



NORTH ATLANTIC COUNCIL

CONSEIL DE L'ATLANTIQUE NORD

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16 December 2022

DOCUMENT

PO(2022)0504-AS1 (INV)

**IBAN AUDIT REPORT ON THE AUDIT OF 2021 CONSOLIDATED FINANCIAL
STATEMENTS OF ALLIED COMMAND OPERATIONS (ACO)**

ACTION SHEET

On 15 December 2022, under the silence procedure, the Council noted the RPPB report and approved its conclusions and recommendations as outlined in PO(2022)0504 (INV).

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to PO(2022)0504 (INV).

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09 December 2022

DOCUMENT
PO(2022)0504 (INV)
Silence Procedure ends:
15 Dec 2022 – 17:30

To: Permanent Representatives (Council)

From: Secretary General

**IBAN AUDIT REPORT ON THE AUDIT OF 2021 CONSOLIDATED FINANCIAL
STATEMENTS OF ALLIED COMMAND OPERATIONS (ACO)**

1. I attach the Resource Policy and Planning Board (RPPB) report on the International Board of Auditors for NATO (IBAN) Audit Report on the audit of the 2021 financial statements of the Allied Command Operations (ACO). This IBAN Audit Report sets out an unqualified audit opinion on the financial statements and on compliance for the ACO for the 2021 financial year.
2. I do not believe this issue requires further discussion in the Council. Therefore, **unless I hear to the contrary by 17:30 hours on Thursday, 15 December 2022**, I shall assume the Council noted the RPPB report and approved its conclusions and recommendations.

(Signed) Jens Stoltenberg

1 Annex
2 Enclosures

Original: English

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**IBAN AUDIT REPORT ON THE AUDIT OF 2021 FINANCIAL STATEMENTS OF
ALLIED COMMAND OPERATIONS (ACO)**

Report by the Resource Policy and Planning Board (RPPB)

References:

A.	IBA-AR(2022)0011-REV1	IBAN Audit Report on the audit of 2021 financial statements of the NATO European Fighter Aircraft Development, Production and Logistic Management Organisation (NEFMO)
B.	PO(2022)0179-AS1	Action Sheet on the IBAN Audit Report on the audit of 2020 consolidated Financial Statements of Allied Command Operations (ACO)
C.	AC/335-D(2022)0055 (INV)	Handling arrangements for 2021 Financial Statements Audit Reports
D.	C-M(2015)0025	NATO Financial Regulations (NFR) and Financial Rules and Procedures (FRP)
E.	C-M(2015)0023	NATO Accounting Framework (NAF)
F.	BC-D(2022)0207 (INV)	Action plans for IBAN observations older than three years
G.	BC-D(2022)0217 (INV)	Budget Committee's Advice on Action plans for IBAN observations older than three years
H.	PO(2015)0052	Wales Summit tasker on transparency and accountability

INTRODUCTION

1. This report by the RPPB addresses the IBAN Audit Report on the audit of 2021 financial statement of the ACO. The IBAN Audit Report sets out an unqualified opinion on the consolidated financial statements and on compliance for the ACO for financial year 2021 (reference A).

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2. This report highlights key issues in the IBAN Audit Report 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. In 2021, the IBAN made four new observations and recommendations for the ACO. One of the four new observations was related to the need to strengthen internal controls over the preparation of the financial statements and another one on the internal control weaknesses regarding Morale and Welfare activities (MWA) and incompleteness of the ACO MWA note disclosure. The IBAN also made new observations on the need to ensure the earliest possible cancellation of unused balances related to accrued liabilities and on the clarification of financial regulations and reporting framework based on the legal status of the

SHAPE International School. These observations did not affect the audit opinion on consolidated financial statements or on compliance.

4. Also, the IBAN followed up on the status of outstanding observations and recommendations from the previous years' audits and found that seven remain in-progress and five were closed. In 2021, the IBAN closed the observations on the NSIP cost recovery from non-eligible users, preparation of the new logistic support agreements with the NSPA and on the confirmation of year-end assets and liabilities outstanding between NATO entities. The IBAN also closed the observations on the improvements in the area of risk management and internal audit and on compliance with the NFRs (reference D). Observations are detailed in document at reference A.

4.1. Observation 1: The RPPB supports IBAN's recommendation that the ACO strengthen internal controls over the preparation of the financial statements in order to provide a reasonable basis for obtaining assurance that financial statements are in compliance with the NAF (reference E) and NFRs (reference D). The ACO agree with the observation as it continuously strives to improve already extensive internal controls and compliance within ACO's limited means and capabilities.

4.2. Observation 2: The RPPB supports IBAN's recommendation that the ACO ensure an adequate internal control over the management and reporting of MWA and related activities that include all aspects of the MWA regulations, the NFRs and the NAF. That could be achieved by ensuring that all MWA and related activities are formally approved by the local Commanders; ensuring the completeness of the ACO MWA and related activities scope for financial reporting, including the activities funded from non-appropriated funds such as the clubs; developing an internal control policy for MWA and related activities, and conducting internal audit or review on an annual basis of MWA and non-appropriated funds. The ACO agree, in principle, with the observation, pointing out its progress in control procedures and proposing a risk-based approach for all MWA-related issues, which properly ponders the relative business impact and materiality of the MWA within the overall ACO context and prioritises the allocation of ACO's insufficient resources and capacity to the highest risk areas.

4.3. Observation 3: The RPPB supports IBAN's recommendation for NATO Airborne Early Warning & Control Force to comply with the Articles XXV 20) to 22) of the NATO FRPs (reference D) by ensuring the earliest possible cancellation of unused balances related to accrued expenses against actual year-end liabilities. This can be achieved by requesting the assistance of the respective delegations to NATO or of the Budget Committee (BC) in securing timely presentation of claims for payment and informing the BC of claims for payment receivable against committed appropriations brought forward which are liable to final cancellation at the end of the year. The ACO agree to assess if the assistance of the respective delegations to NATO or of the BC in securing timely presentation of claims for payment is required.

4.4. Observation 4: The RPPB supports IBAN's recommendation that the SHAPE Financial Controller in coordination with the SHAPE International School (SIS) clarify with the appropriate SHAPE governing body in accordance with article 7.1 of the NFRs, whether the SIS financial administration should be governed by the NFRs. The ACO agree to work with all the parties involved (Office of the Legal Officer, SIS, NATO Office of Resources) to clarify the regulatory framework applicable to the SIS and the way forward.

4.5. Observations in-progress or open for more than three years for the financial year 2020: In the document at reference B, the Council invited the ACO to provide an action plan with deadlines on the implementation as regards one 2013 financial year, one 2015 financial year and three 2016 financial year recommendations. Among these, the ACO implemented and the IBAN consequently closed three observations. As no action plan has been received by the ACO for the two 2016 financial year pending recommendations, in the document at reference C, the RPPB invited the ACO management to provide a remedial action plan by 15 October 2022 and the ACO Financial Controller to update the BC that subsequently provided advice and recommendation to the RPPB (reference G). The ACO presented its action plan (reference F) to the BC at the meeting held on 9 November 2022. The RPPB notes that the implementation of one of the pending observations requires external coordination. Therefore, the RPPB recommends that the Council invite the relevant NATO entities to provide the necessary responsiveness and cooperation from their area of responsibility to allow ACO to address the observation. The RPPB supports the ACO's efforts to continue applying remedial actions with an aim to address IBAN recommendations outstanding for more than three years within deadlines set out in the action plan (reference G).

CONCLUSIONS

5. The IBAN Audit Report sets out unqualified opinions on the consolidated financial statements and on compliance of the ACO in 2021. Four new observations were raised for the ACO. As of the date of the respective IBAN Audit Report on the 2021 consolidated financial statements, seven prior years' observations for the ACO were in-progress and five were closed.

6. In respect of prior years' observations, the RPPB notes the improvements made by the ACO and welcomes the ACO management commitment to commence with the corrective actions with an aim to promptly implement pending recommendations. Prior years' in-progress and closed observations are detailed in document at reference A.

7. The RPPB supports IBAN's recommendation that the ACO strengthen internal controls over the preparation of the financial statements and ensures an adequate internal control over the management and reporting of MWA and related activities. In addition, the RPPB supports IBAN's recommendation that the ACO ensure the cancellation of unused balances related to accrued liabilities and clarify with the appropriate governing bodies whether the SIS financial administration should be governed by the NFRs.

8. ACO provided an action plan addressing IBAN recommendations outstanding for more than three years and the Financial Controller updated the BC that subsequently provided advice and recommendation to the RPPB. The RPPB recommends that the Council invite the relevant NATO entities to provide the required responsiveness and cooperation to allow ACO to address the observation. The RPPB welcomes the ACO's commitment to continue with its progress in addressing those IBAN recommendations within deadlines set out in the action plan.

RECOMMENDATIONS

9. The Resource Policy and Planning Board recommends that the Council;
- 9.1. note this report and the IBAN Audit Report at reference A;
- 9.2. approve the conclusions at paragraphs 5 to 8; and
- 9.3. agree to the public disclosure of the 2021 consolidated financial statements for the ACO, its associated IBAN Audit Report and this report in line with agreed policy at reference H.



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

Brussels - Belgium



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IBA-A(2022)0099-REV1
9 September 2022

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

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

Subject: ***International Board of Auditors for NATO (IBAN) Audit Report on the audit of the Allied Command Operations (ACO) Consolidated Financial Statements for the year ended 31 December 2021 – IBA-AR(2022)0011-REV1***

IBAN presents herewith a revised Summary Note for Council, together with its approved Audit Report, for distribution to the Council.

The only change is in the Summary Note for Council page 1, paragraph 5: "IBAN followed up on the status of observations and recommendations from the previous years' audits and found that five were closed and seven remain in progress." No changes were made to the approved Audit Report submitted to the Council on 24 August 2022.

IBAN's report sets out an unqualified opinion on the Consolidated Financial Statements of the Allied Command Operations and on compliance for financial year 2021.

Yours sincerely,

Daniela Morgante
Chair

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 2021**

Allied Command Operations (ACO) is responsible for the planning and execution of all Alliance operations. ACO is a three-tier command with headquarters and supporting elements at the strategic, operational and tactical levels. It exercises command and control of static and deployable headquarters, as well as joint and combined forces across the full range of the Alliance's military operations, missions, operations and tasks.

IBAN audited the ACO Consolidated Financial Statements for the year ended 31 December 2021. The total spent for ACO in 2021 (actuals plus commitments which include special carry forwards) against all Budget Committee (BC) funded budgets amounted to approximately EUR 1.4 billion (EUR 1.3 billion in 2020). In addition to the execution of the Budget Committee (BC) budgets, ACO also incurred approximately EUR 3 million (EUR 1 million in 2020) of NATO Security Investment Programme (NSIP) project expenditure.

IBAN issued an unqualified opinion on the 2021 Consolidated Financial Statements resubmitted to IBAN on 25 May 2022 and on compliance for the year ended 31 December 2021.

IBAN made four observations and recommendations. These observations do not impact the audit opinion on the Consolidated Financial Statements and on compliance:

1. Need to strengthen internal controls over the preparation of the financial statements.
2. Internal control weaknesses regarding Morale and Welfare activities (MWA) and incompleteness of the ACO MWA note disclosure.
3. Need to ensure the earliest possible cancellation of unused balances related to accrued liabilities.
4. Financial regulations and reporting framework to be clarified based on the legal status of the SHAPE International School.

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

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

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The observations and recommendations and the follow-up of the previous years' observations and recommendations that are not in the Audit Report 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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IBA-AR(2022)0011-REV1

24 August 2022

INTERNATIONAL BOARD OF AUDITORS FOR NATO

**AUDIT REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS OF THE
ALLIED COMMAND OPERATIONS**

(ACO)

FOR THE YEAR ENDED 31 DECEMBER 2021

PUBLICLY DISCLOSED - PDN(2023)0001 - MIS EN LECTURE PUBLIQUE

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IBA-AR(2022)0011-REV1

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

The International Board of Auditors for NATO (IBAN) has audited the Consolidated Financial Statements of Allied Command Operations (ACO), for the 12 month period ended 31 December 2021, issued under document reference SH/FINAC/CAC/FC112/22-011321, and resubmitted to IBAN on 25 May 2022. These Financial Statements comprise the Statement of Financial Position as at 31 December 2021, 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 2021, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a Budget Execution Statement for the 12-month period ended 31 December 2021.

In our opinion, the Consolidated Financial Statements give a true and fair view of the financial position of ACO as at 31 December 2021, and of its financial performance, its cash flows and budget execution for the 12-month period ended 31 December 2021, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF).

Basis for Opinion on the Financial Statements

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

We have conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 2200-2899) 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.

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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 Supreme Allied Commander Europe and the Financial Controller. In signing the Financial Statements, the Supreme Allied Commander Europe 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 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.

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

We are required to communicate with the bodies charged with governance, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. Our Independent External Auditor's Report is prepared to assist North Atlantic Council in carrying out its role. We are therefore responsible solely to the North Atlantic Council for our work and the opinion we have formed.

Compliance

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.

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Basis for Opinion on Compliance

We have conducted our compliance audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 4000-4899) 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 Allied Commander Europe is responsible and accountable for sound financial management. The financial administration of NATO bodies and reporting entities must incorporate the principles of propriety, sound governance, accountability, transparency, risk management and internal control, internal audit, external audit, and fraud prevention and detection.

Auditor's Responsibilities for Compliance

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

This responsibility includes performing procedures to obtain independent assurance about whether funds have been properly used for the settlement of 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, 24 August 2022



Daniela Morgante
Chair

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OBSERVATIONS AND RECOMMENDATIONS

IBAN made four observations and recommendations. These observations do not impact the audit opinion on the Consolidated Financial Statements and on compliance:

1. Need to strengthen internal controls over the preparation of the financial statements.
2. Internal control weaknesses regarding Morale and Welfare activities (MWA) and incompleteness of the ACO MWA note disclosure.
3. Need to ensure the earliest possible cancellation of unused balances related to accrued liabilities.
4. Financial regulations and reporting framework to be clarified based on the legal status of the SHAPE International School.

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

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

The observations and recommendations and the follow-up of the previous years' observations and recommendations that are not in the Audit Report 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.

1. NEED TO STRENGTHEN INTERNAL CONTROLS OVER THE PREPARATION OF THE FINANCIAL STATEMENTS

Reasoning

1.1 According to the NATO Accounting Framework (NAF): *"Financial statements shall present fairly the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSASs. The application of IPSASs, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation"* (IPSAS 1).

1.2 According to the NATO Financial Regulations (NFRs) Article 34.1: *"NATO bodies shall adhere to the accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council"*.

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1.3 A key part of any system of internal control is to ensure adequate processes are in place for the preparation, review and reporting of the Financial Statements. Adequate review procedures are necessary to provide a reasonable basis for obtaining assurance that financial statements are in compliance with the applicable financial reporting framework.

Observations

1.4 IBAN identified material misstatements during the audit of the ACO Consolidated Financial Statements first submitted to IBAN on 31 March 2022, as described below. These were corrected in the Resubmitted Financial Statements submitted to IBAN on 25 May 2022.

1.5 The ACO Consolidated Financial Statements first submitted were corrected by the following:

- a) The revision of the accounting policy and accounting treatment of expenses related to the Depot Level Maintenance (DLM) for major inspections to comply with the provisions of IPSAS 17. This revision led to the capitalisation of the costs for DLM major inspections in the Resubmitted ACO Consolidated Statement of Financial Position as Property, Plant and Equipment (PP&E). These costs were initially recognised as expenses in the Statement of Financial Performance first submitted for approximately EUR 136 million in 2021 and EUR 129 million in 2020;
- b) The capitalisation of NATO Security Investment Programme (NSIP) funded assets handed-over to ACO in the Resubmitted Statement of Financial Position as PP&E for approximately EUR 29 million in 2021 and EUR 20 million in 2020. ;
- c) The disclosure in the note "*D. Contingent Assets, Contingent Liabilities and Provisions*" of contingent liabilities related to the withdrawal of the Resolute Support mission for EUR 7.2 million, based on the best estimate provided by the NATO Support Procurement Agency (NSPA);
- d) The clarification of the ACO various groups of workforces' status in the note "*A. Significant Accounting Policies – Employee benefits*" and "*C. Notes to Statement of Financial Performance – Employee disclosure*" by distinguishing the workforces subject to the NATO Civilian Personnel Regulations (NCPRs) from other workforce categories subject to National or local regulations;
- e) The clarification of the ACO controlling entity for the purpose of the ACO Financial Statements consolidation and the removal of the reference to IPSAS 6 that was superseded by IPSAS 35 in the note "*A. Significant Accounting Policies – Consolidation*";

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- f) The reporting of a missing bank account with a balance of EUR 0.3 million in the Resubmitted Statement of Financial Position as Cash and cash equivalents in counterparty of a payable related to life insurance benefits to be paid to the Allied Land Command staff members.

1.6 The above corrected misstatements demonstrate the need to ensure adequate processes are in place for the preparation, review and reporting of the Financial Statements to avoid material misstatements or errors in disclosures.

Recommendations

1.7 IBAN recommends that ACO strengthen internal controls over the preparation of the financial statements to provide a reasonable basis for obtaining assurance that financial statements are in compliance with the NATO Accounting Framework and NATO Financial Regulations.

2. INTERNAL CONTROL WEAKNESSES REGARDING MORALE AND WELFARE ACTIVITIES (MWA) AND INCOMPLETENESS OF THE ACO MWA NOTE DISCLOSURE

Reasoning

2.1 Article 6 of the NATO Financial Regulations (NFRs) requires the Financial Controller (FC) to exercise the responsibility of budgeting, accounting and reporting activities of the NATO entity. This includes being responsible for the financial internal control system, and for the preparation of the financial statements in accordance with the NATO Accounting Framework.

2.2 Article 12.2. of NFRs states that *"In order to meet the desired internal control standards the Financial Controller shall:*

(a) establish a system of internal financial and budgetary control, embracing all aspects of financial management including transactions for which appropriations have been approved and those funded from such non-appropriated fund accounts as they may authorise within their jurisdiction".

2.3 According to the Financial Rules and Procedures (FRP) XII 2, *"The system of Internal Control is designed to identify risks, to evaluate the nature and extent of those risks, and to manage them efficiently, effectively and economically. This information should be provided by the Financial Controller in the Statement of Internal Control, which is part of the financial statements."*

2.4 According to the Morale and Welfare Activity (MWA) regulations (C-M(2019)0026(INV) : *"Morale and Welfare Activity is an activity of a NATO body that enhances the quality of life, promotes cohesion and integrity, and/or contributes to the physical and mental wellbeing of eligible individuals, and is associated with the NATO*

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body's operations or activities on site. MWA forms part of the official activities of a NATO body. MWAs typically facilitate interaction through fitness and recreational activities or events or functions, clubs, associations, special interest activities and entertainment or provide essential services."

2.5 Article 3.4 of the MWA regulations states that: *"The Heads of NATO bodies are responsible to:*

- "a. Issue local regulations for MWA and related activities in line with these Regulations;*
- b. Authorize or deny requests to operate MWA and related activities;*
- c. Manage and control MWA, including, but not limited to:*
 - i. Supervising the administration of appropriated and non-appropriated MWA funds;*
 - ii. Appointing MWA Council members;*
 - iii. Safeguarding all MWA funds and property;*
 - iv. Monitoring the continuing viability of non-appropriated funds generation mechanisms;*
 - v. Ensuring periodic internal audit assessments are conducted and any recommended remedial action is assessed and enabled, if deemed necessary."*

2.6 Article 3.5 of the MWA regulations states that *"The Financial Controllers are responsible to:*

- a. The Head of the NATO body and shall be accountable to the relevant finance committee on the management of appropriated and non-appropriated MWA funds;*
- b. Prescribe and require implementation of budgetary and financial accounting and control procedures;*
- c. Advise the Head of NATO body, management and others as required against measures which may incur a risk of requiring appropriated fund support;*
- d. Ensure the use of exceptional appropriated funds for MWA is limited as much as possible;*
- e. Account for appropriated funds separate from other funds involved in MWA;*
- f. Report the financial situation of the NATO body's MWA, and revenue received from related activities, in accordance with Article 4.6.b."*

2.7 Article 4.1 of the MWA regulations states that *"Liabilities and obligations which result from the operation of MWA and related activities may have financial, legal and/or reputational consequences for a NATO body. Therefore, it is essential that adequate management and controls are exercised to ensure that MWA and related activities are operated to minimize the NATO body's exposure to risk, and to avoid unauthorized commitment or unauthorized use of appropriated funds."*

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2.8 Article 4.2 of the MWA regulations on the recognition of a Morale and Welfare Activity and related activities states that:

“a. All MWA and related activities must first be formally approved by the Head of NATO body before operating. In non-operational situations, approval must be conditional on adequate insurance being in force before the activity starts to operate, or where appropriate being self-insured by the constitution of sufficient reserves.

b. The Head of NATO body must ensure that unapproved activities are not allowed to operate and that approved activities are not authorized to operate in any way which pose undue legal, financial or reputational risks to the NATO body.

c. MWA and non-appropriated funds will be subjected to audits as follows:
i. Internal Audit or Internal Review. Minimally, MWAs and revenue received from related activities will undergo an annual assessment by internal audit or internal review.[...]”

2.9 Article 4.7 on the Reporting Requirements of the MWA regulations states that:

“i. NATO bodies shall submit a special purpose financial report to the appropriate Finance Committee no later than 31 March following the end of the financial year, and;

ii. NATO bodies’ shall disclose MWA and related activities in accordance with the NATO Financial Regulations and NATO Accounting Framework.”

2.10 According to the MWA regulations Article 5.2: *“Non-appropriated funds include funds generated by the operation of MWAs and related activities among other funding mechanisms. In MWAs, non-appropriated funds are typically generated from sale of items connected to the MWA activity, membership or club fees, fund raising events, fees and charges paid by concessionaires, and sales of sponsorships.”*

2.11 Article 6.2 of the NATO Accounting Framework sets out that the *“NATO Reporting Entities shall continue to submit an annual report on the financial viability of their Morale and Welfare Activities and shall present the following financial information in support of such activities by way of a disclosure note to their financial statements:*

- Cash and cash equivalents;*
- Liabilities (including provisions and contingent liabilities); and*
- The number of full-time equivalent personnel directly supporting MWA as of year-end.”*

Observations

2.12 IBAN found that ACO Corporate Accounting and Control (CAC) largely relies on the data provided by the different ACO Headquarters for the information in the financial statements note disclosure *“M. ACO Morale & Welfare Activities”*. ACO has

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developed an accounting policy for MWA in 2021. However, there is no overall internal control policy and the ACO CAC does not perform consistent internal control procedures to ensure the completeness and accuracy of the financial data provided by ACO Headquarters on MWA and related activities, and to minimise ACO's exposure to financial, legal and/or reputational risks, as prescribed by the Articles 3.5, 4.1 and 4.7 of the MWA Regulations.

2.13 For instance, IBAN found that seven clubs at the NATO Airborne Early Warning & Control Force (NAEW&CF) in Geilenkirchen were not included as MWA and related activities in the note "*M. ACO Morale & Welfare Activities*" of the ACO Consolidated Financial Statements. These clubs as per their constitution and authorisation policy documents provide Morale and Welfare activities associated with the NAEW&CF by using the NAEW&CF name, tax privileges and with bank accounts that were authorised and created in 2019 by the NAEW&CF Financial Controller under the NAEW&CF framework contract with the bank. Therefore, financial information for these clubs, such as Cash and cash equivalents, liabilities (including provisions and contingent liabilities) and the number of full-time equivalent personnel, should have been disclosed in the note "*M. ACO Morale & Welfare Activities*" of the ACO Consolidated Financial Statements, in accordance with the Article 4.7 of the MWA regulations and Article 6.2 of the NATO Accounting Framework.

2.14 In addition, IBAN found that the Joint Force Command Brunssum (JFCBS) Financial Controller authorised the creation of twelve clubs bank accounts in June 2021 although these clubs constitutions were not formally authorised by the JFCBS Commander. This situation does not comply with Articles 4.1 and 4.2 of the MWA Regulations. In June 2022 and during the course of the audit, the JFCBS Commander authorised the constitution of nine of these clubs, while two other clubs ceased their activities in 2022 and one club constitution was still not authorised.

2.15 Finally, IBAN questions the status of other club-like activities essentially funded from non-appropriated funds that possibly operate under SHAPE's name and/or bank accounts at other ACO headquarters such as in the Joint Force Command Naples, where approximately 10 clubs are hosted and not reported in the note "*M. ACO Morale & Welfare Activities*" of the ACO Consolidated Financial Statements.

2.16 The above situations demonstrate the incompleteness of the note disclosure "*M. ACO Morale & Welfare Activities*" and the lack of internal control environment over the MWA and related activities that could, in the future if not mitigated, lead to financial, legal and/or reputational consequences for ACO.

Recommendations

2.17 IBAN recommends that ACO ensure an adequate internal control over the management and reporting of MWA and related activities that embraces all aspects of the MWA regulations, the NFRs and the NATO Accounting Framework. This could be achieved by :

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- a) Ensuring that all operating MWA and related activities are formally approved by the local Commanders and that unapproved activities are not allowed to operate in accordance with Article 4.2 of the MWA regulations;
- b) Ensuring the completeness of the ACO MWA and related activities scope for financial reporting, including the activities funded from non-appropriated funds such as the clubs, in accordance with Articles 3.5 and 4.7 of the MWA regulations and Article 6.2 of the NATO Accounting Framework;
- c) Developing an internal control policy for MWA and related activities in accordance with the Articles 3.5 and 4.1 of the MWA regulations;
- d) Conducting internal audit or internal review on an annual basis of MWA and non-appropriated funds as required by the Article 4.7 of the MWA regulations.

3. NEED TO ENSURE THE EARLIEST POSSIBLE CANCELLATION OF UNUSED BALANCES RELATED TO ACCRUED LIABILITIES

Reasoning

3.1 According to IPSAS 1, *“the financial statements shall present fairly the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSAS”*. The ACO Financial Statements are prepared in accordance with the NATO Accounting Framework on an accrual basis and transactions and events are recorded and recognised in the financial statements in the periods to which they relate. At year-end, ACO should estimate and account for the value of goods and services rendered during the year but not yet invoiced.

3.2 Article 25.2 of the NFRs on Commitments, Contract Authority and Carry Forward states that *“Appropriated funds which have been committed and for which goods and services have been rendered but the invoice has not been received by the end of the financial year, shall be recorded as an accrued liability and the commitment shall be reduced. There is no carry forward in these circumstances since the appropriated funds have been used for their intended purpose.”*

3.3 Article XXV 4) of the Financial Rules and Procedures (FRPs) on Approval of Expenditures states that *“The Finance and Accounting Officer is responsible to the Financial Controller for authorising expenditures in execution of each commitment following the confirmation by the requirement holder that the goods and services were delivered by the supplier”*.

3.4 Article XXV of the FRPs 20) to 22) on Expenses against accrued year-end liabilities states that :

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“20) In respect of implementation of Sub-Article 25.2 of the NFR, the Financial Controller shall actively monitor accrued expenses against actual year-end liabilities and take the steps necessary to ensure the earliest possible cancellation of unused balances.

21) The Financial Controller shall ensure that, wherever possible, contracts in respect of which appropriations are committed specify payment schedules terminating no later than the end of the second financial year following that in which the commitments were made.

22) In the case of contracts concluded with governmental services of member states, the Financial Controller may request the assistance of the respective delegations to NATO or of the Budget Committee in securing timely presentation of claims for payment. To this end the Financial Controller shall, as necessary, inform the Budget Committee by 30th September each year of claims for payment receivable against committed appropriations brought forward which are liable to final cancellation at the end of the year.”

Observations

3.5 IBAN performed an aging review of the NATO Airborne Early Warning & Control Force (NAEW&CF) accrued liabilities for invoices not yet received, to ensure that they qualify as appropriated funds, which have been committed and for which goods and services have been rendered in accordance with the provisions of the NFRs.

3.6 As at 31 December 2021, NAEW&CF accrued liabilities balance amounts to EUR 41 million and is composed of manual and automatic accrued liabilities balances. The manual accrued liabilities are recorded in the accounting system by the Financial Controller Office, while the automatic accrued liabilities are automatically posted to the accounting system following a receipt of goods or services from the Fund Managers in accordance with the segregation of duties principle.

3.7 IBAN found that the NAEW&CF accrued liabilities balance includes approximately EUR 11 million related to contracts concluded with governmental services of Member States. This amount is made up of manual accrued liabilities of EUR 4 million booked more than nine years ago, automatic accrued liabilities of EUR 5 million booked more than six years ago, and automatic accrued liabilities of EUR 2 million booked more than three years ago. According to NAEW&CF Financial Controller Office, the above-mentioned EUR 4 million manual accrued liabilities balance was recognised in 2011 and 2012 for fuel operations with Member States mainly during the International Security Assistance Force (ISAF) mission that was terminated in 2014.

3.8 Despite the significant anteriority of the NAEW&CF accrued liabilities balance of approximately EUR 11 million, the NAEW&CF Financial Controller Office has not taken any steps to ensure the earliest possible cancellation of any unused balances based on actual year-end liabilities. This situation does not fully comply with the provisions of the FRPs XXV Articles 20 to 22.

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Recommendations

3.9 IBAN recommends NAEW&CF to comply with the Articles XXV 20) to 22) of the FRPs by ensuring the earliest possible cancellation of unused balances related to accrued expenses against actual year-end liabilities. This can be achieved by:

- a) Requesting the assistance of the respective delegations to NATO or of the Budget Committee in securing timely presentation of claims for payment;
- b) Informing the Budget Committee of claims for payment receivable against committed appropriations brought forward which are liable to final cancellation at the end of the year.

4. FINANCIAL REGULATIONS AND REPORTING FRAMEWORK TO BE CLARIFIED BASED ON THE LEGAL STATUS OF THE SHAPE INTERNATIONAL SCHOOL

Reasoning

4.1 The SHAPE International School (SIS) was established based on an Agreement between Supreme Headquarters Allied Powers Europe (SHAPE) and Belgium signed on 12 May 1967. Article 20 states that *"In connection with the location of SHAPE in Belgium, an international school shall be set up under conditions and procedures agreed subsequently"*.

4.2 The establishment and operation of the SIS is specified in a subsequent agreement between SHAPE and Belgium *"Relating to the Establishment and Operation of the International School of this Headquarters"* dated 19 March 1968 (effective from 1 September 1967).

