NATO | NORTH ATLANTIC COUNCIL
OTAN | CONSEIL DE L'ATLANTIQUE NORD

27 mai 2015

DOCUMENT
C-M(2015)0036-AS1

RAPPORT SUR LA VÉRIFICATION DES ÉTATS FINANCIERS DE L'ORGANISATION DE GESTION DE LA CAPACITÉ ALLIÉE DE SURVEILLANCE TERRESTRE DE L'OTAN (NAGSMO) POUR L'EXERCICE CLOS LE 31 DÉCEMBRE 2013

SUITE DONNÉE

Le 26 mai 2015, au terme d'une procédure d'accord tacite, le Conseil a pris note du rapport du Collège international des commissaires aux comptes de l'OTAN (IBAN) diffusé sous la cote IBA-AR(2015)01 et approuvé la recommandation contenue dans la note C-M(2015)0036 du RPPB visant la mise en lecture publique.

(signé) Alexander Vershbow
Secrétaire général délégué

NOTE : La présente note fait partie du C-M(2015)0036 et doit être placée en tête de ce document.

Original : anglais

20 mai 2015

DOCUMENT
C-M(2015)0036
Procédure d'accord tacite :
26 mai 2015 18h00

RAPPORT SUR LA VÉRIFICATION DES ÉTATS FINANCIERS DE L'ORGANISATION DE GESTION DE LA CAPACITÉ ALLIÉE DE SURVEILLANCE TERRESTRE DE L'OTAN (NAGSMO) POUR L'EXERCICE CLOS LE 31 DÉCEMBRE 2013

Note du secrétaire général délégué

1. On trouvera ci-joint le rapport du Collège international des commissaires aux comptes de l'OTAN (le Collège) sur la vérification des états financiers de l'Organisation de gestion de la capacité alliée de surveillance terrestre de l'OTAN (NAGSMO) pour l'exercice clos le 31 décembre 2013. Ce rapport contient une opinion sans réserve.

2. Le rapport du Collège a été porté à l'attention du Bureau de la planification et de la politique générale des ressources (RPPB).

3. Conformément à la politique agréée dans le PO(2015)0052, le RPPB recommande au Conseil que le rapport de l'IBAN sur la vérification des états financiers de l'Organisation de gestion de la capacité alliée de surveillance terrestre de l'OTAN (NAGSMO) pour l'exercice 2013 ainsi que les états financiers correspondants soient mis en lecture publique.

4. J'estime que ce rapport ne nécessite pas d'examen plus approfondi. Par conséquent, sauf avis contraire me parvenant **d'ici au mardi 26 mai 2015 à 18 heures**, je considérerai que le Conseil aura pris note du rapport de l'IBAN diffusé sous la cote IBA-AR(2015)01 et qu'il aura approuvé la recommandation contenue dans la note ci-jointe du RPPB visant la mise en lecture publique.

(signé) Alexander Vershbow

2 annexes
1 pièce jointe

Original : anglais

24 mars 2015

NOTE
AC/335-N(2015)0027
Procédure d'accord tacite :
2 avril 2015 18:00

BUREAU DE LA PLANIFICATION
ET DE LA POLITIQUE GÉNÉRALE DES RESSOURCES (RPPB)

RAPPORT ET LETTRE D'OBSERVATIONS ET DE RECOMMANDATIONS DU COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES DE L'OTAN (IBAN) SUR LA VÉRIFICATION DES ÉTATS FINANCIERS DE L'ORGANISATION OTAN DE GESTION DE LA CAPACITÉ ALLIÉE DE SURVEILLANCE TERRESTRE POUR L'EXERCICE CLOS LE 31 DÉCEMBRE 2013

Note du président

Références : IBA-A(2015)57
IBA-AR(2015)01

1. Le Conseil a décidé (PO(2015)0052) qu'à compter de l'exercice 2013, tous les rapports NATO SANS CLASSIFICATION de l'IBAN et les états financiers correspondants seraient mis en lecture publique, sur recommandation du RPPB puis approbation du Conseil, au cas par cas.

2. L'IBAN a formulé une opinion sans réserve sur les états financiers 2013 de la NAGSMO et le rapport correspondant sera transmis au Conseil afin qu'il en prenne note, conformément aux procédures agréées.

3. Le contrôleur des finances de la NAGSMO a examiné les états financiers conformément à la politique agréée (PO(2015)0052) et le Comité de direction de la NAGSMO n'a pas d'observation particulière à porter à l'attention du RPPB avant que celui-ci ne finalise ses recommandations au Conseil.

4. Le RPPB est invité à confirmer que le rapport d'audit ne contient pas d'informations qui, en vertu de la politique relative à la mise en lecture publique de l'information OTAN, ne peuvent être rendues publiques et, conformément à la politique agréée dans le PO(2015)0052, à recommander que le Conseil approuve la mise en

lecture publique du rapport de l'IBAN portant la cote IBA-AR(2015)57, ainsi que des états financiers correspondants et d'autres éléments pertinents.

5. Je ne pense pas que cette question nécessite un débat au RPPB. Par conséquent, sauf avis contraire me parvenant d'ici au **jeudi 2 avril 2015 à 18 heures**, je considérerai que le RPPB aura marqué son accord.

(signé) Giorgio Romano

Responsable : R. Strasser, poste 2617
Original : anglais

Note succincte
du Collège international des commissaires aux comptes de l'OTAN
à l'intention du Conseil
sur la vérification des états financiers de l'Organisation OTAN de gestion de la capacité alliée de surveillance terrestre
(NAGSMO)
pour l'exercice clos le 31 décembre 2013

Le Collège a procédé à la vérification des états financiers de l'Organisation OTAN de gestion de la capacité alliée de surveillance terrestre (NAGSMO) pour l'exercice clos le 31 décembre 2013. La NAGSMO a été créée au sein de l'OTAN pour l'acquisition du système central de la capacité alliée de surveillance terrestre (AGS). La NAGSMO est chargée de la gestion globale du programme AGS. Elle se compose d'un comité de direction, où sont représentés les pays participants, de divers sous-comités, et d'une agence OTAN de gestion, placée sous la responsabilité d'un directeur général.

En 2013, les dépenses relevant du budget administratif se sont élevées à 7,6 millions d'euros et les dépenses relevant du budget opérationnel, à 92 millions d'euros et 196,5 millions de dollars des États-Unis.

Le Collège a émis une opinion sans réserve sur les états financiers de la NAGSMO et sur la conformité pour l'exercice clos le 31 décembre 2013.

À l'issue de l'audit, le Collège a également formulé deux observations et deux recommandations. Ses constatations sont récapitulées dans la lettre d'observations et de recommandations (annexe 3).

Les principales constatations sont les suivantes :

- la NAGSMA ne dispose pas de son propre service d'audit interne ; par conséquent, aucune activité d'audit interne n'a été réalisée au sein de la NAGSMO en 2013 ;

- les transferts au titre du budget opérationnel effectués après l'examen de mi-exercice n'ont pas été approuvés conformément au document relatif à la gestion financière de la NAGSMO.

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27 février 2015

COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES DE L'OTAN

OPINION SUR LA VÉRIFICATION DES ÉTATS FINANCIERS DE L'ORGANISATION OTAN DE GESTION DE LA CAPACITÉ ALLIÉE DE SURVEILLANCE TERRESTRE

(NAGSMO)

POUR L'EXERCICE CLOS LE 31 DÉCEMBRE 2013

OPINION DU COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES DE L'OTAN À L'INTENTION DU CONSEIL DE L'ATLANTIQUE NORD

Rapport sur les états financiers

Le Collège international des commissaires aux comptes de l'OTAN (le Collège) a procédé à la vérification des états financiers de l'Organisation OTAN de gestion de la capacité alliée de surveillance terrestre (NAGSMO), composés de l'état de la situation financière au 31 décembre 2013 et de l'état de la performance financière, de l'état des variations de l'actif net/la situation nette et du tableau des flux de trésorerie pour l'exercice clos à cette date, ainsi que d'un résumé des méthodes comptables importantes et de diverses notes explicatives. Le Collège a également vérifié les états de l'exécution du budget pour l'exercice clos le 31 décembre 2013.

Responsabilité de la direction

La direction est chargée d'établir les états financiers conformément au cadre comptable OTAN et aux dispositions du Règlement financier de l'OTAN tels qu'ils ont été fixés par le Conseil de l'Atlantique Nord, et de veiller à ce qu'ils donnent une image fidèle de la situation de l'entité. Elle est ainsi responsable de la conception, de l'application et de la tenue d'un système de contrôle interne de nature à permettre l'établissement et la présentation d'états financiers qui soient exempts d'inexactitudes significatives, que celles-ci relèvent d'une fraude ou d'une erreur.

