its customers. In addition, NSPO should re-assess the risks of holding term deposits at banks. The Board feels that these deviations should be considered at the NATO level in the framework of the NFR review scheduled for early 2021.

4.2. Observation 2: Under the provisions of the Ottawa Agreement, NATO and therefore NSPO is exempt from all taxes and duties. IBAN found that the Agency was notified by several suppliers based in the European Union that as of 01 January 2020, deliveries to other EU Member States may not be exempted from VAT under the provisions of national implementation of amended EU Directive 2006/112, as any EU member tax authority is consequently entitled to deny the tax exemption. Also, IBAN noted that NSPO Procurement Regulations do not specify whether the suppliers' bids are evaluated on the net or gross price and NSPA bidding instructions do not cover situations when NSPA is not VAT exempt.

4.2.1. IBAN, supported by the Board, recommends that the ASB continues to assess whether amendments are required to the Agency's General Business Terms and Conditions, NSPO Procurement Regulations, Operating and bidding instructions in light of the changes to the VAT Regime, and the identification of VAT risks at the enterprise level.

4.3. Prior year closed observation: IBAN closed observations on the control of customer advances and related funds allocation to activities within the Agency and on presentation and disclosure of overdue accounts receivable. It also closed the observation on distribution of unallocated customer credits and returns of surplus cash to nations.

4.4. Prior year observation in-progress: Progress is noted in respect of the prior year observations, notably improving the methodology for calculating accruals, however, more substantial progress is still required in: the control of inventory and general computer controls; financial reporting; strengthening the reporting of provisions and contingent liabilities; internal audit independence; reconciliation and reporting of inter-NATO Reporting Entities financial balances; monitoring the potential conflicts of interest in procurement, implementing whistle blowing processes; and, enhanced compliance with the NFRs.

CONCLUSIONS

5. No new observations impacted the audit opinion for NSPO in 2019. Two new observations were raised for NSPO. As of the date of the respective IBAN Auditor's Reports a total of eleven prior year observations for NSPO were in-progress and three prior year observations were closed.

6. In 2019, IBAN identified that improvements were needed concerning NSPO's substantial cash holdings and investments and NSPA's need to adapt to changes in the European Union's Value Added Tax (VAT) regime. In this regard, the Board supports IBAN's recommendation that deviations from NSPO FRPs are clarified, enhanced information on term and cash deposits is disclosed in the financial statements, and risks of holding term deposits at banks are re-evaluated. The Board further proposes that the issue of substantial cash holdings and investment issues is considered at the NATO level during the expected NFR review in 2021. The Board also supports IBAN's recommendation that ASB continues to assess the need for changes in its regulatory framework concerning the VAT Regime.

7. In respect of prior year observations, the Board welcomes the significant progress made by NSPO on the control of customer advances, allocation of funds, disclosure of outstanding accounts receivable and distribution of unallocated customer credits. Furthermore, the Board supports IBAN's recommendation that NSPO continues with its progress in the control of inventory and computer control (access rights and segregation of duties), financial reporting, strengthening the reporting of provisions and contingent liabilities, internal audit independence, reconciliation and reporting of inter-NATO Reporting Entities, monitoring the potential conflicts of interest in procurement, implementing whistle blowing processes and increased compliance with the NFRs.

RECOMMENDATIONS

8. The Resource Policy and Planning Board recommend that the Council:

8.1. note this report and the IBAN Auditor's Reports at reference A;

8.2. agree the conclusions at paragraphs 5 to 7; and

8.3. agree to the public disclosure of the 2019 financial statements for NSPO, its associated IBAN Auditor's Reports and this report in line with agreed policy at reference D.



NORTH ATLANTIC TREATY ORGANIZATION
ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD
INTERNATIONAL BOARD OF AUDITORS
COLLÈGE INTERNATIONAL DES AUDITEURS EXTERNES DE L'OTAN

Enclosure to
C-M(2020)0049

NATO UNCLASSIFIED

IBA-A(2020)0077
26 August 2020

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

Cc: NATO Permanent Representatives
Chairman, NATO Support and Procurement Organisation (NSPO), Agency
Supervisory Board
General Manager, NATO Support and Procurement Agency (NSPA)
Financial Controller, NATO Support and Procurement Agency (NSPA)
Chairman, Resource Policy & Planning Board
Branch Head, Secretariat and Finance Branch, NATO Office of Resources
Private Office Registry

Subject: ***International Board of Auditors for NATO (IBAN) Auditor's Report and Letter of Observations and Recommendations on the audit of the NATO Support and Procurement Organisation (NSPO)'s Financial Statements for the year ended 31 December 2019 – IBA-AR(2020)0009***

IBAN 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).

IBAN's report sets out an unqualified opinion on the Financial Statements of the NATO Support and Procurement Organisation (NSPO) and on compliance for financial year 2019.

Yours sincerely,

Daniela Morgante
Chairman

Attachments: As stated above.

NATO UNCLASSIFIED

-1-

**Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Financial Statements of the
NATO Support and Procurement Organisation (NSPO)
for the year ended 31 December 2019**

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 2019, NSPO generated revenues of EUR 3.29 billion and incurred expenses of EUR 3.35 billion.

IBAN issued an unqualified opinion on the financial statements and on compliance for the year ended 31 December 2019.

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

The main findings are listed below and do not impact the audit opinion.

1. Improvements needed regarding NSPO's significant cash holdings and investments.
2. NSPA needs to adapt to Value Added Tax (VAT) Regime.

IBAN followed up on the status of observations and recommendations from previous years' audits. The observations and their status are summarised in the appendix. IBAN noted that three were closed and eleven remain in progress.

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

26 August 2020

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 2019

**INDEPENDENT EXTERNAL AUDITOR'S REPORT
TO THE NORTH ATLANTIC COUNCIL**

Report on the Audit of the Financial Statements

Opinion on the Financial Statements

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of NATO Support and Procurement Organisation (NSPO), for the 12 month period ended 31 December 2019, issued under document reference AC/338-D(2020)0008, and submitted to IBAN on 16 April 2020. These Financial Statements comprise the Statement of Financial Position as at 31 December 2019, the Statement of Financial Performance, the Statement of Changes in Net Assets/Equity and the Statement of Cash Flow, for the 12 month period ended 31 December 2019, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a Financial Plan Execution for the 12 month period ended 31 December 2019.

In our opinion, the Financial Statements give a true and fair view of the financial position of NSPO as at 31 December 2019, and of its financial performance, its cash flows and financial plan execution for the 12 month period ended 31 December 2019, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework.

Basis for Opinion on the Financial Statements

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

We have conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAIs 1000-1810) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

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

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

Management's Responsibility for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

We are required to communicate with the bodies charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our Independent External Auditor's Report is prepared to assist North Atlantic Council in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

Report on Compliance

Opinion on Compliance

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

Basis for Opinion on Compliance

We have conducted our compliance audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 4000) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

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

Management's Responsibility for Compliance

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

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

Auditor's Responsibilities for Compliance

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

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

Brussels, 26 August 2020



Daniela Morgante
Chairman

NATO UNCLASSIFIED

ANNEX 3
IBA-AR(2020)0009

26 August 2020

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 2019

NATO UNCLASSIFIED

Introduction

The International Board of Auditors for NATO (IBAN) audited the NATO Support and Procurement Organisation (NSPO) Financial Statements for the year ended 31 December 2019, and issued an unqualified opinion on the financial statements and an unqualified opinion on compliance.

Observations and Recommendations:

During the audit, IBAN made two observations and recommendations.

These observations do not impact the audit opinion on the financial statements and on compliance:

1. Improvements needed regarding NSPO's significant cash holdings and investments.
2. NSPA needs to adapt to Value Added Tax (VAT) Regime.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that three were closed and eleven remain in progress.

The observations and recommendations raised during the audit as well as the follow-up of the previous years' observations, which have not been included in the IBAN's Letter of Observations and Recommendations are included in a Management Letter addressed to NSPA management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under NSPA executive responsibility.

OBSERVATIONS AND RECOMMENDATIONS**1. IMPROVEMENTS NEEDED REGARDING NSPO'S SIGNIFICANT CASH HOLDINGS AND INVESTMENTS****Reasoning**

1.1 At 31 December 2019, NSPO had significant cash holdings and investments (EUR 2.55 billion). It is therefore particularly important to ensure that the Organisation has adhered to the principles of sound financial management regarding its cash holdings and investments, in compliance with the rules agreed by the Nations. This involves ensuring that NSPO's cash holdings and investments are not subject to any unforeseen risks.

1.2 The investment of funds by NATO Bodies is restricted by the NATO Financial Regulations (NFRs) in terms of the maturity of the investment and the level of financial risk to which the invested funds can be exposed. According to Article 31 of the NFRs, *"the Heads of NATO bodies are authorised to make short-term low risk investments of funds not immediately required according to the basic principles of sound financial management. In selecting a bank or financial institution and making short term, low risk investments, they shall aim to obtain the most favourable conditions for the required services in terms of costs, returns and financial risk, taking into account the prevailing market conditions."*

1.3 The restrictions to investment of funds as per the NFRs are also reflected in the NSPO Financial Rules and Procedures (NSPO FRPs), which confirm that the NSPO General Manager is authorised to make short-term low-risk investments of funds and which limit short-term investments to investments that have a maturity of maximum one year (Article 31 of NSPO Functional Directive no. 2300).

1.4 While the NFRs and the NSPO FRPs restrict the maturity of the investment and the level of financial risk of investments, they do not mention the types of investments that are allowed. It is up to the NATO Bodies to determine which type of investments meet the criteria as per NFRs. According to the NSPO guidance as per the Operating Instruction 4300-08 (OI 4300-08), NSPO investments can take the form of term deposits, saving accounts and bonds. With respect to term deposits, OI 4300-08 states that *"this type of investment shall normally have a set period of maturity not exceeding one year, unless the Agency Supervisory Board (ASB) decides otherwise."*

1.5 In December 2017 the ASB authorised a deviation (AC/338-R(2017)0012) from the NSPO FRPs to make exceptional term deposits with a maturity not to exceed two years and up to a value of EUR 500 million in total in order to reduce the potential impact of negative interest rates. These exceptional term deposits can be held under the condition that the deposited funds can be reclaimed at any time during the investment period and that the "Process and Criteria used for the selection of banks to place short-time deposits" as per AC/338-D(2017)0052 is complied with. The

'Process and criteria used for the selection of banks to place short-time deposits' as per AC/338-D(2017)0052 describes the risk assessment that should be made prior to making investments and the procedures for monitoring the credit ratings of the banks at which term deposits are held. In December 2019, the ASB authorised a revised deviation (AC/338-R(2019)0016-REV1) from the NSPO FRPs, that remains valid as long as the European Central Bank's imposed negative interest rates are applied, to allow the Agency to make exceptional term deposits not to exceed four years and up to EUR 500 million in total.

1.6 As per IPSAS 2, *"cash equivalents are held for the purpose of meeting short term cash commitments rather than for investment or other purposes. For an investment to qualify as a cash equivalent, it must be readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value"*. Meanwhile, according to IPSAS 29, *"held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the positive intention and ability to hold to maturity. Held-to-maturity investments shall be measured at amortised cost using the effective interest method"*.

1.7 As per the NSPO 2019 Financial Statements, page 4: *"NSPO does not have any mandated financial objectives in relation to its financial position, financial performance (such as mandated business turnover targets) 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 has been endorsed by Council."* All statements in the financial statements regarding decisions made by NATO governing bodies need to be sufficiently supported by up-to-date written evidence.

1.8 As per IPSAS 1, *"Each material class of similar items shall be presented separately in the financial statements. Items of a dissimilar nature or function shall be presented separately unless they are immaterial."* When applying this standard to cash holdings and investments, it implies that financial statements disclosures relating to cash holdings and investments held by NSPO on behalf of customers need to be clearly distinguished from NSPO's own cash holdings and investments. If all cash holdings and investments are held on behalf of its customers, then this needs to be clearly disclosed in the financial statements.

Observations

1.9 NSPO has recently issued a paper to the ASB entitled "Agency's approach to low-risk investment during the Covid-19 pandemic". This paper discusses the financial risk management of the Agency in the context of the current pandemic. According to this analysis, NSPO's preferred strategy is a hybrid between a "business as usual" and a highly risk averse approach. In addition, the Agency would act as and when the Financial Controller determined the need to react to market conditions.

1.10 In order to convert NSPO short-term deposits into cash, IBAN would like to emphasise that restrictive conditions often apply, which represent a financial risk to NSPO, such as a loss of initial capital value and / or a financial penalty upon early withdrawal. In addition, a notice period to the bank often applies (31 or 35 days), which implies that term deposits can be converted into cash only after this contractually agreed period has ended.

1.11 At 31 December 2019, out of the total EUR 2.55 billion holdings, NSPO held short-term deposits for a total of EUR 1.989 billion, out of which EUR 581.64 million had a remaining maturity that exceeded one year. As a result, term deposits amounting to EUR 581.64 million would normally be considered exceptional by NSPA in accordance with AC/338-R(2017)0012, as they exceed the maximum maturity of one year as per NSPO FRPs. This amount includes EUR 459 million of term deposits which can be held up to five years. However, the Agency considers these to be cash equivalents as they are rolling deposits with a one month notice period to the bank for anticipated withdrawal. The NFRs and NSPO FRPs do not specify what is considered a reasonable notice period in order to liquidate term deposits. The ASB has not so far defined what may be a reasonable notice period either.

1.12 Furthermore, for the management of term deposits, the Agency considers that the rules regarding maturity apply to the total contractual maturity. However, for financial reporting purposes, NSPO has interpreted that the rules regarding maturity apply to the remaining maturity period of an investment, not to the total contractual maturity (start date - end date of the respective term deposits). IBAN considers that the financial reporting rules need to apply to the total contractual maturity and not only to the remaining maturity period of an investment.

1.13 In order to assess compliance with the IPSAS 2 criteria for cash and cash equivalents, IBAN requested the Agency to provide the following details for all its term deposits at 31 December 2019: purpose, convertibility, risk of change in value, and maturity. As a result of the Agency's analysis, it was found that national legislation applied restrictive conditions to at least one bank, which may in the future prohibit NSPA from the anticipated liquidation of its term deposits. In these cases, early withdrawal may not be possible and as such, term deposits would not be able to be reclaimed at any time as requested by the ASB. At 31 December 2019, NSPO held EUR 276.26 million of term deposits with a remaining maturity of at least one month at this bank.

1.14 As per the respective bank's contractual terms and conditions, section 18 Termination rights of the customer:

(1) *Right of termination at any time*

Unless the Bank and the customer have agreed a term of a diverging termination provision, the customer may at any time, without notice, terminate the business relationship as a whole or particular business relation (e.g. a chequing agreement).

(2) *Termination for reasonable cause*

If the Bank and the customer have agreed a term or a diverging termination provision for a particular business relation, such relation may only be terminated without notice if there is reasonable cause therefor which makes it unacceptable to the customer to continue it, also after giving consideration to the legitimate concerns of the Bank.

1.15 NSPA requested an official confirmation from the respective bank regarding the anticipated liquidation of its term deposits. The bank's reply was that *"in general, in case of term deposits, the financial institution is not subject to any obligation to repay any term deposit before legal maturity. There is no obligation of the financial institution to mandatorily consent to a repayment of a term deposit. However, we confirm to NSPA that in the past we would have agreed to repay the respective term deposit to NSPA at any time on request at the prevailing market levels at the moment of repayment. The market levels depend on the respective interest rate environment, on the liquidity prevailing in the market and other factors"*. Although the bank confirmed that in the past they would have agreed to repay the respective term deposits to NSPA at any time on request, there is no guarantee that this would necessarily be the case in the future. The Agency was not able to confirm if national legislation applied restrictive conditions, and if it did, the period in which these conditions were valid. Therefore, in the future, the Agency's term deposits at this bank may need to be reclassified as held-to-maturity investments as defined in IPSAS 29 and treated and accounted for as a non-derivative financial asset.

1.16 NSPO states in its financial statements that *"NSPO holds significant balances of customers' funds, which are mainly offset by future financial commitments; this situation has been endorsed by Council"*. IBAN understands that this statement is based on the Resource Policy and Planning Board (RPPB) report on the 2016 NSPO Financial Statements - ref. AC/335-N(2017)0099. In Annex 1 AC/338-D(2017)0014-REV1 to this report, the Agency presented its views on its significant cash holdings (recommendation 30, page 17) and the ASB considered this item closed. The RPPB acknowledged the efforts that the Agency made to address the issues identified by the IBAN and recognised the authority and responsibilities of the NSPO Finance, Administration and Audit Committee and ASB to monitor the status of outstanding observations. The RPPB's recommendation for Council was to note this point. However, IBAN did not find evidence to suggest that Council has formally and explicitly endorsed this situation.

1.17 Moreover, the terminology used by NATO committees has since been clarified in a CONSEC Guidance document, whereby the word "agreed" or "approved" is to be used rather than the word "endorsed". Therefore, in 2019 IBAN considers that Council could not have endorsed the significant cash holdings of NSPO. If specific Council decision is sought on such a position, this needs to be requested explicitly by the Agency through the appropriate channels.

1.18 Finally, at 31 December 2019, the majority of NSPO's EUR 2.55 billion cash holdings and investments are held on behalf of its customers. The disclosure notes to the 2019 Financial Statements do not clearly specify when cash holdings or investments are held by NSPO on behalf of its customers. It is important to disclose in the financial statements the nature of NSPO's cash holdings and investments and particular whether these belong to the Organisation or whether they are held on behalf of customers. If all cash holdings and investments are held on behalf of its customers, then this needs to be clearly disclosed in the financial statements.

Recommendations

1.19 Given NSPO's significant level of cash holdings and investments, IBAN recommends the Organisation to ensure that associated financial and compliance risks are mitigated by implementing the following measures:

- a) Clarify that the ASB deviation to the NSPO FRPs (AC/338-R(2019)0016-REV1) applies to the total contractual maturity of investments and not to the remaining maturity period. In addition, the ASB should decide what is considered a reasonable notice period in order to convert term deposits into cash, taking into account good practices;
- b) Disclose additional information in the notes to the financial statements on the maturity of the NSPO term deposits held, the financial risks to which NSPO is exposed (time needed to convert the term deposits into cash due to the notice period or any restrictions to anticipated liquidation due to national legislation);
- c) Re-assess the risks of holding term deposits at banks, which may prohibit the anticipated liquidation of term deposits due to their restrictive conditions or national legislation. If a bank cannot in the future officially confirm that it consents to a repayment of a term deposit before legal maturity, the Agency should consider reclassifying the related term deposits from cash and cash equivalents to investments and apply IPSAS 29 for their accounting treatment;
- d) Reword the relevant disclosure note in its Financial Statements in order to accurately reflect the Council's decision on the significant balances of customers' funds;
- e) Clearly specify in the disclosure notes to the Financial Statements when cash holdings and investments are held by NSPO on behalf of its customers. NSPO could also consider creating a new class of assets on the face of its Statement of Financial Position, such as 'Cash and cash equivalents held on behalf of customers' / 'investments held on behalf of customers'.