4.3 According to Article 1 of this agreement, *"The SHAPE International School shall be an integral element of SHAPE and shall consist of the School Board, the general services unit and the affiliated services units."* According to Article 2, *"The School Board shall be responsible to and report to the Supreme Allied Commander Europe (SACEUR)."*

4.4 Article 1 of the NATO Financial Regulations (NFRs) states that, *"These Regulations shall govern the financial administration of all civilian and military headquarters and other organizations established pursuant to the North Atlantic Treaty (hereinafter referred to as "NATO bodies")."*

4.5 According to Article 7.1 of the NATO Financial Regulations (NFRs), *"[...] the Financial Controller shall have recourse, in the first instance, to the relevant finance committee and, when required, to the Resource Policy and Planning Board (RPPB) for resolution of any persistent doubt or disagreement regarding the compliance of any"*

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proposed measure or decision with the provisions found in these Regulations and the Financial Rules and Procedures.”

4.6 SHAPE is a NATO Body whose legal position as an International Organisation is defined by the Paris Protocol and complemented by the Agreement between the Parties to the North Atlantic Treaty regarding the Status of their Forces (NATO SOFA) and the Ottawa Agreement. SHAPE has its own legal personality as per Article 10 of the Paris Protocol.

4.7 Regarding the legal status of the SIS, the school shares the legal personality of SHAPE and has no separate legal personality.

Observations

4.8 The SIS shares the legal personality of SHAPE and is an integral element of SHAPE. Therefore, the SIS is part of SHAPE, which is a NATO Body established pursuant to the North Atlantic Treaty.

4.9 However, the SIS operates under its own Financial Regulations as approved by the SHAPE International School Budget Committee in line with the Memorandum of Understanding (MOU) between participating member countries. The SIS does not follow the NFRs and NATO Financial Rules and Procedures (FRPs). IBAN is not aware of any deviation to Article 1 of the NFRs regarding the SIS.

4.10 As a consequence, the financial reporting framework used by the School is different than the NATO Accounting Framework as applied by SHAPE. In addition, the financial statements are not signed by the ACO Financial Controller and SACEUR (as the Head of the entity), as would be required by the NFRs.

Recommendations

4.11 IBAN recommends that the SHAPE Financial Controller in coordination with the SHAPE International School, clarify with the appropriate SHAPE governing body in accordance with article 7.1 of the NATO Financial Regulations (NFRs), whether the SHAPE International School financial administration should be governed by the NFRs.

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FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

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

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

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>(1) ACO FY 2020 IBA-AR(2021)0030, paragraph 1</p> <p>ESTIMATED FINANCIAL IMPACT OF RESOLUTE SUPPORT MISSION WITHDRAWAL NOT AVAILABLE</p> <p>IBAN's Recommendation IBAN recommends that ACO:</p> <p>a) Finalise the analysis of the estimated financial impact of the RS withdrawal as soon as possible and inform all stakeholders thereof.</p> <p>b) For other on-going NATO missions, establishes procedures to ensure that an updated analysis and overview of the financial impact of possible restructuring or closure of an operation is readily available, at a minimum annually.</p>	<p>IBAN notes that the complete financial assessment of the impact of the RS withdrawal will continue into the future and that ACO plans to establish a Working Group with NSPA to set and monitor milestones to guarantee the closure as soon as possible. In-Progress.</p> <p>IBAN notes that as per PO(2022)0179 ACO will set up simple procedures, with basic criteria for on-going missions and support to stakeholders with an analysis of the financial impact of potential restructuring or closure of an operation within means and capabilities. IBAN will review these procedures after their issuance. In-Progress.</p>	<p>Observation In-Progress</p>

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<p>(2) ACO FY 2020 IBA-AR(2021)0030, paragraph 2</p> <p>NAEW&C AND AGS CONTRIBUTION IN KIND RECOGNITION AND DISCLOSURE</p> <p>IBAN's Recommendation IBAN recommends that ACO:</p> <p>a) Recognise or at minima disclose the two Nations' Contribution in Kind to the NAEW&CF and associated expenses in the ACO Financial Statements.</p> <p>b) Develop a specific accounting and financial reporting policy regarding Contribution in Kind agreements.</p>	<p>IBAN notes that ACO disclosed information on the NAEW&CF and Allied Ground Surveillance (AGS) Contribution in Kind in the notes of the 2021 Consolidated Financial Statements.</p> <p>Closed.</p> <p>IBAN notes that as per PO(2022)0179, this recommendation will be addressed during the review of the NATO Accounting Framework (NAF) that is planned after the NATO Financial Regulations review.</p> <p>In-Progress.</p>	<p>Observation In-Progress</p>
<p>(3) ACO FY 2020 IBA-AR(2021)0030, paragraph 3</p> <p>NSIP COSTS RECOVERY FROM NON-ELIGIBLE USERS</p> <p>IBAN's Recommendation IBAN recommends that ACO:</p> <p>a) Account and disclose a liability to reflect the pre-financed costs portion that should have been recovered to reimburse NSIP for up to EUR 13.7 million,</p> <p>b) Inform the RPPB and IC about the status of these pre-financed costs that have not yet been recovered and request a formal decision on the action to be taken.</p>	<p>IBAN notes that on 17 May 2022 the Investment Committee (IC) approved document AC/4-D(2022)0007 related to the Status of Alliance Operations and Missions (AOM) pre-financed projects for Third parties in Afghanistan. The IC agreed that the costs related to non-eligible portions of AOM pre-financed projects for RSM will not be reimbursed to NSIP. As a result, IBAN considers this observation as closed.</p> <p>Closed.</p>	<p>Observation Closed</p>

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<p>(4) ACO FY 2020 IBA-AR(2021)0030, paragraph 4</p> <p>NSIP INFRASTRUCTURE ASSETS RECOGNITION AND DISCLOSURE</p> <p>IBAN's Recommendation IBAN recommends that NAEW&CF:</p> <p>a) Account and disclose as PP&E the NSIP infrastructure assets that were completed and in-service for an amount up to EUR 22 million.</p> <p>b) Implement a process to wholly capture, in a timely manner, all NSIP infrastructure assets handed-over or upgraded.</p>	<p>IBAN notes that NAEW&CF and ACO performed an analysis of all NAEW&CF infrastructure assets leading to the capitalisation of some upgrade works of the apron at the Forward Operating Location in Oerland and Forward Operating Base in Trapani. Closed.</p> <p>IBAN considers this recommendation as open following the materiel incompleteness of NSIP funded asset identified in the 2021 ACO Consolidated Financial Statements first submitted to IBAN for audit (ref. Observation 1). Open.</p>	<p>Observation In-Progress</p>
<p>(5) 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>IBAN notes overall that ACO is still not in a position to fully assess and validate the validity of information and solutions provided by NCIA for Computer Information Systems (CIS) services and NSPA for military goods and services. Although some actions described below have been taken at the ACO headquarters (HQs) level, there is still no ACO wide action plan with clear mitigation measures to settle this recommendation.</p> <p>In 2021, the Audit Advisory Panel (AAP) reinforced the ACO HQs, as customers, to have a key role in the development of the SLAs and the CIS Budget.</p>	<p>Observation In-Progress</p>

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<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>ACO improved the Key Performance Indicators (KPIs) and added additional KPIs. In-Progress.</p>	
<p>(6) 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 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 external CIS contractors outside of the Service Level Agreement with NCIA - 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>IBAN notes that several of these risk areas are included in the operational and financial risk registers of some ACO HQs. However, these operational and financial risks are not included in the global ACO operational and financial risk registers. In-Progress.</p>	<p>Observation In-Progress</p>
<p>(7) ACO FY 2017 IBA-AR(2018)0009, paragraph 8</p> <p>IMPROVEMENTS REQUIRED IN THE AREA OF RISK MANAGEMENT AND INTERNAL CONTROL</p> <p>The Board recommends that:</p> <p>a) Once recommendation a) is completed, ACO Internal Audit fully evaluates internal control and risk management throughout ACO, and that this work be clearly</p>	<p>IBAN notes that ACO Internal Audit is evaluating the internal control and risk management</p>	<p>Observation Closed</p>

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documented so as to be able to conclude as to ACO's compliance with the framework chosen.	throughout ACO on a yearly basis. Closed.	
b) 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.	IBAN notes that NAEW&CF and NAGSF strategic risk management procedures were implemented and risks are captured into risk registers. Closed.	
<p>(8) 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>Board's Recommendation</p> <p>The Board recommends that:</p> <p>a) 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>This will be addressed as part of the review of the NFRs. IBAN notes that the NFRs review has been postponed.</p>	<p>Observation Closed</p>
<p>(9) ACO FY 2016 IBA-AR(2017)08, paragraph 3</p> <p>OPERATION OF KEY SYSTEM IN NAEW&CF NOT ENSURED</p> <p>Board's Recommendation</p> <p>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 PILS system administration is in place through the support of NCIA. However, the PILS administration is still managed by one employee and there are no written procedures and manual of the processes. This do not mitigate the risk of knowledge loss. NAEW&CF is in the process of hiring two new staff for the PILS system administration.</p>	<p>Observation In-Progress</p>

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<p>(10) ACO FY 2016 IBA-AR(2017)08, paragraph 5</p> <p>NO MEMORANDUM OF AGREEMENT (MOA) IN PLACE WITH NCIA</p> <p>Board'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>IBAN notes that there is still no MOA in place with NCIA. As a mitigation measure, ACO implemented a Computer Information Systems (CIS) Support Plan (SUPPLAN) annexed to the Operation Plan (OPLAN) with NCIA.</p> <p>For KFOR, the CIS Support Matrix, upon which the KFOR Service Level Agreement (SLA) should be based, is completed and discussion is ongoing between KFOR, Joint Force Command Naples and NCIA to establish the SLA or at the minimum a Technical Agreement.</p>	<p>Observation In-Progress</p>
<p>(11) ACO FY 2015 IBA-AR(2016)09, paragraph 6</p> <p>NEED TO PREPARE NEW LOGISTIC SUPPORT AGREEMENTS WITH NSPA</p> <p>Board'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 clearly specify the services to be delivered, roles and responsibilities, terms and conditions, key performance and quality indicators and reporting requirements.</p>	<p>IBAN notes that NAEW&CF and NSPA developed jointly the 2021 NSPA Management plan, which provides clear information on the services to be delivered, roles and responsibilities, terms and conditions, etc. As a result, IBAN considers this recommendation as closed.</p>	<p>Observation Closed</p>
<p>(12) 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>Board'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 notes that ACO has an iterative process in place confirming year-end assets and liabilities outstanding with other NATO Bodies.</p>	<p>Observation Closed</p>

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ALLIED COMMAND OPERATIONS (ACO) FORMAL COMMENTS ON THE AUDIT REPORT AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS**OBSERVATION 1:
NEED TO STRENGTHEN INTERNAL CONTROLS OVER THE PREPARATION OF THE FINANCIAL STATEMENTS*****ACO's Formal Comments****Agreed.**ACO is constantly striving to improve internal controls and compliance. There are already extensive controls in place related to the end of year (EOY) and production of the Financial Statements (FS) such as the EOY guidance, checklists and certification processes. Corporate Accounting and Control (CAC) will formalise this through an ACO-wide internal control framework regarding Finance and Accounting Activities that will cover all activities and functional areas. However, in spite of all our efforts, without the proper allocation of resources, improvements to Internal Control at CAC level for all areas will progress at a slower pace as we prioritize efforts on key risk areas.***OBSERVATION 2:
INTERNAL CONTROL WEAKNESSES REGARDING MORALE AND WELFARE ACTIVITIES (MWA) AND INCOMPLETENESS OF THE ACO MWA NOTE DISCLOSURE*****ACO's Formal Comments****Partially agreed.**While there is no one ACO internal control policy for MWA, stakeholders and governance already moved forward in several areas. For instance, with regards to ACO CAC, limited control procedures were followed to ensure data received from ACO Headquarters was reliable. These control procedures involved:*

- Development and distribution of an ACO Accounting Policy for MWA during 2021 that provided standardized guidance on the accounting for MWA.*
- Standardised templates for providing financial data.*
- Analytical reviews of the data to assess the reasonableness of the financial data.*
- Follow up correspondence with Headquarters to ensure completeness and accuracy of financial reporting.*

The SHAPE AIA already highlighted the purpose of the clubs and the local entities have agreed to take steps to improve their control. Several actors are

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involved without central authority which is adding additional complication to the multifaceted environment. A revision of the ACO MWA directive is under discussion.

In principle, ACO agrees with the IBAN recommendations, even if they do not seem realistic considering the current level of resources. SHAPE FINAC has already moved forward on several of the points listed in the recommendations. As reported in the ACO 2021 SIC included in the ACO 2021 FS "ACO FC is assigned control responsibility for the MWA activities in addition to the core fiduciary responsibilities. Although there has been an improvement in assurance related to MWA control processes. Sufficient resources must be provided to prevent an impact to other key priorities".

A risk-based approach for all MWA topics is required considering the materiality of the MWA activities and the resources available.

This is also valid for the recommendation at para d) on the Annual internal audits/internal review of MWA. Only SHAPE has an internal reviewer for MWA. Other locations would rely on SHAPE AIA to perform the work that not only does not have the resources for this but the subject would not feature sufficiently highly on a risk profile for ACO as a whole which should drive AIA annual programming. Therefore, an audit cycle broader than one year would be more realistic.

**OBSERVATION 3:
NEED TO ENSURE THE EARLIEST POSSIBLE CANCELLATION OF UNUSED
BALANCES RELATED TO ACCRUED LIABILITIES**

ACO's Formal Comments

Agreed.

a.) To fully comply with FRP article 25.22, NAEW in coordination with ACO FINAC, will assess if the assistance of the respective delegations to NATO or of the BC in securing timely presentation of claims for payment is required.

b.) Moreover, the submission of the data to the relevant Committee may be performed for seeking Committee agreement on the way ahead for outstanding Member Nations' valid accruals.

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**OBSERVATION 4:
FINANCIAL REGULATIONS AND REPORTING FRAMEWORK TO BE CLARIFIED
BASED ON THE LEGAL STATUS OF THE SHAPE INTERNATIONAL SCHOOL**

ACO's Formal Comments

Agreed in principle.

ACO FINAC will work with involved parties (SIS, LEGAD, NOR) to clarify the regulatory framework applicable to the SIS and the way ahead.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(1) ACO 2020 FY

IBA-AR(2021)0030, paragraph 1

**ESTIMATED FINANCIAL IMPACT OF RESOLUTE SUPPORT MISSION
WITHDRAWAL NOT AVAILABLE**

ACO's Formal Comments

Agreed.

a.) Further coordination has been completed with NSPA and the latest financial and legal information shared. SHAPE FINAC will continue to coordinate with NSPA to receive regular financial updates.

b.) No progress has been made on this due to competing priorities. ACO continues to assert that the implementation of this observation in its fullest sense is not cost effective nor does it provide sufficient value to the organization due to the lack of reliability and uncertainty of the information that would be produced due the inherent complexity of operations and missions.

(2) ACO 2020 FY

IBA-AR(2021)0030, paragraph 2

NAEW&C AND AGS CONTRIBUTION IN KIND RECOGNITION AND DISCLOSURE

ACO's Formal Comments

Do not agree.

a.) Nothing further to report.

b.) Nothing further to report – it is suggested to remove from ACO report as it is out of its control – same rationale as observation 8.

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IBAN's Position

IBAN recommended in b) that ACO develop a specific accounting and financial reporting policy regarding Contribution in Kind agreements. As per PO(2022)0179, ACO will address this recommendation during the review of the NATO Accounting Framework (NAF). IBAN therefore maintains the status of this sub-recommendation as in-progress.

(3) ACO 2020 FY

IBA-AR(2021)0030, paragraph 3

NSIP COSTS RECOVERY FROM NON-ELIGIBLE USERS**ACO's Formal Comments**

Agreed.

(4) ACO 2020 FY

IBA-AR(2021)0030, paragraph 4

NSIP INFRASTRUCTURE ASSETS RECOGNITION AND DISCLOSURE**ACO's Formal Comments**

Agreed.

b) ACO CAC is working with the sites and some progress has been made: access to CIRIS is proposed to Finance & Accounting Officers and a process is being put in place to analyse NSIP projects. However, these are measures to compensate the current weaknesses in the information flow and organizational structure.

(5) ACO 2018 FY

IBA-AR(2019)0016, paragraph 1

ACO NEEDS TO BE AN "INTELLIGENT CUSTOMER" WITH NATO CUSTOMER-FUNDED AGENCIES**ACO's Formal Comments**

Agreed.

The engagement strategy timelines are not adequate anymore. They will be adjusted.

The joint operating procedure has been overtaken by events:

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- The original limited document has not been officially incorporated in the SLAs. The parts of the SLA that are more written as an SOP still need to be extracted and transferred to this document.

- Part of the joined operating procedures has been taken to a higher level: The term of reference (ToR) of the bilateral two star level meetings have taken over part of the intended synchronization. The scope is broadened and consists of direct engagement at the highest level and on regular basis on ICT service delivery, projects progress and service provision is essential to support NATO's level of ambition. SHAPE Deputy Chief Of Staff Cyberspace (DCOS Cyber) and NCIA General Manager (GM NCIA) agreed to establish a schedule of high-level, open and constructive meetings between ACO and NCIA (2-star level plus Financial Controllers and key stakeholders) to review and enhance the mutual understanding and shared situational awareness on ICT projects and service delivery.

- The original intended Joined Operating Procedure paragraph is still in the SLA and discussed in the CAB2 for the 2023 SLA development. With the introduction of Change Management in the 2023 SLAs, the joined procedure will be used to capture the handover takeover between both parties in the service delivery aspects.

NSPA:

- The business case was submitted to the Military Committee, however it has yet to be put on the agenda for discussion.

- It includes the change in focus to be the NSPA Planning and Liaison Team (NPLT) and a clarification as to the role at various locations. If agreed this will be the basis for amending the LSA.

- The issue of the NPLT member at the SJLSG now become integrated into the JSEC needs to be resolved as the JSEC is a MOU entity and would have to request and pay for its own NSPA embedded staff.

- Progress has been delayed due to COVID and most recently the Ukraine crisis.

(6) ACO 2018 FY**IBA-AR(2019)0016, paragraph 2****ACO NEEDS TO MITIGATE RISKS THAT ARISE WITH USING NATO CUSTOMER-FUNDED AGENCIES****ACO's Formal Comments**

Agreed.

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Necessary steps are being taken to address and report those risks.

(7) ACO 2017 FY

IBA-AR(2018)0009, paragraph 8

IMPROVEMENTS REQUIRED IN THE AREA OF RISK MANAGEMENT AND INTERNAL CONTROL***ACO's Formal Comments***

Agreed.

(8) ACO 2016 FY

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***

Agreed.

(9) ACO 2016 FY

IBA-AR(2017)08, paragraph 3

OPERATION OF KEY SYSTEM IN NAEW&CF NOT ENSURED***ACO's Formal Comments***

Agreed.

This accurately reflects the current status. Work remains in progress.

(10) ACO 2016 FY

IBA-AR(2017)08, paragraph 5

NO MEMORANDUM OF AGREEMENT (MOA) IN PLACE WITH NCIA***ACO's Formal Comments***

Agreed.

JFCNP will further refine the CIS Support Agreement draft prepared by KFOR. This document will then be forwarded to NCIA for coordination, however, at this time no commitment to support this document has been made by NCIA.

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Pending successful coordination with NCIA, this document could result in an agreement in 2023.

(11) ACO 2015 FY

IBA-AR(2016)09, paragraph 6

NEED TO PREPARE NEW LOGISTIC SUPPORT AGREEMENTS WITH NSPA

ACO's Formal Comments

Agreed.

(12) ACO 2013 FY

IBA-AR(2014)20, paragraph 5

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

ACO's Formal Comments

Agreed.

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GLOSSARY OF TERMS

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

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

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

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



ALLIED COMMAND OPERATIONS CONSOLIDATED FINANCIAL STATEMENTS

2021

PUBLICLY DISCLOSED - PDN(2023)0001 - MIS EN LECTURE PUBLIQUE



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ACO Consolidated Financial Statements 2021

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CERTIFICATION OF THE 2021 ACO CONSOLIDATED FINANCIAL STATEMENTS

1. As per the NATO Financial Regulation (NFR) 35.1 ACO shall submit consolidated annual financial statements for audit to the International Board of Auditors for NATO (IBAN) by not later than 31 March following the end of the financial year. Attached herewith is the full set of the 2021 ACO Consolidated Financial Statements including the Statement of Internal Control.

2. The ACO Financial Controller is required by the NFRs/FRPs to maintain accounting records and to prepare consolidated annual financial statements. To lay the foundations for the financial statements, the ACO Financial Controller is responsible for establishing detailed financial rules and procedures to ensure that funds entrusted to ACO by the NATO Nations to support critical activities and operations are spent in an effective and efficient manner, transparently and with full accountability. The ACO Financial Controller is also required to maintain internal financial control, which shall provide an effective control mechanism of the financial transactions to ensure the regularity of the receipt, custody and use of all funds and other financial resources of the entity; and the conformity of expenditures with the appropriations approved by the Committees.

3. 2021 saw the closure of the Resolute Support Mission. The closure impacted the organization and required the assumption of some risk due to the circumstances of the closeout and subsequent support to the NATO Affiliated Afghans. Updates on this topic have been provided to the Budget Committee and coordinated with other service providers. The topic is also covered in the notes to financial statements. The impact of the COVID-19 pandemic continues to prove challenging, including in ACO's financial operations as reflected in these financial statements. There are deficiencies and limitations to provide continuity of services in a timely manner due to lack of appropriate CIS support at the working level. However, the Finance and Acquisition Directorate (FINAC) continues to find ways to mitigate the risk this new reality brings. FINAC made all efforts to ensure continuity of services whilst maintaining, to the maximum extent practicable, the internal controls in place via ACO processes and through the Financial Management System to strengthen the cascading certification process from subordinate reporting entities to the corporate level. Regular communication (remote and to a limited extent in person) with subordinate entities ensured that, an acceptable level of controls and standards were maintained and any limitations to financial data highlighted.

4. The ACO Corporate Accounting and Control Branch Head (CAC BH), responsible for all finance and accounting processes including the ACO Consolidated Financial Statements, provided reasonable assurance that the ACO Consolidated accounts present fairly, in all material aspects, the financial position, the results of the operations, the cash-flow and the notes of the ACO entity. This is assured due to the well-established finance and accounting processes and controls and the level of expertise and professional knowledge of key positions at corporate and decentralised level. The key business processes enable risk management, guarantee transparency, promote accountability and ensure the integrity of financial data. The annual financial closure is performed with an annually updated end of year guidance including a specific checklist and certification that provide evidence of the controls in place and alert the CAC BH of any areas that require action. Additional due diligence has been exercised and can be demonstrated in the tangible processes indicated at para.3.

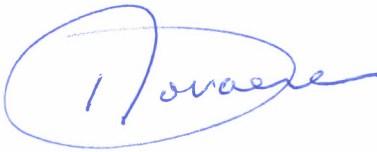
RESPONSIBILITY

5. The attached, unaudited fiscal year 2021 ACO Consolidated Financial Statements for the period starting 01 January 2021 and ending 31 December 2021 have been prepared in accordance with the NFR, NATO Accounting Framework (NAF) and relevant International Public Sector Accounting Standards (IPSAS). In accordance with NFR Article 3.2, they are jointly signed by the

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ACO Strategic Commander and the ACO Financial Controller, and conform to the responsibility and accountability principles prescribed in the NFR 3.1, and are submitted to the International Board of Auditors for NATO in accordance with the NFR 35.

6. 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. Prepared the accounts on a going concern basis.
7. 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 2021.

A blue ink signature of Mr Danny Hovaere, consisting of a large, stylized 'D' followed by the name 'Hovaere' in a cursive script.

Mr Danny Hovaere
A/Financial Controller
Allied Command Operations

A blue ink signature of Tod D. Wolters, featuring a large, stylized 'T' followed by the name 'Wolters' in a cursive script.

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

2021 ACO STATEMENT OF INTERNAL CONTROL

1. **Introduction.** The 2021 ACO Statement of Internal Control (SIC) builds on explicit, written assurances provided by ACO Command Groups in accordance with ACO Directive 015-029¹ and COS SHAPE Order No. 178². It reflects the Command's consolidated assessment of the efficiency and effectiveness of its activities, processes and procedures and their consistency with established rules and regulations. Responses to identified deficiencies will continue to be monitored and refined as needed and be considered during future iterations of the ACO SIC.

2. **Deficiencies identified in 2021**a. **Communication and Information Systems**

(1) Inadequate information management, in combination with obsolete IT infrastructure and unsatisfactory IT support, and missing links between different information systems present a critical issue for ACO. The critical operational obsolescence of the legacy system and the growing capability gap affects system support, security, performance, reliability, and through-life costs, and limits ACO's ability to fully protect and exploit data. The Information Technology Modernisation programme delays have exposed ACO to an unacceptable level of operational risk.

(2) There were issues identified in the customer/supplier relationship with NCIA for local service delivery, which need to be addressed more centrally to ensure services agreed in the Service Level Agreements are met.

b. **Infrastructure**

(1) Infrastructure was identified as an area of some concern. A number of facilities are still insufficient in terms of size and quality to accommodate all staff. However, respective mitigation measures are in place or are being developed with the support of Host Nations.

(2) Furthermore, analysis of ACO's survivability and resilience has identified several areas of risk in the area of infrastructure. Work to address them has begun with the development of alternate sites and a dispersal capability in addition to other measures.

c. **Education and Training.** In 2021, the COVID-19 pandemic significantly disrupted the usual and planned conduct of both individual and collective Education and Training, while training demand increased due to previous years' shortfalls.

d. **Staffing**

(1) Nations assigned an insufficient number of suitably qualified and experienced personnel to fill Peacetime Establishment positions. Increasing workloads compounded the effects of vacancies and absence of relevant skills. In addition, the COVID-19 pandemic adversely affected staff's availability to work from the office due to quarantine or illness.

¹ Internal Control Framework in ACO, dated 28 January 2021.

² Internal Control Certification Process and the designation of the Internal Control Focal Point, dated 13 July 2021.

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(2) ACO's insufficient workforce development hindered the development of talent across the military and civilian workforce. The introduction of the skill submission system to capture skills, qualifications and experience had a good initial response. However, there are only limited tools available to analyse and leverage the information submitted.

(3) The paucity of effective Hand-Over / Take-Over (HOTO) efforts during staff rotations negatively affected workforce capabilities. Although some HQs made efforts to improve their HOTO process³, compliance by both departing individuals and their line managers has been suboptimal.

e. **Finance and Acquisition**

(1) In 2021, the situation in Afghanistan has resulted in outstanding close-out efforts within ACO, NATO Agencies and Nations. A number of negotiations are still in progress which may result in contractors' claims or settlements that have yet to be fully assessed. Whenever possible the magnitude of the risk is being captured. Moreover the very short notice requirement to support the NATO Affiliated Afghans is an area of financial and contractual risk enduring into 2022.

(2) In the framework of the LOG FS Finance Project, the technical upgrade of FinS⁴ has not been completed due to the obsolescence of its infrastructure, leaving the system unsupported by Oracle since 31 December 2021 and vulnerable to potential threats.

(3) The slowdown of certain activities due to the COVID-19 pandemic (e.g. travel, training, exercises, maintenance projects) resulted in higher budgetary surpluses in 2021 than usual.

f. **Property Management.** ACO is aware of limitations related to property management and the asset lifecycle management. An ACO asset management framework could be considered to enhance the existing practical application of AD 060-080 Property Accounting and Control and provide further assurance regarding the safeguarding of assets.

g. **Policy Management.** Some directives and guidance documents are out of date and need updating, while the relevance of others is in question. This creates problems with the top-down administrative governance of the control framework to ensure consistent, transparent and cohesive policy effect. There was a need to better define an end-to-end policy lifecycle process and include opportunities for automation and/or digitalization.

3. **Enhancements identified in 2021.** The following areas have shown notable improvements in terms of their efficiency, effectiveness and consistency with established rules and regulations:

a. Crisis Identification and Area of Responsibility management and Peacetime Vigilance.

b. Business Continuity Policy.

³ For example JFCBS Directive 075-007, dated 10 August 2021.

⁴ ACO's Enterprise Resource Planning System.

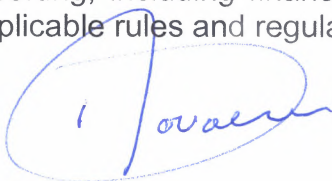
- c. The governance framework and control environment supporting the Garrison Support Arrangements.
- d. A process has been developed improving consideration of potential fraud while assessing risks to the achievement of objectives.
- e. ACO Financial Controller is assigned control responsibility for the MWA activities in addition to the core fiduciary responsibilities. Although there has been an improvement in assurance related to MWA control processes, sufficient resources must be provided to prevent an impact to other key priorities.

4. **ACO Internal Control Framework.** The new ACO Directive on the Internal Control Framework issued on 28 January 2021 clarifies and rationalises the roles and responsibilities of all stakeholders involved in ACO's Internal Control efforts.

5. **Financial Controller's Contribution.** Assurance is provided related to the reliability of financial information. Extensive formal controls are in place within the 3 FINAC functions. These were confirmed through self-assessment certifications produced by the ACO Command Financial Controllers, providing tangible evidence and assurance as to the truthfulness and reliability of Budgetary, Finance & Accounting and Acquisition processes and information. Finally, a formal management plan to oversee and resolve external audit observations ACO-wide was introduced.

6. **ACO Strategic Management System.** The collective efforts of ACO Management Board members have significantly matured the ACO Strategic Management System in 2021. Strategic Management knowledge and competences, particularly with regard to risk management, among ACO leadership and working-level staff increased. A robust Strategic Management operating framework, with SACEUR's ACO Strategic Management Plan at its core, is in place. The ACO Management Board looks to consolidate these achievements and to gradually improve the overall ACO Strategic Management System in 2022.

7. **Conclusion.** Based on ACO's 2021 Certification Process, the involvement of the ACO Management Board, the ACO Audit Advisory Panel, and the acting ACO Financial Controller's independent fiduciary assessment; we are satisfied that actions were taken to remedy significant identified weaknesses, including the prevention and detection of potential fraudulent activities within ACO. Therefore, we confirm that, over the past calendar year, to the best of our knowledge after undertaking all relevant procedures, and subject to the ongoing work to address the deficiencies identified, ACO had an effective framework of Internal Control in place to ensure effective and efficient operation, reliable and accurate reporting, including financial information, safeguarding of assets and compliance with all applicable rules and regulations.



