	NATO	NORTH ATLANTIC COUNCIL
	OTAN	CONSEIL DE L'ATLANTIQUE NORD

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16 December 2020

DOCUMENT
C-M(2020)0050-AS1

**IBAN AUDITOR'S REPORT ON THE 2019 FINANCIAL YEAR STATEMENTS OF ALLIED
COMMAND OPERATIONS (ACO)**

ACTION SHEET

On 15 December 2020, under the silence procedure, the Council noted the RPPB report attached to C-M(2020)0050, agreed its conclusions and recommendations, and agreed to the public disclosure of this report, the IBAN Auditor's Report and associated 2019 financial statements of ACO.

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2020)0050.

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8 December 2020

DOCUMENT
C-M(2020)0050
Silence Procedure ends:
15 Dec 2020 17:30

**IBAN AUDITOR'S REPORT ON THE 2019 FINANCIAL YEAR STATEMENTS OF
ALLIED COMMAND OPERATIONS (ACO)**

Note by the Secretary General

1. I attach the International Board of Auditors for NATO (IBAN) Auditor's Report on the 2019 financial statements of Allied Command Operations (ACO). The IBAN Auditor's Report set out unqualified opinions on both the 2019 financial statements and on compliance for ACO.
2. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB) (see Annex 1).
3. I do not believe this issue requires further discussion. Therefore, **unless I hear to the contrary by 17:30 hours on Tuesday, 15 December 2020**, I shall assume the Council noted the RPPB report, agreed its conclusions and recommendations, and agreed to the public disclosure of this report, the IBAN Auditor's Report and associated 2019 financial statements of ACO.

(Signed) Jens Stoltenberg

1 Annex
1 Enclosure

Original: English

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IBAN AUDITOR'S REPORT ON THE 2019 FINANCIAL YEAR STATEMENTS OF ALLIED COMMAND OPERATIONS (ACO)

Report by the Resource Policy and Planning Board

References:

- | | | |
|----|---------------------|---|
| A. | IBA-A(2020)0080 | IBAN's Auditor's Report on the audit of 2019 financial statements of the Allied Command Operations' (ACO) |
| B. | C-M(2015)0025 | NATO Financial Regulations (NFR) |
| C. | BC-D(2015)0260-REV1 | Financial rules and procedures (FRP) |
| D. | PO(2015)0052 | Wales Summit tasker on transparency and accountability |

INTRODUCTION

1. This report by the Resource Policy and Planning Board (RPPB) addresses the International Board of Auditors for NATO (IBAN) Auditor's Report on the 2019 financial statements and compliance of Allied Command Operations (ACO). The IBAN Auditor's Report produced unqualified opinions on both the financial statements and compliance for ACO (reference A).

AIM

2. This report highlights key issues in the IBAN Auditor's Report (reference A) to enable the Board to reflect on strategic challenges emanating from the audit of financial statements of NATO entities and to recommend courses of action to Council as applicable, which has the potential to improve transparency, accountability and consistency.

DISCUSSION

3. During the audit, IBAN issued one recommendation, which did not impact the audit opinion: weaknesses in the Combined Joint Psychological Operations Task Force (CJPOTF) contract authorisation and management in Resolute Support (RS). Additionally, the IBAN followed up on the status of observations and recommendations from the previous years' audits and noted that one was closed and ten remain in-progress.

3.1 Observation: In 2019, IBAN identified that improvements were needed in the CJPOTF task force deviation from normal contracting procedures authorisation in RS. IBAN's recommendation covered: non-compliance with authority levels for approving decisions; deviations not properly justified for use of sole source procurement for Radio and TV Broadcasting contracts; contracts awarded for vendors not vetted; inadequate price determination and; unsatisfactory monitoring of contract execution for CJPOTF activities.

3.2 To reduce the likelihood of these errors occurring again, the Board supports IBAN's recommendation for ACO to address identified deficiencies in the CJPOTF, with the focus on approval of decisions, sole source deviations, vetting, price determination and monitoring.

3.3 Prior-year closed observations: In 2017 IBAN recommended ACO to issue reliable and updated asset registers. IBAN notes that RS revised its Standard Operating Procedure and carried out inventories and multiple spot-checks so the IBAN considers this observation closed.

3.4 Prior year observations in-progress: The following paragraphs include only three (out of ten) of the more significant prior year in-progress observations from the IBAN audit report.

3.5 In 2013 IBAN recommended that ACO confirms the outstanding asset and liability balances it has with other NATO Reporting Entities as part of the preparation of the financial statements.

3.5.1 The Board recognises that improvements were made in this area and acknowledges that the pending observation is still in progress. The Board therefore supports the IBAN recommendation that ACO confirms the outstanding year-end asset and liability balances it has with other NATO Reporting Entities as part of the preparation of the financial statements.

3.6 In the course of audit of the Financial Statements for 2017, IBAN recommended ACO to sign Technical Agreements (TA) for the use of NATO funded equipment and infrastructure with the Framework Nations (FWN). However, ACO did not concur with this recommendation and reiterated that FWNs are not interested in developing TAs nor is there a need for them.

3.6.1 IBAN considers that this recommendation remains in-progress as the NATO Security Investment Programme (NSIP) funded infrastructure assets are found at these locations. The Board notes the ACO comments as regards signing of TA for the use of NATO funded equipment and infrastructure with the FWN. The Board welcomes a reassessment by IBAN of the status once again during the next financial audit and in light of the changes in the Resolute Support Mission.

3.7 In 2018, IBAN recommended ACO to develop an action plan to increase its ability to challenge the validity of information and solutions by NATO Support and Procurement Agency and NATO Communications and Information Agency. In response, ACO confirmed that it is not yet in a position to properly assess and validate the estimates provided by the NCIA.

3.7.1 To mitigate associated risks, IBAN, supported by the Board encourages ACO to develop an action plan and submit it with the 2020 Financial Statements to increase its ability to challenge the validity of information and solutions provided by the two major agencies. The Board also notes that the review of the NCIA Customer Funded Regulatory Framework might bring some improvements on this issue.

CONCLUSIONS

4. No new observations impacted the audit opinion for ACO in 2019. One new observation was raised for ACO. As of the date of the IBAN Auditor's Report a total of ten

prior year observations for ACO were in-progress and one prior year observation was closed.

5. In 2019, IBAN identified that improvements were needed in the CJPOTF task force deviation from normal contracting procedures authorisation in RS. To reduce the likelihood of errors occurring again, the Board supports IBAN's recommendation for ACO to address identified deficiencies in the CJPOTF, with the focus on decisions' approval, sole source deviations, vetting, price determination and monitoring.

6. IBAN confirmed that ACO issued a consistent, accurate and updated asset register for RS and therefore closed 2017 recommendation. In respect of prior year observations in-progress, the Board note the improvement made by ACO and support IBAN's recommendation that ACO, amongst the other, continues the work to improve the process for the confirmation of outstanding year-end asset and liability balances with other NATO Reporting Entities and reassess the need for TAs for the use of NATO funded equipment and infrastructure with the FWN during the next financial audit. Subsequently, the Board reiterates its request to ACO to address all ten in-progress findings and submit an action plan with the 2020 Financial Statements.

RECOMMENDATIONS

7. The Resource Policy and Planning Board recommend that the Council:

7.1. note this report and the IBAN Auditor's Reports at reference A;

7.2. agree the conclusions at paragraphs 4 to 6; and

7.3. agree to the public disclosure of the 2019 financial statements for ACO, its associated IBAN Auditor's Reports and this report in line with agreed policy at reference D.



NORTH ATLANTIC TREATY ORGANIZATION
ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD
INTERNATIONAL BOARD OF AUDITORS
COLLÈGE INTERNATIONAL DES AUDITEURS EXTERNES DE L'OTAN

Enclosure to
C-M(2020)0050

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IBA-A(2020)0080
26 August 2020

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

Cc: NATO Permanent Representatives
Supreme Allied Commander Europe
Chief of Staff, Allied Command Operations
Financial Controller, Allied Command Operations
Chairman, Resource Policy & Planning Board
Branch Head, Secretariat and Finance Branch, NATO Office of Resources
Private Office Registry

Subject: ***International Board of Auditors for NATO (IBAN) Auditor's Report and Letter of Observations and Recommendations on the audit of the Allied Command Operations' (ACO) Financial Statements for the year ended 31 December 2019 – IBA-AR(2020)0015***

IBAN submits herewith its approved Auditor's Report (Annex 2) and Letter of Observations and Recommendations (Annex 3) with a Summary Note for distribution to the Council (Annex 1).

IBAN's report sets out an unqualified opinion on the Financial Statements of the Allied Command Operations and on compliance for financial year 2019.

Yours sincerely,

Daniela Morgante
Chairman

Attachments: As stated above.

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**Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Consolidated Financial Statements of the
Allied Command Operations (ACO)
for the year ended 31 December 2019**

IBAN audited the Allied Command Operations (ACO) Consolidated Financial Statements (Financial Statements hereafter) for the year ended 31 December 2019. The total budgetary spend (commitments plus actuals) for ACO against Budget Committee (BC) funded budgets in 2019 amounted to EUR 1.20 billion (EUR 1.13 billion in 2018). In addition to the execution of the BC budgets, ACO also incurred EUR 2.82 million (EUR 2.27 million in 2018) of NATO Security Investment Programme (NSIP) project expenditure.

IBAN issued an unqualified opinion on the Financial Statements and Compliance for the year ended 31 December 2019.

During the audit, IBAN made one observation and recommendation. These findings are in the Letter of Observations and Recommendations (Annex 3).

The main findings are listed below and do not impact the audit opinion on the financial statements and on compliance:

- Weaknesses in the Combined Joint Psychological Operations Task Force (CJPOTF) contract authorisation and management in Resolute Support.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that one was closed and ten remain in-progress.

The Auditor's Report (Annex 2) and the Letter of Observations and Recommendations (Annex 3) were issued to the ACO whose comments have been included, with the IBAN's position on those comments where necessary, see the Appendix to Annex 3.

The observations and recommendations raised during the audit as well as the follow-up of the previous years' observations, which have not been included in the IBAN's Letter of Observations and Recommendations are included in a Management Letter addressed to ACO management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under ACO executive responsibility.

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ANNEX 2
IBA-AR(2020)0015

26 August 2020

INTERNATIONAL BOARD OF AUDITORS FOR NATO

**AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS OF
THE ALLIED COMMAND OPERATIONS**

(ACO)

FOR THE YEAR ENDED 31 DECEMBER 2019

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**INDEPENDENT EXTERNAL AUDITOR'S REPORT
TO THE NORTH ATLANTIC COUNCIL**

Report on the Audit of the Financial Statements

Opinion on the Financial Statements

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of Allied Command Operations (ACO), for the 12 month period ended 31 December 2019, issued under document reference SH/FINAC/CAC/FC120/20 dated 29 April 2020. These Financial Statements comprise the Statement of Financial Position as at 31 December 2019, the Statement of Financial Performance, the Statement of Changes in Net Assets/Equity and the Statement of Cash Flow, for the 12 month period ended 31 December 2019, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a budget execution report for the 12 month period ended 31 December 2019.

In our opinion, the Financial Statements give a true and fair view of the financial position of ACO as at 31 December 2019, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2019 in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework.

Basis for Opinion on the Financial Statements

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

We have conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAIs 1000-1810) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

We are independent in accordance with the INTOSAI Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter.

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

Management's Responsibility for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

The objectives of the audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes an opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these restated financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional

omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are required to communicate with the bodies charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our Independent External Auditor's Report is prepared to assist North Atlantic Council in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

Report on Compliance

Opinion on Compliance

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

Basis for Opinion on Compliance

We have conducted our compliance audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 4000) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

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

Management's Responsibility for Compliance

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

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

Auditor's Responsibilities for Compliance

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

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

Brussels, 26 August 2020



Daniela Morgante
Chairman

26 August 2020

INTERNATIONAL BOARD OF AUDITORS FOR NATO

LETTER OF OBSERVATIONS AND RECOMMENDATIONS

FOR THE ALLIED COMMAND OPERATIONS

(ACO)

FOR THE YEAR ENDED 31 DECEMBER 2019

Introduction

The International Board of Auditors for NATO (IBAN) audited the Allied Command Operations (ACO) Consolidated Financial Statements for the year ended 31 December 2019 and issued an unqualified opinion on the financial statements and on compliance.

Observations and Recommendations:

During the audit, IBAN made one observation and recommendation. The observation does not impact the audit opinion on the financial statements and on compliance:

1. Weaknesses in the Combined Joint Psychological Operations Task Force (CJPOTF) contract authorisation and management in Resolute Support.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that one was closed, ten remain in progress.

The observations and recommendations raised during the audit as well as the follow-up of the previous years' observations, which have not been included in the IBAN's Letter of Observations and Recommendations are included in a Management Letter addressed to the ACO Chief of Staff. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under ACO executive responsibility.

OBSERVATION AND RECOMMENDATION

1. WEAKNESSES IN THE COMBINED JOINT PSYCHOLOGICAL OPERATIONS TASK FORCE (CJPOTF) CONTRACT AUTHORISATION AND MANAGEMENT IN RESOLUTE SUPPORT

Reasoning

1.1 According to the NATO Financial Regulations (NFRs) Article 32.2, the Financial Controller shall ensure and verify that procurement and contracting principles are adhered to and are in line with the principles of sound financial management.

1.2 The Financial Rules and Procedures (FRPs) Article XXXII states that departures from normal method of procurement *“may only be authorised by the Financial Controller in the interest of security, urgency, standardisation of equipment or in exceptional circumstances. When the total amount exceeds the equivalent of Level E of the Established Financial Limits (€800,000), such cases shall be reported to the Budget Committee for decision”*.

1.3 As per paragraph 2-4 of the Bi-Strategic Command Procurement Directive (Bi-SCD 060-070), *“all requests for departures from normal methods of procurement must be fully justified, and contract files must retain documentation of such justification. Deviations may be granted in the interest of security, operational urgency, standardization, and other practical considerations. Deviation requests should be based on the inability for the ACO HQs to reasonably comply with competitive requirements. Also, urgency caused through lack of timely action is not a valid basis for deviating from minimum sourcing requirements, and not maximizing competition amongst eligible sources”*.

1.4 According to Standard Operating Procedure 00803 (SOP 803), in paragraphs 15C and 26, *“Contracting Officers are required to conduct thorough market research to identify Afghan businesses beyond the existing vendor base during the pre-award phase”*. In addition, SOP 803 establishes in paragraph 27 a vendor vetting system to identify high risk vendors. Only those vendors with acceptable rating will be given an opportunity to solicit and receive a contract with NATO Headquarter Resolute Support (HQ RS).

1.5 As for payments related to contract execution, Directive Bi-SCD-060-070 states in paragraph 2-16 that *“payments will only be made upon full compliance with all contract terms by the contractor, and receipt of an accurate original invoice or certified true copy.”*

1.6 SOP 803 further states in paragraph 11 that *“typically, accurate, certified and validated invoices should be paid within 30 days of receipt at RS FINCON. Due to the fact that RS/NATO pays based on the “acceptance” of goods/services, it is imperative*

for the requiring activity to identify deficient, substandard, or lacking goods and services”.

1.7 Finally regarding deviations, Directive Bi-SCD 060-070 mentions that in Annex b paragraph 7 *“the approval for deviation whether for a sole source award or for a Best Value award, must be sought prior to bid or contract solicitation. The approval level to be sought in the requesting memorandum is determined by adding the sum of the total contract”.*

Observations

Non-compliance with authority level for approving deviations.

1.8 IBAN reviewed the totality of the 15 Combined Joint Psychological Operations Task Force (CJPOTF) contracts awarded and amended in 2019. These 15 contracts, related to radio and TV broadcasting, were awarded by the use of a sole source deviation.

1.9 The value of eight contracts were incorrectly underestimated at the time of contract award. Based on these incorrect values the HQ RS Financial Controller approved the sole source deviations. If the contract amounts had been properly estimated, the approving authority for the sole source deviation would have been the Joint Force Command Brunssum (JFCBS) Financial Controller.

1.10 In addition to the 15 contracts above, IBAN found that in November 2019, the JFCBS Financial Controller granted a deviation based on sole source procurement for the provision of communication services in Afghanistan, outside of radio and TV broadcasting, for an amount of EUR 440,000. One month later, in December 2019, the contract was ultimately signed for an amount of EUR 960,000 mainly due to additional requirements.

1.11 Considering that the approval level to be sought in requesting a deviation is determined based on the total contract value, in this case, the approval authority would have been the Budget Committee.

1.12 Contract amounts need to be properly estimated to ensure that the deviation to the procurement rules in the NFRs/FRPs is requested at the appropriate approval authority level based on the actual contract value.

Deviations not properly justified for use of sole source procurement for Radio and TV Broadcasting contracts.

1.13 IBAN reviewed 19 deviations from the normal method of procurement granted in 2019 to CJPOTF for Radio and TV Broadcasting Services. These 19 deviations covered the 15 contracts above and four contracts that were not amended in 2019. The value of the deviations ranged from EUR 70,664 to EUR 158,620 or from

USD 61,748 to USD 618,132. For Radio Broadcasting, the main justification provided for the sole source was that this radio station was popular in this specific district and *“is distinguished from other radio stations because its ability to spread Resolute Support messaging to populations where there is a limited CJPOTF PSYOPS Radio Network (PRN) exposure or within various listenership demographics”*.

1.14 No market survey or equivalent was provided to sustain that only the selected radio station could provide the service. IBAN also noted that some sole source deviations were granted based on language and geographical requirements. Yet, contract analysis established that more than one radio station could have met both requirements.

1.15 IBAN acknowledges that contracts were negotiated for a safe base year plus one-year-options for three years, that the full planning horizon is still dependent on the uncertainties about the duration of Resolute Support, and that the Budget Committee approved the above sole source requests for an amount of EUR 13.18 million, starting January 2019. Additional sole source deviations of around EUR 2.5 million were locally approved by JFCBS and HQ RS for Radio Broadcasting Services.

1.16 Nevertheless, there was no proper justification of the reasons to resort so frequently to the sole source procurement method for contracts in theatre and deviate from the NFRs and FRPs.

Contracts awarded to vendors not vetted.

1.17 In 2019, HQ RS awarded at least six contracts out of the 15 contracts above, with radio stations that were not registered in the vendor vetting system as required by SOP 803 in order for the HQ RS Vendor Vetting Division to identify high risk vendors. The total amount of those contracts exceeds USD 900,000. Following the absence of the required registration, HQ RS proceeded with the termination of the contracts.

Poor price determination.

1.18 While reviewing the Radio and TV Broadcasting contracts, IBAN noted the absence of tangible negotiation between the HQ RS and the contractor. The practice is for the Contracting Officer to send an E-mail to potential contractors as a request for quotation. The contract was then issued based on information received by potential contractors in their reply to the E-mail. The Contracting Officer only proposed a counteroffer to the potential contractor in exceptional cases.

1.19 HQ RS contract and procurement did not assess the market to identify the appropriate price range to pay such services. As a result the unit price for radio spots varies from USD 7 to 40 per minute for the same time window. For TV spots provided by different TV companies, the same time slot can cost USD 20 to 25 per minute to USD 95 to 150 per minute. The lower price, i.e. USD 20 to 25 per minute was obtained

through one of the rare competitive bidding.

Poor monitoring of contract execution for CJPOTF activities.

1.20 In order to assess the effectiveness of the certification process of the delivery of TV and Radio Broadcasting Services, IBAN reviewed HQ RS monitoring activities related to the execution of six contracts out of the 15 contracts above.

1.21 In three cases, no monitoring activities were provided at all. For the other three cases, IBAN found that critical information such as days, the time window, quantity of radio or TV spots checked by HQ RS, were missing in the certification document. Therefore, payments were made to the contractors without proper certification of the services received.

Recommendations

1.22 IBAN recommends that for the Radio and TV Broadcasting activities in Resolute Support, ACO should:

- comply with proper deviation authority, specifically when contracts are amended to a higher value,
- ensure that each sole source deviation is properly justified as per the NFRs, FRPs and procurement rules and regulations,
- reinforce the certification process for the broadcasting services delivered to Resolute Support, by awarding the contracts to registered vendors in the vetting system, and preparing a guide to facilitate the determination of the prices of the services received.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

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

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

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>(1) ACO FY 2018 IBA-AR(2019)0016, paragraph 1</p> <p>ACO NEEDS TO BE AN "INTELLIGENT CUSTOMER" WITH NATO CUSTOMER-FUNDED AGENCIES</p> <p>IBAN's Recommendation IBAN recommends that ACO develop an action plan to increase its ability to challenge the validity of information and solutions provided by the two major agencies.</p> <p>A. For CIS services, ACO should develop and monitor the following information systems:</p> <ul style="list-style-type: none"> - Verification of personnel time and costs estimated by NCIA - Verification of the coherence between investments, and Operations and Maintenance (O&M) costs of Capability Packages - Measurement of quality and performance of services delivered by NCIA 	<p>Observation A IBAN notes that ACO is not yet in a position to correctly and properly assess and validate the estimates provided by NCIA. With the introduction of the Agency Costed Customer Service Catalogue (CCSC) approved by the Nations, limited visibility and transparency are provided in terms of External Communication and Information System (ECIS) and Support Service Costs (SSC). As an example, linkage between changes in requirements and changes in costs remain unclear. In its limited role as an intelligent customer, ACO needs to focus primarily on the definition of the requirement and the effectiveness of service delivery.</p> <p>In addition, Supreme Headquarters Allied Powers Europe (SHAPE) provided comments regarding the Agency Customer Rates at the Agency Supervisory Board (ASB) and Budget Committee (BC) to challenge these rates. SHAPE Finance and Acquisition Directorate (FINAC) also participated in the Quarterly Service Level Review meeting to review and question the</p>	<p>Observation In-Progress</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>B. For other military goods and services, ACO should:</p> <ul style="list-style-type: none"> - Clarify with NSPA their shared roles and responsibilities with the Contract Integrator team at a workflow level in the Logistics Support Agreement and Associated Programme of Works. - Develop the capacity to challenge the advice and logistic support solutions defined by the CI team and delivered by NSPA to ACO, by improving the use of key performance indicators. 	<p>Agency Financial Execution and prepared reports on the planned procurement actions when needed.</p> <p>Work is done on the ACO Key Quality Indicators (KQIs) and Key Performance Indicators (KPIs) so that better measurement of quality and performance of services provided by the Agency can be achieved.</p> <p>IBAN notes that NATO Airborne Early Warning (NAEW) has not yet established a formal Service Level Agreement (SLA). It is in the process of reviewing how to regulate the relationship between NCIA and the Force.</p> <p>Observation B</p> <p>IBAN notes that work on the revised business case concerning the Contract Integrator (CI), now renamed as the NATO Support and Procurement Agency (NSPA) Planning and Liaison Team (NPLT) is still on-going (put on hold due to the COVID 19 crisis).</p>	
<p>(2) ACO FY 2018 IBA-AR(2019)0016, paragraph 2</p> <p>ACO NEEDS TO MITIGATE RISKS THAT ARISE WITH USING NATO CUSTOMER-FUNDED AGENCIES</p> <p>IBAN's Recommendation</p> <p>IBAN recommends that ACO manage all major operational, financial and legal risks arising with using customer-funded NATO agencies, by incorporating these in the operational and financial risk registers and developing clear mitigating measures. More specifically, IBAN recommends that the following risks are addressed:</p> <ul style="list-style-type: none"> - Large delays in NATO operations and missions, and associated costs - Insufficient quality of CIS equipment and services delivered, in particular by 	<p>IBAN notes that the current SLAs still have a limited mechanism to resolve any disputes in case of major disruptions affecting service continuity and litigations arising from external contractors' services.</p> <p>Yet, during the audit, IBAN noted that ACO Finance and Acquisition Directorate (FINAC) has started to implement the Committee of Sponsoring Organisations Enterprise Risk Management/Internal Control (COSO-ERM/IC) framework for</p>	<p>Observation In-Progress</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>external CIS contractors outside of the Service Level Agreement with NCIA</p> <ul style="list-style-type: none"> - Cost overruns related to External CIS contractors, given the inconsistent application of the Firm Fixed Price agreements - Low enforceability of Agreements with agencies and unclear sharing of financial liabilities arising 	<p>the NATO Centralised CIS Budget (NCCB) process.</p> <p>IBAN also noted that the NATO Communication and Information System Group (NCISG) as part of ACO's FINAC Risk Management process, has started to develop a risk analysis with specific focus on the validation of goods and services received from NATO Agencies.</p> <p>IBAN noted that the Firm Fixed Price model is still not consistently applied through ACO as some local Headquarters (HQs) are able to amend their Purchase Orders (POs) while others cannot.</p> <p>In addition, IBAN noted that discussion on change with respect to the dispute escalation mechanism are ongoing and that SHAPE FINAC has requested to receive a report of planned procurement actions in excess of EUR 160,000 at every Quarterly Service Level Report (QSLR). A request was also made to NCIA to have information on Actuals and Commitments at the QSLR rather than an execution rate.</p>	
<p>(3) ACO FY 2017 IBA-AR(2018)0009, paragraph 1</p> <p>INACCURATE ASSET REGISTERS FOR RESOLUTE SUPPORT (RS)</p> <p>IBAN's Recommendation The Board recommends ACO issue the necessary operating instructions in view of ensuring fully reliable and updated asset registers. This should include clear instruction for application of a consistent approach to recording of assets among the different RS locations (for example, hospitals, runways and other airfield's facilities) in the assets registers. Also, Finance asset registers should be fully supported and reconciled with inventory systems and infrastructure registers maintained by Engineers and logisticians.</p>	<p>IBAN notes that since 2016, RS has revised its Standard Operating Procedure (SOP) and has carried out regular comprehensive inventories (quarterly) and multiple spot-checks. IBAN reviewed all reports related to the inventories checks.</p> <p>Since 2018, an Asset Management Working Group (AMWG) was created and is composed of logisticians, engineers, asset managers and finance staff with regular monthly meetings.</p> <p>IBAN already noted last year that since 2017, a similar working group carried out multiple spot-checks in the five major NATO locations in theatre. IBAN also noted that since the end of</p>	<p>Observation Closed</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
	<p>2017, ACO and NSPA were working on the logistic system, the NATO Depot and Support System (NDSS). The infrastructure data was uploaded in NDSS in May 2019. The engineers are embedding the new procedures into an SOP.</p> <p>IBAN also noted that the Motor Transport and Maintenance module (MTM) was implemented for the first time in RS in November 2018, and the data were revised and validated.</p> <p>In 2019, a simplified approach for asset management in RS HQ was implemented. This initiative was fully reflected in the 2019 Financial Statements.</p>	
<p>(4) ACO FY 2017 IBA-AR(2018)0009, paragraph 4</p> <p>NEED TO UPDATE THE FUNDING ARRANGEMENTS AND MEMORANDA OF UNDERSTANDING (MOU) FOR 5 ESSENTIAL AIRFIELD SERVICES IN RS</p> <p>IBAN's Recommendation The Board recommends SHAPE, in coordination with JFCBS, take the necessary actions to:</p> <p>a) Update and align the Annexes of the MOUs and request Nations to update the Funding Arrangements for RS to better reflect the current situation and to clarify eligible expenses for the 5 essential airfield services.</p> <p>b) Consider to explicitly allow JFCBS some flexibility to determine the eligibility of requests from Framework Nations for services not specifically listed in the MOUs Annexes but that could be linked to the provision of 5 essential airfield services.</p> <p>c) Immediately update the MOU for Herat to ensure that a written agreement on the costs eligible for common funding is in place.</p>	<p>a) According to ACO, RS Funding Arrangements are only to be amended/updated by the Resource Policy and Planning Board (RPPB).</p> <p>b) For MOUs with some Framework Nations, a new annex is in the process of being developed by SHAPE in close cooperation with these Nations. However, annexes are yet to be agreed. ACO still needs to consider how to allow for flexibility.</p> <p>c) An MOU was signed on 24 June 2019 for Herat.</p>	<p>Observation In-Progress</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>(5) ACO FY 2017 IBA-AR(2018)0009, paragraph 5</p> <p>TECHNICAL ARRANGEMENTS FOR THE USE OF NATO FUNDED EQUIPMENT AND INFRASTRUCTURE WITH HKIA, MES AND HERAT NOT YET SIGNED</p> <p>IBAN's Recommendation The Board recommends ACO ensure that technical arrangements for the use of NATO assets are signed with each nation as soon as possible to ensure accountability throughout a clear distribution of roles and responsibilities.</p>	<p>The Technical Arrangement (TA) for the use of NATO Funded Equipment (NFE) and NATO Funded Infrastructure (NFI) at HKIA was signed in August 2019.</p> <p>According to ACO, there are no TAs for Herat or Mazar-e-Sharif, as NFE and NFI were either limited or did not exist at all in these locations. According to ACO, there is therefore no need for such TAs.</p> <p>However, in IBAN's view, as NFI (NSIP funded infrastructure) are found at these locations, ACO needs to sign TAs with the Framework Nations.</p>	Observation In-Progress
<p>(6) ACO FY 2017 IBA-AR(2018)0009, paragraph 8</p> <p>IMPROVEMENTS REQUIRED IN THE AREA OF RISK MANAGEMENT AND INTERNAL CONTROL</p> <p>IBAN's Recommendation The Board recommends that:</p> <p>a) ACO finalise as soon as possible on-going work of assessing and documenting the internal control and risk management procedures to support compliance with its internal control framework.</p> <p>b) Once recommendation a) is completed, ACO Internal Audit fully evaluates internal control and risk management throughout ACO, and that this work be clearly documented so as to be able to conclude as to ACO's compliance with the framework chosen.</p>	<p>IBAN notes that ACO made significant progress on this observation.</p> <p>Progress made to a) and b) with the ACO Strategic Management System, i.e. the ACO Strategic Management Plan (ASMP) 2020-2024, under review and the new ACO Directive 015-027 ACO Strategic Management System, dated 17 February 2020.</p> <p>The ACO Directive on Internal Control is to be issued that specifically concerns finance and procurement internal control.</p> <p>Assurance mapping was implemented in ACO based on the three lines of defence model.</p>	Observation In-Progress

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>c) ACO, as a consolidating entity, engages with NAEW&CF and NAGSF to ensure that strategic risk management procedures are implemented in NAEW&CF and NAGSF and risks are captured and properly responded to.</p>	<p>IBAN notes the real involvement of the Audit Advisory Panel in its role as assurance provider on the effectiveness of the internal control system.</p> <p>Progress for item c) NATO Airborne Early Warning (NAEW) and NATO Air Ground Surveillance Force (NAGSF).</p> <p>During the audit, IBAN noted that HQ NAEW&CF GK implemented a Risk Management system based on the ISO 31000 standard. Quarterly meetings are set up and high impact risks are discussed in accordance with the Risk Management Manual.</p> <p>IBAN notes that NAGSF is still working on its Risk Management.</p>	
<p>(7) ACO FY 2016 IBA-AR(2017)08, paragraph 2</p> <p>SOME PROGRESS MADE TO ACHIEVE COMPLIANCE WITH THE NATO FINANCIAL REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT</p> <p>IBAN's Recommendation The Board recommends that:</p> <p>d) Council ensures that the NFRs and FRPs are aligned in respect to the level of flexibility allowed when carrying forward current year budget credits for goods and services that are expected to be rendered during the following financial year, not the current financial year. For FMS cases, it should be determined whether, for budget purposes, adaptations to the NFRs are needed. This should be taken into account during the revised NFRs lessons learned exercise expected to be completed in 2017.</p>	<p>IBAN notes that ACO in coordination with NATO Office of Resources (NOR) and the Financial Controller's Working Group (FCWG) have been active in the work to update the NATO Financial Rules / Financial Rules and Procedures (NFR/FRP) which will address this matter. This matter is still ongoing.</p>	<p>Observation In-Progress</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>(8) ACO FY 2016 IBA-AR(2017)08, paragraph 3</p> <p>OPERATION OF KEY SYSTEM IN NAEW&CF NOT ENSURED</p> <p>IBAN's Recommendation The Board recommends NAEW&CF to develop a plan for ensuring proper system administration of PILS (Programme Integrated Logistics System). This could be, for example, by ensuring training of other staff, and back-up functions by ensuring written procedures and manual of the process or by exploring the possibility of the use of external contractors to some functions. Further, NAEW&CF should make sure that relevant capacity for the maintenance and system administration of PILS is in place.</p>	<p>IBAN notes that the Office of the Force Commander issued Tasker 2019/55 on 17 June 2019, entitled: ECD Q2 2020 "<i>PILS Gap Assessment Sustainment Plan</i>" by which the Engineering Division was tasked to conduct an assessment of current PILS inventory system shortfalls and to provide a recommendation for a plan to address these identified gaps.</p> <p>Due to the COVID 19 crisis, this plan was delayed.</p>	Observation In-Progress
<p>(9) ACO FY 2016 IBA-AR(2017)08, paragraph 5</p> <p>NO MEMORANDUM OF AGREEMENT (MOA) IN PLACE WITH NCIA</p> <p>IBAN's Recommendation The Board recommends ACO to continue the effort of establishing a MOA with NCIA. Further, a SLA for KFOR should be established as soon as possible.</p>	<p>There is still no signed MOA between ACO and NCIA.</p> <p>For KFOR, the J6 Communication and Information system (CIS) division provides quarterly CIS service level reports to Joint Force Command Naples (JFCNP).</p> <p>IBAN noted ongoing discussions between ACO and NCIA end of 2019 on an overarching agreement for the provision of CIS services in KFOR.</p>	Observation In-Progress
<p>(10) ACO FY 2015 IBA-AR(2016)09, paragraph 6</p> <p>NEED TO PREPARE NEW LOGISTIC SUPPORT AGREEMENTS WITH NSPA</p> <p>IBAN's Recommendation To better manage deployable assets and support to the NAEW, the Board recommends that ACO takes steps to develop comprehensive agreements with NSPA. To maximise accountability and transparency, these agreements should</p>	<p>A final draft LSA between NAEW&CF and NSPA was prepared and sent to NSPA for comments beginning of 2020.</p>	Observation In-Progress

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
clearly specify the services to be delivered, roles and responsibilities, terms and conditions, key performance and quality indicators and reporting requirements.		
<p>(11) ACO FY 2013 IBA-AR(2014)20, paragraph 5</p> <p>CONFIRMATION OF YEAR-END ASSETS AND LIABILITIES OUTSTANDING BETWEEN NATO ENTITIES SHOULD BE PERFORMED</p> <p>IBAN's Recommendation The Board recommends that ACO, as from 2014, confirms the outstanding asset and liability balances it has with other NATO bodies as part of the preparation of the financial statements.</p>	<p>IBAN noted that ACO continues to invest substantial efforts in the iterative review process of all outstanding Account Payables, Receivables, Advances and Purchase Orders with other NATO entities. IBAN received the end of year status of the iterative process with NSPA, NCIA and other NATO entities. IBAN noted that data related to the status of POs at year end with the Agencies (NSPA & NCIA) are still incomplete or inaccurate.</p>	<p>Observation In-Progress</p>

**ALLIED COMMAND OPERATION (ACO) FORMAL COMMENTS
ON THE LETTER OF OBSERVATIONS AND RECOMMENDATIONS AND
THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS**

**OBSERVATION 1:
WEAKNESSES IN THE COMBINED JOINT PSYCHOLOGICAL OPERATIONS
TASK FORCE (CJPOTF) CONTRACT AUTHORISATION AND MANAGEMENT IN
RESOLUTE SUPPORT**

ACO's Formal Comments

Deviations:

The Combined Joint Psychological Operations Task Force (CJPOTF) is a fluid and dynamic messaging organization – specifically tasked to execute the Resolute Support (RS) Commander's intent. This tasking was set out in briefings to the Budget Committee (BC) late 2018 when deviations were submitted to the BC for approval.

It is to be noted that only one deviation related to this topic out of 16 was not submitted for BC approval as required, while all the others followed the correct procedure.

