



NORTH ATLANTIC COUNCIL
CONSEIL DE L'ATLANTIQUE NORD

NATO UNCLASSIFIED

19 December 2024

**DOCUMENT
PO(2024)0420-AS1**

**IBAN AUDIT REPORT ON THE 2023 FINANCIAL STATEMENTS OF NATO
SUPPORT AND PROCUREMENT ORGANISATION (NSPO)**

ACTION SHEET

On 19 December 2024, under the silence procedure, the Council noted the RPPB report and the IBAN Audit Report attached to PO(2024)0420, approved the conclusions and recommendations in the RPPB report, and approved the public disclosure of the 2023 NSPO redacted Financial Statements, the associated IBAN Audit Report and the RPPB report.

(Signed) Mark Rutte
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to PO(2024)0420.

NATO UNCLASSIFIED





NATO UNCLASSIFIED

13 December 2024

DOCUMENT

PO(2024)0420

Silence Procedure ends:

19 Dec 2024 – 17.30

To: Permanent Representatives (Council)

From: Secretary General

**IBAN AUDIT REPORT ON THE 2023 FINANCIAL STATEMENTS OF NATO SUPPORT
AND PROCUREMENT ORGANISATION (NSPO)**

1. I attach the Resource Policy and Planning Board (RPPB) report on the International Board of Auditors for NATO (IBAN) Audit Report on the 2023 resubmitted Financial Statements of the NATO Support and Procurement Organisation (NSPO). IBAN issued an unqualified opinion on the Financial Statements and a qualified opinion on compliance for the year ended 31 December 2023.

2. I do not believe this issue requires further discussion in Council. Therefore, **unless I hear to the contrary by 17.30 on Thursday, 19 December 2024**, I shall assume that Council has noted the RPPB report and the IBAN Audit Report, approved the conclusions and recommendations in the RPPB report, and approved the public disclosure of the 2023 NSPO redacted Financial Statements, the associated IBAN Audit Report and the RPPB report.

(Signed) Mark RUTTE

1 Annex
2 Enclosures

Original: English



**IBAN AUDIT REPORT ON THE 2023 FINANCIAL STATEMENTS OF NATO SUPPORT
AND PROCUREMENT ORGANISATION (NSPO)****Report by the Resource Policy and Planning Board**

References:

- | | | |
|----|------------------|---|
| A. | IBA-AR(2024)0007 | IBAN Audit Report on the Financial Statements of the NATO Support and Procurement Organisation (NSPO) for the year ended 31 December 2023 |
| B. | C-M(2015)0025 | NATO Financial Regulations (NFRs) |
| C. | C-M(2016)0023 | NATO Accounting Framework (NAF) |
| D. | PO(2015)0052 | Wales Summit tasker on transparency and accountability |

INTRODUCTION

3. This report by the Resource Policy and Planning Board (RPPB) addresses the IBAN Audit Report on the 2023 Financial Statements of the NATO Support and Procurement Organisation (NSPO). IBAN issued an unqualified opinion on the Financial Statements and a qualified opinion on compliance for the year ended 31 December 2023 (reference A).

AIM

4. This report highlights key issues in the IBAN Audit Report with the aim to enable the RPPB to reflect on strategic challenges resulting from the audit of Financial Statements of NATO entities and to recommend courses of action to Council as applicable, in order to improve transparency, accountability and consistency.

OBSERVATIONS AND RPPB VIEW

5. IBAN found misstatements in the NSPO Financial Statements for the year ended 31 December 2023 and first submitted to IBAN on 29 March 2024. These misstatements, of which the aggregate effect was material, were corrected in a resubmission of the financial statements on 19 June 2024. Without these corrections, the 2023 NSPO Financial Statements would have included material errors leading to a qualified audit opinion on the financial statements. The Head of Financial Reporting Policy (HFRP) raised the topic of the resubmissions of financial statements at the Working Group of Financial Controllers held in November 2024. Due to the increasing number of resubmissions in the last years, the HFRP emphasized the importance of strengthening internal controls NATO-wide in order to limit such cases.

6. In 2023, IBAN made seven observations and recommendations for the NSPO, including one observation that impacted the audit opinion on compliance. It relates to the non-compliance with the NATO Financial Regulations (NFRs) (reference B) with regard to the use of Central Europe Pipeline System (CEPS) and NATO Security Investment Programme (NSIP) funds by the CEPS National Organisation for France. The other six

observations detailed below did not impact the audit opinion on the Financial Statements and on compliance.

6.1. Observation 1 (basis for a qualified opinion on compliance) Non-compliance with the NFRs with regard to the use of CEPS and NSIP funds by the CEPS National Organisation for France: The RPPB supports IBAN's recommendation that the NSPO ensure that the CEPS Programme complies with Article 1, 27 and 32 of the NFRs. A similar observation was first raised in the IBAN Audit Report on the 2022 NSPO Financial Statements (ref. IBA-AR(2023)0014). The current observation supersedes IBAN's previous observation on this topic.

6.2. Observation 2 Need to strengthen internal controls over the preparation of the financial statements and management of customer advances: The RPPB supports IBAN's recommendation that the NSPO strengthen internal controls over the preparation of the financial statements to provide a reasonable basis for obtaining assurance that the financial statements are in compliance with the NATO Accounting Framework (NAF) (reference C) and NFRs. In addition, the RPPB supports IBAN's recommendation that the NSPO reduce the risk of future material misstatements due to unrecorded transactions with regard to setting-off customer advances against receivables from customers, and the inflation and investment risks inherent to holding and managing customer funds longer than needed. Lastly, the RPPB supports IBAN's recommendation that the NSPO encourage its customers to provide a pre-authorisation to use available customer advances for settling customer receivables; and to seek agreement from NSPO customers on how to settle customer receivables to treat the absence of timely customers' responses as silent approvals to set-off available customer advances against customer receivables.

6.3. Observation 3 Derogation from Article 32 of the NFRs in the NSPO Financial Rules and Procedures: The RPPB supports IBAN's recommendation that with regard to NSPO's amendment of Article 32 of the NFRs in Rule 32 of the NSPO FRPs the NSPO either submit and justify the amendment from the NFRs to Council for approval in accordance with Article 1.2 of the NFRs; or undo this amendment by making the deputy Director of Procurement (or the Chief Procurement Officer from 24 October 2024 onwards) responsible for ensuring that procurement and contracting principles are adhered to and are in line with the principles of sound financial management.

6.4. Observation 4 Need to identify the net realisable value for inventories held by NSPO in Capellen when indications of damage, obsolescence or slow movement exist: The RPPB supports IBAN's recommendation that the NSPO introduce a written procedure that describes when, how and by whom the net realisable value of inventories should be determined; measure inventories controlled by the NSPO at the lower of cost and net realisable value in accordance with the NAF IPSAS 12, and recognise the amount of any write-downs to be made as an expense in the period in which the write-downs occur, and measure inventories held but not controlled by NSPO at the lower of cost and net realisable value in accordance with the NAF IPSAS 12, and inform other NATO Reporting Entities of any write-downs to be made to inventories under their control.

6.5. Observation 5 Improvements needed for ensuring timely acquisition of fuel services for the Naval Logistic Support Partnership: The RPPB supports IBAN's recommendation

that the NSPO ensure timely acquisition of fuel services for the NLSP through a competitive bidding process through an earlier publication of requests for proposals that allows the NSPA to process complaints, questions, and changes to customer requirements while maintaining competition and continuity of services. In addition, the RPPB supports IBAN's recommendation that the NSPO assess if additional written procedures need to be issued to NSPA staff dealing with complaints and requests from potential bidders during the request for proposal stage in order to ensure timely acquisition of goods and services through a competitive bidding process, and clarify whether unforeseen contract extensions resulting in a total contract duration beyond five years also require customer consultation and Agency Supervisory Board (ASB) approval in accordance with Article 8.2 of the NSPO procurement regulations, and reflect this in the NSPO Procurement Regulations and the Agency's operating instructions, if needed.

6.6. Observation 6 Improvements needed for procurement activities involving sub-contractors from non-NATO Nations: with regard to sub-contracting to firms in non-NATO nations, the RPPB support IBAN's recommendation that the NSPO ensure that every aspect of its procurement process conforms to the highest standards of integrity and accountability principle in accordance with Article 32.1 of the NFRs. This can be done in several ways which are detailed in the IBAN Audit Report (reference A).

6.7. Observation 7 Absence of sufficient data to substantiate a restriction in competitive bidding based on a national qualification: The RPPB supports IBAN's recommendation that the NSPO ensure that sufficient data is available to substantiate sole source requests based on national qualifications prior to approving such sole source requests and awarding contracts on this basis.

7. Emphasis of Matter¹ on Financial Statements: IBAN raised an Emphasis of Matter regarding the need to identify the net realisable value for inventories held by NSPO in Capellen when indications of damage, obsolescence or slow movement exist (reference to observation no. 4).

8. In addition, IBAN followed up on the status of observations and recommendations from the previous years' audits and found that 13 were closed and six remain in-progress. The RPPB welcomes the actions taken by the NSPO to promptly implement outstanding recommendations, including more than three years open or in-progress observations and recommendations. The observations are detailed in document at reference A.

¹ Emphasis of Matter is used when the IBAN considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in IBAN's judgement, is of such importance that it is fundamental to users' understanding of the financial statements.

IBAN PREVIOUS YEARS' OBSERVATIONS AND RECOMMENDATIONS IN-PROGRESS OR OPEN FOR MORE THAN THREE YEARS

9. The RPPB invites the NSPO to provide an action plan to Council with timelines on the implementation of the 2018 and 2020 financial year observations and recommendations when submitting their response on the IBAN audit of the 2024 Financial Statements if these are not closed during the course of the 2024 audit. The RPPB supports NSPO's efforts to continue applying remedial actions with the aim to address IBAN's observations and recommendations in-progress for more than three years.

DISCUSSION

10. At the meeting held on 21 November 2024, after IBAN's presentation of the audit observation leading to the qualified opinion on compliance, the Chair of the Agency Supervisory Board, the NSPA General Manager and the NSPA Financial Controller presented their statements and their plan to address IBAN's observations and recommendations in a timely manner.

11. The RPPB reminds that the resubmission of NSPO 2023 Consolidated Financial Statements to correct material misstatements shows that progress is still needed in strengthening internal controls over the financial reporting process. The RPPB notes that the HFRP raised the topic of the resubmissions of financial statements at the Working Group of Financial Controllers, and also emphasized the importance of strengthening internal controls NATO-wide in order to limit such cases.

12. NSPO emphasized the complexity of CEPS being managed by five Host Nations. To address the issues that led to the qualified opinion on compliance, NSPO rescinded the Memorandum of Understanding between France and the CEPS Programme Office and converted to a Service Level Agreement which was signed in July 2024, with France remaining as the Host Nation. Regarding the applicability of NFRs to CEPS National Organisations, CEPS National Organisations must follow national law, even when it conflicts with the NFRs. As a way forward, NSPO drafted a remedial action plan that includes the CEPS Programme Board approval of revised CEPS FRPs and a submission of a deviation request from the NFRs to Council for approval. The RPPB will monitor the implementation of the action plan to address the observation that formed the basis for a qualified opinion on compliance.

13. The RPPB welcomed the significant progress that NSPO has made in closing or superseding 13 recommendations from previous years. The RPPB was reassured that measures were being taken by the Agency to return to an unqualified audit opinion on the NSPO financial statements.

CONCLUSIONS

14. IBAN issued an unqualified opinion on the 2023 NSPO Financial Statements and a qualified opinion on compliance. Seven observations and recommendations were raised for the NSPO. Six previous years' observations and recommendation for the NSPO were in-progress and 13 were closed.

15. The RPPB supports all the recommendations raised by IBAN for the audit of the 2023 NSPO Financial Statements.

16. The RPPB notes that the HFRP raised the topic of the resubmissions of financial statements at the Working Group of Financial Controllers, and also emphasized the importance of strengthening internal controls NATO-wide in order to limit such cases.

17. The RPPB recommends that Council invite the NSPO to provide an action plan to Council with timelines on the implementation of 2018 and 2020 financial year in-progress observations and recommendations when submitting their response on the IBAN audit of 2024 Financial Statements.

RECOMMENDATIONS

18. The Resource Policy and Planning Board recommends that Council:

18.1. note this report and the IBAN Audit Report at reference;

18.2. approve the conclusions at paragraphs 12 to 15;

18.3. approve the public disclosure of the 2023 Financial Statements for the NSPO, its associated IBAN Audit Report and this report in line with agreed policy at reference D.



International Board of Auditors for NATO
Collège international des auditeurs externes de l'OTAN

Brussels - Belgium



NATO UNCLASSIFIED

IBA-A(2024)0090
29 August 2024

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

Cc: NATO Permanent Representatives
Chair, NATO Support and Procurement Organisation (NSPO), Agency
Supervisory Board
General Manager, NATO Support and Procurement Agency (NSPA)
Financial Controller, NATO Support and Procurement Agency (NSPA)
Chair, Resource Policy and Planning Board (RPPB)
Branch Head, Resource Management Branch, NATO Office of Resources (NOR)
Private Office Registry

Subject: ***International Board of Auditors for NATO (IBAN) Audit Report on the audit of the NATO Support and Procurement Organisation (NSPO)'s Financial Statements for the year ended 31 December 2023 – IBA-AR(2024)0007***

IBAN submits herewith its approved Audit Report with a Summary Note for distribution to the Council.

IBAN's report sets out an unqualified opinion on the Financial Statements of the NATO Support and Procurement Organisation (NSPO) and a qualified opinion on compliance for financial year 2023.

Yours sincerely,

Radek Visinger
Chair

Attachments: As stated above.

NATO UNCLASSIFIED

-1-



**Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Financial Statements of the
NATO Support and Procurement Organisation (NSPO)
for the year ended 31 December 2023**

NSPO consists of the Support to Operations and Life Cycle Management Business Units, the Central Europe Pipeline System Programme Business Unit, the NATO Airlift Management Programme Business Unit, plus the Agency Supervisory Board (ASB)'s Chairperson's Office and Secretariat. Governance and oversight are provided to the various business units by the Agency Supervisory Board and Support Partnership Committees.

The mission of NSPA is to provide responsive, effective and cost efficient acquisition, including armaments procurement, logistics, operational and systems support and services to NATO Member States, NATO Military Authorities and partner nations. In 2023, NSPO generated revenues of EUR 3.93 billion and incurred expenses of EUR 4.06 billion.

Following a request of NSPO to correct material misstatements identified by IBAN during the course of the audit, we agreed to audit the restated financial statements communicated to us on 19 June 2024. Without these corrections, the NSPO 2023 Financial Statements would have included material errors leading to a qualified audit opinion on the Financial Statements.

IBAN issued an unqualified opinion on the Financial Statements and a qualified opinion on compliance for the year ended 31 December 2023.

IBAN included an Emphasis of Matter paragraph regarding the need to identify the net realisable value for inventories held by NSPO in Capellen when indications of damage, obsolescence or slow movement exist.

IBAN made seven observations and recommendations.

One observation, which is the same as was presented in the 2022 Audit Report, does not impact the audit opinion on the Financial Statements, but impacts the audit opinion on compliance:

1. Non-compliance with the NFRs with regard to the use of CEPS and NSIP funds by the CEPS National Organisation for France.

The other six observations and recommendations do not impact the audit opinion on the Financial Statements and on compliance.

2. Need to strengthen internal controls over the preparation of the financial statements and management of customer advances.

3. Derogation from Article 32 of the NFRs in the NSPO Financial Rules and Procedures.
4. Need to identify the net realisable value for inventories held by NSPO in Capellen when indications of damage, obsolescence or slow movement exist.
5. Improvements needed for ensuring timely acquisition of fuel services for the Naval Logistic Support Partnership.
6. Improvements needed for procurement activities involving sub-contractors from non-NATO Nations.
7. Absence of sufficient data to substantiate a restriction in competitive bidding based on a national qualification.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that 13 were closed and six remain in progress.

The Audit Report was issued to NSPO whose comments have been included, with the IBAN's position on those comments where necessary.

The observations and recommendations that are not in the Audit Report are included in a Management Letter addressed to NSPA management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under NSPA executive responsibility.

NATO UNCLASSIFIED

IBA-AR(2024)0007

29 August 2024

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE

NATO SUPPORT AND PROCUREMENT ORGANISATION

(NSPO)

FOR THE YEAR ENDED 31 DECEMBER 2023

PUBLICLY DISCLOSED - PDN(2025)0020 - MIS EN LECTURE PUBLIQUE

NATO UNCLASSIFIED

INDEPENDENT EXTERNAL AUDITOR'S REPORT TO THE NORTH ATLANTIC COUNCIL***Financial Statements*****Opinion on the Financial Statements**

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of the NATO Support and Procurement Organisation (NSPO), for the 12 month period ended 31 December 2023, issued under document reference 'AC/338-D(2024)0008-REV1', and submitted to IBAN on 19 June 2024. These Financial Statements comprise the Statement of Financial Position as at 31 December 2023, the Statement of Financial Performance, the Statement of Changes in Net Assets/Equity and the Statement of Cash Flow, for the 12 month period ended 31 December 2023, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a Budget Execution Statement for the 12 month period ended 31 December 2023.

In our opinion, the Financial Statements give a true and fair view of the financial position of NSPO as at 31 December 2023, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2023, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF).

Basis for Opinion on the Financial Statements

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

We have conducted our audit in accordance with the International Organisation of Supreme Audit Institutions (INTOSAI) Principles as per our Charter, and standards consistent with the International Standards of Supreme Audit Institutions (ISSAI 2000-2899).

We are independent in accordance with the INTOSAI Code of Ethics (ISSAI 130) and we have fulfilled our other ethical responsibilities in accordance with these requirements.

The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter.

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

Emphasis of Matter on the Financial Statements

We draw attention to Note 5 of the 2023 NSPO Financial Statements on 'Inventory', which discloses that the NSPO inventories are valued at EUR 515.9 million in total at 31 December 2023. Out of this EUR 515.9 million, we noted that Log Ops inventories amounting to EUR 123.9 million are not available for operational use at their full service potential due to (partial) damages at 31 December 2023. These inventories are valued at cost at 31 December 2023, while inventories shall be measured at the lower of cost and net realisable value in accordance with the NATO Accounting Framework IPSAS 12.

IBAN is not in a position to identify the net realisable value of the inventories that did not have their full service potential at 31 December 2023, and as such cannot determine the financial impact of any write-downs of inventories to be made in case the net realisable value is lower than the cost of these items. As a result, our audit opinion is not modified in relation to this matter.

Management's Responsibility for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with standards consistent with ISSAIs will always detect

a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are required to communicate with the bodies charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. Our Independent External Auditor's Report is prepared to assist North Atlantic Council

in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

Compliance

Qualified Opinion on Compliance

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

Basis for Qualified Opinion on Compliance

Article 27 of the NATO Financial Regulations (NFRs) on 'Commitments related to Customer-funded Bodies' allows the General Manager to enter into commitments and make payments for purposes relating to customer agreements, subject to the concurrence by the Financial Controller, and to the conditions defined by its Agency Supervisory Board in the NSPO Financial Rules and Procedures (FRPs). The NSPO FRPs on 'Commitment of an appropriation and customer authorisations' only allow the General Manager to delegate authority for requesting financial commitments of NSPO appropriations to NSPA post holders.

The Central Europe Pipeline System (CEPS) National Organisation for France, 'Service National des Oléoducs Interalliés' (SNOI), delegated authority to a third party private-sector company to request and enter into commitments, and make payments in the name of that third party. This delegation of authority covered EUR 82.9 million of CEPS Operations and Maintenance (O&M) appropriations for 2023, and EUR 14.8 million of NATO Security Investment Programme (NSIP) contract authority for newly authorised pipeline infrastructure works on French territory in 2023. Moreover, the third party was allowed to enter into commitments without prior-approval by the Financial Controller for all purchases below EUR 15,000, and all purchases made in relation to multiple chapters of the CEPS O&M budget. This is not compliant with Article 27 of the NFRs and Rule 27 of the NSPO FRPs, which require that only the General Manager, subject to the concurrence of the Financial Controller, is authorised to enter into commitments and make payments for purposes relating to customer agreements, subject to conditions defined by the relevant finance committee. A similar issue led to a qualification of the 2022 Opinion on Compliance.

We have conducted our compliance audit in accordance with the International Organisation of Supreme Audit Institutions (INTOSAI) Principles as per our Charter, and standards consistent with the International Standards of Supreme Audit Institutions (ISSAI 4000-4899).

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

Management's Responsibility for Compliance

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

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

Auditor's Responsibilities for Compliance

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

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

Brussels, 29 August 2024



Radek Visinger
Chair

OBSERVATIONS AND RECOMMENDATIONS

IBAN made seven observations and recommendations.

One observation impacts the audit opinion on compliance:

1. Non-compliance with the NFRs with regard to the use of CEPS and NSIP funds by the CEPS National Organisation for France.

The other six observations and recommendations do not impact the audit opinion on the Financial Statements and on compliance.

2. Need to strengthen internal controls over the preparation of the financial statements and management of customer advances.
3. Derogation from Article 32 of the NFRs in the NSPO Financial Rules and Procedures.
4. Need to identify the net realisable value for inventories held by NSPO in Capellen when indications of damage, obsolescence or slow movement exist.
5. Improvements needed for ensuring timely acquisition of fuel services for the Naval Logistic Support Partnership.
6. Improvements needed for procurement activities involving sub-contractors from non-NATO Nations.
7. Absence of sufficient data to substantiate a restriction in competitive bidding based on a national qualification.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that 13 were closed and six remain in progress.

The observations and recommendations that are not in the Audit Report are included in a Management Letter addressed to NSPO management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under NSPO executive responsibility.

1. NON-COMPLIANCE WITH THE NFRS WITH REGARD TO THE USE OF CEPS AND NSIP FUNDS BY THE CEPS NATIONAL ORGANISATION FOR FRANCE

Reasoning

1.1 A similar observation on NSPO's 'Non-compliance with the NFRs with regard to the use of CEPS and NSIP funds by the CEPS National Organisation for France' was first raised in IBAN's audit report on the 2022 NSPO Financial Statements (Ref. IBA-AR(2023)0014). The current observation supersedes our previous observation on this topic.

1.2 In accordance with Annex II of the NSPO Charter, the CEPS Programme is part of NSPO, and is constituted of the CEPS Programme Board, the CEPS Programme Office (CEPS PO), and the National Organisations. The CEPS Programme Host Nations established the CEPS National Organisations (hereafter: CEPS NOs), which operate and maintain the CEPS Programme assets on their territory, and support CEPS operations and projects on their territory. This resulted in four CEPS NOs in total: the Belgian Pipeline Organisation (BPO) for Belgium and Luxembourg, the '*Defensie Pijpleiding Organisatie*' (DPO) for the Netherlands, the '*Fernleitungs-Betriebsgesellschaft mbH*' (FBG) for Germany and the '*Service National des Oléoducs Interalliés*' (SNOI) for France.

1.3 NSPO informed us that while the CEPS NOs are an integral part of the NSPO, the CEPS NOs are not part of the Agency (i.e. the NSPO's executive body) according to the NSPO Charter. It should also be noted that the CEPS NOs are established by the CEPS Host Nations, and not by the North Atlantic Council, with a juridical personality that is different from the juridical personality possessed by NATO by virtue of the Agreement on the status of the North Atlantic Treaty Organization, National Representatives and International Staff, signed in 1951 in Ottawa (Ottawa Agreement). Therefore, NSPO, BPO, DPO, FBG and SNOI operate under separate legal entities.

Applicable Financial Rules and Procedures for CEPS NOs

1.4 According to Article 1.2 of the NFRs, any amendments from the NFRs required in the financial regulations of a NATO Procurement, Logistics or Service Organisation (NPLSO) entity must be justified by the appropriate governing body and submitted to the North Atlantic Council for approval.

1.5 In accordance with Article 4.4 of the NFRs, the NSPO Agency Supervisory Board (ASB) approved a set of Financial Rules and Procedures (hereafter: NSPO FRPs) that provide additional guidance to ensure the effective implementation of the NFRs.

1.6 According to Annex II of the NSPO Charter, *“the financial management of accounts and records of the CEPS Programme shall be separate and distinct from those of other Programmes under the NATO Support and Procurement Agency or other NATO entities. NATO and NATO Support and Procurement Agency Financial Regulations shall apply to the CEPS Programme. Any exceptions shall be listed in the financial regulations of the CEPS Programme and will be submitted to the Agency Supervisory Board and/or Council for approval”*.

1.7 The rules that apply to the financial management of accounts and records of the CEPS Programme are described in the CEPS Programme Specific Financial Rules and Procedures (hereafter: CEPS FRPs), and are aimed at implementing the NSPO FRPs. The CEPS FRPs were approved by the CEPS Programme Board in November 2017. It should be noted that the NSPO ASB did not endorse the CEPS FRPs, as these were considered to be consistent with the NSPO FRPs and did not require an approval to deviate.

1.8 According to its Rule 1, the CEPS FRPs *“together with NFRs and NFRPs shall govern the financial administration of the CEPS Programme Office (CEPS PO) (that includes the financial management of the CEPS PO budget and CEPS Centralized budget) and the National Organisations for the elements financed from international budgets.”*

1.9 As an exception to the principle that the NFRs and NSPO FRPs govern the financial administration of the CEPS NOs, Rule 1 of the CEPS FRPs, the preamble of the NSPO FRPs and the CEPS FRPs mention that CEPS National Organisations are bound by the NFRs and the NSPO FRPs, insofar as they do not contradict national legislation. The CEPS FRPs add that this exception also extends to the application of the CEPS FRPs by CEPS National Organisations.

Use of funds

1.10 The NSPO Charter's general provisions on financial management mention that, as a rule, the NSPO shall be customer funded. Hence, the NSPO is considered to be a NATO customer-funded body that makes agreements with customers to provide goods and services in accordance with customer requirements.

1.11 Therefore, with regard to the use of NSPO funds, and as such the execution of NSPO budgets, the regulations on 'Commitments related to customer-funded bodies' in Article 27 of the NFRs apply to NSPO. Article 27.2 of the NFRs states that: *“On approval of the annual statement of planned income and expenditure, the General Manager, subject to the concurrence of the Financial Controller, is authorized to: (a) enter into commitments and make payments for purposes relating to customer agreements, subject to conditions defined by the relevant finance committee; [...]”*.

1.12 In accordance with the Article 27.4 of the NSPO FRPs, *“the CEPS and NAM Programme Boards are authorised to choose when to apply Rule 27.”* In case these

Programme Boards decide not to apply Rule 27 implementing Article 27 of the NFRs, this implies that the provisions of Rule 25 implementing Article 25 of the NFRs will apply.

1.13 In case Article 25 of the NFRs applies, it is the Head of NATO body that is authorised to *“to enter into commitments for goods and services to be rendered during the financial year”* and *“to make payments in relation to the appropriations which have been approved and within the limits of such appropriations”*.

1.14 Article 25 of the NFRs specifically refers to the ‘Head of NATO body’, while Article 27 of the NFRs specifically refers to the ‘General Manager’. When implementing Article 25 of the NFRs, the NSPO FRPs identify the General Manager as the Head of NATO Body in Rule 25.

1.15 Rule 7 of the CEPS FRPs covers the ‘Use of appropriations’ and states the following: *“On approval of the annual and supplementary budgets, the CEPS Programme Office and National Organisations are authorized to:*

- a) Enter into commitments and make payments for the purposes for which credits have been approved and within the limits of such credits;*
- b) Enter into commitments within the total amount of approved contract authority for the purposes for which such contract authority has been granted.”*

1.16 In accordance with Article ‘NOFRP Ib’ of the CEPS FRPs, which only applies to National Organisations, the NFRs, NSPO FRPs and CEPS FRPs *“cannot interfere with the application of national legal prescriptions and regulations fully or partly applicable to a National Organisation forming part of or associated with a ministerial department, under the terms of the national laws and procedures in force.”*

1.17 In accordance with ‘NOFRP VIIb’ prior approval of commitment shall be done *“by a finance official for all commitments apart from those:*

- a) Below 2500 EUR;*
- b) Paid by petty cash;*
- c) That National Organisations do not process themselves.”*

1.18 Based on the CEPS FRPs, it is unclear whether there are instances for which the CEPS Programme Board decided not to apply Rule 27 of the NSPO FRPs. In absence of any decisions to apply Rule 25 of the NSPO FRPs, we consider that Article 27 of the NFRs and Rule 27 of the NSPO FRPs apply to the CEPS Programme as it is in an integral part of the customer-funded organisation NSPO. It should however be noted that, the applicable rules concerning ‘Requests for Commitments’ and ‘Prior-approval of Commitments’ are almost identical for Rule 25 and Rule 27 of the NSPO FRPs.

1.19 With regard to ‘Requests for Commitments’, the provisions of the NSPO FRPs (Rule 27) respectively state that *“post holders authorized to request commitment of an*

appropriation are specified in an Agency-internal Operating Instruction', and that 'a list of the personnel to whom a delegation of authority to request commitments has been granted shall be communicated to the Financial Controller. This list is to be updated as necessary, and at least once per calendar year.'

1.20 With regard to 'Prior-approval of Commitments', the NSPO FRPs (Procedure XXV) state that *"the Financial Controller may delegate authority to approve requests for commitment of appropriations and contract authority, or amendment of commitments, to finance officers. Such delegation of authority may be general or specific and, when granted, shall be documented."*

1.21 With regard to authorising and making payments, the NSPO FRPs (Rule 27) remain silent on how payments should be made in accordance with Article 27 of the NFRs. In absence of rules and procedures to make payments in Rule 27, only Rule 25 seems to identify the rules and procedures that apply to making payments. Rule 25 states that Finance officers *"shall be responsible to the Financial Controller for authorising payments of invoices received from suppliers. Such authorisation shall be conditional on certification that the payments are within the limit of the commitment, that they are arithmetically accurate and that they conform with the purpose of the commitment"*, and that *"Finance officers with authority to disburse funds shall be responsible to the Financial Controller for making the payments authorised by Finance officers with responsibility for authorising payments"*.

1.22 The Head of NATO Body in the NSPO FRPs in the context of entering into commitments and making payments is the General Manager as the Head of NSPO's executive body (i.e. NSPA); and the post holders and finance officers referred to in the NSPO FRPs are NSPA Staff. The NSPO FRPs do not contain any rules or procedures that allow the General Manager to delegate any authority to staff of the CEPS NOs with regard to the use of CEPS and NATO Security Investment Programme (NSIP) funds.

1.23 Article 32.1 of the NFRs states that *"NATO Procurement and Contracting shall adhere to the following principles: "[...]" b) Goods and services will be procured, in a transparent and fair manner built upon the principle of non-discrimination and fairness [...]" d) Every aspect of the procurement process must conform to the highest standards of integrity and accountability."*

Role of NSPA as a NSIP Host Nation for pipeline infrastructure projects

1.24 The Memorandum of Understanding on the French participation in the restoration of the CEPS (AC-120-D/1428) dated 5 December 1985 states that *"[...] at the request of France, that CEOA [predecessor of the CEPS PO] act as host nation for restoration projects [predecessor NSIP projects] on French territory and that as such it be recognised as the Committee's correspondent for the purposes of compliance with the appropriate NATO regulations and procedures."* This was based on the Infrastructure Committee [predecessor of the Investment Committee]

document AC/4-D/2712 dated 2 March 1981, and its decision taken at the meeting on 17 March 1981 (AC/4-DS/1194). These documents confirm that NSPA acts as the NSIP Host Nation for pipeline infrastructure projects on French territory; and IBAN is not aware of, and has not been provided with any evidence in support of, any amendments to these arrangements

1.25 With regard to the use of NSIP funds, the Memorandum of Understanding (AC-120-D/1428) also states in Article 6 that *“After approval of restoration works in the French Divisions [...] CEOA shall notify SNOI ; accordingly credits will be established in Chapter 20 of the annual budget of the French Divisions. These credits shall have the character of contract authority. They shall be administered in the same way as the other chapters in the budget, according to the Financial Regulations for the CEPS.”*

Observations

Provisions of CEPS FRPs on use of funds non-compliant with the NFRs and the NSPO FRPs

1.26 According to Rule 7 of the CEPS FRPs, the CEPS Programme Office and National Organisations are authorised to enter into commitments and make payments for the purposes for which credits have been approved and within the limits of such credits.

1.27 As no specific post holders are mentioned in Rule 7 of the CEPS FRPs, it is unclear who received the authority concerned, and as such, who is accountable for any commitments entered into or any payments made with these credits. This represents an amendment of the provisions of Article 27 of the NFRs, and the NSPO FRPs, as only the General Manager is authorised to enter into commitments and to make payments in relation to appropriations.

1.28 According to ‘NOFRP VIIb’ of the CEPS FRPs, which only applies to National Organisations, all prior approval of commitments shall be done by a finance official for all commitments apart from those that are either below EUR 2,500, paid by petty cash, or not processed by the National Organisations themselves. This represents an amendment of the provisions of Article 27 of the NFRs, and the NSPO FRPs, as all commitments entered into with appropriations by the General Manager should be subject to the concurrence of the Financial Controller.

1.29 We found that NSPO did not obtain approval by the North Atlantic Council (the Council) of these CEPS FRP amendments to the provisions of Rule 27 of the NFRs. This is not compliant with Article 1.2 of the NFRs.

1.30 In addition to that, according to NSPO, there is uncertainty about who is the Head of NATO Body for the CEPS NOs and how the NSPO FRPs should be implemented by the CEPS NOs. The NSPO Charter only identifies the General Manager as the Head of the Agency, while the NSPO FRPs are written from the perspective that the General Manager is the Head of NATO Body when

implementing Article 27 of the NFRs for all NSPO activities. However, the provisions of Rule 27 in the NSPO FRPs currently do not allow the General Manager to delegate any authority to post holders within the CEPS NOs as these are not part of the Agency.

Use of CEPS and NSIP funds by the CEPS National Organisation for France

1.31 The CEPS National Organisation for France, '*Service National des Oléoducs Interalliés* (SNOI)', delegated part of its tasks and responsibilities, as per the NSPO Charter, to a private-sector company outside the CEPS Programme through agreement 'Convention N° 23 2 20 0001'. This Agreement is renewed on an annual basis, and the private-sector company is a third party to NATO that does not have to adhere to the NFRs, NSPO FRPs and CEPS FRPs.

1.32 According to NSPO, the NSPO Charter does not prevent a CEPS NO to sub-delegate any authority granted to that CEPS NO by the Charter of NSPO, however the CEPS NOs cannot sub-delegate more authority than the CEPS NO has itself. In other words, the entity to which a National Organisation sub-delegates part of its authority, is bound by the rules and regulations that would apply to the CEPS NO itself.

1.33 As part of this Agreement, SNOI delegated, among other tasks and responsibilities, the following authority to the third party service provider:

- Budget execution of the entire 2023 CEPS Programme Operations and Maintenance budget (hereafter: CEPS O&M budget) of EUR 82.9 million allocated to SNOI, that includes expenditure in relation to operating, maintaining, monitoring, and ensuring the safety of the pipeline infrastructure together with any administrative or technical expenditure incurred by the service provider when performing these tasks and responsibilities;
- Budget execution and implementation of NSIP pipeline infrastructure works on French territory authorised by the IC with NSPA acting as a NSIP Host Nation on behalf of France.

1.34 In order to perform its budget execution tasks on behalf of SNOI, the third party is authorised to request funds from CEPS PO, to perform procurement activities, and is requested to keep accounting records in accordance with the applicable accounting rules.

1.35 The Agreement also mentions that all purchases made as part of the Agreement between SNOI and the third party are entered into in the name of the third party, and any procurement activities by the third party in this regard should ensure competition. Any procurement activities for NSIP projects in particular should be performed in compliance with the authorised bidding process by the IC and any applicable NSIP and NSPO procurement regulations, given that NSPA acts as the NSIP Host Nation for pipeline infrastructure projects on French territory.

1.36 With regard to the execution of the CEPS O&M budget and NSIP infrastructure works, the third party is allowed to proceed with any purchase of materials, spare parts, consumable and to contract other third parties to provide services if needed. For all purchase orders exceeding EUR 15,000, the third party is authorised to request commitments on behalf of SNOI but has to seek approval from SNOI prior to entering into a commitment with CEPS or NSIP appropriations.

1.37 However, according to the Agreement, the third party is exempted from seeking SNOI's approval for entering into commitments exceeding the threshold of EUR 15,000 in relation to the 2023 budget execution of the following CEPS O&M budget chapters:

- Chapter 1: personnel;
- Chapter 2: outside temporary staff (except for 'Chapter 02-1');
- Chapter 3: training;
- Chapter 4: travel and transportation (except for 'Chapter 04-5');
- Chapter 6: operation (except for 'Chapter 06-4');
- Chapter 9-2-1: real estate rental costs.

1.38 As per the provisions of the Agreement, SNOI delegated the above-mentioned procurement and budget execution activities for the CEPS O&M budget to the third party service provider. The third party service provider operates under its own company specific procurement regulations, and with a broad discretion in its selection of contract award proposals presented to SNOI in case contract award approval should be sought. As an illustration, the provisions of the Agreement mention that any bidder should be accredited by the third party service provider in order to be eligible for bidding. Based on a review of procurement activities, we found that, from 2019 to 2023, the third party service provider performed procurement actions leading to the award of contracts to its wholly owned subsidiary for a total amount of approximately EUR 1 million with SNOI's contract award approval.

1.39 Although SNOI did not delegate authority to approve all contract award decisions to the third party service provider, IBAN considers that SNOI cannot ensure adherence with the principles of Article 32.1 of the NFRs and Rule 1 of the CEPS FRPs for those contracts awards by the third party that do not require the involvement of SNOI staff.

1.40 We conclude that SNOI delegated authority to a third party private-sector company, which does not employ any post holders from NSPA or SNOI, in order to:

- Enter into commitments with CEPS O&M and NSIP appropriations in the name of that third party;
- Request, and enter into, commitments with CEPS O&M and NSIP appropriations for all purchases below EUR 15,000, and all purchases made in relation to the execution of the CEPS O&M budget chapters mentioned in

the Agreement as listed above, without prior-approval of commitment by the Financial Controller or the Financial Controller's delegates;

- Make payments in relation to the commitments entered into with CEPS O&M and NSIP appropriations.

1.41 With regard to NSIP appropriations, it should also be noted that SNOI itself was not authorised to use any NSIP funds on behalf of the NSPA as the acting NSIP Host Nation for pipeline infrastructure works on French territory, let alone further delegate this authority to a third party. Given that the CEPS NOs are an integral part of the NSPO, but are not part of the NSPO's main executing body (i.e. NSPA) in accordance with the NSPO Charter, the NSPO FRPs currently do not contain any procedure that allows the General Manager, as the Head of NSPA, to delegate such authority outside his, or her, line of control to a CEPS NO.

1.42 Based on the above observations, we found that SNOI delegated authority to a third party private-sector company to request and enter into commitments, and make payments in the name of that third party. This delegation of authority covered EUR 82.9 million of CEPS O&M appropriations for 2023, and EUR 14.8 million of NSIP contract authority for newly authorised pipeline infrastructure works on French territory in 2023. Moreover, the third party was allowed to enter into commitments without prior-approval by the Financial Controller for all purchases below EUR 15,000, and all purchases made in relation to the execution of the CEPS O&M budget chapters mentioned in the Agreement as listed above.

1.43 This is not compliant with Article 27 of the NFRs and Rule 27 of the NSPO FRPs, which require that only the General Manager, subject to the concurrence of the Financial Controller, is authorised to enter into commitments and make payments for purposes relating to customer agreements, subject to conditions defined by the relevant finance committee. In the case of NSPO, these conditions were defined by its ASB as part of the NSPO FRPs.

1.44 It should be noted that a similar observation was first raised in IBAN's audit report on the 2022 NSPO Financial Statements (Ref. IBA-AR(2023)0014). NSPO analysed IBAN's reasoning and observations, and identified the following actions required to address the observations and recommendations made (Ref. NSPO/CEPS(PB)D(2023)0051):

- a) *"Revision of the convention between France and its ODCF third party operator."*
- b) *"Revision of the Memorandum of Understanding between France and (former) CEOA, last signed on 06 April 1989."*
- c) *"Revision of the CEPS Programme Specific Financial Rules and Procedures."*
- d) *"Clarification of the juridical personality of the CEPS National Organisations."*

1.45 Although actions were initiated by NSPO in 2023, the changes resulting from these actions will only come into effect from 2024 onwards. As NSPO's non-compliance with Article 27 of the NFRs and Rule 27 of the NSPO FRPs continued to exist and is found to be material in 2023, the current observation presented above affects this year's audit opinion on compliance and supersedes our prior year observation presented in IBA-AR(2023)0014.

