21 November 2016

DOCUMENT
C-M(2016)0061-AS1 (INV)

IBAN REPORT ON THE AUDIT OF THE NSPO 2013 FINANCIAL STATEMENTS

ACTION SHEET

On 18 November 2016, under the silence procedure, the Council noted the IBAN report IBA-AR(2014)21 attached to C-M(2016)0061 (INV) and agreed the recommendations, including on public disclosure, contained in the RPPB report.

(Signed) Rose E. Gottemoeller
Deputy Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2016)0061 (INV).

NATO UNCLASSIFIED
Releasable to Montenegro

14 November 2016

DOCUMENT
C-M(2016)0061 (INV)
Silence Procedure ends:
18 Nov 2016 16:00

IBAN REPORT ON THE AUDIT OF THE NSPO 2013 FINANCIAL STATEMENTS

Note by the Deputy Secretary General

1. I attach the International Board of Auditors for NATO (IBAN) report on the audit of the financial statements of the NATO Support Organisation (NSPO) for the year ended 31 December 2013.

2. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB) which has provided its own report (see Annexes) with conclusions and recommendations to Council.

3. The IBAN has issued a qualified opinion on the financial statements and an unqualified opinion on compliance for the year ended 31 December 2013.

3.1. The qualification is related to the difficulties in reconciling the expenditures related to the United States System Programme Office (indirect contracting under the US Government Acquisition Agreement). Changes in the NATO Accounting Framework (C-M(2016)0023) should enable future financial statements to avoid qualification in this regard.

3.2. Additionally and unusually, the IBAN has sought Council support for an observation placing the full reporting of revenue, expenses, assets, liabilities and cash flows of the Central Europe Pipeline System (CEPS) Programme within the NSPO Financial Statements. This issue has been under consideration by the NATO Head of Financial Reporting Policy in full coordination with NSPO/ACO and the IBAN. The recommendations on accounting for the CEPS Programme were agreed by the Resource Policy and Planning Board (RPPB) with AC/335-N(2015)0036-REV1, and have been incorporated into the overall advice in the present enclosed RPPB report to Council.

4. I consider that no further discussion regarding this report is required. Consequently, **unless I hear to the contrary by 16:00 hours on Friday, 18 November 2016**, I shall assume that the Council has noted the IBAN report IBA-AR(2014)21 and agreed the recommendations, including on public disclosure, contained in the enclosed the RPPB report.

(Signed) Rose E. Gottemoeller

4 Annexes
1 Enclosure

Original: English

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IBAN REPORT ON THE AUDIT OF THE NATO SUPPORT ORGANISATION (NSPO) FINANCIAL STATEMENTS FOR 2013

Report by the Resource Policy and Planning Board

References:

a) IBA-A(2014)229 & IBA-AR(2014)21
b) BC-D(2015)0034-FINAL

Introduction

1. The present report by the Resource Policy and Planning Board (RPPB) contains the RPPB's observations and recommendations concerning the International Board of Auditors for NATO (IBAN) report (reference (a)). The report is based on the full review of the audit report provided by the Budget Committee (BC) (reference (b)).

2. The RPPB notes and agrees with the conclusions and recommendations of the BC as laid out in their report (reference (b)), which form the basis of the Board's discussions.

3. The report takes full account of the RPPB's recommendations on accounting for the CEPS Programme, agreed with AC/335-N(2015)0036-REV1 on 26 May 2015, which have been incorporated into the overall advice in the present report to Council.

Background

4. The IBAN has issued a qualified opinion on the financial statements, and an unqualified opinion on compliance for the year ended 31 December 2013. Additionally and unusually, the IBAN has sought Council support for an observation placing the fully reporting of revenue, expenses, assets, liabilities and cash flows of the Central Europe Pipeline System (CEPS) Programme within the NSPO Financial Statements.

5. There are four observations identified by the IBAN as impacting its qualification of the NSPO 2013 financial statements.

5.1. Incomplete reporting of the Central Europe Pipeline System (CEPS) Programme activities.

5.2. Difficulties in reconciling the expenditures related to the United States System Program Office (Foreign Military Sales) for the NATO Airlift Management (NAM) Programme.

5.3. Misstatements of revenue or expenses involving amounts to be returned to or reimbursed to nations.

5.4. Lack of assurance in respect to the 2012 comparative information.

6. The IBAN has also issued ten observations on the 2013 financial year accounts (four of which impact directly on the qualified opinion) and nine of which supersede outstanding

observations in previous IBAN reports. While a further five observations remain outstanding from previous IBAN reports, sixteen observations in the 2012 IBAN report have been settled. The number of audit observations settled meets the expectation expressed in the last report on the need to make continued progress[1], but further significant effort and management attention will be required to settle the observations indicated by the 2013 audit report on the NSPO financial statements.

Conclusions

7. The Board notes the qualified audit opinion and the reasons for the qualification. The Board further notes that the generally agreed need to develop an accounting policy should result in clarification of duties, the full incorporation of IPSAS[2] accounting, particularly with respect of IPSAS Property, Plant & Equipment (PP&E) and inventory reporting within the Agency and with its customers, and the presentation of financial information within the NSPO financial statements.

8. The need for NSPA to develop a detailed accounting policy as part of an accounting manual to include details of the consolidation of accounting information such as timelines, intersegment accounting reconciliation and specific consolidation entries is recognised and supported by all parties concerned. There was a clear need for an action plan to communicate to appropriate persons, roles and positions to ensure proper accountability for changes and improvements in the production of NATO Airlift Management (NAM) Programme financial reporting. An important part of the action plan involves the NSPA Finance Directorate developing a complete understanding of the way the various NSPA programmes operate to ensure consistency of procedures and that internal controls are effective, monitored and controlled.

9. The IBAN report reflects the recognised weaknesses in the NSPO financial reporting controls. These weaknesses have led, for the financial year 2013, to the late issuance of financial statements, a lack of well defined reporting processes, procedures and policies being available. As was pointed out in the RPPB report[3] on the 2012 NSPO IBAN report many of these weaknesses, which led in 2012 to a disclaimer of opinion, result from the mid-year merger of different entities into the NSPO. There has been progress with the NSPA able to prepare consolidated NSPO financial statements for 2013 and indications the accounting integration will be complete in 2015.

10. As part of internal controls a review of the NSPA Internal Audit function, including how it is funded has been recommended by the IBAN and accepted by NSPO. As internal audit needs to be balanced and focused by the NSPA management within the means and capabilities determined by its customers, funding and allocation involves decisions that affect governance and should be considered by the Agency Supervisory Board as the governing body.

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[1] C-M(2014)0062 paragraph 25
[2] International Public Sector Accounting Standards (IPSAS)
[3] C-M(2014)0062

11. This IBAN report reflects the difficulties in reconciling the expenditures related to the United States System Program Office (Foreign Military Sales) that has also impacted other NATO entities. Based on advice from the Head of Financial Reporting Policy, the Board has addressed this issue and made a recommendation to Council for an adaptation to the NATO Accounting Framework as the most effective way of dealing with this intractable matter.[4]

12. The issue of the placing the fully reporting of revenue, expenses, assets, liabilities and cash flows of the Central Europe Pipeline System (CEPS) Programme within the NSPO Financial Statements has been under consideration by the NATO Head of Financial Reporting Policy in full coordination with NSPO/ACO and the IBAN. The recommendations on accounting for the CEPS Programme were agreed by the Board on 26 May 2015[5].

12.1. Central to the difference of opinion between the IBAN and NSPO is the accounting principle of control. There is no dispute that priority access to the pipeline is reserved at all times to meet NATO's military operational requirements but there is a major difference of opinion on whether this provides sufficient reason to conclude that the CEPS Programme does not control the pipeline.

12.2. In its 2013 financial statements, NSPO reported some CEPS Programme financial information in the notes of its financial statements. IBAN's opinion is that all CEPS Programme related assets, liabilities, revenues, expenses and cash flows, including the operational CEPS balances and activities of the National Organisations shall be reported in the NSPO financial statements.

12.3. The NATO Accounting Framework has addressed the complex issue about asset valuation in such a manner that CEPS Nations do not have to undertake the potentially costly exercise of conducting an auditable valuation of the pipeline and related infrastructure.

12.4. Based on an analysis against the NATO Accounting Framework and taking into account the provisions of the Charter of NSPO of its CEPS reporting responsibilities, as well as the common funding investment in the CEPS over the years, the Board concludes that revenues, expenses, assets, liabilities and cash flows of the CEPS Programme activities should be included in the Financial Statements of the NSPO to ensure full transparency and accountability of the CEPS Programme.

13. There has been progress in settling previous audit observations with 16 observations reported as closed. However, 14 current or outstanding observations from previous years remain and adequate management attention will be needed to correct the weaknesses highlighted by the IBAN in a timely manner.

14. With regard to public disclosure, the NSPO Agency Supervisory Board (ASB), having reviewed the statements in accordance with agreed policies[6], originally had concerns[7]

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[4] C-M(2016)0023
[5] AC/335-N(2015)0036-REV1
[6] C-M(2008)0116; AC/324-D(2014)0010-REV1
[7] CH/2015/0019, dated 17 March 2015; and e-mail from Mr Keith Amoss, Head, NSPO Secretariat, dated 19 August 2015.

related to sensitive information falling within the NATO exemptions 1, 3, 7, 8 and 9[8] contained in the financial statements. As a result, and further to discussions held between the IBAN and the entity, it was agreed to remove those elements which should not be disclosed to the public.[9] The IBAN has reviewed the redacted version and confirmed that the findings reflected in their original audit report remain valid.

15. The Board has been very concerned that the IBAN audit of the 2013 NSPO financial statements has still not been noted by Council due to the lack of a conclusion regarding public disclosure of the financial statements. The Board is therefore pleased to note that a solution has finally been found to this long ongoing issue. After due consideration of the arguments presented, the RPPB, in line with PO(2015)0052, recommends to Council the publication of the redacted 2013 NSPO financial statements and the associated IBAN report.

Recommendations

16. The Resource Policy and Planning Board (RPPB) recommends that Council:

a) note the present report along with IBA-AR(2014)21;

b) endorse the conclusions outlined in paragraphs 7 through 15;

c) note that, based on advice from the Head of Financial Reporting Policy, the RPPB has addressed the issue of reconciling expenditures related to the United States System Program Office (Foreign Military Sales) and made a recommendation to Council for an adaptation to the NATO Accounting Framework as the NATO-wide most effective way of accounting for expenditures related to the US Foreign Military Sales programme;

d) invite NSPO to ensure that all CEPS Programme related assets, liabilities, revenues, expenses and cash flows, including the operational CEPS balances and activities of the National Organisations, be reported in the NSPO Statement of Financial Position, the Statement of Financial Performance and the Cash Flow Statement.

e) invite NSPO to implement the IBAN observations; in particular to update its detailed accounting policy as part of an accounting manual to include details of the consolidation of accounting information such a timelines, intersegment accounting reconciliation and specific consolidation entries;

f) note that the resource committees will continue to monitor the status of outstanding audit observations;

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

[9] CH/2016/0028, dated 20 September 2016.

g) in line with the agreed policy in PO(2015)0052, agree to the public disclosure of the redacted NSPO 2013 financial statements and the associated IBAN report (IBA-AR(2014)21).

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Summary Note for Council
by the International Board of Auditors for NATO (Board)
on the audit of the Financial Statements of the
NATO Support Organisation (NSPO)
for the year ended 31 December 2013

The Board issued a qualified opinion on the NSPO 2013 Financial Statements due to the following reasons:

- Incomplete reporting of revenue, expenses, assets, liabilities and cash flows of the Central Europe Pipeline System (CEPS) Programme activities.
- United State's Foreign Military Sales (FMS) services received by the NATO Airlift Management (NAM) Programme are not accrual based.
- 'Amount to be (Returned to) / Reimbursed by Nations' is misstated as it represents amounts that are revenue or expenses of NSPO.
- No audit assurance is given in respect to the 2012 comparative information presented.

The Board draws Council's attention to the observation relating to the incomplete reporting of revenue, expenses, assets, liabilities and cash flows of the Central Europe Pipeline System (CEPS) Programme. The Board is seeking Council's support for this observation so as to ensure that the NSPO Financial Statements are complete, thus ensuring transparency and accountability. No NATO entity reports these balances and activities of the the CEPS Programme in their financial statements, which is part of NSPO, in their Statements of Financial Position, Financial Performance and Cash Flows.

In addition to the four observations mentioned above that impact the audit opinion, the Board also identified a further six observations. These are summarised below:

- Financial accounting control weaknesses resulting in delays in issuance of financial statements.
- Involvement of NSPA Director of Finance in procurement activities needs to be clarified.
- There was limited internal audit work in certain areas of NSPO.
- Improvements are still needed in the process of NSPA reporting PP&E and inventory information to ACO. ACO continues to report that it does not believe information provided is fully reliable.
- Customers often decide that unused funding shall remain at NSPA and not being returned to them. NSPA does not believe that it is in a position to limit the amount of unused funding being held at NSPA, and this can present certain risks.

- NSPA does not confirm outstanding year-end asset (receivables, prepayments, etc.) and liability (payables, advances received, loans, etc.) balances with other NATO bodies and the Board recommends that this should be done.

The Board issued an unqualified opinion on compliance on the NSPO Financial Statements for the year ended 31 December 2013.

ANNEX 3
C-M(2016)0061 (INV)
IBA-AR(2014)21

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE

THE NATO SUPPORT ORGANISATION

(NSPO)

FOR THE YEAR ENDED 31 DECEMBER 2013

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

Report on the Financial Statements

The International Board of Auditors for NATO (Board) audited the accompanying Financial Statements of the NATO Support Organisation (NSPO), which comprised the Statement of Financial Position as at 31 December 2013, the Statement of Financial Performance, the Statement of Net Assets & Equity and the Cash Flow Statement for the year then ended, and Notes to the Financial Statements, including a Statement of Accounting Policies.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion on the Financial Statements

As explained in the Accounting Policies note to the financial statements, the operational assets, liabilities, revenue and expenses of the Central Europe Pipeline (CEPS) Programme have not been included in the financial statements. It is stated that this is because the CEPS Programme Board does not believe that the CEPS Programme collectively controls the pipeline. The Board's opinion is that the NSPO Charter supports that NSPO, via the CEPS Programme, which includes the National Organisations, controls the pipeline. As a result, the Board's opinion is that the financial statements should include the operational assets, liabilities, revenue and expenses of the CEPS Programme, which are material to the financial statements. The amount of assets and liabilities not included in the Statement of Financial Position is about EUR 200 million, including about EUR 150 million of Cash and Cash Equivalents, EUR 27 million of Accounts Receivable, and EUR 174 million of Customer Advances. Inventory, Fixed and Intangible Assets and Accounts Payable and Accruals are also impacted, but by smaller amounts. Furthermore, the value of the pipeline, of which the value has not been determined, is also not included. The amount of Services and Support to Customers revenue and expenses not included in the Statement of Financial Performance as a result of the above decision is about EUR 120 million, including about EUR 90 million of revenue generated from non-NATO customers using the pipeline. The Cash Flow Statement is also impacted by these exclusions.