The flexible, adaptive, and rapid employment of Psychological Operations during operations sometimes results in contract cost estimate changes, and the nature of change and re-evaluation, must be undertaken to remain aligned with the RS Commander's directed priorities. Initial estimates are therefore valid at the time of approval but become consequently –in hindsight – incorrect. Although thus explainable, CJ8 will work to avoid similar situations in the future with a closer oversight by JFCBS.

Sole source:

RS CJ8 and CJPOTF have a high level of confidence that the sole source decisions executed at the time were made because there was only one available media company with sufficient coverage to satisfy mission requirements, to include: the area (province) required; the specific segment of the population; the necessary language; and/or dissemination capabilities in the mission-identified key terrain. If there is only one supplier of a service and an organization requires that service, the price increases. Even when multiple companies may be identified in a select area, they may not action a solicitation request due to the high-risk environment. This has been explained to the BC accordingly.

Vetting:

Regarding vetting services, NATO does not have its own vetting services, and relies heavily on the genericity of one nation. Notwithstanding, PSYOPS

Contracts are not standard contracts in that they target very specific audiences and as such some suppliers may need to be used if vetted or not. It is more important that the Commander's desired effect on the ground is achieved it than only using vetted suppliers which may not achieve what is needed. This was one of the highest priorities of the Theatre Commander and was briefed in detail to the Budget Committee Visit in May 2019. However, as per IBAN report, the contracts identified by IBAN in 2019 were terminated by RS CJ8. RS has an established vendor vetting and risk mitigation board to ensure all vendors are sufficiently screened/deemed suitable prior to contract award.

Monitoring:

It is to be noted that RS CJ8 is working with CJPOTF to contract with a media monitoring company. This will improve oversight – ensuring vendor media services are rendered in accordance with contractual terms and conditions.

Conclusion:

ACO agrees that deviation procedures need to be strictly followed and worked to provide awareness in the past during visits to subordinate commands. These site visits gave also to ACO the possibility to assess that this kind of exceptions identified by IBAN are very limited.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(1) ACO FY 2018

IBA-AR(2019)0016, paragraph 1

ACO NEEDS TO BE AN "INTELLIGENT CUSTOMER" WITH NATO CUSTOMER-FUNDED AGENCIES

ACO's Formal Comments

ACO acknowledges the summary of IBANs consideration of the following as part of the audit and has also elaborated on some sections further:

Paragraph A:

Although required to be an intelligent customer, ACO is not yet in a position to properly assess and validate the estimates provided by NCIA. With the introduction of the Agency Costed Customer Service Catalogue (CCSC) approved by the Nations, visibility and transparency are no longer provided in terms of External CIS costs (ECIS) and Service Support Centre (SSC); only a price per service in the CCSC is provided by the Agency, leaving the customer with no possible negotiation. In its limited role as an intelligent customer, ACO focuses primarily on the definition of the requirement and the effectiveness of service delivery.

During the build-in of the CIS requirements in March/April timeframe, new

and/or changes to requirements are provided by the Agency presenting thus both ECIS and SSC for internal ACO pre-screening in April, followed by the Working Groups technical experts (WGNTTE) and NATO Office of Resources (NOR) screening for validation in May. Final Service rates are approved only by the end of June. It is also very difficult to challenge the need of the estimated effort to provide a service.

Finally, NCIA submits more detailed SSC costs to the WGNTTE/NOR, which ACO has now requested to have when initial estimates are provided beginning of the year.

SHAPE comments are provided for the Agency Customer Rates at the ASB and BC to challenge these rates. SHAPE FINAC also participates in the Quarterly Service Level Review meeting to review the Agency Financial Execution and has introduced the reporting of the planned procurement actions in excess of Level D.

The ACO KQI WG was established to better define the KPIs and KQIs used by NCIA to measure and report and also to review them based on new customer "end to end" approach. Output of such review should allow further progress in the measurement of quality and performance of services provided by the Agency.

Finally, J6Cy has developed a strategy for engagement with NCI Agency, currently under approval process at ACO leadership. The strategy develops the Lines of Engagement that aim at strengthening ACO's ability to act as an intelligent customer for NCIA services and to support formalization of ACO policies and procedures guiding and directing the CSLA and LSLA processes, the SHAPE stakeholders, and the NATO-wide (Senior) User community across the HQs and wider NATO environment.

Furthermore, NAEW is considering how to regulate the relationship between NCIA and the Force.

Paragraph B:

The work on the revised business case concerning the Contract Integrator, now renamed to the NSPA Planning and Liaison Team (NPLT) has been put on hold due to COVID 19.

The draft NAEW LSA with NSPA is aiming to address the issues raised by IBAN. For instance, several Key Performance Indicators have been put forward coupled with the ability to Audit NSPA Contractors by the NAEW&C Force Quality Management Branch even though under the supervision of the Agency plus other clauses introduced in the LSA draft to give the Force more oversight of the Agency's work as far as the support to the Force is concerned.

(2) ACO FY 2018

IBA-AR(2019)0016, paragraph 2

ACO NEEDS TO MITIGATE RISKS THAT ARISE WITH USING NATO CUSTOMER-FUNDED AGENCIES

ACO's Formal Comments

ACO acknowledges the IBAN summary and has also elaborated on some sections further.

Ref. to ACO previous year's comments, the current SLAs have a "soft" and limited mechanism to resolve any disputes in case major disruptions affecting service continuity and litigations arising from external contractors services.

ACO FINAC has initiated the analysis for the NCCB process within the COSO ERM/IC framework, focusing on its relation with the Agency for its CIS service provision and the financial effect of such a customer-funded regime.

The NCISG in the context of the ACO FINAC Risk Management has developed a risk analysis with specific focus on the validation of goods and services received from the NATO Agencies. One of the mitigation actions identified is the implementation of a Standard Operating Procedure (SOP), with the aim to describe an internal procedure that enables the NCISG Authorized Requesters/Fund Managers to validate the services delivered by the NATO Agencies when the reporting on the quality of the services by the Agencies is not deemed sufficient to properly measure the quality and the performance of the services delivered to the Group; as well as at providing an escalation mechanism to de-conflict possible disputes between the Agencies and the Group.

For all ACO SLAs, when cost overrun occurs (especially in case of military level fill rate drops at 70% or below), the Agency and the Customer will jointly approach the Nations with available mitigation options. When cost overruns occur due to external CIS costs, ACO first requires the Agency to search for in-house underspent prior to looking for mitigating funding solutions and requesting the Nations for additional funds.

The Firm Fixed Price (FFP) model is not consistently applied through ACO as some local HQs are able to amend their POs while others cannot. This also very much depends on the Agency willingness and understanding of the FFP model. Discussion is now in progress for a possible FFP implementation for SSC and a cost reimbursable model for ECIS, to take action when services are not fully provided.

Regarding the FFP, changes with regard to non- or partially rendered services were proposed at the Finance CAB end of 2019; however these were not incorporated in the 2020 SLAs and will be further discussed at the next Finance CAB. This detailed information will allow ACO to have a consistent approach in the FFP model and will be able to adjust PO and related payments

when services will not be rendered.

Furthermore, SHAPE FINAC has requested the reporting of the planned procurement actions in excess of Level D at every Quarterly Service Level Report (QSLR) to have a better visibility on potential future issues and be able to better manage financial and contractual matters. A request has also been made to NCIA to have the view on the Actuals and Commitments figures at the QSLR rather than an execution rate.

In preparation of the 2021 SLA, ACO FINAC is currently working with NCIA Financial Department to clarify/agree on changes related to the financial management.

(4) ACO FY 2017

IBA-AR(2018)0009, paragraph 4

NEED TO UPDATE THE FUNDING ARRANGEMENTS AND MEMORANDA OF UNDERSTANDING (MOU) FOR 5 ESSENTIAL AIRFIELD SERVICES IN RS

ACO's Formal Comments

ACO acknowledges the IBANs summary consideration of the following as part of the audit.

For the ITA MoU, the new MOU for Herat was signed last 24 Jun 2019.

*For GER, USA and TUR MOUs, a new annex has been staffed by SHAPE. OLA confirmed that the revision of the annex did not require BC approval and the nations have been officially contacted.
The status is reported below:*

For the GER MoU: An official letter was sent to the GER NMR on 26 Mar 2019. After various exchanges on 15 Apr 2020 the document was agreed

For the USA MoU: an official letter was sent to the USA NMR on 26 Mar 2019. FINAC has completed various exchanges on this matter however; the annex has not yet been agreed to.

For the TUR MoU: an official letter was sent to the TUR NMR on 26 Mar 2019. FINAC has completed various exchanges on this matter however; the annex has not yet been agreed to and after some different points of view, it was assessed on Mar. 2020 that further staffing was required.

It is to be noted that in accordance with OLA opinion, BC approval was needed only for the new ITA MOU. For the other 3 Annexes updates, only agreement between the parts was needed.

(5) ACO FY 2017

IBA-AR(2018)0009, paragraph 5

TECHNICAL ARRANGEMENTS FOR THE USE OF NATO FUNDED EQUIPMENT AND INFRASTRUCTURE WITH HKIA, MES AND HERAT NOT YET SIGNED

ACO's Formal Comments

ACO maintains its position regarding this observation.

The Technical Arrangement (TA) for the use of NATO Funded Equipment (NFE) and NATO Funded Infrastructure (NFI) at HKIA was signed in August 2019. The TA for the use of NFE and NFI at KAF (USA) was signed in February 2015.

There is no TAs for Herat or Mazar-e-Sharif, as NFE and NFI were either very limited or did not exist at all in these locations. The FWNs are not interested in developing TAs nor is there a need for them.

These TAs are unrelated to the MOUs for the reimbursement of the 5EAS at the four strategic locations.

IBAN's Position

IBAN considers that this recommendation remains in-progress as NSIP funded infrastructure assets are found at these locations. The recommendation may only be closed once it is implemented or if Council agrees to accept the risk and decides not to implement the recommendation.

(6) ACO FY 2017

IBA-AR(2018)0009, paragraph 8

IMPROVEMENTS REQUIRED IN THE AREA OF RISK MANAGEMENT AND INTERNAL CONTROL

ACO's Formal Comments

ACO acknowledges the IBAN summary and has also elaborated on some sections further.

Progress for items A and B:

ACO Strategic Management System: a root-and-branch revision of the ACO Strategic Management System was conducted in 2019. Two key deliverables of this revision are:

a. the ACO Strategic Management Plan (ASMP) 2020-2024, currently in the

*final stage of endorsement by the SHAPE Command Group, and
b. the new ACO Directive 015-027 ACO Strategic Management System, dated
17 February 2020.*

The ACO Internal Audit has assessed the new ACO Strategic Management System as “a significant improvement in terms of control design and potential beneficial outcomes”.

The Internal Control Concept which defines the key stakeholders, key documents in ACO Internal Control and the ACO Internal Control Environment was approved in 2019. The Internal Control Concept contributes to a common understanding of Internal Control among ACO staff. The new ACO Directive on Internal Control (AD 015-029), which is a complete rewrite of ACO Directive 080-108 on Internal Control Framework in ACO (dated 22 August 2017), was prepared based on the approved Internal Control Concept. The new directive (AD 015-029) is applicable to all ACO headquarters and units. It describes the framework and provides guidance on operating Internal Control across ACO including requirements, methodology, approaches, procedures, key roles & responsibilities and timelines associated with the ACO Internal Control Framework. The new components of the directive are the Certification process, the Internal Control Focal Points and the clear definition of roles and responsibilities in the RACI matrix (Responsible, Accountable, Coordinated and Informed) with applicable timelines.

While the AD 015-029 is setting the high level principles related to the IC Framework, a revised AD 60-100 specific to Finance and Acquisition internal control system has been drafted and is currently under coordination with all FINCONs ACO wide. It should be noted that a major portion of internal controls fall under the responsibility of the ACO Financial Controller as per NATO Financial Regulations (NFRs).

The aim is to finalise the latter directive in the 2020 fall after AD 015-029 is issued. The AD 60-100 will further detail the Financial and Acquisition Internal Control Framework.

Assurance mapping has also been implemented in ACO FINAC which is a collection of evidence to show areas where assurance is received based on the 3 lines of defence model and summarizes the effectiveness of Internal Control versus known risks. It helps to identify gaps or overlaps and enables better oversight and focus on specific areas of concern. Assurance mapping aims to help management better understand the management of risks through improved visibility and transparency of assurance activities.

The Statement of Internal Control was prepared by SHAPE FINAC in coordination with all DCOS, OLA, OACM, STREN REM, AIA, and MGT. The Audit Advisory Panel in its role as assurance provider on the effectiveness of the internal control system provided input to the Statement of Internal Control.

In certain areas such as FINAC, Internal Control is supported by evidence-based documents such as a formal and detailed assessment of the ACO Head of Contracts, the self-assessment issued by each local HQ, the assurance mapping updated by SHAPE FINAC, the formal procedure for the preparation of the annual ACO Consolidated Financial Statements including local Financial Controllers checklists, the IPSAS Related Parties Disclosure process, the certification of the self-assessment of Internal Controls from NCIA on the Financial System (FinS), the annual ACO Internal Audit report plus the formal and detailed self-assessment provided by all ACO HQs in the budget area introduced in 2020.

Issuing the new ACO Directive on Internal Control (AD 015-029) and starting the certification process within ACO and with third key parties will be a huge step forward to have a fully evidence based Statement of Internal Control in the coming years and not anymore limited to the Finance and Acquisition area.

*Progress for item C:
NAEW/NAGSF*

HQ NAEW&CF GK has implemented a fully-fledged Risk Management system based upon the ISO 31000 standard. Quarterly meetings are chaired by the Force Commander (FCC) and risks of high or above are discussed with the Deputy Force Commander (FCD) and FCC. Finance Division (FHF) also holds quarterly risk management meetings in accordance with the FHF Risk Management Manual.

NAGSF has been slow to progress risk management activities, as the focus has still been on setting up operations. With the hiring of one additional person in Finance in October 2019, there should be sufficient capacity to start documenting and assessing the financial risk management procedures within NAGSF during 2020. With the start of flying operations approaching, the Force is also looking more closely at risk management in general and documenting some of those processes. The intent is to combine the efforts to develop an overall risk management strategy.

(7) ACO FY 2016

IBA-AR(2017)08, paragraph 2

SOME PROGRESS MADE TO ACHIEVE COMPLIANCE WITH THE NATO FINANCIAL REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT

ACO's Formal Comments

ACO reiterates its position on this observation and recommendation.

ACO in coordination with the NOR and the Working Group of Financial Controllers (WGFC) has been very active in the work to update the NFR/FRP which will address this matter.

The update of the NATO Accounting Framework (NAF) that was scheduled to take place in June 2020 has been delayed due to COVID 19. Additional work will be performed in the months to come in coordination with the Head of Financial Reporting and Policy (HFRP) and the WGFC.

An update of the schedule was provided by the NOR, and the NFR/FRP review is now postponed to 2021.

This is not under ACO's control and therefore the completion lies with other stakeholders outside ACO.

(8) ACO FY 2016

IBA-AR(2017)08, paragraph 3

OPERATION OF KEY SYSTEM IN NAEW&CF NOT ENSURED

ACO's Formal Comments

The FCC Office has issued Tasker 2019/55 on June 2019, titled: ECD Q2 2020 'PILS Gap Assessment Sustainment Plan' by which Engineering Division has been tasked to conduct an assessment of current PILS shortfalls and to provide a Recommendation for a plan to address these identified gaps for the provision of the intended future functionalities of PILS to support the NAEW&C Force.

Due to COVID 19 this task has been delayed but will be further discussed once meetings can take place. The PILS system will also go through a major upgrade in Q4/2020 which will address some of these concerns.

(9) ACO FY 2016

IBA-AR(2017)08, paragraph 5

NO MEMORANDUM OF AGREEMENT (MOA) IN PLACE WITH NCIA

ACO's Formal Comments

ACO acknowledges the summary of IBANs consideration of the following as part of the audit and has also elaborated on some sections further:

There is still no signed MOA between ACO and NCIA. The development of agreements requires both parties to agree to put in place the agreements prescribed in FRP XXVII, ACO cannot unilaterally establish agreements.

With regard to KFOR:

- a. KFOR J6 provides quarterly CIS service level reports to JFCNP regarding CIS support provided in KFOR.*
- b. KFOR reports to JFCNP identify how CIS services are being delivered in theatre.*
- c. KFOR reports are the evidence that JFCNP oversees and monitor CIS services to KFOR similar to an SLA.*

(10) ACO FY 2015

IBA-AR(2016)09, paragraph 6

NEED TO PREPARE NEW LOGISTIC SUPPORT AGREEMENTS WITH NSPA

ACO's Formal Comments

A final draft LSA between NAEW&CF and NSPA was prepared and sent to NSPA for comments in May 2020. Further discussion and revision was done at senior management level at the Agency and at NAEW. Once completed the document will be sent to ACO for final review.

(11) ACO FY 2013

IBA-AR(2014)20, paragraph 5

CONFIRMATION OF YEAR-END ASSETS AND LIABILITIES OUTSTANDING BETWEEN NATO ENTITIES SHOULD BE PERFORMED

ACO's Formal Comments

ACO reiterates its position on this observation and recommendation.

ACO continues to invest substantial efforts in the iterative review process of all outstanding Account Payable (AP), Account Receivable (AR), Advances and Purchase Orders (PO) with the other NATO entities. These efforts and the iterative process in place certainly improved the situation. However, receiving complete and accurate information remains a challenge, especially considering the difficulties NCIA faced for months with their EBA project (ERP re-implementation). Further improvements are expected through continued efforts and additional coordination.

The current iterative process works well with some non-consolidated entities such as IS, IMS, ACT, and NAPMA. However, due to the volume and complexity of transactions conducted with some agencies, additional efforts are being made to complete/improve this process with NCIA and NSPA.

GLOSSARY OF TERMS

In accordance with auditing standards, audit opinions on financial statements and on compliance can be unqualified, qualified, a disclaimer, or adverse:

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



ALLIED COMMAND OPERATIONS CONSOLIDATED FINANCIAL STATEMENTS

2019



ACO Consolidated Financial Statements 2019

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ACO Consolidated Financial Statements 2019

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ACO Consolidated Financial Statements 2019

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Executive Summary

1. The Allied Command Operations' (ACO) mission is to prepare for, plan and conduct military operations in order to meet Alliance political objectives.
2. ACO is a functional chain of military command and is neither a legal entity nor a juridical organisation. ACO Consolidated Financial Statements cannot be construed as superseding any existing agreements or organisational norms, or otherwise creating any legal effect.
3. The ultimate controlling and decision-making entity for the Alliance and its components are the 30 Alliance Member Nations, which provide military forces along with physical and financial resources for the daily operations of ACO and its subordinate commands.
4. The ACO Strategic Management System is geared to deliver the Supreme Allied Commander Europe (SACEUR) Vision for ACO as "a Command ready and relevant to the full range of missions and the changing, complex environment". The system adapts and develops the Command within the remits of high-level Direction and Guidance.
5. ACO's principal headquarters, the Supreme Headquarters Allied Powers Europe (SHAPE), is located in Casteau, Belgium. The ACO subordinate commands include two Allied Joint Force Commands located in Brunssum, the Netherlands (JFCBS) and in Naples, Italy (JFCNP). The Joint Force Commands are responsible for commanding missions, in Afghanistan, Balkans, Africa and Iraq. They are certified to command the NATO Forces in peace, crisis and conflict and conducting planning as part of the Alliance's deterrence and defence.
6. There are three ACO single service commands that fulfil the role of Theatre Component Commands and act as domain advisors: Allied Land Command in Izmir, Turkey (LANDCOM); Allied Maritime Command in Northwood, United Kingdom (MARCOM); and Allied Air Command in Ramstein, Germany (AIRCOM). The latter also includes two Combined Air Operations Centres (CAOC), in Uedem, Germany and in Torrejon, Spain; and the Deployable Air Command and Control Centre, located at Poggio Renatico, Italy (DACCC).
7. The Standing Joint Logistics Support Group Headquarters, currently co-located with SHAPE in Casteau, Belgium (SJLSG), fulfills a Theatre Component role, acts as the logistics domain advisor and is focused on theatre wide enablement, logistics, reinforcement and military mobility to facilitate the movement of troops and equipment for NATO's collective deterrence and defence. The NATO Communications and Information Systems Group is located in Casteau, Belgium (NCISG) and includes three subordinate NATO Signal Battalions located in Wesel, Germany; Grazzanise, Italy; and Bydgoszcz, Poland, all of which have deployable Communication Information System modules across the Alliance.
8. As part of the adaptation of the NATO Command Structure in order to bolster maritime security, logistics and military mobility, and cyber defence, two new entities were added which are a combination of NATO Command Structure and NATO Force Structure headquarters. One is a new Joint Force Command located in Norfolk, United States (JFCNF), which will aid the protection of sea lines of communication between North America and Europe. The other is the Joint Support and Enabling Command located in Ulm, Germany (JSEC), which will focus on the provision of trans-

national security to support enablement, logistics, reinforcement and military mobility for NATO's collective deterrence and defence. In recognition of cyberspace as an operational domain, a new Cyberspace Operations Centre (CyOC) was established at SHAPE and fulfills the role of Theatre Component and domain advisor for cyberspace.

9. Finally, there are two NATO Force Structure units with organisational and financial reporting requirements to ACO: the NATO Airborne Early Warning and Control Force in Geilenkirchen, Germany (NAEW&CF), and the NATO Alliance Ground Surveillance Force in Sigonella, Italy (NAGSF). The NATO Airborne Early Warning and Control Force aircraft are a key element of the Alliance's early warning capability, providing airborne surveillance, warning and control capability over large distances. The NATO Alliance Ground Surveillance Force core system consists of High Altitude Long Endurance aircraft with air, ground, and support segments which will provide NATO with ground surveillance capabilities across the full mission spectrum.

10. In 2019, ACO worked closely with its sister command Allied Command Transformation (ACT) to reassume overall responsibility for planning and conducting Exercises and Collective Training in 2020 and rebalancing responsibilities in the area of partnerships. In addition, there is an ongoing rebalancing of roles and responsibilities between ACO and ACT in the area of capability development as the New Governance Model is implemented.

2019 ACO FINANCIAL ACTIVITIES

11. The Council approved the 2019 NATO Budgets including the military budgets belonging to ACO. The total for ACO budgets was 1,078.4 MEUR (78.6 MEUR increase compared to the initial 2018 budget). The budget included 782.3 MEUR funded at 29 nations, 190.9 MEUR funded at 27+2 nations and 105.22 MEUR funded at 16 nations.

2019 Total Military Budget

Year	Total Military Budget	ACO Budgets
2019	1,395,171,700	1,078,405,820

The 2019 ACO budgets for which SACEUR is responsible (ACO entities and programmes in the NATO Command Structure, the Alliance Operations and Missions (AOM), NAGSF and the NAEW&CF programme) amount to 77.3% of the total international military budget.

In 2019 ACO continued to accommodate critical new operational requirements within the approved budgets. The current level of funding was sufficient to support all high priority activities such as NCS-Adaptation (NCS-A) and Allied Operations and Missions. The main aim of ACO HQ and programme budgets in 2019 was to maintain the budget submissions to zero nominal growth with the exception of where growth was justified in the Medium Term Resource Programme planning process. Some programme budgets increased due to the delivery of new capabilities (new deployable CIS equipment, deployable HQ assets and gradual implementation of the Air Command and Control System programme). The NCS-A budget which is aimed at refining and further strengthening NATO's defences for today's dynamic security environment in areas such as maritime security, logistics and military mobility, and cyber defence, also saw a significant increase in expenditures.

NATO UNCLASSIFIED

12. The ACO budget group's authorizations approved by the NAC were respected and combined budget execution rates were as follows¹:

- a. NATO Command Structure Entity and Programmes - 97%;
- b. ACO NATO Command Structure -Adaptation - 100%;
- c. NAEW&CF - 99.9%;
- d. NAGSF - 86.4%;
- e. Allied Operations and Missions - 100%.

Lapsed amounts mainly relate to lower than expected fill rates for both the NATO International Civilian (NIC) and the Local Wage Rate (LWR) payroll accounts, under execution of projects, savings in utilities and general maintenance contracts, delays in NSPA services in Air Command and Control System Support, delays to Information Technology Modernization and lower than expected costs of Real Life Support driven by delays in several infrastructure projects. These execution results demonstrate, ACO was highly effective at forecasting its requirements and expending the funds entrusted by the Nations to support critical activities and operations.

13. Other financial areas that ACO supports although not part of the ACO budget group authorizations are:

- a. NATO Security and Investment Programme: during 2019 a total amount of 2,822,758 EUR was spent against eight projects, which are under SHAPE as Host Nation and executed by SHAPE, JFCBS and the Kosovo Force (KFOR). There were eight projects in three main categories that related to Alliance Operations and Missions, Static HQ and Centralized HQs;
- b. Trust funds that are managed on a financial inflow and outflow through ACO basis with one exception for the Kosovo Security forces;
- c. Morale and Welfare Activities that are comprised of non-appropriated funds and reported on an annual basis to the relevant Finance Committee.

RESPONSIBILITY

14. The attached, unaudited fiscal year 2019 ACO consolidated financial statements for the period starting 01 January 2019 and ending 31 December 2019, have been prepared in accordance with the NATO Financial Regulations, NATO Accounting Framework and relevant International Public Sector Accounting Standards. In accordance with NATO Financial Regulations Article 3.2, they are jointly signed by the ACO Strategic Commander and the ACO Financial Controller, and conform to the responsibility and accountability principles prescribed in the NATO Financial Regulations Article 3.1, and are submitted to the International Board of Auditors for NATO in accordance with the NATO Financial Regulations Article 35.

¹ Note these execution rates also include regular and special Carry Forward amounts.

NATO UNCLASSIFIED

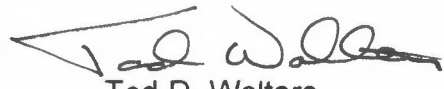
15. In preparing these accounts, ACO has:

- a. Observed the relevant accounting and disclosure requirements, and applied suitable accounting policies on a consistent basis.
- b. Made judgements and estimates on a reasonable basis.
- c. Stated whether applicable accounting standards approved by the North Atlantic Council have been followed and disclosed, and explained any material departures.
- d. Prepared the accounts on a going concern basis.

16. We hereby certify that to the best of our knowledge, we have a reasonable assurance that the attached financial statements and notes present a true and fair view of the financial activities of ACO as at 31 December 2019.



Mr Christophe Rappe
Financial Controller
Allied Command Operations



Tod D. Wolters
General, U.S. Air Force
Supreme Allied Commander Europe

STATEMENT OF INTERNAL CONTROL 2019

I. Scope of Responsibility

1. The Supreme Allied Commander Europe (SACEUR), is responsible and accountable for maintaining a sound system of Internal Control providing reasonable assurance regarding the delivery of the tasks and other agreed objectives mandated by Nations.
2. The ACO Financial Controller (FC) supports SACEUR with respect to the administration of a system of financial Internal Controls that supports the ACO mission. He is also responsible for the adherence to the principles of sound financial management of the financial resources entrusted to ACO, in accordance with the responsibilities assigned in the NATO Financial Regulations (NFRs).

II. Purpose of ACO's Internal Control System and Limitations of the Statement of Internal Control

3. The policies and procedures adopted by the management for the proper execution of all functional activities constitute the ACO Internal Control System. The Internal Control System, a vital part of the management system, supports the achievement of the organization's objectives, improves the effectiveness of its performance, facilitates the effective mitigation of risks, and reduces the frequency of mistakes as well as the probability of fraud, corruption and mismanagement.
4. While the SACEUR and the FC have specific responsibilities in relation to Internal Control, all ACO staff have a responsibility for complying with Internal Controls in place to ensure ACO is being a good steward of the funds and resources entrusted to it by the nations. Each ACO staff member is responsible for adhering to policies, procedures, guidelines and Internal Control standards established to guide the operation of ACO. If a staff member is aware of any deficiencies in Internal Control, (s)he is responsible to report it. Internal Control depends on the participation of all staff, at every level. No matter how well designed and operated, Internal Control cannot provide absolute assurance that all ACO's objectives will be met. Factors outside the control or influence of management (like natural or man-made disaster, honest mistakes, collusion, judgement errors, etc.) can affect ACO's ability to achieve all of its goals.
5. As ACO is neither a legal entity nor a juridical organisation, the Statement of Internal Control cannot be construed as superseding any existing agreements or organisational norms, or otherwise creating any legal effect.

III. Key Elements of ACO's Internal Control System

ACO Strategic Management System

6. The ACO Strategic Management System is a key element of Internal Control in ACO. Geared to deliver SACEUR's Vision for ACO as *"a Command ready and relevant to the full range of missions and the changing, complex environment"*, the ACO Strategic Management System adapts and develops the Command within the remits of high-level Direction and Guidance.

7. The ACO Management Board, by delegation of SACEUR, is responsible for the executive management of the ACO Strategic Management System through its deliberations, decisions and Direction and Guidance.

8. In order to enhance the provision of reasonable assurance that ACO Headquarters efficiently and effectively achieve their strategic objectives and adequately justify their resource requirements, a root-and-branch revision of the ACO Strategic Management System was conducted in 2019. Two key deliverables of this revision are:

- a. the ACO Strategic Management Plan (ASMP) 2020-2024, currently in the final stage of endorsement by the SHAPE Command Group, and
- b. the new ACO Directive 015-027 ACO Strategic Management System, dated 17 February 2020.

9. The ACO Internal Audit has assessed the new ACO Strategic Management System as “a *significant improvement in terms of control design and potential beneficial outcomes*”.

10. The required degree of assurance by the ACO Strategic Management System is ensured through the conduct of the ACO Strategic Management Cycle set forth in ACO Directive 015-027, dated 17 February 2020.

11. The consolidation of the progress made in 2019 and the continued enhancement of the ACO Strategic Management System is particular dependent on maturing the strategic management culture and enhancing Strategic Management knowledge, skills and competences across ACO. The execution of the ACO Strategic Management Engagement Plan is a key driver in this regard.

Additional Elements of ACO's Internal Control System

12. Key Boards

- a. As mentioned, at the strategic level the ACO Management Board is the principal executive body for implementing command-wide strategic management on behalf of SACEUR. It endorses the ACO Strategic Management Plan, prioritizes ACO objectives and monitors their status, endorses and prioritizes associated risk response and issue resolution activities, provides respective Direction and Guidance and decides about the balancing and distribution of resources.
- b. At the strategic level the ACO Audit Advisory Panel is responsible for monitoring the effectiveness of ACO's Internal Control, Internal Audit and Risk Management. The Audit Advisory Panel provides assurance over ACO reporting processes, reviews the findings of financial and non-financial compliance and performance audits and endorses the yearly Statement of Internal Control. The Audit Advisory Panel presents its findings and serves in an expert advisory capacity to SACEUR and the ACO Management Board.
- c. At operational and tactical levels a HQ Management Board provides advice to the HQ Command Group and makes decisions on issues relating to the planning and management of HQ activities.

13. Key Documents

- d. Statement of Internal Control as part of the ACO Financial Statements shall be signed jointly by SACEUR and the ACO Financial Controller and submitted not later than 31st March following the end of the financial year.
- e. The Internal Control Concept defines Internal Control and ACO Internal Control Environment. The Internal Control Concept contributes to a common understanding of Internal Control among ACO key stakeholders. The ACO Directive on Internal Control has to be aligned based on the Internal Control Concept.
- f. The ACO Directive on Internal Control, which is under revision, describes the framework and provides guidance on operating Internal Control across ACO including requirements, methodology, approaches, procedures, key roles & responsibilities and timelines associated with the ACO Internal Control Framework.
- g. Assurance mapping is a collection of assurances in a table to show areas where assurance is received based on the 3 lines of defence model and summarizes evidence on the effectiveness of Internal Control versus known risks. It helps to identify gaps or overlaps and enables better oversight and focus on specific areas of concern. Assurance mapping aims to help management better understand the management of risks through improved visibility and transparency of assurance activities

14. Key Systems: The ACO centralised Financial Management System is the ACO management tool supporting the automation of the ACO financial and acquisition business processes in compliance with the NATO Financial Regulations and ACO Directives and serving as the key enabler for the financial Internal Control framework throughout ACO. The ACO Financial System includes control and management approval procedures designed to ensure complete, reliable and accurate accounting for financial and acquisition transactions and to limit potential exposure to fraud or loss of assets.

IV. Review of Effectiveness

ACO Audit Advisory Panel Contribution to the 2019 Statement of Internal Control

Scope of the ACO Audit Advisory Panel 2019 Programme of Work

15. As an independent advisory expert body, the ACO Audit Advisory Panel assists SACEUR in fulfilling his ACO oversight and governance responsibilities. Pursuant to NATO Financial Regulations and NATO Financial Rules and Procedures, the ACO Audit Advisory Panel achieves this through ensuring that SACEUR receives independent and objective assurance advice, particularly with regard to the effectiveness of ACO internal control processes, measures taken by ACO leadership to resolve observations, recommendations resulting from internal and external audits and the effectiveness of ACO risk management policies and procedures.

16. During 2019, the ACO Audit Advisory Panel met in January, June, September and December and focused primarily on:

- a. Regular oversight of the ongoing development and progress made to achieve a more inclusive ACO-wide Internal Control Framework;
- b. Overview of the processes by which individual ACO Headquarters manage and conduct NCS Adaptation Initial and Full Operational Capability assessments;
- c. Monitoring the resolution of opinions and recommendations resulting from ACO-related internal audit reports and observations;
- d. Detailed scrutiny of selected ACO Internal Audit reports;
- e. Oversight of recommendations resulting from selected external audits conducted by the International Board of Auditors;
- f. Monitoring the resolution of outstanding Asset Management issues, especially relating to RESOLUTE SUPPORT;
- g. ACO key risks and issues, based on their impact, proximity and probability;
- h. Reviewing and endorsing the ACO Internal Audit Charter, the ACO Audit Strategy Document and the 2018 ACO Internal Audit Report Summary.

ACO Audit Advisory Panel Comments and Recommendations

17. While identifying some areas for further attention, the Panel believes that it has discharged its duties in accordance with its current Terms of Reference.

Internal Control Framework

18. The Panel continues to emphasise the importance of fully institutionalising Internal Control processes throughout ACO, so that the intended benefits of a more results-focused approach to management and accountability are achieved and maintained. This overall strategy, combined with the ongoing establishment of Internal Control Officers within ACO (as part of the NATO Command Structure Adaptation initiative), provides the capability to commence with the design and implement a more inclusive Internal Control system and its related processes throughout ACO. Currently only the ACO Internal Control Officer at SHAPE and financial Internal Control Officers at SHAPE and JFCNP have been appointed. Whilst there are no dedicated Internal Control Officers at JFCBS, MARCOM, AIRCOM and LANDCOM yet, these military posts are part of the Tranche 3 of NATO Command Structure Adaptation.

NATO Command Structure Adaptation Initial and Full Operational Capability Assessments

19. The Panel recognises the progress made at some ACO Headquarters to develop and strengthen their management and assessment of NATO Command Structure Adaptation-related Initial and Full Operational Capability criteria during the current NATO Command Structure Adaptation implementation phase. The Panel notes in the initial assessment, significant variance in the level of detail in the criteria used in the process across the Headquarters. It also notes the ongoing follow-up and coordination action undertaken by SHAPE Organisational

Advisory and Change Management Branch on behalf of the NATO Command Structure Adaptation Programme Manager, and looks forward to more rigorous analysis of ACO Headquarters' implementation management and assessment processes.

Internal and External Audits

20. Panel members elected to receive the regular briefings on the key aspects of ACO-related audits, conducted by ACO Internal Audit and the International Board of Auditors during 2019, and also to examine and discuss in detail a selected number of internal and external audit reports.

21. Regarding their detailed scrutiny, the Panel undertook an in-depth review of the Internal Audit reports on: the Vulnerabilities of Information Technology Applications and Services Provided by NATO Communications and Information Agency; and, the Headquarters Land Command report on Contracting, Procurement and Morale and Welfare Activities. As far as International Board of Auditors external reports were concerned, the Panel focused their attention on the Performance Audit Report to Council on the Need for NATO to Take Actions to Prevent, Detect and Respond to Fraud and Corruption.