2. NSPA NEEDS TO ADAPT TO VALUE ADDED TAX (VAT) REGIME

Reasoning

2.1 NSPA shall comply with the NFRs, NSPO Procurement Regulations no. 4200 and with the Guidelines on Corporate Governance (ref. C-M(2005)0087). As per NSPA Operating Instruction no. 4200-01 dated 18 March 2019 under Clause 6 - Taxes and Duties, it is stated that NSPA, as a subsidiary body of NATO is, by application of the Ottawa Agreement dated 20 September 1951, exempt from all taxes and duties. However, as per paragraph 6.3 of the above Operating Instruction, if the Contractor is compelled by application of any governmental law or regulation to pay any readily identifiable tax or duty in relation to this contract, he / she will indicate such tax or duty as a separate item of cost on his invoice(s). Any such tax or duty shall be fully identified by reference to the governmental law or regulation pursuant to which such tax or duty is enforced.

2.2 NSPO Procurement Regulations no. 4200 Article 4.1 states that *“a principal objective of NSPA is to obtain, through international competitive bidding, the most economical prices for materiel and services”*. As per Article 5.5.1, after comparison of proposals, the lowest technically, economically and contractually compliant proposal will be selected. When evaluating proposals with the objective of selecting the most economical, due consideration shall be given to prices, delivery schedules and technical capability. Transportation costs will be taken into consideration if so specified in the Request for Proposal.

2.3 The NSPA bidding instructions related to the price to be quoted states under the heading tax exemption that: *“All prices and rates quoted shall be exclusive of any taxes and duties from which NSPA is exempt pursuant to the provisions of the Ottawa Agreement of 20 September 1951 and the Agreement between NAMSA and the Government of Luxembourg, dated 19 June 1968, entitled 'Agreement regarding exemption from taxes, duties and rates granted to NAMSO (NATO Maintenance and Supply Organization) by the Luxembourg Authorities”*.

2.4 Article 12 of the NFRs requires that Heads of NATO bodies shall ensure the necessary internal management functions are in place to support effective internal control, designed to provide reasonable assurance that the NATO body will achieve its objectives. This includes the effective identification and management of risks. NSPA awards numerous contracts, which implies entering into legal obligations and committing Nations' funds, as well as exposing the Agency to legal and contractual risks. Furthermore, NSPA's OP AM 20 identifies Risk Management as an Agency priority that requires the involvement of internal and external stakeholders to identify, analyse, evaluate and mitigate risks that could jeopardise the NSPA business or its reputation.

Observations

2.5 The Agency received several formal notifications from suppliers located in one European Union Member Nation, indicating that as of 01 January 2020, deliveries to other EU Member States may not be exempted from VAT under the provisions of a new national law and that the VAT would be levied in the respective Nation. The law implemented by this Nation's authorities is a direct consequence of the amendment of the EU Directive 2006/112 *as regards the harmonisation and simplification of certain rules in the value added tax system for the taxation of trade between Member States* dated 28 November 2006, as amended by the Directive 2018/1910 dated 04 December 2018 - article 1 (3) (a) and (b). The EU Directive is not specific to a single European Union country.

2.6 Under the provisions of the Ottawa Agreement, NATO and therefore NSPO is exempt from VAT. However, any EU member tax authority is entitled to deny the tax exemption under article 138 of the Directive 2006/112 (if the goods are supplied to another taxable person, or to a non-taxable legal person acting as such in a Member State other than that in which dispatch or transport of the goods begins) in the absence of a NSPA VAT number or in the absence of the establishment of the recapitulative statements required.

2.7 IBAN understands that concerning services, the VAT is levied, as a rule, where the services are executed. They may therefore be executed in the country of the end user or in the country of the bidder. If the VAT is levied in the country where the services are executed, which is different from the country of the end user, the inclusion of the VAT in the price evaluated may be considered if relevant.

2.8 However, IBAN found that the current NSPO Procurement Regulations no. 4200 and related OI 4200-01 did not specify whether the evaluation of suppliers' bids is done based on the net or gross price. As per OI 4200-01, the Agency is awarding contracts to the lowest technically, economically and contractually compliant proposal. NSPA's policy is to evaluate suppliers net of VAT, unless otherwise specified.

2.9 Furthermore, although NSPA bidding instructions state that bid prices and rates should be quoted exclusive of any taxes and duties from which NSPA is exempt, these instructions do not include provisions to cover for situations when NSPA is not VAT exempt, such as when VAT is directly charged or subsequently recharged by a Nation. It is important to ensure that the terms and conditions and bidding instructions accurately describe the treatment of VAT when evaluating suppliers, in order to avoid any potential concerns regarding the objectivity of the supplier selection process.

2.10 From a risk management perspective, the Agency has not disclosed the VAT issue as a high priority enterprise risk in its Risk Matrix. An incomplete risk register may result in material risks not adequately addressed by the Agency's senior management, with potential negative effects on its daily conduct of business activities and reputation. As a result of IBAN's finding regarding VAT, the risk registers of

Procurement were updated during the course of the audit and VAT was identified as a non-compliance risk. However, the VAT has not been raised as an enterprise risk yet, as VAT is no longer considered to be an enterprise risk as it is treated as an issue. IBAN understands that at the time of the audit, the Agency was planning to review its risk registers in June 2020, including whether VAT should be raised at a higher level.

2.11 In 2019 the Office of the Legal Advisor of the Agency conducted an analysis on VAT exemptions applicable to NSPO activities, which included an assessment on the relevant Working Papers by the European Commission's Advisory Committee on VAT. In this respect, the Office of the Legal Advisor is of the opinion that any important purchase made by NSPO/NSPA in furtherance of NATO's or NSPO's constitutional functions and mission is exempt from VAT under the Ottawa Agreement. The Office of the Legal Advisor is also of the view that the European Commission's Advisory Committee on VAT made an incorrect interpretation in its Working Paper n° 853 by concluding that NSPA/NSPO are taxable entities within the meaning of the EU Council Directive 112 on VAT.

2.12 As a result of this analysis, Nations were asked through their representatives at the Agency Supervisory Board (ASB), to complete a questionnaire on VAT. From the replies received, at least one Nation does not appear to agree that, when NATO purchases defence materiel or equipment on behalf of its customers, the purchase is necessarily exempt from VAT under Article 10 of the Ottawa Agreement.

2.13 The ASB tasked NSPA to evaluate the process of receiving its VAT number and its implications and to present this assessment, in conjunction with the detailed analysis of the above questionnaire responses, to the ASB's subordinate committees for Logistics and Finance, Administration and Audit (LOG and FAA) during the autumn 2020 meeting cycle. These Committees make recommendations to the Agency Supervisory Board in their respective fields of competence and decide on matters which have been specifically delegated to them by the Board.

2.14 IBAN acknowledges that the Agency will continue to invoke article 151-1-b of the Council Directive 2006/112/EC dated 28 November 2006 on the common system of value added tax as the basis of its tax exemption. As IBAN understands, each of the 30 NATO Nations remains responsible to assess whether or not the Provisions of the Ottawa Convention dated 20 September 1951 apply.

2.15 For the time being NSPA is still assessing the situation regarding its VAT status and the implications after having obtained a Luxemburgish VAT number in early 2020. In addition, the Agency has recently advertised a Senior VAT Consultant (CO-20141) vacancy in order to strengthen the Legal Advisor office. Formal instructions or guidance on its treatment will need to be issued and communicated at the Agency level.

Recommendations

2.16 Until the Agency's final status on VAT exemption is clarified, IBAN recommends that, in coordination with the ASB when needed, NSPA:

- a) Continue to assess the necessary modifications to be made to the General Terms and Conditions related to the provisions on VAT exemption in order to accurately reflect the latest VAT developments.
- b) In order to ensure a transparent and fair competitive bidding, assess the necessary modifications to be made to the NSPO Procurement Regulations No. 4200, related Operating Instructions 4200-01 and bidding instructions, providing for the situation when VAT may be charged or recharged by a Nation.
- c) Ensure VAT is included in risk registers as an enterprise risk and document potential internal control weaknesses which would explain why significant changes to the Agency's VAT exemption status had not so far been identified as an enterprise risk.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

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

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

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>(1) NSPO FY 2018 IBA-AR(2019)0017, paragraph 1</p> <p>IMPROVEMENTS REQUIRED IN THE CONTROL OF CUSTOMER ADVANCES AND RELATED FUNDS ALLOCATION TO ACTIVITIES WITHIN THE AGENCY</p> <p>IBAN's Recommendation 1.7 In order to improve the control over allocation of customer advance funds to identified procurement, support and procurement projects within the Agency, IBAN recommends that NSPA:</p> <p>a) Develop a specific accounting policy that defines how customer advances are allocated between current and non-current liabilities. This policy should take into account the year when the advances were received and whether they were allocated to short-term or long-term projects.</p> <p>b) Update the operating instruction and issue procedures that define the roles and responsibilities of the finance, logistics and procurement personnel at programme level in order to ensure that all funds received are correctly allocated to existing short-term and long-term projects in a timely manner.</p> <p>c) Perform regular controls of the allocation of the funds received to existing support and procurement activities (contracts</p>	<p>The Agency's accounting policy is to separately account for short-term (less than one year) and long-term (more than one-year) customer advances. Specific guidance on how to achieve this was implemented. Observation Closed.</p> <p>The Agency updated the specific operating procedure in this area, Standard Operating Procedure (SOP) 11 Calls for contributions and calls for advances. Observation Closed.</p> <p>Finance implemented SOP 11 Calls for contributions and calls for advances that provides guidance</p>	<p>Observation Closed</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
and/or purchase orders) with the support of the finance personnel from the Programmes.	on the correct classification of the funds received within the ERP in 2019 and onwards. In addition, controls are in place to ensure the process works as planned. For funds received before 2019, manual reviews were done at the time of preparing the 2019 Financial Statements in order to ensure that these were classified correctly. Observation Closed .	
d) Issue to customers a quarterly report of funds that have not been allocated to an existing logistics or procurement project.	The Agency implemented IBAN's recommendation. Observation Closed .	
e) Disclose the amount of funds not allocated to existing support and procurement projects in the customer advance note to the Financial Statements for improved communication to the users of the Financial Statements.	The disclosure is now presented in the financial statements. Observation Closed .	
(2) NSPO FY 2018 IBA-AR(2019)0017, paragraph 2 IMPROVEMENTS REQUIRED IN THE CONTROL OF INVENTORY ACTIVITIES IBAN's Recommendation 2.7 In order to improve the control over the inventory activity within Log Ops, IBAN recommends NSPA to liaise with its customers and ensure that:		Observation In-Progress
a) Log Ops programmes request Contractors and National Depots to send a yearly confirmation of the values and quantities of inventory reported in their systems that should not be based on information provided by NSPA.	Logistics Operations' programmes sent a request for the yearly confirmation in the format requested by the IBAN. Observation Closed .	
b) The frequency of controls at the Contractors and National Depots is increased and follows a risk-based approach.	IBAN noted that the Agency's management was considering solutions that would allow increased controls in a cost-effective manner. Decisions are to be taken by the end of 2020. Observation In-progress .	
c) Sufficient resources be provided to the QAO in order to perform independent	IBAN noted that the Agency's management was considering	

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
review of Contractors' and National Depots' inventories.	solutions that would allow increased controls in a cost-effective manner. Decisions are to be taken by the end of 2020. Observation In-Progress .	
<p>(3) NSPO FY 2018 IBA-AR(2019)0017, paragraph 3</p> <p>IMPROVEMENTS REQUIRED IN THE FINANCIAL REPORTING OF THE FRENCH NATIONAL ORGANISATION (SNOI) FOR THE CENTRAL EUROPEAN PIPELINE SYSTEM (CEPS) PROGRAMME</p> <p>IBAN's Recommendation 3.5 In order to present an accurate financial report, IBAN recommends the CEPS programme Board to direct SNOI to:</p> <p>a) Request the private company operating the pipeline to open a separate bank account for CEPS related activities only; and</p> <p>b) Record all transactions on an accrual basis in a stand-alone general ledger accounting system with a separate trial balance, which is used to prepare the financial reports for CEPS.</p>	<p>IBAN noted that the CEPS Programme Office has started discussions with SNOI and TRAPIL in order to identify solutions which can be implemented in the short and medium-term. In this respect, some meetings were held in 2019. However, IBAN did not note any tangible results. Observation In-Progress.</p> <p>Same comments as above. Observation In-Progress.</p>	Observation In-Progress
<p>(4) NSPO FY 2018 IBA-AR(2019)0017, paragraph 4</p> <p>IMPROVEMENTS REQUIRED IN THE PRESENTATION AND DISCLOSURE OF OVERDUE ACCOUNTS RECEIVABLE</p> <p>IBAN's Recommendation 4.4 In order to improve the presentation and disclosure of overdue accounts receivable for the user of the NSPO financial statements, IBAN recommends that the Agency:</p> <p>a) Perform a detailed analysis on overdue</p>	<p>IBAN acknowledged that the</p>	Observation Closed

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>accounts receivable in order to identify agreements that may have been made with Nations and would imply reclassifications of accounts receivable as non-current.</p> <p>b) Discloses the amount of overdue accounts receivable in the notes to the financial statements for the amounts that are more than 1 year, more than 2 years and more than 5 years old.</p>	<p>Agency made a detailed analysis on overdue accounts receivable, which resulted in reclassifications of accounts receivable from current to non-current when necessary. Observation Closed.</p> <p>IBAN noted that the overdue accounts receivable were disclosed as recommended in Note 6(d) to the 2019 NSPO Financial Statements. Observation Closed.</p>	
<p>(5) NSPO FY 2017 IBA-AR(2018)0015, paragraph 1</p> <p>MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING</p> <p>IBAN's Recommendation 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 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>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</p>	<p>IBAN found that customers with unallocated credits were regularly informed of their balances through the Net Financial Situation Report which is issued to them on a monthly basis. Balances would only be returned to the customers through monetary transfers at their explicit requests. Observation Closed.</p> <p>IBAN noted that the Agency has continued to make progress on the overall preparation of the financial statements. However, further work still need to be done for a fully satisfactory result. Observation In-Progress.</p>	<p>Observation In-Progress</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
restated balances are properly reported in the NSPO financial statements.		
<p>(6) NSPO FY 2017 IBA-AR(2018)0015, paragraph 2</p> <p>INACCURATE METHODOLOGY USED FOR CALCULATING ACCRUED LIABILITIES</p> <p>IBAN's Recommendation 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.</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>	<p>IBAN acknowledges the fact that a new accruals' methodology has been put in place since 2018. In 2019 the Agency continued to update it and worked on an ERP automated solution. However, an Operating Procedure is still at draft stage and is expected to be finalised before the end of 2020. Observation In-Progress.</p> <p>The Agency implemented IBAN's recommendation. Observation Closed.</p>	Observation In-Progress
<p>(7) NSPO FY 2017 IBA-AR(2018)0015, paragraph 3</p> <p>FURTHER IMPROVEMENTS REQUIRED TO ACHIEVE COMPLIANCE WITH THE REVISED NFRS, PARTICULARLY IN THE AREA OF RISK MANAGEMENT, INTERNAL CONTROL AND INTERNAL AUDIT</p> <p>IBAN's Recommendation 3.13 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>IBAN noted that in September 2019 the Agency issued the Operating Instruction 4300-09 Prior approval of commitments in the NSPO operational budgets.</p> <p>Although prior approval of commitments has been granted at all financial levels, staff from the Office of the Financial Controller did not routinely attend the CACs and did not sign CAC forms until recently (mid-2020).</p>	Observation In-Progress

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<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>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.</p>	<p>Observation In-Progress.</p> <p>IBAN notes that NSPA made significant progress in the area of risk management and understands that the Agency expects to achieve the target of "risk managed" by the end of 2020. Regarding risk registers, IBAN found that some still needed to be updated, as they included risks created in prior years (2016 - 2018), but with no impact or likelihood determined by the risk owner. Therefore, the Agency needs to ensure that risk registers are well managed and regularly updated in order to achieve their intended purpose.</p> <p>For CEPS, the risks raised as part of the Internal Control have not been linked in the Risk Management Tool (RMT) yet.</p> <p>IBAN will continue to follow up on their proper update in future audits. Observation In-Progress.</p> <p>IBAN observed that the Agency made significant progress in the documentation of its internal control and risk management procedures. Regarding risk management, NSPA is embarking on an update of the Operating Instruction and related Operating Procedure which may be done later in 2020. IBAN observed that the Agency's aim would be to reach a satisfactory risk maturity level by the end of 2020, which is a continuous improvement process.</p> <p>The Agency is working to embed internal control into its processes. In this respect, it issued an Operating Instruction on Internal Control in February 2019, while the draft Operating Procedure to support implementation is awaiting signature.</p> <p>As per NSPO's 2019 Annual Report</p>	

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>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.</p>	<p>to Council, work has started to integrate the Internal Control requirements with the Risk Management Tool. Further effort is needed in merging risk management with Internal Control (COSO based) activities, but IBAN understands that this is on track to achieve success. Observation In-Progress.</p> <p>In December 2019, the Auditor General issued a report entitled "Internal control arrangements within NSPA" which covered the year 2019 and assessed the internal control system for eight programmes, as well as considered preliminary assessments of the IT Division and of LW (AWACS E-3A area). However, due to limited resources available, an assessment of the Internal Control System at NAMP and the remaining programmes was not in the scope of 2019-02.</p> <p>For risk-management, the audit of its elements was integrated in the internal audits performed across the Agency. In addition, when a quality audit is carried out by the QMS, an audit of the risk register is included. IBAN acknowledges that a specific audit engagement on the adequacy of the NSPA Risk Management Framework was included in the 2020 Internal Audit Plan (at planning phase in May 2020).</p> <p>IBAN notes that the main elements that are currently missing for a full evaluation of the Internal Control and Risk Management throughout NSPO are part of the 2020 Internal Audit plan and should be performed in 2020: assessment of NAMP, internal control arrangements within NSPA (recurring audit), adequacy of the Risk Management framework (recurring audit). The remaining programmes, which</p>	