Mr Danny Hovaere
A/Financial Controller
Allied Command Operations



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

ACO Consolidated Financial Statements 2021

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ACO Consolidated Financial Statements 2021

STATEMENT 1: ACO CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(I)

As at 31 December 2021

in EUR

Notes

2021

Restated

2020 (II)

2020

ASSETS

Current Assets

Cash and Cash Equivalents	B.1	1,363,491,891	922,439,037	922,439,037
Short Term Investments	B.2	520,048,947	932,885,474	932,885,474
Receivables	B.3	205,102,748	180,115,356	180,115,356
Prepayments	B.4	10,282,089	9,293,311	9,293,311
Other Current Assets	B.5	940,973	969,214	969,214
Inventories	B.6	47,007,170	45,202,592	42,917,335

Total Current Assets

2,146,873,818 2,090,904,984 2,088,619,727

Non-current Assets

Receivables	B.7	1,031,072	1,034,023	1,034,023
Property, Plant & Equipment	B.8	789,230,102	788,806,976	639,663,035
Other Non-current Assets	B.9	7,297,226	8,032,988	8,032,988

Total Non-current Assets

797,558,400 797,873,987 648,730,046

Total ASSETS

2,944,432,218 2,888,778,971 2,737,349,773

LIABILITIES

Current Liabilities

Payables (III)	B.10	(372,435,901)	(283,956,187)	(283,956,187)
Deferred Revenue & Other liab.	B.11	(1,572,488,019)	(1,565,837,521)	(1,534,927,127)
Advances	B.12	(280,327,948)	(343,271,633)	(343,271,633)
Short Term Provisions	B.13	(543,052)	(393,447)	(393,447)

Total Current Liabilities

(2,225,794,920) (2,193,458,788) (2,162,548,394)

Non-current Liabilities

Long Term Provisions	B.14	(9,312,981)	(10,274,853)	(10,274,853)
Non-current Deferred Revenue	B.15	(709,324,316)	(685,045,330)	(564,526,526)

Total Non-current Liabilities

(718,637,297) (695,320,183) (574,801,379)

Total LIABILITIES

(2,944,432,218) (2,888,778,971) (2,737,349,773)

NET ASSETS

C.19 - - -

(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 relates to PP&E and reclassification between current and non-current assets. 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.10.

ACO Consolidated Financial Statements 2021

STATEMENT 2: ACO CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

(I)

For the year ended 31 December 2021
in EUR

Notes

2021

Restated
2020 (II)

2020

Revenue

Revenue		(1,132,489,146)	(1,066,722,278)	(1,062,432,189)
Other Revenue		(3,292,051)	(2,580,592)	(2,580,592)
Financial Revenue		(923,766)	(3,374,237)	(3,374,237)
Total to be returned to the Nations	C.18	(1,025,986)	3,562,226	3,562,226
Total Revenue	C.16	(1,137,730,949)	(1,069,114,881)	(1,064,824,792)

Expenses

Personnel		195,544,716	206,881,080	206,881,080
Contractual Supplies and Services		771,031,820	731,319,920	767,458,744
Foreign Military Sales (FMS) (III)		15,222,118	23,248,961	23,248,961
Depreciation and Amortization		151,622,411	106,008,196	65,579,283
Provisions		856,903	-	-
Other Expenses		1,453	687	687
Financial Costs		3,451,527	1,656,037	1,656,037
Total Expenses	C.17	1,137,730,949	1,069,114,881	1,064,824,792

Result of the year

- - -

(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 concerns 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 2021

STATEMENT 3: ACO CONSOLIDATED STATEMENT OF CASH FLOWS

(I) As at 31 December 2021 in EUR			
	2021	Restated 2020 (II)	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Result of the year	-	-	-
Non-cash movements			
Depreciation	151,622,411	106,008,196	65,579,283
Increase (Decrease) in payables	88,481,869	(101,547,045)	(101,547,045)
Increase (Decrease) in other current liabilities	(32,289,876)	100,695,795	98,410,539
Increase (Decrease) in other non-current liabilities	(961,872)	(809,459)	(809,459)
Increase (Decrease) in current deferred revenue for PP&E	(23,855,861)	46,204,553	17,579,416
Increase (Decrease) in non-current deferred revenue for PP&E	24,278,986	97,455,564	(23,063,240)
(III) Property, plant and equipment, from other funding	(101,503,876)	(197,383,370)	(44,669,341)
(Increase) Decrease in other current assets	(960,537)	14,410,203	14,410,203
(Increase) Decrease in other non-current assets	738,714	738,502	738,502
(Increase) Decrease in receivables	(24,987,392)	22,031,598	22,031,598
(Increase) Decrease in Inventories	(1,804,578)	(3,884,415)	(1,599,159)
Net cash flows from operating activities	78,757,988	83,920,122	47,061,297
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and AuC	(50,541,660)	(52,284,943)	(15,426,118)
Proceeds from sale of plant and equipment	-	-	-
Proceeds from sale of investments	-	-	-
Short term investment	412,836,526	(169,495,981)	(169,495,981)
Net cash flows from investing activities	362,294,866	(221,780,924)	(184,922,099)
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	441,052,854	(137,860,803)	(137,860,803)
Cash and cash equivalents at beginning of period	922,439,037	1,060,299,840	1,060,299,840
Cash and cash equivalents at end of period	1,363,491,891	922,439,037	922,439,037
Net increase/(decrease) in cash and cash equivalents	441,052,854	(137,860,803)	(137,860,803)

(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 relates to PP&E and reclassification between current and non-current assets. 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 2021

STATEMENT 4: ACO CONSOLIDATED STATEMENT OF CHANGES IN NET EQUITY*For the year ended 31 December 2021**in EUR**Notes**2021**Restated**2020**2020*

Equity at beginning of year		-	-	-
Result of for the year		-	-	-
Net recognized revenue and expenses for the year		-	-	-
Equity at End of year	C.19	-	-	-

ACO Consolidated Financial Statements 2021

STATEMENT 5/1: ACO BC BUDGET EXECUTION REPORT

(Note H)

EUR

	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments/ Special Carry Forward (*)	Expenses	Total spent	Carry Forward/ Special Carry Forward (*)	Lapsed
2021 NCSEP												
	568,387,080	-	568,387,080	-	568,387,080	-	568,387,080	44,281,342	492,195,964	536,477,306	44,281,342	31,909,774
Budget 101 SHAPE	76,246,284	-	76,246,284	-	76,246,284	-	76,246,284	1,707,457	71,184,003	72,891,461	1,707,457	3,354,823
Budget 103 JFC HQ BRUNSSUM	25,291,223	-	25,291,223	-	25,291,223	-	25,291,223	460,307	24,795,470	25,255,778	460,307	35,445
Budget 104 JFC HQ NAPLES	29,158,359	-	29,158,359	-	29,158,359	-	29,158,359	1,052,245	27,722,494	28,774,739	1,052,245	383,620
Budget 105 HQ AIRCOM RAMSTEIN	23,415,235	-	23,415,235	-	23,415,235	-	23,415,235	892,917	20,582,831	21,475,748	892,917	1,939,487
Budget 111 HQ LANDCOM IZMIR	10,748,312	-	10,748,312	-	10,748,312	-	10,748,312	682,732	7,960,233	8,642,965	682,732	2,105,347
Budget 118 HQ MARCOM NORTHWOOD	10,843,382	-	10,843,382	-	10,843,382	-	10,843,382	1,005,986	9,809,796	10,815,782	1,005,986	27,600
Budget 131 HQ DEPLOYABLE ASSETS	11,537,316	-	11,537,316	-	11,537,316	-	11,537,316	326,221	10,511,804	10,838,026	326,221	699,290
Budget 157 ACO Exercises and Training	20,631,650	-	20,631,650	-	20,631,650	-	20,631,650	2,999,216	13,921,532	16,920,748	2,999,216	3,710,902
Budget 164 AIR DEFENCE (GROUND)	36,775,989	-	36,775,989	-	36,775,989	-	36,775,989	7,367,666	23,009,697	30,377,363	7,367,666	6,398,626
Budget 166 ACCS Support	96,116,491	-	96,116,491	-	96,116,491	-	96,116,491	14,834,905	79,326,020	94,160,925	14,834,905	1,955,566
Budget 176 NATO CENTRALISED NUCLEAR CIS BUDGET (NCCNB)	3,915,251	-	3,915,251	-	3,915,251	-	3,915,251	300,000	3,195,251	3,495,251	300,000	420,000
Budget 177 NCCB	179,045,463	-	179,045,463	-	179,045,463	-	179,045,463	11,234,179	163,125,254	174,359,433	11,234,179	4,686,030
Budget 178 NATO CIS GROUP (NCISG)	40,152,125	-	40,152,125	-	40,152,125	-	40,152,125	1,378,540	35,358,689	36,737,229	1,378,540	3,414,896
Budget 502 OUTREACH PROGRAMMES (ACO)	4,510,000	-	4,510,000	-	4,510,000	-	4,510,000	38,970	1,692,889	1,731,859	38,970	2,778,141
2021 NCS-ADAPTATION												
	28,684,536	-	28,684,536	-	28,684,536	-	28,684,536	1,220,620	22,175,146	23,395,765	1,220,620	5,288,771
Budget 124 NCS-ADAPTATION (ACO)	28,684,536	-	28,684,536	-	28,684,536	-	28,684,536	1,220,620	22,175,146	23,395,765	1,220,620	5,288,771
2021 AGS												
	84,151,987	-	84,151,987	-	84,151,987	-	84,151,987	46,366,277	28,362,169	74,728,445	46,366,277	9,423,542
Budget 167 AGS O&S	84,151,987	-	84,151,987	-	84,151,987	-	84,151,987	46,366,277	28,362,169	74,728,445	46,366,277	9,423,542
2021 AGS												
	3,238,531	-	3,238,531	-	3,238,531	-	3,238,531	139,309	3,098,234	3,237,543	139,309	988
Budget 168 AGS CIS	3,238,531	-	3,238,531	-	3,238,531	-	3,238,531	139,309	3,098,234	3,237,543	139,309	988
2021 NAEW												
	176,413,241	-	176,413,241	-	176,413,241	-	176,413,241	23,284,048	143,272,535	166,556,583	23,284,048	9,856,658
Budget 163 NAEW&CF EMPLOYMENT	176,413,241	-	176,413,241	-	176,413,241	-	176,413,241	23,284,048	143,272,535	166,556,583	23,284,048	9,856,658
2021 NAEW												
	139,576,541	-	139,576,541	-	139,576,541	-	139,576,541	63,739,788	74,568,873	138,308,660	63,739,788	1,267,881
Budget 162 NAEW&CF PROVISIONING	139,576,541	-	139,576,541	-	139,576,541	-	139,576,541	63,739,788	74,568,873	138,308,660	63,739,788	1,267,881
2021 AOM												
	254,945,670	-	254,945,670	-	254,945,670	-	254,945,669	81,210,408	171,836,456	253,046,864	81,210,408	1,898,806
Budget 183 Balkans Operations	24,646,031	-	24,646,031	-	24,646,031	-	24,646,031	1,600,503	22,013,635	23,614,138	1,600,503	1,031,893
Budget 187 NATO Support to the African Union	471,260	-	471,260	-	471,260	-	471,260	12,526	184,028	196,554	12,526	274,706
Budget 189 Operation SEA GUARDIAN	302,090	-	302,090	-	302,090	-	302,089	6,914	221,074	227,987	6,914	74,102
Budget 194 RESOLUTE SUPPORT	211,089,661	-	211,089,661	-	211,089,661	(12,130,000)	198,959,661	73,097,238	125,862,423	198,959,661	73,097,238	-
Budget 195 NMI	18,436,628	-	18,436,628	-	18,436,628	-	18,436,628	3,948,972	13,969,552	17,918,523	3,948,972	518,105
Budget 196 ALLIED SOLACE	-	-	-	-	-	12,130,000	12,130,000	2,544,255	9,585,745	12,130,000	2,544,255	-
Total 2021	1,255,397,586	-	1,255,397,586	-	1,255,397,586	-	1,255,397,586	260,241,791	935,509,377	1,195,751,167	260,241,791	59,646,418

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(*) Data include Carry Forward (CF) and Special Carry Forward (SCF). See Note H - Table H-D - ACO SCF- for the SCF details (page N-48).

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	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments/ Special Carry Forward (*)	Expenses	Total spent	Carry Forward/ Special Carry Forward (*)	Lapsed
2020 NCSEP												
	63,030,121	-	63,030,121	-	63,030,121	-	63,030,121	8,454,963	47,014,143	55,469,106	8,454,963	7,561,015
Budget 101 SHAPE	2,039,967	-	2,039,967	-	2,039,967	-	2,039,967	11,333	1,923,181	1,934,514	11,333	105,452
Budget 103 JFC HQ BRUNSSUM	548,004	-	548,004	-	548,004	-	548,004	17,272	508,708	525,979	17,272	22,025
Budget 104 JFC HQ NAPLES	179,963	-	179,963	-	179,963	-	179,963	375	81,007	81,382	375	98,582
Budget 105 HQ AIRCOM RAMSTEIN	915,499	-	915,499	-	915,499	-	915,499	5,091	826,021	831,113	5,091	84,387
Budget 111 HQ LANDCOM IZMIR	316,952	-	316,952	-	316,952	-	316,952	27,118	168,304	195,422	27,118	121,530
Budget 118 HQ MARCOM NORTHWOOD	255,493	-	255,493	-	255,493	-	255,494	167,788	50,711	218,499	167,788	36,995
Budget 131 HQ DEPLOYABLE ASSETS	352,946	-	352,946	-	352,946	-	352,946	17,362	323,419	340,781	17,362	12,165
Budget 157 ACO Exercises and Training	5,703,973	-	5,703,973	-	5,703,973	-	5,703,973	42,091	567,033	609,124	42,091	5,094,849
Budget 164 AIR DEFENCE (GROUND)	5,690,166	-	5,690,166	-	5,690,166	-	5,690,166	971,686	3,550,793	4,522,479	971,686	1,167,687
Budget 166 ACCS Support	38,855,881	-	38,855,881	-	38,855,881	-	38,855,881	6,074,536	32,535,581	38,610,117	6,074,536	245,765
Budget 177 NCCB	6,657,237	-	6,657,237	-	6,657,237	-	6,657,237	792,772	5,377,919	6,170,691	792,772	486,546
Budget 178 NATO CIS GROUP (NCISG)	1,514,039	-	1,514,039	-	1,514,039	-	1,514,039	327,540	1,101,466	1,429,006	327,540	85,033
2020 NCS-ADAPTATION												
	4,639,870	-	4,639,870	-	4,639,870	-	4,639,870	204,540	1,203,172	1,407,712	204,540	3,232,158
Budget 124 NCS-ADAPTATION (ACO)	4,639,870	-	4,639,870	-	4,639,870	-	4,639,870	204,540	1,203,172	1,407,712	204,540	3,232,158
2020 AGS												
	47,651,179	-	47,651,179	-	47,651,179	-	47,651,179	22,630,537	4,744,552	27,375,089	22,630,537	20,276,090
Budget 167 AGS O&S	47,651,179	-	47,651,179	-	47,651,179	-	47,651,179	22,630,537	4,744,552	27,375,089	22,630,537	20,276,090
2020 NAEW												
	14,364,251	-	14,364,251	-	14,364,251	-	14,364,251	3,734,601	9,352,007	13,086,608	3,734,601	1,277,642
Budget 163 NAEW&CF EMPLOYMENT	14,364,251	-	14,364,251	-	14,364,251	-	14,364,251	3,734,601	9,352,007	13,086,608	3,734,601	1,277,642
2020 NAEW												
	35,004,145	-	35,004,145	-	35,004,145	-	35,004,145	12,048,535	21,116,082	33,164,617	12,048,535	1,839,529
Budget 162 NAEW&CF PROVISIONING	35,004,145	-	35,004,145	-	35,004,145	-	35,004,145	12,048,535	21,116,082	33,164,617	12,048,535	1,839,529
2020 AOM												
	23,235,885	-	23,235,885	-	23,235,885	-	23,235,885	8,639,138	3,558,270	12,197,408	8,639,138	11,038,478
Budget 183 Balkans Operations	1,144,523	-	1,144,523	-	1,144,523	-	1,144,523	347,883	683,354	1,031,237	347,883	113,286
Budget 189 Operation SEA GUARDIAN	13,261	-	13,261	-	13,261	-	13,261	-	13,179	13,179	-	81
Budget 194 RESOLUTE SUPPORT	13,402,269	-	13,402,269	-	13,402,269	-	13,402,269	388,921	2,142,798	2,531,720	388,921	10,870,550
Budget 195 NMI	8,675,832	-	8,675,832	-	8,675,832	-	8,675,832	7,902,334	718,938	8,621,272	7,902,334	54,560
Total 2020	187,925,451	-	187,925,451	-	187,925,451	-	187,925,451	55,712,314	86,988,225	142,700,539	55,712,314	45,224,913

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	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments/ Special Carry Forward (*)	Expenses	Total spent	Carry Forward/ Special Carry Forward (*)	Lapsed
2019 NCSEP												
	959,874	-	959,874	-	959,874	-	959,874	-	767,448	767,447	-	192,426
Budget 101 SHAPE	187,259	-	187,259	-	187,259	-	187,259	-	167,416	167,416	-	19,843
Budget 104 JFC HQ NAPLES	587	-	587	-	586.90	-	586.90	-	400	400	-	187
Budget 105 HQ AIRCOM RAMSTEIN	1,908	-	1,908	-	1,907.53	-	1,907.53	-	1,195	1,195	-	713
Budget 111 HQ LANDCOM IZMIR	15,995	-	15,995	-	15,994.98	-	15,994.98	-	-	-	-	15,995
Budget 164 AIR DEFENCE (GROUND)	172,117	-	172,117	-	172,117	-	172,117	-	127,596	127,596	-	44,520
Budget 166 ACCS Support	448,320	-	448,320	-	448,320	-	448,320	-	445,411	445,411	-	2,908
Budget 177 NCCB	132,154	-	132,154	-	132,154	-	132,154	-	23,894	23,894	-	108,259
Budget 178 NATO CIS GROUP (NCISG)	1,535	-	1,535	-	1,535	-	1,535	-	1,535	1,535	-	-
2019 NCS-ADAPTATION												
	2,463,155	-	2,463,155	-	2,463,155	-	2,463,155	-	1,935,631	1,935,631	-	527,524
Budget 124 NCS-ADAPTATION (ACO)	2,463,155	-	2,463,155	-	2,463,155	-	2,463,155	-	1,935,631	1,935,631	-	527,524
2019 AGS												
	8,806,195	-	8,806,195	-	8,806,195	-	8,806,195	7,000,000	1,049,202	8,049,202	7,000,000	756,993
Budget 167 AGS O&S	8,806,195	-	8,806,195	-	8,806,195	-	8,806,195	7,000,000	1,049,202	8,049,202	7,000,000	756,993
2019 NAEW												
	3,033,485	-	3,033,485	-	3,033,485	-	3,033,485	-	2,093,385	2,093,385	-	940,100
Budget 163 NAEW&CF EMPLOYMENT	3,033,485	-	3,033,485	-	3,033,485	-	3,033,485	-	2,093,385	2,093,385	-	940,100
2019 NAEW												
	9,735,857	-	9,735,857	-	9,735,857	-	9,735,857	-	6,893,787	6,893,787	-	2,842,069
Budget 162 NAEW&CF PROVISIONING	9,735,857	-	9,735,857	-	9,735,857	-	9,735,857	-	6,893,787	6,893,787	-	2,842,069
2019 AOM												
	7,947,546	-	7,947,546	-	7,947,546	-	7,947,546	-	1,884,411	1,884,411	-	6,063,135
Budget 183 Balkans Operations	487,242	-	487,242	-	487,242	-	487,242	-	-	-	-	487,242
Budget 187 NATO Support to the African Union	1,509	-	1,509	-	1,509	-	1,509	-	-	-	-	1,509
Budget 194 RESOLUTE SUPPORT	7,362,640	-	7,362,640	-	7,362,640	-	7,362,640	-	1,865,562	1,865,562	-	5,497,078
Budget 195 NMI	96,155	-	96,155	-	96,155	-	96,155	-	18,849	18,849	-	77,306
Total 2019	32,946,112	-	32,946,112	-	32,946,112	-	32,946,112	7,000,000	14,623,864	21,623,864	7,000,000	11,322,248

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	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments/ Special Carry Forward (*)	Expenses	Total spent	Carry Forward/ Special Carry Forward (*)	Lapsed
	2018 AGS											
	5,123,132	-	5,123,132	-	5,123,132	-	5,123,132	5,000,000	123,132	5,123,132	5,000,000	-
Budget 167 AGS O&S	5,123,132	-	5,123,132	-	5,123,132	-	5,123,132	5,000,000	123,132	5,123,132	5,000,000	-
Total 2018	5,123,132	-	5,123,132	-	5,123,132	-	5,123,132	5,000,000	123,132	5,123,132	5,000,000	-

(*) Data include Carry Forward (CF) and Special Carry Forward (SCF). See Note H - Table H-D - ACO SCF- for the SCF details (page N-48).

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	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments/ Special Carry Forward (*)	Expenses	Total spent	Carry Forward/ Special Carry Forward (*)	Lapsed
	2017 AGS											
	39,730,491	-	39,730,491	-	39,730,491	-	39,730,491	23,986,887	7,743,604	31,730,491	23,986,887	8,000,000
Budget 167 AGS O&S	39,730,491	-	39,730,491	-	39,730,491	-	39,730,491	23,986,887	7,743,604	31,730,491	23,986,887	8,000,000
Total 2017	39,730,491	-	39,730,491	-	39,730,491	-	39,730,491	23,986,887	7,743,604	31,730,491	23,986,887	8,000,000

(*) Data include Carry Forward (CF) and Special Carry Forward (SCF). See Note H - Table H-D - ACO SCF- for the SCF details (page N-48).

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EUR	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments/ Special Carry Forward (*)	Expenses	Total spent	Carry Forward/ Special Carry Forward (*)	Lapsed
	2014 AOM											
	24,448,305	-	24,448,305	-	24,448,305	-	24,448,305	5,193,159	1,686,473	6,879,632	5,193,159	17,568,673
Budget 185 ISAF	24,448,305	-	24,448,305	-	24,448,305	-	24,448,305	5,193,159	1,686,473	6,879,632	5,193,159	17,568,673
Total 2014	24,448,305	-	24,448,305	-	24,448,305	-	24,448,305	5,193,159	1,686,473	6,879,632	5,193,159	17,568,673

(*) Data include Carry Forward (CF) and Special Carry Forward (SCF). See Note H - Table H-D - ACO SCF- for the SCF details (page N-48).

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	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments/ Special Carry Forward (*)	Expenses	Total spent	Carry Forward/ Special Carry Forward (**) (**)	Lapsed
	2013 NCSEP											
X	150,162	-	150,162	-	150,162	-	150,162	-	150,162	150,162	-	-
Budget 178 NATO CIS GROUP (NCISG)	150,162	-	150,162	-	150,162	-	150,162	-	150,162	150,162	-	-
X												
Total 2013	150,162	-	150,162	-	150,162	-	150,162	-	150,162	150,162	-	-
Total for all MB Cost Shares, Years and Budgets	1,545,721,239	-	1,545,721,239	-	1,545,721,239	-	1,545,721,239	357,134,151	1,046,824,837	1,403,958,987	357,134,151	141,762,252

(*) Data include Carry Forward (CF) and Special Carry Forward (SCF). See Note H - Table H-D - ACO SCF- for the SCF details (page N-48).
(**) ACO SCF represents 32.44% of the overall amount

ACO Consolidated Financial Statements 2021

Notes to the ACO Consolidated Financial Statements 2021

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ACO Consolidated Financial Statements 2021

NOTES TO THE ACO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2021

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ACO Consolidated Financial Statements 2021

A. Significant Accounting Policies

Basis for 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.

These FS have been prepared on the basis that ACO is a going concern² and will continue in operation and meet its mandate for the near future. 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. Financial instruments are measured at fair value at the end of each 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 basis³. 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 2021 and ends on 31 December 2021.

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 2021.

IPSAS	Name	Effective date for periods beginning on or after	ACO Assessment
IPSAS 41	Financial Instruments	1 January 2022 (deferred due to COVID-19 ⁴)	This standard will replace part of IPSAS 29 – Financial instruments: Recognition and Measurement. ACO's Financial Instruments are considered low risk. Its financial assets are low risk and as per NFRs/FRPs, ACO can only make low risk investments; moreover, its Account Receivables are essentially backed up by NATO Allies. Its financial liabilities are also low risk and are made up of account payables and advances provided to other NATO non-consolidated entities and/or customers. ACO does not engage with complex financial instruments such as hedges or derivatives, neither does it purchase and hold equity instruments. Therefore, it is unlikely that IPSAS 41 could impact the ACO Financial Reporting.

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

² Detailed information on the close-out of specific ACO segment reporting are indicated at Note E.

³ In accordance with NAF's adaptation of *IPSAS 1 – Presentation of Financial Statement*, ACO reports data on a modified cash basis where ACO Commands are unable to satisfy themselves that the data is presented on a reliable accrual basis. The modified cash basis reflects the FMS goods and services delivered according to United States DD645 reports and for which the United States government has received cash payment.

⁴ COVID-19: Deferral of effective date – IPSASB – Nov. 2020

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IPSAS 42	Social Benefits	1 January 2022 (deferred due to COVID-19)	<i>This standard relates to the financial reporting of social benefits such as cash transfers to individuals in the form of state pensions, unemployment benefits and income support; as such, it will not impact the financial reporting of ACO.</i>
IPSAS 43	Leases	1 January 2025	<p><i>This standard replaces IPSAS 13, approved in December 2021 and issued in January 2022. De-facto, the new standard will align IPSAS to International Financial Reporting Standard 16, which relates to Leases. This standard will remove the distinction between finance and operating leases and require the recognition of assets and liabilities created by all leases.</i></p> <p><i>ACO has few leases that require specific disclosure in the Financial Statements. The effective date allows preparers like ACO sufficient time to identify and assess the impacts of and to prepare for the implementation of the new standard, if required.</i></p>

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.

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.

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 2021 FS, the NAF and ACO accounting policies have been applied consistently throughout the reporting period.

Until FS 2020, ACO had reported inventories by applying a “transitional inventory valuation method” defined as “Global WAC”. For the 2021 FS, ACO has changed the inventory valuation method to the Weighted Average Cost (WAC) per item (as already applied for NAEW&C Force) and has recognized any inventory purchased prior to 2013 with the exception of NAEW&C Force. This exception for NAEW&C is authorized by the NAF, which permits considering inventory acquired prior to 2013 as fully expensed. A dedicated disclosure of this NAEW&C inventory is provided at note L. (table L.A.). The implementation of this new accounting policy ensures simplified and harmonized accounting treatment ACO wide, as well as provides a valuation that is more reliable. The change in accounting policy is applied retrospectively, with restatement of the 2020 inventory value.

The change in accounting policy having had the highest material impact relates to the recognition of the Aircraft - Depot Level Maintenance (DLM) costs for major inspections as capitalised assets.

In accordance with the FHQ 00-20-1 (Aerospace Equipment Maintenance Inspection, Documentation, Policies and Procedures), the NAEW&CF Maintenance Programme & Sustainment Branch (FHED) schedules the DLM events every six years/72 months for each Aircraft, which could be extended by 180 days. Based on the new ACO Accounting Policy, the DLM costs related to ongoing Major Inspections are initially recognised as Assets under Construction. Once the Certificate of Conformity (CoC) is issued, the related DLM costs are capitalised under the Major Inspections sub-category of Aircraft. The depreciation starts when, as required by NATO to operate the aircraft, the Military Certificate of Airworthiness (MCA) and/or Military Airworthiness Review Certificate (MARC) is issued.

These changes required the retrospective application of the accounting policy and the adjustment to prior period statements for inventory and PP&E balances.

If any specific change in the financial data, the impacts have been identified in the notes under the appropriate headings.

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Reclassification

For 2021, there were two types of reclassifications made. The first is derived from the identification of misclassified inventory items between accounts i.e. inventory treated as asset or vice-versa or consumables treated as spare parts or vice-versa. The second reclassification relates to an item of PP&E that was reported in the Building category in 2020 FS but is classified as an item of Installed Equipment in 2021. This reclassification did not trigger a retrospective restatement, as it did not meet the materiality criteria defined in the related ACO policy.

No other reclassifications were applied to the 2021 financial data.

Restatements

The ACO Policy is in line with IPSAS 3: Accounting Policies, Changes in Accounting estimates and errors, retrospective restatements are only reported if an error was made and the value of the restatement is material.

An error is defined as an omission/misstatement in the financial statements as a result of the failure to use or misuse of information that was available when the financial statements were authorized for issue and/or could reasonably be expected to have been obtained and taken into account for the preparation and presentation of those financial statements.

Materiality is defined as items that could individually or collectively influence the decisions or assessments of the users of the financial statements.

Based on these criteria, ACO has restated PP&E balances for seven PP&E categories (Buildings, Other infrastructure, Installed Equipment, Machinery, Furniture, Communication and Assets under Construction) and for Inventory balances.

Restated data are reported also for the change in the accounting policy for the Aircraft-DLM-Major Inspection as indicated in the heading note.

Further information on these restatements is provided in the notes for Property, Plant and Equipment and Inventory

Foreign Currency

These FS are presented in EUR, which is the ACO functional and reporting currency. All entities included in the consolidated FS adopt EUR as functional currency. Data from ACO budgets approved in different currency are converted and reported in EUR using a fixed rate. The fixed rate applied for GBP for 2021 is equal to 0.8447 EUR representing the NATO exchange rate as of 1st January 2020.

Foreign currency transactions are translated into EUR 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 EUR using the NATO exchange rates applicable at 31 December 2021.

Consolidation

The ACO Consolidated FS include the financial results of the controlling entity⁵ and its controlled entities. Entities, which are consolidated into the financial statements, are listed below.

ACO HQ NAME	LOCATION
SHAPE HQ	Casteau, Belgium
JFC Brunssum HQ	Brunssum, Netherlands
Resolute Support HQ ⁶	Kabul, Afghanistan
NAEW&C Force GK HQ	Geilenkirchen, Germany

⁵ 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 standards principles. The term "ACO Headquarters" relates only to those principles and does not supersede the legal status or personality of existing Headquarters across ACO

⁶ During 2021, there has been considerable change related to the RSM due to the withdrawal announcement. Since the original announcement in Apr. 2021, further operational decisions had to be taken on short notice due to the security situation. In Sep. 2021, the operations were complete. However, the full financial closure will be disclosed in 2022. Additional detail to RSM segment reporting are at Note E.

