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CONSEIL DE L'ATLANTIQUE NORD

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NATO ACCOUNTING FRAMEWORK

Note by the Deputy Secretary General

1. I attach a report by the Resource Policy and Planning Board which recommends the approval of a revised NATO Accounting Framework (NAF), which includes two adaptations and a small number of clarifications to the NAF originally agreed by Council in 2013 (reference C-M(2013)0039).

2. The NATO Accounting Framework meets the overall accounting requirements of the Alliance and the proposed revisions will contribute towards the ongoing efforts to improve financial reporting by the NATO entities.

3. I do not believe that this report needs Council discussions. Accordingly, **unless I hear to the contrary by 16:00 hours on Friday, 29 April 2016,** I shall consider that Council has noted the report and approved the revised NAF attached as Appendix 1 of Annex 1.

(Signed) Alexander Vershbow

1 Annex

1 Appendix

Original: English

NATO ACCOUNTING FRAMEWORK

Report by the Resource Policy and Planning Board

References: (a) C-M(2013)0006 – Proposed way ahead on IPSAS Implementation in NATO
(b) C-M(2013)0039 – NATO Accounting Framework

Aim

1. To assess if the NATO Accounting Framework (NAF) meets NATO's requirements and to submit proposals for additional clarifications and adaptations to Council for approval.

Background

2. In February 2013, Council agreed adaptations to a small number of the International Public Sector Accounting Standards (IPSAS) to better suit the specific requirements of the Alliance (reference a). These adaptations, primarily focused on Property, Plant and Equipment (PP&E) and Inventory, were subsequently reflected in the NAF (reference b) that has been applicable for financial reporting purposes in all NATO entities since 1 January 2013. The Board will recall[1] that the decision to pursue an IPSAS-adapted framework meant that NATO would no longer be in a position to assert that it was fully IPSAS compliant and that as a matter of principle this was considered as an acceptable risk. However, overall the Board should note that NATO can assert that the NAF preserves the spirit of the principles of IPSAS such as accrual accounting, relevance and fair and faithful presentation of financial information. All NATO bodies are subject to the NAF and it was used by the International Board of Auditors for NATO (IBAN) to conduct audits effective with the 2013 financial statements.

3. The NAF recognised that additional work was required by Financial Controllers and the Head of Financial Reporting Policy (HFRP) (assisted by the IBAN) to ensure that maximum benefits are realised and that this may involve additional clarifications. In fact, the NAF acknowledged the need for a review by December 2015 and the HFRP was asked (reference b) to monitor requirements for further clarifications or adaptations and bring proposals forward to the Board for consideration as may be necessary.

Assessment of the NAF

4. The approval of an IPSAS-adapted accounting framework, especially in respect of PP&E, was expected to lead to fewer qualifications on financial statements. While NATO entities have made substantive efforts in adhering to the provisions of the NAF, issues regarding inventories and PP&E continue to require attention and impact on the audit opinions of some of the largest NATO entities, most noticeably Allied Command Operations

[1] C-M(2013)0006 paragraph 14 dated 11 February 2013.

(ACO), the NATO Communications and Information Organisation (NCIO) and the NATO Support and Procurement Organisation (NSPO).

5. The accounting problems with Inventory and PP&E and the time and effort needed to resolve them have mostly been related to the on-going procedural issues associated with third party procurement and inventory management involving multiple commands, agencies and multiple inventory systems. Accounting difficulties exist in consolidation and centralisation of financial information and financial reporting which point to the need to better align different processes, systems and standards. Measures are being taken by the respective NATO entities to address the shortfalls in accounting and logistics information systems to support more effective and efficient management processes and financial reporting.

6. In some instances the IBAN has observed inaccurate reporting of assets which is a function of inconsistent application and adherence to agreed policies and guidance. The Board will recall[2] the improvements being made by ACO in four major areas (people, policies, procedures and systems) to implement and maintain proper asset management and control as well as accurate financial data reporting in compliance with extant regulations and accounting standards.

7. The NAF has enabled these entities to make progress on these issues. Furthermore, with the application of the NAF, further consistency and accounting alignment with regard to the definition of common capitalisation thresholds, useful lives and asset categories has been achieved, which is also reflected in the NATO common layout for Financial Statements[3].

8. The Board believes that the NAF does meet the overall accounting requirements of the Alliance but notes that the application of the NAF remains a challenge for the time being.

Proposals

9. In light of the practical experience of using the NAF, and the tasking to the HFRP to monitor the requirement for further clarifications, the Financial Controllers have submitted a co-ordinated request for a small number of clarifications and two additional adaptations. A temporary adaptation to IPSAS 1 related to the US Foreign Military Sales (FMS)/indirect contracting is new while the effective date to account for CIS assets under construction and development is a further adaptation to an existing NAF adaptation.