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
	<p>were not in the scope of the 2019 report above also need to be assessed from an internal control perspective.</p> <p>IBAN's recommendation to fully evaluate internal control and risk management throughout NSPO does not imply that this work needs to be conducted for all programmes <u>each year</u>, it is sufficient that this is done on a rolling basis. Observation In-Progress.</p>	
<p>(8) NSPO FY 2017 IBA-AR(2018)0015, paragraph 4</p> <p>NO CENTRAL OVERVIEW AND MANAGEMENT OF EXISTING OR POSSIBLE LITIGATIONS, CLAIMS OR OTHER LEGAL CASES</p> <p>IBAN's Recommendation 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.</p>	<p>IBAN noted that the Agency reinforced the Legal department in 2019. The Operating Instruction (OI) 4300-05 Accounting for Provisions and Contingent Liabilities requires that programmes respond to the NSPO Legal Advisor with details of any contingent liabilities or provisions.</p> <p>However, the current OI does not stipulate that programmes should confirm even a nil response. This implies a risk on the completeness of cases confirmed by programmes. In May 2020 the legal office was developing a matrix in order to keep track of the responses received. This would be circulated around programmes and Directors would have to declare on behalf of their programmes, even when there is nothing to report.</p>	<p>Observation In-Progress</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>(9) NSPO FY 2017 IBA-AR(2018)0015, paragraph 6</p> <p>STRENGTHENING THE INDEPENDENCE OF INTERNAL AUDIT</p> <p>IBAN's Recommendation</p> <p>6.8 The Board recommends that NSPO reinforce 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>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.</p>	<p>Article 13.2 of the NFRs states that "All NATO bodies shall have access to a permanent, adequately resourced, internal audit function, compliant with internationally accepted Internal Auditing standards and the requirements of the NATO body concerned".</p> <p>As per the official interpretation of internal audit standard 1110 – Organisational Independence, organizational independence is achieved when the Head of Internal Audit reports functionally to the governing body.</p> <p>IBAN takes note that a number of Nations do not agree for the FAA Committee to approve the internal audit charter and the audit plan. This recommendation remains in-progress and may only be closed if the ASB requests and obtains a deviation from the NFRs or if Council agrees to accept the risk and decides not to implement this recommendation.</p> <p>Observation In-Progress.</p> <p>IBAN observed the progress made by Internal Audit in clearing the backlog of prior years' engagements. The revised 2019 Internal Audit Plan included twenty-one audits, seventeen of which were carried forward from 2018. Eighteen audit reports (86% of the plan) were released in 2019.</p> <p>Observation Closed.</p>	<p>Observation In-Progress</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>(10) NSPO FY 2016 IBA-AR(2017)12, paragraph 5</p> <p>WEAKNESSES IN THE RECONCILIATION AND REPORTING OF INTER-NATO ENTITIES</p> <p>IBAN's Recommendation 5.3 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>	<p>IBAN noted that the Agency was working closely with the ACO on resolving this common recommendation.</p> <p>Information, including open positions at 31 December, between NSPA and other NATO Reporting Entities should be fully confirmed and reconciled. This process should be monitored and controlled at a centralised level.</p>	Observation In-Progress
<p>(11) NSPO FY 2016 IBA-AR(2017)12, paragraph 7</p> <p>WEAKNESSES IN GENERAL COMPUTER CONTROL</p> <p>IBAN'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>IBAN acknowledges the progress made in 2019 and the objective of the Agency to finalise the implementation of the ERP Access Control (GRC) tool in 2021.</p>	Observation In-Progress
<p>(12) NSPO FY 2015 IBA-AR(2016)12, paragraph 1</p> <p>MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING</p> <p>IBAN's Recommendation 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</p>	<p>The Agency is working on documenting its highest risk accounting areas. Year-end closing processes that have already been documented include Inventory, Exchange rates revaluation, while on day-to-day accounting several Operating Procedures were</p>	Observation In-Progress

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>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 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>approved in 2019 (vendor invoices, accounts payable, payments, calls for contributions and advances, etc.). Several other Operating Procedures are expected to be drafted until the end of 2020. Observation In-Progress.</p> <p>Observation Closed and as superseded by follow up observation 10 from 2016, IBA-AR(2017)12, paragraph 5.</p>	
<p>(13) 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>IBAN'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 postemployment 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>The Operating Instruction (OI) on Fraud and Corruption which was last issued in 2014 is being integrated into an overarching OI. This overarching OI is in final draft and it consolidates new and existing OIs into one "handbook" with "chapters" covering issues on Integrity and Ethics, Prohibited Conduct, Fraud and Corruption Prevention, Conduct of Investigations, Disciplinary proceedings and Protection Against Retaliation (the latter refers to whistleblowing procedures). IBAN understood that the final version of this OI should be released in 2020.</p>	<p>Observation In-Progress</p>

NATO UNCLASSIFIED

ANNEX 3
IBA-AR(2020)0009

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>(14) 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>IBAN's Recommendation</p> <p>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>	<p>Customers are aware of unallocated credits which are reported to them through the Customer Net Financial Situation Report which is issued to them on a monthly basis; however, the Agency would only repay these credits through a monetary transfer at the request of the customer.</p>	<p>Observation Closed</p>

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

**OBSERVATION 1:
IMPROVEMENTS NEEDED REGARDING THE AGENCY'S SIGNIFICANT CASH
HOLDINGS AND INVESTMENTS**

NSPO's Formal Comments

The IBAN recommendations are accepted.

[Please note: 1.19 (e) is subject to a factual comment].

**OBSERVATION 2:
NSPA NEEDS TO ADAPT TO THE VALUE ADDED TAX (VAT) REGIME**

NSPO's Formal Comments

The IBAN recommendations are accepted.

The Agency is working diligently on adapting to the VAT regime and has a project team which meets regularly to plan for its successful implementation. Its work is under the oversight of the Agency Supervisory Board.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

**GENERAL COMMENT TO INFORM THE NAC AND ASB HOW THE AGENCY
TRACKS THE STATUS OF IBAN RECOMMENDATIONS AND TO INFORM THEM
OF CHANGES SINCE ITS LAST STATUS REPORT OF 17 JUNE 2020.**

NSPO's Formal Comments

The Agency reports to each meeting of the Finance, Administration and Audit Committee and the Agency Supervisory Board (ASB) the status regarding the implementation of IBAN recommendations.

The Agency's last status report dated 17 June 2020 (AC/338-D(2019)0014 REV 3) was updated based on a statement made by the IBAN to the ASB as its audit was progressing ("IBAN Statement to the ASB" dated 28 May 2020 – Ref: IBA-A(2020)0048).

Council and the NSPO ASB are invited to note that the status of

- *Recommendation 6 (paragraph 2.7 (b)) from the NSPO Financial Year 2017 Audit Report (IBA-AR (2018)0015) which related to “Inaccurate methodology used for calculating accrued liabilities” is now considered “closed”.*
- *Recommendation 12 (paragraph 1.23 (h)) from the NSPO Financial Year 2015 Audit Report (IBA-AR (2016)12) which related to “Material weaknesses in internal control over financial reporting” is now considered “closed” and superseded by recommendation 10 of the previous years’ recommendations.*

At the time the IBAN made its statement to the ASB these were considered “in-progress” and they were also shown as “in-progress” in the Agency’s 17 June 2020 Status Report.

GLOSSARY OF TERMS

In accordance with auditing standards, audit opinions on financial statements and on compliance can be unqualified, qualified, a disclaimer, or adverse:

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



ENCLOSURE
SEC/2021/0002

AC/338-D(2020)0008

Financial Statements 2019 (Redacted Version)



Contents	Page
Overview of NSPO's Operations and Environment	2
Statement of Internal Control	6
NSPO Statement of Financial Position	11
NSPO Segments' Statement of Financial Position	12
NSPO Statement of Financial Performance	13
NSPO Segments' Statement of Financial Performance	14
NSPO Cash Flow Statement	15
NSPO Statement of Changes in Net Assets	16
Accounting Policies	20
Notes to the Financial Statements	26
Annex: Financial Plan Execution	55

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.

NSPO consists of the Support to Operations and Life Cycle Management Business Units (which in these financial statements make up the 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 and Secretariat.

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

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

Role of the NATO Support and Procurement Agency

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

- conducting agency mission required specific procurement;
- acting as Host Nation for NATO Security Investment Programme (NSIP) projects as assigned by the Resource Policy and Planning Board (RPPB) or the Investment Committee (IC);
- planning and management of contracting for NATO operations, including in support of Allied Command Operations and contracting for required strategic lift in all transport modes;
- providing logistics support for operations, including in support of Allied Command Operations and 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 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.

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

Chairperson's Office

The Chairperson's Office and Secretariat, from here on referred to for simplicity as the Chairperson's Office, is the secretariat of the ASB and the NAM and CEPS Programme Boards.

Support to Operations and Life Cycle Management Business Units

On 1 January 2018, the Log Ops Business Unit was restructured to create two separate Business Units, one focusing on "Support to Operations" and one focusing on "Life Cycle Management". The Support to Operations and Life Cycle Management Business Units are reported together as one business unit in these financial statements because they share common administrative costs.

The Support to Operations and Life Cycle Management Business Units provide a number of capabilities which are available to participating nations. They provide support to NATO operations, procure and facilitate the exchange of goods and services at the most advantageous rates, and provide support to thirty-two active Support Partnerships.

Support to Operations and Life Cycle Management Business Units' activities are paid through customer-funding on a 'no profit, no loss' basis. All costs incurred by these 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 thirty NATO nations¹) or jointly (i.e. more than one but less than thirty 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.

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.

¹ North Macedonia joined NATO in March 2020; there were twenty-nine nations during the financial year 2019.

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.

The Strategic Airlift Capability (SAC) Programme was created by ten NATO and two Partnership for Peace Nations (Finland and Sweden). The 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 the 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 gave the Agency until the end of June 2019 to implement the most complex of these; currently, except for parts of the internal control system, the Agency considers that the NFRPs have been implemented.

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 mandated financial objectives in relation to its financial position, financial performance (such as mandated business turnover targets) 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 has been endorsed by Council.

The ASB does set the NSPA efficiency targets in relation to the cost of its activities; however, these are not specifically related to its financial position, financial performance (such as mandated business turnover targets) and its cash flows.

Risks and Uncertainties that affect NSPO's Financial Position and Performance and the impact of Coronavirus

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.

Coronavirus is a virus which started to spread across the world in early 2020. The virus has led to the lockdown of many non-essential businesses across NATO and partner nations. The virus may have an impact on NSPO's 2020 turnover and possibly future years, the scale of which it is currently impossible to assess. The virus is likely to lead to a significant slowdown in the placing of customer orders to vendors and the completion of such orders. There is also the risk that if nations reprioritise economic activity as a result of the Coronavirus there will be a lowered demand for the capabilities offered by the Agency.

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.

[REDACTED]

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 NSPO Financial Rules and Procedures (NFRPs) which are fully consistent with the NFRs and 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 benefits from mitigating the risks.

Compliance with the NATO Financial Regulations (NFRs) and NSPO Financial Rules and Procedures (NFRPs)

Revised NFRs were issued in May 2015 and NSPO fell fully under their remit until the ASB issued the NFRPs in June 2017. The NFRPs which were issued by the ASB were 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 Agency considers that this requirement was implemented in respect of 2019 budgets.

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

The prior-approval of commitments by the Financial Controller requires that he ensures 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. In accordance with the NFRPs, the assurance that procurement requirements are met is provided by the Director of Procurement.

The Agency issued internal Operating Instructions which enabled these requirement to be implemented in 2019.

- **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; and this process was formally implemented in 2019 through the aforementioned Operating Instructions related to the prior-approval of commitments.

- **Implementation of Risk Management**

Risk Management is a requirement of the NFRPs as well as being a requirement of the NSPO Charter. The Agency has been working on implementing risk management since it was established. A system of risk management was fully embedded in 2018 and is undergoing continuous improvement.

- **Implementation of a standardised and fully documented 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). In 2018, the Agency, with the support of consultants, worked with all its business units and supporting divisions to map key internal controls and provide training on internal control. The Agency published an internal operating instruction in February 2019 to support implementation. While the Agency planned to implement internal control by the end-of-June 2019, and despite the some good progress made, the Agency must still issue an internal operating procedure which will set out the Agency's processes in relation to the internal control system.

Review of General Manager's Internal Control Priorities for 2019

The General Manager's internal control priorities for 2019 and the results of these activities were:

- **Audit Recommendations Status**

The IBAN made 4 new (2017: 6) recommendations in its 2018 audit report. The IBAN considered that the Agency has cleared 11 of the 28 recommendations that it was tracking from its 2017 and previous years' Audit Reports meaning that 39 per cent have been closed or superseded.

The Agency works hard to implement IBAN recommendations and believes that significant progress will be made through either closing, or making progress, on existing recommendations at the time of issuance of the NSPO Financial Statements 2019.

- **Reducing the value of overdue accounts receivables**

The Agency has worked hard reducing the value of overdue accounts receivables. While over the previous two years, the Agency has made significant progress on reducing these balances, they remain too high and the Agency will see if improved debt collection processes prove successful. The Agency now discloses details of aged receivables in the financial statements

- **Enhancement of financial procedures and processes**

The Agency made only limited progress in 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.

Progress was limited due to staffing issues and the prioritisation the Agency afforded to working towards the implementation of the NFRPs. Further work in this area is envisaged for 2020.

Audit opinions on the NSPO Financial Statements 2018.

For the first time since the creation of the Agency, the International Board of Auditors for NATO (IBAN) issued an “unqualified audit opinion” on whether, in all material respects, the financial transactions and information contained within the NSPO Financial Statements for 2018 were in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations. This represents a substantial achievement for the Agency.

In addition to the unqualified opinion on compliance, for the first time the Agency also received an “unqualified audit opinion” on the numbers presented in the NSPO Financial Statements for 2018.

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 overdue 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 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 initially approved to allow deposits up to two years; it was extended at the December 2019 meeting of the ASB, to allow the making of exceptional time deposits not to exceed four years and up to a cumulative value of Euro 500m, for as long as is deemed necessary under the current negative-interest regime in the Euro Zone.

Risk Management

Risk Management effort in 2019 focussed on improving the risk management process maturity and risk registers. The ASB endorsed a risk management Functional Directive and the Agency risk management policy and procedures were updated using experience gained. This was also a key element of the ISO 9001:2015 re-certification process that occurred in the first quarter of the year. Once again, a very good assessment was received on risk management within the Agency.

One element raised during the ISO 9001 audit was a need to identify the method used to identify and evaluate risks at each stage of a project or during a process review. To address this, the Risk Management Community of Interest (RMCI) documented various identification methodologies and techniques that could be put to general use.

The Agency continues to provide training to staff on risk management at a basic level and at an advanced level training for all managers and those involved directly in risk management activity to enable them to carry out the process correctly and to record risks in the Agency risk management tool.

The activity within the risk registers is measured regularly and the Risk Manager also carried out quality audits of all risk registers at twice throughout the year. Reports were sent to the relevant owners of the risk registers and errors were corrected. A number of common errors and actions were identified on each occasion and these were reported through the Executive Management Board.

The Risk Management Tool (RMT) and especially its reporting functionality, has been improved to reduce the effort by the users and better meet their requirements. In

addition, work has started to integrate the Internal Control requirements with the RMT.

The Agency Enterprise Risks continued to be addressed through 2019 and significant progress was made with some of the major mitigation actions. A report on risk management progress was provided to the ASB in the Spring cycle and the decision taken to leave risk scores as they were until the effects of the mitigation actions were seen.

All the Enterprise level risks are cross-functional and affect multiple areas within the Agency. They have been grouped into five revised high-level risks ranked upon their logical position within the Agency business life cycle:

- Risk 1 - Failing to Maintain a Good Reputation
- Risk 2 - Non-compliance with Mandatory Regulations
- Risk 3 - Information or System Loss through Cyber Attack
- Risk 4 - Insufficient Numbers of Qualified Personnel
- Risk 5 - Staff Working in Unsatisfactory, Insufficient or Inadequate Infrastructure

Some major decisions were made in 2019 at NAC and ASB level to take forward mitigation actions against these risks.

Internal Audit

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

In 2019, the Auditor General's Office consolidated the significant changes introduced since the arrival of the new Auditor General in September 2017. This was done in order to reach full compliance with the International Standards for the Professional Practice of Internal Auditing (Standards), promulgated by the Institute of Internal Auditors, as required by the NSPO Financial Rules and Procedures. The main challenges were achieving an adequate quantity and quality of audit deliverables with the existing limited resources.

In 2019, eighteen internal audit reports have been released, corresponding to 86% of the audits included in the revised 2019 audit plan. Fourteen improvement actions were implemented based on the previous year's internal assessments. 89 recommendations were released, 86 of which have been accepted directly by the

audit customers, obtaining an acceptance rate of 97%. Six recommendations on how to improve the efficiency and the effectiveness of the Internal Control System (ICS) have been released to the NSPA Internal Control Officer. Eight Programme, Office or Division (POD) specific assessments of the ICS have been performed and 42 ICS-related recommendations have been released to the PODs audited. In 2019, the Auditor General Office released the highest number of deliverables compared with the last four years.

The Office completed an internal self-assessment against the International Standards for the Professional Practice of Internal Auditing (Standards) and obtained a rating of 'generally conforms' from the internal assessment performed during the year. A procedure to get an external validation of the internal assessment, to be considered as an external assessment in accordance with the Standards, has been formally agreed with an external assessor. The results of a survey conducted with the audit customers indicated that the added value was 'high' or 'very high' with an increased level of appreciation for the activities performed.

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 four internal members and an external member. The Audit Advisory Panel reviews systems, processes and controls, and also provides inputs for the internal audit plan and reviews internal and external audit findings.

In December 2019, the Auditor General issued a report entitled "Internal control arrangements within NSPA" which covered the year 2019 where he concluded that "the elements of an internal control system do exist and work at NSPA. In order to be efficient and effective several improvements are needed for the NSPA internal control system, especially on the review of internal control principles, on the preparation of customized points of focus and on the completion of templates and forms. Although the objectives of the assessments executed in 2019 were not aimed to identify specific financial issues or financial consequences due to internal control weaknesses, it is important to note that also in 2019 none of the findings identified represent material financial impact over the NSPO financial statements."