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JFC Naples HQ ⁷	Naples, Italy
AIRCOM Ramstein ⁸ HQ	Ramstein, Germany
MARCOM Northwood HQ	Northwood, UK
NCIS Group HQ ⁹	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

Inter-entity balances and transactions have been eliminated in the consolidation. 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 the assurance of the checks and balances for the asset reporting.

Moreover, the overall process in 2021 continued to be extremely difficult due to the pandemic affecting all the ACO locations and the critical status of the corporate finance and accounting workforce.

The ACO MWA financial data are not consolidated into the primary ACO FS in line with the current NAF and adapted IPSAS Standards, even when they are 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.

Contributions in-Kind (CiK)

In these consolidated FS, contributions in-kind are not recognised.

The current IPSAS 23 does not require but only encourages the recognition of CiK. Moreover, as recommended by the IS-NOR and approved by the RPPB in Feb. 2022¹⁰, ACO will work in coordination with the Working Group of Financial Controllers (WGFCs) and the IS-NOR to analyse and assess feasible scenarios about the potential financial reporting of the CiK. It is recognized that the broader political and military context for the disclosure about CiK requires careful consideration in the context of the NATO Accounting Framework review foreseen after the NFRs review.

In NATO, CiK have been seen traditionally as the provision of a service in lieu of a financial contribution, and was never foreseen nor intended to be financially measured; formal agreement for CiK is in place for one Ally for both NAEW&CF and NAGSF Capabilities; formal agreement for CiK is in place for another Ally for the NAGSF Capability, but not for the NAEW&CF Capability.

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.

⁷ Includes data related to NATO Mission Iraq (NMI), under the control of JFCNP HQ.

⁸ Includes data related to AIRCOM HQ, Ramstein, Germany, Deployable Air Command and Control Centre (DACC), Poggio Renatico, Italy, Combined Air Operations Centre (CAOC), Uedem, Germany, Combined Air Operations Centre (CAOC), Torrejon, Spain

⁹ It includes data related to the NCISG HQ, SHAPE, Belgium, 1st NSB, Wesel, Germany, 2nd NSB, Grazzanise, Italy, 3rd NSB, Bydgoszcz, Poland

¹⁰ AC/335-D(2022)0013 dated Feb. 2022

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Financial risk factors

The ACO financial statements prepared under NAF and IPSAS provide details of how the entity manages its financial risk, including credit risk, market risk (foreign currency exchange and interest rate) and liquidity risk. From an overall perspective, the ACO's investment management prioritizes capital preservation as its primary objective, ensuring sufficient liquidity to meet cash operating requirements, and then earning a market rate of return on its portfolio within these constraints.

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. Therefore, ACO is 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 procedures 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 risk due to some contracts and activities being managed in different currencies than EUR, mainly USD, GBP, TRY and a few remaining in AFN. 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 does not maintain significant assets or liabilities in foreign currency, except for some operational balances for services provided at MARCOM HQ, NAEW&C Force, 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. Realised foreign exchange gains are generally returnable to the Nations. More information can be found in the relevant notes.

Interest rate risk

ACO has successfully implemented a centralised Cash Management office. The cash holdings are mainly kept and managed at corporate level with a few exceptions. Liquidity is invested in call accounts, saving accounts up to 3 months, short term deposits not exceeding 12 months and term deposits divided in packages that can be liquidated within 31 calendar days at no cost. All investment 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 rate risk strictly follows the current market for all public and international organisations. Additional details are disclosed at Note B.1 and B.2.

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 at the date of reporting.

b. Short-term investments

These are term deposits mainly with a maturity of more than 3 months and not exceeding 12 months. ACO also has 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 mitigates the risk of negative interest on the EUR balance held in Treasury for the ACO budget groups and the various projects. The related interest for those packages is reported on a quarterly basis and if required accrued at year-end.

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c. Receivables

Receivables are stated at net realisable value, after provisions 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. Prepayments

Prepayments and deposits are payments to suppliers, employees and other NATO entities in advance of the period to which they pertain are reflected under this category in the Statement of Financial Position.

e. Inventories

In accordance with the adapted IPSAS 12 as approved within the NAF, items and held in 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, with the exception of the spare parts used in meeting NCISG's readiness requirements for NRF kept in a central stock at NSPA in Capellen that are assessed to be under the control of NCISG and valued at replacement cost in the ACO FS.

Inventories qualified as non-strategic held on stock at the reporting date and which were identified as 'slow moving', obsolete are written down to a net realizable value of 35% of its WAC if the following conditions are met:

- the total value of non-strategic slow moving items exceeds the materiality threshold of 50,000 EUR;
- the items have been identified as 'slow moving' over the last 3 reporting period.

The category of 'slow moving' is reported only for items identified at NAEW&C Force HQ.

ACO reports legacy assets (i.e. those acquired before 1 January 2013) for NAEW&C Force only by way of a disclosure note to include the approximate number of items per inventory category for each respective location in accordance with NAF.

f. 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

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arise from the continued use of the asset. To ensure procedures are followed for the proper authorisation for write off of international property, the moment of de recognition is the date when the item of PP&E has been formally approved for write-off. 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, Major Inspections, 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 Allied Operations and Missions (AOM) 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 2021 ACO FS relate to NHQSa and NAEW&C Force GK HQ. In those two 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 implementation by SHAPE as HN. AuC are 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. They mainly relate to SHAPE HQ and NAEW&C Force GK HQ.

Based on the recent change in accounting policy, the AuC also includes the DLM costs related to ongoing Aircrafts Major Inspections.

ACO is not recognising any other AuC.

Buildings 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 Standards¹¹, the Base Support Concept¹² 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 also maintain 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 between

¹¹ PO(2011)0020 dated 8 February 2011

¹² CM-128-2011 dated 16 November 2011

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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 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.

Finally, due to the termination of the RSM in 2021, ACO no longer reports assets located at the former HQ RS (and in the regional airports of KAF, MeS, Herat and HKIA where Framework Nations (FWN) previously assumed responsibility). All RSM assets have been disposed of during 2021 leaving no PP&E assets reported as at 31 December 2021.

g. 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.

h. Intangible Assets

ACO does not hold intangible assets at the reporting date.

Impairment of tangible and intangible assets

For 2021 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 NATO Civilian employees subject to the NATO Civilian Personnel Regulations (NCPR) in the

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ACO HQs¹³ participate in one of the three NATO pension's funds: the Provident Fund, the Coordinated Pension Scheme or the Defined Contribution Pension Scheme (DCPS), all administered by NATO and the Retirees Medical Claims Fund (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 only accounts for the contributions paid during the year.

DCPS and Provident Fund:

ACO HQs contribute 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.

Coordinated Pension Scheme:

NATO Civilians 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.

Local Wage Rate Employees Termination/Severance/Bonus Benefit

ACO recognises a provision in the Statement of Financial Position for the Trattamento di Fine Rapporto (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). Other severance and/or bonus obligations to Local Wage Rate Employees are recognised in line with national legislations. 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.

¹³ 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 standards 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.

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Bank interests earned and accrued as of 31 December 2021 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 they occurred regardless of the timing of payment, in accordance with the accrual basis principle.

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).

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B. Notes to Statement of Financial Position

Assets – Current Assets

1. Cash and Cash Equivalents

Cash and cash equivalents	2021	2020 Restated	2020
Cash accounts	203,675	279,729	279,729
Petty Cash and Advances	215,866	288,065	288,065
Current Bank Accounts	965,877,937	457,229,173	457,229,173
Clearing-Bank accounts	(74,601)	1,000,047	1,000,047
Cash Equivalent	397,269,013	463,642,024	463,642,024
Total	1,363,491,891	922,439,037	922,439,037

2. Short Term Investments

Short Term Investments	2021	2020 Restated	2020
Total	520,048,947	932,885,474	932,885,474

The overall cash holdings (Note 1 and 2) in ACO for 2021 is slightly higher compared to the balance of the previous year, due to an increase of 27.9 MEUR. The main variances are for the MB cash holdings with an increase of 165.4 MEUR, ANA TF cash holdings with a decrease of 138.3 MEUR. The MB cash holdings increase can be explained by large outstanding payables at year end compared to previous year while the decrease in ANA TF cash holdings is explained by a drastic reduction of donations from Donor Nations combined with higher volume of drawdowns executed as a result of the closure of the ANA TF initiated in summer 2021. An additional amount of 283 KEUR is recognized in the "Current Bank accounts" balance to include the life insurance benefit cash inflow at year to be paid to the beneficiary.

The ACO cash holdings includes a balance of 417 KEUR related to the previous management of the International Continental Mess (ICM) at SHAPE HQ. ICM operations were approved by the BC¹⁴ as a Troop Messing Facility with limited NATO Common Funding support to authorised patrons. As a secondary function, the ICM provides a feeding facility for a large segment of the supporting working population at SHAPE. This change of status required the revision of the ICM management processes. Due to the pandemic, some activities have been delayed. The liquidity balance was returned to SHAPE, leaving only a change funds for the ICM to be used via the Advance account holder procedure. During 2021, the SHAPE ICM Directive was revised, but due to the still critical situation related to the pandemic, it was not possible to implement the new process. The calculation for the identification of the surplus was executed. Amounts above EFL C were recognised as miscellaneous income in the ACO Consolidated FS and included in the ACO 2021 result. The excess net of the ICF reserve was transferred in the first quarter of 2022.

The corresponding balance of the USD bank account, net of the 2021 outflow and the accrued interest is higher than 2020 due to the exchange rate between EUR/USD as of 31 December 2021.

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.

¹⁴ BC-D (2019) 0139 (INV), 5 July 2020 and BC-DS(2019)0041 (INV), 2 September 2019

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During 2021 the US financial market continued to have a negative impact on the USD cash holdings liquidity (mainly ANA TF and other ad-hoc cash holdings). Only since the last quarter of 2021, did the market start to offer USD term deposit with positive rates for placement.

The variance in total cash and cash equivalents is due to a shift in the type of investments. During the year, there was no possibility for EUR term deposits. The only remaining option was the use of Call Accounts for both EUR and USD currency. The financial markets are slightly changing and they are starting, once again, to offer a very low, but positive rate for EUR liquidity only for periods above 18 months.

In 2021, all the USD liquidity belonging to ACO and ad-hoc projects was transferred from operating accounts in various term deposit packages and placed in term deposits with different period/rates. This transfer was required due to the considerable change in the remuneration of USD operating deposits.

ACO continuously reviews its banking arrangement to ensure that there is a low risk of capital loss. At the date the FS were issued, ACO considers that the value of cash and investment balances are correctly stated. During the RSM, ACO was using some local bank account at the Afghan International Bank (AIB) to support the requirements associated to local contracts and personnel at RSHQ. In light of the RSM closure in 2021 ACO initiated the transfer of all existing cash holdings in AIB towards ACO's primary bank. Due to the critical events that took place in August 2021 in Afghanistan the status of Afghanistan's international transfers are still pending. The Afghan Central Bank instructed all banks to stop any international transfer and cash withdrawals from corporate accounts with the exception of humanitarian activities under specific conditions. As a result, SHAPE is unable to determine when and whether these funds will eventually be transferred back to SHAPE, giving rise to the significant risk that these cash holdings may not be recovered. The potential loss is approx. 1.9 MEUR (converted amount). 91% of this liquidity belongs to AOM, while 9% relates to MWA at RSM. The overall cash holdings is reported net of the potential impairment related to the AIB liquidity.

Cash equivalents under IPSAS and NFRs/FRPs

ACO's cash equivalent represent call accounts and term-deposits, which can be quickly converted into a known amount of liquidity and subject to insignificant risks of changes in value. Under IPSAS, cash equivalent is considered as short-term when they have a maturity of less than three months from the original investment; however, this does not exclude potential longer durations. The NFRs/FRPs allow ACO to make "short-term" investments where short-term is considered to be up to one year. Therefore, ACO shows short-term investments as those call accounts and term deposits, which can be liquidated in up to one year.

To ensure the effective and efficient financial management of funds held at ACO and to mitigate the risk linked to the negative interest on the EUR excess, the BC authorised a deviation¹⁵ to the current FRPs to allow to make exceptional EUR denominated term deposit not to exceed four years up to a cumulative amount of 400 MEUR.

Short-term investments (STIs) include term deposits for a period not exceeding 12 months. During 2021, ACO continued to work with term deposit packages for a nominal period of maximum 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 interest for those packages are reported on a quarterly basis. However, it remained difficult over 2021 to find positive returns for new packages even on maturity exceeding 12 months. ACO will continue to explore the financial market in 2022 for potential cash investments exceeding the 12 months maturity to obtain slightly positive rates.

The STIs reported at the end of 2021 are related to MB Funds for 165 MEUR, ANA Trust Funds for 241 MEUR, other USD accounts for 89 MEUR and to other projects for approximately 25 MEUR.

All cash holding (savings, on-call accounts and term deposits) are managed centrally by ACO CAC Branch.

¹⁵ BC-DS(2020)0002(INV) dated 5 Feb. 2020

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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.

Until 2021, ACO has managed to avoid any negative interest despite the considerable EUR balance. During 2021 ACO banks have further decreased the remuneration on term deposits as well as the ceilings under which no negative interests are being charged and were reluctant to take on additional EUR deposits.

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, NATO Agencies and Financial Institutions). As already indicated, ACO's investment management prioritizes capital preservation as its primary objective, ensuring sufficient liquidity to meet cash operating requirements, than earning a market rate of return on its portfolio within these constraints.

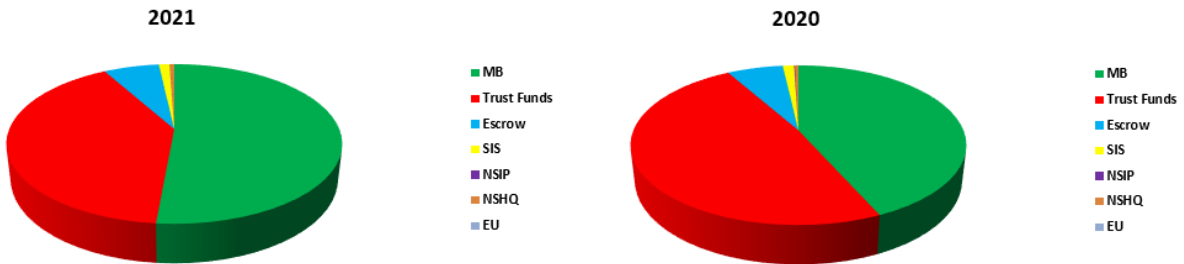
Moreover, in 2021, ACO continued to work on ad-hoc payment schedule with some Nations for the annual official calls, as an additional measure to reduce the impact of negative interest on excess EUR liquidity. Thanks to this approach and the recurring monitoring of the potential financial institutions, ACO managed to avoid any negative interest, despite extreme difficulties in doing so.

The revision of pricing for banking services effective 1st Jan. 2022 of the primary bank for ACO is a significant change compared to the past. Until the end of 2021, ACO was paying almost no fees taking into account the volume of the transactions managed in all currencies and countries (involving corresponding banks and potential extra costs). As a result it is expected that incremental financial cost due to bank fees will emerge during 2022.

With all the above, taking into account the drastic changes in bank ceilings and conditions, the large volume of Regular and Special Carry forwards, the world-wide repercussions of the pandemic on the financial markets, and the difficulty in establishing an ad-hoc payment schedule with the NATO Nations as a rule, it is expected that the risk of incremental cost due to the negative interest will materialise during 2022.

The breakdown for the main categories are reported below:

Table B.1/2.A – ACO Cash Holdings Breakdown

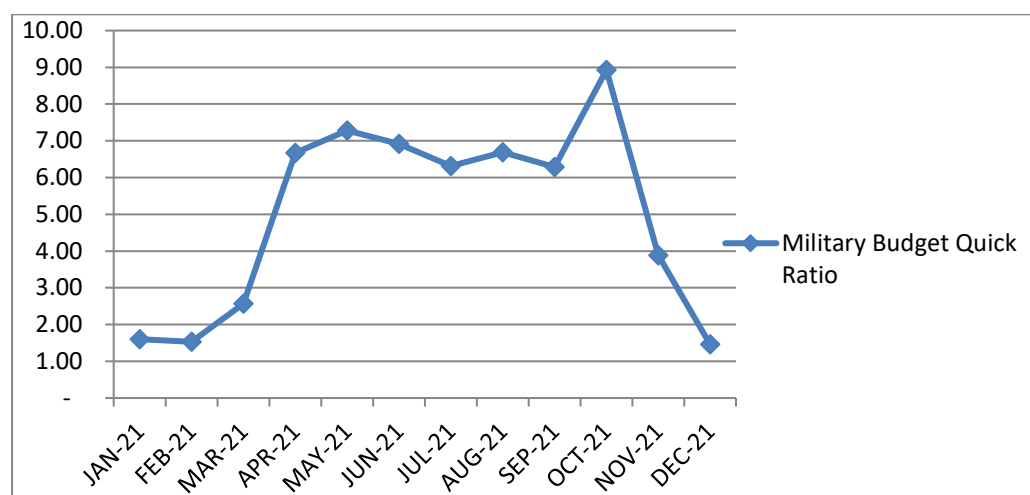


The cash holdings are shown in the chart below through the Quick Ratio. This ratio measures the ability of the entity to meet its short-term obligations at a certain point in time; a value higher than 1 means that the entity can pay off all its short-term liabilities.

The ratio during the entire year is higher than 1.

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Table B.1/2.B – ACO MB Quick Ratio Fiscal Year 2021



3. Receivables (current)

Receivables	2021	2020 Restated	2020
Receivables Contribution from NATO Nations	141,495,237	115,980,655	115,980,655
Receivables from Troop Contributing Nations	20,035,926	31,169,658	31,169,658
Receivables from Other NATO bodies	4,455,339	3,522,757	3,522,757
Receivables from Staff Members	145,640	77,332	77,332
Receivables from Nations	4,244,880	2,110,953	2,110,953
Other Receivables/Recoverable	34,725,726	27,254,000	27,254,000
Total	205,102,748	180,115,356	180,115,356

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.

Receivable Contribution from NATO Nations

The balance represents mainly outstanding calls for contribution for the various ACO Annual budgets: NCSEP and NCS-Adaptation for 55.8 MEUR (66 MEUR in 2020), NAEW&C FC for 64 MEUR (20.1 MEUR in 2020), AOM for 13.4 MEUR (20.5 MEUR in 2020), AGS for 8 MEUR (9.3 MEUR in 2020). There is an outstanding credit for NSIP for 173 KEUR (nil in 2020).

Receivable from Staff Members¹⁶

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.

Receivables from Troop Contribution Nations and Other Receivable/Recoverables

These credits are mainly for NBC outstanding from Nations participating in the AOM activities and for which ACO is providing services related to their troops. Some of these amounts are at year-end still to be invoiced to the Troop Contributing Nations (TCN).

The NBC outstanding credits are monitored on a recurring basis and a follow-up procedure is in place. The NBC financial management workload continues to be high due to the constant necessary

¹⁶ See footnote 13

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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: The ending receivable balances for 2021 is still the highest with ACO for NBC credits. Outstanding credits mainly related to HKIA pre-financing and concentrated on few TCNs or countries sponsored by Allies, with one exception related to a non-NATO country. Due to the rigorous reminder procedures and interaction with TCNs and sponsor Nations, ACO CAC still considers that the credits remain collectable. ACO CAC is working very close with the Nations involved to pursue resolution.

NHQSa/EUFOR: NBC continues to be raised for the remaining troops at Camp Butmir. Since 2011, the charges include some additional charges of severance being made to the TCNs. The NBC calculation and reports continue to be under EUFOR responsibility. NHQSa, in cooperation with EUFOR remains responsible for the validation and submission of the data on a quarterly basis.

KFOR: In 2021 the delays in the local billing process experienced in the previous years continued still due to the critical situation in theatre caused by the pandemic and the complication of the COVID-19 testing kit billing to be recovered from the TCNs.

NMI: As expected, the NATO Mission in Iraq expanded confirming an increase in the volume of NBC activities in 2021. In view of the complexity of the NMI process, due to different locations, parties involved and criteria, timeline for the billing mechanism are often times longer than typical, while occasionally adjustments need to be made.

RAC (NATO Reach-back Analytic Cell): With the closure of RSM effective June 2021, the RAC in support of RS also ceased operations. All costs have been billed to the Contributing Nations at the end of 2021.

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, the total amount has been reimbursed by the TCNs billed, leaving only one outstanding credit of 2,220.45 EUR belonging to one TCN outside of the Alliance. Repeated attempts were made during the years with no success. The issue was highlighted to the BC in Dec. 2021¹⁷. This outstanding credit is reported in the ACO 2021 FS at a net realisable value, after provision for doubtful and uncollectible debts.

The receivable balance at year-end are mainly for outstanding invoices issued to National Support Elements for the Reimbursable Program Host-Tenant Agreement and for other reimbursable procurements. SHAPE has a balance of 6.2 MEUR. In addition, 7.8 MEUR are related to the untaken leave for which the details are at note C.17.

4. Prepayments

Prepayments	2021	2020 Restated	2020
Advances and Prepayments	10,282,089	9,293,311	9,293,311
Total	10,282,089	9,293,311	9,293,311

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 in 2021 (1.9 MEUR in 2020) as described in Note A – 'Employee benefits'.

¹⁷ BC-D(2021)0237, dated 2 Dec. 2021

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5. Other Current Assets

Other current assets	2021	2020 Restated	2020
Bank Interest Accrued	397,921	575,767	575,767
Receivable for Provisions	543,052	393,447	393,447
Total	940,973	969,214	969,214

The majority of the Bank Interest Accrued relates to deposits with ACO CAC bank accounts and the other USD bank account managed by ACO CAC. The decrease is due to the change in the financial market related to USD and EUR term deposits.

Details for the provisions are reported in Note D.

6. Inventories

Inventories	2021	2020 Restated	2020
Consumable	16,913,526	17,268,144	16,440,599
Spare parts	30,093,644	27,934,448	26,476,736
Total	47,007,170	45,202,592	42,917,335

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

No inventory is pledged as security for liabilities.

Table B.6 – Inventory

Inventory	
Opening as of 1 January 2020	41,318,176
Adjustments to opening	(213,327)
Adjusted opening as of 1 January 2020	41,104,850
Variance	2,004,953
Write off/write down	(81,607)
Adjustments to ending	(110,860)
Ending balance as of 31 December 2020	42,917,335
Restatement 2020	2,285,257
Ending balance as of 31 December 2020 Restated	45,202,592
Opening as of 1 January 2021	45,202,592
Adjustments to opening	17,211
Adjusted opening as of 1 January 2021	45,219,803
Variance	4,211,742
Write off/write down	(2,256,848)
Adjustments to ending	(167,526)
Ending balance as of 31 December 2021	47,007,170

Restatements of the 2020 Inventories

The main restatement reported for 2020 relates to the change ACO Inventory valuation method to WAC per item and to a significant number of reclassification of items for a total of 2.4 MEUR. A further restatement is due to an error in the working paper for Aviation Fuel stock at NAEW&C Force GK HQ, which meant that the 2020 inventory balance was overstated by 134 KEUR. In addition, a minor restatement (1 KEUR) was made at SHAPE for the HRDS equipment erroneously reported previously for a smaller quantity.

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Adjustments of the 2021 Inventories

The adjustment to the 2021 opening balance is due to the inclusion of beginning balances of an account/warehouse in KFOR (17 KEUR) that is at the end of 2021 above the applicable threshold. The adjustments to the ending balances for FY 2021 are due to the exclusion of another account/warehouse in KFOR (116 KEUR) and one in NHQSa (52 KEUR) that are at the end of 2021 below the applicable threshold.

Assets - Non-current Assets**7. Receivables (non-current)**

Other Non-Current Assets	2021	2020 Restated	2020
Non-current Receivables	1,031,072	1,034,023	1,034,023
Total	1,031,072	1,034,023	1,034,023

The 2021 balance is a NAEW&C Force long-term guarantee for infrastructure projects to Bundeswehr Dienstleistungszentrum (Bw-DLZ).

8. Property, Plant and Equipment

Property, Plant & Equipment	2021	2020 Restated	2020
Land	-	-	-
Buildings	99,666,968	99,593,901	87,314,677
Other infrastructure	35,047,517	28,581,319	22,706,728
Installed Equipment	35,287,240	35,213,680	33,515,612
Machinery	9,075,760	6,577,967	6,345,792
Vehicles	13,628,259	16,213,138	16,213,138
Aircrafts (Planes, Major inspection, Upgrades, Spare parts)	512,501,151	531,046,064	446,582,378
Mission Equipment	3,756,765	6,266,573	6,266,573
Furniture	2,805,889	2,532,679	2,461,171
Communication	9,764,964	12,498,764	12,393,884
Automated Information Systems	2,685,789	2,911,413	2,911,413
Assets under Construction ¹⁸	65,009,800	47,371,478	2,951,669
Total for Property, Plant and Equipment	789,230,102	788,806,976	639,663,035

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 CIS assets relate to CIS assets at NAEW&C Force GK HQ and NHQSa HQ.

No assets are pledged as security for liabilities.

¹⁸ The category includes the Major Inspection on-going for the NAEW&C Force aircraft (DLM)

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Restatement 2020

The main restatements for 2020 are related to:

- the handover and subsequent retirement (from the ACO asset register) of the Kandahar Airfield for the Resolute Support Mission. The restoration of the airfield operating surface was handed over to ACO in June 2020 and officially retired in December 2020. Since the handover and retirement are in the same year, there is no impact on 'Other infrastructures' figures reported in the table above. The effect of this restatement is shown in Table B.8;
- the recognition of the Depot Level Maintenance (DLM) costs for major inspections as capitalised assets adjusting the E-3A aircrafts' carrying amounts;
- the recognition of NSIP funded projects PP&E under NCISG and JFCBS control. These are mainly buildings, other infrastructure and installed equipment.

There were two other minor restatements to the 2020 data relating to the handover of a fire alarm modernisation project at SHAPE (471 KEUR in the Buildings category) and COVID-19 testing machines at HKIA, Resolute Support Mission (179 KEUR in the Machinery category). For both these assets, information was not received until 2021 confirming that these assets had been handed over in 2020. Finally, an error in the working papers for Assets under Construction meant that the 2020 data was overstated by 449 KEUR.

2021 Data

NAEW&CF: Fleet modernisation

The highest value PP&E reported is related to NAEW&C Force GK HQ who operate a fleet of fourteen surveillance (E-3A) airplanes. However, as they relate to data prior 2013, they are not accounted for with financial value.

The costs (and associated depreciation) from a programme of material upgrades to the airplanes is accounted for with financial value and is reported in these financial statements. As reported in previous year financial statements, as 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&CF's operational control.

In 2021, additional costs were received from NAPMA for upgrades and training systems relating to the airplanes. These were:

- Amendments to the contract for the Full Flight Simulator (FFS) resulted in a further 6.1 MEUR being added to the capitalised cost of this asset.
- The handover of the Mission Training Centre No. 2 (MTC2) in 2021 resulted in the capitalisation of 2.3 MEUR.
- Following the upgrades of the communication and navigation systems (CNS/ATM) from analogue to digital in 2017 and 2018, further additional costs of 3.6 MEUR were received from NAPMA in 2021 and added to the capitalised cost of the upgrade.
- Following certificate of completion for the enhanced MODE 5 / IP COMMs upgrades in 2019 and 2020 (authorizing them for operational use), further additional costs were received from NAPMA in 2021 for 2.4 MEUR which have been added to the capitalised cost of these upgrades.

In addition, the recognition of DLM costs for major inspections, in line with the changed accounting policy, led to 75.3 MEUR net value increase of the *Aircrafts* PP&E category, and to 61.0 MEUR net value increase of the *Assets under Construction* category, which includes the ongoing major inspections.

Other significant variances

The other significant variances between 2020 and 2021 PP&E are in the Buildings, Infrastructure and Machinery categories.

In the Other infrastructure category, NAEW&CF reported improvements to the apron at FOL Oerland and FOB Trapani totalling 3 MEUR; NCISG report 1.4 MEUR for upgrades to infrastructure at the 2nd

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Signal Battalion based at Grazzanise, Italy; and KFOR reported 2.8 MEUR upgrades to sewage and road networks.

In the Machinery category, NCISG reported 1.5 MEUR of machinery for heavy-duty tasks that were handed over as part of capability packages provided by NSPA and NAEW reported a number of items of machinery totalling 2.4 MEUR.

For the Building category, the main additions relate to NAEW building restorations at FOL Oerland and FOB's Aktion, Trapani and Konya amounting to 2.2 MEUR.

Finally, a significant amount of depreciation (8.3 MEUR across five asset categories) was expensed in 2021 relating to the termination of the Resolute Support Mission.

For other categories, the variance relates to immaterial additions less depreciation expenses for 2021.