Inventory thresholds (IPSAS 12)

10. Financial Controllers have requested clarifications to the applications of the NAF with regard to inventory categories. It was clarified that besides the thresholds for capitalisation of inventory, a NATO entity has the possibility to define its own thresholds in its accounting policies based on the nature and materiality of the inventory concerned.

[2] OC/RPPB(2015)0075 and ACO PP&E Action Plan (SH/J8/CAC/FC166/15-310231 dated 23 July 2015.

[3] AC/335-N(2015)0088

Introducing a level of flexibility represents a clarification to the NAF and is reflected in section 6.3 of Appendix 1.

Financial Reporting for Morale and Welfare Activities (IPSAS 6)

11. The approval of the NAF predated the Council decision (C-M(2013)0054) that the financial statements of the NATO HQ Staff Centre should be prepared on an accruals basis and be audited by IBAN. This reporting requirement does not apply to the Morale and Welfare Activities of other NATO entities who will continue to abide by the NAF. The clarification is proposed at section 6.2 of Appendix 1.

Property, Plant and Equipment (IPSAS 17) – useful lives

12. With regard to the useful lives for PP&E, it was clarified that this has to be considered as an upper ceiling. Based on the specific use and nature of the asset, NATO Reporting entities may apply shorter useful lives, if appropriate. The clarification is proposed at section 6.4 of Appendix 1.

13. At a later stage the content of the different asset categories will be defined in the PPE Accounting Policies as currently prepared by the HFRP. To be consistent, the proposed changes apply also for Intangible Assets reflected at section 6.5 of Appendix 1.

Computer Information System (CIS) assets (IPSAS 12, IPSAS 17 and IPSAS 31)

14. Under the NAF, NATO entities have been allowed to consider PP&E and intangible assets acquired prior to 1 January 2013 as fully expensed. However, the accounting treatment for CIS assets under construction or under development was not clear. Furthermore the control criteria were ambiguous in determining who (the service provider or the end-user) had the primary responsibility to account for PP&E and intangible assets.

15. In order to provide clarity on which NATO entity has the primary responsibility to account for CIS assets and in line with the ownership of CIS assets as laid down in the NCIO Charter[4], it is now proposed to modify the NAF adaptation to state that NCIO, as NATO's principal service provider of CIS capabilities to NATO Commands (including the IS and the IMS), has the necessary level of control to account for these assets under the adaptations in the NAF to IPSAS 17 and 31. The clarification of the "control principle" is a major step forward with far reaching implications for how NCIO accounts for CIS assets including assets under construction and development.

16. As a consequence, NCIO should now capitalize all CIS assets such as Inventory, PP&E and Intangible Assets, including also CIS assets under construction and under development. The clarification is proposed at sections 6.3, 6.4 and 6.5 of Appendix 1. Currently, NCIO is expensing CIS assets under construction and under development under IPSAS 11.

[4] "ownership of all assets (including intellectual property rights) and infrastructure will be transferred to NCIO as well as IT assets and IT infrastructure from the current NATO Commands." (C-M(2012)0049).

17. NCIO requires a transition period to allow the application of this significant and constructive improvement in accounting for CIS assets. It is therefore proposed that this change take effect for the reporting period starting as of 1 January 2018. This represents an adaptation that would apply to all new development programmes after this date but also to existing CIS construction and development programmes that continue after 1 January 2018. NCIO shall, from 1 January 2018, provide in the notes to the financial statements further disclosure on types and the locations of assets that were under construction and development prior to 1 January 2018. The adaptation is proposed at sections 6.4 and 6.5 of Appendix 1.

Accounting for United States (US) Foreign Military Sales (FMS) (IPSAS 1)

18. The challenges for some NATO entities to account for goods and/or services provided under the US FMS programme is not new to the Board. This has been a persistent issue for a number of NATO entities including ACO, NSPO and NATO Airborne Early Warning and Control Programme Management Organisation (NAPMO) and has been the basis for a number of IBAN qualified audit opinions over many years. The Board has already noted[5] in its reports to Council that this issue may involve additional clarifications to the NAF.

19. Despite the significant and prolonged efforts by NATO and US authorities to address this FMS issue, it has not been possible to reach a satisfactory outcome where NATO entities can comply with IPSAS. The US Government acts exclusively as general agent on US FMS contracts with responsibility to administer and audit contracts for and in the name of a NATO entity. In many cases, the requirements of a NATO entity are bundled with US national and other Allies' requirements to facilitate best pricing for the contract. Since original invoices contain non-NATO acquisition information, they are not releasable to a NATO entity. However, the US does extract NATO-only information from these original invoices and provides this to NATO entities. The US Defence Security Cooperation Agency has confirmed in writing[6] that there are currently no provisions in the US contracts that require US vendors to provide financial reporting directly to NATO entities to enable them to reconcile the goods and services delivered during a particular reporting period with original invoices. This situation is unlikely to change in the foreseeable future.