Internal Control Officer's assessment of internal control

Internal controls are designed and implemented throughout NSPA to provide assurance that the Agency's objectives are met. An evaluation of the internal controls was conducted which consisted of 1) a comparison of the controls against

the NSPA Internal Control Framework, and 2) testing internal controls for effectiveness. The evaluation demonstrated that while the internal controls can be relied upon to provide assurance that the Agency's objectives will be met, there are a number of weaknesses which taken together, reduce that level of assurance from reasonable to limited assurance. These include:

- Selected controls related the third party confirmation process for Accounts Receivable, Accounts Payable, CIMO, and Treasury were not properly documented, executed, or monitored. Therefore, these controls cannot be sufficient to prevent or detect potential errors and fraud on a timely basis;
- Limitations on testing related to the administrative and operational budgets, lack of documented controls and management oversight in the preparation of the Financial Statements; and
- The lack of testing of controls over payroll within Human Resources.

Additionally, the controls that were selected for inclusion in the Risk and Control Matrix, while representing the judgement of the relevant Executive Manager, are not based on an analysis of the risks these controls present should they not be designed or implemented effectively.

NSPA is at the initial or base level of maturity with respect to integrating internal controls into process reviews and internal monitoring. In addition to improvements in policy and the provision of templates to aid in the testing and documentation of controls, the control environment can be improved through additional training and awareness of the importance of internal controls. An understanding of how controls could be circumvented would also increase the understanding that controls need to be tested periodically to ensure they can be relied upon.

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 2019 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 has complied consistently and fully with all established governance and managerial policies in 2019. This is because the Agency, with the support of the ASB, was in the process of implementing the NFRPs throughout 2019. At the end of 2019 the Agency was still working to implement a formalised system of internal control which is required by the NFRPs.

We are not aware of any transactions made in the year where customer funds have not been used for the purposes intended by those customers or within the authorised financial limits set by those customers.

The Agency was not required to fully implement the NFRPs until June 2019 and as such did not comply consistently with all established governance and managerial policies related to the NFRPs throughout the year. At the present date, the Agency is still working to fully implement a system of internal control, where an operating procedure is required to set out the processes required to implement a system of internal control.

The Agency remains committed to, and is working hard in the area of ensuring that all personnel are aware of policies and are implementing them in their work.


General Manager
16 April 2020


Financial Controller
16 April 2020

NSPO Statement of Financial Position

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

		NSPO TOTAL		
	Note	2019	Restated 2018	Original 2018
ASSETS				
Current Assets				
Cash and Cash Equivalents	2	2 428 744	2 329 615	2 329 615
Accounts Receivable	6	1 399 551	1 282 570	1 282 570
Inventory	5	353 737	371 358	371 358
Prepayments	7	196 147	310 426	310 426
		4 378 179	4 293 969	4 293 969
Non-current Assets				
Investments	2	122 641	215 022	215 022
Accounts Receivable	6	68 106	26 147	26 147
Property Plant and Equipment	3	1 316 278	1 144 837	1 147 874
Intangible Assets	4	16 079	17 723	17 723
		1 523 104	1 403 729	1 406 766
Total Assets		5 901 283	5 697 698	5 700 734
LIABILITIES				
Current Liabilities				
Accounts Payable and Accruals	8	345 247	366 814	366 814
Customer Advances	9	2 146 262	2 598 370	2 598 370
Overdrafts	2	753	2 718	2 718
Provisions	16	448	1 436	1 436
		2 492 710	2 969 338	2 969 338
Non-current Liabilities				
Customer Advances	9	1 629 346	1 087 405	1 087 405
Provisions	16	2 231	2 204	2 204
		1 631 577	1 089 609	1 089 609
Total Liabilities		4 124 287	4 058 947	4 058 947
Net Assets		1 776 996	1 638 751	1 641 788

Restatement: Further details on 2018 comparative "Restated" figures can be found within the Accounting Policies (page 20 to 25) and in Note 24 (pages 50 to 53).

The financial statements on pages 11 to 63 were issued to the International Board of Auditors for NATO on 16 April 2020.

XXXXXXXXXX

NSPA General Manager

XXXXXX

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	2019	2018	2019	2018	2019	2018	2019	Restated 2018	2019	2018	2019	Restated 2018	Original 2018
ASSETS														
Current Assets														
Cash and Cash Equivalents	2	0	0	1 942 892	1 924 605	287 564	219 745	198 288	185 265	0	0	2 428 744	2 329 615	2 329 615
Accounts Receivable	6	0	0	1 357 022	1 246 410	18 563	7 712	24 002	28 459	(36)	(11)	1 399 551	1 282 570	1 282 570
Inventory	5	0	0	343 583	362 296	3 406	2 565	6 748	6 497	0	0	353 737	371 358	371 358
Prepayments	7	0	0	138 310	174 685	57 642	135 427	195	314	0	0	196 147	310 426	310 426
		0	0	3 781 807	3 707 996	367 175	365 449	229 233	220 535	(36)	(11)	4 378 179	4 293 969	4 293 969
Non-current Assets														
Investments	2	0	0	122 641	215 022	0	0	0	0	0	0	122 641	215 022	215 022
Accounts Receivable	6	0	0	65 874	23 942	0	0	2 232	2 205	0	0	68 106	26 147	26 147
Property Plant and Equipment	3	0	0	740 035	568 222	390 745	407 544	185 498	169 071	0	0	1 316 278	1 144 837	1 147 874
Intangible Assets	4	0	0	0	0	13 354	15 137	2 725	2 586	0	0	16 079	17 723	17 723
		0	0	928 550	807 186	404 099	422 681	190 455	173 862	0	0	1 523 104	1 403 729	1 406 766
Total Assets		0	0	4 710 357	4 515 182	771 274	788 130	419 688	394 397	(36)	(11)	5 901 283	5 697 698	5 700 734
LIABILITIES														
Current Liabilities														
Accounts Payable and Accruals	8	0	0	324 228	346 403	11 071	8 062	9 984	12 360	(36)	(11)	345 247	366 814	366 814
Customer Advances	9	0	0	1 981 108	2 325 919	144 252	248 125	20 902	24 326	0	0	2 146 262	2 598 370	2 598 370
Overdrafts	2	0	0	0	0	0	0	753	2 718	0	0	753	2 718	2 718
Provisions	16	0	0	256	537	0	0	192	899	0	0	448	1 436	1 436
		0	0	2 305 592	2 672 859	155 323	256 187	31 831	40 303	(36)	(11)	2 492 710	2 969 338	2 969 338
Non-current Liabilities														
Customer Advances	9	0	0	1 229 864	806 548	208 827	107 122	190 655	173 735	0	0	1 629 346	1 087 405	1 087 405
Provisions	16	0	0	0	0	0	0	2 231	2 204	0	0	2 231	2 204	2 204
		0	0	1 229 864	806 548	208 827	107 122	192 886	175 939	0	0	1 631 577	1 089 609	1 089 609
Total Liabilities		0	0	3 535 456	3 479 407	364 150	363 309	224 717	216 242	(36)	(11)	4 124 287	4 058 947	4 058 947
Net Assets		0	0	1 174 901	1 035 775	407 124	424 821	194 971	178 155	0	0	1 776 996	1 638 751	1 641 788

Restatement: Further details on 2018 comparative "Restated" figures can be found within the Accounting Policies (page 20 to 25) and in Note 24 (pages 50 to 53).

The financial statements on pages 11 to 63 were issued to the International Board of Auditors for NATO on 16 April 2020.

XXXXXXXXXXXX

NSPA General Manager

XXXXXXXXXXXX

NSPA Financial Controller

NSPO Statement of Financial Performance

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

		NSPO TOTAL		
			<i>Restated</i>	<i>Original</i>
Revenue	Note	2019	2018	2018
Services and Support to Customers		3 099 052	2 773 350	2 773 350
Administrative Support		183 181	169 836	169 836
Bank interest	10	87	63	63
Unrealised foreign currency effects	10	(2 990)	11 964	11 964
Reversal of provisions	16	281	1 708	1 708
Miscellaneous Revenue		8 446	2 024	2 024
Total Revenue		3 288 057	2 958 944	2 958 944
Expenses				
Services and Support to Customers	11	(2 947 285)	(2 643 199)	(2 643 199)
Commercial Discounts Earned *		4 992	3 580	3 580
USA Foreign Military Sales **	11	(93 217)	(50 090)	(50 090)
Personnel	13	(198 691)	(186 545)	(186 545)
Depreciation and Amortisation		(44 533)	(43 286)	(43 375)
Provisions	16	0	(359)	(359)
Other Expenses	11	(54 917)	(50 967)	(50 967)
Transfers to customer credits		(17 499)	(11 511)	(11 511)
Total Expenses		(3 351 150)	(2 982 377)	(2 982 466)
Surplus / (Deficit) for the year		(63 093)	(23 433)	(23 522)
<i>Surplus / (Deficit) is represented by:</i>				
Unrealised foreign currency effects	10	(2 990)	11 964	
Depreciation and Amortisation		(44 533)	(43 286)	
Increase in provisions	16	0	(359)	
Reversal of provision	16	281	1 708	
Net revenue from inventory movements		(15 851)	6 540	
		(63 093)	(23 433)	

Restatement: Further details on 2018 comparative “Restated” figures can be found within the Accounting Policies (page 20 to 25) and in Note 24 (pages 50 to 53).

* “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 20 to 25).

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	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	Original 2018
Revenue														
Services and Support to Customers		0	0	2 914 412	2 630 054	76 290	38 725	108 900	104 999	(550)	(428)	3 099 052	2 773 350	2 773 350
Administrative Support		842	910	160 693	148 717	7 380	6 832	16 557	15 746	(2 291)	(2 369)	183 181	169 836	169 836
Bank interest	10	0	0	(3)	(13)	0	0	90	76	0	0	87	63	63
Unrealised foreign currency effects	10	0	0	(3 042)	11 925	52	39	0	0	0	0	(2 990)	11 964	11 964
Reversal of provisions	16	0	0	281	1 708	0	0	0	0	0	0	281	1 708	1 708
Miscellaneous Revenue		0	0	0	0	0	0	8 448	2 026	(2)	(2)	8 446	2 024	2 024
Total Revenue		842	910	3 072 341	2 792 391	83 722	45 596	133 995	122 846	(2 843)	(2 799)	3 288 057	2 958 944	2 958 944
Expenses														
Services and Support to Customers	11	0	0	(2 876 704)	(2 591 271)	(36 591)	(20 874)	(34 732)	(31 613)	742	559	(2 947 285)	(2 643 199)	(2 643 199)
Commercial Discounts Earned *		0	0	4 971	3 580	0	0	21	0	0	0	4 992	3 580	3 580
USA Foreign Military Sales **	11	0	0	(53 551)	(32 251)	(39 666)	(17 839)	0	0	0	0	(93 217)	(50 090)	(50 090)
Personnel	13	(753)	(783)	(127 779)	(117 574)	(4 931)	(4 212)	(65 228)	(63 976)	0	0	(198 691)	(186 545)	(186 545)
Depreciation and Amortisation		0	0	(3 646)	(3 847)	(27 863)	(27 239)	(13 024)	(12 200)	0	0	(44 533)	(43 286)	(43 375)
Provisions	16	0	0	0	(359)	0	0	0	0	0	0	0	(359)	(359)
Other Expenses	11	(89)	(127)	(37 890)	(34 702)	(2 482)	(2 632)	(16 557)	(15 746)	2 101	2 240	(54 917)	(50 967)	(50 967)
Transfers to customer credits		0	0	0	0	0	0	(17 499)	(11 511)	0	0	(17 499)	(11 511)	(11 511)
Total Expenses		(842)	(910)	(3 094 599)	(2 776 424)	(111 533)	(72 796)	(147 019)	(135 046)	2 843	2 799	(3 351 150)	(2 982 377)	(2 982 466)
Surplus / (Deficit) for the year		0	0	(22 258)	15 967	(27 811)	(27 200)	(13 024)	(12 200)	0	0	(63 093)	(23 433)	(23 522)
<i>Surplus / (Deficit) is represented by:</i>														
Unrealised foreign currency effects	10	0	0	(3 042)	11 925	52	39	0	0			(2 990)	11 964	
Depreciation and Amortisation		0	0	(3 646)	(3 847)	(27 863)	(27 239)	(13 024)	(12 200)			(44 533)	(43 286)	
Increase in provisions	16	0	0	0	(359)	0	0	0	0			0	(359)	
Reversal of provision	16	0	0	281	1 708	0	0	0	0			281	1 708	
Net revenue from inventory movements		0	0	(15 851)	6 540	0	0	0	0			(15 851)	6 540	
		0	0	(22 258)	15 967	(27 811)	(27 200)	(13 024)	(12 200)			(63 093)	(23 433)	

Restatement: Further details on 2018 comparative "Restated" figures can be found within the Accounting Policies (page 20 to 25) and in Note 24 (pages 50 to 53).

* "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 20 to 25).

NSPO Cash Flow Statement for the year-ended 31 December

(all figures are in Euro '000)

	2019	2018
Cash Flows from Operating Activities		
Cash Receipts from Customers	3 199 963	3 046 102
Bank Interest Received	9 454	6 649
Cash Paid to Suppliers	(3 144 185)	(2 903 962)
Cash Paid to and on behalf of Employees	(190 618)	(178 551)
Net Other Payments and Receipts	153 321	28 760
Net Cash Flows from Operating Activities	27 934	(1 002)
Cash Flows from Investing Activities		
Net purchase of investments of greater than one year	0	(215 022)
Net redemption of investments of greater than one year	92 381	0
Net purchase of PPE, Intangible Assets and Inventory	(193 704)	(163 286)
Net Cash Flows from Investing Activities	(101 323)	(378 308)
Cash Flows from Financing Activities		
Net proceeds from borrowings	(1 965)	2 718
Capital Contributed by Countries	168 976	123 639
Net Cash Flows from Financing Activities	167 010	126 357
Foreign currency effects	5 507	16 905
Cash and Cash Equivalents at Beginning of Period	2 329 615	2 565 663
Net Increase/(Decrease) in Cash and Cash Equivalents	99 128	(236 048)
Cash and Cash Equivalents at End of Period	2 428 744	2 329 615

NSPO Statement of Changes in Net Assets *(all figures are in Euro '000)*

	2019				
NSPO	Capital contributions	Revaluation Reserves	Other Reserves	Accumulated surplus/deficit	Total
Balance at the end of prior period	1 562 930	0	75 821	0	1 638 751
Changes in accounting policy	0	0	0	0	0
Restatement to correct errors	0	0	0	0	0
Balance at 31 December of prior-period	1 562 930	0	75 821	0	1 638 751
Net gains/(losses) recognised directly in net assets	212 162	0	(10 542)	0	201 620
Depreciation and Amortisation	(44 533)	0	0	44 533	0
Exchange difference on translating foreign operations	0	0	(8)	0	(8)
Net Unrealised Foreign exchange gains and losses	0	0	(2 990)	2 990	0
Inventory disposals, donations and increases	0	0	(18 660)	18 660	0
Inventory sales	0	0	2 817	(2 817)	0
Surplus/(deficit) for the period *	0	0	0	(63 366)	(63 366)
Change in net assets for the year ended	167 629	0	(29 383)	0	138 246
Balance at 31 December of year-ended	1 730 559	0	46 438	0	1 776 996

	2018				
	<i>Restated to reflect change in accounting policy</i>				
NSPO	Capital contributions	Revaluation Reserves	Other Reserves	Accumulated surplus/deficit	Total
Balance at the end of prior period	1 430 190	2 726	44 461	0	1 477 377
Changes in accounting policy	(401)	(2 726)	0	0	(3 127)
Restatement to correct errors	0	0	0	0	0
Balance at 31 December of prior-period	1 429 789	0	44 461	0	1 474 250
Net gains/(losses) recognised directly in net assets	156 907	0	12 876	0	169 783
Depreciation and Amortisation	(43 286)	0	0	43 286	0
Exchange difference on translating foreign operations	19 520	0	(20)	0	19 500
Net Unrealised Foreign exchange gains and losses	0	0	11 963	(11 963)	0
Inventory disposals, donations and increases	0	0	1 792	(1 792)	0
Inventory sales	0	0	4 749	(4 749)	0
Surplus/(deficit) for the period *	0	0	0	(24 782)	(24 782)
Change in net assets for the year ended	133 141	0	31 360	0	164 501
Balance at 31 December of year-ended	1 562 930	0	75 821	0	1 638 751

	2018				
	<i>Original</i>				
NSPO	Capital contributions	Revaluation Reserves	Other Reserves	Accumulated surplus/deficit	Total
Balance at the end of prior period	1 430 190	2 726	44 461	0	1 477 377
Changes in accounting policy	0	0	0	0	0
Restatement to correct errors	0	0	0	0	0
Balance at 31 December of prior-period	1 430 190	2 726	44 461	0	1 477 377
Net gains/(losses) recognised directly in net assets	156 989	(83)	12 876	0	169 782
Depreciation and Amortisation	(43 375)	0	0	43 375	0
Exchange difference on translating foreign operations	19 520	0	(20)	0	19 500
Net Unrealised Foreign exchange gains and losses	0	0	11 963	(11 963)	0
Inventory disposals, donations and increases	0	0	1 792	(1 792)	0
Inventory sales	0	0	4 749	(4 749)	0
Surplus/(deficit) for the period *	0	0	0	(24 871)	(24 871)
Change in net assets for the year ended	133 134	(83)	31 360	0	164 411
Balance at 31 December of year-ended	1 563 324	2 643	75 821	0	1 641 788

NSPO Statement of Changes in Net Assets *(all figures are in Euro '000)*

	2019					2018				
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	959 529	0	76 246	0	1 035 775	838 435	0	44 905	0	883 340
Changes in accounting policy	0	0	0	0	0	0	0	0	0	0
Restatement to correct errors	0	0	0	0	0	0	0	0	0	0
Balance at 31 December of prior-period	959 529	0	76 246	0	1 035 775	838 435	0	44 905	0	883 340
Net gains/(losses) recognised directly in net assets	172 199	0	(10 542)	0	161 657	124 941	0	12 876	0	137 817
Depreciation and Amortisation	(3 646)	0	0	3 646	0	(3 847)	0	0	3 847	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	(3 042)	3 042	0	0	0	11 924	(11 924)	0
Inventory disposals, donations and increases	0	0	(18 660)	18 660	0	0	0	1 792	(1 792)	0
Inventory sales	0	0	2 817	(2 817)	0	0	0	4 749	(4 749)	0
Surplus/(deficit) for the period *	0	0	0	(22 531)	(22 531)	0	0	0	14 618	14 618
Change in net assets for the year ended	168 553	0	(29 427)	0	139 126	121 094	0	31 341	0	152 435
Balance at 31 December of year-ended	1 128 082	0	46 819	0	1 174 901	959 529	0	76 246	0	1 035 775

Reconciliation of Surplus in Statement of Financial Performance to deficit shown in Statement of Changes in Net Assets