Recommendations

1.46 With regard to financial commitments of NSPO appropriations in relation to the CEPS Programme and the execution of authorised NSIP projects, IBAN recommends that NSPO ensure that the CEPS Programme complies with Article 1, 27 and 32 of the NFRs. This could be achieved by ensuring that:

- a) Any proposed amendments to the CEPS and NSPO FRPs, which are not consistent with the NFRs, are approved by the North Atlantic Council; and any proposed amendments to the CEPS FRPs, which are not consistent with the NSPO FRPs, are approved by the ASB;
- b) Clarity is obtained about who is the Head of NATO Body for the CEPS NOs and how authority concerning the use of CEPS funds can be delegated to the CEPS NOs by the Head of NATO Body, which needs to be reflected in the NSPO FRPs.
- c) Requests of commitments are made by post holders in accordance with the NSPO FRPs;
- d) Commitments are entered into, and related payments are made, by the General Manager subject to the concurrence of the Financial Controller and the conditions defined in the NSPO FRPs. With regard to making payments in accordance with Article 27 of the NFRs, the NSPO ASB should ensure the completeness of Rule 27 of the NSPO FRPs by identifying the rules and procedures that apply for making payments.
- e) Procurement actions are made in accordance with applicable NSIP and NSPO procurement regulations. In case of the execution of the CEPS O&M budget, this means complying with the NSPO procurement regulations insofar as they do not contradict national legislation for CEPS National Organisations. In case of the execution of authorised NSIP projects, this means complying with the authorised bidding process by the Investment Committee and any applicable NSIP and NSPO procurement regulations that apply to NSPA as the NSIP Host Nation.

2. NEED TO STRENGTHEN INTERNAL CONTROLS OVER THE PREPARATION OF THE FINANCIAL STATEMENTS AND MANAGEMENT OF CUSTOMER ADVANCES

Reasoning

Submission and presentation of the NSPO Financial Statements

2.1 According to Article 35.1 of the NATO Financial Regulations (NFRs), *“An annual financial statement for each NATO body, consolidated where applicable and appropriate, shall be submitted for audit to the International Board of Auditors for NATO by the Financial Controller not later than 31st March following the end of the financial year.”*

2.2 According to NAF, IPSAS 1, *“the Financial Statements shall present fairly the Financial Position, Financial Performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSAS.”*

Sound financial management – Management of resources

2.3 Article 3 of the NFRs states that *“The Secretary General, the Supreme Commanders and the other Heads of NATO bodies are responsible and accountable for sound financial management and shall put in place the necessary governance arrangements to ensure and maintain this. This shall include, but is not limited to, the establishment and maintenance of financial governance, resource management practices, internal controls and financial information systems to achieve the efficient and effective use of resources.”*

2.4 Rule 3 of the NSPO FRPS states the following concerning the administration of funds and properties placed at the Agency's disposal, and the risks borne by the Agency and its customers in this regard:

- Rule 3.4 - *“The Agency shall be responsible, within the limits laid down in the NSPO Charter and in compliance with the purposes therein defined, for the proper administration of funds and properties placed at the Agency's disposal for the accomplishment of assigned tasks.”*
- Rule 3.5 - *“All risks inherent in the performance of services provided by the Agency shall be borne by the Agency's customers. Costs arising from legal liabilities incurred by the Agency in the execution of services requested from the Agency shall also be borne by those customers.”*
- Rule 3.6 - *“Without prejudice to the provisions of 3.5, in the event of damage, liabilities or losses caused by a third party or by a wilful act or gross negligence by an Agency staff member, the Agency shall arrange for those responsible to*

refund any amounts due in accordance with existing laws and regulations. In exceptional circumstances and at the request of a customer country that is a NSPO member Nation, the ASB shall consider alternative arrangements on a case-by-case basis.”

Observations

Submission and presentation of the NSPO Financial Statements

2.5 IBAN found misstatements in the NSPO Financial Statements for the year ended 31 December 2023 and first submitted to IBAN on 29 March 2024 under document reference ‘AC/338-D(2024)0008’, as described below. These misstatements, of which the aggregate effect was material, were corrected in a resubmission of the financial statements on 19 June 2024 under document reference ‘AC/338-D(2024)0008-REV1’. Without these corrections, the 2023 NSPO Financial Statements would have included material errors leading to a qualified audit opinion on the financial statements.

2.6 Prior to resubmission, the aggregate net effect of all misstatements identified in the Statement of Financial Position and the Statement of Changes in Net Assets was material. These misstatements resulted in an overstatement of receivables by EUR 82.1 million, an understatement of customer advances by EUR 96.4 million and an overstatement of net assets by EUR 178.5 million, and was material. In particular, we initially identified the following individual misstatements in the Statement of Financial Position and the Statement of Changes in Net Assets:

- Missing recognition of calls for advances issued by the Agency - This resulted in unrecorded transactions that affect the accounts receivable and customer advances at 31 December 2023, which are both understated by EUR 19.4 million;
- Missing set-offs of customer advances against customer receivables - This resulted in an unrecorded transaction that affects the accounts receivable and customer advances at 31 December 2023, which are both overstated by EUR 31 million;
- Missing credit notes in relation to the issuance of erroneous calls for contributions - This resulted in unrecorded transactions that affect the accounts receivable and customer advances at 31 December 2023, which are both overstated by EUR 70.5 million;
- Inconsistent accounting treatment of changes in net assets between NSPO Reporting Segments - This difference in accounting treatment resulted in an overstatement of Net Assets and an understatement of advances by EUR 178.5 million due to recognising calls for contributions in relation to future purchases of property, plant and equipment, intangible assets and inventories as capital contributions in Net Assets.

Sound financial management – Management of resources

2.7 In accordance with its Operating Procedure on Customer Billing (Ref. OP-FF-27), the Agency can only proceed with setting-off customer advances against customer receivables when it either receives a written confirmation to use the advances from its customers on an item-by-item basis, or when it already obtained a pre-authorisation that applies to all receivables, from its customers.

2.8 At 31 December 2023, NSPO is holding and managing EUR 7.1 billion of advances paid by its customers; and is often holding and managing these funds longer than needed due to the absence of written customer authorisations and instructions on how to use these funds.

2.9 This practice exposes both NSPO and its customers to unnecessary risks that are inherent to holding and managing funds longer than needed, such as inflation and investment risks.

2.10 In addition to that, and in the absence of a pre-authorisation from customers to set-off customer advances against receivables, the existing process for obtaining customer authorisations and instructions on how to use these funds is highly manual and requires the involvement of multiple staff members. This also exposes NSPO to an increased risk of unrecorded transactions with regard to setting-off customer advances against receivables from customers in case customer authorisations are not processed, and accounted for, in a timely manner by Agency staff.

2.11 In accordance with the principle of sound financial management, these risks can be further reduced, or even avoided, by decreasing customer advances held by NSPO as far as possible through pre-authorisations, or timely authorisations, by customers to use available customer advances for settling customer receivables.

Recommendations

2.12 IBAN recommends that NSPO:

- a) Strengthen internal controls over the preparation of the financial statements to provide a reasonable basis for obtaining assurance that financial statements are in compliance with the NATO Accounting Framework in order to avoid resubmission of the financial statements;
- b) Reduce the risk of future material misstatements due to unrecorded transactions with regard to setting-off customer advances against receivables from customers, and the inflation and investment risks inherent to holding and managing customer funds longer than needed. This can be achieved by decreasing customer advances and receivables balances as far as possible in accordance with the principle of sound financial management, for example by:

- Encouraging NSPO customers to provide the Agency with a pre-authorisation to use available customer advances for settling customer receivables;
- Seeking agreement from NSPO customers on how to settle customer receivables to treat the absence of timely customers' responses as silent approvals to set-off available customer advances against customer receivables.

3. DEROGATION FROM ARTICLE 32 OF THE NFRS IN THE NSPO FINANCIAL RULES AND PROCEDURES

Reasoning

3.1 The general provisions on financial management in NSPO's Charter state that the NSPO *"shall be governed by the provisions of the NATO Financial Regulations, subject to such derogations there from as may be approved by the NAC [the Council] upon recommendation by the Resource Policy and Planning Board"*.

3.2 In accordance with Articles 4.4 of the NFRs, the NSPO ASB approved a set of Financial Rules and Procedures (hereafter: NSPO FRPs) that provide additional guidance (called "Procedures" in the NSPO FRPs) to ensure the effective implementation of the NATO Financial Regulations (NFRs). The NSPO FRPs also include the NFRs (called "Rules" in the NSPO FRPs).

3.3 In line with the provisions of the NSPO Charter, Article 1.2 of the NFRs states that *"any amendments from the NFRs required in the financial regulations of a NATO Procurement, Logistics or Service Organisation (NPLSO) entity must be justified by the appropriate governing body and submitted to the North Atlantic Council for approval"*.

Authority and responsibilities for procurement and contracting

3.4 With regard to procurement responsibilities, the NFRs identify the Financial Controller as being responsible for ensuring and verifying adherence to procurement and contracting principles in every aspect of the procurement process. In particular, Article 32.2 of the NFRs states that *"the Financial Controller shall ensure and verify that procurement and contracting principles are adhered to and are in line with the principles of sound financial management as laid down in article 3. In exercise of these fiduciary responsibilities the Financial Controller shall be part of the contract approvals process to ensure that funds are used for their intended purposes. The relevant finance committee/governing body will provide appropriate levels of delegated powers to deviate from the strict application of competitive bidding where justified for operational, efficiency, economic or technical reasons. After risk assessment and taking into account internal control procedures, the Financial*

Controller may chair the Contracts Awards Committee for contracts to be issued above levels to be defined by the relevant finance committee/governing body.”

3.5 The NATO Procurement and Contracting principles referred to above are listed in Article 32.1, and are described as follows:

- “(a) The timely acquisition of goods and services to be achieved wherever possible through a competitive bidding process, using approved procurement procedures to achieve the most effective, efficient and economical solution;*
- (b) Goods and services will be procured, in a transparent and fair manner built upon the principle of non-discrimination and fairness in which eligible suppliers are given the same opportunity and treated in the same fair manner;*
- (c) Tendering documents shall contain a clear, precise and complete description to enhance full and open competition among eligible suppliers;*
- (d) Every aspect of the procurement process must conform to the highest standards of integrity and accountability.”*

3.6 In the case of NSPO, *“the volume of procurement activities justified the establishment of dedicated directors of acquisition who play a greater role in managing procurement rules than was traditionally the case”*. Therefore, the ASB *“agreed to reflect in the FRPs (rule 32.2) the reality whereby the Director of Procurement is responsible for day to day management to ensure procurement and contracting rules are adhered to while the Financial Controller shall verify that these rules are in line with the principles of sound financial management.”* (Ref. C-M(2017)0048).

3.7 The Resource Policy and Planning Board (RPPB) advised the Council that *“the FRPs approved by the ASB of the NSPO are broadly consistent with the NFRs [...] The approach taken in the FRPs of NSPO with regards the roles and responsibilities of the primary stakeholders involved in procurement activities by the Agency are consistent with the underlying intent of the NFRs”* (Ref. C-M(2017)0048).

3.8 The RPPB also stated the following: *“Overall the Board [RPPB] recommends that Council endorse the FRPs approved by the ASB which will govern the financial and budgetary operations of the NSPO. While noting that the FRPs will continue to require fine tuning and modifications, any amendments which are not in conformity with the NFRs will continue to be subject to Council approval.”*

3.9 On 13 October 2017, the Council *“agreed the recommendations at paragraph 19 of the RPPB report attached to C-M(2017)0048”* under silence. Accordingly, the Council agreed to the conclusion that the NSPO FRPs were consistent with the NFRs, including Rule 32.2, which identified a Director of Procurement responsible for ensuring that procurement and contracting principles are adhered to instead of a Financial Controller.

3.10 NSPO approved the following changes to the procurement function in 2023 and 2024:

- The realignment of the Agency's procurement function under the Chief of Staff, effective 1 July 2023, to regroup all the Agency support functions under the Chief of Staff's leadership;
- The suppression of the posts of Director of Procurement, effective 1 January 2024; and Deputy Director of Procurement, effective 18 October 2024;
- The creation of the post of Chief Procurement Officer, effective 18 October 2024.

Observations

3.11 On 28 March 2023, the General Manager sought ASB approval of changes to 'NSPO Functional Directive No. 2300' on the NSPO FRPs (Ref. AC/338-D(2023)0052 (INV)). The ASB approved the proposed changes to the NSPO FRPs under a silence procedure that ended on 25 April 2023.

3.12 The Agency described the purpose of the proposed changes to Rule 32 of the NSPO FRPs on 'Procurement and Contracting Principles' as follows:

"The Agency has reviewed Section VII of Functional Directive No 2300 - NSPO Financial Rules and Procedures (NFRPs), which relates to Procurement and Contracting and recommends the ASB approve changes to Rule 32 and Procedure XXXII in order to align the responsibilities given to the General Manager in the NFRPs to those set out in the NSPO Charter."

"The changes proposed are not contradictory to the NATO Financial Regulations and so the Agency does not consider that the North Atlantic Council needs to approve the changes."

3.13 More in particular, the Agency stated and clarified that:

"The NSPO Charter, at Article 13(a) permits the Agency Supervisory Board to enter into agreements and contracts, and allows this authority to be delegated to the General Manager:

The authority granted as defined in Section V (Agreements and Contracts) above shall be exercised, with due observance of the requirement stated in Article 12 (Agreements with non-NATO entities) above, either by the Agency Supervisory Board or by the General Manager of the NATO Support and Procurement Agency where the Agency Supervisory Board so decides. However, the Agency Supervisory Board shall not authorize the General Manager to conclude international agreements.

Currently, the authority given to the General Manager through ASB is contradicted by the NFRPs, where certain responsibilities have been allocated

to the Director of Procurement and Competition Advocate. The following proposed revisions to the NFRPs are intended to regularise this situation.”

3.14 Prior to 25 April 2023, Rule 32.2 of the NSPO FRPs concerning ‘Procurement and Contracting Principles’ implemented Article 32.2 of the NFRs as follows:

“The Director of Procurement shall ensure that procurement and contracting principles are adhered to and the Financial Controller shall verify that these principles are in line with the principles of sound financial management as laid down in Article 3 of the NFRs. In exercise of these fiduciary responsibilities the Financial Controller shall be part of the contract approvals process to ensure that funds are used for their intended purposes. The NSPO ASB will provide appropriate levels of delegated powers to deviate from the strict application of competitive bidding where justified for operational, efficiency, economic or technical reasons. After risk assessment and taking into account internal control procedures, the Financial Controller may chair the Contracts Awards Committee for contracts to be issued above levels to be defined by the NSPO ASB on recommendation by the NSPO Finance, Administration and Audit (FAA) Committee.”

3.15 On 25 April 2023, a revised version of the NSPO FRPs came into effect. In the revised version, Rules 32.2, 32.3 and 32.4 implement Article 32.2 of the NFRs as follows:

Rule 32.2 – *“The General Manager is accountable for ensuring that procurement is carried out in accordance with these principles and in accordance with NSPO Functional Directive 4200 – Procurement Regulations and any other applicable NATO procurement regulations.”*

Rule 32.3 – *“The Financial Controller shall verify that these principles are in line with the principles of sound financial management as laid down in Article 3 of the NFRs. In exercise of these fiduciary responsibilities, the Financial Controller, or his/her delegate, shall be part of the contract approvals process to ensure that funds are used for their intended purposes.”*

Rule 32.4 – *“The NSPO ASB will provide appropriate levels of delegated powers to deviate from the strict application of competitive bidding where justified for operational, efficiency, economic or technical reasons. After risk assessment and taking into account internal control procedures, the Financial Controller may chair any Contract Award Committee for contracts to be issued above levels to be defined by the NSPO ASB on recommendation by the NSPO Finance, Administration and Audit (FAA) Committee.”*

3.16 We found that Rule 32.2 in the revised NSPO FRPs constitutes an amendment to Article 32 of the NFRs, as the Council did not foresee any role for the General Manager in Article 32 of the NFRs or in C-M(2017)0048 with regard to ensuring adherence to procurement and contracting principles.

3.17 We also noted that the wording “*is accountable for ensuring*” in Rule 32.2 of the revised NSPO FRPs differs from the wording “*shall ensure*” in Article 32.2 of the NFRs. This change in wording also constitutes an amendment to the NFRs; and might create uncertainty as responsibility and accountability are not synonymous, and as such, not interchangeable in the context of the NFRs, as can be derived from the title of Article 3 of the NFRs ‘Responsibility and Accountability’.

3.18 In accordance with Article 1.2 of the NFRs, any amendments from the NFRs required in the financial regulations of a NATO Procurement, Logistics or Service Organisation (NPLSO) entity must be justified by the appropriate governing body and submitted to the Council for approval. This was also reiterated by the RPPB in C-M(2017)0048: “*While noting that the FRPs will continue to require fine tuning and modifications, any amendments which are not in conformity with the NFRs will continue to be subject to Council approval.*”

3.19 Therefore, NSPO’s amendment of Article 32 of the NFRs in Rule 32.2 NSPO FRPs is not fully compliant with Article 1.2 of the NFRs, as this amendment from the NFRs was not subject to the Council’s approval before the revised version of the NSPO FRPs came into effect on 25 April 2023.

Recommendations

3.20 With regard to NSPO’s amendment of Article 32 of the NFRs in Rule 32 of the NSPO FRPs, IBAN recommends NSPO to:

- a) Either submit and justify the amendment from the NFRs to the Council for approval in accordance with Article 1.2 of the NFRs; or
- b) Undo this amendment by making the deputy Director of Procurement (or the Chief Procurement Officer from 24 October 2024 onwards) responsible for ensuring that procurement and contracting principles are adhered to and are in line with the principles of sound financial management.

4. NEED TO IDENTIFY THE NET REALISABLE VALUE FOR INVENTORIES HELD BY NSPO IN CAPELLEN WHEN INDICATIONS OF DAMAGE, OBSOLESCENCE OR SLOW MOVEMENT EXIST

Reasoning

4.1 The accounting framework for all NATO Reporting Entities is an adapted version of International Public Sector Accounting Standards (IPSAS). While the NATO Accounting Framework (NAF) adheres to many of the IPSAS accounting standards, there are areas of adaptation agreed by the Council.

4.2 IPSAS 12 on Inventories is one of the Standards that was adapted by the Council in order to prescribe specific accounting treatments for inventories of NATO Reporting Entities. The NAF IPSAS 12 states the following in this regard: *“Where this adaptation conflicts with another requirement of IPSAS this adaptation shall apply. For the remainder, IPSAS 12 shall apply.”*

4.3 While the accounting for inventories by NATO Reporting Entities is set out in the NAF, a selected number of accounting policies have been developed to support the NAF among which the NATO Accounting Policy for Inventory (C-M(2017)0043).

4.4 In accordance with IPSAS 12, inventories shall be measured at the lower of cost and net realisable value, except for the following situations:

- *“Where inventories are acquired through a non-exchange transaction, their cost shall be measured at their fair value as at the date of acquisition.”;*
- *“Inventories shall be measured at the lower of cost and current replacement cost where they are held for:*
 - (a) Distribution at no charge or for a nominal charge; or*
 - (b) Consumption in the production process of goods to be distributed at no charge or for a nominal charge”.*

4.5 In accordance with IPSAS 12, *“the cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete”.* In those cases for which the cost of inventory items is not recoverable, the inventory items concerned should be written down to their net realisable value and the amount of any write-downs should be recognised as an expense in the period in which the write-downs occurs.

4.6 In this regard, IPSAS 12 further clarifies that the *“practice of writing inventories down below cost to net realizable value is consistent with the view that assets are not to be carried in excess of the future economic benefits or service potential expected to be realized from their sale, exchange, distribution, or use.”*

4.7 The principles of initial recognition of inventories based on cost as a measurement basis and writing down inventories are also reflected in the NATO Accounting Policy for Inventory:

- Article 4.2 - *“the costs model is applied for inventory. An item of inventory which qualifies for recognition should initially be measured at its costs”;*
- Article 12.2 - NATO Reporting Entities shall, among other information, disclose the *“(a) Total carrying amount of inventories and the carrying amount in classifications”;* *“(e) Amount of any material write-down of inventories recognised as an expense in the period”;* and *“(f) Amount of any reversal of any material write-down of inventories recognised in the statement of Financial Performance in the period”.*

4.8 With regard to the accounting treatment of damaged inventories, IPSAS 12 applies as there is no conflict with the NAF adaptations to IPSAS 12. It should also be noted that IPSAS 12 is the sole document describing this accounting treatment since the NATO Accounting Policy for Inventory is silent about damaged inventories.

4.9 With regard to the accounting treatment of obsolete, slow-moving, and expired inventories, the NATO Accounting Policy for Inventory states the following:

- Article 7.3 on Expired Stock: *“if stock has a certain expiring date (e.g. vaccinations and ammunition), these stock items must be written down/ impaired once the expiring date has been reached.”;*
- Article 7.4 on Impairment: *“Obsolete, slow moving and expired stock has to be impaired. An inventory item is considered as impaired if its carrying amount (net book value) is greater than its recoverable amount. The impairment loss is the difference between the carrying and the recoverable amount and is accounted for as an expense in the Statement of Financial Performance”.*

4.10 Article 12 of the NFRs on Internal Control states the following:

- Article 12.1 - *“The Secretary General, the Supreme Commanders, subordinate commanders by delegation and the other Heads of NATO bodies shall ensure the necessary internal management functions are in place to support effective internal control, designed to provide reasonable assurance that the NATO body will achieve its objectives in the following categories: (a) safeguard assets.”;*
- Article 12.2 – *“In order to meet the desired internal control standards the Financial Controller shall: [...] (c) establish and maintain comprehensive accounting records of all assets and liabilities”.*

Inventories held by NSPO on behalf of its customer ACO

4.11 NSPA holds the inventories listed below on behalf of its customer Allied Command Operations (ACO), and performs the following role with regard to these inventories:

- NATO Airborne Early Warning & Control (NAEW&C) inventories: NSPA is the Property Accounting Office (PAO) for all NAEW&C inventories it holds on behalf of its customer ACO. The Agency's role in this context is provided for under the SHAPE/NAMSA Basic Agreement for Logistics Support (Agreement No. 171) dated 26 June 1985 and further reiterated in the 2021 NAEW&C Management Plan signed by the NAEW&C Force and NSPA;

NATO UNCLASSIFIED

IBA-AR(2024)0007

- Capability Package 149 (CP 149): NSPA is the PAO for all CP 149 inventories it holds on behalf of its customer ACO. The Agency's role in this context is provided for under the Logistics Support Agreement between Supreme Headquarters Allied Powers Europe (SHAPE) and NSPO (Ref. SH/RESJ4LOG/ER/16/311710).
- NATO Integrated Air and Missile Defence System (NATINAMDS) Computer Information System (CIS) inventories: in accordance with C-M(87)17, NSPA should *"maintain auditable stock records and certify that accounts and actual holdings agree"* for all inventories purchased with common-funding from its customer ACO. While these inventories are held on behalf of customer ACO, these assets are Computer Information System assets that are from a financial reporting perspective controlled by the NATO Communication and Information Organisation (NCIO) in accordance with the NAF and the NATO Accounting Policy for Inventory.
- NATINAMDS non-CIS inventories: NSPA manages these inventories on behalf of ACO. Note 22 to the 2023 NSPO Financial Statements further clarifies that *"It is important to note that while the inventories are managed on behalf of ACO, they are not considered to be "controlled" by ACO from a financial reporting perspective and hence are not capitalised in ACO's Financial Statements"*.

Observations

4.12 As part of its annual financial audit, IBAN performs a physical inspection of inventories located at the main NSPA storage locations. During these inspections, IBAN noted that the lists of inventories located at the Agency's premises in Capellen contained a large number of items that were listed as 'unserviceable' or 'in transfer' in the asset management system at 31 December 2023.

4.13 The value of these inventories located at the Agency's premises in Capellen amount to EUR 430 million in total, out of which inventories of EUR 309.2 million are controlled by NSPO and are included in the total value of inventories disclosed for the Log Ops segment (EUR 502.4 million) and NSPO (EUR 515.9 million) in Note 5 to the 2023 NSPO Financial Statements on 'Inventory'. The remaining value of inventories held in Capellen amounts to EUR 120.8 million, which are inventories held by NSPA on behalf of its customer ACO that are excluded from the inventories disclosed in the NSPO Financial Statements due to absence of control by NSPO.

4.14 The table shown below (in EUR) summarises the value of inventories held by NSPA in Capellen by status (serviceable, unserviceable and in transfer) at 31 December 2023, and also indicates whether the inventories are controlled by NSPA or held by NSPA on behalf of its customer ACO.

In EUR	NSPA	On behalf of ACO	Total
Serviceable	185,402,336	91,254,384	276,656,720
In Transfer	76,090,141	12,054,647	88,144,788
Unserviceable	47,764,004	17,480,633	65,244,637
Total	309,256,481	120,789,664	430,046,145

4.15 Based on the information in the table shown above, we note that EUR 123.9 million of inventories held in Capellen and controlled by NSPO are either in transfer (EUR 76.1 million) or unserviceable (EUR 47.8 million), and therefore not available for operational use at their full service potential. This represents approximately 40% of the value of inventories located in Capellen that are controlled by NSPO. It should also be noted that EUR 121.3 million out of the total of EUR 123.9 million relates to Direct Exchange inventories. These inventories relate to the direct exchange of unserviceable reparable parts for replacement serviceable parts.

4.16 Based on the information in the table shown above, we note that EUR 29.5 million of inventories held at the Agency's premises on behalf of its customer ACO are not available for operational use at their full service potential (i.e. categorised as in transfer or unserviceable). This represents approximately 24.5% of the total value of inventories held in Capellen on behalf of its customer ACO. It should also be noted that EUR 29 million out of the total of EUR 29.5 million relates to Direct Exchange inventories. A detailed breakdown per type of inventory held on behalf of ACO can be found below:

In EUR	NAEW&C	CP 149	NATINAMDS CIS	NATINAMDS Non-CIS	Total
Serviceable	11,286,964	549,529	25,309,206	54,108,685	91,254,384
In Transfer	-	-	1,024,241	11,030,405	12,054,646
Unserviceable	-	-	6,838,377	10,642,257	17,480,634
Total	11,286,964	549,529	33,171,824	75,781,347	120,789,664

4.17 According to the Agency, inventories listed as unserviceable do not have their full service potential due to (partial) damage. Not having full service potential does not mean the items are unrepairable, as these items will be repaired if the cost of repair is not too high in comparison to the replacement price. Inventories categorised as in transfer are items previously categorised as unserviceable that have been sent to a repair station where a competent authority will technically assess if the items are repairable (and at which cost) and where the item can be repaired.

4.18 For Direct Exchange inventories in particular, which represent the majority of all inventory items listed as unserviceable or in transfer at 31 December 2023, unserviceable items will be written off in accordance with Functional Directive No. 2116 on 'Direct Exchange' and replaced by a new item in case of write-off. Write-offs will be made when the cost of repair exceeds 65% of the item's replacement price, or when the item is found to be unrepairable.

4.19 While the Agency performs regular checks on quantities in stock, IBAN found that it has not in recent years conducted any impairment reviews on inventories located at the Agency's premises in Capellen (closing balance of EUR 430 million as at 31 December 2023).

4.20 Especially for those items that are categorised unserviceable or in transfer, a test should be performed in order to determine the net realisable value of these items since their asset categorisation in the asset management system indicates that these items are (partially) damaged. Due to this damage, the cost of inventories may not be recoverable anymore. In case the net realisable value of these items is below the initial cost of these items, these items should be written down in accordance with the NAF IPSAS 12.

4.21 We also noted that the status of multiple unserviceable items or items in transfer has remained unchanged for over a year, which indicates that some inventories are not serviceable for a longer period (i.e. not available for operational use). This can be the result of a deliberate Agency decision to consolidate repairs, or specific arrangements made with suppliers under the maintenance contracts in place. However, the absence of inventory movement and changes in status (i.e. serviceable, unserviceable or in transfer) can also be an indication that these items might be obsolete or slow moving, which also stresses the need for an impairment test. This principle also applies to all serviceable inventory items in Capellen that have not been used, or did not change asset category, for a longer period.

4.22 Therefore, NSPA should determine the net realisable value for all inventories for which indications of damage, obsolescence or slow movement exist. This in order to comply with the NAF IPSAS 12, and to safeguard the inventories concerned in accordance with Article 12.1 of the NFRs.

4.23 IBAN is not in a position to identify the net realisable value of those inventories that did not have their full service potential at 31 December 2023, and as such cannot determine the financial impact of any write-downs of inventories to be made in case the net realisable value is lower than the cost of these items. As a result, our audit opinion is not modified in relation to this matter.

4.24 Nonetheless, through an Emphasis of Matter paragraph, we want to draw the reader's attention to the fact that IBAN is not in a position to identify the net realisable value of the inventories that did not have their full service potential at 31 December 2023, and as such cannot determine the financial impact of any write-downs of inventories to be made in case the net realisable value is lower than the cost of these items.

Recommendations

4.25 With regard to inventories held by NSPO in Capellen, we recommend NSPO to:

- a) Introduce a written procedure that describes when, how and by whom the net realisable value of inventories should be determined. This procedure should at a minimum allow for identifying the net realisable value of those inventory items for which indications of damage, obsolescence or slow movement exist;
- b) Measure inventories controlled by NSPO at the lower of cost and net realisable value in accordance with the NAF IPSAS 12, and recognise the amount of any write-downs to be made as an expense in the period in which the write-downs occur.
- c) Measure inventories held but not controlled by NSPO at the lower of cost and net realisable value in accordance with the NAF IPSAS 12, and inform other NATO Reporting Entities of any write-downs to be made to inventories under their control.

5. IMPROVEMENTS NEEDED FOR ENSURING TIMELY ACQUISITION OF FUEL SERVICES FOR THE NAVAL LOGISTIC SUPPORT PARTNERSHIP

Reasoning

5.1 In accordance with Article 32.1 of the NFRs, *“NATO Procurement and Contracting shall adhere to the following principles:*

- a) The timely acquisition of goods and services to be achieved wherever possible through a competitive bidding process, using approved procurement procedures to achieve the most effective, efficient and economical solution;*
- b) Goods and services will be procured, in a transparent and fair manner built upon the principle of non-discrimination and fairness in which eligible suppliers are given the same opportunity and treated in the same fair manner;*
- c) Tendering documents shall contain a clear, precise and complete description to enhance full and open competition among eligible suppliers;*
- d) Every aspect of the procurement process must conform to the highest standards of integrity and accountability.”*

5.2 In order to implement these principles, the NSPO Procurement regulations, among other provisions, state the following:

- Article 4.1 - *“A principal objective of the NSPA is to obtain, through international competitive bidding, the most economical prices for materiel, services and works.”;*
- Article 4.8 - *“NSPA shall promote and provide for full and open international competition in soliciting offers and awarding contracts. However, under specific circumstances, solicitation procedures other than full and open competitive bidding may be utilised.”;*

- Article 8.1 - *“NSPA will normally procure contracts of such duration as to ensure completion of the requirements. The duration of these contracts will normally not exceed a 5-year period, including option periods.”;*
- Article 8.2 - *“If, after consultation with the customer, it is determined that it would be in the best interest of the customer to conclude a contract with a duration longer than 5 years, the General Manager will request the ASB to approve the award of such a contract”.*

Non-competitive solicitations – Urgency and commonality of equipment

5.3 Article 4.8 of the NSPO Procurement Regulations identifies nine specific procurement circumstances that may justify a decision to restrict the solicitation process to only one source. The following specific circumstance is relevant in our reasoning:

- Article 4.8.2.1 - Urgency - *“Urgency conditions exist where application of the competitive bidding rules would delay the supply of materiel, services or work, defined by the customer as emergency requirements, beyond the delivery date specified and justified by that customer”.*

Complaints submitted by firms in relation to the Agency’s Request for Proposals

5.4 Paragraph 8.9 of OI 4200-01 states the following with regard to claims against unduly restrictive Request for Proposals (RFPs):

- Paragraph 8.9.1 - *“RFPs issued for a requirement estimated to exceed Financial Level “E” for goods, services and Works must contain the following wording : “If your company believes that the wording of this Request for Proposals unduly restricts competition, a formal complaint may be submitted to the Senior Procurement Officer (SPO) with a copy to the Competition Advocate not less than 10 days prior to the bid closing date (or not more than 15 days after the release of the RFP, or not more than five days after the Bidders Conference - at the buyer’s discretion and to be clearly identified in the RFP).”*
- Paragraph 8.9.1.1 - *“The formal complaint must detail the specific areas in which it is believed that the requirements of this RFP unduly restrict competition and request that NSPA suspend the procurement process.”*
- Paragraph 8.9.1.2 - *“The Agency will evaluate the complaint and, within 14 days of receipt, respond by:*
 - (1) *either amending the RFP at the initiative of the Senior Procurement Officer in consultation with the technical team;*
 - (2) *or rejecting the complaint by decision of the Competition Advocate upon consideration of the case after the statement by the Senior Procurement*

Officer that an amendment of the RFP is impossible and subsequent transmission for ruling. The complaint will be presented to a committee chaired by the Competition Advocate, gathering a member of Procurement staff, a technical subject matter expert and a neutral staff member not involved in the project. The solicitation will be suspended until the decision of the committee is made. The decision of the Agency's Competition Advocate in such cases shall be final."

5.5 OI 4200-01 does not contain any procedures on how to process other types of complaints or requests from firms in relation to RFPs that are not directly linked to undue restriction of competition, such as missing information in the RFPs or an evaluation or scoring method that might result in unfair competition.

Observations

Restriction of competition due to urgency – Fuel services

5.6 On 19 May 2017, outline agreements for a total contract value of USD 681 million were awarded under competitive bidding to four Contractors, as part of the re-tender of contracts for fuel services across the globe for the navies of the countries belonging to the Naval Logistic Support Partnership (Ref. LB-2017-060).

5.7 A first RFP was issued by the Agency on 13 January 2021 in order to have replacement contracts in place prior to the expiration date of 31 December 2021 of the outline agreements awarded under LB-2017-060. However, this RFP was suspended, and eventually cancelled, since revisions to the RFP and the statement of work were required due to, among other reasons, questions received from potential bidders during the bidding period and a number of shortcomings identified in the RFP procurement strategy for fuel services.

5.8 In response to the suspension and cancellation of the first RFP, the Agency awarded extensions of the existing outline agreements for fuel services until 31 March 2023 (in three-month increments) through addendums 1 and 2 (Ref. LB-2022-013 & LB-2022-062) to contract award LB-2017-060 based on urgency. These contract extensions increased the contract value from USD 681 million to USD 1,035 million, and avoided the temporary discontinuation of the provision of fuel services to the members of the Naval Logistic Support Partnership.

5.9 A second RFP, which replaced the first RFP after cancellation, was issued on 26 September 2022 with the plan to award replacement contracts prior to the expiration date of the existing outline agreements (i.e. 31 March 2023). However, the second RFP was suspended due to a bidder's complaint, and eventually cancelled as further changes were required to the RFP in order to address the bidder's complaint and adjust the RFP to changes in fuel market conditions.

5.10 In response to the suspension and cancellation of the second RFP, the Agency awarded extensions of the existing outline agreements for fuel services

until 31 December 2023 through addendum 3 (Ref. LB/2023/057) to contract award LB-2017-060 based on urgency. These contract extensions further increased the contract value from USD 1,035 million to USD 1,181 million, and avoided the temporary discontinuation of the provision of fuel services to the members of the Naval Logistic Support Partnership.

5.11 On 18 December 2023, the Agency awarded further contract extensions of the existing outline agreements for fuel services until 31 March 2024 through addendum 4 (Ref. LB/2023/182) to contract award LB-2017-060 based on urgency. At the date of the CAC decision, the Agency did not further increase the contract value as the contract value of the existing outline agreements as agreed in addendum 3 (Ref. LB/2023/057) was still considered to be sufficient. It should however be noted that the CAC decision documented in addendum 4 also allows the Agency to proceed with additional monthly extensions up until 30 September 2024 if deemed required, and that the contract value might still need to be revised if found insufficient.

5.12 Based on our reasoning and observations presented above, we found that:

- Complaints and questions by bidders on the content and requirements of these two RFPs could not be dealt with by NSPO prior to the expiration date of existing outline agreements. While OI 4200-01 contains a procedure for dealing with formal complaints from firms on unduly restrictive competition, there are no written internal procedures on how to process other types of complaints and questions from potential bidders in a timely manner.
- NSPO only foresaw a time period of approximately 6 months between the issuance date of the second RFP (i.e. 26 September 2022) and the expiration date of the existing outline agreements (i.e. 31 March 2023). The complexity of procuring these type of fuel services, the changing conditions in the fuel market and NSPO's experience with questions and complaints raised by bidders in relation to the first RFP, indicate that a more proactive approach through an earlier issuance of the second RFP would have been desirable for a timely acquisition of these services.
- While NSPO ensured there was no discontinuation of operations for its customers, no competitive bidding was successfully organised for the provisions of these fuel services since 19 May 2017. The initial contract award value increased by USD 500 million (i.e. from USD 681 million to USD 1,181 million), or by 73.4%, without further competition.

5.13 As a result, NSPO had to restrict competition to the existing four contractors based on urgency. This does not adhere to the procurement and contracting principles in Article 32.1(a) of the NFRs, which require a *"timely acquisition of goods and services to be achieved wherever possible through a competitive bidding process, using approved procurement procedures to achieve the most effective, efficient and economical solution"*.

5.14 In addition to that, while initially NSPO had no intent to award this contract with a duration that exceeds a five-year period, the specific circumstances described above resulted in outline agreements for which the total duration exceeds a five-year period due to unforeseen contract extensions. These unforeseen contract extensions resulting in a contract duration beyond five years were not presented to the ASB for approval in accordance with Article 8.2 of the NSPO Procurement Regulations.

5.15 These unforeseen contracts extensions result in addenda to existing outline agreements, and are subject to separate CAC decisions. The Agency considers that Article 8.1 and 8.2 of the NSPO Procurement Regulations do not apply to situations for which the total contract duration exceeds five years as a result of unforeseen contract extensions. In our view, also unforeseen contract extensions that result in amendments of the initial contract increasing the total contract duration beyond five years should, after consultation with its customers, be subject to ASB approval based on the current wording in the NSPO Procurement Regulations.

Recommendations

5.16 IBAN recommends NSPO to:

- a) Ensure timely acquisition of fuel services for the Naval Logistic Support Partnership through a competitive bidding process in accordance with Article 32.1 of the NFRs through an earlier publication of requests for proposals that allows the Agency to process complaints, questions, and changes to customer requirements while maintaining competition and continuity of services. This requires a proactive approach in which the Agency identifies a minimum suitable time frame for procuring these type of fuel services, regularly informs its customers of the status of ongoing outline agreements, encourages customers to identify their requirements at an early stage and coordinates any changes needed to these requirements with its customers;
- b) Assess if additional written procedures need to be issued to Agency staff dealing with complaints and requests from potential bidders during the request for proposal stage in order to ensure timely acquisition of goods and services through a competitive bidding process, and update the NSPO Procurement Regulations and the Agency's Operating Instruction 4200-01 if required;
- c) Clarify whether unforeseen contract extensions resulting in a total contract duration beyond 5 years also require customer consultation and ASB approval in accordance with Article 8.2 of the NSPO procurement regulations, and reflect this in the NSPO Procurement Regulations and the Agency's operating instructions, if needed.

6. IMPROVEMENTS NEEDED FOR PROCUREMENT ACTIVITIES INVOLVING SUB-CONTRACTORS FROM NON-NATO NATIONS

Reasoning

6.1 Article 27.2 of the NFRs states that *“On approval of the annual statement of planned income and expenditure, the General Manager, subject to the concurrence of the Financial Controller, is authorized to: (a) enter into commitments and make payments for purposes relating to customer agreements, subject to conditions defined by the relevant finance committee [..]”*.

6.2 In accordance with Article 32.1 of the NFRs, *“NATO Procurement and Contracting shall adhere to the following principles:*

- a) The timely acquisition of goods and services to be achieved wherever possible through a competitive bidding process, using approved procurement procedures to achieve the most effective, efficient and economical solution;*
- b) Goods and services will be procured, in a transparent and fair manner built upon the principle of non-discrimination and fairness in which eligible suppliers are given the same opportunity and treated in the same fair manner;*
- c) Tendering documents shall contain a clear, precise and complete description to enhance full and open competition among eligible suppliers;*
- d) Every aspect of the procurement process must conform to the highest standards of integrity and accountability.”*

6.3 Article 32.2 of the NFRs states that *“Eligible suppliers must be from Participating Nations unless otherwise agreed by the relevant finance committee/governing body”*.