Responsabilité du Collège

Il incombe au Collège de formuler sur ces états financiers une opinion qui soit fondée sur son travail de vérification, lequel aura été effectué conformément aux dispositions de sa charte et aux normes internationales d'audit. Ces normes exigent que le Collège respecte certains principes déontologiques, et qu'il planifie et effectue sa vérification de manière à parvenir à une assurance raisonnable sur le point de savoir si les états financiers sont exempts d'inexactitudes significatives.

Un audit consiste à appliquer des procédures permettant d'obtenir des éléments probants relatifs aux montants et aux informations figurant dans les états financiers. Les procédures retenues à cette fin sont laissées à l'appréciation de l'auditeur, qui évalue notamment les risques d'inexactitudes significatives dans les états financiers, que celles-ci relèvent d'une fraude ou d'une erreur. Pour l'évaluation de ces risques, le système de contrôle interne sur lequel s'appuient l'établissement et la présentation des états financiers de l'entité concernée est pris en considération, le but étant d'élaborer des procédures d'audit qui soient adaptées à la situation considérée et non pas d'exprimer une opinion sur l'efficacité du système de contrôle interne. Il s'agit aussi de déterminer si les méthodes comptables appliquées sont appropriées et si les estimations comptables faites par la direction sont raisonnables, ainsi que d'évaluer la présentation générale des états financiers.

Le Collège estime qu'il a obtenu par son audit les éléments probants nécessaires et suffisants pour lui permettre de formuler une opinion.

Opinion sur les états financiers

L'opinion du Collège est qu'à tous égards significatifs, les états financiers donnent une image fidèle, conforme au cadre comptable OTAN, de la situation financière de la NAGSMO au 31 décembre 2013, ainsi que de sa performance financière et de ses flux de trésorerie pour l'exercice clos à cette date.

Rapport sur la conformité

Responsabilité de la direction

En plus d'être responsable, comme il est dit plus haut, de l'établissement et de la présentation des états financiers, la direction est chargée de veiller à ce que les opérations financières et les informations présentées dans les états financiers soient conformes aux dispositions du Règlement financier de l'OTAN et du Règlement du personnel civil de l'OTAN telles qu'elles ont été fixées par le Conseil de l'Atlantique Nord.

Responsabilité du Collège

En plus d'être responsable, comme il est dit plus haut, de la formulation d'une opinion sur les états financiers, le Collège est chargé de se prononcer sur le point de savoir si les opérations financières et les informations présentées dans les états financiers sont, à tous égards significatifs, conformes au Règlement financier de l'OTAN et au Règlement du personnel civil de l'OTAN. Il lui incombe notamment d'appliquer des procédures lui permettant d'obtenir une assurance raisonnable sur le point de savoir si les fonds ont été utilisés pour le règlement de dépenses autorisées et si les opérations correspondantes ont été exécutées conformément à la réglementation en vigueur dans le domaine financier et en matière de personnel. De telles procédures prévoient notamment l'évaluation des risques de non-conformité significative.

Le Collège estime qu'il a obtenu par son audit les éléments probants nécessaires et suffisants pour lui permettre de formuler une opinion.

Opinion sur la conformité

Le Collège estime que les opérations financières et les informations présentées dans les états financiers sont, à tous égards significatifs, conformes au Règlement financier de l'OTAN et au Règlement du personnel civil de l'OTAN.

Bruxelles, le 27 février 2015

Charilaos Charisis
Président

27 février 2015

COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES DE L'OTAN

LETTRE D'OBSERVATIONS ET DE RECOMMANDATIONS CONCERNANT L'ORGANISATION OTAN DE GESTION DE LA CAPACITÉ ALLIÉE DE SURVEILLANCE TERRESTRE

(NAGSMO)

POUR L'EXERCICE CLOS LE 31 DÉCEMBRE 2013

Introduction

Le Collège international des commissaires aux comptes de l'OTAN a procédé à la vérification des états financiers de l'Organisation OTAN de gestion de la capacité alliée de surveillance terrestre (NAGSMO) pour l'exercice clos le 31 décembre 2013, et il a émis une opinion sans réserve à leur sujet, ainsi qu'une opinion sans réserve sur la conformité.

Observations et recommandations

À l'issue de l'audit, le Collège a formulé deux observations et deux recommandations.

- la NAGSMA ne dispose pas de son propre service d'audit interne ; par conséquent, aucune activité d'audit interne n'a été réalisée au sein de la NAGSMO en 2013 ;

- les transferts au titre du budget opérationnel effectués après l'examen de mi-exercice n'ont pas été approuvés conformément au document relatif à la gestion financière de la NAGSMO.

Le Collège a également fait le point sur une observation remontant à un audit antérieur et constaté que celle-ci avait été réglée.

Par ailleurs, le Collège a adressé une lettre (IBA-AML(2015)01) à la direction de la NAGSMA pour lui faire part de plusieurs constatations en relation avec les ressources humaines, les avances et les rapprochements bancaires.

La NAGSMO n'a formulé aucun commentaire officiel sur la présente lettre d'observations et de recommandations.

OBSERVATIONS ET RECOMMANDATIONS

1. ABSENCE D'AUDIT INTERNE

Contexte

1.1. Un service d'audit interne adéquatement financé, correctement formé et clairement mandaté est un maillon important du contrôle interne. Il permet à un organisme de mieux comprendre ses propres processus et d'identifier les domaines présentant un risque opérationnel ou financier.

Observation

1.2 La NAGSMA ne dispose pas de son propre service d'audit interne. Par conséquent, aucune activité d'audit interne n'a été réalisée au sein de la NAGSMO en 2013.

Recommandation

1.3 Le Collège recommande à la NAGSMA de veiller à ce que des audits internes soient effectués régulièrement.

2. NÉCESSITÉ D'APPROUVER LES TRANSFERTS ENTRE ARTICLES D'UN CHAPITRE CONFORMÉMENT AU DOCUMENT SUR LES PROCÉDURES DE GESTION FINANCIÈRE DE LA NAGSMO

Contexte

2.1 Conformément à l'article 10 du document sur les procédures de gestion financière de la NAGSMO, le contrôleur des finances peut procéder à des transferts de crédits budgétaires entre chapitres et entre articles d'un chapitre pour autant que le montant annuel transféré ne dépasse pas l'équivalent du niveau financier D indiqué au point XVIII a.2 des règles et procédures d'application (IRP).

2.2 La limite financière des pouvoirs discrétionnaires correspondant au niveau D en 2013 était de 156 800 EUR.

Observation

2.3 Le document sur les procédures de gestion financière de la NAGSMO ne précise pas qui doit approuver les transferts supérieurs au niveau financier D. S'agissant du budget opérationnel 2013, la NAGSMA a procédé à d'importants transferts après l'examen de mi-exercice, de l'ordre de plusieurs millions d'euros. Le directeur général de la NAGSMA a approuvé ces transferts, mais aucun document attestant de l'approbation des transferts n'a été communiqué au Collège.

Recommandation

2.4 Le Collège recommande que le document sur les procédures de gestion financière de la NAGSMO précise qui doit approuver les transferts supérieurs au niveau financier D. Par ailleurs, lorsque le directeur général de la NAGSMA approuve de tels transferts, ceux-ci doivent être documentés de manière détaillée et sans tarder.

SUITES DONNÉES AUX OBSERVATIONS ANTÉRIEURES

Le Collège a fait le point sur la suite donnée aux observations et recommandations formulées à l'issue d'audits précédents. On en trouvera un récapitulatif dans le tableau ci-dessous.

Suites données aux observations antérieures

OBSERVATION/RECOMMANDATION	MESURES PRISES	ÉTAT DE LA QUESTION
Rapport sur la vérification des états financiers de 2012 **IBA-AR(2013)37, paragraphe 4.1** **Nécessité de présenter, dans les états financiers, des informations concernant les activités menées par l'entité pour le compte des pays en tant que mandataire et des informations complémentaires destinées à aider les utilisateurs à évaluer la performance de l'entité.** **Recommandation** Conformément à la nouvelle méthode comptable, qui considère que la NAGSMO et la NAGSMA sont des mandataires agissant pour le compte des pays, le Collège recommande à la NAGSMA d'indiquer expressément dans les notes jointes aux états financiers que l'entité agit comme mandataire et de préciser le traitement comptable qui est dès lors applicable. La NAGSMA devrait également préciser les raisons pour lesquelles les projets en cours ne figurent pas au nombre des actifs de la NAGSMO. La NAGSMA communique au Comité de direction des informations détaillées sur l'entité et la performance du programme, mais le Collège lui recommande de réfléchir à la manière de présenter de façon optimale, dans les prochains états financiers, les indicateurs de performance et d'autres informations concernant l'entité et les progrès réalisés par le programme au cours de la période visée. Ces données peuvent figurer dans une note jointe aux états financiers ou dans une annexe.	Des informations complémentaires ont été communiquées dans les états financiers de 2013.	Question réglée.

NAGSMO

2013

FINANCIAL STATEMENTS

These financial statements represent the consolidated activities of the NATO Alliance Ground Surveillance Management Organisation (NAGSMO) and its executive body NATO Alliance Ground Surveillance Management Agency (NAGSMA).