In addition, NSPO has reported in Note 1 to the financial statements that it is not able to accrue for certain costs related to the NATO Airlift Management (NAM) Programme because the reporting from the United State's Foreign Military Sales (FMS) Programme are not on the accruals basis of accounting. The Board has not obtained sufficient evidence that would allow it to assess if the amount of unrecorded accruals materially misstates the Accounts Payables and Accruals balance in the Statement of Financial Position and the Services and Support to Customers balance in the Statement of Financial Performance.

Furthermore, the Board found that the section 'Amount to be (Returned to) / Reimbursed by Nations' in the Statement of Financial Performance is misstated. The amount to be returned to or reimbursed by nations related to these items is in fact zero and not EUR 31 million. The amounts in this section represent amounts that either are revenue or expenses of NSPO or that, in some cases, should not be recorded in the Statement of Financial Performance. The total impact on the Statements of Financial Position and Performance is not fully known due to the netting of some of the amounts in this section.

Lastly, the Board is not able to provide audit assurance on the 2013 Financial Statements in respect to the 2012 comparative information presented in those statements. This limitation is linked to the Board's prior year disclaimer of opinion on the 2012 NSPO Financial Statements. As a result, our opinion on the current period's Financial Statements is also modified because of the potential effect of this matter on the comparability of the current period's figures and corresponding 2012 figures.

Qualified Opinion on the Financial Statements

In our opinion, except for the effects and possible effects of the matters described in the *Basis for Qualified Opinion on the Financial Statements* paragraph, the Financial Statements present fairly, in all material respects, the financial position of NSPO as of 31 December 2013, and of its financial performance and its cash flows for the year then ended are in accordance with the NATO Accounting Framework.

Report on Compliance

Management's Responsibility for Compliance

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

Auditor's Responsibility

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

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

Opinion on Compliance

In our opinion, in all material respects the financial transactions and information reflected in the Financial Statements are in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

Brussels, 03 December 2014

Dr Charilaos Charisis
Chairman

INTERNATIONAL BOARD OF AUDITORS FOR NATO

LETTER OF OBSERVATIONS AND RECOMMENDATIONS

FOR THE NATO SUPPORT ORGANISATION

(NSPO)

FOR THE YEAR ENDED 31 DECEMBER 2013

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OBSERVATIONS AND RECOMMENDATIONS:

Introduction

The International Board of Auditors for NATO (Board) audited the NSPO Financial Statements for the year ended 31 December 2013, and issued a qualified opinion on the financial statements and an unqualified opinion on compliance. The reasons for the qualified opinion, as well as other observations and recommendations, are summarised in the Observations and Recommendations section below.

As part of NATO's Agency Reform, NSPO was created on 1 July 2012 from three separate NATO bodies. The North Atlantic Council had agreed, as a temporary transition measure, that no 2012 NSPO Financial Statements were required and that the 2012 financial reporting could be limited to three 'segment' statements covering the balances of the legacy organisations. This is the first year that overall NSPO Financial Statements are issued.

Observations and Recommendations

The NSPO Financial Statements were issued on 22 July 2014. Overall, the Board believes that the format of the financial statements are well presented, and for the stakeholders and other users, provide relevant and accessible financial information. However, the Board has identified four observations which impact the audit opinion and a further six observations that do not impact the audit opinion, including recommendations which might lead to improvements in financial management.

The following four observations impact the audit opinion on the financial statements:

- Incomplete reporting of revenue, expenses, assets liabilities and cash flows of the Central Europe Pipeline System (CEPS) Programme activities.
- United State's Foreign Military Sales (FMS) services received by the NATO Airlift Management (NAM) Programme are not accrual based.
- 'Amount to be (Returned to) / Reimbursed by Nations' is misstated as it represents amounts that are revenue or expenses of NSPO.
- No audit assurance is given in respect to the 2012 comparative information presented.

The Board also followed up on the status of observations and recommendations from previous years' audits and noted that 16 have been settled, nine superseded by a current year observation and five are still outstanding. These have been summarised in section 11 of this report**.**

The Board also issued a separate Management Letter (reference IBA-AML(2014)08) to NSPA management with findings related to the need for a more timely allocation of administrative costs to Log Ops projects, and to accounting issues in respect to accrued expenses and long outstanding receivables.

OBSERVATIONS AND RECOMMENDATIONS

1. FINANCIAL REPORTING CONTROL WEAKNESSES

Reasoning

1.1 The financial statements are due to be presented by 30 April per the NATO Financial Regulations. Bodies should have proper procedures and internal controls, including reviews, in place to ensure the timely preparation of financial statements.

Observations

1.2 The 2013 NSPO Financial Statements were the first to consolidate the different segments of NSPO. A significant effort has been put into the preparation of these financial statements, and much in terms of their presentation has changed. Overall, the Board believes that the format of the financial statements are well presented, and for the stakeholders and other users, provide relevant and accessible financial information.

1.3 While recognizing the above efforts and progress made by NSPA, the financial statements were not issued until 22 July, almost three months after the deadline. The Board was kept informed on the progress during the delay. Improvements remain to be made to the financial reporting process, though, to better mitigate the risk of such delays occurring in the future.

1.4 One of the reasons for the late issuance of the financial statements is that it was only finally decided in early 2014 to issue overall NSPO Financial Statements rather than three segment financial statements for the legacy entities. As a consequence, no well defined financial reporting processes, procedures or policies were available.

1.5 Another reason for the delay related to financial accounting weaknesses in the NAM Programme. Many of these weaknesses had already been identified by the Board in previous audits of NSPO and the NATO Airlift Management Organisation (before it merged into NSPO). The NAM Programme financial balances couldn't be prepared by the deadline of 30 April 2014. In May, NSPA management had serious concerns about the reliability of the NAM Programme financial balances and decided to undertake more work to validate and, where necessary, correct them. The NAM Programme Board and the NSPO Agency Supervisory Board were informed of this and on the measures being taken to address the situation.

NSPO Formal Comment

> *An additional reason for the delay in issuing the financial statements was the requirement of the NSPO Charter that the CEPS and NAM Programme Boards endorse the annual consolidated Financial Statements of the Programmes before their inclusion in the NSPO Financial Statement.*

Although the formal issuance of the NSPO Financial Statements by the General Manager to the IBAN did not occur until 22 July, the Director of Finance was satisfied that the financial statements fairly reflected the activities of NSPO on 19 June when he informally released them to the IBAN.

1.6 In addition, another significant change to the financial statements was made only in July, when it was learned by NSPA Finance a majority of the activity flowing through the NATO Logistics Stock Exchange (NLSE) was in fact recurring individual brokerage activities for which NSPA was to be considered a principal as it was done in the name of NATO. Previously, it had been thought that a majority of activity going through the NLSE was direct buyer to seller transactions and not in the name of NATO. As a result, NSPA decided in July to include EUR 131 million (2012: EUR 145 million) of NLSE revenue and expenses into financial statements that had previously not been included.

Recommendation

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

NSPO Formal Comment

The ASB accepts the recommendation.

NSPA was able to prepare a consolidated NSPO Financial Statements for the year 2013 which was one year ahead of the timetable set by the ASB.

As this was the first year in which a consolidated NSPO financial statement was produced, consolidation procedures were being tested, evaluated and revised during the year-end period. Additionally, NSPA were testing and evaluating a new automated consolidation tool during year-end, which necessitated new and innovative approaches to the consolidation.

The preparation of the NSPO Financial Statements for 2014 will incorporate lessons learned from 2013 and be the first time the NSPA's automated financial consolidation tool will be used as the primary tool to prepare the financial statements; this presents a risk which will require parallel running with another system to ensure it works effectively.

It is anticipated that processes and procedures will become embedded for the preparation of the NSPO Financial Statements in 2015.

Board's position

The Board appreciates NSPA's commitment to preparing such a manual. The Board will use the manual as a basis for its audit of the 2014 financial statements.

Recommendation

1.8 In respect to the NAM Programme weaknesses, the Board recommends that an appropriate action plan be put in place and communicated to appropriate persons, roles and positions to ensure proper accountability for changes and improvements in the production of the NAM Programme financial reporting. NSPA Finance should continually monitor the progress of such improvements to ensure the timely identification and correction of problems.

NSPO Formal Comment

The ASB accepts the recommendation.

NSPA management has already put in place an action plan to ensure improvements to the NAM Programme's financial reporting. This plan has been communicated to appropriate persons including the NAM Policy and Finance Committee.

The NSPA Director of Finance is regularly monitoring actions taken against the plan.

Board's position

The Board will take note of NSPA's action plans and will use them as a basis for its audit of the 2014 financial statements.

Recommendation

1.9 In the case of NLSE, the Board recommends that, in order to be able to properly account for and present NSPO's wide range of activities, NSPA Finance should continue to develop its understanding of all of NSPO's activities, workflows and documentation and identify areas where improvements in communication between NSPA Finance and the Heads of Programmes could be made.

NSPO Formal Comment

The ASB accepts the recommendation.

The NSPA Finance Directorate is continually developing an understanding of the way the various programmes of NSPA operate and it is the intention of the directorate to work towards ensuring consistency of procedures, where this is possible, to ensure that the internal control environment can be more effectively monitored and controlled.

The Finance Division is already working closely with Programme Managers to improve communication.

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

Reasoning

2.1 Per IPSAS 1, *Presentation of Financial Statements*, financial statements are to present fairly the financial position, financial performance and cash flows of an entity. In addition, the information in the financial statements should be complete.

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

NSPO Formal Comment

The CEPS Programme is an integral part of NSPO; however, in accordance with the NATO Accounting Framework, NATO bodies should only reflect assets which they control in their financial statements and should exclude revenues received and expenditures incurred when acting as an agent.

Observation

2.3 In line with decisions of the CEPS Programme Board, the NSPO Financial Statements only present the balances and transactions of the administrative CEPS Programme Office (CEPS P.O.) in Versailles, France, but not those related to the operation and maintenance of the pipeline in the National Organisations. The reasons for this were provided in the Accounting Policies note to the NSPO Financial Statements as follows:

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

As the Pipeline System is not controlled by the CEPS Programme collectively then by extension the associated revenues and expenditures are not controlled by the Programme. This has resulted in the Statements of Financial Performance only showing the revenues and expenditures of the CEPS Programme Office which oversees the Programme. To ensure that nations are aware of all the funding that passes through the CEPS Programme a note disclosure is presented to show this information".

2.4 The Board notes that the amount of assets and liabilities not included in the Statement of Financial Position is about EUR 200 million, including about EUR 150 million of Cash and Cash Equivalents, EUR 27 million of Accounts Receivable, and EUR 174 million of Customer Advances. Inventory, Fixed and Intangible Assets and Accounts Payable and Accruals are also impacted, but by smaller amounts. Furthermore, the value of the pipeline, of which the value has not been determined, is also not included. The amount of Services and Support to Customers revenue and expenses not included in the Statement of Financial Performance as a result of the above decision is about EUR 120 million, including about EUR 90 million of revenue generated from non-NATO customers using the pipeline. The Cash Flow Statement is also impacted by these exclusions.

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

2.6 NSPO did disclose summaries of financial plan execution for these activities in Note 19 to the financial statements. These financial plan execution summaries include authorized budget credits, expenditure on the cash basis of accounting, credits carried forward, and lapsed credits. They also provide some information on sources of funding, but it is not presented the basis of accounting used for these. As a result, though, these summaries don't include revenue, expenses, assets or liabilities on an accrual basis. The Board notes that until 2012, these balances and activities were always reported by CEPMO, one of the legacy organisations of NSPO.

NSPO Formal Comment

While not shown in the Statement of Financial Position or the Statement of Financial Performance, the notes to the NSPO Financial Statements clearly *show the financial plan execution of the CEPS Programme budgets of O&M, NP1, NP2, NP3 and non-military French depots as well as sources of income to fund expenditures. This note is subject to audit and is covered by the audit opinion.*

Board's position

The Board reiterates its position that all of the assets, liabilities, revenues and expenses and cash flows of the CEPS Programme be fully reported in the NSPO Financial Statements. Also, the balances presented in the Notes to the financial statements are not on the same basis of accounting and do not include all assets and liabilities of the CEPS Programme.

2.7 The decision of NSPO and the CEPS Programme Board was based on an analysis of whether the CEPS Programme collectively controls the CEPS pipeline. This analysis was performed by NSPA at the request of the CEPS Programme Board. The Board was not convinced by the analysis, which gave no clear and indisputable answers to which entity controls the pipeline. In fact, the internal NSPA analysis indicated that the North Atlantic Council, which has no requirement to prepare financial statements, had the most control. The NSPA analysis gave no recommendations as to which entity should report these activities, as that was not its purpose, and the analysis was also not discussed with NATO's Head of Financial Reporting Policy.

NSPO Formal Comment

The decision of the CEPS Programme Board endorsed a previous decision of the CEPMO Board of Directors and was underpinned by an analysis of "Criteria that may indicate control of an asset" as included in the NATO Accounting Framework.

This analysis was undertaken to assess whether the CEPS Programme controlled the Pipeline System from a financial reporting perspective and was never intended to assign control of the Pipeline System to another entity; that is beyond the scope of NSPO's financial reporting responsibilities.

2.8 The Board believes that the NSPO Charter supports that the pipeline is controlled by the CEPS Programme. The CEPS Programme, which is part of NSPO, includes the National Organisations. It is the Board's view that the mere existence of a priority use of CEPS for military purposes does not preclude NSPO, through the CEPS Programme, from exercising day-to-day control and reporting these activities. Furthermore, the NSPO Charter states that the juridical personality of the NSPO is an intrinsic part of that of NATO and cannot be distinguished from it. Therefore, also from a practical point of view, it is logical that NSPO, through the CEPS Programme, be the NATO body to report the CEPS activities.

NSPO Formal Comment

The ASB disagrees with this view.

The NSPO Charter is clear that "The NATO Central Europe Pipeline System Programme manages the operation, financing and maintenance of an integrated, cross-border fuel pipeline and storage system in support of NATO's operational military requirements during peacetime, crisis and conflicts, including expeditionary operations" (NSPO Charter, Annex II, para 1); however, it makes no reference to control from a financial reporting perspective.

In addition, Section VI of the NSPO Charter deals with Ownership of Assets, but ownership of an asset is only one potential indicator of control from a financial reporting perspective, rather than the determinant.

Recommendation

2.9 The Board recommends that the North Atlantic Council ensures that all the CEPS Programme related assets, liabilities, revenues, expenses and cash flows, including the operational CEPS balances and activities of the National Organizations, shall be reported in the NSPO Financial Statements.

NSPO Formal Comment

The ASB disagrees with the recommendation.

The CEPS Programme Board does not consider that it controls the Central Europe Pipeline System from a financial reporting perspective and this view is supported by the NSPA Director of Finance. The decision of the CEPS Programme Board endorsed a previous decision of the CEPMO Board of Directors and was underpinned by an analysis of "Criteria that may indicate control of an asset" as included in the NATO Accounting Framework. This analysis was undertaken to assess whether the CEPS Programme collectively and inseparably controlled the Pipeline System from a financial reporting perspective and was never intended to assign control of the Pipeline System to another entity; that is beyond the scope of NSPO's financial reporting responsibilities.

Control of the Pipeline System from a financial reporting perspective would require a combination of the CEPS Programme benefiting from the Pipeline System in pursuit of its objectives, and, the ability to exclude or otherwise regulate the access of others to that benefit. While the CEPS Programme receives economic benefit from managing the Pipeline System on a day-to-day basis it does not consider that it can restrict or regulate the SACEUR's access to the Pipeline System and hence does not control the pipeline.

