	NATO	NORTH ATLANTIC COUNCIL
	OTAN	CONSEIL DE L'ATLANTIQUE NORD

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21 April 2022

DOCUMENT
PO(2022)0179-AS1

**IBAN AUDIT REPORT ON THE AUDIT OF 2020 CONSOLIDATED FINANCIAL
STATEMENTS OF ALLIED COMMAND OPERATIONS (ACO)**

ACTION SHEET

On 20 April 2022, under the silence procedure, the Council noted the RPPB report at annex to PO(2022)0179, agreed its conclusions and recommendations, noted the IBAN Audit Report and agreed to the public disclosure of this report, the IBAN Audit Report and associated 2020 consolidated financial statements of ACO.

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to PO(2022)0179.

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13 April 2022

DOCUMENT

PO(2022)0179

Silence Procedure Ends:

20 Apr 2022 17:30

To: Permanent Representatives (Council)

From: Secretary General

**IBAN AUDIT REPORT ON THE AUDIT OF 2020 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 2020 consolidated financial statements of Allied Command Operations (ACO). This IBAN Audit Report sets out unqualified opinions on both the 2020 consolidated financial statements and on compliance.
2. The IBAN Audit Report has been reviewed by the RPPB (see Annex 1).
3. I do not believe this issue requires further discussion in the Council. Therefore, **unless I hear to the contrary by 17:30 hours on Wednesday, 20 April 2022**, I shall assume the Council noted the RPPB report, agreed its conclusions and recommendations, noted the IBAN Audit Report and agreed to the public disclosure of this report, the IBAN Audit Report and associated 2020 consolidated financial statements of ACO.

(Signed) Jens Stoltenberg

**IBAN AUDIT REPORT ON THE AUDIT OF 2020 CONSOLIDATED FINANCIAL
STATEMENTS OF ALLIED COMMAND OPERATIONS (ACO)****Report by the Resource Policy and Planning Board (RPPB)**

References:

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|----|-----------------|---|
| A. | IBA-A(2021)0116 | IBAN Audit Report on the audit of 2020 consolidated financial statements of the Allied Command Operations (ACO) |
| B. | C-M(2015)0025 | NATO Financial Regulations (NFR) |
| C. | C-M(2016)0023 | NATO Accounting Framework (NAF) |
| D. | 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 2020 consolidated financial statements of the Allied Command Operations (ACO). The IBAN Audit Report sets out unqualified opinions on the consolidated financial statements and on compliance of the ACO for financial year 2020 (reference A).

AIM

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

DISCUSSION

3. During the audit, the IBAN made four new observations and recommendations for the ACO. One of the two new observations was related to the unavailability of the estimated financial impact of Resolute Support (RS) mission withdrawal and another one on the NATO Airborne Early Warning & Control Force (NAEW&CF) and Alliance Ground Surveillance (AGS) contribution in kind (CiK) and disclosure. The IBAN also made new observations on the NATO Security and Investment Programme (NSIP) cost recovery from non-eligible users and NSIP infrastructure assets recognition and disclosure. These observations did not impact the audit opinion on financial statements or on compliance. In addition, the IBAN raised an Emphasis of Matter drawing attention to disclosure of information in the financial statements. The IBAN also raised an Other Matter regarding the unavailability of RS mission withdrawal financial estimate. Additionally, the IBAN followed up on the status of observations and recommendations from the previous years' audits and found that three were closed and eight remain in-progress.

3.1. Observation 1: Although the assessment of the RS mission withdrawal is ongoing, the IBAN found that ACO did not maintain on a continuous basis a record of the estimated impact of restructuring or closure of on-going operations. Consequently, the ACO could not also provide the IBAN with an analysis of the estimated financial impact of the RS drawdown, as financial data was not fully known or complete.

3.1.1. Although the ACO confirmed that it was in the process to provide Stakeholders/Nations with information regarding the financial impact of RS mission withdrawal, it queries its relevance for the audit of 2020 financial statements and assures its full reflection in the 2021 financial statements. In addition, during the audit the ACO objected to the recommendation on establishing procedures for an overview of the financial impact of possible restructuring or closure of another on-going NATO mission due to, in their view, irrelevant, uncertain and even misleading nature of such estimates and the lack of ACO resources to do so. Nevertheless, for the first IBAN's recommendation the Board supports that the ACO completes an analysis of the financial impact of the RS withdrawal within the 2021 financial statements. In regards to the second IBAN's recommendation, the Board supports that ACO continues to set out procedures, including basic criteria, for other on-going NATO missions and to support stakeholders with an analysis of the financial impact of potential restructuring or closure of an operation.

3.2. Observation 2: The IBAN identified that the ACO did not recognise or disclose the CiK to the NAEW&CF in the ACO financial statements although they are made in lieu of financial contribution and represent a significant contribution to the ACO budget and operations. The IBAN also found that ACO has not developed a related accounting and financial reporting policy regarding CiK.

3.2.1. The ACO did not concur with the IBAN recommendation as the IPSAS 23 does not require but only encourages the recognition of CiK and as the Working Group of Financial Controllers (WGFC) concluded that NATO reporting entities would not recognise CiK in their financial statements. This approach is stated in the Accounting Policy of the ACO consolidated financial statements. The Board appreciates the two IBAN's recommendations but considers that the broader political and military context for the disclosure of the information related to CiK warrants careful consideration. The Board therefore recommends addressing the IBAN recommendations in the framework of the NATO Accounting Framework (NAF) (reference C) review foreseen to take place after the NATO Financial Regulations review.

3.3. Observation 3: Between 2007 and 2009, the RPPB could not grant the full exceptional eligibility for non-eligible users and therefore the Investment Committee (IC) pre-financed projects for common infrastructure in support of non-eligible users subject to reimbursement (such as Communication and Information System (CIS) contractors and non-crisis establishment personnel). The IBAN found that, although tasked by both the RPPB and IC, since the implementation of the NSIP projects, Supreme Headquarters Allied Powers Europe (SHAPE) did not prepare and execute a reimbursement scheme to recover NSIP pre-financed costs (approximately EUR 13.7 million) for non-eligible users in

Afghanistan¹. Also, SHAPE did not develop an accounting policy to recognise and disclose a liability towards NSIP in its financial statements.

3.3.1. The ACO disagreed with the recommendation as SHAPE escalated several times its inability to take in charge the recovery responsibility due to the lack of the necessary information, visibility and control over the data to create a legitimate basis to initiate the recovery actions against non-eligible users. The Board invites SHAPE to provide this information on the disclosure note of the ACO consolidated financial statements. Moreover, the Board supports the second IBAN's recommendation that in close coordination with the IS-NOR and other relevant stakeholders, SHAPE informs the IC on the status of these pre-financed costs that have not yet been recovered and requests a formal decision on the action to be taken.

3.4. Observation 4: The IBAN found that some NSIP infrastructure assets were not recognised and disclosed as Property, Plant & Equipment (PP&E) in the ACO 2020 consolidated financial statements while they were reported as completed by the Host Nations.

3.4.1. The ACO did not concur with the IBAN's recommendation on the disclosure of assets as the runways of the national infrastructure upgrade project (NSIP serial 2018/5AF11146-00-NO – Extend Runway & Taxiway) were treated as national assets since 2018. Moreover, the assessment of the ten asset control criteria defined in the NAF allowed the ACO to conclude that the control of runways is not under NAEW. The ACO agreed with the need to improve the process to better capture NSIP-funded assets implemented by Territorial Host Nations. In its explanation, the IBAN reaffirmed that the NATO portion of all NAEW&CF projects covering other infrastructure such as taxiway, airfield lighting, buildings restorations, minor works on the airfields and equipment acquisition acquired or restored after 1 January 2013 should be capitalised. The Board supports the IBAN's recommendation for NAEW&CF to account and disclose as PP&E the NATO costs portion of NSIP infrastructure assets that were completed and in-service if in accordance with the assessed control criteria indicated in the NAF. Moreover, the Board invites ACO to work with all the stakeholders involved to implement a process to capture all NSIP infrastructure assets handed-over or upgraded by Host Nations.

3.5. Emphasis of Matter² on the financial statements: The IBAN draw attention to the amount of total commitments disclosed in the ACO financial statements that includes EUR 122 million of Special Carry Forwards (SCFW), which do not qualify as commitments according to the Article 25.6 of the NFRs (reference B). In addition, the IBAN draw attention to the non-disclosed information of contribution types such as CiK in the ACO financial statements.

¹ Kandahar Airfield (KAF) and Kabul International Airport (KAIA)

² Emphasis of Matter is used when the IBAN consider it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in its' judgement, is of such importance that it is fundamental to users' understanding of the financial statements.

3.5.1. The ACO contended that the disclosure note specifying detailed information on total commitments is indicated at Note H of the ACO financial statements and that IPSAS 23 merely encourages, but does not require, recognition and disclosure of CiK. However, the Board agrees with the IBAN on the need to disclose in the Budget Execution report the inclusion of SCFW and supports addressing the subject of CiK information as part of the NAF review.

3.6. Other Matter³ on the financial statements: The IBAN draw attention to the unavailability of estimates for the financial impact of the Allies' withdrawal from the RS mission.

3.7. Prior-year closed observations: Due to the ACO progress and termination of RS mission, the IBAN closed the ACO observations on; weaknesses in the Combined Joint Psychological Operations Task Force (CJPOTF); update of the funding arrangements and Memoranda of Understanding and; the signature of technical arrangements for the use of NATO funded equipment and infrastructure.

3.8. Prior year observations in-progress: Concerning the risks that arise with using NATO customer-funded agencies, the ACO should progress with its mitigation actions and develop an action plan to increase its ability to challenge the validity of information and solutions by the NATO Support and Procurement Agency (NSPA) for military goods and services and by the NATO Communications and Information Agency (NCIA) for CIS services. Additionally, although some progress has been made, further improvements are required in the area of risk management and internal control.

3.9. Prior year observations in-progress or open for more than three years: The Board is concerned regarding the qualified opinions and open observations especially those that have remained open for more than three years. In this respect, the Board invited the IS-NOR, in coordination with IBAN, to advise on whether further discussion with the management/governance of those entities or more focused Board recommendations to Council are necessary to accelerate actions on those outstanding items. The following paragraphs cover five in-progress observations.

3.9.1. For the 2014 financial year, the IBAN made an observation that the ACO confirms the outstanding year-end asset and liability balances it has with other NATO bodies as part of the preparation of the financial statements. The IBAN noted that the iterative process is in place and effective with certain other NATO reporting entities such as International Staff (IS), International Military Staff (IMS), Allied Command Transformation (ACT) and NATO Airborne Early Warning & Control Programme Management Agency (NAPMA). Receiving complete and accurate information especially from the NCIA and NSPA remains a challenge for the ACO because of the volume and complexity of transactions. The Board note the

³ Other Matter is used when the IBAN consider it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in its' judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

efforts and substantial improvements in the iterative review process; however, due to the longevity of this observation, the Board recommends that Council invites the ACO to provide a clear remedial action plan to the Council with deadlines on closure, submitted with the ACO's response on the IBAN audit of the 2021 financial statements.

3.9.2. During the 2015 audit, to better manage deployable assets and support to the NAEW, the IBAN recommended that the ACO develop a new comprehensive Logistic Support Agreement (LSA) with the NSPA. The IBAN noted that due to COVID-19 restrictions, the LSA has not progressed in 2020. With the signing of the MG2022 contract in late Q2/2021 NAEW&CF and NSPA will renew discussions on the LSA and the NSPA Management plan to find a workable solution. In order to close the pending observation, the Board recommends that Council invites the ACO to provide a clear remedial action plan to the Council with deadlines on closure, submitted with the ACO's response on the IBAN audit of the 2021 financial statements.

3.9.3. During the course of 2016 financial statements audit, the IBAN recommended ACO to establish a Memorandum of Agreement (MOA) with the NCIA and a Service Level Agreement (SLA) for the Kosovo Force (KFOR). The IBAN noted that ACO faced delays in the implementation of MOA and SLA due to outbreak of COVID-19 pandemic and restrictions implemented respectively as well as rotation of key personnel. Although steps towards the preparation of the MOA Service Support Package have been made and regardless of ongoing discussion process between KFOR, Allied Joint Force Command Naples and the NCIA, the Board recommends that Council invites the ACO to provide a clear remedial action plan to the Council with deadlines on closure, submitted with the ACO's response on the IBAN audit of the 2021 financial statements.

3.9.4. For the 2016 financial year, the IBAN recommended NAEW&CF to develop a plan for ensuring proper system administration of Programme Integrated Logistics System (PILS). The IBAN noted that the NAEW&CF initiated discussions in October 2020 with other divisions involved in the management of PILS in order to ensure proper administration. Feedback was received and additional comments from across the organisation have been provided to develop and implement a plan in 2021. In addition, the PILS System major upgrade was delayed to Q4/2021, for a variety of technical, functional and training reasons. The Board note the improvements ACO made in addressing this observation; however, in order to settle the pending observation, the Board recommends that Council invites the ACO to provide a clear remedial action plan to the Council with deadlines on closure, submitted with the ACO's response on the IBAN audit of the 2021 financial statements.

3.9.5. In 2016, the IBAN also recommended the ACO to enhance its compliance with the NFRs, particularly in the areas of internal control, risk management and internal audit. More specifically, the Board recommended the Council to ensure that the NFRs are aligned in respect to the level of flexibility allowed when carrying forward current year budget appropriations for goods and services that are expected to be rendered during the following financial year. The review of the NFR by the BC is scheduled to take place in 2022 for which the findings of this observation and other related observations will be considered.

CONCLUSIONS

4. The IBAN Audit Report set out unqualified opinions on the financial statements and on compliance of the ACO. No new observations impacted the audit opinion for the ACO in 2020. Four new observations were raised for the ACO. As of the date of the IBAN Audit Report a total of eight prior year observations for the ACO were in-progress and three prior year observations were closed.

5. In 2020, the IBAN identified that improvements were needed as regards the availability of estimated financial impact of RS mission withdrawal including setting out procedures for other on-going NATO missions, disclosure of NAEW&CF and AGS CiK as well as on the NSIP cost recovery from non-eligible users and NSIP infrastructure assets recognition and disclosure. The IBAN also draw attention to the SCFW that do not qualify as commitments. In addition, the IBAN draw attention to the non-disclosed information of contribution types such as CiK and to the unavailability of financial impact assessment of the RS mission withdrawal.

6. In this regard, the Board supports IBAN's recommendation that the ACO draft a financial impact assessment of the RS mission drawdown and set up procedures for other continuing missions. The Board feels that the disclosure of the information about NAEW&CF and AGS CiK in the ACO's financial records should be considered in the framework of the NAF review. The Board supports IBAN's recommendation for the SHAPE to disclose the liability of NSIP pre-finance costs and to disclose as PP&E the NATO portion of NSIP infrastructure assets that were completed and in-service, after having assessed the control criteria indicated in the NAF. The Board took note on the Emphasis of Matter and Other Matter emphasised in the IBAN Audit Report.

7. In respect of prior year observations, the Board upholds IBAN's recommendation that the ACO make improvements in the area of risk management and internal control, continue to verify and validate the information by NSPA and NCIA, and mitigate risks of operating with them.

8. With regards to prior year observations in-progress or open for more than three years, the Board recommends that the ACO ensure proper system administration of the key system in NAEW&CF, establish a MOA with NCIA, prepare the new logistic support agreements with NSPA and confirm outstanding assets and liability balances it has with other NATO reporting entities. In this respect, the Board recommends that Council invites the ACO to provide a remedial action plan to the Council with deadlines on closure, submitted with the ACO's response on the IBAN audit of the 2021 financial statements.

RECOMMENDATIONS

9. The Resource Policy and Planning Board recommend that the Council:
 - 9.1. note this report and the IBAN Audit Report at reference A;
 - 9.2. agree the conclusions at paragraphs 4 to 8;
 - 9.3. invite the ACO to provide an action plan to the Council with deadlines on the implementation of the outstanding recommendations, submitted with the ACO's response on the IBAN audit of the 2021 financial statements; and,
 - 9.4. agree to the public disclosure of the 2020 consolidated financial statements for the ACO, its associated IBAN Audit Report and this report in line with agreed policy at reference D.



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IBA-A(2021)0116
26 August 2021

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

Cc: NATO Permanent Representatives
Supreme Allied Commander Europe
Chief of Staff, Allied Command Operations
Financial Controller, Allied Command Operations
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 2020 – IBA-AR(2021)0030***

IBAN submits herewith its approved Audit Report with a Summary Note for distribution to the Council.

IBAN's report sets out an unqualified opinion on the Financial Statements of the Allied Command Operations and on compliance for financial year 2020.

Yours sincerely,

Daniela Morgante
Chair

Attachments: As stated above.

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IBA-AR(2021)0030

**Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Financial Statements of the
Allied Command Operations (ACO)
for the year ended 31 December 2020**

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 and tasks.

IBAN audited the ACO Consolidated Financial Statements (Financial Statements hereafter) for the year ended 31 December 2020. The total spent for ACO in 2020 (actuals plus commitments which include special carry forwards) against all Budget Committee (BC) funded budgets amounted to EUR 1.3 billion (EUR 1.2 billion in 2019). In addition to the execution of the BC budgets, ACO also incurred EUR 1 million (EUR 2.8 million in 2019) of NATO Security Investment Programme (NSIP) project expenditure.

IBAN issued an unqualified opinion on the financial statements and on compliance for the year ended 31 December 2020.

IBAN raised an Emphasis of Matter paragraph drawing attention to the Budget Execution Statements disclosed in the ACO Financial Statements and more specifically to the total commitments amount disclosed for EUR 290 million. This amount includes EUR 122 million of Special Carry Forwards which do not qualify as commitments according to Article 25.6 and the glossary of the NFRs.

IBAN also raised an Emphasis of Matter paragraph drawing attention to Note H to the ACO Financial Statements, which discloses that the NAEW&CF operations and support budget was funded at 28+2. This means that 28 Nations contributed financially and two Nations provided a significant contribution in kind in lieu of a financial contribution. This information is not disclosed in the Financial Statements.

In addition IBAN raised an Other Matter paragraph drawing attention to the decision of NATO Allies taken on 14 April 2021 to withdraw from the Resolute Support mission in Afghanistan by 1 May 2021, with plans to complete the drawdown of all troops within a few months. At the time of the audit, an estimate of the financial impact of the withdrawal was not available as financial data was not fully known or complete in order to ensure a reliable and accurate estimate. Our opinion is not modified in respect of these matters.

IBAN made four observations and recommendations. These findings are listed below and do not impact the audit opinion on the financial statements and on compliance:

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1. Estimated financial impact of Resolute Support mission withdrawal not available.
2. NAEW&C and AGS contribution in kind recognition and disclosure.
3. NSIP costs recovery from non-eligible users.
4. NSIP Infrastructure assets recognition and disclosure.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that three were closed and eight 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.

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IBA-AR(2021)0030

25 August 2021

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 2020

PUBLICLY DISCLOSED - PDN(2022)0017 - MIS EN LECTURE PUBLIQUE

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IBA-AR(2021)0030

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 Financial Statements of Allied Command Operations (ACO), for the 12 month period ended 31 December 2020, issued under document reference SH/FINAC/CAC/FC079-L/21, and submitted to IBAN on 31 March 2021. These Financial Statements comprise the Statement of Financial Position as at 31 December 2020, 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 2020, 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 2020.

In our opinion, the Financial Statements give a true and fair view of the financial position of ACO as at 31 December 2020, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2020, 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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IBA-AR(2021)0030

Emphasis of Matter on the Financial Statements

An Emphasis of Matter is used when we consider it necessary to draw users' attention to a matter presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements.

We draw attention to the Budget Execution Statements disclosed in 'Statement 5/1: ACO BC Budget Execution Report' of the ACO Financial Statements and more specifically to the total commitments amount disclosed for EUR 290 million. This amount includes EUR 122 million of Special Carry Forwards which do not qualify as commitments according to Article 25.6 and the glossary of the NFRs.

In addition, we draw attention to 'Table H.F - Reconciliation between ACO authorized Budgets and Calls in 2020' in Note 'H. MB BUDGET EXECUTION' to the ACO Financial Statements, which discloses that the NAEW&CF operations and support budget was funded at 28+2. This means that 28 Nations contributed financially and two Nations provided a contribution in kind in lieu of a financial contribution. This information is not disclosed in the Financial Statements.

Our opinion is not modified in respect of these matters.

Other Matter on the Financial Statements

An Other Matter is used when we consider 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.

We draw your attention to the decision of NATO Allies taken on 14 April 2021 to withdraw from the Resolute Support mission in Afghanistan by 1 May 2021, with plans to complete the drawdown of all troops within a few months. At the time of the audit, an estimate of the financial impact of the withdrawal was not available as financial data was not fully known or complete in order to ensure a reliable and accurate estimate.

We are not in a position to assess the potential liabilities and financial impact, as we have not received supporting evidence, especially regarding the completeness of provisions and contingent liabilities for such a significant operation. Our opinion is not modified in respect of this matter.

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

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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.
- 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.

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- 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.

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.

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IBA-AR(2021)0030

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, 25 August 2021



Daniela Morgante
Chair

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IBA-AR(2021)0030

OBSERVATIONS AND RECOMMENDATIONS

IBAN made four observations and recommendations. These observations do not impact the audit opinion on the financial statements and on compliance:

1. Estimated financial impact of Resolute Support mission withdrawal not available.
2. NAEW&C and AGS contribution in kind recognition and disclosure.
3. NSIP costs recovery from non-eligible users.
4. NSIP Infrastructure assets recognition and disclosure.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that three were closed and eight 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. ESTIMATED FINANCIAL IMPACT OF RESOLUTE SUPPORT MISSION WITHDRAWAL NOT AVAILABLE

Reasoning

1.1 The objective of preparing and issuing financial statements is to provide financial information about the reporting entity that is useful to Nations in making and evaluating decisions about the allocation of resources and for accountability purposes. Financial information must be relevant and faithfully represent what it purports to represent. The usefulness of financial information is enhanced if it is comparable, verifiable, timely and understandable.

1.2 Article 3.1 of the NATO Financial Regulations (NFRs) states that *"the Secretary General, the Supreme Commanders and the other Heads of NATO bodies are responsible and accountable for sound financial management and shall put in place the necessary governance arrangements to ensure and maintain this. This shall include, but is not limited to, 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."*

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1.3 According to the NATO Accounting Framework (more specifically IPSAS 14 Events after the Reporting Date), events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. IPSAS 14 therefore does not apply to events occurring after the date the financial statements are issued.

1.4 The International Standards of Supreme Audit Institutions (ISSAI) 2560 Subsequent Events states that *“Financial statements may be affected by certain events that occur after the date of the financial statements. Many financial reporting frameworks specifically refer to such events. Such financial reporting frameworks ordinarily identify two types of events:*

- (a) Those that provide evidence of conditions that existed at the date of the financial statements; and*
- (b) Those that provide evidence of conditions that arose after the date of the financial statements.”*

1.5 On 14 April 2021, NATO Allies decided to start withdrawing forces from the Resolute Support mission in Afghanistan by 1 May 2021, with plans to complete the drawdown of all troops within a few months. The withdrawal is therefore considered a discontinuation of the NATO operation from a financial reporting perspective.

Observations

1.6 The ACO 2020 Financial Statements were issued and submitted to IBAN for audit on 31 March 2021. The decision to withdraw from Afghanistan was made on 14 April 2021 and therefore after the date the financial statements were issued, but during the period of the audit.

1.7 Given the significant nature of the RS withdrawal, during the audit, IBAN requested ACO to prepare an analysis of the estimated financial impact of the RS drawdown by category of expenses. IBAN requested that this analysis include the estimated financial impact for categories such as penalties on terminated contracts or any other penalties that the Reporting Entities' third party contractors (or consultants) are entitled to claim, infrastructures and assets dismantling costs, sites decontamination costs, impact on the termination of NSIP projects in progress, personnel expenses and loss of job indemnities, etc.

1.8 ACO was not in a position to provide IBAN with a detailed analysis of the RS drawdown financial impact, as financial data was not fully known or complete in order to ensure a reliable and accurate estimate. At the time of the announcement, the organisation did not have accurate and auditable figures readily available. The process to identify potential liabilities and to estimate the financial impact only started after the announcement of the decision to withdraw from Afghanistan.

1.9 Considering that on-going NATO operations are by nature not permanent operations, IBAN found that ACO did not maintain on a continuous basis a financial

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record of the estimated impact of restructuring or closure of on-going operations, to be available in a cost effective and timely manner.

Recommendations

1.10 IBAN recommends that ACO:

- a) Finalise the analysis of the estimated financial impact of the RS withdrawal as soon as possible and inform all stakeholders thereof.
- 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.

2. NAEW&C AND AGS CONTRIBUTION IN KIND RECOGNITION AND DISCLOSURE

Reasoning

2.1 The two operational capabilities to which Allies have provided a Contribution in Kind (CiK) are NATO Airborne Early Warning & Control (NAEW&C) and Alliance Ground Surveillance (AGS). These capabilities are significant to Allied Command Operations (ACO).

2.2 For ACO, CiK agreements are right-to-use arrangements where two Nations provide to ACO the right to use their own national assets in lieu of contributing financially. CiK agreements differ from other arrangements in which the right to use an asset or resource is conveyed freely (that is, there is no consideration given), which is quite common in NATO, such as common premises, military staff resources and donated right-to-use agreements of National assets.

2.3 Presently, two Nations made agreements with the Supreme Allied Commander Europe (SACEUR), outlining the modalities for making contributions in kind available to the Alliance operations.

2.4 Regarding the NAEW&C capability, one CiK is provided as an integral part of the NAEW&C Force (NAEWCF) according to the Memorandum of Understanding (MoU) between the Nation and the NATO Commanders concerning the Integration of the Nation's Airborne Warning and Control System (AWACS) aircrafts into the NATO Airborne Early Warning Mixed Force dating 1 November 1989. The second CiK provided on a flying hour basis, relating to a Nation's AWACS aircrafts, is not an integral part of the NAEWCF.

2.5 In 2020 and since 1 January 2018, the NAEW&CF operations and support budget was funded at 28+2. This means that 28 Nations contributed financially and two Nations provided a contribution in kind in lieu of a financial contribution. ACO has

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information available on the provision of CiK for the last five years (measured in flying hours), including for 2020.

2.6 Regarding the AGS capability, the Memorandum of Understanding (MOU) for CiK to AGS between one Nation and SHAPE was formally signed by SHAPE on 8 September 2020. The AGS agreement between the other Nation and SHAPE was signed on 23 September 2013. The individual MOUs with these two Nations state that CiK is to be provided at the time AGS goes into operation and the number of flying hours provided is to be equivalent to the normal Military Budget cost share percentage. As at 31 December 2020, the AGS was still not fully into operation.

2.7 According to the NATO Accounting Framework (NAF), IPSAS 1, paragraph 27: *“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.”*

2.8 The NAF, IPSAS 1, Paragraph 29 states: *“In virtually all circumstances, a fair presentation is achieved by compliance with applicable IPSASs. A fair presentation also requires an entity to provide additional disclosures when compliance with the specific requirements in IPSASs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity’s financial position and financial performance.”*

2.9 Currently IPSAS 23 encourages, but does not require, recognition and disclosure of services in-kind. In addition, Paragraph 108 states that *“Entities are encouraged to disclose the nature and type of major classes of services in-kind received, including those not recognized. The extent to which an entity is dependent on a class of services in-kind will determine the disclosures it makes in respect of that class.”*

Observations

2.10 IBAN found that ACO did not recognise or disclose the two Nations’ CiK to the NAEW&CF in the ACO Financial Statements although they represent a significant contribution to the ACO budget and operations. The two Nations’ CiK are made in lieu of those Nations’ financial contributions to the NAEW&CF operations and support budget.

2.11 IBAN also found that ACO has not developed a specific accounting and financial reporting policy regarding contributions in kind. CiK to the ACO budget are in lieu of a financial contribution. They therefore differ from contributions in kind that require nothing in return. IBAN considers that a specific accounting and financial reporting policy is needed to reflect the specific nature of this type of contribution. IPSAS 23 encourages, but does not require, recognition of services in-kind mainly due to measurement impracticability reasons. However, IBAN considers that the

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impracticability of the measurement does not need to apply in this situation. This is because the two Nations' CiK should be equivalent to their respective Military Budget share percentage applied to the NAEW&CF operations and support budget. In addition, information on the provision of these two Nations' CiK to the NAEW&CF (measured in flying hours) is available for financial reporting purposes on an annual basis.

2.12 Therefore, IBAN considers that it is reasonable to apply IPSAS 23 provisions that permit to estimate and recognise these two Nations' CiK in the ACO Financial Statements. At minima, this information needs to be disclosed in the notes to the financial statements.

2.13 In addition, with the signing of CiK agreements related to the AGS operations and support, once in operation, ACO would also need to either recognise or disclose these contributions in kind in the financial statements. This further confirms the need to develop a specific accounting and financial reporting policy for this significant area.

Recommendations

2.14 IBAN recommends that ACO:

- a) Recognise or at minima disclose the two Nations' Contribution in Kind to the NAEW&CF and associated expenses in the ACO Financial Statements.
- b) Develop a specific accounting and financial reporting policy regarding Contribution in Kind agreements.