THE NATO ALLIANCE GROUND SURVEILLANCE PROGRAMME

NAGSMO is acquiring as an agent a NATO owned and operated Alliance Ground Surveillance (AGS) system that will give commanders an up-to-date picture of the situation on the ground throughout a wide area of interest. The AGS Core will be compliant with NATO STANAGs in order to ensure interoperability with interoperable national and NATO systems.

The AGS Core capability will enable the Alliance to perform persistent surveillance over wide areas from high-altitude, long-endurance, unmanned air platforms operating at considerable stand-off distances and in any weather or light condition. Using advanced radar sensors, the AGS Core will continuously detect and track moving objects throughout the observed areas, as well as providing radar imagery of areas and stationary objects.

The NAGSMO and its executive body NAGSMA are responsible for the procurement of the NATO AGS Core capability. The NAGSMA was established in September 2009, after all Participating Nations signed the AGS Programme Memorandum of Understanding.

In late 2011, NAGSMA completed negotiations of the AGS Core procurement contract with the established industry team. The contract was subsequently submitted to the Participating Nations for formal staffing and approval, in turn leading to AGS Programme contract award, which was signed on 20 May 2012 in the margins of the NATO Summit in Chicago. In parallel, all 28 NATO nations negotiated the AGS Programme’s practical funding solution for the related Capability Package for the future operations and support of the system.

THE AGS CORE

The AGS Core will be an integrated system consisting of an air segment, a ground segment and a support segment.

The air segment will be based on the Block 40 version of the US RQ-4B Global Hawk high-altitude, long-endurance unmanned aerial vehicle (UAV). The UAV will be equipped with the state-of-the-art Multi-Platform Radar Technology Insertion Program (MP-RTIP) ground surveillance sensor, and also with an extensive suite of communications and data links. The air segment will also include the ground-based UAV control stations, which will be located at the AGS Main Operating Base (MOB) at Sigonella Air Base, Italy.

The ground segment will consist of deployable ground stations in mobile and transportable configurations, and dedicated mission operations support facilities at the MOB. The ground segment entities will provide data link connectivity, data processing and exploitation capabilities, and interoperable interfaces between the AGS Core System and a wide range of

NATO and national Command, Control, Intelligence, Surveillance and Reconnaissance systems. This will enable the AGS Core to interconnect with and provide data to multiple deployed and non-deployed operational users in a flexible, timely and effective manner.

The AGS support segment provides items needed to train the air and ground segment operators and maintainers, to maintain the AGS System at its main operating base, and to enable maintenance and repair during deployed operations.

The AGS Core System will be supplemented by interoperable national airborne ground surveillance systems from NATO countries, as part of NATO's broader Joint, Intelligence, Surveillance, and Reconnaissance capability.

NATO ALLIANCE GROUND SURVEILLANCE MANAGEMENT ORGANISATION

The NATO Alliance Ground Surveillance Management Organisation (NAGSMO) is a NATO body

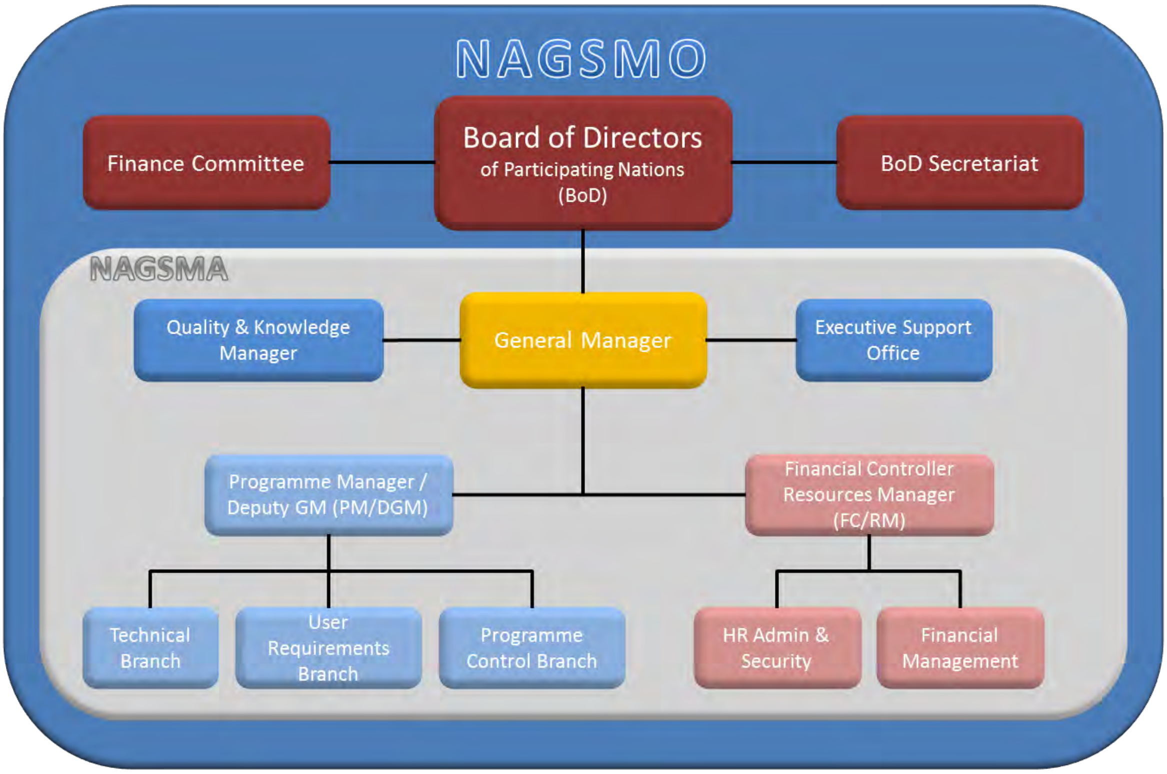
- created within the framework of NATO for the acquisition of the AGS Core System and established by the North Atlantic Council pursuant to Article IX of the North Atlantic Treaty and within the meaning of the Agreement on the Status of the North Atlantic Treaty Organisation, National Representatives and International Staff, signed in Ottawa 20 September 1951;
- to which the North Atlantic Council grants, within the framework of the NATO, a clearly defined organisational, administrative and financial status as specified below; and
- established with a view to meeting the NATO requirement, by Bulgaria, Canada, Czech Republic, Denmark, Estonia, Germany, Italy, Latvia, Lithuania, Luxembourg, Norway, Romania, Slovakia, Slovenia, and the United States of America in the field of implementation of the NATO AGS Programme described in the AGS Programme Memorandum of Understanding (PMOU).

In June 2010, Denmark announced her intent to withdraw from the AGS Programme, a process that under the terms of the PMOU came into effect on 31 March 2011. Subsequently, in July 2011, Canada also announced her intent to withdraw, effective as of 30 April 2012. Later in 2012 Denmark announced her interest and intent to re-join the AGS Programme. Denmark re-joined the AGS Programme in December 2012. Poland announced to the NAGSMO Board of Directors their interest in joining the AGS Programme in August 2012. An amendment to the PMOU was sent to Participating Nations for signature in August 2013. Poland signed the Amendment 1 to the AGS PMOU in April 2014. With the signature of all of the Participating Nations the Amendment 1 will come into effect. As of today, NAGSMA is expecting final signature on the Amendment 1 from one Participating Nation.

The principal task of the NAGSMO is to ensure the planning and implementation of a harmonised AGS Programme, which satisfies the operational requirements, in accordance with the provisions of the PMOU, and with due regard to the NAGSMO Member States' views on political, economic, industrial and technological factors. NAGSMO shall assume the functions of overall management of the AGS Programme, including:

- overall governance of the AGS Programme;
- general administration of the NAGSMA and procurement of the AGS Core System;
- examination of all issues that might impact the AGS Programme;
- coordination, as necessary, of the policy and working methods of the NAGSMO Member States' services, such as quality assurance and auditing; and
- support integration of the AGS Core System with the NATO Joint Intelligence Surveillance and Reconnaissance architecture.

NAGSMO comprises a Board of Directors (BoD) with Representatives from the Participating Nations, and NAGSMA as the Executive Body, led by a General Manager. The diagram below depicts the NAGSMO.



NAGSMA and Service Support/Level Agreement

The NAGSMO BoD, represented by the NAGSMA GM, signed three formal agreements (an MOA, an SLA and an SSA) with the IS and NCI Agency, for support services in a number of areas necessary for the day to day operations of the Agency. In all respects of NAGSMA related activities, the GM and his staff remain fully accountable for the responsibilities assigned to them and make the final decisions on all matters related to the execution of NAGSMA's mandate. The SSA includes NCI Agency support services in the area of accounting and financial support in accordance with the NATO Financial Regulations as follows:

- Prepare estimates of NCI Agency support services cost associated with the SSA and SLA for inclusion in NAGSMA Administrative Budget estimates for submission to the NAGSMO BoD.
- Payment of invoices after validation and approval by NAGSMA.
- Accounting services in accordance with International Public Sector Accounting Standards (IPSAS).
- Payroll of NAGSMA staff.
- Treasury Services.
- Support IBAN audit and NAGSMA internal audits.