The result of this accounting is that revenues and expenditures and assets and liabilities in respect of the Pipeline System are excluded from the financial statements. However, the financial statements do show how the CEPS Programme executes it plans and provides details on sources of income. These disclosures, which are shown in a note to the financial statements, are subject to the audit opinion of the IBAN, and hence, do provide some assurance to CEPS Programme Board that its approved financial plans have been executed in accordance with applicable financial regulations and procedures.

Board's position

The Board took note of the formal comment that CEPS programme cannot restrict and regulate the SACEUR's access to the pipeline and hence does not control the pipeline. The Board is aware that SACEUR has priority use in the event of conflicts. This inevitable, and in the Board's opinion understandable, priority for SACEUR is not sufficient reason to conclude that - for financial reporting purposes - the CEPS programme is not controlling the pipeline. The Board is convinced that transparency requires that all CEPS related balances and transactions should be reported in Financial Statements. NSPO includes the CEPS programme. As "the juridical personality of NSPO is an intrinsic part of that of NATO and cannot be distinguished from it"[1] the NSPO Financial Statements are the most eligible.

3. UNITED STATES FOREIGN MILITARY SALES (FMS) SERVICES RECEIVED BY THE NAM PROGRAMME NOT ACCRUAL BASED

Reasoning

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

Observation

3.2 In respect to services received by the NAM Programme through the U.S. FMS programme, the Board noted that NSPO is not able to record transactions on the accrual basis. Note 1 to the 2013 NSPO Financial Statements states that:

"*in terms of services delivered, the data in the [FMS] reports is not accruals based and NSPA management has no basis on which to make a reliable*

[1] Paragraph 8(b) of the NSPO Charter.

accruals based estimate of services delivered in the period; NSPA management has therefore chosen to account for the value of the services delivered based on the values provided in the [FMS] report which are based on cash payments made by the United States Government to contractors in the period."

3.3 The amount of such cash payments was about EUR 70 million in 2013. Consistent with prior years, the Board is not in a position to provide audit assurance that these amounts are related to services received during the year.

3.4 In recent years, NSPA has devoted much effort to receiving such information from the US Government that would make it possible to account for the services delivered in line with the NATO Accounting Framework. However, no agreement has yet been reached with the US Government on this.

NSPO Factual Comment

NSPA has received a letter from the United States Defense Security Cooperation Agency which confirms that data in respect of FMS is not provided on an accruals basis.

NSPO Formal Comment

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

The NSPA accounting treatment of showing services on a cash basis has been taken to ensure that reliable cash-based financial information is presented in the financial statements rather than unreliable accruals based financial information.

Recommendation

3.5 The Board recommends that NSPO coordinate with the NATO Head of Financial Reporting Policy with the aim to develop a NATO-wide approach to the financial reporting of FMS activities.

NSPO Formal Comment

The ASB accepts the recommendation.

The Agency Supervisory Board has requested that the NSPA Director of Finance coordinate with the NATO Head of Financial Reporting Policy with the aim of supporting the development a NATO-wide approach to the financial reporting of FMS activities.

Board's position

The Board appreciates the acceptance of the recommendation. This NATO-wide approach should consider what further information could be required to make reliable estimates.

4. 'AMOUNT TO BE (RETURNED TO) / REIMBURSED BY NATIONS' NOT FAIRLY PRESENTED IN THE STATEMENT OF FINANCIAL PERFORMANCE

Reasoning

4.1 NSPO is a customer-funded body and operates under the "no-profit, no-loss" basis. This means that all costs incurred by NSPO will need to be fully funded by customers, with any excess funding being returned to customers. This principle is shown in the Statement of Financial Performance, where there is a 'Surplus / (Deficit) for the year" of zero. Under the accrual basis of accounting, a 'Surplus / (Deficit) for the year' of zero, as shown in the NSPO Financial Statements, would be the result of revenue being equal to expenses.

Observation

4.2 The Board found that in the NSPO Statement of Financial Performance, revenue is not equal to expenses, despite there being no surplus or deficit for the year. Rather, revenue is EUR 2.099 billion and expenses are EUR 2.130 billion. This difference of about EUR 31 million is included in the Statement of Financial Performance in a separate category called 'Amount to be (Returned to) / Reimbursed by Nations'. The Board's opinion is that all items in the Statement of Financial Performance should be accounted for and presented as either revenue or expenses.

NSPO Formal Comment

NSPA considers this to be a presentational issue which can be amended in the NSPO Financial Statements 2014. While the Statement of Financial Performance shows revenue of EUR 2.099 billion and expenses are EUR 2.130 billion, NSPA believes that the Statement makes it clear that the difference of EUR 31 million is accounted for as either an 'Amount to be Returned to Nations' by NSPO (i.e. an expense) or as an 'Amount to be Reimbursed by Nations' to NSPO (i.e., a revenue).

NSPO first used this presentation in its unaudited "High-Level Overview Together with the Inputs on Transition Costs incorporating Consolidated Financial Statements 2012" which was issued in November 2013. The IBAN raised no issue with this presentation in its 2012 audit report, or, during initial planning discussions with the IBAN's Primary Auditor for the audit of the 2013 financial statements, when NSPA made it clear that the template used in 2012 would be used in 2013.

NSPA management considers that its business performance can result in genuine operational surpluses and deficits each year (revenues less expenses) with any operational surpluses being returned to customers (in the form of expenses) and any operational deficits being borne by customers (in the form of revenues) to ensure that there is "no profit, no loss".
Operational surpluses and deficits can arise for a combination of financial factors such as revenue from bank interest; revenue and expenses resulting from exposure to exchange rate variations; revenues and expenses resulting from the revaluation of assets and liabilities; and, potential losses resulting from non-billed customer sales or calls. Some of these factors can have a real monetary impact (e.g. non-billing of customers, bank interest and realised exchange rate variations) while some factors give rise to a non-monetary impact (e.g. non realised exchange rate variations and revaluation of non-monetary assets and liabilities).

Board's position

The Board presented its views on this matter to NSPA numerous times before the 2013 NSPO Financial Statements were finally issued on 22 July 2014. NSPA chose not to take those views into account.

The Board understands that this will be amended in the 2014 financial statements.

4.3 The current year accounting treatment is significantly different from prior years, and no description of this change has been disclosed in the financial statements as required by paragraph 34 of IPSAS 3, *Accounting Policies, Changes in Accounting Estimates and Errors*. As an illustration of the change, the 2012 Log Ops financial statements reported a net surplus of EUR 5.3 million, whereas under the new accounting policies, the Log Ops segment now reports for the comparative 2012 period an 'Amount to be Reimbursed by Nations' (expenses exceed revenues) of EUR 25.3 million.

NSPO Formal Comment

NSPA management does not consider that paragraph 34 of IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors is relevant to *its financial reporting because NSPO is a new NATO body. If one of the predecessor organisations which make up NSPO had subsumed the other organisations, rather than a brand new body being set up, then this paragraph of IPSAS 3 would have been applied.*

Board's position

The Board reminds the reader that NSPO came into existence on 1 July 2012 and is not a new body in 2013.

4.4 The EUR 31 million included in the separate 'Amount to be (Returned to) / Reimbursed by Nations' section of the Statement of Financial Performance consists of the following:

- EUR (6.2) million of offsets to revenue (Commercial Discounts Earned, Financial Revenue (bank interest and net foreign exchange gains) and Miscellaneous Revenue). As such items are not revenue to NSPO, but rather, belong to its customers, they should be shown as reductions to the Commercial Discounts Earned, Financial Revenue and Miscellaneous Revenue balances that are presented in the revenue section of the Statement of Financial Performance as per IPSAS 9, *Revenue from Exchange Transactions*.

NSPO Formal Comment

The NSPO financial statements reflect how NSPO has operated its business during the financial reporting period.

One of the reasons customers use NSPA is that they are able to earn discounts at a better rate than if the customer had procured a good or service on its own; as such "commercial discounts earned" is considered to be a valuable piece of financial reporting information which is best reflected in the Revenue section of the Statement of Financial Performance.

In addition, Financial Revenues (e.g. bank interest and exchange rate gains and losses) are considered useful information because they show how NSPA has managed financial risks.

These amounts are clearly shown in revenue; however, as they create operational surpluses which must be returned to customers they are shown separately from revenue in the Statements of Financial Performance. The net effect of the accounting is that these items are offset by reductions to revenue as per IPSAS 9, Revenue from Exchange Transactions.

In the NSPO Financial Statements 2014 these amounts will clearly be shown as expenses which match revenues.

- EUR 23.2 million of revenue related to the acquisition of PP&E, intangible assets and inventory. NSPO recognizes such revenue when expenses are incurred (in line with depreciation expense), which has a neutral impact on the surplus/deficit for the year. However, this revenue was incorrectly disclosed as an amount to be reimbursed by nations instead of as Revenue in the Statement of Financial Performance.

NSPO Formal Comment

NSPA, and other NATO bodies, have traditionally accounted for depreciation by showing it as an expense which is then matched to a revenue. This accounting is highly unusual because most businesses show depreciation as an expense with no matching revenue; this is because the usage of an asset is an expense of a business and not revenue.

NSPA therefore decided to show depreciation as an expense without a matching revenue; however, as NSPO works on a "no profit, no loss" business model it had to reflect how this impacts on its customers in the Statements of Financial Performance.

It was therefore decided to show this as "Amount to be (Returned to) / Reimbursed by Nations" because depreciation is a non-cash expense which will have to be funded by customers if they wish to ensure that a similar asset is available when the useful economic life of the asset being depreciated expires.

- EUR 21.6 million of revenue relates to part of the translation of NAM Programme, whose functional currency is USD, into the NSPO presentation currency, which is EUR. However, per IPSAS 4, *The Effects of Changes in Foreign Exchange Rates*, this exchange difference should not be recognized in surplus or deficit of the period because the changes in exchange rates have little or no direct effect on the present and future cash flows from operations. Net translation exchange differences should be recorded directly to equity.

NSPO Formal Comment

This amount is shown in the Statement of Financial Performance as expenditure and is then cancelled out through the 'Amount to be (Returned to) / Reimbursed by Nations' section of the Statement of Financial Performance to ensure that NSPO does not have an accounting surplus or deficit for the year in line with its business model. The result of this accounting on the Statement of Financial Performance is neutral.

In addition, there is no impact of the revaluation on net assets which have a zero balance which is consistent with NSPO having a "no profit, no loss" business model.

The presentation was made in this way to clearly show the user of the financial statements that there is a currency effect of revaluing the NAM Programme's non-monetary assets from its functional currency (USD) to the NSPO presentational currency (Euro).

It should be noted that there is no realised monetary impact from this accounting.

- EUR (7.4) million of net timing differences on calls to customers during the year. These relate only to the Log Ops segment, and are included in this line item (i.e. not specifically allocated to revenue and expense) because closing accounting entries that have been recorded into the SAP system (period 16) have not been taken into account in the preparation of the financial statements as had been done in previous years. These entries (period 16) correspond to the allocation of results at the programme level in order to ensure appropriate accrual accounting based on a no profit – no loss basis. The Board believes that the financial statements should include this allocation of results at the programme level.

NSPO Formal Comment

The former NAMSO traditionally operated a Period 16 in its year-end accounting in which it ensured that all customer expenses were automatically matched to revenues in the financial reporting period to ensure accounting break-even result. The use of Period 16 assumed that all customer expenses would be subsequently billed to, and paid by, customers. Such accounting implies minimal financial risk in that there will never be any disputed customer bills and that customers are both willing and able to pay.

With the creation of NSPO, the Finance Director undertook a fundamental review of financial reporting within its financial reporting segments. The Finance Director disagreed with the Period 16 accounting undertaken in the former NAMSO which was more in line with NSPA acting as an "agent" of its customers rather than as a "principal" in financial transactions in its own right with exposure to real financial business risks.

At the 2013 year-end the Log Ops segment had not yet billed customers for Euro 7.4 million of goods and services delivered in the year for which expenses had been incurred. NSPA's revenue recognition policy is to recognise amounts as revenue when "it is probable that NSPO segments will receive the previously agreed upon payment for delivering goods and services. These criteria are *considered to be met when the goods or services are delivered to the customers' satisfaction". It is difficult to assess a customer's satisfaction without a bill being issued and paid.*

NSPA does not make bad-debt provisions against potential unpaid debts when they are backed by a member of partner of NATO because it recognizes that such customers are committed to pay, but, at times unable to do so for technical reasons. In addition, when amounts have not been billed they are not accounts receivables against which a bad debt provision could be made; the very fact that billing has not been made is akin to a provision against non-payment.

NSPA considers that its presentation in this area is both IPSAS compliant and a valuable disclosure in that it allows customers and users of the financial statements to understand the risk that some revenues may not be received on account of them not being billed. In such cases there may be an operational deficit which must be borne by customers to ensure that NSPO breaks-even and has no accounting surpluses or deficits.

4.5 The Board's opinion is that the accounting approach taken by NSPA above does not fairly present revenue or expenses. Several misstatements have been identified in paragraph 4.4 above. Also, due to the net presentation of the timing differences, the total impact on both the Statements of Financial Performance and Position is not known.

4.6 It is the Board's view that the presentation of the items in the separate section 'Amount to be (Returned to) / Reimbursed by Nations' does not allow the user of the financial statements to better understand those activities. In fact, many of the amounts presented in this section will not actually result in amounts being returned to or reimbursed by nations.

NSPO Formal Comment

NSPA management disagrees with the views expressed by the IBAN for reasons provided in the formal comments above.

In addition, the observation that "many of the amounts presented in this section will not actually result in amounts being returned to or reimbursed by nations" is correct, it must be borne in mind that this is a financial statement using the accruals basis of accounting and which is impacted by many non-monetary items that customers are liable for in terms of financial reporting.

Recommendation

4.7 The Board's recommends that, in future financial statements, the allocation of the result at the programme level should be included in the financial statements to properly present on an accrual basis. The Board believes that this more accurately represents NSPA's actual business (no-profit, no-loss, with very few historical write-offs of receivables).

NSPO Formal Comment

The ASB disagrees with the recommendation.

NSPA management believes that the basis of accounting chosen is IPSAS compliant and presents the results of NSPO in a more transparent and understandable way than the way proposed in the recommendation.

Board's position

The Board has considered all of the comments and detailed additional information provided by NSPO. Nevertheless, as also stated by NSPO in their comments, *"many of the amounts presented in this section will not actually result in amounts being returned to or reimbursed by nations"*.

The Board appreciates that NSPA considers this to be a presentation issue which can be amended in the 2014 NSPO Financial Statements.

Recommendation

4.8 The Board also recommends that all items presented in the Statement of Financial Performance be properly recorded as either revenue or expenses, including any appropriate impacts on assets and liabilities.

NSPO Formal Comment

The ASB agrees with the recommendation.

NSPA management considers this to be a presentational issue and will ensure that the 'Amounts to be (Returned to) / Reimbursed by Nations' in the Statement of Financial Performance are clearly labelled as revenues or expenses going forward.