3. NSIP COSTS RECOVERY FROM NON-ELIGIBLE USERS

Reasoning

3.1 According to Article 3 of the NFRs on responsibility and accountability: *"The Secretary General, the Supreme Commanders and the other Heads of NATO bodies are responsible and accountable for sound financial management and shall put in place the necessary governance arrangements to ensure and maintain this. This shall include, but is not limited to, 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."*

3.2 According to Article 4 of the NFRs on Financial Management: *"The financial administration of NATO bodies must be based on clear delegations of authority and ensure the most cost efficient, cost effective and economic use of resources incorporating the following principles:*

- (a) propriety;
- (b) sound governance;

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- (c) *accountability;*
- (d) *transparency;*
- (e) *risk management and internal control;*
- (f) *internal audit.”*

3.3 According to the NATO Accounting Framework, IPSAS 1, Paragraph 7: *“Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.”*

3.4 Between 2007 and 2009, the Senior Resource Board (now the Resource, Policy and Planning Board (RPPB) granted exceptional eligibility and the Investment Committee (IC) authorised the pre-financing of projects for common infrastructure in support of non-eligible users (such as CIS contractors and non-crisis establishment personnel), in Kandahar and ISAF HQ. The pre-financing was agreed subject to reimbursement from third parties.

3.5 These pre-financed costs relate to living accommodation and CIS for non-eligible users in Kandahar Airfield (KAF) for approximately EUR 7.6 million and in Kabul Afghan International Airport (KAIA) for approximately EUR 6.1 million.

3.6 NSPA and NCIA were authorised as the Host Nations responsible for implementing the NSIP projects in theatre. The projects were fully implemented and, from a NSIP perspective fully technically and financially closed.

3.7 The Supreme Headquarters Allied Powers Europe (SHAPE) was tasked by the RPPB and IC to prepare and execute a reimbursement scheme to recover these NSIP pre-financed costs through a fee-for-use mechanism.

Observations

3.8 IBAN found that since the implementation of the NSIP projects that included a portion of pre-financed costs for non-eligible users in KAF and KAIA, SHAPE did not prepare and execute a reimbursement scheme to recover these pre-financed costs in order to reimburse NSIP as required by the RPPB and IC.

3.9 In light of the withdrawal of the Resolute Support (RS) mission, it is unlikely that SHAPE will be in a position to recover these pre-financed costs from the non-eligible users.

3.10 SHAPE is responsible and accountable for sound financial management and should have executed the decisions taken by the governing bodies to recover, from non-eligible users, these NSIP pre-financed costs. This situation does not comply with the provisions of Articles 3 and 4 of the NFRs on responsibility and accountability for sound financial management.

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3.11 In addition, and because of the situation described above, SHAPE did not develop an accounting policy in accordance with IPSAS 1 to recognise and disclose in its Statement of Financial Position a liability towards NSIP for up to EUR 13.7 million. This liability should have been compensated over time by an asset related to the recovery of these pre-financed costs from the non-eligible users. Therefore, liabilities disclosed in the 2020 ACO Statement of Financial Position are understated by up to EUR 13.7 million.

Recommendations

3.12 IBAN recommends that ACO:

- 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,
- 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.

4. NSIP INFRASTRUCTURE ASSETS RECOGNITION AND DISCLOSURE**Reasoning**

4.1 The North Atlantic Council approved on 8 June 1998 a Capability Package to provide and maintain Infrastructure facilities and equipment in support of NATO Airborne Early Warning Control Force (NAEW&CF). Since then, more than one hundred projects related to that capability have been or will be conducted by territorial Host Nations in their respective forward operating bases and locations.

4.2 A portion of the E-3A aircrafts are based at the NATO Main Operating Base (MOB), Geilenkirchen at any given time, with the remainder deployed to the Forward Operating Bases (FOBs) in Aktion, Greece; Trapani, Italy and Konya, Turkey and its forward operating location (FOL) at Oerland, Norway.

4.3 The Oerland Air Base, which is a FOL, can accommodate five E-3A aircrafts and dates back to World War II, when the runway was first established. A major refurbishment took place in 1983, and further restoration of the wearing surfaces were executed in 2003 and 2010 (costs were shared between NATO and Norway).

4.4 As per the NATO Accounting Framework (NAF) and the NATO accounting policy for Property, Plant and Equipment (PPE), on asset recognition:

- *“The moment of recognition of an item of PPE is when the end user of the NATO entity receives the item for NATO’s operational use.”*

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- *“Financial Information must be provided on a timely and regular basis and at the latest by the end of January of the next financial year to ensure proper asset management accounting and reliable financial reporting as required by the NATO Financial Regulations.”*
- *“When a territorial Host Nation constructs an asset the NATO entity is required to capitalise these assets once construction has been completed and the assets have been handed over. The NATO entity has to request the required financial information from the territorial Host Nation in order to be able to account for these assets in its Financial Statements. According to the NATO Property, Plant and Equipment Accounting Policy, in the case that not all required financial information is provided by the territorial Host Nation, the end-user is allowed to use estimates for the capitalisation of costs. Where it is not possible to breakdown the information provided by the Host Nation into specific asset categories, the NATO entity is allowed to group assets of a different nature or function into the most appropriate asset category.”*
- *“It is essential that all stakeholders involved in the requirements, acquisition and acceptance process provide the FC community with the required information, especially for the accounting treatment of PP&E assets funded through the NSIP.”*
- *“If the PPE is upgraded after 1 January 2013, only the portion related to the modification should be capitalized.”*

4.5 As per the accounting policies on PP&E disclosed in the 2020 ACO Financial Statements: *“Building and infrastructure facilities in use across the ACO static Commands have been analysed in light of the control criteria set forth by the NAF and the Garrison Support Agreements as well as the Host Nation Support Policy and Standards, the Base Support Concept and the NSIP regulations, to determine whether they are under the control of ACO or the HNs. Although the analysis highlighted that the HN, besides being the owners maintain also a certain level of control over the infrastructure, these buildings and infrastructure have been reported in the ACO FS even when for some criteria the control over the infrastructure has resulted to be either of ACO or shared between ACO and the HNs.”*

4.6 As per the 2020 ACO Financial Statements note on Inventory and PP&E prior to 2013: *“As specified in Note A (Assets) above the legal ownership of installations and facilities fixed to the ground belongs to the respective territorial Host Nations. However, due to the fact that ACO exercises a certain control over these assets they are reported in the ACO FS. The category of buildings mainly includes the facilities provided by the HNs to ensure the effective operation of the NATO installations as well as a variety of infrastructure made by concrete/brick and by metal and wood frame. They also include other facilities such as the access control posts at the entrance gates, warehouses, storage houses, garages, bunkers, electrical stations, etc. Although traced, the electrical systems, fire detection, transformers etc. which are part*

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of the infrastructure are not counted as separate assets from the infrastructure they serve.”

4.7 NAEW&CF applies the provisions of the NAF and ACO accounting policy on PP&E by consistently accounting for NSIP funded infrastructure assets as PP&E for each FOBs and FOL from 2013. In 2018 and following an incident in one of the FOBs, NAEW&CF reassessed its controls on the FOBs and FOL runways by applying the NAF control criteria. This reassessment led to the conclusion that the FOBs and FOL runways should no longer be considered as controlled and reported on the face of the ACO Financial Statements accordingly. The other FOBs and FOL infrastructure assets that are exclusively used by NAEW&CF such as dedicated taxiways, aprons, hangars, airfield lightings and buildings were still considered as controlled and reported on the face of the ACO Financial Statements.

4.8 In the past, IBAN found that NAEW&CF faced difficulties in receiving on a timely and regular basis financial information related to NSIP infrastructure assets that are available for use. Therefore, as and when this financial information was received, NAEW&CF later corrected and updated the NSIP Infrastructure assets prior year figures in the following year's Financial Statements.

4.9 Given the financial reporting risks regarding NSIP infrastructure assets, in addition to the review of the existing NSIP infrastructure assets financial valuation at year-end, IBAN performed a specific reconciliation procedure based on Common Funded Integrated Resources Information System (CIRIS) and the NAEW&CF asset register as at 31 December 2020 to ensure the completeness of NAEW&CF NSIP infrastructure assets reported as PP&E at year-end.

4.10 As at 31 December 2020, there are several ongoing NSIP infrastructure asset projects reported in CIRIS to provide and maintain NAEW&CF's infrastructure assets (runways, aprons, taxiways, buildings, etc.) for more than EUR 40 million.

Observations

4.11 IBAN found that some NSIP infrastructure assets for up to EUR 22 million were not recognised and disclosed as PP&E on the face of ACO 2020 Financial Statements while they were reported as completed by the Host Nations and are in-service since at least 2017. Those NSIP infrastructure assets are reported as handed-over and in service with actual expense information available in CIRIS.

4.12 The most significant NSIP infrastructure assets relate to the restoration and extension of the runway, taxiway and airfield lighting at Oerland FOL in support of the NAEW&CF for EUR 19.5 million. This NSIP infrastructure assets were reported by Norway as completed and in-service since September 2017 and, according to the Joint Formal Acceptance Inspection Report (JFAI), was inspected on site by the Supreme Command and the NATO Office of Resources (NOR) Staff in October 2017 at the time of the NAEW&CF Force Infrastructure Conference.

4.13 According to the NAF, since the infrastructure assets were acquired or restored after 1 January 2013, the NATO costs portion related to the restoration of the Oerland FOL taxiway and airfield lighting for up to EUR 19.5 million should have been capitalised. NAEW&CF was not in a position, during the course of the audit, to determine the actual costs related to the restoration of the Oerland FOL taxiway and airfield. In addition, some other NSIP Infrastructure projects in the MOB and FOBs related to buildings restorations, minor works on the airfields and equipment acquisition for approximately EUR 2.5 million should have been capitalised.

4.14 As a result, the PP&E disclosed in the 2020 ACO Statement of Financial Position are understated by up to EUR 22 million.

4.15 In addition, NAEW&CF was not in a position to provide information during the audit on the status of some other NSIP infrastructure projects for approximately EUR 4 million at other FOBs, and for which actual expenses reported in CIRIS are equivalent to the NSIP projects authorised funds as at 31 December 2020.

4.16 The above shows that the risk of material misstatement and incompleteness of PP&E at year-end is real and could reoccur in the future unless NAEW&CF implements a process to wholly capture, in a timely manner, all NSIP assets handed-over and information on the upgrade of in-service infrastructure assets through NAEW&C FOBs and FOL.

4.17 The information on the NSIP infrastructure projects' status is made available by the Host Nations to the NAEW&C Branch Infrastructure at least on an annual basis through the NAEW&C Force Annual Infrastructure Conference. In addition, NAEW&CF Infrastructure Liaison officers located at each FOBs and FOL are able to provide information on the status of NSIP infrastructure projects.

4.18 The stakeholders involved in the NSIP infrastructure assets requirements, acquisition and acceptance process should provide the NAEW&CF Branch Head Finance & Accounting with the required information to wholly capture, in a timely manner, the information related to NSIP assets handed-over or upgraded by Host Nation.

Recommendations

4.19 IBAN recommends NAEW&CF to :

- 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.
- b) Implement a process to wholly capture, in a timely manner, all NSIP infrastructure assets handed-over or upgraded.

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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 2019 IBA-AR(2020)0015, paragraph 1</p> <p>WEAKNESSES IN THE COMBINED JOINT PSYCHOLOGICAL OPERATIONS TASK FORCE (CJPOTF) CONTRACT AUTHORISATION AND MANAGEMENT IN RESOLUTE SUPPORT</p> <p>IBAN's Recommendation IBAN recommends that for the Radio and TV Broadcasting activities in Resolute Support, ACO should:</p> <ul style="list-style-type: none"> - Comply with proper deviation authority, specifically when contracts are amended to a higher value, - Ensure that each sole source deviation is properly justified as per the NFRs, FRPs and procurement rules and regulations, - Reinforce the certification process for the broadcasting services delivered to Resolute Support, by awarding the contracts to registered vendors in the vetting system, and preparing a guide to facilitate the determination of the prices of the services received. 	<p>IBAN did not found any cases of non-compliance related to deviation authority during the course of the audit. Observation Closed.</p> <p>IBAN did not find deficiencies related to the justification of sole sources deviations during the course of the audit. Observation Closed.</p> <p>CJPOTF has sought in 2020 to contract a media surveillance company. However, as a result of the COVID-19 pandemic, limited resources, and retrograde planning, a standalone monitoring contract was not executed. This sub-recommendation is closed as superseded by events due to the termination of the Resolute</p>	<p>Observation Closed.</p>

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OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
	Support mission. Observation Closed.	
<p>(2) 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 noted overall that ACO is still not in a position to correctly and properly assess and validate the validity of information and solutions provided by NCIA for CIS services and NSPA for military goods and services.</p> <p>The ACO Audit Advisory Panel (AAP) plan to focus in 2021 on ACOs intelligent customer role and its quality and control arrangements with NCIA and NSPA.</p> <p>IBAN noted that ACO continues to focus primarily on the definition of the requirement and the effectiveness of service delivery. During the build-in of the CIS requirements in March/April timeframe, new and/or changes to requirements are provided by the Agency presenting thus both ECIS and SSC for internal ACO pre-screening in April, followed by the Working Groups technical experts (WGNT) and NATO Office of Resources (NOR) screening for validation in May. Final Service rates are approved only by the end of June. It is also very difficult to challenge the need of the estimated effort to provide a service.</p> <p>Finally, NCIA submits more detailed SSC costs to the WGNT/NOR, which ACO has now requested to have when initial estimates are provided beginning of the year.</p> <p>SHAPE comments are provided for the Agency Customer Rates at</p>	Observation In-Progress.

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OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
	<p>the ASB and BC to challenge these rates. SHAPE FINAC also participates in the Quarterly Service Level Review meeting to review the Agency Financial Execution and has introduced the reporting of the planned procurement actions in excess of Level D.</p> <p>The ACO KQI WG was established to better define the KPIs and KQIs used by NCIA to measure and report and also to review them based on new customer "end to end" approach. Output of such review should allow further progress in the measurement of quality and performance of services provided by the Agency.</p> <p>Finally, ACO has developed a strategy for engagement with NCIA, currently under approval process at ACO leadership. The strategy develops the Lines of Engagement that aim at strengthening ACO's ability to act as an intelligent customer for NCIA services and to support formalization of ACO policies and procedures guiding and directing the CSLA and LSLA processes, the SHAPE stakeholders, and the NATO-wide (Senior) User community across the HQs and wider NATO environment.</p> <p>Furthermore, NAEW is still considering how to regulate the relationship between NCIA and the Force. Observation In-Progress.</p>	
<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. 	<p>IBAN noted that the work on the revised business case concerning the Contract Integrator, now renamed to the NSPA Planning and Liaison Team has been put on hold due to COVID-19 pandemic.</p> <p>The draft NAEW LSA with NSPA is aiming to address the issues</p>	

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<ul style="list-style-type: none"> - 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>raised by IBAN. For instance, several Key Performance Indicators have been put forward coupled with the ability to Audit NSPA Contractors by the NAEW&C Force Quality Management Branch even though under the supervision of the Agency plus other clauses introduced in the LSA draft to give the Force more oversight of the Agency's work as far as the support to the Force is concerned.</p> <p>Observation In-Progress.</p>	
<p>(3) 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 noted that ACO did not make progress to implement the recommendation in 2020. ACO continues to explore how to manage operational, financial and legal risks arising with using customer-funded NATO agencies. The ACO Audit Advisory Panel plan to put focus on this area and to provide a more comprehensive status update in 2021.</p> <p>Observation In-Progress.</p>	<p>Observation In-Progress.</p>
<p>(4) ACO FY 2017 IBA-AR(2018)0009, paragraph 4</p> <p>NEED TO UPDATE THE FUNDING ARRANGEMENTS AND MEMORANDA OF UNDERSTANDING (MOU) FOR 5 ESSENTIAL AIRFIELD SERVICES IN RS</p> <p>"The Board recommends SHAPE, in</p>	<p>IBAN noted that SHAPE did not</p>	<p>Observation Closed.</p>

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OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>coordination with JFCBS, take the necessary actions to:</p> <p>a) Update and align the Annexes of the MOUs and request Nations to update the Funding Arrangements for RS to better reflect the current situation and to clarify eligible expenses for the 5 essential airfield services.</p> <p>b) Consider to explicitly allow JFCBS some flexibility to determine the eligibility of requests from Framework Nations for services not specifically listed in the MOUs Annexes but that could be linked to the provision of 5 essential airfield services.</p> <p>c) Immediately update the MOU for Herat to ensure that a written agreement on the costs eligible for common funding is in place”.</p>	<p>update the MOUs in 2020. Following the decision to terminate the Resolute Support mission, ACO advised the Nations that the MOUs will terminate no later than 11 September 2021 or when Resolute Support mission operations discontinue on the respective airfields. Nations have been reminded by ACO that liabilities after the date of termination will not rest with NATO unless otherwise authorised by the appropriate authorities.</p> <p>As result, ACO is no longer in a position to update the funding arrangements and MOUs.</p>	
<p>(5) ACO FY 2017 IBA-AR(2018)0009, paragraph 5</p> <p>TECHNICAL ARRANGEMENTS FOR THE USE OF NATO FUNDED EQUIPMENT AND INFRASTRUCTURE WITH HKIA, MES AND HERAT NOT YET SIGNED</p> <p>The Board recommends ACO ensure that technical arrangements for the use of NATO assets are signed with each nation as soon as possible to ensure accountability throughout a clear distribution of roles and responsibilities</p>	<p>IBAN noted that due to the decision to terminate the Resolute Support mission, the Nations are being sent letters to advise them that the MOUs will terminate no later than 11 September 2021 or when Resolute Support mission discontinue on the respective airfields. As a result, ACO is no longer in a position to pursue the update of the TAs.</p> <p>The Framework Nations have also been reminded that liabilities after the date of termination will not rest with NATO, unless otherwise authorised by the appropriate authorities.</p> <p>With respect to the NATO Furnished Equipment/Information, ACO is working closely with the Framework Nations and NSPA to</p>	<p>Observation Closed.</p>

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OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
	ensure the current withdrawal is being conducted in accordance with the agreements.	
<p>(6) ACO FY 2017 IBA-AR(2018)0009, paragraph 8</p> <p>IMPROVEMENTS REQUIRED IN THE AREA OF RISK MANAGEMENT AND INTERNAL CONTROL</p> <p>The Board recommends that:</p> <p>a) ACO finalise as soon as possible on-going work of assessing and documenting the internal control and risk management procedures to support compliance with its internal control framework.</p> <p>b) Once recommendation a) is completed, ACO Internal Audit fully evaluates internal control and risk management throughout ACO, and that this work be clearly documented so as to be able to conclude as to ACO's compliance with the framework chosen.</p> <p>c) ACO, as a consolidating entity, engages with NAEW&CF and NAGSF to ensure that strategic risk management procedures are implemented in NAEW&CF and NAGSF and risks are captured and properly responded to.</p>	<p>IBAN noted that ACO established a functioning Internal Control Framework, including the release of the ACO Directive on Internal Control (AD 015-29), ACO Directive on Standards of Conduct (AD 040-07) and ACO Directive on Fraud Prevention, Detection and Investigation (AD 015-028). Observation Closed.</p> <p>IBAN noted that ACO Internal Audit did not fully evaluates the internal control and risk management throughout ACO in 2020. Observation In-Progress.</p> <p>IBAN noted that NAEW&CF and NAGSF strategic risk management procedures are still not fully implemented. NAGSF is still working on its Risk Management.</p> <p>NAEW&CF implemented a Risk Management system based on the ISO 31000 standard. Quarterly meetings are set up and high impact risks are discussed in accordance with the Risk Management Manual. Observation In-Progress.</p>	<p>Observation In-Progress.</p>

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OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>(7) ACO FY 2016 IBA-AR(2017)08, paragraph 2</p> <p>SOME PROGRESS MADE TO ACHIEVE COMPLIANCE WITH THE NATO FINANCIAL REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT</p> <p>Board's Recommendation</p> <p>The Board recommends that:</p> <p>c) Council ensures that the NFRs and FRPs are aligned in respect to the level of flexibility allowed when carrying forward current year budget credits for goods and services that are expected to be rendered during the following financial year, not the current financial year. For FMS cases, it should be determined whether, for budget purposes, adaptations to the NFRs are needed. This should be taken into account during the revised NFRs lessons learned exercise expected to be completed in 2017.</p>	<p>IBAN noted that the NFRs review has been postponed.</p>	<p>Observation In-Progress.</p>
<p>(8) 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 noted that the NAEW&CF initiated discussions in October 2020 with other divisions involved in the management of PILS in order to ensure proper administration. Feedback was received and additional comments from across the organisation have been provided to develop and implement a plan in 2021. In addition, the PILS System major upgrade was delayed to 2021/Q4, for a variety of technical, functional and training reasons.</p>	<p>Observation In-Progress.</p>

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OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>(9) 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 noted that ACO faced delays in the implementation of MOA and SLA with NCIA due to outbreak of COVID-19 pandemic and restrictions implemented respectively as well as rotation of key personnel.</p> <p>Steps towards the preparation of the MOA Service Support Package (SSP) have been made. There is an ongoing discussion process between KFOR, JFCNP and NCIA in order to identify the problematic areas.</p>	Observation In-Progress.
<p>(10) ACO FY 2015 IBA-AR(2016)09, paragraph 6</p> <p>NEED TO PREPARE NEW LOGISTIC SUPPORT AGREEMENTS WITH NSPA</p> <p>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 noted that due to COVID-19 restrictions, the Logistic Support Agreement (LSA) has not progressed in 2020. With the signing of the MG2022 contract in late Q2/2021 NAEW&CF and NSPA will renew discussions on the LSA and the NSPA Management plan to find a workable solution.</p> <p>It should be noted that the Basic Text agreements between SHAPE, NAPMA and NSPA (on NAEW&CF activities) provide the higher level of guidance, while the yearly NSPA LW Management Plan, which is now fully coordinated with the NAEW&CF prior to publication, provides the required detailed level of two-way guidance and control to satisfy the NATO Financial Regulations. Further investigation will be undertaken to incorporate the draft LSA into the NSPA</p>	Observation In-Progress.

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OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
	management plan to ensure NFR regulations are followed and that there is no duplication of work.	
<p>(11) ACO FY 2013 IBA-AR(2014)20, paragraph 5</p> <p>CONFIRMATION OF YEAR-END ASSETS AND LIABILITIES OUTSTANDING BETWEEN NATO ENTITIES SHOULD BE PERFORMED</p> <p>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 noted that the iterative process is in place and effective with certain other NATO Reporting Entities such as IS, IMS, ACT, and NAPMA.</p> <p>Coordination with NCIA has been made in 2020 and a new monthly report was developed to improve the synchronisation of data.</p> <p>Meetings with NSPA were scheduled, but finally could not take place due to the COVID-19 pandemic.</p>	Observation In-Progress.

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ALLIED COMMAND OPERATIONS (ACO) FORMAL COMMENTS ON THE AUDIT REPORT AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS***ACO's General Comment applicable to the Draft Report and all recommendations***

ACO continuously tracks the status of all IBAN Audit Report recommendations and provides details on their status to the Audit Advisory Panel (AAP) and to the Budget Committee (BC), when required.

ACO would like to have the opportunity to comment on the 'Emphasis of Matter' indicated in the Draft IBAN Audit Report.

1) While it is factual that in the Statement of Budget Execution Report of the ACO Consolidated FS, the column of total commitment include the amount authorised as Special Carry Forward; it is to be noted that this is in line with the official layout; it is in line with the approach in use by the other NMAs; moreover, as the ACO FS is an overall package, disclosure note indicating breakdown and detailed information are indicated at Note H.

2) While it is factual that the contribution in kind are not disclosed, it is to be noted that the IPSAS 23 encourages, but does not require, recognition and disclosure of service in kind. This was the approach in use so far discussed in details and agreed at the level of the Working Group of Financial Controller (WGFC) and the NATO Office of Resources (NOR). ACO is willing to reopen the discussion related to this topic considering the relevance highlighted by the Board.

IBAN's Position

Regarding point 1, IBAN acknowledges that Note H of the Financial Statements includes detailed information regarding Special Carry Forwards. However the recommended common layout structure of the financial statements developed and agreed by the Financial Controller community (AC/335-N(2015)0088) does not specify how Special Carry Forwards should be presented in the statement of budget execution report. IBAN considers that information regarding the inclusion of Special Carry Forwards of uncommitted funds in the column of total commitments in the Statement of Budget Execution Report is fundamental to users' understanding of the financial statements, considering the definition of commitments according to Article 25.6 and the glossary of the NFRs.

Regarding point 2, IBAN acknowledges that IPSAS 23 encourages, but does not require, recognition and disclosure of service in kind. Nevertheless, as the two Nations' Contribution in Kind to the NAEW&CF provided in lieu of a significant budgetary contribution were not recognised or at minima sufficiently disclosed in the Financial Statements, IBAN therefore draws users' attention to this matter as it is fundamental to their understanding of the financial statements.

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**OBSERVATION 1:
ESTIMATED FINANCIAL IMPACT OF RESOLUTE SUPPORT MISSION
WITHDRAWAL NOT AVAILABLE**

ACO's Formal Comments

Partially agreed.

ACO is committed to providing Stakeholders/Nations information regarding the financial impact of the RSM withdrawal.

While ACO absolutely agrees such data is important for stakeholders, it doesn't assess this is relevant for the audit of the 2020 Financial Statements. The decision to withdraw from Afghanistan was made on 14 April 2021, after the 31 March, annual date indicated in the NFRs/FRPs for the submission of the official Financial Statements to the IBAN.

The assessment of the RSM withdrawal is on-going and a first, initial analysis was provided to the Nations as part of the first Budget Execution Report (BER) in May 2021. The same financial information was provided to the IBAN team after their site visit in the week of 31 May 2021. Additional updates to the Budget Committee were provided on the 7 and 15 July to augment the presentation of the first BER.

An analysis involving the entire NATO Stakeholders to assess the future in Afghanistan is on-going as well. It is to be noted that the RSM drawdown is a major event for all of NATO (not only ACO).

It is not a simple closure, like it was performed in the past for other NATO Commands. There are several uncertainties and implications that NATO is experiencing and assessing. The overall decision-making process is still on-going.

ACO is committed to transparency and is working hand in hand with the operations staff at all levels to obtain the most current information possible and assess the financial impacts. Operations particularly in a country with diminished security state such as Afghanistan are uncertain and ACO role in the post Resolute Support Mission concept is still being finalized.

This is a new construct that is challenging former resourcing principles resulting in the financial impacts that remain uncertain. ACO will continue to collect, review and assess any further reliable and relevant information and report it to all Stakeholders. Moreover, the closure of the mission and its financial impacts will be duly reflected in the 2021 FS.

Specifically, in relation to recommendation b, ACO objects to this recommendation as it would not be cost effective and provide sufficient value

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to the organization and stakeholders to have staff to maintain such estimates and records for all operations. ACO as an organization is not, nor should it be, resourced to maintain such records. Even if such work was attempted, the provision of such estimates would likely be irrelevant, uncertain and even misleading.

IBAN's Position

According to Article 35 of the NFRs, an annual financial statement shall be submitted for audit to IBAN no later than 31 March following the end of the financial year. This Article also states that the IBAN audit report, together with the associated financial statements, shall be finally noted or approved by the Council not later than 31 December. IBAN therefore considers that, depending on their importance and impact, appropriate disclosure of subsequent events based on a comprehensive analysis also applies until the date of final notation or approval of the financial statements by Council.

Regarding sub-recommendation b), for operations that may be ended at short notice, IBAN considers that procedures need to be established in order to provide an overview of the probable financial impact of closure on at least an annual basis.

IBAN therefore maintains this observation and recommendation.

OBSERVATION 2:**NAEW&C AND AGS CONTRIBUTION IN KIND RECOGNITION AND DISCLOSURE****ACO's Formal Comments**

Not agreed.

The IPSAS Standard 23 does not require the recognition of services in-kind. This is mainly due to the many uncertainties surrounding services in-kind, including the ability to exercise control over the services, and measuring the fair value of the services.

During the analysis and preparation of the NATO Accounting Framework (prior to 2013 and later in 2016), an in-depth analysis of the various IPSAS standards was performed by the NATO IPSAS Working Group (AWG), via the Working Group of Financial Controllers (WGFC) and coordinated by the RPPB Chair and the NOR. At that time, several examples of service-in kind were analysed and assessed. One example was the use of service from Military personnel/VNC, but not only. The topic was discussed in details and based on the feedback received, it was agreed that all NATO would not recognize service-in-kind in the official Financial Statements.

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This approach is stated in the Accounting Policy of the ACO Consolidated Financial Statements and it was also applied for the service in kind provided by two Nations to the NAEW&CF and managed as such in all the previous audited annual ACO Consolidated Financial Statements.

With regards to recent Committees decision related to this topic, the Budget Committee Guidance for FY 2020 (BC-D (2019)0037-REV1 (INV)) did not include any instruction to account for or report about contribution in kind for either NAEW or AGS. The issue came to the attention of the Nations following the submission of the UK AGS contribution in kind MOU. At the approval of this document (BC-D(2020)0023 (INV)), the Nations instructed ACO to include the forecast of the projected contribution in kind within the annual AGS budget estimates and report annually on execution (see BC-DS(2020)0011 (INV)). The BC guidance for the production of the 2021 budget estimates (BC-D (2020)0055-REV1) makes reference to BC-DS (2020)0011 and asks for the forecasted contribution in kind in the budget estimates. It also states that ACO will report annually on the execution, in coordination with the concerned Nations.

However, even if the UK AGS contribution in kind MOU developed a method to calculate the contribution in kind obligation of the UK to AGS and reporting mechanism, and that similar mechanism could be used for other contribution in kind to AGS and NAEW, it is to be considered that the issue is currently stalled by political debates.

Therefore, ACO is in the process to consider in the next set of the ACO Consolidated Financial Statements to provide a disclosure note related to the contribution in kind currently provided to NAEW. However, any further development on financial reporting policy regarding contribution in kind will be assessed with the relevant Committees prior to any development and implementation.

IBAN's Position

As stated in the IBAN Position on ACO's General Comments above, IBAN acknowledges that IPSAS 23 encourages, but does not require, recognition and disclosure of service in kind.