NAGSMO Financial Management Procedures Document and Financial Rules and Procedures (FMPD-FRP)

The NAGSMO BoD approved the revised NAGSMO FMPD-FRP at their September 2012 meeting, recognising the withdrawal of Canada and the re-entry of Denmark, the conversion parameters from Then-Year to Base-Year, the call for contribution structure and the proposed structure of the Operational Budget. The NAGSMO FMPD-FRP conforms to the provision of the NATO Financial Regulations. The NAGSMO Finance Committee has requested a review of the NAGSMO FMPD to comply with the new NFR's once approved by the NAC.

NAGSMA 2013 Administrative Budget

The NAGSMA 2013 Administrative Budget was approved by NAGSMO BoD in November 2012. The budget was approved to fund NAGSMA's expenditures from 1 January to 31 December 2013. In 2013 NAGSMA continued to reduce costs related to business operations, overhead activities and support functions. It successfully negotiated a new Memorandum of Agreement (MOA) with NATO IS and a new Service Level Agreement (SLA) and Service Support Agreement (SSA) with the NCI Agency for external administrative support which resulted in cost savings to NAGSMA. Personnel related expenditures in the NAGSMA 2013 Administrative Budget were considerably lower than what had been anticipated, due to re-organization of the functional requirements outlined in the NAGSMA Staffing Plan. The result is a significant amount of lapsed credits. NAGSMA was also involved in changing the way it does business by improving fiscal and contracting discipline as well as striving for complete transparency. In fulfilling its recruitment objectives NAGSMA has been active in reducing the cost per staff member.

NAGSMA 2013 Operational Budget

The NAGSMA 2013 Operational Budget was approved in principle by NAGSMO BoD at the September 2012 meeting. The budget was approved to fund prime contract related AGS Core acquisition expenditures in 2013. The NAGSMA USD Operational Budget was increased at no cost to Nations to cover the Polish Industry Study, approved in the Mid-Year Review (MYR) 2013 and delivered by industry in October 2013 (Amendment 0004).

The BoD approved the request by Latvia to apply Pre-PMOU Contributions (PPC) towards the 2012 and 2013 NAGSMA Operational Budget at their meeting in February 2012. At the April 2012 meeting the BoD approved the request by Estonia to apply PPC towards the 2013-2016 Financial Year Operational Budget.

The NAGSMO BoD authorized the USA Non-Financial Contributions (NFC) to be expensed from the Operational Budget from 2013 to 2017 upon confirmation of support costs incurred at Edwards Air Force base. At the BoD meeting in March 2013 the NFC proposal from Italy was accepted and Italy was granted authorization to expense the Non-Financial Contributions for the airworthiness certification (AWC) efforts. Italy agreed to submit the costs incurred for the airworthiness certification at year end and provide periodic reports on their AWC activities at each BoD meeting. To date NAGSMA has not received an estimate of the costs by period and by budget year.

Major Achievements FY 2013:

During the FY 2013 the AGS Programme Schedule foresaw several important events leading to starting the AGS System Preliminary Design Review (PDR). The end of the reporting period December 2013 also marks the completion of month 19 of contract execution. The main achievements are the following:

- 4 Programme Management Reviews (PMRs) conducted with the Contractor.
- Several Technical working groups held, such as: 5 User System Interface Working Group (USIWG), 4 Technical Interchange Meetings (TIM), 3 Operational User Group (OUG), 1 System Safety WG (SSWG), 3 AGS Interoperability Meetings, 2 Verification Planning Working Group (VPWG), and 5 Airworthiness Certification Authority Working Group (ACAWG).
- Several meetings were held in coordination with AGS Programme Stakeholders such as: ICT Meetings (quarterly), Training IPT Meetings, Logistic IPT Meetings, Infrastructure IPT, Communications & INFOSEC IPT, and other workshops.
- System Design Review (SDR) process and meetings started in April 2013 with Entity Reviews (MGGS, Air Segment, TGGS/MOS) and finished with the System level SDR end of

May 2013. The successful completion of the SDR was reached at the end of December 2013 after resolution of outstanding open actions.

- PDR process and meetings were foreseen to be initiated in November 2013. Due to the delay on finalising of the SDR open actions, the full PDR Process (including the Entity level PDRs) has been rescheduled to start early December 2013 going up to second quarter of 2014.

The PDR will be supported by the external stakeholders: SHAPE for security accreditation and operational concerns, Italian Directorate of Aeronautical Armaments and Airworthiness (DAAA) for airworthiness certification, Host Nation (HN) Italy for infrastructure concerns, and Host Nation NCI Agency for CIS infrastructure. Multiple milestones payments linked to SDR successful, due in November/December 2013, were shifted forward due to only partial completion of the above mentioned milestones creating a significant carry forward from the 2013 Operational Budget into 2014. This shift has no impact on the contract schedule and does not trigger any additional costs.

The risk management process established by NAGSMA is inclusive of the main Programme Stakeholders. In 2013 NAGSMA continued to work with the Contractor in identifying Programme common risks and jointly managing them through the established NAGSMA-NGISSII Joint Risk Control Board. All risk management related contractual deliverables have been provided by the Contractor and NAGSMA has access to the Contractor’s risk management database, providing more visibility in its risk management process. Some risk mitigation measures have successfully decreased the risk exposure, efforts continue in mitigating and controlling all risks relative to the AGS Programme execution.

NAGSMA Assets

Office space, including furniture, IT and other equipment is provided by the NCI Agency via the SSA.

NAGSMO & NAGSMA Acting as a Procurement Agent

The North Atlantic Council (NAC) established NAGSMO by approving its charter. The Charter clearly establishes that NAGSMO is a subsidiary body of NATO and states that the objective is to procure the AGS Core which will be owned, controlled and operated by NATO. At the NAGSMO Finance Committee (FC) meeting in February 2014 the FC noted the presentation by the NAGSMA Acting Financial Controller re-affirming that NAGSMA is an entity acting as an agent with no control over the assets procured. The AGS Participating Nations reiterated the specific nature of the AGS Programme: temporary existence of the Agency and that the Agency will not own any asset. In order to comply with the NATO Accounting Framework, ACO will account for all NAGSMA procured assets in the future. NAGSMA will fully disclose and provide at the end of each reporting period to ACO all financial data regarding the assets procured. NAGSMA responded this year to ACO’s request for information that no assets were procured for the financial year ending in December 2013.

CERTIFICATION

1. The NAGSMO 2013 Financial Statements are submitted to the International Board of Auditors for NATO.

2. The Financial Statements will be audited in accordance with the following reference documents:

a. The NAGSMO FMPD-FRP conform to the NFR, Part II as approved by the North Atlantic Council (NAC) in C-M(81)30 and 31, as well as C-R(81)23 items II and III.

b. PO(2002)109, dated 23 July 2002: the document from the NAC adopting IPSAS, including the accrual and going concern assumptions, as the applicable accounting standards for all NATO entities effective for the financial year of 2006.

c. The NATO Accounting Framework has been developed to provide minimum requirements for financial reporting for all NATO Reporting Entities following approval of C-M(2013)0039 by the North Atlantic Council on 2 August 2013 of an IPSAS-adapted accounting framework for the Alliance.

3. The NAGSMO Financial Statements are certified by the NAGSMA Acting Financial Controller to the best of her knowledge and according to the applicable accounting standards to give a true and fair view of the assets, liabilities, financial position and financial performance of NAGSMA and to be in accordance with the books and records maintained by the NCI Agency and NAGSMA.

Valeria Ramundo Orlando

Valeria Ramundo Orlando
NAGSMA Acting Financial Controller

STATEMENT ON INTERNAL CONTROL

This statement of internal control applies to the Financial Statements of NAGSMA, as the executive body of NAGSMO, for the year ended 31 December 2013.

Scope of responsibility

- The General Manager acknowledges responsibility to maintain a sound system of internal control that supports the achievement of NAGSMA's mandate under its NATO Charter.
- The Acting Financial Controller acknowledges responsibility for the correct use of funds made available to NAGSMA and for maintaining a sound system of internal control that supports the achievement of NAGSMA's goals and objectives, whilst safeguarding the public funds and assets.
- Funds received are recorded, accounted and managed through the NCI Agency core financial system.

The NAGSMO Board of Directors approved the NAGSMO Financial Management Procedures Document-Financial Rules and Procedures (FMPD-FRPs) to provide guidance on the proper handling and reporting of public funds. The FMPD-FRPs sets out the relevant financial rules and procedures in accordance with the NATO Financial Regulations, emphasises the need for economy, efficiency and effectiveness, and promotes good practice and high standards of propriety.

Purpose of the System of Internal Control

The system of internal control is designed to ensure that NATO assets are used for the purposes intended and that the transactions relating to their usage reflect the highest standards of integrity to justify continued confidence of the AGS Programme Participating Nations.