22. Panel members also received a detailed briefing from the International Board of Auditors on the ACO Consolidated Financial Statement 2018, during which they were advised that the International Board of Auditors had, for the first time, issued an Unqualified Opinion on the Financial Statements and on compliance.

23. From an overall assurance perspective, the Panel notes the action taken by individual HQs to resolve audit findings and recommendations. It, nevertheless, encourages continued efforts to reduce the time taken to close those recommendations which have remained open for protracted periods.

Increases Assurance between ACO and NATO Agencies

24. The Audit Advisory Panel recognises the significant reliance that ACO places on the NATO Communications and Information Agency (NCIA) and NATO Support and Procurement Agency (NSPA) for the delivery of goods and services, and logistic support; as such, the Panel has placed, as one of its highest priorities during 2020, oversight of the transparency and assurance arrangements between ACO and these Agencies.

Prevention of Fraud and Corruption

25. Combatting fraudulent, corrupt and collusive practices requires the full commitment of ACO leadership to a zero tolerance policy. The Panel encourages the establishment of an ACO Custodian to promote the processes and procedures required to manage and tackle such practices. Revised Directives on Fraud and on Standards of Conduct have been reviewed in April 2020.

Audit Advisory Panel Programme of Work for 2020

26. Members of the Panel have compiled their ACO Audit Advisory Panel 2020 Programme of Work to encompass a proportionate mix of operational, compliance-related and financial activities.

27. During 2020, Panel Members plan to receive comprehensive oversight of:
- a. The progress made to develop, implement and institutionalise a more inclusive ACO Internal Control Framework and its related processes;
 - b. Individual headquarters' resolution of the findings and recommendations resulting from ACO-related internal and external (International Board of Auditors) audit reports;
 - c. ACO's ability, as the intelligent customer, to manage and mitigate risks that arise through its use of customer-funded NATO Agencies and of quality and control procedures introduced by NATO Communication and Information Agency and NATO Support and Procurement Agency to improve transparency of information provided to ACO;
 - d. Actions taken by ACO to prevent, detect and respond to fraud and corruption;
 - e. Flexibility measures available to mitigate manpower deficiencies and the extent to which they are used;
 - f. The development of Allied Command Operations Crisis Establishment and initiation of the resourcing process.

ACO Internal Audit Annual Report

28. The ACO Internal Audit Annual Report for 2019 was issued on 07 February 2020 and highlighted themes from audit findings associated with oversight, effective management information, personnel turnover, cost minimisation, and managing service delivery. At SHAPE corporate level the report recognised an encouraging direction of travel within some important initiatives central to the good governance of ACO. In particular this was observed in the ACO strategic management plan, improvements in the risk management process, development of an approach to fraud and with business continuity management. The challenge however remained one of matching limited resources to the level of ambition within these initiatives.

V. ACO Financial Controller Assessment/ Contribution

Internal Control Frameworks and Risk Management (Finance and Procurement)

29. In 2019 (Financial year 2018) ACO received its first ever unqualified audit opinion on the Consolidated Financial Statements and on compliance, indicating that ACO has made significant improvements to its financial processes, accounting practices and financial Internal Controls, particularly with respect to asset management. These improvements have been implemented in an iterative manner over a number of years and ACO continues to improve process and seek assurance that oversight and control are in place and effective.

30. In 2019 at SHAPE level, a Financial Internal Control Officer position was approved and staffed in December. Work is underway to publish a revised AD 60-100 on Financial and Acquisition Internal Control Framework. This revised AD 60-100 will supersede the former Audit and Internal Control Directive. It will provide a high level overview to the ACO HQs Financial Controllers and their staff of the principles of Internal Control as well as instructions and guidance on how to assess the effectiveness of the financial Internal Control system in managing the significant risks within the scope of their responsibility and adopt responses that

would ultimately result in the level of reasonable assurance to be reported in the Statement of Internal Control.

31. Additionally, with the aim of formalizing and reinforcing the ACO Internal Control and Risk Management processes the Acquisition Community continued to be at the forefront of implementation of the Internal Control Framework initiative and 2019 was its fourth year of using a formalised process and methodology. It uses the Committee of Sponsoring Organisation Internal Control-Integrated Framework model and consists of a Framework Document which is adjusted as required based on input obtained from all ACO HQs, through an Internal Control Self-Assessment performed by each HQ Financial Controller supported by the Purchasing and Contracting (P&C) Office Chief. The results are reviewed at the ACO level by the ACO Financial Controller and the ACO Head of Contracts.

32. The same approach was adopted in 2019 for budgetary processes (ACO wide) as well as for Morale and Welfare activities at SHAPE level with the completion of an Internal Control questionnaire endorsed by the Base Support Group Commander.

33. Finally, the ACO FINCON also developed an assurance mapping process based on the concept of the Three Lines of Defence; this methodology is to improve the overall assurance on the level of internal control as well as to provide an evidence based assessment on the areas under the ACO FINCON's responsibility.

Procurement Activities

34. Since 2016, the Acquisition Management Branch under the leadership of the ACO Head of Contracts has faithfully implemented Internal Control measures, risk management efforts and conducted oversight of the procurement activities through Staff Assistance Visits (SAVs). SAVs were mandated by COS as part of five enhanced checks and balances which together with Internal Control activities provides a minimum of functional assurance. Efforts such as the Internal Control Self-Assessment, which support the ACO Financial Controller in his assessment, relies on the professional integrity of local financial controllers and other key players in the requirement-to-pay process.

35. Issues regarding potential fraud at a subordinate Command¹ and some concerns related to Morale and Welfare activities clearly show that although self-assessments were generally positive with no major issues, unless the entire process is subject to similar Internal Controls, the inherent risk outside procurement itself is not mitigated to the extent it could be. Notwithstanding, the effort has proven valuable in providing a basis for discussion which otherwise might not take place.

36. In summary, in order to be effective, detection and mitigation of risks to an acceptable level relies on checks and balances applicable to the entire requirement definition to payment process. This necessitates a holistic HQ-wide effort where the tone from the top holds all stakeholders accountable to assess their risks and take the necessary steps to mitigate or manage the risk. Notwithstanding, the detection of risks such as incidents of potential inappropriate actions discovered in 2019 relies on a threefold approach: checks and balances which have been implemented in procurement but still require development in the rest of the process; detection by electronic controls and checks however fraud statistics shows that this

¹ The ACO FINCON has issued an action plan to be implemented by the subordinate HQ as well as by SHAPE FINAC specific areas in terms of reinforced monitoring. Other actions are under the responsibility of the Commander with the support of LEGAD.

only represents a minor percentage in terms of actual detection; and by involvement of personnel who discover and report incidents. This is necessary to enable an effective risk mitigation / management strategy to reduce opportunities for collusion but it must involve all stakeholders in the process. Further work is required in the areas which have yet to implement their checks and balances as part of the overall process to support those implemented in the procurement processes. Acquisition management continues to actively support and improve their checks and balances.

Finance and Accounting Management

37. ACO has strong controls in place within the finance and accounting management functions, such as Procure-to-Pay, General Ledger, Accounts Payable, Accounts Receivable and Cash Management. Since 2012 ACO has progressively implemented control mechanisms providing reasonable assurance that the local financial data making up the Consolidated Financial Statements reflect accurate and complete financial information pertaining to each of the ACO Commands before its release to the IBAN. Monthly reconciliations of accounting information are completed between the local Finance and Accounting Officers and Corporate Accounting and Control as well as, monitoring and reviews are performed on a recurring basis. Additionally, since 2015 and as part of the year end process, an interim financial closure process was established and duly implemented to guarantee proper revision and analysis of the financial data related to third parties such as the NATO Agencies. Formal revision and checklists are provided by the local Finance and Accounting Officers and Financial Controller to certify the information they provide to Corporate Accounting and Control for consolidation is complete, accurate and in compliance with ACO corporate guidance and regulations. Based on the analysis from previous years a number of changes to these checklists and certifications were completed in 2019. Since 2018, asset certification, a crucial element from the commands, has been a requirement and ACO Corporate Accounting and Control assessment is disclosed as a note in the ACO Consolidated 2019 Financial Statements. AD-hoc certification is also required for the financial data provided by other NATO entities, e.g. NSPA, NAPMA. Therefore, an iterative reconciliation process is in place and a formal certification is required at the end of the year from the entities' Financial Controllers to mitigate the risk of indirect access and control of the provided data. In 2019, there was also one instance where deficiencies in Internal Control were noted by the Finance and Accounting staff and it was reported and escalated for further assessment. This indicated the functional supervision within the FINAC structure is effective and an important factor for the FINAC Internal Control framework.

Enterprise Resource Planning and Segregation of Duties

38. The reliability of ACO's financial reporting is also dependent upon sound internal control systems supported by an effective Enterprise Resource Planning system. The ACO Financial Management System is structured as a corporate Enterprise Resource Planning tool, centralising financial and acquisition transactions and reporting. As mentioned above, the Financial Management System is a key enabler to strengthen the controls in the different finance and acquisition managed business processes and it contributes the accuracy and reliability of the financial data.

39. Internal audits have been conducted on key activities processed through the Financial Management System; useful recommendations of further automated controls have been highlighted but put on hold considering the critical shortfall of Enterprise Resource Planning dedicated resources within SHAPE FINAC. One issue that has been addressed related to the

Financial Management System is that Security patches were implemented in September 2019 and a plan is established with NCIA to implement Oracle security patches on a bi-yearly basis from 2020.

40. Within the assessment of the proper implementation of the revised NFRs/FRPs and the use of best practices, ACO released the guidance on the ACO Financial Management System Internal Control Activities as the outcome of the "Fortification Project" to further strengthen the internal control of the activities managed in the Financial Management System. These controls are respectively designed to limit the possibility of an undesirable outcome being realised, ensure that control objectives are achieved, and potential issues and violations are detected straight away. The approved ACO Segregation of Duties Matrix has been fully implemented at JFC Brunssum, used as pilot and since 2019 is applied on all new ACO Financial Management System access requests. Additional milestones for the completion of the project will be assessed during 2020 since the current lack of resources within the Internal Control and Financial Management System Office (within SHAPE FINAC) hamper the required implementation of the recommendations generated by this key project.

41. The Functional Review initiated in 2019 will reassess the level of resources required in SHAPE FINAC Internal Control Office to fully implement recommendations from internal audits and management findings.

42. For the first time in 2019, SHAPE FINAC requested NCIA provide a control self-assessment report that IT controls within the Financial Management System are implemented in line with the IT service provider's best practices to ensure that the Financial Management System's financial and non-financial data managed by the Agency are processed with integrity, security, availability, confidentiality and privacy.

Follow up of IBAN and Internal Audit Findings

43. SHAPE FINAC Corporate Accounting and Control is working in close coordination with all commands to address the audit findings of both Internal Audit and the IBAN. However, the lack of resources (unfilled OF-3 position and several vacancies due to retirement and turnover of personnel) forced SHAPE FINAC Corporate Accounting and Control to reassess the priorities. Therefore, with few exceptions, the assessment and follow up remained problematic. In particular, close monitoring and action has been taken by ACO with respect to RESOLUTE SUPPORT asset management. The audit findings are also closely scrutinized by the Audit Advisory Panel and senior management.

VI. Areas of Concern

On-going Major Litigation

44. The legacy issues related to the ISAF (International Security Assistance Force) Fuel Basic Ordering Agreement (BOA) have implied additional workload for ACO's staff. Since December 2015, with the unprecedented lawsuit filed by the Supreme Group (SG), a former Fuel supplier to ISAF, against SHAPE/JFCBS, both ACO Office of Legal Affairs (OLA) and FINAC staffs have dedicated substantial time and efforts to follow-up and provide oversight of the proper close-out and potential final settlement of the ISAF fuel contracts. Additionally, since March 2017, ACO OLA and FINAC followed-up on the development of the contractual dispute between the Supreme Group and JFCBS concerning the provision of food and catering services

to ISAF. The Resource Planning Policy Board (RPPB) has recognised the challenges faced by ACO in this respect and has agreed to allocate additional resources with the creation of the Special Litigation and Investigation Team (SPL) at SHAPE level, under the VCOS supervision. Since March 2017, when the Handover Takeover process with JFCBS was concluded, SHAPE SPL has been in the full lead of the management of the said disputes against the Supreme Group (SG).

45. The SG's claim under the Food BOA was settled in November 2019, after out-of-court amicable settlement negotiations with SHAPE.

46. Concerning the fuel dispute, the lawsuit initiated by SG in December 2015 remains stayed by the incidental proceedings on immunity from jurisdiction since June 2016. On 08 February 2017, the Dutch First Instance Court acknowledged the said immunity, but refused to uphold it when balanced against Art. 6 of the European Convention on Human Rights. This decision was appealed by SHAPE. The interim appeal against such decision was filed on 09 May 2017; the appeal decision of 10 December 2019 quashed the previous judgement and affirmed SHAPE's absolute immunity from jurisdiction based on customary international law. SHAPE's Paris Protocol-based Immunity from Execution has been successfully recognised and upheld by the Dutch courts in first instance and appeal. Moreover, proceedings to declare both judgements enforceable in Belgium have also been successful. On 21 August 2017, SG appealed against the ruling on Immunity from execution before the Supreme Court of the Netherlands, who requested the Court of Justice of the European Union for interpretative guidance, a decision of the Supreme Court cannot be expected earlier than mid-2020. Furthermore, SPL is currently engaged with the fuel BOA customer nations in order to build substantial evidence to counter Supreme's claims.

47. As done in the SG Food case, and as agreed upon by the fuel BOA customer nations, SPL is to explore the possibility of an out-of-court settlement of the case. To this extent, non-binding mediation proceedings took place, as a first step, between May and July 2019, but did not lead to a settlement. The proper management of this dispute by SPL, which entails legal as well as out of court proceedings, must be further supported by ACO in order to reduce risks to NATO's immunities and mitigate the potential financial impact on NATO and the fuel BOA customers.

ITM Delays

48. Completion of the Information Technology Modernisation (ITM) Project is essential to avoid further degradation in the reliability and availability of information technology services to the NCS. The modernisation of the NATO Secret/Automated Information System (NS/AIS) is crucial to support the Consultation, Command and Control (C3) processes, the C2 of Alliance Operations and Missions (AOM) and delivers the necessary networks IT to enable support and adapting NATO Command Structure.

49. Expansion and reconfiguration of the end-user equipment baselines is required to support geographical locations changes and increased PE introduced by new NCS. It is expected that the associated capacity increases in data centre systems can be accommodated within the modernised architecture but will require some amount of additional processing and storage equipment.

50. Other Core Services projects programmed in Capability Package 9C0150² related to the modernization of most core Enterprise IT systems needs to be delivered as planned and not delayed to avoid the increase of technological obsolescence and ensure the NCS is supported by modern, efficient and responsive information services.

51. The value of a persistent information environment to support NATO Force Structure (NFS) preparation and standby has been well demonstrated by the Mission Information Rooms (MIRs) at SHAPE and JFC Naples. The requirement for the MIRs and their associated Mission Anchor Functions (MAFs) as part of the basic CIS infrastructure supporting the Bi-SCs are essential for the provision of common foundational and standard interface to support Community of Interest (COI) services and cross domain interoperability within NATO, with NATO nations and with partner nations, in support of C2 processes at all static and deployable commands. The absence of ITM facilities and services poses severe risks to the proper functioning of the NCS and NFS and hampers the achievement to enable of the core tasks of the Alliance through better collaboration, information sharing and exploitation as well as command and control.

52. Increased resilience and survivability provided by the ITM project represents the key enablers for the ACO Business continuity.

53. ACO has continuously incurred higher operation and maintenance costs due to the need to extend break/fix maintenance support to IT infrastructure, equipment and legacy Functional Services beyond their economic lifetime. Compressed delivery timelines, the absence of clear Migrations and Transition Plans and uncertainty regarding site-specific data backup procedures have inferred that a high potential risk exists when delays are announced by the Host Nation. Users may be forced to rely upon existing infrastructure/services for a longer period, with associated increases to potential failures caused by obsolete equipment, along with delays to dependent projects, increased O&M expenditures and reduced Operational Effectiveness.

54. ACO is fully committed to work with NCIA and the Independent Performance Evaluation and Assessment of Capabilities in a transparent way to provide an updated overview of the level of the projected yearly Operation & Maintenance financial impact related to the implementation of all the new services being provided through Capability Package 9C0150.

VII. Areas of Improvement

Asset Management and Reporting

55. ACO continues to face challenges with third party asset management and reporting, particularly with organisations that utilise disparate Information Technology (IT) systems that are not compatible with the Financial Management System for transactional reporting.

56. Therefore, ACO Commands continue to face gaps and challenges already identified in the use of the legacy systems. These gaps were the root-cause of the major difficulties faced by several ACO entities that critically impacted the processes in place within single level command and allowed local misuse and/or mismanagement (fortunately, such instances were immediately escalated).

² Projects programmed in CP 9C0150 are: 0IS03090 “New NATO Messaging Service”; 0IS03094 “SOA and IDM Platform Service”; 0IS03095 ‘Information as Service’; 0IS03098 ‘Geographical Information Service’; 0IS03102 ‘Information Exchange Gateways’

57. The main concerns related to RESOLUTE SUPPORT (RS) asset management and reporting were deeply analysed during 2018. In 2019, a solution in the form of a simplified approach for asset management in RS HQ was implemented. This initiative, fully reflected in the 2019 Financial Statements, took substantial staff efforts from the tactical to strategic level in close coordination with NSPA responsible for the logistics software. An evaluation of this approach will be made to assess its feasibility/applicability within the other ACO entities.

Evidence Based Statement of Internal Control – Full Completion of Internal Control and Risk Management Initiatives

58. As highlighted to the Audit Advisory panel by the ACO FINCON, a structured and evidence based approach to build the annual Statement of Internal control should be adopted by all support functions (in areas such as Human Resources, business continuity, legal assessment, IT security, Fraud, Health and Safety, ...). The additional resources and revised responsibilities in the context of the NCS-Adaptation will enhance ACO's capacity to further reinforce its internal control framework. However sufficient efforts and attention should be dedicated to adopt a consistent approach to provide a more robust assurance on the effectiveness of key controls ACO wide. This also includes the need to have consistent risk registers adopted and regularly updated on key processes ACO-wide.

ACO Prevention and Detection of Fraud

59. COS SHAPE agreed on 18 December 2018 that an Integrated Planning Team (IPT) would be established in response to IBA-A (2018)0140, Performance Audit Report to Council on the need for NATO to take actions to prevent, detect and respond to fraud and corruption – IBA – AR (2018_0027, dated 3 Dec. 2018). The aim was to produce an action plan and a risk assessment on fraud awareness, prevention and detection at the ACO level. As a result of this IPT, two new revised Directives have been released on Fraud policy and ACO Standards of Conduct. The ACO FINCON and the ACT LEGAD are leading those initiatives with the support of other stakeholders namely the ACO Internal Audit. The principles highlighted in those directives will be the subject, during 2020, of specific communication tailored to various audiences ACO wide (from all staff to ACO Commanders).

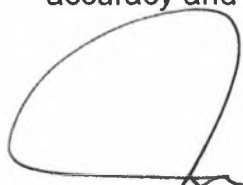
Morale and Welfare Activities

60. Based on the 2015 NFRs (NATO Financial Regulations) and reviewed NATO Morale and Welfare Regulations, an Internal Control agenda for non-appropriated funds continues to be pursued. An informal working group was established with participation from FINAC and Base Support Group. The working group developed an Internal Control questionnaire tailored for SHAPE Morale and Welfare. The general conclusion was that the activities do not pose any material risk for common funding albeit, findings indicated that there is room for improvement. Initiatives for improvement include, guidance provided to all ACO Financial Controllers and the introduction of SHAPE assistance visits in ACO.

61. The experience to be gained from ACO-wide application is considered an opportunity to refine the framework and the questionnaire. However, lack of staff at the SHAPE Base Support Group level has hampered the progress started in 2018. Nevertheless, the expansion of Internal Control is expected to provide increased certainty that ACO Morale and Welfare Activities operations carry non-material risk to Common Funds (CF). In the future, though, there is risk that due to the lack of dedicated resources to support Morale and Welfare Activities, the controls may not be fully effective.

VIII. Overall Assessment/Conclusion

62. ACO continues to mature and strengthen systems of Risk Management and Internal Control to reflect best practices and promote a culture of proactive Risk Management amongst all our personnel. We will therefore continue to ensure that the necessary internal management functions are in place to support effective Internal Control and provide reasonable assurance that assets are properly safeguarded, that established managerial and command policies are adhered to, that the Command operates in an efficient manner, that a system of internal financial and budgetary controls are in place which embrace all aspects of financial management for appropriated and non-appropriated funds within our jurisdiction, and that the accuracy and reliability of accounting data and records are verified.



Christophe Rappe
ACO Financial Controller
Allied Command Operations



Tod D. Wolters
General, U.S. Air Force
Supreme Allied Commander Europe

ACO Consolidated Financial Statements 2019

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ACO Consolidated Financial Statements 2019

STATEMENT 1: ACO CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(I)

*For the year ended 31 December 2019**in EUR**Notes**2019**Restated**2018 (II)**2018***ASSETS****Current Assets**

Cash and Cash Equivalents	B.1	1,060,299,840	1,094,089,689	1,094,089,689
Short Term Investments	B.2	763,389,492	533,503,561	533,503,561
Receivables	B.3	202,146,953	128,317,081	128,284,580
Prepayments	B.4	23,353,798	18,375,831	18,375,831
Other Current Assets	B.5	2,341,513	3,016,885	4,229,874
Inventories	B.6	41,318,176	40,172,465	43,219,462

Total Current Assets

2,092,849,772 1,817,475,512 1,821,702,997

Non-current Assets

Receivables		-	-	-
Property, Plant & Equipment	B.7	642,778,123	571,910,806	562,283,404
Other Non-current Assets	B.8	8,782,931	7,870,661	6,657,673

Total Non-current Assets

651,561,054 579,781,467 568,941,077

Total ASSETS

2,744,410,826 2,397,256,979 2,390,644,074

LIABILITIES**Current Liabilities**

Payables (III)	B.9	(385,501,077)	(300,142,640)	(300,110,139)
Deferred Revenue	B.10	(1,482,032,050)	(1,274,576,145)	(1,277,623,142)
Advances	B.11	(280,269,207)	(295,513,643)	(295,513,643)
Short Term Provisions	B.12	(303,151)	(392,562)	(3,701,831)

Total Current Liabilities

(2,148,105,485) (1,870,624,990) (1,876,948,755)

Non-current Liabilities

Long Term Provisions	B.13	(11,084,312)	(10,491,256)	(7,181,987)
Non-current Deferred Revenue	B.14	(585,221,029)	(516,140,733)	(506,513,332)

Total Non-current Liabilities

(596,305,341) (526,631,989) (513,695,319)

Total LIABILITIES

(2,744,410,826) (2,397,256,979) (2,390,644,074)

NET ASSETS

- - -

(I) In all tables, credit amounts/balances such as liabilities and revenue are presented with negative signs. Debit amounts such as assets and expenses carry a positive sign.

(II) Restatement mainly concerns prepayments, inventory and PP&E. More information can be found in the relevant note disclosure.

(III) Not all balances provided are reported on accrual basis. More information can be found in the notes A (Significant accounting policies - basis of preparation) and B.9.

ACO Consolidated Financial Statements 2019

STATEMENT 2: ACO CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

(I)

For the year ended 31 December 2019**in EUR****Notes****2019****Restated****2018 (II)****2018****Revenue**

Revenue		(1,054,550,949)	(1,016,774,544)	(1,014,434,635)
Other Revenue		(2,517,373)	(4,271,470)	(4,303,971)
Financial Revenue		(578,846)	(8,297,940)	(8,297,940)
Total to be returned to the Nations	C.17	1,198,996	5,171,303	5,171,303
Total Revenue	C.15	(1,056,448,172)	(1,024,172,651)	(1,021,865,243)

Expenses

Personnel		195,379,602	189,657,916	189,657,916
Contractual Supplies and Services		769,533,415	743,249,766	742,744,513
Foreign Military Sales (FMS) (III)		17,134,640	24,286,640	24,286,640
Depreciation and Amortization		71,982,772	61,223,476	59,421,321
Provisions		-	-	-
Other Expenses		4,072	75	75
Financial Costs		2,413,672	5,754,779	5,754,779
Total Expenses	C.16	1,056,448,172	1,024,172,651	1,021,865,243

Result of the year

		-	-	-
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(I) In all tables, credit amounts/balances such as liabilities and revenue are presented with negative signs. Debit amounts such as assets and expenses carry a positive sign.

(II) Restatement mainly concerns prepayments, inventory and PP&E. More information can be found in the relevant note disclosure

(III) The amount for FMS is on cash rather than accrual basis. More information can be found in the note A (Significant accounting policies - basis of preparation).

ACO Consolidated Financial Statements 2019

STATEMENT 3: ACO CONSOLIDATED STATEMENT OF CASH FLOWS

(I)

*As at 31 December 2019
in EUR***2019***Restated
2018 (II)***2018****CASH FLOWS FROM OPERATING ACTIVITIES**

Result of the year	-	-	-
Non-cash movements			
Depreciation	71,982,772	61,223,476	59,421,321
Increase (Decrease) in payables	85,358,438	(19,826,857)	(19,859,358)
Increase (Decrease) in other current liabilities	190,335,037	173,965,787	180,322,051
Increase (Decrease) in other non-current liabilities	593,056	3,304,218	(5,050)
Increase (Decrease) in current deferred revenue for PP&E	1,787,021	20,197,273	20,197,273
Increase (Decrease) in non-current deferred revenue for PP&E	69,080,295	211,017,168	201,389,766
(III) Property, plant and equipment, from other funding	(130,470,231)	(277,652,751)	(267,281,851)
(Increase) Decrease in other current assets	(4,302,594)	14,768,576	13,555,588
(Increase) Decrease in other non-current assets	(912,270)	(1,259,114)	(46,126)
(Increase) Decrease in receivables	(73,829,873)	(62,406,940)	(62,374,439)
(Increase) Decrease in Inventories	(1,145,711)	(2,548,316)	(5,595,313)
Net cash flows from operating activities	208,475,940	120,782,519	119,723,862

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property, plant and equipment and AuC	(12,379,857)	(14,785,166)	(13,726,509)
Proceeds from sale of plant and equipment	-	-	-
Proceeds from sale of investments	-	-	-
Short term investment	(229,885,932)	(93,261,861)	(93,261,861)
Net cash flows from investing activities	(242,265,789)	(108,047,027)	(106,988,370)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from borrowings	-	-	-
Repayment of borrowings	-	-	-
Distribution/dividend to Nations	-	-	-
Net cash flows from financing activities	-	-	-

Change in cash flow	(33,789,849)	12,735,492	12,735,492
Cash and cash equivalents at beginning of period	1,094,089,689	1,081,354,197	1,081,354,197
Cash and cash equivalents at end of period	1,060,299,840	1,094,089,689	1,094,089,689
Net increase/(decrease) in cash and cash equivalents	(33,789,849)	12,735,492	12,735,492

(I) In all tables, credit amounts/balances such as liabilities and revenue are presented with negative signs. Debit amounts such as assets and expenses carry a positive sign.

(II) Restatement mainly related to prepayments, inventory, PP&E. More information can be found in the relevant note disclosure

(III) Other funding refers to assets funded through NSIP, or programmes like NAPMA, where other entities than SHAPE are acting as Host Nation, and of AuC that has been completed and capitalised within the reporting year. This did not require any cash outflow from ACO.

ACO Consolidated Financial Statements 2019

STATEMENT 4: ACO CONSOLIDATED STATEMENT OF CHANGES IN NET EQUITY

<i>For the year ended 31 December 2019</i> <i>in EUR</i>	<i>Notes</i>	<i>2019</i>	<i>Restated</i> <i>2018</i>	<i>2018</i>
Equity at beginning of year		-	-	-
Result of for the year	C.18	-	-	-
<i>Net recognized revenue and expenses</i> <i>for the year</i>		-	-	-
Equity at End of year		-	-	-

ACO Consolidated Financial Statements 2019

STATEMENT 5/1: ACO BC BUDGET EXECUTION REPORT

(Note H)

EUR

	Initial Budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments	Expenses	Total Spent	Carry-Forward	Lapsed
2019 NCSEP												
	491,276,194	-	491,276,194	-	491,276,194	-	491,276,195	12,272,738	464,836,569	477,109,307	12,272,738	14,166,888
Budget 101 SHAPE	72,525,259	890,000	73,415,259	-	73,415,259	-	73,415,259	1,742,008	70,151,708	71,893,716	1,742,008	1,521,543
Budget 103 JFC HQ BRUNSSUM	25,347,511	(30,000)	25,317,511	-	25,317,511	-	25,317,511	560,925	23,544,831	24,105,756	560,925	1,211,755
Budget 104 JFC HQ NAPLES	27,127,248	-	27,127,248	-	27,127,248	-	27,127,248	127,130	26,262,961	26,390,091	127,130	737,157
Budget 105 HQ AIRCOM RAMSTEIN	21,898,829	(725,000)	21,173,829	(56,437)	21,117,392	-	21,117,392	446,346	17,184,168	17,630,515	446,346	3,486,877
Budget 111 HQ LANDCOM IZMIR	11,046,020	(305,000)	10,741,020	(368,460)	10,372,560	-	10,372,560	75,293	9,995,715	10,071,008	75,293	301,552
Budget 118 HQ MARCOM NORTHWOOD	8,321,477	-	8,321,477	45,459	8,366,937	-	8,366,937	47,760	8,303,738	8,351,498	47,760	15,439
Budget 131 HQ DEPLOYABLE ASSETS	10,800,626	-	10,800,626	-	10,800,626	-	10,800,626	5,112	10,440,411	10,445,523	5,112	355,103
Budget 164 AIR DEFENCE (GROUND)	30,981,386	-	30,981,386	-	30,981,386	224,000	31,205,386	4,757,916	26,278,803	31,036,719	4,757,916	168,667
Budget 166 ACCS SUPPORT	91,217,893	-	91,217,893	-	91,217,893	(224,000)	90,993,893	812,805	87,563,431	88,376,236	812,805	2,617,657
Budget 177 NCCB	150,483,592	-	150,483,592	56,437	150,540,029	-	150,540,029	2,003,644	148,093,066	150,096,711	2,003,644	443,318
Budget 178 NATO CIS GROUP (NCISG)	37,286,354	-	37,286,354	-	37,286,354	-	37,286,354	1,680,839	32,826,656	34,507,494	1,680,839	2,778,860
Budget 502 OUTREACH PROGRAMMES (ACO)	4,240,000	170,000	4,410,000	323,000	4,733,000	-	4,733,000	12,960	4,191,080	4,204,041	12,960	528,959
2019 NCS-ADAPTATION												
	15,328,209	-	15,328,209	-	15,328,209	(26,635)	15,301,574	9,266,192	6,035,382	15,301,574	9,266,192	-
Budget 124 NCS-ADAPTATION (ACO)	15,328,209	-	15,328,209	-	15,328,209	(26,635)	15,301,574	9,266,192	6,035,382	15,301,574	9,266,192	-
2019 AGS												
	34,186,300	-	34,186,300	-	34,186,300	-	34,186,300	15,134,288	14,042,468	29,176,756	15,134,288	5,009,544
Budget 167 AGS O&S	34,186,300	-	34,186,300	-	34,186,300	-	34,186,300	15,134,288	14,042,468	29,176,756	15,134,288	5,009,544
2019 AGS												
	2,368,310	-	2,368,310	-	2,368,310	-	2,368,310	-	2,368,310	2,368,310	-	-
Budget 168 AGS CIS	2,368,310	-	2,368,310	-	2,368,310	-	2,368,310	-	2,368,310	2,368,310	-	-
2019 NAEW												
	156,776,687	-	156,776,687	-	156,776,687	-	156,776,687	12,719,824	143,604,449	156,324,273	12,719,824	452,415
Budget 163 NAEW&CF EMPLOYMENT	156,776,687	-	156,776,687	-	156,776,687	-	156,776,687	12,719,824	143,604,449	156,324,273	12,719,824	452,415
2019 NAEW												
	105,223,312	-	105,223,312	-	105,223,312	-	105,223,312	31,165,381	74,057,931	105,223,312	31,165,381	-
Budget 162 NAEW&CF PROVISIONING	105,223,312	-	105,223,312	-	105,223,312	-	105,223,312	31,165,381	74,057,931	105,223,312	31,165,381	-
2019 AOM												
	273,246,807	(260,615)	272,986,192	(108,379)	272,877,813	-	272,877,813	13,170,783	255,489,148	268,659,932	13,170,783	4,217,881
Budget 183 BALKANS OPERATIONS	22,760,237	(260,615)	22,499,622	28,000	22,527,622	-	22,527,622	764,052	21,310,999	22,075,051	764,052	452,571
Budget 187 NATO SUPPORT TO THE AFRICAN UNION	442,946	-	442,946	-	442,946	-	442,946	1,571	351,203	352,774	1,571	90,172
Budget 189 Operation SEA GUARDIAN	257,859	-	257,859	(136,379)	121,480	-	121,480	607	116,010	116,618	607	4,862
Budget 194 RESOLUTE SUPPORT	234,879,497	-	234,879,497	-	234,879,497	-	234,879,497	12,251,534	222,627,963	234,879,497	12,251,534	-
Budget 195 NMI	14,906,268	-	14,906,268	-	14,906,268	-	14,906,268	153,019	11,082,973	11,235,992	153,019	3,670,276
Total 2019	1,078,405,819	(260,615)	1,078,145,204	(108,379)	1,078,036,825	(26,635)	1,078,010,191	93,729,206	960,434,257	1,054,163,462	93,729,206	23,846,729

EUR

	Initial Budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments	Expenses	Total Spent	Carry-Forward	Lapsed
2018 NCSEP												
	27,598,868	-	27,598,868	-	27,598,868	-	27,598,868	2,199,813	20,629,239	22,829,052	2,199,813	4,769,816
Budget 101 SHAPE	919,950	-	919,950	-	919,950	-	919,950	7,164	817,799	824,963	7,164	94,988
Budget 103 JFC HQ BRUNSSUM	261,192	-	261,192	-	261,192	-	261,192	-	252,764	252,764	-	8,427
Budget 104 JFC HQ NAPLES	38,167	-	38,167	-	38,167	-	38,167	810	30,480	31,290	810	6,878
Budget 105 HQ AIRCOM RAMSTEIN	539,419	-	539,419	-	539,419	-	539,419	87	470,497	470,583	87	68,836
Budget 111 HQ LANDCOM IZMIR	9,578	-	9,578	-	9,578	-	9,578	-	9,578	9,578	-	-
Budget 118 HQ MARCOM NORTHWOOD	81,648	-	81,648	-	81,648	-	81,648	-	69,346	69,346	-	12,303
Budget 164 AIR DEFENCE (GROUND)	7,437,626	-	7,437,626	-	7,437,626	-	7,437,626	1,040,896	1,902,114	2,943,011	1,040,896	4,494,615
Budget 166 ACCS SUPPORT	3,238,330	-	3,238,330	-	3,238,330	-	3,238,330	908,156	2,299,175	3,207,331	908,156	30,999
Budget 177 NCCB	7,117,292	-	7,117,292	-	7,117,292	-	7,117,292	-	7,117,292	7,117,292	-	-
Budget 178 NATO CIS GROUP (NCISG)	7,952,350	-	7,952,350	-	7,952,350	-	7,952,350	242,700	7,657,054	7,899,754	242,700	52,597
Budget 502 OUTREACH PROGRAMMES (ACO)	3,315	-	3,315	-	3,315	-	3,315	-	3,142	3,142	-	173
2018 AGS												
	6,407,307	-	6,407,307	-	6,407,307	-	6,407,307	5,393,518	738,322	6,131,839	5,393,518	275,467
Budget 167 AGS O&S	6,407,307	-	6,407,307	-	6,407,307	-	6,407,307	5,393,518	738,322	6,131,839	5,393,518	275,467
2018 NAEW												
	12,310,529	-	12,310,529	-	12,310,529	-	12,310,529	2,338,340	9,972,188	12,310,528	2,338,340	-
Budget 163 NAEW&CF EMPLOYMENT	12,310,529	-	12,310,529	-	12,310,529	-	12,310,529	2,338,340	9,972,188	12,310,528	2,338,340	-
2018 NAEW												
	26,140,042	-	26,140,042	-	26,140,042	-	26,140,042	9,827,347	16,312,486	26,139,833	9,827,347	209
Budget 162 NAEW&CF PROVISIONING	25,702,507	-	25,702,507	-	25,702,507	-	25,702,507	9,393,996	16,308,510	25,702,507	9,393,996	-
Budget 123 NAEW&CF REORGANISATION	437,536	-	437,536	-	437,536	-	437,536	433,351	3,976	437,326	433,351	209
2018 AOM												
	6,673,912	-	6,673,912	-	6,673,912	-	6,673,911	621,176	3,911,596	4,532,772	621,176	2,141,139
Budget 183 BALKANS OPERATIONS	1,395,516	-	1,395,516	-	1,395,516	-	1,395,516	466,203	794,727	1,260,930	466,203	134,586
Budget 187 NATO SUPPORT TO THE AFRICAN UNION	5,829	-	5,829	-	5,829	-	5,829	773	2,126	2,899	773	2,930
Budget 189 Operation SEA GUARDIAN	23,778	-	23,778	-	23,778	-	23,778	-	23,647	23,647	-	131
Budget 194 RESOLUTE SUPPORT	4,605,420	-	4,605,420	-	4,605,420	-	4,605,420	-	2,636,001	2,636,001	-	1,969,419
Budget 195 NMI	643,370	-	643,370	-	643,370	-	643,370	154,200	455,095	609,295	154,200	34,074
Total 2018	79,130,657	-	79,130,657	-	79,130,657	-	79,130,657	20,380,193	51,563,831	71,944,025	20,380,193	7,186,632