Deficit for the period as per Statement of Changes in Net Assets	(22 531)
<i>Less non-budgetary items</i>	
Write-off	(8)
Reversal of provision	281
Deficit for the period as per Statement of Financial Performance	(22 258)

NSPO Statement of Changes in Net Assets *(all figures are in Euro '000)*

	2019					2018				
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	425 246	0	(425)	0	424 821	429 280	0	(444)	0	428 836
Changes in accounting policy	0	0	0	0	0	0	0	0	0	0
Restatement to correct errors	0	0	0	0	0	0	0	0	0	0
Balance at 31 December of prior-period	425 246	0	(425)	0	424 821	429 280	0	(444)	0	428 836
Net gains/(losses) recognised directly in net assets	10 094	0	0	0	10 094	3 685	0	0	0	3 685
Depreciation and Amortisation	(27 863)	0	0	27 863	0	(27 239)	0	0	27 239	0
Exchange difference on translating foreign operations	0	0	(9)	0	(9)	19 520	0	(20)	0	19 500
Net Unrealised Foreign exchange gains and losses	0	0	52	(52)	0	0	0	39	(39)	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	(27 811)	(27 811)	0	0	0	(27 200)	(27 200)
Change in net assets for the year ended	(17 769)	0	43	0	(17 726)	(4 034)	0	19	0	(4 015)
Balance at 31 December of year-ended	407 477	0	(382)	0	407 095	425 246	0	(425)	0	424 821

NSPO Statement of Changes in Net Assets *(all figures are in Euro '000)*

	2019				
CEPS Business Unit	Capital contributions	Revaluation Reserves	Other Reserves	Accumulated surplus/deficit	Total
Balance at the end of prior period	178 155	0	0	0	178 155
Changes in accounting policy	0	0	0	0	0
Restatement to correct errors	0	0	0	0	0
Balance at 31 December of prior-period	178 155	0	0	0	178 155
Net gains/(losses) recognised directly in net assets	29 840	0	0	0	29 840
Depreciation and Amortisation	(13 024)	0	0	13 024	0
Exchange difference on translating foreign operations	0	0	0	0	0
Net Unrealised Foreign exchange gains and losses	0	0	0	0	0
Inventory disposals, donations and increases	0	0	0	0	0
Inventory sales	0	0	0	0	0
Surplus/(deficit) for the period	0	0	0	(13 024)	(13 024)
Change in net assets for the year ended	16 816	0	0	0	16 816
Balance at 31 December of year-ended	194 971	0	0	0	194 971

	2018				
	<i>Restated to reflect change in accounting policy</i>				
CEPS Business Unit	Capital contributions	Revaluation Reserves	Other Reserves	Accumulated surplus/deficit	Total
Balance at the end of prior period	162 475	2 726	0	0	165 201
Changes in accounting policy	(401)	(2 726)	0	0	(3 127)
Restatement to correct errors	0	0	0	0	0
Balance at 31 December of prior-period	162 074	0	0	0	162 074
Net gains/(losses) recognised directly in net assets	28 281	0	0	0	28 281
Depreciation and Amortisation	(12 200)	0	0	12 200	0
Exchange difference on translating foreign operations	0	0	0	0	0
Net Unrealised Foreign exchange gains and losses	0	0	0	0	0
Inventory disposals, donations and increases	0	0	0	0	0
Inventory sales	0	0	0	0	0
Surplus/(deficit) for the period	0	0	0	(12 200)	(12 200)
Change in net assets for the year ended	16 081	0	0	0	16 081
Balance at 31 December of year-ended	178 155	0	0	0	178 155

	2018				
	<i>Original</i>				
CEPS Business Unit	Capital contributions	Revaluation Reserves	Other Reserves	Accumulated surplus/deficit	Total
Balance at the end of prior period	162 475	2 726	0	0	165 201
Changes in accounting policy	0	0	0	0	0
Restatement to correct errors	0	0	0	0	0
Balance at 31 December of prior-period	162 475	2 726	0	0	165 201
Net gains/(losses) recognised directly in net assets	28 362	(83)	0	0	28 279
Depreciation and Amortisation	(12 289)	0	0	12 289	0
Exchange difference on translating foreign operations	0	0	0	0	0
Net Unrealised Foreign exchange gains and losses	0	0	0	0	0
Inventory disposals, donations and increases	0	0	0	0	0
Inventory sales	0	0	0	0	0
Surplus/(deficit) for the period	0	0	0	(12 289)	(12 289)
Change in net assets for the year ended	16 073	(83)	0	0	15 990
Balance at 31 December of year-ended	178 548	2 643	0	0	181 191

Restated figures - please refer to Note 24

Accounting Policies

Basis of preparation

These financial statements have been prepared in accordance with the NATO Accounting Framework as adopted by the North Atlantic Council (the "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 Council in August 2013 and IPSAS 1 – Presentation of Financial Statements, was adapted by the Council in April 2016.

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 Policy to no longer capitalise land and building acquired before 2013

IPSAS 3 – Accounting Policies, changes in accounting estimates and errors requires that "A change in the accounting treatment, recognition, or measurement of a transaction, event, or condition within a basis of accounting is regarded as a change in accounting policy".

The Agency has changed its accounting policy, in accordance with the NATO Accounting Framework, so that it will no longer capitalise land and buildings controlled before 2013; this impacts the CEPS Business Unit segment where land and buildings controlled pre-2013 are now excluded from the Statement of Financial Position.

The Agency is currently in the process of building a new campus at its [REDACTED] site and the decision to change the accounting policy has been taken to ensure the

usefulness and comparability of financial reporting information; Agency management considers that comparing the cost of the "old" [REDACTED] campus and the "new" [REDACTED] campus has limited use for the reader of the financial statements because the cost of land and buildings in Luxembourg has increased significantly in the last 10 years.

Restatement of the 2018 Financial Statements as a result of the Change in Accounting Policy

This decision of the Agency to no longer capitalise land and building acquired before 2013 means that the CEPS Business Unit Segment of the Financial Statements has been restated to exclude the CEPS Programme Office in [REDACTED]. The impact of this change in accounting policy can be found in Note 24.

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.

While the Log Ops Business Unit has two distinct lines of focus; namely, Life Cycle Management and Support to Operations, neither the Agency Supervisory Board nor senior Agency management, considered it appropriate for the 2018 or 2019 financial years 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.

Changes in Accounting Standards

At the end of the 2019 financial year, the following IPSAS had been issued which will become effective in the financial years specified:

- **IPSAS 40 - Public Sector Combinations (effective 1 January 2019)**
 - This standard had no impact on NSPO Financial Reporting in 2019.
- **IPSAS 41 – Financial Instruments (effective 1 January 2022)**
 - This standard will replace part of IPSAS 29, Financial Instruments: Recognition and Measurement. The Agency has not yet assessed whether this standard will have an impact on its financial reporting.
- **IPSAS 42 – Social Benefits (effective 1 January 2022)**
 - The Agency has not yet assessed whether this standard will have an impact on its financial reporting.

Revenue Recognition

Except for Foreign Military Sales (FMS – see below), the 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 an 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 from 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 (2019: 1.1234 USD to Euro, 2018: 1.145 USD to Euro);
- translating revenue and expenses into Euros at the average yearly exchange rates for the Euro relative to the USD (2019: 1.1195 USD to Euro, 2018: 1.181 USD to Euro).

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.

Investments

The Agency invests in Euro denominated term-deposits with a life of between one and four years. These investments are held-to-maturity. The Agency is not permitted to invest USD denominated balances for more than one year.

Overdraft

The French National Organisations of the CEPS Business Unit, which is part of NSPO but not NSPA, is able to make use of an overdraft facility from the private sector company which manages the pipeline in its behalf. This is recorded at fair value.

Receivables

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

As a general rule, the Agency considers that as it works with customers which are funded through national governments, that debts are considered to be "good"; only on rare occasions are provisions made for bad or doubtful debts.

Receivables cannot be 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 exceptions are 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.

The capitalisation thresholds for all inventory are Euro nil.

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 (PP&E)

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..

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 200,000
- 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

The Central Europe Pipeline System capitalises additions and enhancement made since 1 January 2013; this is in accordance with 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 acquired since 2013

For the first time with the issuance of the 2019 Financial Statements, the NSPO campus at [REDACTED] is considered to be controlled by NSPO.

The Agency has chosen to change its accounting policy to only capitalise additions and enhancement to PPE made since 1 January 2013; this is in accordance with the NATO Accounting Framework which allows NATO bodies the choice between capitalising PPE after, or before, the cut-off date 1 January 2013.

In practice, this means that the NAM Programme site in [REDACTED] is capitalised, and additions and enhancement to the Agency's [REDACTED] site since 2013, including the construction of a "new campus" are capitalised from the 2019 Financial Statements onwards.

As the CEPS Programme Office site in [REDACTED] was used before 2013 this is not-capitalised despite being controlled by the Agency. This has led to a restatement of the 2018 Financial Statements (see Note 24).

As the NAM Programme was established for 26 years, 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 within assets, such as cash, 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 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.

IPSAS 39 - Employee Benefits requires that entities which have staff who participate in a central pension scheme show their respective shares of the future liabilities of the scheme which have resulted from staff members, present and past, in the scheme at the balance sheet date. The NATO defined benefit scheme is funded on a pay-as-you-go basis, where NATO at a central level, funds the next year's liabilities on the scheme on an annual basis.

NSPO, unlike a number of other NATO bodies, is not required to fund the scheme, and as such, is not currently considered to have any share of the future liabilities at the balance sheet date.

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.

One specific long-term service benefit of NATO staff is the Retirees' Medical Claim Fund. *IPSAS 39 - Employee Benefits* requires that entities which have staff who participate in a centrally provided scheme show their share of the future liabilities of the scheme which have resulted from staff members, present and past, in the scheme at the balance sheet date. This NATO Retirees Medical Claim Fund scheme is funded on a pay-as-you-go basis, where NATO at a central level, funds the next year's liabilities on the scheme on an annual basis. NSPO, unlike a number of other NATO bodies, is not required to fund the scheme, and as such, is not currently considered to have any share of the future liabilities at the balance sheet date.

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 probably 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.

Contingent Assets

Contingent assets are not recognised in the Statement of Financial Position but are disclosed when there is an unplanned or unexpected event that is not wholly with the control of the Agency and gives rise to the possibility of an inflow of economic benefits or service potential to the Agency.

Operating surplus / (deficit) in the year

Operating surpluses and deficits occur when non-budgeted expenses or revenues occur; 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 to 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; the Agency is permitted to account in this way by the NATO Accounting Framework.

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) 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, Investments, and, Overdrafts

During the financial recession of 2008, many banks suffered liquidity and capital funding issues which required government support to banks. The Agency continuously reviews its banking arrangement to ensure that there is a low risk of capital loss. At the date the financial statements were issued, the Agency considers that the value of cash and investment balances are correctly stated and there is no need to impair the balances reported.

a) Cash and Cash Equivalents

	Log Ops		NAM		CEPS		NSPO TOTAL	
	2019	2018	2019	2018	2019	2018	2019	2018
Cash available on demand	426 005	456 840	3 145	17 844	10 530	7 975	439 680	482 659
Short-term deposits	1 516 887	1 467 765	284 419	201 901	187 758	177 289	1 989 064	1 846 955
Total	1 942 892	1 924 605	287 564	219 745	198 288	185 265	2 428 744	2 329 615

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.

CEPS Business Unit's National Organisations' cash

Due to the structure of banking arrangements in some CEPS National Organisations, the CEPS Business Unit controls Euro 16m (2018: Euro 7.2m) 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.

b) Investments

	Log Ops		NAM		CEPS		NSPO TOTAL	
	2019	2018	2019	2018	2019	2018	2019	2018
Cash held on deposit for between one and four years	122 641	215 022	0	0	0	0	122 641	215 022
Total	122 641	215 022	0	0	0	0	122 641	215 022

To ensure the effective and efficient financial management 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 2019 meeting to allow the Agency to make exceptional Euro denominated term deposits not to exceed four years and up to a cumulative value of Euro 500m.

c. Overdrafts

The French National Organisation of the CEPS Business Unit held an interest-free overdraft of Euro 753k (2018: Euro 2.7m) at the year-end from the private sector company which manages the pipeline system on its behalf.

3. Property, Plant and Equipment (PPE)

NSPO capitalises all PPE which its segment parts control. The Log Ops Business Unit 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.

2019	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 2019	Net book value at 31 December 2019
Land	0	0	0	0	0	0	0	0	0	0	0	0
Buildings	50 053	9 490	0	(160)	824	60 207	(14 165)	(2 419)	(163)	(16 747)	35 888	43 460
Installed Equipment	5 625	1	0	(58)	67	5 635	(4 677)	14	(67)	(4 730)	948	905
Machinery	109 725	1 973	171	(1 058)	0	110 811	(96 873)	(171)	0	(97 044)	12 852	13 767
Vehicles	9 628	1 353	0	(703)	49	10 327	(6 641)	(182)	(29)	(6 852)	2 987	3 475
Aircraft	568 383	210	0	0	10 928	579 521	(200 486)	(22 398)	(3 777)	(226 661)	367 897	352 860
Pipeline System	139 822	5 927	17 397	0	0	163 146	(30 405)	(10 244)	0	(40 649)	109 417	122 497
Mission Equipment	29 397	1 258	0	(374)	326	30 607	(22 907)	(1 563)	(234)	(24 704)	6 490	5 903
Furniture	6 268	325	2	(128)	17	6 484	(4 886)	(274)	(11)	(5 171)	1 382	1 313
Automated information System	29 498	3 528	(171)	(547)	37	32 345	(25 334)	(1 988)	(35)	(27 357)	4 164	4 988
Communication System	3 528	379	0	(121)	29	3 815	(3 028)	(114)	(29)	(3 171)	500	644
Assets in the course of construction	602 312	181 553	(17 399)	0	0	766 466	0	0	0	0	602 312	766 466
Total	1 554 239	205 997	0	(3 149)	12 277	1 769 364	(409 402)	(39 339)	(4 345)	(453 086)	1 144 837	1 316 278

Land and Buildings acquired since 1 January 2013

In December 2019, the ASB approved the funding for the building of a new campus at [REDACTED] and the Agency deemed that this approval meant, that as from 2019, NSPO controlled [REDACTED] land and buildings which had been acquired since 1 January 2013.

Therefore, the Agency now only accounts for land and buildings which it has controlled since 1 January 2013.

The deemed cost of buildings (there was no land) at [REDACTED] which were acquired after 1 January 2013, for which control was first exercised in 2019, was Euro 9.4m of which the New [REDACTED] Campus was valued at Euro 4.3m. As control was not exercised before 2019, no amounts have been capitalised in 2018.

New [REDACTED] Campus

The Building of the new [REDACTED] Campus is a significant event in the history of the Agency and has a specific dedicated budget; as such, the capitalisation of the Building is being separately disclosed in these Financial Statements. The Net Book value of the New [REDACTED] Campus is shown in the table below:

	Log Ops
New ***** Campus (Net Book Value)	2019
New Gate (in use since 2018)	3 594
New ***** Campus - An asset in the Course of Construction	725
Total	4 319

The New Gate, which is the entrance to the [REDACTED] Campus, is reflected in the Buildings line of the 2019 PPE table, while the other parts of the New [REDACTED] Campus are reflected in Assets in the course of Construction part of the PPE table.

The value of the New [REDACTED] Campus 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.

Land and Buildings acquired before 1 January 2013

The NATO Accounting Framework requires that for PPE held prior to 1 January 2013, and which is not capitalised, a brief description of these types of PPE should be disclosed. With the change in accounting policy to exclude land and buildings held prior to 2013 from the financial statements, the Agency is required to disclose assets in this category which are as follows:

- The land and building of the CEPS Programme Office in [REDACTED], which were last valued in 2011 at Euro 3.75m and comprised land at Euro 195k and building at Euro 3.55m.
- The old [REDACTED] campus, which incorporates land, roads and forty buildings on the site, and which were last valued in 2011 at Euro 101.5m and comprised land at Euro 10.5m and buildings at Euro 91m.

Restatement of 2018 Financial Statements due to the change in accounting policy to no longer capitalise land and building acquired before 2013

CEPS [REDACTED] site

In accordance with the change in accounting policy to no longer capitalise land and building acquired before 2013, parts of the CEPS Programme Office in [REDACTED], which were in use prior to 2013, have now been excluded from the financial statements and this has led to a restatement of the 2018 PPE balances. The cost of land has fallen by Euro 195k and the cost and accumulated depreciation on Buildings has fallen by Euro 3.5m and Euro 0.7m respectively.

2018 (Restated)	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 2018	Net book value at 31 December 2018
Land	0	0	0	0	0	0	0	0	0	0	0	0
Buildings	47 098	1 047	21	(56)	1 943	50 053	(11 507)	(2 292)	(366)	(14 165)	35 591	35 888
Installed Equipment	5 256	598	0	(386)	157	5 625	(4 279)	(247)	(151)	(4 677)	977	948
Machinery	106 349	4 527	(1)	(1 149)	0	109 725	(96 733)	(140)	0	(96 873)	9 616	12 852
Vehicles	9 195	784	5	(467)	111	9 628	(6 261)	(313)	(67)	(6 641)	2 934	2 987
Aircraft	540 603	2 077	0	0	25 703	568 383	(170 264)	(21 472)	(8 750)	(200 486)	370 339	367 897
Pipeline System	120 316	3 958	15 548	0	0	139 822	(20 948)	(9 457)	0	(30 405)	99 368	109 417
Mission Equipment	29 825	730	1	(1 918)	759	29 397	(21 500)	(870)	(537)	(22 907)	8 325	6 490
Furniture	6 315	348	0	(436)	41	6 268	(4 890)	30	(26)	(4 886)	1 425	1 382
Automated information System	27 211	2 493	74	(366)	87	29 498	(22 829)	(2 425)	(80)	(25 334)	4 382	4 164
Communication System	3 362	246	0	(149)	69	3 528	(2 930)	(30)	(68)	(3 028)	432	500
Assets in the course of construction	467 765	150 195	(15 648)	0	0	602 312	0	0	0	0	467 765	602 312
Total	1 363 295	167 003	0	(4 927)	28 870	1 554 239	(362 141)	(37 216)	(10 045)	(409 402)	1 001 154	1 144 837

2018 (Original)	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 2018	Net book value at 31 December 2018
Land	195	0	0	0	0	195	0	0	0	0	195	195
Buildings	50 652	1 047	21	-56	1 941	53 606	(12 129)	(2 382)	(366)	(14 877)	38 523	38 728
Installed Equipment	5 256	598	0	(386)	157	5 625	(4 279)	(247)	(151)	(4 677)	977	948
Machinery	106 349	4 527	(1)	(1 149)	0	109 725	(96 733)	(140)	0	(96 874)	9 615	12 852
Vehicles	9 195	784	5	(467)	111	9 628	(6 261)	(313)	(67)	(6 641)	2 934	2 987
Aircraft	540 603	2 077	0	0	25 703	568 383	(170 264)	(21 472)	(8 750)	(200 486)	370 340	367 897
Pipeline System	120 316	3 958	15 548	0	0	139 822	(20 948)	(9 457)	0	(30 405)	99 368	109 418
Mission Equipment	29 825	730	1	(1 918)	759	29 397	(21 500)	(870)	(537)	(22 907)	8 325	6 490
Furniture	6 315	348	0	(436)	41	6 268	(4 890)	30	(26)	(4 885)	1 426	1 382
Automated Information System	27 211	2 493	74	(366)	87	29 498	(22 829)	(2 425)	(80)	(25 333)	4 382	4 165
Communication System	3 362	246	0	(149)	69	3 528	(2 930)	(30)	(68)	(3 028)	432	500
Assets in the course of construction	467 765	150 195	(15 649)	0	0	602 312	0	0	0	0	467 765	602 312
Total	1 367 044	167 003	0	(4 927)	28 867	1 557 988	(362 763)	(37 307)	(10 044)	(410 114)	1 004 280	1 147 874

For more detail on the restatement, refer to Note 24.