5. NO AUDIT ASSURANCE IS GIVEN IN RESPECT TO THE 2012 COMPARATIVE INFORMATION INCLUDED IN 2013 NSPO FINANCIAL STATEMENTS

Reasoning

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

Observation

5.2 While the 2013 NSPO Financial Statements do present 2012 comparative information, except for the Cash Flow Statement, the Board's opinion does not include the assurance that the 2012 data are fairly presented. In the prior year, the Board issued a disclaimer of opinion on the 'segment' 2012 financial statements because the sum of these statements did not reflect the financial position, performance and cash flows of NSPO since its inception on 1 July 2012. The three statements were based on different accounting policies and covered the full year 2012.

5.3 The reasons contributing to the disclaimer of opinion on the 2012 comparative information were not fully resolved. As a result, no audit assurance is provided on the comparability of the 2013 balances to the 2012 comparative information.

5.4 Furthermore, the accounting and presentation of certain 2012 comparative balances presented in the 2013 financial statements are different compared to how they were accounted for and presented in the 2012 financial statements due to changes in accounting policies. There was limited disclosure describing the changes made and why they were made, as is required by the NATO Accounting Framework.

NSPO Formal Comment

NSPA management does not agree that "There was limited disclosure describing the changes made and why they were made, as is required by the NATO Accounting Framework"; IPSAS 3, Accounting Policies, Changes in Accounting Estimates and Errors is not relevant because NSPO is a new NATO body. If one of the predecessor organisations which make up NSPO had consumed the other organisations, rather than a brand new NATO body having being set up, IPSAS 3 would have been applied.

Board's position

The Board reminds the reader that NSPO came into existence on 1 July 2012 and is not a new body in 2013.

Recommendation

5.5 The Board recommends that, in the future, all changes in accounting policies are clearly identified along with the reasons for doing so.

NSPO Formal Comment

The ASB accepts the recommendation.

NSPA management would like it to be noted that the observed issue was a 'one-off' caused by transition measures and that the presentation method chosen was made on the understanding that the IBAN would not audit comparative NSPO figures presented for 2012.

Recommendation

5.6 The presentation of full year comparative information when the body only existed for a partial year is a transition issue. As such, there is no specific recommendation for this aspect of the observation.

6. INVOLVEMENT OF NSPA DIRECTOR OF FINANCE IN PROCUREMENT ACTIVITIES NEEDS TO BE CLARIFIED

Reasoning

6.1 Article 46(e) of the NSPO Charter states that *"Investment Committee and Budget Committee acquisition rules will apply to common-funded procurements."* Article XX.c. of the current NATO Financial Rules and Procedures (FRP) states that *"the Financial Controller or his designated representative shall be the Chairman of the Contract Awards Committee (CAC)."* Article XX.d. of the FRP states that *"contracts shall be co-signed by the Financial Controller or his designated representative, whenever their total value, original or as modified by subsequent changes, exceeds the value of twice level B of the EFL."* Article XX.b. states that *"the Financial Controller may authorise departure from the bidding requirements in certain situations."* Furthermore, Bi-Strategic Command (Bi-SC) Directive 60-70 – Procurement, includes the same requirements as noted above for the FRP.

Observation

6.2 The Board found that, for activities funded by the Budget Committee, the above Articles of the FRP (and relevant sections of the Bi-SC 60-70) are not being followed in NSPA. NSPA continues to apply their procurement regulations in respect to these procurements, and as such, the NSPA Director of Finance, or his designated representative, is not formally on the Contract Awards Committees and does not currently co-sign contracts above twice level B of the EFL. Furthermore, it is not the Director of Finance who authorises the departures from the bidding requirements.

6.3 The use of NSPA procurement regulations in these procurements has been agreed to by SHAPE via the signing of a variety of Memoranda of Agreement (MOA). These MOAs were originally signed between NAMSA and SHAPE. Also, Annex 2 of the NSPO Charter provides that all rights and obligations in such agreements will be transferred to and assumed by NSPO under the same terms and conditions.

6.4 However, these MOAs with SHAPE are now in contradiction to Article 46(e) of the NSPO Charter. The Board's view is that the requirements of Article 46(e) of the NSPO Charter, which was approved by the North Atlantic Council, prevail over agreements signed between NATO bodies. As a result, the Board's believes that the FRP and Bi-SC Directive 60-70 apply to these procurements.

6.5 The NSPA General Manager stated to the Board that the requirements of the NSPO Charter would be taken into account in the revisions to NSPA's financial regulations that are currently under consideration.

Recommendation

6.6 The Board recommends NSPA to clarify the position of the Director of Finance in the procurement process and to inform the appropriate NATO committees at NATO HQ if it is decided not to apply the NSPO Charter in this respect. This communication is important as the NATO Financial Regulations are currently being revised.

NSPO Formal Comment

The Agency assesses that it complies with, and will continue to comply with, the NSPO Charter and its Annexes. It applies Investment Committee acquisition rules when required.

The MOA with SHAPE is being updated: its new provisions reflect the requirements of Article 46(e) of the NSPO Charter which will be implemented. During the interim phase the Agency considers that the provisions of Article 3(b) of Annex 2 to C-M(2012)0047 (Council Decision on the Establishment of the NATO Support Organisation (NSPO)) apply and that the MOA's signed with SHAPE, NC3A/NACOSA, NAEWC, and NAPMO remain in vigour until superseded by new agreements. The Agreements which remain in vigour do not require the use of Budget Committee acquisition rules but mandate the use of the Agency Procurement Regulations instead.

Pursuant to the provisions of Article 35(e) of C-M(2009 0079 ("Regulations for NATO Procurement, Logistics or Service Organizations"), Articles 11(a) and 13 of the NSPO Charter, as further specified by the NSPO Procurement Regulation

4200 Article 3.1, the duties of authorizing officer for the Agency are delegated by the NSPO ASB to the NSPA General Manager who in turn can sub-delegate them.

In addition, NSPA has issued the Finance, Administration and Audit Committee with Draft Financial Procedures for its consideration at its October 2014 session which are fully in compliance with NSPO Charter requirement in respect of Article 46(e).

Board's position

The Board appreciates the NSPO comment that both the MOA with SHAPE and NSPA's Financial Procedures are being updated to comply with Article 46(e) of the NSPO Charter.

7. LIMITED INTERNAL AUDIT ACTIVITIES IN CERTAIN AREAS

Reasoning

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

Observation

7.2 During its audit, the Board received good support and cooperation from the NSPA Internal Audit Division. Such cooperation is important between external and internal auditors. Although the Board did not fully assess the quality of the Internal Audit Division's outputs in 2013, it did identify several important matters.

7.3 First, the NSPA Internal Audit Division has not yet performed any internal audit activities at the CEPS National Organisations, where a majority of the CEPS Programme revenues are earned and expenses are incurred, and only a limited amount of internal audit activity at the CEPS Programme Office.

7.4 Secondly, in prior audits, the Board had reported that the Internal Audit Division had not been able to perform sufficient inventory test counts at third-party contractors and national depots because the Member Nations participating in the Programmes were not approving the necessary funding for such activities. This relates to the Log-Ops segment of NSPO. The Board found that this issue has still not been resolved.

7.5 Lastly, the accounting weaknesses in NAM Programme highlighted above indicate that continued internal audit involvement, focusing on identifying risks in the NAM Programme financial accounting and reporting processes, is warranted. The

Board understands that much internal audit time has already been focused on the FMS issue identified in observation 3 above.

Recommendation

7.6 The Board recommends a review of the NSPA Internal Audit function, including how it is funded, to ensure that it is able to adequately able to cover all NSPO activities, including those of the CEPS National Organisations and inventory test counts at third-party contractors and national depots and that its resources are being focused, in coordination with NSPA management, on the priority risks of NSPO.

NSPO Formal Comment

The ASB accepts the recommendation.

Starting with the 2016 Annual Financial Plan, Internal Audit will be required to put together a risk-based audit plan with an assessment of the resources needed to provide audit assurance against the key risks faced by the Agency. These resource needs will then be assessed by the Agency Supervisory Board as part of its review of the Annual Financial Plan.

The 2015 Internal Audit Plan will incorporate:

- *Reviews of the CEPS Programme National Organizations (if endorsed by CEPS Programme Board and accepted by the Nations concerned)*
- *Reviews of financial and accounting activities within the NAM Programme*
- *At least two test counts at contractor's sites or National Depots*

8. PP&E AND INVENTORY REPORTING TO ACO

Reasoning

8.1 NSPO's Log-Ops segment procures and manages a significant amount of PP&E and inventory for NATO's Allied Command Operations (ACO). In the Board's audit report on the 2011 NAMSA financial statements (IBA-AR(2012)29), it was reported that ACO had chosen not to include assets managed by NAMSA in its 2011 financial statements on the grounds that it considered the asset data provided by NAMSA to be unreliable.

Observation

8.2 The Board found that the 2013 ACO Financial Statements again state that "*ACO has concerns over the completeness of the data in respect to assets managed by other entities on its behalf. Examples would be assets managed by third parties such* *as NATO agencies in addition to existing NSIP assets procured on its behalf throughout various Host Nations and spread in different locations including the theatres. As a result, ACO is unable to verify the reliability of any such data for financial reporting purposes.*" Per discussions with ACO staff, this includes reporting of assets managed by NSPO.

8.3 In 2012, the Board had recommended that senior management at ACO and NSPA should develop an action plan to come to formal agreements between ACO and NSPA to enable reliable information to be provided in appropriate timeframes.

8.4 The Board concludes that ACO and NSPA have still not satisfactorily resolved the concerns on the reliability of the inventory data. The Board receives conflicting reports from each entity.

Recommendation

8.5 The Board reiterates its prior recommendation that NSPA and ACO should develop an action plan to come to formal agreements between ACO and NSPA to enable reliable information to be provided in appropriate timeframes.

NSPO Formal Comment

The ASB partially accepts the recommendation.

NSPA is concerned that the data provided by NSPA to ACO related to asset accounting was considered by ACO to be neither complete nor accurate and was not fully compliant with ACO's accounting policies.

Senior financial and logistical personnel of NSPA have already met with the ACO Financial Controller and his team to fully understand ACO's data requests for the 2014 financial statements and are investigating how this can be done on a technical basis and whether there will be any costs implications for ACO in providing the data in the required format.

Board's position

The ASB does not explain which part of the recommendation is not accepted. However, the Board appreciates that contact has already been taken with ACO on this matter and expects to see a resolution for the 2014 financial statements.

9. CUSTOMERS OFTEN DECIDE THAT UNUSED FUNDING SHOULD REMAIN AT NSPA

Reasoning

9.1 Note 2 of the 2013 NSPO Financial Statements states that "*NSPA management has no powers to limit the sums advanced or prepaid by its customers.*" The customers are also allowed to keep any unused cash from completed projects at NSPA until such a time as the customer decides on another use for it (e.g. allocate to another project, return cash to nation, etc.). The total amount of Customer Advance Payments, as reported in Note 9 of the financial statements, is EUR 2.16 billion. This puts the risk of managing those funds, including the risk of theft or error, on NSPA. It also risks that NSPA be used by its customers, which are mainly national governments, to hold unused funds that should be returned to national treasuries.

NSPO Formal Comment

There is a risk in managing customer advance balances whatever the level; however, the risk is ultimately on the nations. NSPA mitigates the risk of loss through strong internal controls over cash balances.

Funds provided to NSPA by its customers are based on calls for contributions or advances received in anticipation of orders for goods and/or services. Customers may decide it is more advantageous to maintain funds at NSPA for subsequent procurement of goods and/or services, rather than receiving back the funds and going through the administrative processes of funding these orders. How the customers choose to manage their cash balances with NSPA is ultimately their choice.

Observation

9.2 The Board found from testing of Individual Maintenance and Services expenditure that items sampled relating to some programmes had significant commitments being carried forward. Further analysis identified that one programme in particular had EUR 194.4 million of Funds Reservation commitments remaining open at 31 May 2014. Additionally, EUR 50.3 million of commitments (relating to only two nations) remain open from before 31 December 2010. Very few commitments in this Programme have been formally closed and some remain open dating back as far as 2006. During the audit, the Programme was not able to confirm how much of these commitments were supported by valid legal obligations at 31 December 2013. Since these commitments are supported by cash held at NSPA for the customer, there is a risk that more cash is being held by NSPA than is necessary.

9.3 The Board also found EUR 16.14 million of advances that correspond to unused credits from the 2013 administrative budget. This amount is consistent with 2012 and the NSPA aim is to reduce the resulting amounts retained in advances to the minimum. This, though, cannot be done without the cooperation of the Nations, and it is not always agreed to use these advances to reduce future call burdens.

Recommendation

9.4 Since NSPA does not believe that it is in a position to limit the amount of funds provided to it or retained in it by customers, the Board recommends a better transparency to disclose the advances by nation in the financial statements.

NSPO Formal Comment

The ASB does not accept the recommendation.

NSPA is content that its financial reporting of advances by nations is consistent with both the NATO Accounting Framework and the NATO Financial Regulations and is transparent.

Board's position

The Board is of the opinion that disclosure of advances by nation would enhance transparency.

Recommendation

9.5 The Board also recommends that NSPA determine which of the customer advances are currently committed to be used for specific customer projects and which are awaiting to be either re-allocated to another project or returned to the nations. This breakdown should also be presented in the annual financial statements.

NSPO Formal Comment

The ASB partly accepts the recommendation.

NSPA has initiated the analysis as recommended. Open commitments from prior years are being researched and coordinated with the customers through the Programme offices to close or to do additional follow-up on ordered goods and/or services. This is an on-going and continuous process.

NSPA invoices its customers based on a cost forecast derived from the annual NSPA Administrative Budget. These invoices represent the most accurate estimates of expected budgetary execution of the upcoming financial year. Only upon closure of the financial year and the reconciling of the actual budgetary execution can NSPA determine if a credit is due to a customer or a request for additional funds is required. Of the 74 projects in 2013 within the NSPA

Administrative Budget, 10 had higher costs than forecast and the remainder had lower than forecasted costs. The lower costs were driven primarily by gaps in the hiring of personnel against the approved Organization and Personnel Establishment (O&PE). NSPA believes the methodology used in determining the amounts called from customers is correct.

There are currently Euro 179 million of open commitments in respect of the NH90 Project which go back to 2006; this is because final invoices have not yet been received, processed and paid. Final invoices cannot be issued by the contractor (NHI) until the National Price Authorities (NPAs) accept the Firm and Fixed Prices (FFP). The acceptance process is currently ongoing and final invoices are being received albeit at a slow pace. NAHEMA (NATO Helicopter Management Agency), the NH90 Nations (BEL, DEU, FRA, ITA and NLD) and NHI, are fully aware of the problem created by the lack of FFP, and NAHEMA is seeking the active collaboration of both NPAs and Nations to solve the problem.

The ASB is content that its financial reporting of advances by nations is consistent with both the NATO Accounting Framework and the NATO Financial Regulations and is transparent and has no plans to break this down by customer.

Board's position

The Board appreciates the analyses that have been initiated, and looks forward to the final results.

Recommendation

9.6 The Board also recommends that the NSPO Agency Supervisory Board and the NATO Resource Policy and Planning Board confirm the NSPA opinion that it is not in a position to limit customer advances.

NSPO Formal Comment

The ASB disagrees with the recommendation insofar as it relates to the ASB.

If a nation or customer requests that calls for contributions be made in advance of need the Agency does not currently turn down such requests. A change in the process would require the approval of ASB; however, considering that NSPO is a customer funded organisation it does not feel it correct to set a policy on the circumstances under which advances can be made to the Agency or to speculate on the reasons behind the level of advances.