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TABLE B.8 – 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 2020	-	128,311,411	81,577,622	52,766,014	12,440,003	32,235,621		
Adjustment to opening balance	-	13,318,507	6,107,160	2,477,417	479,390	-		
	-	141,629,918	87,684,782	55,243,432	12,919,392	32,235,621		
Additions FinS	-	247,616	-	1,438,984	1,319,992	4,264,657		
Manual additions - NSIP/Other funding	-	14,910,640	13,656,801	2,907,201	-	521,415		
Adjustment to additions 2020	-	-	-	-	-	-		
Adjustment to additions - NSIP/Other funding	-	-	-	-	-	-		
+ Total Additions	-	15,158,256	13,656,801	4,346,184	1,319,992	4,786,072		
- Disposals/retirements	-	240,793	(14,781,785)	(636,730)	(138,202)	603,417		
- Capitalized/Expensed WIP	-	-	-	-	-	-		
+ Revaluations	-	-	-	-	-	-		
- Impairments	-	15,399,049	(1,124,983)	3,709,454	1,181,790	5,389,489		
	-	157,028,967	86,559,799	58,952,886	14,101,182	37,625,110		
- Accumulated depreciation	-	(50,094,056)	(58,317,399)	(19,607,239)	(6,259,562)	(16,509,874)		
Adjustment to opening balance	-	(769,396)	6,509,579	(591,630)	-	-		
	-	(50,863,451)	(51,807,820)	(20,198,869)	(6,259,562)	(16,509,874)		
+ Disposals/retirements	-	-	2,212,155	316,825	138,092	212,453		
- Depreciation 2020	-	(6,301,728)	(1,640,667)	(3,069,443)	(1,154,531)	(5,114,551)		
Adjustment to depreciation 2020	-	(269,887)	(6,742,148)	(187,719)	(23,739,206)	(7,523,215)		
Ending balance as of 31 December 2020	-	99,593,901	28,581,319	35,213,680	6,577,967	16,213,138		
Acquisition cost as of 1 January 2021	-	157,028,967	86,559,799	58,952,886	14,101,182	37,625,110		
Adjustment to opening balance	-	-	-	-	-	-		
	-	157,028,967	86,559,799	58,952,886	14,101,182	37,625,110		
Additions FinS	-	287,761	-	2,471,769	3,069,393	1,549,425		
Manual additions - NSIP/Other funding	-	9,326,827	69,915,546	4,067,995	1,523,790	1,579,467		
+ Total additions	-	9,614,588	69,915,546	6,539,763	4,593,183	3,128,892		
- Disposals/retirements	-	(45,295,902)	(107,605,548)	(11,550,554)	(2,857,755)	(7,547,777)		
- Capitalized/Expensed WIP	-	-	-	-	-	-		
+ Revaluations	-	-	-	-	-	-		
- Impairments	-	(35,681,315)	(37,690,103)	(5,010,790)	1,735,428	(4,418,885)		
Accumulated acquisition cost	-	121,347,652	48,869,696	53,942,096	15,836,611	33,206,225		
- Accumulated depreciation as of 1 January 2021	-	(57,435,066)	(57,978,480)	(23,739,206)	(7,523,215)	(21,411,971)		
Adjustment to opening balance	-	-	-	-	-	-		
	-	(57,435,066)	(57,978,480)	(23,739,206)	(7,523,215)	(21,411,971)		
+ Disposals/retirements	-	41,818,515	51,636,142	10,220,783	2,706,949	7,547,777		
- Depreciation 2021	-	(6,064,134)	(7,479,840)	(5,136,433)	(18,654,856)	(5,713,771)		
Ending balance as of 31 December 2021	-	99,666,968	35,047,517	35,287,240	9,075,760	13,628,259		

	Airplanes & Components	Mission Equipment	Furniture	Communications	AIS	AuC	Total
Acquisition cost as of 1 January 2020	491,969,084	113,693,812	3,783,375	30,517,363	11,906,429	3,500,480	962,701,214
Adjustment to opening balance	160,410,553	-	127,676	269,692	-	-	183,190,395
	652,379,637	113,693,812	3,911,051	30,787,055	11,906,429	3,500,480	1,145,891,609
Additions FinS	(3,084,774)	1,276,818	421,418	6,376,904	976,523	-	13,238,138
Manual additions - NSIP/Other funding	27,091,083	151,864	-	-	-	47,571,175	106,810,178
Adjustment to additions 2020	7,755,447	-	-	-	-	-	7,755,447
Adjustment to additions - NSIP/Other funding	-	-	-	-	-	-	-
+ Total Additions	31,761,756	1,428,682	421,418	6,376,904	976,523	47,571,175	127,803,764
- Disposals/retirements	-	(78,000)	(21,731)	(57,094)	(98,593)	-	(14,967,925)
- Capitalized/Expensed WIP	-	-	-	-	-	(3,700,178)	(3,700,178)
+ Revaluations	-	-	-	-	-	-	-
- Impairments	31,761,756	1,350,682	399,687	6,319,809	877,930	43,870,997	109,135,661
Accumulated acquisition cost	684,141,393	115,044,494	4,310,739	37,106,864	12,784,359	47,371,478	1,255,027,270
- Accumulated depreciation	(42,845,685)	(96,752,390)	(1,328,040)	(17,748,876)	(8,091,234)	-	(317,554,355)
Adjustment to opening balance	(57,427,272)	(43,400)	(74,914)	(74,914)	-	-	(52,397,033)
	(100,272,957)	(96,752,390)	(1,371,440)	(17,823,791)	(8,091,234)	-	(369,951,388)
+ Disposals/retirements	-	78,000	18,830	57,094	97,511	-	3,130,960
- Depreciation 2020	(26,547,329)	(12,103,530)	(412,681)	(6,751,507)	(1,879,223)	-	(65,575,190)
Adjustment to depreciation 2020	(26,275,043)	(153,095,329)	(12,768)	(89,897)	(9,872,946)	-	(33,824,676)
Ending balance as of 31 December 2020	531,846,064	6,266,573	2,532,679	12,498,764	2,911,413	47,371,478	788,856,978
Acquisition cost as of 1 January 2021	684,141,393	115,044,494	4,310,739	37,106,864	12,784,359	47,371,478	1,255,027,270
Adjustment to opening balance	-	-	-	-	-	-	-
	684,141,393	115,044,494	4,310,739	37,106,864	12,784,359	47,371,478	1,255,027,270
Additions FinS	5,628,341	690,022	324,761	66,875	451,747	-	14,540,095
Manual additions - NSIP/Other funding	32,523,919	-	766,922	460,964	-	38,902,710	159,068,140
+ Total additions	38,152,260	690,022	1,091,683	527,838	451,747	38,902,710	173,608,234
- Disposals/retirements	(3,373,124)	(3,373,124)	(414,554)	(826,112)	(93,904)	-	(179,565,332)
- Capitalized/Expensed WIP	-	-	-	-	-	(21,264,388)	(21,264,388)
+ Revaluations	-	-	-	-	-	-	-
- Impairments	38,152,260	(2,683,102)	677,129	(298,273)	357,844	17,638,322	(27,221,485)
Accumulated acquisition cost	722,293,653	112,361,392	4,987,868	36,808,591	13,142,203	65,009,799	1,227,805,785
- Accumulated depreciation as of 1 January 2021	(153,095,329)	(108,777,921)	(1,778,059)	(24,608,100)	(9,872,946)	-	(466,220,293)
Adjustment to opening balance	-	-	-	-	-	-	-
	(153,095,329)	(108,777,921)	(1,778,059)	(24,608,100)	(9,872,946)	-	(466,220,293)
+ Disposals/retirements	-	3,247,276	140,187	524,129	93,621	-	117,935,379
- Depreciation 2021	(56,697,173)	(3,073,983)	(544,107)	(2,959,656)	(677,089)	(10,456,414)	(90,290,770)
Ending balance as of 31 December 2021	512,501,151	3,766,765	2,805,889	9,764,964	2,685,789	65,009,799	789,230,101

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9. Other Non-Current Assets

Other Non-Current Assets	2021	2020 Restated	2020
Long Term Receivables for Provisions	7,297,226	8,032,988	8,032,988
Total	7,297,226	8,032,988	8,032,988

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

Details are provided in Note D.

Liabilities – Current Liabilities**10. Payables**

Payables	2021	2020 Restated	2020
Payables to Suppliers	(363,273,714)	(275,471,580)	(275,471,580)
Payables to Staff members	(351,358)	(97,212)	(97,212)
Other Payables	(8,810,829)	(8,387,395)	(8,387,395)
Total	(372,435,901)	(283,956,187)	(283,956,187)

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 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. In 2021 there was an increase of 87.8 MEUR compared to the previous year.

Payables to Staff members

Payables to Staff members include 283 KEUR received from an insurance company as life insurance benefit to be paid to the beneficiary.

Foreign Military Sales (FMS) Cases

This category represents payables due for goods and services acquired for NAEW&CF via 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. Further details are shown in the Note C.17.

Untaken Leave

The balance of untaken leave is classified as 'Other payable'. The amount reported is quite stable, for 2021 the balance is 7.8 MEUR (7.8 MEUR in 2020). Detailed information for the amount reported as untaken leave is disclosed in Note C.17.

11. Deferred Revenue and Other Liabilities

Deferred Revenue and other liabilities	2021	2020 Restated	2020
Deferred Revenue	(1,414,280,799)	(1,496,505,775)	(1,465,595,382)
Other liabilities	(158,207,219)	(69,331,746)	(69,331,746)
Total	(1,572,488,019)	(1,565,837,521)	(1,534,927,127)

Details are reported in the tables below:

Deferred Revenue	2021	2020 Restated	2020
Deferred Revenue MB	(357,134,149)	(289,977,890)	(289,977,890)
Other Deferred Revenue	(930,233,695)	(1,057,563,647)	(1,057,563,647)
Deferred Revenue Inventory	(47,007,170)	(45,202,592)	(42,917,335)

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Deferred Revenue PP&E	(79,905,785)	(103,761,647)	(75,136,510)
Total	(1,414,280,799)	(1,496,505,775)	(1,465,595,382)

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. The balance corresponds to the CF and SCF reported at the end of 2021 FY.

Other Deferred Revenue

The amount represents funds related to ACO non-core activities like SHAPE International School (SIS), NSHQ, EU Operation Althea, USD cash holding 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.

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.

Other Liabilities

This category includes lapsed appropriations and results of the year as a result of the overall 2021 financial year execution. The ad-hoc liabilities are reported by nature (i.e. budgetary lapse, overestimated accrual, other adjustments) and are accounted for by type, cost share and year in accordance with the ACO policy. Those liabilities represent the main component of the refundable surpluses for FY 2021 together with the 2021 MB result of the financial year.

Other Liabilities	2021	2020 Restated	2020
Liabilities from lapsed appropriations	(156,919,956)	(62,961,939)	(62,961,939)
Liabilities from Result of the year	(1,897,074)	(2,169,608)	(2,169,608)
Liab. from unrealised exch. rate differences	(1,426,205)	(4,349,202)	(4,349,202)
Liabilities from NSIP Cash Call	2,009,110	122,160	122,160
Liab. from NSIP Accum. result of the year	26,906	26,843	26,843
Total	(158,207,219)	(69,331,746)	(69,331,746)

Liabilities from Lapsed Appropriations

Lapsed appropriations (MB)	2021	2020 Restated	2020
Budgetary lapses	(141,762,251)	(38,575,548)	(38,575,548)
Overestimated accruals	(15,313,822)	(24,315,166)	(24,315,166)
Other adjustments	156,117	(71,225)	(71,225)
Total	(156,919,956)	(62,961,939)	(62,961,939)

The amount of overestimated accruals decreased in 2021 mainly in the AOM budget group. 2021 breakdown by budget group is disclosed at Table B.11.

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Liabilities from Result of the Year

Distribution of Result of the year	2021	2020 Restated	2020
Result of the year	1,025,986	(3,562,226)	(3,562,226)
Unrealised exchange rate gain/loss	(2,922,997)	1,392,125	1,392,125
Net of NSIP result of the year	(63)	493	493
Liabilities from Result of the year	(1,897,074)	(2,169,608)	(2,169,608)

The net amount of 1,897,074 EUR is made of miscellaneous income, provisions for bad debts, interest revenue, bank charges, and realised exchange rate gain/losses. The unrealised gain/loss for exchange rate is not part of the redistribution.

Table B.11 – Refundable Surpluses

Type	NCSEP	NCS-A	AGS	NAEW	AOM	TOTAL
Budgetary lapse	(39,663,214)	(9,048,453)	(38,457,613)	(18,023,879)	(36,569,092)	(141,762,251)
Overestimated accruals	(2,236,656)	(74,470)	(977,472)	(3,904,416)	(8,120,808)	(15,313,822)
Other Adjustment	(151,886)	-	-	-	(4,232)	(156,117)
TOTAL	(42,051,755)	(9,122,924)	(39,435,084)	(21,928,295)	(44,694,132)	(157,232,190)
Result of the year	(536,882)	-	(19,012)	(3,001,084)	1,659,904	(1,897,074)
GRAND TOTAL	(42,588,638)	(9,122,924)	(39,454,096)	(24,929,379)	(43,034,228)	(159,129,264)

The overall refundable surplus is reflected by nature as of 31 Dec. 2021. It will be included in the 2nd Assessment call for 2022 and duly allocated by type, cost share and budget year, unless decided differently by the BC.

Liabilities from NSIP Cash Call

ACO is reporting NSIP expenses on a quarterly basis. No funds are requested in advance for ACO.

Liabilities Result for NSIP

NSIP Results	2021	2020 Restated	2020
Accumulated result of previous years	26,843	27,336	27,336
Result of the year	63	(493)	(493)
Accumulated liabilities from NSIP Result	26,906	26,843	26,843

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

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.

12. Advances

Advances	2021	2020 Restated	2020
Advance MB Contributions	(280,223,690)	(343,153,710)	(343,153,710)
Other Advance	(104,258)	(117,923)	(117,923)
Total	(280,327,948)	(343,271,633)	(343,271,633)

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Advance MB Contributions

The amount is related to:

- Advance contribution allocated via the 2nd call 2021 for an amount of EUR 276,973,690 (AGS/NCSEP/AOM/NAEW cost share)¹⁹. These advances are recorded using appropriate account code by type/year/cost share. There is only one voluntary call advance for 3,250,000 EUR for AOM and a very small amount for NAEW.
- Other advances relates mainly to amounts received for NBC and other centralised activities.

13. Short Term Provisions

Short Term Provisions	2021	2020 Restated	2020
Personnel	(5,000)	(15,000)	(15,000)
Services	(538,052)	(378,447)	(378,447)
Total	(543,052)	(393,447)	(393,447)

Provisions are assessed using the best accounting estimate available.

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 based on the nature of the liability. ACO is reporting as overall provisions EUR 9,856,033 (EUR 10,668,300 in 2020); the amount of EUR 543,052 (EUR 393,447 in 2020) is considered as short term. The main variance between 2021 and 2020 relates to the Services category where three cases have been closed, one new case added and a number of cases reclassified between long term and short term provisions.

The amounts of the provisions reported in the Statement of Financial Position are shown in more detail in Note D, Table B.

Liabilities – Non-Current Liabilities

14. Long Term Provisions

Long Term Provisions	2021	2020 Restated	2020
Personnel	(4,289,452)	(6,182,246)	(6,182,246)
Services	(5,023,529)	(4,092,607)	(4,092,607)
Total	(9,312,981)	(10,274,853)	(10,274,853)

The main variance between 2021 and 2020 for long term provisions relates to the Personnel category where two cases have been closed (amounting to 2.079 MEUR), three new cases added (853 KEUR), and an increase in the provisioned amount for two cases.

15. Non-Current Deferred Revenue

Deferred Revenue	2021	2020 Restated	2020
Deferred Revenue for PP&E and AuC	(709,324,316)	(685,045,330)	(564,526,526)
Total	(709,324,316)	(685,045,330)	(564,526,526)

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.

¹⁹ NCSEP – FC(CC)(2021)0012(MB-02)-REV1 Official dated 20 Dec. 2021; AGS –FC(CC)(2021)0020(AGS-02)COR1 dated 19 Nov. 2021; AOM – FC(CC)(2021)0006(AOM-02) dated 18 Oct. 2021; NAEW – FC(CC)(2021)0005(NAEW-02) dated 19 Oct. 2021

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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

16. Revenue

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

17. Expenses

Expenses for ACO entities are recognised by nature as follows:

a) *Personnel*²⁰

Personnel	2021	2020 Restated	2020
Total	195,544,716	206,881,080	206,881,080

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

NATO civilian employees subject to the NCPR

NATO civilian employees subject to the NCPR 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 HQs are not liable for retirement benefits.

Different pension plans are applicable to NATO civilian employees subject to the NCPR within the ACO HQs. 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 2021 is 5,786,890 EUR (which shows an increase compared to 4,940,650 EUR reported in 2020) for NIC staff.

Table C.17.A - Untaken leave NATO civilian employees subject to the NCPR

Untaken Leave	2021	2020
Opening	7,803,315	5,307,242
Restatements 2020	n/a	n/a
Additions	7,781,029	7,803,315
Reversed	(7,803,315)	(5,307,242)
Ending	7,781,029	7,803,315

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 ACO HQs liability towards the future, which is recognized.

²⁰ See footnote n. 13

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Locally hired staff

This categories are not under the NCPR. Data for financial reporting is not available for locally hired staff, LWR and LCH, due to each site recording differently.

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.

Within the ACO HQs various groups of workforces with different status are supporting the ACO activities²¹. Below is a table showing a summary of the different groups with number for filled positions.

The category 'Others' includes mainly Local Civilian Hire (LCH), Local Wage Rates (LWR), Voluntary National Contribution (VNC), International Military Partnership Staff Post (PSP), interim/temps, Manpower Overage (MO).

Table C.17.B – ACO Workforce Groups

ACO	Total Filled Positions
PE Positions total	7054
Military	6,038
Civilian	1,016
CE Positions total	642
Military	509
NIC (NATO International Civilian)	4
NCIV (National Civilian)	60
MCIV/ICC	69
Others	1210

b) Contractual Supplies and Services

Contractual Supplies and Services	2021	2020 Restated	2020
Total	771,031,820	731,319,920	767,458,744

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*'.

In 2021, the total expense recorded for Foreign Military Sales (FMS) is 15,222,118 EUR (23,248,961 2020). This financial information is reported in a separate line in accordance with the ACO Policy reported at Note A.

Foreign Military Sales (FMS)	2021	2020 Restated	2020
Total	15,222,118	23,248,961	23,248,961

²¹ See footnote n. 13.

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The amount of EUR 15,222,118 EUR belongs to FMS cases for NAEW managed directly by NSPA. Those expenses are reported in the ACO FS on a modified cash basis built 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 may 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 recognized 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.17.C – Operating leases

SITE	Asset leased / lease description	Amount Paid in 2021 converted to EURO (if other currency)	Amount to pay in 2022	Amount to pay in 2023-2025	Amount to pay after 2025	Renewal/restrictions	Purchase options/restrictions
SHAPE	3-Year Operational Lease of Reprographic equipment + 2 ONE Year options	78,915.78	34,115.52	14,332.36	-	2 ONE Year options	n/a
SHAPE	4-Year Operational Lease of 2 business passenger vehicles for COS & DSAC	51,220.32	-	-	-	n/a	n/a
SHAPE	4-Year Operational Lease of 2 business passenger vehicles for COS & DSACEUR	-	51,221.76	4,268.48	-	n/a	n/a
SHAPE	Rental services 2020 - 28 vehicles 16 vehicles C category 12 vehicles D category	227,168.42	229,515.84	231,811.20	-	n/a	n/a
SHAPE	2-Year Lease of one armored vehicle for SACEUR	64,200.00	32,100.00	-	-	End of contract June 2022 (+1 option of 1 year extension)	n/a
NAGS	Blue Fleet, 9 vehicles	60,259.05	60,611.52	200,000.00	65,000.00	36-month contract as of May 2020 (first delivery)/Jan 21 (last delivery)	2-year Contract Option till 2025. PO includes commitment until EOY 2022
NAEW	(BizHub) Printers	160,304.50	160,893.96	-	-	Annual renewal based on contractual terms.	n/a
NAEW	13 Oracle T5-2 Servers	196,161.96	196,161.96	392,323.92	-	n/a	n/a
JFCNP	Villa Addis Ababa for NAUC	98,757.30	98,757.30	296,271.90	98,757.30	One base year plus four option years. Sole source deviation required from EC	No purchase option
JFCBS	Blue Vehicles	141,709.64	147,136.80	-	-	n/a	n/a

Depreciation

Depreciation and Amortization	2021	2020 Restated	2020
Total	151,622,411	106,008,196	65,579,283

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The amount recognised for 2021 includes depreciation for the different asset categories set out in Table B.8. – Property, Plant and Equipment.

The depreciation for each category in 2021 was as follows; 56.7 MEUR for Aircraft (upgrades, spare parts Major Inspection DLM costs), 3.1 MEUR for Mission Equipment, 3.0 MEUR for Communication systems (mainly relating to aircraft communications), 6.1 MEUR for buildings, 5.7 MEUR for Vehicles, 7.5 MEUR for Other infrastructure, 5.1 MEUR for installed equipment, 0.7 MEUR for AIS (Automated Information Systems), 1.9 MEUR for Machinery and 0.5 MEUR for Furniture. Finally, the Net Book Value (NBV) of assets retired resulted in retirement losses of 61.3 MEUR (4 KEUR in 2020) mainly due to the RS mission termination.

Provisions

The Provision variance reported in 2021 of 856,903 EUR is made by a new provision for the funds currently blocked with the AIB bank and by a decrease in the provisions indicated under Note D and immaterial amounts relating to provisions for bad and doubtful debts. The net effect being a decrease in the provision amount of 932 KEUR.

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 2021 amount to 54.1 MEUR which reflects an increase of 4.6 MEUR compared to 2020. The reimbursable costs relate to a variety of services financially administered by ACO, as follows:

An amount of 2.1 MEUR (2020 1.9 MEUR) corresponds to travel services 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 24.9 MEUR (2020 20.9 MEUR) corresponds to real life support services provided mainly by JFC Naples HQ (NMI), KFOR HQ and Resolute Support HQ 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.

Expenses for the remaining amount of 27,1 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 related to the Special Litigation Team at SHAPE²²

18. Total to be returned

The result of the year is the difference of non-budgetary revenue and expenses, such as interest, exchange rate loss or gain, and depreciation. The amount, except unrealised gain/losses for exchange rate, is part of the refundable surpluses at year end.

19. Net Asset

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

²² 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

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 2021 Financial Year, ACO assessed an estimated amount of 1.6 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 buildings older than 20 years. 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. The Service Level Agreement (SLA) between the HQ and the Host Nation was signed in 2020.

Contingent Liabilities and Provisions

Based on IPSAS 19 and the nature of items identified in the 2021 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)²³, pension's contributions, etc.

Contingent Liabilities (CL)

The table 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.

TABLE D.A – Summary of the 2021 CL

CL Categories	Amount (EUR)
I NATO Administrative Tribunal	-
II Claims under Art. VIII SOFA	373,436
III Labour court cases	10,650,904
IV Litigations	476,019

²³ Liabilities due to TFR for JFCNP are only reported as provisions.

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V Liabilities due to HQs closure	168,264
VI Others	1,619,220
TOTAL	13,287,843

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 2021.

II. Claims under Art. VIII SOFA: The total amount disclosed under this category is 373,436 EUR (544,692 EUR in 2020).

In this category, an amount of EUR 363,436 EUR was reported by NHQSa for two claims related to damages arising from the usage of a factory in Visoko, BIH. The remaining amount of 10,000 EUR relates to cases falling under this category for JFCNP. This category also includes various cases reported by SHAPE and NAEW for which it is not possible to estimate reliably the amount to settle the liability. For NAEW, this includes potential liability relating to contamination of local waterworks.

III. Labour court cases: Out of the total amount of EUR 10,650,904 (10,710,504 EUR in 2020) disclosed in this category, the amount of 9,819,512 EUR relates to NHQSa's possible liability due to a labour contract dispute. There has been no further update from the reported 2020 figures.

An amount of 792,992 EUR 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 disclosed in this category is reported by LANDCOM (38,400 EUR) for liabilities on employment cases pending at the reporting date before the local labour Courts.

This category also includes two cases where the amount cannot be determined by JFCNP in relation to deaths allegedly caused by asbestos.

IV. Litigations: The total amount disclosed under category IV is 476,019 EUR (584,223 EUR in 2020). It is made by two amounts; the first one is a Contingent Liability already disclosed last year by KFOR amounting to 394,146 EUR (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 potential liabilities relating to food and catering services in Afghanistan from 2012-2015. This case is being handled by JFCBS.

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 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 2020 FS. The other case relates to the use of dining facilities at RS by contractors during COVID-19 lockdown for which a reliable amount cannot be measured.

V. Liabilities due to HQs closure: Within this category, JFCBS has reported possible liabilities due to the termination of the ISAF and Resolute Support missions. The liability is related to the ACO's responsibility towards NSPA for the payment of the Loss of Job Indemnities (LOJI) associated with redundant NSPA NIC workforce approved by SHAPE to support the ISAF operation and the RS Mission. The amount of 168,264 EUR represents NATO's share of the remaining liability.

This category also includes claims from NSPA for the closure of the RSM for which out-flow of resources cannot be reliably estimated. On 11 May, after a number of direct requests, NSPA provided a rough order of magnitude figure (ROM) of 7.2 MEUR of claims related to the RSM closeout and COVID claims. Even if these claims have been assessed by NSPA legal and finance offices, they remain subject to change due to the ongoing complex claims settlement process and the cost share methodology applied.

As the settlement, process will continue into future reporting periods, and longer than expected, ACO has asked that a Working Group be established with members from NSPA and ACO to set and monitor milestones in relation to this activity to guarantee the settlement as soon as possible.

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VI. Others: Of the total 1,619,220 EUR reported in this category, an amount of 1,341,000 EUR is reported by JFCNP for retroactive social contributions in relation to sick leave. The remaining 278,220 EUR reported in this category relates to Turkish VAT liabilities levied against IAMCO.

Provisions

The table below provides the summary of the legal provisions pending at the reporting date as reported by the ACO Commands, broken down into the categories disclosed above for cases where the likelihood of the out-flow of resources required to settle the obligation is considered to be probable or virtually certain and the amount is above the materiality threshold of 5,000 EUR and can be reliably measured.

Table D.B – Summary of the 2021 Provisions

Provisions	Amount (EUR)
I NATO Administrative Tribunal	-
II Claims under Art. VIII SOFA	107,925
III Labour court cases	150,000
IV Litigations	4,908,656
V Liabilities due to HQs closure	400,000
VI Others	4,289,452
TOTAL	9,856,033

A breakdown of these amounts is provided in the following paragraphs.

I. NATO Administrative Tribunal: Nothing to report for 2021.

II. Claims under Art. VIII SOFA: NHQSa reported provisions within this category totalling 102,925 EUR relating to claims due to car accidents or damages to land and property. The remaining amount of 5,000 EUR is for NAEW.

III. Labour court cases: KFOR HQ is reporting a provision of 150,000 EUR relating to Camp Novo Selo and the specific situation related to 4 private parcels, as reported in 2020.

IV. Litigations: The total reported in this category is 4,908,656 EUR and relates to cases reported by JFCNP and for the closed RSMHQ:

- a. For JFCNP, the first case refers to a claim of the former JFCNP energy supplier that has requested the payment of arrears for the period 2005 – 2008 due to a malfunctioning of the electrical meter in the Bagnoli compound. The amount of 3,864,502 EUR, recognised as a provision last year for this liability, remains unchanged.
- b. The second JFCNP provision amounting to 200,000 EUR relates to outstanding payments withheld by JFCNP due to the former provider of cleaning services because of non-satisfactory contract performance.
- c. For RSM, for a total of 844,154 EUR is due to the lockdown at the camp during the COVID-19 pandemic. To prevent the spread of the COVID-19, a limited number of LCH employees and contractors were obliged to stay in the camp with access to the Dining Facility. The related cost was for the organisation responsible for their contract since company could not make a direct contract with DFAC.

V. Liabilities due to HQs closure: Within this category, one case is reported in relation to a claim by a contractor for costs incurred due to the termination of the RSM.

VI. Others: Within this category it is recognised the provision of 4,289,452 EUR Firstly, an amount of 1,161,926 EUR is recognised as a provision by LANDCOM in relation to severance allowances that would be payable to LWRs if they were to leave LANDCOM as at reporting date, plus a 7 month notice allowance payable to LWR's on retirement or termination by employer. Next, an amount of 44,633 EUR is reported for a number of claims related to financial compensation under UK Labour Law. Finally, a provision is reported

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within this residual category for the “Trattamento di Fine Rapporto” (TFR) for JFCNP amounting to 3,082,893 EUR. In application of the Italian Law and in accordance with IPSAS 19, TFR is 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; this applies to LWR. The value of this liability is determined annually and includes interests for the loan forcedly made by the employee to the employer given the fact that payment is deferred to a later time. In view of the foregoing, TFR has to be considered as a termination benefit calculated as one extra monthly instalment of the annual pay.

The estimates of the outcome and the financial impact of the reported provisions and contingencies have been determined based on judgment supplemented by past experience of similar transactions.

The provisions and contingencies reported above are based on the information provided by the Legal Offices of the respective ACO Commands and the local ACO Financial Controllers. All reported contingencies and provisions were further analysed at corporate level by SHAPE to make a final assessment on the recognition of provisions and the disclosure of contingent liabilities. This final assessment is the result of internal coordination and additional clarifications occurred during the preparation of the ACO FS between SHAPE, the local sites and the NATO agencies when involved in the business. ACO has collected from each ACO site all the necessary detailed information on the cases reported that can be made available upon request for auditing purposes.

Other than those recognised and disclosed in the Notes to the financial statements, SHAPE is not aware of any other event that could give rise to potential provisions, contingent assets and/or liabilities.

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 2021 FS the segment reporting has been prepared in conformity with the accounting policies and also reported in the ACO guidance for EOY 2021.

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.

Highlight

Since the issuance of the 2020 FS, there has been considerable change related to the RSM due to the withdrawal announcement. The withdrawal from the RSM was significant for ACO as an entity as the mission was extensive and had been in operation for many years. The announcement of the withdrawal occurred 14 April 2021, after the FS were produced, but while the Audit of the FS was ongoing. Since the original announcement, further operational decisions had to be taken on short notice due to the security situation, which meant it was a complex closure and risks were assumed. The closure of this segment reporting could not be compared to the past closure of static NATO Commands, nevertheless ACO ensured required financial processes were completed as confirmed in the financial closure checklist and undertook a massive effort to manage the NATO Funded infrastructure, Equipment (NFE/I) and Inventory redistribution and donation in coordination with the Committees. While operations are complete (September

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2021), the final full financial assessment of the impact of the RSM will continue into the future due to the complicated and evolving matters, particularly considering contractor claims. JFCBS, as parent segment reporting will follow the financial impact related to RSM and take in charge the remaining financial aspects. To ensure transparency, ACO has interacted extensively with stakeholders (agencies) and kept the nations apprised of the evolving financial situation and impact, through various briefings, reports and letters²⁴. Interaction with the stakeholders concerning the financial estimates for provisions and contingent liabilities will continue to ensure all reliable and relevant information is disclosed.