20. The US Government has no plans to adjust the FMS programme from a cash to an accruals basis nor is there any intention to require US vendors to accommodate additional reporting requirements for third parties such as NATO entities. The US does provide, and will continue to do so, regular financial information to NATO entities covering cash payments, obligations representing orders placed, contracts awarded and services received, and commitments covering the reservation of funds based on firm procurement requests.

21. Under the proposed adaptation (affecting IPSAS 1 - shown at section 6.1 of Appendix 1), this financial information will continue to be reflected in the financial statements of NATO entities thus ensuring continued financial transparency. NATO entities will show

[5] AC/335-N(2015)0087-REV1 – RPPB report on IBAN audit of ACO 2014 Financial Statements.

[6] Letter of the DSCA dated 28 August 2014.

that such information is presented on a cash basis and disclose this in a note to its financial statements. For indirect contracts, the NATO entities will record the amounts in the financial statements based on data/billing reports as provided by the US Government.

22. The Board proposes that a temporary adaptation is the most effective way of tackling this intractable matter; without it, NATO entities will continue to receive qualified audit opinions on an issue that is beyond their ability to resolve. It is recommended that this change be applied retrospectively with effect from 1 January 2015. The Board will keep this situation under review and, based on the advice from the Head of Financial Reporting Policy, will decide within four years whether this temporary adaptation remains in place, is modified, or becomes permanent.

Conclusions

23. The NAF meets the overall accounting requirements of the Alliance but the application of the NAF remains a challenge for the time being. The NAF has helped but it has not resolved the difficulties faced by some NATO entities, in particular ACO, NCIO and NSPO. Further adaptations to the NAF are not the whole answer to the continued problems with asset accounting. More effort and commitment is needed towards implementation measures in order to ensure a consistent application of asset accounting policies. Measures are being taken to address the shortfalls in accounting and logistics information systems to support more effective and efficient management processes and financial reporting.

24. However, taking into account the practical experience gained with the NAF since 2013, the Board recommends a small number of clarifications (paragraphs 10, 11, 12 and 14) and two additional adaptations to cover the effective date from which NCIO should account for CIS assets under construction and development (paragraph 17), and accounting for goods and/or services under the US FMS programme (paragraph 21) which will mitigate the persistent and significant issues that continue to affect some of the largest NATO entities.

Recommendations

25. The RPPB recommends that Council:

a) note this report;

b) approves the attached NAF at Appendix 1;

c) note that the revised NAF will be made publicly available;

d) invites the Head of Financial Reporting Policy to continuously monitor requirements for further potential changes or adaptions for consideration by the RPPB as necessary and that the HFRP report back to the RPPB not later than March 2020 with respect to the temporary adaptation agreed for FMS.

NATO Accounting Framework

1. The Accounting Framework

The accounting framework for all NATO Reporting Entities[7] is an adapted version of International Public Sector Accounting Standards (IPSAS) as issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants.

2. Approval

This Accounting Framework has been developed to provide minimum requirements for financial reporting for all NATO Reporting Entities following approval[8] by the North Atlantic Council on 14 February 2013 of an IPSAS-adapted accounting framework for the Alliance.

3. Date of Application

This Accounting Framework is applicable for financial reporting periods beginning on 1 January 2013 or at the effective date as indicated in the NATO Accounting Framework. Early adoption of adaptations is prohibited.

4. Governance arrangements

Only the North Atlantic Council has the authority to approve further adaptations to the IPSAS-adapted accounting framework for NATO.

The Resource Policy and Planning Board (RPPB) will be responsible for monitoring the implementation of the IPSAS-adapted accounting framework and will also carefully scrutinise and evaluate the need for any further changes before making recommendations for Council approval.

The Head of Financial Reporting Policy[9] will assist the work of the RPPB by coordinating, on behalf of the RPPB, with Financial Controllers the requirement for further changes or adaptations as necessary and by providing independent reports/updates on progress made with adherence to this Accounting Framework.

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[7] A NATO Reporting Entity is a NATO entity which is required to produce financial statements and where the audit opinion is addressed to Council.

[8] C-M(2013)0006

[9] C-M(2013)0021

NATO Financial Controllers are ultimately responsible and accountable for ensuring adherence to NATO's IPSAS-adapted accounting framework and for establishing and implementing their respective reporting entities accounting policies. They will be responsible for highlighting any major issues relating to the application of the new framework or with the identification to the Head of Financial Reporting Policy any other IPSAS standards requiring adaptation.