The ASB awaits the views of the NATO Resource Policy and Planning Board on this issue.

10. CONFIRMATION OF YEAR-END ASSETS AND LIABILITIES OUTSTANDING BETWEEN NATO BODIES

Reasoning

10.1 NATO bodies have significant transactions with other NATO bodies. For example, NSPA provides a significant amount of services to ACO. As a result of these transactions, there will be assets (receivables, prepayments, etc.) and liabilities (payables, advances, loans, etc.) outstanding between these NATO bodies at year-end. These assets and liabilities are recorded in the respective NATO bodies' financial statements.

Observation

10.2 The Board found that NATO bodies, including NSPA, do not confirm outstanding year-end asset and liability balances between itself and other NATO bodies (ACO, ACT, etc.). Therefore, there is no certainty that the other NATO body agrees on the amount of the outstanding balances.

Recommendation

10.3 The Board recommends NSPA, as from 2014, to confirm the outstanding asset and liability balances it has with other NATO bodies as part of the preparation of the financial statements to increase the reliability of the data.

NSPO Formal Comment

The ASB accepts the recommendation.

As part of the year-end processes to produce the NSPO Financial Statement for 2014 the Finance Division will send out debtor and creditor balance confirmation requests to other NATO bodies.

11. FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

The Board followed up on the status of observations and recommendations from previous years' audits. The observations and their status are summarised in the appendix. The Board noted that 16 have been settled, nine superseded by a current year observation and five are still outstanding**.**

STATUS OF PREVIOUS YEARS' OBSERVATIONS

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
NSPO 2012 AUDIT REPORT		
NSPO 2012 audit report **IBA-AR(2013)27, section 4.1** **Observation** **2012 Financial Reporting** **Recommendation 1** 4.1.15 The Board recommends that the Nations improve the guidance on how to dissolve and merge NATO entities, including from a financial reporting perspective, based on lessons learned during the current restructuring of NATO entities. For instance, the implementation of a reorganisation could be facilitated by starting it at the beginning of a calendar year rather than during the course of that year.	Recommendation was noted and agreed by NATO committees.	Observation **Settled**.
NSPO 2012 audit report **IBA-AR(2013)27, section 4.2** **Observation** **Delays in NSPO Financial Reporting and Harmonisation** **Recommendation 2** 4.2.6 The Board recommends that the plans for financial harmonisation be revisited in order to ensure that the financial reporting for the year 2013 will be timely and in line with the requirements of the NSPO Charter.	The first overall NSPO Financial Statements were issued on 22 July 2014, after the 30 April deadline in the NFRs. Further improvements are needed. See current year observation 1.	Observation **Superseded by current year observation 1**.

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
NSPO 2012 audit report **IBA-AR(2013)27, section 5.2** **NSPO Log-Ops: Observations and Recommendations** **Observation** **5.2.1 Inventory held at Contractors** **Recommendation 3** 5.2.1.7 The Board recommends that logistics improve the timeliness of the confirmation process.	The timeliness of the confirmation process was improved. However, adjustments resulting from this confirmation process were not always timely.	Observation **Settled**.
Recommendation 4 5.2.1.8 The Board recommends that NSPA Management consider providing Internal Audit (CC) with the means to undertake audits at Contractors/depots, independently of the Programmes, and in accordance with NSPA Functional Directive 410. Such missions would be based on an Internal Audit risk assessment.	No improvements were found on this in the current year audit. See current year observation 7.	Observation **Superseded by current year observation 7**.
NSPO 2012 audit report **IBA-AR(2013)27, section 5.2** **NSPO Log-Ops: Observations and Recommendations** **Observation** **5.2.2 Inclusion of non-Budgetary items in NSPO Log-Ops Budget Execution Statement** **Recommendation 5** 5.2.2.6 The Board recommends that NSPO disclose only budgetary expenditure in its Budget Execution Statement.	Action was taken to correct this in the 2013 NSPO Financial Statements.	Observation **Settled**.
NSPO 2012 audit report **IBA-AR(2013)27, section 6.2** **CEPS Programme: Observations and Recommendations** **Observation** **6.2.1 Non-Recognition of the CEPS Pipeline** **Recommendation 6** 6.2.1.5 The Board recommends that now that an adapted IPSAS framework has been approved with different requirements	NSPA has a detailed and consistent accounting policy for PP&E. However, it still does not	Observation **Superseded by current year**

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
for PP&E compared to IPSAS 17, NSPA should develop a detailed and consistent accounting policy on PP&E for all of NSPO and ensure sufficient note disclosures on PP&E in future financial statements.	report the CEPS pipeline. See current year observation 2.	**observation 2**.
NSPO 2012 audit report **IBA-AR(2013)27, section 7.2** **NAM Programme: Observations and Recommendations** **Observation** **7.2.1 Procurement of Goods and Services under the Unites States Government FMS Programme** **Recommendation 7** 7.2.1.8 The Board recommends that NAM Programme provides the Board with sufficient evidence in accordance with the specific requirements stated in the Letter of Offer and Acceptance for the virtual fleet costs, to support the value of work undertaken and goods delivered to NAM Programme for the support case.	NSPA disclosed in the 2013 financial statements that the FMS reporting from the United States Government was cash based, not accrual based. See current year observation 3.	Observation **Superseded by current year observation 3**.
Observation **7.2.2 Overtime paid to A grade staff members** **Recommendation 8** 7.2.2.4 The Board recommends that NAM Programme should refrain from paying overtime to A Grade levels and compensatory leave considered in accordance with Article 17 Special Working Hours. All overtime payments should be pre-authorized.	The A Grade level staff at the NAM Programme are no longer being paid overtime.	Observation **Settled**.
Observation **7.2.3 Trial Balance 2012 and 2011** **Recommendation 9** 7.2.3.4 The Board recommends that NAM Programme should produce a full audit file to support the financial statements, which documents movements and adjustments in a clear manner between the final trial balance and the financial statements. These adjustments should be kept to a minimum or it will become increasingly difficult to obtain assurance that the trial balance which holds all of the financial	Issues continued in this respect, which contributed to delays in the issuance of the 2013 financial statements. See current year observation 1.	Observation **Superseded by current year observation 1**.

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
transactions has been recorded in the financial statements accurately and most importantly in this case completely. **Observation** **7.2.4 NAM Programme Weaknesses in Procedures for Statement Preparation and Review**		
Recommendation 10 7.2.4.4 The Board recommends that the NSPA review the financial statement preparation and review the process in order to identify the specific weaknesses in internal control leading to this error being both made and not detected by management. Such a review should inform the NSPA on improvements needed in the financial statement preparation and review process in order to avoid such misstatements in the future. **Observation** **7.2.5 Significant cash holdings held by the NAM Programme**	Issues continued in this respect, which contributed to delays in the issuance of the 2013 financial statements. See current year observation 1.	Observation **Superseded by current year observation 1**.
Recommendation 11 7.2.5.4 The Board recommends that NAM Programme reduces cash levels and calls future funds based on actual cash requirements.	Average cash holdings at the NAM Programme continued to exceed annual expenses.	Observation **Outstanding**.

NSPO Formal Comment

Recommendation 11 of the 2012 NSPO Audit Report *was "The Board recommends that NAM Programme reduces cash levels and calls future funds based on actual cash requirements". The IBAN comments in its Actions Taken column state that "Average cash holdings at the NAM Programme continued to exceed annual expenses". The NAM Programme evaluates mission requirements against available cash holdings and bases future cash calls on these evaluations. Recent higher than normal cash holdings were due to funds received on the C-17 aircraft acquisition FMS case and matching funds owed by the United States related to the C-17 aircraft contributed "in kind". The contributing nations determined that those funds would be used for the Papa Air Base Hanger construction project, the Large Aircraft Infrared Counter-Measure (LAIRCM) system, and a spare engine. These expenditures will be made over the next three years and will result in lower calls for contributions from the member nations for these requirements.*

Board's position

The Board maintains its position.

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
NAMSA 2011 AUDIT REPORT		
NAMSA 2011 audit report **C-M(2013)0015 & IBA-AR(2012)29, section 5.2** **Recommendation 2** The Board recommends that the NSPA values all new purchases for LP stock items currently managed outside SAP at weighted average costs in accordance with the NSPA financial rules and regulations.	NSPA has considered this and has decided to continue to manage this inventory outside of SAP.	Observation **Settled**.
Recommendation 3 The Board recommends that NSPA manages all NSPA owned inventory in SAP in order to improve the consistency of inventory recording.	NSPA has considered the costs and benefits of doing this and has decided that they will continue to track and account for LP inventory at contractors outside of SAP.	Observation **Settled**.
NAMSA 2011 audit report **C-M(2013)0015 & IBA-AR(2012)29, section 5.3** **Observation** **Potential future liabilities for Nations upon withdrawal from activities** **Recommendation 4** The Board recommends that the NSPA analyses the existing situation especially for the activities supported by a limited number of Nations or by non-NATO Nations to make sure that at all times members supporting NSPA activities clearly understand the potential future liabilities.	It is NSPA's intention to propose amendments to programme directives for customers and to obtain Agency Supervisory Board (ASB) approval to ensure that future liabilities related to the dissolution of a project are funded over time. This will ensure that nations that leave a project pay their fair share of liquidation costs prior to leaving. However, it is not foreseen that NSPA will retroactively charge liquidation costs to customers that have already left a project.	Observation **Outstanding**.

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
NAMSA 2011 audit report **C-M(2013)0015 & IBA-AR(2012)29, section 5.5** **Observation** **Exchange of information between NAMSA and ACO**		
Recommendation 5 The Board recommends that formal agreements be negotiated between ACO and the NSPA and the NCIA to enable reliable inventory information to be provided in appropriate timeframes. In the Board's view, the information that might normally be expected in a commercial-type customer funded arrangement would include agreeing and formalising the procedures for stock takes; valuations; impairment and loss of inventory; PP&E and Inventory detail and FMS accrual data.	Formal agreements have not yet been finalised. See current year observation 8.	Observation **Superseded by current year observation 8**.
Recommendation 6 Senior management at ACO, NSPA and NATO should develop an action plan detailing how and when such formal agreements, including procedures to enable the entities to present reliable information in appropriate timeframes, will be developed. External monitoring of the progress by the Resource Policy and Planning Board (RPPB) may be useful for accountability purpose.	Such actions plans have not yet been developed. See current year observation 8.	Observation **Superseded by current year observation 8**.
NAMSA 2011 audit report **C-M(2013)0015 & IBA-AR(2012)29, section 6.1** **Observation** **Other matters noted during the 2011 audit.** **Consolidated Financial Statements** *Determination of which activities are required to be presented in consolidated NATO Support Organisation financial statements*		
Recommendation 8 The Board recommends that the management of the NSPA, in advance of the publication of the 2012 financial statements determine the accounting	2013 NSPO Financial Statements have been prepared based on such a determination by NSPA. However, see current year	Observation **Settled**.

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
boundaries in terms of control to first identify the separate entities that should prepare separate financial statements (CEPS and NAM are already obliged as per NATO Support Organisation Charter), and as a second step, to identify controlled entities that should be consolidated into the NATO Support Organisation financial statements. This will lay the groundwork for the eventual publication of consolidated NATO Support Organisation financial statements. *Principal / Agent* **Recommendation 9** The Board recommends that the management of the NSPA, in advance of the publication of the 2012 financial statements, assess if the NATO Support Organisation is acting as a principal or agent for each of its activities with a view to determining whether such activities should be reported as revenue and expenses of the NATO Support Organisation.	observation 2 in respect to non-inclusion of certain CEPS Programme revenue, expenses, assets and liabilities. An assessment was performed by NSPA, who concluded that it is mainly acting as a principal.	Observation **Settled**.
NAMSA 2010 AUDIT REPORT		
NAMSA 2010 audit report **C-M(2012)0021 & IBA-AR(2011)20, section 5.1** **Observation** **Accountability for risk management on financial reporting** Council document C-M(2005)0087 sets out the requirements of Corporate Governance for NATO Agencies on Risk Management. **Recommendation** The Board recommends NAMSA to review its risk management procedures including the areas that have directly impacted the agency's audit opinion on the financial statements in recent years: (1) Stock valuation (2) Accrued expenses (3) IPSAS compliance, to ensure that effective risk management procedures are in place. This review will subsequently impact the design of NAMSA's Internal Controls. The Board also recommends NAMSA to explicitly define roles and responsibilities in	Issues continued in respect to financial reporting controls in 2013. Operating instructions and internal controls, with explicitly defined roles and responsibilities, are being developed and designed. Also see current year observation 1.	Observation **Outstanding**.

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
the redesigned Internal Controls, with a single point of accountability.		
NAMSA 2010 audit report **C-M(2012)0021 & IBA-AR(2011)20, section 5.4** **Observation** **Recovery of suppliers with a debit balance** **Recommendation** The Board recommends that NAMSA ensures that specific cases of suppliers representing a debit balance are monitored to trigger timely action to ensure recovery of receivable balances. Such debit balances in payables should also be reclassified as accounts receivable (an asset) in the Statement of Financial Position.	These have been reclassified in the 2013 financial statements.	Observation **Settled**.
NAMSA 2010 audit report **C-M(2012)0021 & IBA-AR(2011)20, section 5.5** **Observation** **Customer Financial Situation reports** **Recommendations** 5.5.4 The Board recommends that NAMSA should use the same lay-out as the quarterly Customer Financial Situation reports in the summary of the Customer Financial Situation reports in the notes to the financial statements, including potential liabilities. Potential liabilities should be clearly defined in the financial statements. This will ensure a more complete presentation of the financial situation at the year-end. 5.5.5 The Board also recommends that NAMSA disclose the specific reasons, by nation, why there are material net financial positions. 5.5.6 The Board also recommends that the quarterly reports include Logistics Operations and other NATO bodies.	NSPA did not agree with these recommendations. NAMSA Functional Directive 410, though, stipulates that a summary of the Customer Financial Situation reports needs to be disclosed in the notes of the financial statements. See also current year observation 9 in respect to better transparency on unused funding that customers decide should remain at NSPA.	Observation **Outstanding**.

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
NAMSA 2010 audit report **C-M(2012)0021 & IBA-AR(2011)20, section 5.6** **Observation** **Accounting for cost of goods sold** **Recommendation** 5.6.4 The Board recommends that NAMSA accounts for the cost of goods sold as per IPSAS 12 and that it be reconciled to the inventory usage during the year.	It has been considered that the impact of this is not material.	Observation **Settled**.
NAMSA 2009 AUDIT REPORT		
NAMSA 2009 audit report **C-M(2011)0017 & IBA-AR(2010)20, section 4** **Observation** **Lack of assessment of net realisable value for unserviceable inventories** **Recommendation** The Board recommends that NAMSA ensures that the assessment of net realisable value for all stock items is carried out for each financial year in accordance with the requirements of IPSAS 12, *Inventories*.	It has been considered that the impact of this is not material.	Observation **Settled**.
NAMSA 2009 audit report **C-M(2011)0017 & IBA-AR(2010)20, section 5.5** **Observation** **Improvements needed in the Service Level Agreements** **Recommendation** 5.5.5 The Board recommends that NAMSA should update and formalize the service level agreements with the other NATO entities. 5.5.6 The Board believes that the systematic use of more detailed formal agreements between NAMSA and the different NATO customers will contribute greatly to an improved understanding of each party's respective responsibilities. Such service level agreements should detail the specific requirements and the reporting deliverables including timelines.	Formal agreements have not yet been finalised. See current year observation 8.	Observation **Superseded by current year observation 8**.