The process within NAGSMA accords with the NAGSMO FMPD-FRPs and has been in place for the year ending 31 December 2013 and up to the date of approval of the Financial Statements.

Risk and Control Framework

The NAGSMA system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of NAGSMA goals and objectives, to evaluate the nature and extent of those risks and to manage them efficiently and effectively.

NAGSMA is committed to a process of continuous development and improvement: developing systems in response to any relevant reviews and developments in best practice in this area.

Since the NCI Agency carries out transactions on behalf of NAGSMA under the Service Support Agreement, NAGSMA's processes need to be compatible to the NCI Agency financial management system.

Review of Effectiveness

The Acting Financial Controller has responsibility for reviewing the effectiveness of the system of internal control. The review is informed by:

- The executive managers within the organisation who have responsibility for the development and maintenance of the internal control framework; and
- Comments made by the external auditors in their management letters and other reports.

Appropriate action is in place to address any weaknesses identified and to ensure the continuous improvement of the system. During 2013, no material instances of failure to the internal control system were reported that should be brought to your attention.

James E. EDGE
NAGSMA General Manager

Valeria Ramundo Orlando
NAGSMA Acting Financial Controller

NAGSMA - Statement of Financial Position
as at 31 December 2013
(All amounts in Euro)

	Notes	Current Year	Prior Year
	ANNEX B	**31-Dec-13**	**31-Dec-12**
ASSETS			
Cash and cash equivalents	B01	218,789,925	164,439,222
Receivables from Nations	B02	311,673,692	234,938,920
Other current assets	B03	137,267	131,513
Current assets		**530,600,885**	**399,509,655**
Long-term receivables	B04	156,844	85,688
Non-current assets		**156,844**	**85,688**
TOTAL ASSETS		**530,757,728**	**399,595,344**
LIABILITIES			
Advances from Nations	B05	526,332,122	396,732,326
Trade payables	B06	156,321	125,230
Other payables	B07	4,112,441	2,652,100
Current liabilities		**530,600,885**	**399,509,655**
Provisions	B08	156,844	85,688
Non-current liabilities		**156,844**	**85,688**
NET ASSETS/EQUITY			
Accumulated surpluses/(deficits)		0	0
Net Assets/Equity		**0**	**0**
TOTAL LIABILITIES		**530,757,728**	**399,595,344**

NAGSMA - Statement of Financial Performance
for the year ended 31 December 2013
(All amounts in Euro)

	Notes	Current Year	Prior Year
	ANNEX C	**2013**	**2012**
REVENUE			
Revenue from non-exchange transactions	C01	7,694,928	7,057,040
Revenue		**7,694,928**	**7,057,040**
EXPENSES			
Wages, salaries and employee benefits	C02	5,905,533	4,940,178
Supplies and consumables used	C03	1,789,395	2,116,862
Expenses		**7,694,928**	**7,057,040**
NET SURPLUS/(DEFICIT)		**0**	**0**
NET SURPLUS/(DEFICIT) ALLOCATION			
Reserves		0	0
Accumulated surpluses/(deficits)		0	0
Net surplus/(deficit) allocation		**0**	**0**

NAGSMA - Cash Flow Statement (Indirect Method)
for the year ended 31 December 2013
(All amounts in Euro)

	Notes	Current Year	Prior Year
	ANNEX D	**2013**	**2012**
CASH FLOW FROM OPERATING ACTIVITIES			
Cash flow from operating and other activities			
Net surplus/(deficit)		0	0
Total cash flow from operating and other activities		**0**	**0**
Non-cash movements			
Decr./(incr.) Other current assets		(5,754)	(28,607)
Decr./(incr.) Receivables from Nations		(76,734,772)	(83,100,003)
Decr./(incr.) Long-term receivables		(71,155)	(21,259)
Total decrease/(increase) Current assets		**(76,811,682)**	**(83,149,868)**
Increase/(decrease) Current liabilities			
Incr./(decr.) Provisions		71,155	21,259
Incr./(decr.) Other payables		1,460,341	310,489
Incr./(decr.) Trade payables		31,092	2,491
Incr./(decr.) Advances from Nations		129,599,797	179,674,695
Total increase/(decrease) Current liabilities		**131,162,385**	**180,008,934**
NET CASH FLOW FROM OPERATING ACTIVITIES		**54,350,703**	**96,859,066**
NET CASH FLOW FROM INVESTING ACTIVITIES		**0**	**0**
NET CASH FLOW FROM FINANCING ACTIVITIES		**0**	**0**
NET INCREASE/(DECREASE) CASH AND CASH EQUIVALENTS		**54,350,703**	**96,859,066**
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		**164,439,222**	**67,580,157**
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**218,789,925**	**164,439,222**

NAGSMA - Statement of Changes in Net Assets/Equity
for the year ended 31 December 2013
(All amounts in Euro)

BALANCE AT 31-DECEMBER-2012	**0**
Net surplus for the period	**0**
BALANCE AT 31-DECEMBER-2013	**0**
NET CHANGE IN ASSETS/EQUITY (OPERATING FUND) FOR THE YEAR ENDED 31-DECEMBER-2013	**0**

NAGSMA Budget Execution Statement - Administrative Budget
for the year ended 31 December 2013
(All amounts in Euro)

	Notes ANNEX E	Initial Authorisation	Mid-year Review (MYR)	Final Approval - MYR	Transfers	Final Authorisation	Net Commitment	Actual Expenses	Total	Carry Forward	Lapsed
				MYR		FA					
Personnel											
2012 - Personnel	E01	194,291	0	194,291	0	**194,291**	0	61,792	**61,792**	**0**	**132,499**
2013 - Personnel	E02	7,880,950		7,880,950	0	**7,880,950**	164,800	5,772,586	**5,937,386**	**164,800**	**1,943,564**
Total Personnel		**8,075,241**	**0**	**8,075,241**	**0**	**8,075,241**	**164,800**	**5,834,378**	**5,999,178**	**164,800**	**2,076,063**
Contractual supplies and services											
2012 - Contractual supplies and services	E03	1,400	0	1,400	0	**1,400**	0	-3,096	**-3,096**	**0**	**4,496**
2013 - Contractual supplies and services	E04	2,895,342		2,895,342	0	**2,895,342**	135,474	1,792,462	**1,927,936**	**135,474**	**967,406**
Total Contractual supplies and services		**2,896,742**	**0**	**2,896,742**	**0**	**2,896,742**	**135,474**	**1,789,366**	**1,924,840**	**135,474**	**971,902**
Capital and investment budgeting											
2012 - Capital and investment budgeting		0	0	0	0	**0**	0	0	**0**	**0**	**0**
2013 - Capital and investment budgeting	E05	50,000		50,000		**50,000**			**0**	**0**	**50,000**
Total Capital and investment budgeting		**50,000**	**0**	**50,000**	**0**	**50,000**	**0**	**0**	**0**	**0**	**50,000**
Budget contingencies											
2012 - Budget contingencies		0	0	0	0	**0**	0	0	**0**	**0**	**0**
2013 - Budget contingencies	E06	260,000		260,000		**260,000**		28	**28**	**0**	**259,972**
Total Budget contingencies		**260,000**	**0**	**260,000**	**0**	**260,000**	**0**	**28**	**28**	**0**	**259,972**
TOTAL BUDGET EXECUTION		**11,281,983**	**0**	**11,281,983**	**0**	**11,281,983**	**300,274**	**7,623,772**	**7,924,046**	**300,274**	**3,357,937**

NAGSMA Budget Execution Statement - Operational Budget Total
for the year ended 31 December 2013
(All amounts in Euro equivalent)

	Notes	Initial Authorisation	Mid Year - Review (MYR)	Final Approval - MYR	Transfers	Final Authorisation	Net Commit-ment	Actual Expenses	Total Spend	Carry Forward	Lapsed
	Annex F										
			MYR			FA					
AGS Core System Procurement											
AGS Core System Procurement		377,976,742	150,614	378,127,356	0	**378,127,356**	138,078,163	240,049,193	**378,127,356**	**138,078,163**	**0**
TOTAL AGS Core System Procurement		**377,976,742**	**150,614**	**378,127,356**	**0**	**378,127,356**	**138,078,163**	**240,049,193**	**378,127,356**	**138,078,163**	**0**

NAGSMA Budget Execution Statement - Operational Budget (EUR part)
for the year ended 31 December 2013
All amounts in Euro