6.4 According to the Article 12 of the Charter of NSPO, *“The NATO Support Organization shall obtain advance approval in principle of the NAC before concluding any agreement or contract involving a non-NATO nation or an agreement or contract with an international organization or any international agreement requiring Parliamentary approval by a member nation. The Agency Supervisory Board and if appropriate, in consultation with the Programme Board, shall submit the request to the NAC. NAC Approval to conclude such agreements or contracts is either specific or results from earlier relevant applicable decisions of the Council which would constitute such approval.”*

By delegation of the North Atlantic Council;

- a) The Agency Supervisory Board is authorized to conclude agreements on support cooperation, subject to prior clearance by the NATO Office of Security, with nations that received authorization from the NAC to contribute to a NATO-led operation or nations that have a partnership programme with NATO; such as Partnership for Peace, Mediterranean Dialogue and the Istanbul Co-operation Initiative.*

- b) *The Agency Supervisory Board may let contracts in nations that are not members of NATO for those initiative under NATO/PfP Trust Fund Policy for which the Agency is the Executing Agent.*
- c) *The Agency Supervisory Board may procure from a non-NATO nation when it is the only known available source of the product or service.”*

6.5 The above-mentioned provisions of the Charter of NSPO are reflected in Article 4.5 of the NSPO Procurement Regulations on Geographical Limits of Procurement, which states the following in this regard:

- Article 4.5.1 - *“Procurement shall normally be limited to firms or governmental services located within NSPO Member Nations”;*
- Article 4.5.2 - *“Contracts may be let to firms in Nations that are not members of NATO:*
 - *4.5.2.1 where those Nations are Member Nations of a NSPO Programme or participate in a NSPO Support Partnership, for requirements of that Programme or Support Partnership;*
 - *4.5.2.2 in those cases where the only known available source of a materiel or service is located in a non NATO Nation [..]*
 - *4.5.2.3 where those Nations are authorised by the NAC to contribute to a NATO led operation and have signed an agreement on support cooperation with NSPA, for such nations’ operational requirements during the NATO led operation;*
 - *4.5.2.4 where those Nations or Groups of Nations contribute to the NATO / Partnership for Peace Trust Fund Policy for project requirements for which the NSPA is the Executing Agent”.*

6.6 The NSPO Procurement Regulations further state that:

- Article 4.6.1 - *“Contracts shall not be placed with non-NATO Governments or with firms in non-NATO Member Nations or with firms whose legal residence or main production facilities are located outside NATO Member Nations except where the provisions of paragraph 4.5.2 apply.”*
- Article 4.6.2 - *“Deviations from the above rules require advance approval of the ASB.”*

Operating Instructions – Sub-contracting to firms in non-NATO nations

6.7 With regard to sub-contracting to firms located in non-NATO nations, paragraph 8.12.1.2 of NSPA Procurement Operating Instruction (OI) 4200-01 (dated 20 September 2022) states that *“Sub-contracting to a firm in a country, which is not a member of NSPO, not under Communist control or subject to formal trade embargo to be observed by NATO, is subject to prior approval and cannot exceed 30% of the value creation”.*

6.8 According to the Article 1.4 of OI 4200-01, *“Unless otherwise stated, exceptions to, or deviations from this Operating Instruction may not be made unless authorised and approved on a case-by-case basis by the Director of Procurement or the General Manager upon recommendation by the Director of Procurement. Any request for exception or deviation shall be submitted in writing to the Director of Procurement through the responsible Procurement Division Chief, and state in detail the circumstances considered to justify any proposed exception or deviation”.*

6.9 According to paragraph 9.9 of OI 4200-01, *“Before awarding a contract, NSPA shall make a determination concerning the responsibility, capability and financial stability of the prospective contractor, which may include a pre-award survey at the contractor’s premises”.*

6.10 Pre-award surveys will normally not be performed for contracts with a value less than Financial Level D or when award to a company well-known to the Agency is intended. As such, surveys occur in advance of Contract Award Committee (CAC) meetings, and must be chaired by a Procurement Officer. This will be the purpose of a report highlighting the findings of the capabilities on site.

6.11 In accordance with paragraph 10.3.1 of OI 4200-01, *“The CAC is responsible for identifying and approving the proposal to be accepted. The CAC shall be composed of NSPA officials holding the position and appropriate level of authority in accordance with a scale related to financial value [..]”.*

Observations

6.12 As part of this year’s audit procedures on procurement, we identified two CAC decisions that involved sub-contracting to Non-NATO Nations and for which we identified the two observations presented below:

- CAC decision LA/2023/073 - Non-compliance with Article 12 of the Charter of NSPO;
- CAC decision LB/2023/056 - Improvements needed to ensure adherence to the contracting and procurement principles of accountability and integrity.

CAC decision LA/2023/073 - Non-compliance with Article 12 of the Charter of NSPO

6.13 On 8 May 2023, a CAC was convened that approved the award of eight purchase orders to five contractors with regard to the wet lease of firefighting and transportation aircraft after a competitive solicitation. One of the potential contractors, for which a contract award of EUR 4,228,000 was approved, declared 60% sub-contracting to a firm located in Chile (Ref. LA/2023/073). It should be noted that the purchase order issued by the Agency after the CAC decision was eventually cancelled, as the contractor was finally unable to deliver the aircraft type offered. Nonetheless, the CAC decision made is relevant as it indicates that improvements are needed to ensure a consistent implementation of existing procurement procedures.

6.14 Article 12 of the Charter of the NSPO requires NSPO to obtain advance approval from the North Atlantic Council before concluding any contract involving a non-NATO nation. In our view, and according to the Office of the Legal Advisor (Ref. GJ/2023/019), the term “*any contract involving a non-NATO nation*” is broader than a contract “*with a non-NATO nation*” and regulates contracts involving prime contractors as well as sub-contractors from non-NATO nations. Advance approval from the Council for contracts involving firms from non-NATO nations is granted by delegation in case the contract meets one of the criteria listed in Article 12.1 (a), (b) or (c).

6.15 We noted that the decision to award a sub-contract to a firm based in Chile does not fulfil the conditions of Article 12 (a) and (b) of the Charter of the NSPO. Due to the fact that LA/2023/073 was the result of a competitive solicitation, and as such the sub-contractor is not the only known available source of the product or service, the sub-contractor concerned does not comply with the conditions of Article 12 (c) either. Therefore, the decision to approve a contract award with a sub-contractor from a non-NATO nation without obtaining advance approval from the North Atlantic Council and the ASB is not compliant with Article 12 of the Charter of NSPO and Article 32.3 of the NFRs.

6.16 It should also be noted that similar conditions to Article 12 (a), (b) and (c) of the Charter of the NSPO are included in Article 4.5.2 of the NSPO Procurement Regulations. According to the NSPO Procurement Regulations, if one of the listed conditions in Article 4.5.2 does not apply, there is a need for advance approval of the ASB in accordance with Article 4.6.2. However, as per Article 12 of the Charter of the NSPO, if one of the conditions in Article 12 (a), (b) and (c) does not apply, NSPO needs to obtain advance approval from the North Atlantic Council before concluding any contract involving a firm from a non-NATO nation. Therefore, there is an inconsistency between the Charter of NSPO and the NSPO Procurement Regulations.

CAC LB/2023/056 - Adherence to contracting and procurement principles of accountability and integrity

6.17 On 12 April 2023, a CAC was convened that approved the sole source award of an outline agreement with an estimated value of EUR 293 million for 5 years (these 5 years include an extension of 4 years) to a contractor located in a NATO Nation concerning the acquisition of a portable munitions system (Ref. LB/2023/056).

6.18 The CAC memorandum in support of this decision mentions the following:

- The percentage of sub-contracting to a non-NATO nation declared for this contract is between 30% and 70%; and the level of 70% sub-contracting at the start of the contract will be reduced to 30% in the following years;

- The contractor and its sub-contractor have signed a Strategic Partnership agreement in October 2021, where the contractor will *“take the industrial, technological and commercial lead for enhancing the capabilities of the weapon system to comply with the stringent European / NATO regulations as well as to manufacture in its capability the most of the system components; the sub-contractor will make available the components, know-how and technology”*.

6.19 The CAC information regarding the percentage of the sub-contracting is received as part of the contractor's bid, bid clarifications and negotiations with the Agency. We noted that NSPA did not conduct a pre-award survey before the CAC, to verify the percentage of the sub-contracting due to the Agency's experiences with this contractor in previous business relationships. We confirmed that, although there were previous business relationships with the contractor and NSPA, this was the first contract award of NSPO to this contractor regarding the munitions system concerned.

6.20 In accordance with paragraph 8.12.1.2 of OI 4200-01, sub-contracting to firms in a non-NATO nation is subject to prior approval and cannot exceed 30% of the value creation. As the sub-contracting percentage for this procurement was expected to be between 30% and 70%, a deviation from paragraph 8.12.1.2 was required in accordance with paragraph 1.4 of OI 4200-01. This deviation was granted by the Director of the Procurement on 6 October 2022 in order to authorise sub-contracting to a sub-contractor located in a non-NATO nation of up to 70% of the total value created.

6.21 On 28 April 2023, the Agency sent a signed outline agreement to the contractor with a contract duration of one year (i.e. valid from 1 May 2023 to 30 April 2024) and requested the contractor to return a countersigned copy for acknowledgment and acceptance. With regard to sub-contracting, the provisions of Article 20 of terms and conditions of the outline agreement state that *“The Contractor is authorized to sub-contract up to 70% of the work under this contract [..]”*.

6.22 On 15 May 2023, the contractor provided the Agency with a countersigned copy of the outline agreement together with an accompanying letter. This letter stated that the sub-contracting percentage as per Article 20 of the terms and conditions of the contract will be amended as follows: *“The Contractor is authorized to sub-contract up to 70% for the line items 10,20 and up to %100 for the line items 30,40,50,60,70,80,90 and 100 [..]”*.

6.23 It should be noted that the information included in the contractor's letter contradicted previous information shared with the Agency in the contractor's offer, in which the contractor stated that it would *“take the industrial, technological and commercial lead for enhancing the capabilities of the weapon system to comply with the stringent European / NATO regulations as well as to manufacture in its capability the most of the system components; the sub-contractor will make available the components, know-how and technology.”*

6.24 We noted that the Agency did not request any amendments to the outline agreement, did not cancel the outline agreement and proceeded with the issuance of three purchase orders against the outline agreement amounting to EUR 28,271,590 in total. In the absence of any amendments to the provisions of the signed outline agreement, it is unclear if the contract will be executed by the contractor in accordance with the CAC decision as per LB/2023/056. In case the proportion of sub-contracting changed after the initial CAC decision, a new CAC should have been convened to identify and approve the new proposal to be accepted in accordance with paragraph 10.3.1 of OI 4200-01.

6.25 While the Agency did not cancel or amend the existing outline agreement, it postponed the award of the 4-year contract extension to this contractor and sought advice from the Office of the Legal Advisor due to uncertainty on whose approval is needed prior to awarding a contract with a percentage of sub-contracting to firms in non-NATO nations between 70% and 100%.

6.26 In its response, the Office of the Legal Advisor concluded that *“noting that Article 8.12.1.2 of OI 4200-01 sets the maximum percentage of value creation of the non-NSPO sub-contractor at 30% and that the situation referred to the Office of the Legal Advisor’s office greatly exceeds that threshold, it is necessary to deviate from this provision. Therefore, if not obtained already, the approval for deviation from the appropriate authority is required. Under the current revision of OI 4200-01, the deviation would need to be approved by the NSPA General Manager (GM) upon recommendation by the Director of Procurement, as provided by Article 1.4 of OI 4200-01”* (Ref. GJ/2023/019).

6.27 The approval of the General Manager to deviate from paragraph 8.12.1.2 of OI 4200-01 based on paragraph 1.4 of OI 4200-01 for the contract amendment proposed by the contractor (i.e. increasing the percentage of sub-contracting from 70% to 100% for the line items 30,40,50,60,70,80,90 and 100) was not requested in 2023.

6.28 It is also unclear if the General Manager’s approval was required prior to the Contract Award Decision documented in LB/2023/056, since the sub-contracting percentage based on the contractor’s initial proposal also greatly exceeded 30%. In this regard, paragraph 8.12.1.2 of OI 4200-01 currently does not state who is authorised to provide prior approval if the sub-contracting to a firm in a non-NATO nation is below or equal to 30%. This creates uncertainty and confusion, as the paragraph only states that *“Sub-contracting to a firm in a country, which is not a member of NSPO, not under Communist control or subject to formal trade embargo to be observed by NATO, is subject to prior approval”*.

6.29 In our view, identifying who needs to prior approve sub-contracting to firms in non-NATO nations in case the sub-contracting exceeds 30% of the value created and as such approves a deviation from paragraph 8.12.1.2 of OI 4200-01, is important in order to ensure compliance with Article 27.2 of the NFRs. In the absence of a clear approval, either by the General Manager or by the Director of Procurement through

delegated authority from the General Manager, the Contract Award Committee cannot proceed with the approval of a contract award decision for entering into commitments with NSPO funds in accordance with Article 27.2 of the NFRs.

6.30 We conclude that the procurement process followed for LB/2023/056 did not adhere to the highest standards of integrity and accountability principle in accordance with Article 32.1(d) of the NFRs based on the following:

- Uncertainty concerning the conformity of the execution of the signed outline agreement with the sub-contracting percentage agreed on in the CAC decision;
- Uncertainty concerning the authority for approving sub-contracting to firms in non-NATO nations that exceeds 30% of the value created in accordance with OI 4200-01;
- The issuance of three purchase orders for a total of EUR 28,271,590 despite the uncertainties presented above, instead of clarifying if, and as such getting absolute certainty that, the contractor would be able to execute this contract while respecting the percentage of subcontracting in the outline agreement or not. This clarification would also have allowed the Agency to subsequently amend the outline agreement if needed based on a new CAC decision with all required approvals.

Recommendations

6.31 With regard to sub-contracting to firms in non-NATO nations, IBAN recommends NSPO to ensure that every aspect of its procurement process conforms to the highest standards of integrity and accountability principle in accordance with Article 32.1 of the NFRs by:

- a) Obtaining all necessary approvals, including advance approval from the North Atlantic Council when agreements involving non-NATO nations do not fulfil the conditions stated in Article 12 (a), (b) or (c) of the Charter of NSPO, prior to awarding a contract involving subcontractors from non-NATO nations, and that these contracts are awarded fully in accordance with the Contract Award Committee decisions. The latter in order to ensure compliance with Article 27.2 of the NFRs with regard to authority for entering into commitments;
- b) Aligning Article 4.6.2 of the NSPO Procurement Regulations with Article 12 of the Charter of NSPO;
- c) Defining who is authorised to prior approve sub-contracting to non-NATO nations in accordance with paragraph 8.12.1.2 of Operating Instruction 4200-01, and specifying how paragraph 1.4 of Operating Instruction 4200-01 on the approval of deviations from this Operating Instruction by the Director of Procurement or the General Manager should be implemented;

- d) Performing pre-award surveys in case there is uncertainty about the sub-contracting value created in order to ensure that contracts are awarded in compliance with the Charter of NSPO, the NSPO Procurement Regulations, and Operating Instruction 4200-01.

7. ABSENCE OF SUFFICIENT DATA TO SUBSTANTIATE A RESTRICTION IN COMPETITIVE BIDDING BASED ON A NATIONAL QUALIFICATION

7.1 In accordance with Article 32.1 of the NFRs, *“NATO Procurement and Contracting shall adhere to the following principles:*

- a) The timely acquisition of goods and services to be achieved wherever possible through a competitive bidding process, using approved procurement procedures to achieve the most effective, efficient and economical solution;*
- b) Goods and services will be procured, in a transparent and fair manner built upon the principle of non-discrimination and fairness in which eligible suppliers are given the same opportunity and treated in the same fair manner;*
- c) Tendering documents shall contain a clear, precise and complete description to enhance full and open competition among eligible suppliers;*
- d) Every aspect of the procurement process must conform to the highest standards of integrity and accountability.”*

7.2 In order to implement these principles, the NSPO Procurement regulations, among others provisions, state the following:

- Article 4.1 - *“A principal objective of the NSPA is to obtain, through international competitive bidding, the most economical prices for materiel, services and works.”;*
- Article 4.8 - *“NSPA shall promote and provide for full and open international competition in soliciting offers and awarding contracts. However, under specific circumstances, solicitation procedures other than full and open competitive bidding may be utilised”.*

7.3 Article 4.8 of the NSPO Procurement Regulations identifies nine specific procurement circumstances that may justify a decision to restrict the solicitation process to only one source. The following two specific circumstances are relevant in our reasoning:

- Article 4.8.1 - Sole Source - *“There is only one known source capable of providing the materiel, service or works required.”;*
- Article 4.8.2.5 - Equipment commonality in support of multinational operations - *“If the customer provides sufficient data to substantiate that there is a specific requirement to operate its forces with another NATO Nation for which the use of common, and not only compatible or interchangeable equipment is*

necessary, the equipment may be procured from the same source as the equipment already in that other NATO Nation's inventory".

7.4 The Operating Instruction 4200-01 on Procurement details how the NSPO Procurement Regulations ((OI 4200-01, version dated 29 September 2023) should be implemented by the Agency, and identifies the following procedures to be followed when restricting competition to sole source due to a national qualification:

- Paragraph 8.2.1.5 - *"In some cases, a Customer's relevant national technical authorities have conducted a qualification process at national level that determines the sole source for their requirement on technical considerations. The current qualification decision signed by the empowered national authority and the decision's supporting documents will be obtained by the Programme and must be used as supporting documentation for the sole source request."*;
- Paragraph 8.2.1.6 - *"Confirmation of the registration of the company and recognition of its sole source status for the requirement considered will be sought from the Chief of the Source Identification Section by submitting the official qualification documents established by the empowered national authority. Following the confirmation of the Sole Source status by the Chief of the Source Identification Section, all relevant documentation shall be submitted to the Competition Advocate who shall assess whether the national qualification decision was adequately supported to qualify as a sole source under NSPA current regulations."*;
- Paragraph 8.2.1.7 - *"Copies of the official qualification decisions and other relevant documents shall be listed and referenced in the technical evaluation annexed to the CAC Memorandum"*.

Observations

7.5 On 8 December 2023, the Contract Award Committee (CAC) decided to award a contract in relation to ammunition of EUR 14,195,470 sole source (i.e. to restrict competition) on the grounds of national qualification based on technical considerations, as the ammunition to be ordered is the only ammunition compatible with new artillery platforms that will be delivered to the customer concerned in the future. In addition to that, the customer also informed NSPO that it needed this specific type of ammunition for reasons of commonality of equipment in support of its multinational operations.

7.6 The customer concerned confirmed in writing that the ammunition requested is the only ammunition that will be qualified with their future ammunition system. Apart from this written statement, the customer could not provide NSPO with any evidence in support of its national qualification process, or its need for commonality of this equipment in multinational operations, as that process still had to be conducted at that moment.

7.7 In this regard, we noted that the CAC Memorandum states that the qualification of these items for the artillery platform was postponed to 2024 by the customer, while it initially was to be accomplished by October 2023. This qualification should also support commonality of equipment in support of the customer's multinational operations. This means that the customer's national technical authorities did not conduct a qualification process that determines the sole source, or single source based on equipment commonality in support of multinational operations, for their requirement on technical considerations prior to NSPO's contract award decision; and that the customer did to provide NSPO with copies of the official qualification decisions and other relevant documents in a timely manner.

7.8 As a result, NSPO was not in a position to assess whether sufficient data was available to substantiate the sole source request (i.e. to restrict competition), and could not list, and refer to, the customer's official qualification decisions and other relevant documents in its CAC memorandum. Therefore, NSPO's decision to proceed with the contract award in the absence of this information and assessment, is not compliant with Article 4.8 of the NSPO Procurement Regulations and Paragraph 8.2 of OI 4200-01.

7.9 As a result, we conclude that the procurement process followed for the award of this contract does not adhere to the procurement and contracting principle of Article 32.1(a) of the NFR, which states that *"Every aspect of the procurement process must conform to the highest standards of integrity and accountability"*.

7.10 In response to the observations presented above, the Agency further clarified that the customer's confirmation that national qualification of the ammunition to be procured was imminently forthcoming was found to be acceptable considering the urgency of the requirement as well as delays to the qualification process due to geopolitical events.

Recommendations

7.11 IBAN recommends NSPO to ensure that every aspect of the procurement process conforms to the highest standards of integrity and accountability in accordance with Article 32.1 of the NFRs by ensuring that sufficient data is available to substantiate sole source requests based on national qualifications prior to approving such sole source requests and awarding contracts on this basis. In this regard, sufficient data should at a minimum consist of a qualification decision signed by the empowered national authority as a result of a qualification process conducted by national technical authorities and documents in support of this qualification decision in accordance with Operating Instruction 4200-01 on Procurement.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

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

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

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
(1) NSPO FY 2022 IBA-AR(2023)0014, paragraph 1.21 NON-COMPLIANCE WITH THE NFRS FOR COMMITMENTS ENTERED INTO THROUGH THE USE OF THE NLSE AND NATO FUEL MANAGEMENT ELECTRONIC TOOLS IBAN's Recommendation With regard to financial commitments of NSPO appropriations entered into through the use of electronic tools, IBAN recommends that NSPO: a) Comply with Article 27 of the NFRs when using the NLSE and NATO Fuel Management Supply and Services electronic tools by ensuring that all NSPO financial commitments are entered into in accordance with article 27 NFRs and with the conditions defined by its finance committee (i.e. the NSPO FRPs).	a) On 2 April 2024, the North Atlantic Council approved a deviation to Article 27 of the NFRs that allows NSPO customers to directly enter into a commitment with vendors (Ref. PO(2024)0101). This approved deviation has retroactive effect from 1 January 2023 onwards. Therefore, this sub-recommendation lapsed since all financial commitments of NSPO appropriations entered into by NSPO through the use of electronic tools in 2023 are found to be compliant with NSPO's approved deviation from Article 27 of the NFRs. Closed.	Observation In-Progress.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
b) Introduce written guidance on the use of all electronic tools for procuring goods and services, and as such entering into financial commitments. This should describe the design of these tools, the conditions on which these tools can be used, the internal controls in place and the roles and responsibilities of all actors involved in the process. This includes the identification of NSPA post holders authorised to request financial commitments of NSPO appropriations through the use of electronic tools.	b) The Agency is still in the process of producing written guidance on the use of electronic tools, and expects to distribute this written guidance to its staff by the end of 2024. In-progress.	
(2) NSPO FY 2022 IBA-AR(2023)0014, paragraph 2.43 NON-COMPLIANCE WITH THE NFRS WITH REGARD TO THE USE OF CEPS AND NSIP FUNDS BY THE CEPS NATIONAL ORGANISATION FOR FRANCE IBAN's Recommendation With regard to financial commitments of NSPO appropriations in relation to the CEPS Programme and the execution of authorised NSIP projects, IBAN recommends that NSPO ensures that the CEPS Programme complies with Article 1, 27 and 32 of the NFRs. This could be achieved by ensuring that: a) Any proposed amendments to the CEPS and NSPO FRPs, which are not consistent with the NFRs, are approved by the North Atlantic Council; and any proposed amendments to the CEPS FRPs, which are not consistent with the NSPO FRPs, are approved by the Agency Supervisory Board; b) Clarity is obtained about who is the Head of NATO Body for the CEPS NOs and how authority concerning the use of CEPS funds can be delegated to the CEPS NOs by the Head of NATO Body, which needs to be reflected in the NSPO FRPs. c) Requests of commitments are made by post holders in accordance with the NSPO FRPs;	a) This sub-recommendation is superseded by sub-recommendation (a) of the first observation in this audit report. Closed. b) This sub-recommendation is superseded by sub-recommendation (b) of the first observation in this audit report. Closed. c) This sub-recommendation is superseded by sub-recommendation (c) of the first observation in this audit report. Closed.	Observation Closed.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
d) Commitments are entered into, and related payments are made, by the General Manager subject to the concurrence of the Financial Controller and the conditions defined in the NSPO FRPs. With regard to making payments in accordance with Article 27 of the NFRs, the NSPO ASB should ensure the completeness of Rule 27 of the NSPO FRPs by identifying the rules and procedures that apply for making payments. e) Procurement actions are made in accordance with applicable NSIP and NSPO procurement regulations. In case of the execution of the CEPS O&M budget, this means complying with the NSPO procurement regulations insofar as they do not contradict national legislation for CEPS National Organisations. In case of the execution of authorised NSIP projects, this means complying with the authorised bidding process by the IC and any applicable NSIP and NSPO procurement regulations that apply to NSPA as the NSIP Host Nation.	d) This sub-recommendation is superseded by sub-recommendation (d) of the first observation in this audit report. Closed. e) This sub-recommendation is superseded by sub-recommendation (e) of the first observation in this audit report. Closed.	
(3) NSPO FY 2022 IBA-AR(2023)0014, paragraph 3.22 INCOMPLETE DISCLOSURE OF INFORMATION ON THE NATURE OF NSPO'S COMBINATION OF ITS BUSINESS UNITS OPERATIONS INTO A SINGLE ENTITY IBAN's Recommendation With regard to the combination of NSPO's business operations performed by different legal entities (NSPO, BPO, DPO, FBG and SNOI) into a single public sector entity in the preparation and presentation of the NSPO Financial Statements, IBAN recommends NSPO to: a) Assess, and clarify, the NSPO basis of combination of these operations in accordance with the NATO Accounting Framework IPSAS 40 on 'Public Sector Combinations'. b) Comply with the NATO Accounting Framework IPSAS 40 on 'Public Sector	a) We noted that the Agency made an assessment as recommended, and made the necessary disclosures in its note on Accounting Policies in the 2023 NSPO Financial Statements. Closed. b) We noted that the Agency made the necessary	Observation Closed.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
Combinations' by disclosing information in the NSPO Financial Statements that enables the users of its financial statements to evaluate the nature of the combination of these operations.	disclosures in its note on Accounting Policies in the 2023 NSPO Financial Statements. Closed.	
(4) NSPO FY 2022 IBA-AR(2023)0014, paragraph 4.15 WEAKNESSES IDENTIFIED IN PROCUREMENT SOLICITATION THROUGH THE USE OF THE NSPA SOURCE FILE IBAN's Recommendation IBAN recommends NSPO to adhere with the principles of Article 32.1 of the NFRs and the provisions of Operating Instruction 4200-01 on procurement by ensuring that: a) All eligible suppliers identified in the NSPA Source List are reached as part of the solicitation process by requesting an acknowledgement of receipt in case the publication of a solicitation is constrained when seeking competitive proposals;	a) Firstly, as of 1 January 2024, offer submission by potential bidders has become mandatory through NSPA's e-Procurement portal. As a result, all suppliers registered in the NSPA Source File will gradually update their contact details on the e-Procurement portal. The Agency's Source Identification Section also notified all registered suppliers with no e-Procurement account about the necessity to submit all future applications through the e-Procurement portal, which will eventually result in a registration of all potential bidders. This reduces the risk of erroneous contact information for potential bidders in the NSPA Source List. Secondly, all procurement staff were instructed to inform the Source Identification Section about delivery failures due to wrong contact details, after which the Source Identification Section will try to contact these suppliers and request them to update their contact details. Closed.	Observation Closed.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
b) The Source Identification Section is informed by buyers and procurement officers about incorrect information in the NSPA Source File in order to allow the section to update the Agency Source File database where necessary; c) Records are kept by buyers and procurement officers of all non-delivery notifications as part of the solicitation process.	b) The Agency's procurement staff was instructed to record all non-delivery notifications in the solicitation file and to inform the Source Identification Section about delivery failures, after which the Source Identification Section will try to contact with these suppliers and request them to update their contact details. Closed. c) The Agency's procurement staff was instructed to record all non-delivery notifications in the solicitation file and to inform the Source Identification Section about delivery failures. Closed.	
(5) NSPO FY 2022 IBA-AR(2023)0014, paragraph 5.9 WEAKNESSES IDENTIFIED IN ACCOUNTING TREATMENT OF NSIP CALLS FOR CONTRIBUTIONS IBAN's Recommendation IBAN recommends NSPA to recognise any NSIP contributions to be received, or returned, in accordance with the payment guidelines of the NSIP calls for contributions, as approved by the NATO Investment Committee.	In 2023, we noted that NSPO recognised NSIP contributions to be received, or returned, in accordance with the payment guidelines of the NSIP calls for contributions. Closed.	Observation Closed.
(6) NSPO FY 2021 IBA-AR(2022)0017, paragraph 1.14 INSUFFICIENT TRACKING OF INVENTORY AT THE AGS MAIN OPERATING BASE IBAN's Recommendation IBAN recommends NSPA to: a) perform a complete reconciliation of the AGS assets recorded in the ERP asset accounting module with the detailed components recorded in the AGS Logistics Information System (ALIS) and supported by the Interactive Electronic Technical Manual (IETM) against the assets physically located on site. This will improve the Agency's audit readiness process in	a) We found that the Agency implemented this sub-recommendation as all AGS systems were subject to a physical configuration audit or a physical inventory check between July 2018 and March 2024. Going forward, physical configuration audits will still be	Observation Closed.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
terms of the physical inspections performed annually by the IBAN; b) implement a tagging/labelling system which allows an automatic linkage with the ERP asset accounting module and with ALIS; c) ensure that all critical asset items are covered by an annual physical inventory check; d) ensure the inventory-related risk regarding the continued airworthiness of the AGS assets is included in the Agency's risk registers and covered by related mitigating actions;	organised in order to ensure a permanent control on the various elements of the AGS system. Closed. b) This sub-recommendation was closed in IBA-AR(2023)0014. Closed. c) This sub-recommendation was closed in IBA-AR(2023)0014. Closed. d) This sub-recommendation was closed in IBA-AR(2023)0014. Closed.	
(7) NSPO FY 2021 IBA-AR(2022)0017, paragraph 2.13 NEED TO CLARIFY THE LEGAL STATUS OF THE SHOP ON THE AGENCY'S PREMISES AND ENSURE COMPLIANCE WITH MWA REGULATIONS IBAN's Recommendation In light of the MWA transitional relief period (as stipulated in the MWA Regulations) which will end with the issuance of the 2022 Financial Statements, IBAN recommends NSPA to: a) clarify the legal status of the Shop operating on its premises; b) determine whether the Shop should be classified as MWA and if so, ensure full compliance with MWA Regulations.	a) This sub-recommendation was closed in IBA-AR(2023)0014. Closed. b) The NSPO Office of the Legal Advisor made the determination that the Shop in its current form does not form part of NSPO's Morale and Welfare Activities (MWA). The Agency intends to outsource the operation of the Shop to a private firm in a manner that is compliant with the applicable national legislation of Luxembourg. In case the Agency is unsuccessful in outsourcing the operation of the Shop to a private firm, the Agency will inquire about the	Observation In-Progress.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
	feasibility and viability of a shop that would be compliant with MWA regulations. In-Progress.	
(8) NSPO FY 2021 IBA-AR(2022)0017, paragraph 3.13 NEED TO IMPROVE THE ABILITY TO DEMONSTRATE COMPLIANCE WITH THE NFRs AND NSPO PROCUREMENT REGULATIONS FOR NON-COMPETITIVE SOLICITATIONS IBAN's Recommendation In order to ensure full compliance with Article 32 of the NFRs in the absence of competitive bidding, IBAN recommends that NSPA: a) amend the OI 4200-1 in order to ensure that the Agency obtains the supporting documents as evidence of any national qualifications prior to the launch of a non-competitive solicitation (at the FBO stage); b) ensure a timely communication of customer complaints between the Procurement division and the Competition Advocate, with the support of the NSPO/NSPA Office of the Legal Advisor, when necessary; c) implement a procedure to ensure that complaints for unduly restricting competition (submitted even at the FBO level) for solicitations above a certain threshold (to be defined by the Agency) are adequately managed and submitted to the Competition Advocate in a timely manner.	a) This procedure is included in paragraph 8.2.1.6 of the fifth revision of OI 4200-01, which came into effect on 29 September 2023. Closed. b) This procedure is included in paragraph 8.9.1.1 of the fifth revision of OI 4200-01, which came into effect on 29 September 2023. Closed. c) This procedure is included in paragraph 8.9.1.2 of the fifth revision of OI 4200-01, which came into effect on 29 September 2023. Closed.	Observation Closed.
(9) NSPO FY 2021 IBA-AR(2022)0017, paragraph 4.11 IMPROVEMENTS REQUIRED IN THE CLASSIFICATION AND RECOGNITION OF CUSTOMER ADVANCES IBAN's Recommendation IBAN recommends that NSPA correctly classify and recognise customer advances in the financial statements. This can be achieved by:		Observation Closed.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
a) Reviewing and updating its existing guidance SOP-FF-11 on the classification of advances to take into account any exceptions. b) Segregating customer advances per expected financial year in the ERP accounting system. In this respect, the Agency should consider any updates to be made in terms of accounting processes and related workflows as part of the design of the migration project to the updated ERP system. These should enable an adequate follow-up to be performed in the ERP over the customer advances involving payments to vendors over several financial years. c) Reviewing the existing internal controls on the classification of customer advances and update them as necessary in order to ensure that advances are presented correctly in the financial statements. d) Ensuring that the finance officers in the Programmes upload the necessary documentation supporting the classification of customer advances into the ERP for internal control and audit trail purposes. This should enable the Finance Division to perform the review of this classification	a) In last year's IBAN audit report (Ref. IBA-AR(2023)0014), we stated that the Agency introduced a change in accounting policy as regards accounting for advance liabilities, as disclosed in the 2022 NSPO Financial Statements. As a next step, this change in accounting policy was reflected in a revised version the Agency's Operating Procedure on 'Calls for contributions and calls for advances' (Ref. OP-FF-22) that came into effect on 27 October 2023. Closed. b) This sub-recommendation was closed in IBA-AR(2023)0014. Closed. c) In last year's IBAN audit report (Ref. IBA-AR(2023)0014), we stated that the Agency introduced a change in accounting policy as regards accounting for advance liabilities, as disclosed in the 2022 NSPO Financial Statements. As a next step, this change in accounting policy was reflected in a revised version the Agency's Operating Procedure on 'Calls for contributions and calls for advances' (Ref. OP-FF-22) that came into effect on 27 October 2023. Closed. d) This sub-recommendation was closed in IBA-AR(2023)0014. Closed.	

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
before the NSPO Financial Statements are issued.		
(10) NSPO FY 2021 IBA-AR(2022)0017, paragraph 5.12 NEED TO ASSESS WHETHER NSPO IS ACTING AS AN AGENT OR A PRINCIPAL AT THE PROGRAMME/ACTIVITY LEVEL IBAN's Recommendation IBAN recommends that NSPA: a) perform for each of its activities an assessment of whether NSPO is acting as a Principal or Agent, with a view to determining whether such activities should in the future be reported as revenue and expenses of the NSPO. Such assessment should be performed across all activities of the entity to ensure consistency of accounting treatments within the organisation; b) based on the conclusions of this assessment, if necessary, review the current processes and how these need to change to ensure that the NSPO Financial Statements are prepared on the correct basis as an agent for some of its activities; c) consider any updates to be made in terms of accounting processes and related workflows as part of the migration project to the updated ERP system.	a) The Agency is in the process of undertaking a review of transaction types across its business units and programmes to determine whether the Agency acts as a Principal or Agent for its activities. In-Progress. b) Action on sub-recommendation (b) can only be taken once sub-recommendation (a) has been implemented. Open. c) The Agency is currently identifying the requirements for its new ERP system, in doing so it ensures that any updates to accounting processes and workflows in response to sub-recommendation (a) will allow the Agency to differently account for certain activities in the updated ERP system if needed. In-Progress.	Observation In-Progress.
(11) NSPO FY 2020 IBA-AR(2021)0017, paragraph 1.11 ESTIMATED FINANCIAL IMPACT OF RESOLUTE SUPPORT (RS) WITHDRAWAL NOT YET AVAILABLE IBAN's Recommendation IBAN recommends that NSPA: a) Finalises the analysis of the estimated	a) The Agency is in the process	Observation Closed.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
financial impact of the RS withdrawal as soon as possible and inform all stakeholders thereof. b) For other on-going NATO missions, establishes procedures to ensure that an updated analysis and overview of the financial impact of possible restructuring or closure of an operation is readily available, at a minimum annually.	of completing the financial closeout of the RS withdrawal, and expect to complete this process by the end of 2024. We note that estimates on the financial impact of the RS withdrawal have regularly been provided to all stakeholders at governance meetings since the RS withdrawal in August 2021 and the termination of the RS mission in September 2021 up until 2023. As we recommended the Agency to finalise the analysis of the estimated financial impact as soon as possible, and to inform all stakeholders of the result of that analysis, we found that the Agency implemented this recommendation. Closed. b) This sub-recommendation was closed in IBA-AR(2022)0017. Closed.	
(12) NSPO FY 2020 IBA-AR(2021)0017, paragraph 2 SIGNIFICANT ERRORS IN THE RECOGNITION OF INVENTORIES IN THE 2020 NSPO FINANCIAL STATEMENTS IBAN's Recommendation IBAN recommends that NSPA ensures that: a) Inventories are correctly recognised in the Financial Statements, by making the necessary accounting entries in order to correct the misstatement identified in inventories. The inventories' posting process should be automated in order to reduce the inherent risk of human errors. b) Programme managers responsible for providing data to the Finance division should also provide evidence of the checks performed on inventories in order to validate the data being submitted.	a) The Agency aims to fully automate the process upon implementation of the updated ERP software in 2026. In-Progress. b) We noted that programme managers provided more data on these inventories to the Finance division. However, further progress is still required in this area with respect to providing evidence in support	Observation In-Progress.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
c) The inventory lists provided to IBAN during the audit are correct, reliable and can be reconciled to the Financial Statements.	of the checks performed on inventories in order to gain assurance on the completeness and accuracy of the data submitted. In-Progress. c) This sub-recommendation was closed in IBA-AR(2022)0017. Closed.	
(13) NSPO FY 2020 IBA-AR(2021)0017, paragraph 4.13 NON-ELIGIBLE SETTLEMENTS FOR DEPARTURE INDEMNITIES IBAN's Recommendation IBAN recommends that NSPA ensures: a) Consultants are employed in accordance with the provisions of the CPRs Article 69 by establishing a procedure in order to closely monitor their cumulative duration of work resulting from the contracts signed by the Agency. b) Payment of consultant fees are limited to the contracts signed by the Agency. c) The implementation of a procedure in order to regularly assess and identify any perceived conflicts of interest between staff members in order to take the necessary actions in a timely manner. d) Full compliance with the NSPO Functional Directive no. 2300 by having any charges agreed by customers prior to their being incurred and reflected in the consultant's (amended) contract. e) Specific budgetary provisions are made and the prior-approval of commitment is given by the Financial Controller or under his delegated authority, in line with OI 4300-09.	a) This sub-recommendation was closed in IBA-AR(2023)0014. Closed. b) This sub-recommendation was closed in IBA-AR(2023)0014. Closed. c) This sub-recommendations was closed in IBA-AR(2022)0017. Closed. d) This sub-recommendation was closed in IBA-AR(2023)0014. Closed. e) We found that Operating Instruction 4300-07 on 'Prior-Approval of Commitments in the Administrative and the Operational Budgets' was revised on 20 December 2023. The revision of this Operating Instruction specifies how budgetary provisions should be made and how the prior-	Observation Closed.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
	approval of commitment by the Financial Controller, or his delegate, should be granted. Closed.	
(14) NSPO FY 2020 IBA-AR(2021)0017, paragraph 5.10 IMPROVEMENTS NEEDED IN THE SAFEGUARDING OF NSPA FURNISHED PROPERTY (NFP) IBAN's Recommendation IBAN recommends that NSPA: a) Conducts an annual reconciliation between the quantities confirmed by NFP contractors or national depots, the programmes and the ERP accounting system. b) Ensures that the frequency of controls at the contractors and national depots is increased and follows a risk-based approach.	a) Firstly, similar to previous years, not all confirmations requested by the Agency from NFP contractors or national depots were received. Therefore, the Agency did not have access to a complete set of data. In addition to that, similar to previous years, recent inventories counts conducted at NFP contractors and national depots have evidenced that the confirmations submitted by some national depots holding NFP are not reliable. Secondly, we noted that the Agency did not perform an annual reconciliation between the quantities at 31 December 2023 confirmed by NFP contractors or national depots, the programmes and the ERP accounting system prior to the issuance of the 2023 Financial Statements. As a result, reconciliation differences (if any) between the ERP records and the confirmations were not identified, clarified, and corrected prior to the issuance of the 2023 NSPO Financial Statements. In-progress. b) This sub-recommendation was closed in IBA-AR(2023)0014. Closed.	Observation In-Progress.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
c) Follows-up and corrects in a timely manner any discrepancies found in the NFP reconciliation or during physical inventories performed at NFP storage facilities by improving the related ERP processes, including their automation, where possible. d) Provides sufficient resources to the Quality Assurance office in order to perform independent review of Contractors' and National Depots' inventories.	c) Firstly, we noted that the Agency did not perform an annual reconciliation between the quantities at 31 December 2023 confirmed by NFP contractors or national depots, the programmes, and the Agency's accounting records prior to the issuance of the 2023 Financial Statements. Secondly, immediate stock adjustments based on stock confirmations provided by NFP locations are not being made yet as these confirmations by contractors and national depots are not considered to be reliable. In-Progress. d) This sub-recommendations was closed in IBA-AR(2022)0017. Closed.	
(15) NSPO FY 2019 IBA-AR(2020)0009, paragraph 2.16 NSPA NEEDS TO ADAPT TO VALUE ADDED TAX (VAT) REGIME IBAN's Recommendation Until the Agency's final status on VAT exemption is clarified, IBAN recommends that, in coordination with the ASB when needed, NSPA: a) Continue to assess the necessary modifications to be made to the General Terms and Conditions related to the provisions on VAT exemption in order to accurately reflect the latest VAT developments	a) In last year's IBAN audit report (Ref. IBA-AR(2023)0014), we stated that the NSPO Functional Directive on Indirect Taxes was approved by the ASB in December 2022. In 2023, we noted that the Agency updated its template on 'General Provisions and Terms and Conditions' to reflect NSPA's status on VAT. This template is used as a basis for the general provisions, terms and conditions included in each	Observation Closed.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
b) In order to ensure a transparent and fair competitive bidding, assess the necessary modifications to be made to the NSPO Procurement Regulations No. 4200, related Operating Instructions 4200-01 and bidding instructions, providing for the situation when VAT may be charged or recharged by a Nation.	agreement entered into by NSPO. Closed. b) We noted that the Agency made modifications to the NSPO Procurement Regulations, the Operating Instructions on Procurement and bidding instructions in order to ensure transparent, fair and competitive bidding in case the acquisition of the good and services requested could be subject to VAT in certain nations. Closed.	
(16) NSPO FY 2018 IBA-AR(2019)0017, paragraph 3.5 IMPROVEMENTS REQUIRED IN THE FINANCIAL REPORTING OF THE FRENCH NATIONAL ORGANISATION (SNOI) FOR THE CENTRAL EUROPEAN PIPELINE SYSTEM (CEPS) PROGRAMME IBAN's Recommendation In order to present an accurate financial report, IBAN recommends the CEPS programme Board to direct SNOI to: a) Request the private company operating the pipeline to open a separate bank account for CEPS related activities only; and b) Record all transactions on an accrual basis in a stand-alone general ledger accounting system with a separate trial balance, which is used to prepare the financial reports for CEPS.	a) There were no new actions taken compared to previous years in order to open a separate bank account for CEPS related activities only. In-Progress. b) There is an ongoing project regarding the creation and implementation of a common ERP system across the National Organisations and CEPS Programme Office. This common ERP system needs to ensure an accurate merge of accounting data from the different National Organisation's. This project aims to create a consistent and uniform approach for financial reporting, management and recognition of CEPS assets. In-Progress.	Observation In-Progress.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
(17) NSPO FY 2017 IBA-AR(2018)0015, paragraph 3.13 FURTHER IMPROVEMENTS REQUIRED TO ACHIEVE COMPLIANCE WITH THE REVISED NFRS, PARTICULARLY IN THE AREA OF RISK MANAGEMENT, INTERNAL CONTROL AND INTERNAL AUDIT IBAN's Recommendation The Board recommends that NSPO: a) Ensure compliance with the NSPO FRPs in the area of commitments and the role of the Financial Controller in the Contract Award Committee. b) Ensure a complete and comprehensive risk register for the Agency is finalised including risk responses and mitigation plans. This includes an appropriate review and control of risks identified at the level of Programmes and Divisions, ensuring consistency between risks at operational level and strategic level. c) Perform a systematic, detailed assessment and documentation of its internal control and risk management procedures to support compliance with its approved internal control framework.	a) We found that Operating Instruction 4300-07 on 'Prior-Approval of Commitments in the Administrative and the Operational Budgets' was revised on 20 December 2023. The revision of this Operating Instruction specifies how compliance with the NSPO FRPs should be ensured in the area of commitments, and describes the role of the Financial Controller in the procurement and contracting process. Closed. b) This sub-recommendations was closed in IBA-AR(2022)0017. Closed c) The Agency introduced a system of internal control and risk management that includes a periodical assessment of compliance with the Agency's internal control framework. This is supported by, and reflected in, the NSPA Internal Control framework and the NSPA Risk Management framework. Closed.	Observation Closed.