EUR

	Initial Budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments	Expenses	Total Spent	Carry-Forward	Lapsed
2017 NCSEP												
	3,556,298	-	3,556,298	-	3,556,298	-	3,556,298	-	488,441	488,442	-	3,067,856
Budget 101 SHAPE	17,527	-	17,527	-	17,527	-	17,527	-	-	-	-	17,527
Budget 103 JFC HQ BRUNSSUM	388,415	-	388,415	-	388,415	-	388,415	-	388,415	388,415	-	-
Budget 105 HQ AIRCOM RAMSTEIN	12,564	-	12,564	-	12,564	-	12,564	-	953	953	-	11,611
Budget 164 AIR DEFENCE (GROUND)	3,053,690	-	3,053,690	-	3,053,690	-	3,053,689	-	51,035	51,035	-	3,002,655
Budget 166 ACCS SUPPORT	84,102	-	84,102	-	84,102	-	84,102	-	48,038	48,038	-	36,064
2017 AGS												
	43,518,795	-	43,518,795	-	43,518,795	-	43,518,795	43,000,000	518,795	43,518,795	43,000,000	-
Budget 167 AGS O&S	43,518,795	-	43,518,795	-	43,518,795	-	43,518,795	43,000,000	518,795	43,518,795	43,000,000	-
2017 NAEW												
	7,427,231	-	7,427,231	-	7,427,231	-	7,427,231	-	5,084,818	5,084,818	-	2,342,413
Budget 162 NAEW&CF PROVISIONING	7,427,231	-	7,427,231	-	7,427,231	-	7,427,231	-	5,084,818	5,084,818	-	2,342,413
2017 NAEW												
	173,340	-	173,340	-	173,340	-	173,340	-	173,340	173,340	-	-
Budget 123 NAEW&CF REORGANISATION	173,340	-	173,340	-	173,340	-	173,340	-	173,340	173,340	-	-
Total 2017	54,675,664	-	54,675,664	-	54,675,664	-	54,675,664	43,000,000	6,265,395	49,265,395	43,000,000	5,410,269

EUR

	Initial Budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments	Expenses	Total Spent	Carry-Forward	Lapsed
2014 NCSEP												
2014 AOM												
	25,807,206	-	25,807,206	-	25,807,206	-	25,807,206	25,343,456	463,750	25,807,206	25,343,456	-
Budget 185 ISAF	25,807,206	-	25,807,206	-	25,807,206	-	25,807,206	25,343,456	463,750	25,807,206	25,343,456	-
Total 2014	25,807,206	-	25,807,206	-	25,807,206	-	25,807,206	25,343,456	463,750	25,807,206	25,343,456	-

EUR

	<i>Initial Budget</i>	<i>Transfers</i>	<i>BA2</i>	<i>Transfers</i>	<i>BA3</i>	<i>Transfers</i>	<i>Final Budget</i>	<i>Commitments</i>	<i>Expenses</i>	<i>Total Spent</i>	<i>Carry-Forward</i>	<i>Lapsed</i>
2013 NCSEP												
	300,324	-	300,324	-	300,324	-	300,324	300,324	-	300,324	300,324	-
<i>Budget 178 NATO CIS GROUP (NCISG)</i>	300,324	-	300,324	-	300,324	-	300,324	300,324	-	300,324	300,324	-
Total 2013	300,324	-	300,324	-	300,324	-	300,324	300,324	-	300,324	300,324	-
Total for all MB Cost Shares, Years and Budgets	1,238,319,670	(260,615)	1,238,059,055	(108,379)	1,237,950,675	(26,635)	1,237,924,042	182,753,179	1,018,727,233	1,201,480,412	182,753,179	36,443,629

ACO Consolidated Financial Statements 2019

**Notes to the
ACO Consolidated Financial Statements 2019**

ACO Consolidated Financial Statements 2019

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NOTES TO THE ACO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2019

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A. Significant accounting Policies

Basis of preparation

The consolidated financial statements (FS) of the Allied Command Operation (ACO) have been prepared in accordance with the NATO Accounting Framework¹ (NAF) as adopted by the NATO Council. The NATO Accounting Framework is an adaptation of the International Public Sector Accounting Standards (IPSAS).

The FS comply with the financial reporting requirements of the NATO Financial Regulations (NFRs) and the relevant ACO directives and policies. Where the NAF permits a choice of accounting policy, the accounting policy, judged as the most appropriate to the particular circumstances of the ACO for giving a true and fair view, has been selected.

The FS have been prepared on a going-concern basis and on the historical cost basis except for financial instruments that are measured at fair value at the end of each reporting period. The principal accounting policies are set out below. They have been applied consistently to all periods presented. The accounting principles deemed as appropriate for the recognition, measurement and reporting of the financial position, performance and cash flows on an accrual based accounting using historical costs have been applied consistently throughout the reporting period. There is one exception related to the Foreign Military Sales acquired directly or via a NATO Agency from the US Defence Department where the financial data on accrual basis are not always available and are therefore reflected on a modified cash basis. Details are disclosed in the relevant notes.

In accordance with Article 2.1 of the NFRs, the financial year of ACO begins on 1 January 2019 and ends on 31 December 2019.

Changes in Accounting Standards

ACO discloses whenever it has not yet applied a new accounting standard, and provides any information relevant to assessing the possible impact that the initial application of the new standard would have on the FS.

The standards reported below are effective for annual financial statements covering period beginning on or after 1 January 2019.

<i>IPSAS</i>	<i>Name</i>	<i>Effective date for periods beginning on or after</i>	<i>ACO Assessment</i>
<i>IPSAS 40</i>	<i>Public Sector Combinations</i>	<i>1 January 2019</i>	<i>Considering the current ACO structure, this standard has no impact on ACO</i>
<i>IPSAS 41</i>	<i>Financial Instruments</i>	<i>1 January 2022</i>	<i>This standard will replace part of IPSAS 29, Financial Instruments: Recognition and Measurement. ACO has not yet assessed whether this standard will have an impact on its financial reporting</i>

Accounting estimates and judgments

In accordance with IPSAS and generally accepted accounting principles, the FS necessarily include amounts based on estimates and assumptions made by the management and based on historical experience as well as on the most reliable information available.

Specifically, when precise information was not available for measuring the value of Property, Plant & Equipment (PP&E) to be recognised in the statement of financial position some estimates have been applied by reference to the buying price of similar assets in an active and liquid market or to the historical cost trend of similar acquisitions occurred over the last 3 - 5 years. For infrastructure funded through the NATO Security and Investment Programme (NSIP) and where no actual cost has been provided by the territorial host nation, the authorised amount has been used as basis for the acquisition cost. Moreover, a percentage of the acquisition cost of these infrastructures has been applied for determining the value of the fixed assets and the installed equipment where the project authorisation breakdown was not available.

The estimates and underlying assumptions are reviewed on an on-going basis. These estimates and assumptions affect the amounts of assets, liabilities, revenue and expenses reported. By their nature, these estimates are subject to measurement uncertainty. The effect of changes to such estimates and assumptions in future periods could be significant to the FS.

¹ C-M-(2016)0023: NATO Accounting Framework, dated 29 Apr. 2016.

Changes in Accounting Policy

The same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria set in IPSAS 3. For the 2019 FS, the NAF and ACO accounting policies have been applied consistently throughout the reporting period.

There is no major change in the 2019 ACO accounting policy. If any specific change in the financial data, the impacts have been identified in the notes under the appropriate headings.

Reclassification

The financial data related to the provisions were reclassified in Short-Term and Long-Term and reported accordingly for the 2019 data and previous year.

No other reclassification was applied to the 2019 financial data.

Restatements

ACO has restated a number of balances in the FS. They mainly relate to PP&E, Inventory, including assessment of previous years' audit observations.

Foreign currency

These FS are presented in Euro, which is the ACO functional and reporting currency. All entities included in the consolidated FS adopt Euro as functional currency. Data from ACO budgets approved in different currency are converted and reported in Euro using a fixed rate. The fixed rate applied for GBP for 2019 is equal to 0.8799 EUR representing the NATO corporate rate as of 1st January 2018.

Foreign currency transactions are translated into Euro at the NATO exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at year-end are translated into Euro using the NATO exchange rates applicable at 31 December 2019. Resulting realised and unrealised gains and losses are recognised in the Statement of Financial Performance.

Consolidation

The ACO Consolidated FS include the financial results of ACO² as the controlling entity exercising control over the controlled entities listed below.

ACO HQ NAME	LOCATION
SHAPE HQ	Casteau, Belgium
JFC Brunssum HQ	Brunssum, Netherlands
Resolute Support HQ	Kabul, Afghanistan
NAEW&C Force GK HQ	Geilenkirchen, Germany
JFC Naples HQ ³	Naples, Italy
AIRCOM Ramstein ⁴ HQ	Ramstein, Germany
MARCOM Northwood HQ	Northwood, UK
NCIS Group HQ ⁵	Casteau, Belgium
KFOR HQ	Pristina, Kosovo
NHQSa HQ	Sarajevo, Bosnia Herzegovina
LANDCOM Izmir HQ	Izmir, Turkey
NAGSF HQ	Sigonella, Italy
ACO Corporate Accounting and Control Office	Casteau, Belgium

² ACO is a functional chain of military command and neither a legal entity nor an organization. The consolidation of statements into the ACO FS cannot be construed as creating any other legal effect that for financial reporting purposes in accordance with IPSAS 6 principles. The term "ACO Headquarters" relates only to those principles and does not supersede the legal status or personality of existing Headquarters across ACO

³ It includes data related to NATO Mission Iraq (NMI), under the control of JFCNP HQ.

⁴ It includes data related to AIRCOM HQ, Ramstein, Germany, Deployable Air Command and Control Centre (DACCC), Poggio Renatico, Italy, Combined Air Operations Centre (CAOC), Uedem, Germany, Combined Air Operations Centre (CAOC), Torrejon, Spain

⁵ It includes data related to the NCISG HQ, SHAPE, Belgium, 1st NSB, Wesel, Germany, 2nd NSB, Grazianise, Italy, 3rd NSB, Bydgoszcz, Poland

Inter-entity balances and transactions have been eliminated in consolidation. ACO has obtained from the above listed Commands the information and financial data for the production of the accounts that show ACO's consolidated assets and liabilities as well as revenues and expenses. The Financial Controllers of the above mentioned controlled entities have certified the correctness of the data reported to ACO Corporate Accounting and Control (CAC) for further analysis and consolidation in the ACO FS. This includes as well the assurance of the check and balance for the asset reporting. However, it has to be highlighted that, due to the lack of resources currently dedicated to asset management mainly in the Engineering area, only a partial certification on those data was issued by BSG at Landcom HQ⁶.

Moreover, it is to be noted that this year the overall process was very difficult due to the lack of personnel at corporate level, the turnover and/or internal reorganisation in few local HQs and the pandemic event impacting all the ACO locations.

The ACO MWA financial data are not consolidated into the primary ACO FS in line with the adapted IPSAS 6 included in the NAF, even when they are considered to be under the control, from a financial reporting perspective, of the NATO Reporting Entity preparing and issuing the FS.

Relevant details are reported by way of a disclosure note (Note M).

Services in-kind

In these consolidated FS, services in kind are not recognised.

Financial Instruments disclosure/presentation

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument.

ACO uses only non-derivative financial instruments as part of its normal operations. These financial instruments include cash and cash equivalents, term deposits, accounts receivable, liabilities. They are recognised in the statement of financial position at fair value.

Financial risk factors

ACO has no powers to borrow money or to invest surplus funds. Other than financial assets and liabilities which are generated by day-to-day operational activities, no financial instruments are held.

Credit risk

ACO's clients are mainly NATO Members' Nations or Troop Contributing Nations (TCNs) very often sponsored by NATO's Nations and NATO agencies. ACO is therefore not exposed to material credit risks.

Liquidity risk

ACO is not exposed to any liquidity risk due to the funding mechanisms from the contributing NATO's Member Nations, as well as internal policies and procedure put in place to ensure there are always appropriate resources to meet the financial obligations.

Foreign currency risk

ACO has some exposure to foreign currency due to some contracts and activities managed in currencies different than EUR, mainly USD, GBP and AFN. A constant monitoring of the activities in foreign currencies is executed to identify the potential exposure to exchange rate variations and to manage the risk accordingly. ACO doesn't maintain significant assets or liabilities in foreign currency, except for some operational balances for services provided at MARCOM HQ, NAEW&C Force, Resolute Support HQ and the TCNs in theatre.

Realised and unrealised gains and losses resulting from the settlement of transactions in foreign currencies and from the revaluation at the reporting date are recognised in the Statement of Financial Performance.

Interest rate risk

ACO has successfully implemented a centralised Cash Management office. The cash holding is mainly kept and managed at corporate level with few exceptions. Liquidity is invested in saving accounts until 3 months, short term deposits for not more than 12 months and term deposits divided in packages that can be liquidated within 31 calendar days at no cost. All investments profiles are in accordance with NFRs, to ensure the best possible return on cash holdings considering the current financial market situation. The exposure to interest risk strictly follows the current market for all public and international organisations. Additional details are disclosed at Note B.1 and B.2.

⁶ Follow-on Staff Assistance visit 19-20 Feb 2020 – Action Report, (SH/FINAC/ICFO/FC74/20 dated 6 Mar. 2020).

Assets

a. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, petty cash, current bank accounts, deposits held with banks, other short-term highly liquid investments with original maturities of three months or less.

Any amounts held in a foreign currency are translated into Euro at the exchange rate on the date of reporting.

b. Short-term investments

These are term deposits mainly with a maturity of more than 3 and less than 12 months. During 2019, ACO made also term deposit packages for a nominal period of 36 months with the possibility to withdraw the liquidity at no cost within 31 calendar days. This measure was done to mitigate the risk of negative interest on the EUR balance held in Treasury for the ACO budget groups and the various projects. The related interests for those packages are reported on a quarterly basis.

c. Receivables

Receivables are stated at net realisable value, after provision for doubtful and uncollectible debts. It also includes amounts due by other NATO entities and nations.

Contribution receivables are recognised when a call for contribution has been issued to the member nations. No allowance for impairment loss is recorded with respect to member nations' assessed contributions receivable except for exceptional and agreed technical reasons.

d. Inventories

In accordance with the adapted IPSAS 12 as approved within the NAF, items acquired from 1 January 2013 and held on stock at the reporting date are recorded as inventories if their useful life is less than one year and they exceed the materiality threshold reported in the table below.

Inventory Categories	Threshold	Basis
Consumable	€50,000	Per location/warehouse
Spare parts	€50,000	Per location/warehouse
Ammunition	€50,000	Per location/warehouse

ACO Inventory items are classified by group classes with the exception of NAEW&C Force GK HQ for which the Tech Degree codes (ERRC) is considered the first filter for categorizing items as inventory. Remaining codes are classified in accordance with the assigned group class.

Shipping/transportation costs have been added for the recognition of new items as actual cost, if identifiable, or apportioned from the total costs of delivering inventory to the warehouse. The materiality threshold is 2% of the overall budget executed by the respective ACO Command.

ACO inventories are reported using the weighted average cost (WAC) method where adjustment is made to cater for the reduced value of non-strategic slow moving items.

Inventories qualified as non-strategic held on stock at the reporting date and which were identified as 'slow moving' over the last three reporting periods are written down to the net realisable value, it being 35% of the last WAC of the same inventory item. The category of 'slow moving' is reported only for items identified at NAEW&C Force HQ.

Inventory and spare parts to be used in meeting NCISG's readiness requirements for NRF and kept in a central stock at NSPA in Capellen are assessed to be under the control of NCISG and valued at replacement cost in the ACO FS.

ACO is reporting as well legacy assets (i.e. those acquired before 1 January 2013) by way of a disclosure note to include the approximate number of items per inventory category for each respective location iaw NAF.

e. Property, Plant and Equipment

According to the NAF all assets qualified as PP&E, which were under the control of ACO at the reporting date, acquired (received) from 1 January 2013 have been capitalised and recognised as non-current assets in the statement of financial position if acquisition cost exceed the ACO capitalisation thresholds.

Depreciation is recognised to write off the cost of the assets, less their residual values, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a

prospective basis.

An item of PP&E is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal or retirement of an item is determined as the difference between the sales proceeds and the carrying amount of the asset and it is recognised in the statement of financial performance.

ACO PP&E categories for static HQs are listed in the table below:

Category	Threshold	Depreciation life
Land	€200,000	N/A
Buildings	€200,000	40 years
Other infrastructure	€200,000	<i>Dependent on type</i>
Installed equipment	€30,000	<i>Dependent on type</i>
Machinery	€30,000	10 years
Vehicles	€10,000	5 years
Aircraft (Planes, Upgrades & Spare parts)	€200,000	<i>Dependent on type</i>
Vessels	€200,000	<i>Dependent on type</i>
Mission equipment	€50,000	3 years
Furniture	€30,000	10 years
Communications	€50,000	3 years
Automated Information Systems	€50,000	3 years

The above categories and thresholds are valid also for the ACO AOM operations assets physically located in a theatre of operation. However, according to the NAF each of the AOM PP&E asset categories has a useful life of one year to reflect the intensive nature of the operations.

PP&E items have been identified based on the groups and classes identified by the US Federal Supply Classification which classifies items of supply identified under the Federal Cataloguing Program. This approach is in place within all the ACO Commands with the exception of NAEW&C Force GK HQ where the primary criterion is related to the serialisation of the item.

Assets acquired through other NATO entities and handed-over at the reporting date to ACO or managed by third parties on behalf of ACO, such as the deployable non-CIS assets stored in the NSPA Depot in Taranto (ITA), are included in the ACO FS.

The CIS assets (Communication and Automated Information System) reported in the 2019 ACO FS relate to NHQSa and NAEW&C Force GK HQ. In those 2 ACO sites the CIS assets are not under the control of the NCIA but of ACO.

The category of 'Asset under Construction' (AuC) refers to NSIP projects expenses occurred after 1 January 2013 for ACO requirements and implemented by SHAPE as HN; AuC is reported by ACO until the project is accepted by the users (completed) and put in service by the receiving HQ. It also includes building, equipment installation and infrastructure projects managed by local HQs via annual budgets mainly related to SHAPE HQ and NAEW&C Force GK HQ.

ACO is not recognising any other AuC.

The PP&E data of Resolute Support include the NATO assets located at HQ RS plus the four regional airports of KAF, MeS, Herat and HKIA where USA, Germany, Italy and Turkey respectively assumed responsibilities as Framework Nations (FWN). The Memorandum Of Understanding (MOUs) for the RS Mission airfield services refer to Technical Agreements (TA) and determine the responsibilities for the use of the NATO-funded assets by the FWN. However, the SHAPE CMRB decision dated 8 September 2014 clarified that the NATO Chain of Command remains accountable for all the NATO funded assets through the end of the RS Mission. To this extent the transfer of NATO assets from ISAF to RS Mission following the procedures set forth by the ACO Directive 80-100 has been considered under the on-going concern principle.

Building and infrastructure facilities in use across the ACO static Commands have been analysed in light of the control criteria set forth by the NAF and the Garrison Support Agreements as well as the Host Nation Support Policy and Standards⁷, the Base Support Concept⁸ and the NSIP regulations, to determine whether they are under the control of ACO or the HNs. Although the analysis highlighted that the HN, besides being the owners maintain also a certain level of control over the infrastructure, these buildings and infrastructure have been reported in the ACO FS even when for some criteria the control over the infrastructure has resulted to be either of ACO or shared

⁷ PO(2011)0020 dated 8 February 2011

⁸ CM-128-2011 dated 16 November 2011

between ACO and the HNs. The HQ facilities in Sarajevo for NHQSa are not reported as they are under the control and responsibility of EUFOR based on the Berlin Plus Agreement.

Further to the PO (2015)0342, Organisational Framework for the Operations and Support of NATO Alliance Ground Surveillance (AGS) Force, dated 17 June 2015, the assets of the NATO AGS Core System are not reported by ACO as they fall under the direct responsibility of the AGS Support Partnership which is governed by the NATO Support and Procurement Agency (NSPA) as executive body. Equipment facilities, building and capital improvements provided by the HN Italy will remain the property of the HN, buildings and capital improvements provided through NATO funding will be reported by NAGSF; whilst ownership rights and accountability responsibilities of the AGS Core system assets will be transferred from NAGSMO to NSPA as the NATO AGS Governance Body.

ACO does not report assets of the Alliance Defence Ground (ADG) and Air Command and Control System (ACCS) either, as they are under National control and responsibility.

ACO is reporting also the legacy assets (i.e. those acquired before 1 January 2013) by way of a disclosure note to include the approximate number of items per asset category for each respective location.

Leases

Leases are classified as finance leases whenever the terms of the lease substantially transfer all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rental payable under lease contract are recognised as an expense in the statement of financial performance on a straight-line basis over the lease term.

In these FS ACO is not reporting any assets or liabilities related to finance lease.

f. Intangible Assets

ACO does not hold intangible assets at the reporting date.

Impairment of tangible and intangible assets

At the end of each accounting period, ACO reviews the carrying amounts of its tangible and intangible to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated, being the greater of the asset's fair value minus costs to sell and value in use. Impairment losses, if any, are recognised in the statement of financial performance.

For 2019 ACO is not reporting any impairment.

Liabilities

a. Payables

Payables (including amounts due to other NATO entities) are amounts due to third parties for goods and services received that remain unpaid as of the reporting date. They are recognised at their fair value. This includes estimates of accrued obligations for goods and services received at year-end but not yet invoiced.

b. Deferred Revenue

Deferred revenue represents income/contributions from member nations and/or third parties that have been called for current or prior years' budgets and that have not yet been recognised as revenue.

c. Advances

Advances are income/contributions from member nations/third parties called or received related to future years' budgets.

d. Employee benefits

The employees in ACO⁹ participate in one of the three NATO pension's funds: the Provident Fund and the Coordinated Pension Scheme are benefit plans, and the Defined Contribution Pension Scheme (DCPS) is a contribution plan, all are administered by NATO and RMCF.

The assets and liabilities for these pension schemes are accounted for centrally at NATO Headquarters and therefore are not recognised in these FS, ACO accounts only for the contribution paid during the year.

DCPS and Provident Fund:

⁹ ACO is neither a legal entity nor an organization in the legal sense of the term. ACO cannot exert the rights and prerogatives, nor bear the liabilities of an employer. In conformity with NAF and IPSAS 6 principles, the term "employee" is meant for the purposes of financial reporting exclusively. It cannot be construed as superseding existing status or contracts between the relevant legal persons, either moral or natural.

ACO contributes a specified percentage of payroll costs to the DCPS and to the Provident Fund to fund the benefits. In addition to the employer's contribution, a portion of the employees' salaries is deducted and contributed to the annual financing of the DCPS, or provident fund. These contributions are recognised as an expense during the year the services are rendered and represent the total pension obligation of the ACO HQs.

Further to an analysis covering the last years of the history of death in service risks in relation to premiums paid by the Organisation during 2012-2015, a compensation of 6 MEUR at the NATO-wide level was agreed by the insurance company. At the end of 2018, the NATO Secretary General decided that a fraction of this amount (circa 1,7 MEUR) had to be paid to NATO staff who were members of the DCPS during the period 2012-2015 in proportion to the contributions they made to the DCPS.

Staff employed by "NATO body" during the period 2012-2015 and affiliated to the DCPS is therefore entitled to a payment to be made from the NATO DCPS accounts. During 2019 staff members have received direct compensation based on the above.

For the ACO entities an amount totalling 918,517.06 EUR has been assigned and paid during the first quarter of 2020. In line with BC-DS (2019)0067 (INV), the aforementioned NATO's DCPS Group Insurance Compensatory Payment has been recognised as miscellaneous income in the FS.

Coordinated Pension Scheme:

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.

ACO recognises a provision in the Statement of Financial Position for the TFR to be paid to the Italian Local Wage Rate employees by JFC HQ Naples as a termination benefit (further details are disclosed in Note D) and other severance and/or bonus obligations to staff members. The accounting treatment consists of partial advance to the national entity responsible for the collection and the allocation of the remaining obligation as provision. The amount is counterbalanced by a receivable from the Nation for future funding when required.

e. Provisions

Provisions are recognised when the entity has a legal or constructive obligation as a result of past event, and where it is probable that an outflow of resources will be required to settle the obligation, and where a reliable estimate of the amount of the obligation can be made.

Net Assets

Net assets represent the residual interest in the assets of the entity after deducting its liabilities. Unspent revenue and potential revenue from liquidation of assets are to be reimbursed to the contributing nations and is recorded as a liability. ACO is therefore not recording any net assets.

Revenue and expense recognition

a. Revenue

Revenue comprises contributions from Member Nations and income from other customers to fund ACO's requirements through the Military Budget (MB) and the NATO Security Investment Programme (NSIP). It is recognised in the year when these contributions are used for their intended purpose. 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. Unused contributions and other revenue that relate to future periods are deferred accordingly.

Interest income is accrued on a time-basis, by reference to the principal outstanding and at the effective interest rate applicable.

Bank interests earned and accrued as of 31 December 2019, exchange rate revenue due to transactions in foreign currency and realised exchange rate revenue in accordance with the entity Policy IPSAS 4 – Effect of the foreign exchange rate are recognised as financial revenue.

b. Expenses

Budgetary expenses are recognised when occurred. Accrual of expenses is based on the criteria of accruing when goods and services are received.

Bank charges, exchange rate losses due to transactions in foreign currency and realised/unrealised exchange rate losses are recognised as finance costs.

Result of the year

In accordance with ACO accounting policies ACO revenue is recognised up to the amount of the matching expenses, therefore any result is the net of financial and/or other miscellaneous income and expenses.

Trust Funds

ACO manages a number of trust funds on behalf of other entities. The primary purpose of trust funding is to provide a mechanism for the NATO Commander to achieve objectives and undertake authorised activities, complementary to the mission, which are not eligible for NATO common funding through the Military budget or the NSIP.

Trust Funds are not considered core activities of ACO. NATO recognises an asset when it controls access to the asset and gains economic benefit or service potential, but matches this to an equal liability. ACO does not recognise any expenditure or revenue in relation to the Trust Funds in its statement of financial performance which it does not control with the only exception of the remaining KSF project related to KFOR, if required. Details are shown in Note K.

Cash-flow statement

The cash flow statement is prepared using the indirect method and the format follows the layout provided by IPSAS 2 (Cash flow statement).

B. Notes to Statement of Financial Position

Assets – Current Assets

1. Cash and cash equivalents

Cash and cash equivalents	2019	2018 Restated	2018
Cash accounts	199,661	249,700	249,700
Petty Cash and Advances	325,125	341,910	341,910
Current Bank Accounts	520,347,647	800,982,541	800,982,541
Clearing-Bank accounts	(8,579)	(39,036)	(39,036)
Cash Equivalent	539,435,986	292, 554,574	292, 554,574
Total	1,060,299,840	1,094,089,689	1,094,089,689

2. Short Term Investments

Short Term Investments	2019	2018 Restated	2018
Total	763,389,492	533,503,561	533,503,561

The overall cash holding in ACO for 2019 is higher compared to the balance of the previous year, due to an increase of 196 MEUR.

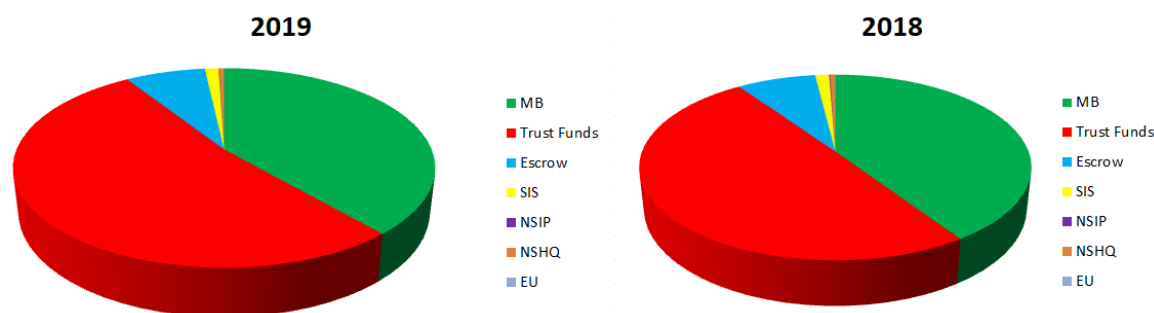
The main variances are for the MB cash holdings with a decrease of 42.5 MEUR, ANA TF cash holdings with an increase of 147 MEUR.

The corresponding balance of the Escrow account, net of the 2019 outflow and the accrued interest is higher than 2018 due to the exchange rate between EUR/USD as of 31 December 2019.

The local cash holdings are kept as low as possible due to the centralised cash management structure within ACO. ACO holds bank accounts in foreign currencies to execute the management of activities conducted in foreign currencies. The balances are constantly monitored to ensure the required balances are available and additional currency is acquired at a reasonable exchange rate when needed.

The breakdown for the main categories is reported below:

Table 1.A – ACO Cash holdings breakdown

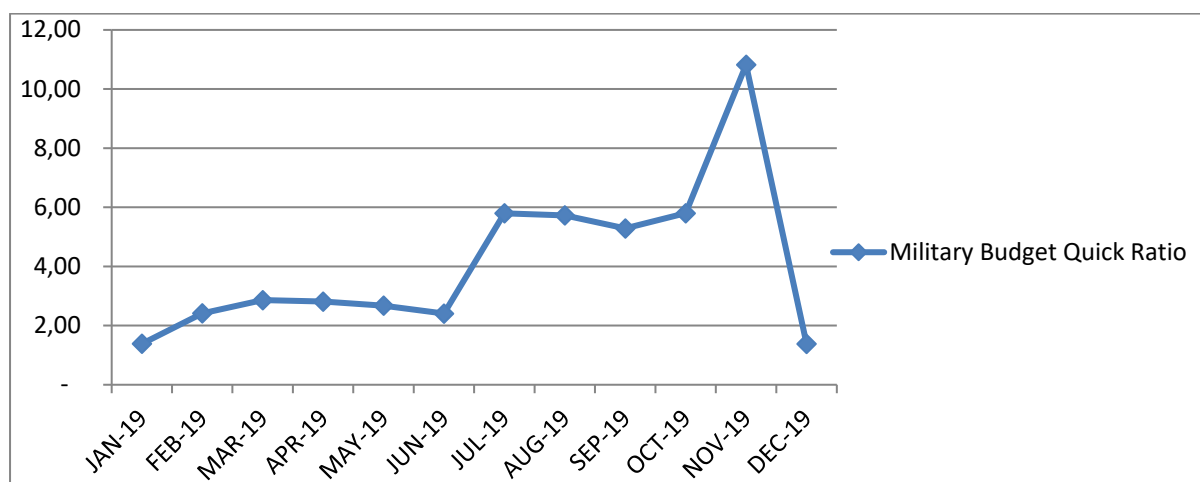


The year-end balance is not representative of the average cash holdings during the financial year. Cash holdings tend to increase towards the end of the financial year due to the cash received upon the final cash call and the request of some nations to liquidate uncalled contributions for the following year. The trend continues until March of the following financial year. As part of the revision of the Cash Call methodology, ACO started to coordinate with Nations payment schedule to mitigate the risk of negative interest of the EUR balance.

The cash holdings are shown in the chart below through the Quick Ratio. This ratio measures the ability of the entity to meet its short-term obligations at a certain point in time; a value higher than 1 means that the entity can pay off all its short-term liabilities.

The ratio is close to 1 at the end of 2019 due to the end of year assessment of accruals which has a direct impact on the level of liability recognised at year-end.

Table 1.B – ACO MB Quick ratio Fiscal year 2019



At ACO the cash and cash equivalents shown in Note B.1 include balances for purposes other than MB budget and NSIP. Since ACO has control of these balances, they are shown as assets of ACO with a matching liability.

Funds categorized as cash equivalent are invested in saving accounts for a period not exceeding 3 months. They are convertible to known amounts of cash and subject to no risk of changes in value. The MB cash equivalent at the end of 2019 is 325 MEUR. The Trust Funds cash equivalent at the end of 2019 is 214 MEUR.

Short-term investments (STIs) include term deposits for a period within 12 months. During 2019, ACO continued to work with term deposit packages for a nominal period of 36 months with the possibility to withdraw the liquidity at no cost within 31 calendar days. This measure was initiated to mitigate the risk of negative interest on the EUR balance held in Treasury for the ACO budget groups and the various projects. The related interests for those packages are reported on a quarterly basis

The STIs reported at the end of 2019 are related to MB Funds for 251 MEUR, ANA Trust Funds for 495 MEUR and to other projects for approximately 17 MEUR.

All investments (savings and term deposits) are managed centrally by ACO CAC branch.

Interest rates

From early 2016 some banks started charging negative interests to customers holding deposits of above 5 MEUR in their bank account. ACO managed so far to avoid any negative interest despite the considerable EUR balance.

During the last months of 2019 ACO reported to the BC that ACO's major bank had announced its intention to reduce drastically, as of 1st March 2020, the ceiling above which negative interests would be applied on EUR liquidity. As part of its risk mitigation strategy, ACO requested to deviate from the FRP art. XXXI in order to place deposits not to exceed 4 years and up to 400 MEUR and work with NOR and other NATO funding entities to reassess the methodology for the annual Calls. The BC approved this request in January 2020. ACO continues to diversify its approach placing cash liquidity with different financial institutions and focusing on its cash forecast analysis in close coordination with all the parties involved (ACO Commands, Nations, and NATO agencies). Moreover, ACO is currently exploring the possibility to establish during the year ad-hoc payment schedule with NATO Nations for the annual official calls as further measure to reduce the impact of negative interest on excess EUR liquidity.

It is to be noted that interest revenue is only one part of the relationship ACO has with banks. ACO pays almost no fees taking into account the volume of the transactions managed in all currencies and countries (involving corresponding banks and potential extra costs). ACO regularly analyses and considers as well the most valuable approach regarding foreign currencies.