Nevertheless, as the two Nations' Contribution in Kind to the NAEW&CF are provided in lieu of a significant budgetary contribution, IBAN believes that recognising or at minima disclosing such contributions in kind is fundamental to users' understanding of the financial statements, regarding these important contributions. IBAN therefore maintains its observation and recommendation.

**OBSERVATION 3:
NSIP COSTS RECOVERY FROM NON-ELIGIBLE USERS**

ACO's Formal Comments

Not agreed.

Background:

Further to the exceptional eligibility for NSIP granted by the former RPPB (SRB), SHAPE was tasked to prepare and execute a reimbursement scheme to recover investment accommodation costs pre-financed by NSIP for the projects indicated at AC/4(PP)N(2011)0064.

With the exception of two projects (2006/5VA30399; 2009/5VA30534), SHAPE escalated several times (Ref SHSPT/FIA/CAC/AAM/FC47/12 dated 27 Jan. 2012 until the final assessment done with the NATO Office of Resources and IBAN in 2019) the inability to take in charge the recovery responsibility, due to the lack of the necessary information, visibility, control over the data, or staff to create a legitimate basis to initiate the recovery actions against non-eligible users. It was highlighted in each communication that the majority of the projects were under Activity 4, CIS for Kandahar Airfield, and relate to the recovering of the costs from non-eligible CIS infrastructure users at KAF. The Host Nation for all these projects was the former NC3A agency and equipment was handed over to former NCSA upon completion of the projects.

The Host Nation (HN) was best suited to track, execute and report results of any costs recovery action related to CIS equipment life expectancy, operations and maintenance, including service level agreements. In the past JFCBS Financial Controller raised the same objections and concerns for the cost-recovery of CIS infrastructure users at KAF recommending the former NCSA be responsible for the recovery of the costs. This official letter was addressed to the former NCSA Financial Controller for action and copied to the NOR.

During these years, each exchange of documentation and requests were submitted to the IBAN team responsible for the financial audit of the annual ACO Consolidated Financial Statements.

In conclusion, it is to be highlighted that:

- SHAPE is not the HN for the projects indicated. SHAPE did not pre-finance the costs related to the projects and was never indicated as the entity responsible for that.*
- The amount related to the recoveries indicated by the IBAN (EUR 13.7 million) is different compared to the previous amount reported by the NOR (EUR 5,045,252 and EUR 7,819,058 for a total of EUR 12,864,310);*

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clarification of the amount has been sought from the NOR.

- The ACO Consolidated Financial Statements are audited on an annual basis by the IBAN. During all these years, in depth analysis, assessment and reconciliation were performed including the JFAI and COFFA of the two projects for which SHAPE successfully managed the billing/recovery mechanism.

- SHAPE requested once again to the NOR the status of the request made years ago.

Their feedback is a key element to assess the way ahead.

IBAN's Position

IBAN did not conduct in 2019 or at any time an assessment of NSIP costs recoverable by SHAPE from non-eligible users regarding these specific projects.

Although SHAPE was tasked by the RPPB and IC to prepare and execute a reimbursement scheme to recover these NSIP pre-financed costs through a fee-for-use mechanism, SHAPE did not collect these fees. IBAN therefore maintains its observation and recommendation.

OBSERVATION 4:**NSIP INFRASTRUCTURE ASSETS RECOGNITION AND DISCLOSURE****ACO's Formal Comments**

Not agreed.

ACO/SHAPE does not concur with the recommendation a) and concurs with the recommendation b).

a) The main project referred to in this recommendation (NSIP serial 2018/5AF11146-00-NO – Extend Runway & Taxiway), with an estimated value of 19.5MEur, is related to an upgrade of an existing nationally controlled infrastructure asset. The runways in the FOBs/FOL are all considered national assets since 2018, when a control reassessment of the FOBs/FOL runways was made. The assessment of the substance over form, completed by the assessment of the 10 asset control criteria defined in the NATO Accounting Framework clearly allowed concluding that the control of the runway is not under NAEW. As such, they are not reported in the NAEW Fixed Asset Register, neither in the ACO Consolidated Financial Statements (not counted/reported in the notes to the ACO FS 2020). As the main asset (FOL runway) was not reported by ACO as it is not considered under NAEW control, the extension is not to be capitalised either.

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SHAPE and NAEW will continue to regularly reassess the control of assets, and recognise them in the ACO Financial Statements when control is established

b) ACO concur with the need to improve the process to better capture NSIP funded assets implemented by Territorial Host Nation (HN). The COVID-19 pandemic and the cancellation of the last 2 NAEW&C Force Infrastructure Conferences implied that few assets have not been timely captured and reported.

The difficulty of collecting systematically and timely NSIP related information from Territorial HN was already identified by ACO and a proposal to systematically capture this information was made.

A change request to update CIRIS was discussed and submitted to the NOR in 2020. ACO identified the need to capture the user/customer of the NSIP project, and to have an additional step in CIRIS to force the HN to record when the HOTO takes place. In this way, ACO could retrieve via a report the list of assets handed over to ACO during a given timeframe. With this information, ACO could liaise with the HN to request financial information in order to recognise the assets (in case the control by ACO is confirmed).

IBAN's Position

IBAN acknowledges that the runways in the FOBs/FOL are treated as national assets since 2018 and the costs of associated extensions are not capitalised accordingly. However, this restoration project at Oerland FOL in support of the NAEW&CF also included the NATO costs portion of the taxiway and airfield lighting, which do not form part of the runways and need to be capitalised in accordance with ACO's accounting policy. IBAN therefore maintains its observation and recommendation.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(1) ACO 2019 FY

IBA-AR(2020)0015, paragraph 1

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

ACO's Formal Comments

Not agreed.

ACO proposes to close also the 3rd item/recommendation as PSYOPS closed

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officially the 12th of July, and it is overcome by the events due to the retrograde and termination of the RSM.

IBAN's Position

IBAN considers that this recommendation is closed as superseded by events due to the termination of the Resolute Support mission. The implementation status of this recommendation is updated in the final version of the Audit Report.

(2) 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.

ACO acknowledges the summary of IBANs and provide further assessment for some sections:

Paragraph A:

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

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

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

SHAPE comments are provided for the Agency Customer Rates at the ASB

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and BC to challenge these rates. SHAPE FINAC also participates in the Quarterly Service Level Review meeting to review the Agency Financial Execution and has introduced the reporting of the planned procurement actions in excess of Level D.

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

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

Furthermore, NAEW finalized a Service Support Agreement with NCIA in December 2020.

Paragraph B:

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

Due to COVID-19 restrictions, the NAEW Logistic Support Agreement (LSA) has not progressed in 2020. With the signing of the MG2022 contract in late Q2/2021 NAEW&CF and NSPA will renew discussions on the LSA and the NSPA Management plan to find a workable solution.

It should be noted that the Basic Text agreements between SHAPE, NAPMA and NSPA (on NAEW&CF activities) provide the higher level of guidance, while the yearly NSPA LW Management Plan, which is now fully coordinated with the NAEW&CF prior to publication, provides the required detailed level of two-way guidance and control to satisfy the NATO Financial Regulations. Further investigation will be undertaken to incorporate the draft LSA into the NSPA management plan to ensure NFR regulations are followed and that there is no duplication of work.

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(3) 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.

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

The current SLAs have a "soft" and limited mechanism to resolve any disputes in case major disruptions affecting service continuity and litigations arising from external contractors services.

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

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

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

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

Regarding the FFP, changes with regard to non- or partially rendered services

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were proposed at the Finance CAB end of 2019; however these were not incorporated in the 2020 and 2021 SLAs, with the only exception of the training delivery at NCI Academy: POs are released quarterly and offset in the next quarter according to the actual courses and seats. This topic will be further discussed at the next Finance CABs. This detailed information will allow ACO to have a consistent approach in the FFP model and will be able to adjust PO and related payments when services will not be rendered.

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

In preparation of the 2022 SLA, ACO FINAC is currently working with NCIA Financial Department to clarify/agree on changes related to the financial management.

(4) ACO 2017 FY

IBA-AR(2018)0009, paragraph 4

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

ACO's Formal Comments

Agreed.

(5) ACO 2017 FY

IBA-AR(2018)0009, paragraph 5

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

ACO's Formal Comments

Agreed.

(6) 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.

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ACO is pleased that IBAN recognised the efforts made to manage the observation reported at item a) and assessed as closed. The Internal Control Concept which defines the key stakeholders, key documents in ACO Internal Control and the ACO Internal Control Environment was approved in 2019. The Internal Control Concept contributes to a common understanding of Internal Control among ACO staff. The new ACO Directive on Internal Control (AD 015-029), which is a complete rewrite of ACO Directive 080-108 on Internal Control Framework in ACO (dated 22 August 2017), was prepared based on the approved Internal Control Concept. The new directive (AD 015-029) which was issued 28 January 2021 is applicable to all ACO headquarters and units. It describes the framework and provides guidance on operating Internal Control across ACO including requirements, methodology, approaches, procedures, key roles & responsibilities and timelines associated with the ACO Internal Control Framework. The new components of the directive are the Certification process, the Internal Control Focal Points (ICFPs) and the clear definition of roles and responsibilities in the RACI matrix (Responsible, Accountable, Coordinated and Informed) with applicable timelines.

The new key vehicle to deliver the ACO Statement of Internal Control (ACO SIC) is the Yearly Certification Process with the help of the ICFPs. To ease the implementation of the first cycle of the Yearly Certification Process, COS SHAPE Order No. 178: 2021 Internal Control Certification Process and the designation of the Internal Control Focal Points was issued on 13 July 2021. COS SHAPE Order No. 178 provides details of the Certification Process (including content, timelines and examples). All stakeholders are to adopt a 'learning by doing approach' with the aim of progressively improving the products over a number of yearly cycles. The Audit Advisory Panel in its role as assurance provider on the effectiveness of the internal control system provides input to the Statement of Internal Control. The 2021 ACO SIC will be the first fully evidence based ACO SIC including certificates from all divisions/directorates ACO wide.

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

The aim is to finalise the latter directive in the 2021 fall. The AD 60-100 will further detail the Financial and Acquisition Internal Control Framework.

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

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aims to help management better understand the management of risks through improved visibility and transparency of assurance activities.

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

Below the progress related to item b) and c):

Item B:

ACO Strategic Management System: a root-and-branch revision of the ACO Strategic Management System was conducted in 2019 and 2020. Key deliverables of this revision include:

- a. SACEUR's ACO Strategic Management Plan (ASMP) 2021-2025, dated 04 December 2020,*
- b. the new ACO Directive 015-027 ACO Strategic Management System, dated 17 February 2020,*
- c. a quarterly, ACO-wide risk and issue update battle rhythm, administered by the ACO Management Board (AMB) Secretariat, involving the 16 HQs participating to the AMB and all Directorates and Divisions within SHAPE,*
- d. new consolidated Strategic Management reports for the AMB encompassing the Command's performance status and risk and issue profiles briefed by the AMB Secretary as a standing agenda item,*
- e. regular strategic management profiling engagements by the AMB Secretariat with AMB members encompassing the maturity of areas' risk and issue profiles,*
- f. new standardised Strategic Management briefing templates for members of the AMB covering areas' top risks and issues,*
- g. supporting products including an ACO Risk Management User Guide, ACO Risk Management Information Pamphlet, and ACO Risk Management Induction Video, and*
- h. a new version of the ACO Strategic Management Database including a new ACO Risk Register and ACO Issue Log.*

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

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Item C:

NAEW/NAGSF

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

NAGSF has been slow to progress risk management activities, as the focus has been on setting up operations. With the start of flying operations, the Force is also looking more closely at risk management in general and documenting some of those processes. The intent is to combine the efforts to develop an overall risk management strategy.

(7) ACO 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 in Principle.

ACO reiterates its position on this observation and recommendation.

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

The update of the NATO Accounting Framework (NAF) that was scheduled to take place in June 2020 has been delayed due to COVID 19.

Additional work will be performed in the months to come in coordination with the Head of Financial Reporting and Policy (HFRP) and the WGFC.

An update of the schedule was provided by the NOR, and the NFR/FRP review is now postponed to 2022.

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

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(8) ACO 2016 FY**IBA-AR(2017)08, paragraph 3****OPERATION OF KEY SYSTEM IN NAEW&CF NOT ENSURED*****ACO's Formal Comments****Agreed.**It is to be noted that the PILS System major upgrade was delayed to 2021/Q4, for a variety of technical, functional and training reasons.**However, NAEW&CF still plan to develop and implement a plan in 2021 to ensure proper administration based on discussions held with divisions involved in the management of PILS.***(9) ACO 2016 FY****IBA-AR(2017)08, paragraph 5****NO MEMORANDUM OF AGREEMENT (MOA) IN PLACE WITH NCIA*****ACO's Formal Comments****Agreed.**ACO acknowledges the summary of IBANs and has also elaborated on some sections further:**There is still no signed MOA between ACO and NCIA. The development of agreements requires both parties to agree to put in place the agreements prescribed in FRP XXVII, ACO cannot unilaterally establish agreements.**With regard to KFOR:*

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

(10) ACO 2015 FY**IBA-AR(2016)09, paragraph 6****NEED TO PREPARE NEW LOGISTIC SUPPORT AGREEMENTS WITH NSPA*****ACO's Formal Comments****Agreed.*

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As previously indicated, due to COVID-19 restrictions, the NAEW Logistic Support Agreement (LSA) has not progressed in 2020. With the signing of the MG2022 contract in late Q2/2021 NAEW&CF and NSPA will renew discussions on the LSA and the NSPA Management plan to find a workable solution.

It should be noted that the Basic Text agreements between SHAPE, NAPMA and NSPA (on NAEW&CF activities) provide the higher level of guidance, while the yearly NSPA LW Management Plan, which is now fully coordinated with the NAEW&CF prior to publication, provides the required detailed level of two-way guidance and control to satisfy the NATO Financial Regulations. Further investigation will be undertaken to incorporate the draft LSA into the NSPA management plan to ensure NFR regulations are followed and that there is no duplication of work.

(11) 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.

ACO continues to invest substantial efforts in the iterative review process of all outstanding Account Payable, Account Receivable, Advances and Purchase Orders with the other NATO entities. These efforts and the iterative process in place certainly improved the situation. However, receiving complete and accurate information remains a challenge, especially considering the difficulties NCIA is facing with their ERP.

The current iterative process works well with some non-consolidated entities such as IS, IMS, ACT, and NAPMA. However, due to the volume and complexity of transactions conducted with some agencies, additional efforts are being made to complete/improve this process with NCIA and NSPA. Meetings with NSPA were scheduled, but finally could not take place due to the COVID-19 pandemic.

Coordination with NCIA has been made in 2020 and a new monthly report was developed to improve the synchronisation of data.

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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

2020

PUBLICLY DISCLOSED - PDN(2022)0017 - MIS EN LECTURE PUBLIQUE



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CERTIFICATION OF THE 2020 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 2020 ACO Consolidated Financial Statements including the Statement of Internal Control.
2. The ACO Financial Controller is required by the NFRs/ Financial Rules and Procedures (FRPs) to maintain accounting records and to prepare annual financial statements. To lay the foundation 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 controls 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. The impact of the COVID-19 pandemic has proven challenging in all areas, including ACO's financial operations reflected in these Financial Statements. The pandemic has also highlighted a number of deficiencies and limitations to provide continuity of services in a timely manner. The lack of appropriate CIS support at the working level, has been expressed and has impacted financial and procurement services proportionately. Notwithstanding, Finance and Acquisition Directorate (FINAC) made every effort to ensure continuity of services whilst maintaining, to the maximum extent practicable, the internal controls in place through the Financial Management System to strengthen the cascading certification process from subordinate reporting entities to the corporate level. Assurance mapping, internal control self-assessments and regular remote communication with subordinate entities ensured that, despite cancellation of Staff Assistance and Oversight visits, training courses, seminars and conferences, controls and standards were maintained. The pandemic also impacted recruitment, rotation of staff and reporting timelines which FINAC had to overcome through the dedication of the staff.
4. The ACO Corporate Accounting and Control Branch Head, responsible for the entire process of the ACO Consolidated Financial Statements, provided reasonable assurance to the ACO Financial Controller that the ACO Consolidated accounts present fairly, in all material aspects, the financial position, and the results of the operations, the cash-flow and the notes of the ACO entity. This is, in spite of the pandemic challenges, due to the well-established finance and accounting processes and the level of expertise of key positions at corporate and decentralised level.

RESPONSIBILITY

5. The attached unaudited fiscal year 2020 ACO Consolidated Financial Statements for the period starting 01 January 2020 and ending 31 December 2020 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 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.

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- 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 2020.



Mr Danny Hovaere
A/Financial Controller
Allied Command Operations



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

STATEMENT OF INTERNAL CONTROL 2020

I. Scope of Responsibility

The Supreme Allied Commander Europe (SACEUR), is responsible and accountable for maintaining a sound system of Internal Control providing reasonable assurance regarding the delivery of the tasks and other agreed objectives mandated by Nations.

The ACO Financial Controller (FC) supports SACEUR with respect to the administration of a system of financial Internal Controls that supports the ACO mission. He is also responsible for the adherence to the principles of sound financial management of the financial resources entrusted to ACO, in accordance with the responsibilities assigned in the NATO Financial Regulations (NFRs).

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

The policies and procedures adopted by the management for the proper execution of all functional activities constitute the ACO Internal Control System. The Internal Control System, a vital part of the management system, supports the achievement of the organisation's objectives, improves the effectiveness of its performance, facilitates the effective mitigation of risks, and reduces the frequency of mistakes as well as the probability of fraud, corruption and mismanagement.

While the SACEUR and the FC have specific responsibilities in relation to Internal Control, all ACO staff have a responsibility for complying with Internal Controls in place. No matter how well designed and operated, Internal Control cannot provide absolute assurance. Factors outside the control or influence of management (like natural or man-made disaster, honest mistakes, collusion, judgement errors, etc.) can affect ACO's ability to achieve all of its goals.

As ACO is neither a legal entity nor a juridical organisation, the Statement of Internal Control cannot be construed as superseding any existing agreements or organisational norms, or otherwise creating any legal effect.

III. Key Elements of ACO's Internal Control System**ACO Strategic Management System**

In 2020, the Command made significant progress in maturing the ACO Strategic Management (ASM) System. With the release of ACO Directive (AD) 015-027 ACO Strategic Management System in February 2020 and the ACO Strategic Management Plan (ASMP) 2021-2025 in December 2020 a robust foundation has been established to enhance the Command's ability to develop and adapt in accordance with guidance by the North Atlantic Council.

In light of the new ASMP 2021-2025, the ACO Management Board in November 2020, through its Chairperson, SHAPE Chief of Staff, stressed the requirement to base its proceedings, discussions and decisions on evidence-based strategic management information, specifically relating to the Command's performance status and risk/issue profile.

In order to facilitate the implementation of ACO's Strategic Management Cycle supporting ASM documents have been released, including the ASM Glossary, ASM Information Leaflets, and

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ASM User Guides on 'ACO Strategic Objectives and Initiatives Setting' and 'ACO Risk Management', and new ASM tools have been developed, such as the ASM Database containing the ACO Risk Register and Issue Log.

Notwithstanding the constraints imposed by the COVID-19 pandemic in 2020, numerous engagements across the ASM community took place enhancing staffs' strategic management knowledge, skills and competencies as well as collating the community's feedback and lessons identified throughout the year.

In conclusion, the progress made in maturing the ASM System throughout 2020 has substantially improved the Command's ability to assure Nations that ACO will continue to efficiently and effectively innovate and evolve. The Command aims to build on this success and mature the operating capability of the ASM System further in 2021

Additional Elements of ACO's Internal Control System

Key Boards

At the strategic level the ACO Management Board is the principal executive body for implementing command-wide strategic management on behalf of SACEUR. It endorses the ACO Strategic Management Plan, prioritises ACO objectives and monitors their status, endorses and prioritises associated risk response and issue resolution activities, provides respective Direction and Guidance and decides about the balancing and distribution of resources.

At the strategic level the ACO Audit Advisory Panel is responsible for monitoring the effectiveness of ACO's Internal Control, Internal Audit and Risk Management. The Audit Advisory Panel provides assurance over ACO reporting processes, reviews the findings of financial and non-financial compliance and performance audits and endorses the yearly Statement of Internal Control. The Audit Advisory Panel presents its findings and serves in an expert advisory capacity to SACEUR and the ACO Management Board.

At operational and tactical levels a HQ Management Board provides advice to the HQ Command Group and makes decisions on issues relating to the planning and management of HQ activities.

Key Documents

In recent years ACO has updated its policy regarding Internal Control along with other directives that compliment Internal Control processes.

Recently updated key documents include: the Internal Control Concept, the ACO Directive on Internal Control (AD 015-29), ACO Directive on Standards of Conduct (AD 040-07) and ACO Directive on Fraud Prevention, Detection and Investigation (AD 015-028).

IV. Review of Effectiveness

ACO Audit Advisory Panel (AAP) Contribution to the 2020 Statement of Internal Control

The Panel members' assurance assessment is based on briefings provided to them during the AAP meetings and their ensuing discussions and deliberations during those meetings.

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Internal Control (IC) Framework: Panel members appreciate the initial progress achieved with the establishment of a functioning IC Framework, including the release of the ACO IC Directive (AD 015-29) which introduces the Annual HQ Chiefs of Staff IC Declaration Statements. However, Panel members continue to have some reservations as to whether the existing Internal Control Officer capability within ACO (limited both in workforce and function) can actually provide the level of assurance and risk management that the Nations expect.

ACOs Intelligent Customer Role and Quality and Control Arrangements with NCIA: The NCIA Local Service Level Agreements (LSLAs) between ACO HQs and NCIA are designed to meet HQ users' CIS service requirements and to assure proper end-to-end service delivery. An audit conducted by ACO Internal Audit in 2020 on the SHAPE LSLA could only provide 'minimal assurance' of the design and effectiveness of the governance framework and control environment supporting the Agreement. Panel members note that a number of remedial actions will be implemented by SHAPE in the coming years. This particular area of concern, combined with the need to focus on the ACO Centralised Service Level Agreement with NCIA, will be the primary areas of interest to the Panel during 2021.

Fraud and Corruption: Given the significant financial, operational and reputational risks of fraud and corruption, Panel members welcome the fact that ACO has been proactive in developing and promulgating the ACO Directive on Fraud Prevention, Detection and Investigation (AD 015-028) and the ACO Directive on Standards of Conduct (AD 040-007). However, Panel members advise that the promulgation of those directives alone will achieve only limited results to address fraud issues. Therefore the Panel will closely monitor the implementation of those directives including the establishment and resourcing of the appropriate fraud prevention, detection and response mechanisms; and making those new directives known through trainings and awareness campaigns provided to all ACO staff.

ACO Personal Data Protection: A 2020 internal audit of the control framework to manage risks related to Personal Data Protection (PDP) resulted only in a 'limited assurance' assessment despite ACO being one of the leading forces within NATO in PDP. In 2020 ACO appeared to be under resourced in this issue and consequently not fully prepared to handle possible legal fallout. Therefore, Panel members welcome that the ACO PDP capability and the ACO Data Protection Office will be further developed in 2021 due to the approval of the PDP Project Initiation Document in 2020 and to the addition of qualified and experienced workforce in 2021.

Impact of COVID-19: The design and implementation of the SHAPE control environment supporting the COVID-19 regeneration plan was audited by ACO Internal Audit and found to be managed effectively. The crisis provided SHAPE with an excellent test of its preparedness for such events together with its business continuity responses but this inevitably exposed a number of gaps. Significant lessons were learned and this will better position SHAPE to react with more agility and efficiency in the future. One of the biggest challenges was, and remains, the efficiency impairment created by the numerous significant IT limitations.

ACO-Wide Internal Audit (AIA) Conclusion on 2020 Audit Work

The systems of internal control in operation were effective in parts but with significant weaknesses identified in some areas resulting in unacceptable risk exposures.

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AIA identified problems associated with oversight mechanisms, the use of risk management as an effective tool, the availability and utility of management information, and with managing NCIA service delivery. The COVID crisis exposed the need for improvements in, and use made of, certain ACO/SHAPE policies and procedures such as business continuity management, business plans, risk management, teleworking, knowledge management and classification of material. Management have committed to actions towards reducing these risks.

At SHAPE corporate level, AIA noted a willingness to develop a more mature corporate control framework with supporting systems of internal control and AIA observed positive evolution in important initiatives such as the ACO strategic management plan, proposed improvements in the risk management process, development of an approach to fraud and in business continuity management.

The challenge remains one of matching limited resources to the level of ambition within these initiatives in order to communicate, educate, support and gather feedback across the wider ACO community. Audits identified the need for risk based judgments to more widely drive the allocation of resources and activity prioritisation at all levels. This will inevitably develop a stronger culture of governance, risk management and internal control throughout ACO

ACO Financial Controller Assessment/ Contribution

Acquisition Management (AQM) The level of internal control, risk management and fraud awareness in the ACO Acquisition community remains an important feature of ensuring compliance and performance. COVID has impacted internal controls such as the ability to conduct Staff Assistance visits and to provide training. Any perceived practices counter to procurement directives, processes, and ethics were handled immediately, therefore, no known major procurement concerns or negative acquisition trends exist. The challenge of overcoming procurement professional understaffing and, in some instances, assignments of military lacking the required skills remains. The pandemic introduced a number of risks with potential impact to ACO operations: dialogue with our contractors based on the general terms of "Force Majeure" to ensure ACO only pays for services and products received and the impact of COVID-19 restrictions on industry support to ACO's existing operations and missions.

Budget and Policy (BUP) The BUP "Internal Control Framework" provides a guide to the Internal Control (IC) of budget activities. It ensures that SACEUR and the ACO Financial Controller (FC) have confidence in the truthfulness and reliability of budgetary information. In 2020, BUP issued the IC self-assessment matrix, and consolidated responses from subordinate commands and programmers into an ACO-wide, bottom-up assessment of the Internal Controls. The replies provide reasonable assurance that sufficient guidance on IC is provided by BUP and that the controls in place guarantee the truthfulness and reliability of the budget planning, execution, and reporting processes. The ACO Internal Audit Branch audit in 2020 also provided substantial assurance that the Management and Execution of HQ Military Budgets is working effectively. Areas of improvement were identified in both the self-assessment and the audit report, including the role of and training for Fund Managers (FMs), and the role of the Budget Officers in the Medium-Term Resource Planning Process. Actions are in progress to address these observations including the review of guidance documents and the development of a multi-disciplinary training for FMs.

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Finance and Accounting Management The ACO finance and accounting business processes, including General Ledger, Accounts Payable, Accounts Receivable, Cash Management, Assets accounting and Financial Reporting were streamlined in past years, centralising activities where benefits and synergies could be achieved and effective controls implemented. The controls include automated mechanisms such as approval flows, procedures, segregation of duties, ACO-wide centralised controls such as the monthly reconciliations and financial data analysis packages, a bi-annual financial reconciliation process with NATO non-ACO entities, the annual interim closure, and the specific controls performed during the annual closure and preparation of the consolidated financial statements. The annual financial closure is performed with an annually updated end of year guidance including specific checklists and certifications.

Internal Financial Internal Control Office (IFCO) A control self-assessment report was received from NCIA confirming that IT controls within the Financial Management System are implemented. An assurance mapping process based on the *Three Lines model* is implemented at SHAPE FINAC and confirms the overall assurance on the level of IC as well as provides an evidence based assessment on the areas under the ACO FINCON's responsibility. The ACO FINAC IC Framework directive planned to be released in 2021 should extend the use of the assurance mapping to ACO FINAC and establish an annual risk assessment.

Areas of Concern

Major Litigation ongoing initiated by the Supreme Group against JFCBS and SHAPE for payments and damages that had allegedly arisen under the Basic Order Agreements for the supply of fuel to the ISAF Troop Contributing Nations. The dispute has not entered the merits phase yet, because it is still stalled in order to rule on SHAPE's immunity from jurisdiction.

The volume of the claimed amount is around 198MUSD, and the Supreme Group has reserved the right to increase the claimed amount up to 250MUSD.

Morale and Welfare Activities (MWA) The Internal Control framework for MWA at SHAPE has been developed and implemented. During the first months of 2020, the Internal Control measures were applied and their functioning confirmed. Thereafter, due to COVID-19, MWA operations were disrupted; some activities were suspended entirely. The implication of these events was that the application of Internal Controls, were effectively suspended for the rest of the year; there were either no activities to subject to Internal Control, or there were no staff to do it. The conclusion is that, the Internal Control system works for the normal operations, but the majority of the year required different control activities due to the unique circumstances related to COVID-19. The SHAPE MWA has experienced a very challenging business situation which adversely affected financial performance leading to a substantial operational deficit. Should the COVID-19 situation continue with a similar impact on performance, such deficits will be unsustainable and potentially jeopardise the existence of the MWA programme.

Information Technology Modernisation (ITM) delays

Key new capabilities programmed in the areas of Functional Area Services, Core Services, Communication Services, and CIS Security have suffered significantly and are not delivering as expected.

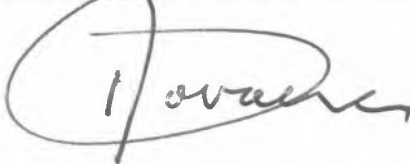
This area is continuously facing challenges with the updates in introduction of new capabilities, resulting in higher annual Operating and Maintenance costs associated with the requirement of dual operations, while transitioning from the "legacy" Bi-SC AIS services into the new technology. It is clear that failure in timely delivery of these capabilities adversely affects

operational effectiveness.