(18) NSPO FY 2017 IBA-AR(2018)0015, paragraph 4.7 NO CENTRAL OVERVIEW AND MANAGEMENT OF EXISTING OR POSSIBLE LITIGATIONS, CLAIMS OR OTHER LEGAL CASES IBAN's Recommendation The Board recommends NSPA put in place procedures to ensure legal cases are properly handled and managed. Management of any potential legal cases and their financial consequences should be the responsibility of a knowledgeable professional under the direct and exclusive control of the Legal Office. All potential legal cases should be reported to the Legal Office by the Programmes and Divisions to ensure a complete and comprehensive understanding of the legal risks that the Agency faces.	The Agency issued a revised version of Operating Instruction 4300-05 on 'Financial Reporting of Provisions and Contingent Liabilities' on 1 January 2024. We found that this revised version describes the process to be followed and defines the roles and responsibilities of the Office of the Legal Advisor on the one hand, and the Programmes and Divisions within this process on the other hand. Closed.	Observation Closed.
(19) NSPO FY 2016 IBA-AR(2017)12, paragraph 7.5 WEAKNESSES IN GENERAL COMPUTER CONTROL IBAN's Recommendation The Board recommends NSPO to reinforce the controls over access rights and segregation of duties within the ERP by filling in the vacant position, updating the SoD Matrix, implementing the Governance Risk Compliance module within the accounting system and ensuring that regular SAA WG meetings are held.	The Agency reinforced the controls over access rights and segregation of duties within the ERP system in accordance with our audit recommendation and regularly discusses the access authorisations in ERP. Closed.	Observation Closed.

NATO SUPPORT AND PROCUREMENT ORGANISATION (NSPO) FORMAL COMMENTS ON THE AUDIT REPORT AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS

OBSERVATION 1: NON-COMPLIANCE WITH THE NFRS WITH REGARD TO THE USE OF CEPS AND NSIP FUNDS BY THE CEPS NATIONAL ORGANISATION FOR FRANCE

NSPO's Formal Comments

Agreed.

The Agency notes that this observation and recommendation is the same as was presented in the 2022 Audit Report.

The Agency also notes that the 2023 IBAN annual audit related to the CEPS Programme was conducted this year through in-person onsite audits with all four CEPS National Organizations which should have confirmed that the 2022 IBAN observation applied not only to France but to all four national organizations albeit for different budgetary amounts.

Since that recommendation was made, the Agency has analysed the governance arrangements of the CEPS Programme in detail.

The Agency identified several changes to implement.

First, the Memorandum of Understanding (MoU) on French participation in the restoration of the CEPS dated 5 December 1985 was rescinded and a Service Level Agreement (SLA) was signed (on 8 July 2024) between France and the CEPS PO. This SLA clearly confirms the status of France as Host Nation for NSIP projects on its territory. In fact, France never relinquished in full its HN responsibility over French infrastructure projects but rather only delegated specific HN administrative tasks to CEPMA and now CEPS PO. France, as an NSIP HN, has always designed and executed all CEPS infrastructure projects on French territory.

Second, during the ASB autumn meeting, the Agency will seek the ASB's endorsement for changes to governing documents which will then need to be approved at Council.

The Agency notes that since the CEPS National Organizations have a distinct national legal identity as acknowledged by IBAN, all four CEPS National Organizations are not NATO subsidiary bodies. This implies in accordance with NFR Article 1.1 they should not be subject to the NFR.

More fundamentally, the 2012 Agency reform led to minimal changes to the structure of the CEPS as an organization from an Agency to a Programme.

Despite ambiguous wording in the Charter of NSPO, there is no indication that one of the intent of the Agency reform was to include CEPS National Organizations as an integral part of the CEPS Programme and, therefore, NSPO, in contrast with their previous exclusion reflected in the original CEPMO Charter.

In principle, Article 27 of the NFR and the corresponding Rule 27 of the NFRP does not apply to the CEPS Programme as it does not operate under the NATO defined customer-funded model. Therefore, insofar as Article 27 of the NFR does not apply, there is no agreement between the Agency and any customer and the NSPA General Manager has no authority to enter into any related commitments.

Where Article 27 relates to Commitment authority for customer funded bodies, Article 25 relates to Commitment authority after annual budget approval. As such, upon approval of the CEPS annual budget by the CEPS Programme Board (the appropriate governing body) upon recommendation from the CEPS Finance Committee (the relevant finance committee), the CEPS National Organizations Managing Directors (not the General Manager), are authorized to enter into commitments IAW the NOFRP approved by the CEPS Programme Board. Because the NSPA General Manager is not authorized to commit CEPS funds from its annual approved budget, the CEPS Programme cannot select article 25 to apply to CEPS National Organizations.

The Agency is confident that the action plan presented to the CEPS Programme Board and IBAN auditors, the RPPB, including a revision of the SNOI-TRAPIL convention (signed in DEC 2023 and effective 01 JAN 2024), the SNOI-CEPS PO SLA signed on 8 JUL 2024, and the clarifying language in the CSFRP and the Annex II of the NSPO Charter to be proposed to Council, will fully address the relevant observations and recommendations IBAN identified in the 2022 and 2023 annual audits.

OBSERVATION 2:

NEED TO STRENGTHEN INTERNAL CONTROLS OVER THE PREPARATION OF THE FINANCIAL STATEMENTS AND MANAGEMENT OF CUSTOMER ADVANCES

NSPO's Formal Comments

Agreed.

No comment.

**OBSERVATION 3:
DEROGATION FROM ARTICLE 32 OF THE NFRS IN THE NSPO FINANCIAL
RULES AND PROCEDURES**

NSPO's Formal Comments

Agreed.

No comment.

**OBSERVATION 4:
NEED TO IDENTIFY THE NET REALISABLE VALUE FOR INVENTORIES HELD
BY NSPO IN CAPELLEN WHEN INDICATIONS OF DAMAGE, OBSOLESCENCE
OR SLOW MOVEMENT EXIST**

NSPO's Formal Comments

Agreed.

No comment.

**OBSERVATION 5:
IMPROVEMENTS NEEDED FOR ENSURING TIMELY ACQUISITION OF FUEL
SERVICES FOR THE NAVAL LOGISTIC SUPPORT PARTNERSHIP**

NSPO's Formal Comments

Agreed.

No comment.

**OBSERVATION 6:
IMPROVEMENTS NEEDED FOR PROCUREMENT ACTIVITIES INVOLVING SUB-
CONTRACTORS FROM NON-NATO NATIONS**

NSPO's Formal Comments

Agreed.

No comment.

OBSERVATION 7:**ABSENCE OF SUFFICIENT DATA TO SUBSTANTIATE A RESTRICTION IN COMPETITIVE BIDDING BASED ON A NATIONAL QUALIFICATION****NSPO's Formal Comments**

Agreed.

No comment.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS**NSPO's General Comment**

The Agency continuously tracks the status of all IBAN Audit Report recommendations and provides details on their status to the Finance, Administration and Audit (FAA) Committee and ASB during their Spring and Autumn governance cycles. The latest version of this "Status Report" (Reference: AC/338-D(2023)0014 REV 1), dated 30 April 2024, was "noted" by the ASB at its meeting of 26-27 June 2024.

The next Status Report, which will include the status of "New Audit Observations" and prior-year recommendations, with timelines for their implementation, will be provided to the Finance, Administration and Audit (FAA) Committee and ASB during the Autumn 2024 governance cycle.

NSPO's Formal Comments on the status of IBAN recommendations that have not been formally closed by the IBAN for more than three years since the issuance of the last audit report

Council has requested that NSPO provide an action plan with timelines on the implementation of the outstanding recommendations that will be older than three years which have not been formally closed by the IBAN.

The following table, showing recommendations which have not been formally closed since the issuance of the 2019 Audit Report, is an extract of the Agency's most recent "Status of Outstanding IBAN Audit Report Recommendations" (AC/338-D(2023)0014 REV 1), dated 30 April 2024, which was formally "noted" at the ASB Meeting of 26-27 June 2024.

This table shows the audit report reference provided in the IBAN Draft Audit Report (IBA-AR(2024)0007), the recommendation made, the NSPA Management Comment, the internal status of the recommendation within the Agency, and the timeline for resolution.

It is important to note that the “NSPA Management Comment” represents the views of the Agency’s management on the status of the recommendations. The Agency acknowledges that the status report does not necessarily represent the views of the IBAN

(16) NSPO 2018 FY

IBA-AR(2019)0017, paragraph 3.5

IMPROVEMENTS REQUIRED IN THE FINANCIAL REPORTING OF THE FRENCH NATIONAL ORGANISATION (SNOI) FOR THE CENTRAL EUROPEAN PIPELINE SYSTEM (CEPS) PROGRAMME

NSPO’s Formal Comments

Recommendation a)

Building on a feasibility study approved in June 2020, a detailed study, supported by a consulting firm providing different options for implementation, was provided to SNOI and the CEPS PO at the end of June 2022.

The results of the further study, presenting a macro analysis of the tools and processes in use, were presented to the CEPS PB in December 2022 which approved budgetary credits for the execution of a detailed “as-is” analysis in the 2023 O&M Budget.

Recommendation b)

Items 32 and 33 are linked (Note: this refers to the above recommendation, the numbers 32 and 33 refer to the tracking number used internally within NSPA and not the IBAN draft report reference). The potential solutions are being developed in the same implementation study led by SNOI and supported by a consulting firm.

GLOSSARY OF TERMS

In accordance with International Standards of Supreme Audit Institutions (ISSAI 2705), audit opinions on financial statements and on compliance can be unqualified, qualified, a disclaimer, or adverse:

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

In accordance with auditing standards, three types of paragraphs may also be communicated in the auditor's report:

- Key Audit Matters (ISSAI 2701): Those matters that, in IBAN's professional judgement, were of most significance in the audit of the financial statements of the current period. Key Audit Matters are addressed to Council.
- Emphasis of Matter (ISSAI 2706): If IBAN considers it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.
- Other Matter (ISSAI 2706): If IBAN considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in our judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.



NATO Support and
Procurement Organisation
(NSPO)

NATO UNCLASSIFIED

AC/338-D(2024)0008-REV1

NATO SUPPORT AND PROCUREMENT ORGANISATION (NSPO)

FINANCIAL STATEMENTS (REDACTED VERSION)

2023

PUBLICLY DISCLOSED - PDN(2025)0020 - MIS EN LECTURE-PUBLIQUE



This page is intentionally left blank

TABLE OF CONTENTS

NSPO Financial Highlights 4

Overview of NSPO’s operations and environment 10

Statement on Internal Control 14

NSPO Statement of Financial Position 20

NSPO Segments’ Statement of Financial Position 21

NSPO Statement of Financial Performance 22

NSPO Segments’ Statement of Financial Performance 23

NSPO Cash Flow Statement for the year-ended 31 December 24

NSPO Statement of Changes in Net Assets (all figures are in Euro ‘000) 25

Accounting Policies 29

Annex: NSPO Financial Plan Execution 75

PUBLICLY DISCLOSED - PDN(2025)0020 - MIS EN LECTURE PUBLIQUE

NSPO FINANCIAL HIGHLIGHTS 2023**Introduction**

In 2023, NSPA ("the Agency") continued to meet the demands and challenges of the current security environment. The Agency provided efficient, effective and responsive acquisition, support and sustainment to NATO and nations, and continued to improve its internal processes to provide best value to its customers, whilst fulfilling its mandate and assurance requirements as a NATO body. The Agency's agile response to increasing and urgent demand across the Alliance contributed to NATO's deterrence and defence capabilities.

In 2023, the Agency developed a new Acquisition pillar, which led to the establishment of a new Acquisition Directorate. High visibility procurement and multinational acquisition projects made progress and new projects were initiated. Alliance Future Surveillance and Control Programme, continued to mature; Multinational Multi Role Tanker Transport Fleet declared Initial Operational Capability; Next Generation Rotorcraft Capability (NGRC), initial Alliance Future Surveillance and Control, and NATO Flight Training Europe Programmes were established.

Operational support was provided in fuel, ammunition, maritime, General Procurement Shared Services, construction, and airlift with significant growth over previous years. Leveraging its Support Partnership turnkey framework, the Agency awarded its largest ever multinational contract for a combined quantity of up to 1,000 Patriot™ Guidance Enhanced Missiles. As a result, the Agency's business turnover further grew in 2023 reaching its highest level at Euro 10.6 Billion (2022: Euro 4.8 Billion).

CEPS promptly responded to the increase of non-military transport demand as air traffic continues to recover from COVID-19 pandemic across Western Europe, and transported 11.3 Mm³ of fuel. NAM continued to maintain a high level of SAC C-17 fleet readiness and availability throughout 2023, while progressing the infrastructure projects at █████ Air Base.

The Agency's team of technical, logistics, engineering, procurement, finance and support staff members continue to deliver results, however, doing more with less has its limits. To ensure we have the right talent in the right jobs at the right time, the Agency made great effort to increase flexibility while improving recruitment and retention processes and developing its workforce to ensure they have the skills, knowledge and competencies to adapt to changing organisational and customer needs.

In 2024, the Agency will continue to focus on implementing the five key Strategic Goals - Development, Acquisition, Resources, Processes, and People - described in the NSPA Strategic Framework 2023-2027, with the clear aim to continue to improve customer satisfaction and ensure the Agency remains efficient, effective, and responsive.

This will enable the Agency to support NATO and Nations highest priorities, tackle the challenges set forth by the NATO Defence Production Action Plan (DPAP) and provide key support to NATO's deterrence and defence.

The Agency's Financial Progress in Graphs

The following series of graphs shows how the Agency has developed over the past five years.

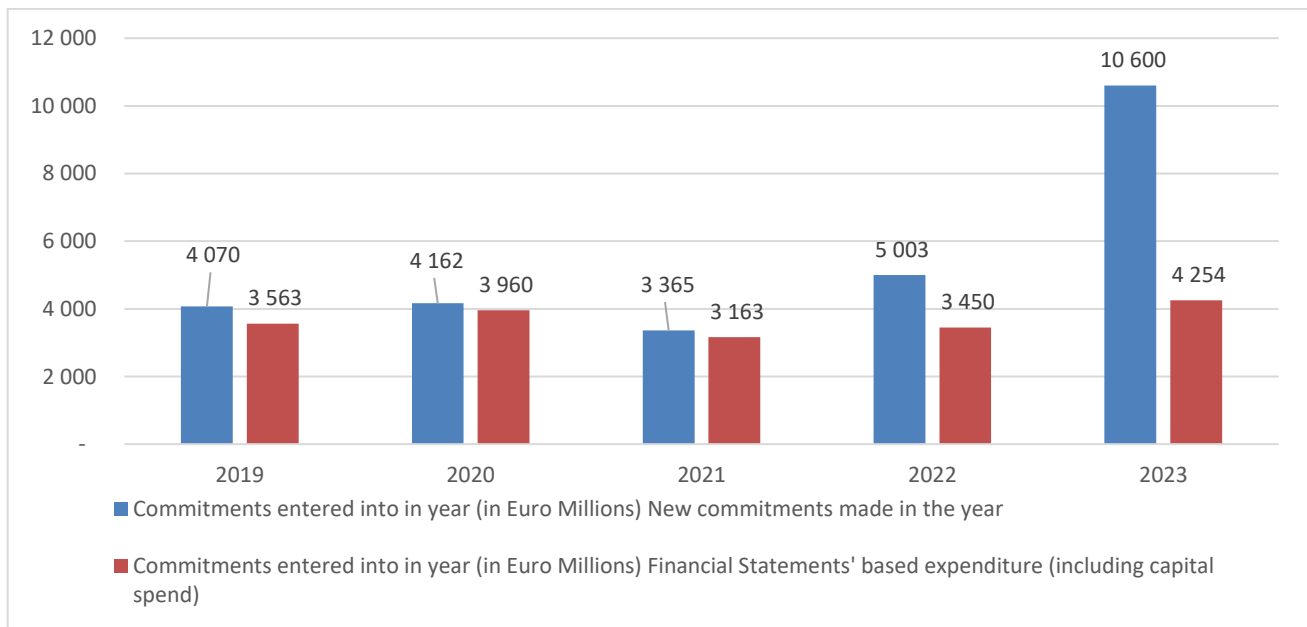
Financial Commitments entered into in the year, compared to Financial Statements' based expenses which reflect the "service potential" actually made available in the year (in Euro Millions)

The most frequent measure that NSPO uses to measure service delivery is not a financial statement measure, but a measure of the value of contracts, or financial commitments entered into in a year – this is referred to as the "commitment basis"; this differs to the financial statements which reflect the value of goods and services actually *delivered* in a year, and therefore reflect the "service potential" made available to customers in a year.

The figure for financial commitments entered into reflects contracts awarded in the name of NATO but also contracts entered into in the name of other organisations where NSPA facilitates the contracting. These latter contracts are excluded from the Financial Statements. In one such example, the Agency facilitates contracting for other organisations using other entities' contractual agreements, such as is sometimes the case with the Organisation Conjointe de Coopération en matière d'Armement / Organisation for Joint Armament Co-operation (OCCAR).

The graph compares financial commitments entered into with the Financial Statements in respect of expenditure (including capital spend).

As can be seen from the graph, commitments entered into during 2023 of Euro 10.6 Billion are over Euro 6.5 Billion greater in value than the Financial Statements' expenses and capital spend of 4.25 Billion. This is because a legal commitment may lead to goods being delivered in future years, while the Financial Statements shows what was actually delivered in the year. In 2023, the significant difference is in part caused through the entering of a contract related to the Patriot Weapons System with a value of over Euro 5 Billion where the service potential won't be realised to customers for a number of years.

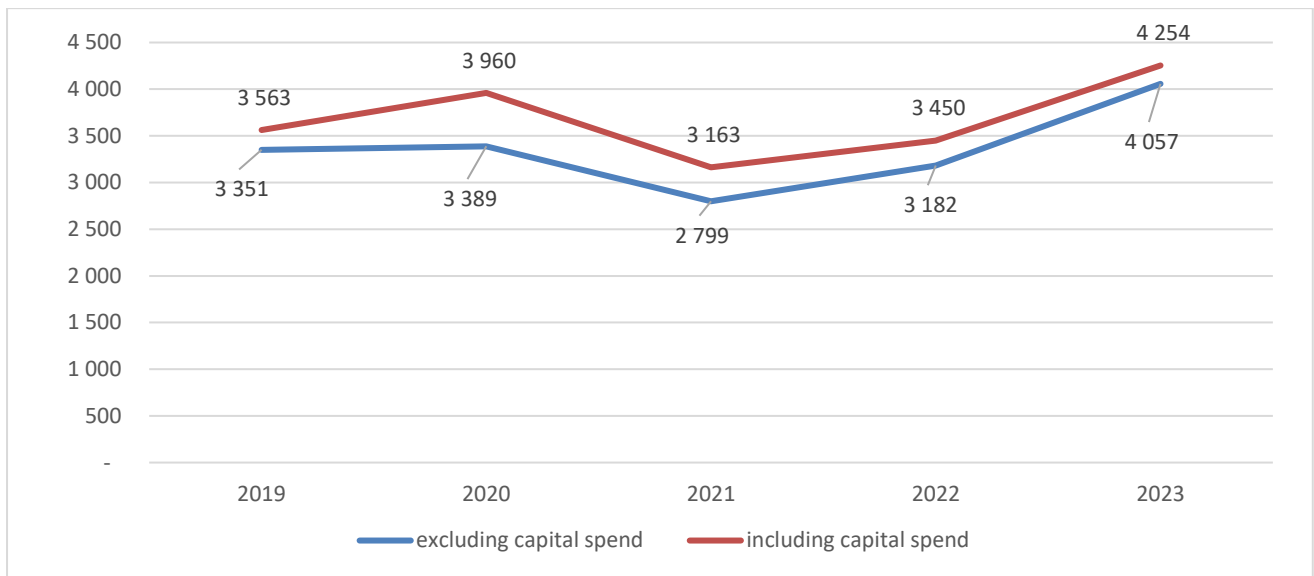


Financial Statements based expenditure each year including capital spend (in Euro Millions)

Financial Statements based expenditure relates to “service potential” made available to customers in the year. In the private sector, the financial statements allows the user of the financial statements to assess the profit made in the financial reporting period; however, NSPO works on a “no profit, no loss” business model – profit is not a key indicator of NSPOs success.

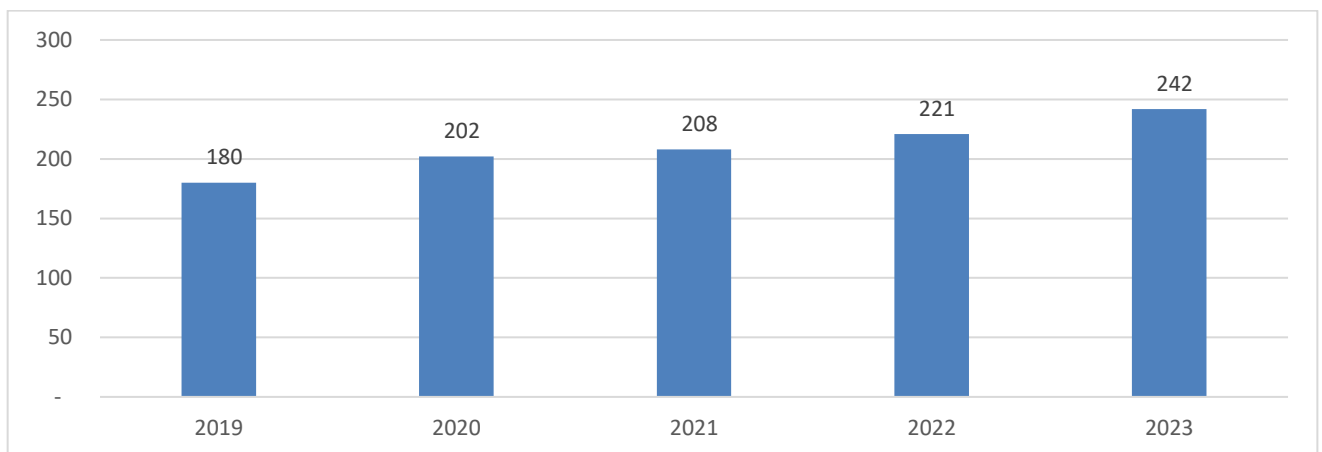
The NSPO Statement of Financial Performance shows the expenditure of NSPO customers on goods or services but excludes expenditure on items of a capital nature that will be used by NSPO Support Partnerships and Programmes in future years; this measurement is of limited use to some stakeholders (e.g. NATO Nations) which typically prefer to see how much the Alliance is spending on defense in total.

Therefore the graph below shows the expenditure of NSPO customers with the Agency excluding expenditure on capital items (i.e. PPE, Intangibles and Inventory) and expenditure including spend on capital items.



Administrative Budget Execution - the “cost of doing business” each year (in Euro Millions)

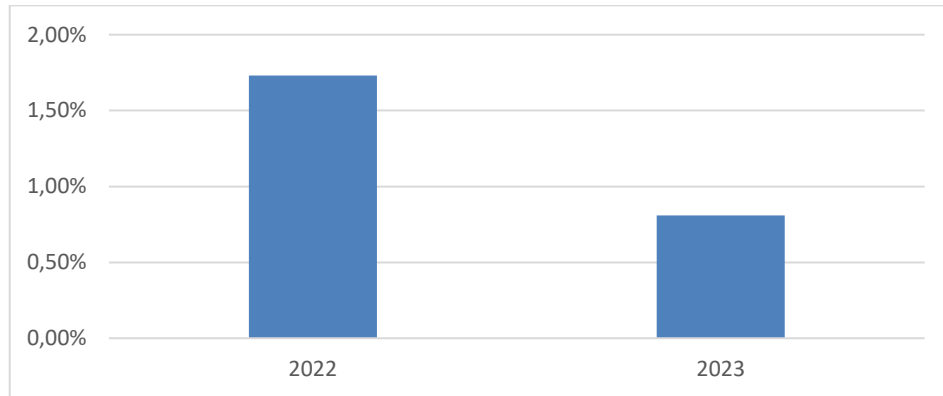
Administrative costs represent the cost of doing business for customers; they include the salaries and allowances of staff members as well as other costs of running the business on a daily basis, such as utilities, travel costs and other associated costs. The graph below shows the evolution of the execution of the Agency’s Administrative Budgets. In 2023, it increased to Euro 242m compared to Euro 221m in 2022.



Overhead as a ratio of commitments entered into

Since 2022, the Agency has been tracking the ratio of its overhead against the financial commitments entered into in the year. In 2023, the Agency executed a staggering Euro 10.6 Billion behalf of nations. The executed Administrative budget for 2023 was Euro 242m, of which Euro 86m represents overheads.

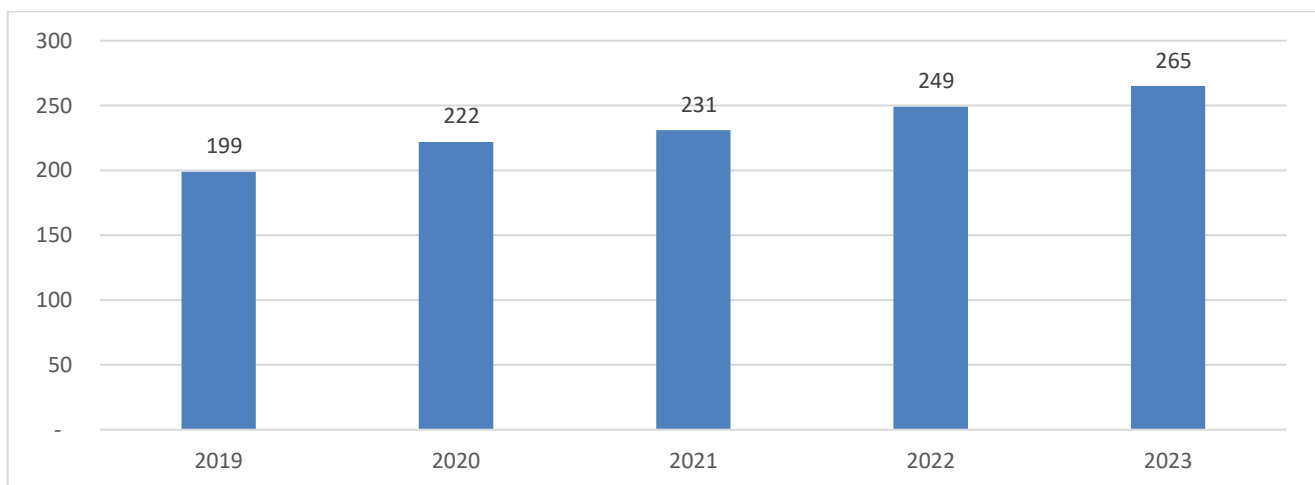
The overhead, when compared to the Euro 10.6 Billion commitments represents 0.81% (compared to 1.73% in 2022).



Payroll costs in year (in Euro Millions)

The major part of the NSPO Administrative Costs is made up of payroll expenditure which is the cost of salaries, pensions and allowances of all NSPO Personnel including those working for the Agency, Chairperson's Office and Secretariat, and CEPS National Organisations.

Costs have been increasing because we have been delivering more services to customers and have needed more staff to do this. In addition, a stepped rise in these costs occurred in 2020 because personnel working in Luxembourg received a significant pay rise to compensate for the increased cost of living in Luxembourg over a number of years; and a significant in-year salary adjustment for all staff in 2022 due to extraordinarily high inflation.



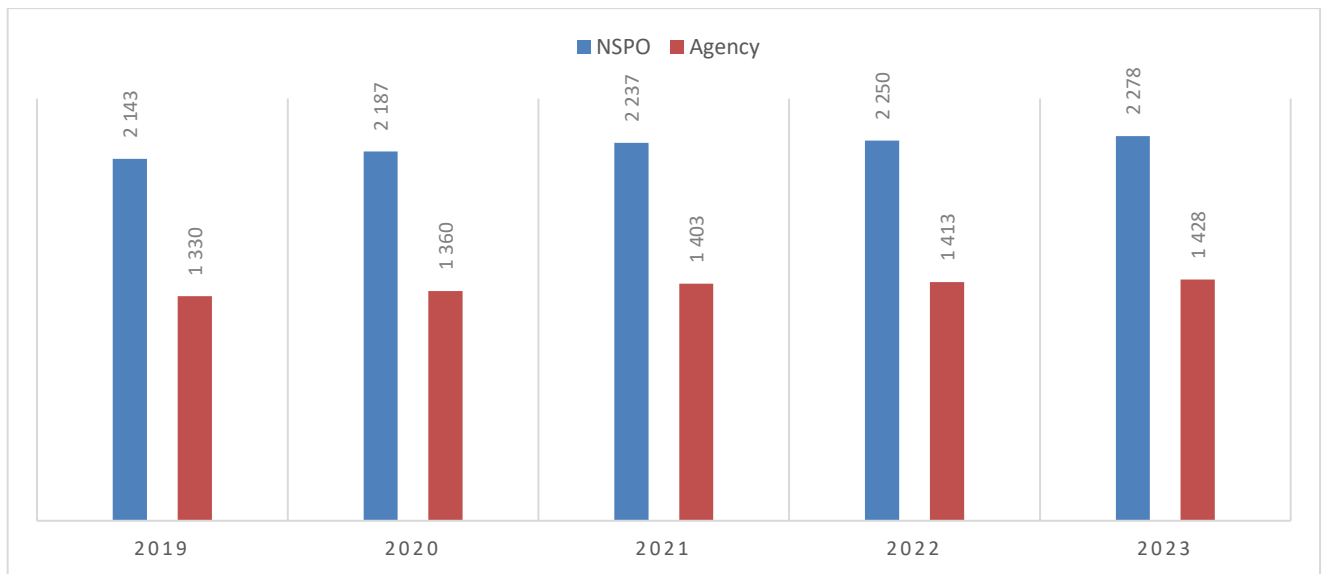
Note: The "Administrative Budget Execution" graph shown on page 6 does not include the payroll costs of NSPO personnel working in the CEPS National Organisations; this graph includes all personnel costs.

NSPO and NSPA Personnel Establishment

The number of personnel working for the Agency has increased over the last five years to deal with the increasing demand for goods and services requested by its customers. While personnel numbers are increasing, they are still not at the level approved by the Agency Supervisory Board (ASB).

The Agency is working to recruit more personnel to cope with the increased business turnover it is facing; while an increase in personnel has been approved at governance levels, it takes time to onboard personnel, in part due to the need to obtain security clearances.

In addition to Agency personnel, NSPO has personnel working in the Chairperson's Office and Secretariat and in the CEPS National Organisations who run the Central Europe Pipeline System. This graph shows the total of NSPO personnel which includes the NSPA Personnel.

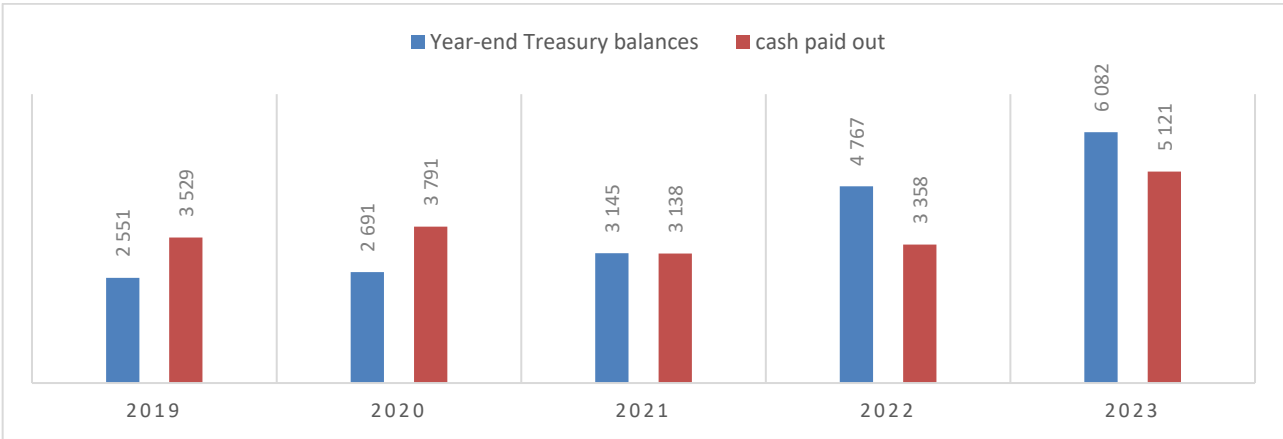


Year-end treasury balances and cash paid out during the year (in Euro Millions)

Customers provide the Agency with cash, typically in advance, to ensure that the invoices for goods and services provided by vendors can be paid on time. The treasury balances (cash and investments) also cover the Administrative costs of the Agency.

Customer cash balances rose to their highest levels in the history of the Agency, reaching over Euro 6 Billion at the end of 2023, this balance exceeded substantially the previous high of Euro 4.5 Billion at the end of 2022, which in itself surpassed the previous high of Euro 3.2 Billion at the end of 2021. In addition, the cost of holding cash while inflation rises is an erosion of its real purchasing power; this is partially compensated by the fact that the Agency is now receiving positive interest rates.

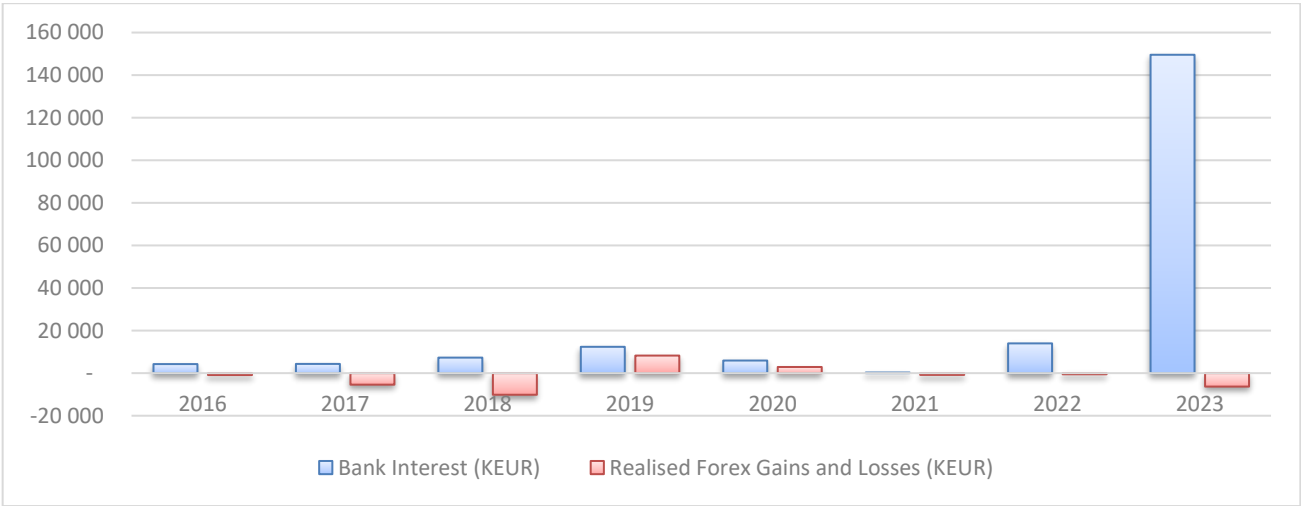
As can be seen from the following graph, in 2023 and 2022, the Agency held more cash at the year-end than it spent in the year, which was a reversal of previous years. This can in part be explained by the fact that as the Agency enters into more and higher value contracts it must have cash balances in place to support the payment of those contracts.



Bank interest earned and realised foreign exchange gains and losses (in Euro Millions)

The Agency invests cash that is not needed in the short-term into term-deposits which are typically either denominated in Euros or US Dollars. As can be seen in the graph below, the Agency was able to generate significant interest returns of Euro 150m in 2023 as banks raised interest rates in an effort to manage inflation, while in 2022 the Agency had to manage in an environment of low US Dollar based interest rates and low or negative Euro based interest rates.