Allied Ground Systems Support Partnership

The NATO Alliance Ground Surveillance 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 Alliance Ground Surveillance 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 the contractor to NAGSMO and then to the NSPO Alliance Ground Surveillance 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. Hand over is expected in 2020. Currently NSPO is only capitalising non-core system assets over which it has control and which will provide support to managing the UAVs.

4. Intangible Assets

2019	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 2019	Net book value at 31 December 2019
Software	12 484	241	87	(75)	84	12 821	(8 471)	(1 815)	(65)	(10 351)	4 013	2 470
Rights to Spare Engine	19 535	0	0	0	342	19 876	(5 971)	(832)	(127)	(6 930)	13 563	12 946
Assets in course of Construction	146	604	(87)	0	0	663	0	0	0	0	146	663
Intangible Assets	32 165	845	0	(75)	426	33 360	(14 442)	(2 647)	(192)	(17 281)	17 723	16 079

2018	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 2018	Net book value at 31 December 2018
Software	11 117	1 116	159	(97)	189	12 484	(8 065)	(277)	(129)	(8 471)	3 052	4 013
Rights to Spare Engine	18 618	32	0	0	884	19 535	(4 938)	(775)	(259)	(5 971)	13 680	13 564
Assets in course of Construction	168	137	(159)	0	0	146	0	0	0	0	168	146
Intangible Assets	29 903	1 285	0	(97)	1 073	32 165	(13 003)	(1 051)	(387)	(14 442)	16 900	17 723

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

5. Inventory

	Log Ops		NAM		CEPS		NSPO TOTAL	
	2019	2018	2019	2018	2019	2018	2019	2018
Consumables	161	214	145	209	3 336	3 241	3 642	3 664
Spare parts	0	0	3 261	2 356	3 412	3 256	6 673	5 612
Strategic stock	343 422	362 082	0	0	0	0	343 422	362 082
Total	343 583	362 296	3 406	2 565	6 748	6 497	353 737	371 358

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 spare-parts and consumables.

NAM Programme

- The NAM Programme controls inventories for its aircraft; these include oils and lubricants. The NAM Programme capitalises major 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

a) Current assets

	Log Ops		NAM		CEPS		Inter-business unit eliminations		NSPO TOTAL	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Current assets										
Receivables	538 842	511 212	16 405	5 105	23 917	28 428	(36)	(11)	579 128	544 734
Personnel	0	0	0	0	0	0	0	0	0	-
Recoverable taxes	2	2	395	324	0	0	0	0	397	326
Other NATO Entities	45 346	22 483	0	0	30	9	0	0	45 376	22 492
Unbilled sales to customers	772 474	712 708	0	0	0	0	0	0	772 474	712 708
Bank interest	358	5	1 763	2 283	55	23	0	0	2 176	2 311
Total	1 357 022	1 246 410	18 563	7 712	24 002	28 459	(36)	(11)	1 399 551	1 282 570

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 8m 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 and Contingent Assets*).

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.

b) Non-current assets

	Log Ops		NAM		CEPS		Inter-business unit eliminations		NSPO TOTAL	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Non - current assets										
Receivables	4 495	3 857	0	0	2 232	2 205	0	0	6 727	6 062
Unbilled sales to customers	61 379	20 085	0	0	0	0	0	0	61 379	20 085
Total	65 874	23 942	0	0	2 232	2 205	0	0	68 106	26 147

c) Gross and net amount of accounts receivable taking into account provisions for doubtful debts and contractual issues

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

	Log Ops		NAM		CEPS		Inter-business unit eliminations		NSPO TOTAL	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Accounts Receivable										
Current assets	1 357 022	1 246 410	18 563	7 712	24 002	28 459	(36)	(11)	1 399 551	1 282 570
Non-current assets	65 874	23 942	0	0	2 232	2 205	0	0	68 106	26 147
Total	1 422 896	1 270 352	18 563	7 712	26 234	30 664	(36)	(11)	1 467 657	1 308 717

	Log Ops		NAM		CEPS		Inter-business unit eliminations		NSPO TOTAL	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Accounts Receivable - Gross	1 422 896	1 270 352	18 563	7 712	26 234	30 664	(36)	(11)	1 467 657	1 308 717
Less Provision for doubtful debts	(178)	(178)	0	0	(170)	(229)	0	0	(348)	(407)
Less Provision for contractual issues	(78)	(359)	0	0	0	0	0	0	(78)	(359)
Receivables - Net Realisable Value	1 422 640	1 269 815	18 563	7 712	26 064	30 435	(36)	(11)	1 467 231	1 307 951

d) Overdue Accounts Receivable – aged profile

The Agency Supervisory Board and the Agency's management place great importance in collecting unpaid bills. To enhance external accountability and transparency in this area, the ASB supported the recommendation of its external auditor (the International Board of Auditors for NATO) to disclose a profile of unpaid bills. As this is a new disclosure in the 2019 Financial Statements, comparative 2018 figures are not available. The figures below only include the receivables that the Agency is responsible for collecting, it does not include receivables which the CEPS National Organisations are responsible for collecting. In addition, the table only includes receivables which are not disputed by a customer.

	Log Ops	NAM	CEPS	NSPO TOTAL
	2019	2019	2019	2019
Overdue by up to 1 year	237 355	66	1 217	238 638
Overdue by between 1 and 3 years	28 024	335	0	28 359
Overdue by between 3 and 5 years	24 764	1 077	0	25 841
Overdue by over 5 years	8 190	903	0	9 093
Total	298 333	2 381	1 217	301 931

The Agency only rarely make provisions for doubtful debts; this is because the Agency works with customers which are backed by national governments who are considered to be “good” payers. However, the Agency also acknowledges there may be occasions when a sovereign government may not ultimately pay a debt because budgetary credits may not be available (for example, in some countries a budget may “lapse” after three years).

7. Prepayments

	Log Ops		NAM		CEPS		NSPO TOTAL	
	2019	2018	2019	2018	2019	2018	2019	2018
Prepayments to employees	88	77	3	11	0	0	91	88
Prepayments to vendors	113 839	130 956	2 355	2 295	195	314	116 389	133 565
Prepayments to USA Foreign Military Sales	24 383	43 652	55 284	133 121	0	0	79 667	176 773
Total	138 310	174 685	57 642	135 427	195	314	196 147	310 426

8. Accounts Payable and Accruals

	Log Ops		NAM		CEPS		Inter-business unit eliminations	NSPO TOTAL	
	2019	2018	2019	2018	2019	2018	2019	2018	2018
Payables to vendors	32 692	42 023	6	252	4 251	6 501	(36)	(11)	36 913
Health care contributions	0	0	0	0	0	0	0	0	0
Pension contributions	18	18	0	0	0	0	0	0	18
Accruals	267 542	280 486	11 065	7 810	5 644	5 664	0	0	284 251
Taxes	0	0	0	0	0	0	0	0	0
Other	23 976	23 876	0	0	89	196	0	0	24 065
Total	324 228	346 403	11 071	8 062	9 984	12 360	(36)	(11)	345 247

9. Customer Advances

a) Current liabilities

	Log Ops		NAM		CEPS		NSPO TOTAL	
<i>Current liabilities</i>	2019	2018	2019	2018	2019	2018	2019	2018
Customer advance payments	1 833 221	2 204 731	137 877	243 609	12 000	12 000	1 983 098	2 460 340
Customer and replenishment credits (allocated or to be allocated)	147 887	121 188	6 375	4 516	8 902	12 326	163 164	138 030
Total	1 981 108	2 325 919	144 252	248 125	20 902	24 326	2 146 262	2 598 370

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.

Customer and replenishment credits (allocated credits or credits to be allocated)

Allocated Credits

Allocated credits are amounts which have been received from a customer and have been allocated to fund a project or a financial commitment. Allocated credits can also derive from non-budgeted revenues such as bank interest, miscellaneous income and realised exchange rate gains and losses which have been allocated to customers.

Credits to be allocated

Credits to be allocated can derive from non-budgeted revenues such as bank interest, miscellaneous income and realised exchange rate gains and losses, which have yet to be allocated to customers at the year-end. Credits to be allocated can also derive from customers which send money to the Agency in advance but which they have not yet allocated to the funding of a specific project or financial commitment. 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”. In addition, there can be credits to be allocated on the closure of a Support Partnership or project.

At the end of 2019 and 2018 the following represented the totals of credits to be allocated:

	Log Ops		NAM		CEPS		NSPO TOTAL	
	2019	2018	2019	2018	2019	2018	2019	2018
Credits to be allocated	98 307	72 763	105 656	97 022	116 856	106 085	320 819	275 870

Replenishment credits

Replenishment credits represent amounts owned by customers of the Log Ops Business Unit for the replenishment of spare parts.

b) Non-current liabilities

	Log Ops		NAM		CEPS		NSPO TOTAL	
	2019	2018	2019	2018	2019	2018	2019	2018
Non - current liabilities								
Customer advance payments	1 229 864	806 548	107 125	13 963	0	0	1 336 989	820 511
Customer and replenishment credits (allocated or to be allocated)	0	0	101 702	93 159	190 655	173 735	292 357	266 894
Total	1 229 864	806 548	208 827	107 122	190 655	173 735	1 629 346	1 087 405

10. Bank Interest and foreign currency effects

a) Bank Interest

For the Log Ops Business Unit's Administrative Budget activities, bank interest is reflected in the Statement of Financial Performance as Revenue and this is used to offset future budgetary calls for contributions.

For the CEPS Business Unit, bank interest is reflected in the Statement of Financial Performance as Revenue and accrues to the members of the Programme.

For the Log Ops Business Unit's Operational Budget activities and the NAMP Business Unit, bank interest does not belong to the respective Business Unit but belongs to the respective customers which provided the cash on which the interest accrued and is therefore reflected in the Statement of Financial Position under Customer Advances (Note 9) as "Customer and replenishment credits (allocated or to be allocated)".

	Log Ops		NAM		CEPS		NSPO TOTAL	
	2019	2018	2019	2018	2019	2018	2019	2018
Bank interest earned on cash balances	5 714	2 764	6 563	4 447	90	76	12 367	7 287
<i>Of which "Passes through" directly to customers</i>	(5 717)	(2 777)	(6 563)	(4 447)	0	0	(12 280)	(7 224)
Reflected in Statement of Financial Performance	(3)	(13)	0	0	90	76	87	63

The Agency is currently exposed to very low or negative interest rates when investing customer funds in Euros; therefore, most of the returns that can be seen in this table reflect interest earned on USD denominated term-deposits.

b) Realised Foreign Exchange Gains and Losses

For the Log Ops Business Unit and the NAMP Business Unit realised foreign exchange gains and losses do 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)".

	Log Ops		NAM		CEPS		NSPO TOTAL	
	2019	2018	2019	2018	2019	2018	2019	2018
Net realised foreign exchange gains and (losses) in year	8 424	(9 602)	(178)	(546)	0	0	8 246	(10 148)
<i>Of which "Passes through" directly to customers</i>	(8 424)	9 602	178	546	0	0	(8 246)	10 148
Reflected in Statement of Financial Performance	0	0	0	0	0	0	0	0

c) 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.

	Log Ops		NAM		CEPS		NSPO TOTAL	
	2019	2018	2019	2018	2019	2018	2019	2018
Net unrealised foreign exchange gains and (losses) in year	(3 042)	11 925	52	39	0	0	(2 990)	11 964
<i>Of which "Passes through" directly to customers</i>	0	0	0	0	0	0	0	0
Reflected in Statement of Financial Performance	(3 042)	11 925	52	39	0	0	(2 990)	11 964

Foreign exchange gains and losses are due to the relative strength of the Euro and USD 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.

11. Expenses

a) Services and Support to Customers

	Chairperson's Office		Log Ops		NAM		CEPS		Inter-business unit eliminations		NSPO TOTAL	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Services and Support to Customers												
Common Support (including ACO and AWACS)	0	0	259 181	256 975	0	0	0	0	0	0	259 181	256 975
Individual brokerage	0	0	879 033	767 449	0	0	0	0	0	0	879 033	767 449
Individual maintenance and services	0	0	849 994	775 080	0	0	0	0	0	0	849 994	775 080
Operational logistics support	0	0	206 396	194 956	0	0	0	0	0	0	206 396	194 956
Transportation services	0	0	93 364	103 085	0	0	0	0	0	0	93 364	103 085
Airlift Services	0	0	0	0	36 491	20 874	0	0	(743)	(559)	35 748	20 315
Fuel Management	0	0	571 739	486 455	0	0	34 732	31 613	0	0	606 471	518 068
Net proceeds from changes in inventory	0	0	16 997	7 271	100	0	0	0	0	0	17 097	7 271
Total	0	0	2 876 704	2 591 271	36 591	20 874	34 732	31 613	(743)	(559)	2 947 284	2 643 199
USA Foreign Military Sales	0	0	53 551	32 251	39 666	17 839	0	0	0	0	93 217	50 090

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 (ACO) 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.

b) 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.

Statement of Financial Performance	2019			2018		
Revenue	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
Services and Support to Customers						
Individual Brokerage	0	0	0	0	0	0
Individual Maintenance and Services	0	0	0	0	0	0
Airlift Services	550	0	550	428	0	428
Administrative Support	2 291	0	2 291	2 369	0	2 369
Miscellaneous Revenue	0	2	2	0	2	2
Total	2 841	2	2 843	2 797	0	2 799
Expenditure	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
Services and Support to Customers						
Individual Brokerage	0	0	0	0	0	0
Individual Maintenance and Services	0	0	0	0	0	0
Airlift Services	742	0	742	559	0	559
Other Expenses	2 099	2	2 099	2 238	2	2 240
Total	2 841	2	2 843	2 797	2	2 799

Statement of Financial Position	2019			2018		
Current Assets	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
Accounts Receivable: Receivables	36	0	36	0	11	11
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 & Accruals	36	0	36	0	11	11

13. Employee Disclosures

a) Personnel Costs (including key management personnel)

	Chairperson's Office		Log Ops		NAM		CEPS		NSPO TOTAL	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
							Restated *		Restated *	
Salaries	584	591	88 694	81 173	3 147	2 681	38 012	37 156	130 437	121 601
Allowances	51	85	20 020	19 071	780	696	8 599	8 493	29 450	28 345
Pension contributions	44	37	6 990	5 940	365	330	5 703	5 614	13 102	11 921
Health care contributions	65	65	10 867	9 824	533	440	7 013	7 001	18 478	17 330
Loss-of-Job Indemnities (LOJI)	0	0	146	289	0	0	0	0	146	289
Other	9	5	1 062	1 277	106	65	5 901	5 712	7 078	7 059
Total	753	783	127 779	117 574	4 931	4 212	65 228	63 976	198 691	186 545

Restatement: The CEPS Business Unit has restated the allocation of 2018 personnel costs in the following areas: Pension Contributions are now shown as Euro 5,614k while they were previously stated at Euro 2,811k, Health care contributions are now shown as Euro 7,001k while they were previously stated at Euro 14,118k, and other costs are now shown as Euro 5,712k while they were previously stated at Euro 1,398k.

b) Personnel Numbers

At 31 December, the following posts were filled:

	Chairperson's Office		Log Ops		NAM		CEPS		NSPO TOTAL	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
NATO Contracts	7	6	1 229	1 143	59	55	35	35	1 330	1 239
NSPA Consultants	0	0	76	89	0	0	0	0	76	89
CEPS National Organisation	0	0	0	0	0	0	813	792	813	792
Total	7	6	1 305	1 232	59	55	848	827	2 219	2 120

The personnel of the CEPS Programme National Organisations are not employed on NATO personnel contracts. In total NSPA employed 114 consultants throughout the year (2018: 112); the majority of these consultants were working in Theatre.

c) 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.

IPSAS 39 - Employee Benefits requires that entities which have staff who participate in a central pension scheme show their share of the future liabilities of the scheme which have resulted from staff members, present and past, in the scheme at the balance sheet date. This NATO defined benefit scheme is funded on a pay-as-you-go basis where NATO at a central level funds the next year's liabilities on the scheme on an annual basis. NSPO, unlike a number of other NATO bodies is not required to fund the scheme and as such is not currently considered to have any share of the future liabilities at the balance sheet date. The latest publically available actuarial valuation (2017 financial year) of the long-term liability across NATO was Euro 8.076 Billion. The share attributable to NSPO personnel past and present is unknown, and there are no current plans that these should be funded by NSPO.

In addition, NATO has a Retirees Medical Claims Fund. The NATO Retirees Medical Claim Fund scheme is funded on a pay-as-you-go basis where NATO at a central level funds the next year's liabilities on the scheme on an annual basis. NSPO, unlike a number of other NATO bodies does is not required to fund the scheme and as such is not currently considered to have any share of the future liabilities at the balance sheet date. The latest publically available actuarial valuation (2017 financial year) of the long-term liability across NATO was Euro 2.981 Billion. The share attributable to NSPO personnel past and present is unknown, and there are no current plans that these should be funded by NSPO.

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.

a) Related Party Transactions of Members of the Agency Supervisory Board

The Agency Supervisory Board's Chairperson's Office and Secretariat, is informed by members of the Agency Supervisory Board if they have related party transactions with the Agency when they join the Agency Supervisory Board, or if there is a change in this status during the length of their respective mandate as an Agency Supervisory Board Representative. No member has disclosed any related party transactions with the Agency.

b) 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 2019.