5. Applicable accounting standards

The NATO accounting framework adheres to many of the IPSAS accounting standards, as well as future standards that may be issued by the IPSAS Board. However, there are areas of adaptation agreed by the NAC and identified below:

IPSAS 1- Adapted - Presentation of Financial Statements (*as adapted by the North Atlantic Council)*
IPSAS 2 - Cash Flow Statements
IPSAS 3 - Accounting Policies, Changes in Accounting Estimates and Errors
IPSAS 4 - The Effects of Changes in Foreign Exchange Rates
IPSAS 5 - Borrowing Costs
IPSAS 6 Adapted - Consolidated and Separate Financial Statements (*as adapted by the North Atlantic Council*)
IPSAS 7 - Investments in Associates
IPSAS 8 - Interests in Joint Ventures
IPSAS 9 - Revenue from Exchange Transactions
IPSAS 10 - Financial Reporting in Hyperinflationary Economies
IPSAS 11 - Construction Contracts
IPSAS 12 Adapted - Inventories (*as adapted by the North Atlantic Council*)
IPSAS 13 - Leases
IPSAS 14 - Events after the Reporting Date
IPSAS 15 - Financial Instruments: Disclosure and Presentation
IPSAS 16 - Investment Property
IPSAS 17 Adapted - Property, Plant, and Equipment (*as adapted by the North Atlantic Council*)
IPSAS 18 - Segment Reporting
IPSAS 19 - Provisions, Contingent Liabilities and Contingent Assets
IPSAS 20 - Related Party Disclosures
IPSAS 21 - Impairment of Non-Cash-Generating Assets
IPSAS 22 - Disclosure of Financial Information about the General Government Sector
IPSAS 23 - Revenue from Non-Exchange Transactions (Taxes and Transfers)
IPSAS 24 - Presentation of Budget Information in Financial Statements
IPSAS 25 - Employee Benefits
IPSAS 26 - Impairment of Cash-Generating Assets
IPSAS 27 - Agriculture
IPSAS 28 - Financial Instruments: Presentation
IPSAS 29 - Financial Instruments: Recognition and Measurement

IPSAS 30 - Financial Instruments: Disclosures
IPSAS 31 Adapted - Intangible Assets (*as adapted by the North Atlantic Council*)

Details of how IPSAS 1, 6, 12, 17 and 31 have been specifically adapted by the North Atlantic Council are provided below.

The applicable standards to be followed are those promulgated in the Handbook of International Public Sector Accounting Standards Pronouncements as published by the International Federation of Accountants for the financial year being reported on. Where there is a difference with the IPSAS standards, the adaptations agreed by Council and set out in further detail below shall take precedence.

IPSAS Conceptual Framework

The *Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* establishes the concepts that underpin general purpose financial reporting by public sector entities that adopt the accrual basis of accounting.

The Conceptual Framework does not establish authoritative requirements for financial reporting by public sector entities that adopt IPSAS, nor does it override the requirements of IPSAS.

The Conceptual Framework can provide guidance to preparers of financial statements by NATO entities who require clarification of concepts described in IPSAS. In these circumstances, preparers and others can refer to and consider the applicability of the definitions, recognition criteria, measurement principles, and other concepts identified in the Conceptual Framework.

6. NATO IPSAS ADAPTED STANDARDS (as endorsed by the North Atlantic Council)

6.1 IPSAS 1 Adapted - Presentation of Financial Statements

Objective

The objective of the adaptation to this Standard is to clarify the accounting treatment and disclosure requirements for:

- Foreign Military Sales (FMS) from the United States (U.S.) in the case that the data provided by the U.S. to a NATO reporting entity cannot be used for a reliable estimate on an accrual basis;
- Indirect contracting by Agent Contracts under the US Government Acquisition Agreement in case no supporting invoices from the supplier are made available.

Financial Reporting Requirements

NATO Reporting Entities:

- Are allowed for FMS to use data on modified cash basis to account for U.S. FMS and indirect contracting via the U.S. System Program Office (SPO), if they are unable to satisfy itself that the data is presented on a reliable accrual basis;
- Are allowed for indirect contracting by Agent Contracts under US Government Acquisition Agreements to use data/ billing reports as provided by the U.S. Government for accounting purposes;
- Shall, after completion of a purchase case as part of internal control procedure, perform a reconciliation of the total physically delivery of goods and services against the total amount of expenditures as far as the information is made available.

Where this requirement conflicts with another requirement of IPSAS this adapted requirement shall apply. For the remainder, IPSAS 1 shall apply.

Disclosure requirements

The NATO Reporting Entity implementing this requirement for FMS shall:

- Disclose in the Accounting Policies section of its financial statements that this data is presented on a modified cash basis;
- Present as a separate line item on the statement of financial performance (e.g. FMS) with a footnote directly under the statement to reflect the fact that the figure is on a cash rather than accrual basis with an appropriate reference to the Accounting Policy section;
- Present in the statement of financial position as a footnote stating that not all balances provided are based on an accrual basis with a reference to the line items impacted and

that more information can be found in the relevant note disclosure in relation to the line items concerned and an appropriate reference to the Accounting Policy section.