Realised exchange rate gains and losses occur when the Agency exchanges or accounts for money into a currency other than the currency of its day-to-day business activities (Euro for all business units except for NAMP, whose activities are mostly denominated in US Dollar). Currency can be exchanged to settle invoices or to make term-deposits in US Dollars. Gains or losses are dependent on the relative fluctuation of currencies over which the Agency has no control because it does not hedge its foreign exchange exposure.



NSPA General Manager

17 June 2024

NSPA Financial Controller

17 June 2024

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

ROLE OF THE NATO SUPPORT AND PROCUREMENT ORGANISATION

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

During 2023, NSPO consisted of the Support to Operations and Life Cycle Management Business Units (which in these Financial Statements make up the Log Ops Business Unit), the Central Europe Pipeline System Programme Business Unit, the NATO Airlift Management Programme Business Unit, plus the ASB's Chairperson's Office and Secretariat.

On 1 January 2024, after the end of the financial reporting period, a new Acquisitions Business Unit was stood up which will incorporate a number of programmes previously within the Life Cycle Management Business Unit. Going forward, the Acquisitions Business Unit will also be reported under the Log Ops Business Unit; however, the whole financial reporting structure is undergoing review as part of NSPO's move to SAP S4/HANA which will enhance both financial and management reporting capabilities and allow for a potential change in the financial reporting structure permitting more segmental information to be reported

Governance and oversight are provided to the various business units by the ASB and Support Partnership Committees (SPCs).

With the accession of Sweden to the Alliance in March 2024, there are now thirty-two NATO Nations, all of which are members of the NSPO. Non-NATO Nations may apply for association with the NSPO if they wish to participate in NSPO activities. Their participation shall be subject to such conditions, consistent with present Regulations and the NSPO Charter, as the participating NATO Nations and the non-NATO Nations agree.

NSPO is headquartered in Luxembourg with some of its staff located in Hungary (NATO Airlift Management Programme), France (Central Europe Pipeline System Programme), and a Southern Operational Centre in Italy. A small number of Agency staff are also collocated with our customers at other locations. NSPO shares the same legal identity as NATO.

ROLE OF THE NATO SUPPORT AND PROCUREMENT AGENCY

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

- conducting agency mission required specific procurement;
- acting as Host Nation for NATO Security Investment Programme (NSIP) projects as assigned by the Resource Policy and Planning Board (RPPB) or the Investment Committee (IC);
- planning and management of contracting for NATO operations, including in support of Allied Command Operations (ACO) and contracting for required strategic lift in all transport modes;
- providing logistics support for operations, including in support of ACO and real-life support and environmental solutions;
- providing supply management;
- performing maintenance, including sustainment management;
- providing services to contribute to life-cycle support of assigned systems;
- conducting off-the-shelf agency mission required specific procurement;

- providing technical assistance;
- supporting organic airlift capabilities;
- managing the provision of lift/transport capabilities;
- fulfilling the operational requirements during peace, crisis and war for the transport, storage and delivery of fuel for military and civilian customers; and,
- performing other missions as assigned by the NAC.

THE ACTIVITIES OF THE NSPO'S BUSINESS UNITS

NSPO CHAIRPERSON'S OFFICE

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

LIFE CYCLE MANAGEMENT, SUPPORT TO OPERATIONS AND ACQUISITIONS BUSINESS UNITS

The Life Cycle Management and Support to Operations Business Units are reported together as one business unit in these Financial Statements, namely "Log Ops", because they share common administrative costs. The Acquisitions Business Unit, established on 1 January 2024, will also be initially reported within the Log Ops segment, although this may change with the enhanced reporting functionalities of SAP S/4HANA which will go live in a future financial reporting year.

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

Life Cycle Management, Support to Operations, and Acquisitions Business Units' activities are paid through customer-funding on a "no profit, no loss" basis. All costs incurred by these activities are borne by NSPO Member Nations, by NATO bodies, or by other authorised customers.

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

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

CENTRAL EUROPE PIPELINE SYSTEM (CEPS) BUSINESS UNIT

Under the authority of the CEPS Programme Board, the CEPS Programme manages a NATO pipeline system which crosses the host Nations of Belgium, France, Germany, Luxembourg and the Netherlands, and is responsible for the transportation, storage and delivery of petroleum products in Central Europe for military and non-military activities. For that purpose, the CEPS Programme operates and maintains the Central Europe Pipeline System, a pipeline network, pump stations, input and delivery points, and storage depots. The United States contributes to the operation of the CEPS as a user nation.

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

NATO AIRLIFT MANAGEMENT PROGRAMME (NAMP) BUSINESS UNIT

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

The Strategic Airlift Capability (SAC) Programme is made up of twelve NATO nations. The Strategic Airlift Capability is provided by three Globemaster C-17 aircraft that are flown and operated by multinational military aircrews and supported by military and civilian staff of the twelve Participating Nations. In addition, the SAC Programme obtains logistic and maintenance services for C-17 operations under a Contractor Logistic Support contract arranged through U.S. Foreign Military Sales procedures. The SAC Participating Nations control and use SAC flying hours generated by NAMP-owned aircraft, within pre-agreed parameters, to meet national requirements including those in support of NATO and multinational commitments.

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

HOW NSPO'S OPERATING ENVIRONMENT AFFECTS ITS FINANCIAL STATEMENTS

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

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

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

COMPLIANCE WITH FINANCIAL REGULATIONS

NSPO is required to follow the NSPO Financial Rules and Procedures (NFRPs) which are based on and are consistent with the NATO Financial Regulations (NFRs). The Agency's adherence to the NSPO Financial Rules and Procedures (NFRPs) is discussed in further detail in the Statement of Internal Control (pages 14 to 19).

HOW NSPO'S MISSION AND STRATEGIES RELATE TO ITS FINANCIAL POSITION, FINANCIAL PERFORMANCE AND CASH FLOWS

As noted above, NSPO makes capabilities available to NATO Nations and partner Nations. It does not have any mandated financial objectives in relation to its financial position, financial performance (such as mandated business turnover targets) and its cash flows, other than to have enough funding available to cover its administration costs and the operational requirements of its customers. NSPO holds significant balances of customers' funds, which are mainly offset by future financial commitments.

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

RISKS AND UNCERTAINTIES THAT AFFECT NSPO'S FINANCIAL POSITION AND PERFORMANCE

NSPO's Financial Position and Financial Performance are based on the usage made of its capabilities by NATO Nations and its partner Nations. As such, its performance is impacted by NATO operations and the demand of its Nations and partners for the capabilities that it offers.

Increased military spend by a number of NATO Allies following the Russian invasion of Ukraine

In February 2022, following the Russia invasion of the Ukraine, a number of Allies substantially increased their military spend as they replenished inventories donated to the Ukrainian war effort. This led to a record level in the financial value of contracts placed in 2023 (Euro 10.6 Billion).

Increased military spend by NATO Allies as a result of the NATO 2030 Agenda

The NATO 2030 agenda sets a higher level of ambition and it provides a clear direction for the future adaptation of the Alliance. To resource these requirements in a more challenging security environment, increased resources will be needed across all three NATO budgets: military, civil, and infrastructure. NATO Leaders agreed to identify these additional resources, including through NATO common funding, to ensure that the Alliance continues to ensure its common defence and security through 2030 and beyond. Many Allies now spend well above NATO's benchmark of 2 percent of Gross Domestic Product (GDP), which is increasingly seen as a floor and not a ceiling.

PUBLIC DISCLOSURE OF FINANCIAL INFORMATION

At the Wales Summit of 2014, the Nations tasked NATO bodies to increase their financial transparency. While I am content for all the information in the Financial Statements to be publically disclosed, the decision on what to make publically available rests with the North Atlantic Council.



NSPA General Manager

17 June 2024



NSPA Financial Controller

17 June 2024

Statement on Internal Control

Section 1. Scope of responsibility

The North Atlantic Council issued revised NFRs in May 2015, which increased the emphasis on internal control and risk management within NATO entities. The Agency's governing body, the Agency Supervisory Board (ASB), approved the most recent version of the NSPO Financial Rules and Procedures (NFRPs) in 2023. These are fully consistent with the NFRs and contain the same provisions in respect of internal control and risk management as the NFRs.

The NFRPs stipulate that the Agency's General Manager ('GM') is responsible and accountable for sound financial management, and shall put in place the necessary governance arrangements to ensure and maintain a strong Internal Control System (ICS). These arrangements include, but are not limited to, the establishment and maintenance of financial governance, resource management practices, internal controls and financial information systems to achieve the efficient and effective use of resources.

As part of these arrangements, the Agency's Financial Controller ('FC') reports to the General Manager and operates within the ICS established by the GM. The FC is accountable to the NSPO Finance, Administration and Audit (FAA) Committee on the management of appropriated and non-appropriated funds. The NFRs require that in order to meet the desired internal control standards, the FC shall:

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

While the GM and the FC have specific responsibilities in relation to internal control, all Agency staff have a responsibility for complying with and executing internal controls.

Section 2: The purpose of the system of internal control

The purpose of the system of internal control is to provide reasonable assurance that the Agency will achieve its internal control objectives in the following categories:

- safeguarding assets;
- verifying the accuracy and reliability of accounting data and records;
- ensuring effective and efficient business delivery; and,
- complying with established governing and managerial policies.

There are inherent limitations to any ICS, as it is designed to reduce and manage, rather than eliminate, the risk of failure to achieve an entity's aims and objectives. It can provide reasonable, but not absolute, assurance that an entity's aims and objectives will be achieved. The ICS is based on a continuous process designed to: identify the principal risks that threaten the achievement of objectives; evaluate their nature and extent; and manage them effectively, efficiently and economically. The cost of internal controls should not outweigh the benefits of mitigating the risks.

Section 3: The risk and control frameworks

The ICS of the Agency relies on the NSPA Internal Control Framework (ICF), which was developed by the Agency in compliance with the NFRs, and is based on the principles of the 2013 Integrated Framework of the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The NSPA ICF does not rigidly follow COSO in all respects but has been tailored to ensure it is relevant and proportionate to the Agency's scale and activities.

The NSPA ICF comprises a Risk Assessment component, which is operationalised through the dedicated NSPA Risk Management framework.

Section 4: Capacity to manage risks and establish effective internal controls

The Agency is organized under a Three Lines (of Defence) model, to ensure strong governance, effective management of risk, and the establishment of effective, controlled and efficient processes.

The first line, formed by the staff and management, is responsible for designing, implementing and executing compliant and efficient processes. They own and manage the necessary control activities to respond to risks within their processes and areas of responsibility. The effectiveness of their controls is self-assessed by each Head of Function, and reported to the GM, FC and the second line through annual Statements of Assurance.

The first line is supported by second line functions, such as Internal Control, Risk Management and Quality Assurance, who provide support, advice, oversight and assurance that the first line is effectively implementing framework requirements. These functions are primarily integrated within a Risk, Compliance and Corporate Management Office.

The Office of Internal Audit (third line) provides independent assurance and contributes to the promotion of a performance, control and risk culture to help the Agency continuously improve its first and second line activities.

Section 5: Review of the adequacy and effectiveness of the system of internal control

The Agency demonstrates a strong commitment to establishing, maintaining and monitoring its ICS. In accordance with the NFRs, the Agency performs periodic reviews of its risks and the sound functioning of the ICS.

The GM, FC and other members of executive management receive regular reporting and insight into the status of the ICS, and other risk and compliance topics, from across the lines of defence. Observations, outcomes and ongoing remediation activities are discussed at multiple senior level internal management fora to ensure progress is sustained.

The GM and FC, as demonstrated in this Statement of Internal Control, evaluate the adequacy and effectiveness of the Agency's ICS. Their assessment is informed by the various assessments and monitoring activities executed across the lines of defence. It considers the results of self-assessments reported by the Head of Functions in their annual Statements of Assurance, but also assurance and audit activity provided by the second line and third line and external assurance providers, primarily the International Board of Auditors for NATO ('IBAN').

Section 6: Outcome of the review of adequacy and effectiveness of the system of internal control

During financial year 2023, the above-mentioned assessment activities contributed to the GM and FC's evaluation of the ICS. Combined, these have enabled the identification of the following opportunities for improvement.

1) IBAN observations

The Agency is actively working to remediate the outstanding IBAN recommendations and aims at remediating 12 out of 19 open recommendations by the end of the 2023 audit cycle. The Agency's Management is placing scrutiny on closing the IBAN recommendations, with a focus on aged items and those recommendations that supported the IBAN's qualified opinion on Compliance in their audit of the 2022 NSPO Financial Statements. This includes resolving the recommendations relating to the non-compliance with the NFRs for commitments entered into through the NLSE and NATO Fuel Management electronic tools, and non-compliance with the NFRs regarding the use of CEPS and NSIP funds by the CEPS National Organisation for France. At the time of the preparation of the 2023 NSPO Financial Statements, the remediation of those two observations is in progress.

The Agency is aware of its shortcomings to provide the information required by the IBAN for the financial closeout audits of NSIP projects, because of changes in the documentary requirements introduced in 2022.

The Agency has taken measures to enhance its processes and documentation so new projects conform to those requirements.

The Agency is aware of potential observations regarding the audit of the 2023 NSPO Financial Statements. However, it chooses not to mention these in the 2023 Statement of Internal Control, on the basis that the observations still have to go through a rigorous process of factual clearance, which can lead to the observation changing or not being issued.

2) *Main areas for improvement reported by Heads of Functions*

Through their Statements of Assurance, the Heads of Functions report and highlight areas for improvement to the effectiveness of their control activities, and their compliance with rules and regulations. Where areas of improvement were identified, a written plan with corrective actions was defined.

Management reported the following key opportunities for improvement in 2023:

- Enhancing controls in vendor master data and for financial guarantees
- Revising the management and monitoring of carryforward, in-year changes to the administrative budget and overdue receivables.
- Pre-settlement verification and validation, including through Contract Award Committees, of vendors' claims relating to NATO withdrawal from Afghanistan in 2021.
- Enhancing controls over invoice validation for Naval Husbandry, potentially identifying mischarging of services by suppliers to customers.
- Enhancing the way the Agency oversees the delivery of Infrastructure works on its [REDACTED] site, and controls physical access to infrastructure.
- Improving the pace of assurance and audit action remediation and closure.
- Improving and tracking the pace of contract close out.
- Improve the identifications, implementation and monitoring of controls across the Human Resources function.

3) *Second Line of Defence*

From a Risk Management perspective, the Agency continued to manage its Agency-wide enterprise risks as reported to the ASB. Risk Management activities at a functional level were assured through regular review of risk registers, with a focus on quality, and compliance with the Agency risk methodology. Risk culture and capability continues to be addressed through regular risk community-wide sessions, focusing on sharing and applying best practice, and this is further reinforced through a programme of basic and advanced training sessions for practitioners.

The Agency's enterprise risks in 2023 endured as in previous years, and their multi-year mitigation activities progressed in line with expectations. To support the implementation and delivery of the Agency 2023-27 Strategic Framework, multiple senior leadership level risk identification and development sessions were held, enabling the creation of a new suite of principal risks, covering both threats and opportunities and clearly linked to the achievement of the Agency's objectives. These will be presented to governance in the spring 2024 cycle.

From a Quality Management perspective, the Agency is ISO 9001 certified and maintains a robust Quality Management System and in 2023 identified further opportunities to improve. These include enhanced focus on the robustness of suppliers quality procedures and management systems; the application of proportionate assurance activities to brokers and other non-OEM suppliers to increased confidence in the quality of products; and improving the ongoing documentation and assessment of supplier performance.

From an Internal Control perspective, the Agency demonstrated a consistent approach for the monitoring and evaluation of controls and identified wide-ranging improvement opportunities, the delivery of which will further strengthen the ICS. The pan-Agency network of internal control practitioners has continued to drive forward an ICS culture and enhancements to the ICS within their areas of responsibility. However, the volume and scope of control testing within the Human Resources function was observed to have been limited in 2023, and requires focused improvement in 2024 to ensure a robust ICS within this function.

Steps towards greater integration of all risk and compliance disciplines have progressed, and the Agency has secured funding to begin implementation in 2024, of an integrated management tool to maximize visibility and synergy of risk, compliance and control disciplines across the lines of defence.

4) *Third Line of Defence*

The Office of Internal Audit in 2023 performed the assessment of the internal control systems with a rolling approach, consistently with some recommendations released by IBAN at this regard.

Some good practices have been identified, but the need to for a review of the internal control framework (which is currently overdue) has been confirmed. Substantial room for enhancement remains, especially for achieving the effectiveness of risk management and for reviewing the process related to the Statements of Assurance.

The identification of the new suites of principal risks clearly linked to the achievement of the Agency's objectives, to be presented to governance in the spring 2024 cycle is a good step in the right direction.

Continuous Improvement of the ICS

The Agency is committed to continuously improving the effectiveness and efficiency of its ICS and associated activities, at a pace that is proportionate to the limited resource it has been allocated to do so. However, in 2023 efforts focused on:

- *Remediation of prior year weaknesses:*

Significant efforts were made by the Agency to remediate known weaknesses reported in the 2022 Statement of Internal Control. Including major improvement made by Finance in the computation and reporting on "credits to be allocated", and in the policies and executions of the prior-approval of commitment. The rollout in the ERP of dedicated workflows on prior approval of commitment have been initiated and are enhancing the efficiency of those key financial validations required prior to committing funds. In the business units, Operations and Life Cycle Management further embedded ICS activity at programme level, including increasing the focus on control and compliance within programme reviews, enabling greater assurance and identifying common opportunities to improve.

- *Process optimization and new ERP*

The Agency has continued on its Process optimisation journey this is a strategic goal for the Agency. The Agency's process improvement initiative (PRIMI) and the ongoing technology-led transformation to a new ERP, SAP S/4 HANA, offer significant opportunities to improve the efficiency of Agency processes, further embed IC, and further leverage technology as an enabler of enhanced monitoring and controls.

The Agency is currently going through an exercise to revise its approach to the SAP S/4 HANA transition. A comprehensive risk and opportunity analysis is currently being undertaken, in partnership with industry, to re-baseline the project to include the timeframe, delivery approach and anticipated go-live date.

- *Control of assets*

The Agency has been continuously improving its control of Assets. The Quality Assurance function conducts inventories of assets across the Agency's operating locations and wider NATO Furnished Properties (NFP). Relevant outcomes and enhancements include the 2023 assessment of NSPA's operating location in ■■■■, Hungary, which showed a very positive outcome; and a significant increase in the frequency of control assessments at NFPs with 10 different sites across NATO nations assessed in 2023.

- *Enhancing risk, control and compliance disciplines*

In 2023 progress was made towards the implementation of the NATO-wide Fraud Strategy, updating and improving its Code of Conduct and enacting a counter-fraud and corruption action plan. The development of the Investigation function, and recruitment of a Senior Investigator, has given the Agency a professional capability to identify, investigate and respond to potential fraud cases. Ongoing investigations, due to complete in 2024, are expected to lead to opportunities to enhance controls to further the resilience of the ICS.

The Agency progressed Business Continuity and Resilience (BCR) activities, establishing a working group to drive forward enhancements to its BCR system, including successful business continuity exercising to assess organisational preparedness. The ongoing monitoring, measurement and oversight of Agency performance has continued to be enhanced through a revised Agency management dashboard, enabling data-driven conversations about objective achievement and organisational performance at the most-senior levels.

Considering its continued growth and the complexity of its business environment, the Agency is working towards the modernization of its 3 lines model, by adopting an integrated approach and minimizing potential redundancies, to further enhance the effectiveness of its assurance functions as enablers of improved performance and drivers of a culture of objective-oriented controls.

- *IC work across NATO*

The Agency continued to play a key contributing role to the NATO-wide Internal Control working group. This working group has made significant progress in the development of NATO-wide training on IC, and in developing harmonized practices, particularly in reference to the content within the SIC.

Section 7: Annual confirmation by the Head of NATO Body and the Financial Controller

Statement of the General Manager and the Financial Controller

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

In 2023, the Agency continued to enhance its ICS, building on the satisfactory system already operating. These ongoing enhancements have further improved our internal control system, though there, naturally, continue to be opportunities to improve the overall robustness and resilience of the system.

We have assessed the adequacy and effectiveness of the ICS, against the requirements of the NSPA ICF and NFRPs, and have considered the input and opinions from across the lines of defence and IBAN.

The Agency has actively worked to remediate the observations reported by IBAN to support their qualified opinion on Compliance from the 2022 NSPO Financial Statement. It is positive that further embedding of ICS is demonstrated across the Agency in 2023, though the need for focus on testing and monitoring of the ICS in the Human Resource function is a priority for 2024. The ongoing SAP S/4 HANA ERP project is also critical to the Agency's ability to deliver to nations and customers, and the Agency will focus on it in 2024 to maximize the opportunity for success.

As a result, we consider, to the best of our knowledge and information, that the Agency operated satisfactory systems of internal controls for the year ended 31 December 2023, and up to the date of approval of the financial statements, with respect to the following objectives:

- safeguarding of assets;
- verifying the accuracy and reliability of accounting data and records;
- ensuring effective and efficient business delivery; and
- complying with established governing and managerial policies.

When the ICS has failed at preventing occurrences of non-compliance with established governance and managerial policies, we are confident it has been effective in detecting those cases, and driving development and implementation of corrective actions which Agency management actively monitor.

We are also confident that, to the best of our knowledge and information, any cases of non-compliance identified have not had a material impact on the fairness of NSPO financial statements or the safeguarding of customers' funds.

The Agency is committed to continually improving its maintenance of a robust, holistic, ICS. The areas for improvement reported by the various assurance providers support the Agency in doing so, and the continued integration of the Agency's compliance functions will further contribute.



NSPA General Manager

17 June 2024



NSPA Financial Controller

17 June 2024

NSPO Statement of Financial Position

As of 31 December (all figures are in Euro '000)		Note	NSPO TOTAL	
ASSETS			2023	2022
Current Assets				
Cash and Cash Equivalents held on behalf of customers	2		6 082 390	4 516 184
Accounts Receivable	6		5 393 921	2 744 890
Inventory	5		515 879	456 261
Prepayments	7		1 284 664	273 201
			13 276 854	7 990 536
Non-current Assets				
Investments held on behalf of customers	2		60 034	244 680
Accounts Receivable	6		10 979	6 835
Property Plant and Equipment	3		3 610 939	3 613 613
Intangible Assets	4		20 067	21 706
			3 702 019	3 886 834
Total Assets			16 978 873	11 877 370
LIABILITIES				
Current Liabilities				
Accounts Payable and Accruals	8		498 381	861 506
Customer Advances	9		10 946 436	6 508 072
Overdrafts	2		9 346	347
Provisions	16		15 151	43 696
			11 469 314	7 413 621
Non-current Liabilities				
Customer Advances	9		1 377 770	327 706
Provisions	16		313	672
			1 378 083	328 378
Total Liabilities			12 847 397	7 741 999
Net Assets			4 131 476	4 135 371

The Financial Statements on pages 20 to 88 were issued to the International Board of Auditors for NATO on 17 June 2024.

[Redacted Signature]

NSPA General Manager

[Redacted Signature]

NSPA Financial Controller

[Redacted Signature]

Chief Financial Reporting Officer

NATO UNCLASSIFIED

AC/338-D(2024)0008-REV1

NSPO Segments' Statement of Financial Position

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

	Note	Chairperson's Office		Log Ops		NAM		CEPS		Inter-business unit eliminations		NSPO TOTAL	
		2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
ASSETS													
Current Assets													
Cash and Cash Equivalents held on behalf of customers	2	0	0	5 680 550	4 078 387	232 407	262 447	169 433	175 350	0	0	6 082 390	4 516 184
Accounts Receivable	6	0	0	5 342 545	2 677 945	17 972	28 278	33 404	38 741	0	(74)	5 393 921	2 744 890
Inventory	5	0	0	502 387	443 216	5 558	5 770	7 934	7 275	0	0	515 879	456 261
Prepayments	7	0	0	1 211 047	219 047	72 784	53 734	833	420	0	0	1 284 664	273 201
		0	0	12 736 529	7 418 595	328 721	350 229	211 604	221 786	0	(74)	13 276 854	7 990 536
Non-current Assets													
Investments held on behalf of customers	2	0	0	60 034	244 680	0	0	0	0	0	0	60 034	244 680
Accounts Receivable	6	0	0	10 376	6 163	0	0	603	672	0	0	10 979	6 835
Property Plant and Equipment	3	0	0	3 001 120	3 001 825	346 841	373 628	262 978	238 160	0	0	3 610 939	3 613 613
Intangible Assets	4	0	0	7 497	8 223	10 051	11 127	2 519	2 356	0	0	20 067	21 706
		0	0	3 079 027	3 260 891	356 892	384 755	266 100	241 188	0	0	3 702 019	3 886 834
Total Assets		0	0	15 815 556	10 679 486	685 613	734 984	477 704	462 974	0	(74)	16 978 873	11 877 370
LIABILITIES													
Current Liabilities													
Accounts Payable and Accruals	8	0	0	474 627	831 737	12 674	12 473	11 568	17 820	(488)	(524)	498 381	861 506
Customer Advances	9	0	0	10 741 279	6 306 730	179 787	177 296	24 882	23 596	488	450	10 946 436	6 508 072
Overdrafts	2	0	0	0	0	0	0	9 346	347	0	0	9 346	347
Provisions	16	0	0	14 950	43 500	0	0	201	196	0	0	15 151	43 696
		0	0	11 230 856	7 181 967	192 461	189 769	45 997	41 959	0	(74)	11 469 314	7 413 621
Non-current Liabilities													
Customer Advances	9	0	0	1 088 646	0	131 162	155 154	157 962	172 552	0	0	1 377 770	327 706
Provisions	16	0	0	0	0	0	0	313	672	0	0	313	672
		0	0	1 088 646	0	131 162	155 154	158 275	173 224	0	0	1 378 083	328 378
Total Liabilities		0	0	12 319 502	7 181 967	323 623	344 923	204 272	215 183	0	(74)	12 847 397	7 741 999
Net Assets		0	0	3 496 054	3 497 519	361 990	390 061	273 432	247 791	0	0	4 131 476	4 135 371

The Financial Statements on pages 20 to 88 were issued to the International Board of Auditors for NATO on 17 June 2024



NSPA General Manager



NSPA Financial Controller



NSPA Chief Financial Reporting Officer

NATO UNCLASSIFIED

NSPO Statement of Financial Performance

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

		NSPO TOTAL	
Revenue	Note	2023	2022
Services and Support to Customers		3 659 569	2 817 000
Administrative Support		248 800	216 460
Donations of AGS Assets	3	5 249	98 539
Bank interest	10	4 538	548
Unrealised foreign currency effects	10	(12 246)	39 314
Reversal of provisions	16	17 650	6 600
Miscellaneous Revenue		8 597	3 341
Total Revenue		3 932 157	3 181 802
Expenses			
Services and Support to Customers	11	(3 401 465)	(2 569 258)
Commercial Discounts Earned ¹		5 566	5 076
USA Foreign Military Sales ²	11	(140 352)	(146 802)
Personnel	13	(266 708)	(249 747)
Depreciation and Amortisation		(184 570)	(165 572)
Provisions	16	(5 275)	(19 450)
Other Expenses	11	(64 517)	(45 127)
Transfers to customer credits		0	0
Total Expenses		(4 057 321)	(3 190 880)
Surplus / (Deficit) for the year		(125 164)	(9 078)
<i>Surplus / (Deficit) is represented by:</i>			
Unrealised foreign currency effects	10	(12 246)	39 314
Depreciation and Amortisation		(184 570)	(165 572)
Donations of AGS Assets		5 249	98 539
Reversal of provisions (Revenue)	16	17 650	6 600
Provisions (Expenses)	16	(5 275)	(19 450)
Revenue from usage of provisions	16	16 175	30 850
Net revenue from inventory movements		71 993	49 770
Other items		(34 140)	(49 129)
		(125 164)	(9 078)

¹) "Commercial Discounts Earned" reduce the costs incurred in delivering "Services and Support to Customers".

²) The figure given in respect of USA Foreign Military Sales are presented on a "modified cash" (i.e. non-accruals) basis; more information can be found in the Accounting Policies (see pages 29 to 39).

NATO UNCLASSIFIED

AC/338-D(2024)0008-REV1

NSPO Segments' Statement of Financial Performance

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

		Chairperson's Office		Log Ops		NAM		CEPS		Inter-business unit eliminations		NSPO TOTAL	
Revenue	Note	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Services and Support to Customers		0	0	3 477 704	2 637 975	99 901	94 829	82 244	84 382	(280)	(186)	3 659 569	2 817 000
Administrative Support		1 970	1 187	220 956	192 741	10 283	8 338	18 709	17 149	(3 118)	(2 955)	248 800	216 460
Donations of AGS Assets	3	0	0	5 249	98 539	0	0	0	0	0	0	5 249	98 539
Bank interest	10	0	0	333	24	0	0	4 205	524	0	0	4 538	548
Unrealised foreign currency effects	10	0	0	(12 233)	39 179	(13)	135	0	0	0	0	(12 246)	39 314
Reversal of provisions	16	0	0	17 650	6 600	0	0	0	0	0	0	17 650	6 600
Miscellaneous Revenue		0	0	(2)	(8)	0	0	8 599	3 349	0	0	8 597	3 341
Total Revenue		1 970	1 187	3 709 657	2 975 050	110 171	103 302	113 757	105 404	(3 398)	(3 141)	3 932 157	3 181 802
Expenses													
Services and Support to Customers	11	0	0	(3 310 635)	(2 495 536)	(38 017)	(33 283)	(53 225)	(40 625)	412	186	(3 401 465)	(2 569 258)
Commercial Discounts Earned ¹		0	0	5 537	5 048	0	0	29	28	0	0	5 566	5 076
USA Foreign Military Sales ²	11	0	0	(78 900)	(86 516)	(61 452)	(60 286)	0	0	0	0	(140 352)	(146 802)
Personnel	13	(1 022)	(968)	(182 627)	(170 617)	(7 431)	(6 089)	(75 683)	(72 073)	55	0	(266 708)	(249 747)
Depreciation and Amortisation		0	0	(138 675)	(121 341)	(25 466)	(26 108)	(20 429)	(18 123)	0	0	(184 570)	(165 572)
Provisions	16	0	0	(5 275)	(19 450)	0	0	0	0	0	0	(5 275)	(19 450)
Other Expenses	11	(948)	(219)	(44 207)	(27 205)	(3 584)	(3 509)	(18 709)	(17 149)	2 931	2 955	(64 517)	(45 127)
Transfers to customer credits		0	0	0	0	0	0	0	0	0	0	0	0
Total Expenses		(1 970)	(1 187)	(3 754 782)	(2 915 617)	(135 950)	(129 275)	(168 017)	(147 942)	3 398	3 141	(4 057 321)	(3 190 880)
Surplus / (Deficit) for the year		0	0	(45 125)	59 433	(25 779)	(25 973)	(54 260)	(42 538)	0	0	(125 164)	(9 078)
<i>Surplus / (Deficit) is represented by:</i>													
Unrealised foreign currency effects	10	0	0	(12 233)	39 179	(13)	135	0	0			(12 246)	39 314
Depreciation and Amortisation		0	0	(138 675)	(121 341)	(25 466)	(26 108)	(20 429)	(18 123)			(184 570)	(165 572)
Donations of AGS Assets		0	0	5 249	98 539	0	0	0	0			5 249	98 539
Reversal of provisions (Revenue)	16	0	0	17 650	6 600	0	0	0	0			17 650	6 600
Provisions (Expenses)	16	0	0	(5 275)	(19 450)	0	0	0	0			(5 275)	(19 450)
Revenue from usage of provisions	16	0	0	16 175	30 850	0	0	0	0			16 175	30 850
Net revenue from inventory movements		0	0	71 993	49 770	0	0	0	0			71 993	49 770
Other items		0	0	(9)	(24 714)	(300)	0	(33 831)	(24 415)			(34 140)	(49 129)
		0	0	(45 125)	59 433	(25 779)	(25 973)	(54 260)	(42 538)			(125 164)	(9 078)

¹⁾ "Commercial Discounts Earned" reduce the costs incurred in delivering "Services and Support to Customers".

²⁾ The figure given in respect of USA Foreign Military Sales are presented on a "modified cash" (i.e. non-accruals) basis; more information can be found in the Accounting Policies (see pages 29 to 39).

NATO UNCLASSIFIED

NSPO Cash Flow Statement for the year-ended 31 December

	2023	2022
<i>(all figures are in Euro '000)</i>		
Cash Flows from Operating Activities		
Cash Receipts from Customers	6 265 889	4 600 027
Bank Interest Received	120 531	4 807
Cash Paid to Suppliers	(4 667 960)	(2 906 128)
Cash Paid to and on behalf of Employees	(263 661)	(243 956)
Net Other Payments and Receipts	71 396	160 622
Net Cash Flows from Operating Activities	1 526 195	1 615 372
Cash Flows from Investing Activities		
Net purchase of investments of greater than one year	(60 034)	(244 680)
Net redemption of investments of greater than one year	0	0
Movement of Investments to Cash Equivalents	244 680	0
Net purchase of PPE, Intangible Assets and Inventory	(189 353)	(208 194)
Net Cash Flows from Investing Activities	(4 707)	(452 874)
Cash Flows from Financing Activities		
Net proceeds/(repayments) from borrowings	9 000	(742)
Capital Contributed by Countries	55 141	146 028
Net Cash Flows from Financing Activities	64 141	145 286
Foreign currency effects	(19 423)	63 465
Cash and Cash Equivalents at Beginning of Period	4 516 184	3 144 935
Net Increase/(Decrease) in Cash and Cash Equivalents	1 566 206	1 371 249
Cash and Cash Equivalents at End of Period	6 082 390	4 516 184

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

	2023			2022		
NSPO	Capital contributions	Accumulated surplus/deficit	Total	Capital contributions	Accumulated surplus/deficit	Total
Balance at the end of prior period	4 135 371	0	4 135 371	3 968 679	0	3 968 679
Changes in accounting policy	0	0	0	0	0	0
Restatement to correct errors	0	0	0	0	0	0
Balance at 31 December of prior-period	4 135 371	0	4 135 371	3 968 679	0	3 968 679
Net gains/(losses) recognised directly in net assets	87 421	0	87 421	151 391	0	151 391
Depreciation and Amortisation	(184 570)	184 570	0	(165 572)	165 572	0
Exchange difference on translating foreign operations	17	0	17	(36)	0	(36)
Net Unrealised Foreign exchange gains and losses	(12 246)	12 246	0	39 314	(39 314)	0
PPE donations (AGS)	3 106	(3 106)	0	95 125	(95 125)	0
Inventory donations (AGS)	2 143	(2 143)	0	3 414	(3 414)	0
Inventory disposals, donations and increases	36 795	(36 795)	0	23 049	(23 049)	0
Inventory sales	35 198	(35 198)	0	26 720	(26 720)	0
Impact of provisions on Net Assets	28 550	(28 550)	0	18 000	(18 000)	0
Other items	(309)	34 140	33 831	(24 713)	49 128	24 415
Surplus/(deficit) for the period	0	(125 164)	(125 164)	0	(9 078)	(9 078)
Change in net assets for the year ended	(3 895)	0	(3 895)	166 692	0	166 692
Balance at 31 December of year-ended	4 131 476	0	4 131 476	4 135 371	0	4 135 371

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

	2023			2022		
Log Ops Business Unit	Capital contributions	Accumulated surplus/deficit	Total	Capital contributions	Accumulated surplus/deficit	Total
Balance at the end of prior period	3 497 519	0	3 497 519	3 356 479	0	3 356 479
Changes in accounting policy	0	0	0	0	0	0
Restatement to correct errors	0	0	0	0	0	0
Balance at 31 December of prior-period	3 497 519	0	3 497 519	3 356 479	0	3 356 479
Net gains/(losses) recognised directly in net assets	43 660	0	43 660	81 607	0	81 607
Depreciation and Amortisation	(138 675)	138 675	0	(121 341)	121 341	0
Exchange difference on translating foreign operations	0	0	0	0	0	0
Net Unrealised Foreign exchange gains and losses	(12 233)	12 233	0	39 179	(39 179)	0
PPE donations (AGS)	3 106	(3 106)	0	95 125	(95 125)	0
Inventory donations (AGS)	2 143	(2 143)	0	3 414	(3 414)	0
Inventory disposals, donations and increases	36 795	(36 795)	0	23 049	(23 049)	0
Inventory sales	35 198	(35 198)	0	26 720	(26 720)	0
Impact of provisions on Net Assets	28 550	(28 550)	0	18 000	(18 000)	0
Other items	(9)	9	0	(24 713)	24 713	0
Surplus/(deficit) for the period	0	(45 125)	(45 125)	0	59 433	59 433
Change in net assets for the year ended	(1 465)	0	(1 465)	141 040	0	141 040
Balance at 31 December of year-ended	3 496 054	0	3 496 054	3 497 519	0	3 497 519

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

	2023			2022		
NAMP Business Unit	Capital contributions	Accumulated surplus/deficit	Total	Capital contributions	Accumulated surplus/deficit	Total
Balance at the end of prior period	390 061	0	390 061	385 978	0	385 978
Changes in accounting policy	0	0	0	0	0	0
Restatement to correct errors	0	0	0	0	0	0
Balance at 31 December of prior-period	390 061	0	390 061	385 978	0	385 978
Net gains/(losses) recognised directly in net assets	(2 309)	0	(2 309)	30 092	0	30 092
Depreciation and Amortisation	(25 466)	25 466	0	(26 108)	26 108	0
Exchange difference on translating foreign operations	17	0	17	(36)	0	(36)
Net Unrealised Foreign exchange gains and losses	(13)	13	0	135	(135)	0
PPE donations (AGS)	0	0	0	0	0	0
Inventory donations (AGS)	0	0	0	0	0	0
Inventory disposals, donations and increases	0	0	0	0	0	0
Inventory sales	0	0	0	0	0	0
Impact of provisions and write-offs on Net Assets	0	0	0	0	0	0
Other items	(300)	300	0	0	0	0
Surplus/(deficit) for the period	0	(25 779)	(25 779)	0	(25 973)	(25 973)
Change in net assets for the year ended	(28 071)	0	(28 071)	4 083	0	4 083
Balance at 31 December of year-ended	361 990	0	361 990	390 061	0	390 061

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

	2023			2022		
CEPS Business Unit	Capital contributions	Accumulated surplus/deficit	Total	Capital contributions	Accumulated surplus/deficit	Total
Balance at the end of prior period	247 791	0	247 791	226 222	0	226 222
Changes in accounting policy	0	0	0	0	0	0
Restatement to correct errors	0	0	0	0	0	0
Balance at 31 December of prior-period	247 791	0	247 791	226 222	0	226 222
Net gains/(losses) recognised directly in net assets	46 070	0	46 070	39 692	0	39 692
Depreciation and Amortisation	(20 429)	20 429	0	(18 123)	18 123	0
Exchange difference on translating foreign operations	0	0	0	0	0	0
Net Unrealised Foreign exchange gains and losses	0	0	0	0	0	0
PPE donations (AGS)	0	0	0	0	0	0
Inventory donations (AGS)	0	0	0	0	0	0
Inventory disposals, donations and increases	0	0	0	0	0	0
Inventory sales	0	0	0	0	0	0
Impact of provisions and write-offs on Net Assets	0	0	0	0	0	0
Other items	0	33 831	33 831	0	24 415	24 415
Surplus/(deficit) for the period	0	(54 260)	(54 260)	0	(42 538)	(42 538)
Change in net assets for the year ended	25 641	0	25 641	21 569	0	21 569
Balance at 31 December of year-ended	273 432	0	273 432	247 791	0	247 791
Amount of Net Assets due to Public Sector		Assets	305 286		Assets	268 381
Combinations involving the CEPS Programme National		Liabilities	(32 821)		Liabilities	(21 377)
Organisations		Net Assets	272 465		Net Assets	247 004

Accounting Policies

Basis of preparation

These Financial Statements have been prepared in accordance with the NATO Accounting Framework as adopted by the North Atlantic Council (the "Council"). The NATO Accounting Framework is based on International Public Sector Accounting Standards (IPSAS). *IPSAS 12 – Inventories*, *IPSAS 17 - Property, Plant and Equipment* and *IPSAS 31 - Intangible Assets* were adapted by the Council in August 2013 and *IPSAS 1 – Presentation of Financial Statements*, was adapted by the Council in April 2016. *IPSAS 6 - Consolidated and Separate Financial Statements*, which has been superseded by *IPSAS 35 - Consolidated Financial Statements* since the 2021 financial year, is also adapted by Council.