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.

Salaries and benefits paid to key management personnel

Remuneration type	2019	2018
Basic salaries	1,161,316	1,114,559
Allowances	215,771	204,715
Employer's contribution to insurance	139,880	131,190
Employer's contribution to pension	101,457	97,129
Total	1,618,424	1,547,593

Key management personnel and roles

Name	Nationality	Role	Grade/step	Loans received from NSPA	Family members receiving income from NSPA	Other revenue from NSPA or NATO
██████	NLD	General Manager	A7/4	Nil	Nil	Nil
██████	GBR	Chief of Staff	A6/3	Nil	Nil	Nil
██████	USA	Financial Controller	A6/5	Nil	Nil	Nil
██████	FRA	Director of Procurement	A6/8	Nil	Nil	Nil
██████	DEU	Director of Life Cycle Management	A6/5	Nil	Nil	Nil
██████	TRK	Director of Support to Operations	A6/7	Nil	Yes*	Nil
██████	BEL	CEPS Programme Manager	A6/5	Nil	Nil	Nil
██████	NLD	NAM Programme Manager (until 28 February 2019)	A6/6	Nil	Nil	Nil
██████	USA	NAM Programme Manager (since 1 March 2019)	A6/5	Nil	Nil	Nil

* The brother of ██████ was employed as a consultant with the Agency until the end of May 2019.

During 2019 there were eight Full-time Equivalent (FTE) key management personnel; one FTE was of Grade A7 while seven (2018: seven) FTE staff were Grade A6.

Representative Allowance of the General Manager

The General Manager, in addition to other allowances to which all staff are entitled, received representation allowance for 2019 of Euro 10,107 (2018: Euro 10,107), due to the requirement to represent NSPA at events, of which Euro 9,016 was spent (2018: Euro 10,063). 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 (2018: Euro 5,000) between them, of which Euro 2,116 (2018: Euro 2,798) was spent in 2019.

Hospitality Allowance of the ASB's Secretariat

The ASB approved a Euro 20,000 (2018: Euro 23,000) hospitality allowance to its Secretariat for 2019 of which Euro 16,121 was spent (2018: Euro 12,889). 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 Chairpersons of the NSPO Agency Supervisory Board

The salary and allowances of the Chairpersons of the NSPO Agency Supervisory Board, namely [REDACTED] until 30 June 2019 and [REDACTED] from 1 July 2019, remain at the financial charge of their sending nations, Canada and Germany respectively. While they are not members of the NATO international staff, they are reimbursed travel expenses while working on NSPO business in accordance with the NATO Civilian Personnel Regulations.

In 2017, due to the length of travel time from Canada to Luxembourg, it was decided by the General Manager and the Financial Controller that for the purposes of [REDACTED] travel, economy class travel, which is permitted by the NATO Civilian Personnel Regulations, could be interpreted to include a specific type of fully flexible premium-economy class ticket. In June 2019, the NSPO Agency Supervisory Board agreed that due to the Chairperson's unique status and Agency Supervisory Board duty requirements, business class or premium economy is warranted when the total travel time between the departure and arrival airports exceeds 10 hours. Additionally, in light of the relatively high cost of overnight accommodation in Luxembourg, the Board approved an exceptional accommodation allowance of up to 300 EUR per night for accommodation with breakfast.

In 2019, the two Chairpersons' total travel costs (including transportation and per diems) totalled Euro 13,247. In 2018, the travel costs of the Chairperson, totalled Euro 30,433. The fall in travel costs between 2018 and 2019 is accounted for by the fact that [REDACTED] has to travel less distance to participate in NSPO related events than [REDACTED] did.

16. Provisions

IPSAS defines a provision as “a liability of uncertain timing or amount”.

The following table shows changes in provisions:

	2019					2018				
	Log Ops					Log Ops				
	Opening Balance	Additions	Reversals	Usage	Closing Balance	Opening Balance	Additions	Reversals	Usage	Closing Balance
Doubtful Debts	178	0	0	0	178	2 298	0	(1 708)	(412)	178
Contractual issue	359	0	(281)	0	78	0	359	0	0	359
Total	537	0	(281)	0	256	2 298	359	(1 708)	(412)	537
	CEPS					CEPS				
	Opening Balance	Additions	Reversals	Usage	Closing Balance	Opening Balance	Additions	Reversals	Usage	Closing Balance
Doubtful Debts	229	0	0	(59)	170	229	0	0	0	229
Early Retirement Provisions of the German National Organisation	2 874	0	0	(621)	2 253	3 564	0	0	(690)	2 874
Total	3 103	0	0	(680)	2 423	3 793	0	0	(690)	3 103
	NSPO					NSPO				
	Opening Balance	Additions	Reversals	Usage	Closing Balance	Opening Balance	Additions	Reversals	Usage	Closing Balance
Doubtful Debts	407	0	0	(59)	348	2 527	0	(1 708)	(412)	407
Early Retirement Provisions of the German National Organisation	2 874	0	0	(621)	2 253	3 564	0	0	(690)	2 874
Contractual issues	359	0	(281)	0	78	0	359	0	0	359
Total	3 640	0	(281)	(680)	2 679	6 091	359	(1 708)	(1 102)	3 640

a) Doubtful Debts

In 2019, there were reversals of provision for doubtful debts where conditions are considered to have changed.

In 2018, there was the reversal of a provision for doubtful debts in relation to a contract which had been paid by the Log Ops Business Unit but which had not been rebilled to customers. The Agency overestimated the amount which had not been rebilled, and this has led to the reversal of an amount of Euro 1.7m which has been shown in the Statements of Financial Performance as “Reversal of Provisions”.

b) Early Retirement Provisions of the German National Organisation (CEPS Business Unit)

In view of the CEPS Neutralization Phases 2 and 3, the German National Organisation implemented social plans which resulted in early retirement of personnel. The reduction in provision relates to the retirement expenses incurred in the year.

c) Contractual Issues

The Log Ops Business Unit has provided for the following incidences of potential contract issues which may result in non-budgeted liabilities for its customers:

- At a theatre border crossing in May 2013, food trucks were blocked at the border resulting in a “force majeure” situation. Consequently, additional costs were generated and paid by NSPA which the applicable customer refused to reimburse. The Agency is contacting the customer concerned to find a solution, however if the customer does not reimburse the costs, these will have to be rebilled to the nations and hence a provision of Euro 78k is being recognised.

17. Contingent Liabilities and Contingent Assets

a) 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”.

Log Ops Business Unit

The following represent contingent liabilities of the Log Ops Business Unit:

- Another NATO body is currently in a legal dispute with a vendor. This vendor provided service to the Agency in Theatre and owes the Agency Euro 8 million which it has not paid. The Agency is talking to the customers of this vendor about undertaking formal arbitration proceedings to ensure that any legal claim for redress is not timed out. While the Agency is certain to win the case, it will then have to seek to have the judgement enforced in whichever legal jurisdiction the company is based in. The costs of pursuing the claim is estimated at 500 KEUR which will have to be agreed by the customers concerned in advance. The chances of the Agency being reimbursed the Euro 8 million are

remote so the customers concerned will have to fund the write-off of this amount. If the customers refuse to fund the write-off the amount will become a liability of NSPO. At the moment it is considered possible, rather than probable, that NSPO will have to fund this liability, hence, it is considered a contingent liability rather than a provision.

CEPS Programme Business Unit

The CEPS Programme Business Unit is exposed to possible obligations that may require a collective outflow of resources if NSIP or national funding does not cover potential obligations. The likelihood of these items leading to a possible financial obligation is considered remote, rather than possible, but they are disclosed as contingent liabilities to be prudent:

- 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 still not known if third parties will submit claims against the Programme's member nation.

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 arrange 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 2019 the Log Ops Business Unit wrote-off assets with a net book value of Euro 8,205k (2018: Euro 1,189k). In 2019, the NAMP Business Unit wrote-off assets with a net book value of Euro 218k (2018: nil). In 2019, the CEPS Business Unit wrote-off assets with a net book value of Euro 34k (2018: 67k).

Write-offs typically represent the disposal or donation of items of property, plant and equipment or inventory which are no longer required by the Agency or where the useful life has expired. Write-offs can also include the write-off of old debts.

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. Inventories managed on behalf of Allied Command Operations (ACO)

NSPA manages some inventories on behalf of ACO. The recorded value of inventories managed on behalf of ACO at the year-end was Euro 260m (2018: Euro 273m). 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.

<i>Sources of Revenue</i>	2019	2018
Military use of the Pipeline-System	16 408	16 126
Non-military use of the Pipeline-System	101 584	96 247
Provided by Programme Nations	37 090	36 843
Other revenue	8 538	2 102
Total	163 620	151 318
Revenue as per Statement of Financial Performance	133 995	122 846
Purchase of assets	29 625	28 472
Total	163 620	151 318

24. Restatements of 2018 Financial Statements

This note should be read in conjunction with the Accounting Policies Note and the Statement of Changes in Net Assets.

a) CEPS Business Unit

The CEPS Business Unit has restated its 2018 financial statements to reflect the fact NSPO only capitalises Land and Buildings which were acquired after 1 January 2013

CEPS Statement of Financial Performance

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

		CEPS		Change	Reason for change
		Restated	Original		
		2018	2018		
Revenue	Note				
Services and Support to Customers		104 999	104 999		
Administrative Support		15 746	15 746		
Bank interest	10	76	76		
Unrealised foreign currency effects	10	0	0		
Reversal of provisions	16	0	0		
Miscellaneous Revenue		2 026	2 026		
Total Revenue		122 846	122 846		
Expenses					
Services and Support to Customers	11	(31 613)	(31 613)		
Commercial Discounts Earned *		0	0		
USA Foreign Military Sales **	11	0	0		
Personnel	13	(63 976)	(63 976)		
Depreciation and Amortisation		(12 200)	(12 289)	89	Change in Accounting Policy: NSPO has changed its accounting policy to now exclude Land and Buildings which were controlled prior to 2013.
Provisions	16	0	0		
Other Expenses	11	(15 746)	(15 746)		
Transfers to customer credits		(11 511)	(11 511)		
Total Expenses		(135 046)	(135 135)	89	
Surplus / (Deficit) for the year		(12 200)	(12 289)	89	

CEPS Statement of Financial Position

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

	Note	CEPS		Change	Reason for change
		Restated 2018	Original 2018		
ASSETS					
Current Assets					
Cash and Cash Equivalents	2	185 265	185 265		
Accounts Receivable	6	28 459	28 459		
Inventory	5	6 497	6 497		
Prepayments	7	314	314		
		220 535	220 535		
Non-current Assets					
Investments	2	0	0		
Accounts Receivable	6	2 205	2 205		
Property Plant and Equipment	3	169 071	172 108	(3 037)	Change in Accounting Policy: NSPO has changed its accounting policy to now exclude Land and Buildings which were controlled prior to 2013.
Intangible Assets	4	2 586	2 586		
		173 862	176 899		
Total Assets		394 397	397 433		
LIABILITIES					
Current Liabilities					
Accounts Payable and Accruals	8	12 360	12 360		
Customer Advances	9	24 326	24 326		
Overdrafts	2	2 718	2 718		
Provisions	16	899	899		
		40 303	40 303		
Non-current Liabilities					
Customer Advances	9	173 735	173 735		
Provisions	16	2 204	2 204		
		175 939	175 939		
Total Liabilities		216 242	216 242		
Net Assets		178 155	181 191	(3 037)	

b) Log Ops Business Unit

While Log Ops has changed its accounting policy to reflect the fact that NSPO only capitalises Land and Buildings which were acquired after 1 January 2013, the Log Ops Business Unit only took control of Land and Buildings in relation to its [REDACTED] Campus in 2019 and hence does not have to restate its 2018 financial statements because control did not exist during that period.

25. Events after the financial reporting date of 31 December 2019

NSPO is required to disclose events, both favourable and unfavourable, that occurred between the reporting date of 31 December 2019 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), however a number of events under (b) require disclosure.

Non-adjusting events after the reporting date

The charging of VAT by German companies

On 1 January 2020, German Value-Added-Tax (VAT) legislation changed as a result of amendments to the EU Directive on VAT and applies to the EU common market area. This means that customers, which receive goods and services from 1 January 2020, may be liable to VAT, depending on how the German Tax Authorities decide to implement the rules. It is important to note that goods and services delivered to countries other than Germany may be treated differently for VAT purposes.

The Agency does not believe that VAT is applicable on goods and services which are delivered for NATO purposes on account of the provisions of the Ottawa Agreement.

Currently, customers who may be impacted by this change in German VAT legislation may not have always budgeted for a price, which includes VAT, and have not promised the Agency that it will provide funding to cover the VAT-inclusive cost of goods and services when the Agency settles vendor invoices.

In a worst-case scenario, where the customer is unable or unwilling to provide the Agency with funding to cover the VAT-inclusive cost of goods and/or services, the unfunded costs would have to be borne by other Agency customers. The Agency has calculated that as at the 31 December 2019, the Agency had entered into contracts with German based suppliers for goods with a value excluding VAT of Euro 14m, and services with a value excluding VAT of Euro 215m. It is currently unclear to the Agency how the German tax authorities are planning to tax the value added on these goods and services.

Legal action to ensure pay comparability between professional and administrative graded staff in Luxembourg

In 2019, the NATO Council revised upwards the salary scale for professional grade staff in Luxembourg. Administrative grade staff did not have their respective salary scale revised upwards at this time. In early 2020, the NSPA Staff Association initiated legal action to attempt to achieve comparable pay increases between professional and administrative grade staff.

NATO Headquarters' is currently evaluating the administrative grade salary scale against wage rates established locally in Luxembourg which is likely to lead to a revision of the salary scale for administrative grade staff in Luxembourg. Any revision to the salary scale is more likely to occur in 2021 rather than in 2020 when all NATO staff salaries will migrate to a Single Salary Spine.

If the NSPA Staff Association legal action is successful, and administrative grade staff are awarded a pay increase, it will lead to an additional rise in the total staff costs of the Agency which may be detrimental to business growth.

Coronavirus – Potential impact on business turnover and cash and investment balances

Coronavirus is a virus which started to spread across the world in early 2020. The virus has led to the lockdown of many non-essential businesses across NATO and partner nations. The virus may have an impact on NSPO's 2020 turnover and possibly future years, the scale of which it is currently impossible to assess. The virus is likely to lead to a significant slowdown in the placing of customer orders to vendors and the completion of such orders. There is also the risk that if nations reprioritise economic activity as a result of the Coronavirus there will be a lowered demand for the capabilities offered by the Agency.

During the financial recession of 2008, many banks suffered liquidity and capital funding issues which required government support to banks. The Agency continuously reviews its banking arrangement to ensure that there is a low risk of capital loss. At the date the financial statements were issued, the Agency considers that the value of cash and investment balances are correctly stated and there is no need to impair the balances reported.

Annex: NSPO Financial Plan Execution

1. Log Ops and Chairperson's Office Business Unit – Administrative Costs Elements

All figures in Euro '000	PRIOR 2018 UNPAID COMMITMENTS BROUGHT FORWARD	2019 AUTHORISED CREDITS (BEFORE TRANSFERS)	TRANSFERS	2018 AUTHORISED CREDITS (AFTER TRANSFERS)	TOTAL CREDITS AVAILABLE FROM 2018 AND 2019	PAYMENTS AGAINST COMMITMENTS & CREDITS	UNPAID COMMITMENTS (i.e. LEGAL OBLIGATIONS) CARRIED FORWARD	TOTAL CREDITS CONSUMED IN YEAR	LAPSED CREDITS
Personnel Expenditure	413	132,581	(122)	132,459	132,872	128,030	312	128,342	4,530
General Administrative, Operating & Maintenance	6,471	16,495	(270)	16,224	22,696	12,286	8,191	20,478	2,218
Project Specific Expenditure	5,630	31,652	(5,608)	26,044	31,673	17,936	5,126	23,061	8,612
Investments	3,291	9,491	1,157	10,648	13,939	5,125	5,867	10,992	2,947
Total	15,806	190,219	(4,844)	185,375	201,181	163,377	19,496	182,873	18,308

Administrative costs do not include the costs charged by vendors for supplying goods and services to customers – these can be found in the “Log Ops Business Unit – Jointly and Commonly Funded Operational Projects” Financial Plan Execution

Under the NSPO Financial Rules and Procedures, financial commitments made under the Administrative Budgets are required to be made against the year in which a good or a service will be delivered, for example, a good to be delivered in 2019 should be financially committed against the 2019 budget. The ASB gave the Agency until the end-of-June 2019 to fully implement this rule, and as such, some of the financial commitments made in 2019 may include commitments for goods and services which will be delivered in year 2020.