The NATO Reporting Entity implementing this requirement for Indirect contracting by Agent Contracts shall:

- Disclose in the Accounting Policies of its financial statements that the financial reporting as presented in the Financial Statements is based on financial data and/or reports as provided by the U.S. Government under the US Government Acquisition Agreement.

Effective Date
This adaptation shall be effective for financial reporting period beginning on 1 January 2015. This temporary adaptation will be kept under review, based on the advice from the Head of Financial Reporting Policy.

6.2 IPSAS 6 Adapted - Consolidated and Separate Financial Statements

Objective

The objective of the adaptation to this Standard is to prescribe the accounting treatment for the consolidation of Morale and Welfare Activities and/or Staff Association activities.

Definition

Morale and Welfare and/or staff association activities include the following categories:

- Sport and welfare facilities;
- Community service facilities; and,
- Retail and concessionary facilities.

Financial Reporting Requirements

NATO Reporting Entities:

- Shall not consolidate Morale and Welfare Activities and/or Staff Association activities into their respective financial statements even when they are considered to be under the control, from a financial reporting perspective, of the NATO Reporting Entity preparing and issuing the financial statements.[10]

Where this requirement conflicts with another requirement of IPSAS this adapted requirement shall apply. For the remainder, IPSAS 6 shall apply.

Disclosure requirements

The NATO Reporting Entity implementing this requirement shall disclose in its accounting policies that this adaptation applies. NATO entities should continue to submit an annual report[11] on the financial viability of their Morale and Welfare activities and/or Staff Association activities and should present financial information in support of such activities by way of a disclosure note to their financial statements[12].

Effective Date

This adaptation shall be effective for financial reporting periods beginning on 1 January 2013.

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[10] In accordance with a Council decision (C-M (2013)0054) the NATO Staff Centre is required to prepare IPSAS financial statements to be audited by the International Board of Auditors of NATO.

[11] In line with the requirements of the Budget Committee or relevant Finance Committee.

[12] As an unaudited annex due to the fact that these are prepared on a different accounting basis.

6.3 IPSAS 12 Adapted - Inventories

Objective

The objective of adaptation to this Standard is to prescribe specific accounting treatments for inventories for NATO Reporting Entities.

Definitions used in the adaptation

- **Control of NATO Inventory** - In addition to the standard assessment of "substance over form", the following criteria should be used to assist in assessing the level of control that any NATO Reporting Entity has for reporting assets in its financial statements:

Criteria that may indicate control of an asset
The act of purchasing the asset carried out (or resulted from instructions given) by the NATO Reporting Entity
The legal title is in the name of the NATO Reporting Entity
The asset is physically located on the premises or locations used by the NATO Reporting Entity
The asset is physically used by staff employed by the NATO Reporting Entity or staff working under the NATO Reporting Entity's instructions
The fact that the NATO Reporting Entity can decide on an alternative use of the asset
The fact that the NATO Reporting Entity can decide to sell or to dispose the asset
The fact that the NATO Reporting Entity, if it has to remove or destroy the asset, can take the decision to replace it
The fact that a representative of the NATO Reporting Entity regularly inspects the asset to determine its current condition
The fact that the asset is used in achieving the objectives of the NATO Reporting Entity
The fact that the asset will be retained by the NATO Reporting Entity at the end of the activity

If the NATO Reporting Entity responds positively to six of the above criteria, it is likely that the asset is controlled by the NATO Reporting Entity. In this case, the reporting entity will need to capitalise the assets in its Financial Statements (if it is also above the capitalisation threshold).

- **NATO Inventory Capitalisation Thresholds:**

Each NATO entity shall follow the thresholds of the table below or, in consideration of the relevance to its purpose and operations, establish specific thresholds for categories of items based on materiality of the amounts involved. If required, a NATO entity needs to establish consistent capitalisation thresholds in its accounting policies for reporting requirements between NATO entities. Each NATO entity has the flexibility to set lower capitalisation thresholds as indicated in the table below taking into account its own activities and size.

Category	Threshold	Basis
Consumables	€50,000	Per location/warehouse
Spare Parts	€50,000	Per location/warehouse
Ammunition	€50,000	Per location/warehouse
Strategic stocks	€50,000	Per location/warehouse

- **Slow moving inventory** – Assuming turnover of stock is over a 12-month period, any items not used over a 36 month period shall be deemed to be slow moving.
- **Strategic stock –** Some complex elements of slow moving stock can be identified as strategic if they are deemed essential to the effective operation of an asset and cannot be readily replaced by commercial off the shelf items or cannot be purchased due to market decisions to close production lines of key inventory items due to the advanced age of the strategic asset to which the stock relates[13].
- **Computer Information System (CIS) assets and Automated Information Systems AIS** – If the NATO Communication and Information Organisation (NCIO) acts as a service provider to NATO Commands (including IS and IMS) for inventory of CIS and/or AIS assets, NCIO has control over these CIS and AIS assets.