²⁴ As part of the discussion of Budget Execution Report (BER) 1, 7 and 15 July 2021, BC-D(2021)0079, dated 30 JUN 2021, in the second BER and during the 2022 Budget screening, Status of the RSM NFE/I and Inventory, SH/FINAC/CAC/FC042/22, dated 7 FEB 2022, and Estimated Financial Impact of the RSM Withdrawal SH/FINAC/CAC/FC072/22, dated 3 MAR 2022

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Segment reporting MB
Statement of Financial Position per HQ

	SHAPE HQ			NAGSF HQ			JFC Brunssum HQ		
	2021	2020 RESTATED	2020	2021	2020 RESTATED	2020	2021	2020 RESTATED	2020
ASSETS									
<i>Current Assets</i>									
Cash and Cash Equivalents	20,441	10,798	10,798	-	888	888	49,203	78,537	78,537
Interentity	140,071,653	71,447,688	71,447,688	15,800,762	9,260,247	9,260,247	7,166,457	2,965,379	2,965,379
Receivables	10,821,133	13,033,652	13,033,652	113,733	118,286	118,286	947,941	1,373,283	1,373,283
Prepayments	3,769,350	4,074,301	4,074,301	149,177	107,507	107,507	12,333	67,876	67,876
Other Current Assets	-	-	-	-	-	-	-	15,000	15,000
Inventories	706,208	839,102	853,441	133,001	104,263	177,561	291,354	238,271	204,950
Total Current Assets	155,388,785	89,405,542	89,419,880	16,196,673	9,591,190	9,664,488	8,467,289	4,738,346	4,705,025
<i>Non-current Assets</i>									
Receivables	-	-	-	-	-	-	-	-	-
Property, plant & equipment	23,005,581	16,779,636	16,757,259	17,825,430	18,620,532	18,620,532	14,261,941	13,943,102	13,405,591
Other Non-current Assets	-	-	-	-	-	-	-	-	-
Total Non-current Assets	23,005,581	16,779,636	16,757,259	17,825,430	18,620,532	18,620,532	14,261,941	13,943,102	13,405,591
Total ASSETS	178,394,367	106,185,177	106,177,139	34,022,103	28,211,723	28,285,021	22,729,230	18,681,448	18,110,615
LIABILITIES									
<i>Current Liabilities</i>									
Payables	(149,040,871)	(82,660,128)	(82,660,128)	(15,096,329)	(9,109,516)	(9,109,516)	(7,916,021)	(3,839,791)	(3,839,791)
Deferred Revenue & Other Current Liabilities	(8,731,968)	(8,882,791)	(8,897,130)	(2,112,146)	(1,443,530)	(1,516,828)	(1,606,564)	(1,437,368)	(1,313,250)
Advances	(20,092)	-	-	-	-	-	-	-	-
Short Term Provisions	-	-	-	-	-	-	-	(15,000)	(15,000)
Surpl./Deficit to be returned	50,646	131,214	131,214	10,128	295	295	(27,377)	(86,378)	(86,378)
Total Current Liabilities	(157,742,286)	(91,411,704)	(91,426,043)	(17,198,346)	(10,552,752)	(10,626,050)	(9,549,962)	(5,378,537)	(5,254,420)
<i>Non-current Liabilities</i>									
Payables	-	-	-	-	-	-	-	-	-
Long Term Provisions	-	-	-	-	-	-	-	(345,762)	(345,762)
Deferred Revenue	(20,652,081)	(14,773,473)	(14,751,096)	(16,823,757)	(17,658,971)	(17,658,971)	(13,179,268)	(12,957,150)	(12,510,434)
Other Non-current Liabilities	-	-	-	-	-	-	-	-	-
Total Non-current Liabilities	(20,652,081)	(14,773,473)	(14,751,096)	(16,823,757)	(17,658,971)	(17,658,971)	(13,179,268)	(13,302,912)	(12,856,196)
Total LIABILITIES	(178,394,367)	(106,185,177)	(106,177,139)	(34,022,103)	(28,211,723)	(28,285,021)	(22,729,230)	(18,681,448)	(18,110,615)
NET ASSETS	-	-	-	-	-	-	-	-	-

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	AIRCOM Ramstein HQ			NAEW&C Force HQ			JFC Naples HQ		
	2021	2020 RESTATED	2020	2021	2020 RESTATED	2020	2021	2020 RESTATED	2020
ASSETS									
<i>Current Assets</i>									
Cash and Cash Equivalents	27,798	26,406	26,406	139,452	93,129	93,129	425,955	657,780	657,780
Interentity	2,772,388	1,651,558	1,651,558	48,146,328	43,634,982	43,634,982	17,070,630	8,671,024	8,671,024
Receivables	468,031	393,311	393,311	4,169,213	3,207,288	3,207,288	24,007,290	11,215,900	11,215,900
Prepayments	9,928	16,496	16,496	3,855,459	1,572,315	1,572,315	2,066,868	2,293,253	2,293,253
Other Current Assets	-	-	-	5,000	-	-	-	205,123	205,123
Inventories	285,734	188,980	206,557	39,318,954	34,909,634	35,044,050	233,151	223,622	142,162
Total Current Assets	3,563,878	2,276,751	2,294,328	95,634,406	83,417,348	83,551,764	43,803,895	23,266,701	23,185,241
<i>Non-current Assets</i>									
Receivables	-	-	-	1,022,584	1,022,584	1,022,584	-	-	-
Property, plant & equipment	2,289,844	2,394,771	2,394,771	662,915,179	667,035,481	537,702,913	183,500	234,739	234,739
Other Non-current Assets	-	-	-	-	-	-	5,131,640	4,927,185	4,927,185
Total Non-current Assets	2,289,844	2,394,771	2,394,771	663,937,762	668,058,065	538,725,497	5,315,140	5,161,923	5,161,923
Total ASSETS	5,853,722	4,671,522	4,689,099	759,572,169	751,475,412	622,277,261	49,119,035	28,428,625	28,347,165
LIABILITIES									
<i>Current Liabilities</i>									
Payables	(3,171,544)	(2,022,240)	(2,022,240)	(51,958,373)	(43,966,778)	(43,966,778)	(41,890,318)	(19,112,352)	(19,112,352)
Deferred Revenue & Other Current Liabilities	(654,013)	(518,452)	(536,029)	(110,310,592)	(124,129,567)	(96,443,796)	(457,103)	(1,000,172)	(918,712)
Advances	-	-	-	-	-	-	(1,440)	(1,440)	(1,440)
Short Term Provisions	-	-	-	(5,000)	-	-	-	(205,100)	(205,100)
Surpl./Deficit to be returned	3,459	(21,753)	(21,753)	(1,471,421)	(2,850,732)	(2,850,732)	518,915	(1,100,890)	(1,100,890)
Total Current Liabilities	(3,822,099)	(2,562,444)	(2,580,021)	(163,745,387)	(170,947,077)	(143,261,307)	(41,829,946)	(21,419,954)	(21,338,494)
<i>Non-current Liabilities</i>									
Payables	-	-	-	-	-	-	-	-	-
Long Term Provisions	-	-	-	-	-	-	(7,147,395)	(6,823,287)	(6,823,287)
Deferred Revenue	(2,031,624)	(2,109,078)	(2,109,078)	(595,826,782)	(580,528,335)	(479,015,955)	(141,693)	(185,384)	(185,384)
Other Non-current Liabilities	-	-	-	-	-	-	-	-	-
Total Non-current Liabilities	(2,031,624)	(2,109,078)	(2,109,078)	(595,826,782)	(580,528,335)	(479,015,955)	(7,289,088)	(7,008,671)	(7,008,671)
Total LIABILITIES	(5,853,722)	(4,671,522)	(4,689,099)	(759,572,169)	(751,475,412)	(622,277,261)	(49,119,035)	(28,428,625)	(28,347,165)
NET ASSETS	-	-	-	-	-	-	-	-	-

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	NHQSa HQ			LANDCOM Izmir HQ			NCIS Group HQ		
	2021	2020 RESTATED	2020	2021	2020 RESTATED	2020	2021	2020 RESTATED	2020
ASSETS									
<i>Current Assets</i>									
Cash and Cash Equivalents	303,958	303,319	303,319	1,385,589	393,402	393,402	17,458	4,500	4,500
Interentity	13,318	216,557	216,557	279,071	(449,826)	(449,826)	12,586,015	8,181,774	8,181,774
Receivables	98,704	78,880	78,880	1,099,458	850,727	850,727	620,982	577,120	577,120
Prepayments	-	-	-	-	-	-	1,268	16,150	16,150
Other Current Assets	102,925	39,820	39,820	5,164	42,122	42,122	-	-	-
Inventories	1,490,396	1,652,993	1,123,721	592,496	587,699	1,074,416	3,624,720	3,620,598	1,537,232
Total Current Assets	2,009,302	2,291,569	1,762,297	3,361,778	1,424,124	1,910,841	16,850,443	12,400,142	10,316,777
<i>Non-current Assets</i>									
Receivables	-	-	-	8,488	11,440	11,440	-	-	-
Property, plant & equipment	29,338	29,790	29,790	5,284,729	5,451,327	5,451,327	60,177,608	55,296,018	36,223,304
Other Non-current Assets	-	78,105	78,105	1,161,926	1,145,140	1,145,140	-	-	-
Total Non-current Assets	29,338	107,895	107,895	6,455,143	6,607,906	6,607,906	60,177,608	55,296,018	36,223,304
Total ASSETS	2,038,640	2,399,465	1,870,192	9,816,921	8,032,031	8,518,748	77,028,050	67,696,160	46,540,081
LIABILITIES									
<i>Current Liabilities</i>									
Payables	(411,071)	(581,144)	(581,144)	(3,580,782)	(1,500,572)	(1,500,572)	(13,176,026)	(8,644,572)	(8,644,572)
Deferred Revenue & Other Current Liabilities	(1,523,256)	(1,690,037)	(1,160,764)	(863,582)	(791,520)	(1,278,237)	(9,921,680)	(9,460,281)	(6,662,762)
Advances	-	-	-	-	-	-	-	-	-
Short Term Provisions	(102,925)	(39,820)	(39,820)	-	(38,400)	(38,400)	-	-	-
Surpl./Deficit to be returned	(1,388)	(10,359)	(10,359)	870,699	694,953	694,953	9,635	(3,953)	(3,953)
Total Current Liabilities	(2,038,640)	(2,321,360)	(1,792,087)	(3,573,665)	(1,635,539)	(2,122,256)	(23,088,071)	(18,108,806)	(15,311,287)
<i>Non-current Liabilities</i>									
Payables	-	-	-	-	-	-	-	-	-
Long Term Provisions	-	(78,105)	(78,105)	(1,161,926)	(1,145,140)	(1,145,140)	-	-	-
Deferred Revenue	-	-	-	(5,081,331)	(5,251,352)	(5,251,352)	(53,939,980)	(49,587,354)	(31,228,794)
Other Non-current Liabilities	-	-	-	-	-	-	-	-	-
Total Non-current Liabilities	-	(78,105)	(78,105)	(6,243,257)	(6,396,492)	(6,396,492)	(53,939,980)	(49,587,354)	(31,228,794)
Total LIABILITIES	(2,038,640)	(2,399,465)	(1,870,192)	(9,816,921)	(8,032,031)	(8,518,748)	(77,028,050)	(67,696,160)	(46,540,081)
NET ASSETS	-	-	-	-	-	-	-	-	-

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	Resolute Support Mission HQ (Ref. Note E, Segment Reporting)			KFOR HQ			MARCOM Northwood HQ		
	2021	2020 RESTATED	2020	2021	2020 RESTATED	2020	2021	2020 RESTATED	2020
ASSETS									
<i>Current Assets</i>									
Cash and Cash Equivalents	-	135,856	135,856	2,836,821	3,011,244	3,011,244	90,958	87,345	87,345
Interentity	79,759,387	122,399,773	122,399,773	(254,046)	(1,258,060)	(1,258,060)	6,154,722	1,991,101	1,991,101
Receivables	143,149	1,294,892	1,294,892	658,270	483,163	483,163	281,492	278,740	278,740
Prepayments	-	-	-	372,085	260,490	260,490	45,621	884,922	884,922
Other Current Assets	435,127	35,127	35,127	-	60,000	60,000	-	-	-
Inventories	-	2,541,813	2,426,530	253,747	224,572	-	77,408	71,044	126,715
Total Current Assets	80,337,663	126,407,461	126,292,178	3,866,876	2,781,409	2,556,837	6,650,201	3,313,152	3,368,823
<i>Non-current Assets</i>									
Receivables	-	-	-	-	-	-	-	-	-
Property, plant & equipment	-	7,372,771	7,194,001	1,561,266	194,983	194,983	766,122	793,162	793,162
Other Non-current Assets	853,660	1,732,559	1,732,559	150,000	150,000	150,000	-	-	-
Total Non-current Assets	853,660	9,105,330	8,926,560	1,711,266	344,983	344,983	766,122	793,162	793,162
Total ASSETS	81,191,323	135,512,791	135,218,738	5,578,142	3,126,392	2,901,820	7,416,323	4,106,314	4,161,984
LIABILITIES									
<i>Current Liabilities</i>									
Payables	(73,143,508)	(105,207,410)	(105,207,410)	(3,455,752)	(2,277,393)	(2,277,393)	(6,518,442)	(3,204,237)	(3,204,237)
Deferred Revenue & Other Current Liabilities	(7,741,890)	(26,666,306)	(26,551,023)	(1,845,936)	(547,715)	(323,143)	(180,242)	(151,351)	(207,022)
Advances	-	-	-	-	-	-	-	-	-
Short Term Provisions	(2,222,224)	(35,127)	(35,127)	-	(60,000)	(60,000)	-	-	-
Surpl./Deficit to be returned	2,769,959	(1,286,671)	(1,286,671)	(126,454)	(91,285)	(91,285)	598	(1,874)	(1,874)
Total Current Liabilities	(80,337,663)	(133,195,514)	(133,080,231)	(5,428,142)	(2,976,392)	(2,751,820)	(6,698,085)	(3,357,463)	(3,413,133)
<i>Non-current Liabilities</i>									
Payables	-	-	-	-	-	-	-	-	-
Long Term Provisions	(853,660)	(1,732,559)	(1,732,559)	(150,000)	(150,000)	(150,000)	-	-	-
Deferred Revenue	-	(584,719)	(405,948)	-	-	-	(718,238)	(748,851)	(748,851)
Other Non-current Liabilities	-	-	-	-	-	-	-	-	-
Total Non-current Liabilities	(853,660)	(2,317,278)	(2,138,507)	(150,000)	(150,000)	(150,000)	(718,238)	(748,851)	(748,851)
Total LIABILITIES	(81,191,323)	(135,512,791)	(135,218,738)	(5,578,142)	(3,126,392)	(2,901,820)	(7,416,323)	(4,106,314)	(4,161,984)
NET ASSETS	-	-	-	-	-	-	-	-	-

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	ACO Corporate Accounting and Control Office			NSIP		
	2021	2020 RESTATED	2020	2021	2020 RESTATED	2020
ASSETS						
<i>Current Assets</i>						
Cash and Cash Equivalents	1,359,449,582	916,011,551	916,011,551	531,771	1,624,281	1,624,281
Short Term Investment	520,048,947	932,885,474	932,885,474	-	-	-
Interentity	(329,566,684)	(268,712,197)	(268,712,197)	-	-	-
Receivables	161,500,023	147,210,114	147,210,114	173,329	-	-
Prepayments	-	-	-	-	-	-
Other Current Assets	392,757	572,022	572,022	-	-	-
Inventories	-	-	-	-	-	-
Total Current Assets	1,711,824,625	1,727,966,965	1,727,966,965	705,100	1,624,281	1,624,281
<i>Non-current Assets</i>						
Receivables	-	-	-	-	-	-
Property, plant & equipment	-	-	-	929,564	660,664	660,664
Other Non-current Assets	-	-	-	-	-	-
Total Non-current Assets	-	-	-	929,564	660,664	660,664
Total ASSETS	1,711,824,625	1,727,966,965	1,727,966,965	1,634,664	2,284,945	2,284,945
LIABILITIES						
<i>Current Liabilities</i>						
Payables	(335,749)	(54,614)	(54,614)	(2,741,116)	(1,773,285)	(1,773,285)
Deferred Revenue & Other Current Liabilities	(1,426,677,988)	(1,387,099,982)	(1,387,099,982)	2,009,110	122,160	122,160
Advances	(280,306,415)	(343,270,193)	(343,270,193)	-	-	-
Short Term Provisions	-	-	-	-	-	-
Surpl./Deficit to be returned	(4,504,472)	2,457,824	2,457,824	26,906	26,843	26,843
Total Current Liabilities	(1,711,824,625)	(1,727,966,965)	(1,727,966,965)	(705,100)	(1,624,281)	(1,624,281)
<i>Non-current Liabilities</i>						
Payables	-	-	-	-	-	-
Long Term Provisions	-	-	-	-	-	-
Deferred Revenue	-	-	-	(929,564)	(660,664)	(660,664)
Other Non-current Liabilities	-	-	-	-	-	-
Total Non-current Liabilities	-	-	-	(929,564)	(660,664)	(660,664)
Total LIABILITIES	(1,711,824,625)	(1,727,966,965)	(1,727,966,965)	(1,634,664)	(2,284,945)	(2,284,945)
NET ASSETS	-	-	-	-	-	-

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	TOTAL FOR SEGMENTS			ELIMINATIONS			CONSOLIDATED		
	2021	2020 RESTATED	2020	2021	2020 RESTATED	2020	2021	2020 RESTATED	2020
ASSETS									
<i>Current Assets</i>									
Cash and Cash Equivalents	1,365,278,987	922,439,037	922,439,037	1,787,096	-	-	1,363,491,891	922,439,037	922,439,037
Short Term Investment	520,048,947	932,885,474	932,885,474	-	-	-	520,048,947	932,885,474	932,885,474
Interentity	-	-	-	-	-	-	-	-	-
Receivables	205,102,748	180,115,356	180,115,356	-	-	-	205,102,748	180,115,356	180,115,356
Prepayments	10,282,089	9,293,311	9,293,311	-	-	-	10,282,089	9,293,311	9,293,311
Other Current Assets	940,973	969,214	969,214	-	-	-	940,973	969,214	969,214
Inventories	47,007,170	45,202,592	42,917,335	-	-	-	47,007,170	45,202,592	42,917,335
Total Current Assets	2,148,660,914	2,090,904,983	2,088,619,726	1,787,096	-	-	2,146,873,818	2,090,904,984	2,088,619,726
<i>Non-current Assets</i>									
Receivables	1,031,072	1,034,023	1,034,023	-	-	-	1,031,072	1,034,023	1,034,023
Property, plant & equipment	789,230,102	788,806,976	639,663,035	-	-	-	789,230,102	788,806,976	639,663,035
Other Non-current Assets	7,297,226	8,032,988	8,032,988	-	-	-	7,297,226	8,032,988	8,032,988
Total Non-current Assets	797,558,399	797,873,988	648,730,047	-	-	-	797,558,400	797,873,987	648,730,047
Total ASSETS	2,946,219,313	2,888,778,971	2,737,349,773	1,787,096	-	-	2,944,432,218	2,888,778,971	2,737,349,773
LIABILITIES									
<i>Current Liabilities</i>									
Payables	(372,435,901)	(283,954,032)	(283,954,032)	-	2,155	2,155	(372,435,901)	(283,956,187)	(283,956,187)
Deferred Revenue & Other Current Liabilities	(1,570,617,850)	(1,563,696,911)	(1,532,786,518)	1,870,169	2,140,610	2,140,610	(1,572,488,019)	(1,565,837,521)	(1,534,927,127)
Advances	(280,327,948)	(343,271,633)	(343,271,633)	-	-	-	(280,327,948)	(343,271,633)	(343,271,633)
Short Term Provisions	(2,330,149)	(393,447)	(393,447)	(1,787,096)	-	-	(543,052)	(393,447)	(393,447)
Surpl./Deficit to be returned	(1,870,169)	(2,142,765)	(2,142,765)	(1,870,169)	(2,142,765)	(2,142,765)	-	-	-
Total Current Liabilities	(2,227,582,016)	(2,193,458,788)	(2,162,548,395)	(1,787,096)	-	-	(2,225,794,920)	(2,193,458,788)	(2,162,548,395)
<i>Non-current Liabilities</i>									
Payables	-	-	-	-	-	-	-	-	-
Long Term Provisions	(9,312,981)	(10,274,853)	(10,274,853)	-	-	-	(9,312,981)	(10,274,853)	(10,274,853)
Deferred Revenue	(709,324,316)	(685,045,330)	(564,526,526)	-	-	-	(709,324,316)	(685,045,330)	(564,526,526)
Other Non-current Liabilities	-	-	-	-	-	-	-	-	-
Total Non-current Liabilities	(718,637,297)	(695,320,183)	(574,801,379)	-	-	-	(718,637,297)	(695,320,183)	(574,801,379)
Total LIABILITIES	(2,946,219,313)	(2,888,778,971)	(2,737,349,773)	(1,787,096)	-	-	(2,944,432,217)	(2,888,778,971)	(2,737,349,773)
NET ASSETS	-	-	-	-	-	-	-	-	-

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Segment reporting MB
Statement of Financial Performance per HQ

	SHAPE HQ			NAGSF HQ			JFC Brunssum HQ		
	2021	2020 RESTATED	2020	2021	2020 RESTATED	2020	2021	2020 RESTATED	2020
REVENUE									
Revenue	(412,922,395)	(361,518,216)	(361,540,593)	(44,377,568)	(32,805,748)	(32,805,748)	(29,370,610)	(27,044,144)	(26,953,347.80)
Other Revenue	(23,530)	112,089	112,089	-	-	-	(420,344)	(146,440)	(146,440.03)
Financial Revenue	(303,340)	(41,527)	(41,527)	3,118	(73)	(73)	18,854	(18,802)	(18,802.15)
Total to be returned to the Nations	(50,646)	(131,214)	(131,214)	(10,128)	(295)	(295)	27,377	86,378	86,378.49
Total REVENUE	(413,299,910)	(361,578,869)	(361,601,246)	(44,384,579)	(32,806,116)	(32,806,116)	(29,744,723)	(27,123,007)	(27,032,211.49)
EXPENSES									
Expenses	410,647,288	356,684,787	356,710,129	43,381,906	31,903,975	31,903,975	28,715,029	26,142,611	26,142,611
Personnel	43,615,670	41,753,811	41,753,811	1,415,836	1,490,617	1,490,617	11,851,812	11,126,892	11,126,892
Contractual Supplies and Services	367,031,618	314,930,976	314,956,318	41,966,070	30,413,358	30,413,358	16,863,217	15,015,720	15,015,720
Foreign Military Sales (FMS)	-	-	-	-	-	-	-	-	-
Depreciation	2,275,107	4,833,429	4,830,464	995,662	901,773	901,773	1,016,344	977,323	886,527
Provisions	669	1,440	1,440	-	-	-	-	-	-
Other Expenses	-	-	-	-	-	-	1,243	-	-
Financial Costs	376,846	59,213	59,213	7,011	368	368	12,108	3,073	3,073
Total EXPENSES	413,299,910	361,578,869	361,601,246	44,384,579	32,806,116	32,806,116	29,744,723	27,123,007	27,032,211
Result of the year	-	-	-	-	-	-	-	-	-

	AIRCOM Ramstein HQ			NAEW&C Force HQ			JFC Naples HQ		
	2021	2020 RESTATED	2020	2021	2020 RESTATED	2020	2021	2020 RESTATED	2020
REVENUE									
Revenue	(24,683,987)	(20,106,343)	(20,106,343)	(274,329,384)	(274,515,175)	(284,353,613)	(60,385,065)	(44,170,729)	(44,170,729)
Other Revenue	(25,625)	-	-	(2,668,714)	(1,732,135)	(1,732,135)	(40,211)	(273,155)	(273,155)
Financial Revenue	3,605	(3,605)	(3,605)	(539,907)	(449,749)	(449,749)	528,322	(764,530)	(764,530)
Total to be returned to the Nations	(3,459)	21,753	21,753	1,471,421	2,850,732	2,850,732	(518,915)	1,100,890	1,100,890
Total REVENUE	(24,709,467)	(20,088,195)	(20,088,195)	(276,066,584)	(273,846,326)	(283,684,765)	(60,415,868)	(44,107,524)	(44,107,524)
EXPENSES									
Expenses	24,286,453	19,754,653	19,754,653	205,690,605	201,643,214	237,756,696	60,334,470	44,299,776	44,299,776
Personnel	5,963,488	5,214,180	5,214,180	72,281,829	75,510,854	75,510,854	19,383,777	18,285,632	18,285,632
Contractual Supplies and Services	18,322,965	14,540,473	14,540,473	118,186,658	102,883,399	138,996,881	40,950,693	26,014,145	26,014,145
Foreign Military Sales (FMS)	-	-	-	15,222,118	23,248,961	23,248,961	-	-	-
Depreciation	397,534	351,689	351,689	68,633,779	72,920,292	46,645,248	51,239	85,417	85,417
Provisions	-	-	-	5,000	-	-	-	-	-
Other Expenses	-	-	-	-	239	239	-	-	-
Financial Costs	25,480	(18,148)	(18,148)	1,737,200	(717,418)	(717,418)	30,159	(277,669)	(277,669)
Total EXPENSES	24,709,467	20,088,195	20,088,195	276,066,584	273,846,326	283,684,765	60,415,868	44,107,524	44,107,524
Result of the year	-	-	-	-	-	-	-	-	-

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	NHQSa HQ			LANDCOM Izmir HQ			NCIS Group HQ		
	2021	2020 RESTATED	2020	2021	2020 RESTATED	2020	2021	2020 RESTATED	2020
REVENUE									
Revenue	(3,266,656)	(3,245,724)	(3,245,724)	(12,763,953)	(8,226,306)	(8,226,306)	(47,857,980)	(43,640,595)	(43,030,242)
Other Revenue	(16,651)	(11,384)	(11,384)	(49,734)	(598,243)	(598,243)	(2,590)	-	-
Financial Revenue	(1,344)	(1,782)	(1,782)	(35,480)	(17,110)	(17,110)	14,038	(15,278)	(15,278)
Total to be returned to the Nations	1,388	10,359	10,359	(870,699)	(694,953)	(694,953)	(9,635)	3,953	3,953
Total REVENUE	(3,283,263)	(3,248,532)	(3,248,532)	(13,719,866)	(9,536,612)	(9,536,612)	(47,856,167)	(43,651,920)	(43,041,567)
EXPENSES									
Expenses	3,233,401	3,178,337	3,178,337	12,584,736	8,623,849	8,623,849	41,741,588	38,106,268	38,106,268
Personnel	2,214,627	2,137,693	2,137,693	2,946,709	3,123,379	3,123,379	10,240,792	8,445,496	8,445,496
Contractual Supplies and Services	1,018,773	1,040,645	1,040,645	9,638,027	5,500,470	5,500,470	31,500,796	29,660,773	29,660,773
Foreign Military Sales (FMS)	-	-	-	-	-	-	-	-	-
Depreciation	48,255	67,387	67,387	200,831	199,975	199,975	6,116,392	5,534,327	4,923,974
Provisions	-	98	98	-	-	-	-	-	-
Other Expenses	210	448	448	-	-	-	-	-	-
Financial Costs	1,397	2,261	2,261	934,299	712,788	712,788	(1,812)	11,325	11,325
Total EXPENSES	3,283,263	3,248,532	3,248,532	13,719,866	9,536,612	9,536,612	47,856,167	43,651,920	43,041,567
Result of the year	-	-	-	-	-	-	-	-	-

	Resolute Support Mission HQ (Ref. Note E. Segment Reporting)			KFOR HQ			MARCOM Northwood HQ		
	2021	2020 RESTATED	2020	2021	2020 RESTATED	2020	2021	2020 RESTATED	2020
REVENUE									
Revenue	(191,081,011)	(224,611,436)	(211,161,680)	(16,033,576)	(14,386,692)	(14,386,692)	(12,784,717)	(11,529,290)	(11,529,290)
Other Revenue	-	(26,270)	(26,270)	(189,109)	(116,592)	(116,592)	-	-	-
Financial Revenue	801,235	(1,046,531)	(1,046,531)	(9,461)	841	841	(4,878)	(62)	(62)
Total to be returned to the Nations	(2,769,959)	1,286,671	1,286,671	126,454	91,285	91,285	(598)	1,874	1,874
Total REVENUE	(193,049,735)	(224,397,566)	(210,947,810)	(16,105,692)	(14,411,159)	(14,411,159)	(12,790,193)	(11,527,478)	(11,527,478)
EXPENSES									
Expenses	121,876,489	205,465,546	205,465,546	13,934,635	13,240,084	13,240,084	12,739,810	11,484,979	11,484,979
Personnel	15,859,166	30,470,827	30,470,827	6,563,659	6,533,356	6,533,356	3,207,351	2,788,344	2,788,344
Contractual Supplies and Services	106,017,323	174,994,718	174,994,718	7,370,976	6,706,728	6,706,728	9,532,460	8,696,636	8,696,636
Foreign Military Sales (FMS)	-	-	-	-	-	-	-	-	-
Depreciation	69,683,422	19,155,666	5,705,910	2,158,941	936,608	936,608	44,906	44,311	44,311
Provisions	1,308,198	-	-	-	210,000	210,000	-	-	-
Other Expenses	-	-	-	-	-	-	-	-	-
Financial Costs	181,627	(223,645)	(223,645)	12,116	24,466	24,466	5,476	(1,812)	(1,812)
Total EXPENSES	193,049,735	224,397,566	210,947,810	16,105,692	14,411,159	14,411,159	12,790,193	11,527,478	11,527,478
Result of the year	-	-	-	-	-	-	-	-	-

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	ACO Corporate Accounting and Control Office			NSIP		
	2021	2020 RESTATED	2020	2021	2020 RESTATED	2020
REVENUE						
Revenue	-	-	-	(2,632,245)	(921,881)	(921,881)
Other Revenue	(314,727)	-	-	-	-	-
Financial Revenue	(1,398,250)	798,305	798,305	(275)	(547)	(547)
Total to be returned to the Nations	1,581,475	(1,065,699)	(1,065,699)	(63)	493	493
Total REVENUE	(131,503)	(267,394)	(267,394)	(2,632,583)	(921,935)	(921,935)
EXPENSES						
Expenses	-	-	-	2,632,245	921,881	921,881
Personnel	-	-	-	-	-	-
Contractual Supplies and Services	-	-	-	2,632,245	921,881	921,881
Foreign Military Sales (FMS)	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-
Provisions	2,220	-	-	-	-	-
Other Expenses	-	-	-	-	-	-
Financial Costs	129,282	267,394	267,394	338	54	54
Total EXPENSES	131,503	267,394	267,394	2,632,583	921,935	921,935
Result of the year	-	-	-	-	-	-

	TOTAL FOR SEGMENTS			ELIMINATIONS			CONSOLIDATED PERFORMANCE		
	2021	2020 RESTATED	2020	2021	2020 RESTATED	2020	2021	2020 RESTATED	2020
REVENUE									
Revenue	(1,132,489,146)	(1,066,722,278)	(1,062,432,189)	-	-	-	(1,132,489,146)	(1,066,722,278)	(1,062,432,189)
Other Revenue	(3,751,236)	(2,792,130)	(2,792,130)	(459,184)	(211,538)	(211,538)	(3,292,051)	(2,580,592)	(2,580,592)
Financial Revenue	(923,766)	(1,560,449)	(1,560,449)	-	1,813,788	1,813,788	(923,766)	(3,374,237)	(3,374,237)
Total to be returned to the Nations	(1,025,986)	3,562,226	3,562,226	-	-	-	(1,025,986)	3,562,226	3,562,226
Total REVENUE	(1,138,190,133)	(1,067,512,631)	(1,063,222,542)	(459,184)	1,602,250	1,602,250	(1,137,730,949)	(1,069,114,881)	(1,064,824,792)
EXPENSES									
Expenses	981,798,655	961,449,961	997,588,785				981,798,655	961,449,961	997,588,785
Personnel	195,544,716	206,881,080	206,881,080	-	-	-	195,544,716	206,881,080	206,881,080
Contractual Supplies and Services	771,031,821	731,319,920	767,458,744	-	-	-	771,031,820	731,319,920	767,458,744
Foreign Military Sales (FMS)	15,222,118	23,248,961	23,248,961	-	-	-	15,222,118	23,248,961	23,248,961
Depreciation	151,622,411	106,008,196	65,579,283	-	-	-	151,622,411	106,008,196	65,579,283
Provisions	1,316,087	211,538	211,538	459,184	211,538	211,538	856,903	-	-
Other Expenses	1,453	687	687	-	-	-	1,453	687	687
Financial Costs	3,451,527	(157,751)	(157,751)	-	(1,813,788)	(1,813,788)	3,451,527	1,656,037	1,656,037
Total EXPENSES	1,138,190,133	1,067,512,631	1,063,222,542	459,184	(1,602,250)	(1,602,250)	1,137,730,949	1,069,114,881	1,064,824,792
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 follows²⁵:
 - i. Members of the governing body of the entity: SACEUR'S Commanders' Conference (SCC)²⁶ 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 527,345.04 EUR (corresponding to 129,848.60 EUR plus 170,040.65 EUR plus 227,455.79 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 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 ethics 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. This is in accordance with the prescriptions of the ACO Directive 040-007 Standards of Conduct and the ACO Instruction on the Administration of Gratuities from External Sources. A negative statement is also requested to be reported to ACO.

