	NATO	NORTH ATLANTIC COUNCIL
	OTAN	CONSEIL DE L'ATLANTIQUE NORD

NATO UNCLASSIFIED

25 September 2020

DOCUMENT
C-M(2020)0038-AS1

IBAN Auditor's Report on the audit of the 2018 Financial Statements of ACO

ACTION SHEET

On 24 September 2020, under the silence procedure, the Council noted the RPPB report, agreed its conclusions and recommendations, and agreed to the public disclosure of this report, the IBAN Auditor's Report and associated 2018 financial statements of ACO, attached to C-M(2020)0038.

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2020)0038

NATO UNCLASSIFIED



NATO UNCLASSIFIED

10 September 2020

DOCUMENT
C-M(2020)0038
Silence Procedure ends:
24 Sep 2020 17:30

IBAN Auditor's Report on the audit of the 2018 Financial Statements of ACO

Note by the Secretary General

1. I attach the International Board of Auditors for NATO (IBAN) Auditor's Report on the 2018 financial statements of Allied Command Operations (ACO). The IBAN Auditor's Report set out unqualified opinions on both the 2018 financial statements and on compliance for ACO.
2. The IBAN report has been reviewed by the Budget Committee (BC) and the Resource Policy and Planning Board (RPPB) (see Enclosure 1).
3. I do not believe this issue requires further discussion. Therefore, **unless I hear to the contrary by 17:30 hours on Thursday, 24 September 2020**, I shall assume the Council noted the RPPB report, agreed its conclusions and recommendations, and agreed to the public disclosure of this report, the IBAN Auditor's Report and associated 2018 financial statements of ACO.

(Signed) Jens Stoltenberg

Enclosure 1: RPPB report
Enclosure 2: IBAN audit report + financial statements

1 Enclosure
2 Enclosure

Original: English



NATO UNCLASSIFIED

23 June 2020

NOTICE
AC/335-N(2020)0041
Silence Procedure ends:
03 Jul 2020 12:00

RESOURCE POLICY AND PLANNING BOARD

**IBAN AUDITOR'S REPORT ON THE 2018 FINANCIAL STATEMENTS OF ACO -
REPORT BY THE BUDGET COMMITTEE**

Note by the Chair

Reference: AC/335-N(2020)0006 (INV)

1. I attach the Budget Committee report on the International Board of Auditors for NATO (IBAN) Auditor's Report on the 2018 financial statements of Allied Command Operations (ACO). The IBAN Auditor's Report sets out unqualified opinions on the 2018 financial statements and on compliance for ACO.
2. As a result of potential weaknesses in financial management in connection with the Agencies, there is a risk that ACO do not meet its main objectives. The IBAN audit findings associated with these weaknesses are highlighted in the Budget Committee report at Enclosure 1 and provide the RPPB with the means to address these and other issues as part of its work on the NCIA Customer Funding Regulatory Framework (CFRF).
3. In line with the handling arrangements (reference) the report at Enclosure 1 is circulated for approval by the Board under silence procedure. This report takes into consideration the comments received by Nations and was approved by the Budget Committee under silence procedure on 19 June 2020. Therefore unless I hear to the contrary by **12:00 hours on Friday, 3 July 2020**, I shall assume that the Board approves the report at Enclosure 1 which is to be forwarded to Council to note the IBAN Auditor's Report on the 2018 ACO Financial Statements, and to agree the conclusions and recommendation on public disclosure.

(Signed) Tomas Graziunas





NORTH ATLANTIC COUNCIL
CONSEIL DE L'ATLANTIQUE NORD

NATO UNCLASSIFIED

19 June 2020

DOCUMENT
BC-D(2020)0077-FINAL

BUDGET COMMITTEE

**IBAN AUDITOR'S REPORT ON THE 2018 FINANCIAL STATEMENTS OF ALLIED
COMMAND OPERATIONS (ACO)**

REPORT BY THE BUDGET COMMITTEE

Note by the Secretary

Attached at Annex 1 is the agreed final version of the Budget Committee report for submission to the RPPB.

(Signed) L. HAYES

NATO UNCLASSIFIED

IBAN AUDITOR'S REPORT ON THE 2018 FINANCIAL STATEMENTS OF ACO**Report by the Budget Committee**

References:

A. IBA-A(2019)0109	IBAN Audit on the 2018 Financial Statements of ACO
B. C-M(2015)0025	NATO Financial Regulations
C. BC-D(2015)0260-REV2	NATO Financial Rules and Procedures
D. AC/335-N(2020)0006	Handling Arrangements for the Audited 2018 Financial Statements of NATO Entities
E. PO(2015)0052	Wales Summit tasker on transparency and accountability
F. PO(2018)0259	The common funded capability delivery governance model

INTRODUCTION

1. This report by the Budget Committee (BC) addresses the IBAN Auditor's Report on the 2018 financial statements of Allied Command Operations (ACO). The IBAN Auditor's Report set out unqualified opinions on the financial statements and on compliance of ACO in 2018 (Reference A).