Financial Reporting Requirements

NATO Reporting Entities:

- Shall capitalise all controlled inventory above the NATO Inventory Capitalisation Threshold. For anything below the threshold, NATO entities would have the flexibility to expense specific items;
- Shall capitalise inventory which it controls in its financial statements. Where there is a conflict between more than one NATO Reporting Entity as to the control of inventory, only the end-user entity shall report the inventory in its financial statements

[13] Aircraft engine parts and spare parts for bespoke items of communication systems are examples of strategic stock.

based on reliable information provided by the NATO services provider entity as defined in individual agreements between the two entities;

- Shall include transportation costs involved in bringing the inventories to their present location and condition in the initial valuation of inventory. These costs shall be measured on the actual cost of transportation per item of inventory or by using an apportionment of the global transportation costs of bringing the inventories to their present location and condition across all inventory items in the period. Transportation costs involved in the subsequent movement of inventory which brings them into operational use shall not be included in the value of inventory. The method of measuring these costs shall be disclosed;
- May consider inventory acquired prior to 1 January 2013 as fully expensed;
- May choose to write down to the net realizable value items which are considered as slow-moving over the last 36 months. The value of slow-moving inventory which is written down shall be disclosed in the inventory note to the financial statements;
- May choose to measure slow moving stock items as strategic at historical cost. Reporting shall include a description of the stock items and a description of the assets or services to which they relate. The basis by which strategic stocks are measured shall be disclosed;
- Shall, for inventory held prior to the 1 January 2013, and not previously recognized as an asset, provide a brief description of inventory held within their inventory recording systems in the notes to the financial statements. Such disclosure should include as a minimum the types of inventories held, locations where inventories are held and the approximate number of items held per asset category.

Where this adaptation conflicts with another requirement of IPSAS this adaptation shall apply. For the remainder, IPSAS 12 shall apply.

Disclosure requirements

In addition to what is needed as part of the foregoing Financial Reporting Requirements, the NATO Reporting Entity shall fully disclose in its accountings policies the use they made of the adapted IPSAS.

Effective Date

This adaptation shall be effective for financial reporting periods beginning on 1 January 2013.

6.4 IPSAS 17 Adapted - Property Plant and Equipment

Objective

The objective of adaptation to this Standard is to prescribe specific accounting treatments for Property, Plant and Equipment (PPE) for NATO Reporting Entities.

Definitions used in the adaptation

- **AOM operations assets** – Equipment, spare parts and/or stand by equipment bought specifically by NATO for operations using dedicated AOM funding from common, customer or multinational funding sources and physically located in a theatre of operation. This reflects the intensive nature of operations, the fact that equipment is frequently bought for a specific purpose and rarely has any further useful life at the end of the operation.[14]
- **Control of NATO PPE** - In addition to the standard assessment of "substance over form", the following criteria should be used to assist in assessing the level of control that any NATO Reporting Entity has for reporting assets in its financial statements. Criteria that evidence the control of PPE include:

Criteria that may indicate control of an asset
The act of purchasing the asset carried out (or resulted from instructions given) by the NATO Reporting Entity
The Legal title is in the name of the NATO Reporting Entity
The asset is physically located on the premises or locations used by the NATO Reporting Entity
The asset is physically used by staff employed by the NATO Reporting Entity or staff working under the NATO Reporting Entity's instructions
The fact that the NATO Reporting Entity can decide on an alternative use of the asset
The fact that the NATO Reporting Entity can decide to sell or to dispose the asset
The fact that the NATO Reporting Entity, if it has to remove or destroy the asset, can take the decision to replace it
The fact that a representative of the NATO Reporting Entity regularly inspects the asset to determine its current condition
The fact that the asset is used in achieving the objectives of the NATO Reporting Entity

[14] AOM PPE does not include strategic military capabilities such as AGS, BMD or ACCS.

The fact that the asset will be retained by the NATO Reporting Entity at the end of the activity

If the NATO Reporting Entity responds positively to six of the above criteria, it is likely that the asset is controlled by the NATO Reporting Entity. In this case, the reporting entity will need to capitalise the assets in its Financial Statements (if it is also above the capitalisation threshold).

- **NATO PPE Capitalisation Thresholds -** NATO Reporting Entities shall capitalise each item of PPE above the following agreed NATO thresholds.