3. Receivables

Receivables	2019	2018 Restated	2018
Receivables Contribution from NATO Nations	94,129,606	48,707,136	48,707,136
Receivable Assessment/under call	3,077,596	3,017,200	3,017,200
Receivables from Troop Contributing Nations	68,313,080	45,669,686	45,669,686
Receivables from Other NATO bodies	9,091,112	15,113,485	15,113,485
Receivables from Staff Members	209,481	218,900	218,900
Receivables from Nations	2,360,559	3,725,681	3,725,681
Other Receivables/Recoverable	24,965,520	11,864,991	11,832,491
Total	202,146,953	128,317,081	128,284,580

The main accounts receivable balance is reported in the ACO CAC segment reporting. ACO CAC receives funds mainly from Nations for Calls for Contributions, recovery of the NBC and other calls for contribution.

The balances in foreign currencies are converted to the reporting currency at the NATO exchange rate prevailing at the end of the reporting period.

The difference between 2019 and 2018 of 74 MEUR is mainly due to the increase of the outstanding credits for the contributions from NATO Nations (94 MEUR versus 49 MEUR in 2018) and to an increase of the outstanding credits for the NBC for an overall of 23 MEUR due to NMI and ISAF/HKIA.

Receivable Contribution from NATO Nations

The balance represents mainly outstanding calls for contribution for the various ACO Annual budgets: NCSEP for 39.3 MEUR (14.8 MEUR in 2018), NAEW&C FC for 9.6 MEUR (27.4 MEUR in 2018), AOM for 42.3 MEUR (6.1 MEUR in 2018), AGS for 2.7 MEUR (87 KEUR in 2018). There is an outstanding credit for NSIP for 104 KEUR as well (202 KEUR in 2018).

Called assessment/under called 2018

The balance represents the NCSEP budget increase related to 2018 that will be included in the 2020 2nd Call for ACO.

Receivable from TCNs

Receivable from TCNs	2019	2018 Restated	2018
NHQSa NBC	101,152	88,948	88,948
KFOR NBC	1,899,055	1,761,800	1,761,800
RAC	43,907	41,054	41,054
ISAF/Resolute Support NBC/HKIA	58,218,015	40,136,720	40,136,720
Supreme Food Claim	1,534,914	2,704,044	2,704,044
NMI	6,516,036	937,120	937,120
Total	68,313,080	45,669,686	45,669,686

These credits are for NBC outstanding from Nations participating in the AOM activities and for which ACO is providing services related to their troops.

The outstanding credits are monitored on a recurring basis and a follow-up procedure is in place. The NBC financial management workload continues to be due to the constant necessary liaison between ACO and the TCNs. While some of the amounts have been outstanding for a significant period of time, it is considered that they remain collectable and ACO will continue to work with Nations to pursue resolution.

ISAF/Resolute Support NBC : Resolute Support HQ is still a large NBC work oriented area. The ending receivable balances for 2019 are still showing a significant amount of uncollected NBC items for ISAF/Resolute Support. This is mainly related to HKIA pre-financing and is concentrated on few TCNs. As per NAC (PO (2018)0009), ACO is tasked to manage the HKIA billing and follow-up for TCNs during the fiscal year 2018 and 2019. Efforts are ongoing to resolve significant TCNs outstanding credits for more than 90 days.

NHQSa/EUFOR: NBC continues to be raised for the remaining troops at Camp Butmir. Since 2011, the low costs include some additional charges of severance being made to the TCNs.

KFOR: In 2019 there have been no significant billing issues related to TCNs for KFOR HQ NBC.

NMI: As expected, the NATO Mission in Iraq expanded with a considerable increase in the volume of NBC activities in 2019. The outstanding credits represent the data already assessed by the site and allocated to the corresponding TCNs by the central CAC office in charge of the billing process.

Supreme Food Claim: As the settlement of the Food Case relates to claims brought by Supreme under the Food Basic Ordering Agreement ACO-BRU-08-89, the BC confirmed that NBC mechanism was applicable. Therefore, the TCNs were invoiced for their share of the awarded claim (2.7 MEUR) including legal fees (33 KEUR), calculated on the basis of the annual payments from Oct 2010 until Dec. 2014.

Currently, 43% of the total amount has been reimbursed by the majority of the TCNs billed, leaving an outstanding credit of 57% belonging to few TCNs. ACO will provide a status report to the BC during 2020.

Receivable from staff members¹⁰

These are receivables from staff members, such as short term loans, salaries and allowances to be reimbursed by staff members and other receivables. Collections are assured through payroll withholding and staff separation payments. For 2019, there is an amount of 12,457 EUR for JFCNP related to short-term loans granted to LWR employees.

Other Receivable/Recoverables

These are receivables mainly for outstanding invoices issued to National Support Elements for the Reimbursable Program Host-Tenant Agreement and for other reimbursable procurements. For JFCNP there is an amount of 10 MEUR for invoices to be established related to NBC for NMI. Following the NBC procedure, the amount will be assessed by the local site and reallocated to each TCN accordingly by the central CAC office in the first quarter of 2020.

4. Prepayments

Prepayments	2019	2018 Restated	2018
Advances and Prepayments	23,353,798	18,375,831	18,375,831
Total	23,353,798	18,375,831	18,375,831

Prepayments are net of related accruals previously recorded and associated expenses. Advances entered in foreign currency were accrued in that currency.

The reported amount reflects mainly advances and prepayments to other NATO entities and LWR Severance Pay (TFR) for JFC Naples (2 MEUR) as described in Note A – 'Employee benefits'.

It should be noted that the prepayments related to NAEW&C Force GK HQ is made by advances done to NSPA for FMS for which financial data on accrual basis are not available.

This prepayment balance includes as well FMS cases and 4.4 MEUR paid by NAEW&C Force GK HQ to NAPMA for upgrade related to the Mode 5 projects.

5. Other current assets

Other current assets	2019	2018 Restated	2018
Bank Interest Accrued	2,038,362	2,424,323	2,424,323
Receivable for Provisions	303,151	592,562	1,805,551
Total	2,341,513	3,016,885	4,229,874

The majority of the Bank Interest Accrued relates to deposits with ACO CAC bank accounts and the Escrow USD bank account managed by ACO CAC.

Details for the provisions are reported in Note D.

6. Inventories

Inventories	2019	2018 Restated	2018
Consumables	16,642,692	16,352,336	16,995,664
Spare parts	24,675,484	23,820,130	26,223,798
Total	41,318,176	40,172,465	43,219,462

¹⁰ See footnote n. 8 at page N-7.

ACO is reporting inventory as established in the ACO accounting policy.

No inventory is pledged as security for liabilities.

Inventory	
Opening as of 1 January 2018	37,624,149
Adjustments to opening	89,451
Adjusted opening as of 1 January 2018	37,713,600
Additions	39,204,988
Expensed	(34,748,793)
Write off/write down	(42,548)
Adjustments to ending	(1,954,782)
Ending balance as of 31 December 2018	40,172,465
Opening as of 1 January 2019	40,172,465
Adjustments to opening	74,452
Adjusted opening as of 1 January 2019	40,246,918
Additions	38,167,319
Expensed	(35,807,295)
Write off/write down	(142,427)
Adjustments to ending	(1,146,338)
Ending balance as of 31 December 2019	41,318,176

Restatement/adjustments of the 2018 inventories

The adjustments to ending balances for FY 2018 are mainly due to the NCISG and HKIA inventory restatement. NCISG inventory have been restated to account for items held at the NSPA Central Stock Warehouse in Capellen, because assessed under ACO control and valued at replacement cost. Moreover, the Hamid Karzai International Airport (HKIA) warehouse has been de-recognised for an amount of 3,480,670 EUR since these were not considered as being under ACO control.

Assets - Non-current Assets

7. Property, Plant and Equipment

Property, Plant & Equipment	2019	2018 Restated	2018
Land	-	-	-
Buildings	75,432,397	63,558,179	64,117,359
Other infrastructure	23,676,445	22,861,963	22,689,402
Installed Equipment	33,158,775	28,966,692	28,484,139
Machinery	6,180,441	6,287,461	6,782,594
Vehicles	15,725,747	16,770,707	16,782,557
Aircrafts (Planes, Upgrades & Spare parts)	449,123,399	371,120,207	359,907,453
Mission Equipment	16,941,421	28,505,103	28,939,009
Furniture	2,455,335	2,153,219	2,237,072
Communication (CIS)	12,768,487	19,041,675	19,547,150
Automated Information Systems	3,815,195	5,810,971	5,962,040
AuC	3,500,480	6,834,630	6,834,630
Total for Property, Plant and Equipment	642,778,122	571,910,806	562,283,404

According to the NAF all assets qualified as PP&E under the control of ACO at the reporting date, acquired (received) from 1 January 2013 have been capitalized and recognised as non-current assets in the statement of financial position in accordance with the ACO capitalisation thresholds.

The Communication assets are CIS assets at NAEW&C Force GK HQ and NHQSa HQ.

No assets are pledged as security for liabilities.

Restatement 2018

The main restatements reported relate to NAEW&C Force GK HQ and Resolute Support HQ with a minor restatement relating to JFC Brunssum HQ.

For NAEW&C Force GK HQ, restatements of 11.2 MEUR were made in relation to additional costs received for the aircraft communication and navigation system (CNS/ATM) upgrades completed in 2017 and 2018. Other minor restatements were made in relation to asset categories Buildings (139 KEUR), Other Infrastructures (172 KEUR), Installed Equipment (527 KEUR), Mission Equipment (433 KEUR), Communication (536 KEUR) and AIS (151 KEUR). These were due to updates to the date the asset was placed in service.

For Resolute Support HQ, restatements of 420 KEUR were made in relation to asset categories Buildings in relation to additional information received concerning the PAX Terminal and the date the asset was placed in service. Other restatements were made in relation to asset categories Communications (31 KEUR), Furniture (84 KEUR), Installed Equipment (45 KEUR), Machinery (495 KEUR) and Vehicles (12 KEUR) as part of the deviation on asset reporting for HQRS. A full reconciliation has been conducted between the FinS system and NDSS system while a new reporting threshold of 1000 EUR has been applied where all assets below 1000 EUR are no longer tracked. As a result of the reconciliation, a number of assets have been uploaded or retired to reflect the correction implied by the deviation implemented.

The minor restatement relating to JFC Brunssum HQ for 49KEUR was made relating to reinstated assets meeting the capitalisation threshold at SWHQ Castlegate

2019 data

NAEW: Fleet modernisation

The main variance reported in the PP&E is still for NAEW&C Force GK HQ. NAEW&C Force GK HQ operates a fleet of fourteen surveillance (E-3A) airplanes, however as they relate to data prior 2013, they are not accounted with a financial value.

A programme of material upgrades to the airplanes is ongoing. During 2017 and 2018, the communication and navigation systems (CNS/ATM) were upgraded from analogue to digital, as well as training devices. Additional costs were received in 2019 resulting in the restatements described above.

During 2019, thirteen of the airplanes received the certificate of completion for the enhanced MODE 5 / IP COMMs upgrades authorizing them for operational use. The 99.8 MEUR cost of this upgrade has been included in the financial statements and depreciation started based on the date that the airplane became operational. The final airplane did not receive authorization for operational use until January 2020. Costs for this airplane will be accounted in 2020 in line with NATO Accounting Policy for Property, Plant and Equipment.

As a part of this modernisation, the fleet was reduced from seventeen to fourteen planes. In 2015, 2017 and 2018, three planes were shipped to the USA for destruction and are no longer considered under NAEW's operational control.

In addition, the handover of the restoration of the Fire, Crash and Rescue building at NAEW&C Force GK HQ was completed during 2019. This results in an increase of 8.9 MEUR in the Buildings asset category and 2.2 MEUR in the Installed Equipment asset category.

Other ACO sites

In addition to the Fire, Crash and Rescue building at NAEW&C Force GK HQ, the Building asset category increased by 5.3 MEUR for buildings upgrades at NCISG Vilnius and Bydgoszcz and 2.3 MEUR for building modifications and improvements at KFOR Camp Film City.

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TABLE 7 – Property, Plant and Equipment – Breakdown of transactions for the year

Property, Plant and Equipment	Land	Buildings	Other Infrastructures	Installed Equipment	Machinery	Vehicles		
Acquisition cost as of 1 January 2018	-	84,949,425	69,743,498	28,253,711	10,377,973	11,046,856		
Adjustment to opening balance	-	(30,576)	252,462	7,486,529	(92,947)	(221,054)		
	-	84,918,849	69,995,960	35,740,241	10,285,027	10,825,802		
Additions FinS	-	411,345	1,838,695	1,718,766	1,527,365	4,107,750		
Manual additions - NSIP/Other funding	-	20,914,006	4,379,721	7,512,544	92,673	12,657,274		
Adjustment to additions 2018	-	-	-	-	(540,145)	(11,850)		
Adjustment to additions - NSIP/Other funding	-	-	-	-	-	-		
+ Total Additions	-	21,325,351	6,218,416	9,231,310	1,079,894	16,753,174		
- Disposals/retirements	-	-	-	-	-	-		
- Capitalized/Expensed WIP	-	-	-	-	-	-		
+ Revaluations	-	-	-	-	-	-		
- Impairments	-	21,325,351	6,218,416	9,231,310	1,079,894	16,753,174		
	-	106,244,200	76,214,376	44,971,551	11,364,921	27,578,976		
- Accumulated depreciation	-	(36,574,487)	(48,943,437)	(4,785,539)	(3,838,963)	(6,482,708)		
Adjustment to opening balance	-	(19,692)	(42,486)	(6,980,770)	28,524	221,054		
	-	(36,594,179)	(48,985,923)	(11,766,308)	(3,810,439)	(6,261,655)		
+ Disposals/retirements	-	-	-	-	-	-		
- Depreciation 2018	-	(5,582,930)	(4,329,075)	(4,215,343)	(1,312,033)	(4,546,615)		
Adjustment to depreciation 2018	-	(508,911)	(37,415)	(23,207)	45,012	-		
	-	(42,686,021)	(53,352,414)	(16,004,859)	(5,077,460)	(10,808,270)		
Ending balance as of 31 December 2018	-	63,558,179	22,861,963	28,966,692	6,287,461	16,770,707		
Acquisition cost as of 1 January 2019	-	106,244,200	76,214,376	44,971,551	11,364,921	27,578,976		
Adjustment to opening balance	-	106,244,200	76,214,376	44,971,551	11,364,921	27,578,976		
	-	17,495	(9,335)	3,689,584	1,045,524	1,101,372		
Additions FinS	-	19,258,943	5,788,802	3,997,610	65,498	3,604,483		
Manual additions - NSIP/Other funding	-	19,276,438	5,779,468	7,687,193	1,111,022	4,705,854		
+ Total additions	-	(0)	0	(0)	(35,940)	(49,210)		
- Disposals/retirements	-	-	-	-	-	-		
- Capitalized/Expensed WIP	-	-	-	-	-	-		
+ Revaluations	-	-	-	-	-	-		
- Impairments	-	19,276,438	5,779,468	7,687,193	1,075,082	4,656,644		
Accumulated acquisition cost	-	125,520,638	81,993,844	52,658,744	12,440,003	32,235,621		
- Accumulated depreciation as of 1 January 2019	-	(42,686,021)	(53,352,414)	(16,004,859)	(5,077,460)	(10,808,270)		
Adjustment to opening balance	-	(42,686,021)	(53,352,414)	(16,004,859)	(5,077,460)	(10,808,270)		
	-	0	0	(0)	35,940	49,210		
+ Disposals/retirements	-	-	-	-	-	-		
- Depreciation 2019	-	(7,402,221)	(50,088,242)	(3,495,110)	(1,218,041)	(5,750,814)		
	-	(50,088,242)	(4,964,985)	(58,317,399)	(19,499,969)	(16,509,874)		
Ending balance as of 31 December 2019	-	75,432,397	23,676,445	33,158,775	6,180,441	15,725,747		

	Airplanes & Components	Mission Equipment	Furniture	Communications	AIS	AuC	Total
Acquisition cost as of 1 January 2018	189,865,691	94,566,603	2,287,782	14,025,793	8,419,307	7,116,712	520,653,351
Adjustment to opening balance	11,946,037	(2,601,701)	(503,119)	223,525	-	-	16,459,157
	201,811,727	91,964,902	1,784,663	14,249,318	8,419,307	7,116,712	537,112,508
Additions FinS	435,117	412,607	215,790	17,775	762,234	-	11,447,446
Manual additions - NSIP/Other funding	189,373,946	17,567,276	980,105	14,062,941	2,302,510	2,243,116	272,086,113
Adjustment to additions 2018	-	-	-	46,742	-	-	(505,253)
Adjustment to additions - NSIP/Other funding	-	-	-	-	-	-	-
+ Total Additions	189,809,063	17,979,883	1,195,895	14,127,458	3,064,745	2,243,116	283,028,306
- Disposals/retirements	-	-	(1,207)	-	-	-	(1,207)
- Capitalized/Expensed WIP	-	-	-	-	-	(2,525,199)	(2,525,199)
+ Revaluations	-	-	-	-	-	-	-
- Impairments	189,809,063	17,979,883	1,194,689	14,127,458	3,064,745	(282,082)	280,501,901
Accumulated acquisition cost	391,620,791	109,944,785	2,979,352	28,376,775	11,484,052	6,834,630	817,614,408
- Accumulated depreciation	(5,377,523)	(67,500,989)	(499,006)	(2,642,002)	(3,312,331)	-	(179,956,996)
Adjustment to opening balance	(125,859)	2,566,593	(360,126)	(3,002,128)	-	-	(4,712,763)
	(5,503,383)	(64,934,396)	(499,006)	(3,002,128)	(3,312,331)	-	(184,669,748)
+ Disposals/retirements	-	-	1,207	-	-	-	1,207
- Depreciation 2018	(14,389,777)	(16,101,870)	(747,599)	(5,797,983)	(2,209,681)	-	(59,232,906)
Adjustment to depreciation 2018	(607,424)	(403,417)	(81,439,682)	(534,989)	(151,069)	(5,673,081)	(1,802,154)
	(20,500,584)	(403,417)	(81,439,682)	(534,989)	(151,069)	(5,673,081)	(245,703,602)
Ending balance as of 31 December 2018	371,120,207	28,505,103	2,163,219	19,041,675	5,810,971	6,834,630	571,910,806
Acquisition cost as of 1 January 2019	391,620,791	109,944,785	2,979,352	28,376,775	11,484,052	6,834,630	817,614,408
Adjustment to opening balance	-	-	-	-	-	-	-
	391,620,791	109,944,785	2,979,352	28,376,775	11,484,052	6,834,630	817,614,408
Additions FinS	592,638	1,117,741	812,046	1,278,932	474,802	-	10,120,798
Manual additions - NSIP/Other funding	99,755,655	2,696,597	(273)	895,850	-	4,361,616	140,424,992
+ Total additions	100,348,293	3,814,338	811,773	2,174,782	474,802	4,361,616	150,545,790
- Disposals/retirements	-	(65,312)	(7,750)	(34,195)	(52,424)	-	(244,831)
- Capitalized/Expensed WIP	-	-	-	-	-	(7,695,965)	(7,695,965)
+ Revaluations	-	-	-	-	-	-	-
- Impairments	-	-	804,023	-	422,378	(3,334,149)	-
Accumulated acquisition cost	491,969,084	113,693,812	3,783,375	30,517,363	11,906,429	3,500,480	960,219,393
- Accumulated depreciation as of 1 January 2019	(20,500,584)	(81,439,682)	(826,133)	(9,335,100)	(5,673,081)	-	(245,703,602)
Adjustment to opening balance	-	3,038	(1,979)	-	-	-	1,063
	(20,500,584)	(81,436,644)	(826,133)	(9,337,075)	(5,673,081)	-	(245,702,539)
+ Disposals/retirements	-	51,428	6,454	4,102	52,192	-	199,326
- Depreciation 2019	(22,345,102)	(42,845,685)	(508,361)	(8,415,903)	(17,748,876)	-	(71,938,058)
	(42,845,685)	(96,752,390)	(1,328,040)	(17,748,876)	(8,091,234)	-	(317,441,270)
Ending balance as of 31 December 2019	449,123,399	16,941,421	2,455,335	12,768,487	3,815,195	3,500,480	642,778,122

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8. Other Non-Current Assets

Other Non-Current Assets	2019	2018 Restated	2018
Long Term Receivables for Provisions	8,782,931	7,870,661	6,657,673
Total	8,782,931	7,870,661	6,657,673

The accounts Long Term Receivable for Provisions cover amounts reported as Provisions for which it is not expected a settlement at short-term.

This amount reflects the assets net of Special Carry Forward approved as of 31 December 2019.

Details are provided in Note D.

Liabilities – Current Liabilities**9. Payables**

Payables	2018	2018 Restated	2018
Payables to Suppliers	(377,578,711)	(291,248,578)	(291,248,578)
Payables to Staff members	(360,323)	(64,213)	(64,213)
Other Payables	(7,562,043)	(8,829,848)	(8,797,347)
Total	(385,501,077)	(300,142,639)	(300,110,139)

Accrued amounts for goods and services are not automatically classified by the accounting system to match the reported categories. They are reported as Payable to Suppliers.

Payables to suppliers

Payables to suppliers include:

Suppliers as third parties invoices received from commercial vendors not settled, and goods and services received and accrued where no invoice has been received by the reporting date.

Foreign Military Sales (FMS) cases

This category represents payables due for goods and services acquired for NAEW&C Force GK HQ through NSPA including those related to FMS cases acquired from the US Defence Department through the Agency. To note that ACO is managing directly FMS cases only in SHAPE and NAGSF. Further details are shown in the Note C.16.

Untaken leave

The balance of untaken leave is classified as 'Other payable'. For 2019 the balance is 5.3 MEUR.

Detailed information for the amount reported as untaken leave is disclosed in Note C.

10. Deferred Revenue

Deferred Revenue	2019	2018 Restated	2018
Deferred Revenue MB	(182,331,626)	(159,389,537)	(159,389,537)
Liabilities from MB Lapse	(69,144,614)	(36,642,692)	(36,642,692)
Liabilities from MB Result of the year	(3,242,985)	(5,538,062)	(5,538,062)
Liability from unrealised exchange rate differences	(2,957,077)	(4,957,163)	(4,957,163)
Liabilities from NSIP Cash Call	2,089,858	162,903	162,903
Liabilities from NSIP Accumulated result of the year	27,336	28,664	28,664
Other Deferred Revenue	(1,127,597,725)	(972,297,720)	(972,297,720)
Deferred Revenue Inventory	(41,318,124)	(40,172,465)	(43,219,462)
Deferred Revenue PP&E	(57,557,094)	(55,770,073)	(55,770,073)
Total	(1,482,032,050)	(1,274,576,145)	(1,277,623,142)

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Deferred Revenue MB

Deferred revenue for MB budgets corresponds to contributions for each budget/cost share under ACO responsibility eligible for call to NATO members' Nations for which corresponding expenditures will be incurred after the reporting date. It is accounted for by type, cost share and year in accordance with the ACO policy.

Liabilities from MB Lapse

MB Lapse	2019	2018 Restated	2018
Budgetary lapses	(36,443,629)	(23,785,336)	(23,785,336)
Overestimated accruals	(32,709,051)	(12,818,394)	(12,818,394)
Other adjustments	8,066	(38,962)	(38,962)
Total	(69,144,614)	(36,642,692)	(36,642,692)

These liabilities are used to record unused budget credits authorized as of end of year 2019. The lapse is an amount owed back to the Nations. The balance will be included in the 2nd Assessment call for 2020 and will be distributed by type, cost share and budget year.

The increase in the overestimated accruals is mainly related to Resolute Support. An amount of 27.6 MEUR is for previous accrued expenses reported for NCIA for which the agency released the final invoices during 2019 for the period 2015-2018. 2 MEUR were reported by SHAPE and 1.2 MEUR by NAEW.

Liabilities from Result of the year

Distribution of Result of the year	2019	2018 Restated	2018
Result of the year MB	(1,198,996)	(5,171,303)	(5,171,303)
Unrealised exchange rate gain/loss	(2,000,086)	(321,529)	(321,529)
Liabilities to MB Nations	(45,231)	-	-
Result of the year NSIP	1,328	(45,231)	(45,231)
Liabilities from Result of the year	(3,242,985)	(5,538,062)	(5,538,062)

The net amount of miscellaneous income, interest revenue, bank charges, and realised exchange rate gain/losses to be returned to the Nations is summarised at ACO level, apportioned by budget group and cost share, and reported as a liability. The balance will be included in the 2nd Assessment call for 2020 and will be distributed by type and cost share.

The unrealised gain/loss for exchange rate is not part of the redistribution.

The liability to MB Nations of 45 KEUR is an oversight in the calculation of the calls of previous year and will be cleared with the inclusion in the 2nd Calls for Contribution for 2020.

Liabilities from NSIP Cash Call

ACO is reporting NSIP expenses on a quarterly basis. No funds are requested in advance for ACO; therefore if any positive balance, it is due to expenses to be reimbursed.

Liabilities Result of the year NSIP

Result of the year NSIP	2019	2018 Restated	2018
Cumulated result of previous years	28,664	(16,567)	(16,567)
Result of the year	(1,328)	45,231	45,231
Liabilities from NSIP Result of the year	27,336	28,664	28,664

Interest and results, distributed by cost share are reported on an annual basis to the NOR who is responsible for the redistribution to the Nations via the NSIP call for contributions.

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The balance for Deferred Revenue NSIP for 2029 is nil.

On a quarterly basis, expenses, forecasts and status of the projects are updated in the CIRIS system tracking the NSIP projects for all the HNs. The quarterly revision is the basis for the calculations of the NSIP calls for contributions. Calls not expensed in the year are Deferred Revenue. Any difference is normally returned or received with the following cash calls.

Other Deferred Revenue

The amount represents funds related to ACO non-core activities like SHAPE International School (SIS), NSHQ, EU Operation Althea, Escrow Account and Trust Funds. Even if those activities are defined as non-core, it can be assessed as critical due to their financial management complexity. For two of them the volume is material. The deferred revenue for the Escrow Accounts is kept in the original USD currency and amounts to 135 MEUR as of 31 Dec 2019. Details related to Trust Funds are reported at Note K.

Deferred Revenue Inventory

This amount consists of Deferred Revenue received from Nations used for acquisition of inventories. It will be recognised as revenue in the applicable reporting period

Deferred Revenue PP&E

Revenue is recognised incrementally and equally with the depreciation. The revenue is matched to the depreciation to correspond to revenue earned with the consumption of the asset. With this option, there is no surplus or deficit resulting from asset depreciation or acquisition.

The Current Deferred Revenue reported here represents the counterpart of the PP&E Net Value.

11. Advances

Advances	2019	2018 Restated	2018
Advance MB Contributions	(278,505,239)	(295,160,667)	(295,160,667)
Other Advance	(1,763,968)	(352,976)	(352,976)
Total	(280,269,207)	(295,513,643)	(295,513,643)

Advance MB Contributions

The amount is related to:

- Advance contribution called on the 2nd call 2019 for an amount of EUR 269,485,000 (AGS/NCSEP/AOM/NAEW cost share) and related to budget authorization for 2019. These advances are recorded using appropriate account code by type/year/cost share.
- Advances for an amount of EUR 8,887,489 made by some member Nations, mainly in coordination with the NATO IS Treasury for non ACO called advances.
- Other advances relates mainly to amounts received for NBC.

12. Short Term Provisions

Short Term Provisions	2019	2018 Reclassified	2018
Personnel	(15,000)	(91,202)	(3,193,269)
Services	(288,151)	(301,360)	(508,562)
Total	(303,151)	(392,562)	(3,701,831)

Provisions are assessed using the best accounting estimate available. The amounts of the provisions reported in the ACO 2019 statement of financial position are shown in more detail in Note D.

Provisions are reported as either short term or long term liability based on the assessment of when the cases are expected to be settled and separated into Personnel or Service categories due to the nature of the liability. During 2019, a review of the provisions was undertaken to split provisions into Personnel or Service categories. This resulted in reclassification of some provisions with the main change being that EUR 3,193,268 for the "Trattamento di Fine Rapporto" (TFR) for JFCNP currently recognised as a long term provision for personnel. For 2019, ACO is reporting long term provisions of EUR 11,084,312; the remaining amount of EUR 303,151 is considered as short term.

Liabilities – Non-Current Liabilities

13. Long Term Provisions

Long Term Provisions	2019	2018 Restated	2018
Personnel	(7,141,705)	(6,426,754)	(7,181,987)
Services	(3,942,607)	(4,064,502)	0
Total	(11,084,312)	(10,491,256)	(7,181,987)

See Note B10 for short term provisions.

14. Non-current Deferred Revenue

Deferred Revenue	2019	2018 Restated	2018
Deferred Revenue for PP&E and AuC	(585,221,029)	(516,140,733)	(506,513,332)
Total	(585,221,029)	(516,140,733)	(506,513,332)

Revenue is recognised incrementally and equally with the depreciation. The revenue is matched to the depreciation to correspond to revenue earned with the consumption of the asset. With this option, there is no surplus or deficit resulting from asset depreciation or acquisition.

The non-current Deferred Revenue is the counterpart of the PP&E net of the amount recorded as current deferred revenue.

C. Notes to Statement of Financial Performance

15. Revenue

The revenue recognition is matched with the recognition of expenses against the ACO budgets.

16. Expenses

Expenses for ACO entities are recognised by nature as follows:

a) *Personnel*¹¹

Personnel	2019	2018 Restated	2018
Total	195,379,602	189,657,916	189,657,916

All civilian and military Personnel expenses as well as other non-salary related expenses, in support of common funded activities. The amounts include expenses for salaries and emoluments for approved NATO permanent civilian positions and temporary personnel, for other salary related and non-related allowances including overtime, medical examinations, recruitment, installation, and removal and for contracted consultants and training.

Employee Disclosure

Employees in ACO are compensated for the service they provide in accordance with rules and amounts established by NATO.

The compensation consists of basic salary, various allowances, health insurance, pension plan and other benefits as agreed with each Host Nation and the Protocols of NATO. Cash compensations are exempt from income tax in accordance with NATO Nations agreement. ACO is not liable for retirement benefits.

Different pension plans are applicable to employees in ACO; provident fund, defined benefit plan, and defined contribution plan. All pension plans are managed by NATO HQ and are therefore not included in the ACO FS. Contributions to the plans are expensed when occurred. The total amount paid for 2019 is 4,270,675 EUR (which shows a slight increase as compared to 3,909,417 EUR reported in 2018) for NIC

¹¹ See footnote n. 8 at page N-8.

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staff. Accurate data is not available for locally hired staff, LWR and LCH, but based on available data, expenses are estimated to be 1.5 MEUR.

Untaken leave

Untaken Leave	2019	2018
Opening	4,009,602	3,816,172
Addition	32,501	4,009,602
Reversed	(4,042,103)	(3,816,172)
Ending	5,307,242	4,009,602

IPSAS requires the specific disclosure of employee benefits. Employee benefits relating to the current financial year are reported as an expense under "Personnel" in the Statement of Financial Performance.

The cost for these untaken leave days has been absorbed during the year through the monthly salaries whereas the loss of production capacity when the leave to be taken is pushed forward into the next year. This constitutes an ACO liability towards the future which is recognized. The amount of EUR 32,501 is a restatement for Resolute Support Mission and NHQSa as the threshold for reporting was removed.

Other

Termination benefits are applicable if PE positions are deleted and replacement of an employee is not possible. This change requires approval at high level and budget credits must be approved by the BC. Termination benefits are recorded as a liability when employees have been notified of termination, as described under Note D for provision, and expensed when paid.

ACO has different groups of employees¹². Below is a table showing a summary of the different groups with number for filled positions.

Table C.16.A – ACO Personnel

PE positions	6,608
<i>Military</i>	5,661
<i>Civilian</i>	947
CE Positions	1,437
<i>Military</i>	1,432
<i>Civilian</i>	5
ICC	173
LWR/LCH	970
Others	540

The category 'Others' includes mainly additional military staff provided by Nations.

b) Contractual Supplies and Services

Contractual Suppliers and Services	2019	2018 Restated	2018
Total	769,533,415	743,249,766	742,744,513

Contractual Supplies and Services expenses include expenses for general administrative overheads, and the maintenance costs of buildings/grounds, communication and information systems, transportation, travel expenses, representation/hospitality and miscellaneous expenses. These expenses were mainly needed to meet HQs' operational requirements in order to fulfil the different missions. The expenses reflected in this area are also related to budget credits nominally labelled '*Capital & Investment*'.

During 2019 in NAEW a total amount of 32.5 MEUR was expensed for the ongoing maintenance related to Depot Level Maintenance (DLM).

In 2019 the total expense recorded for Foreign Military Sales (FMS) is 17,134,640 EUR. This financial information is reported in a separate line in accordance with the ACO Policy reported at Note A.

¹² See footnote n. 8 at page N-7.

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Foreign Military Sales (FMS)	2019	2018 Restated	2018
Total	17,134,640	24,286,640	24,286,640

ACO manage directly FMS only for SHAPE HQ and NAGSF HQ. In 2019 NAGSF had an amount of 39,056 EUR to be disclosed, while SHAPE had nil to report.

The amount of EUR 17,095,584 EUR belongs to FMS cases for NAEW managed directly by NSPA. Those expenses are reported in the ACO FS on a modified cash basis build on the cash credit request/outflows exchange between the two NATO entities. The expenses for the financial year are not recognised on accrual basis with the exception of the FMS cases where tangible information is provided by the NAEW customers with regards to the effective delivery of goods and services.

As a result, credits provided by NAEW to NSPA for those FMS cases might be reconciled by the FMS organisation with a considerable time gap between the NATO release of the funds and the final bill. The NAEW&C Force GK HQ conducts twice a year (March and September) FMS case review meetings with several US organisations (AFSAC, DFAS, ANG, NAPMO US Agent, TCG) in close coordination with NSPA. Key factor of these meetings is the review of each single pending FMS case with respect of period of performance, deliveries and budgets in order to ensure financial correctness, at least in terms of cash expenditures as no accruals data are available.

Operating Leases

The following table shows a list of operating leases in force in the various ACO Commands at the reporting date. The disclosure of this information is made for those leases which exceed ACO's financial reporting materiality threshold of 50 KEUR per lease contract/year, in relation to lease payments occurred during the reporting year, and expose ACO to future liabilities beyond the reporting period. The information shown in the table includes the amount of payments recognised as an expense in the reporting period, the total of future payments to be made in the subsequent periods, a general description of the leasing arrangements including renewal or purchase options and/or restrictions.

Table C.16.B – Operating leases

Site	Asset leased	PPE Category	Amount paid (EUR) in 2019	Amount to pay (EUR) in 2020	Amount to pay (EUR) in 2021-2023	Amount to pay (EUR) after 2023	Renewal or purchase options/restrictions
SHAPE	4 Year Operational Lease of one armored vehicle for SACEUR - IFIB ACO-SH-15-09	Transport Equipment	64,200	18,725	-	-	
SHAPE	2 Year Short/Long Term rental, BSG Transportation Services - Blue (Fleet Replacement) 2018 - 2019	Transport Equipment	338,925	-	-	-	
SHAPE	3- Year Lease of reprographic equipment 1 May 2018 - Apr 2022	Printing	170,512	166,010	65,825	-	2 one year options are foreseen beyond 2021
JFCBS	Blue Fleet	Transport Equipment	147,137	147,137	441,410	-	IFIB-ACO-BRU-17-18
JFCBS	Copiers	Printing	64,604	64,604	193,812	-	IFIB-ACO-BRU-18-09
NAEW	SERVERS	CIS	129,537	-	-	-	EXTENSION OF ORIGINAL 13PO3222A
NAEW	PRINTERS	AIS	147,471	145,817	-	-	CONTRACT 2018-007 (EXTENSION OPTION FOR 4 YEARS)
JFCNP	Multifunctional Digital Copiers (Photocopier, Scanner, Printer, Fax)	AIS	182,068	-	-	-	Contract terminated 31-DEC-19. From 01 Jan 2020 service provided through NCA
JFCNP	Villa Addis Ababa for NS2AU	Structures	106,494	106,494	106,494	-	One base year from 01-JAN-17 to 31-DEC-17 plus four option years
JFCNP	NMI One year lease contract 2019 for four vehicles in Taj	Vehicles	52,812	-	-	-	Terminated on 31-DEC-19

c) Depreciation

Depreciation and Amortization	2019	2018 Restated	2018
Total	71,982,772	61,223,476	59,421,321

The amount recognised for 2019 includes depreciation for the different asset categories set out in Table 7 – Property, Plant and Equipment.