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	SAP FUND NUMBER	SOURCE OF FUNDING	PRIOR 2019 UNPAID COMMITMENTS BROUGHT FORWARD	2019 PAYMENTS AGAINST PRIOR 2019 COMMITMENTS	PRIOR 2019 UNPAID COMMITMENTS CARRIED FORWARD TO 2020	CREDITS AVAILABLE IN 2019	COMMITMENTS MADE IN 2019	ACCRUALS EXPENDITURE	UNPAID COMMITMENTS	UNUSED CREDITS
	02	NSIP	3 938	3 464	302	218 770	10 962	5 317	5 645	207 808
	05	MULTINATIONAL PROJECTS	11 304	5 486	5 332	13 078	7 310	2 184	5 139	5 768
	06	PARTNERSHIPS	1 057	119	899	329	273	67	207	56
	07	PARTNERSHIPS	2 643	391	2 189	5 432	5 042	3 642	1 400	390
	08	PARTNERSHIPS	3 028	942	1 922	3 244	2 820	1 124	1 695	424
	11	PARTNERSHIPS	539	314	212	650	292	213	91	357
	14	OTHER NATO BODIES	917	597	391	5	0	0	0	5
	15	OTHER NATO BODIES	70 771	59 850	30 099	175 407	113 767	53 934	59 889	61 640
	16	PARTNERSHIPS	53 326	14 240	32 105	50 490	37 456	1 731	35 725	13 034
	17	PARTNERSHIPS	764	449	315	578	427	23	404	151
	1B	PARTNERSHIPS	341	240	86	511	135	18	116	377
	1E	PARTNERSHIPS	2	2	0	52	26	26	0	26
	1G	PARTNERSHIPS	501	140	361	147	24	7	17	123
	1P	PARTNERSHIPS	1 480	565	915	1 691	1 321	829	492	370
	1U	PARTNERSHIPS	6 196	3 393	2 748	23 869	15 153	3 238	11 983	8 716
	1W	OTHER NATO BODIES	26 683	-3 723	23 587	36 515	28 897	1 620	27 288	7 618
	29	PARTNERSHIPS	104	56	47	0	0	0	0	0
	2D	PARTNERSHIPS	1 328 560	187 624	1 140 610	19 558	7 319	1 967	5 352	12 239
	2E	NSIP	1 849	0	1 838	5 567	4 627	4 571	56	940
	2T	PARTNERSHIPS	2 806	2 720	0	8 407	7 868	5 221	2 647	538
	30	PARTNERSHIPS	0	0	0	2	0	0	0	2
	35	OTHER AUTHORISED CUSTOMERS	1 432	288	1 143	1 223	1 050	1 019	31	174
	36	PARTNERSHIPS	409	215	187	197	151	128	24	46
	38	OTHER NATO BODIES	4 364	9 654	2 107	22 975	18 090	9 168	9 236	4 886
	3C	OTHER NATO BODIES	486	483	0	1 699	1 698	1 410	308	1
	3E	OTHER NATO BODIES	0	0	0	220	219	206	13	0
	3I	NSIP	531	31	482	7 554	2 946	6	2 940	4 608
	41	NATIONAL PROJECTS	0	0	0	0	0	0	0	0

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

OPERATIONAL BUDGETS	SAP FUND NUMBER	SOURCE OF FUNDING
	42	OTHER NATO BODIES
	45	NSIP
	57	OTHER NATO BODIES
	66	OTHER NATO BODIES
	67	NSIP
	71	PARTNERSHIPS
	74	PARTNERSHIPS
	76	PARTNERSHIPS
	80	OTHER NATO BODIES
	82	OTHER NATO BODIES
	88	PARTNERSHIPS
	90	PARTNERSHIPS
	91	SERVICES PROVIDED TO NATIONS
	93	PARTNERSHIPS
	94	MULTINATIONAL PROJECTS
	95	PARTNERSHIPS
	98	PARTNERSHIPS
	1A	MULTINATIONAL PROJECTS
	1Z	SERVICES PROVIDED TO NATIONS
	2M	NATIONAL PROJECTS
	2N	NATIONAL PROJECTS
	2P	NATIONAL PROJECTS
	2U	NATIONAL PROJECTS
	2X	NATIONAL PROJECTS
	2Y	NATIONAL PROJECTS
	2Z	NATIONAL PROJECTS
	39	OTHER NATO BODIES
	3A	NATIONAL PROJECTS

PRIOR 2019 UNPAID COMMITMENTS BROUGHT FORWARD	2019 PAYMENTS AGAINST PRIOR 2019 COMMITMENTS	PRIOR 2019 UNPAID COMMITMENTS CARRIED FORWARD TO 2020
405	399	0
57 923	13 511	44 380
0	0	0
256	248	0
2 701	2 655	46
11 311	1 800	9 430
169	0	169
0	0	0
909	827	35
140	114	3
674	27	584
59	24	18
4 291	864	2 761
113	0	113
0	0	0
0	0	0
8 900	5 091	0
-3	0	-3
2	0	0
719	198	2
597	571	0
3 143	2 781	12
1 328	1 280	9
11 887	7 970	0
84	75	0
282	271	0
0	0	0
100	85	0

CREDITS AVAILABLE IN 2019	COMMITMENTS MADE IN 2019	ACCRUALS EXPENDITURE	UNPAID COMMITMENTS	UNUSED CREDITS
1 498	1 491	1 027	538	7
374 282	112 037	17 011	95 025	262 245
455	394	193	200	62
1 547	1 537	1 401	267	10
3 195	0	0	0	3 195
8 424	7 789	3 525	4 268	635
970	882	38	845	88
2	0	0	0	2
20 490	4 953	4 635	318	15 537
505	487	348	138	18
785	785	4	781	0
35	10	5	8	25
9 760	9 186	6 900	2 346	575
250	250	0	250	0
215	215	215	0	0
44 034	44 034	44 034	0	0
0	0	0	0	0
0	0	0	0	0
23	12	10	1	11
517	516	516	0	1
5 057	3 974	3 410	621	1 083
24 839	22 810	18 577	4 233	2 029
27 451	25 649	23 466	2 591	1 802
53 337	52 011	43 356	8 701	1 325
1 361	773	641	132	588
1 635	1 181	1 098	84	454
312	309	309	0	3
1 704	1 092	691	401	612

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

OPERATIONAL BUDGETS	SAP FUND NUMBER	SOURCE OF FUNDING	PRIOR 2019 UNPAID COMMITMENTS BROUGHT FORWARD	2019 PAYMENTS AGAINST PRIOR 2019 COMMITMENTS	PRIOR 2019 UNPAID COMMITMENTS CARRIED FORWARD TO 2020	CREDITS AVAILABLE IN 2019	COMMITMENTS MADE IN 2019	ACCRUALS EXPENDITURE	UNPAID COMMITMENTS	UNUSED CREDITS
	3B	NATIONAL PROJECTS	673	642	0	5 741	5 396	4 521	938	345
	3G	NATIONAL PROJECTS	507	364	0	9 145	5 235	4 376	859	3 910
	3H	MULTINATIONAL PROJECTS	359	359	0	4 305	4 305	3 947	359	0
	3K	NATIONAL PROJECTS	11 944	9 288	47	97 925	91 395	78 761	12 995	6 530
	3L	MULTINATIONAL PROJECTS	370	291	0	2 159	2 238	1 956	283	-80
	40	NATIONAL PROJECTS	157	2	155	0	0	0	0	0
	83	OTHER NATO BODIES	0	0	0	0	0	0	0	0
	85	NATIONAL PROJECTS	721	381	12	5 909	4 790	3 636	1 313	1 119
	96	MULTINATIONAL PROJECTS	1 126	944	91	16	7	7	0	9
	F1	MULTINATIONAL PROJECTS	5 650	2 865	0	68 871	52 799	49 255	3 727	16 072
	F3	MULTINATIONAL PROJECTS	147	149	3	1 245	731	697	34	514
	3P	SERVICES PROVIDED TO NATIONS	0	0	0	0	0	0	0	0
	3Q	MULTINATIONAL PROJECTS	0	0	0	7 926	7 343	6 425	955	583
	06	PARTNERSHIPS	618	494	64	1 954	986	794	197	969
	07	PARTNERSHIPS	2 116	1 238	449	5 074	2 435	562	1 881	2 639
	08	PARTNERSHIPS	4	2	0	1 288	75	10	65	1 214
	11	PARTNERSHIPS	1 689	1 673	0	5 297	99	99	0	5 198
	16	PARTNERSHIPS	1 596	385	1 114	8 950	1 806	335	1 471	7 144
	17	PARTNERSHIPS	92	15	77	63	9	1	8	54
	18	PARTNERSHIPS	0	0	0	14	0	0	0	14
	1G	PARTNERSHIPS	0	0	0	32	2	2	0	31
	1U	PARTNERSHIPS	2 049	1 321	362	3 787	2 698	920	1 788	1 089
	25	PARTNERSHIPS	0	0	0	60	0	0	0	60
	35	OTHER AUTHORISED CUSTOMERS	551	526	25	384	111	38	74	273
	37	MULTINATIONAL PROJECTS	0	0	0	3 642	0	0	0	3 642
	46	PARTNERSHIPS	0	-72	0	981	0	0	0	981
	71	PARTNERSHIPS	2 270	2 017	196	3 198	2 257	469	1 889	941
	74	PARTNERSHIPS	0	0	0	185	118	0	118	67
	90	PARTNERSHIPS	0	0	0	3	0	0	0	3
			1 662 660	349 212	1 308 034	1 419 005	745 083	425 893	321 398	673 922

The figures in the column “Prior 2019 unpaid commitments carried forward to 2020” do not represent the arithmetical differences between the amounts within column “Prior 2019 unpaid commitments brought forward” and “2019 payments against prior-2019 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 2019. 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.

	NAMP BUDGETARY CREDITS			USAGE OF BUDGETARY CREDITS			LAPSES				
<i>All figures in USD '000</i>	UNUSED AUTHORISED CREDITS AND UNPAID COMMITMENTS BROUGHT FORWARD	+	2019 AUTHORISED CREDITS	=	TOTAL 2019 CREDITS	PAYMENTS AGAINST CREDITS	+	UNUSED AUTHORISED CREDITS AND COMMITMENTS CARRIED FORWARD	=	TOTAL CREDITS CONSUMED OR CARRIED FORWARD IN YEAR	LAPSED CREDITS
Acquisition	\$51,443		\$0		\$51,443	\$2,477		\$37,505		\$39,982	\$11,461
Operational	\$123,490		\$128,123		\$251,613	\$94,373		\$134,645		\$229,018	\$22,595
Total	\$174,932		\$128,123		\$303,056	\$96,851		\$172,149		\$269,000	\$34,056

	NAMP BUDGETARY CREDITS			USAGE OF BUDGETARY CREDITS			LAPSES				
<i>All figures in USD '000</i>	PRIOR 2019 UNPAID COMMITMENTS BROUGHT FORWARD	+	2019 AUTHORISED CREDITS	=	TOTAL 2019 CREDITS	PAYMENTS AGAINST CREDITS	+	UNPAID COMMITMENTS (i.e. LEGAL OBLIGATIONS) CARRIED FORWARD	=	TOTAL CREDITS CONSUMED OR CARRIED FORWARD IN YEAR	LAPSED CREDITS
Administration	\$504		\$10,411		\$10,916	\$8,544		\$575		\$9,119	\$1,796

Budgetary Transfers

During 2019, sixty-seven budget transfers were made within (rather than between) the respective acquisition, operational and administrative budgets. Due to the low value and nature of these transfers, none required the approval of the NAM Programme Board and were made under the responsibility of the NAM Programme Office.

4. Central Europe Pipeline System Business Unit (figures given to the Euro)

	Budget Type	PRIOR 2019 AUTHORISED CREDITS BROUGHT FORWARD	2019 AUTHORISED CREDITS	BUDGETARY EXPENDITURE AGAINST CREDITS	AUTHORISATIONS CARRIED FORWARD	LAPSED CREDITS
Operational Budgets						
	O&M	76,265	63,952,450	62,784,471	49,938	1,194,306
Personnel	NP2	14,360	600,000	567,196	47,164	-
	NP3	182,057	150,000	203,291	98,790	29,976
Outside temporary staff	O&M	177,796	1,537,000	1,364,615	262,168	88,013
Training of personnel	O&M	150,638	358,200	379,891	117,325	11,622
Travel and transportation	O&M	6,588	3,718,300	3,567,749	18,035	139,104
Hospitality	O&M	354	48,000	39,451	4,808	4,096
Operations	O&M	1,713,095	21,062,300	20,010,092	1,845,008	920,295
	O&M	7,453,622	16,155,500	14,303,532	8,247,805	1,057,785
Maintenance	NP2	2,081,436	-	374,325	1,707,111	-
	NP3	1,271,015	1,168,000	1,314,792	1,102,997	21,226
General administrative	O&M	1,231,631	12,601,600	11,871,990	1,427,905	533,336
TOTAL Operational Expenses		14,358,858	121,351,350	116,781,396	14,929,053	3,999,759

Central Europe Pipeline System Business Unit is continued overleaf....

	Budget Type	PRIOR 2019 AUTHORISED CREDITS BROUGHT FORWARD	2019 AUTHORISED CREDITS	BUDGETARY EXPENDITURE AGAINST CREDITS	AUTHORISATIONS CARRIED FORWARD	LAPSED CREDITS
Capital						
Fixed installations	O&M	27,000	16,500	-	43,414	86
	NP2	1,304,025	-	35,372	1,268,653	-
Plant equipment	O&M	1,710,682	903,120	1,320,706	1,108,887	184,209
Vehicles	O&M	731,497	612,600	1,180,011	141,784	22,302
Office equipment	O&M	1,749,575	1,152,430	1,210,103	1,602,241	89,660
TOTAL Capital Expenses		5,522,779	2,684,650	3,746,193	4,164,979	296,258
Long-Term Investments						
Modernisation 100% CEPS	O&M	33,806,023	16,933,600	13,233,363	33,867,129	3,639,131
INFRA projects - cost shares	O&M	536,837	307,700	185,139	659,398	-
TOTAL Long-Term Investment Expenses		34,342,860	17,241,300	13,418,502	34,526,527	3,639,131
Non-military use of Depots		801,104	4,929,500	3,303,924	2,138,477	288,203
Grand Total		55,025,601	146,206,800	137,250,015	55,759,036	8,223,350

A summary of key transfers and budget increases in respect of CEPS budgets made in the year are shown in this table:

Budget Area	Part of CEPS	Amount	Justification
Personnel	Germany	830 000	Unanticipated wage settlement, the need to replace some vacancies earlier than anticipated, increased staffing needs, and the need for increased overtime.
Personnel	Programme Office	31 000	Change in approved staffing
Personnel	Netherlands	(43 200)	Temporary staff not filled
Personnel	Netherlands	170 000	Shortage due to new CAO from Ch.06
Temporary staff	Germany	122 000	Underestimation of additional temporary staff due to increasing pumping volumes as well as an increase in long-term sick leaves.
Temporary staff	Programme Office	19 500	External security costs
Travel and Transport	France	50 000	Transportation
Travel and Transport	France	70 000	Transportation
Travel and Transport	Germany	(7 500)	Savings in maintenance of vehicles
Travel and Transport	Belgium	6 000	Additional maintenance of vehicles
Operations	France	75 000	Transfer from the pumping energy reserve of the Centralised Budget
Operations	France	20 000	Fuel for pumping
Operations	France	80 000	Transfer from the pumping energy reserve of the Centralised Budget
Operations	France	500 000	Electricity
Operations	France	70 000	Requirement to cover operational needs
Operations	Belgium	300 000	Pumping fuel
Operations	Belgium	(130 000)	Pumping fuel
Operations	Belgium	(12 000)	Due to the electrification of installations less consumption of oil was required
Operations	Belgium	430 000	Electricity for pumping
Operations	Belgium	10 000	Supplementary budget for waste disposal
Operations	Netherlands	(100 000)	Less Gasoil budget needed due to electrification pumps
Operations	Netherlands	320 000	More Electricity due to Electrification pumps
Operations	Netherlands	(170 000)	Transfer to Ch.01
Operations	Germany	(5 000)	Various minor savings
Operations	Centralised	150 000	Due to works on the System the use of the LHP network was required to fulfil commitments to CEPS
Operations	Centralised	(455 000)	Transfer from the centralized reserve for pumping energy to Belgium and France
Operations	Centralised	(150 000)	Credits for the anticipated use of the LHP were no longer required
Maintenance	France	45 000	Duplication of valve required
Maintenance	France	60 000	Supplement to urgent maintenance work
Maintenance	Belgium	(15 000)	Overestimation of budget for overhauling seals and maintenance of aircon
Maintenance	Belgium	(5 000)	Reduce need for air-conditioning unit maintenance
Maintenance	Belgium	(13 000)	Overestimation of the budget for tank cleaning
Maintenance	Belgium	(30 000)	Vendor contract offers were lower than anticipated
Maintenance	Netherlands	60 000	Need for cathodic protection
Maintenance	Netherlands	150 000	Replacement of the coating on several items
Maintenance	Netherlands	25 000	6 months extension of pilot surveillance by drone
Maintenance	Netherlands	91 000	Replacement of the flame arrestors
Maintenance	Netherlands	30 000	Coupling engine temperature measurements with scada
Maintenance	Netherlands	72 000	Operating equipment
Maintenance	Netherlands	140 000	Maintenance
Maintenance	Germany	760 000	Installation of an injection facility, various special works and replacements mainly due to the decision not to decommission part of a pipeline, urgent tank repairs and removal of leaf canopies

Budget Area	Part of CEPS	Amount	Justification
General Admin	Centralised	186 500	Work needed for the GIOC system
General Admin	Germany	7 000	Various requirements
General Admin	Netherlands	50 000	Update of technical drawings
General Admin	Netherlands	(48 200)	Payed by a third party
General Admin	Netherlands	30 000	Development of Realizing new training manual duty chief function
General Admin	Belgium	(6 000)	New postal system introduced by the MOD for which Belgium doesn't have to pay
General Admin	Belgium	6 000	VPN solution to connect to the server
General Admin	Belgium	9 000	Back-up system for the server
General Admin	Belgium	(6 000)	Overestimation of the original budget
General Admin	Programme Office	20 000	To meet required fire detection standards
General Admin	Programme Office	10 500	Installation of an outdoor shelter
General Admin	Centralised	(17 000)	SAP support requirement lower than planned
Capital	Belgium	23 000	Additional budget for the office container
Capital	Belgium	(6 500)	Vendor contract offers were lower than anticipated
Capital	Programme Office	15 000	Cost for setting up the WAN connection
Capital	Programme Office	26 500	Installation of 3 VTCs
Capital	Centralised	(72 600)	Centralized reserve for laboratory equipment (transfer to BPO - SNOI - FBG budgets)
Capital	Centralised	(57 400)	Reserve for the procurement of laboratory equipment
Capital	Germany	57 000	Laboratory equipment and air conditioning
Capital	Belgium	6 785	No more need for the reserve for risk
Capital	Belgium	6 000	Replacement of laboratory equipment
Capital	Belgium	(3 000)	Vendor contract offers were lower than anticipated
Capital	Belgium	(500)	Overestimation of the price for a tool
Capital	Belgium	(20 000)	Decision by the Belgian MOD to give everybody 15€/month for work related telephone costs
Capital	Netherlands	20 000	Density Meter
Capital	Netherlands	4 000	New tool
Capital	Programme Office	27 000	Replacement of a vehicle following an accident
Capital	Belgium	(2 000)	Vehicles were ordered lowering the need for a reserve
Capital	Belgium	(21 400)	Better price than foreseen for the vehicles
Capital	Germany	67 500	Replacement of a defective mobile workshop
Capital	Belgium	(2 000)	Correct amount based on the offers received from the suppliers
Capital	Germany	100 000	Unblocking of credits for the upgrade of energy monitoring system
Capital	Netherlands	83 000	Changing of 3Ms Access database design
Capital	Netherlands	43 200	ERP project Upgrade SAP ECC/MS SQL
Capital	Netherlands	50 000	ERP Project (PS4+ DMS modules)
Capital	Centralised	13 300	Additional and faster storage required for SAP
Long term investment	France	79 400	Additional credits required to install roof
Long term investment	Netherlands	199 500	Approved project
Long term investment	Netherlands	199 500	Approved project
Long term investment	Germany	85 000	Restoration of Valve Pits
Long term investment	Germany	1 009 000	Relocation of pipeline
Long term investment	Germany	2 700	Restoration of grounding lightning protection
Long term investment	Netherlands	46 000	Approved project