The Financial Statements are prepared on the going-concern basis which means that those charged with the governance of NSPO and its integral Programmes and Support and/or Procurement Partnerships consider that NSPO will continue in existence for at least a year from the date the Financial Statements are issued.

The preparation of Financial Statements in compliance with the NATO Accounting Framework requires the use of certain critical accounting estimates and requires that those responsible for preparing and presenting the Financial Statements of NSPO use judgement in applying these accounting policies. The areas where significant judgements and estimates have been made in preparing the Financial Statements and their effect are disclosed in the Note 1 to these Financial Statements.

Correction of a historical non-disclosure in relation to "IPSAS 40 – Public Sector Combinations" concerning the National Organisations of the CEPS Programme

IPSAS 40 – Public Sector Combinations came into force in the 2019 financial reporting year. This standard requires certain disclosures which have not historically been made in the NSPO Financial Statements. The disclosures do not impact the figures that have been presented in the NSPO Financial Statements from 2019 to 2023.

The CEPS Programme is an integral part of NSPO, and is constituted of the CEPS Programme Board, the CEPS Programme Office, and the National Organisations (CEPS NOs). The CEPS NOs were set up through a requirement of its predecessor organisation's (the Central Europe Pipeline Management Organisation - CEPMO) Charter with the aim to operate and maintain the CEPS Programme assets on their respective territories. There are four CEPS NOs in total:

- The Belgian Pipeline Organisation (BPO) covering both Belgium and Luxembourg,
- The 'Defensie Pijpleiding Organisatie' (DPO) for the Netherlands,
- The 'Fernleitungs-Betriebsgesellschaft mbH' (FBG) for Germany; and,
- The 'Service National des Oléoducs Interalliés' (SNOI) for France.

Although the CEPS NOs are an integral part of the NSPO according to the NSPO Charter, the CEPS NOs are established by the CEPS Host Nations and not by the North Atlantic Council; they have a juridical personality that is different to NATO. The CEPS NOs are able to carry out national activities as well as NATO activities. The NSPO Financial Statements only reflect the financial results, assets and liabilities of NATO based activities within the CEPS NOs.

While NSPO does not control the CEPS NOs from a financial reporting perspective which would lead to consolidation of CEPS NOs under IPSAS 35 – Consolidated Financial Statements, it does control NATO operations within the CEPS NOs which fall under the financial reporting remit of IPSAS 40 – Public Sector Combinations.

The nature of the Public Sector Combination is considered an “amalgamation” rather than an “acquisition”; and has always been accounted for as such. This is based on IPSAS 40 “amalgamation indicators” relating to the economic substance of the combination based on consideration paid and the decision making power in relation to the combination.

- In terms of “consideration” paid, no consideration was paid by NATO for the any existing territorial pipeline system assets of the CEPS NOs at the time of combination. This supports the combination being an amalgamation.
- In terms of “decision making” power, the indicator for an amalgamation is not clearly met. However, the most likely scenario is that the public sector combination fell under common control in that CEPMO was created by Council, and the CEPMO Charter, which was approved by Council in September 1997 required that the NOs be set up which resulted in a public sector combination in the form of an amalgamation. The Council decision could only have been made with the support of the Host Nations, sitting as part of Council, in which the CEPS NOs were to be set up.
- If the assessment of “consideration” and “decision making” power is not considered enough to confirm that the business combination represents an amalgamation, it is necessary to assess the qualitative financial reporting characteristics to evidence whether accounting as an amalgamation or acquisition best meets user needs. In practice the “amalgamation” reporting approach has been implemented. In addition, it is considered that an “acquisition” accounting approach, with the use of fair values and the potential for “goodwill”, would represent a reporting of the combination in a way which emphasised the measurement of the economic benefits of the combination, when the combination was historically created through a pooling of pipeline system assets with the emphasis on military service potential benefits rather than economic benefits.

The Statement of Changes in Net Assets for the CEPS Business Unit shows the amounts of CEPS net assets which are the result of the “amalgamation”. Disclosures stemming from IPSAS 40 – Public Sector Combinations are required in the first set of financial statements following the amalgamation, in this case 1997, which predated the issuance of IPSAS 40 in 2019, and hence no further disclosures are considered necessary. However, as an additional disclosure NSPO is showing as part of the CEPS Statement of Changes of Net Assets the proportion of Assets, Liabilities and Net Assets within the CEPS Business Unit which are related to National Organisation NATO Operations.

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

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

Basis of accounting for segment parts

The ASB considers that the Financial Statements of NSPO present the results of NSPO’s business unit segment parts as a single entity. The ASB controls the segment parts of the NSPO through its Charter. Inter-business unit segment part transactions and balances are therefore eliminated in full at the NSPO level.

Segment Reporting

A segment is a distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information for the purpose of (a) evaluating the entity’s past performance in

achieving its objectives and (b) making decisions about the future allocation of resources. In the primary statements, NSPO discloses its performance, position and net assets by the following segments: Chairperson's Office, Log Ops Business Unit, CEPS Programme Business Unit and NAM Programme Business Unit.

During 2023, the Log Ops Business Unit had two distinct lines of focus; namely, Life Cycle Management and Support to Operations. Neither the ASB nor senior Agency management, considered it appropriate for the 2022 or 2023 financial years to separately report financial information for the purpose of (a) evaluating the entity's past performance in achieving its objectives and (b) making decisions about the future allocation of resources.

The possibility to undertake greater segment reporting in the future, which in part is limited by the Agency's current ERP configuration, is being considered as part of the Agency's move to SAP S/4HANA.

Changes in Accounting Standards

At the end of the 2023 financial year, the following IPSAS had been issued which will become effective in the financial years specified:

IPSAS 43 – Leases (effective 1 January 2025)

This standard, released in January 2022, will align IPSAS to International Financial Reporting Standard 16, which relates to Leases. The standard will remove the distinction between finance and operating lease and require the recognition of assets and liabilities created by all leases. NSPO does not have significant leases which warrant specific disclosure in the financial statements, and as such, IPSAS 43 is unlikely to impact the financial reporting of NSPO.

IPSAS 44 – Non-current Assets Held for Sale and Discontinued Operations (effective 1 January 2025)

This standard, released in May 2022, will align IPSAS to *International Financial Reporting Standard 5* of the same name. It is unlikely that IPSAS 44 will impact upon the financial reporting of NSPO because should it discontinue any operations, such as the closure of a Support Partnership, it is highly unlikely that assets would be "held for sale" and disposed of on a commercial basis.

IPSAS 45 – Property, Plant, and Equipment (effective 1 January 2025)

This standard, released in May 2023, removed the Heritage assets scope exclusion which is in IPSAS 17, the predecessor standard. This has no impact on NSPO.

While the standard does not define Infrastructure Assets, it provides extra clarity on the application of principles behind the financial reporting of such assets. NSPO does control some infrastructure assets, such as the Central Europe Pipeline System. Hence, the Standard must be assessed to determine if it will have any impact on the financial reporting of NSPO.

IPSAS 46 – Measurement (effective 1 January 2025)

This standard, released in May 2023, introduced new subsequent measurement requirements.

As NSPO essentially uses a historical cost measurement model, except for the CEPS offices in [REDACTED], the Standard is unlikely to have any material impact on the financial reporting of NSPO.

IPSAS 47 – Revenue (effective 1 January 2026)

This standard, released in May 2023, supplants three standards which dealt with Revenue recognition and measurement issues; namely, *IPSAS 9 – Revenue from Exchange Transactions*, *IPSAS 11 – Construction Contracts* and *IPSAS 23 – Revenue from Non-Exchange Transactions*.

The standard describes how revenue should be recognised in light of the settlement of binding obligations on parties or the absence of such binding arrangements. The standard may have an impact of NSPO, which will have to assess more thoroughly the terms of its contractual relationships with its customers to assess the point of revenue recognition.

Currently, when NSPO incurs an expense with a vendor, it is taken that the amount is immediately rebilled to a customer and treated as revenue; the Agency must assess if this relationship still holds.

In addition, IPSAS 47, could have a significant impact on whether NSPO considers itself to act as a principal or as an agent in some of its activities. The Agency has already started to analyse the possible impact and aims to complete its initial analysis during 2024.

IPSAS 48 – Transfer Expenses (effective 1 January 2026)

This standard was released in May 2023. A transfer expense is an expense arising from a transaction, other than taxes, in which an entity provides a good, service, or other asset to another entity, without directly receiving any good, service, or other asset in return. As such it is highly unlikely to apply to NSPO.

IPSAS 49 – Retirement Benefit Plans (effective 1 January 2026)

This standard, released in November 2023, has no impact on NSPO, which is not a “Retirement Benefit Plan”.

Revenue Recognition

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

For contributions called in respect of the current financial year, the revenue is recognised when called. For contributions called in the current financial year for following financial years, these are recognised as an advance, and only accounted for as revenue in the relevant following year.

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

Revenue measurement and timing

Revenue for goods and services delivered is recognised when NSPO segments have transferred the significant risks and rewards of ownership to its customers 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 customers. Revenue is recognised at the moment an expense is incurred as the revenue is guaranteed to be funded by customers who are backed by member Nations.

Revenue related to United States Foreign Military Sales (FMS)

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

Revenue from the Donation of Allied Ground Surveillance (AGS) system assets from the NATO Allied Ground Surveillance Management Organisation (NAGSMO)

In 2022 and 2023, NSPO received donations from NAGSMO of part of an AGS system. NAGSMO was the procurement agent of the system on behalf of NATO. The donations were not subject to conditions that, if unfulfilled, would require the return of the AGS to NAGSMO or another part of the Alliance. Therefore the donations were recognised in full as revenue with a matching asset (PPE or Inventory) and no liability. The value of the donations received was the value reported by NAGSMO.

These were significant "Non-exchange transactions", whereby NSPO received assets from another entity without directly giving approximately equal value in exchange.

Expenses Recognition

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

Assignment of increased costs to the Chairperson's Office

In 2022, the ASB decided that the expenses of the Linguistics Services Division would be reallocated to from the Log Ops Business Unit to the Chairperson's Office in 2023. This followed a decision taken in 2021 to reallocate some other administrative expenses (e.g. security, infrastructure, HR, Finance etc.) to the Chairperson's Office starting in 2022 because this better reflected the NATO cost philosophy that "costs should lie where they fall".

This reallocation of expenses led to an increase in the 2023 Chairperson's Office revenues and expenses when compared to 2022.

2022 comparative figures have not been restated on account of the fact that the ASB decision has only applied since 2023.

Financial Plan Execution

IPSAS 24 - Presentation of Budget Information in Financial Statements, applies to public sector entities which are required to, or elect to, make their approved budgets publically available. NSPO does not make its approved financial plans publicly available; NSPO is not therefore required to follow IPSAS 24. Instead, NSPO presents a high-level summary of the financial plan execution of its main segments as well as for the parts of its projects which are funded jointly or commonly by more than one national customer.

Foreign currency

Transactions entered into by NSPO segments in a currency other than the currency of the primary economic environment in which they operate (their "functional currency"; which is Euro for all segments of the NSPO except for the NAM Programme and some Log Ops projects where it is USD), are recorded at

the exchange rates ruling when the transactions occur. The use of exchange rates does not materially impact the Financial Statements.

Exchange Rates used

The ruling exchange rate used is the daily rate. Foreign currency assets and liabilities are translated at the rates ruling at the reporting date. For all parts of NSPO, except the CEPS Programme, the ruling exchange rate is that of the European Central Bank. The CEPS Programme uses ruling exchange rates set by NATO Headquarters in Brussels that are updated on a weekly basis. 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 (2023: 1.1050 USD to Euro, 2022: 1.0666 USD to Euro.);
- translating revenue and expenses into Euros at the average yearly exchange rates for the Euro relative to the USD (2023: 1.0813 USD to Euro, 2022: 1.0530 USD to Euro).

Unrealised and Realised Exchange Rate Gains and Losses

Unrealised foreign currency exchange differences arising from the translation of monetary assets and liabilities are recognised immediately in the Statement of Financial Performance. Realised foreign exchange differences are generally returnable to customers. More information can be found in *Note 10: Bank Interest and foreign currency effects*.

Cash and Cash Equivalents held on behalf of customers

NSPO holds cash and cash equivalents in financial institutions as current accounts and as term deposits, and at the Agency in petty cash and cash on hand for operational requirements. These cash balances are held in Euro, US dollar and Hungarian Forint. The Agency does not have any cash “of its own”; cash and cash equivalents are held on behalf of customers and can only be used by the Agency in accordance with customer wishes.

Investments held on behalf of customers

The Agency invests in Euro and US Dollar denominated term-deposits with a life of between one and four years. These investments are expected to be held-to-maturity. The Agency does not invest USD denominated balances for more than one year. The Agency does not have any investments “of its own”; investments are held on behalf of customers.

Overdraft

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

Receivables and Non-contractual Calls for Advances

NSPO considers that an amount becomes receivable on the issuance of a call for funds, call for contributions or invoice. Receivables are measured at Net Realisable Value after taking bad and doubtful debts into account. As a general rule, the Agency considers that as it works with customers which are funded through national governments, that debts are considered to be “good”; only on rare occasions are

provisions made for bad or doubtful debts. Receivables cannot be set-off against customer advance payments without the written authorisation of the customer.

In 2022, the Agency changed its accounting policy in respect of Calls for Advances made to individual customers. Prior to 2022, these did not represent a legal obligation on the part of the customer to pay the Agency, as such they were not recorded in the Statement of Financial Position (i.e. they were “off balance sheet”). However, after review, the Agency considered that, as these Calls for Advances are agreed with the customer in advance, they represent a planned event where it is virtually certain that they shall be paid. As such the Agency changed its accounting policy to account for these Calls for Advances as Account Receivables which are now categorised as “Non-contractual Calls for Advances” with a matching liability to the customer shown in “Customer Advances”.

Prepayments

When the Agency makes advance payments to vendors and employees, these are reflected as prepayments in the Statement of Financial Position.

Inventories

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

- For the Log Ops segment most inventories are recognised at weighted average cost (the “WAC”). The exceptions are fuel which is valued at current replacement cost and Patriot Programme operational inventories maintained at a contractor premise which are valued at historical cost.
- NAM Programme inventories are measured on a First-In, First-Out (FIFO) basis.
- CEPS Programme inventories are measured on a weighted average cost (the “WAC”) basis.

The capitalisation thresholds for all inventory are Euro nil.

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

Impairment Reviews

The Agency holds three types of inventory; namely consumables, spare parts and strategic stock.

Consumables typically have a use-by-date and spare parts are maintained in an operational state.

Strategic stocks represent inventory which is essential to ensure the effective future operation of a military asset where the part cannot be procured off-the-shelf or the original equipment manufacturer no longer exists. While strategic stocks hold future service potential, when this service potential will be used is unknown. The Agency does not currently conduct formalised impairment reviews on strategic stocks at the financial year-end as management considers that the increased financial and resource costs to its customers of doing impairment reviews is less than the benefit to customers. Some of the assets supported by the Agency are old; hence, the typical notion of obsolescence does not apply. However, the value of strategic stocks, based on WAC, is typically less than the net realisable value of each stock item in terms of the replacement cost of an item (where there is a market price) or the estimated cost of restarting production. The net realisable value of stocks tends to arise in wartime. In effect, if an asset were to be formally impaired, its value is unlikely to fall below its balance sheet value.

Property, Plant and Equipment (PPE)

NSPO follows the NATO Accounting Framework for PPE, which uses an adaption of IPSAS 17 for its accounting treatment. PPE is valued at initial cost less accumulated depreciation. Any subsequent expenditure on the asset, which enhances its value, is included in the amount. Depreciation is calculated on a straight-line basis on all PP&E other than land. The expected lives of PPE and their associated capitalisation thresholds per item are:

Category	Expected Life	Capitalisation Threshold
Buildings	up to 40 years	Euro 1,000 (USD 1,000 for NAMP)
Installed equipment	10 years	Euro 1,000 (USD 1,000 for NAMP)
Machinery	10 years	Euro 1,000 (USD 1,000 for NAMP)
Vehicles	5 years	Euro 1,000 (USD 1,000 for NAMP)
Aircraft	The expected lifetime of the Aircraft or lifetime of the Programme or Support Partnership if lower (between 20 and 30 years)	Euro 200,000
Pipeline System	6 to 40 years depending on type of component	Euro 1,000
Mission equipment	10 years	Euro 1,000 (USD 1,000 for NAMP)
Furniture	10 years	Euro 1,000 (USD 1,000 for NAMP)
Automated Information Systems	5 years	Euro 1,000 (USD 1,000 for NAMP)
Communication systems	3 years	Euro 1,000 (USD 1,000 for NAMP)

The Central Europe Pipeline System capitalises additions and enhancement made since 1 January 2013; this is in accordance with the NATO Accounting Framework which allows NATO bodies the choice between capitalising PPE after, or before, the cut-off date 1 January 2013.

PPE - Land and Buildings acquired since 2013

For the first time with the issuance of the 2019 Financial Statements, the NSPO campus at [REDACTED] was considered to be controlled by NSPO. The Agency changed its accounting policy in 2019 to only capitalise additions and enhancement to PPE made since 1 January 2013; this is in accordance with the NATO Accounting Framework which allows NATO bodies the choice between capitalising PPE after, or before, the cut-off date 1 January 2013.

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

As the CEPS Programme Office site in [REDACTED] was used before 2013, this is not-capitalised despite being controlled by the Agency.

As the NAM Programme was established for 30 years, the maximum useful economic life of Buildings and Other Infrastructure assets is limited to 2034).

PPE – Aircraft

Between 2020 and 2022, NSPO took delivery of a number of Aircraft, which had a material impact on the Statement of Financial Position. Aircraft are now shown on the NAMP Statement of Financial Position as well as the Log Ops Statement of Financial Position because of Aircraft held by the NSPO Multinational Multi Role Tanker Transport Fleet Support Partnership and the Allied Ground Surveillance Support Partnership. Aircraft are valued at cost by NAMP and by the Multinational Multirole Tanker Transport Fleet, and although the aircraft in the Allied Ground Surveillance Support Partnership came by way of donation, the valuation applied was also on a cost basis.

The expected life of the aircraft is determined by the expected use of the aircraft but cannot exceed the expected life of the respective governing Programme or Support Partnership. No residual value has been applied to the Aircraft when assessing depreciation because it is uncertain how these military specific assets would be disposed of at the end of their lives. In addition, there has been no estimate of potential dismantling, removal and restoration costs. This is because it is not considered feasible to make a reliable estimate.

PPE – Assets in the Course of Construction (Aircraft)

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

Impairment Reviews

Impairment reviews are conducted on the biggest asset categories by value; namely Aircraft and the Pipeline System. These systems must be in a state of operational readiness or airworthiness which makes the ongoing review of the assets service potential a necessity.

Externally acquired intangible assets

Externally acquired intangible assets represent information systems used by NSPO segments and the NAM Programme's rights to a C17 aircraft spare engine. They are recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives.

Category	Expected Life	Capitalisation Threshold
Software	4 years	Euro 1,000 (USD 1,000 for NAMP)
Rights to Spare Engine (NAMP)	30 years (life of aircraft)	Euro 1,000 (USD 1,000 for NAMP)

Financial liabilities

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

Accounts Payable and Accruals

Accounts Payable represent amounts for which goods and services, supported by an invoice, have been received at the year-end but which remain unpaid. Accruals represent amounts owing for goods and services, which are not supported yet by an invoice at the year-end. Accounts payable and accruals cannot be set-off against customer receivables without the written authorisation of the customer.

Advances

In order to ensure that customer requirements can be met, NSPO segments can call for money in advance of need. The advance is shown within assets, such as cash, at the NSPO consolidated and segment level but is matched by a liability because, until the funds are used, they are owed back to the customer who provided the funding. Advances cannot be set-off against customer receivables without the written authorisation of the customer.

Advances provided by an individual customer are considered "current" because the use of the advance is at the discretion of the customer which may choose at any time to seek its return or reallocate it to another purpose.

Advances provided after approval at NSPO governance levels, such as the ASB or Support Partnership Committees, could be considered either “current” or “non-current” and depend on the purpose for which the governance has approved the advance and the time period over which it will be used. It is anticipated that most, if not all, of these advances will be classed as current for the Log Ops Business Unit.

Retirement benefits: Defined contribution scheme

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

Retirement benefits: Defined benefit scheme

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

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

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

Other long-term service benefits

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

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

Provisions

NSPO segments recognise provisions for liabilities of uncertain timing or amount, including those for legal disputes such as those related to contractual issues and potential doubtful debts. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date, unless, in the interests of the timely issuance of the Financial Statements, this is not possible and in which case a worst-case scenario is presented.

The NFRPs make it clear that all risks inherent in the performance of services provided by the Agency shall be borne by the Agency's customers. Costs arising from legal liabilities incurred by the Agency in the execution of services requested from the Agency shall also be borne by those customers.

Provisions - Items which do not impact total liabilities or Net Assets

Not all items that would typically be considered as provisions affect the Net Assets of NSPO. As an example, if a customer refuses to pay a debt, this must be ultimately borne by all other customers. This creates the situation whereby a provision will make no change to total liabilities or Net Assets; it simply leads to a reallocation of existing liabilities across the customer base but not an absolute change.

Provisions - Items which lead to Provisions and which impact total liabilities or Net Assets

There are situations whereby a provision may lead to an increase in the total liabilities of NSPO and hence have a negative impact on Net Assets. Hypothetically, the Agency may be exposed to a contractual claim with a third party which leads to a provision being raised because it has not been budgeted by NSPO or its customers. While ultimately the NSPO customer base will have to provide funding to cover the amounts provided for, there is a timing issue whereby the provision, being uncertain in timing or amount, is not immediately matched by a revenue or payable from the customer base.

Contingent Liabilities

NSPO discloses in the notes to the Financial Statements any contingent liabilities where:

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

However, as noted in the Provisions accounting policy above, the NFRPs make it clear that all risks inherent in the performance of services provided by the Agency shall be borne by the Agency's customers. Costs arising from legal liabilities incurred by the Agency in the execution of services requested from the Agency shall also be borne by those customers. This means that if the Agency raises a contingent liability which eventually materialises, it must borne by its customers.

Operating surplus / (deficit) in the year

Operating surpluses and deficits occur when non-budgeted expenses or revenues occur. Examples are depreciation, changes in provisions, sales and disposals of inventory, and the unrealised results of foreign exchange transactions. For the Log Ops and NAMP Business Units only, unrealised foreign currency translation effects affect the Statement of Financial Performance. Bank interest and realised foreign exchange effects "pass through" the Log Ops and NAMP Business Units only, and belong to customers, rather than to NSPO, and hence do not affect revenue.

NSPO Net Assets

Net Assets reflected in the Financial Statements represent the net assets of NSPO's customers. These net assets comprise the capital contributed by customers to fund the acquisition of PPE, intangible assets and inventories. Capital contributed is reduced by the effects of depreciation and amortisation, and can be increased or decreased due to the effects of currency translation effects. Net Assets also take into account the impact of Operating surpluses and deficits referred to above.

NOTES TO THE FINANCIAL STATEMENTS *(amounts are given in Euro '000 unless stated otherwise)***1. Critical Accounting Estimates and Judgements**

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

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

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

NSPA management has chosen to account for the value of the services delivered based on the values provided in the reports, and which are based on cash payments made by the United States Government to contractors during the period; the Agency is permitted to account in this way by the NATO Accounting Framework.

b) NAMP Mission Costs

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

c) Legal proceedings both real and possible

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

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

2. Cash and Cash Equivalents held on behalf of customers, Investments held on behalf of customers, and, Overdrafts

The Agency continuously reviews its banking arrangements to ensure that there is a low risk of capital loss to customers' funds. At the date the Financial Statements were issued, the Agency considers that the value of cash and investment balances are correctly stated and there is no need to impair the balances reported.

Management of interest rate and liquidity risk

Until September 2022, the Euro was exposed to zero or negative interest rates. In its efforts to reduce and manage the impact of negative and zero Euro based interest rates on the Agency's customers, the Agency proactively attempted to manage those risks with the endorsement of the ASB.

Until early December 2023, the Agency, with the agreement of the ASB, had the following investment approach:

- a) The Agency planned to hold its investments until their notional maturity.
- b) Despite the aim of holding investment to their notional maturity, cash equivalents and investments must be convertible into cash within 35 days, subject to the caveat that the Agency can invest up to 30 per cent of the funds that it holds on behalf of customers for the full contractual term of the deposit (e.g. 90 days, 120 days, 180 days, 365 days etc.) for up to one year, with the understanding that these investments will not be converted into cash within 35 days.

The ASB took the decision in early December 2023 to rescind b) and therefore allowed the Agency to invest funds for the full contractual period rather than requiring that at least 70 per cent of them could be liquidated within 35 days.

In addition, during the negative Eurozone interest rate environment, the Agency could invest up to Euro 500m of customer funds held at the Agency for between one and four years subject to those funds being convertible into cash within 35 days and subject to the proviso that they are considered low risk in the Financial Controller's judgement. The Euro 500m limit was based on the remaining life of the deposit rather than its original contractual life. There are legacy Investments which are still maturing and this is why the Financial Statements which are reflected in *Note 2c: Investments*.

NATO UNCLASSIFIED

AC/338-D(2024)0008-REV1

a) Cash and Cash Equivalents held on behalf of customers

	Log Ops		NAM		CEPS		NSPO TOTAL	
	2023	2022	2023	2022	2023	2022	2023	2022
Cash available on demand	681 292	435 389	20 618	12 624	13 924	17 403	715 834	465 416
Short-term deposits up to one year	4 999 258	3 642 998	211 789	249 823	155 509	157 947	5 366 556	4 050 768
Total	5 680 550	4 078 387	232 407	262 447	169 433	175 350	6 082 390	4 516 184
<i>Short-term deposits of up to one year, which are expected to be held to maturity, with the following term to maturity remaining at the year-end</i>								
<i>Can be liquidated in up to 35 days</i>	2 876 157	1 923 032	194 194	23 522	155 509	157 947	3 225 860	2 104 501
<i>Can be liquidated between 36 days and 3 months</i>	1 400 895	159 965	4 525	29 762	0	0	1 405 420	189 727
<i>Can be liquidated between 3 and 12 months</i>	722 206	1 560 001	13 070	196 539	0	0	735 276	1 756 540
Total	4 999 258	3 642 998	211 789	249 823	155 509	157 947	5 366 556	4 050 768

Cash

Cash available on demand is considered to be cash that can accessed at very-short notice (e.g. 1 working day)

Cash Equivalents under IPSAS and the NFRPs

The Agency's cash equivalents represent call accounts and term-deposits which can be quickly convertible into a known amount of cash and subject to insignificant risks of changes in value.

Under IPSAS, cash equivalents are normally considered as short-term when they have a maturity of less than three months from the date of acquisition; however, this does not exclude potentially longer durations. The Agency has been permitted under the NFRPs to make "short-term" investments where short-term was considered to be up to one year. As the ASB and the NATO Council are the primary users of these Financial Statements, the Agency has therefore shown short-term investments as those call accounts and term deposits which can be liquidated in up to one year, rather than less than three months.

NATO UNCLASSIFIED

b) CEPS Business Unit's National Organisations' cash and overdraft

Due to the structure of banking arrangements in some CEPS National Organisations, the CEPS Business Unit controls Euro 14.2m (2022: Euro 10.9m) of "non-CEPS Cash" which is owned by the specific National Organisations. These CEPS Business Unit cash assets are offset by liabilities in the Statement of Financial Position.

In addition the CEPS Business Unit allows borrowings to take place between the French National Organisation and its contractor, this is considered an "overdraft" facility. At the end of 2023 the balance was Euro 9,346k (2022: Euro 347k).

c) Investments held on behalf of customers

	Log Ops		NAM		CEPS		NSPO TOTAL	
	2023	2022	2023	2022	2023	2022	2023	2022
Cash held on deposit for between one and four years	60 034	244 680	0	0	0	0	60 034	244 680
Total	60 034	244 680	0	0	0	0	60 034	244 680
<i>Investments, which are expected to be held to maturity, with the following term to maturity remaining at the year-end</i>								
Can be liquidated in between 1 and 2 years	60 034	244 680	0	0	0	0	60 034	244 680
Total	60 034	244 680	0	0	0	0	60 034	244 680

d) Increases in balances between 2022 and 2023

Cash and cash equivalent, and investment balances, have increased by almost Euro 1.4 Billion between 2022 and 2023 year-ends. This rise is linked to the need for customers to provide the Agency with cash to pay for current project costs that will be billed in the coming year. The Agency entered into a record level of contracts in 2023 which explains the increase.

NATO UNCLASSIFIED

AC/338-D(2024)0008-REV1

3. Property, Plant and Equipment (PPE)

a) NSPO PPE

NSPO capitalises all PPE which its Business Unit segment parts control. The Log Ops Business Unit capitalises PPE which it controls as part of its administration duties or which are controlled by Support and/or Procurement Partnerships collectively. In addition, the Log Ops segment capitalises the immaterial amounts of PPE used by the Chairperson's office and which it manages on behalf of the Chairperson's Office.

NSPO 2023	Cost at 1 January	Additions in Year	Transfer	Disposal /Impairment in Year	Currency Transaction Adjustment	Cost at 31 December	Depreciation at 1 January	Change in Depreciation	Currency Translation Adjustment	Depreciation at 31 December	Opening NBV	Closing NBV
Land	0	0	0	0	0	0	0	0	0	0	0	0
Buildings	63 689	1 824	0	(296)	(1 259)	63 959	(23 805)	(3 978)	402	(27 380)	39 884	36 578
Installed Equipment	2 510	86	0	(10)	(2)	2 584	(1 684)	(125)	0	(1 809)	825	774
Machinery	135 935	743	(23 000)	(518)	0	113 160	(105 484)	3 467	0	(102 017)	30 451	11 143
Vehicles	14 356	1 312	0	(489)	(214)	14 966	(11 078)	(540)	181	(11 437)	3 279	3 529
Aircraft	3 594 906	14 076	23 000	0	(21 153)	3 610 829	(455 345)	(157 278)	10 055	(602 567)	3 139 562	3 008 262
Pipeline System	231 823	44 604	11 099	(127)	0	287 399	(79 366)	(20 894)	0	(100 260)	152 457	187 139
Mission Equipment	27 657	2 112	0	(705)	(511)	28 553	(22 721)	(498)	417	(22 802)	4 936	5 751
Furniture	6 732	419	0	(231)	(10)	6 909	(5 009)	(164)	5	(5 168)	1 723	1 741
Automated information System	42 451	6 221	0	(985)	(53)	47 635	(34 581)	(3 204)	44	(37 741)	7 871	9 894
Communication System	2 581	89	0	(37)	(2)	2 631	(2 108)	(103)	2	(2 209)	473	422
Assets in the course of construction	232 153	125 242	(11 099)	0	(591)	345 705	0	0	0	0	232 153	345 705
TOTAL	4 354 794	196 729	0	(3 398)	(23 795)	4 524 330	(741 181)	(183 316)	11 106	(913 391)	3 613 613	3 610 939

NSPO 2022	Cost at 1 January	Additions in Year	Transfer	Disposal /Impairment in Year	Currency Transaction Adjustment	Cost at 31 December	Depreciation at 1 January	Change in Depreciation	Currency Translation Adjustment	Depreciation at 31 December	Opening NBV	Closing NBV
Land	0	0	0	0	0	0	0	0	0	0	0	0
Buildings	57 967	3 616	0	(6)	2 112	63 689	(19 432)	(3 873)	(500)	(23 805)	38 535	39 884
Installed Equipment	2 403	137	0	(30)	0	2 510	(1 565)	(120)	0	(1 684)	838	825
Machinery	136 391	1 027	(1 234)	(249)	0	135 935	(101 452)	(4 032)	0	(105 484)	34 939	30 451
Vehicles	13 617	781	0	(397)	356	14 356	(10 184)	(621)	(273)	(11 078)	3 433	3 279
Aircraft	3 047 746	108 730	427 679	(24 708)	35 459	3 594 906	(307 713)	(133 155)	(14 476)	(455 345)	2 740 033	3 139 562
Pipeline System	204 932	5 075	22 116	(300)	0	231 823	(64 325)	(15 041)	0	(79 366)	140 607	152 457
Mission Equipment	26 669	960	82	(856)	802	27 657	(21 717)	(348)	(656)	(22 721)	4 952	4 936
Furniture	6 294	511	39	(127)	14	6 732	(4 723)	(279)	(7)	(5 009)	1 571	1 723
Automated information System	39 351	3 872	(124)	(725)	77	42 451	(30 989)	(3 526)	(66)	(34 581)	8 362	7 871
Communication System	2 550	103	(8)	(67)	4	2 581	(2 020)	(85)	(3)	(2 108)	530	473
Assets in the course of construction	534 937	145 428	(448 550)	0	339	232 153	0	0	0	0	534 937	232 153
TOTAL	4 072 856	270 240	0	(27 466)	39 163	4 354 794	(564 120)	(161 080)	(15 981)	(741 181)	3 508 736	3 613 613

NATO UNCLASSIFIED

b) Land and Buildings acquired since 1 January 2013

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

c) New [REDACTED] Campus

The development of the new [REDACTED] Campus is a significant event in the history of the Agency and has a specific dedicated budget referred to as the Strategic Infrastructure Program (SIP); as such, the capitalisation of the various projects is being separately disclosed in these Financial Statements. The Net Book value of the New [REDACTED] Campus is shown in the table below:

	Log Ops	Log Ops
	2023	2022
New ***** Campus (Net Book Value)		
New Gate (in use since 2018)	3 215	3 310
New ***** Campus - Assets in the Course of Construction	7 291	5 302
New ***** Campus - NBV of Capitalised items	1 058	1 209
Total	11 565	9 821

The New Gate, which is the entrance to the [REDACTED] Campus, is reflected in the Buildings line of the Log Ops and NSPO PPE table, while the capitalised parts of the New [REDACTED] Campus are reflected in Buildings in the Log Ops and NSPO PPE table, and Assets in the Course of Construction are reflected in that part of the Log Ops and NSPO PPE table.

The value of the New [REDACTED] Campus does not include an estimate of dismantling, removing and restoring costs. This is because there is no timeline for such events and it is therefore not considered feasible to make a reliable estimate.

The old [REDACTED] campus, which incorporates land, roads and forty buildings on the site. The campus was last valued in 2011 at Euro 101.5m and comprised land at Euro 10.5m and buildings at Euro 91m.

d) Land and Buildings acquired before 1 January 2013

The NATO Accounting Framework requires that for PPE held prior to 1 January 2013, and which is not capitalised, a brief description of these types of PPE should be disclosed.

- The land and building of the CEPS Programme Office in [REDACTED], which were last valued in 2011 at Euro 3.75m and comprised land at Euro 195k and building at Euro 3.55m.

NATO UNCLASSIFIED

AC/338-D(2024)0008-REV1

e) Log Ops PPE

LOG OPS 2023	Cost at 1 January	Additions in Year	Transfer	Disposal /Impairment in Year	Currency Transaction Adjustment	Cost at 31 December	Depreciation at 1 January	Change in Depreciation	Currency Translation Adjustment	Depreciation at 31 December	Opening NBV	Closing NBV
Land	0	0	0	0	0	0	0	0	0	0	0	0
Buildings	21 072	708	0	0	0	21 781	(8 048)	(2 177)	0	(10 224)	13 024	11 556
Installed Equipment	1 291	1	0	(7)	0	1 285	(1 003)	(47)	0	(1 050)	287	234
Machinery	132 950	743	(23 000)	(63)	0	110 630	(103 064)	3 527	0	(99 537)	29 886	11 093
Vehicles	1 031	66	0	0	0	1 098	(647)	(77)	0	(724)	385	374
Aircraft	2 986 324	13 875	23 000	0	0	3 023 199	(179 596)	(135 227)	0	(314 822)	2 806 729	2 708 377
Pipeline System	0	0	0	0	0	0	0	0	0	0	0	0
Mission Equipment	0	0	0	0	0	0	0	0	0	0	0	0
Furniture	3 679	276	0	(146)	0	3 808	(2 774)	(27)	0	(2 801)	905	1 007
Automated information System	38 146	5 494	0	(810)	0	42 831	(30 991)	(2 862)	0	(33 853)	7 156	8 978
Communication System	1 071	0	0	(16)	0	1 055	(1 014)	(20)	0	(1 034)	57	21
Assets in the course of construction	143 397	116 082	0	0	0	259 479	0	0	0	0	143 397	259 479
TOTAL	3 328 962	137 246	0	(1 042)	0	3 465 166	(327 137)	(136 909)	0	(464 046)	3 001 825	3 001 120

LOG OPS 2022	Cost at 1 January	Additions in Year	Transfer	Disposal /Impairment in Year	Currency Transaction Adjustment	Cost at 31 December	Depreciation at 1 January	Change in Depreciation	Currency Translation Adjustment	Depreciation at 31 December	Opening NBV	Closing NBV
Land	0	0	0	0	0	0	0	0	0	0	0	0
Buildings	17 827	3 245	0	0	0	21 072	(6 014)	(2 034)	0	(8 048)	11 813	13 024
Installed Equipment	1 268	23	0	0	0	1 291	(949)	(55)	0	(1 003)	319	287
Machinery	133 542	844	(1 234)	(202)	0	132 950	(99 094)	(3 970)	0	(103 064)	34 448	29 886
Vehicles	976	97	0	(41)	0	1 031	(578)	(69)	0	(647)	398	385
Aircraft	2 474 688	108 665	427 679	(24 708)	0	2 986 324	(69 099)	(110 496)	0	(179 596)	2 405 589	2 806 729
Pipeline System	0	0	0	0	0	0	0	0	0	0	0	0
Mission Equipment	0	0	0	0	0	0	0	0	0	0	0	0
Furniture	3 539	184	0	(45)	0	3 679	(2 618)	(156)	0	(2 774)	921	905
Automated information System	35 517	3 343	(124)	(590)	0	38 146	(27 823)	(3 168)	0	(30 991)	7 694	7 156
Communication System	1 096	0	0	(24)	0	1 071	(990)	(24)	0	(1 014)	106	57
Assets in the course of construction	459 873	109 846	(426 321)	0	0	143 397	0	0	0	0	459 873	143 397
TOTAL	3 128 325	226 247	0	(25 611)	0	3 328 962	(207 165)	(119 972)	0	(327 137)	2 921 160	3 001 825

Donation of PPE

Additions includes donations of Allied Ground Surveillance (AGS) system assets from the NATO Allied Ground Surveillance Management Organisation (NAGSMO)

NATO UNCLASSIFIED

NATO UNCLASSIFIED

AC/338-D(2024)0008-REV1

Assets in the Course of Construction are measured based on the stage of completion; this is based either on the results of a technical inspection or on contracted milestone payments; the main item in the Log Ops Business Unit represents the purchase of Multinational Multirole Tanker Transport Fleet (MMF) (see below).