The depreciation for each category in 2019 was as follows; 22.3 MEUR for Aircraft upgrades and spare parts, 15.4 MEUR for Mission Equipment, 8.4 MEUR for Communication systems (mainly relating to aircraft communications), 7.4 MEUR for buildings, 5.8 MEUR for Vehicles, 5 MEUR for Other infrastructure, 3.5 MEUR for installed equipment, 2.5 MEUR for AIS (Automated Information Systems), 1.2 MEUR for Machinery and 0.5 MEUR for Furniture. Finally, the Net Book Value (NBV) of assets retired resulted in retirement losses of 45 KEUR (189 KEUR in 2018).

Provisions

The table below provides a summary of the movement in the provisions pending at the reporting date. During 2019, three cases were closed with provisions of 270 KEUR being used. One other case was

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closed with no requirement to meet the costs from provisions set aside. This amount, along with two cases where the estimated provision was lower than in 2018, amounts to the 139 KEUR; the related provision was reversed. Finally, the addition of 913 KEUR relates to one case reassessed and previously reported as a Contingent Liability with no reliable amount; two cases where the likely outflow of economic resources is higher than the amount estimated in 2018, plus two new cases provided for as at 31 December 2019.

Provisions	Amount (EUR)
ACO 2018 FS	10,883,818
Adjustment 2018	-
Restated 2018 / Opening 2019	10,883,818
Addition 2019	912,678
Reversed 2019	(139,396)
Used 2019	(269,637)
Ending Balance 31 Dec 2019	11,387,463

Reimbursable activities

ACO manages a number of reimbursable activities on behalf of other non-ACO entities. The total expenses made by ACO for reimbursable activities in 2019 amount to 62.5 MEUR which reflects an increase of 14.1 MEUR compared to 2018, mainly due to slightly increased real life support services required in the missions. The reimbursable costs relate to a variety of services financially administered by ACO, as reported below.

An amount of approximately 4.6 MEUR (2018 5.2 MEUR) relates to reimbursable costs made by HQ NAEW&C Force GK HQ for the provision of aviation fuel for national use.

An amount of 3.5 MEUR (2018 2.9 MEUR) corresponds to travel services and administration of payrolls provided to the NCIA by JFC Naples HQ, JFC Brunssum HQ, LANDCOM Izmir HQ, AIRCOM Ramstein HQ and MARCOM Northwood HQ.

A total amount of approximately 27 MEUR (2018 12,2 MEUR) corresponds to real life support services provided mainly by NMI, KFOR HQ and Resolute Support HQs to the TCNs, such as messing, water, billeting, and laundry, fuel whose costs are not eligible for common funding and, therefore, shall be borne by the Nations (NBC). The NBC costs are, therefore, pre-financed by ACO and afterwards recovered from the TCNs through an established cost recovery mechanism. The NMI started in OCT-18 with a very limited number of staff that increased over time. Most of the actuals (13 MEUR) are related to the RLS/BLS support provided by the coalition in the sites of Union III, Taji and BDSC. The remaining part is RLS/BLS at Besmayah camp (1,4MEUR) and at the British Embassy Baghdad (1,5MEUR).

Expenses for security guards on SHAPE are managed by SHAPE HQ but reimbursed by Host Nation in accordance with the Garrison Support Agreement; the amount for 2019 is MEUR 3.7.

Expenses for the remaining amount of 23,7 MEUR were made mainly by the ACO Commands on behalf of local NMRs or NSEs, MWAs, Host Nations and other co-located entities in accordance with Memorandum of Understanding or other ad-hoc agreements. This includes, but is not limited to, advance payments made by ACO for shared utilities, maintenance and cleaning services, etc. which is recovered from the customers through charges calculated on a pro-rata basis

Some expenses are also related to the SHAPE Special Litigation (SPL) team¹³

17. Total to be returned

The result of the year is the difference of non-budgetary revenue and expenses, such as interests, exchange rate loss or gain, and depreciation. The amount, except unrealised gain/losses for exchange rate, will be re-distributed to the Nations in the 2nd Assessment Call for 2020.

18. Net Asset

As explained in Note A, ACO is not recording any net assets.

¹³ Reference to BC-DS(2016)0054, dated 14 Nov. 2016, BC-DS(2017)0021, dated 02 Jun. 2017, AC/335-N(2018)0015-AS1

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D. Contingent Assets, Contingent Liabilities and Provisions

Contingent Assets

As required by IPSAS 19. Para 105, a contingent asset is disclosed where an inflow of economic benefits or service potential is probable.

For the 2019 Financial Year, ACO assessed an estimated amount of 1.2 MEUR for LANDCOM HQ for Real Life Service provided to the Host-Nation during the period 2014-2018. The estimated amount reflects the Building Life Expectancy cap of 20% increase for Building older than 20 years. The Service Level Agreement (SLA) between the HQ and the Host Nation is still at the final stage and its signature is expected during 2020. From 2019, the local Finance Office has been tracking any Cost Shared Maintenance in line with the criteria and cost shares reflected in the coordinated SLA document.

Contingent Liabilities and Provisions

Based on IPSAS 19 and nature of items identified in the 2019 reporting period, ACO aggregated Contingent Liabilities and Provisions reported by ACO consolidated entities in the following categories:

- I. **NATO Administrative Tribunal:** includes cases related to NATO employees pending before the NATO Administrative Tribunal (NAT);
- II. **Claims under Art. VIII SOFA:** includes cases related to damages caused to third parties by NATO personnel. The majority of the cases reported relate to damages to property or to individuals, including those provoked due to car accidents or initiated through health and safety Offices. The category also includes claims raised in the Bosnia and Herzegovina (BiH) theatre of operations, although the claim process is governed by the GFAP SOFA and Claims Annex to the Technical Arrangement between the Republic of BiH Ministry of Justice and Implementation forces and not by article VIII of NATO SOFA. The amounts, when disclosed and related to article VIII SOFA, represent 75% due by NATO being the remaining 25% to be paid by the Host Nation; the same cost share does not apply in the BiH where under the terms of GFAP SOFA, the entire burden (100%) for the payment of claims rests with NATO HQ Sarajevo, as legal successor of IFOR and SFOR.
- III. **Labour court cases:** includes cases pending before local Courts in relation to employment issues;
- IV. **Litigations:** includes other cases of legal or contractual litigations such as contractual claims for alleged damages;
- V. **Liabilities due to HQs closure:** includes costs for dismantling/removal of NATO property or any type of direct/indirect liabilities derived from closure of AOMs, ACO Commands, their transformation and transfer or for closure of programmes of works previously contracted.
- VI. **Others:** this is a residual category where there are reported cases which do not fall within one of the above mentioned categories, including liabilities for employees' emoluments due to severance pay, Trattamento di Fine Rapporto (TFR)¹⁴, pensions contributions, etc.

Contingent Liabilities (CL)

The table A below provides the summary of the CL pending at the reporting date as reported by the ACO Commands, broken down into the above mentioned categories, whose possible out-flow of resources can be reliably estimated.

¹⁴ Liabilities due to TFR for JFCNP are only reported as provisions.

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TABLE D.A – Summary of the 2019 CL

CL Categories	Amount (EUR)
I NATO Administrative Tribunal	-
II Claims under Art. VIII SOFA	575,692
III Labour court cases	28,388,277
IV Litigations	676,402
V Liabilities due to HQs closure	1,706,431
VI Others	482,901
TOTAL	31,829,703

A breakdown of these amounts is provided in the following paragraphs, including the disclosure of the CL whose out-flow of resources cannot be reliably estimated.

I. NATO Administrative Tribunal: Nothing to report for 2019.

II. Claims under Art. VIII SOFA: The total amount disclosed under this category is EUR 760,808. Of this, EUR 544,692 was reported by NHQSa, with the remaining amount of EUR 31,000 reported collectively by JFCNP (EUR 30,000) and NAEW (EUR 1,000) representing the possible NATO-share of costs for various alleged damages caused to property or individuals as per the NATO SOFA.

As far as NHQSa is concerned, two claims are due to damages arising from the usage of a factory in Visoko, BIH for an amount of EUR 363,436 and one claim relates to the regularisation of “self-pay” pension contributions for an amount of EUR 171,000. The remaining amount of EUR 10,256 relates to a traffic accident claim. The EUR 30,000 relating to JFCNP relates to a number of claims under Art. VIII SOFA of minor amounts and the remaining EUR 1,000 under this category is for NAEW relating to a traffic incident. This category also includes various cases reported by SHAPE JFCNP, KFOR and NHQSa for which it is not possible to estimate reliably the amount to settle the liability. For KFOR this includes Camp Cabra and for NHQSa potential claims in Glamoc Range.

III. Labour court cases: Out of the total amount of EUR 28,388,277 disclosed in this category, the amount of EUR 27,598,583 relates to NHQSa’s possible liability due to a labour contract dispute. This is an increase on the amount disclosed in 2018 (EUR 8,988,592) due to a new complaint being lodged in 2019 that halted the main proceedings. An update of liabilities has been reported based on the claimants most recent claim submission and it should be noted this amount may change if the claimants make subsequent future claims. A preliminary judgement is scheduled for mid-2020. An amount of 764,946 is reported by SHAPE for litigations pending before the Labour Court in relation to the transfer of the Fire Brigade to the Belgium HN under the HNS Policy and Standards. The remaining amount of EUR 24,748 disclosed in this category is reported by LANDCOM and relates to various liabilities for employment cases pending at the reporting date before the respective local labour Courts.

This category also includes two cases where the amount cannot be determined by the relevant operating unit. One case relates to a previously disclosed case reported by JFCNP for potential claims before the local Labour Court due to cases of death allegedly caused by asbestos. This claim has still not been submitted to the Court. The other case reported by LANDCOM HQ relates to wage related payments in relation to contract termination by NATO. Initial hearings occurred during 2019 and will continue into 2020 and beyond.

IV. Litigations: The total amount disclosed under category IV is EUR 676,402. It is made by two amounts; the first one is a CL already disclosed last year by KFOR amounting to EUR 490,286 (537,500 USD) related to a claim for accommodation for rental services contracted in 1999 with a private company to rent premises for housing and related services for KFOR troops at the Sports and Recreation Centre in Pristina. This case is being handled by the NATO/IS LEGAD. The second part relates to SHAPE and is made by the amount of 186,116 relates to an old NSPA invoice (from 2010) for administration costs relating to HQ deployable assets. SHAPE and NSPA will come to a final assessment regarding this invoice in 2020.

This category also includes two cases where the amount cannot be reliably estimated by the relevant operating unit. One case relates to a claim by a former contractor for NATO and TCNs fuel services for

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ISAF that could be counterbalanced by the ACO counter claim against the company. However, at this stage the potential outflows/inflows of resources cannot be reliably measured, as it was previously reported in the 2018 FS. The other case relates to a challenge to a payment injunction issued against JFCNP in relation to invoices issued by an energy service provider.

V. Liabilities due to HQs closure: Within this category, JFCBS has reported possible liabilities due to the termination of the ISAF mission on 31 December 2014 and the NATO reduced footprint in Resolute Support Mission. The liability is related to the ACO's responsibility towards NSPA for the payment of the LOJL associated with redundant NSPA NIC manpower approved by SHAPE to support the ISAF operation and the RS Mission. The amount of EUR 1,706,431 (EUR 1,579,892 in 2018) represents the updated NATO share of the liability. The costs for this liability are part of the special carry forward of credits approved by the BC from the 2014 ISAF Budget.

In addition, as part of this category, KFOR reported possible liabilities, whose amount cannot be reliably measured, for the dismantling and restoration of Camp Novo Selo.

VI. Others: Liabilities in the amount of EUR 482,901 are updated amounts for RS Severance Pay and Removal Allowance as well as retroactive social contributions reported by JFCNP. JFCBS has reported a contingent liability due to potential compensation for future RS Severance Pay and Removal Allowance for ICCs and LCHs. In accordance with RS Civilian Personnel Policy & Regulation (CPPR), NATO is required to pay Severance Pay and Removal allowance for civilian staff members, ICCs and LCHs, once two consecutive years of employment have been completed. Based on RS CJ1 calculation this liability is estimated at an amount of EUR 392,901 (EUR 334,115 in 2018) and refers to ICCs and LCHs employed in RS who have not yet completed two consecutive years. The costs for those employees who are instead eligible to receive the above mentioned compensation are recognised as a provision in the same category. An amount of EUR 90,000 has been reported by JFCNP in relation to retroactive social contributions in relation to sick leave.

E. Segment Reporting

In accordance with IPSAS 18, ACO discloses financial statement information about distinguishable activities of its consolidated reporting entities. IPSAS 18 distinguishes two types of 'segments':

- a) 'service segments' refer to a distinguishable component of an entity as engaged in providing outputs or achieving particular operating objectives consistent with the overall mission of each entity; and
- b) 'geographical segments' are a distinguishable component of an entity as engaged in providing outputs or achieving particular operating objectives within a specific geographical area.

The financial reporting by segments elected by ACO is based on service segments on the HQ structure shown under the 'Consolidation' section that represents the grouping of activities for which ACO is responsible. In the preparation of the ACO 2019 FS the segment reporting has been prepared in conformity with the accounting policies and also reported in the ACO guidance for EOY 2019.

The tables presented for the segment reporting are adjusted for balances against other parts/segments within the entity. Where reported, the column 'restated' reflects mainly the changes in pre-payments and PP&E. Each segment includes the intercompany balance at year-end between ACO consolidated entities that is cleared at consolidated level.

NSIP is shown as a separate segment and includes all 3 locations executing the different projects for which SHAPE is HN. The aggregated segment information disclosed is reconciled to the information reported in the consolidated FS, according to IPSAS 18, para 64.

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Segment reporting MB
Statement of Financial Position per HQ

	SHAPE HQ			NAGSF HQ			JFC Brunssum HQ		
	2019	2018 RESTATED	2018	2019	2018 RESTATED	2018	2019	2018 RESTATED	2018
ASSETS									
<i>Current Assets</i>									
Cash and Cash Equivalents	14,666	14,333	14,333	303	122	122	55,898	73,891	73,891
Interentity	132,373,024	80,302,999	80,302,999	7,304,110	2,039,698	2,039,698	5,628,862	4,903,801	4,903,801
Receivables	12,452,341	12,862,874	12,862,874	68,855	51,272	51,272	1,409,412	1,578,332	1,578,332
Prepayments	3,848,711	3,945,953	3,945,953	(3,228)	355,938	355,938	22,397	35,727	35,727
Other Current Assets	-	-	-	-	-	-	15,000	84,000	-
Inventories	765,795	584,739	584,739	114,992	81,581	81,581	177,923	189,256	189,256
Total Current Assets	149,454,537	97,710,898	97,710,898	7,485,032	2,528,612	2,528,612	7,309,492	6,865,006	6,781,006
<i>Non-current Assets</i>									
Receivables	-	-	-	-	-	-	-	-	-
Property, plant & equipment	18,551,492	24,398,621	24,398,621	14,497,134	15,195,922	15,195,922	13,966,537	14,396,751	14,357,485
Other Non-current Assets	-	-	-	-	-	-	-	-	84,000
Total Non-current Assets	18,551,492	24,398,621	24,398,621	14,497,134	15,195,922	15,195,922	13,966,537	14,396,751	14,441,485
Total ASSETS	168,006,029	122,109,518	122,109,518	21,982,166	17,724,534	17,724,534	21,276,029	21,261,757	21,222,491
LIABILITIES									
<i>Current Liabilities</i>									
Payables	(142,601,671)	(90,233,870)	(90,233,870)	(7,350,912)	(2,443,360)	(2,443,360)	(6,247,526)	(2,508,760)	(2,508,760)
Deferred Revenue	(9,342,115)	(11,573,266)	(11,573,266)	(847,950)	(799,130)	(799,130)	(1,415,626)	(4,319,765)	(4,319,765)
Advances	(18,869)	(3,300)	(3,300)	-	-	-	-	-	-
Short Term Provisions	-	-	-	-	-	-	(15,000)	(84,000)	-
Other Current Liabilities	-	-	-	-	-	-	-	-	-
Surpl./Deficit to be returned	(292,571)	(581,293)	(581,293)	(1,932)	1,158	1,158	(78,032)	(244,996)	(244,996)
Total Current Liabilities	(152,255,225)	(102,391,730)	(102,391,730)	(8,200,794)	(3,241,333)	(3,241,333)	(7,756,183)	(7,157,521)	(7,073,521)
<i>Non-current Liabilities</i>									
Payables	-	-	-	-	-	-	-	-	-
Long Term Provisions	-	-	-	-	-	-	(421,553)	(524,314)	(608,314)
Deferred Revenue	(15,750,804)	(19,717,789)	(19,717,789)	(13,781,372)	(14,483,201)	(14,483,201)	(13,098,293)	(13,579,921)	(13,540,655)
Other Non-current Liabilities	-	-	-	-	-	-	-	-	-
Total Non-current Liabilities	(15,750,804)	(19,717,789)	(19,717,789)	(13,781,372)	(14,483,201)	(14,483,201)	(13,519,846)	(14,104,236)	(14,148,970)
Total LIABILITIES	(168,006,029)	(122,109,518)	(122,109,518)	(21,982,166)	(17,724,534)	(17,724,534)	(21,276,029)	(21,261,757)	(21,222,491)
NET ASSETS	-	-	-	-	-	-	-	-	-

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	AIRCOM Ramstein HQ			NAEW&C Force HQ			JFC Naples HQ		
	2019	2018 RESTATED	2018	2019	2018 RESTATED	2018	2019	2018 RESTATED	2018
ASSETS									
<i>Current Assets</i>									
Cash and Cash Equivalents	25,828	26,357	26,357	187,202	274,443	274,443	345,508	103,149	103,149
Interentity	1,238,263	1,745,688	1,745,688	44,092,704	40,308,728	40,308,728	13,763,406	8,321,967	8,321,967
Receivables	735,293	1,070,397	1,070,397	4,300,026	3,455,474	3,455,474	13,524,456	5,500,400	5,500,400
Prepayments	13,888	19,661	19,661	3,477,392	9,314,379	9,314,379	1,986,039	3,211,677	3,211,677
Other Current Assets	-	-	-	48,331	178,435	178,435	200,305	200,225	1,497,213
Inventories	120,435	143,548	143,548	33,625,682	32,929,061	32,929,061	100,486	92,601	92,601
Total Current Assets	2,133,707	3,005,650	3,005,650	85,731,336	86,460,520	86,460,520	29,920,199	17,430,019	18,727,007
<i>Non-current Assets</i>									
Receivables	-	-	-	-	-	-	-	-	-
Property, plant & equipment	2,655,545	2,862,738	2,862,738	542,657,711	473,273,126	462,660,843	297,556	317,562	317,562
Other Non-current Assets	-	-	-	-	-	-	5,146,307	5,161,490	3,864,502
Total Non-current Assets	2,655,545	2,862,738	2,862,738	542,657,711	473,273,126	462,660,843	5,443,863	5,479,052	4,182,064
Total ASSETS	4,789,252	5,868,388	5,868,388	628,389,047	559,733,646	549,121,363	35,364,062	22,909,071	22,909,071
LIABILITIES									
<i>Current Liabilities</i>									
Payables	(1,826,540)	(2,808,227)	(2,808,227)	(49,655,466)	(49,417,331)	(49,417,331)	(27,339,238)	(15,116,534)	(15,116,534)
Deferred Revenue	(619,999)	(704,074)	(704,074)	(79,166,720)	(74,080,671)	(74,080,671)	(868,942)	(272,731)	(272,731)
Advances	-	-	-	-	-	-	(3,600)	-	-
Short Term Provisions	-	-	-	(48,331)	(178,435)	(178,435)	(200,000)	-	(3,393,269)
Other Current Liabilities	-	-	-	-	-	-	-	-	-
Surpl./Deficit to be returned	(6,510)	14,276	14,276	(1,159,742)	(961,167)	(961,167)	289,962	(18,200)	(18,200)
Total Current Liabilities	(2,453,049)	(3,498,025)	(3,498,025)	(130,030,259)	(124,637,604)	(124,637,604)	(28,121,818)	(15,407,465)	(18,800,733)
<i>Non-current Liabilities</i>									
Payables	-	-	-	-	-	-	-	-	-
Long Term Provisions	-	-	-	-	-	-	(7,026,136)	(7,257,770)	(3,864,502)
Deferred Revenue	(2,336,203)	(2,370,363)	(2,370,363)	(498,358,788)	(435,096,042)	(424,483,759)	(216,108)	(243,836)	(243,836)
Other Non-current Liabilities	-	-	-	-	-	-	-	-	-
Total Non-current Liabilities	(2,336,203)	(2,370,363)	(2,370,363)	(498,358,788)	(435,096,042)	(424,483,759)	(7,242,244)	(7,501,606)	(4,108,337)
Total LIABILITIES	(4,789,252)	(5,868,388)	(5,868,388)	(628,389,047)	(559,733,646)	(549,121,363)	(35,364,062)	(22,909,071)	(22,909,071)
NET ASSETS	-	-	-	-	-	-	-	-	-

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	NHQSa HQ			LANDCOM Izmir HQ			NCIS Group HQ		
	2019	2018 RESTATED	2018	2019	2018 RESTATED	2018	2019	2018 RESTATED	2018
ASSETS									
<i>Current Assets</i>									
Cash and Cash Equivalents	163,977	333,744	333,744	375,029	1,044,914	1,044,914	9,959	15,745	15,745
Interentity	690,474	649,258	649,258	449,489	(1,393,689)	(1,393,689)	7,060,034	1,518,324	1,518,324
Receivables	116,750	102,334	84,754	876,142	1,034,343	1,034,343	1,385,805	4,010,450	4,010,450
Prepayments	-	-	-	10,241	1,547	1,547	78,987	15,910	15,910
Other Current Assets	39,820	117,925	117,925	2,658	9,415	9,415	-	5,000	5,000
Inventories	1,081,099	994,217	994,217	1,111,714	1,142,578	1,142,578	1,035,404	1,058,971	625,298
Total Current Assets	2,092,119	2,197,478	2,179,898	2,825,273	1,839,108	1,839,108	9,570,190	6,624,400	6,190,727
<i>Non-current Assets</i>									
Receivables	-	-	-	-	-	-	-	-	-
Property, plant & equipment	56,838	-	-	2,866,343	2,643,206	2,643,206	40,625,863	30,696,625	30,696,625
Other Non-current Assets	78,105	-	-	1,781,057	1,277,249	1,277,249	-	-	-
Total Non-current Assets	134,943	-	-	4,647,400	3,920,455	3,920,455	40,625,863	30,696,625	30,696,625
Total ASSETS	2,227,062	2,197,478	2,179,898	7,472,674	5,759,562	5,759,562	50,196,053	37,321,025	36,887,352
LIABILITIES									
<i>Current Liabilities</i>									
Payables	(662,068)	(1,065,715)	(1,048,135)	(1,753,999)	(842,108)	(842,108)	(8,207,131)	(5,310,223)	(5,310,223)
Deferred Revenue	(1,445,692)	(996,759)	(996,759)	(1,242,023)	(1,251,144)	(1,251,144)	(6,298,689)	(4,814,227)	(4,380,554)
Advances	-	-	-	-	-	-	-	-	-
Short Term Provisions	(39,820)	(117,925)	(117,925)	-	(7,202)	(7,202)	-	(5,000)	(5,000)
Other Current Liabilities	-	-	-	-	-	-	-	-	-
Surpl./Deficit to be returned	(1,377)	(17,079)	(17,079)	40,543	154,212	154,212	21,856	(33,147)	(33,147)
Total Current Liabilities	(2,148,957)	(2,197,478)	(2,179,898)	(2,955,479)	(1,946,243)	(1,946,243)	(14,483,964)	(10,162,596)	(9,728,924)
<i>Non-current Liabilities</i>									
Payables	-	-	-	-	-	-	-	-	-
Long Term Provisions	(78,105)	-	-	(1,781,057)	(1,277,249)	(1,277,249)	-	-	-
Deferred Revenue	-	-	-	(2,736,137)	(2,536,071)	(2,536,071)	(35,712,089)	(27,158,429)	(27,158,429)
Other Non-current Liabilities	-	-	-	-	-	-	-	-	-
Total Non-current Liabilities	(78,105)	-	-	(4,517,194)	(3,813,320)	(3,813,320)	(35,712,089)	(27,158,429)	(27,158,429)
Total LIABILITIES	(2,227,062)	(2,197,478)	(2,179,898)	(7,472,674)	(5,759,562)	(5,759,562)	(50,196,053)	(37,321,025)	(36,887,353)
NET ASSETS	-	-	-	-	-	-	-	-	-

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	Resolute Support Mission HQ			KFOR HQ			MARCOM Northwood HQ		
	2019	2018 RESTATED	2018	2019	2018 RESTATED	2018	2019	2018 RESTATED	2018
ASSETS									
<i>Current Assets</i>									
Cash and Cash Equivalents	51,353	84,053	84,053	2,659,847	2,068,547	2,068,547	86,457	71,274	71,274
Interentity	157,290,362	124,463,002	124,463,002	(1,420,483)	(875,606)	(875,606)	2,345,241	171,348	171,348
Receivables	91,109	222,195	207,275	305,393	373,797	373,797	435,242	615,189	615,189
Prepayments	201,737	57,506	57,506	274,511	374,771	374,771	1,087,131	536,779	536,779
Other Current Assets	-	-	-	-	-	-	-	-	-
Inventories	2,972,968	2,872,875	6,353,545	110,860	-	-	100,817	83,039	83,039
Total Current Assets	160,607,529	127,699,632	131,165,381	1,930,128	1,941,508	1,941,508	4,054,888	1,477,630	1,477,630
<i>Non-current Assets</i>									
Receivables	-	-	-	-	-	-	-	-	-
Property, plant & equipment	2,844,993	3,767,878	4,792,025	898,787	3,070,375	3,070,375	837,473	750,108	750,108
Other Non-current Assets	1,777,461	1,431,922	1,431,922	-	-	-	-	-	-
Total Non-current Assets	4,622,454	5,199,800	6,223,948	898,787	3,070,375	3,070,375	837,473	750,108	750,108
Total ASSETS	165,229,983	132,899,432	137,389,329	2,828,914	5,011,882	5,011,882	4,892,361	2,227,738	2,227,738
LIABILITIES									
<i>Current Liabilities</i>									
Payables	(131,893,162)	(122,126,506)	(122,111,585)	(1,632,827)	(1,790,923)	(1,790,923)	(3,963,984)	(1,416,775)	(1,416,775)
Deferred Revenue	(33,228,630)	(10,374,661)	(13,855,331)	(1,044,338)	(3,084,605)	(3,084,605)	(157,744)	(100,808)	(100,808)
Advances	-	(225,472)	(225,472)	-	-	-	-	-	-
Short Term Provisions	-	-	-	-	-	-	-	-	-
Other Current Liabilities	-	-	-	-	-	-	-	-	-
Surpl./Deficit to be returned	2,085,492	923,335	923,335	(151,749)	(128,350)	(128,350)	22,529	34,823	34,823
Total Current Liabilities	(163,036,300)	(131,803,304)	(135,269,053)	(2,828,914)	(5,003,878)	(5,003,878)	(4,099,199)	(1,482,760)	(1,482,760)
<i>Non-current Liabilities</i>									
Payables	-	-	-	-	-	-	-	-	-
Long Term Provisions	(1,777,461)	(1,431,922)	(1,431,923)	-	-	-	-	-	-
Deferred Revenue	(416,222)	335,794	(688,353)	-	(8,005)	(8,005)	(793,162)	(744,978)	(744,978)
Other Non-current Liabilities	-	-	-	-	-	-	-	-	-
Total Non-current Liabilities	(2,193,683)	(1,096,128)	(2,120,276)	-	(8,005)	(8,005)	(793,162)	(744,978)	(744,978)
Total LIABILITIES	(165,229,983)	(132,899,432)	(137,389,329)	(2,828,914)	(5,011,882)	(5,011,882)	(4,892,361)	(2,227,738)	(2,227,738)
NET ASSETS	-	-	-	-	-	-	-	-	-

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	ACO Corporate Accounting and Control Office			NSIP		
	2019	2018 RESTATED	2018	2019	2018 RESTATED	2018
ASSETS						
<i>Current Assets</i>						
Cash and Cash Equivalents	1,055,388,480	1,088,591,884	1,088,591,884	935,333	1,387,233	1,387,233
Short Term Investment	763,389,492	533,503,561	533,503,561	-	-	-
Interentity	(369,868,817)	(261,797,540)	(261,797,540)	(946,668)	(357,978)	(357,978)
Receivables	166,341,891	97,237,311	97,237,311	104,238	202,713	202,713
Prepayments	12,355,994	505,984	505,984	-	-	-
Other Current Assets	2,035,399	2,421,886	2,421,886	-	-	-
Inventories	-	-	-	-	-	-
Total Current Assets	1,629,642,440	1,460,463,085	1,460,463,085	92,903	1,231,968	1,231,968
<i>Non-current Assets</i>						
Receivables	-	-	-	-	-	-
Property, plant & equipment	-	-	-	2,021,851	537,895	537,895
Other Non-current Assets	-	-	-	-	-	-
Total Non-current Assets	-	-	-	2,021,851	537,895	537,895
Total ASSETS	1,629,642,440	1,460,463,085	1,460,463,085	2,114,754	1,769,863	1,769,863
LIABILITIES						
<i>Current Liabilities</i>						
Payables	(156,457)	(3,638,774)	(3,638,774)	(2,210,097)	(1,423,534)	(1,423,534)
Deferred Revenue	(1,345,273,021)	(1,156,857,808)	(1,156,857,808)	2,089,858	162,903	162,903
Advances	(280,246,738)	(295,284,871)	(295,284,871)	-	-	-
Short Term Provisions	-	-	-	-	-	-
Other Current Liabilities	-	-	-	-	-	-
Surpl./Deficit to be returned	(3,966,224)	(4,681,632)	(4,681,632)	27,336	28,664	28,664
Total Current Liabilities	(1,629,642,440)	(1,460,463,085)	(1,460,463,085)	(92,903)	(1,231,968)	(1,231,968)
<i>Non-current Liabilities</i>						
Payables	-	-	-	-	-	-
Long Term Provisions	-	-	-	-	-	-
Deferred Revenue	-	-	-	(2,021,851)	(537,895)	(537,895)
Other Non-current Liabilities	-	-	-	-	-	-
Total Non-current Liabilities	-	-	-	(2,021,851)	(537,895)	(537,895)
Total LIABILITIES	(1,629,642,440)	(1,460,463,085)	(1,460,463,085)	(2,114,754)	(1,769,863)	(1,769,863)
NET ASSETS	-	-	-	-	-	-

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	TOTAL FOR SEGMENTS			ELIMINATIONS			CONSOLIDATED		
	2019	2018 RESTATED	2018	2019	2018 RESTATED	2018	2019	2018 RESTATED	2018
ASSETS									
<i>Current Assets</i>									
Cash and Cash Equivalents	1,060,299,840	1,094,089,689	1,094,089,689	-	-	-	1,060,299,840	1,094,089,689	1,094,089,689
Short Term Investment	763,389,492	533,503,561	533,503,561	-	-	-	763,389,492	533,503,561	533,503,561
Interentity	-	-	-	-	-	-	-	-	-
Receivables	202,146,953	128,317,081	128,284,580	-	-	-	202,146,953	128,317,081	128,284,580
Prepayments	23,353,798	18,375,831	18,375,831	-	-	-	23,353,798	18,375,831	18,375,831
Other Current Assets	2,341,513	3,016,885	4,229,874	-	-	-	2,341,513	3,016,885	4,229,874
Inventories	41,318,176	40,172,465	43,219,462	-	-	-	41,318,176	40,172,465	43,219,462
Total Current Assets	2,092,849,773	1,817,475,512	1,821,702,997	-	-	-	2,092,849,772	1,817,475,512	1,821,702,997
<i>Non-current Assets</i>									
Receivables	-	-	-	-	-	-	-	-	-
Property, plant & equipment	642,778,122	571,910,806	562,283,404	-	-	-	642,778,122	571,910,806	562,283,404
Other Non-current Assets	8,782,931	7,870,661	6,657,673	-	-	-	8,782,931	7,870,661	6,657,673
Total Non-current Assets	651,561,053	579,781,467	568,941,077	-	-	-	651,561,053	579,781,467	568,941,077
Total ASSETS	2,744,410,826	2,397,256,979	2,390,644,074	-	-	-	2,744,410,825	2,397,256,979	2,390,644,074
LIABILITIES									
<i>Current Liabilities</i>									
Payables	(385,501,077)	(300,142,640)	(300,110,139)	-	-	-	(385,501,077)	(300,142,640)	(300,110,139)
Deferred Revenue	(1,478,861,632)	(1,269,066,746)	(1,272,113,743)	3,170,418	5,509,399	5,509,399	(1,482,032,050)	(1,274,576,145)	(1,277,623,142)
Advances	(280,269,207)	(295,513,643)	(295,513,643)	-	-	-	(280,269,207)	(295,513,643)	(295,513,643)
Short Term Provisions	(303,151)	(392,562)	(3,701,831)	-	-	-	(303,151)	(392,562)	(3,701,831)
Other Current Liabilities	-	-	-	-	-	-	-	-	-
Surpl./Deficit to be returned	(3,170,418)	(5,509,399)	(5,509,399)	(3,170,418)	(5,509,399)	(5,509,399)	-	-	-
Total Current Liabilities	(2,148,105,485)	(1,870,624,990)	(1,876,948,755)	-	-	-	(2,148,105,485)	(1,870,624,990)	(1,876,948,755)
<i>Non-current Liabilities</i>									
Payables	-	-	-	-	-	-	-	-	-
Long Term Provisions	(11,084,312)	(10,491,256)	(7,181,987)	-	-	-	(11,084,312)	(10,491,256)	(7,181,987)
Deferred Revenue	(585,221,029)	(516,140,733)	(506,513,332)	-	-	-	(585,221,029)	(516,140,733)	(506,513,332)
Other Non-current Liabilities	-	-	-	-	-	-	-	-	-
Total Non-current Liabilities	(596,305,341)	(526,631,989)	(513,695,319)	-	-	-	(596,305,341)	(526,631,989)	(513,695,319)
Total LIABILITIES	(2,744,410,826)	(2,397,256,979)	(2,390,644,074)	-	-	-	(2,744,410,825)	(2,397,256,979)	(2,390,644,074)
NET ASSETS	-	-	-	-	-	-	-	-	-

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Segment reporting MB
Statement of Financial Performance per HQ

	SHAPE HQ			NAGSF HQ			JFC Brunssum HQ		
	2019	2018 RESTATED	2018	2019	2018 RESTATED	2018	2019	2018 RESTATED	2018
REVENUE									
Revenue	(369,862,215)	(336,414,748)	(336,414,748)	(17,437,926)	(14,076,878)	(14,076,878)	(25,839,368)	(21,251,278)	(21,242,229)
Other Revenue	(257,021)	(576,945)	(576,945)	-	-	-	(255,775)	(256,049)	(256,049)
Financial Revenue	290,814	(480,310)	(480,310)	(2,143)	1,123	1,123	51	(51)	(51)
Total to be returned to the Nations	292,571	581,293	581,293	1,932	(1,158)	(1,158)	78,032	244,996	244,996
Total REVENUE	(369,535,852)	(336,890,709)	(336,890,709)	(17,438,138)	(14,076,913)	(14,076,913)	(26,017,061)	(21,262,382)	(21,253,333)
EXPENSES									
Expenses	361,592,513	325,151,249	325,151,249	16,723,938	13,507,718	13,507,718	25,157,255	20,393,996	20,393,996
Personnel	37,346,352	36,295,103	36,295,103	1,299,967	938,985	938,985	10,573,122	9,218,111	9,218,111
Contractual Supplies and Services	324,246,161	288,817,184	288,817,184	15,384,915	12,524,726	12,524,726	14,584,133	11,175,885	11,175,885
Foreign Military Sales (FMS)	-	38,962	38,962	39,056	44,008	44,008	-	-	-
Depreciation	8,269,702	11,263,499	11,263,499	713,988	569,160	569,160	853,875	824,459	815,410
Provisions	1,227	-	-	-	-	-	-	32,823	32,823
Other Expenses	-	-	-	-	-	-	897	-	-
Financial Costs	(327,591)	475,962	475,962	211	35	35	5,034	11,104	11,104
Total EXPENSES	369,535,852	336,890,709	336,890,710	17,438,138	14,076,913	14,076,913	26,017,061	21,262,382	21,253,333
Result of the year	-	-	-	-	-	-	-	-	-