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
NAMSA 2008 AUDIT REPORT		
NAMSA 2008 audit report **C-M(2010)0028 & IBA-AR(2009)020, section 5.7** **Observation** **Presentation of the Financial Statements** **Recommendation** *Budget Execution Statement* As NAMSA is a customer funded entity, there appears to be no clear rules prescribing the format of the Budget Execution Statement. In order to increase the usefulness of this statement, the Board recommends that expenditure presented in the budget execution statement be disclosed by funding source (WSP, IC, Operation Logistic, NLSE, MBC delegated budgets, Individual, ...). Authorized credits should be detailed by authorized credits carry forward from previous years, authorized credits from the current year, lapsed authorized credits and authorized credits carried forward to the next year. In addition, descriptions of the various funding mechanisms should also be disclosed in the footnotes of the financial statements so that the reader understands their workings (for example, the applicability of lapsing, etc.).	Action was taken to correct this in the 2013 NSPO Financial Statements.	Observation **Settled**.
Cash Flow Statement 5.7.5 The Board recommends that NAMSA reviews the presentation of the cash flow statement according to IPSAS 2. IPSAS 2 encourages that entities report cash flows using the direct method.	Action was taken to correct this in the 2013 NSPO Financial Statements. NSPA presented an indirect method cash flow statement as allowed under IPSAS 2.	Observation **Settled**.
CEPMO 2011 AUDIT REPORT		
CEPMO 2011 audit report **C-M(2013)0045 & IBA-AR(2013)08, section 5.2** **Observation** **Segregation of National and CEPS Programme Assets and Liabilities** **Recommendation 4** The Board recommends that, in future, DPO bank reconciliations are signed both by the preparer and the reviewer.	Action was taken to correct this in 2013.	Observation **Settled**.

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
CEPMO 2011 audit report **C-M(2013)0045 & IBA-AR(2013)08, section 5.3** **Observation** **Trial Balance Reconciliation** **Recommendation 5** The Board recommends that DPO should ensure the trial balance issued by them is reconciled to the financial statements in a timely manner.	Action was taken to correct this in 2013.	Observation **Settled**.
CEPMO 2009 AUDIT REPORT		
CEPMO 2009 audit report **C-M(2011)0054 & IBA-AR(2010)33, section 5.5** **Observation** **FBG: Inappropriate access rights** **Recommendation** The Board recommends that FBG should review on a regular basis the appropriate access rights to the network, restrict the access of the consultants to a separate IT environment, and cancel the access of the 'fake' users.	Action was taken to correct this in 2013.	Observation **Settled**.
CEPMO 2008 AUDIT REPORT		
CEPMO 2008 audit report **C-M(2011)0016 & IBA-AR(2009)28, section 5.6** **Observation** **FBG: Existence of a plug account in other payables** **Recommendation** FBG should determine the cause of the plug account. Additionally, a separate set of books for the international activities should be created in SAP and should be used to process the international FBG transactions.	NSPA has stated that FBG is currently working on this issue and plans to have the issue resolved by 2016.	Observation **Outstanding**.

LIST OF ABBREVIATIONS

ACO	Allied Command Operations
ACT	Allied Command Transformation
ASB	Agency Supervisory Board
BEL	Belgium
Board/IBAN	International Board of Auditors for NATO
CAC	Contract Awards Committee
CEPS	Central Europe Pipeline System
DPO	Defensie Pijpleiding Organisatie
EFL	Financial Limits of Discretionary Powers
EUR	Euro
FBG	Fernleitungs-Betriebsgesellschaft
FMS	Foreign Military Sales
FRA	France
FRP	Financial Rules and Procedures
IC	Infrastructure Committee
IPSAS	International Public Sector Accounting Standards
IT	Information Technology
ITA	Italy
MBC	Military Budget Committee
MOA	Memorandum of Agreement
NAC	North Atlantic Council
NAEWC	NATO Airborne Early Warning and Control
NAHEMA	NATO Helicopter Management Agency
NAM	NATO Airlift Management
NAMO	NATO Airlift Management Organisation
NAMP	NATO Airlift Management Programme
NAMSA	NATO Maintenance and Supply Agency
NAPMA	NATO Airborne Early Warning and Control Programme Management Agency
NC3A	NATO Consultation, Command and Control Agency
NLD	Netherlands
NLSE	NATO Logistics Stock Exchange
NSPA	NATO Support Agency
NSPO	NATO Support Organisation
O&M	Operation and Maintenance
PP&E	Property, Plant and Equipment
RPPB	Resource Policy and Planning Board
SACEUR	Supreme Allied Commander Europe
SAP	Systems, Applications and Products
SHAPE	Supreme Headquarters Allied Powers Europe
USD	United States Dollar
WSP	Weapon System Partnership

NATO SUPPORT ORGANISATION

ORGANISATION OTAN DE SOUTIEN

AC/338-D(2014)0035-REV1

Financial Statements 2013 *

* For security reasons, this version of the Financial Statements, which has been approved for Public Disclosure by the Agency Supervisory Board, has minor differences to the version which was audited.

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Overview of the NATO Support Organisation's Operations and Environment

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

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

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

Role of the NATO Support Agency

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

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

The NSPA itself is made up of the activities of the former NATO Maintenance and Supply Agency (NAMSA), along with the NATO Airlift Management Programme (NAMP) and the Central Europe Pipeline System Programme (CEPS). The activities of the former NAMSA are now referred to as Log Ops.

The Activities of NSPO Segment Parts

Chairman's Office

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

Log Ops

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

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

Support Partnerships

At the end of 2013 there were twenty-six Support Partnerships. These may be established within the NATO Support Organisation, subject to precise terms and conditions, on the initiative of two or more NATO nations wishing to organize in common the support and services of activities within the scope of the NATO Support Organisation's Mission and guidance provided by the Council.

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

Central Europe Pipeline System Programme (CEPS)

Under the authority of the CEPS Programme Board, the CEPS Programme manages a NATO pipeline system which crosses the host nations and is responsible for the transportation, storage and delivery of petroleum products in Central Europe for military and non-military activities. For that purpose, the CEPS Programme operates and maintains the Central Europe Pipeline System, a system of pipelines, pump stations, input and delivery points, and depots.

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

NATO Airlift Management Programme (NAMP)

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

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

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

How NSPO's operating environment affects its financial statements

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

- Support to Operations
- Strategic Transport
- Weapons System Support
- Fuel Management
- Procurement

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

Compliance with Financial Regulations

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

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

However, it must be noted that parts of the charters of the former NAMSO, CEPMO and NAMO remain open and these include financial management provisions which include details of the financial regulations to be followed. In practice this means that Log Ops, CEPS Programme and the NAM Programme are following the Financial Regulations of their former organisations until revised NATO Financial Regulations are issued, probably in late 2014.

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

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

Analysis of the NSPO's Financial Statements

Key points to note in respect of the financial statements and which are different to the statements of the predecessor organisations which make up NSPO are:

- As NSPO does not make a profit or a loss, any surplus or deficit on activities is immediately owed back to the customers, or owed to NSPO by the customers.
- As NSPO does not make a profit or loss it does not have net assets

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

NSPO's performance is based on the usage made of its capabilities by NATO. As such its performance is impacted by NATO operations. The biggest risk to the NSPO's financial performance in the coming years is the fact that NATO is withdrawing from military operations in Afghanistan by the end of 2014. It is unclear how this will affect NSPO's performance. In addition 2013's performance was supported by strong usage of the NSPA Strategic Airlift (SALIS) Capability in Mali; this performance is unlikely to be repeated in 2014.

NSPA General Manager
17 July 2014

NSPO Statement of Financial Position

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

	Note	TOTAL 2013	TOTAL 2012
Current Assets			
Cash and Cash Equivalents	2	1,679,717	1,498,229
Accounts Receivable	6	613,059	625,680
Prepayments	7	169,243	212,108
Long Term Receivables		3,857	3,857
Inventory	5	353,613	357,563
Fixed and Intangible Assets			
Property Plant and Equipment	3	421,712	454,620
Intangible Assets	4	16,443	16,956
Total Assets		**3,257,644**	**3,169,013**
Current Liabilities			
Accounts Payable and Accruals	8	242,568	293,404
Customer Advances	9	3,010,848	2,872,178
Provisions	14	4,228	3,431
Total Liabilities		**3,257,644**	**3,169,013**
Net Assets		0	0

NSPO came into existence on 1 July 2012 and hence comparative figures for 2012 incorporate the results of NSPO's predecessor organisations.

The financial statements on pages 5 to 44 were authorised for issue on 17 July 2014.

[Signed]
NSPA General Manager

NSPO Segments' Statement of Financial Position

As of 31 December (all figures are in Euro '000)	Note	Chairman's Office 2013	Chairman's Office 2012	Log Ops 2013	Log Ops 2012	NAM 2013	NAM 2012	CEPS 2013	CEPS 2012	NSPO TOTAL 2013	NSPO TOTAL 2012
Current Assets											
Cash and Cash Equivalents	2	0	0	1,556,446	1,368,608	122,880	129,284	391	337	1,679,717	1,498,229
Accounts Receivable	6	0	0	601,743	620,739	7,382	2,092	3,934	2,849	613,059	625,680
Prepayments	7	0	0	45,539	58,545	123,668	153,534	36	29	169,243	212,108
Long Term Receivables		0	0	3,857	3,857	0	0	0	0	3,857	3,857
Inventory	5	0	0	353,333	357,145	280	418	0	0	353,613	357,563
Fixed and Intangible Assets											
Property Plant and Equipment	3	0	0	18,137	18,723	400,153	432,323	3,422	3,574	421,712	454,620
Intangible Assets	4	0	0	0	0	15,467	16,809	976	147	16,443	16,956
Total Assets		**0**	**0**	**2,579,055**	**2,427,617**	**669,830**	**734,460**	**8,759**	**6,936**	**3,257,644**	**3,169,013**
Current Liabilities											
Accounts Payable and Accruals	8	0	0	231,767	285,466	10,390	7,829	411	109	242,568	293,404
Customer Advances	9	0	0	2,347,288	2,142,151	659,440	726,631	4,120	3,396	3,010,848	2,872,178
Provisions	14	0	0	0	0	0	0	4,228	3,431	4,228	3,431
Total Liabilities		**0**	**0**	**2,579,055**	**2,427,617**	**669,830**	**734,460**	**8,759**	**6,936**	**3,257,644**	**3,169,013**
Net Assets		0	0	0	0	0	0	0	0	0	0

NSPO came into existence on 1 July 2012 and hence comparative figures for 2012 incorporate the legacy elements of the segments presented. Each segment presented is shown after the cancellation of inter-company transactions so that the respective position of each segment reflects only the assets and liabilities of the segment.

NSPO Statement of Financial Performance

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

		TOTAL	
Revenue	**Note**	**2013**	**2012**
Exchange Activities			
Reimbursement of Administrative costs		128,233	128,855
Services and Support to Customers		1,951,199	1,869,310
Commercial Discounts Earned		3,394	5,203
Financial Revenue	10	2,748	9,631
Miscellaneous Revenue		277	162
Non-Exchange Activities			
Funding of Chairman's Office		728	490
Reimbursement of Administrative costs		12,098	12,594
Total Revenue		**2,098,677**	**2,026,245**
Expenses			
Services and Support to Customers	11	(1,953,416)	(1,907,910)
Personnel Costs	12	(106,420)	(108,824)
Other Expenses	11	(70,055)	(52,694)
Total Expenses		**(2,129,891)**	**(2,069,428)**
Amount to be (Returned to) / Reimbursed by Nations are represented by:	9		
Non-Planned Revenues		**(6,199)**	**(14,834)**
Net Timing Difference on calls to customers in year		**(7,469)**	34,656
Depreciation and Amortisation		23,245	23,070
Revaluation of PPE, Intangibles and Inventory		21,637	291
Surplus / (Deficit) for the year		0	0

NSPO came into existence on 1 July 2012 and hence comparative figures for 2012 incorporate the results of NSPO's predecessor organisations.

NSPO Segments' Statement of Financial Performance

For the year-ended 31 December (all figures are in Euro '000)		Chairman's Office		Log Ops		NAM		CEPS		NSPO TOTAL	
Revenue	**Note**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Exchange Activities											
Reimbursement of Administrative costs		0	0	128,233	128,855	0	0	0	0	128,233	128,855
Services and Support to Customers		0	0	1,843,640	1,800,129	107,559	69,181	0	0	1,951,199	1,869,310
Commercial Discounts Earned		0	0	3,394	5,203	0	0	0	0	3,394	5,203
Financial Revenue	10	0	0	2,532	9,432	215	199	1	0	2,748	9,631
Miscellaneous Revenue		0	0	0	0	58	0	219	162	277	162
Non-Exchange Activities											
Funding of Chairman's Office		728	490	0	0	0	0	0	0	728	490
Reimbursement of Administrative costs		0	0	0	0	6,498	6,690	5,600	5,904	12,098	12,594
Total Revenue		**728**	**490**	**1,977,799**	**1,943,619**	**114,330**	**76,070**	**5,820**	**6,066**	**2,098,677**	**2,026,245**
Expenses											
Services and Support to Customers	11	0	0	(1,845,594)	(1,838,700)	(107,822)	(69,210)	0	0	(1,953,416)	(1,907,910)
Personnel Costs	12	(667)	(426)	(97,757)	(99,286)	(3,986)	(4,917)	(4,010)	(4,195)	(106,420)	(108,824)
Other Expenses	11	(61)	(64)	(26,424)	(30,921)	(41,482)	(19,513)	(2,088)	(2,196)	(70,055)	(52,694)
Total Expenses		**(728)**	**(490)**	**(1,969,775)**	**(1,968,907)**	**(153,290)**	**(93,640)**	**(6,098)**	**(6,391)**	**(2,129,891)**	**(2,069,428)**
Amount to be (Returned to) / Reimbursed by Nations are represented by:	9										
Non-Planned Revenues		0	0	(5,926)	(14,635)	**(273)**	**(199)**	0	0	**(6,199)**	**(14,834)**
Net Timing Difference on calls to customers in year		0	0	**(7,469)**	34,656	0	0	0	0	**(7,469)**	34,656
Depreciation and Amortisation		0	0	5,371	5,267	17,596	17,478	278	325	23,245	23,070
Revaluation of PPE, Intangibles and Inventory		0	0	0	0	21,637	291	0	0	21,637	291
Surplus / (Deficit) for the year		0	0	0	0	0	0	0	0	0	0

NSPO came into existence on 1 July 2012 and hence comparative figures for 2012 incorporate the legacy elements of the segments presented. NAMP elements for 2012 are not considered to present fairly the performance of the Programme. Each segment presented is shown after the cancellation of inter-company transactions so that the respective performance of each segment reflects only the revenues and expenditure of the segment.