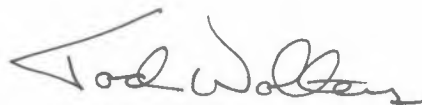
Contractual issues, in the context of the ITM project currently under implementation with NCIA as the Host Nation, will make the project suffer a series of delays, and it is now unlikely to deliver a capability before the end of 2021, resulting in adjournments to the IT Modernisation and ITM Mitigation projects. It is therefore important to note that because of the ITM delay in 2020, no service towards ITM was provided as expected, this will result in uncertainties with the actual implementation of the Recovery, Remediation and Mitigation Plans currently under development.

V. Overall Assessment/Conclusion

ACO continues to mature and strengthen systems of Risk Management and Internal Control to reflect best practices and promote a culture of proactive Risk Management amongst all our personnel. While COVID-19 restrictions in 2020 led to many challenges including a delay implementing some initiatives to improve Internal Control, overall progress was made. We will therefore continue to ensure that the necessary internal management functions are in place to support effective Internal Control and provide reasonable assurance that assets are properly safeguarded, that established managerial and command policies are adhered to, that the Command operates in an efficient manner, that a system of internal financial and budgetary controls are in place which embrace all aspects of financial management for appropriated and non-appropriated funds within our jurisdiction, and that the accuracy and reliability of accounting data and records are verified.



Danny Hovaere
A/ACO Financial Controller
Allied Command Operations



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

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STATEMENT 1: ACO CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(I)

As at 31 December 2020

in EUR

Notes

2020

Restated

2019 (II)

2019

ASSETS

Current Assets

Cash and Cash Equivalents	B.1	922,439,037	1,060,299,840	1,060,299,840
Short Term Investments	B.2	932,885,474	763,389,492	763,389,492
Receivables	B.3	180,115,356	202,146,953	202,146,953
Prepayments	B.4	9,293,311	22,331,215	23,353,798
Other Current Assets	B.5	969,214	2,341,513	2,341,513
Inventories	B.6	42,917,335	41,318,176	41,318,176

Total Current Assets

2,088,619,727 2,091,827,189 2,092,849,772

Non-current Assets

Receivables	B.7	1,034,023	1,022,584	-
Property, Plant & Equipment	B.8	639,663,035	645,146,860	642,778,123
Other Non-current Assets	B.9	8,032,988	8,782,931	8,782,931

Total Non-current Assets

648,730,046 654,952,374 651,561,054

Total ASSETS

2,737,349,773 2,746,779,563 2,744,410,826

LIABILITIES

Current Liabilities

Payables (III)	B.10	(283,956,187)	(385,501,077)	(385,501,077)
Deferred Revenue	B.11	(1,534,927,127)	(1,482,032,050)	(1,482,032,050)
Advances	B.12	(343,271,633)	(280,269,207)	(280,269,207)
Short Term Provisions	B.13	(393,447)	(303,151)	(303,151)

Total Current Liabilities

(2,162,548,394) (2,148,105,485) (2,148,105,485)

Non-current Liabilities

Long Term Provisions	B.14	(10,274,853)	(11,084,312)	(11,084,312)
Non-current Deferred Revenue	B.15	(564,526,526)	(587,589,766)	(585,221,029)

Total Non-current Liabilities

(574,801,379) (598,674,078) (596,305,341)

Total LIABILITIES

(2,737,349,773) (2,746,779,563) (2,744,410,826)

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 2020

STATEMENT 2: ACO CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

(I)

For the year ended 31 December 2020
in EUR

	Notes	2020	Restated 2019 (II)	2019
Revenue				
Revenue		(1,062,432,189)	(1,054,556,763)	(1,054,550,949)
Other Revenue		(2,580,592)	(2,517,373)	(2,517,373)
Financial Revenue		(3,374,237)	(578,846)	(578,846)
Total to be returned to the Nations	C.18	3,562,226	1,198,996	1,198,996
Total Revenue	C.16	(1,064,824,792)	(1,056,453,986)	(1,056,448,172)
Expenses				
Personnel		206,881,080	195,379,602	195,379,602
Contractual Supplies and Services		767,458,744	769,426,145	769,533,415
Foreign Military Sales (FMS) (III)		23,248,961	17,134,640	17,134,640
Depreciation and Amortization		65,579,283	72,095,856	71,982,772
Other Expenses		687	4,072	4,072
Financial Costs		1,656,037	2,413,672	2,413,672
Total Expenses	C.17	1,064,824,792	1,056,453,986	1,056,448,172
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 2020

STATEMENT 3: ACO CONSOLIDATED STATEMENT OF CASH FLOWS

(I)

As at 31 December 2020
in EURRestated
2019 (II)

2020

2019

CASH FLOWS FROM OPERATING ACTIVITIES

Result of the year	-	-	-
Non-cash movements			
Depreciation	65,579,283	72,095,856	71,982,772
Increase (Decrease) in payables	(101,547,045)	85,358,438	85,358,438
Increase (Decrease) in other current liabilities	98,410,539	190,335,036	190,335,037
Increase (Decrease) in other non-current liabilities	(809,459)	593,056	593,056
Increase (Decrease) in current deferred revenue for PP&E	17,579,416	1,787,021	1,787,021
Increase (Decrease) in non-current deferred revenue for PP&E	(23,063,240)	71,449,033	69,080,295
(III) Property, plant and equipment, from other funding	(44,669,341)	(132,844,783)	(130,470,231)
(Increase) Decrease in other current assets	14,410,203	(3,280,011)	(4,302,594)
(Increase) Decrease in other non-current assets	738,502	(1,934,853)	(912,270)
(Increase) Decrease in receivables	22,031,598	(73,829,873)	(73,829,873)
(Increase) Decrease in Inventories	(1,599,159)	(1,145,711)	(1,145,711)
Net cash flows from operating activities	47,061,296	208,583,210	208,475,940

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property, plant and equipment and AuC	(15,426,118)	(12,487,127)	(12,379,857)
Proceeds from sale of plant and equipment	-	-	-
Proceeds from sale of investments	-	-	-
Short term investment	(169,495,981)	(229,885,932)	(229,885,932)
Net cash flows from investing activities	(184,922,099)	(242,373,059)	(242,265,789)

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

	(137,860,803)	(33,789,849)	(33,789,849)
Cash and cash equivalents at beginning of period	1,060,299,840	1,094,089,689	1,094,089,689
Cash and cash equivalents at end of period	922,439,037	1,060,299,840	1,060,299,840
Net increase/(decrease) in cash and cash equivalents	(137,860,803)	(33,789,849)	(33,789,849)

(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 2020

STATEMENT 4: ACO CONSOLIDATED STATEMENT OF CHANGES IN NET EQUITY*For the year ended 31 December 2020*

<i>in EUR</i>	<i>Notes</i>	<i>2020</i>	<i>Restated 2019</i>	<i>2019</i>
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 2020

STATEMENT 5/1: ACO BC BUDGET EXECUTION REPORT

(Note H)

ACO Consolidated Financial Statements 2020

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	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments	Expenses	Total spent	Carry-forward	Lapsed
2020 NCSEP												
	555,880,058	-	555,880,058	-	555,880,058	-	555,880,058	63,030,121	458,969,820	521,999,941	63,030,121	33,880,118
Budget 101 SHAPE	75,601,076	-	75,601,076	-	75,601,076	-	75,601,076	2,039,967	67,181,573	69,221,540	2,039,967	6,379,536
Budget 103 JFC HQ BRUNSSUM	24,352,050	-	24,352,050	-	24,352,050	-	24,352,050	548,004	23,796,069	24,344,073	548,004	7,977
Budget 104 JFC HQ NAPLES	28,058,108	-	28,058,108	-	28,058,108	-	28,058,108	179,963	26,466,349	26,646,312	179,963	1,411,796
Budget 105 HQ AIRCOM RAMSTEIN	22,467,374	-	22,467,374	-	22,467,374	-	22,467,374	915,499	17,988,505	18,904,005	915,499	3,563,369
Budget 111 HQ LANDCOM IZMIR	10,620,258	-	10,620,258	-	10,620,258	-	10,620,258	316,952	7,418,368	7,735,320	316,952	2,884,938
Budget 118 HQ MARCOM NORTHWOOD	10,197,881	-	10,197,881	-	10,197,881	-	10,197,881	255,494	9,651,957	9,907,450	255,494	290,431
Budget 131 HQ DEPLOYABLE ASSETS	10,446,523	-	10,446,523	-	10,446,523	-	10,446,523	352,946	9,920,204	10,273,150	352,946	173,373
Budget 157 ACO Exercises and Training	16,826,000	-	16,826,000	-	16,826,000	-	16,826,000	5,703,973	7,022,203	12,726,175	5,703,973	4,099,825
Budget 164 AIR DEFENCE (GROUND)	29,233,086	-	29,233,086	788,000	30,021,086	987,250	31,008,336	5,690,166	24,808,818	30,498,984	5,690,166	509,352
Budget 166 ACCS Support	98,450,620	-	98,450,620	(788,000)	97,662,620	(987,250)	96,675,370	38,855,881	54,506,164	93,362,045	38,855,881	3,313,325
Budget 177 NCCB	187,644,450	-	187,644,450	-	187,644,450	140,000	187,784,450	6,657,237	176,343,462	183,000,699	6,657,237	4,783,751
Budget 178 NATO CIS GROUP (NCISG)	37,482,632	-	37,482,632	-	37,482,632	(140,000)	37,342,632	1,514,039	32,917,934	34,431,973	1,514,039	2,910,659
Budget 502 OUTREACH PROGRAMMES (ACO)	4,500,000	-	4,500,000	-	4,500,000	-	4,500,000	-	948,214	948,214	-	3,551,786
2020 NCS-ADAPTATION												
	25,664,209	-	25,664,209	-	25,664,209	-	25,664,209	4,639,870	14,468,830	19,108,700	4,639,870	6,555,509
Budget 124 NCS-ADAPTATION (ACO)	25,664,209	-	25,664,209	-	25,664,209	-	25,664,209	4,639,870	14,468,830	19,108,700	4,639,870	6,555,509
2020 AGS												
	75,892,163	-	75,892,163	-	75,892,163	-	75,892,163	47,651,179	20,323,375	67,974,554	47,651,179	7,917,609
Budget 167 AGS O&S	75,892,163	-	75,892,163	-	75,892,163	-	75,892,163	47,651,179	20,323,375	67,974,554	47,651,179	7,917,609
2020 AGS												
	3,087,253	-	3,087,253	-	3,087,253	-	3,087,253	-	3,066,481	3,066,481	-	20,772
Budget 168 AGS CIS	3,087,253	-	3,087,253	-	3,087,253	-	3,087,253	-	3,066,481	3,066,481	-	20,772
2020 NAEW												
	172,823,771	-	172,823,771	-	172,823,771	-	172,823,771	14,364,251	140,933,400	155,297,651	14,364,251	17,526,120
Budget 163 NAEW&CF EMPLOYMENT	172,823,771	-	172,823,771	-	172,823,771	-	172,823,771	14,364,251	140,933,400	155,297,651	14,364,251	17,526,120
2020 NAEW												
	108,176,229	-	108,176,229	-	108,176,229	-	108,176,229	35,004,145	72,774,812	107,778,957	35,004,145	397,272
Budget 162 NAEW&CF PROVISIONING	108,176,229	-	108,176,229	-	108,176,229	-	108,176,229	35,004,145	72,774,812	107,778,957	35,004,145	397,272
2020 AOM												
	277,907,813	-	277,907,813	-	277,907,813	-	277,907,813	23,235,885	253,013,611	276,249,496	23,235,885	1,658,317
Budget 183 Balkans Operations	23,140,256	-	23,140,256	-	23,140,256	-	23,140,256	1,144,523	21,208,945	22,353,468	1,144,523	786,788
Budget 187 NATO Support to the African Union	442,295	-	442,295	-	442,295	-	442,295	-	309,087	309,087	-	133,208
Budget 189 Operation SEA GUARDIAN	279,150	-	279,150	-	279,150	-	279,150	13,261	214,619	227,879	13,261	51,270
Budget 194 RESOLUTE SUPPORT	234,209,319	-	234,209,319	-	234,209,319	-	234,209,319	13,402,269	220,807,049	234,209,318	13,402,269	-
Budget 195 NMI	19,836,793	-	19,836,793	-	19,836,793	-	19,836,793	8,675,832	10,473,911	19,149,743	8,675,832	687,050
Total 2020	1,219,431,496	-	1,219,431,496	-	1,219,431,496	-	1,219,431,496	187,925,451	963,550,328	1,151,475,780	187,925,451	67,955,717

EUR

	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments	Expenses	Total spent	Carry-forward	Lapsed
2019 NCSEP												
	12,272,738	-	12,272,738	-	12,272,738	-	12,272,738	959,874	10,253,722	11,213,596	959,874	1,059,142
Budget 101 SHAPE	1,742,008	-	1,742,008	-	1,742,008	-	1,742,008	187,259	1,368,042	1,555,302	187,259	186,706
Budget 103 JFC HQ BRUNSSUM	560,925	-	560,925	-	560,925	-	560,925	-	501,889	501,889	-	59,036
Budget 104 JFC HQ NAPLES	127,130	-	127,130	-	127,130	-	127,130	587	107,047	107,634	587	19,497
Budget 105 HQ AIRCOM RAMSTEIN	446,346	-	446,346	-	446,346	-	446,346	1,908	353,168	355,076	1,908	91,271
Budget 111 HQ LANDCOM IZMIR	75,293	-	75,293	-	75,293	-	75,293	15,995	31,133	47,128	15,995	28,165
Budget 118 HQ MARCOM NORTHWOOD	47,760	-	47,760	-	47,760	-	47,760	-	30,101	30,101	-	17,659
Budget 131 HQ DEPLOYABLE ASSETS	5,112	-	5,112	-	5,112	-	5,112	-	-	-	-	5,112
Budget 164 AIR DEFENCE (GROUND)	4,757,916	-	4,757,916	-	4,757,916	-	4,757,916	172,117	4,233,844	4,405,960	172,117	351,955
Budget 166 ACCS Support	812,805	-	812,805	-	812,805	-	812,805	448,320	327,986	776,305	448,320	36,500
Budget 177 NCCB	2,003,644	-	2,003,644	-	2,003,644	-	2,003,644	132,154	1,870,771	2,002,924	132,154	720
Budget 178 NATO CIS GROUP (NCISG)	1,680,839	-	1,680,839	-	1,680,839	-	1,680,839	1,535	1,428,258	1,429,793	1,535	251,045
Budget 502 OUTREACH PROGRAMMES (ACO)	12,960	-	12,960	-	12,960	-	12,960	-	1,483	1,483	-	11,477
2019 NCS-ADAPTATION												
	9,266,192	-	9,266,192	-	9,266,192	-	9,266,192	2,463,155	4,422,646	6,885,801	2,463,155	2,380,391
Budget 124 NCS-ADAPTATION (ACO)	9,266,192	-	9,266,192	-	9,266,192	-	9,266,192	2,463,155	4,422,646	6,885,801	2,463,155	2,380,391
2019 AGS												
	15,134,288	-	15,134,288	-	15,134,288	-	15,134,288	8,806,195	6,192,819	14,999,014	8,806,195	135,274
Budget 167 AGS O&S	15,134,288	-	15,134,288	-	15,134,288	-	15,134,288	8,806,195	6,192,819	14,999,014	8,806,195	135,274
2019 NAEW												
	12,719,824	-	12,719,824	-	12,719,824	-	12,719,824	3,033,485	9,271,251	12,304,736	3,033,485	415,087
Budget 163 NAEW&CF EMPLOYMENT	12,719,824	-	12,719,824	-	12,719,824	-	12,719,824	3,033,485	9,271,251	12,304,736	3,033,485	415,087
2019 NAEW												
	31,165,381	-	31,165,381	-	31,165,381	-	31,165,381	9,735,857	20,994,064	30,729,920	9,735,857	435,461
Budget 162 NAEW&CF PROVISIONING	31,165,381	-	31,165,381	-	31,165,381	-	31,165,381	9,735,857	20,994,064	30,729,920	9,735,857	435,461
2019 AOM												
	13,170,783	-	13,170,783	-	13,170,783	-	13,170,783	7,947,546	5,112,089	13,059,634	7,947,546	111,149
Budget 183 Balkans Operations	764,052	-	764,052	-	764,052	-	764,052	487,242	227,113	714,355	487,242	49,697
Budget 187 NATO Support to the African Union	1,571	-	1,571	-	1,571	-	1,571	1,509	-	1,509	1,509	63
Budget 189 Operation SEA GUARDIAN	607	-	607	-	607	-	607	-	347	347	-	260
Budget 194 RESOLUTE SUPPORT	12,251,534	-	12,251,534	-	12,251,534	-	12,251,534	7,362,640	4,838,656	12,201,296	7,362,640	50,238
Budget 195 NMI	153,019	-	153,019	-	153,019	-	153,019	96,155	45,973	142,128	96,155	10,891
Total 2019	93,729,206	-	93,729,206	-	93,729,206	-	93,729,206	32,946,112	56,246,590	89,192,702	32,946,112	4,536,504

EUR

	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments	Expenses	Total spent	Carry-forward	Lapsed
2018 NCSEP												
	2,199,813	-	2,199,813	-	2,199,813	-	2,199,813	-	1,985,236	1,985,236	-	214,577
Budget 101 SHAPE	7,164	-	7,164	-	7,164	-	7,164	-	-	-	-	7,164
Budget 104 JFC HQ NAPLES	810	-	810	-	810	-	810	-	596	596	-	214
Budget 105 HQ AIRCOM RAMSTEIN	87	-	87	-	87	-	87	-	55	55	-	31
Budget 164 AIR DEFENCE (GROUND)	1,040,896	-	1,040,896	-	1,040,896	-	1,040,896	-	1,007,595	1,007,595	-	33,301
Budget 166 ACCS Support	908,156	-	908,156	-	908,156	-	908,156	-	883,289	883,289	-	24,867
Budget 178 NATO CIS GROUP (NCISG)	242,700	-	242,700	-	242,700	-	242,700	-	93,700	93,700	-	149,000
2018 AGS												
	5,393,518	-	5,393,518	-	5,393,518	-	5,393,518	5,123,132	268,359	5,391,491	5,123,132	2,027
Budget 167 AGS O&S	5,393,518	-	5,393,518	-	5,393,518	-	5,393,518	5,123,132	268,359	5,391,491	5,123,132	2,027
2018 NAEW												
	2,338,340	-	2,338,340	-	2,338,340	-	2,338,340	-	1,296,637	1,296,637	-	1,041,704
Budget 163 NAEW&CF EMPLOYMENT	2,338,340	-	2,338,340	-	2,338,340	-	2,338,340	-	1,296,637	1,296,637	-	1,041,704
2018 NAEW												
	9,827,347	-	9,827,347	-	9,827,347	-	9,827,347	-	7,436,196	7,436,196	-	2,391,152
Budget 162 NAEW&CF PROVISIONING	9,393,996	-	9,393,996	-	9,393,996	-	9,393,996	-	7,014,005	7,014,005	-	2,379,991
Budget 123 NAEW&CF REORGANISATION	433,351	-	433,351	-	433,351	-	433,351	-	422,190	422,190	-	11,160
2018 AOM												
	621,176	-	621,176	-	621,176	-	621,176	-	2,304	2,304	-	618,871
Budget 183 Balkans Operations	466,203	-	466,203	-	466,203	-	466,203	-	2,304	2,304	-	463,898
Budget 187 NATO Support to the African Union	773	-	773	-	773	-	773	-	-	-	-	773
Budget 195 NMI	154,200	-	154,200	-	154,200	-	154,200	-	-	-	-	154,200
Total 2018	20,380,194	-	20,380,194	-	20,380,194	-	20,380,193	5,123,132	10,988,732	16,111,864	5,123,132	4,268,329

EUR

	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments	Expenses	Total spent	Carry-forward	Lapsed
	2017 AGS											
	43,000,000	-	43,000,000	-	43,000,000	-	43,000,000	39,730,491	3,269,509	43,000,000	39,730,491	-
Budget 167 AGS O&S	43,000,000	-	43,000,000	-	43,000,000	-	43,000,000	39,730,491	3,269,509	43,000,000	39,730,491	-
Total 2017	43,000,000	-	43,000,000	-	43,000,000	-	43,000,000	39,730,491	3,269,509	43,000,000	39,730,491	-

EUR

	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments	Expenses	Total spent	Carry-forward	Lapsed
	2014 AOM											
	25,343,456	-	25,343,456	-	25,343,456	-	25,343,456	24,448,305	729,343	25,177,648	24,448,305	165,808
Budget 185 ISAF	25,343,456	-	25,343,456	-	25,343,456	-	25,343,456	24,448,305	729,343	25,177,648	24,448,305	165,808
Total 2014	25,343,456	-	25,343,456	-	25,343,456	-	25,343,456	24,448,305	729,343	25,177,648	24,448,305	165,808

EUR	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments	Expenses	Total spent	Carry-forward	Lapsed
	2013 NCSEP											
	300,324	-	300,324	-	300,324	-	300,324	150,162	150,162	300,324	150,162	-
Budget 178 NATO CIS GROUP (NCISG)	300,324	-	300,324	-	300,324	-	300,324	150,162	150,162	300,324	150,162	-
Total 2013	300,324	-	300,324	-	300,324	-	300,324	150,162	150,162	300,324	150,162	-
Total for all MB Cost Shares, Years and Budgets	1,402,184,676	-	1,402,184,676	-	1,402,184,676	-	1,402,184,675	290,323,653	1,034,934,665	1,325,258,317	290,323,653	76,926,358

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**Notes to the
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NOTES TO THE ACO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2020

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A. Significant accounting Policies

Basis of preparation

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

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

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

In accordance with Article 2.1 of the NFRs, the financial year of ACO begins on 1 January 2020 and ends on 31 December 2020.

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 2020.

IPSAS	Name	Effective date for periods beginning on or after	ACO Assessment
IPSAS 41	Financial Instruments	1 January 2022	<i>This standard establishes new requirements for classifying, recognising and measuring financial instruments to replace those in IPSAS 29 -Financial Instruments: Recognition and Measurement. ACO has started assessing the impact of its implementation in the official financial reporting. No significant changes were identified so far; the analysis will continue and will be finalised in due time to guarantee the respect of the effective date for the IPSAS standard implementation.</i>

Accounting estimates and judgments

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

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

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

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

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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 2020 FS, the NAF and ACO accounting policies have been applied consistently throughout the reporting period.

There are no major changes in the 2020 ACO accounting policy except for providing end of year guidance on criteria for making restatements. Further information on this guidance is provided below under the heading, 'Restatements'. If any specific change in the financial data, the impacts have been identified in the notes under the appropriate headings.

Reclassification

For 2020, only one reclassification was made to report a guarantee for infrastructure projects at NAEW&C Force GK HQ as a long-term guarantee, rather than a short term advance.

No other reclassification was applied to the 2020 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 two asset categories. Building Asset Category and Other Infrastructure category.

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

Foreign currency

These FS are presented in Euro, which is the ACO functional and reporting currency. All entities included in the consolidated FS adopt Euro as functional currency. Data from ACO budgets approved in different currency are converted and reported in Euro using a fixed rate. The fixed rate applied for GBP for 2020 is equal to 0.9034 EUR representing the NATO exchange rate as of 1st January 2019.

Foreign currency transactions are translated into Euro at the NATO exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at year-end are translated into Euro using the NATO exchange rates applicable at 31 December 2020. Resulting realised and unrealised gains and losses are recognised in the Statement of Financial Performance.

Consolidation

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

ACO HQ NAME	LOCATION
SHAPE HQ	Casteau, Belgium
JFC Brunssum HQ	Brunssum, Netherlands
Resolute Support HQ	Kabul, Afghanistan
NAEW&C Force GK HQ	Geilenkirchen, Germany
JFC Naples HQ ³	Naples, Italy

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

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

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AIRCOM Ramstein ⁴ HQ	Ramstein, Germany
MARCOM Northwood HQ	Northwood, UK
NCIS Group HQ ⁵	Casteau, Belgium
KFOR HQ	Pristina, Kosovo
NHQSa HQ	Sarajevo, Bosnia Herzegovina
LANDCOM Izmir HQ	Izmir, Turkey
NAGSF HQ	Sigonella, Italy
ACO Corporate Accounting and Control Office	Casteau, Belgium

Inter-entity balances and transactions have been eliminated in consolidation. ACO has obtained from the above listed Commands the information and financial data for the production of the accounts that show ACO's consolidated assets and liabilities as well as revenues and expenses. The Financial Controllers of the above mentioned controlled entities have certified the correctness of the data reported to ACO Corporate Accounting and Control (CAC) for further analysis and consolidation in the ACO FS. This includes as well the assurance of the check and balance for the asset reporting.

Moreover, it is to be noted that this year the overall process was extremely difficult due to the pandemic event impacting 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 adapted IPSAS 6 included in the NAF, 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.

Financial Instruments disclosure/presentation

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

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

Financial risk factors

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. ACO is therefore not exposed to material credit risks.

Liquidity risk

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

⁴ It 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

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

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Foreign currency risk

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

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

Interest rate risk

ACO has successfully implemented a centralised Cash Management office. The cash holding is mainly kept and managed at corporate level with few exceptions. Liquidity is invested in call accounts, saving accounts until 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 investments profiles are in accordance with NFRs, to ensure the best possible return on cash holdings considering the current financial market situation. The exposure to interest risk strictly follows the current market for all public and international organisations. Additional details are disclosed at Note B.1 and B.2.

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 has also term deposit packages for a nominal period of 36 months with the possibility to withdraw the liquidity at no cost within 31 calendar days. This measure was done to mitigate the risk of negative interest on the EUR balance held in Treasury for the ACO budget groups and the various projects. The related interests for those packages are reported on a quarterly basis and duly accrued at year-end, if required.

c. Receivables

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

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

d. Inventories

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

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

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

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

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

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

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

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

e. Property, Plant and Equipment

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

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

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

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

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

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

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

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

The CIS assets (Communication and Automated Information System) reported in the 2020 ACO FS relate to NHQSa and NAEW&C Force GK HQ. In those 2 ACO sites the CIS assets are not under the control of the NCIA but of ACO.

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

ACO is not recognising any other AuC.

The PP&E data of Resolute Support include the NATO assets located at HQ RS plus the four regional airports of KAF, MeS, Herat and HKIA where USA, Germany, Italy and Turkey respectively assumed responsibilities as Framework Nations (FWN). The Memorandum Of Understanding (MOUs) for the RS Mission airfield services refer to Technical Agreements (TA) and determine the responsibilities for the use of the NATO-funded assets by the FWN. However, the SHAPE CMRB decision dated 8 September 2014 clarified that the NATO Chain of Command remains accountable for all the NATO funded assets through the end of the RS Mission. To this extent in the past the transfer of NATO assets from ISAF to RS Mission following the procedures set forth by the ACO Directive 80-100 was considered under the on-going concern principle. The same approach is foreseen for the closure and/or downsizing of the RSM, still not decided.

Building and infrastructure facilities in use across the ACO static Commands have been analysed in light of the control criteria set forth by the NAF and the Garrison Support Agreements as well as the Host Nation Support Policy and Standards⁶, the Base Support Concept⁷ and the NSIP regulations, to determine whether they are under the control of ACO or the HNs. Although the analysis highlighted that the HN, besides being the owners maintain also a certain level of control over the infrastructure, these buildings and infrastructure have been reported in the ACO FS even when for some criteria the control over the infrastructure has resulted to be either of ACO or shared between ACO and the HNs. The HQ facilities in Sarajevo for NHQSa are not reported as they are under the control and responsibility of EUFOR based on the Berlin Plus Agreement.

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

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

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

Leases

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

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

f. Intangible Assets

ACO does not hold intangible assets at the reporting date.

Impairment of tangible and intangible assets

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

For 2020 ACO is not reporting any impairment.

⁶ PO(2011)0020 dated 8 February 2011

⁷ CM-128-2011 dated 16 November 2011

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Liabilities

a. Payables

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

b. Deferred Revenue

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

c. Advances

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

d. Employee benefits

The employees in ACO⁸ participate in one of the three NATO pension's funds: the Provident Fund and the Coordinated Pension Scheme are benefit plans, and the Defined Contribution Pension Scheme (DCPS) is a contribution plan, all are administered by NATO and RMCF.

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

DCPS and Provident Fund:

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

Coordinated Pension Scheme:

Employees who have joined NATO before 1 July 2005 are members of the NATO Coordinated Pension Scheme which is a funded defined benefit plan. Under the plans and upon completion of 10 years employment with NATO, the employees are entitled to retirement benefits of 2% per year of service of final basic salary on attainment of a retirement age of 60. No other post-retirement benefits are provided to these employees. Staff members whose length of service is not sufficient to entitle them to a retirement pension are eligible for a leaving allowance.

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

e. Provisions

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

Net Assets

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

Revenue and expense recognition

a. Revenue

Revenue comprises contributions from Member Nations and income from other customers to fund ACO's

⁸ ACO is neither a legal entity nor an organization in the legal sense of the term. ACO cannot exert the rights and prerogatives, nor bear the liabilities of an employer. In conformity with NAF and IPSAS 6 principles, the term "employee" is meant for the purposes of financial reporting exclusively. It cannot be construed as superseding existing status or contracts between the relevant legal persons, either moral or natural.

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requirements through the Military Budget (MB) and the NATO Security Investment Programme (NSIP). It is recognised in the year when these contributions are used for their intended purpose. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably. Unused contributions and other revenue that relate to future periods are deferred accordingly.