²⁵ The composition and Job titles have been updated in accordance with the AD 015-004, ACO High level Business Processes, dated 31 Oct. 2013.

²⁶ 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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(4) Representation funds

The current ACO Directive for Hospitality and Representation aims at reducing the bureaucracy and focuses on the distinction between Representations 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).

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 2021 the total expenditure made by ACO for Representation amounted to 200 KEUR which represents 50% of the overall authorised budget of 401 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:

1. Those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
2. Those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).
 - a. Russian invasion of Ukraine. In February 2022, Russia invaded Ukraine. This does not affect ACO's 2021 Consolidated Financial Position, Financial Performance, Cash Flow, Net Assets or Budget Execution and it is not yet known whether this will have a significant impact on future financial activities of ACO.
 - b. Increased military spend by a number of NATO Allies following the Russian Invasion of Ukraine. In February 2022, following the Russian invasion of the Ukraine, a number of Allies agreed substantial increases in their military spend. While this does not affect ACO's 2021 Financial Position, Financial Performance, Cash Flow, Net Assets or Budget Execution, and, as such it is not expected to have any significant impact on ACO activity in 2022.

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

H. MB Budget Execution

According to article 34.4 of the NFRs ACO has included the ACO Budget execution report in its FS. An overall assessment of the ACO Budget Execution Report is incorporated directly into this disclosure Note.

The ACO budget execution during 2021 is 95.3%, including Regular and Special Carry Forwards. This percentage was slightly higher than in 2020 (94.1%). The surpluses were largely due to the impact of the Covid-19 pandemic particularly from the ACO MTEP and Outreach programmes. The unintended cost savings were from travel reductions, personnel recruitment delays, and postponed projects. The identified surpluses were used to fund 2022 requirements as directed by the RPPB, repurposed to cover unfunded operational requirements.

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

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Table H.A - ACO Budget Groups: approved BA3 amounts

Budget Category	Amount (EUR)
ACO portion - NATO Command Structure Entities and Programmes (NCSEP)	568,387,080
ACO portion - NCS-Adaptation	28,684,536
Alliance Operations and Missions (AOM)	254,945,670
NAEW&C Force	315,989,782
NAGS Force	87,390,518
TOTAL ACO	1,255,397,586

The figures in this report represent the net result of all transfers, cost reductions, cost increases, and the impact of parity changes and inflation rates during the reporting period

NATO COMMAND STRUCTURE ENTITIES AND PROGRAMMES (NCSEP)

In 2021, the final Budget Authorization (BA3) for the NCSEP 2021 budget totalled 568.4 MEUR. The combined execution rate, including Regular and Special Carry Forwards, reached 94.4% for the ACO part of NCSEP.

Table H.A1 - ACO NCSEP Approved BA3 Amounts

Budget Code	Budget Title	BA3 in Local Currency	BA3 in EUR
101EUR30	SHAPE	76,246,284	76,246,284
103EUR30	JFC HQ Brunssum	25,291,223	25,291,223
104EUR30	JFC HQ Naples	29,158,359	29,158,359
105EUR30	HQ AIRCOM Ramstein	23,415,235	23,415,235
111EUR30	HQ LANDCOM Izmir	10,748,312	10,748,312
118GBP30	HQ MARCOM Northwood	9,159,405	10,843,382
131EUR30	HQ Deployable Assets	11,537,316	11,537,316
157EUR30	ACO MTEP	20,631,650	20,631,650
164EUR30	NATINAMDS Non-C2 Elements	36,775,989	36,775,989
166EUR30	NATINAMDS C2 Elements	96,116,491	96,116,491
176EUR29	NCNCB	3,915,251	3,915,251
177EUR30	NCCB	179,045,463	179,045,463
178EUR30	NATO CIS Group (NCISG)	40,152,125	40,152,125
502EEUR30	Outreach Programmes (ACO)	4,510,000	4,510,000
NCSEP Total			568,387,080

The overall annual execution rate is similar to 2020 (94.1%) due to COVID-19 slowing down of operations. The figures in this report reflect the impact of the pandemic across the portfolio. The Covid-19 restrictions affected the budget execution negatively with unintended savings in travel, exercises, and other projects due to delay or unavailability of contractors. The Outreach programme was very significantly affected by these restrictions with an execution rate of 38.4%. It is also worth mentioning that some savings identified during the year were used to fund Covid-19 mitigation related requirements.

The BC approved the following SCFs under the 2021 ACO NCSEP budget:

- a. SHAPE (BC 101) - A total of 635 KEUR for the replacement of the canopy buildings 504 and 506, handrails, air compressors, piping, diesel generators, tanks and the update of the NATO Performance Management System (NPMS).

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- b. JFC NAPLES (BC 104) - A total of 900 KEUR to cover the increase in utility cost (gas and electricity), the maintenance of the fire suppression system, and the HVAC Ductwork cleaning.
- c. HQ AIRCOM (BC 105) - A total of 525 KEUR to replace HQ AIRCOM's building control component and to repair the main parking garage.
- d. HQ LANDCOM (BC 111) - A total of 185 KEUR to replace two generators at the DISKO HIT Bunker and for the intrusion detection system overhaul.
- e. HQ MARCOM (BC 118) - A total of 115 KEUR (97,000 GBP) to cover Public Affairs Office (PAO) Mini LAN, classroom upgrades, BICES phones and terminals.
- f. ACO Military Training Exercise and Programs - MTEP (BC 157) - A total of 2.188 MEUR to cover the cost increase of multiple exercises (CIS cost in Steadfast Jupiter 2022), the NATO Force Structure (NFS HQs) participation in exercises, and to mitigate the high-level risk management.
- g. NATO Integrated Air & Missile Defence System – NATINAMDS NON C2 (BC 164) - A total of 1,315 MEUR for Air Defence (Ground) Contractor Logistic Support and Obsolescence Management (by NSPA) for projects authorized in 2021.
- h. NATO Integrated Air & Missile Defence System - NATINAMDS C2 (BC 166) - A total of 2,160 MEUR for the Air Command and Control Information Services (Air C2 IS) to upgrade Silverlight to Angular; to fund Voice Communication System (VCS) security, and for the replacement of the ACCS obsolete security auditing system.
- i. NATO Centralized Nuclear CIS Budget - NCNCB (BC 176) - A total of 300 MEUR to cover industrial support the Voluntary National Contribution materialises. This SCF is currently frozen.
- j. NATO Centralized CIS Budget - NCCB (BC 177) - A total of 13.273 MEUR to cover:
 - (1) The NCIA Management, Configuration Management, Patching and Vulnerability (ACPV) activities as part of the Cyber Adaptation Programme. This SCF part is currently frozen.
 - (2) Enterprise Service Management and Control Services
 - (3) For the guarding of the SATCOM Kester site up to 31 December 2022
 - (4) SLIN 3.2 Personnel Functional Services to fund the upgrades and implementation of third Level Support Agreement in FY2022.

To note that SCF were used for the he regularization of part of the suspense account for the guarding of the SATCOM Kester site up to 31 December 2021 as per RPPB recommendation.
- k. NATO Communication & Information System Group (NCISG) (BC 178) - A total of 300 M EUR to support static CIS projects.

The further carry forward of the following SCF from previous years were approved by the BC:

- l. NATO Centralized CIS Budget - NCCB (BC 177) - A total of 1.606 MEUR from 2020 to destroy about 10,000 Crypto Devices. To note that SCF were used to regularise another part of the suspense account for the guarding of the SATCOM Kester as per RPPB recommendation.

Surplus credits in 2021 totalled 31.90 MEUR only for the ACO part of the NCSEP budget group. The Covid-19 restrictions affected the MTEP (BC-157) and Outreach (BC-502) programmes significantly. Below are the surpluses examples:

- a. SHAPE (BC 101) – 3.4 MEUR were identified mainly as surplus from salaries due to the lower than expected fill-in rates, Covid-19 travel restrictions, and unexpected delays in contractual projects.

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- b. JFC HQ Brunssum (BC 103) – 35 KEUR were identified as surplus due to Covid-19 related restrictions.
- c. JFC HQ NAPLES (BC 104) – 384 KEUR were identified as a surplus due to reduced travel, unexpected hiring delays, and postponement of infrastructure and maintenance projects.
- d. HQ AIRCOM (BC 105) – 1.939 MEUR were identified as surplus due to delays filling two vacant positions, limited travels and training activities because of Covid-19, and the AIS/CIS (420,000 EUR) surplus related to the non-delivery of the ESLA services.
- e. HQ LANDCOM (BC 111) – 2.105 MEUR were identified as surplus mainly due to the exchange rate depreciations and inflation affecting personnel cost. In addition, Covid-19 restrictions reduced travel and hospitality cost.
- f. HQ MARCOM Northwood (BC 118) – 28 KEUR were identified as surplus due to Covid-19 restrictions.
- g. DEPLOYABLE HQ ASSETS (BC 131) – 699 KEUR were identified as surplus due to Covid-19 and other extenuating circumstances.
- h. ACO Military Training Exercise and Programs (MTEP) (BC 157) – 3.711 MEUR. The implementation of the exercise program was impacted by COVID-19 travel restrictions and cancellation of exercises. Ten exercises were cancelled, four were reduced in scale and a substantial number of events were conducted via VTC making considerable savings.
- i. NATO Integrated Air & Missile Defence System (NATINAMDS NON C2) (BC 164) – 6.4 MEUR surplus mainly as part of the NSPA commitments, and the NCIA.
- j. NATO Integrated Air & Missile Defence System (NATINAMDS C2) (BC 166) – 1.96 MEUR surplus mainly from NCIA excess funding (NCIA Independent Validation and Verification requirements – IV&V).
- k. NATO Centralized Nuclear CIS Budget (NCNCB) (BC 176) – A total of 420 KEUR surplus related to the Future Nuclear Exercise Environment.
- l. NATO Centralized CIS Budget (NCCB) (BC 177) – Note a surplus of 4.7 MEUR. The main surplus relates to the Cyber Security Prevention Services, Enterprise Service Management and Control, Network Layer services, and IV&V services. The remaining surplus relates to the Service PLT004 Oriented Architecture & Identity Management Service (SOA&IDM) which was not provided in 2021.
- m. NATO Communication & Information System Group (NCISG) (BC 178) - Note a surplus of 3.4 MEUR mainly due to delays in recruitments, travel restrictions, lower level of activities and delays in the delivery of the Communication Gateway Shelter System and Firefly assets.
- n. Outreach Programmes (BC 502) - Note a surplus of 2,8 MEUR. The implementation of the programme was severely impacted by Covid-19 travel restrictions. The closure of NATO training facilities and the cancellation of various other partnership programmes resulted in unintended cost reductions (including subsidization of eligible partners, training and exercise costs).

NATO COMMAND STRUCTURE ADAPTATION (NCS-A) (BC124)

The final BA3 for the ACO NCS-A budget totalled 28.7 MEUR. The execution rate reached 81.56%, which includes Special Carry Forwards for 160 KEUR mainly for NCIA Academy courses in 2022 and the increase of gas and electricity costs at JFC Naples²⁷.

The lapsed credits of 5.3 MEUR are due to delays in personnel recruitment and COVID-19 Travel restrictions.

²⁷ BC-D(2021)0232-FINAL, dated 09 Dec. 2021

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ALLIANCE OPERATIONS AND MISSIONS (AOM)

The total final BA3 for the AOM budget was 254.9 MEUR. Resolute Support Mission was the main cost driver with an approved budget of 211 MEUR.

Following the closure of the RS Mission, the RSM budget was reduced by 12.13 MEUR to fund the Allied Solace Operation²⁸. SCF were requested in the Allied Solace Budget for 674.5 KEUR to cover the three months of operations foreseen in 2022.

Table H.A2 - AOM Approved BA3 Amounts

Budget Code	Budget Title	BA3 in Local Currency	BA3 in EUR
183EUR30	Balkans Operations	24,646,031	24,646,031
187EUR30	NATO Support to the African Union	471,260	471,260
189GBP30	Operation Sea Guardian	255,175	302,090
194EUR30	Resolute Support (RS)	211,089,661	211,089,661
195EUR30	NATO Mission Iraq (NMI)	18,436,628	18,436,628
AOM Total		254,898,755	254,945,670

The AOM budget Group execution rate is 99.3% including the Regular CF and SCF. This execution rate is heavily impacted by the SCF for RS mission. The execution rate excluding the SCF is 69.5%.

The RS budget was initially prepared with the assumption of continued RS operations throughout financial year 2021; however, the RSM officially ended in September²⁹. As a result, the lapsable appropriations identified in November 2021 were carried forward to cover unaccounted contractual claims, cost of post-RS activities, and the Allied Solace operation³⁰.

Costs may stem from contractor and personnel claims, early termination of contracts, as well as, a number of other potential residual liabilities.

The 2021 SCF under the AOM amount to 77 MEUR due to:

- a. RSM (BC194). All lapsable appropriations (74 MEUR) were carried forward following the regularisation of Operation Allied Solace and post-RS NATO HQ IS -Security and Real-life-Support Services to the Office of the NATO Senior Civilian Representative- and Out-of-Country Education and Training) suspense accounts for 2021. With the exception of 15 MEUR, all the SCF were frozen by the BC. 674.5 KEUR were transferred to the new BC196 2021.
- b. NATO Mission Iraq (BC 195). SCF for the identified surplus of 3.5 MEUR were approved for future requirements related to the new NMI mandate.
- c. Balkans Operations (BC 183). 150 KEUR were SCF for generator replacement and obsolete safes.

Finally, BC agreed to confirm SCF from previous years into 2022 for the following purposes:

5.2 MEUR from the 2014 ISAF (BC 185) SCF, to cover any clear ISAF related residual and the salary of an archivist.

7.5 MEUR from NMI.

²⁸ BC-D(2021)0056, dated 09 Dec. 2021 and BC-D(2022) 0037, dated 15 Mar 2022.

²⁹ PO(2021)0139 and PO(2021)0312

³⁰ BC-D(2022)0037, dated 15 Mar 2022

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The total AOM lapsed credits identified is 1.9 MEUR. The Covid-19 restrictions, decreased demand for fuel and CIS services support, and lower than forecast pricing in several procurement activities from the Balkans Operations comprised most of these lapsed credits.

NATO ALLIANCE GROUND SURVEILLANCE FORCE (NAGSF)

The Budget Authorization (BA3) for the Alliance Ground Surveillance force (AGS) budgets (BC167 and BC168) in 2021 was 87.4 MEUR, as shown on the table below:

Table H.A3 - NAGSF approved BA3 amounts

Budget Code	Budget Title	BA3 in Local Currency	BA3 in EUR
167EUR28+2	AGS Operation & Sustainment	84,151,987	84,151,987
168EUR30	AGS CIS	3,238,531	3,238,531
Total		87,390,518	87,390,518

The AGS execution rate is 89%, including the SCF of 200 KEUR for the procurement of operational aircraft tow vehicles in 2022.

It should be noted that the 2020 Refundable surplus of AGS (167), was used to address the budget shortfalls in 2022. There was a funding gap of EUR 35.7M between the recommended budget for 2022 and the contributions agreed by Nations as part of the MTRP. This funding gap was filled through a combination of refundable surpluses from prior years and expected lapsed appropriation in 2021 of EUR 9.4M.

To note that for 2022 Budget, there was a funding gap of 17.3 MEUR between the recommended budget and the contributions agreed by Nations as part of the MTRP. This funding gap was filled through a combination of refundable surpluses from prior years and expected lapsed appropriations in 2021.

Regular carry forward³¹ in the AGS budget of 46.3 MEUR is linked to large commitments to NSPA for un-invoiced training services, logistics, and other technical support.

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

The NAEW&CF Budget Group (BCs 162/163) BA3 was 315.9 MEUR, as shown in the table below:

Table H.A4 - NAEW approved BA3 amounts

Budget Code	Budget Title	BA3 in Local Currency	BA3 in EUR
162EUR16	NAEW&CF Provisioning	139,576,541	139,576,541
162EUR28+2	NAEW&CF Employment	176,413,241	176,413,241
Total		315,989,782	315,989,782

The NAEW execution rate is 96%, including the Regular CF and approx. 5 MEUR as SCF the cost increase of the flight simulator training devices approved under BC-163.

The NAEW surplus is 11.1 MEUR as result of the lower flying hours and per-flying-hour cost compared to the budget. Further delays in infrastructure maintenance and the Covid-19 impacts explain the surplus under this budget group.

To note that for 2022 Budget, there was a funding gap of 17.3 MEUR between the recommended budget and the contributions agreed by Nations as part of the MTRP. This funding gap was filled through a combination of refundable surpluses from prior years and expected lapsed appropriations in 2021.

³¹ Amount of previous years' SCF for FY 2017, 2018, 2019 that became committed appropriations are considered regular CF supported by a legal obligation as per NFR art 25.3

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2021 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 Budget.

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

Budget Year	Budget	Expenditure Ceiling	Net Commitment	Actual Expenses	Total Spend
2021	211 - ACT NCS-A	51,532	-	51,532	51,532
2021	258 - ACT EUR POW	326,936	-	326,936	326,936
2019	259 ACT EXERCISES & TRAINING	-	-	(74,957)	(74,957)
2018	259 ACT EXERCISES & TRAINING	-	-	(13,994)	(13,994)
TOTAL		378,468	-	289,517	289,517

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.

Table H.C - ACO Budget Execution/ACO Statement of Financial Performance Reconciliation

	ACO Statement of Financial Performance	Budget execution report (adjusted)
	EUR	EUR
ACO Budget Execution Report: total expenses		1,046,824,837
Budget Execution Report-other: total expenses		289,517
Inventory variances		(2,070,176)
Property, Plant and Equipment and AuC		(50,541,661)
Over-estimated accruals		(15,313,822)
Untaken Leave		(22,286)
NSIP 2021 execution		2,632,245
		981,798,654
ACO Consolidated Statement of Financial Performance:		
Personnel	195,544,716	
Contractual Supplies and Services	771,031,820	
Foreign Military Sales (FMS) (III)	15,222,118	981,798,654

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, no inter-budget group transfers occurred during 2021.

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 (CF)

The credits carried forward are presented in the Budget Execution Statement together with the Special Carry Forwards (SCF) approved by the relevant authorities.

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The CF represent the remaining credits due to later than expected delivery of goods/services when contracts placed in good faith of delivery before end of 2021 or to specific cases detailed above for each Budget Groups. For all of them there is a legal liability or a specific authorisation and are equal to the closing Deferred Revenue.

Special Carry Forward (SCF)

The total special carry forward of funds authorised into 2022 were 118,855,018 EUR however the amount actually specially carried forward from the past eight years ACO budgets amount, in total to 115,855,018 EUR (2020 122,159,249 EUR).

NCSEP: An amount of 20,501,793 EUR is carried forward from 2020 and 2021 to cover various ACO requirements within the ACO Static Commands and programmes. Special Carry Forward for BC 177 of 850,276 EUR (2020) and 2,149,724 EUR (2021) for a total of 3M EUR approved in BC-D(2021) 0232 Final is not recorded in the table as regularization of the Kester Suspense Account with such funds was completed in 2021 in accordance with AC/335-D(2021)0055-REV1-AS 1.

AOM: An amount 90,009,025 EUR is carried forward from 2014 and 2021 budgets; the 2014 amounts relate to Temporary Staff to support the close, Archivists, LOJI for NSPA and any other ISAF residual requirements. The amounts for 2020 relate to emerging requirements for NMI. The amounts related to 2021 Resolute Support and Op Allied Solace are carried forwarded in both BC 194 and BC 196³² are 1.665M EUR more than estimated. The other amounts for 2021 relate to NMI emerging requirements and equipment replacement for Balkan Operations.

NCS-A: An amount of 160,000 EUR is carried forward from 2021 for NCIA Academy training and utility increases.

NAEW: An amount of 4,984,200 EUR is carried forward for Flight Simulators

AGS: An amount of 200,000 EUR is carried forward for operational aircraft tow vehicles.

Details were already provided at Note H – ACO MB Budget Execution. The table below provides an overall summary of the approved 2022 special carry forward reconciled with the related contingent liabilities and provisions, if any, as further disclosed in the Note D.

³² BC-D(2022)0037, dated 15 Mar 2022

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Table H.D - ACO Special Carry Forward

NCSEP	2014	2020	2021	Total	Reference	Note
BC 101 - Replacement air compressors, piping, generators, and tanks			170,000	170,000	BC-D (2021) 0232-Final	
BC 101- Replace canopy building 504 & 506			370,000	370,000	BC-D (2021) 0232-Final	
BC 101 - Upgrade NPIMS (alignment and Single Salary Spine)			95,000	95,000	BC-D (2021) 0232-Final	
BC 104 - Fire suppression system			84,000	84,000	BC-D (2021) 0232-Final	
BC 104 - HVAC duct work clearing			50,000	50,000	BC-D (2021) 0232-Final	
BC 104 - Utilities			766,000	766,000	BC-D (2021) 0232-Final	
BC 105 - Off set CARS guarding & other maintenance requirements			387,413	387,413	BC-D (2021) 0232-Final	
BC 105- Repair Main Parking Garage			137,500	137,500	BC-D (2021) 0232-Final	
BC BC111- replace generators			150,000	150,000	BC-D (2021) 0232-Final	
BC 111- overhaul intrusion detection system			35,000	35,000	BC-D (2021) 0232-Final	
BC-118-Mini LAN upgrades and BICES phone & terminals			114,834	114,834	BC-D (2021) 0232-Final	
BC- 157 - Exceptional Eligibility for NFS HQs			1,250,000	1,250,000	BC-D (2021) 0232-Final	
BC- 157 to mitigate high level risk environment			827,000	827,000	BC-D (2021) 0232-Final	
BC-157- Cost increase exercises			111,000	111,000	BC-D (2021) 0232-Final	
BC 164 - RSRP Heat Exchanger Replacement			715,000	715,000	BC-D (2021) 0232-Final	
BC-164 - RSRP Low Noise Replacement			600,000	600,000	BC-D (2021) 0232-Final	
BC 166 - Air C2 upgrade form Silverlight to Angular			1,260,000	1,260,000	BC-D (2021) 0232-Final	
BC-166- VCS Security and Obsolescence modifications			500,000	500,000	BC-D (2021) 0232-Final	
BC-166- replace AOCSS security auditing systeme Trust by SPLUNK	400,000			400,000	BC-D (2021) 0232-Final and BC-D (2021) 0232-Final	Typo in Ref - Year is 2020 BC-DS(2021)0046, states BC agreed to extend 400 KEUR of already-approved special carry forward into FY 2022
BC-176- Possible gap (VNC)			300,000	300,000	BC-D (2021) 0232-Final	
BC- 177- Destroy 10,000 Crypto devices		755,770		755,770	BC-D (2021) 0232-Final	
BC-177- Guarding of SATCOM Kester site up to 31 Dec 2021		-			BC-D (2021) 0232-Final AC335-D(2021)0055-REV1-AS 1	SCF for BC 177 of 850,276 EUR (2020) approved in BC-D(2021) 0232 Final is not recorded in this summary as regularization of the Kester Suspense Account with such funds was completed in 2021 based on RPPB decision AC335-D(2021)0055-REV1-AS 1
BC-177- Guarding of SATCOM Kester site up to 31 Dec 2021			-		BC-D (2021) 0232-Final AC335-D(2021)0055-REV1-AS 1	SCF for BC 177 of 2,148,724 EUR (2021) in BC-D(2021) 0232 Final is not recorded in this summary as regularization of the Kester Suspense Account with such funds was completed in 2021 based on RPPB decision AC335-D(2021)0055-REV1-AS 1
BC 177- Guarding of SATCOM Kester site up to 31 Dec 2022			1,600,276	1,600,276	BC-D (2021) 0232-Final AC335-D(2021)0055-REV1-AS 1	
BC 177- Enterprise Service Management			1,985,000	1,985,000	BC-D (2021) 0232-Final	
BC 177- SUN 3.2 PFS upgrades and implementation of 3rd level support FY2022			538,000	538,000	BC-D (2021) 0232-Final	
BC 177 - ACPV activities for Cyber Adaptation Program			7,000,000	7,000,000	BC-D (2021) 0232-Final	
BC 178 - Support static QS projects			300,000	300,000	BC-D (2021) 0232-Final	
NCSEP Total	-	1,155,770	19,346,023	20,501,793		

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AOM	2014	2020	2021	Total	
BC 185 -Temporary Staffto Support Close out	2,500,000			2,500,000	BC-D(2021)0232-Final
BC-185 Potential LOU for ISPA	93,791			93,791	BC-D(2020) 232 Final
BC 185 -To ensure coverage of all potential ISAF related residual requirements	406,209			406,209	BC-D(2021) 232 Final
BC 185 -To ensure coverage of all potential ISAF related residual requirements	2,000,000			2,000,000	BC-D(2021) 232 Final
BC 185- Archivists	193,159			193,159	2022/23 BC-BA(2021)0003 / BC-DS(2021)0044 / BC-D(2021)0183
BC 194 - RS 2021 requirements			72,991,416	72,991,416	BC-D(2021) 232 Final
BC-196 -future requirements			674,450	674,450	BC-D(2021) 232 Final and BC-DS(2021)0046/ BC-D(2021)0203-RE VI
BC-183 - Generator replacement			60,000	60,000	BC-D(2021) 232 Final
BC -183 -Obsolete Safe replacement			90,000	90,000	BC-D(2021) 232 Final
BC 195 - NMII emerging requirements		7,500,000		7,500,000	BC-D(2021) 232 Final
BC 195 - NMII surplus for future requirements			3,500,000	3,500,000	BC-D(2021) 232 Final
AOM Total	5,193,159	7,500,000	77,315,866	90,009,025	
NCS-A	2014	2020	2021	Total	
BC 124 NCIA Academy courses			100,000	100,000	BC-D(2021) 232 Final
BC124- Increase to electricity and gas			60,000	60,000	BC-D(2021) 232 Final
NCS-A Total	-	-	160,000	160,000	
NAEW & CF	2014	2020	2021	Total	
BC 163 - Employment -flight simulator training device			4,984,200	4,984,200	BC-D(2021) 232 Final
NAEW & CF Total	-	-	4,984,200	4,984,200	
AGS	2014	2020	2021	Total	
BC 167 - Operational Aircraft Tow Vehicles			200,000	200,000	BC-D(2021) 232 Final
AGS Total	-	-	200,000	200,000	
Total per Budget Authorisation Year	2014	2020	2021	Total	
All ACO budget groups	5,193,159	8,655,770	102,006,089	115,855,018	

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Table H.E - ACO CONTRACT AUTHORITIES as of 31 Dec 2021

ACO BC CONTRACT AUTHORITIES								
EUR	Initial Budget	Variance	BA2	Variance	BA3	Variance	Final Budget	Net Commitment
NCSEP								
	170,023,549	19,027,536	189,051,085	3,688,768	192,739,853	31,845,719	224,585,572	194,760,549
101 SHAPE	15,451,715	(48,480)	15,403,235	2,028,355	17,431,590	159,400	17,590,990	2,600,737
103 JFC HQ BRUNSSUM	5,000,000	60,000	5,060,000	1,125,000	6,185,000	-	6,185,000	-
104 JFC HQ NAPLES	5,544,000	564,000	6,108,000	-	6,108,000	-	6,108,000	-
105 HQ AIRCOM RAMSTEIN	1,084,568	240,000	1,324,568	535,413	1,859,981	-	1,859,981	587,404
111 HQ LANDCOM IZMIR	-	60,000	60,000	-	60,000	-	60,000	60,000
118 HQ MARCOM NORTHWOOD	107,072	65,646	172,718	-	172,718	-	172,718	62,628
131 HQ DEPLOYABLE ASSETS	258,703	-	258,703	-	258,703	-	258,703	-
157 ACO Exercises and Training	-	-	-	-	-	11,125	11,125	11,125
164 AIR DEFENCE (GROUND)	24,851,740	4,500,000	29,351,740	-	29,351,740	4,646,100	33,997,840	33,997,840
166 ACCS Support	8,552,604	238,300	8,790,904	-	8,790,904	1,150,000	9,940,904	9,340,904
176 NATO CENTRALISED NUCLEAR CIS BUDG	4,800,000	-	4,800,000	-	4,800,000	-	4,800,000	4,800,000
177 NCCB	104,137,947	3,081,570	107,219,517	-	107,219,517	25,879,094	133,098,611	133,033,411
178 NATO CIS GROUP (NCISG)	235,200	10,266,500	10,501,700	-	10,501,700	-	10,501,700	10,266,500
NCS-ADAPTATION								
	-	-	-	1,708,350	1,708,350	-	1,708,350	1,604,435
124 NCS-ADAPTATION (ACO)	-	-	-	1,708,350	1,708,350	-	1,708,350	1,604,435
AGS								
	133,281,896	14,165,000	147,446,896	-	147,446,896	-	147,446,896	67,203,516
167 AGS O&S	133,281,896	14,165,000	147,446,896	-	147,446,896	-	147,446,896	67,203,516
NAEW								
	97,219,599	14,531,233	111,750,831	3,291,910	115,042,742	-	115,042,742	93,062,709
162 NAEW&CF PROVISIONING	97,219,599	14,531,233	111,750,831	3,291,910	115,042,742	-	115,042,742	93,062,709
NAEW								
	104,852,018	18,548,384	123,400,402	360,000	123,760,402	2,685,000	126,445,402	67,144,009
163 NAEW&CF EMPLOYMENT	104,852,018	18,548,384	123,400,402	360,000	123,760,402	2,685,000	126,445,402	67,144,009
AOM								
	3,805,521	640,958	4,446,479	(400,396)	4,046,083	3,164,107	7,210,190	1,192,480
183 Balkans Operations	2,362,687	297,538	2,660,225	-	2,660,225	2,633,107	5,293,332	639,562
194 RESOLUTE SUPPORT	236,916	172,350	409,266	(409,266)	-	-	-	-
195 NMII	1,205,918	171,070	1,376,988	8,870	1,385,858	531,000	1,916,858	552,918
Total for all MBC Cost Shares, Years and Budget	509,182,583	66,913,110	576,095,694	8,648,632	584,744,326	37,694,826	622,439,152	424,967,698

The table above shows the ACO Contract Authorities approved by the BC³³ or by Financial Controllers³⁴ for the fiscal year 2021, in accordance with FRP XXV sub-para 8 of BC-D(2015)0260REV3.