The value of assets does not include an estimate of dismantling, removing and restoring costs. This is because it is not considered feasible to make a reliable estimate.

f) NAMP PPE

2023	Cost at 1 January	Additions in Year	Transfer	Disposal /Impairment in Year	Currency Transaction Adjustment	Cost at 31 December	Depreciation at 1 January	Change in Depreciation	Currency Translation Adjustment	Depreciation at 31 December	Opening NBV	Closing NBV
Land	0	0	0	0	0	0	0	0	0	0	0	0
Buildings	36 240	0	0	(293)	(1 259)	34 688	(10 595)	(1 605)	402	(11 798)	25 645	22 890
Installed Equipment	56	0	0	0	(2)	54	(1)	(5)	0	(6)	55	48
Machinery	0	0	0	0	0	0	0	0	0	0	0	0
Vehicles	6 156	0	0	(3)	(214)	5 939	(5 061)	(272)	181	(5 152)	1 095	787
Aircraft	608 582	201	0	0	(21 153)	587 630	(275 749)	(22 051)	10 055	(287 745)	332 833	299 885
Pipeline System	0	0	0	0	0	0	0	0	0	0	0	0
Mission Equipment	14 071	1 388	0	(343)	(511)	14 605	(11 801)	(313)	417	(11 697)	2 270	2 908
Furniture	274	7	0	0	(10)	271	(124)	(27)	5	(146)	150	125
Automated information System	1 441	206	0	(71)	(53)	1 523	(1 244)	(72)	44	(1 272)	197	251
Communication System	71	0	0	0	(2)	69	(66)	(5)	2	(69)	5	0
Assets in the course of construction	11 378	9 160	0	0	(591)	19 947	0	0	0	0	11 378	19 947
Total	678 269	10 962	0	(710)	(23 795)	664 726	(304 641)	(24 350)	11 106	(317 885)	373 628	346 841

NATO UNCLASSIFIED

NATO UNCLASSIFIED

AC/338-D(2024)0008-REV1

2022	Cost at 1 January	Additions in Year	Transfer	Disposal /Impairment in Year	Currency Transaction Adjustment	Cost at 31 December	Depreciation at 1 January	Change in Depreciation	Currency Translation Adjustment	Depreciation at 31 December	Opening NBV	Closing NBV
Land	0	0	0	0	0	0	0	0	0	0	0	0
Buildings	34 128	0	0	0	2 112	36 240	(8 442)	(1 653)	(500)	(10 595)	25 686	25 645
Installed Equipment	0	56	0	0	0	56	0	(1)	0	(1)	0	55
Machinery	0	0	0	0	0	0	0	0	0	0	0	0
Vehicles	5 762	38	0	0	356	6 156	(4 463)	(325)	(273)	(5 061)	1 299	1 095
Aircraft	573 058	65	0	0	35 459	608 582	(238 614)	(22 659)	(14 476)	(275 749)	334 444	332 833
Pipeline System	0	0	0	0	0	0	0	0	0	0	0	0
Mission Equipment	13 011	462	0	(204)	802	14 071	(10 681)	(464)	(656)	(11 801)	2 330	2 270
Furniture	228	32	0	0	14	274	(92)	(25)	(7)	(124)	136	150
Automated information System	1 269	128	0	(33)	77	1 441	(1 101)	(77)	(66)	(1 244)	168	197
Communication System	67	0	0	0	4	71	(56)	(7)	(3)	(66)	11	5
Assets in the course of construction	6 426	4 613	0	0	339	11 378	0	0	0	0	6 426	11 378
Total	633 949	5 394	0	(237)	39 163	678 269	(263 449)	(25 211)	(15 981)	(304 641)	370 500	373 628

g) CEPS PPE

CEPS [REDACTED] site

Assets in the Course of Construction are measured based on the stage of completion; this is based either on the results of a technical inspection or on contracted milestone payments; the main item for the CEPS Business Unit represents assets for the Pipeline System.

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

NATO UNCLASSIFIED

NATO UNCLASSIFIED

AC/338-D(2024)0008-REV1

CEPS 2023	Cost at 1 January	Additions in Year	Transfer	Disposal /Impairment in Year	Currency Transaction Adjustment	Cost at 31 December	Depreciation at 1 January	Change in Depreciation	Currency Translation Adjustment	Depreciation at 31 December	Opening NBV	Closing NBV
Land	0	0	0	0	0	0	0	0	0	0	0	0
Buildings	6 377	1 116	0	(3)	0	7 490	(5 162)	(196)	0	(5 358)	1 215	2 132
Installed Equipment	1 163	85	0	(3)	0	1 245	(680)	(73)	0	(753)	483	492
Machinery	2 985	0	0	(455)	0	2 530	(2 420)	(60)	0	(2 480)	565	50
Vehicles	7 169	1 246	0	(486)	0	7 929	(5 370)	(191)	0	(5 561)	1 799	2 368
Aircraft	0	0	0	0	0	0	0	0	0	0	0	0
Pipeline system	231 823	44 604	11 099	(127)	0	287 399	(79 366)	(20 894)	0	(100 260)	152 457	187 139
Mission Equipment	13 586	724	0	(362)	0	13 948	(10 920)	(185)	0	(11 105)	2 666	2 843
Furniture	2 779	136	0	(85)	0	2 830	(2 111)	(110)	0	(2 221)	668	609
Automated information System	2 864	521	0	(104)	0	3 281	(2 346)	(270)	0	(2 616)	518	665
Communication Systems	1 439	89	0	(21)	0	1 507	(1 028)	(78)	0	(1 106)	411	401
Assets in the Course of Construction	77 378	0	(11 099)	0	0	66 279	0	0	0	0	77 378	66 279
Total	347 563	48 521	0	(1 646)	0	394 438	(109 403)	(22 057)	0	(131 460)	238 160	262 978

CEPS 2022	Cost at 1 January	Additions in Year	Transfer	Disposal /Impairment in Year	Currency Transaction Adjustment	Cost at 31 December	Depreciation at 1 January	Change in Depreciation	Currency Translation Adjustment	Depreciation at 31 December	Opening NBV	Closing NBV
Land	0	0	0	0	0	0	0	0	0	0	0	0
Buildings	6 012	371	0	(6)	0	6 377	(4 976)	(186)	0	(5 162)	1 036	1 215
Installed Equipment	1 135	58	0	(30)	0	1 163	(616)	(64)	0	(680)	519	483
Machinery	2 849	183	0	(47)	0	2 985	(2 358)	(62)	0	(2 420)	491	565
Vehicles	6 879	646	0	(356)	0	7 169	(5 143)	(227)	0	(5 370)	1 736	1 799
Aircraft	0	0	0	0	0	0	0	0	0	0	0	0
Pipeline system	204 932	5 075	22 116	(300)	0	231 823	(64 325)	(15 041)	0	(79 366)	140 607	152 457
Mission Equipment	13 658	498	82	(652)	0	13 586	(11 036)	116	0	(10 920)	2 622	2 666
Furniture	2 527	295	39	(82)	0	2 779	(2 013)	(98)	0	(2 111)	514	668
Automated information System	2 565	401	0	(102)	0	2 864	(2 065)	(281)	0	(2 346)	500	518
Communication Systems	1 387	103	(8)	(43)	0	1 439	(974)	(54)	0	(1 028)	413	411
Assets in the Course of Construction	68 638	30 969	(22 229)	0	0	77 378	0	0	0	0	68 638	77 378
Total	310 582	38 599	0	(1 618)	0	347 563	(93 506)	(15 897)	0	(109 403)	217 076	238 160

NATO UNCLASSIFIED

NATO UNCLASSIFIED

AC/338-D(2024)0008-REV1

4. Intangible Assets

The intangible assets of NSPO are:

- Various versions of SAP Enterprise Resource Planning (ERP) which are used within all segments
- The NAM Programme's right of use to a spare engine for its C-17 Aircraft and software
- The CEPS Programme's management, planning and coordination systems

NSPO 2023	Cost at 1 January	Additions in Year	Transfer	Disposal / Impairment in Year	Currency Transaction Adjustment	Cost at 31 December	Amortisation at 1 January	Change in Amortisation	Currency Translation Adjustment	Amortisation at 31 December	Opening NBV	Closing NBV
Software	21 490	140	0	0	(43)	21 587	(11 663)	(1 255)	43	(12 876)	9 827	8 712
Rights to Spare Engine	18 119	0	0	0	(630)	17 489	(7 004)	(699)	258	(7 445)	11 115	10 044
Assets in the Course of Construction	764	547	0	0	0	1 311	0	0	0	0	764	1 311
Total	40 373	687	0	0	(673)	40 387	(18 667)	(1 954)	301	(20 321)	21 706	20 067

NSPO 2022	Cost at 1 January	Additions in Year	Transfer	Disposal / Impairment in Year	Currency Transaction Adjustment	Cost at 31 December	Amortisation at 1 January	Change in Amortisation	Currency Translation Adjustment	Amortisation at 31 December	Opening NBV	Closing NBV
Software	21 013	406	0	0	73	21 490	(10 297)	(1 293)	(73)	(11 663)	10 716	9 827
Rights to Spare Engine	17 063	0	0	0	1 056	18 119	(5 928)	(719)	(357)	(7 004)	11 135	11 115
Assets in the Course of Construction	405	359	0	0	0	764	0	0	0	0	405	764
Total	38 482	765	0	0	1 129	40 373	(16 225)	(2 012)	(430)	(18 667)	22 256	21 706

a) Log Ops Intangible Assets

LOG OPS 2023	Cost at 1 January	Additions in Year	Transfer	Disposal / Impairment in Year	Currency Transaction Adjustment	Cost at 31 December	Amortisation at 1 January	Change in Amortisation	Currency Translation Adjustment	Amortisation at 31 December	Opening NBV	Closing NBV
Software	10 367	0	0	0	0	10 367	(2 144)	(726)	0	(2 871)	8 223	7 497
Rights to Spare Engine	0	0	0	0	0	0	0	0	0	0	0	0
Assets in the Course of Construction	0	0	0	0	0	0	0	0	0	0	0	0
Total	10 367	0	0	0	0	10 367	(2 144)	-726	0	(2 871)	8 223	7 497

LOG OPS 2022	Cost at 1 January	Additions in Year	Transfer	Disposal / Impairment in Year	Currency Transaction Adjustment	Cost at 31 December	Amortisation at 1 January	Change in Amortisation	Currency Translation Adjustment	Amortisation at 31 December	Opening NBV	Closing NBV
Software	10 367	2	0	0	0	10 367	(1 418)	(726)	0	(2 144)	8 949	8 223
Rights to Spare Engine	0	0	0	0	0	0	0	0	0	0	0	0
Assets in the Course of Construction	0	0	0	0	0	0	0	0	0	0	0	0
Intangible Assets	10 367	2	0	0	0	10 367	(1 418)	(726)	0	(2 144)	8 949	8 223

NATO UNCLASSIFIED

b) SAP S4/HANA

The Chairperson's Office, Log Ops and NAMP Segments are upgrading their ERP system to SAP S4/HANA. Currently, this is in the research phase (the design of the "to-be") with no decision yet taken to put this research into development; as such expenditure has been recognised as an expense rather than being capitalised.

c) NAMP Intangible Assets

The NAMP Business Unit has implemented a new Asset Management Module in its SAP ERP system. The process involved establishing a complete and accurate Intangible Assets and Property, Plant and Equipment asset base which was considered to be under the control of NSPO.

NAMP 2023	Cost at 1 January	Additions in Year	Disposal / Transfer	Impairment in Year	Currency Transaction Adjustment	Cost at 31 December	Amortisation at 1 January	Change in Amortisation	Currency Translation Adjustment	Amortisation at 31 December	Opening NBV	Closing NBV
Software	1 253	0	0	0	(43)	1 210	(1 241)	(5)	43	(1 203)	12	7
Rights to Spare Engine	18 119	0	0	0	(630)	17 489	(7 004)	(699)	258	(7 445)	11 115	10 044
Assets in the Course of Construction	0	0	0	0	0	0	0	0	0	0	0	0
Intangible Assets	19 372	0	0	0	(673)	18 699	(8 245)	(704)	301	(8 648)	11 127	10 051

NAMP 2022	Cost at 1 January	Additions in Year	Disposal / Transfer	Impairment in Year	Currency Transaction Adjustment	Cost at 31 December	Amortisation at 1 January	Change in Amortisation	Currency Translation Adjustment	Amortisation at 31 December	Opening NBV	Closing NBV
Software	1 172	8	0	0	73	1 253	(1 163)	(5)	(73)	(1 241)	9	12
Rights to Spare Engine	17 063	0	0	0	1 056	18 119	(5 928)	(719)	(357)	(7 004)	11 135	11 115
Assets in the Course of Construction	0	0	0	0	0	0	0	0	0	0	0	0
Intangible Assets	18 235	8	0	0	1 129	19 372	(7 091)	(724)	(430)	(8 245)	11 144	11 127

Rights to Spare Engine

NAMP owns two spare engines. As part of the "virtual fleet" of which it is part, the Programme will always have access to as many spare engines as necessary to ensure that its aircraft are airworthy. The fact that the engines that would be used to repair the planes could be located anywhere in the world, means that NAMP's specific spare engines may not be directly used in such a repair but other engines belonging to other members of the "virtual fleet" could be used. In the same way, should another member of the "virtual fleet" need to use a spare engine, it could end up using the spare engines to which NAMP has legal title. Following this logic the right to the spare engines is categorised as an intangible asset.

NATO UNCLASSIFIED

AC/338-D(2024)0008-REV1

d) CEPS Intangible Assets

CEPS 2023	Cost at 1 January	Additions in Year	Disposal / Transfer	Impairment in Year	Currency Transaction Adjustment	Cost at 31 December	Amortisation at 1 January	Change in Amortisation	Currency Translation Adjustment	Amortisation at 31 December	Opening NBV	Closing NBV
Software	9 870	140	0	0	0	10 010	(8 278)	(524)	0	(8 802)	1 592	1 208
Rights to Spare Engine	0	0	0	0	0	0	0	0	0	0	0	0
Assets in the Course of Construction	764	547	0	0	0	1 311	0	0	0	0	764	1 311
Total	10 634	687	0	0	0	11 321	(8 278)	(524)	0	(8 802)	2 356	2 519

CEPS 2022	Cost at 1 January	Additions in Year	Disposal / Transfer	Impairment in Year	Currency Transaction Adjustment	Cost at 31 December	Amortisation at 1 January	Change in Amortisation	Currency Translation Adjustment	Amortisation at 31 December	Opening NBV	Closing NBV
Software	9 474	396	0	0	0	9 870	(7 716)	(562)	0	(8 278)	1 758	1 592
Rights to Spare Engine	0	0	0	0	0	0	0	0	0	0	0	0
Assets in the Course of Construction	405	359	0	0	0	764	0	0	0	0	405	764
Total	9 880	755	0	0	0	10 634	(7 716)	(562)	0	(8 278)	2 163	2 356

NATO UNCLASSIFIED

5. Inventory

	Log Ops		NAM		CEPS		NSPO TOTAL	
	2023	2022	2023	2022	2023	2022	2023	2022
Consumables	15 471	22 545	203	216	4 147	3 774	19 821	26 535
Spare parts	75 549	28 701	5 355	5 554	3 787	3 501	84 691	37 756
Strategic stock	411 367	391 970	0	0	0	0	411 367	391 970
Total	502 387	443 216	5 558	5 770	7 934	7 275	515 879	456 261

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

- **Log Ops:** Log Ops Support or Procurement Partnerships control inventories paid for jointly or commonly by members of the Support or Procurement Partnerships. Most of these inventories are considered strategic stocks in that they are held for potential military operational use as part of weapon systems; by their nature it is often unclear when the “service potential” contained in these stocks will be used. The Log Ops Business Unit capitalises major spare parts in relation to its Aircraft as PPE, rather than showing them as inventory, which is in accordance with the NATO Accounting Framework.
- **CEPS Programme:** The CEPS Programme’s inventories include spare-parts and consumables.
- **NAM Programme:** The NAM Programme controls inventories for its aircraft; these include oils and lubricants. The NAM Programme capitalises major spare parts in relation to its C-17s as PPE, rather than showing them as inventory, which is in accordance with the NATO Accounting Framework.

NATO UNCLASSIFIED

AC/338-D(2024)0008-REV1

6. Accounts Receivable

a) Current assets (receivable in less than one year)

	Log Ops		NAM		CEPS		Inter-business unit eliminations		NSPO TOTAL	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Current assets										
Receivables	871 937	775 929	16 250	24 992	30 957	38 556	0	(74)	919 144	839 403
Non-contractual "Calls for Advances"	3 267 056	657 023	0	0	0	0	0	0	3 267 056	657 023
Personnel	0	0	0	0	0	0	0	0	0	0
Recoverable taxes	23 340	376 472	406	503	0	0	0	0	23 746	376 975
Other NATO Entities	134 215	60 288	0	0	3	7	0	0	134 218	60 295
Unbilled sales to customers	1 007 108	801 063	0	0	0	0	0	0	1 007 108	801 063
Bank interest	38 889	7 170	1 316	2 783	2 444	178	0	0	42 649	10 131
Total	5 342 545	2 677 945	17 972	28 278	33 404	38 741	0	(74)	5 393 921	2 744 890

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

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

Non-contractual "Calls for Advances": These "Calls for Advances" are agreed with the customer in advance, they represent a planned event where it is virtually certain that they shall be paid, As such the Agency changed its accounting policy in 2022 and now accounts for "Calls for Advances" as Account Receivable which are now categorised as "Non-contractual Calls for Advances" with a matching liability to the customer shown in "customer advances". As these "Call for Advances" relate to individual customers they are considered current because the use of the advance is at the discretion of the customer which may choose to seek its return or reallocate it to another purpose.

NATO UNCLASSIFIED

NATO UNCLASSIFIED

AC/338-D(2024)0008-REV1

b) Non-current assets (receivable in greater than one year)

	Log Ops		NAM		CEPS		Inter-business unit eliminations		NSPO TOTAL	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Non - current assets										
Receivables	3 857	3 857	0	0	603	672	0	0	4 460	4 529
Unbilled sales to customers	6 519	2 306	0	0	0	0	0	0	6 519	2 306
Bank Interest	0	0	0	0	0	0	0	0	0	0
Total	10 376	6 163	0	0	603	672	0	0	10 979	6 835

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

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

	Log Ops		NAM		CEPS		Inter-business unit eliminations		NSPO TOTAL	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Accounts Receivable										
Current assets	5 342 545	2 677 945	17 972	28 278	33 404	38 741	0	(74)	5 393 921	2 744 890
Non-current assets	10 376	6 163	0	0	603	672	0	0	10 979	6 835
Total	5 352 921	2 684 108	17 972	28 278	34 007	39 413	0	(74)	5 404 900	2 751 725

	Log Ops		NAM		CEPS		Inter-business unit eliminations		NSPO TOTAL	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Accounts Receivable - Gross	5 352 921	2 684 108	17 972	28 278	34 007	39 413	0	(74)	5 404 900	2 751 725
Less Provision for doubtful debts	0	0	0	0	(170)	(170)	0	0	(170)	(170)
Receivables - Net Realisable Value	5 352 921	2 684 108	17 972	28 278	33 837	39 243	0	(74)	5 404 730	2 751 555

NATO UNCLASSIFIED

d) Overdue Accounts Receivable – aged profile

The ASB and the Agency's management place great importance in collecting unpaid bills. To enhance external accountability and transparency in this area, the ASB supported the recommendation of its external auditor (IBAN) to disclose a profile of unpaid bills. The figures below only include the receivables that the Agency is responsible for collecting; it does not include receivables which the CEPS National Organisations are responsible for collecting. In addition, the table only includes receivables which are not disputed by a customer.

	Log Ops	Log Ops	NAM	NAM	CEPS	CEPS	NSPO TOTAL	
	2023	2022	2023	2022	2023	2022	2023	2022
Overdue by up to 1 year	441 688	317 940	13 700	21	729	29	456 117	317 990
Overdue by between 1 and 3 years	90 090	62 459	147	166	0	0	90 237	62 625
Overdue by between 3 and 5 years	15 967	8 010	75	226	0	0	16 042	8 236
Overdue by over 5 years	3 558	2 580	2 325	2 234	0	0	5 883	4 814
Total	551 303	390 989	16 247	2 647	729	29	568 279	393 665

e) Overdue amounts which do not lead to Provisions

Not all items that would be typically be considered as provisions affect the Net Assets of NSPO. As an example, if a customer refuses to pay a debt, this must ultimately be borne by all other customers. This creates the situation whereby raising a provision would make no change to total liabilities or Net Assets; it simply leads to a reallocation of existing liabilities across the customer base but not an absolute change.

The following are items which management considers require disclosure, but which in many organisations would lead to the disclosure of a provision or contingent liability. However, the financial rules of NSPO are such that all costs borne by the Agency must be covered by customers, and if a specific customer refused to pay an invoice, those costs must be socialised across other customers. All the amounts listed below relate to costs incurred by customers and paid through funds held by the Agency, but once rebilled to customers, have not been settled by the customers concerned.

f) The following customers have had amounts overdue for more than 5 years with a value of greater than Euro 250k

NAMP Business Unit

Bulgarian Ministry of Defence – USD 1.312m (2022: USD 1.2m)

The Bulgarian Ministry of Defence owes taxes in relation to services (jet fuel, lodging, etc.) received during flight missions of the Heavy Airlift Wing in Bulgaria as part of the Heavy Airlift Wing's operations. These receivables are now outstanding for 12 years. The payment of these taxes is made through the NAMP Business Unit. The NAMP Business Unit is working with the Bulgarian Ministry of Defence in respect the recovery of these taxes whereby it expects the Bulgarian Ministry of Defence to settle all taxes outstanding by December 2024. In addition to this amount, the Bulgarian Ministry of Defence has outstanding receivables of less than 5 years in relation to tax liabilities of USD 224k (2022: USD 331k).

Romanian Ministry of Defence – USD 1.258m (2022: USD 1.18m)

The Romanian Ministry of Defence owes taxes in relation to services (jet fuel, lodging, etc.) received during flight missions of the Heavy Airlift Wing in Romania as part of the Heavy Airlift Wing's operations. Some of these receivables are now outstanding for 12 years. The payment of these taxes is made through the NAMP Business Unit. The NAMP Business Unit is working with the Romanian Ministry of Defence in respect the recovery of these taxes through the Romanian tax authorities whereby it expects the Romanian Ministry of Defence to settle all taxes outstanding by December 2024. In addition to this amount, the Romanian Ministry of Defence has outstanding receivables of less than 5 years in relation to tax liabilities of USD 21k (2022: USD 106k).

g) Invoices over 5 years old which are unlikely to be paid

The Agency has a robust process in place to collect debts; however, at the end of 2023 it had Euro 265k (2022: Euro 551k) of debts with an age of over 5 years old for which payment is deemed unlikely. The fall in value in 2023 was due to the fact that interest received by some nations was allocated against some old debts.

The Agency is planning to go to the ASB in 2024 to seek guidance on how to resolve these debts.

NATO UNCLASSIFIED

AC/338-D(2024)0008-REV1

7. Prepayments

	Log Ops		NAM		CEPS		NSPO TOTAL	
	2023	2022	2023	2022	2023	2022	2023	2022
Prepayments to employees	263	186	21	4	0	0	284	190
Prepayments to vendors	1 109 209	143 873	3 041	2 761	833	420	1 113 083	147 054
Prepayments to USA Foreign Military Sales	101 575	74 988	69 722	50 969	0	0	171 297	125 957
Total	1 211 047	219 047	72 784	53 734	833	420	1 284 664	273 201

Prepayments to vendors and USA Foreign Military Sales are contractually required prepayments to vendors, they are matched in the financial statements by current liabilities shown under “Customer Advance Payments” in Note 9.

The significant increase between 2022 and 2023 is due to a large prepayment to a vendor in the Log Ops Business Unit to support a large contract for systems production.

8. Accounts Payable and Accruals

	Log Ops		NAM		CEPS		Inter-business unit eliminations		NSPO TOTAL	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Payables to vendors	70 273	35 000	3 505	0	4 292	5 388	0	(74)	78 070	40 314
Health care contributions	0	0	0	0	0	0	0	0	0	0
Pension contributions	18	18	0	0	0	0	0	0	18	18
Accruals	324 680	275 309	9 169	12 473	7 276	8 726	(488)	(450)	340 637	296 058
Taxes	23 396	378 152	0	0	0	0	0	0	23 396	378 152
Other	56 260	143 258	0	0	0	3 706	0	0	56 260	146 964
Total	474 627	831 737	12 674	12 473	11 568	17 820	(488)	(524)	498 381	861 506

NATO UNCLASSIFIED

9. Customer Advances

a) Current liabilities (due within one year)

	Log Ops		NAM		CEPS		Inter-business unit eliminations		NSPO TOTAL	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Current liabilities										
Customer advance payments	7 149 804	5 454 792	168 681	173 484	12 000	12 340	0	0	7 330 485	5 640 616
Non-contractual "Calls for Advances"	3 267 056	657 023	0	0	0	0	0	0	3 267 056	657 023
Customer and replenishment credits (allocated or to be allocated)	324 419	194 915	11 106	3 812	12 882	11 256	488	450	348 895	210 433
Total	10 741 279	6 306 730	179 787	177 296	24 882	23 596	488	450	10 946 436	6 508 072

Customer Advance Payments: These represent the offsetting of legal commitments entered into by the Agency to purchase goods or services on a customer's behalf for individual, joint and common expenditures which have either not been re-billed to the customer at the year-end, or are actual liabilities billed but not yet settled against customer advances.

Non-contractual "Calls for Advances": These "Calls for Advances" are agreed with the customer in advance, they represent a planned event where it is virtually certain that they shall be paid, As such the Agency changed its accounting policy in 2022 and now accounts for "Calls for Advances" as Account Receivable which are now categorised as "Non-contractual Calls for Advances" with a matching liability to the customer shown in "customer advances". As these "Call for Advances" relate to individual customers they are considered current because the use of the advance is at the discretion of the customer which may choose to seek its return or reallocate it to another purpose.

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

Credits to be allocated: These amounts can derive from non-budgeted revenues such as bank interest, miscellaneous income and realised exchange rate gains and losses, which have yet to be allocated to customers at the year-end. Credits to be allocated can also derive from customers which send money to the Agency in advance but which they have not yet allocated to the funding of a specific project or financial commitment. In the case of the CEPS Programme Business Unit, it also includes surpluses for the period which are transferred to customer credits before they impact the "bottom line". In addition, there can be credits to be allocated on the closure of a Support Partnership or project.

NATO UNCLASSIFIED

AC/338-D(2024)0008-REV1

Replenishment credits: These represent amounts owned by customers of the Log Ops Business Unit for the replenishment of spare parts. At the end of 2022 and 2023 the following represented the totals of credits to be allocated:

	Log Ops		NAM		CEPS		NSPO TOTAL	
	2023	2022	2023	2022	2023	2022	2023	2022
Credits to be allocated	233 546	127 338	71 619	60 601	90 164	104 666	395 329	292 605

b) Non-current liabilities (due in greater than one year)

	Log Ops		NAM		CEPS		Inter-business unit eliminations		NSPO TOTAL	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Non - Current liabilities										
Customer advance payments	1 088 646	0	54 363	85 160	0	0	0	0	1 143 009	85 160
Non-contractual "Calls for Advances"	0	0	0	0	0	0	0	0	0	0
Customer and replenishment credits (allocated or to be allocated)	0	0	76 799	69 994	157 962	172 552	0	0	234 761	242 546
Total	1 088 646	0	131 162	155 154	157 962	172 552	0	0	1 377 770	327 706

NATO UNCLASSIFIED

10. Bank Interest and foreign currency effects

a) Bank Interest

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

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

	Log Ops		NAM		CEPS		NSPO TOTAL	
	2023	2022	2023	2022	2023	2022	2023	2022
Bank interest earned on cash balances	133 979	9 486	11 376	3 964	4 205	524	149 560	13 974
<i>Of which "Passes through" directly to customers</i>	(133 646)	(9 462)	(11 376)	(3 964)	0	0	(145 022)	(13 426)
Reflected in Statement of Financial Performance	333	24	0	0	4 205	524	4 538	548

Throughout 2023, the Agency received positive interest rates on both Euro and USD denominated investments. The increase in interest in 2023 when compared to 2022 is due to the increased interest rates on offer in 2023 and the increased amount of funds held; during part of 2022 the Agency was exposed to negative or very low Euro denominated interest rates on funds invested.

b) Realised Foreign Exchange Gains and Losses

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

	Log Ops		NAM		CEPS		NSPO TOTAL	
	2023	2022	2023	2022	2023	2022	2023	2022
Net realised foreign exchange gains and (losses) in year	(6 360)	(440)	38	(104)	0	0	(6 322)	(544)
<i>Of which "Passes through" directly to customers</i>	6 358	432	(38)	104	0	0	6 320	536
Reflected in Statement of Financial Performance (Under Miscellaneous Revenue)	(2)	(8)	0	0	0	0	(2)	(8)

The Agency does not hedge its exposure to foreign exchange translation risk.

c) Unrealised Foreign Exchange Gains and Losses

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

	Log Ops		NAM		CEPS		NSPO TOTAL	
	2023	2022	2023	2022	2023	2022	2023	2022
Net unrealised foreign exchange gains and (losses) in year	(12 233)	39 179	(13)	135	0	0	(12 246)	39 314
<i>Of which "Passes through" directly to customers</i>	0	0	0	0	0	0	0	0
Reflected in Statement of Financial Performance	(12 233)	39 179	(13)	135	0	0	(12 246)	39 314

Foreign exchange gains and losses are due to the relative strength of the Euro and USD vis-à-vis other currencies in the financial reporting period. Such gains and losses are greatest in an unhedged environment, an environment in which NSPA operates. The Agency does not hedge its exposure to foreign exchange translation risk.

NATO UNCLASSIFIED

AC/338-D(2024)0008-REV1

11. Expenses

a) Services and Support to Customers

	Log Ops		NAM		CEPS		Inter-business unit eliminations		NSPO TOTAL	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Services and Support to Customers										
Common Support (including ACO and AWACS)	561 186	467 744	0	0	0	0	0	0	561 186	467 744
Individual brokerage	1 054 785	735 648	0	0	0	0	0	0	1 054 785	735 648
Individual maintenance and services	1 355 824	955 682	0	0	0	0	0	0	1 355 824	955 682
Operational logistics support	29 692	36 202	0	0	0	0	0	0	29 692	36 202
Transportation services	126 301	127 233	0	0	0	0	0	0	126 301	127 233
Airlift Services	0	0	38 017	33 283	0	0	(412)	(186)	37 605	33 097
Fuel Management	160 540	144 565	0	0	53 225	40 625	0	0	213 765	185 190
Net proceeds from changes in inventory	22 307	28 462	0	0	0	0	0	0	22 307	28 462
Total	3 310 635	2 495 536	38 017	33 283	53 225	40 625	(412)	(186)	3 401 465	2 569 258
USA Foreign Military Sales	78 900	86 516	61 452	60 286	0	0	0	0	140 352	146 802
Total (Including Foreign Military Sales)	3 389 535	2 582 052	99 469	93 569	53 225	40 625	(412)	(186)	3 541 817	2 716 060

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

b) Other Expenses

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

NATO UNCLASSIFIED

NATO UNCLASSIFIED

AC/338-D(2024)0008-REV1

12. Inter-Business Unit eliminations on consolidation

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

Statement of Financial Position	2023			2022		
	Receivable by Log Ops from NAMP	Receivable by Log Ops from CEPS	Total Inter- business unit	Receivable by Log Ops from NAMP	Receivable by Log Ops from CEPS	Total Inter- business unit
Current Assets						
Accounts Receivable: Receivables	0	0	0	61	13	74
Total	0	0	0	61	13	74
	Payable from NAMP to Log Ops	Payable from CEPS to Log Ops	Total Inter- business unit	Payable from NAMP to Log Ops	Payable from CEPS to Log Ops	Total Inter- business unit
Current Liabilities						
Accounts Payable: Payables to vendors & Accruals	0	488	488	61	463	524
Customer Advances: Unbilled	0	(488)	(488)	0	(450)	(450)
Total	0	0	0	61	13	74
Statement of Financial Performance	2023			2022		
	Log Ops revenue from NAMP	Log Ops revenue from CEPS	Total Inter- business unit	Log Ops revenue from NAMP	Log Ops revenue from CEPS	Total Inter- business unit
Revenue						
Services and Support to Customers						
Airlift Services	281	0	280	186	0	186
Administrative Support	2 612	506	3 118	2 469	486	2 955
Miscellaneous Revenue	0	0	0	0	0	0
Total	2 893	506	3 398	2 655	486	3 141
	NAMP expenditure at Log Ops	CEPS expenditure at Log Ops	Total Inter- business unit	NAMP expenditure at Log Ops	CEPS expenditure at Log Ops	Total Inter- business unit
Expenditure						
Services and Support to Customers						
Airlift Services	281	0	280	186	0	186
Other Expenses	2 612	506	3 118	2 469	486	2 955
Total	2 893	506	3 398	2 655	486	3 141

NATO UNCLASSIFIED

NATO UNCLASSIFIED

AC/338-D(2024)0008-REV1

13. Personnel

a) Personnel Costs (including key management personnel)

	Chairperson's Office		Log Ops		NAM		CEPS		Inter-business unit eliminations		NSPO TOTAL	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Salaries	778	755	128 940	119 691	5 021	4 063	43 495	41 396	(52)	0	178 182	165 905
Allowances	82	71	25 365	24 230	934	858	10 987	10 246	(3)	0	37 365	35 405
Pension contributions	73	57	12 059	10 902	652	477	6 506	6 655	0	0	19 290	18 091
Health care contributions	89	85	15 468	14 475	799	647	9 437	9 079	0	0	25 793	24 286
Loss-of-Job Indemnities (LOJI)	0	0	21	567	0	0	336	24	0	0	357	591
Other	0	0	774	752	25	44	4 922	4 673	0	0	5 721	5 469
Total	1 022	968	182 627	170 617	7 431	6 089	75 683	72 073	(55)	0	266 708	249 747

Personnel costs do not include the cost of personnel working exclusively on the New [REDACTED] site; these costs have been capitalised.

b) Personnel Numbers

At 31 December, the following posts were filled:

	Chairperson's Office		Log Ops		NAM		CEPS		NSPO TOTAL	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
NATO Contracts	6	7	1 323	1 308	65	65	40	40	1 434	1 420
NSPA Consultants	0	0	60	59	0	0	0	0	60	59
CEPS National Organisation	0	0	0	0	0	0	844	830	844	830
Total	6	7	1 383	1 367	65	65	884	870	2 338	2 309

The personnel of the CEPS Programme National Organisations are not employed on NATO personnel contracts. In total the Agency employed 85 consultants throughout the year (2022: 76).

NATO UNCLASSIFIED

c) Retirement benefits of NSPA Personnel

NSPA personnel, past and present, are enrolled in various NATO pension schemes. NSPA contributes to the schemes for existing employees at amounts laid out in the NATO CPRs. NSPA does not control or manage any of the schemes or scheme assets and is not exposed to the risks and rewards of the schemes and hence does not record any assets or liabilities of the schemes on its statements of financial position.

IPSAS 39 - Employee Benefits requires that entities which have staff who participate in a central pension scheme show their share of the future liabilities of the scheme which have resulted from staff members, present and past, in the scheme at the balance sheet date. This NATO Defined Benefit Scheme is funded on a pay-as-you-go basis where NATO at a central level funds the next year's liabilities on the scheme on an annual basis. NSPO, unlike a number of other NATO bodies is not required to fund the scheme and as such is not currently considered to have any share of the future liabilities at the balance sheet date. The latest publically available valuation of the Defined Benefit Scheme's long-term liabilities across NATO, as disclosed in its 2022 Financial Statements, was Euro 6.255 Billion (2021: Euro 8.930 Billion); the decrease between 2021 and 2022 was principally due to the significant increase in the discount rate. The share attributable to NSPO personnel past and present is unknown, and there are no current plans that these should be funded by NSPO.

In addition, NATO has a Retirees Medical Claims Fund. The NATO Retirees Medical Claim Fund scheme is funded on a pay-as-you-go basis where NATO at a central level funds the next year's liabilities on the scheme on an annual basis. NSPO, unlike a number of other NATO bodies is not required to fund the scheme and as such is not currently considered to have any share of the future liabilities at the balance sheet date. The latest publically available valuation of the scheme's long-term liabilities across NATO, as disclosed in its 2022 Financial Statements, was Euro 2.713 Billion (2021: Euro 4.675 Billion); the decrease between 2021 and 2022 was principally due to the significant increase in the discount rate. The share attributable to NSPO personnel past and present is unknown, and there are no current plans that these should be funded by NSPO.

14. Related Party Transactions

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

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

a) Related Party Transactions of Members of the ASB

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

b) Related Party Transactions of Management Personnel

The Financial Controller contacts all management personnel which he considers to have positions of influence at the end of the financial year to garner information in respect of possible related party transactions. The personnel contacted include key management personnel (see Note 15) and other personnel such as Programme Managers, the Competition Advocate, and the chiefs of support divisions. None of the personnel contacted considered that they had related transactions with the Agency in 2023.

15. Key Management Personnel

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

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

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

a) Salaries and benefits paid to key management personnel

Remuneration Type	2023	2022
Basic salaries	1 509	1 469
Allowances	288	251
Employer's contribution to insurance	177	168
Employer's contribution to pension	154	126
Total	2 128	2 014

The remuneration figures for key management personnel include the costs of personnel who were recruited to fill the Chief of Staff and Financial Controller posts, which became vacant during the year due to the completion of definite duration contracts, and where a handover of responsibilities was necessary.

b) Key management personnel and roles

Name	Nationality	Function	Grade/step	Loans received from NSPA	Family members receiving income	Other revenue from NSPA or
	USA	General Manager	G24/05	Nil	Nil	Nil
	HUN	Chief of Staff (from 27 July 2023)	G23/01	Nil	Nil	Nil
	GBR	Chief of Staff (until 26 July 2023)	A6/05	Nil	Nil	Nil
	FRA	Financial Controller (from 1 July 2023)	G23/01	Nil	Nil	Nil
	USA	Financial Controller (until 30 June 2023)	G23/24	Nil	Nil	Yes *
	FRA	Acting Director of Procurement	G22/05	Nil	Nil	Nil
	GBR	Director Life Cycle Management	A6/03	Nil	Nil	Nil
	TUR	Director Support to Operations	G23/25	Nil	Nil	Nil
	USA	CEPS Programme Manager	G23/11	Nil	Nil	Nil
	USA	NAM Programme Manager	G23/24	Nil	Nil	Nil

* Council exceptionally agreed that [REDACTED] could stay as Financial Controller three months beyond the 6 year time limit allowed for NATO Financial Controllers until [REDACTED] was on-boarded. On 1 July 2023, the General Manager transferred Mr. Anderson into the role of Deputy Director of Support to Operations where he received remuneration in that role.

Note on Grades

NATO has undertaken a project known as Single Salary Spine (SSS) to simplify its grading structure, with Grades now ranging from G1 to G24. There is a process in place to migrate staff into this Grade Structure; this is why some staff appear under the old structure (e.g. A6 and A7) while some staff have already migrated to the equivalent grades of the G structure (e.g. G23 and G24).

During 2022 there were eight Full-time Equivalent (FTE) key management personnel; one FTE was of Grade A7/G24 while there were six (2021: seven) FTE staff working in Grade A6/G23 roles and one staff member (2021: zero) working in a G22 role.

c) Representative Allowance of the General Manager

The General Manager, in addition to other allowances to which all staff are entitled, received representation allowances for 2023 totaling Euro 10,107 (2022: also Euro 10,107), due to the requirement to represent NSPA at events, of which Euro 10,107 was spent (2022: also Euro 10,107). Expenditure made against this allowance is supported by invoices and is approved by the Financial Controller. This representation allowance includes a contribution to the rent of the General Manager's accommodation.

d) Hospitality Allowances of Directors

NSPA Directors receive a total hospitality allowance of Euro 4,800 (2022: Euro 6,000) between them, of which Euro 1,209 (2022: Euro 678) was spent in 2023.

e) Hospitality Allowance of the ASB's Secretariat

The ASB approved a Euro 37,000 (2022: Euro 25,000) hospitality allowance to its Secretariat for 2023 of which Euro 29,919 was spent (2022: Euro 17,037). The Chairperson of the ASB and the Chairperson of the CEPS and NAM Programme Boards respectively, do not receive a Representation Allowance.

f) Remuneration of the Chairpersons' of the NSPO ASB

The Chairperson of the ASB is [REDACTED] from Norway. His salary and allowances remain at the charge of his sending Nation. While he is not a member of the NATO international staff, he is reimbursed travel expenses while supporting NSPO governance requirements, and these are reimbursed in accordance with the NATO CPRs.

The NSPO ASB agreed that, because of the Chairperson's unique status and ASB duty requirements, and in light of the relatively high cost of overnight accommodation in Luxembourg, an exceptional accommodation allowance of up to Euro 320 per night for accommodation with breakfast could be authorised.

In 2023, the Chairperson's total travel costs (including transportation and per diem) totalled Euro 18,722 (2022: Euro 12,070).

16. Provisions

This note should be read in conjunction with note 6.e which relates to “Overdue amounts which are unpaid for over 5 years”.

IPSAS defines a provision as “a liability of uncertain timing or amount”. In the case of NSPO, a provision is most likely to arise from a contractual dispute where a vendor claims more than was anticipated by the customer. The NSPO customer-funding model is such that costs must always be fully covered by the customer incurring those costs or by other customers if a customer refuses to cover its costs. This means that where the Agency raises a provision, the actual costs must be eventually paid by a customer or a group of customers but the timing of the settlement, and how it will be allocated against the customer base, is unknown.