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

Bank interests earned and accrued as of 31 December 2020, exchange rate revenue due to transactions in foreign currency and realised exchange rate revenue in accordance with the entity Policy IPSAS 4 – Effect of the foreign exchange rate are recognised as financial revenue.

b. Expenses

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

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

Result of the year

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

Trust Funds

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

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

Cash-flow statement

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

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B. Notes to Statement of Financial Position

Assets – Current Assets

1. Cash and cash equivalents

Cash and cash equivalents	2020	2019 Restated	2019
Cash accounts	279,729	199,661	199,661
Petty Cash and Advances	288,065	325,125	325,125
Current Bank Accounts	457,229,173	520,347,647	520,347,647
Clearing-Bank accounts	1,000,047	(8,579)	(8,579)
Cash Equivalent	463,642,024	539,435,986	539,435,986
Total	922,439,037	1,060,299,840	1,060,299,840

2. Short Term Investments

Short Term Investments	2020	2019 Restated	2019
Total	932,885,474	763,389,492	763,389,492

The overall cash holding (Note 1 and 2) in ACO for 2020 is higher compared to the balance of the previous year, due to an increase of 31.6 MEUR. The main variances are for the MB cash holdings with an increase of 100.2 MEUR, ANA TF cash holdings with a decrease of 54.5 MEUR.

The ACO cash holding includes a balance of 250 KEUR related to the previous management of the International Continental Mess (ICM) at SHAPE HQ. ICM operations were approved by the BC⁹ 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. However, 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 is expected to be revised and the new processes including a set of ICM Financial Reporting fully implemented. The approach foreseen is that any surplus within EFL C will be kept as a reserve for ICF. Amounts above EFL C will be considered as miscellaneous income in the ACO Consolidated FS and returned to the Nations.

The corresponding balance of the Escrow account, net of the 2020 outflow and the accrued interest is lower than 2019 due to the exchange rate between EUR/USD as of 31 December 2020.

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

The variance in total cash and cash equivalents is due to a shift from type of investments. At the end of the year more EUR liquidity was placed in term deposits investment to allow the entity to obtain a small positive interest rate and mitigate the risk of negative interest.

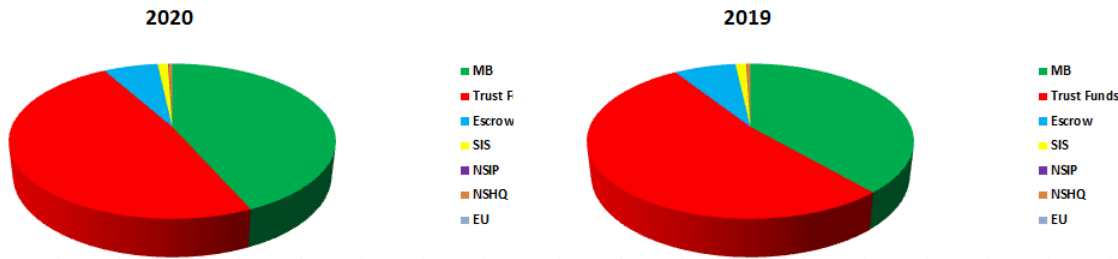
All the USD liquidity related to the ANA Trust Funds was transferred from US term deposits in various term deposit packages with non US banks and placed in term deposit with different period/rate. This transfer was required due to the considerable change in the US financial market with a direct impact in the bank offer.

⁹ BC-D (2019) 0139 (INV), 5 July 2020 and BC-DS(2019)0041 (INV), 2 September 2019

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The breakdown for the main categories is reported below:

Table B.1/2.A – ACO Cash holdings breakdown

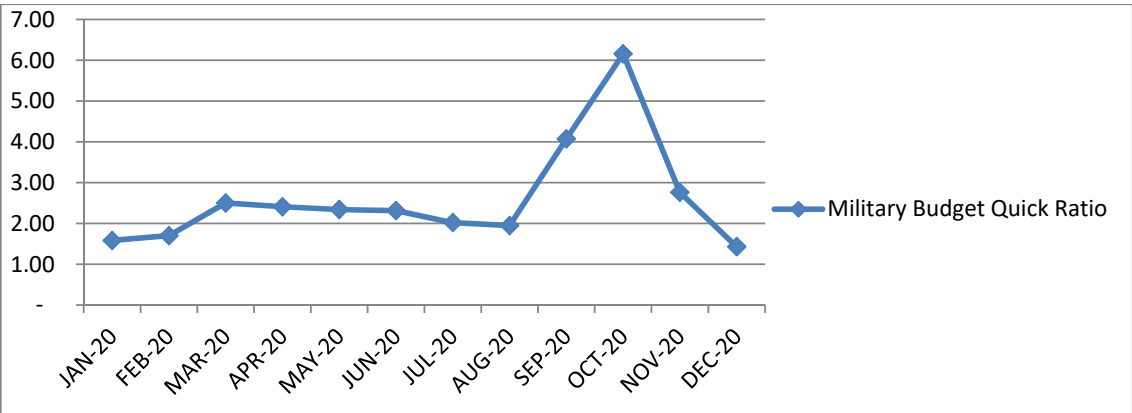


The year-end balance is not representative of the average cash holdings during the financial year. Cash holdings tend to increase towards the end of the financial year due to the cash received upon the final cash call and the request of some nations to liquidate uncalled contributions for the following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

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

The ratio is close to 1 at the end of 2020 due to the end of year assessment of accruals which has a direct impact on the level of liability recognised at year-end.

Table B.1/2.B – ACO MB Quick ratio Fiscal year 2020



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

Funds categorized as cash equivalent are invested in saving accounts for a period not exceeding 3 months. They are convertible to known amounts of cash and subject to no risk of changes in value. The MB cash equivalent at the end of 2020 is approximately 350 MEUR. The Trust Funds cash equivalent at the end of 2020 is approximately 114 MEUR.

Short-term investments (STIs) include term deposits for a period not exceeding 12 months. During 2020, ACO continued to work with term deposit packages for a nominal period of 36 months with the possibility to withdraw the liquidity at no cost within 31 calendar days. This measure was initiated to mitigate the risk of negative interest on

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the EUR balance held in Treasury for the ACO budget groups and the various projects. The related interests for those packages are reported on a quarterly basis.

The STIs reported at the end of 2020 are related to MB Funds for 256MEUR, ANA Trust Funds for 657 MEUR and to other projects for approximately 20 MEUR.

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

Interest rates

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

ACO continues to diversify its approach, placing cash liquidity with different financial institutions and focusing on its cash forecast analysis in close coordination with all the parties involved (ACO Commands, Nations, and NATO agencies). As already indicated, as overall, 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.

Moreover, during 2020, ACO was able to implement, with the support of a few NATO Nations, an ad-hoc payment schedule 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 expansion of the ACO bank pool, ACO managed to avoid any negative interest, despite extreme difficulties in doing so. There is only one exception for a very small amount related to ANA TF (see note K). However, taking into account the large volume of Regular and Special Carry forwards, the world-wide repercussions of the pandemic on the financial markets, as well as the difficulty in establishing an ad-hoc payment schedule with the NATO Nations as the rule, it is expected that the risk of incremental cost due to the negative interest will finally materialise during 2021.

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

3. Receivables (current)

Receivables	2020	2019 Restated	2019
Receivables Contribution from NATO Nations	115,980,655	94,129,606	94,129,606
Receivable Assessment/under call	-	3,077,596	3,077,596
Receivables from Troop Contributing Nations	31,169,658	68,313,080	68,313,080
Receivables from Other NATO bodies	3,522,757	9,091,112	9,091,112
Receivables from Staff Members	77,332	209,481	209,481
Receivables from Nations	2,110,953	2,360,559	2,360,559
Other Receivables/Recoverable	27,254,000	24,965,520	24,965,520
Total	180,115,356	202,146,953	202,146,953

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

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

The difference between 2020 and 2019 of 22 MEUR is mainly due to the decrease of the outstanding credits for the NBC.

Receivable Contribution from NATO Nations

The balance represents mainly outstanding calls for contribution for the various ACO Annual budgets: NCSEP for 66 MEUR (39.3 MEUR in 2019), NAEW&C FC for 20.1 MEUR (9.6 MEUR in 2019), AOM for 20.5 MEUR (42.3 MEUR in 2019), AGS for 9.3 MEUR (2.4 MEUR in 2019). There is no outstanding credit for NSIP.

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Receivable from TCNs

Receivable from TCNs	2020	2019 Restated	2019
NHQSa NBC	146,865	101,152	101,152
KFOR NBC	296,591	1,899,055	1,899,055
RAC	91,313	43,907	43,907
ISAF/Resolute Support NBC/HKIA	16,323,575	58,218,015	58,218,015
Supreme Food Claim	1,534,914	1,534,914	1,534,914
NMI	12,776,400	6,516,036	6,516,036
Total	31,169,658	68,313,080	68,313,080

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

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

ISAF/Resolute Support NBC: The ending receivable balances for 2020 is still the highest with ACO for NBC credits. However, there is a significant decrease compared to 2019. Outstanding credits mainly related to HKIA pre-financing and concentrated on few TCNs were cleared during 2020 thanks to rigorous reminder procedures and interaction with TCNs.

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

KFOR: In 2020 there have been some delays in the billing due to the critical situation in theatre caused by the pandemic and the complication of the testing kit billing to be recovered from the TCNs.

NMI: As expected, the NATO Mission in Iraq expanded with a considerable increase in the volume of NBC activities in 2020. The outstanding credits represent the data already assessed by the site and allocated to the corresponding TCNs by the central CAC office in charge of the billing process.

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

Currently, 43% of the total amount has been reimbursed by the majority of the TCNs billed, leaving an outstanding credit of 57% belonging to few TCNs. ACO made several reminders during the year with no success. This outstanding will be escalated to the BC attention during 2021.

Receivable from staff members¹⁰

These are receivables from staff members, such as short term loans, salaries and allowances to be reimbursed by staff members and other receivables. Collections are assured through payroll withholding and staff separation payments.

Other Receivable/Recoverables

These are receivables mainly for outstanding invoices issued to National Support Elements for the Reimbursable Program Host-Tenant Agreement and for other reimbursable procurements. SHAPE has a balance of 10.8 MEUR. In addition, for JFCNP there is an amount of 8.9 MEUR of which 5 MEUR for invoices to be established related to NBC for NMI. Following the NBC procedure, the amount will be assessed by the local site and reallocated to each TCN accordingly by the central CAC office in the first quarter of 2021.

¹⁰ See footnote n. 8 at page N-8.

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4. Prepayments

Prepayments	2020	2019 Restated	2019
Advances and Prepayments	9,293,311	22,331,215	23,353,798
Total	9,293,311	22,331,215	23,353,798

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 (1.9 MEUR) as described in Note A – ‘Employee benefits’.

The main part of the decrease is due to the completion of the NBC activities in HKIA for which prepayments were made to NSPA.

5. Other current assets

Other current assets	2020	2019 Restated	2019
Bank Interest Accrued	575,767	2,038,362	2,038,362
Receivable for Provisions	393,447	303,151	303,151
Total	969,214	2,341,513	2,341,513

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

Details for the provisions are reported in Note D.

6. Inventories

Inventories	2020	2019 Restated	2019
Consumable	16,440,599	16,642,692	16,642,692
Spare parts	26,476,736	24,675,484	24,675,484
Total	42,917,335	41,318,176	41,318,176

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 2019	40,172,465
Adjustments to opening	74,452
Adjusted opening as of 1 January 2019	40,246,918
Additions	38,167,319
Expensed	(35,807,295)
Write off/write down	(142,427)
Adjustments to ending	(1,146,338)
Ending balance as of 31 December 2019	41,318,176
Opening as of 1 January 2020	41,318,176
Adjustments to opening	(213,327)
Adjusted opening as of 1 January 2020	41,104,850
Additions	27,038,205
Expensed	(25,033,252)
Write off/write down	(81,607)
Adjustments to ending	(110,860)
Ending balance as of 31 December 2020	42,917,335

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Restatement/adjustments of the 2019 inventories

This year no restatements have been made in relation to the previous reporting period. The adjustments to opening balances for fiscal year 2020 are due to the inclusion of beginning balances that are now above the applicable threshold (NCISG) and adjustments related to JFCBS and RSM. JFCBS have corrected their opening balance in order to remove the impact of obsolete items still remaining in the inventory listing since 2007. RSM reversed their manual adjustment made in 2019. The adjustments to ending balances for fiscal year 2020 are due to the exclusion of KFOR balance that is below the applicable threshold.

Assets - Non-current Assets

7. Receivables (non-current)

Other Non-Current Assets	2020	2019 Restated	2019
Non-current Receivables	1,034,023	1,022,584	-
Total	1,034,023	1,022,584	-

The 2020 balance is made of a NAEW&C Force long term guarantee for infrastructure projects to Bundeswehr Dienstleistungszentrum (Bw-DLZ), and a long term guarantee for natural gas supply in LANDCOM.

The NAEW&C Force guarantee of Bw-DLZ has been reclassified from current to non-current assets due to this long-term nature.

8. Property, Plant and Equipment

Property, Plant & Equipment	2020	2019 Restated	2019
Land	-	-	-
Buildings	87,314,677	78,217,356	75,432,397
Other infrastructure	22,706,728	23,260,223	23,676,445
Installed Equipment	33,515,612	33,158,775	33,158,775
Machinery	6,345,792	6,180,441	6,180,441
Vehicles	16,213,138	15,725,747	15,725,747
Aircrafts (Planes, Upgrades & Spare parts)	446,582,378	449,123,399	449,123,399
Mission Equipment	6,266,573	16,941,421	16,941,421
Furniture	2,461,171	2,455,335	2,455,335
Communication	12,393,884	12,768,487	12,768,487
Automated Information Systems	2,911,413	3,815,195	3,815,195
Assets under Construction	2,951,669	3,500,480	3,500,480
Total for Property, Plant and Equipment	639,663,035	645,146,860	642,778,123

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.

Restatement 2019

The main restatement reported relates to LANDCOM NSIP building restoration/improvement projects that were placed in service in December 2019. Significant efforts were made throughout 2020 to confirm the date placed in service but this information was not received until early 2021. A restatement of 2.8 MEUR was made in the building asset category for the projects completed in 2019.

In addition, a minor restatement of 416 KEUR was made in the Other infrastructure category relating to fuel bladders at Resolute Support HQ that were reported as capitalised under the NATO Accounting Policy for PP&E but should have been expensed based on the approved deviation for this site.

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ACO Consolidated Financial Statements 2020**2020 data**NAEW: Fleet modernisation

The highest value PP&E reported is still for NAEW&C Force GK HQ who operates 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's operational control.

During 2017 and 2018, the communication and navigation systems (CNS/ATM) were upgraded from analogue to digital, as well as training devices. Further additional costs of 1.9 MEUR were received from NAPMA in 2020 and added to the capitalised cost of the upgrade.

During 2019 and 2020, all airplanes received the certificate of completion for the enhanced MODE 5 / IP COMMs upgrades authorizing them for operational use. In 2020, this cost amounted to 14.7 MEUR which has been included in the financial statements with depreciation started based on the date that the airplane became operational.

Other ACO sites

The other significant variance between 2019 and 2020 PP&E is in the Buildings category. This relates to airfield buildings at NAGSF HQ (3.4 MEUR) brought into service and restorations of medical treatment facilities and a fire rescue facility at Resolute Support HQ (6.1 MEUR).

For other categories, the variance relates to immaterial additions less depreciation expenses for 2020.

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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 2019	-	106,244,200	76,214,376	44,971,551	11,364,921	27,578,976
Adjustment to opening balance	-	2,790,773	(416,222)	-	-	-
Additions FINS	-	-	-	-	-	-
Manual additions - NSIP/Other funding	-	-	75,786,154	44,971,551	11,364,921	27,578,976
Adjustment to additions 2019	-	17,495	(9,335)	3,689,584	1,045,524	1,101,372
Adjustment to additions - NSIP/Other funding	-	19,258,943	5,768,802	3,987,610	68,498	3,804,483
+ Disposals/retirements	-	-	-	107,270	-	-
+ Capitalized/Expensed WIP	-	-	-	-	-	-
+ Revaluations	-	19,276,438	5,779,468	7,794,463	1,111,529	4,705,654
+ Impairments	-	-	(8)	(38,940)	-	(49,210)
- Accumulated depreciation	-	-	-	-	-	-
Adjustment to opening balance	-	19,276,438	5,779,468	7,794,463	1,075,062	4,656,644
Adjustment to opening balance	-	128,311,411	81,577,622	52,766,014	12,440,003	32,235,621
+ Disposals/retirements	-	(42,886,021)	(53,352,414)	(16,004,859)	(5,077,460)	(10,808,270)
+ Capitalized/Expensed WIP	-	(42,886,021)	(53,352,414)	(16,004,859)	(5,077,460)	(10,808,270)
+ Revaluations	-	(7,409,231)	(4,964,965)	(9,485,110)	35,940	49,210
+ Impairments	-	(5,814)	(58,317,399)	(107,270)	(1,216,041)	(5,750,814)
Ending balance as of 31 December 2019	-	78,217,356	23,260,223	33,165,775	6,180,441	15,725,747
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	-	128,311,411	81,577,622	52,766,014	12,440,003	32,235,621
Additions FINS	-	-	-	-	-	-
Manual additions - NSIP/Other funding	-	247,616	-	1,438,984	1,319,992	4,264,657
Adjustment to additions 2019	-	14,910,940	448,326	2,907,201	1,319,992	521,415
Adjustment to additions - NSIP/Other funding	-	15,050,880	448,326	2,907,201	1,319,992	521,415
+ Disposals/retirements	-	240,793	(1,573,309)	(636,730)	-	-
+ Capitalized/Expensed WIP	-	-	-	-	-	-
+ Revaluations	-	-	-	-	-	-
+ Impairments	-	-	-	-	-	-
- Accumulated depreciation	-	-	(1,124,083)	3,709,454	-	-
Adjustment to opening balance	-	15,309,040	80,462,539	56,478,489	13,821,793	5,389,469
Adjustment to opening balance	-	143,710,400	-	-	-	37,625,110
+ Disposals/retirements	-	(60,094,056)	(68,317,399)	(19,607,239)	(6,259,562)	(16,509,874)
+ Capitalized/Expensed WIP	-	(60,094,056)	(68,317,399)	(19,607,239)	(6,259,562)	(16,509,874)
+ Revaluations	-	2,212,155	316,825	138,092	212,453	-
+ Impairments	-	(6,301,728)	(1,640,667)	(3,669,443)	(1,154,531)	(5,114,551)
Ending balance as of 31 December 2020	-	87,314,677	22,705,728	33,515,612	9,345,792	16,213,138
Acquisition cost as of 1 January 2019	397,620,791	109,944,785	2,970,352	28,376,775	11,484,052	6,834,630
Adjustment to opening balance	-	-	-	-	-	-
Additions FINS	592,638	1,117,741	2,979,392	1,278,932	474,802	4,381,816
Manual additions - NSIP/Other funding	96,755,055	2,696,597	812,046	895,850	-	-
Adjustment to additions 2019	-	-	(273)	-	-	-
Adjustment to additions - NSIP/Other funding	-	-	-	-	-	-
+ Disposals/retirements	100,348,293	3,814,338	811,762	2,174,762	474,802	4,381,816
+ Capitalized/Expensed WIP	-	(65,312)	(7,750)	(34,186)	(52,424)	(244,830)
+ Revaluations	-	-	-	-	-	(7,695,965)
+ Impairments	-	-	-	-	-	-
- Accumulated depreciation	100,348,293	3,749,026	800,023	2,440,588	422,375	(3,334,449)
Adjustment to opening balance	491,969,084	113,693,812	3,763,375	30,517,363	11,906,429	3,500,460
Adjustment to opening balance	-	-	-	-	-	-
+ Disposals/retirements	(20,500,584)	(81,438,682)	(826,133)	(9,335,100)	(5,673,081)	-
+ Capitalized/Expensed WIP	(20,500,584)	(81,438,682)	(826,133)	(9,335,100)	(5,673,081)	-
+ Revaluations	(22,345,102)	(51,428)	6,454	4,102	52,192	1,063
+ Impairments	-	(15,267,174)	(508,261)	(8,415,265)	(2,470,346)	(71,936,286)
Adjustment to depreciation 2019	(42,845,685)	(96,752,300)	(1,328,040)	(17,748,876)	(8,091,234)	(317,554,355)
Ending balance as of 31 December 2019	449,123,399	16,941,421	2,465,335	12,765,437	3,815,195	3,500,460
Acquisition cost as of 1 January 2020	491,969,084	113,693,812	3,763,375	30,517,363	11,906,429	3,500,460
Adjustment to opening balance	-	-	-	-	-	-
Additions FINS	(3,084,774)	1,276,818	421,418	6,376,904	976,523	13,238,138
Manual additions - NSIP/Other funding	27,061,363	151,862	-	2,474,624	3,151,367	49,181,894
Adjustment to additions 2019	-	-	-	-	-	-
Adjustment to additions - NSIP/Other funding	-	-	-	-	-	-
+ Disposals/retirements	24,008,398	3,814,338	811,762	2,174,762	474,802	4,381,816
+ Capitalized/Expensed WIP	-	(65,312)	(7,750)	(34,186)	(52,424)	(244,830)
+ Revaluations	-	-	-	-	-	(7,695,965)
+ Impairments	-	-	-	-	-	-
- Accumulated depreciation	515,975,892	1,350,682	390,697	6,319,869	877,630	(548,811)
Adjustment to opening balance	-	115,044,494	4,163,692	36,037,172	12,704,359	2,951,689
Adjustment to opening balance	-	-	-	-	-	-
+ Disposals/retirements	(42,845,685)	(96,752,300)	(1,328,040)	(17,748,876)	(8,091,234)	-
+ Capitalized/Expensed WIP	(42,845,685)	(96,752,300)	(1,328,040)	(17,748,876)	(8,091,234)	-
+ Revaluations	(26,547,329)	(12,103,530)	(412,681)	(6,751,507)	(24,443,269)	(317,554,355)
+ Impairments	-	-	-	-	-	-
Adjustment to depreciation 2020	(68,353,014)	(108,777,921)	(1,721,891)	(24,443,269)	(9,872,946)	(317,554,355)
Ending balance as of 31 December 2020	446,582,378	6,266,573	2,461,171	12,393,884	2,911,413	639,603,035

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9. Other Non-Current Assets

Other Non-Current Assets	2020	2019 Restated	2019
Long Term Receivables for Provisions	8,032,988	8,782,931	8,782,931
Total	8,032,988	8,782,931	8,782,931

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

This amount reflects the assets net of Special Carry Forward approved as of 31 December 2020.

Details are provided in Note D.

Liabilities – Current Liabilities

10. Payables

Payables	2020	2019 Restated	2019
Payables to Suppliers	(275,471,580)	(377,578,711)	(377,578,711)
Payables to Staff members	(97,212)	(360,323)	(360,323)
Other Payables	(8,387,395)	(7,562,043)	(7,562,043)
Total	(283,956,187)	(385,501,077)	(385,501,077)

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

Payables to suppliers

Payables to suppliers include:

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

Foreign Military Sales (FMS) cases

This category represents payables due for goods and services acquired for NAEW&C Force GK HQ through NSPA including those related to FMS cases acquired from the US Defence Department through the Agency. To note that ACO is managing directly FMS cases only in SHAPE and NAGSF. Further details are shown in the Note C.17.

Untaken leave

The balance of untaken leave is classified as 'Other payable'. For 2020 the balance is 7.8 MEUR (5.3 MEUR in 2019). Detailed information for the amount reported as untaken leave is disclosed in Note C.17.

11. Deferred Revenue

Deferred Revenue	2020	2019 Restated	2019
Deferred Revenue MB	(289,977,890)	(182,331,626)	(182,331,626)
Liabilities from MB Lapse	(62,961,939)	(69,144,614)	(69,144,614)
Liabilities from Result of the year	(2,169,608)	(3,242,985)	(3,242,985)
Liability from unrealised exchange rate differences	(4,349,202)	(2,957,077)	(2,957,077)
Liabilities from NSIP Cash Call	122,160	2,089,858	2,089,858
Liabilities from NSIP Accumulated result of the year	26,843	27,336	27,336
Other Deferred Revenue	(1,057,563,647)	(1,127,597,725)	(1,127,597,725)
Deferred Revenue Inventory	(42,917,335)	(41,318,124)	(41,318,124)
Deferred Revenue PP&E	(75,136,510)	(57,557,094)	(57,557,094)
Total	(1,534,927,127)	(1,482,032,050)	(1,482,032,050)

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Deferred Revenue MB

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

Liabilities from MB Lapse

MB Lapse	2020	2019 Restated	2019
Budgetary lapses	(38,575,548)	(36,443,629)	(36,443,629)
Overestimated accruals	(24,315,166)	(32,709,051)	(32,709,051)
Other adjustments	(71,225)	8,066	8,066
Total	(62,961,939)	(69,144,614)	(69,144,614)

These liabilities are used to record unused budget credits authorized as of end of year 2020. The lapse is an amount owed back to the Nations. The balance will be included in the 2nd Assessment call for 2021 and will be distributed by type, cost share and budget year. The budgetary lapses have been decreased by 38,4MEur, and the advance MB contribution have been increased by the same amount in accordance with BC-D(2020)0176-FINAL and SH/FINAC/BUP/FC49/21.

The amount of overestimated accruals decreased by 26% compared to 2019. While the 2020 RS overestimated accruals decreased by 10 MEUR compared to 2019, they still represent 71% of the total 2020 overestimated accruals.

Liabilities from Result of the year

Distribution of Result of the year	2020	2019 Restated	2019
Result of the year	(3,562,226)	(1,198,996)	(1,198,996)
Unrealised exchange rate gain/loss	1,392,125	(2,000,086)	(2,000,086)
Liabilities to MB Nations	-	(45,231)	(45,231)
Net of NSIP result of the year	493	1,328	1,328
Liabilities from Result of the year	(2,169,608)	(3,242,985)	(3,242,985)

The net amount of 2,169,608 EUR is made of miscellaneous income, interest revenue, bank charges, and realised exchange rate gain/losses.

This amount and the liabilities for MB Lapse will be returned to the Nations. These balances will be included in the 2nd Assessment call for 2021 and will be redistributed by budget group and cost share following the breakdown reported at table B.11.

Table B.11 – Refundable Surpluses

REFUNDABLE SURPLUSES	NCSEP	AGS	NAEW	AOM	TOTAL
Overestimated accruals	(3,049,954.36)	(385,232.39)	(2,712,766.72)	(18,167,212.85)	(24,315,166.32)
Budgetary lapse	(20,524,674.95)	(7,775,681.26)	(8,206,795.56)	(2,068,396.90)	(38,575,548.67)
Other Adjustment	(69,326.77)	-	-	(1,898.12)	(71,224.89)
TOTAL MB LAPSE	(23,643,956.08)	(8,160,913.65)	(10,919,562.28)	(20,237,507.87)	(62,961,939.88)
Result of the year	(413,720.67)	(67,075.27)	(1,504,939.04)	(183,872.90)	(2,169,607.88)
TOTAL TO BE RETURNED	(24,057,676.75)	(8,227,988.92)	(12,424,501.32)	(20,421,380.77)	(65,131,547.76)

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

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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	2020	2019 Restated	2019
Accumulated result of previous years	27,336	28,664	28,664
Result of the year	(493)	(1,328)	(1,328)
Accumulated liabilities from NSIP Result	26,843	27,336	27,336

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

The balance for Deferred Revenue NSIP for 2020 is nil.

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

Other Deferred Revenue

The amount represents funds related to ACO non-core activities like SHAPE International School (SIS), NSHQ, EU Operation Althea, Escrow Account and Trust Funds. Even if those activities are defined as non-core, it can be assessed as critical due to their financial management complexity. For two of them the volume is material. The overall deferred revenue for the Escrow Accounts amounts to 123 MEUR from which 122MEUR is kept in the original USD currency.

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.

12. Advances

Advances	2020	2019 Restated	2019
Advance MB Contributions	(343,153,710)	(278,505,239)	(278,505,239)
Other Advance	(117,923)	(1,763,968)	(1,763,968)
Total	(343,271,633)	(280,269,207)	(280,269,207)

Advance MB Contributions

The amount is related to:

- Advance contribution called on the 2nd call 2020 for an amount of EUR 343,147,044 (AGS/NCSEP/AOM/NAEW cost share) and related to budget authorization for 2021. These advances are recorded using appropriate account code by type/year/cost share.
- Contributions called in 2020, identified as lapsable credits and reallocated as additional Advance for 2021 Budget Authorisation as of 31 Dec 2020 in accordance with BC-D(2020)0176-FINAL and SH/FINAC/BUP/FC49/21.

The total amount is EUR 38,350,810 (AGS/NCSEP-NCS Adaptation/AOM/NAEW cost share).

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Those amounts were reallocated as advances by type/year/cost share and are included in the respective Calls 2021 with the required cost share assessment for each Member Nations. The breakdown is reported below:

Budget Group	Amount in EUR
NCSEP	20,178,060
NCS-Adaptation	3,387,000
AGS	300,000
AOM	485,750
NAEW	14,000,000
Total	38,350,810

- Other advances relates mainly to amounts received for NBC.

13. Short Term Provisions

Short Term Provisions	2020	2019 Restated	2019
Personnel	(15,000)	(15,000)	(15,000)
Services	(378,447)	(288,151)	(288,151)
Total	(393,447)	(303,151)	(303,151)

Provisions are assessed using the best accounting estimate available. The amounts of the provisions reported in the ACO 2020 statement of financial position are shown in more detail in Note D, Table B.

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 10,668,300; the amount of EUR 393,447 is considered as short term.

Liabilities – Non-Current Liabilities

14. Long Term Provisions

Long Term Provisions	2020	2019 Restated	2019
Personnel	(6,182,246)	(7,141,705)	(7,141,705)
Services	(4,092,607)	(3,942,607)	(3,942,607)
Total	(10,274,853)	(11,084,312)	(11,084,312)

For the category Personnel the main variance between 2020 and 2019 is due to the decrease of the ISAF and RSM Severance Pay for ICCs and LCHs for a total of 959 KEUR. For the services, there was an increase due to a new provision reported for KFOR Camp Novo Selo for a total of 150KEUR.