	AIRCOM Ramstein HQ			NAEW&C Force HQ			JFC Naples HQ		
	2019	2018 RESTATED	2018	2019	2018 RESTATED	2018	2019	2018 RESTATED	2018
REVENUE									
Revenue	(20,537,794)	(21,760,015)	(21,760,015)	(286,247,201)	(285,128,346)	(283,178,420)	(44,262,830)	(41,025,585)	(41,025,585)
Other Revenue	(19,201)	(13,404)	(13,404)	(1,616,502)	(2,467,182)	(2,467,182)	(101,262)	(193,389)	(193,389)
Financial Revenue	4,857	15,785	15,785	(376,601)	(237,148)	(237,148)	4,102	(10,131)	(10,131)
Total to be returned to the Nations	6,510	(14,276)	(14,276)	1,159,742	961,167	961,167	(289,962)	18,200	18,200
Total REVENUE	(20,545,628)	(21,771,909)	(21,771,909)	(287,080,563)	(286,871,509)	(284,921,583)	(44,649,952)	(41,210,904)	(41,210,904)
EXPENSES									
Expenses	19,884,361	20,968,446	20,968,446	241,760,060	253,055,793	253,055,793	44,201,689	41,134,099	41,134,099
Personnel	4,877,478	4,565,281	4,565,281	74,994,597	75,566,353	75,566,353	17,119,538	14,582,307	14,582,307
Contractual Supplies and Services	15,006,884	16,403,165	16,403,165	149,669,879	153,285,770	153,285,770	27,082,151	26,551,792	26,551,792
Foreign Military Sales (FMS)	-	-	-	17,095,584	24,203,670	24,203,670	-	-	-
Depreciation	653,433	791,569	791,569	44,617,246	32,941,588	30,991,661	75,900	71,199	71,199
Provisions	-	-	-	-	-	-	-	-	-
Other Expenses	742	-	-	-	-	-	-	-	-
Financial Costs	7,092	11,895	11,895	703,257	874,128	874,128	372,363	5,606	5,606
Total EXPENSES	20,545,628	21,771,909	21,771,909	287,080,563	286,871,509	284,921,583	44,649,952	41,210,904	41,210,904
Result of the year	-	-	-	-	-	-	-	-	-

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	NHQSa HQ			LANDCOM Izmir HQ			NCIS Group HQ		
	2019	2018 RESTATED	2018	2019	2018 RESTATED	2018	2019	2018 RESTATED	2018
REVENUE									
Revenue	(2,558,879)	(3,112,675)	(3,095,095)	(10,923,917)	(11,770,665)	(11,770,665)	(45,940,936)	(34,471,360)	(34,471,360)
Other Revenue	(2,057)	(539,239)	(556,819)	(102)	(407,782)	(407,782)	(14,444)	(2,703)	(2,703)
Financial Revenue	(1,220)	(1,003)	(1,003)	(16,435)	(25,148)	(25,148)	28,456	(28,429)	(28,429)
Total to be returned to the Nations	1,377	17,079	17,079	(40,543)	(154,212)	(154,212)	(21,856)	33,147	33,147
Total REVENUE	(2,560,778)	(3,635,838)	(3,635,838)	(10,980,997)	(12,357,807)	(12,357,807)	(45,948,780)	(34,469,346)	(34,469,346)
EXPENSES									
Expenses	2,545,329	3,575,492	3,575,492	10,299,448	12,096,758	12,096,758	41,491,944	32,115,555	32,115,555
Personnel	1,742,827	2,939,621	2,939,621	3,659,951	3,860,784	3,860,784	7,546,046	7,554,097	7,554,097
Contractual Supplies and Services	802,502	635,871	635,871	6,639,497	8,235,974	8,235,974	33,945,898	24,561,458	24,561,458
Foreign Military Sales (FMS)	-	-	-	-	-	-	-	-	-
Depreciation	13,549	59,096	59,096	127,863	74,559	74,559	4,453,991	2,350,805	2,350,805
Provisions	52	-	-	496,606	-	-	-	5,000	5,000
Other Expenses	219	75	75	-	-	-	-	-	-
Financial Costs	1,628	1,175	1,175	57,080	186,491	186,491	2,844	(2,014)	(2,014)
Total EXPENSES	2,560,778	3,635,838	3,635,838	10,980,997	12,357,807	12,357,807	45,948,780	34,469,346	34,469,346
Result of the year	-	-	-	-	-	-	-	-	-

	Resolute Support Mission HQ			KFOR HQ			MARCOM Northwood HQ		
	2019	2018 RESTATED	2018	2019	2018 RESTATED	2018	2019	2018 RESTATED	2018
REVENUE									
Revenue	(200,407,431)	(221,757,435)	(221,394,082)	(18,922,468)	(16,765,338)	(16,765,338)	(10,271,180)	(8,526,286)	(8,526,286)
Other Revenue	(64,496)	-	-	(111,420)	(227,834)	(227,834)	-	-	-
Financial Revenue	902,625	827,555	827,555	(44,784)	(842)	(842)	7,828	34,138	34,138
Total to be returned to the Nations	(2,085,492)	(923,335)	(923,335)	151,749	128,350	128,350	(22,529)	(34,823)	(34,823)
Total REVENUE	(201,654,793)	(221,853,215)	(221,489,862)	(18,926,924)	(16,865,663)	(16,865,663)	(10,285,882)	(8,526,971)	(8,526,971)
EXPENSES									
Expenses	193,349,337	212,762,439	212,257,186	13,467,929	13,224,518	13,224,518	10,235,051	8,494,324	8,494,324
Personnel	27,819,458	26,546,067	26,546,067	6,002,411	5,548,693	5,548,693	2,397,855	2,042,516	2,042,516
Contractual Supplies and Services	165,529,879	186,216,372	185,711,119	7,465,519	7,675,825	7,675,825	7,837,195	6,451,808	6,451,808
Foreign Military Sales (FMS)	-	-	-	-	-	-	-	-	-
Depreciation	6,712,556	8,619,762	8,776,582	5,454,539	3,625,820	3,625,820	36,130	31,962	31,962
Provisions	345,539	375,234	360,313	-	-	-	-	-	-
Other Expenses	2,214	-	-	-	-	-	-	-	-
Financial Costs	1,245,148	95,780	95,780	4,455	15,326	15,326	14,701	685	685
Total EXPENSES	201,654,793	221,853,216	221,489,862	18,926,924	16,865,663	16,865,663	10,285,882	8,526,971	8,526,971
Result of the year	-	-	-	-	-	-	-	-	-

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	ACO Corporate Accounting and Control Office			NSIP		
	2019	2018 RESTATED	2018	2019	2018 RESTATED	2018
REVENUE						
Revenue	-	-	-	(1,338,802)	(713,935)	(713,935)
Other Revenue	(918,517)	-	-	-	-	-
Financial Revenue	(1,375,040)	(8,371,174)	(8,371,174)	(1,357)	(22,306)	(22,306)
Total to be returned to the Nations	1,966,138	4,360,103	4,360,103	1,328	(45,231)	(45,231)
Total REVENUE	(327,419)	(4,011,070)	(4,011,070)	(1,338,831)	(781,472)	(781,472)
EXPENSES						
Expenses	-	-	-	1,338,802	713,935	713,935
Personnel	-	-	-	-	-	-
Contractual Supplies and Services	-	-	-	1,338,802	713,935	713,935
Foreign Military Sales (FMS)	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-
Provisions	-	-	-	-	-	-
Other Expenses	-	-	-	-	-	-
Financial Costs	327,419	4,011,070	4,011,070	29	67,537	67,537
Total EXPENSES	327,419	4,011,070	4,011,070	1,338,831	781,472	781,472
Result of the year	-	-	-	-	-	-

	TOTAL FOR SEGMENTS			ELIMINATIONS			CONSOLIDATED PERFORMANCE		
	2019	2018 RESTATED	2018	2019	2018 RESTATED	2018	2019	2018 RESTATED	2018
REVENUE									
Revenue	(1,054,550,949)	(1,016,774,544)	(1,014,434,635)	-	-	-	(1,054,550,949)	(1,016,774,544)	(1,014,434,635)
Other Revenue	(3,360,797)	(4,684,527)	(4,702,108)	(843,424)	(413,057)	(398,137)	(2,517,373)	(4,271,470)	(4,303,971)
Financial Revenue	(578,846)	(8,297,940)	(8,297,940)	-	-	-	(578,846)	(8,297,940)	(8,297,940)
Total to be returned to the Nations	1,198,996	5,171,303	5,171,303	-	-	-	1,198,996	5,171,303	5,171,303
Total REVENUE	(1,057,291,596)	(1,024,585,709)	(1,022,263,380)	(843,424)	(413,057)	(398,137)	(1,056,448,172)	(1,024,172,651)	(1,021,865,243)
EXPENSES									
Expenses	982,047,656	957,194,322	956,689,069	-	-	-	982,047,656	957,194,322	956,689,069
Personnel	195,379,602	189,657,916	189,657,916	-	-	-	195,379,602	189,657,916	189,657,916
Contractual Supplies and Services	769,533,415	743,249,766	742,744,512	-	-	-	769,533,415	743,249,766	742,744,513
Foreign Military Sales (FMS)	17,134,640	24,286,640	24,286,640	-	-	-	17,134,640	24,286,640	24,286,640
Depreciation	71,982,772	61,223,476	59,421,321	-	-	-	71,982,772	61,223,476	59,421,321
Provisions	843,424	413,058	398,136	843,424	413,058	398,136	-	-	-
Other Expenses	4,072	75	75	-	-	-	4,072	75	75
Financial Costs	2,413,672	5,754,779	5,754,779	-	-	-	2,413,672	5,754,779	5,754,779
Total EXPENSES	1,057,291,596	1,024,585,709	1,022,263,380	843,424	413,058	398,136	1,056,448,172	1,024,172,651	1,021,865,243
Result of the year	-	-	-	-	-	-	-	-	-

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F. Related Parties Disclosure

IPSAS 20 requires that financial statements disclose the existence of related party relationships and transactions between the entity and its related parties. Under IPSAS 20 related parties are parties that control or have significant influence over the reporting entity.

(1) Identification of ACO related parties.

- (a) Key Management Personnel (KMP). KMP include members of the governing body **who have the greatest responsibility for the government of ACO** and their close family members. Based on the definitions provided by IPSAS 20 and the KMP within ACO have been identified as follows¹⁵:
 - i. Members of the governing body of the entity: SACEUR'S Commanders' Conference (SCC)¹⁶ which acts as the **ACO Board of Directors**.
 - ii. Key advisors: the members of the SHAPE Management Board/Crisis Operations Board (SMB/COB) are considered as the **key advisors**.
 - iii. Senior management group of the reporting entity: **the ACO Management Board is the principle executive body within ACO** for implementing command-wide strategic management on behalf of SACEUR
- (b) Consolidated entities: they are the ACO subordinate Commands that are controlled by SHAPE. The list of those entities is provided in the Note A.
- (c) Other NATO entities: this includes the NATO agencies which provide goods and services to ACO at an agreed price.

(2) Identification of the transactions between ACO and its related parties.

- (a) ACO and the KMP. Since the remuneration of the military personnel is a national responsibility under the principle of 'costs lie where they fall' the only amount charged against the international funds is to cover the salary payment of 3 NATO International Civilians (NICs) identified within this category, i.e. the ACO Financial Controller, the SHAPE Legal Advisor and the SHAPE Chief of the Strategic & International Affairs. The net remuneration received during the reporting year by these 3 NICs, including any salary transfer in foreign currencies, amounts to 545,048 EUR (corresponding to 135,964 EUR plus 175,070 EUR plus 234,014 EUR, respectively, for the three mentioned NICs).

As a result of a campaign of enhancing transparency at ACO and in accordance with IPSAS 20 requirements, as well as the NATO code of conduct, the KMP were requested to fill in and sign a declaration statement of any related party transaction between them, their close family members and ACO. The statements made by the ACO KMP were all collected prior to publishing the 2019 FS. They will not be given public disclosure but only made available upon request for audit purposes.

- (b) ACO and its consolidated entities. All intercompany transactions are posted and balances are reconciled with ACO CAC as of the reporting date. Intercompany balances are eliminated as part of the consolidation.
- (c) ACO and other NATO entities. ACO is an integral part of NATO and it transacts in its normal business activities with other NATO bodies and these transactions occur at cost.

(3) Gratuities

As part of the effective management of the ethic program and to specifically ensure that any actual, potential or apparent conflicts of interest arising from staff members' financial interests, business relationships or other outside activities can be identified and managed in the best interest of ACO, a list of gratuities accepted by the ACO Commanders on behalf of the respective Headquarters is submitted annually to ACO in accordance with the prescriptions of the ACO Directive 60-54. A negative statement is also requested to be reported to ACO.

(4) Representation of funds

The current ACO Directive for Hospitality and Representation aims at reducing the bureaucracy and focuses on the distinction between Representation versus Hospitality, aligns the type of expenditures eligible for both Funds as well as the ratio to be used between guest(s) and host(s).

¹⁵ The composition and Job titles have been updated in accordance with the AD 015-004, ACO High level Business Processes, dated 31 Oct. 2013.

¹⁶ Only the ACO KMP of the SCC that are part of the NATO Command Structure, plus the NAEW&C Force GK Commander and Commander NAGSF.

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Within ACO Representation and Hospitality funds are provided to high officials of the ACO Headquarters, primarily the Commanders who may make sub-allocations to their most senior staff and deputy Commanders.

During 2019 the total expenditure made by ACO for Representation amounted to 362.6 KEUR which represents 75% of the overall authorised budget of 485.5 KEUR.

G. Events after Reporting Date

ACO is required to disclose events, both favourable and unfavourable, that occurred between the reporting date and the date when the FS are authorized for issue by the SACEUR and the ACO Financial Controller. IPSAS requires two types of events which should be identified:

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

ACO is not aware of any events categorized under the two categories that need to be reported.

It is to be noted that the outbreak of the pandemic crisis in the first period of 2020 will have an impact on the ACO activities. However, it is too early to assess its financial implication ACO-wide.

H. MB Budget Execution

According to article 34.4 of the NFRs ACO has included the ACO Budget execution report in its FS. In addition, in line with BC-D(2019)0037(INV) and in view of the performance of the Budget Holders and the timely presentation of the Financial Statements, it was considered that the 3rd Budget Execution Report could be discontinued and overall assessment which formed an important part of the 3rd Budget Execution Report could be incorporated directly into the Financial Statements.

It is worth noting that although ACO deems that the ACO budgets and the actual amounts in its FS are prepared on a comparable basis, there are, in fact some differences.

The budgets in the year concerned do include a commitment-based component carried over from the past two years; however, excluding the special carry forwards which are approved by the relevant Committee under exceptional circumstances, the percentage in the ACO budgets of amounts estimated on a commitment basis versus those prepared on actual and accrual basis is significantly lower and it can be considered not material.

The ACO budget groups were approved by the BC in BA3 in the following amounts:

Table H.1 ACO Budget Groups: approved BA3 amounts

Budget Category	Amount (EUR)
ACO portion of the NATO Command Structure Entities and Programmes (NCSEP)	491,276,194
ACO portion of the NCS-Adaptation	15,328,209
Alliance Operations and Missions (AOM)	272,877,813
NAEW&C Force	261,999,999
NAGSF	36,554,610
TOTAL ACO	1,078,036,825

The figures contained in this report represent the net result of all transfers, costs increases and decreases and the impact of changes in parity and inflation rates during the reporting period. As a result of these

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fluctuations, reductions were implemented across ACO, as necessary, to offset increased legal obligations and prioritized operational requirements.

NATO COMMAND STRUCTURE ENTITIES AND PROGRAMMES (NCSEP)

The final Budget Authorization (BA3) for the NCSEP budget totalled 491.3 MEUR. The combined execution rate reached 97%, which includes Regular Carry Forwards totalling 14.4 MEUR as detailed below of which 1.7 MEUR relates to AD(G), (BC 164), specifically due to delays in service delivery for routine repair cases and RAT-31 LIP Spares.

The BC approved three special carry forwards in the ACO portion of the 2019 NCSEP: 300 KEUR in SHAPE (BC 101) for vehicles and building maintenance; 980.5 KEUR in NCCB (BC 177) for upgrades to the Mission Information Room; and 100 KEUR in NCISG (BC 178) for procurement of consumable supplies.

With BC-D (2019)0229 (INV) ACO already anticipated 4.6 MEUR lapsable credits in this budget group and provided explanations for these expected lapses. It was also reported that another 0.5 MEUR will become lapsable if not unfrozen in the JFCBS budget to mitigate the delay in the ITM project. The final lapse in this budget group amounts to 13 MEUR that will be returned to the Nations. The additional lapse of 8.4 MEUR includes, but is not limited to: some 1.5 MEUR in the SHAPE (BC 101) budget (lower than expected fill rates for both the NATO International Civilian (NIC) and the LWR payroll accounts, under execution of projects, and savings in utilities and general maintenance contracts), 1.8 MEUR in the ACCS Support (BC 166) budget (delays in NSPA services), 2.8 MEUR in the NCISG (BC 178) budget (delays in recruitment process of vacated posts, lower than expected costs of RLS driven by delays in several infrastructure projects and a shift of DFAS mitigation project from NCISG budget to NCS Adaptation budget (to be executed within Tranche 3)), and 2.3 MEUR in the AIRCOM (BC 105) budget (NCIA's inability to provide a service listed in the SLA). The AIRCOM SLA requirement in question was linked to the unsuccessful NCIA recruitment of 20 additional posts (AIRCOM-wide) screened by the WGTNE and approved in 2019 budget. As of 1 Nov 2019, NCIA had successfully completed/contracted only one of these posts. ACO, in our capacity as an intelligent customer, challenged the NCIA invoice for 2019 services, and the Agency agreed to provide a credit note for the corresponding amount.

NATO COMMAND STRUCTURE ADAPTATION (ACO PORTION)

The final Budget Authorization (BA3) for the ACO NCS-A budget totalled 15.3 MEUR. The execution rate reached 100%, which includes Regular Carry Forwards totalling .9 MEUR and Special Carry Forwards (SCF) of 8.3 MEUR. All SCF are summarized in Table H-C – ACO Special Carry Forward.

With BC-DS(2019)0069 (INV), the Committee agreed to special carry forward and freeze the total amount remaining lapsable in the 2019 NCS-A ACO budget, for requirements in support of potential flexibility measures in 2020 resulting in zero lapses in this budget. The total amount SCF for flexibility measures is 6.7 MEUR which is an additional 3,902,296.31 EUR from the original amount approved.

NATO AIRBORNE EARLY WARNING AND CONTROL FORCE (NAEW&CF)

The NAEW&CF Budget Group (BCs 162/163) BA3 totalled 262.0 MEUR and reached a combined execution rate of 99.9%, which includes 43.9 MEUR or 16.8% in Regular Carry Forward. The budget group lapsed a total of 452 KEUR.

It should be noted that the high level of Regular Carry Forward (43.9 MEUR) are structural in nature and are part of major obsolescence management programmes and large discrete acquisitions of goods and services. As discussed during the Lesson Learned reviews, these programmes do not lend themselves to a strict application of Article 25 as they involve multi-year actions and a frequent requirement for pre-emptive procurement actions (buys of limited production spare parts) where appropriations must be committed/obligated even when the known delivery date is expected to take place after the end of the fiscal year.

NATO ALLIANCE GROUND SURVEILLANCE FORCE (NAGSF)

The NAGSF Budget Group (BCs 167/168) BA3 totalled 36.6 MEUR and reached a combined execution rate of 86.4%, including the SCF of 7 MEUR.

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Regular carry forward in the AGS budget amounts to 8.1 MEUR linked to large commitments to NSPA for training services and logistics and technical support that have not yet been billed.

With BC-D (2019)0229 (INVG) ACO informed the BC that 7 MEUR of the 2019 budget could not be executed by NSPA. The BC authorized the SCF of these surplus credits to partially cover the shortfall in long-lead order spare part requirements.

Surpluses beyond the 7 MEUR SCF amounted to 5.0 MEUR and are lapsed due to delays in the delivery of the AGS core system and beginning of service support contracts NSPA spending was less than originally planned

ALLIANCE OPERATIONS AND MISSIONS (AOM)

The AOM Budget Group BA3 totalled 272,9 MEUR and reached a combined execution rate of 100%, including the SCF of 10.66 MEUR.

For Resolute Support (RS), the Special Carry Forward totals 10.66 MEUR as follows:

- a. With BC-DS(2019)0069 (INV), the Committee agreed to special carry forward and freeze the total amount remaining lapsable in the 2019 RS budget, for requirements in support of potential requirements in 2020 resulting in zero lapses in this budget. The total amount SCF for flexibility measures is 7.88MEUR an additional 2,928,299.01 EUR from the original amount approved. This SCF is for requirements related to replacement of the Private Automated Branch Exchange (PABx), Herat Fuel Storage increase and other emerging critical requirements.
- b. 2.7 MEUR to support twelve RS requirements to include: upgraded CIS, electronic countermeasure mitigation, router replacement, computer memory upgrades, Explosive Ordnance Disposal (EOD) robot upgrade, and recruiting 2 full time equivalents (FTE) for technical engineering services.

The ISAF budget expenditure totalled 463,750 EUR and 240,575 EUR are carried forward. The remaining 25,102,881 is specially carried forward for potential requirements in 2020 and for archiving. With BC-DS(2019)0069 (INV), the Committee agreed to special carry forward and freeze the total amount remaining lapsable in the ISAF budget, for requirements in support of potential requirements in 2020 resulting in zero lapses in this budget. The total amount SCF for flexibility measures is In accordance with BC-DS(2019)0069 (INV), MEUR 25,102,881, an additional 208,839.82 EUR from the original amount approved.

For NATO Mission Iraq (NMI), lapses totaling 3.7 MEUR were mainly due to: delays in hiring mission civilian (MCIV) and local civilian hire (LCH) personnel (1 MEUR); savings in Basic Logistic Support (BLS), in real life support (RLS) and in Hospitality and Representation expenses (0.25 MEUR); savings in NCIA CIS Services due to procurement cancellation for CIS (spares, equipment and consumables) as well as delays on the deployment of the Screening and Vetting Teams (1.7 MEUR); savings in Transportation expenses due to the non-determination of a Marshalling Location, less travels effected (0.65 MEUR)

2019 Budget Execution of non-ACO Budgets

The table below reports the summary execution of the budgets delegated to ACO. They are all related to the ACT Exercise Budget.

Table H.A – Summary Budget Execution NON-ACO Budgets

Budget Year	Budget	Expenditure Ceiling	Net Commitment	Actual Expenses	Total Spend
2019	259 ACT EXERCISES & TRAINING	8,327,667	148,008	7,730,398	7,878,407
2018	259 ACT EXERCISES & TRAINING	416,989	29,310	(391,857)	(362,547)
2017	259 ACT EXERCISES & TRAINING	0	0	(27,747)	(27,747)
TOTAL		8,744,656	177,318	7,310,795	7,488,113

ACO Budget Execution/ACO Statement of Financial Performance reconciliation (EUR)

The table below reports the reconciliation between the ACO Budget Execution and the ACO Consolidated Financial Performance.

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Table H.B - ACO Budget Execution/ACO Statement of Financial Performance reconciliation

Official Tables	ACO Statement of Financial Performance	Budget execution report (adjusted)
	EUR	EUR
ACO Budget Execution Report: total expenses		1,018,727,233
Budget Execution Report-other: total expenses		7,310,795
Inventory variances		(2,217,597)
Property, Plant and Equipment and AuC		(11,659,856)
Over-estimated accruals		(32,709,051)
Untaken Leave		1,257,330
NSIP 2019 execution		1,338,802
		982,047,657
ACO Consolidated Statement of Financial Performance:		
Personnel	195,379,602	
Contractual Supplies and Services	769,533,415	
Foreign Military Sales (FMS) (IV)	17,134,640	982,047,657

Statement of transfers

In accordance with the NFRs, Art. 26, transfers of appropriations approved by the relevant finance committee or the Financial Controller within his/her delegated authority shall be recorded in the annual financial statements. Further to the FRPs which have specified that only inter-budget transfers between NATO bodies shall be reported in the annual FS, the following NCSEP Budget group transfers occurred in 2019 are hereafter disclosed:

There is a transfer of EUR 26,635 from ACO to ACT for NCS-A as per BC-DS 2019 0069 (INV).

The changes between the initial and the final budget which were due to reallocations either authorised by the BC or by the ACO Financial Controller are presented in the Budget Execution Report which is prepared using a similar accrual basis approach in place for the preparation of the statements of financial position and performance.

The ACO Budget Execution Report also includes the contract authority already committed against credits converted into cash in the same financial year.

Statement of Credits Carried Forward

The credits carried forward are presented in the Budget Execution Statement. They represent the remaining credits due to later than expected delivery of goods/services when contracts placed in good faith of delivery before end of 2019. For all of them there is a legal liability and are equal to the closing Deferred Revenue.

Special Carry Forward

The total special carry forward of funds authorised by NAC into 2020 from the past seven years ACO budgets amount totally to EUR 101,146,752 (2018 EUR 94,755,957).

NCSEP: An amount of 1,680,991 EUR is carried forward from 2013 and 2019 to cover various ACO requirements within the ACO Static Commands and programmes for CIS requirements and vehicle replacement

AGS: An amount of 55,125,000 EUR is carried forward from 2017, 2018 and 2019 for provision of initial spares and operational test and evaluation, the purchase of specialized vehicles and long lead spare parts.

AOM: An amount of 35,765,180 EUR is carried forward from 2014 and 2019 budgets; the 2014 amounts are mainly to cover potential ISAF/RS liabilities such as for NSPA LOJI, for redeployment and disposal activities and for ongoing litigations with former ISAF provider for catering services. The 2019 amounts are for 12 distinct RS requirements, and for specific emerging requirements such as the replacement of the Private Automated Branch Exchange (PABX) and the Herat fuel storage.

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NCS-A: An amount of 8,335,086 EUR is carried forward from 2019 for 4 specific requirements and for potential flexibility measures in 2020.

The table below provides the summary of the approved 2020 special carry forward reconciled with the related contingent liabilities and provisions, if any, as further disclosed in the Note D. An amount of 1,355,000 EUR outlined and approved in BC-D(2019)0235-REV2 and BC-DS(2019)0069 for NAEW was not required as a contract was entered into in late 2019.

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Table H.C – ACO Special Carry Forward

Ref: BC-D(2019)0235-REV2 + BC-DS(2019)0069

NCSEP	2013	2014	2017	2018	2019	Total	Note
BC 101 - Vehicle replacement and Building Maintenance					300,000	300,000	BC-DS(2019) 0069 (INV)
BC 177 - completion of Mission Information Room					980,587	980,587	BC-DS(2019) 0069 (INV)
BC 178 - NATO CIS Group Consumables					100,000	100,000	BC-DS(2019) 0069 (INV)
BC 178 - Afloat Command Platform equipment and manpower requirements	300,324					300,324	BC-DS(2019) 0069 (INV)
NCSEP Total	300,324	0	0	0	1,380,587	1,680,911	
AGS	2013	2014	2017	2018	2019	Total	
BC 167 - Operational Test & Evaluation			8,000,000			8,000,000	BC-DS(2019) 0069 (INV)
BC 167 - Provision of initial spares			35,000,000			35,000,000	BC-DS(2019) 0069 (INV)
BC 167 - Provision of initial spares				5,000,000		5,000,000	BC-DS(2019) 0069 (INV)
BC 167 - Purchase specialized vehicles				125,000		125,000	BC-DS(2019) 0069 (INV)
BC -167- Long Lead Spare Parts					7,000,000	7,000,000	BC-DS(2019) 0069 (INV)
AGS Total	0	0	43,000,000	5,125,000	7,000,000	55,125,000	
AOM	2013	2014	2017	2018	2019	Total	
BC 185 - Potential residual requirements in 2020		24,469,437				24,469,437	BC-DS(2019)0069 (INV) and NOR clarification on its interpretation led to special carry forward all lapsable credits at the end of 2019 (additional amount of 208,840 EUR compared to the amount provided at the time of the special carry forward submission). These amounts are required for the following potential residual ISAF requirements in 2020: Redeployment Activities, Remediation and Descoping, Container Storage, Food Claim liabilities, NCIA costs, ISAF Archiving, provision recognised for an amount of 421,553 EUR for severance pay and removal allowance related to ISAF employees, and a contingent liability is disclosed for an amount of 726,592 EUR for LOJI related to NSPA staff
BC 185 - ISAF Archivist		633,444				633,444	BC-DS(2018)0054: A total of 1,003,714 EUR was agreed for specific use as Contract Authority for ISAF archivists contracts from 2018 until 2021. The breakdown of the CA for next years is 329,516 EUR for 2020 and 303,928 EUR for 2021. The remaining 178,173 EUR from 2019 was also carried over for use outside this project and is reflected in potential residual requirements for 2020
BC 194 - 12 RS requirements					2,773,000	2,773,000	BC-DS(2019) 0069 (INV) 12 requirements are: CIS for role 1, Mikrotik Routers, CIS TAC closure study, T3SA LoE2, ECM mitigation measures, KBC Resiliency, Computer RAM upgrade Inter-Theatre Connectivity Resiliency, EOD robot, CFT Replacement in KAF, A/C Retrofits for BFI Vehicles, Technical Engineering Services
BC 194 - For potential 2020 requirements					7,889,299	7,889,299	BC-DS(2019)0069 (INV) and NOR clarification on its interpretation led to special carry forward of all lapsable credits at the end of 2019 (additional amount of 2,928,299 EUR compared to the amount provided at the time of the special carry forward submission)
AOM Total	0	25,102,881	0	0	10,662,299	35,765,180	
NCS (A)	2013	2014	2017	2018	2019	Total	
BC 124 - Four distinct ACO requirements					1,637,800	1,637,800	BC-DS(2019) 0069 (INV)- Four distinct requirements are: LOJI for NICs at SHAPE 380,000 EUR; Procurement of CIS JFCNP NCS-A- 957,315 EUR, Reconfigure office space NCS-A JFCNP 155,000 EUR, Centrally managed CIS NCS-A 145,485EUR.
BC -124 -Flexibility measures					6,697,286	6,697,286	BC-DS(2019)0069 (INV) and NOR clarification on its interpretation led to special carry forward of all lapsable credits at the end of 2019 (additional amount of 3,902,296.31 EUR compared to the amount provided at the time of the special carry forward submission)
NCS (A) Total					8,335,086	8,335,086	
Total per year	2013	2014	2017	2018	2019	Total	
All budget groups	300,324	25,102,881	43,000,000	5,125,000	27,377,972	100,906,177	

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Table H.D – ACO CONTRACT AUTHORITIES as of 31 Dec 2019

ACO BC CONTRACT AUTHORITIES								
EUR	Initial Budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Net Commitment
NCSEP at 29								
	158,346,981	18,939,554	177,286,535	(878,413)	176,408,122	78,082,864	254,490,985	173,704,511
101 SHAPE	9,649,308	1,325,262	10,974,570	-	10,974,570	4,156,160	15,130,730	708,430
103 JFC HQ BRUNSSUM	3,150,361	150,000	3,300,361	-	3,300,361	-	3,300,361	150,000
104 JFC HQ NAPLES	4,670,044	-	4,670,044	78,396	4,748,440	-	4,748,440	4,474,910
105 HQ AIRCOM RAMSTEIN	1,261,400	(12,000)	1,249,400	(988,384)	261,016	(56,258)	204,758	189,443
111 HQ LANDCOM IZMIR	-	58,200	58,200	31,575	89,775	-	89,775	89,775
118 HQ MARCOM NORTHWOOD	32,674	2,159	34,834	-	34,834	-	34,833	33,300
131 HQ DEPLOYABLE ASSETS	483,672	-	483,672	-	483,672	-	483,672	224,604
164 AIR DEFENCE (GROUND)	10,810,000	1,500,000	12,310,000	-	12,310,000	189,000	12,499,000	-
166 ACCS Support	36,097,989	525,987	36,623,976	-	36,623,976	7,736,844	44,360,820	-
177 NCCB	92,191,534	15,389,945	107,581,479	-	107,581,479	65,366,518	172,947,997	167,834,050
178 NATO CIS GROUP (NCISG)	-	-	-	-	-	690,600	690,600	-
NCS-ADAPTATION								
	600,000	-	600,000	252,783	852,783	-	852,783	70,237
124 NCS-ADAPTATION (ACO)	600,000	-	600,000	252,783	852,783	-	852,783	70,237
AGS at 27+2								
	20,479,515	-	20,479,515	256,045	20,735,560	-	20,735,560	19,041,454
167 AGS O&S	20,479,515	-	20,479,515	256,045	20,735,560	-	20,735,560	19,041,454
NAEW at 16								
	96,689,635	18,928,406	115,618,041	1,627,033	117,245,074	-	117,245,074	76,114,670
162 NAEW&CF PROVISIONING	96,689,635	18,928,406	115,618,041	1,627,033	117,245,074	-	117,245,074	76,114,670
NAEW at 27+2								
	46,113,336	6,733,304	52,846,640	896,710	53,743,350	1,431,500	55,174,850	40,109,671
163 NAEW&CF EMPLOYMENT	46,113,336	6,733,304	52,846,640	896,710	53,743,350	1,431,500	55,174,850	40,109,671
AOM at 29								
	6,003,283	9,384,704	15,387,987	88,074,175	103,462,162	3,208,546	106,670,708	3,608,594
183 Balkans Operations	6,003,283	814,729	6,818,012	-	6,818,012	1,705,346	8,523,358	612,507
194 RESOLUTE SUPPORT	-	3,721,094	3,721,094	88,074,175	91,795,269	343,200	92,138,469	2,401,737
195 NMI	-	4,848,881	4,848,881	-	4,848,881	1,160,000	6,008,881	594,350
Total for all MBC Cost Shares, Years and Budget	327,632,750	53,985,968	381,618,718	89,975,550	471,594,268	82,722,909	554,317,177	312,578,901

The table above is showing the ACO Contract Authorities approved by the BC¹⁷ during 2019.