Category	**Threshold**	**Depreciation life**	**Method**
Land	€200,000	N/A	N/A
Buildings	€200,000	40 years	Straight line
Other infrastructure [15]	€200,000	40 years	Straight line
Installed equipment	€30,000	10 years	Straight line
Machinery	€30,000	10 years	Straight line
Vehicles	€10,000	5 years	Straight line
Aircraft	€200,000	Dependent on type	Straight line
Vessels	€200,000	Dependent on type	Straight line
Mission equipment	€50,000	3 years	Straight line
Furniture	€30,000	10 years	Straight line
Communications	€50,000	3 years	Straight line
Automated information systems	€50,000	3 years	Straight line

NATO reporting entities can consider the establishment of further sub-categories.

Each category can include major spare parts and stand-by equipment, major spare parts and servicing equipment and specialist military equipment.

- **Major spare parts and stand-by equipment** – Major spare parts and stand-by equipment qualify as property, plant, and equipment when a NATO Reporting Entity expects to use them during more than one financial reporting period. An item is

[15] The category “Other Infrastructure” includes also pipeline systems and runways.

considered to be a major spare part or item of stand-by equipment when its value is greater that the relevant category of the NATO PPE Capitalisation Thresholds.

- **Spare parts and servicing equipment -** When spare parts and servicing equipment can be used only in connection with an item of property, plant, and equipment, they are accounted for as property, plant, and equipment.

- **Specialist Military Equipment** – Specialist Military Equipment qualifies as property, plant, and equipment when a NATO Reporting Entity expects to use it during more than one financial reporting period. IPSAS is silent on providing definitions for Specialist Military Equipment. In the context of adaptations to this IPSAS, Specialist Military Equipment is defined as weapons system platforms, weapons, repairable items, major spare parts and stand-by equipment.

- **Computer Information System (CIS) assets and Automated Information Systems (AIS)** – If NCIO acts as a service provider to NATO Commands (including IS and IMS) for CIS and/ or AIS assets including the construction of these assets, NCIO has control over these CIS and or AIS assets.

Financial Reporting Requirement

NATO Reporting Entities:

- Shall capitalise all controlled PPE above the NATO PPE Capitalisation Thresholds. For anything below the threshold, NATO entities would have the flexibility to expense specific items. It should be noted however that each NATO entity will still have to set its own thresholds, within the overall thresholds identified taking into account its own activities and size;
- Shall apply the control criteria to identify reporting responsibility for PPE provided for use by Host Nations;
- Shall apply the depreciation lives as an upper ceiling. NATO Reporting Entities may apply shorter useful lives based on the specific nature and use of the item of PPE. The useful live per asset category shall be disclosed in the Financial Statements of the NATO Reporting entity;
- The correct accounting treatment for Allied Operations and Missions PPE should be to capture the cost and reflect a full depreciation during the first year of its useful life.
- The information on such equipment will be properly reported in the balance sheets in financial statements and in asset registers with the full costs of PPE allocated in the first year;

- Shall apply standard NATO procedures to decide on the disposition of any PPE at the end of the specific operation it was originally acquired to support;
- Shall report controlled PPE in its Financial Statements. Where there is a conflict between more than one NATO Reporting Entity as to the control of asset, only the end-use entity shall report the PPE in its financial statements based on reliable information provided by the NATO services provider entity as defined in individual agreements between the two entities;
- May consider PPE acquired prior to 1 January 2013 as fully expensed. Also entities who already capitalize PPE prior to 1 January 2013 may continue to apply existing accounting policies for such assets;
- If the PPE is upgraded after 1 January 2013, only the portion related to the modification should be capitalised;
- May choose to break down a specific piece of PPE (for example a vessel) into its component parts to allow depreciation of different parts of an asset at different rates;
- Shall, for PPE held prior to 1 January 2013, and not previously recognized as an asset, provide a brief description of PPE in the notes to the financial statements. Such disclosure should include as a minimum the types of PPE held, locations where PPE is held and the approximate number of items held per asset category;
- NCIO shall capitalise all CIS Assets under Construction (AuC) starting as of 1 January 2018. This shall apply for all new CIS AuC after 1 January 2018, but also for existing AuC that continue after 1 January 2018;
- NCIO may consider CIS AuC prior to 1 January 2018 as fully expensed;
- NCIO shall from, 1 January 2018, provide in the notes to the financial statements further disclosure on types and the locations of CIS assets that were under construction prior to 1 January 2018.

Where this adaptation conflicts with another requirement of IPSAS this adaptation shall apply. For the remainder, IPSAS 17 shall apply.

Disclosure requirements

In addition to what is needed as part of the foregoing Financial Reporting Requirements, the NATO Reporting Entity shall fully disclose in its accountings policies the use they made of the adapted IPSAS.

Effective Date

This adaptation shall be effective for financial reporting periods beginning on 1 January 2013.

For NCIO with regard to AuC, this adaptation shall be effective for financial reporting period beginning on 1 January 2018.

6.5 IPSAS 31 Adapted - Intangible Assets

Objective

The objective of adaptation to this Standard is to prescribe specific accounting treatments for Intangible Assets for NATO Reporting Entities.