2023					
Log Ops					
	Opening Balance	Additions	Reversals	Usage	Closing Balance
Personnel issues	233	163	(215)	0	181
Contractual issues	43 267	5 112	(17 435)	(16 175)	14 769
Total	43 500	5 275	(17 650)	(16 175)	14 950
CEPS					
	Opening Balance	Additions	Reversals	Usage	Closing Balance
Doubtful Debts	170	0	0	0	170
Early Retirement Provisions of the German National Organisation	698	0	0	(354)	344
Total	868	0	0	(354)	514
NSPO					
	Opening Balance	Additions	Reversals	Usage	Closing Balance
Personnel issues	233	163	(215)	0	181
Contractual issues	43 267	5 112	(17 435)	(16 175)	14 769
Doubtful Debts	170	0	0	0	170
Early Retirement Provisions	698	0	0	(354)	344
Total	44 368	5 275	(17 650)	(16 529)	15 464
Statement of Financial Position		Log Ops		CEPS	NSPO
Current Liabilities - Provisions		14 950		201	15 151
Non-Current Liabilities - Provisions		0		313	313
Total		14 950		514	15 464

a) Doubtful Debts – Euro 170k (CEPS Business Unit)

The Agency only rarely make provisions for doubtful debts. Generally, if a customer refuses to pay a debt, this must ultimately be borne by all other customers. This creates the situation whereby raising a provision would makes no change to total liabilities or Net Assets; it simply leads to a reallocation of existing liabilities across the customer base but not an absolute change.

The CEPS Business Unit works under a different business model whereby it provides services that are funded in part through commercial contracts with private sector businesses. In these cases, a provision can be raised against a doubtful debt as this will not necessarily be shared amongst the Nations of the Programme but will ultimately be covered through the generation of revenues from its customers.

b) Early Retirement Provisions of the German National Organisation Euro 344k (CEPS Business Unit)

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

c) Contractual Issues – Termination for convenience and other contractual claims Euro 14.75m (Log Ops Business Unit)

The Log Ops Business Unit has received a number of claims from contractors in respect of contract termination due to NATO's withdrawal from Afghanistan. Disclosures could represent a security issue. The Log Ops Business Unit has also received some claims from contractors where the Agency and the contractor have disputed costs, some of these were due to inflation. The Agency considers that these represent cases, whereby disclosure of some or all of the information required by IPSAS 19 could be expected to prejudice the position of the entity in these claims and therefore management has elected not to disclose full information.

d) Personnel Issues Euro 181k (Log Ops Business Unit)

The Log Ops Business Unit is facing claims from a number of employees, both past and present, which cover a number of issues. The Agency considers that these represent cases, whereby disclosure of some or all of the information required by IPSAS 19 could be expected to prejudice the position of the entity in these claims, and potential future claims, and therefore management has elected not to disclose full information.

17. Contingent Liabilities

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

a) Log Ops Business Unit

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

Personnel Issues

The Log Ops Business Unit is facing claims from a number of employees, both past and present, which cover a number of issues. The Agency considers that these represent cases, whereby disclosure of some or all of the information required by IPSAS 19 could be expected to prejudice the position of the entity in these claims, and potential future claims, and therefore management has elected not to disclose full information. Claims in this area are approximately Euro 530k but the chance of payment is considered low.

b) CEPS Programme Business Unit

The CEPS Programme Business Unit is exposed to possible obligations that may require a collective outflow of resources if NSIP or national funding does not cover potential obligations. The likelihood of these items leading to a possible financial obligation is considered remote, rather than possible, but this point is disclosed for transparency.

18. Leases

IPSAS defines a lease as “An agreement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time”. Typical examples of leases are the rental of vehicles, photocopiers, and information technology assets, whether tangible or intangible. NSPO does not have any finance leases or significant operating leases. Budgetary approval is gained in advance of entering into such an arrangement for the period of the lease.

NSPO does not have any material, or significant, leases.

19. Financial Instruments

NSPO's financial requirements are met from its customers who are members or partners of NATO. Generally, NSPO has no powers to borrow money; however, the CEPS National Organisations has arranged short-term borrowing facilities with partner organisations. Other than financial assets and liabilities which are generated by day-to-day business activities, no financial instruments are held.

a) 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.

b) Credit risk

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

c) Foreign currency risk

NSPO has limited exposure to foreign currency risk which is borne by its customers. The Agency does not hedge its foreign currency risk. More information on exchange losses and gains, both realized and unrealized are shown in Note 10: Bank Interest and foreign currency effects.

20. Write-offs

In 2023, the Log Ops Business Unit wrote-off assets with a net book value of Euro 1.134 m (2022: Euro 1.05m), the NAMP Business Unit wrote-off assets with a net book value of Euro 371k (2022: 177k), and, the CEPS Business Unit wrote-off assets with a net book value of Euro 16k (2022: 23k).

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

21. Financial Plan Execution

NSPO is not required to follow “IPSAS 24 - Presentation of Budget Information in Financial Statements” because it prepares an Annual Financial Plan which includes a Statement of Planned Income and Expenditures. However, NSPA provides a high-level summary of the approved administrative cost elements of the financial plan of the Log Ops Business Unit, and full summary plans for the CEPS and the NAM Business Units, with the authorised commitments and expenditures made against them. In addition, NSPA chooses to show the amounts funded jointly by members of Support or Procurement Partnerships (individual national procurement activity is not shown). Details of Financial Plan Execution are found in the Annex.

22. Inventories managed on behalf of ACO

NSPA manages some inventories on behalf of Allied Command Operations (ACO). The recorded value of inventories managed on behalf of ACO at the year-end was Euro 180m (2022: also Euro 180m). The decrease in Net Book Value is the result of disposals. It is important to note that while the inventories are managed on behalf of ACO, they are not considered to be “controlled” by ACO from a financial reporting perspective and hence are not capitalised in ACO's Financial Statements.

23. CEPS Revenues

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

Sources of Revenue	2023	2022
Military use of the Pipeline-System	20 712	18 943
Non-military use of the Pipeline-System	102 094	98 117
Provided by Programme Nations	18 994	22 191
Other revenue	12 804	3 873
Total	154 604	143 125
Revenue as per Statement of Financial Performance	113 757	105 404
Purchase of assets	40 847	37 721
Total	154 604	143 125

24. Staff Association and Morale and Welfare Activities

The purpose of this disclosure is to show whether the Agency's staff associations are in a "net asset" or have "net liability" position; the latter of which could raise the risk that a liability may have to be funded by Nations or customers, if it cannot be covered by staff members' contributions.

NSPA staff associations carry out some Morale and Welfare Activities as well as staff representation; they are funded in their entirety by member contributions. Staff Association do not separate their funding between Morale and Welfare purposes and staff representation purposes, and as such the Agency is making disclosures to cover all activities. At the 2023 year-end the NSPA Staff Associations held:

	2023 year-end unaudited balances
Cash and Cash Equivalents	Euro 681 k
Liabilities (including provisions and contingent liabilities)	Euro 113 k

At the time of the issuance of the NSPO Financial Statements, the figures had not been independently audited. These figures have been provided by the Staff Associations and have not been validated by NSPA management, which has an arm's length relationship to the Staff Associations. The figures provided include those of the [REDACTED] based staff association shop which is not considered to be MWA; the shop employs three staff members who are not NATO International Civilian staff.

The Staff Associations are not considered to be under the control of NSPO and are therefore not consolidated into the Financial Statements.

According to the figures provided, the respective Staff Associations and their Morale and Welfare Activities appear to be financial viable.

Staff time spent working on Staff Association issues

The Agency allows staff association personnel to work on staff association issues and activities across the Agency; the amount of time is regulated by an internal Operating Instruction approved by the Agency's General Manager. Staff Association personnel are allocated 66 hours in total per year in [REDACTED], [REDACTED] and [REDACTED] respectively, while in Luxembourg they are allocated 440 hours per year. This is the equivalent of 3 Full time equivalent personnel working on staff representation issues across the Agency. The costs of this time is paid by the Agency's customer base.

25. Possible financial impact of the restructuring or closure of a NATO Mission in which the Agency is involved

In order to enhance transparency, the Agency's external auditor, the IBAN, has requested that the Agency estimate the possible financial impact which would be caused by the restructuring or closure of a NATO Mission in which it is involved. At the date of issuance of these statements, the Agency was not aware of any intent to restructure or close any NATO Missions.

The financial impact of the restructuring or closure of a mission is dependent upon its timeline; for example a structured closure could allow contracts to run their full course whereas an immediate closure could trigger early termination clauses which could be, for example 3 or 6 months, of the contract cost. These costs would have to be paid by the Agency's customers involved in the Missions.

The financial impact excludes the possible redundancy costs of Agency personnel working on such projects because typically, these personnel can be reassigned to other vacant posts in the Agency and as such, staff termination costs (*"Loss of Job Indemnities"*) can generally be avoided.

NATO Mission	Estimated Financial Impact of Withdrawal
Air Policing	Euro 2.25m
Cooperation with the African Union	<i>No financial exposure</i>
KFOR	Euro 2m
Maritime Security (Alliance's Standing Naval Forces, Operation Sea Guardian and the Aegean Activity)	<i>No financial exposure</i>
NATO's advisory and capacity-building mission in Iraq	<i>No financial exposure</i>
NATO support to earthquake relief efforts in Türkiye	Euro 2.85m

26. Events after the financial reporting date of 31 December 2023

The purpose of these financial statements is to provide information useful for decision making, and to demonstrate the accountability of NSPO towards for the resources entrusted to it. Events after the financial reporting date (i.e. Post Balance Sheet Events) could impact the future usage of NSPO by a nation or a customer. NSPO is required to disclose events, both favourable and unfavourable, that occurred between the reporting date of 31 December 2023 and the date when these Financial Statements were authorized for issue by the General Manager and the Financial Controller. IPSAS requires two types of events which should be identified:

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

Management considers there are the following "adjusting events after the reporting date" which require disclosure:

In the NSPO Financial Statements 2022, as a "non-adjusting events after the reporting date", the Agency disclosed that a member of its Key Management Personnel was suspended without pay on 1 January 2023 for six months until 30 June 2023. The staff member concerned took legal action against the Agency in respect of the suspension, which formed part of the "Provisions" note disclosure

concerning "Personnel Issues". The Agency made a provision of Euro 144k in respect of this action. On 23rd February 2024, the NATO Administrative Tribunal rejected the claim but awarded the staff member the sum of Euro 15k for non-material damage suffered plus costs of retaining counsel up to a maximum of Euro 3k; this means that the Provision at the 2023 year-end is adjusted to reflect an amount of Euro 18k rather than Euro 144k.

In addition, a number of disputes with vendors were settled after the reporting date. This means that the Provision at the 2023 year-end is adjusted to reflect the settlement of these provisions, which reduced the provision shown at the reporting date by 6.5 MEUR. These amounts are reflected in Accounts Payable instead, with a matching Account Receivable as the amount will have to be funded by customers.

Management considers there is the following "non-adjusting event after the reporting date" which requires disclosure:

On 2 April 2024, Council approved a retrospective deviation to the NATO Financial Regulations from 1 January 2023 to allow NSPO customers to enter into commitments directly with a vendor, without the General Manager's concurrence, in respect of the NATO Logistics Stock Exchange and NATO Fuel Management Supply and Services electronic tools. NSPO sought this deviation to address a non-compliance issue which led to a qualification of the NSPO Financial Statements 2022.

NATO UNCLASSIFIED

ANNEX
AC/338-D(2024)0008-REV1

Annex: NSPO Financial Plan Execution

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

All figures in Euro '000	2023 BUDGETARY CREDITS AVAILABLE			USAGE OF 2023 CREDITS					
	2023 AUTHORISED CREDITS	TRANSFERS/ INCREASES	FINAL 2023 AUTHORISED CREDITS	PAYMENTS AGAINST COMMITTED CREDITS	UNPAID COMMITMENTS (i.e. legal obligations automatically carried forward)	TOTAL CREDITS CONSUMED IN YEAR	SPECIAL CARRY FORWARDS TO 2024	CARRY FORWARDS OF SIP & S4HANA CREDITS TO 2024	LAPSED AND UNUSED CREDITS
Personnel Expenditure	194 390	(1 235)	193 155	184 337	794	185 131	320	250	7 455
General Administrative, Operating & Maintenance	30 911	(345)	30 565	14 889	12 083	26 972	901	2 060	632
Project Specific Expenditure	10 465	8 054	18 519	8 590	2 907	11 496	0	0	7 023
Investments	39 450	42 320	81 770	4 666	4 112	8 777	2 970	69 905	117
Total	275 215	48 794	324 009	212 481	19 895	232 376	4 191	72 215	15 227

Reconciliation from Annual Financial Plan Execution to the Statement of Financial Performance

ADMINISTRATIVE BUDGETS			PAYMENTS MADE		
Payments made against 2023 Credits committed			212 481		
Payments made against prior-2023 Credits committed			15 252		
Total Accruals			3 751		
BUDGET FIGURES IN FINANCIAL STATEMENTS			231 484		
BUDGET FIGURES IN FINANCIAL STATEMENTS	Budget outturn Salaries	Budget Outturn Other Expenses	TOTAL	Amounts capitalised (not in performance)	PERFORMANCE
Log Ops	183 376	46 138	229 514	(2 680)	226 834
Chairperson's Office	1 022	948	1 970	0	1 970
			231 484	(2 680)	228 804

NATO UNCLASSIFIED

NATO UNCLASSIFIED

ANNEX
AC/338-D(2024)0008-REV1

Carry forward amounts relate to amounts in the budgets which have not been financially committed in the year; “special” carry forwards must be approved at governing body level, which must decide that the original purpose of the funds still remains valid. Special carry forwards to 2024 include renovations for health and safety purposes, training and consultancy. The “routine” carry forward relates to projects currently being undertaken by the Agency to renovate the [REDACTED] Campus (SIP) and to upgrade to SAP S4HANA.

Administrative costs do not include the costs charged by vendors for supplying goods and services to customers – these can be found below in the *“Log Ops Business Unit – Jointly and Commonly Funded Operational Projects”* Financial Plan Execution. The NFRPs aim to ensure that commitments entered into in relation to Administrative Budgets are recorded in the year that a good or service is delivered, rather than in the year that a contract is signed. However, there are occasions when the Agency occasionally makes payments against commitments raised in previous years against a current year budget under exceptional circumstances, and when the amounts are considered to be individually (and cumulatively) insignificant and immaterial by the Financial Controller. This is considered a justifiable and legitimate course of action because the NFRPs require that the Financial Controller ensure that the financial management is enacted in a cost-efficient and cost-effective way.

NATO UNCLASSIFIED

NATO UNCLASSIFIED

ANNEX
AC/338-D(2024)0008-REV1

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

Jointly funded projects are funded by between one and thirty-one NATO Nations, while commonly funded projects are funded by all thirty-two NATO Nations. The figures exclude individual customer requirements.

Items impacting the Statement of Financial Performance

OPERATIONAL BUDGETS	SOURCE OF FUNDING	TYPE OF EXPENDITURE	PRIOR 2023 UNPAID COMMITMENTS BROUGHT FORWARD	2023 PAYMENTS AGAINST PRIOR 2023 COMMITMENTS	PRIOR 2023 UNPAID COMMITMENTS CARRIED FORWARD TO 2024	CREDITS AVAILABLE IN 2023	COMMITMENTS MADE IN 2023	TOTAL AMOUNT INVOICED	UNPAID COMMITMENTS	UNUSED CREDITS
	NSIP	COMMON	34 136	8 448	25 407	81 773	6 104	9 170	5 382	75 668
	MULTINATIONAL	COMMON	2 245	639	46	10 995	434	1 000	19	10 562
	SUPPORT PARTNERSHIP	COMMON	980	32	946	218	135	65	105	83
	SUPPORT PARTNERSHIP	COMMON	4 271	2 313	1 884	6 431	5 939	4 962	3 502	492
	SUPPORT PARTNERSHIP	COMMON	6 059	1 871	4 162	2 379	2 365	2 289	1 566	14
	SUPPORT PARTNERSHIP	COMMON	146	60	58	705	338	277	124	367
	OTHER NATO BODIES	COMMON	91	33	91	0	0	33	0	0
	OTHER NATO BODIES	COMMON	116 713	123 728	56 466	188 951	135 774	207 566	52 278	53 177
	SUPPORT PARTNERSHIP	COMMON	65 170	16 952	46 370	31 095	17 629	18 184	16 398	13 466
	SUPPORT PARTNERSHIP	COMMON	53	53	0	565	519	58	514	47
	SUPPORT PARTNERSHIP	COMMON	53	53	0	52	29	83	0	23
	SUPPORT PARTNERSHIP	COMMON	248	0	247	56	24	15	14	32
	SUPPORT PARTNERSHIP	COMMON	1 805	370	1 416	2 052	1 280	1 237	429	772
	SUPPORT PARTNERSHIP	COMMON	2 773	2 770	0	6 484	5 706	5 624	2 853	778
	OTHER NATO BODIES	COMMON	205 898	115 500	89 043	256 934	221 695	135 590	203 589	35 239
	SUPPORT PARTNERSHIP	COMMON	8	8	0	91	73	81	0	18
	SUPPORT PARTNERSHIP	COMMON	39 745	10 976	27 371	126 287	69 173	56 285	22 147	57 114
	NSIP	COMMON	1 709	460	1 249	112 993	37 826	17 296	20 828	75 167
	SUPPORT PARTNERSHIP	COMMON	5 008	5 008	0	9 290	9 162	11 188	2 982	128
	OTHER AUTHORISED CUSTOMERS	COMMON	2 588	2 309	262	2 127	1 905	3 307	994	222
	SUPPORT PARTNERSHIP	COMMON	135	31	94	355	304	317	17	51
	OTHER NATO BODIES	COMMON	14 819	7 442	6 080	52 932	20 738	13 467	15 107	32 194
	OTHER NATO BODIES	COMMON	1 102	926	84	3 615	3 615	3 623	922	0
	OTHER NATO BODIES	COMMON	0	0	0	3 251	3 128	2 302	839	123
	NSIP	COMMON	28 658	26 291	2 315	8 277	1 185	27 475	0	7 092
	OTHER NATO BODIES	COMMON	561	370	38	171 395	88 783	34 748	55 864	82 613

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

NATO UNCLASSIFIED

NATO UNCLASSIFIED

ANNEX
AC/338-D(2024)0008-REV1

OPERATIONAL BUDGETS	SOURCE OF FUNDING	TYPE OF EXPENDITURE	PRIOR 2023 UNPAID COMMITMENTS BROUGHT FORWARD	2023 PAYMENTS AGAINST PRIOR 2023 COMMITMENTS	PRIOR 2023 UNPAID COMMITMENTS CARRIED FORWARD TO 2024	CREDITS AVAILABLE IN 2023	COMMITMENTS MADE IN 2023	TOTAL AMOUNT INVOICED	UNPAID COMMITMENTS	UNUSED CREDITS
	NSIP	COMMON	55 603	32 555	13 828	154 926	82 020	55 563	58 568	72 905
	SUPPORT PARTNERSHIP	COMMON	267	260	2	622	576	528	298	46
	SUPPORT PARTNERSHIP	COMMON	0	0	0	20 990	2 515	0	2 515	18 475
	OTHER NATO BODIES	COMMON	755	485	10	259	259	275	259	0
	OTHER NATO BODIES	COMMON	0	0	0	989	81	0	81	909
	OTHER NATO BODIES	COMMON	264	264	0	0	0	264	0	0
	NSIP	COMMON	10 611	4 782	5 828	10 306	8 265	9 366	5 525	2 041
	SUPPORT PARTNERSHIP	COMMON	544	333	210	592	0	333	0	592
	SUPPORT PARTNERSHIP	COMMON	237	201	31	10 127	7 697	7 692	200	2 430
	OTHER NATO BODIES	COMMON	285	247	33	3 413	1 125	860	523	2 288
	OTHER NATO BODIES	COMMON	1 774	33	1 740	157	36	68	2	121
	SUPPORT PARTNERSHIP	COMMON	28	3	26	22	4	5	2	18
	SUPPORT PARTNERSHIP	COMMON	379	3	375	75	3	7	0	72
	SUPPORT PARTNERSHIP	COMMON	0	0	0	165	165	165	0	0
	SUPPORT PARTNERSHIP	COMMON	0	0	0	6 800	6 800	6 800	0	0
	NSIP	TRANSPORTATION	105	0	0	25 365	272	3	269	25 093
	SUPPORT PARTNERSHIP	TRANSPORTATION	15	0	0	25	0	0	0	25
	SUPPORT PARTNERSHIP	TRANSPORTATION	9	0	9	3	2	0	2	1
	OTHER NATO BODIES	TRANSPORTATION	207	207	0	500	500	552	155	0
	SUPPORT PARTNERSHIP	TRANSPORTATION	0	0	0	301	225	222	3	76
	SUPPORT PARTNERSHIP	TRANSPORTATION	5	0	5	6	2	2	0	4
	NATIONAL	TRANSPORTATION	6 448	1 064	1 431	18 740	16 320	14 784	2 671	2 420
	SUPPORT PARTNERSHIP	TRANSPORTATION	0	0	0	49 885	49 885	49 885	0	0
	SUPPORT PARTNERSHIP	REPLENISHMENT	206	39	153	2 011	188	153	68	1 823
	SUPPORT PARTNERSHIP	REPLENISHMENT	2 743	939	919	8 409	3 444	2 933	1 458	4 965
	SUPPORT PARTNERSHIP	REPLENISHMENT	111	104	7	1 061	73	106	70	988

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

NATO UNCLASSIFIED

NATO UNCLASSIFIED

ANNEX
AC/338-D(2024)0008-REV1

OPERATIONAL BUDGETS	SOURCE OF FUNDING	TYPE OF EXPENDITURE	PRIOR 2023 UNPAID COMMITMENTS BROUGHT FORWARD	2023 PAYMENTS AGAINST PRIOR 2023 COMMITMENTS	PRIOR 2023 UNPAID COMMITMENTS CARRIED FORWARD TO 2024	CREDITS AVAILABLE IN 2023	COMMITMENTS MADE IN 2023	TOTAL AMOUNT INVOICED	UNPAID COMMITMENTS	UNUSED CREDITS
	SUPPORT PARTNERSHIP	REPLENISHMENT	271	0	271	6 261	13	3	10	6 248
	SUPPORT PARTNERSHIP	REPLENISHMENT	2 481	1 435	1 021	8 821	1 949	1 551	1 783	6 872
	SUPPORT PARTNERSHIP	REPLENISHMENT	0	0	0	65	0	0	0	65
	SUPPORT PARTNERSHIP	REPLENISHMENT	0	0	0	68	0	0	0	68
	SUPPORT PARTNERSHIP	REPLENISHMENT	0	0	0	88	0	0	0	88
	SUPPORT PARTNERSHIP	REPLENISHMENT	11 183	7 667	2 391	19 440	10 488	11 578	6 537	8 953
	SUPPORT PARTNERSHIP	REPLENISHMENT	0	0	0	-21	0	0	0	-21
	OTHER AUTHORISED CUSTOMERS	REPLENISHMENT	45	30	9	821	62	53	39	759
	MULTINATIONAL	REPLENISHMENT	0	0	0	3 642	0	0	0	3 642
	SUPPORT PARTNERSHIP	REPLENISHMENT	0	0	0	1 047	0	0	0	1 047
	SUPPORT PARTNERSHIP	REPLENISHMENT	4 010	3 051	889	7 775	4 601	4 721	3 003	3 174
	SUPPORT PARTNERSHIP	REPLENISHMENT	0	0	0	190	0	0	0	190
	SUPPORT PARTNERSHIP	REPLENISHMENT	0	0	0	-1	0	0	0	-1
	SUPPORT PARTNERSHIP	REPLENISHMENT	0	0	0	6	0	0	0	6
	NATIONAL	LOGISTICS	426	71	0	207	204	275	0	3
	NATIONAL	LOGISTICS	1	0	0	0	0	0	0	0
	NATIONAL	LOGISTICS	0	0	0	0	0	0	0	0
	NATIONAL	LOGISTICS	265	24	0	3	3	27	0	0
	NATIONAL	LOGISTICS	70	0	0	42	38	38	0	4
	NATIONAL	LOGISTICS	4	1	0	1	1	1	0	0
	NATIONAL	LOGISTICS	28	21	0	13	13	34	0	0
	NATIONAL	LOGISTICS	36	0	0	0	0	0	0	0
	NATIONAL	LOGISTICS	20	0	0	0	0	0	0	0
	NATIONAL	LOGISTICS	792	623	0	4 086	3 516	3 734	405	570
	MULTINATIONAL	LOGISTICS	337	337	0	3 745	3 745	3 785	296	0

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

NATO UNCLASSIFIED

NATO UNCLASSIFIED

ANNEX
AC/338-D(2024)0008-REV1

OPERATIONAL BUDGETS	SOURCE OF FUNDING	TYPE OF EXPENDITURE	PRIOR 2023 UNPAID COMMITMENTS BROUGHT FORWARD	2023 PAYMENTS AGAINST PRIOR 2023 COMMITMENTS	PRIOR 2023 UNPAID COMMITMENTS CARRIED FORWARD TO 2024	CREDITS AVAILABLE IN 2023	COMMITMENTS MADE IN 2023	TOTAL AMOUNT INVOICED	UNPAID COMMITMENTS	UNUSED CREDITS
	NATIONAL	LOGISTICS	68	0	0	108	105	105	0	3
	MULTINATIONAL	LOGISTICS	99	0	0	33	33	33	0	0
	NATIONAL	LOGISTICS	42	4	0	2 155	79	83	0	2 075
	MULTINATIONAL	LOGISTICS	1 125	744	1	8 518	7 466	6 987	1 070	1 052
	MULTINATIONAL	LOGISTICS	953	211	25	4 826	1 197	1 253	8	3 629
	NATIONAL	LOGISTICS	850	751	0	5 039	2 578	2 898	432	2 461
	NATIONAL	LOGISTICS	0	0	0	497	486	0	486	11
	NATIONAL	LOGISTICS	2 008	1 017	364	9 772	9 449	6 756	3 920	323
	MULTINATIONAL	FUEL MANAGEMENT	12	0	0	0	0	0	0	0
	MULTINATIONAL	FUEL MANAGEMENT	8 446	2 318	9	51 508	50 339	33 503	17 254	1 168
	MULTINATIONAL	FUEL MANAGEMENT	0	0	0	1 159	1 159	0	1 159	0
TOTAL BUDGET EXECUTION (FINANCIAL PERFORMANCE ITEMS)			649 142	386 467	293 216	1 534 965	911 843	784 226	515 544	623 122

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

NATO UNCLASSIFIED

NATO UNCLASSIFIED

ANNEX
AC/338-D(2024)0008-REV1

Items impacting the Statement of Financial Position

OPERATIONAL BUDGETS	SOURCE OF FUNDING	TYPE OF EXPENDITURE	PRIOR 2023 UNPAID COMMITMENTS BROUGHT FORWARD	2023 PAYMENTS AGAINST PRIOR 2023 COMMITMENTS	PRIOR 2023 UNPAID COMMITMENTS CARRIED FORWARD TO 2024	CREDITS AVAILABLE IN 2023	COMMITMENTS MADE IN 2023	TOTAL AMOUNT INVOICED	UNPAID COMMITMENTS	UNUSED CREDITS
	SUPPORT PARTNERSHIP	INVESTMENTS	2	2	0	36	19	12	9	17
	SUPPORT PARTNERSHIP	INVESTMENTS	4	2	0	53	27	19	11	26
	SUPPORT PARTNERSHIP	INVESTMENTS	60	0	60	10	0	0	0	10
	SUPPORT PARTNERSHIP	INVESTMENTS	0	0	0	48	23	13	10	25
	SUPPORT PARTNERSHIP	INVESTMENTS	1 520	282	1 227	38 409	37 380	288	37 374	1 029
	SUPPORT PARTNERSHIP	INVESTMENTS	1 676	1	1 675	10	4	1	4	6
	SUPPORT PARTNERSHIP	INVESTMENTS	3	3	0	35	19	8	13	16
	OTHER NATO BODIES	INVESTMENTS	24 712	1 317	23 355	5 408	3 296	2 043	2 575	2 112
	SUPPORT PARTNERSHIP	INVESTMENTS	358 968	24 951	333 233	226 421	225 575	132 663	117 528	846
	OTHER AUTHORISED CUSTOMERS	INVESTMENTS	0	0	0	1	0	0	0	1
	SUPPORT PARTNERSHIP	INVESTMENTS	60	60	0	98	78	92	50	20
	SUPPORT PARTNERSHIP	INVESTMENTS	1	1	0	35	12	7	5	23
	SUPPORT PARTNERSHIP	INVESTMENTS	0	0	0	10	10	0	10	0
	SUPPORT PARTNERSHIP	INVESTMENTS	71	0	65	23	19	0	19	4
	SUPPORT PARTNERSHIP	INVESTMENTS	20 899	6 868	13 709	137 901	102 676	7 115	101 343	35 225
	SUPPORT PARTNERSHIP	INVESTMENTS	1 301	429	869	1 305	1 244	479	1 195	61
	SUPPORT PARTNERSHIP	INVESTMENTS	31	29	2	0	0	29	0	0
	SUPPORT PARTNERSHIP	INVESTMENTS	688	5	683	850	517	5	517	333
	SUPPORT PARTNERSHIP	INVESTMENTS	7 051	3 113	3 733	6 900	4 416	4 617	3 084	2 484
	OTHER NATO BODIES	INVESTMENTS	18 395	1 269	16 971	9 292	4 213	3 698	3 403	5 079
	SUPPORT PARTNERSHIP	INVESTMENTS	0	0	0	29	0	0	0	29
	SUPPORT PARTNERSHIP	INVESTMENTS	241	49	140	1 300	1 112	241	937	188
	OTHER AUTHORISED CUSTOMERS	INVESTMENTS	238	25	213	151	15	25	15	137
	SUPPORT PARTNERSHIP	INVESTMENTS	3 923	3 198	328	1 240	333	3 152	118	907
	SUPPORT PARTNERSHIP	INVESTMENTS	0	0	0	10	0	0	0	10
TOTAL BUDGET EXECUTION (FINANCIAL POSITION ITEMS)			439 844	41 604	396 263	429 574	380 988	154 507	268 220	48 588
TOTAL BUDGET EXECUTION IN FINANCIAL STATEMENTS			1 088 986	428 071	689 479	1 964 539	1 292 831	938 733	783 764	671 710

The figures in the column “Prior 2023 unpaid commitments carried forward to 2024” do not represent the arithmetical differences between the amounts within column “Prior 2023 unpaid commitments brought forward” and “2023 payments against prior 2023 commitments”. These differences are mainly due to de-commitments/adjustments made during the reporting year against the open purchase orders/funds reservations from previous years forwarded in 2022. Unused Credits can be carried forward or lapsed depending on the requirements of the appropriate regulatory authority of the project.

NATO UNCLASSIFIED

NATO UNCLASSIFIED

ANNEX
AC/338-D(2024)0008-REV1*Reconciliation of Annual Financial Plan Execution to Statement of Financial Performance*

	Budget Execution						Individual requirements					
	Jointly and Commonly funded						These do not form part of the Budget Execution					
Items in Budget Execution and Financial Performance	"Total Amount Invoiced" in Budget Execution	Accruals	Other Adjustments	FMS Reclassification	Reclassification	Represented in Financial Statements	Total in Budget Execution	Accruals	FMS Reclassification	Represented in Financial Statements	Financial Performance (Note 11)	
Common Support (including ACO and AWACS)	638 165	43 638	(34 770)	(69 672)	(16 175)	561 186	0	0	0	0	561 186	
Individual brokerage Maintenance & Services	0	0	0	0	0	0	2 399 093	18 536	(7 019)	2 410 609	2 410 609	
Operational logistics support	26 009	3 683	0	0	0	29 692	0	0	0	0	29 692	
Fuel Management	33 503	2 235	0	0	0	35 738	124 374	427	0	124 801	160 539	
Replenishment Expenditure	21 099	1 559	0	(1 159)	0	21 499	0	0	0	0	21 499	
Transportation	65 448	275	(37)	0	0	65 686	61 667	0	(1 051)	60 615	126 301	
USA Foreign Military Sales (cash basis)	0	0	0	70 830	0	70 830	0	0	8 070	8 070	78 900	
TOTAL	784 224	51 389	(34 807)	(0)	(16 175)	784 631	2 585 133	18 962	0	2 604 096	3 388 726	
Items in Budget Execution and Financial Position							Items in Financial Performance but not in Budget Execution (Non-budgetary Items)					
Investments	154 506							Net proceeds from changes in inventory (other than Replenishment)				808
Total Items in Budget Execution and Financial Performance and Position	938 730							TOTAL IN FINANCIAL PERFORMANCE (Note 11)				3 389 535

NATO UNCLASSIFIED

NATO UNCLASSIFIED

ANNEX
AC/338-D(2024)0008-REV1**3. NAM Programme Business Unit****a) Financial Plan Execution**

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

NAMP BUDGETARY CREDITS				USAGE OF BUDGETARY CREDITS			LAPSES									
All figures in USD '000	UNUSED AUTHORISED CREDITS AND UNPAID COMMITMENTS BROUGHT FORWARD	+	2023 AUTHORISED CREDITS	=	TOTAL 2023 CREDITS	PAYMENTS AGAINST COMMITTED AUTHORISED CREDITS	+	UNUSED AUTHORISED CREDITS AND COMMITMENTS CARRIED FORWARD	=	TOTAL CREDITS CONSUMED OR CARRIED FORWARD IN YEAR	LAPSED CREDITS					
	Acquisition		\$20 137		\$0			\$20 137		\$899		\$19 157		\$20 057		\$80
	Operational		\$163 207		\$160 670			\$323 876		\$139 958		\$170 326		\$310 284		\$13 592
	Total		\$183 343		\$160 670			\$344 013		\$140 858		\$189 483		\$330 341		\$13 672
NAMP BUDGETARY CREDITS				USAGE OF BUDGETARY CREDITS			LAPSES									
All figures in USD '000	PRIOR 2021 UNPAID COMMITMENTS CARRIED FORWARD	+	2023 AUTHORISED CREDITS	=	TOTAL 2023 CREDITS	PAYMENTS AGAINST COMMITMENTS & AUTHORIZED CREDITS	+	UNPAID COMMITMENTS (i.e. LEGAL OBLIGATIONS) CARRIED FORWARD	=	TOTAL CREDITS CONSUMED OR CARRIED FORWARD IN YEAR	LAPSED CREDITS					
	Administration		\$380		\$11 863			\$12 243		\$11 175		\$265		\$11 440		\$803
	Total payments made in year					\$152 033										

b) Summary of NAMP Budgetary Transfers in 2023

During 2023, 40 budget transfers were made within the respective acquisition, operational and administrative budgets. Due to the low value and nature of these transfers, none required the approval of the NAM Programme Board and were made under the responsibility of the NAM Programme Office.

NATO UNCLASSIFIED

NATO UNCLASSIFIED

ANNEX
AC/338-D(2024)0008-REV1**c) Reconciling NAMP's Annual Financial Plan Execution to Statement of Financial Performance Expenses**

The expenses incurred under the Annual Financial Plan in 2023 can be reconciled to the expenses recognised in the Statement of Financial Performance in the following way:

	USD (Annual Plan presentation)	EUR (Financial Statements presentation)
<i>(figures are '000)</i>		
Statement of Financial Performance Expenses		135 950
To present on a comparable basis to Annual Financial Plan Execution		
<i>less write-off costs (non-budgeted)</i>		(679)
<i>less depreciation and amortisation (non-budgeted)</i>		(25 466)
<i>less accrued expenses (Annual Financial Plan presented on cash basis)</i>		635
Comparable basis total		110 440
Annual Financial Plan Execution (Total payments made in year)	152 033	140 602
To present on a comparable basis to Financial Statements		
<i>less mission personnel cost (no impact on Performance)</i>	(21 931)	(20 282)
<i>less PPE acquisition (no impact on Performance)</i>	(10 935)	(10 113)
<i>less timing differences in expense allocation</i>	252	233
Comparable basis total	119 419	110 440

NATO UNCLASSIFIED

NATO UNCLASSIFIED

ANNEX
AC/338-D(2024)0008-REV1

4. Central Europe Pipeline System Business Unit

Operational Budgets	Budget Type	PRIOR 2023 AUTHORISED CREDITS BROUGHT FORWARD	2023 AUTHORISED NEW CREDITS	BUDGETARY EXPENDITURE AGAINST CREDITS	AUTHORISATIONS CARRIED FORWARD	LAPSED CREDITS
Personnel	O&M	31 761	75 153 500	73 428 427	77 928	1 678 906
	NP	145 875	290 000	307 358	128 517	-
Outside temporary staff	O&M	180 033	2 660 900	2 076 795	471 168	292 970
Training of personnel	O&M	174 927	504 598	549 058	112 452	18 014
Travel and transportation	O&M	15 482	4 035 291	3 999 112	28 115	23 546
Hospitality	O&M	1 246	50 000	43 171	786	7 289
Operations	O&M	794 496	34 656 633	32 067 988	1 634 732	1 748 409
Maintenance	O&M	13 701 913	24 410 800	22 217 660	13 567 597	2 327 456
	NP	1 385 509	-	71 511	1 053 817	260 181
General administrative expenses	O&M	1 909 267	14 382 705	14 141 245	1 605 291	545 436
TOTAL Operational Expenses		18 340 509	156 144 427	148 902 325	18 680 403	6 902 208

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

NATO UNCLASSIFIED

NATO UNCLASSIFIED

ANNEX
AC/338-D(2024)0008-REV1

Operational Budgets	Budget Type	PRIOR 2023 AUTHORISED CREDITS BROUGHT FORWARD	2023 AUTHORISED NEW CREDITS	BUDGETARY EXPENDITURE AGAINST CREDITS	AUTHORISATIONS CARRIED FORWARD	LAPSED CREDITS
Fixed installations	NP	165 925	-	-	165 925	-
Plant equipment	O&M	1 242 771	2 986 140	1 207 261	2 882 378	139 273
Vehicles	O&M	1 231 587	1 250 900	1 423 453	913 570	145 464
Office equipment	O&M	2 813 905	1 274 468	1 214 545	1 305 207	1 568 621
TOTAL Capital Expenses		5 454 188	5 511 508	3 845 259	5 267 079	1 853 358
Operational Budgets	Budget Type	PRIOR 2023 AUTHORISED CREDITS BROUGHT FORWARD	2023 AUTHORISED NEW CREDITS	BUDGETARY EXPENDITURE AGAINST CREDITS	AUTHORISATIONS CARRIED FORWARD	LAPSED CREDITS
Modernisation 100% CEPS	O&M	33 744 243	20 317 347	16 557 577	34 604 689	2 899 324
INFRA projects - cost shares	O&M	158 400	105 000	112 033	151 367	-
TOTAL Long-Term Investment Expenses		33 902 643	20 422 347	16 669 610	34 756 056	2 899 324
GRAND TOTAL		57 697 341	182 078 282	169 417 195	58 703 538	11 654 890

Note: Budget Type NP refers to Neutralization Programme

NATO UNCLASSIFIED

NATO UNCLASSIFIED

ANNEX
AC/338-D(2024)0008-REV1**Reconciling CEPS's Annual Financial Plan Execution to Statement of Financial Performance Expenses**

The total figure in respect of Budgetary Expenditure Against Budgetary Credits of Euro 169,417k can be reconciled to the deficit in the Statement of Financial Performance of Euro (54,260)k in the following way:

	2023
Annual Financial Plan - Budgetary Expenditure	169 417
Non-budget Provisions and Expenses	(404)
Adjustments	(112)
Accruals regularisations	(769)
Financing of PPE and Intangibles acquired during the period	(20 618)
Stock variation	(645)
Operating revenue	(141 451)
Financial revenue	(4 240)
Financial expenses	6
Other revenue	8 201
Depreciation	(20 517)
Total PPE and Intangible additions in period	40 847
Other financing	(83 976)
Statement of Financial Performance - (deficit) for the year	(54 260)

NATO UNCLASSIFIED

NATO UNCLASSIFIED

ANNEX
AC/338-D(2024)0008-REV1

A summary of budget transfers and budget increases by budgetary area and by part of CEPS is shown below:

	Budget transfers and increases within CEPS by budgetary area and part of CEPS (in keur)						
Budgetary Area	Belgium	CEPS Centralised	CEPS Programme Office	Netherlands	Germany	France	Grand Total
Administrative Expenses	36	-	50	378	(156)	76	383
Maintenance	363	-	-	160	1 394	727	2 645
Modernisation CEPS	-	-	-	2 768	100	2 384	5 252
Office Equipment	-	17	-	350	25	-	392
Operations	(1 833)	(500)	17	1 858	(1 050)	6 912	5 404
Outside Temporary Staff	(120)	-	-	(60)	(60)	-	(240)
Personnel	1 145	-	(100)	95	(400)	670	1 410
Plant Equipment	157	-	-	207	479	77	920
Training	5	-	-	-	-	-	5
Travel and Transporation	-	-	(48)	50	87	130	219
Vehicles	19	-	-	-	(28)	35	26
TOTAL	(229)	(483)	(81)	5 806	391	11 011	16 415

NATO UNCLASSIFIED