		Notes	Initial Authorisation	Mid Year - Review (MYR)	Final Approval - MYR	Transfers	Final Authorisation	Net Commit-ment	Actual Expenses	Total Spend	Carry Forward	Lapsed
		Annex E										
BL	**6604011**				**MYR**		**FA**					
System Design, Development and Qualification												
	2012 - System Design, Development and Qualification		20,144,029	0	20,144,029	0	**20,144,029**	0	20,144,029	20,144,029	0	0
	2013 - System Design, Development and Qualification		98,016,469	0	98,016,469	36,147,095	**134,163,564**	65,717,593	68,445,971	134,163,564	65,717,593	0
	Total System Design, Development and Qualification		**118,160,498**	**0**	**118,160,498**	**36,147,095**	**154,307,593**	**65,717,593**	**88,590,000**	**154,307,593**	**65,717,593**	**0**
Production												
	2013 - Production		33,155,763	0	33,155,763	-32,500,000	**655,763**	0	655,763	655,763	0	0
	Total Production		**33,155,763**	**0**	**33,155,763**	**-32,500,000**	**655,763**	**0**	**655,763**	**655,763**	**0**	**0**
Management Reserve												
	2012 - Management Reserve		216,430	0	216,430	0	**216,430**	108,215	108,215	216,430	108,215	0
	2013 - Management Reserve		5,094,333	-1,341,666	3,752,667	-3,668,157	**84,510**	0	84,510	84,510	0	0
	Total Management Reserve		**5,310,763**	**-1,341,666**	**3,969,097**	**-3,668,157**	**300,940**	**108,215**	**192,725**	**300,940**	**108,215**	**0**
CAFX												
	2012 - CAFX		357	0	357	0	**357**	0	357	357	0	0
	2013 - CAFX		1,528,300	1,341,666	2,869,966	21,062	**2,891,028**	269,338	2,621,690	2,891,028	269,338	0
	Total CAFX		**1,528,657**	**1,341,666**	**2,870,323**	**21,062**	**2,891,385**	**269,338**	**2,622,047**	**2,891,385**	**269,338**	**0**
			158,155,681	**0**	**158,155,681**	**0**	**158,155,681**	**66,095,146**	**92,060,535**	**158,155,681**	**66,095,146**	**0**

NAGSMA Budget Execution Statement - Operational Budget (USD part)
for the year ended 31 December 2013
All amounts in USD

	Notes	Initial Authorisation	Mid Year - Review (MYR)	Final Approval - MYR	Transfers	Final Authorisation	Net Commit-ment	Actual Expenses	Total Spend	Carry Forward	Lapsed
	Annex E										
BL 6604010			**MYR**			**FA**					
System Design, Development and Qualification											
2012 - System Design, Development and Qualification		26,775,000	0	26,775,000	0	**26,775,000**	75,000	26,700,000	**26,775,000**	**75,000**	**0**
2013 - System Design, Development and Qualification		197,952,319	-29,800,000	168,152,319	-23,042,592	**145,109,727**	77,876,850	67,232,877	**145,109,727**	**77,876,850**	**0**
Total System Design, Development and Qualification		**224,727,319**	**-29,800,000**	**194,927,319**	**-23,042,592**	**171,884,727**	**77,951,850**	**93,932,877**	**171,884,727**	**77,951,850**	**0**
Production											
2012 - Production		25,110,125	0	25,110,125	0	**25,110,125**	90,052	25,020,073	**25,110,125**	**90,052**	**0**
2013 - Production		19,425,617	30,000,000	49,425,617	42,707,555	**92,133,172**	16,000,000	76,133,172	**92,133,172**	**16,000,000**	**0**
Total Production		**44,535,742**	**30,000,000**	**74,535,742**	**42,707,555**	**117,243,297**	**16,090,052**	**101,153,245**	**117,243,297**	**16,090,052**	**0**
Management Reserve											
2012 - Management Reserve		1,770,000	0	1,770,000	0	**1,770,000**	1,544,347	225,653	**1,770,000**	**1,544,347**	**0**
2013 - Management Reserve		16,051,789	-377,488	15,674,301	-15,674,301	**0**	0	0	**0**	**0**	**0**
Total Management Reserve		**17,821,789**	**-377,488**	**17,444,301**	**-15,674,301**	**1,770,000**	**1,544,347**	**225,653**	**1,770,000**	**1,544,347**	**0**
CAFX											
2013 - CAFX		4,815,537	0	4,815,537	-3,613,174	**1,202,363**	0	1,202,363	**1,202,363**	**0**	**0**
Total CAFX		**4,815,537**	**0**	**4,815,537**	**-3,613,174**	**1,202,363**	**0**	**1,202,363**	**1,202,363**	**0**	**0**
IISS											
2013 - IISS		0	377,488	377,488	-377,488	**0**	0	0	**0**	**0**	**0**
Total IISS		**0**	**377,488**	**377,488**	**-377,488**	**0**	**0**	**0**	**0**	**0**	**0**
		291,900,387	**200,000**	**292,100,387**	**0**	**292,100,387**	**95,586,249**	**196,514,138**	**292,100,387**	**95,586,249**	**0**

Notes to the Financial Statements for the year ending 31 December 2013

Index Page

ANNEX A Basis of Preparation and Accounting Policies

A01 Basis of preparation

The financial statements of the NAGSMA, the executive body of the NATO Alliance Ground Surveillance Management Organisation (NAGSMO), have been prepared on the accrual basis of accounting in accordance with the International Public Sector Accounting Standards (IPSAS) and based on International Financial Reporting Standards (IFRS/IAS), as decided by the North Atlantic Council in 2002, using the historic cost convention, except where IPSAS requires the revaluation of financial instruments to fair value.

The financial statements have been prepared in accordance with the NATO Accounting Framework, the NATO Financial Regulations (NFR) and the Financial Rules and Procedures (FRP) and the relevant entity directives and policies. In accordance with Article 2 of the NFR, the financial year at NAGSMA begins on 1 January and ends on 31 December of the year.

The NAGSMA financial statements have been prepared on a going concern basis. During the Lisbon Summit in 2010 the Heads of State and Government approved the consolidation and rationalisation of the functions and programmes of the 14 NATO agencies into three agencies and the reorganisation of the military commands. This NATO Agencies' Reform initiative continues and NAGSMA participates in the development of the new NATO Procurement Organisation (NPLSO). However, there is no expected impact on NAGSMA until, at least, 2016.

These financial statements represent the consolidated activities of the NATO Alliance Ground Surveillance Management Organisation (NAGSMO) and its executive body NAGSMA.

NAGSMA's significant accounting policies are set out below. The accounting policies have been applied consistently to all periods presented.

A02 Use of estimates

In accordance with generally accepted accounting principles, the financial statements necessarily include amounts based on estimates and assumptions by management, based on historical experience as well as the most reliable information available, judgement and assumptions. Estimates include accrued revenue and expenses. The majority of goods and services are provided by third parties and other NATO entities; therefore, accrued expenses and the related revenue recognition are based on estimates. By nature, these estimates are subject to measurement uncertainty. Actual results could differ from those estimates. Changes in estimates are reflected in the period in which they become known.

A03 Significant Accounting Policies

Accounting as a Procurement Agent
IPSAS draws a distinction between transactions that an entity undertakes on its own behalf (principal) and those on behalf of others (agent). The distinction is whether the economic benefits arising from the procurement effort accrue to the entity or to the extent that a fee may be levied for providing an agency service.

Agency activities are those activities carried out by the reporting entity, but which are not its own activities. Where an entity undertakes agency activities, it is identified as the agent in relation to those activities.

NAGSMA is considered as a procurement agent in respect of its operations since:
- It was created for the sole purpose of procuring the AGS Core System on behalf of the AGS Participating Nations;
- It does not bear any inventory risk before or after the customer order;
- It does not bear the credit risk for the amounts receivable from the customer;
- It does carry out acceptance of goods and services on behalf of Nations/NATO;
- It does not receive a fixed fee per transaction or a stated percentage of the amount billed, as it is reimbursed for the running costs of the Agency via the Administrative Budget.

NAGSMA provides contract administration function to NAGSMO. NAGSMA acts as an agent in accordance with a mandate set by the NAGSMO Participating Nations in the PMOU, which defines the role of the Agency in the procurement of a NATO owned and operated core AGS capability. NAGSMO is as well considered an Agent in respect of its operations, as a subsidiary body of NATO, with the sole objective to procure the AGS Core which will be owned, controlled and operated by the 28 Nations of NATO. NAGSMO and its executive body NAGSMA do not have and will not have control in the future of the assets procured as per the criteria in the NATO Accounting Framework. Transactions are treated accordingly in the NAGSMO Financial Statements.

Foreign Currency Translation
The functional and reporting currency of NAGSMA is the EUR. Transactions in currencies other than EUR are translated into EUR at the prevailing NATO rates of exchange at the time of transaction. Monetary assets and liabilities denominated in currencies other than EUR are translated into EUR at the prevailing NATO year-end closing rate. Resulting foreign exchange unrealised gains and losses are recognised as Advances from Nations. Realised exchange differences are recognised as Payables to Nations in the Statement of Financial Position.

Financial Instruments
Financial instruments are recognised at the contract date and initially measured at fair value. Their subsequent measurement depends on their classification. Loans and receivables and other liabilities are not re-valued (except for changes in exchange rates which are included in

the Statement of Financial Performance). Financial instruments are not recognised on expiry or when all contractual rights and obligations are transferred.