NSPO Statement of Cash Flows

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

	Note	2013
Cash flows from operating activities		
Surplus/(deficit)		0
Non-cash movements		
Depreciation of PPE	11	22,553
Amortisation of intangible assets	11	692
Revaluation of PPE and intangibles	11	21,639
Increase / (Decrease) in Accounts Payables and Accruals	8	(50,836)
Increase / (Decrease) in Customer Advances	9	138,670
Increase / (Decrease) in Provisions	14	797
(Increase) / Decrease in Long-term Receivables		0
(Increase) / Decrease in Accounts Receivable	6	12,621
(Increase) / Decrease in Prepayments	7	42,865
Net cash flows from operating activities		**189,001**
Cash flows from investing activities		
Purchases of PPE, Intangibles Assets and Inventories		(7,513)
Net cash flows from investing activities		**(7,513)**
Opening cash and cash equivalent balance	2	**1,498,229**
Net cash flows from operating and investing activities		181,488
Closing cash and cash equivalent balance	2	**1,679,717**

A comparative cash flow statement for 2012 is not given due to the lack of reliable data in respect of the NAM Programme's Statement of Financial Performance for 2011 and 2012 and its Statement of Financial Position in 2011.

NSPO Statement of Changes in Net Assets

	TOTAL
Opening Balance at 1 January 2013	0
Change in year	0
Closing Balance at 31 December 2013	0

As NSPO works on a “no-profit, no loss” basis it does not generate net assets; any surpluses are allocated back to the nations while any deficits must be reimbursed by the nations.

Accounting Policies

Basis of preparation

This is the first consolidated financial statement of NSPO; the accounting policies adopted in the preparation of the financial statements are set out below and are being used implemented for the first time at NSPO. The policies have been consistently applied to all the years presented.

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

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

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

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

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

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

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

Basis of consolidation

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

CEPS Programme

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

As the Pipeline System is not controlled by the CEPS Programme collectively then by extension the associated revenues and expenditures are not controlled by the Programme. This has resulted in the Statements of Financial Performance only showing the revenues and expenditures of the CEPS Programme Office which oversees the Programme. To ensure that nations are aware of all the funding that passes through the CEPS Programme a note disclosure is presented to show this information.

Comparative figures for 2012

NSPO was created on 1 July 2012 and incorporated the activities of the former NAMSO, CEPMO and NAMO. Comparative figures for 2012 reflect the activities of NAMSO, CEPMO and NAMO and their successor programmes as if the date 1 July 2012 did not impact on financial reporting; the 2012 financial statements were given a disclaimed audit opinion on this basis.

Segment Reporting

A segment is a distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information for the purpose of (a) evaluating the entity's past performance in achieving its objectives and (b) making decisions about the future allocation of resources. In the primary statements NSPO discloses its performance and position amongst the following segments: Chairperson's office, Log Ops, CEPS Programme and NAM Programme. A note disclosure further breaks down the performance of projects within the Log Ops segment.

Changes in Accounting Standards

New standards effective from 1 January 2013

The following standards became effective with effect from 1 January 2013:

- IPSAS 6 - Consolidated and Separate Financial Statements (*as adapted by the North Atlantic Council*)
- IPSAS 12 - Inventories (*as adapted by the North Atlantic Council*)
- IPSAS 17 - Property, Plant, and Equipment (*as adapted by the North Atlantic Council*)
- IPSAS 31 - Intangible Assets (*as adapted by the North Atlantic Council*)
- IPSAS 30 - Financial Instruments: Presentation
- IPSAS 29 - Financial Instruments: Recognition and Measurement
- IPSAS 30 - Financial Instruments: Disclosures

As NSPO is a new financial reporting entity, all IPSAS, including these new standards is being implemented consistently across NSPO and its segments for the first time.

New Standards effective in future years

The following standard will become effective with effect from 1 January 2014:

- IPSAS 32 – Service Level Agreements: Grantor

IPSAS 32 will not impact NSPO.

Revenue Recognition

Revenue from non-exchange transactions

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

Revenue from exchange transactions

This represents revenue other than non-exchange transactions.

Revenue measurement and timing

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

Expenses Recognition

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

Financial Plan Execution

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

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

Cash Flow Statements

IPSAS 2 – Cash Flow Statements allows the choice between presenting the cash flow based on the direct method or indirect method. NSPO has elected to use the indirect method of presentation in these financial statements. A comparative cash flow statement for 2012 is not given due to the lack of reliable data in respect of the NAM Programme's Statement of Financial Performance for 2011 and 2012 and its Statement of Financial Position in 2011.

Foreign currency

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

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

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

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

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

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

Financial assets

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

Financial liabilities

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

Receivables

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

Accounts Payable and Accruals

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

Advances

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

Capital Assets contributed

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

Prepayments

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

Retirement benefits: Defined contribution scheme

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

Retirement benefits: Defined benefit scheme

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

Other long-term service benefits

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

Leased assets

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

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

Externally acquired intangible assets

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

Property, Plant and Equipment (PPE)

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

PPE - Central Europe Pipeline System Assets

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

PPE - Land and Buildings

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

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

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

- Buildings – 40 Years, Euro nil
- Other Infrastructure – 40 Years, Euro nil
- Installed equipment – 10 Years, Euro nil
- Mission equipment – 10 Years, Euro nil
- Machinery – 10 years, Euro nil
- Vehicles – 5 Years, Euro nil
- Aircraft – 26 years, Euro 200k
- Furniture - 10 years, Euro nil
- Communications - 3 years, Euro nil
- Automated IT systems - 3 years, Euro nil

Freehold land is not depreciated.

Depreciation and amortisation

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

Inventories

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

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

Capitalisation thresholds for all inventory are Euro nil.

Provisions

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

Contingent Liabilities

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

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

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

Reserves and Net Assets

NSPO operates on a “no profit, no loss” business model. As such it does not have reserves or net assets; any surplus gained in the year becomes a NSPO payable to the member nations while any deficit becomes a NSPO receivable from member nations.

Accounting surpluses or deficits can occur for a number of reasons. Examples are: the depreciation and amortization of PPE and intangible assets; the revaluation of PPE and intangible assets due to changes in exchange rates; unplanned income in the form of bank interest, exchange differences or discounts earned. In addition, sales to customers which are funded by more than one nation are paid through calls for contributions; any shortfalls on calls for contributions are reimbursed by customers in the following years while any excess calls for contributions will be reimbursed to nations in future years. These are shown in the Statement of Financial Performance as the Net Timing Differences on calls to customers in the year.

NOTES TO THE FINANCIAL STATEMENTS

1. Critical Accounting Estimates and Judgements

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

Estimates and assumptions

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

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

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

b) Legal proceedings both real and possible

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

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

2. Cash and Cash Equivalents

	Log Ops		NAM		CEPS		NSPO TOTAL	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Cash available on demand	320,157	334,276	10,642	9,954	391	337	331,190	344,567
Short-term deposits	1,236,289	1,034,332	112,238	119,330	0	0	1,348,527	1,153,662
Total	**1,556,446**	**1,368,608**	**122,880**	**129,284**	**391**	**337**	**1,679,717**	**1,498,229**

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

3. Property, Plant and Equipment (PPE)

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

in Euro '000	Land	Buildings	Installed Equipment	Machinery	Vehicles	Aircraft	Mission Equipment	Furniture	Comms	Automated Information Systems	NSPO Total
Cost at 1 January 2013	195	14,433	1,731	99,040	1,544	474,006	9,716	3,484	1,848	16,375	622,372
Additions in year	0	1,189	32	1,498	86	1,223	2,380	88	369	3,411	10,276
Revaluations in year	0	195	19	44	17	(20,565)	(509)	0	0	0	(20,799)
Disposals in year	0	0	(19)	(85)	(5)	0	0	(39)	(99)	(240)	(487)
Balance at 31 December 2013	**195**	**15,817**	**1,763**	**100,497**	**1,642**	**454,664**	**11,587**	**3,533**	**2,118**	**19,546**	**611,362**

in Euro '000	Land	Buildings	Installed Equipment	Machinery	Vehicles	Aircraft	Mission Equipment	Furniture	Comms	Automated Information Systems	NSPO Total
Depreciation at 1 January 2013	0	1,376	1,066	83,488	1,135	60,709	3,206	2,319	1,357	12,807	167,463
Depreciation expense	0	435	100	3,203	157	15,010	618	170	313	2,180	22,186
Sales and disposals	0	0	0	0	0	0	0	0	0	0	0
Balance at 31 December 2013	**0**	**1,811**	**1,166**	**86,691**	**1,292**	**75,719**	**3,824**	**2,489**	**1,670**	**14,987**	**189,649**
Net Book value at 1 January 2013	195	13,057	665	15,552	409	413,297	6,510	1,165	491	3,568	454,909
Net Book value at 31 December 2013	**195**	**14,006**	**597**	**13,806**	**350**	**378,945**	**7,763**	**1,044**	**448**	**4,559**	**421,713**

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

Chairman's Office	0
Log Ops	18,137
CEPS	3,422
NAMP	400,153
	421,712

4. Intangible Assets

The intangible assets of NSPO are:

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

in Euro '000	**Intangible Assets**
Cost at 1 January 2013	20,162
Additions in year	1,019
Revaluations in year	(841)
Disposals in year	0
Balance at 31 December 2013	**20,340**

The Intangible Assets table is
continued overleaf….

Depreciation at 1 January 2013	3,205
Depreciation expense	692
Sales and disposals	0
Balance at 31 December 2013	**3,897**
Net Book value at 1 January 2013	16,957
Net Book value at 31 December 2013	**16,443**

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

Chairman's Office	0
Log Ops	0
CEPS	976
NAMP	15,467
	16,443

5. Inventories

NSPO capitalises all inventory under the control of its segments.

Log Ops

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

CEPS Programme

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

NAM Programme

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

	Log Ops		NAM		CEPS		NSPO TOTAL	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Consumables	204	190	0	129	0	0	204	319
Spare parts	0	0	280	289	0	0	280	289
Strategic stock	353,129	356,955	0	0	0	0	353,129	356,955
Total	**353,333**	**357,145**	**280**	**418**	**0**	**0**	**353,613**	357,563

6. Accounts Receivable

	Log Ops		NAM		CEPS		NSPO TOTAL	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Receivables	146,672	186,756	6,503	1,313	0	0	153,175	188,069
Personnel	0	83	5	4	0	0	5	87
Recoverable taxes	10	54	794	727	55	28	859	809
Other NATO Entities	15,571	18,722	0	0	3,879	2,821	19,450	21,543
Unbilled sales to customers	438,286	413,761	0	0	0	0	438,286	413,761
Bank interest	1,204	1,363	80	48	0	0	1,284	1,411
Total	**601,743**	**620,739**	**7,382**	**2,092**	**3,934**	**2,849**	**613,059**	**625,680**

Unbilled sales represent amounts that have been paid to suppliers of goods and services but which have not been re-billed to individual customers (rather than common-funded sales to more than one customer which are billed through calls for contributions) at the year-end.

7. Prepayments

	Log Ops		NAM		CEPS		NSPO TOTAL	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Prepayments to employees	142	120	0	0	0	0	142	120
Prepayments to vendors	42,357	54,750	0	0	36	29	42,393	54,779
Prepayments to United States FMS	3,040	3,675	123,668	153,534	0	0	126,708	157,209
Total	**45,539**	**58,545**	**123,668**	**153,534**	**36**	**29**	**169,243**	**212,108**

8. Accounts Payable and Accruals

	Log Ops		NAM		CEPS		NSPO TOTAL	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Payables to vendors	54,552	53,840	611	808	52	36	55,215	54,684
Health care contributions	739	634	0	10	0	0	739	644
Pension contributions	594	404	0	6	1	0	595	410
Accruals	175,840	230,588	9,776	7,005	348	73	185,964	237,666
Taxes	0	0	0	0	0	0	0	0
Other	42	0	3	0	10	0	55	0
Total	**231,767**	**285,466**	**10,390**	**7,829**	**411**	**109**	**242,568**	**293,404**

9. Customer Advances

Net amounts to be returned to Nations, or to be received from Nations, represent the result for the year and are the difference between revenue and expenses. NSPO works on a "no-profit, no loss" basis over the budgetary planning cycle and an accounting loss in one year can be the result of various factors such as differences in timing between incurring expenses and the receipt of income, and, the impact of non-budgetary transactions on financial performance such as depreciation and exchange rate gains and losses. An accounting gain or loss should not be read to mean a gain or loss on budgeted activities. Customer credits represent amount owned by customers and consist of bank interest earned, losses by exchange and miscellaneous income while replenishment credits represent amounts owned by customers for the replenishment of spare parts.

	Log Ops		**NAM**		**CEPS**		**NSPO TOTAL**	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Customer advance payments	1,877,582	1,703,131	282,500	294,651	0	0	2,160,082	1,997,782
Capital assets contributed	371,470	375,868	415,900	449,550	4,398	3,721	791,768	829,139
Customer and replenishment credits (allocated or to be allocated)	90,212	88,440	0	0	0	0	90,212	88,440
Net amounts to be **returned to**/**(received from)** Nations from Statement of Financial Performance	8,024	(25,288)	(38,960)	(17,570)	(278)	(325)	(31,214)	(43,183)
Total	**2,347,288**	**2,142,151**	**659,440**	**726,631**	**4,120**	**3,396**	**3,010,848**	**2,872,178**

10. Net Financial Income

	Log Ops		NAM		CEPS		NSPO TOTAL	
	2013	2012	2013	2012	2013	2012	2013	2012
Interest received on bank deposits	4,422	11,661	362	547	0	0	4,784	12,208
Net realised foreign exchange gain	(3,589)	(2,809)	(147)	(348)	1	0	(3,735)	(3,157)
Net unrealised foreign exchange gain	1,699	580	0	0	0	0	1,699	580
Total finance income	**2,532**	**9,432**	**215**	**199**	**1**	**0**	**2,748**	**9,631**

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

11. Expenses by nature

	Chairman's Office		Log Ops		NAM		CEPS		NSPO TOTAL	
Delivery of services to customers	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Commons Support (including ACO and AWACS)	0	0	288,990	249,600	0	0	0	0	288,990	249,600
Individual brokerage	0	0	379,144	403,176	0	0	0	0	379,144	403,176
Individual maintenance and services	0	0	377,588	402,783	0	0	0	0	377,588	402,783
Operational logistics support	0	0	645,000	716,823	0	0	0	0	645,000	716,823
Transportation services	0	0	152,035	62,882	0	0	0	0	152,035	62,882
Airlift Services	0	0	0	0	107,559	69,181	0	0	107,559	69,181
Net proceeds from changes in inventory and PPE	0	0	2,837	3,436	263	29	0	0	3,100	3,465
Sub-total	**0**	**0**	**1,845,594**	**1,838,700**	**107,822**	**69,210**	**0**	**0**	**1,953,416**	**1,907,910**

Administration of NSPO	Chairman's Office		Log Ops		NAM		CEPS		NSPO TOTAL	
Personnel costs	667	426	97,757	99,286	3,986	4,917	4,010	4,195	106,420	108,824
Depreciation of PPE	0	0	5,371	5,267	16,979	16,861	203	204	22,553	22,332
Amortisation of intangible assets	0	0	0	0	617	617	75	121	692	738
Revaluation of PPE and intangibles	0	0	0	0	21,639	291	0	0	21,639	291
Buildings	6	4	2,843	3,377	21	0	156	313	3,026	3,694
Information systems	0	0	6,479	5,118	1,385	1,045	168	154	8,032	6,317
Communications	6	12	143	220	2	3	132	126	283	361
Administration	7	15	(3,728)	3,698	75	129	104	60	(3,542)	3,902
Services and supplies	0	1	7,432	6,145	0	0	11	12	7,443	6,158
Non-operational consultants	0	0	191	247	46	27	118	62	355	336
Travel	26	20	6,146	5,299	361	449	156	125	6,689	5,893
Transportation	0	0	132	121	229	1	13	11	374	133
Public Relations and Hospitality	10	11	674	683	7	2	8	8	699	704
Training	6	1	519	646	121	88	26	28	672	763
Miscellaneous	0	0	94	99	0	0	11	9	105	108
Taxes	0	0	0	0	0	0	907	963	907	963
Write-offs	0	0	128	1	0	0	0	0	128	1
Sub-total	728	490	124,181	130,207	45,468	24,430	6,098	6,391	176,475	161,518
Total	728	490	1,969,775	1,968,907	153,290	93,640	6,098	6,391	2,129,891	2,069,428

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

12. Employee Disclosures

	Chairman's Office		Log Ops		NAM		CEPS		NSPO TOTAL	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Salaries	515	318	67,127	69,507	2,547	2,878	2,845	2,904	73,034	75,607
Allowances	71	66	16,541	16,821	687	780	617	715	17,916	18,382
Pension contributions	21	4	3,288	3,169	308	344	525	548	4,142	4,065
Health care contributions	60	36	8,562	8,525	382	790	19	22	9,023	9,373
Loss-of-Job Indemnities (LOJI)	0	0	1,616	708	13	1	0	0	1,629	709
Other	0	2	623	556	49	124	4	6	676	688
Total	**667**	**426**	**97,757**	**99,286**	**3,986**	**4,917**	**4,010**	**4,195**	**106,420**	**108,824**

Staff Numbers

At 31 December the following posts were filled.