Definitions used in the adaptation

- **Control of NATO Intangible Assets** - In addition to the standard assessment of “substance over form”, the following criteria should be used to assist in assessing the level of control that any NATO Reporting entity has for reporting assets in its financial statements. Criteria that evidence the control of inventory include:

Criteria that may indicate control of an asset
The act of purchasing the asset carried out (or resulted from instructions given) by the NATO Reporting Entity
The Legal title is in the name of the NATO Reporting Entity
The asset is physically located on the premises or locations used by the NATO Reporting Entity
The asset is physically used by staff employed by the NATO Reporting Entity or staff working under the NATO Reporting Entity’s instructions
The fact that the NATO Reporting Entity can decide on an alternative use of the asset
The fact that the NATO Reporting Entity can decide to sell or to dispose the asset
The fact that the NATO Reporting Entity, if it has to remove or destroy the asset, can take the decision to replace it
The fact that a representative of the NATO Reporting Entity regularly inspects the asset to determine its current condition
The fact that the asset is used in achieving the objectives of the NATO Reporting Entity
The fact that the asset will be retained by the NATO Reporting Entity at the end of the activity

If the NATO Reporting Entity responds positively to six of the above criteria, it is likely that the asset is controlled by the NATO Reporting Entity. In this case, the reporting entity will need to capitalise the assets in its Financial Statements (if it is also above the capitalisation threshold).

- **NATO Intangible Assets Capitalisation Thresholds -** NATO Reporting Entities shall capitalise each intangible asset item above the following agreed NATO thresholds.

Category	Threshold	Depreciation life	Method
Computer software (commercial off the shelf)	€50,000	4 years	Straight line
Computer software (bespoke)	€50,000	10 years	Straight line
Computer database	€50,000	4 years	Straight line
Integrated system	€50,000	4 years	Straight line

- **Computer Information System (CIS) assets and Automated Information Systems (AIS)** – If NCIO acts as a service provider to NATO Commands (including IS and IMS) for CIS and/or AIS assets including development of these assets, NCIO has control over these CIS and or AIS assets.

Financial Reporting Requirements

NATO Reporting entities:

- Shall capitalise all controlled intangible assets above the NATO Intangible Asset Capitalisation Threshold. For anything below the threshold, NATO entities would have the flexibility to expense specific items. It should be noted however that each NATO entity will still have to set its own thresholds, within the overall thresholds identified taking into account its own activities and size;
- Shall capitalise integrated systems and include research, development, implementation and can include both software and hardware elements;
- Shall apply the depreciation lives as an upper ceiling. NATO Reporting entities may apply shorter depreciation lives based on the specific nature and use of the item of Intangible Assets. The useful live per asset category shall be disclosed in the Financial Statements of the NATO Reporting entity;
- Shall not capitalise the following types of intangible assets in their financial statements:
  - rights of use(air, land and water);
  - landing rights;
  - airport gates and slots;
  - historical documents; and,

    - publications;
- Shall capitalise other types of intangible assets acquired after 1 January 2013 including:
    - Copyright
    - Intellectual Property Rights
    - Software development;
- May consider Intangible Assets acquired prior to 1 January 2013 as fully expensed;
- Shall report controlled Intangible assets in its financial statements. Where there is a conflict between more than one NATO Reporting Entity as to the control of intangible assets, only the end-use entity shall capitalise the intangible asset in its financial statements based on reliable information provided by the NATO services provider entity as defined in individual agreements between the two entities;
- Shall, for intangible assets held prior to the 1 January 2013, and not previously recognized as an asset, provide a brief description of intangible assets in the notes to the financial statements. Such disclosure should include as a minimum the types of intangible held, locations where intangible assets are held and the approximate number of items held per asset category;
- If an intangible asset is upgraded after 1 January 2013, only the portion related to the modification should be capitalised;
- NCIO shall capitalise all CIS Assets under Development (AuD) starting as of 1 January 2018. This shall apply for all new CIS AuD after 1 January 2018, but also for existing CIS AuD that continue after 1 January 2018;
- NCIO may consider CIS AuD prior to 1 January 2018 as fully expensed;
- NCIO shall from, 1 January 2018, provide in the notes to the financial statements further disclosure on types and the locations of CIS assets that were under development prior to 1 January 2018.

Where this adaptation conflicts with another requirement of IPSAS this adaptation shall apply. For the remainder, IPSAS 31 shall apply.

Disclosure requirements

In addition to what is needed as part of the foregoing Financial Reporting Requirements, the NATO Reporting Entity shall fully disclose in its accountings policies the use they made of the adapted IPSAS.

Effective Date

For intangible assets, this adaptation shall be effective for financial reporting periods beginning on 1 January 2013.

For NCIO with regard to AuD, this adaptation shall be effective for financial reporting periods beginning.