15. Non-current Deferred Revenue

Deferred Revenue	2020	2019 Restated	2019
Deferred Revenue for PP&E and AuC	(564,526,526)	(587,589,766)	(585,221,029)
Total	(564,526,526)	(587,589,766)	(585,221,029)

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

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

C. Notes to Statement of Financial Performance

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*¹¹

Personnel	2020	2019 Restated	2019
Total	206,881,080	195,379,602	195,379,602

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

Employee Disclosure

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

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

Different pension plans are applicable to employees in ACO; provident fund, defined benefit plan, and defined contribution plan. All pension plans are managed by NATO HQ and are therefore not included in the ACO FS. Contributions to the plans are expensed when occurred. The total amount paid for 2020 is 4,940,650 EUR (which shows an increase compared to 4,270,675 EUR reported in 2019) for NIC staff. Accurate data is not available for locally hired staff, LWR and LCH, but based on available data, expenses are estimated to be 1.5 MEUR.

Table C.17.A - Untaken leave

Untaken Leave	2020	2019
Opening	5,307,242	4,009,602
Restatements 2019	n/a	32,501
Additions	7,803,315	5,307,242
Reversed	(5,307,242)	(4,042,103)
Ending	7,803,315	5,307,242

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

¹¹ See footnote n. 8 at page N-8.

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The cost for these untaken leave days has been absorbed during the year through the monthly salaries whereas the loss of production capacity when the leave to be taken is pushed forward into the next year. This constitutes an ACO liability towards the future which is recognized.

Other

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

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

Table C.17.B – ACO Personnel

ACO	Total Filled Positions
PE positions total	7139
<i>Military</i>	<i>6172</i>
<i>Civilian</i>	<i>967</i>
CE Positions total	1215
<i>Military</i>	<i>975</i>
<i>NIC (NATO International Civilian)</i>	<i>5</i>
<i>NCIV (National Civilian)</i>	<i>58</i>
<i>MCIV/ICC</i>	<i>177</i>
Others	1403

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).

b) Contractual Supplies and Services

Contractual Supplies and Services	2020	2019 Restated	2019
Total	767,458,744	769,426,145	769,533,415

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

During 2020 in NAEW a total amount of 36 MEUR was expensed for the ongoing maintenance related to Depot Level Maintenance (DLM).

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

Foreign Military Sales (FMS)	2020	2019 Restated	2019
Total	23,248,961	17,134,640	17,134,640

The amount of EUR 23,248,961 EUR belongs to FMS cases for NAEW managed directly by NSPA. Those expenses are reported in the ACO FS on a modified cash basis build on the cash credit request/outflows exchange between the two NATO entities. The expenses for the financial year are not recognised on accrual basis with the exception of the FMS cases where tangible information is provided by the NAEW customers with regards to the effective delivery of goods and services.

¹² See footnote n. 8 at page N-8.

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

Operating Leases

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

Table C.17.C – Operating leases

Site	Asset leased	Asset Category	Cur	Amount paid in 2020 (lease currency)	Amount Paid in 2020 converted to EURO (if other currency)	Amount to pay in 2021	Amount to pay in 2022-2024	Amount to pay after 2024
SHAPE	4- Year Operational Lease of 2 business passenger vehicles for COS & DSAC	Transport Equipment	EUR	51,206		51,222	55,490	-
SHAPE	Rental services 2020 - 28 vehicles 16 vehicles C category 12 vehicles D category	Transport Equipment	EUR	224,992		227,243	461,327	-
SHAPE	Lease of reprographic equipment + GMP Laminating machine Period: 1 Jan 2020-31 Dec 2020 Monthly rate: € 13834.11	Printing	EUR	166,010		65,825	-	-
JFCBS	Blue Fleet	Transport Equipment	EUR	147,137		147,137	147,137	-
NAEW	(BizHub) Printers	AIS	EUR	165,818		160,894		-
NAEW	13 Oracle T5-2 Servers	CIS	EUR	196,162		196,162	588,486	-
JFCNP	Villa Addis Ababa for NS2AU	Structure	USD	120,000	109,459	120,000		-

Depreciation

Depreciation and Amortization	2020	2019 Restated	2019
Total	65,579,283	72,095,856	71,982,772

The amount recognised for 2020 includes depreciation for the different asset categories set out in Table B.8. – Property, Plant and Equipment.

The depreciation for each category in 2020 was as follows; 26.5 MEUR for Aircraft upgrades and spare parts, 12.1 MEUR for Mission Equipment, 6.8 MEUR for Communication systems (mainly relating to aircraft communications), 6.3 MEUR for buildings, 5.1 MEUR for Vehicles, 1.6 MEUR for Other infrastructure, 3.7 MEUR for installed equipment, 1.9 MEUR for AIS (Automated Information Systems), 1.2 MEUR for Machinery and 0.4 MEUR for Furniture. Finally, the Net Book Value (NBV) of assets retired resulted in retirement losses of 4 KEUR (45 KEUR in 2019).

Provisions

The table below provides a summary of the movement in provisions as at the reporting date. After reassessment, the provision amount for four cases was estimated to be lower than in 2019, resulting in the reversal/decrease of the provision amount by 959 KEUR. Of the 288 KEUR additions; there are three new cases amounting to 79 KEUR, one case for 60 KEUR that was previously disclosed as a Contingent

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Liability with no reliable amount and one case that was not disclosed in 2019 due to the assessment that the outflow of economic resources was remote. Finally, two cases were closed in 2020, resulting in the usage of 48 KEUR.

Table C.17.D – Provisions

Provisions	Amount (EUR)
ACO 2019 FS balance	11,387,463
Reversed 2020	(959,459)
Used 2020	(48,331)
Addition 2020	288,627
Ending Balance 31 Dec 2020	10,668,300

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 2020 amounts to 49.5 MEUR which reflects a decrease of 13 MEUR compared to 2019. The reimbursable costs relate to a variety of services financially administered by ACO, as reported below.

An amount of approximately 1 MEUR (2019 4.6 MEUR) relates to reimbursable costs made by HQ NAEW&C Force GK HQ for the provision of aviation fuel for national use.

An amount of 1.9 MEUR (2019 3 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 20.9 MEUR (2019 27 MEUR) corresponds to real life support services provided mainly by KFOR HQ, Resolute Support HQs and JFC Naples 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, via the so-called Nation Borne Cost Mechanism (NBC). The NBC costs are, pre-financed by ACO and afterwards recovered from the TCNs through an established cost recovery procedure.

Expenses for security guards on SHAPE are managed by SHAPE HQ using a suspense account approved by the BC¹³; the amount used until end of 2020 is 1.6 MEUR.

Expenses for the remaining amount of 24,2 MEUR were made mainly by the ACO Commands on behalf of local NMRs or NSEs, MWAs, Host Nations and other co-located entities in accordance with Memorandum of Understanding or other ad-hoc agreements. This includes, but is not limited to, advance payments made by ACO for shared utilities, maintenance and cleaning services, etc. which is recovered from the customers through charges calculated on a pro-rata basis.

Some expenses are also related to the Special Litigation Team at SHAPE¹⁴

18. Total to be returned

The result of the year is the difference of non-budgetary revenue and expenses, such as interests, exchange rate loss or gain, and depreciation. The amount, except unrealised gain/losses for exchange rate, will be re-distributed to the Nations in the 2nd Assessment Call for 2021.

19. Net Asset

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

¹³ Reference to BC-D(2020)0020-ADD3-AS1, dated 04 Dec. 2020

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

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D. Contingent Assets, Contingent Liabilities and Provisions

Contingent Assets

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

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

Contingent Liabilities and Provisions

Based on IPSAS 19 and nature of items identified in the 2020 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)¹⁵, pensions 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.

¹⁵ Liabilities due to TFR for JFCNP are only reported as provisions.

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TABLE D.A – Summary of the 2020 CL

CL Categories	Amount (EUR)
I NATO Administrative Tribunal	-
II Claims under Art. VIII SOFA	544,692
III Labour court cases	10,710,504
IV Litigations	584,223
V Liabilities due to HQs closure	2,263,101
VI Others	698,176
TOTAL	14,800,696

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 2020.

II. Claims under Art. VIII SOFA: The total amount disclosed under this category is EUR 544,692.

The total amount in this category was reported by NHQSa concerned; two claims due to damages arising from the usage of a factory in Visoko, BIH for an amount of EUR 363,436 and one claim relates to the regularisation of “self-pay” pension contributions for an amount of EUR 171,000. The remaining amount of EUR 10,256 relates to a traffic accident claim. This category also includes various cases reported by SHAPE, LANDCOM, NAEW JFCNP, KFOR and NHQSa for which it is not possible to estimate reliably the amount to settle the liability. For NHQSa this includes potential claims in Glamoc Range and for NAEW potential claims relating to contamination of local waterworks.

III. Labour court cases: Out of the total amount of EUR 10,710,504 disclosed in this category, the amount of EUR 9,818,512 relates to NHQSa’s possible liability due to a labour contract dispute. This is a decrease on the amount disclosed in 2019 (EUR 28,598,583).

An amount of 828,992 is reported by SHAPE for litigations pending before the Labour Court in relation to the transfer of the Fire Brigade to the Belgium HN under the HNS Policy and Standards. The remaining amount of EUR 62,000 disclosed in this category is reported by JFCNP (EUR 57,000) and NAEW (EUR 5,000) for liabilities on employment cases pending at the reporting date before the respective local labour Courts.

This category also includes two cases where the amount cannot be determined by JFCNP in relation to deaths allegedly caused by asbestos. In 2019, both these cases were reported as a single CL case but, for 2020, they have been split into two cases since one of the claimants began initial hearings in 2020 while the second has not been submitted to the court yet.

IV. Litigations: The total amount disclosed under category IV is EUR 584,223. It is made by three amounts; the first one is a CL already disclosed last year by KFOR amounting to EUR 442,350 (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. The final case relates to land claims at KFOR, Camp Film City.

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 2019 FS. The other case relates to a challenge to a payment injunction issued against JFCNP in relation to invoices issued by an energy service provider.

V. Liabilities due to HQs closure: Within this category, JFCBS has reported possible liabilities due to the termination of the ISAF mission on 31 December 2014 and the NATO reduced footprint in Resolute Support Mission. The liability is related to the ACO’s responsibility towards NSPA for the payment of the

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Loss of Job Indemnities (LOJI) associated with redundant NSPA NIC manpower approved by SHAPE to support the ISAF operation and the RS Mission. The amount of EUR 2,263,101 (EUR 1,706,431 in 2019) represents the updated NATO share of the liability. The costs for this contingent liability are part of the special carry forward of credits approved by the BC from the 2014 ISAF Budget.

VI. Others: Of the total EUR 698,176 liabilities in this category, the amount of EUR 419,956 relates to updated amounts for RS Severance Pay and Removal Allowance as well as retroactive social contributions reported by JFCNP. JFCBS has reported a contingent liability due to potential compensation for future RS Severance Pay and Removal Allowance for ICCs and LCHs. In accordance with RS Civilian Personnel Policy & Regulation (CPPR), NATO is required to pay Severance Pay and Removal allowance for civilian staff members, ICCs and LCHs, once two consecutive years of employment have been completed. Based on RS CJ1 calculation this liability is estimated at an amount of EUR 329,956 (EUR 392,901 in 2019) and refers to ICCs and LCHs employed in RS who have not yet completed two consecutive years. The costs for those employees who are instead eligible to receive the above-mentioned compensation are recognised as a provision in the same category. An amount of EUR 90,000 continues to be reported by JFCNP in relation to retroactive social contributions in relation to sick leave. Finally, the remaining 278,220 EUR reported in this category relates to Turkish VAT liabilities levied against IAMCO.

Furthermore, two potential contingent liabilities with no reliable amounts are to be disclosed:

- 1) The first one is for an on-going arbitration related to claims for financial compensation under UK Labour Law. Different scenarios are to be considered, therefore, there is no specific amount that can be assessed at this stage for the financial statement disclosure requirements.
- 2) The second one has been reported by the NSPA late March 2021, indicating possible contingent liabilities that ACO may be exposed to at a future date due to legal claims received by the Agency. NSPA reported that the nature of the claims makes very hard to reliably estimate possible cost. In addition, the late arrival of the claims did not allow undergoing the required rigorous review with their contracting and legal departments. Therefore, there is no specific amount that can reliably be disclosed at the time of the financial statements release.

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 EUR 5,000 and can be reliably measured.

Table D.B – Summary of the 2020 Provisions

Provisions	Amount (EUR)
I NATO Administrative Tribunal	15,000
II Claims under Art. VIII SOFA	183,025
III Labour court cases	188,400
IV Litigations	4,099,629
V Liabilities due to HQs closure	-
VI Others	6,182,246
TOTAL	10,668,300

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

I. NATO Administrative Tribunal: In this category, JFCBS reported one case for EUR 15,000 liable to be paid in relation to appeal tribunal compensation.

II. Claims under Art. VIII SOFA: JFCNP, NHQSa and KFOR reported provisions within this category totalling EUR 183,025. For NHQSa, an amount of EUR 117,925 relates to claims due to car accidents or damages to land and property. For KFOR an amount of EUR 60,000 is reported for Camp Cabra and FOB 3. The remaining amount of EUR 5,100 is for JFCNP.

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III. Labour court cases: Two provisions to report for a total of EUR 188,400. The first one is for KFOR HQ for a total of EUR 150,000 and it relates to Camp Novo Selo and the specific situation related to 4 private parcels. The second one is for Landcom HQ for a total of EUR 38,400 for a claim made by a contractor.

IV. Litigations: The total is EUR 4,099,629. There are two provisions recognised by JFCNP within this category and reported last year as well. The third one is for RSM.

- a. The first 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 EUR 3,864,502 recognised as a provision last year for this liability remains unchanged.
- b. The second provision of JFCNP amounting to EUR 200,000 relates to outstanding payments withheld by JFCNP due to the former provider of cleaning services because of non-satisfactory contract performance.
- c. The third provision for RSM for a total of EUR 35,127 is due to the lockdown at the camp during the pandemic. To prevent the spread of the COVID-19, a limited number of 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: Nothing to report for 2020.

VI. Others: Within this category it is recognised the provision of EUR 6,182,246. Two provisions are recognised within this category for JFCBS (including ISAF and RS) and one for LANDCOM due to costs related to the compensation to staff for Severance Pay and Removal Allowance. In particular JFCBS is recognising a provision for ISAF and RS allowances due to ICCs and LCHs in accordance with RS Civilian Personnel Policy & Regulation (CPPR). Based on RS CJ1 calculation the total provisions have been recognised for civilian staff members, ICCs and LCHs, who completed two consecutive years of employment in ISAF (EUR 345,762) and RS (EUR 1,732,559). The ISAF estimated cost is covered by the special carry forward of credits approved by the BC from the 2014 ISAF Budget. The amount of EUR 1,145,140 recognised as a provision by LANDCOM refers to the severance allowance 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.

Finally, a provision is reported within this residual category for the "Trattamento di Fine Rapporto" (TFR) for JFCNP amounting to EUR 2,958,785. 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.

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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 2020 FS the segment reporting has been prepared in conformity with the accounting policies and also reported in the ACO guidance for EOY 2020.

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

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

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Segment reporting MB
Statement of Financial Position per HQ

	SHAPE HQ		NAGSF HQ		JFC Brunssum HQ	
	2020	2019 RESTATED	2020	2019 RESTATED	2020	2019
ASSETS						
Current Assets						
Cash and Cash Equivalents	10,798	14,666	888	303	76,537	55,898
Interventions	71,447,688	132,373,024	9,260,247	7,304,110	2,966,379	5,628,862
Receivables	13,033,652	12,452,341	118,286	68,855	1,373,283	1,409,412
Prepayments	4,074,301	3,848,711	107,507	(3,228)	67,876	22,397
Other Current Assets	-	-	-	-	15,000	15,000
Inventories	853,441	765,795	177,551	114,992	204,950	177,923
Total Current Assets	89,418,880	149,454,537	9,884,488	7,485,032	4,705,025	7,309,492
Non-current Assets						
Receivables	-	-	-	-	-	-
Property, plant & equipment	16,757,259	18,551,492	18,620,532	14,497,134	13,405,591	13,966,537
Other Non-current Assets	-	-	-	-	-	-
Total Non-current Assets	16,757,259	18,551,492	18,620,532	14,497,134	13,405,591	13,966,537
Total ASSETS	106,177,139	168,006,029	28,505,021	21,982,166	18,110,615	21,276,029
LIABILITIES						
Current Liabilities						
Payables	(82,860,128)	(142,601,671)	(9,109,516)	(7,350,912)	(3,839,791)	(6,247,526)
Deferred Revenue	(8,897,130)	(9,342,115)	(1,516,828)	(847,950)	(1,313,250)	(1,415,626)
Advances	-	(18,869)	-	-	-	-
Short Term Provisions	-	-	-	-	(15,000)	(15,000)
Other Current Liabilities	-	-	-	-	-	-
Surpl./Deficit to be returned	131,214	(292,571)	295	(1,932)	(86,378)	(78,032)
Total Current Liabilities	(91,426,043)	(152,255,225)	(10,826,050)	(8,200,794)	(5,254,420)	(7,756,183)
Non-current Liabilities						
Payables	-	-	-	-	-	-
Long Term Provisions	-	-	-	-	(345,762)	(421,553)
Deferred Revenue	(14,751,096)	(15,750,804)	(17,658,971)	(13,781,372)	(12,510,434)	(13,098,293)
Other Non-current Liabilities	-	-	-	-	-	-
Total Non-current Liabilities	(14,751,096)	(15,750,804)	(17,658,971)	(13,781,372)	(12,856,196)	(13,519,846)
Total LIABILITIES	(106,177,139)	(168,006,029)	(28,485,021)	(21,982,166)	(18,110,615)	(21,276,029)
NET ASSETS	-	-	-	-	-	-

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	AIRCOM Ramstein Hq		NAEWAC Force Hq		JFC Naples Hq	
	2020	2019 RESTATED	2020	2019 RESTATED	2020	2019
ASSETS						
Current Assets						
Cash and Cash Equivalents	26,406	25,828	93,129	187,202	657,780	345,508
Interimality	1,651,558	1,238,263	43,634,982	44,092,704	8,671,024	13,763,405
Receivables	393,311	735,293	3,207,286	4,300,026	11,215,900	13,524,456
Prepayments	16,496	13,888	1,572,315	2,454,808	3,477,392	1,966,039
Other Current Assets	-	-	-	48,331	205,123	200,305
Inventories	206,557	120,435	35,044,050	33,625,682	142,162	100,486
Total Current Assets	2,294,328	2,133,707	83,551,764	85,731,336	23,185,241	29,920,189
Non-current Assets						
Receivables	-	-	1,022,584	-	-	-
Property, plant & equipment	2,394,771	2,655,545	537,702,913	542,657,711	234,739	297,556
Other Non-current Assets	-	-	-	-	4,927,185	5,146,307
Total Non-current Assets	2,394,771	2,655,545	538,725,497	542,657,711	5,161,923	5,443,863
Total ASSETS	4,689,099	4,789,252	622,277,261	628,389,047	28,347,165	35,364,052
LIABILITIES						
Current Liabilities						
Payables	(2,022,240)	(1,826,540)	(43,966,778)	(49,655,466)	(19,112,352)	(27,339,238)
Deferred Revenue	(536,029)	(619,999)	(96,443,796)	(79,166,720)	(918,712)	(868,942)
Advances	-	-	-	-	(1,440)	(3,600)
Short Term Provisions	-	-	-	(48,331)	(205,100)	(200,000)
Other Current Liabilities	-	-	-	-	-	-
Surpl./Deficit to be returned	(21,753)	(6,510)	(2,850,732)	(1,159,742)	(1,100,890)	289,962
Total Current Liabilities	(2,580,071)	(2,453,049)	(143,281,307)	(130,030,259)	(21,338,494)	(28,121,818)
Non-current Liabilities						
Payables	-	-	-	-	-	-
Long Term Provisions	-	-	-	-	(6,823,287)	(7,026,136)
Deferred Revenue	(2,109,078)	(2,336,203)	(479,015,965)	(498,358,788)	(185,384)	(216,108)
Other Non-current Liabilities	-	-	-	-	-	-
Total Non-current Liabilities	(2,109,078)	(2,336,203)	(479,015,965)	(498,358,788)	(7,008,671)	(7,242,244)
Total LIABILITIES	(4,689,099)	(4,789,252)	(622,277,261)	(628,389,047)	(28,347,165)	(35,364,052)
NET ASSETS	-	-	-	-	-	-

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	NHQ's a HQ		LANDCOM 12mif HQ		NCIS Group HQ	
	2020	2019	2020	2019	2020	2019
ASSETS						
Current Assets						
Cash and Cash Equivalents	303,319	163,977	393,402	375,029	4,500	9,959
Interefficiency	216,557	690,474	(449,826)	449,489	8,181,774	7,060,034
Receivables	78,880	116,750	850,727	876,142	577,120	1,385,805
Prepayments	-	-	-	10,241	16,150	78,987
Other Current Assets	39,820	39,820	42,122	2,658	-	-
Inventories	1,123,721	1,081,099	1,074,416	1,111,714	1,537,232	1,035,404
Total Current Assets	1,762,287	2,082,119	1,910,841	2,825,273	10,316,777	9,570,190
Non-current Assets						
Receivables	-	-	11,440	-	-	-
Property, plant & equipment	29,790	56,838	5,451,327	2,856,343	36,223,304	40,625,863
Other Non-current Assets	78,105	78,105	1,145,140	1,781,057	-	-
Total Non-current Assets	107,895	134,943	6,607,906	4,637,400	36,223,304	40,625,863
Total ASSETS	1,870,182	2,227,062	8,518,748	7,472,674	46,540,081	50,196,053
LIABILITIES						
Current Liabilities						
Payables	(581,144)	(662,068)	(1,500,572)	(1,753,999)	(8,644,572)	(8,207,131)
Deferred Revenue	(1,160,764)	(1,445,692)	(1,278,237)	(1,242,023)	(6,662,762)	(6,298,689)
Advances	-	-	-	-	-	-
Short Term Provisions	(39,820)	(39,820)	(38,400)	-	-	-
Other Current Liabilities	-	-	-	-	-	-
Surpl./Deficit to be returned	(10,359)	(1,377)	694,953	40,543	(3,953)	-
Total Current Liabilities	(1,792,087)	(2,148,957)	(2,122,258)	(2,955,479)	(15,311,287)	(14,483,964)
Non-current Liabilities						
Payables	-	-	-	-	-	-
Long Term Provisions	(78,105)	(78,105)	(1,145,140)	(1,781,057)	-	-
Deferred Revenue	-	-	(5,251,352)	(5,521,096)	(31,228,794)	(35,712,089)
Other Non-current Liabilities	-	-	-	-	-	-
Total Non-current Liabilities	(78,105)	(78,105)	(6,396,492)	(7,302,153)	(31,228,794)	(35,712,089)
Total LIABILITIES	(1,870,192)	(2,227,062)	(8,518,748)	(10,257,632)	(46,540,081)	(50,196,053)
NET ASSETS	-	-	-	-	-	-

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	Resolute Support Mission HQ		KFOR HQ		MARCOM Northwood HQ	
	2020	2019 RESTATED	2019	2020	2019 RESTATED	2019
ASSETS						
Current Assets						
Cash and Cash Equivalents	135,656	51,353	51,353	3,011,244	2,659,847	87,345
Interimty	122,399,773	157,290,362	157,290,362	(1,258,060)	(1,420,483)	1,991,101
Receivables	1,294,892	91,109	91,109	483,163	305,393	276,740
Prepayments	-	201,737	201,737	260,490	274,511	884,922
Other Current Assets	35,127	-	-	60,000	-	-
Inventories	2,426,530	2,972,968	2,972,968	-	110,860	-
Total Current Assets	126,292,178	160,607,529	160,607,529	2,556,837	1,930,128	126,715
Non-current Assets						
Receivables	-	-	-	-	-	-
Property, plant & equipment	7,194,001	2,428,771	2,844,993	194,593	898,787	793,162
Other Non-current Assets	1,732,559	1,777,461	1,777,461	150,000	-	-
Total Non-current Assets	8,926,560	4,206,232	4,622,454	344,593	898,787	793,162
Total ASSETS	135,218,738	164,813,761	165,229,983	2,901,430	2,828,914	4,151,884
LIABILITIES						
Current Liabilities						
Payables	(105,207,410)	(131,893,162)	(131,893,162)	(2,277,393)	(1,632,827)	(3,204,237)
Deferred Revenue	(26,551,023)	(33,228,630)	(33,228,630)	(323,143)	(1,044,338)	(207,022)
Advances	-	-	-	-	-	-
Short Term Provisions	(35,127)	-	-	(60,000)	-	-
Other Current Liabilities	-	-	-	-	-	-
Surpl./Deficit to be returned	(1,286,671)	2,085,492	2,085,492	(91,285)	(151,749)	(1,874)
Total Current Liabilities	(133,080,231)	(163,038,300)	(163,038,300)	(2,751,820)	(2,828,914)	(3,413,132)
Non-current Liabilities						
Payables	-	-	-	-	-	-
Long Term Provisions	(1,732,559)	(1,777,461)	(1,777,461)	(150,000)	-	-
Deferred Revenue	(405,948)	-	(416,222)	-	-	(748,851)
Other Non-current Liabilities	-	-	-	-	-	-
Total Non-current Liabilities	(2,138,507)	(1,777,461)	(2,193,683)	(150,000)	-	(748,851)
Total LIABILITIES	(135,218,738)	(164,813,761)	(165,229,983)	(2,901,820)	(2,828,914)	(4,151,984)
NET ASSETS	-	-	-	-	-	-

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	ACO Corporate Accounting and Control Office		NSIP	
	2020	2019 RESTATED	2020	2019 RESTATED
ASSETS				
Current Assets				
Cash and Cash Equivalents	916,011,551	1,055,388,480	1,624,281	936,333
Short Term Investment	932,885,474	763,389,492	-	-
Intendently	(268,712,197)	(369,868,817)	-	(946,668)
Receivables	147,210,114	166,341,891	-	104,238
Prepayments	-	12,355,994	-	-
Other Current Assets	572,022	2,035,399	-	-
Inventories	-	-	-	-
Total Current Assets	1,727,988,985	1,629,642,440	1,624,281	92,903
Non-current Assets				
Receivables	-	-	-	-
Property, plant & equipment	-	-	660,664	2,021,851
Other Non-current Assets	-	-	-	-
Total Non-current Assets	-	-	660,664	2,021,851
Total ASSETS	1,727,988,985	1,629,642,440	2,284,945	2,114,754
LIABILITIES				
Current Liabilities				
Payables	(54,614)	(156,457)	(1,773,285)	(2,210,097)
Deferred Revenue	(1,387,099,962)	(1,345,273,021)	122,160	2,089,858
Advances	(343,270,193)	(280,246,738)	-	-
Short Term Provisions	-	-	-	-
Other Current Liabilities	-	-	-	-
Surpl./Deficit to be returned	2,457,824	(3,966,224)	26,843	27,336
Total Current Liabilities	(1,727,988,985)	(1,629,642,440)	(1,624,281)	(92,903)
Non-current Liabilities				
Payables	-	-	-	-
Long Term Provisions	-	-	-	-
Deferred Revenue	-	-	(660,664)	(2,021,851)
Other Non-current Liabilities	-	-	-	-
Total Non-current Liabilities	-	-	(660,664)	(2,021,851)
Total LIABILITIES	(1,727,988,985)	(1,629,642,440)	(2,284,945)	(2,114,754)
NET ASSETS	-	-	-	-

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	TOTAL FOR SEGMENTS		ELIMINATIONS		CONSOLIDATED	
	2020	2019 RESTATED	2020	2019 RESTATED	2020	2019
ASSETS						
Current Assets						
Cash and Cash Equivalents	922,439,037	1,060,299,840	-	-	922,439,037	1,060,299,840
Short Term Investment	932,885,474	763,389,492	-	-	932,885,474	763,389,492
Intangibility	-	-	-	-	-	-
Receivables	180,115,356	202,146,953	-	-	180,115,356	202,146,953
Prepayments	9,293,311	22,331,215	-	-	9,293,311	22,331,215
Other Current Assets	969,214	2,341,513	-	-	969,214	2,341,513
Inventories	42,917,335	41,318,176	-	-	42,917,335	41,318,176
Total Current Assets	2,088,619,726	2,091,827,189	-	-	2,088,619,726	2,091,827,189
Non-current Assets						
Receivables	1,034,023	1,022,584	-	-	1,034,023	1,022,584
Property, plant & equipment	639,663,035	642,778,122	-	-	639,663,035	642,778,123
Other Non-current Assets	8,032,988	8,782,931	-	-	8,032,988	8,782,931
Total Non-current Assets	648,730,047	654,952,374	-	-	648,730,047	654,952,375
Total ASSETS	2,737,349,773	2,746,779,563	-	-	2,737,349,773	2,746,779,564
LIABILITIES						
Current Liabilities						
Payables	(283,954,032)	(385,501,077)	2,155	-	(283,956,187)	(385,501,077)
Deferred Revenue	(1,532,796,518)	(1,478,861,632)	2,140,610	3,170,418	(1,534,927,127)	(1,482,032,050)
Advances	(343,271,633)	(280,269,207)	-	-	(343,271,633)	(280,269,207)
Short Term Provisions	(393,447)	(303,151)	-	-	(393,447)	(303,151)
Other Current Liabilities	-	-	-	-	-	-
Surplus/Deficit to be returned	(2,142,765)	(3,170,418)	(2,142,765)	(3,170,418)	-	-
Total Current Liabilities	(2,182,548,395)	(2,148,105,485)	-	-	(2,182,548,395)	(2,148,105,485)
Non-current Liabilities						
Payables	-	-	-	-	-	-
Long Term Provisions	(10,274,853)	(11,084,312)	-	-	(10,274,853)	(11,084,312)
Deferred Revenue	(564,526,526)	(587,589,766)	-	-	(564,526,526)	(587,589,766)
Other Non-current Liabilities	-	-	-	-	-	-
Total Non-current Liabilities	(574,801,379)	(598,674,078)	-	-	(574,801,379)	(598,674,078)
Total LIABILITIES	(2,737,349,773)	(2,746,779,563)	-	-	(2,737,349,773)	(2,746,779,564)
NET ASSETS	-	-	-	-	-	-

