NATO UNCLASSIFIED

26 July 2013

DOCUMENT
C-M(2013)0039
Silence Procedure ends:
2 Aug 2013 – 16:00

NATO ACCOUNTING FRAMEWORK

Note by the Secretary General

Reference: C-M(2013)0006

1. I attach a report by the Resource Policy and Planning Board addressing the Accounting Framework for the Alliance. This policy document has been developed to underpin the Council decision in February 2013 (reference refers) to adapt a small number of the International Public Sector Accounting Standards to better suit the specific requirements of the Alliance. The proposed Accounting Framework is consistent with the adaptations that Council has already agreed and the IBAN have confirmed that it represents an acceptable Accounting Framework.

2. I consider that no further discussion regarding this report is required. Consequently, unless I hear to the contrary **by 16:00 hours on Friday, 2 August 2013**, I shall assume that the Council has noted the Resource Policy and Planning Board's report and agreed the NATO Accounting Framework.

Anders Fogh Rasmussen

Annex 1: RPPB report

1 Annex

1 Appendix

Original: English

ANNEX 1
C-M(2013)0039

NATO ACCOUNTING FRAMEWORK

Report by the RPPB

Reference: A. C-M(2013)0006

Background

1. In February 2013 the Council agreed (reference A) proposals to adapt a small number of the International Public Sector Accounting Standards (IPSAS) to better suit the specific requirements of the Alliance. The attached NATO Accounting Framework (at appendix 1) is the policy document developed to formally entrench the implementation of the Council decision.

2. Financial Controllers have been consulted on the proposed accounting framework and this document results from a great deal of hard work by many of their representatives on the IPSAS Working Group.

3. It should be stressed that NATO will continue to adhere to the majority of the IPSAS accounting standards. Consistent with the adaptations agreed by Council (reference A) the accounting framework sets out the practical steps and provides additional granularity on the financial reporting requirements of NATO entities to implement the agreed way ahead. More precision has been added to some of the definitions and to the governance arrangements.

4. The accounting framework highlights the key role of the RPPB and the support to be provided by the Head of Financial Reporting Policy, in monitoring the implementation of the framework and in scrutinising and evaluating proposals for any further changes that would require Council approval.

Way Ahead

5. Once approved by Council the accounting framework will be applicable for financial reporting periods beginning on 1 January 2013. The IBAN will conduct audits of the financial statements of NATO entities in accordance with the approved Accounting Framework. The NATO Accounting Framework, once implemented, should lead to fewer qualified audit opinions related to IPSAS in due time.

6. The Head of Financial Reporting Policy will monitor requirements for further changes or adaptations and bring proposals to the Board for consideration as may be necessary.

Recommendation

7. The RPPB recommends that Council should:

- Note this report; and,

- agree the attached NATO Accounting Framework.

NATO's Accounting Framework

1. The Accounting Framework

The accounting framework for all NATO Reporting Entities[1] 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[2] 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[3]. Early adoption of adaptations is prohibited. The accounting framework will be reviewed before the end of 2015 to assess if it is meeting NATO's requirements.

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[4] 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.

---

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

[2] C-M(2013)0006

[3] For financial reporting periods prior to 2013 NATO Reporting Entities shall use IPSAS, without adaptation, as their accounting framework. NATO Agencies shall prepare their 2012 financial statements in accordance with Council approved (C-M(2012)0057) financial continuity measures in respect of the transitioning of agency accounts.

[4] 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. In their work the Financial Controllers will continue to be advised by the NATO IPSAS Working Group.

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 - Presentation of Financial Statements
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 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*, although only partially completed at this time, 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 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.

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[5] 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[6].

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

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

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

6.2 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:**

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[7].

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. 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 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 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

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

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.

6.3 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.[8]
- **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
The fact that the asset will be retained by the NATO Reporting Entity at the end of the activity

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

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	€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 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.

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.
- 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 in support of.
- 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 held within their PPE recording systems 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.

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.

6.4 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

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 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 held in its intangible asset recording systems 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.

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

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