³³ BC-BA (2021)0001, 18 DEC 2020

BC-BA (2021)0001-COR1, 22 JAN 2021

BC-BA (2021)0002, 16 SEP 2021

BC-BA (2021)0003, 29 NOV 2021

BC-DS(2021)0040, 27 OCT 2021

BC-DS(2021)0046, 10 NOV 2021

BC-D(2021)0200-AS1, 24 NOV 2021

BC-DS(2021)0056, 9 DEC 2021

BC-D(2021)0172-COR1, 24 JAN 2022

³⁴ SH/FINAC/BUP008/21, 20 OCT 2021

SH/FINAC/BUP/290/21, 15 DEC 2021

SH/FINAC/BUP0012/21, 1 DEC 2021

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Table H.F - Reconciliation between ACO authorized Budgets and Calls in 2021

The ACO annual budgets, for which SACEUR is responsible (ACO entities and programmes in the NATO Command Structure, ACO portion of the NATO Command Structure – Adaptation budget, the Alliance Operations and Missions, NAGS and the NAEW programmes) are covered by the Allies with different cost share per type and year.

PO(2020)0146 includes the military, civil budget and NSIP cost shares from 2021 until 2024, covering the NCSEP, NCS-Adaptation, AOM budget under ACO responsibility.

BC-D(2018)0078 for NAEW Provisioning (16 Nations) cost share; BC-D(2020)0095 for NAEW Employment (28+2 Nations) cost shares; BC-D(2020)0074 for AGS Cost share.

For NAEW&CF programme, starting from 2018 the funding has been split between provisioning and employment and the employment portion now includes contributions from 28 nations in relation to the operation of the HQ and FOB/FOL facilities, including personnel costs³⁵.

For AGS, the engagement of NATO common funds for infrastructure, communications, operation and support follow the normal funding authorization applicable within the Alliance. For that programme, one Ally has signed a Memorandum of Understanding (MOU) with SHAPE, outlining the modalities for making its contributions in kind available to the Alliance as AGS become operational³⁶. A second one as well is to provide contribution in kind to complement the program. The current reporting policy is provided in the Contribution in Kind section at note A.

The table on next page is showing the reconciliation between the Budget Authorization and the Calls made in 2021:

³⁵ See <https://awacs.nato.int/default.aspx> and <https://www.napma.nato.int/>

³⁶ See https://www.nato.int/cps/en/natohq/topics_48892.htm

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Budget authorization 2021							
Budget Groups	Total Called as of 31 Dec 2021 (BA2)	Final Budget (1)	Actual as of 31 Dec 21	CF as of 31 Dec 21	Difference between Calls, Actual and CF as of 31 Dec 21	Lapse	Adjustment
30N+29N NCSEP (1)	596,919,730	597,071,616	514,371,110	45,501,962	37,046,659	(37,198,545)	(151,886)
28N+2 AGS	84,151,987	84,151,987	28,362,169	46,366,277	9,423,542	(9,423,542)	(0)
30N AGS	3,238,531	3,238,531	3,098,234	139,309	988	(988)	(0)
28+2N NAEW	176,413,241	176,413,241	143,272,535	23,284,048	9,856,658	(9,856,658)	0
16N NAEW	139,576,541	139,576,541	74,568,873	63,739,788	1,267,881	(1,267,881)	(0)
30N AOM (1)	254,941,438	254,945,670	171,836,456	81,210,408	1,894,574	(1,898,806)	(4,232)
TOTAL	1,255,241,468	1,255,397,586	935,509,377	260,241,791	59,490,301	(59,646,420)	(156,119)
(1) Exchange rate: budgets authorised in GBP were converted and executed using a fixed rate for the fiscal year 2021. The rate used was as of 1st January 2020, 1 EUR = GBP 0.8447. The 2nd cash call was converted to EUR using the rate 1 EUR = GBP 0.8567							
Budget authorization 2020							
Budget Groups	Carry Forward	Adjustment to Carry Forward	Adjusted Carry Forward	Actual as of 31 Dec 21	CF as of 31 Dec 21	Lapse	
29N/30N NCSEP	67,669,991		67,669,991	48,217,314	8,659,503	(10,793,173)	
27N/28N AGS	47,651,179		47,651,179	4,744,552	22,630,537	(20,276,090)	
26+2N/27+2N NAEW	14,364,251		14,364,251	9,352,007	3,734,601	(1,277,643)	
16N NAEW	35,004,145		35,004,145	21,116,082	12,048,535	(1,839,529)	
29N/30N AOM	23,235,886		23,235,886	3,558,270	8,639,138	(11,038,478)	
TOTAL	187,925,452	-	187,925,452	86,988,225	55,712,314	(45,224,913)	
Budget authorization 2019							
Budget Groups	Carry Forward	Adjustment to Carry Forward	Adjusted Carry Forward	Actual as of 31 Dec 21	CF as of 31 Dec 21	Lapse	
29N NCSEP	3,423,028		3,423,028	2,703,079	(0)	(719,949)	
27N AGS	8,806,195		8,806,195	1,049,202	7,000,000	(756,993)	
27+2N NAEW	3,033,485		3,033,485	2,093,385	-	(940,099)	
16N NAEW	9,735,857		9,735,857	6,893,787	-	(2,842,070)	
29N AOM	7,947,546		7,947,546	1,884,411	(0)	(6,063,135)	
TOTAL	32,946,110	-	32,946,110	14,623,864	7,000,000	(11,322,245)	
Budget authorization 2018							
Budget Groups	Carry Forward	Adjustment to Carry Forward	Adjusted Carry Forward	Actual as of 31 Dec 21	CF as of 31 Dec 21	Lapse	
27N AGS	5,123,132		5,123,132	123,132	5,000,000	-	
TOTAL	5,123,132	-	5,123,132	123,132	5,000,000	-	
Budget authorization 2017							
Budget Groups	Carry Forward	Adjustment to Carry Forward	Adjusted Carry Forward	Actual as of 31 Dec 21	CF as of 31 Dec 21	Lapse	
26/27N AGS	39,730,491		39,730,491	7,743,604	23,986,887	(8,000,000)	
TOTAL	39,730,491	-	39,730,491	7,743,604	23,986,887	(8,000,000)	
Budget authorization 2014							
Budget Groups	Carry Forward	Adjustment to Carry Forward	Adjusted Carry Forward	Actual as of 31 Dec 21	CF as of 31 Dec 21	Lapse	
28N AOM	24,448,305		24,448,305	1,686,473	5,193,159	(17,568,673)	
TOTAL	24,448,305	-	24,448,305	1,686,473	5,193,159	(17,568,673)	
Budget authorization 2013							
Budget Groups	Carry Forward	Adjustment to Carry Forward	Adjusted Carry Forward	Actual as of 31 Dec 21	CF as of 31 Dec 21	Lapse	
28N NCSEP	150,162		150,162	150,162	-	0	
TOTAL	150,162	-	150,162	150,162	-	0	
ACO Budget Groups	Final budget	Actual as of 31 Dec 21	Lapse	Carry Forward	Adjustment		
GRAND TOTAL	1,545,721,238	1,046,824,837	(141,762,251)	357,134,150	(156,119)		

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I. NSIP Project Execution

Table I.A - NSIP Active projects³⁷

OVERALL - NSIP PROJECT EXECUTION STATUS					
Active projects					
Status	Authorized Budget	Commitments	Actuals YTD	Actuals PJTD	Funds Available
BRUNSSUM	5,980,088	-	873,011	3,411,940	2,568,148
NAPLES	20,322,409	152,982	419,400	20,059,661	109,766
KFOR	6,260,526	-	-	4,980,935	1,279,591
NHQSa	7,680,532	-	-	7,680,532	-
SHAPE	94,917,775	1,990,170	1,608,733	78,972,904	13,954,700
Grand Total	135,161,330	2,143,152	2,901,145	115,105,973	17,912,205

TABLE I-B - NSIP closed projects with COFFA

OVERALL - NSIP PROJECT EXECUTION STATUS					
Closed projects					
Status	Authorized Budget	Commitments	Actuals YTD	Actuals PJTD	Funds Available
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	1,007,108,438	2,143,152	2,901,145	987,053,080	17,912,205
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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 2021 a total amount of 2,901,145 EUR was expended against nine NSIP projects in total, which are executed by SHAPE (1,608,733 EUR), JFCBS (873,011 EUR) and JFCNP (419,400 EUR) through delegation. The ten projects refer to three main categories as follows:

- a) **AOM.** An amount of 873,011 EUR was expended against AOM projects. One contingency funding to repair critical infrastructure and one funding for low value civil works were executed in support of the RS Mission.
- b) **Static HQs.** Total amount of 1,895,204 EUR in this category was charged against four projects. An amount of 1,131,675 EUR was spent to hire temporary NIC personnel and consulting services to support the SHAPE Project Office for the construction of new ACO Main HQ Building. In addition, an amount of 75,334 EUR was spent to hire personnel to support the provision of temporary office space required by the NCS adaptation. The amount of 268,795 EUR was spent to replace 6 existing Uninterrupted Power Supply (UPS) to support the power provision to Building 101 (Main SHAPE HQ). Finally, an amount of 419,400 EUR was spent to exchange obsolete CIS equipment in JFCNP HQ.
- c) **Centralised projects.** An amount of 132,930 EUR was further spent on two projects. One with the amount of 132,825 EUR related to NATO-wide AIR C2 Capabilities and 105 EUR for the upgrade of the ACO/ACT Mission Identification System (AMIS).

³⁷ YTD indicates the actual data as of 31 December 2021; PJTD indicates the cumulated data for all the projects until 31 December 2021.

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The difference of 268,900 EUR between the 2021 expenses reported at table A above (2,901,145 EUR), and the expenses reported in the note E – NSIP segment of the Statement of Financial Performance – (2,632,245 EUR) represents the increase of recognised construction in progress PPE assets.

The amounts shown in the tables I-A and I-B above are based on data recorded in the ACO Financial system (FinS). The financial data for these projects in CIRIS have been aligned and reconciled with the actual expenditures incurred and reported.

NSIP pre-financed projects ISAF/RSM

With regards to NSIP pre-financed projects related to ISAF/RSM for which SHAPE had control and visibility, in previous years, a cost recovery mechanism with proper billing procedure and reimbursement to the IC was established and successfully finalised. The COFFA and JFAI of the projects were duly reported in the 2020 ACO Consolidated FS. For all the other projects, JFCBS in 2010 and SHAPE/ACO in 2012 wrote to the IS-NOR (and reiterated its request over time) laying out the recovery achieved on a number of projects located in Kabul and Kandahar – and outlining its inability to take in charge of the recovery responsibility for those projects. Due to the lack of the necessary information, visibility and control over the data ACO could not create a legitimate basis to initiate the recovery actions against non-eligible users. The correspondence – with other organisations, also stressed this decision ought to be reconsidered by Senior Resource Board (SRB), since the recovery would only be performed by the original agencies performing the role of Host Nation. However, no such decision was made.

Further to IBAN audit of ACO FS 2020 and RPPB recommendation³⁸, ACO worked in close coordination with IS-NOR to present at the earliest convenience the overall status of the pre-financed costs that have not been recovered in order to define the actions to be taken.

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 2021 is provided in the annual FS:

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	-	-	-	-	-	-	-	-	3	-	-	-	-	-	-	-	-	-	207	3,267,038	2	-	-	-	212	3,267,038
OTHER INFRASTRUCTURE	-	-	-	-	-	-	-	-	-	-	-	-	93	-	-	-	6	-	610	55,969,506	-	-	-	-	709	55,969,506
INSTALLED EQUIPMENT	-	-	-	-	-	-	-	-	-	-	-	-	17	361	87	-	-	-	739	1,540,120	4	-	-	-	1,208	1,540,120
MACHINERY	6	-	-	-	20	-	22	-	23	-	-	-	128	113	4	-	-	-	673	150,806	92	-	162	-	1,243	150,806
TRANSPORT EQUIPMENT - VEHICLES	7	-	-	-	-	-	-	-	1	-	-	-	-	17	8	-	-	-	322	-	7	-	17	-	379	-
AIRCRAFT	-	-	-	-	-	-	-	-	-	-	-	-	-	-	378	-	-	-	-	-	-	-	-	-	378	-
MISSION EQUIPMENT	-	-	-	-	12	-	3	-	7	-	-	-	50	-	157	15	-	-	781	125,848	204	-	585	-	1,814	125,848
FURNITURE	1,303	-	-	-	296	-	433	2,119	109	458	120	-	589	-	118	-	131	-	207	-	1,100	5,456	1,730	-	6,136	8,033
COMMUNICATIONS	-	-	-	-	-	-	-	-	-	-	-	-	1	102	-	-	-	-	253	270,006	8	-	8	-	372	270,006
AUTOMATION INFORMATION SYSTEMS	-	-	-	-	-	-	-	-	-	-	-	-	-	367	283	-	-	-	4	-	1	-	1	-	373	283
Consumables	-	-	-	-	5	1,556	20	-	8	965	-	-	178	1,494	7,238	9,660	10	7,522	386,045	1,503,053	215	27,882	129,074	-	522,793	1,552,132
Spare parts	-	-	-	-	-	-	-	-	-	-	3	-	134	1,430	1,100	18,913	6	18,730	23,127	667,011	293	70,041	2,477	-	27,140	776,126
Ammunition	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Grand Total	1,316	-	-	-	333	1,556	478	2,119	151	1,423	123	-	1,190	2,925	9,951	28,856	267	26,252	412,968	63,493,389	1,926	103,379	134,054	-	562,757	63,659,899

The table above shows the number of items written-off during 2021 by the ACO Commands per asset categories and the related accounting value (net book value).

For 2021, there has been a significant increase in the number of items written off due to the termination of the Resolute Support Mission with all assets being disposed of during the year. The majority of the other 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 PP&E 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).

³⁸ AC/335-D(2022)0013 approved on 25 Feb. 2022

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With regard to Inventories, except for NAEW&C Force GK HQ, the accounting policy does not make any distinction between items acquired prior and after 1 January 2013. Therefore, the write-offs are all recorded at the weighted average cost (WAC).

ACO Headquarters International Cash Losses and Irrecoverable Debt Write-off

In 2021, there were no write-offs due to cash losses. Two entities reported write offs for irrecoverable debts: NHQSa reported 210 EUR relating to former employees' pension gap and severance payment, and JFC Brunssum reported 1,243 EUR relating to uncollectable debts for maintenance and utilities costs from a former concessionaire.

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.

The table below shows a list of donations approved in 2021 by the relevant Finance Committees.

Asset Category	2021 Beneficiaries				TOTAL
	GIROA	Turkey	US	Norway	
AUTOMATED INFORMATION SYSTEMS	5	33	-	-	38
BUILDINGS	206	96	2	-	304
COMMUNICATIONS	26	317	364	3	710
FURNITURE	68	131	68	39	306
INSTALLED EQUIPMENT	441	145	192	1	779
MACHINERY	157	618	221	28	1,024
MISSION EQUIPMENT	412	338	270	2	1,022
OTHER INFRASTRUCTURES POSTING - OTHER	460	23	10	1	494
TRANSPORT EQUIPMENT - VEHICLES	26	207	48	-	281
INVENTORY	-	271	411,773	28	412,072
TOTAL	1,801	2,179	412,948	102	417,030

Although a significant number of donations were made in 2021, they all are related to the closure of the Resolute Support Mission. ACO worked closely with the finance Committees to approve a very large number of donations in an efficient manner. There were various tranches of approved donations based on the closure timeline of the mission (see foot note for documents)³⁹. The chart above provides a summary of the donations however; it should be noted due to the operational outcome and emergency evacuation these items did not remain in the possession of the intended recipients⁴⁰.

This information was reported to the BC in SH/FINAC/CAC/FC0042/22, dated 7 Feb 2022 as part of an overall report for 2020/21. Upon further end of year control processes it has been determined that an immaterial number of inventory items were reported as donated when they were in fact disposed of. In addition, some inventory items were not reported as donated in the 2020 financial statements.

K. Trust Funds

The Trust Funds reported in 2021 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 behalf of the Trust Funds Boards. All incoming and outgoing funds are recorded in the SHAPE ad-hoc 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.

³⁹ AC/4-N(2021)0024/ BC-D(2021)0065, dated APR 29 2021, AC/4-N(2021)0024-REV1 dated 12 MAY 2021, AC/4-N(2021)0024-REV1-ADD5_BC-D(2021)0065-REV1-ADD1 dated 20 MAY 2021, AC/4-N(2021)0024-REV1-ADD6_BC-D(2021)0065-REV1-ADD2 dated 16 JUN 2021, BC-D(2021)0065-REV1-ADD3 dated 25 JUN 2021, BC-D(2021)0065-REV1-ADD4 dated 05 JUL 2021.

⁴⁰ As reported to the BC in SH/FINAC/CAC/FC0042/22 HOTO was not completed for all items.

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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). In order to support the Council decision (PO(2020)0182) to extend the Afghan National Army Trust Fund arrangements beyond 2020, the three participants provided their written consent to extend the Trust Fund Memorandum of Understanding (MOU) (PO(2018)0091) until 31 December 2021. The role of SHAPE was confirmed as responsible for the financial management of the SHAPE ANA TF bank accounts by providing Treasury Functions, while the daily management of the ANA TF falls to the NATO ANA TF Office (NATFO).

However, on 15 August 2021, the Government of the Islamic Republic of Afghanistan collapsed and the Afghan National Army ceased to exist. On 20 August 2021, NATO Foreign Ministers decided to suspend all support to the Afghan authorities. Subsequently, Council agreed to the modality for initiating the closure of the ANA Trust Fund and proposed a way forward to return residual funds to donors. In Dec. 2021, the ANA Trust Fund Board approved an initial partial return of maximum 60% of the liquidity per Donor to be executed in multiple tranches following an approved schedule starting in 2022⁴¹. The ANA TF Board agreed that the full refund of residual funds would only be finalized upon the complete closure of the Trust Fund once all the claims and potential liabilities have been covered and residual liquidity duly allocated among Donors.

The new MOU between the parties involved is under coordination, but the role of SHAPE continue to be related to the responsibilities of the financial management of the SHAPE ANA TF bank accounts and Treasury function for the ANA TF close-out program.

The following table show the Trust Funds balances as of 31 December 2021:

	<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	2,815,620,008	31,351,763	(3,461,093)	(1,913,259,409)	(31,574,661)	898,676,608	898,676,608
2021	102,345,898	1,766,659	-	(279,570,485)	37,152,714	(138,305,214)	760,371,394
Total	2,917,965,906	33,118,422	(3,461,093)	(2,192,829,894)	5,578,053	760,371,394	
KSF Trust Funds							
Previous years	7,673,728	106,295	(7,740,777)	-	-	39,246	39,246
2021	-	8	-	-	-	8	39,254
Total	7,673,728	106,303	(7,740,777)	-	-	39,254	
KSF Trust Funds - US National funded							
Previous years	1,777,500	49,843	(1,777,500)	-	-	49,843	49,843
2021	-	10	-	-	-	10	49,853
Total	1,777,500	49,853	(1,777,500)	-	-	49,853	
Multinational Helicopter Initiative (MHI)							
Previous years	32,305,172	548,068	-	(32,566,917)	(51,822)	234,501	234,501
2021	-	(0.24)	-	(51,015)	-	(51,015)	183,486
Total	32,305,172	548,068	-	(32,617,932)	(51,822)	183,486	
POHRF - ISAF							
Previous years	4,983,792	(5,232)	-	(4,942,720)	-	35,839	35,839
2021	-	-	-	-	-	-	35,839
Total	4,983,792	(5,232)	-	(4,942,720)	-	35,839	

In 2021 the ANA Trust Fund received the equivalent of 102 MEUR in contributions from Trust Fund members in both USD and EUR and processed the equivalent of 280 MEUR in payments for approved projects. The fund gained over 1.4 MUSD and 575 KEUR in interests after deductions of bank charges during the year 2021 compared to 5 MUSD and 383 KEUR in 2020. The EUR negative interests charged over 2021 amount to 1KEUR in comparison to 20 KEUR in 2020. As a result of the 2021 execution the overall EUR holdings of the Fund decreased by 15.5% from 436.6 MEUR to 369 MEUR while the overall USD holdings decreased by 21.7% from 560.8 MUSD to 438.8 MUSD compared to 2020.

⁴¹ The first agreed tranches have already started in the first quarter 2022 for all the donors that formally requested the return/transfer.

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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 2021 (quantities per site/category)

Inventory Categories	NAEW&C Force GK
CONSUMABLES	1,940,790
SPARE PARTS	836,781
AMMUNITION	17,053
TOTAL	2,794,624

Inventories acquired prior to 1 January 2013 and still present as of 31 December 2021 are reported only by NAEW&C Force GK HQ. The Force 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 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 E-3A fleet or used by aircrafts support systems, remains applicable. This policy is essential for supporting the E-3A fleet until 2035 due to increasing risk of diminishing manufacturing sources and material shortage.

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

TABLE L.B - PP&E prior to 2013 – status as of 31 December 2021 (quantities per site/category)

ASSET CATEGORY	SHAPE HQ	JFC Brunssum	AIRCOM HQ	RSM HQ	NAEW &C Force GK	JFC Naples HQ	NHQSa HQ	LANDCOM HQ	NCISG HQ	KFOR HQ	MARCOM HQ	Total
LAND		1	-		1		-	-			-	2
BUILDING	24	40	16		201	9	203	30	27	106	1	657
OTHER INFRASTRUCTURE	57	15	8		173	18	-	17	-	11	-	299
INSTALLED EQUIPMENT	92	267	149		3,960	65	55	5	79	187	5	4,864
MACHINERY	740	1,179	424		3,581	596	1,353	261	289	1,886	56	10,365
TRANSPORT EQUIPMENT - VEHICLES	212		87		363	25	76	25	737	49	1	1,575
TRANSPORT EQUIPMENT - AIRPLANES (Upgrades, Training Devices, Spare Parts, Major Inspections)			-		15,372		-	-	-		-	15,372
MISSION EQUIPMENT	944	383	189		7,670	201	1,310	232	221	356	5	11,511
FURNITURE	28,305	6,646	10,833		213	14,036	11,995	6,003	2,855	11,031	1,659	93,576
COMMUNICATIONS			12		14,010		320	-	-	16	-	14,358
AUTOMATION INFORMATION SYSTEMS			-		4,684		371	-	-		-	5,055
Grand Total	30,374	8,531	11,718	-	50,228	14,950	15,683	6,573	4,208	13,642	1,727	157,634

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 HN 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.

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The only CIS assets reported in the 2021 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 2021.

M. ACO Morale & Welfare Activities

The ACO Morale & Welfare Activities (MWA) report is presented on an annual basis to the BC while the disclosure note and the statement of assurance for the MWA activities as requested by the MWA regulations⁴² is included as part of the ACO statement of internal control 2021.

All the ACO commands with the exception of NHQSa have performed MWA activities during 2021. The result is characterised by an overall loss of 761,281 EUR versus the loss of 1,256,857 EUR incurred in 2020 (restated data). The negative result is mainly due to insufficient increase in revenue compared to the level of expenses that continued to increase this year as disclosed in the Table M.

The Overall revenue increased by 14% while the overall expenses have increased by 11% in comparison to 2020. Close to 91% of revenue is derived from fund generating activities where sales increased by 15% in 2021. This trend shows that MWA activities slightly started to recover from the impact of COVID-19 although the level of sales remains far below the pre-pandemic levels observed in 2019. On the expense side the contractual supplies and services expenses account for 63% of the overall expenses while personnel expenses account for 27%. As a result of a higher level of MWA activities in 2021 these expenses increased by 17% and 4% respectively compared to the previous reporting period.

In 2021, ACO had five sites reporting losses (SHAPE, NAEW, JFCNP, RSM, which is a closed activity, and CAOC TJ). The loss can mostly be attributed to the larger activities such as SHAPE, NAEW and JFCNP that have been more severely impacted by the pandemic in terms of revenue loss while higher fixed costs impede a swift recovery. The closure of RSM HQ MWA generated a loss of 271.3 KEUR. This specific result will be reflected in the closed activity MWA segment. In general the remaining MWA activities showed a positive result and were less affected by the pandemic given their low complexity and associated cost structure.

On 23 June 2021 the RS HQ MWA was handed over to US Embassy and finally closed. The resulting outstanding liabilities consist of a provision of 141,574 EUR associated to meal costs supported by MWA. However, when the MWA activity closed the RSM MWA bank deposits of 171,435 EUR were transferred to the ACO AIB bank account. At the time of the collapse of the Afghan banking system the bank deposits were still held in the AIB and SHAPE is unable to determine when and if these funds will be recovered. Given the high risk of loss on the remaining cash holdings it is expected that the remaining outstanding liabilities following the closure of the RSM MWA are likely to be absorbed by the remaining funds held from previous closed activities.

In 2021 the overall cash and cash equivalents have increased by 574,579 EUR in comparison to 2020. This increase is attributed to the net cash flow from operating activities and primarily from the overall increase in payables which mainly explains the increase in overall liabilities. In addition, 86% of the cash and cash equivalents are held by the larger activities in SHAPE HQ, NAEW HQ and JFCNP HQ.

LANDCOM HQ disclosed a contingent liability in 2021 related to a former employee whose contract was terminated in 2015 and that filed a case in 2021. As of the end of 2021 no reliable amount is known by LEGAD and additional information has been requested. In addition JFCNP HQ identified contingent liabilities for which the local MWA Council approved to ring-fence by creating ad hoc reserves.

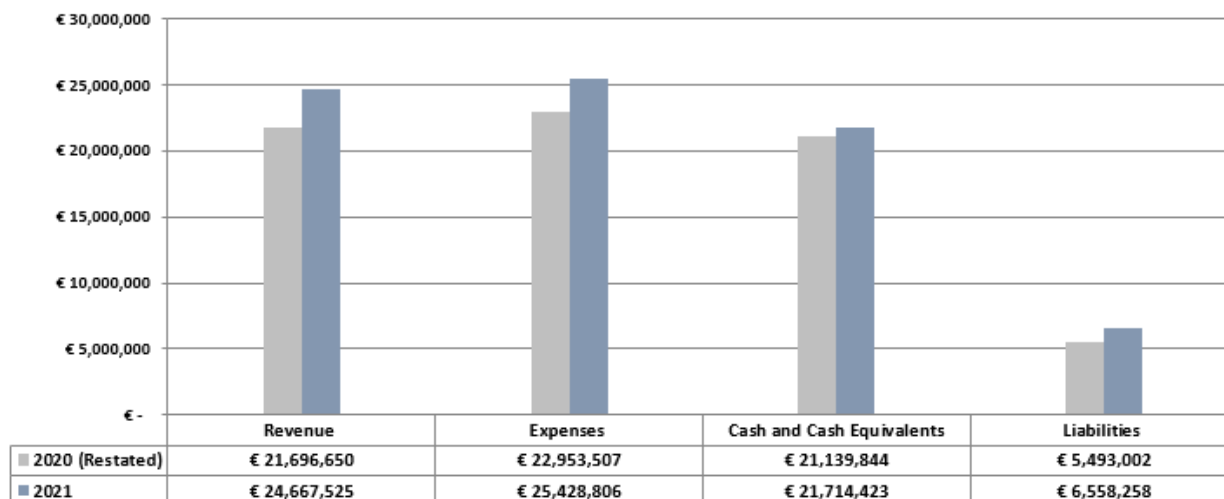
SHAPE HQ, NAEW HQ, JFCNP HQ, KFOR HQ, LANDCOM HQ and JFCBS HQ are the only MWA operating entities that reported FTEs in 2021. The overall number of FTEs reached 184.45 for 2021 compared to 197.14 in 2020. In addition, an estimated total of 16.83 FTE provided direct support to MWA without being directly employed by the activities.

The table below reflects the 2021/2020 comparative data of the ACO consolidated figures for Revenue, Expense, cash holdings and liabilities

⁴² PO C-M2019-0026

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Table M- ACO Consolidated Key data – Morale Welfare Activities Financial Year 2021/2020



The pandemic caused an unprecedented arduous business environment which initially was expected to last only few months in 2020. After two years, the situation still bears the financial impact with no firm end-date in sight. In 2021 few improvements have been observed on the revenue side as it appears that the level of activity started to resume to a certain extent and generated more sales compared to 2020 but remained overall under pre-pandemic levels. The overall financial situation for the main MWA site require close attention as the financial recovery from COVID-19 is slow and impeded by the effects of inflation and other factors. Therefore, the main challenge faced by the various MWA activities in the coming years will be to continue managing the expenses while supporting their revenue generating activities along the way to recovery.

Various measures have been continuously taken in this regard. These actions include, but are not limited to, reducing MWA operations to only vital activities, hiring freeze, offering voluntary departure programme to reduce the payroll and various cost saving measures such as limited opening hours, reinforced stock management, no replacement or acquisitions of new equipment. The purpose of this substantially restricted business model is to preserve cash for as long as possible in order to bridge the gap until the business environment will gradually recover.

SHAPE monitors the situation closely whilst paying specific attention to the evolution of the financials. Management actions are being taken in a continuous response to the ongoing challenge that COVID-19 has imposed.

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 overarching 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 technique 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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