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Segment reporting MB
Statement of Financial Performance per HQ

	SHAPE HQ		NAGSF HQ		JFC Brunssum HQ	
	2020	2019 RESTATED	2020	2019 RESTATED	2020	2019
REVENUE						
Revenue	(361,540,593)	(369,862,215)	(32,805,748)	(17,437,926)	(26,953,348)	(25,839,368)
Other Revenue	112,089	(257,021)	-	-	(146,440)	(255,775)
Financial Revenue	(41,527)	290,814	(73)	(2,143)	(18,802)	51
Total to be returned to the Nations	(131,214)	292,571	(295)	1,932	86,378	78,032
Total REVENUE	(361,601,246)	(369,535,852)	(32,806,116)	(17,438,138)	(27,032,211)	(26,017,061)
EXPENSES						
Expenses	356,710,129	361,592,513	31,903,975	16,723,938	26,142,611	25,157,255
Personnel	41,753,811	37,346,352	1,490,617	1,299,967	1,126,892	10,573,122
Contractual Supplies and Services	314,956,318	324,246,161	30,413,358	15,384,915	15,015,720	14,584,133
Foreign Military Sales (FMS)	-	-	-	39,056	-	-
Depreciation	4,830,464	8,269,702	901,773	713,988	886,527	853,875
Provisions	1,440	1,227	-	-	-	-
Other Expenses	-	-	-	-	-	897
Financial Costs	59,213	(327,591)	368	211	3,073	5,034
Total EXPENSES	361,601,246	369,535,852	32,806,116	17,438,138	27,032,211	26,017,061
Result of the year	-	-	-	-	-	-

	AIRCOM Ramstein HQ		NAEW&C Force HQ		JFC Naples HQ	
	2020	2019 RESTATED	2020	2019 RESTATED	2020	2019
REVENUE						
Revenue	(20,106,343)	(20,537,794)	(284,353,613)	(286,247,201)	(44,170,729)	(44,262,830)
Other Revenue	-	(19,201)	(1,732,135)	(1,616,502)	(273,155)	(101,262)
Financial Revenue	(3,605)	4,857	(449,749)	(376,601)	(764,530)	4,102
Total to be returned to the Nations	21,753	6,510	2,850,732	1,159,742	1,100,890	(289,962)
Total REVENUE	(20,088,195)	(20,545,628)	(283,684,765)	(287,080,563)	(44,107,524)	(44,649,952)
EXPENSES						
Expenses	19,754,653	19,884,361	237,756,696	241,760,060	44,299,776	44,201,689
Personnel	5,214,180	4,877,478	75,510,854	74,994,597	18,285,632	17,119,538
Contractual Supplies and Services	14,540,473	15,006,884	138,996,881	149,669,879	26,014,145	27,082,151
Foreign Military Sales (FMS)	-	-	23,248,961	17,095,584	-	-
Depreciation	351,689	653,433	46,645,248	44,617,246	85,417	75,900
Provisions	-	742	-	-	-	-
Other Expenses	-	742	239	-	-	-
Financial Costs	(18,148)	7,092	(717,418)	703,257	(277,669)	372,363
Total EXPENSES	20,088,195	20,545,628	283,684,765	287,080,563	44,107,524	44,649,952
Result of the year	-	-	-	-	-	-

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	NHQs HQ		LANDCOM Izmir HQ		NCIS Group HQ	
	2020	2019	2020	2019	2020	2019
REVENUE						
Revenue	(3,245,724)	(2,558,879)	(8,226,306)	(10,929,731)	(43,030,242)	(45,940,936)
Other Revenue	(11,384)	(2,057)	(598,243)	(102)	-	(14,444)
Financial Revenue	(1,782)	(1,220)	(16,435)	(17,110)	(15,278)	28,456
Total to be returned to the Nations	10,359	1,377	(694,953)	(40,543)	3,953	(21,856)
Total REVENUE	(3,248,532)	(2,560,778)	(9,536,612)	(10,986,811)	(43,041,567)	(45,948,780)
EXPENSES						
Expenses	3,178,337	2,545,329	8,623,849	10,299,448	38,106,268	41,491,944
Personnel	2,137,693	1,742,827	3,123,379	3,659,951	8,445,496	7,546,046
Contractual Supplies and Services	1,040,645	802,502	5,500,470	6,639,497	29,660,773	33,945,898
Foreign Military Sales (FMS)	-	-	-	-	-	-
Depreciation	67,387	13,549	199,975	133,677	4,923,974	4,453,991
Provisions	98	52	-	496,606	-	-
Other Expenses	448	219	-	-	-	-
Financial Costs	2,261	1,628	712,788	57,080	11,325	2,844
Total EXPENSES	3,248,532	2,560,778	9,536,612	10,986,811	43,041,567	45,948,780
Result of the year	-	-	-	-	-	-

	Resolute Support Mission HQ		KFOR HQ		MARCOM Northwood HQ	
	2020	2019	2020	2019	2020	2019
REVENUE						
Revenue	(211,161,680)	(200,407,431)	(14,386,692)	(18,922,468)	(11,529,290)	(10,271,180)
Other Revenue	(26,270)	(64,496)	(116,592)	(111,420)	-	-
Financial Revenue	(1,046,531)	902,625	841	(44,784)	(62)	7,828
Total to be returned to the Nations	1,286,671	(2,085,492)	91,285	151,749	1,874	(22,529)
Total REVENUE	(210,947,810)	(201,654,793)	(14,411,159)	(18,926,924)	(11,527,478)	(10,285,882)
EXPENSES						
Expenses	205,465,546	193,349,337	13,240,084	13,467,929	11,484,979	10,235,051
Personnel	30,470,827	27,819,458	6,533,356	6,002,411	2,788,344	2,397,855
Contractual Supplies and Services	174,994,718	165,529,879	6,706,728	7,465,519	8,696,636	7,837,195
Foreign Military Sales (FMS)	-	-	-	-	-	-
Depreciation	5,705,910	6,819,826	936,608	5,454,539	44,311	36,130
Provisions	-	345,539	210,000	-	-	-
Other Expenses	-	2,214	-	-	-	-
Financial Costs	(223,645)	1,245,148	24,466	4,455	(1,812)	14,701
Total EXPENSES	210,947,810	201,654,793	14,411,159	18,926,924	11,527,478	10,285,882
Result of the year	-	-	-	-	-	-

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	ACO Corporate Accounting and Control Office		NSIP	
	2020	2019 RESTATED	2020	2019 RESTATED
REVENUE				
Revenue	-	(918,517)	(921,881)	(1,338,802)
Other Revenue	-	(1,375,040)	(547)	(1,357)
Financial Revenue	798,305	1,966,138	493	1,328
Total to be returned to the Nations	(1,065,699)	(327,419)	(921,935)	(1,338,831)
Total REVENUE	(267,394)	(327,419)	(921,935)	(1,338,831)
EXPENSES				
Expenses	-	-	921,881	1,338,802
Personnel	-	-	-	-
Contractual Supplies and Services	-	-	-	-
Foreign Military Sales (FMS)	-	-	921,881	1,338,802
Depreciation	-	-	-	-
Provisions	-	-	-	-
Other Expenses	-	-	-	-
Financial Costs	267,394	327,419	54	29
Total EXPENSES	267,394	327,419	921,935	1,338,831
Result of the year	-	-	-	-

	TOTAL FOR SEGMENTS		ELIMINATIONS		CONSOLIDATED PERFORMANCE	
	2020	2019 RESTATED	2020	2019 RESTATED	2020	2019
REVENUE						
Revenue	(1,062,432,189)	(1,054,556,763)	-	-	(1,062,432,189)	(1,054,556,763)
Other Revenue	(2,792,130)	(3,360,797)	(211,538)	(843,424)	(2,580,592)	(2,517,373)
Financial Revenue	(1,560,449)	(578,846)	1,813,788	-	(3,374,237)	(578,846)
Total to be returned to the Nations	3,562,226	1,198,996	-	-	3,562,226	1,198,996
Total REVENUE	(1,063,222,542)	(1,057,297,410)	1,602,250	(843,424)	(1,064,824,792)	(1,056,448,172)
EXPENSES						
Expenses	997,588,785	981,940,386	-	-	997,588,785	981,940,387
Personnel	206,881,080	195,379,602	-	-	206,881,080	195,379,602
Contractual Supplies and Services	767,458,744	769,426,145	-	-	767,458,744	769,426,145
Foreign Military Sales (FMS)	23,248,961	17,134,640	-	-	23,248,961	17,134,640
Depreciation	65,579,283	72,095,856	-	-	65,579,283	72,095,856
Provisions	211,538	843,424	211,538	843,424	-	-
Other Expenses	687	4,072	-	-	687	4,072
Financial Costs	(157,751)	2,413,672	(1,813,788)	-	1,656,037	2,413,672
Total EXPENSES	1,063,222,542	1,057,297,410	(1,602,250)	843,424	1,064,824,792	1,056,448,172
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 follows¹⁶:
 - i. Members of the governing body of the entity: SACEUR'S Commanders' Conference (SCC)¹⁷ 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 528,559.24 EUR (corresponding to 135,835.07 EUR plus 175,313.31 EUR plus 217,410.86 EUR, respectively, for the three mentioned NICs). It is to be noted that the remuneration for the ACO Financial Controller relates to two different NICs, as the former ACO FC left on 31 Oct. 2020. The remuneration of the appointed acting was considered for the last two months of 2020.

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

¹⁶ The composition and Job titles have been updated in accordance with the AD 015-004, ACO High level Business Processes, dated 31 Oct. 2013.

¹⁷ 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 2020 the total expenditure made by ACO for Representation amounted to 194.4 KEUR which represents 43% of the overall authorised budget of 449.9 KEUR.

G. Events after Reporting Date

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

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

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

H. MB Budget Execution

According to article 34.4 of the NFRs ACO has included the ACO Budget execution report in its FS. In line with BC-D(2019)0037(INV) an overall assessment of the ACO Budget Execution Report is incorporated directly into this disclosure Note.

In the Financial Year 2020, ACO has identified unusually high surpluses largely due to the COVID-19 pandemic. While many of these surpluses were used to cover 2021 requirements (as directed by the RPPB), some of them were repurposed to fund critical emergent and/or unfunded operational requirements or lapsed at the end of 2020.

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

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

Budget Category	Amount (EUR)
ACO portion - NATO Command Structure Entities and Programmes (NCSEP)	555,880,058
ACO portion - NCS-Adaptation	25,664,209
Alliance Operations and Missions (AOM)	277,907,813
NAEW&C Force	281,000,000
NAGS Force	78,979,416
TOTAL ACO	1,219,431,496

The figures contained in this report represent the net result of all transfers, costs increase and decreases and the impact of changes in parity and inflation rates during the reporting period. As a result of these fluctuations, reductions were implemented across ACO, as necessary, to offset increased legal obligations and prioritized operational requirements.

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NATO COMMAND STRUCTURE ENTITIES AND PROGRAMMES (NCSEP)

The final Budget Authorization (BA3) for the NCSEP budget totalled 555.9 MEUR. The combined execution rate reached 94%, which includes Regular Carry Forwards totalling 63 MEUR. The overall annual execution rate for 2020 was lower than past years, primarily due to a slowdown in operations due COVID-19. Some projects were delayed or cancelled and therefore some planned expenses were not incurred due to the impact of the crisis, especially in the travel budget area. Some savings identified during the year have been used to fund COVID-19 related requirements (disposable protective supplies, hand-sanitising gel, sanitisation of areas, Plexiglas dividers for desks, thermometers, etc.) and to improve home working tools and VTC capabilities that have been extensively used instead of face-to-face meetings.

The BC approved the following special carry forwards (SCF) in the ACO portion of the 2020 NCSEP:

a) 873 KEUR in SHAPE (BC 101) for repairs and replacement of various infrastructure items to include windows, flooring, doors; maintenance on closed-caption television, and Headquarters building floating floor and ventilation.

b) 107 KEUR in JFC Naples (BC 104) for upgrade of DESIGO system and installation of security film on the man complex.

c) 440 KEUR in AIRCOM (BC 105) for replacement of operational green fleet vehicle guarding/maintenance for CAOC Torrejon.

d) 166 KEUR (150 KGBP) in MARCOM (BC 118) for SNF kits upgrade.

e) 860 KEUR in Air Defence (Ground) (BC 164; now NATINAMDS Non-C2 Elements) for major upgrade of air conditioning unit and Radar Environment Simulator (RES); and scheduled maintenance services and health monitoring operations on radars

f) 2.0 MEUR in ACCS Support (BC 166; now NATINAMDS C2 Elements) for adaptation of Splunk enterprise, obsolescence management for Transportation Satellite Ground Terminals for 1.0 MEUR (TSGT); and Deployable Air Defence Radars tool kits, for the remaining 1.0 MEUR transferred to BC 164.

At the year-end, a budget surplus of 6.7M EUR had been identified and out of this amount, the BC agreed with ACO's requests for SCF of 1,8M EUR for BC164 and 1M EUR for BC166 to cover identified obsolescence that was impossible to cover within 2020 as originally forecasted.

g) 6.6 MEUR in NCCB (BC 177) for Enterprise Service Management and Control Services and ITM Transition Support. Part of this Special Carry Forward of 1.6M EUR was approved to partially mitigate the impact due to the ITM suspension in 2020. The funds are planned to be used to cover O&M costs of Mobility solutions delivered through ITM Remediation project in 2021

h) 902 KEUR in NCISG (BC 178) for NCIA support to Deployable CIS Equipment Programme (DCEP) to include Remote Node Network, hard disk drives and Low Noise Amplifiers.

i) 4,086 MEUR in BC 157 to meet emerging 2021 requirements. This SCF is executed in the ACO Exercise Budget for administrative purposes.

For the BA3 the following transfers took place:

- 788 KEUR transferred from BC166 to BC164 as approved by the ACO Financial Controller within his authority.

- 987 KEUR transferred from BC166 to BC164 due to the BC approval of transferring the SCF amounts to be aligned with the new budget structure¹⁸.

The overall surplus credits totalled 33.9 MEUR for the budget group. As noted previously, the impacts of the COVID19 crisis were pervasive. Examples include:

¹⁸ BC-D(2020)0176-FINAL

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- SHAPE lapsed 6.4 MEUR, primarily due to a slowdown in operations due COVID-19. The pandemic caused significant delays particularly in maintenance by project funding, as contractors could not mobilise their entire workforce due to the confinement.

- AIRCOM lapsed a total of 3.6M EUR mainly due to varied COVID-19 effects and Host Nation health authority restrictions in various Nations, lack of delivery of contracted Enterprise Service Level Agreement (ESLA) service delivery for new NCI Agency civilian posts, delayed delivery and testing of CP9A0202 (Deployable Ground-Based Sensors for Surveillance and Identification), significant reduction in travel, reduced use of routine consumables, minor delays in non-essential procurements, change in regular summer rotation of Military and new Civilian staff members, delayed arrival of Military assigned to new NCS Adaptation Peacetime Establishment (PE) posts, cancelled training courses and receiving goods and services during National lock-downs as influencing factors in the budget execution.

- LANDCOM lapsed 2.9M EUR. The Hq benefitted from the impact of exchange rate fluctuations. As a result of the economic policies implemented by the Host Nation, the Turkish Lira (TRY) parity rate was left to float freely against other currencies. Some expenditure (civilian personnel salaries, utilities, and locally procured supplies) were positively affected by the increase in the exchange rate TRY/EUR, leading to less EUR amount to be expended from LANDCOM's international budget. However, LANDCOM also had to adjust to travel restrictions imposed by the COVID-19 pandemic and the cancellation of planned projects due to COVID-19.

- Within Air Defence (Ground) and ACCS Support, the total of lapsed funds for the two budgets in 2020 is 3.8M EUR.

- In the NCISG, the requirements for which funding was made available that were only partially executed due to the COVID-19 situation are within the areas of salaries, training, Basic Operating & Maintenance Costs, and Deployable Non-CIS. This resulted in 2.9 MEUR of lapse.

NATO COMMAND STRUCTURE ADAPTATION (ACO PORTION)

The final Budget Authorization (BA3) for the ACO NCS-A budget totalled 25.7 MEUR. The execution rate reached 75%, which includes Regular Carry Forwards totalling 1.0 MEUR and Special Carry Forwards of 3.6 MEUR¹⁹ as summarized below.

ACO NCS A (BC 124) 2020 Carry Forward - Summary	Amount (EUR)
Regular Carry Forward	1,025,870
Identified Special Carry Forward (SCF)	614,000
	50 KEUR LANDCOM; CIS infrastructure
	253 KEUR MARCOM; IT equipment
	100 KEUR MARCOM; COVID19 health & safety requirements
	110 KEUR NCISG; furniture for Second NATO Signals Battalion
	61 KEUR SJLSG; safe/secure filing cabinets
	40 KEUR LANDCOM; hard disk shredder
Additional SCF	3,000,000

The Committee agreed to special carry forward 3 MEUR of the total amount remaining lapsable in the 2020 NCS-A ACO budget, for requirements in support of potential flexibility measures in 2021²⁰. The ACO portion of the NCS-A budget lapsed a total of 6.6 MEUR

¹⁹ BC-D(2019)0176-FINAL and BC-D(2020)0195

²⁰ BC-D(2020)0176-FINAL

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

The NAEW&CF Budget Group (BCs 162/163) BA3 totalled 281.0 MEUR and reached a combined execution rate of 93.6%, which includes 48.9 MEUR or 17.4% in Regular Carry Forward. The budget group lapsed a total of 18.0 MEUR.

The RPPB in their report on the 2021-2025 Medium Term Resource Plan and 2021 contribution ceilings recommended a 2021 ceiling of 305 MEUR, with the difference to the 315.9 MEUR approved requirements to be funded from expected lapsed credits at the end of 2020.

BC 162 is for the Provisioning of the aircraft by the NATO Airborne Early Warning & Control Programme Management Organization (NAPMO) Nations (this budget). BC 162 remains funded by the 16 NAPMO nations. This budget reflects those costs associated with ensuring that the NATO AWACS aircrafts are available for training, exercises and missions and include the costs of Mission System support provided by the Mission Support Engineering Centre (MSEC) located in Geilenkirchen, Germany; Depot Level Maintenance (aircraft and engines) provided from a variety of Sources of Repair (SORs); all technical support provided by outside organizations (Technical Coordination Group (TCG); European-based Sustainment Engineering Capability (ESEC); and all other support required to keep the fleet operationally viable. The BC 162 BA3 summed to 108.2 MEUR and reached a combined execution rate of 99.6%, which includes 35 MEUR or 32.4% in Regular Carry Forward. BC 162 lapsed a total of 397 KEUR or 0.4%.

BC 163 is to budget for the Employment of the aircraft. It reflects the costs associated with the employment of the airframe to NATO and is based on PO (2012)0050 which initially invited all NATO nations to participate in the NAEW&C Force. This was augmented by PO (2013)00391-REV1, PO (2016)0382(INV) and BC-D(2017)0059-FINAL which laid out the modalities for the splitting of the two budgets. The BC 163 BA3 summed to 172.8 MEUR and reached a combined execution rate of 89.9%, which includes 13.9 MEUR or 8% in Regular Carry Forward. BC 163 lapsed a total of 17.5 MEUR or 10.1%.

One Special Carry forward from FY2020 for 500 KEUR was approved by the BC²¹ to cover the cost for the Rotodome Dining Facility that could not be executed in 2020.

Lapses in the Employment budget were caused mainly by reduced flying hours and very low aviation fuel prices, COVID-19 related higher lapse factor in personnel, high lapse factor in the NSPA administration cost for the LW AWACS program, high lapse factor in the NCIA manpower outsourcing contract, TDY and training cancellations due to travel restrictions as well as some delays of non-essential procurements.

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

NATO ALLIANCE GROUND SURVEILLANCE FORCE (NAGSF)

The NAGSF Budget Group (BCs 167/168) BA3 totalled 79.0 MEUR. BC 167 was authorized for 76.0 MEUR. Due to delays in the delivery of service contracts, in part due to the COVID-19 pandemic, NAGSF was only able to execute 37.0 MEUR of BC 167, about 49%. BC 168 was authorized 3.1 MEUR, of which 3.1 MEUR, approximately 99.3 % was executed.

Regular carry forward in the AGS budget amounts to 17 MEUR are linked to large commitments to the NATO Support and Procurement Agency (NSPA) for training services and logistics and technical support that have not yet been billed.

Special Carry Forwards (SCF) were requested and granted for 30.6 MEUR. Of that amount, SCF was requested for 13.6 MEUR of lapsable funds in NSPA Technical Services, the bulk of which are due to the

²¹ BC-D(2020)0176-FINAL Annex 2, Appendix 4

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delay in the beginning of In Service Support (ISS) contracts, to use for the reduction of the gap that still exists for the procurement of initial spare parts. Additionally, 17 MEUR was granted SCF for the implementation of three near term capabilities due to delays in contract awarding. The contracts are expected to be awarded in 2021.

Surpluses beyond the 30.6 MEUR SCF amounted to 7.9 MEUR and lapsed due to delays in the beginning of In Service Support contracts.

ALLIANCE OPERATIONS AND MISSIONS (AOM)

The AOM Budget Group BA3 totalled 277,9 MEUR and reached a combined execution rate of 99.4%, including the SCF of 19.7 MEUR.

For Balkans Operations (BC 183), the final amount of the Balkans Operations 2020 Budget after the approval of the BA3 was 23.1 MEUR. The 2020 budget has been executed at 96.6% (22.4 MEUR). Lapses totalling 786,788 EUR were mainly due to the COVID-19 pandemic, in light of the significant reduction in travel requirements and planned activities. The final amount of 2020 SCF into 2021 is 400 KEUR.

For NATO Support to the African Union (NS2AU, BC 187), the approved 2020 Budget of NS2AU after the approval of the BA3 was 442.3 KEUR. The 2020 budget has been executed at 69.9% (309 KEUR). Lapses were due to the COVID-19 pandemic outbreak which constrained to redeploy back the personnel at the end of March 2020. As a consequence, NS2AU training activities and engagements were cancelled or postponed to 2021. Two out of the three planned Mobile Education Training Teams (METT) were performed before the suspension. Most of the individual training activities were cancelled. There is no 2020 SCF into 2021.

For Operation SEA GUARDIAN (BC 189), the final amount of the OSG 2020 Budget after the approval of the BA3 was 279.2 KEUR (252.2 KGBP). The 2020 budget has been executed at 81.6% (205.9 KGBP = 227.9 KEUR). Lapses (GBP 46,318 = EUR 51,270) were mainly due to the COVID-19 pandemic; planned Information Operations (INFOPS) strategy for 2020 was cancelled (and the supporting items were not purchased); savings were identified in travel due to the impossibility of travelling for Focused Operations (FOCOPS) in briefs and out briefs. Hand-Over-Take-Over (HOTO) of Secure Maritime Communications+ (SEMARCOMM+) was rendered unnecessary. There is no 2020 SCF into 2021.

For Resolute Support (RS), the final amount of the Resolute Support (RS) 2020 Budget after the approval of the BA3 was 234.2 MEUR, with all remaining available credits at end of year having been (special) carried forward into 2021, as per Nations' decision. The 2020 budget has been executed at 95%.

The execution of the RS Budget 2020 was affected by both the COVID-19 pandemic as well as the mission evolution, with political events and decisions in 2020 that triggered the planning and posturing for a potential retrograde of the coalition troops from theatre by May 2021. The 2019 SCF into 2020 was of 10.6 MEUR. About 3.6 MEUR have been committed and/or spent. The remaining available amount of 2019 SCF is EUR 7 MEUR. All remaining available credits at end of year were (specially) carried forward into 2021. The final amount of 2020 SCF into 2021 is 11.9 MEUR.

Finally, it is noted that the Nations agreed to continue to SCF into 2021 the remaining amount 24.4 MEUR of 2014 International Security Assistance Force (ISAF) SCF, to cover any clear ISAF related residual.

For NATO Mission Iraq (NMI, BC 195), the final amount of the NMI 2020 Budget after the approval of the BA3 was of 19.8 MEUR. The 2020 budget has been significantly under-executed at 58.7% (11.6 MEUR).

Surpluses (8.2 MEUR) were mainly due to areas of the budget which were considerably under-executed including, but not limited to: personnel hiring and consequent salary-related costs; base life support costs; CIS services costs; mission support services and capabilities costs; travel and transportation costs and various general support operation and maintenance (O&M) costs.

In general, the low execution rate is due to a series of events which occurred throughout 2020. The combination of the political and security situation in Iraq evolving considerably since the beginning of 2020, the subsequent very dynamic operational environment, the persistent structural changes in NMI architectural configuration, the extensive yearlong planning on refocusing, restructuring, and enhancing the

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Mission for the future and the impact of limitations imposed from the COVID-19 pandemic outbreak, forced to postpone or cancel an important number of NMI activities.

The final amount of 2020 SCF into 2021 is of EUR 7.5 MEUR, as agreed by the NAC with a net surplus of 687 KEUR at year end.

2020 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. It should be noted that from FY 2020, the exercise budget is under the direct control of ACO and reported in the Budget Execution.

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

Budget Year	Budget	Expenditure Ceiling	Net Commitment	Actual Expenses	Total Spend
2020	258 ACT EUR POW	335,560	-	333,560	333,560
2019	259 ACT EXERCISES & TRAINING	148,008	-	54,972	54,972
2018	259 ACT EXERCISES & TRAINING	579,489	-	506,567	506,567
TOTAL		1,063,057	-	895,099	895,099

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

Official Tables	ACO Statement of Financial Performance	Budget execution report (adjusted)
	EUR	EUR
ACO Budget Execution Report: total expenses		1,034,934,665
Budget Execution Report-other: total expenses		895,099
Inventory variances		(1,923,346)
Property, Plant and Equipment and AuC		(15,426,118)
Over-estimated accruals		(24,315,166)
Untaken Leave		2,501,770
NSIP 2020 execution		921,881
		997,588,785
ACO Consolidated Statement of Financial Performance:		
Personnel	206,881,080	
Contractual Supplies and Services	767,458,744	
Foreign Military Sales (FMS) (III)	23,248,961	997,588,785

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 2020.

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.

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Statement of Credits Carried Forward

The credits carried forward are presented in the Budget Execution Statement. They represent the remaining credits due to later than expected delivery of goods/services when contracts placed in good faith of delivery before end of 2020 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

The total special carry forward of funds authorised by NAC into 2021 from the past six years ACO budgets amount totally to EUR 122,159,249 (2019 EUR 101,146,752).

NCSEP: An amount of 16,147,727 EUR is carried forward from 2013 and 2020 to cover various ACO requirements within the ACO Static Commands and programmes for CIS requirements and vehicle replacement.

AGS: An amount of 50,600,000 EUR is carried forward from 2017, 2018, 2019 and 2020 for provision of initial spares and operational test and evaluation, the purchase of specialized vehicles and long lead spare parts, and near term Capabilities.

AOM: An amount of 51,297,522 EUR is carried forward from 2014 and 2020 budgets; the 2014 amounts are mainly to cover potential ISAF/RS liabilities such as for NSPA LOJI, for redeployment and disposal activities and for ongoing litigations with former ISAF provider for catering services. The 2019 and 2020 amounts are for distinct RS requirements that could not be executed before the end of 2020.

NCS-A: An amount of 3,614,000 EUR is carried forward from 2020 for 3 specific requirements and for potential flexibility measures in 2021.