	Chairman's Office		Log Ops		NAM		CEPS PO		TOTAL	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Civilian	7	6	1,018	1,010	47	46	37	38	1,109	1,100
Consultant	0	0	56	46	0	1	0	0	56	47
Total	**7**	6	**1,074**	**1,056**	**47**	**47**	**37**	**38**	**1,165**	**1,147**

In addition to the figures presented the CEPS Programme National Organisations employ 142 military staff (2012: 143) and 687 civilian staff (2012: 692) who work on the pipeline system. These personnel are not employed on NATO personnel contracts. Their costs are reimbursed by the revenues of the CEPS Programme revenues.

At one time or another in 2013 there were 76 consultants employed by NSPO with 56 employed at the year end. The costs of non-operational consultants are shown in Note 11 - Expenses by Nature.

Retirement benefits

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

The NSPA does not control or manage any of the schemes or scheme assets and is not exposed to the risks and rewards of the schemes and hence does not record any assets or liabilities of the schemes on its statements of financial position. In 2013 the NSPA contributed nearly Euro 4.12m (2012: Euro 4.06m) to the various NATO pension schemes.

13. Related Party Transactions

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

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

Key Management Personnel

Key management personnel hold positions of responsibility within NSPA. They are responsible for implementing the strategic direction and operational management of NSPA, and 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.

Representative Allowance of the General Manager and Hospitality Allowances of Directors

The General Manager, in addition to other allowances to which all staff are entitled, receives a representation allowance of Euro 10,106 per-year due to the requirements to represent NSPA at events of which Euro 9,422 was spent. Expenditure made against this allowance is supported by invoices. This representation allowance includes a 25 per cent contribution to the rent of his accommodation. The other NSPA Directors receive a total hospitality allowance of Euro 8,000 between them of which Euro 3,860 was spent and the Head of the NSPO Secretariat received a hospitality allowance of Euro 1,000 of which Euro 100 was spent.

Hospitality Allowance of the Chairman of ASB

While the Chairman of the NSPO ASB is not a member of the management of NSPA he receives a hospitality allowance of Euro 10,106 per year of which Euro 9,513 was spent. Expenditure made against this allowance is supported by invoices. The allowance does not include a contribution to the rental of accommodation.

Related Party Transactions of Members of Boards and Committees

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

14. Provisions

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

15. Contingent Liabilities

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

For Log Ops the following represent contingent liabilities:

- Claims have been received from several contractors operating in the Afghanistan theatre for a total (so far) exceeding Euro 40 m. Negotiation procedures for the purpose of assessing these claims are on-going.

- The NATO Administrative Tribunal is currently considering an appeal lodged in 2013 by an NSPA staff member. No estimation of the financial liability of the Agency in case of adverse rulings or outcomes can be provided at this stage.

- Two staff members who individually submitted a formal complaint to NSPA senior management in 2013, have since filed an appeal before the Administrative Tribunal. Another complainant may possibly lodge an appeal before the Administrative Tribunal in the coming months. The related financial liability for the Agency cannot be estimated at this stage.

- In 2009, a potential misuse of a NAMSA contract at Kandahar Air Field was brought to the attention of the NAMSO Legal Office. At the time, in connection to this issue, NAMSA's assistance had been solicited in investigations by national authorities. The value of this out-of-scope use of contract is estimated at about USD 18m. It is currently unclear whether or not this event could lead to a potential liability for Log Ops.

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

- In the course of its normal operations, the CEPS Programme hold some jet fuel that contains a level of Fatty Acid Methyl Ester (FAME) that exceeds current acceptable tolerance levels. Management believes that the remediation method in use is deemed sufficient and appropriate to ensure that there will be no material outflow of resources necessary in order to settle any obligation in connection with this issue.

- In one host nation, a new decree dated 4 August 2006 was issued regarding minimum safety regulations for pipelines. In December 2008 implementation guidelines were issued outlining the assessment procedures / studies to be followed for application to this decree / order. This decree may have a financial impact which cannot be measured with sufficient reliability. New decrees dated 03/10/2010, 04/10/2010, 29/12/2011 and 02/05/2012 may have financial impacts. It is not yet possible to quantify the efforts and costs of the implementation of those decrees.

- In 2005, an accident occurred in a host nation where a leak produced pollution on site. In 2009 the local administration in charge gave its authorization on the cleanup plan. The cleanup plan is foreseen to last from 2010 to 2023. The costs are common funding eligible, and the nost nation MOD has transmitted its request to NATO on 19 March 2010 for an amount of Euro 10.1m payable in 2 parts. It is not yet known if third parties will submit claims against the host nation MOD.

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

16. Leases

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

Finance leases

NSPO does not have any finance leases.

Operating leases

In year operating lease costs are charged to the Statement of Financial Performance. At the end of 2013 NSPO had the following commitments in respect of operating leases.

	Chairman's Office	Log Ops	NAM	CEPS	TOTAL
Amounts due in less than one year	0	113	2	0	115
Total amounts due in between one and five years	0	21	0	0	21
Total amounts due in more than five years	0	0	0	0	0
Total	**0**	**134**	**2**	**0**	**136**

17. Financial Instruments

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

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

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

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

18. Write-offs and donations

The NATO Financial Regulations require NATO entities to disclose any amounts written-off in the year. In 2013 Log Ops wrote off assets with a value of Euro 127,616 (2012: Euro 827).

19. Financial Plan Execution

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

a. Central Europe Pipeline System

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

As the Pipeline System is not controlled by the CEPS Programme collectively, then by extension, the associated revenues and expenditures are not controlled by the Programme. This has resulted in the Statements of Financial Performance only showing the revenues and expenditures of the CEPS Programme Office which oversees the Programme. To ensure that nations are aware of all the expenditure incurred by the CEPS Programme the following table shows where expenditure occurred in 2013.

Operational		**PRIOR 2013 AUTHORISED CREDITS BROUGHT FORWARD**	**2013 AUTHORISED CREDITS**	**BUDGETARY EXPENDITURE AGAINST CREDITS**	**AUTHORISATIONS CARRIED FORWARD**	**LAPSED CREDITS**
Personnel	O&M	391,136	59,131,210	58,753,410	367,787	401,149
	NP1	-	21,000	17,126	-	3,874
	NP2	456,762	1,050,000	1,005,363	501,399	-
	NP3	-	742,000	26,071	3,929	712,000
	Depots	-	378,000	332,064	-	45,936
		847,898	**61,322,210**	**60,134,034**	**873,115**	**1,162,959**
Outside temporary staff	O&M	49,664	1,014,920	961,246	63,885	39,453
	Depots	1,563	16,500	15,534	1,480	1,050
		51,228	**1,031,420**	**976,780**	**65,365**	**40,503**
Training of personnel	O&M	**95,675**	**321,500**	**274,776**	**126,249**	**16,151**
Travel and transportation	O&M	10,933	3,649,460	3,556,452	68,798	35,143
	Depots	-	43,000	42,879	-	121
		10,933	**3,692,460**	**3,599,331**	**68,798**	**35,264**
Hospitality	O&M	**12**	**42,000**	**37,552**	**645**	**3,815**
Operation	O&M	1,416,272	20,851,840	20,739,779	957,231	571,102
	Depots	138	104,000	102,181	1,774	184
		1,416,410	**20,955,840**	**20,841,959**	**959,005**	**571,285**

Maintenance	O&M	5,092,954	12,719,577	12,415,326	4,814,217	582,988
	NP2	9,133,538	1,500,000	2,265,659	8,293,902	73,977
	NP3	-	1,607,000	-	-	1,607,000
	Depots	135,322	917,100	635,696	390,379	26,347
		14,361,814	**16,743,677**	**15,316,680**	**13,498,499**	**2,290,313**
General administrative	O&M	1,178,964	9,837,423	9,668,907	1,159,026	188,453
	Depots	9,085	96,600	103,853	1,791	42
		1,188,049	**9,934,023**	**9,772,760**	**1,160,817**	**188,495**
Capital						
Fixed installations	NP2	**3,320,000**	**-**	**100,000**	**3,220,000**	**-**
Plant equipment	O&M	592,613	648,010	735,456	446,747	58,420
	Depots	-	5,000	4,906	-	94
		592,613	**653,010**	**740,362**	**446,747**	**58,514**
Vehicles	O&M	**296,830**	**287,331**	**388,755**	**192,560**	**2,846**
Office equipment	O&M	**570,153**	**1,799,089**	**1,525,169**	**749,993**	**94,080**
Long Term Investments						
Modernisation 100% CEPS	O&M	40,001,456	18,685,640	9,262,569	47,799,883	1,624,644
	Depots	974,176	923,000	142,296	1,751,780	3,100
		40,975,632	**19,608,640**	**9,404,865**	**49,551,663**	**1,627,744**
INFRA projects - cost shares	O&M	**2,950,047**	**400,000**	**361,188**	**2,915,432**	**73,427**
Grand Total		**66,677,292**	**136,791,200**	**123,474,210**	**73,828,888**	**6,165,394**

The CEPS Programme had the following sources of funds in 2013:

- Miscellaneous Revenues - Euro 2.3 million
- Military Revenues - Euro 15.9 million
- Other Revenues – Euro 76.2 million
- Earned contributions – Euro 23.4 million
- Financing of budgets with the Funds – Euro 8.5 million
- Net operating result for non-military use of depots – Euro 1.9 million
- Financial Revenue - Euro 1 million

The CEPS Financial Plan Execution is not anticipated to reconcile to the sources of funds; sources of funds are based on an accruals basis while the Financial Plan Execution is based on modified accruals.

b. Log Ops – Administrative cost elements

All figures in Euro '000	PRIOR 2013 UNPAID COMMITMENTS BROUGHT FORWARD	2013 AUTHORISED CREDITS	PAYMENTS AGAINST COMMITMENTS & CREDITS (A)	UNPAID COMMITMENTS (i.e. LEGAL OBLIGATIONS) CARRIED FORWARD (B)	TOTAL CREDITS CONSUMED IN YEAR (A+B)	LAPSED CREDITS
Chapter 1 Personnel Expenditure	1,586	101,038	94,821	784	95,605	7,020
Chapter 2 General Administrative, Operating & Maintenance	7,745	13,273	11,314	7,618	18,932	2,086
Chapter 3 Project Specific Expenditure	4,032	17,565	11,667	4,930	16,597	5,000
Chapter 4 Investments	2,550	4,850	3,876	2,535	6,411	989
SOC Regularisation for POD Expenditure	(496)	0	(232)	(166)	(398)	(98)
Total	**15,417**	**136,727**	**121,445**	**15,701**	**137,147**	**14,998**

c. Log Ops - "Common funded" cost elements

Total	**225,607,173**	**146,131,154**	**94,922,543**	**532,869,875**	**352,448,400**	**156,565,206**	**195,883,194**	**180,421,475**

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

d. NAM Programme

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

All figures in USD '000	**UNUSED AUTHORISED CREDITS AND UNPAID COMMITMENTS BROUGHT FORWARD**	**2013 AUTHORISED CREDITS**	**PAYMENTS AGAINST COMMITMED AUTHORISED CREDITS**	**UNUSED AUTHORISED CREDITS AND COMMITMENTS CARRIED FORWARD**
Acquisition	$335,930	$20,571	$96,749	$259,688
Operational	$75,760	$423,782	$67,396	$432,146
Total	**$411,689**	**$444,354**	**$164,145**	**$691,834**

All figures in USD '000	**PRIOR 2013 UNPAID COMMITMENTS BROUGHT FORWARD (1)**	**2013 AUTHORISED CREDITS (2)**	**PAYMENTS AGAINST COMMITMENTS (1) & AUTHORIZED CREDITS (2)**	**UNPAID COMMITMENTS (i.e. LEGAL OBLIGATIONS) CARRIED FORWARD**	**TOTAL CREDITS CONSUMED IN YEAR**	**LAPSED CREDITS**
Administration	$929	$13,177	$8,633	$1,416	$10,048	$4,058

20. Log Ops Project operating expenditures

This operational expenditure on projects on an accruals basis was:

Grand Total 2013	**1,906,103,431**	**Grand Total 2012**	**1,837,207,974**

The amount does not include the allocation of administrative cost to each respective project.

21. Events after the financial reporting date of 31 December 2013

NSPO is required to disclose event events, both favourable and unfavourable, that occurred between the reporting date of 31 December 2013 and the date when these financial statements were authorized for issue by the General Manager on [date of endorsement by CEPS and NAM Programme Board] 2014. IPSAS requires two types of events which should be identified:

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

While management consider there are no events categorised under (a) they consider the ISAF drawdown to be an event that must be disclosed under category (b).

ISAF Drawdown

The ISAF mission in Afghanistan ends on 31 December 2014. At the time these financial statements were authorised for issue the scope of NATO activities within Afghanistan were not known. In 2014 Log Ops has almost 200 personnel working either directly or indirectly on the current Afghanistan mission. Without a successor mission to Afghanistan the scope of work performance by NSPA personnel will significantly decrease and would include contract closedown and management of NSIP funded assets in Afghanistan.

As part of its 2015 budget planning NSPA management has required staff to budget on work levels in relation to Afghanistan at 15-20 per cent of current levels.

- In 2013 the NSPA entered into commitments of Euro 694m in respect of Afghanistan; if revenues were to fall to 15 per cent of this level they would fall to Euro 104m (a decrease of Euro 590m)

If such a reduction in workload materialises this could lead to significant reductions in staffing levels. Staff at risk of losing their post as a result of a possible reduction in workload have formally told of this and a number of staff who could be affected would be entitled to Loss of Job Indemnities (LOJI).

- The potential maximum cost to nations of Loss of Job Indemnities is currently estimated at Euro 4.4m.