¹⁷ BC-BA(2019)0001-REV1 (INV) 103 dated 9 May 2019

BC-BA(2019)0002 (INV) 103 dated 19 Jul 2019

BC-BA(2019)0003 (INV) 103 dated 31 Oct. 2019

BC-DS(2019)0062 dated 18 Nov 2019

BC-DS(2019)0065 (INV) dated 26 Nov 2019

BC-DS(2019)0074 dated 22 Jan. 2020

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Table H.E – Reconciliation between ACO authorised Budgets and Calls in 2019

The table below is showing the reconciliation between the Budget Authorisation and the Calls made in 2019:

Budget authorization 2019							
Budget Groups	Total Called as of 31 Dec 2019 (BA2)	Final Budget (1)	Actual as of 31 Dec 19	CF as of 31 Dec 19	Difference between Calls, Actual and CF as of 31 Dec 19	Lapse	Adjustment
29N NCSEP (1)	506,517,371	506,577,769	470,871,951	21,538,929	14,106,491	(14,166,888)	(60,397)
27N AGS	34,186,300	34,186,300	14,042,468	15,134,288	5,009,544	(5,009,544)	-
29N AGS	2,368,310	2,368,310	2,368,310	-	-	-	-
26+2N/27+2N NAEW	156,776,687	156,776,687	143,604,449	12,719,824	452,414	(452,415)	(1)
16N NAEW	105,223,312	105,223,312	74,057,931	31,165,381	-	-	-
29N AOM (1)	272,983,495	272,877,813	255,489,148	13,170,778	4,323,569	(4,217,886)	105,683
TOTAL	1,078,055,475	1,078,010,191	960,434,257	93,729,200	23,892,018	(23,846,733)	45,285
(1) Exchange rate: budgets authorised in GBP were converted and executed using a fixed rate for the fiscal year 2019. The rate used was as of 1st January 2018, 1 EUR = GBP 0.8799. The 2nd cash call was converted to EUR using the rate 1 EUR = GBP 0.8892							
Budget authorization 2018							
Budget Groups	Carry Forward	Adjustment to Carry Forward	Adjusted Carry Forward	Actual as of 31 Dec 19	CF as of 31 Dec 19	Lapse	
29N NCSEP	27,598,868		27,598,868	20,629,239	2,199,813	(4,769,816)	-
27N AGS	6,407,307		6,407,307	738,322	5,393,518	(275,467)	-
26+2N/27+2N NAEW	12,310,529		12,310,529	9,972,188	2,338,340	(1)	-
16N NAEW	26,140,042		26,140,042	16,312,486	9,827,347	(209)	-
29N AOM	6,673,911		6,673,911	3,911,596	621,176	(2,141,139)	-
TOTAL	79,130,657	-	79,130,657	51,563,831	20,380,194	(7,186,632)	
Budget authorization 2017							
Budget Groups	Carry Forward	Adjustment to Carry Forward	Adjusted Carry Forward	Actual as of 31 Dec 19	CF as of 31 Dec 19	Lapse	
28N/29 NCSEP	3,556,298		3,556,298	488,441	-	(3,067,857)	-
26/27N AGS	43,518,795		43,518,795	518,795	43,000,000	-	-
16+1N/26+2N NAEW	7,427,231		7,427,231	5,084,818	-	(2,342,413)	-
16N NAEW	173,340		173,340	173,340	-	-	-
TOTAL	54,675,664	-	54,675,664	6,265,394	43,000,000	(5,410,269)	
Budget authorization 2014							
Budget Groups	Carry Forward	Adjustment to Carry Forward	Adjusted Carry Forward	Actual as of 31 Dec 19	CF as of 31 Dec 19	Lapse	
28N AOM	25,807,206		25,807,206	463,750	25,343,456	-	-
TOTAL	25,807,206	-	25,807,206	463,750	25,343,456	-	
Budget authorization 2013							
Budget Groups	Carry Forward	Adjustment to Carry Forward	Adjusted Carry Forward	Actual as of 31 Dec 19	CF as of 31 Dec 19	Lapse	
28N NCSEP	300,324		300,324	-	300,324	-	-
TOTAL	300,324	-	300,324	-	300,324	-	
ACO Budget Groups	Final budget	Actual as of 31 Dec 19	Lapse	Carry Forward	Adjustment		
GRAND TOTAL	1,237,924,042	1,018,727,233	(36,443,636)	182,753,173	45,285		

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I. NSIP Project Execution

Table I-A - NSIP Active projects¹⁸

OVERALL - NSIP PROJECT EXECUTION STATUS					
Active projects					
<i>Status</i>	<i>Authorized Budget</i>	<i>Commitments</i>	<i>Actuals YTD</i>	<i>Actuals PJTD</i>	<i>Funds Available</i>
BRUNSSUM	4,790,151	35,665	565,495	2,471,208	2,283,278
NAPLES	19,749,709	-	-	19,640,261	109,448
KFOR	5,700,006	-	86,292	4,980,935	719,071
NHQSa	7,680,532	-	-	7,680,532	-
SHAPE	82,080,224	411,207	2,170,971	76,468,504	5,200,512
Grand Total	120,000,622	446,872	2,822,758	111,241,441	8,312,309

TABLE I-B - NSIP closed projects with COFFA

TOTAL TABLES I-A & I-B

OVERALL - NSIP PROJECT EXECUTION STATUS					
Closed projects					
<i>Status</i>	<i>Authorized Budget</i>	<i>Commitments</i>	<i>Actuals YTD</i>	<i>Actuals PJTD</i>	<i>Funds Available</i>
BRUNSSUM	78,165,523	-	-	78,165,523	-
NAPLES	28,071,938	-	-	28,071,938	-
KFOR	92,309,141	-	-	92,309,141	-
NHQSa	115,089,335	-	-	115,089,335	-
SHAPE	558,311,172	-	-	558,311,172	-
Grand Total	871,947,108	-	-	871,947,108	-

TOTAL TABLES I-A & I-B

Total	991,947,730	446,872	2,822,758	983,188,549	8,312,309
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The tables A and B above show the overall value, respectively, of the NSIP projects assigned to SHAPE HN still active and of the projects which have been completed and financially closed at the reporting date. The amounts shown in the tables are broken down by the ACO Commands responsible for the implementation of the projects further to the delegation of authority provided by SHAPE.

During 2019 a total amount of 2,822,758 EUR was spent against eight NSIP projects in total, which are being executed by SHAPE (2,170,971 EUR) as well as JFCBS (565,495 EUR) and KFOR (86,292 EUR) through delegation. The eight projects refer to three main categorises as follows:

- a) **AOM.** An amount of 651,788 EUR was charged against AOM projects. One contingency funding to repair critical infrastructure as well as one funding for low value civil works have been executed in support of the RS Mission. Another project funded a new PSYOPS radio team facility at KFOR.
- b) **Static HQs.** An amount of 545,820 EUR was spent to hire some additional temporary NIC personnel to support the SHAPE Project Office for the construction of new ACO Main HQ Building. In addition, an amount of 36,366 EUR was spent to hire personnel to support the provision of temporary office space required by the NCS adaptation. Finally an amount of 1,402,693 EUR was spent to enhance the SHAPE CCTV capability.
- c) **Centralised projects.** An amount of 186,092 EUR was further spent on two projects. One to upgrade the ACO/ACT Mission Identification System (AMIS) at SHAPE in order to standardise a common AMIS ID card throughout the entire NCS and the other to provide NATO-wide AIR C2 Capabilities.

The total amount of 871.9 MEUR shown at Table B represents the aggregated value of the projects assigned to SHAPE HN which were closed at the reporting date. The projects financially closed during 2019 are contingency projects that have not incurred any cost.

¹⁸ YTD indicates the actual data as of 31 December 2018; PJTD indicates the cumulated data for all the projects until 31 December 2018.

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The amounts shown in the tables I-A and I-B above are based on data recorded in the ACO Financial system (FinS). Any discrepancy with the data provided by CIRIS for the same projects have been duly verified and reconciled.

J. Write-off and donations

Write Off and Donations

In accordance with article 17 of the NFRs, an annual summary of property and cash losses written-off in 2019 is annexed to the annual FS at the following tables:

Table J.A – ACO Headquarters International Property Write-off

ASSET CATEGORY	SHAPE		AGS		JFCBS		JFCNP		AIRCOM		MARCOM		LANDCOM		NAEW		NCISG		RSM		KFOR		NHQSa		TOTAL	
	Qty	€	Qty	€	Qty	€	Qty	€	Qty	€	Qty	€	Qty	€	Qty	€	Qty	€	Qty	€	Qty	€	Qty	€	Qty	€
BUILDING	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-
OTHER INFRASTRUCTURE	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8	-	-	-	8	-
INSTALLED EQUIPMENT	1	-	-	-	-	-	-	-	106	-	-	-	30	-	649	-	2	-	40	-	23	-	9	-	860	-
MACHINERY	112	-	1	-	19	-	40	-	44	-	-	-	15	-	336	-	14	-	59	-	45	-	66	-	751	-
TRANSPORT EQUIPMENT - VEHICLES	-	-	-	-	5	-	-	-	3	-	1	-	-	-	78	-	2	-	22	-	33	-	-	-	144	-
AIRCRAFT	-	-	-	-	-	-	-	-	-	-	-	-	-	-	243	-	-	-	-	-	-	-	-	-	243	-
MISSION EQUIPMENT	69	-	-	-	1	-	6	-	207	-	-	-	6	-	1,649	10,846	9	-	512	-	400	-	-	-	2,859	10,846
FURNITURE	5,101	-	-	-	435	-	379	-	1,123	-	367	-	710	-	111	-	2	-	57	-	3,876	-	-	-	12,161	-
COMMUNICATIONS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	490	5,529	-	-	-	-	-	-	199	-	689	5,529
AUTOMATION INFORMATION SYSTEMS	-	-	-	-	1	-	-	-	-	-	-	-	-	-	380	232	1	-	-	-	-	-	970	-	1,352	232
Consumables	-	-	-	-	-	-	13	-	43	98	-	-	2,301	4,975	11,697	65,400	4	-	4,648	26,286	558	1,741	-	-	19,264	98,500
Spare parts	-	-	-	-	-	-	-	-	-	-	-	-	18	-	2,341	43,908	2	19	-	-	-	-	-	-	2,361	43,927
Ammunition	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Grand Total	5,284	-	1	-	461	-	438	-	1,526	98	368	-	3,080	4,975	17,974	125,915	36	19	5,338	26,286	4,943	1,741	1,244	-	40,693	159,034

The table above shows the number of items written-off during 2019 by the ACO Commands per asset categories and the related accounting value.

In general, the majority of the write-offs relate to the legacy assets (acquired prior to the aforementioned cut-off date) that are fully depreciated with a zero residual value as per the NAF. Some of the items included in the total quantities reported above refer also to assets acquired after 1 January 2013. In accordance with the revised NFRs/FRPs the assets were written off under the authority of the Financial Controllers based on the net book value (NBV). However, due to the system in place in some Commands, (e.g PILS system in place in NAEW), it is not possible to reconcile the write-offs against the accounting value in the ACO FinS system.

ACO Headquarters International cash losses and irrecoverable debt write-off

In 2019 there was no write-off due to cash losses. Three entities reported write-off for irrecoverable debts: JFCBS for 896.67 EUR, RSM 2,214 EUR and AIRCOM 742 EUR, the majority of which relate to uncollectable debts from former employees.

Table J-B – ACO Headquarters International Property Donations

In accordance with article 17.4 of the NFRs, donations of property/assets that ACO has ownership and control of which were authorised during the year by the relevant finance committee shall be reported in the Annual FS.

ASSET CATEGORY	HQ	ITEMS	BENEFICIARY	QTY
Installed Equipment	NATO HQ Sarajevo	2 X Generator 75 KVA	Armed Forces of Bosnia and Herzegovina	9
		2 X Generator 160 KVA		
		3 X Generator 36 KVA		
		2 X Generator 6 KVA		
Total				

The table above shows a list of donation approved in 2019 by the relevant Finance Committee. The donation was approved late in 2019, but the actual did not take place until 2020.

K. Trust Funds

The Trust Funds reported in 2019 are the Trust Funds for Afghan National Army (ANA), Kosovo Security Forces (KSF), MHI missions and nationally-funded projects. Trust Funds contributions are transferred to the ACO CAC dedicated bank accounts. Upon proper authorisation ACO CAC also executes payments on

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behalf of the Trust Funds Boards. All incoming and outgoing funds are recorded in the Weekly Status Reports and in FinS. All the Trust Funds at ACO are managed purely for inflow and outflow through ACO CAC with the exception of KSF.

One of the main fund is the ANA Trust Fund (ANA TF), originally set up by the NAC in 2006 to support the efforts to equip the Afghan National Army. The role of ANA was expanded first in 2009 and later in 2013 taking into consideration the 2012 Chicago Summit commitments. A revised MOU dated 17 June 2014 was signed by the US, NATO HQ and SHAPE. On November 2017, the NAC agreed to extend the validity of the ANA Trust Fun Arrangements, Roles and Responsibilities and of the terms of Reference for the ANA trust Fund Board until 31 December 2020 (PO(2017)0544). The role of SHAPE is confirmed as responsible for the financial management of the SHAPE ANA TF bank accounts by providing Treasury Functions. The daily management of the ANA TF falls to the NATO ANA TF Office (NATFO).

The following tables show the Trust Funds balance as of 31 December 2019:

	<u>Funds received</u>	<u>Interests</u>	<u>Actual expenses</u>	<u>Cash transfers</u>	<u>Assessment rate</u>	<u>Total</u>	<u>Accumulated balance</u>
ANA Trust Funds							
Previous years	2,186,622,548	15,204,042	(3,461,093)	(1,392,658,403)	(2,432,617)	803,274,477	803,274,477
2019	382,304,695	11,322,573		(267,635,137)	21,001,726	146,993,857	950,268,334
Total	2,568,927,243	26,526,615	(3,461,093)	(1,660,293,539)	18,569,108	950,268,334	
KSF Trust Funds							
Previous years	7,673,728	106,234	(7,740,777)	-	-	39,186	39,186
2019	-	40	-	-	-	40	39,226
Total	7,673,728	106,275	(7,740,777)	-	-	39,226	
KSF Trust Funds - US National funded							
Previous years	1,777,500	49,766	(1,777,500)	-	-	49,766	49,766
2019	-	51	-	-	-	51	49,817
Total	1,777,500	49,817	(1,777,500)	-	-	49,817	
Multinational Helicopter Initiative (MHI)							
Previous years	32,305,172	547,981	-	(27,367,257)	(51,822)	5,434,074	5,434,074
2019	-	(16)	-	(2,292,970)	-	(2,292,986)	3,141,088
Total	32,305,172	547,966	-	(29,660,227)	(51,822)	3,141,088	
POHRF - ISAF							
Previous years	4,983,792	(5,232)	-	(4,942,720)	-	35,839	35,839
2019	-	-	-	-	-	-	35,839
Total	4,983,792	(5,232)	-	(4,942,720)	-	35,839	

L. Inventory and PP&E prior to 2013

Data reported in the Tables below are shown net of write-offs and presented by location and type of assets with the indication of the approximate number of items held per asset category, in accordance with the requirements set forth by the NAF.

Table L-A – Inventory prior to 2013- status as of 31 December 2019 (quantities per site/category)

Inventory Categories	NAEW&C Force GK	NHQSA	LANDCOM HQ	Total
CONSUMABLES	1,965,737	470,345		2,436,082
SPARE PARTS	842,591	13,699	6,869	863,159
AMMUNITION	19,753			19,753
Grand Total	2,828,081	484,044	6,869	3,318,994

Inventories acquired prior to 1 January 2013 and still present as of 31 December 2019 are reported by NHQSa, LANDCOM HQ Izmir and NAEW&C Force GK HQ. The former still holds a significant quantity of consumables and spare parts due to stockpiles accumulated in the past to satisfy maintenance requirements of the former NE-3A Component AWACS fleet. The items are continuously monitored through normal stock-counting and technically checked to verify their serviceability. There is currently an effort conducted in order to identify any parts in excess that would be eligible for sale or relocation while initiating write offs through Reports of Surveys (ROS) for the remainder part. It is Important to note that the policy to not consider any parts or equipment as excess when currently installed on NE-3A fleet or used by aircrafts

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support systems, remains applicable. This policy is essential for supporting the E-3A fleet until 2035 due to increasing threat from diminishing manufacturing sources and material shortage.

Amongst the inventories shown in the Table above there are also CIS legacy for NHQSa and a minor quantity of ammunition reported by the NAEW&C Force GK HQ which represents an exception as ammunitions are normally provided by the Nations.

TABLE L-B – PP&E prior to 2013 – status as of 31 December 2019 (quantities per site/category)

ASSET CATEGORY	SHAPE HQ	JFC Brunssum HQ	AIRCOM HQ	RSM HQ	NAEW & C Force GK HQ	JFC Naples HQ	NHQSa HQ	LANDCOM HQ	NCISG HQ	KFOR HQ	MARCOM HQ	Total
LAND	-	1	-	-	1	-	-	-	-	-	-	2
BUILDING	24	40	16	237	209	9	203	30	51	106	1	926
OTHER INFRASTRUCTURE	57	15	8	663	173	18	-	17	6	11	-	968
INSTALLED EQUIPMENT	92	267	149	295	3,930	65	55	22	167	193	5	5,240
MACHINERY	746	1,231	461	473	3,581	622	1,524	323	335	1,881	69	11,246
TRANSPORT EQUIPMENT - VEHICLES	219	41	93	353	307	25	96	29	743	55	1	1,962
TRANSPORT EQUIPMENT - AIRPLANES (Upgrades, Training Devices & Spare Parts)	-	-	-	-	15,383	-	-	-	-	-	-	15,383
MISSION EQUIPMENT	947	386	195	649	8,358	207	1,899	252	235	359	6	13,493
FURNITURE	29,674	7,286	11,709	113	170	14,508	13,690	7,886	2,989	7,757	1,941	97,723
COMMUNICATIONS	-	-	12	65	14,086	-	337	-	-	16	-	14,516
AUTOMATION INFORMATION SYSTEMS	-	-	-	5	4,864	-	568	-	-	-	-	5,437
Grand Total	31,759	9,267	12,643	2,853	51,062	15,454	18,372	8,559	4,526	10,378	2,023	166,896

As specified in Note A (Assets) above the legal ownership of installations and facilities fixed to the ground belongs to the respective territorial Host Nations. However, due to the fact that ACO exercises a certain control over these assets they are reported in the ACO FS. The category of buildings mainly includes the facilities provided by the HNs to ensure the effective operation of the NATO installations as well as a variety of infrastructure made by concrete/brick and by metal and wood frame. They also include other facilities such as the access control posts at the entrance gates, warehouses, storage houses, garages, bunkers, electrical stations, etc. Although traced, the electrical systems, fire detection, transformers etc. which are part of the infrastructure are not counted as separate assets from the infrastructure they serve.

The HQ facilities of the NHQSa are not reported as they are under the control and responsibility of EU Operation Althea based on the Berlin-Plus Agreement.

The only CIS assets reported in the 2019 ACO FS relate to NHQSa HQ and NAEW&C Force GK HQ as they are not under the control of the NCIA but rather of ACO as disclosed in Note A above.

There were no significant changes in quantities reported during 2019, with the exception of NAEW where a discrepancy in the matrix used for PILS reporting meant that some prior 2013 items were reported as PP&E instead of Inventory in 2018. The impact on 2019 FS is on three asset categories (Machinery, Mission Equipment and Communications) and with a reduction of 28,255 items in the NAEW prior 2013 asset register.

M. ACO Morale & Welfare Activities

The ACO Morale & Welfare Activities report is presented on an annual basis to the BC.

All the ACO commands with the exception of NHQSa have performed MWA activities during 2019. The result is characterised by an overall profit of 713,355 EUR versus the loss of 104,636 incurred in 2018 (restated data).

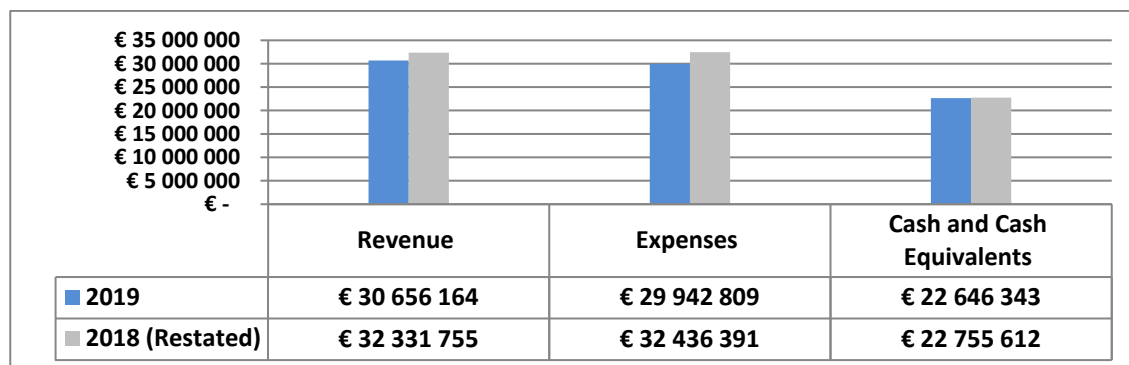
The positive result is mainly due by a decrease in the overall expense as disclosed in the Table M-1.

In 2019, ACO had four sites reporting losses (NAEW, JFCNP, JFCBS and AIRCOM, the last one for a very small amount). JFCNP is still reporting a negative result loss but with a considerable difference compared to previous years, mainly due to the reduction of the personnel. However, all the remaining MWA activities showed a positive result. In addition, the structural analysis of the financial data indicates that a high level of cash and capital reserves have been ring-fenced by the various MWA programmes to cater for current losses and for future contingencies as well as to protect themselves against discontinuity of revenue income. This is in accordance with the operating profit model instructed by the ACO Directive 5-1 to maintain high liquidity and to establish capital reserves.

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The table below reflects the 2019/2018 comparative data of the ACO consolidated figures for Revenue, Expense and cash holdings.

Table M-1- ACO Consolidated Key data – Morale Welfare Activities Financial Year 2019/2018



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ACRONYMS

ACO	Allied Command Operations	Strategic NATO Military HQ located in Casteau Belgium
ACT	Allied Command Transformation	Strategic NATO Military HQ located in Norfolk VA, USA
ADG	Air Defence Ground	Network of radars providing an early warning system
AGS	Alliance Ground Surveillance	The AGS system performs wide-area terrestrial and maritime surveillance in near real-time
AMB	ACO Management Board	Principal executive body within ACO for providing command-wide direction on requirements, prioritisation, and resource allocation
ANA	Afghan National Army	A service branch of the military of Afghanistan, which is currently trained by the coalition forces to ultimately take the role in land-based military operations in Afghanistan
AOM	Alliance Operations & Missions	Acronym for operations mounted by NATO in response to a crisis
AWACS	Airborne Warning and Control System	An airborne radar system designed to detect aircraft; used at a high altitude, the radars allow the operators to distinguish between friendly and hostile aircraft from hundreds of miles away
AuC	Assets under Constructions	
BA1	Budget Authorisation 1	Initial Budget Authorisation amount approved by the Budget Committee for a given Fiscal Year
BA2	Budget Authorisation 2	Second Budget Authorisation amount approved by the Budget Committee for a given Fiscal Year after the first review
BA3	Budget Authorization 3	Final Budget Authorisation amount approved by the Budget Committee for a given Fiscal Year after the final review
BC	Budget Committee	NATO body responsible for approving and administering annual NATO budgets
CAC	Corporate Accounting and Control	The Cash, Accounting, Finance and Travel Branch within the NATO, ACO J8 Division
CAOC	Combined Air Operations Centre	The command and control of airpower throughout the theatre of operations.
CE	Crisis Establishment	NATO command structure for a contingency operation
CF	Common Funding	Budgetary contributions provided to the Alliance by the Nations based on established cost-shares
CIS	Communications Information Services	Used occasionally to refer to communications budgets
CNS/ATM	Communication, Navigation and Surveillance/Air Traffic Management	Systems and procedures based largely on digital technologies, satellite systems and various levels of automation to establish a seamless Global Air Traffic Management.
COS	Chief of Staff	A principal staff officer, who is the coordinator of the supporting staff or a primary aide to an important individual
CRP	Consolidated Resource Proposal	Provides a summary of additional NATO and national infrastructure required (as well as associated NATO and national capital costs) and NATO operation and maintenance and manpower costs necessary to achieve the required capability
CSSC	CIS Sustainment Support Centre	NCIA's asset management and repair facility located in Brunssum, Netherlands
DACCC	Deployable Air Command and Control Centre	A fully deployable air command & control centre to support deployed NATO air operations worldwide. Located at Poggio Renatico, Italy
EOY	End of Year	Occurring or done at the end of the fiscal year
ERP	Enterprise Resource Planning	Associated with business application software suites; ERP serves as architecture for integrating business applications, they act as one system even though each module can be implemented alone
EUFOR	European Union Force–Operation Althea	European Union military mission in Sarajevo, starting from 1 st December 2004
EUR	Euro	The official currency of the Eurozone; utilized by 19 of the 28 member states of the European Union (EU) consisting of Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania (from 2015), Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain. The currency is also used in Montenegro, Kosovo, Andorra, Monaco, San Marino and Vatican.
EURIBOR	Euro Interbank Offered Rate	A daily reference rate based on the averaged interest rates at which banks offer to lend unsecured funds to other banks in the euro wholesale money market
FA	Fixed Assets	A term used for assets and property which cannot easily be converted into cash
FinS	Financial Accounting System	NAFS is replaced by a newer version of software and a centralised architecture; this new system, pronounced “finesse” is shortened from the Bi-Strategic Command Automated Information Systems Financial Services (Bi-Sc AIS FinS)
FMS	Foreign Military Sales	Facilitates sales of arms, defense equipment, defense services, and military

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		training to foreign governments
FOC Plus	Full Operational Capability Plus	A dedicated communications backbone; this program provides 66 points of presence across the Afghanistan theatre
FRP	Financial Rules & Procedures	Financial rules laid down by the member nations, via NATO which provide more specific guidance than the over arching rules expressed in the NATO Financial Regulations
FS	Financial Statements	A formal record of the financial activities of a business, person, or other entity
FY	Fiscal Year	Within NATO, runs from 1 January to 31 December
HN	Host Nation	The organization appointed to be responsible for the execution of NSIP projects
HQ	Headquarter(s)	Denotes the location where most, if not all, of the important functions of an organization are coordinated
HRM	Human Resource Management	The management of an organization's workforce, or human resources. It is responsible for the attraction, selection, training, assessment, and rewarding of employees, while also overseeing organizational leadership and culture, and ensuring compliance with employment and labour laws
BSG	Base Support Group	
IASB	International Accounting Standards Board	An independent standard-setting body of the IFRS foundation; it is responsible for developing International Federation Reporting Standards (IFRS)
IBAN	International Board of Auditors for NATO	Provides the North Atlantic Council and the governments of NATO member countries with assurance that common funds have been properly used for the settlement of authorised expenditure.
IC	Infrastructure Committee	Responsible for monitoring, authorisation and overall implementation of all projects funded by the NATO Security Investment Programme
ICC	International Civilian Consultant	These positions are for civilian nationals of NATO Member countries and Troop Contributing Nations who can provide a NATO recognised Security Clearance certificate
IFAC	International Federation of Accountants	The global organization for the accountancy profession; the organization, through its independent standard-setting boards, establishes international standards on ethics, auditing and assurance, accounting education, and public sector accounting
IMS	International Military Staff	The executive body of the Military Committee, NATO's senior military authority
IPSAS	International Public Sector Accounting Standards	A set of accounting standards issued by the International Public Sector Accounting Standards Board of the IFAC for use by public sector entities around the world in the preparation of financial statements
IPSASB	IPSAS Board	IFAC established the IPSASB to develop the IPSAS; these standards are based on the IFRS issued by the IASB with suitable modifications relevant for public sector accounting
ISAF	International Stabilisation Force – Afghanistan	NATO AOM mission in Afghanistan. Completed 31 December 2014
IT	Information Technology	The acquisition, processing, storage and dissemination of data by a microelectronics-based combination of computing and telecommunications
JFC	Joint Forces Command	Joint Headquarters overseeing the activities of separately assigned subordinate headquarters responsible for Air, Land, and Maritime operations within an assigned region of NATO
KAIA	Kabul International Airport	The primary international airfield in Afghanistan; services commercial and military flights each day
KFOR	Kosovo Force	NATO AOM operation in Kosovo
KSF	Kosovo Security Force	Dissolution of the KPC took place in parallel with the creation of the KSF; the KSF has primary responsibility for security tasks that are not appropriate for the police such as emergency response, explosive ordnance disposal and civil protection; it may also participate in crisis response operations, including peace support operations; this professional, all-volunteer force is trained according to NATO standards and placed under civilian-led, democratic control
LCH	Local Civilian Hire	ISAF positions meant for Afghan nationals.
LEGAD	Legal Advisor	A label customarily attached to lawyers who advise commanders in the field in NATO operations and within the countries participating in NATO peacekeeping
LIFO	Last In, First Out	An accounting technique used in managing inventory and financial matters meaning that the newest inventory items are recorded as sold first. This techniques is not allowed in accordance with IPSAS
LOJI	Loss of Job Indemnity	Income replacement indemnity payments extended to individuals who have lost employment
LWR	Local Wage Rate	A member of the NATO work force who typically performs skilled or unskilled manual labour
M & W MWA	Morale and Welfare Morale and Welfare Activities	A network of support and leisure services and activities that enhances the lives of Military, Civilians, Families, and other eligible participants

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MB	Military Budget	Follows the principles of the common funding with costs shared by the contributing Nations
MEUR	Million Euro	€ 1,000,000.00
MHI	Multinational Helicopter Initiative	Supports the financing of helicopter deployment-related activities
MOD	Ministry of Defence	The government department responsible for implementation of government defence policy and the headquarters of the Armed Forces
Mode 5		Aircraft transponder that works as an identification system for friendly or enemy forces. Mode 5 is a secure version of Mode S and is used by the military
MOU	Memorandum of Understanding	A document describing a bilateral or multilateral agreement between parties
NAC	North Atlantic Council	The NAC has effective political authority and powers of decision for NATO; consists of permanent representatives of all member nations and meets at least weekly
NAEW&C Force GK	NATO Airborne Early Warning and Control Force HQ	Single International Military HQ comprising the NAEW&C Force HQ, the E3A-Component and the Mission Systems Engineering Centre. Starting date is 1 Dec. 2015.
NAF	Non-Appropriated Funds	Resources internally generated by NATO military and civilian staffs through retails and service facilities operated by the Command
NAF	NATO Accounting Framework	NATO's adaption to IPSAS (approved by the NAC)
NATO	North Atlantic Treaty Organisation	An intergovernmental military alliance based on the North Atlantic Treaty signed on 4 April 1949; the organization constitutes a system of collective defence whereby its member states agree to mutual defence in response to an attack by any external party
NATO IS	NATO International Staff	An advisory and administrative body, working under the authority of the Secretary General and supporting the delegations of NATO members at different committee levels and helps implement their decisions
NBC	Nation Borne Costs	Cost eligible for common funding: covered by Military Budget and the responsibility of the Troop Contributing Nation; NBC, types include: Individual Real Life Support (RLS) related costs (e.g. Food) National Entities RLS related costs (e.g. power) National Entities usage of NATO capabilities (e.g. CIS)
NCCB	NATO Centralised CIS Budget	
NCIA	NATO Communication and Information Agency	NATO Communication and Information Agency. Created by consolidating former NCSA, NC3A, and NACMA.
NCS	NATO Command Structure	Divided into two commands, one for operations and one for transformation. <ul style="list-style-type: none"> • Allied Command Operations is located at SHAPE, Mons, Belgium. • Allied Command Transformation is located in Norfolk, Virginia. It
NCSEP	NATO Command Structure Headquarters and Programme	Budget formerly known as "MBC 28 Nations"
NDSS	NATO Depot & Support System	A software package maintained by NSPA; it covers most areas of logistics support, such as item identification, supply, maintenance and property accounting
NFR	NATO Financial Regulations	Regulations published by NATO HQ governing the use and reporting of NATO financial assets
NHQSa	NATO Headquarter Sarajevo	NATO AOM operation in Bosnia Herzegovina
NIC	NATO International Civilian	A permanent international post of NATO grade A, L, B, or C authorized to be filled by a civilian whose pay and allowances are established by the North Atlantic Council and provided from the international budget.
NMA	NATO Military Authority	Consisting of ACO, ACT and NCSA
NMR	National Military Representative	Senior military officers from NATO nations serving as members of the Military Committee
NOR	NATO Office of Resources	Brings together all international staff working on NATO military common-funded issues with the aim of reinforcing military common-funded resource management at the NATO HQ
NSHQ	NATO Special Operations Headquarters	Manages the NATO Special Operations capabilities. HQ is located at SHAPE, Casteau
NSIP	NATO Security Investment Programme	Funds authorized and allocated by the BC for specific NATO projects e.g., runways, bunkers, roads, buildings, etc.
NSPA	NATO Support Agency	Agency created by consolidating former NAMSA, NAMA, and CEPMA.
NSU	National Support Unit	Responsible for relaying logistics and personnel support to the respective national units
O&M	Operations and Maintenance	A category of appropriations which traditionally finance those things whose benefits are derived for a limited period of time, i.e., expenses, rather than investments. Examples of costs financed by O&M funds are headquarters operations, civilian salaries and awards, travel, fuel, minor construction projects, expenses of operational military forces, training and education, recruiting, depot maintenance, base operations support,
OCC	Operational Capability Concept	Designed to establish new means and mechanisms to reinforce Partnership for Peace's operational capabilities through enhanced and closer military

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		cooperation
OPLAN	Operational Plan	Military plan prepared by ACO to conduct a mission approved by the NAC
OS	Ocean Shield	NATO's contribution to international efforts to combat piracy off the Horn of Africa
PAO	Property Accountable Officer	Maintains PP&E and inventory records, for NATO-owned equipment and is responsible for assigning property, performing inventories, and for providing reports and information
PE	Peacetime Establishment	NATO command structure
PILS	Program Integrated Logistics System	Used by NAEW&CF to manage the data of procurement, supply and maintenance processes
PO	Private Office (memo)	File designation for correspondence coming directly from the NATO Secretary General's Office
PP&E	Property, Plant and Equipment	Referring to IPSAS 17. this principal a) recognizes the assets, b) determines their carrying amounts and c) depreciates charges and impairment losses to be recognized in relation to them
RAC	Reach Back Analytical Cell	
RAP	Readiness Action Plan	NATO strategy to ensure responds to security challenges
RPPB	Resource Policy and Planning Board	The senior advisory body to the NAC on the management of all NATO resources; responsible for the overall management of NATO's civil and military budgets, as well as NSIP and manpower
RSM	Resolute Support Mission	NATO AOM mission in Afghanistan. Started 1 January 2015
SACEUR	Supreme Allied Commander Europe	The commanding officer of Allied Command Operations
SACT	Supreme Allied Commander Transformation	The commanding officer of Allied Command Transformation
SHAPE	Supreme Headquarters Allied Powers Europe	The major NATO HQ for ACO located Casteau, Belgium
SILCEP	Security Investment, Logistics and Civil Emergency Planning	
SLA	Service Level Agreement	A service level agreement is a negotiated agreement between two parties where one is the customer and the other is the service provider; this can be a legally binding formal or informal "contract"
SMB	SHAPE Management Board	ACO Principal body within SHAPE for providing direction on SHAPE related requirements, prioritisation, and resource allocation issues
SMG	Senior Management Group	Those key advisors who have access to privileged information and have power to exercise control or participate in the financial operating policy decisions of ACO
SOFA	Status of Forces Agreement	Legally binding document entered into between nations governing all legal aspects of military forces treatment when assigned outside their national boundaries; NATO governs the legal administration of NATO assigned forces when operating within a specific country also enters into these agreements
SRB	Senior Resource Board	A subsidiary body of the NAC and the Defence Planning Committee which have given the Board a lead policy and planning role in all military resource areas
SSLP	System Stock List Price	Default system price for item in NDSS
STANAG	Standard NATO Agreement	An agreement promulgated by the Director NATO Standardization Agency under the authority vested in him by the NATO Standardization Organisation Charter
TF	Trust Funds	Funding provided by nations to achieve objectives complimentary to the NATO mission which are not eligible for NATO common funding
TFR	Trattamento di Fine Rapporto	a vested benefit payable to the employee for a part of his/her salary deferred in time to the moment when termination of contract takes place
USAREUR	U. S. Army Europe	Trains and leads Army Forces in support of U.S. European Command and Headquarters, Department of the U. S. Army
VNC	Voluntary National Contribution	Supports NATO's Counter-IED (C-IED) Action Plan the fund facilitates multinational cooperation by combining financial and non-financial national contributions in support of specific C-IED projects
WAC	Weighted Average Cost	A method of calculating ending inventory cost
WG	Working Group	An assembly of experts brought together for intensive work on a specific topic

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