Details were already provided at Note H – ACO MB Budget Execution. The table below provides an overall summary of the approved 2021 special carry forward reconciled with the related contingent liabilities and provisions, if any, as further disclosed in the Note D

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Table H.D - ACO Special Carry Forward

Ref: BC-D(2020)0176-FINAL

NCSEP	2013	2014	2017	2018	2019	2020	Total	Note
BC 101 - Maintenance work						873,000	873,000	BC-D(2020)0176-FINAL
BC 104 - DESIGO System upgrade						35,000	35,000	BC-D(2020)0176-FINAL
BC 104 - Security work						72,000	72,000	BC-D(2020)0176-FINAL
BC 105 - Green Fleet replacement						140,000	140,000	BC-D(2020)0176-FINAL
BC 105 - CAOC Torrejon O&M funding transfer						300,000	300,000	BC-D(2020)0176-FINAL
BC 118 - SNF Kit Upgrade						166,039	166,039	BC-D(2020)0176-FINAL
BC - 157 - 2021 Emerging requirements						4,086,000	4,086,000	BC-D(2020)0176-FINAL
BC 164 - NATINAMDS NON C2 Radars						1,847,250	1,847,250	BC-D(2020)0176-FINAL four requirements: Deployable Air Defence Radars (DADR) R-SPC Tool kit for 130,000 EUR ; Obsolescence Management for the Transportable Satellite Ground Terminals (TSGT) for 857,250 EUR ; upgrade of ACU and the RES of the RSRP radars in GRC, PRT and TUR for 660,000 EUR; Scheduled maintenance services and health monitoring operations for 200,000 EUR.
BC 166 - NATINAMDS C2 Radars						1,000,000	1,000,000	BC-D(2020)0176-FINAL Adaption of the SPLUNK Enterprise to overcome Obsolescence in the ACCS Security Audit System for 1,000,000 EUR.
BC 177- completion of Mission Information Room						6,576,276	6,576,276	BC-DS(2019) 0069 (INV) five requirements: Implementation of SLIN 7 and CP9C0102 for 1,726,000 EUR; Additional support to Federated Mission Network (FMN) for 1,300,000 EUR ; Crypto devices disposal for 1,100,000 EUR ; ITM Remediation plan for 1,600,000 EUR; Kester site guarding for 850,276 EUR.
BC 178 - NATO CIS Group support to DCEP						902,000	902,000	BC-D(2020)0176-FINAL
BC 178 - Afloat Command Platform equipment and manpower requirements*	150,162						150,162	BC-D(2020)0176-FINAL. AM amount of 300,324 EUR has been authorised as SCF, however the difference has been executed in FY 2020.
NCSEP Total	150,162	-	-	-	-	15,997,565	16,147,727	
AGS	2013	2014	2017	2018	2019	2020	Total	
BC 167 - Operational Test & Evaluation			8,000,000				8,000,000	BC-D(2020)0176-FINAL
BC 167 - Provision of initial spares				5,000,000			5,000,000	BC-D(2020)0176-FINAL
BC -167- Long Lead Spare Parts					7,000,000		7,000,000	BC-D(2020)0176-FINAL
BC -167 - Near Term Capabilities (delay in contract awarding)						17,000,000	17,000,000	BC-D(2020)0176-FINAL
BC- 167 In support of Long Lead Spare Parts						13,600,000	13,600,000	BC-D(2020)0176-FINAL
AGS Total	-	-	8,000,000	5,000,000	7,000,000	30,600,000	50,600,000	
AOM	2013	2014	2017	2018	2019	2020	Total	
BC 185 - Potential residual requirements in 2021		24,448,305					24,448,305	BC-D(2020)0176-FINAL remaining ISAF credits to cover ISAF related potential residual liabilities. As agreed by BC-DS(2018)0054 additional 303,928 EUR are carried over to be used for the ISAF archivists contacts
BC 194 - 2019 requirements**					7,077,106		7,077,106	BC-D(2020)0176-FINAL To support Resolute Support 2019 requirements that could not be executed before the end of 2020 as well as lapses identified and frozen in support of emerging requirements
BC 194 - RS 2021 requirements						11,872,111	11,872,111	BC-D(2020)0176-FINAL To support various requirements as presented in BC-D(2020)0195. In addition, all lapsable appropriations for RSM are authorised to be Special Carry forward.
BC 183 - Firefighter equipment						400,000	400,000	BC-D(2020)0176-FINAL
BC 195 - NMI emerging requirements						7,500,000	7,500,000	BC-D(2020)0176-FINAL
AOM Total	-	24,448,305	-	-	7,077,106	19,772,111	51,297,522	
NCS (A)	2013	2014	2017	2018	2019	2020	Total	
BC 124 - Three distinct ACO requirements						614,000	614,000	BC-D(2020)0176-FINAL- Three distinct requirements are: requirements budgeted but could not be delivered in 2020 due to delayed implementation for 513,000 EUR (details in para 7 of BC-D(2020)0195) ; Procurement of Hard Disk shredder in Landcom 40,000 EUR ; Standing Joint Logistics Support Group (SJLSG) delivery of safes and safe filling cabinets in Ulm for 61,000 EUR.
BC -124 -Flexibility measures						3,000,000	3,000,000	BC-D(2020)0176-FINAL Agreed by the Committee to SCF estimated surplus from BER 2 for flexibility measures that might be aproved in 2021
NCS (A) Total	-	-	-	-	-	3,614,000	3,614,000	
NAEW & CF	2013	2014	2017	2018	2019	2020	Total	
BC 163 - Employment						500,000	500,000	BC-D(2020)0176-FINAL - Rotodome Dining Facility budget
NAEW & CF Total	-	-	-	-	-	500,000	500,000	
Total per year	2013	2014	2017	2018	2019	2020	Total	
All budget groups	150,162	24,448,305	8,000,000	5,000,000	14,077,106	70,483,676	122,159,249	

Note:

*300,323 EUR was requested for BC - 178 for the year 2013 (BC-D(2020)0176-FINAL) while the half (150,162 EUR) has already been expensed during 2020. As a result only 150,162 are SCF to 2021 as commitment

** The amount SCF for BC 194 2019 is lower than the amount as per BC-D(2020)0176-FINAL

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Table H.E - ACO CONTRACT AUTHORITIES as of 31 Dec 2020

ACO BC CONTRACT AUTHORITIES								
EUR	Initial Budget	Variance	BA2	Variance	BA3	Variance	Final Budget	Net Commitment
NCSEP								
	155,959,273	(2,613,264)	153,346,009	2,699,162	156,045,172	22,010,075	178,055,246	109,297,470
101 SHAPE	9,545,500	(166,429)	9,379,071	8,990	9,388,061	-	9,388,061	1,134,752
103 JFC HQ BRUNSSUM	2,083,500	-	2,083,500	(406,000)	1,677,500	-	1,677,500	-
104 JFC HQ NAPLES	2,394,280	-	2,394,280	(42,264)	2,352,016	-	2,352,016	2,034,050
105 HQ AIRCOM RAMSTEIN	955,310	16,900	972,210	673,207	1,645,417	-	1,645,417	138,777
118 HQ MARCOM NORTHWOOD	19,341	106,265	125,607	500	126,107	10,075	136,182	134,110
131 HQ DEPLOYABLE ASSETS	258,703	-	258,703	-	258,703	-	258,703	217,026
157 ACO Exercises and Training	-	-	-	73,532	73,532	-	73,532	73,532
164 AIR DEFENCE (GROUND)	11,152,550	-	11,152,550	13,788	11,166,338	-	11,166,338	-
166 ACCS Support	20,944,464	-	20,944,464	-	20,944,464	-	20,944,464	-
177 NCCB	108,135,224	(2,570,000)	105,565,225	2,377,409	107,942,634	22,000,000	129,942,633	105,565,224
178 NATO CIS GROUP (NCISG)	470,400	-	470,400	-	470,400	-	470,400	-
NCS-ADAPTATION								
	538,683	(285,000)	253,683	-	253,683	-	253,693	46,740
124 NCS-ADAPTATION (ACO)	538,683	(285,000)	253,683	-	253,683	-	253,693	46,740
AGS								
	87,012,070	7,000,000	94,012,070	-	94,012,070	-	94,012,070	26,258,059
167 AGS O&S	87,012,070	7,000,000	94,012,070	-	94,012,070	-	94,012,070	26,258,059
NAEW								
	103,321,928	40,471,277	143,793,206	-	143,793,206	-	143,793,206	131,319,323
162 NAEW&CF PROVISIONING	103,321,928	40,471,277	143,793,206	-	143,793,206	-	143,793,206	131,319,323
NAEW								
	41,176,170	17,470,430	58,646,600	810,000	59,456,600	-	59,456,600	23,947,970
163 NAEW&CF EMPLOYMENT	41,176,170	17,470,430	58,646,600	810,000	59,456,600	-	59,456,600	23,947,970
AOM								
	8,749,452	2,280,398	11,029,850	59,331,201	70,361,051	10,099,220	80,460,271	6,064,608
183 Balkans Operations	4,590,216	-	4,590,216	59,727	4,649,943	2,412,626	7,062,569	614,868
194 RESOLUTE SUPPORT	1,104,523	2,280,398	3,384,921	59,253,468	62,638,389	6,581,439	69,219,828	5,163,075
195 NMI	3,054,713	-	3,054,713	18,006	3,072,719	1,105,155	4,177,874	286,664
Total for all MBC Cost Shares, Years and Budget	396,218,893	64,608,842	460,827,735	62,840,363	523,668,098	32,109,295	555,777,393	296,887,430

The table above is showing the ACO Contract Authorities approved during 2020 by the BC²² or by Financial Controllers, in accordance with FRP XXV sub-para 8 of BC-D(2015)0260-REV3.

²² BC-BA(2020)0001 (INV) 103 dated 20 Dec 19

BC-BA(2020)0001 (INV) COR1 103 dated 13 Feb 20

BC-BA(2020)0002 (INV) 103 dated 30 Jul 20

BC-BA(2020)0003 (INV) 103 dated 05 Nov 20

BC-BA(2020)0003 (INV) COR1 103 dated 26 Nov 20

BC-D(2020)0181-ADD1-AS1 dated 29 Oct 20

BC-D(2020)0139-ADD2-AS1 dated 12 Nov 20

BC-D(2020)0202-AS1 dated 30 Nov 20

BC-D(2020)0179-ADD3-AS1 dated 30 Nov 20

BC-D(2020)0202-AS1 dated 30 Nov 20

BC-D(2020)0205-AS1 dated 08 Dec 20

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Table H.F - Reconciliation between ACO authorized Budgets and Calls in 2020

The table below is showing the reconciliation between the Budget Authorization and the Calls made in 2020:

Budget authorization 2020

Budget Groups	Total Called as of 31 Dec 2020 (BA2)	Final Budget (1)	Actual as of 31 Dec 20	CF as of 31 Dec 20	Difference between Calls, Actual and CF as of 31 Dec 20	Lapse	Adjustment
29/30N NCSEP (1)	581,613,564	581,544,268	473,438,850	67,669,991	40,504,953	(40,435,627)	69,327
27/28N AGS	75,892,163	75,892,163	20,323,375	47,661,179	7,917,609	(7,917,609)	-
29/30N AGS	3,087,253	3,087,253	3,066,481	-	20,772	(20,772)	-
27+2N/28+2N NAEW	172,823,771	172,823,771	140,933,400	14,384,251	17,526,120	(17,526,120)	-
16N NAEW	108,176,229	108,176,229	72,774,812	35,004,145	397,272	(397,272)	-
29/30N AOM (1)	277,909,711	277,907,813	253,013,811	23,235,885	1,660,215	(1,658,317)	1,898
TOTAL	1,219,502,721	1,219,431,496	963,550,328	187,925,451	68,026,942	(67,955,717)	71,225

(1) Exchange rate: budgets authorised in GBP were converted and executed using a fixed rate for the fiscal year 2020.

Budget authorization 2019

Budget Groups	Carry Forward	Adjustment to Carry Forward	Adjusted Carry Forward	Actual as of 31 Dec 20	CF as of 31 Dec 20	Lapse
29N NCSEP	21,538,929	-	21,538,929	14,676,368	3,423,029	(3,439,532)
27N AGS	15,134,288	-	15,134,288	6,192,819	8,806,195	(135,274)
27+2N NAEW	12,719,823	-	12,719,823	9,271,251	3,033,485	(415,087)
16N NAEW	31,165,381	-	31,165,381	20,994,064	9,735,857	(435,461)
29N AOM	13,170,784	-	13,170,784	5,112,089	7,947,545	(111,149)
TOTAL	93,729,205	-	93,729,205	56,246,590	32,946,112	(4,536,503)

Budget authorization 2018

Budget Groups	Carry Forward	Adjustment to Carry Forward	Adjusted Carry Forward	Actual as of 31 Dec 20	CF as of 31 Dec 20	Lapse
29N NCSEP	2,199,813	-	2,199,813	1,985,236	-	(214,577)
27N AGS	5,393,518	-	5,393,518	268,359	5,123,132	(2,027)
26+2N/27+2N NAEW	2,338,340	-	2,338,340	1,296,637	-	(1,041,704)
16N NAEW	9,827,347	-	9,827,347	7,436,196	-	(2,391,152)
29N AOM	621,177	-	621,177	2,304	-	(618,872)
TOTAL	20,380,195	-	20,380,195	10,988,732	5,123,132	(4,268,330)

Budget authorization 2017

Budget Groups	Carry Forward	Adjustment to Carry Forward	Adjusted Carry Forward	Actual as of 31 Dec 20	CF as of 31 Dec 20	Lapse
26/27N AGS	43,000,000	-	43,000,000	3,269,509	39,730,491	-
TOTAL	43,000,000	-	43,000,000	3,269,509	39,730,491	-

Budget authorization 2014

Budget Groups	Carry Forward	Adjustment to Carry Forward	Adjusted Carry Forward	Actual as of 31 Dec 20	CF as of 31 Dec 20	Lapse
29N AOM	25,343,456	-	25,343,456	729,343	24,448,305	(165,808)
TOTAL	25,343,456	-	25,343,456	729,343	24,448,305	(165,808)

Budget authorization 2013

Budget Groups	Carry Forward	Adjustment to Carry Forward	Adjusted Carry Forward	Actual as of 31 Dec 19	CF as of 31 Dec 19	Lapse
28N NCSEP	300,324	-	300,324	150,162	150,162	-
TOTAL	300,324	-	300,324	150,162	150,162	-

ACO Budget Groups	Final budget	Actual as of 31 Dec 19	Lapse	Carry Forward	Adjustment
GRAND TOTAL	1,402,184,675	1,034,934,665	(76,926,358)	290,323,653	71,225

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I. NSIP Project Execution

Table I.A - NSIP Active projects²³

OVERALL - NSIP PROJECT EXECUTION STATUS					
Active projects					
Status	Authorized Budget	Commitments	Actuals YTD	Actuals PJTD	Funds Available
BRUNSSUM	5,140,151	25,563	67,720	2,538,929	2,575,660
NAPLES	20,322,409	28,000	-	19,640,261	654,148
KFOR	5,700,006	-	-	4,980,935	719,071
NHQSa	7,680,532	-	-	7,680,532	-
SHAPE	83,468,521	1,407,742	895,667	77,364,171	4,696,608
Grand Total	122,311,619	1,461,305	963,387	112,204,828	8,645,486

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	994,258,727	1,461,305	963,387	984,151,936	8,645,486
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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 2020 a total amount of (EUR 963,387) was spent against six NSIP projects in total, which are being executed by SHAPE (EUR 895,667) as well as JFCBS (EUR 67,720) through delegation. The six projects refer to three main categories as follows:

- a) **AOM.** An amount of EUR 67,720 was charged against AOM projects. One contingency funding to repair critical infrastructure as well as one funding for low value civil works have been executed in support of the RS Mission.
- b) **Static HQs.** An amount of EUR 687,243 was spent for temporary NIC personnel and consulting services from NCIA to support the SHAPE Project Office for the construction of new ACO Main HQ Building. In addition, an amount of EUR 28,343 was spent to hire personnel to support the provision of temporary office space required by the NCS Adaptation.
- c) **Centralised projects.** An amount of EUR 180,081 was further spent on two projects. One to upgrade the ACO/ACT Mission Identification System (AMIS) at SHAPE in order to standardise a common AMIS ID card throughout the entire NCS and the other to provide NATO-wide AIR C2 Capabilities.

The total amount of 871.9 MEUR shown at Table B represents the aggregated value of the projects assigned to SHAPE HN which were closed at the reporting date.

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

²³ YTD indicates the actual data as of 31 December 2020; PJTD indicates the cumulated data for all the projects until 31 December 2020.

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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 2020 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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	74	-	-	-	-	-	74	-
OTHER INFRASTRUCTURE	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	314	-	-	-	-	-	314	-
INSTALLED EQUIPMENT	-	-	-	-	-	-	-	-	-	-	-	-	-	-	208	-	-	-	247	-	13	-	-	-	468	-
MACHINERY	6	-	4	135	38	-	16	-	12	-	-	-	29	-	99	1,325	2	-	316	-	39	-	13	-	574	1,460
TRANSPORT EQUIPMENT - VEHICLES	-	-	-	-	5	-	-	-	4	-	-	-	-	-	22	-	5	-	136	-	-	-	4	-	176	-
AIRCRAFT	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,367	-	-	-	-	-	-	-	-	-	1,367	-
MISSION EQUIPMENT	5	-	-	-	2	-	5	-	-	-	-	-	-	-	345	568	1	-	594	-	159	-	2	-	1,113	568
FURNITURE	952	-	3	597	357	-	281	3,789	877	-	-	-	232	-	76	392	28	-	229	-	573	-	-	-	3,608	4,778
COMMUNICATIONS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	43	1,092	-	-	108	-	-	-	24	-	175	1,092
AUTOMATION INFORMATION SYSTEMS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	289	2,179	-	-	34	-	-	-	447	-	770	2,179
Consumables	-	-	-	-	-	-	18	76	24	49	-	-	1	2	9,102	6,960	18	100	990	5,541	2	-	-	-	10,155	12,729
Spare parts	-	-	-	-	-	-	269	3,556	-	-	-	-	-	-	526	9,781	4	531	3,795	55,009	-	-	-	-	4,594	68,878
Ammunition	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Grand Total	963	-	7	732	402	-	589	7,422	917	49	-	-	262	2	12,077	22,298	58	631	6,837	60,551	786	-	490	-	23,388	91,684

The table above shows the number of items written-off during 2020 by the ACO Commands per asset categories and the related accounting value.

In general, the majority of the write-offs relate to the legacy assets (acquired prior to the aforementioned cut-off date) that are fully depreciated with a zero residual value as per the NAF. Some of the items included in the total quantities reported above refer also to assets acquired after 1 January 2013. In accordance with the revised NFRs/FRPs the assets were written off under the authority of the Financial Controllers based on the net book value (NBV). However, due to the system in place in some Commands, (e.g PILS system in place in NAEW), it is not possible to reconcile the write-offs against the accounting value in the ACO FinS system. During the controls performed at corporate level for the financial closure, it has been identified that a number of RSM NATO Funded Equipment (NFE) located in HKIA have been written-off and transferred to Commander Norwegian Joint Headquarters (COM NJHQ) as part of a technical arrangement between JFCBS and COM NJHQ. Coordination between the different stakeholders is taking place to assess the steps to be taken and the need to involve the relevant finance committees.

Furthermore, for some sites, like JFCBS and RSHQ, due to the inconsistent classification of the assets, a full reconciliation between the ROS report and the above table is not entirely possible. Additional measures were already put in place to mitigate this issue in the future.

ACO Headquarters International cash losses and irrecoverable debt write-off

In 2020, there were no write-offs due to cash losses. Two entities reported write offs for irrecoverable debts: NHQSa reported 448 EUR and NAEW&C Force GK reported 239 EUR relating to uncollectable debts from former employees.

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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.

ACO Headquarters Donations Report					
ASSET CATEGORY	HQ	ITEMS	BENEFICIARY	QTY	BC/IC Approval
Transport equipment - Vehicle	NATO HQ Sarajevo	TOYOTA RAV 4 2.2 D-4D	Association of Children and Youth with special needs "Zagrljaj" Istocna Ilidza	1	BC-D(2020)0160-AS1 DATED 30/09/2020
Machinery	SHAPE	PIANO, Wendl & Lung Upright Ebony	SHAPE American High School	1	BC-D(2020)0097-AS1 DATED 20/07/2020
Machinery	SHAPE	PIANO, Upright Service Band	SHAPE American High School	1	
Buildings	RS	Buildings, Ablution Container Units, and others	GIRoA	8	
Comm.System	RS	Television Panasonic	GIRoA	1	
Furniture	RS	Book cases, Cabinets, and others	GIRoA	8	
Installed Equipment	RS	Generators/UPS, HVAC, and others	GIRoA	45	BC-D(2020)0216-AS1 DATED 15/12/2020 &
Machinery	RS	Water Pumps, Refrigerators, Forklifts, Shredders, and others	GIRoA	87	
Mission Equipment	RS	Various Items	GIRoA	154	AC/4-DS(2020)0022 DATED 14/12/2020
Other infrastructures	RS	Transformers, Fuel Tanks, and others	GIRoA	79	
Transport equipment	RS	Various Vehicles	GIRoA	104	
Consumables	RS	Cargo containers, Storage Connexs, and others	GIRoA	29	
Spare Parts	RS	AED Heartstarts, Floodlights, and others	GIRoA	17	
Total				535	

The table above shows a list of donations approved in 2020 by the relevant Finance Committee.

K. Trust Funds

The Trust Funds reported in 2020 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 Weekly Status Reports and in FinS. All the Trust Funds at ACO are managed purely for inflow and outflow through ACO CAC with the exception of KSF.

One of the main fund is the ANA Trust Fund (ANA TF), originally set up by the NAC in 2006 to support the efforts to equip the Afghan National Army. The role of ANA was expanded first in 2009 and later in 2013 taking into consideration the 2012 Chicago Summit commitments. A revised MOU dated 17 June 2014 was signed by the US, NATO HQ and SHAPE. On November 2017, the NAC agreed to extend the validity of the ANA Trust Fun Arrangements, Roles and Responsibilities and of the terms of Reference for the ANA trust Fund Board until 31 December 2020 (PO(2017)0544). In order to support the Council decision (PO(2020)0182) to extend the Afghan National Army Trust Fund arrangements beyond 2020, the three participants have given their written consent to extend the Trust Fund Memorandum of Understanding (MOU) (PO(2018)0091) until 31 December 2021. The role of SHAPE is confirmed as responsible for the financial management of the SHAPE ANA TF bank accounts by providing Treasury Functions. The daily management of the ANA TF falls to the NATO ANA TF Office (NATFO).

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The following table show the Trust Funds balances as of 31 December 2020:

	<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	2,568,927,243	26,526,615	(3,461,093)	(1,660,293,539)	18,569,108	950,268,334	950,268,334
2020	246,692,765	4,825,149	-	(252,965,870)	(50,143,770)	(51,591,726)	898,676,608
Total	2,815,620,008	31,351,763	(3,461,093)	(1,913,259,409)	(31,574,661)	898,676,608	
KSF Trust Funds							
Previous years	7,673,728	106,275	(7,740,777)	-	-	39,226	39,226
2020	-	20	-	-	-	20	39,246
Total	7,673,728	106,295	(7,740,777)	-	-	39,246	
KSF Trust Funds - US National funded							
Previous years	1,777,500	49,817	(1,777,500)	-	-	49,817	49,817
2020	-	26	-	-	-	26	49,843
Total	1,777,500	49,843	(1,777,500)	-	-	49,843	
Multinational Helicopter Initiative (MHI)							
Previous years	32,305,172	547,966	-	(29,660,227)	(51,822)	3,141,088	3,141,088
2020	-	103	-	(2,906,690)	-	(2,906,587)	234,501
Total	32,305,172	548,068	-	(32,566,917)	(51,822)	234,501	
POHRF - ISAF							
Previous years	4,983,792	(5,232)	-	(4,942,720)	-	35,839	35,839
2020	-	-	-	-	-	-	35,839
Total	4,983,792	(5,232)	-	(4,942,720)	-	35,839	

In 2020 the ANA Trust Fund received the equivalent of 246.7 MEUR in contributions from Trust Fund donors in both USD and EUR and executed the equivalent of 253 MEUR in payments for approved projects. The fund gained over 5 MUSD and 383 KEUR in interests after deductions of bank charges during the year 2020 compared to 12 MUSD and 367 KEUR in 2019. The EUR negative interests charged over 2020 amount to 20 KEUR in comparison to 26 KEUR in 2019. As a result of the 2020 execution the overall EUR holdings of the Fund decreased by 3.4% from 452.1 MEUR to 436.6 MEUR while the overall USD holdings increased by 3% from 544.4 MUSD to 560.8 MUSD compared to 2019.

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 2020 (quantities per site/category)

Inventory Categories	NAEW&C Force GK	NHQSA	Total
CONSUMABLES	1,962,371	447,940	2,410,311
SPARE PARTS	839,545	13,130	852,675
AMMUNITION	18,653		18,653
Grand Total	2,820,569	461,070	3,281,639

Inventories acquired prior to 1 January 2013 and still present as of 31 December 2020 are reported by NHQSA and NAEW&C Force GK HQ. The former still holds a significant quantity of consumables and spare parts due to stockpiles accumulated in the past to satisfy maintenance requirements of the former NE-3A Component AWACS fleet. The items are continuously monitored through normal stock-counting and technically checked to verify their serviceability. There is currently an effort conducted to identify any parts in excess that would be eligible for sale or relocation while initiating write offs through Reports of Surveys (ROS) for the remainder part. It is important to note that the policy to not consider any parts or equipment as excess when currently installed on NE-3A fleet or used by aircrafts support systems, remains applicable. This policy is essential for supporting the E-3A fleet until 2035 due to increasing threat from diminishing manufacturing sources and material shortage.

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

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TABLE L.B - PP&E prior to 2013 – status as of 31 December 2020 (quantities per site/category)

ASSET CATEGORY	SHAPE HQ	JFC Brunssum HQ	AIRCOM HQ	RSM HQ	NAEW & C Force GK HQ	JFC Naples HQ	NHQSa HQ	LANDCOM HQ	NCISG HQ	KFOR HQ	MARCOM HQ	Total
LAND		1			1							2
BUILDING	24	40	16	198	209	9	203	30	51	106	1	887
OTHER INFRASTRUCTURE	57	15	8	533	173	18		17	6	11		838
INSTALLED EQUIPMENT	92	267	150	205	4,143	65	55	22	167	187	5	5,358
MACHINERY	745	1,198	446	321	3,618	604	1,513	322	278	1,890	53	10,988
TRANSPORT EQUIPMENT - VEHICLES	219	37	88	224	381	25	93	29	740	55	1	1,892
TRANSPORT EQUIPMENT - AIRPLANES (Upgrades, Training Devices & Spare Parts)		-			15,284							15,284
MISSION EQUIPMENT	944	384	195	573	8,245	203	1,897	252	208	356	5	13,262
FURNITURE	28,927	6,942	10,920	46	286	14,353	13,690	6,332	2,938	11,042	1,715	97,191
COMMUNICATIONS		-	12	81	14,009		324			16		14,442
AUTOMATION INFORMATION SYSTEMS		-		2	4,846		373					5,221
Grand Total	31,008	8,884	11,835	2,183	51,195	15,277	18,148	7,004	4,388	13,663	1,780	165,365

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

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

The only CIS assets reported in the 2020 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 2020.

M. ACO Morale & Welfare Activities

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

All the ACO commands with the exception of NHQSa have performed MWA activities during 2020. The result is characterised by an overall loss of 1,400,770 EUR versus the profit of 815,460 incurred in 2019 (restated data).

The negative result is mainly due to a decrease in the overall revenue as disclosed in the Table M-1 as a consequence of the pandemic without sufficient reduction in expenses.

The Overall revenue decreased by 30% while the expenses have overall decreased by 23% in comparison to 2019. Close to 90% of revenue is derived from fund generating activities where sales dropped by 28% in 2020. On the expense side the contractual supplies and services expenses account for 60% of the overall expenses while personnel expenses account for 30%. Despite the reduction of the activities these expenses only dropped by 25% and 21% respectively compared to the previous reporting period.

In 2020, ACO had five sites reporting losses (SHAPE, NAEW, JFCNP, RSM and AIRCOM, the last one for a very small amount) as well as the closed activities. The loss can mostly be attributed to the activities that have been more severely impacted by the pandemic in 2020. The loss related to the closed activities is the consequence of the exchange rate fluctuations between the EUR and the USD exchange rate. In general the remaining MWA activities showed a small positive result and were less affected by the pandemic given their low complexity and associated cost structure.

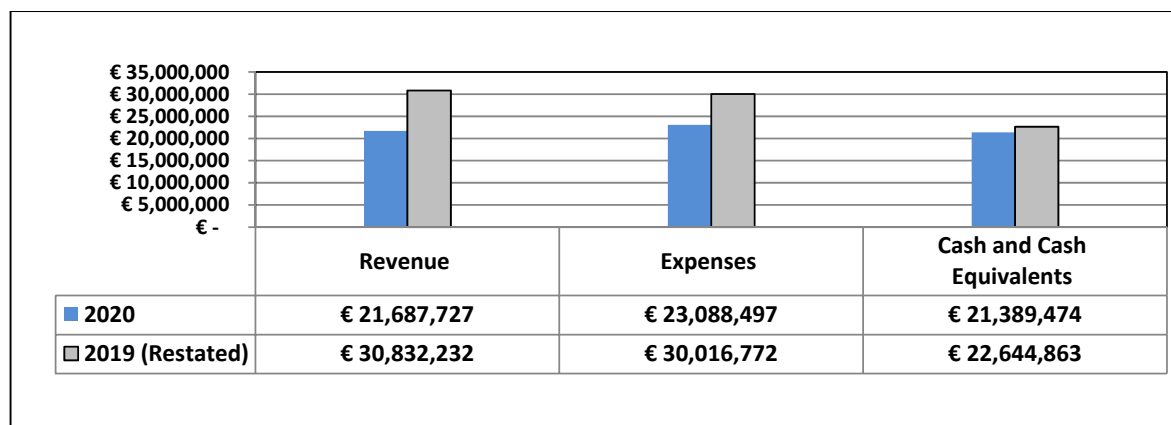
In addition, the level of cash and cash equivalents has decreased by 1.2 MEUR in comparison to 2019 and can be mainly attributed to the operating activities and associated loss in SHAPE, NAEW and RSM. The

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exchange rate fluctuations between the EUR and USD on the closed activities have also contributed to the general decrease in Cash and Cash equivalents.

The table below reflects the 2020/2019 comparative data of the ACO consolidated figures for Revenue, Expense and cash holdings

Table M- ACO Consolidated Key data – Morale Welfare Activities Financial Year 2020/2019



In March 2021 SHAPE informed the BC about concerns related to the impact of the COVID-19 on MWA operations including theatres. The pandemic caused an unprecedented arduous business environment which initially was expected to last only few months. After one year, the situation still bears the prospect of extending into the future with no firm end-date in sight. To mitigate the unavoidable and unfortunate ramifications of the situation, measures have been taken to reduce the effects. These actions include, but are not limited to, reducing MWA operations to only vital activities, optimizing the utilization of governmental COVID-19 relief (e.g. unemployment benefits), 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 challenge that COVID-19 imposes.

ACRONYMS

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

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

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

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

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