Management is aware of the risks associated with financial instruments and is bound by NAGSMO's Financial Rules and Procedures to keep these risks very low. NAGSMA uses only non-derivative financial instruments as part of its normal operations, such as bank accounts, deposit accounts, accounts receivable and provisions.

Currency risk: To limit the exposure to foreign currency exchange risk, NAGSMA is forecasting the yearly expected expenditures in foreign currencies. In order to have the required funding, NAGSMA asks the Participating Nations to provide their contributions in the necessary currencies.

Liquidity risk: The liquidity risk is based on the assessment of whether the organisation will encounter difficulties in meeting its obligation associated with financial liabilities. There is a very limited exposure to liquidity risk because of the budget funding mechanism that guarantees contributions for the total approved budget. The accuracy of forecasts that result in the calls for contributions as well as the delay in payment represents the main liquidity risks. There is a clause in the NAGSMO FRP art. 15 Payment of Contributions, that deals with unpaid contributions giving the Agency the authority to determine the appropriate course of action in case of a delay or a non-payment and the financial consequences of such, borne by the Participating Nation.

Credit Risk: There is a very limited credit risk as the contributing Nations generally have a high credit rating.

Cash and Cash Equivalents
Cash and cash equivalents includes cash held with the bank in current/checking accounts.

Receivables
Receivables are stated at net realisable value, after provision for doubtful and uncollectible debts. No allowance for loss is recorded with respect to Member States' assessed contributions receivable except for exceptional and agreed technical reasons.

Other Current Assets
Other current assets include prepayments which are payments in advance of the period to which it pertains as well as bank interest receivable at year-end.

Payables
Payables are amounts due to third parties based on goods received or services provided that remain unpaid. This includes an estimate of accrued obligation to third parties for goods and services received but not yet invoiced.

Advances and Unearned Revenue
Advances are contributions called or received related to future years' budgets.
Unearned revenue represents contributions from Nations and/or third parties that have been called for current or prior years' budgets but that have not yet been recognised as revenue. Funds are called in advance of their need because the entity has no capital that would allow it to pre-finance any of its activities.

Provisions and Contingent Liabilities
Provisions are recognised when NAGSMA has a present obligation as a result of a past event, and it is probable that NAGSMA will be required to settle that obligation. Provisions are measured at the General Manager's best estimate of the expenditure required to settle the obligation at the date of the statement of financial position, and are discounted to present value where the effect is material.

Other commitments, which do not meet the recognition criteria for liabilities, are disclosed in the notes to the financial statements as contingent liabilities when their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the control of NAGSMA.

Budget Execution Statement
The Board of Directors approves the annual budgets which include budgeted amounts for the administration of the Agency and Programme costs. Budgets may be subsequently amended by the Board of Directors or through the exercise of delegated authority. The budget execution statement provides a comparison of budgeted and actual amounts calculated on accrual basis.

Revenue and Expense Recognition
Revenue comprises contributions from Participating Nations to fund the entity's budgets. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably. Where a transfer is subject to conditions that, if unfulfilled, require the return of the transferred resources, NAGSMA recognises a liability until the condition is fulfilled.

Revenue for the Administrative Budget
Contributions to the budget are initially recorded as advances from nations. They are recognised as revenue in the statement of financial performance when such contributions are used for their intended purpose as envisioned in its approved budget.

Interest
Interest receivable is credited as payables to Participating Nations in the statement of financial position.

Representation Allowance

As from 1 June 2013, a summary of the operations related to the Representation Allowance are included in the Financial Statements. Transactions occurring in respect of Representation Allowance are expensed in the period to which they relate, and were paid directly from payroll.

Retirement Benefit Plans

Defined Contribution Plans

NAGSMA employees are members of the NATO-wide Defined Contribution Pension Scheme (DCPS). The assets of the plans are held separately from those of NAGSMA in funds under the control of trustees. NAGSMA is required to contribute a specified percentage of payroll costs to the DCPS to fund the benefits. Payments to the DCPS are recognised as an expense when employees have rendered service entitling them to the contributions. The only obligation of NAGSMA with respect to the DCPS is to make the specified contributions.

Defined Benefit Plans

NAGSMA employees who have joined NATO before 1 July 2005 are members of the NATO Coordinated Pension Scheme which is a funded defined benefit plan. Under the plans and upon completion of 10 years employment with NATO, the employees are entitled to retirement benefits of 2% per year of service of final basic salary on attainment of a retirement age of 60. No other post-retirement benefits are provided to these employees. Staff members whose length of service is not sufficient to entitle them to a retirement pension are eligible for a leaving allowance. The assets and liability for NATO's Defined Benefit Plan are accounted for centrally at NATO Headquarters and therefore are not recognised in these financial statements.

ANNEX B Notes to the Statement of Financial Position

Notes Reference		Current Year 31-Dec-13	Prior Year 31-Dec-12
The Statement of Financial Position details the assets and liabilities of NAGSMA as of 31 December 2013.			
B01	**Cash and cash equivalents**	**218,789,925**	**164,439,222**

Cash and Cash equivalents are short-term liquid assets. NAGSMA has two highly reliable and interest bearing bank accounts: an administrative and an operational account that have three currency sub-accounts.

The increase in funds is due to an increase in the Operational Budget in 2014 and the related calls which have been paid prior to 31 December 2013.

B02	**Receivables from Nations**	**311,673,692**	**234,938,920**

Accounts receivable are kept in separate sub-ledgers that provide detailed insight into the outstanding calls for contribution and provide accurate and up-to-date cash forecast information. The receivables as of 31 December 2013 are outstanding calls for contributions towards the Administrative Budget 2014 and the Operational Budget 2014 which are not yet past their due date. The variance between 2013 and 2012 is equivalent to the increase in the 2014 Operational Budget which is the largest in terms of funding of the entire Programme.

B03	**Other current assets**	**137,267**	**131,513**

Other current assets are bank interest accrued relating to 2013 and received in 2013. The increase is related to the increase in the bank balance.

B04	**Long-term receivables**	**156,844**	**85,688**

Long-term receivables match provisions for annual leave entitlements accrued but untaken at year-end.

B05	**Advances from Nations**	**526,332,122**	**396,732,326**

Advances from Nations are funds called and/or received from Nations in respect of 2014 Administrative and Operational Budgets and unrealised exchange rate gains and losses. The variance between 2013 and 2012 is the result of an increase in both the 2014 Administrative and Opearational budgets and consequently the 2014 first Calls for Contributions.

B06	**Trade payables**	**156,321**	**125,230**

These short-term payables are open liabilities for goods and services received in 2013 such as consulting contracts, communication, travel and personnel related invoices.

B07	**Other payables**	**4,112,441**	**2,652,100**

Other payables include lapsed credits 2013 and the 2013 financial result that will have to be refunded upon national decision.

B08	**Provisions**	**156,844**	**85,688**

The provision represents annual leave entitlements accrued.

	EUR
Balance at 1 January 2013	85,688
Additional provision recognised	71,155
Balance at 31 December 2013	156,843

ANNEX C Notes to the Statement of Financial Performance

Notes Reference		Current Year 2013	Prior Year 2012
The Statement of Financial Performance details the revenue and expenses of NAGSMA incurred during the year ending 31 December 2013.			
C01	**Revenue from non-exchange transactions**	**7,694,928**	**7,057,040**

Revenue represents funding from Nations for expenses incurred during the financial year.

C02	**Wages, salaries and employee benefits**	**5,905,533**	**4,940,178**

The costs in this Chapter are for staff members hired under the NATO Civilian Personnel Regulations as well as for consultants and contractors. The figures represent the costs of personnel including basic salary, allowances, insurance and pension plan contributions.

NAGSMA had a staff of 46 employees (2012: 38 employees) at the year-end.

The breakdown of wages, salaries and employee benefits is as follows:

	Year ended 31/12/13 EUR	Year ended 31/12/12 EUR
Employee benefits expense, consultants and contractors	5,456,651	4,596,233
Post employment benefits (see note F01)		
for defined contribution pension scheme	410,035	290,379
for defined benefit pension scheme		
Termination benefits	-32,308	32,308
Provision for annual leave entitlements accrued	71,155	21,258
Total employee benefits expense	5,905,533	4,940,178

C03	**Supplies and consumables used**	**1,789,395**	**2,116,862**

Supplies and consumables used are costs of goods and services used by NAGSMA associated with the general management and administrative activities under the SSA and SLA, information management, finance, human resources, building and facilities, security, etc. These costs are linked to the approved NAGSMA peacetime establishment. It also includes hospitality funds, communications services (ie. telephone) and NATO Headquarters support (MOA).

ANNEX D Notes to the Cash Flow Statement

The Cash Flow Statement is prepared using the indirect method.
The Cash Flow Statement summarises the cash movements in and out of the Agency during the financial year.

ANNEX E Notes to the Budget Execution Statement – Administrative Budget

NAGSMA - Budget Execution Statement
for the year ended 31 December 2013
(All amounts in Euro)

	Notes Reference	Initial Authorisa-tion	Mid Year - Initital Author.	Mid Year - Review	FA - MYR	Final Authorisa-tion	Net Commit-ment	Actual Expenses	Total Spend	Carry Forward	Lapsed
E01	**2012 - Personnel**	**194,291**	**0**	**194,291**	**0**	**194,291**	**0**	**61,792**	**61,792**	**0**	**132,499**
E02	**2013 - Personnel**	**7,880,950**	**0**	**7,880,950**	**0**	**7,880,950**	**164,800**	**5,772,586**	**5,937,386**	**164,800**	**1,943,564**
E03	**2012 - Contractual supplies and services**	**1,400**	**0**	**1,400**	**0**	**1,400**	**0**	**-3,096**	**-3,096**	**0**	**4,496**
E04	**2013 - Contractual supplies and services**	**2,895,342**	**0**	**2,895,342**	**0**	**2,895,342**	**135,474**	**1,792,462**	**1,927,936**	**135,474**	**967,406**
E05	**2013 - Capital and investment budgeting**	**50,000**	**0**	**50,000**	**0**	**50,000**	**0**	**0**	**0**	**0**	**50,000**
E06	**2013 - Budget contingencies**	**260,000**	**0**	**260,000**	**0**	**260,000**	**0**	**28**	**28**	**0**	**259,972**

The accounting basis used in preparation and presentation of the budgets is the same as the one used in the financial statements, i.e. the accrual basis.

The classification basis adopted for the Administrative Budget is to show expenditure in three chapters for Personnel costs, Contractual supplies and services costs as well as capital and investment expenditure.

The actual expenses presented in the budget execution statement include accruals (expenses for goods and services delivered before the year-end but not yet invoiced) and therefore reconcile to the expenses in the statement of financial performance after deducting the increase in the provision for annual leave entitlement of 71,155 EUR . The net commitments are those commitments for which a contractual obligation has been created before the year-end without the goods and services delivered before the year-end.

E01 2012 - Personnel
The lapses from prior years result from an accrual for a provision which has not been expensed in respect of a Loss of Job Indemnity. Addionally two consulting contracts were closed lapsing the carry forward amounts.

E02 2013 - Personnel
Lapses are due to fewer individuals recruited than foreseen in the staffing plan due to a re-organization of the functional requirements essential for the successful support of the AGS Programme.

E03 2012 - Contractual supplies and services
Lapses are mainly due to cost savings on service agreements and reduced travel due to contract signature delay.

E04 2013 - Contractual supplies and services
Lapses are due to savings resulting from the re-negotiation of service level and support agreements with NCI Agency and IS, as well as a reduction in travel on duty during 2013.

E05 2013 - Capital and investment budgeting
Lapses are due to capital investment covered through the Service Suport and Level Agreements with the NCI Agency.

E06 2013 - Budget contingencies
Lapses are due to unused contingencies.

ANNEX F Notes to the Budget Execution Statement – Operational Budget

The accounting basis used in preparation and presentation of the Operational Budget is the same as the one used in the financial statements, the accrual basis for recording of the actual expenditures.

The classification basis adopted for the Operational Budget is to show expenditure for AGS Core System Procurement. In 2013, there was no planned expenditure in respect of Initial In-Service Support and the funds were transferred to SDDQ.

The exchange rate used to translate the USD portion of expenditure to the presentation currency EUR in the Operational Budget Total table is the average exchange rate in 2013 of 1.3279. There are no lapses in the 2013 Operational Budget.

The Operational Budget is presented to Participating Nations in two currencies EUR and USD. The Budget Execution Statements by currency show the Budget's net commitments and expenditures by sub-categories, as presented to and approved by Participating Nations.

System Design, Development and Qualification
The AGS Core System Design, Development and Qualification covers the design and development for the AGS Core System. The Budget includes provisions for milestones which cover: Design of the AGS Core System in accordance with the mandatory TRD requirements; Data deliverables (CDRLs and DALs); Technical Interchange Meetings; and Working Group meetings and Programme design reviews.

Production
Contractual milestones under the production sub-category are related to advance procurement authority to meet the contract timeline for production of test articles and placement of purchase orders for long lead items. Long lead items include raw materials that must be ordered by the Contractor well in advance of actual manufacturing. The larger expenditures in this sub-category are linked to the achievement of the Programme Management Review 4 (PMR4).

Management Reserve
The Management Reserve was used to expense NAGSMO BoD approved Pre PMOU Credits.

CAFX
Funds committed and expensed towards the Contracting Authority Furnished Equipment (CAFE) in 2013, were approved for designated support for training and other support for essential functionalities needed for the design and implementation of the Core System.

Carry forwards from 2012 are commitments for liquidation payments for the Danish and Canadian Studies (in SDDQ and Production), the approved PPC and NFC respectively for Estonia and the USA.

Carry forwards from 2013 are mostly correlated to the postponement of closing all items linked to System Design Review (SDR) in 2013 and postponing the complete certification of accomplishment to 2014. Consequently milestones linked to SDR successful due in November/December 2013 were shifted forward creating a significant carry forward from the 2013 Operational Budget into 2014. This shift has no effect on the programme schedule or execution.

ANNEX G General Notes to the Financial Statements

G01 Related Party Disclosures

NAGSMO and NAGSMA have related party relationships with the Members of the NAGSMO Board of Directors and a number of other NATO bodies.

In 2013, the NCI Agency performed certain administrative services for NAGSMA under the Service Support and Service Level Agreements, for which a total fee of EUR 1,233,641 (2012: EUR 1,756,927) was charged and paid.
NATO IS performed other administrative services for NAGSMA, for which a total fee of EUR 104,684 (2012: EUR 101,743) was charged and paid.
NSPA performed additional administrative services for NAGSMA, for which a total fee of EUR 30,514 was charged and paid.

Compensation of key management personnel
The remuneration of Directors and other members of key management personnel (NATO civilian grade A5 and above) is determined by the NATO salary scales and was as follows during the year:

	Current Year 2013	**Prior Year 2012**
	EUR	EUR
Basic salaries	664,743	488,763
Allowances	198,702	145,100
Post-employment benefits	66,691	58,652
Employer's contribution to Insurance	90,776	69,857
	1,020,912	762,372

The increase in compensation of key management personnel is due to the fact that in 2013 all key management personnel positions were filled.

Number of individuals at year-end on a full time equivalent basis	**Current Year 2013**	**Prior Year 2012**
General Manager	1	-
Programme Manager	1	1
Key management personnel	4	4
	6	5

G02 Representation Allowance

The purpose of the Representation Allowance is to help meet the reasonable representational expenses of certain designated high officials of the Organisation whose positions entail responsibility for establishing and maintaining relationships of value to NATO.

As from 1 June 2013, a new procedure is in place in respect of Representation Allowance; as all recipients are now reimbursed permitted expenses within the limits of their individual Representation Allowance allocation. All representation allowance disbursements for the 2013 reporting period were administered by the Agency.

Expenditures	EUR
Rental Supplement	2,228
Functions	-
Total	2,228

Transactions	EUR
Rental Supplement March-May	668
Rental Supplement June-July	446
Rental Supplement August	223
Rental Supplement September	223
Rental Supplement October	223
Rental Supplement November	223
Rental Supplement December	223
Total	2,228

Rental Supplement Annual Entitlement	**2,450**
Actual Expenses	**2,228**

G03 Approval of Financial Statements

The financial statements were approved by the Acting Financial Controller and authorised to be issued on 30 April 2014.

Addendum to:
ANNEX F Notes to the Budget Execution Statement – Operational Budget

This Addendum's purpose is to present the cumulative NAGSMA Operational budget per year from 2012 to 2013 expended and carried forward in two currencies EUR and USD. The Budgets are presented below by currency showing the actual expenditures and carry forward as of the 31.12.2013. The Carry Forwards are further explained in Annex F.

NAGSMA Operational Budget EUR

BL 6604011	Budget	Actual Expenses	Carry Forward
2012	107,086,412	106,978,197	108,215
2013	137,794,865	71,807,934	65,986,931
Total	**244,881,277**	**178,786,131**	**66,095,146**

NAGSMA Operational Budget USD

BL 6604010	Budget	Actual Expenses	Carry Forward
2012	204,865,340	203,155,941	1,709,399
2013	238,445,262	144,568,412	93,876,850
Total	**443,310,602**	**347,724,353**	**95,586,249**

Due to the Agency's role as an agent acting with no control over the assets being procured, it is not accounting for the operational budget expenditures as an asset under construction. Rather, it is expected that the end-user, ACO, will account for the AGS Core System when the system will be transitioned to ACO.

Note to the table:
The Carry Forwards from the Financial Statements 2012 which have been expended in 2013 have been added to the Actual Expenses of 2012.

NATO Alliance Ground Surveillance
Management Organisation
(NAGSMO)

NAGSMO
NATO Headquarters
1110 Brussels
Belgium