AIM

2. This report summarises the IBAN Auditor's Report to enable the BC to reflect on strategic issues or concerns emanating from the audit of financial statements of NATO entities and to recommend courses of action to the Resource Policy and Planning Board as applicable, which has the potential to improve transparency, accountability and consistency.

DISCUSSION

3. IBAN may, in accordance with its Charter, apply a thematic approach for conducting compliance audits as a component of the financial audit of NATO reporting entities, which cover the aspects of regularity and propriety. As part of the compliance audit component of the financial audit of ACO, IBAN selected ACO's relationship with two major NATO customer funded agencies. As a result of potential weaknesses in financial management in connection with these agencies, there is a risk that ACO do not meet its main objectives. Therefore the BC was invited to comment on this report which covers the IBAN Auditor's Report with specific reference to the 2018 IBAN observations in respect of these potential weaknesses (Reference D).

4. In 2018 the IBAN issued two observations with recommendations, neither observation impacted the audit opinion on the financial statement or on compliance. The two new observations covered the need for ACO to be an "intelligent customer" with NATO customer-funded agencies; and mitigate risks that arise with using NATO customer-funded agencies.

5. The IBAN followed up on the status of recommendations from the previous years' and found five were closed and nine in-progress. The in-progress recommendations related to topics including inaccurate asset registers, updating or signing agreements, documenting risk management and internal control procedures, systems administration improvements, confirming year-end balances with other NATO entities and FMS accounting policy review.

6. The BC acknowledge the hard work and range of effort ACO has made that has resulted in an unqualified audit opinion in 2018 furthermore the BC is pleased with the progress ACO has made against prior year observations. The achievement of these significant steps are a reflection of the hard work and dedication of the ACO Financial Controller and the Finance and Accounting team.

7. Observation 1 – ACO need to be an “intelligent customer” with NATO customer-funded agencies. The IBAN found that ACO place significant reliance on the two large NATO agencies, NATO Communication and Information Agency (NCIA) and NATO Support and Procurement Agency (NSPA), for the delivery of goods and services and logistics support, both to military headquarters and directly to the theatre of operations. ACO concurred with the IBAN observation and partially agreed with the recommendations. The areas where agreement was not fully reached are covered in the following sub-paragraphs.

7.1. One of the IBAN concerns is the inability of ACO to conduct a meaningful review of NCIA estimates in order to verify the personnel time and cost. In turn, ACO contend that even if it had the necessary detail it does not have the expertise and resources that would be necessary to act as a truly intelligent customer. Furthermore ACO suggest that NCIA's “monopoly” over CIS needs to be robustly and independently policed.

7.1.1. The BC welcome the IBAN for its observations, and acknowledge the weaknesses and concerns described in the Auditor's Report. In this context the BC is also aware that the Resource Policy and Planning Board (RPPB) is addressing these and other issues as part of its work on the NCIA Customer Funding Regulatory Framework (CFRF) and consider that the audit findings should be highlighted so that they can be properly addressed. The provision of effective and efficient CIS support, by an Agency that is fully accountable for its performance, is of critical importance to the NCIA's military customers and the BC therefore strongly support the ongoing CFRF review.

7.2. The second area of partial agreement was where IBAN highlight that ACO will prevent delays occurring by obtaining an in-house system to review the coherence between Operations and Maintenance (O&M) estimates and investments made as part of ongoing multiyear Capability Packages (CP) and Capability Programme Plans (CPP). ACO partially agree with this recommendation and is implementing internal directives but contend that whilst a tool would be useful, the NCIA and its staff should be more proactive in identifying delays to the delivery of CP and CPP.

7.2.1. The BC support the need to develop and monitor the coherence between investments and O&M costs of CP and CPP. This may include upskilling staff so that the scope of verifying the validity of budget estimates are widened to include more analysis

techniques and not only where there are major variances compared to the prior year. Furthermore to aid transparency the BC is encouraged that the NCIA is providing more detailed Service Support Costs (SSC) to the WGNT and NOR and access to this information for ACO is improving. In order to avoid duplicating effort, the BC support NCIA to implement the principles within the new governance model (Reference F) which places the burden of information sharing with the information owner and puts additional emphasis on the end-to-end life cycle aspects of capability delivery. Furthermore the BC also recognise that NCIA should provide more timely information on capability delivery that should allow for better planning and mitigation of O&M related risks.

7.3. The third area where agreement was not fully reached is in respect of other military goods and services where the IBAN found that responsibilities were blurred between SHAPE and the Contract Integrator (CI) team. The IBAN recommend that ACO should clarify with NSPA their shared roles and responsibilities at an operational level. ACO contend that the roles and responsibilities are clear if the Agencies and “intelligent customers” follow the principles set out in both the FRP (Reference C) and BC Procurement Guidance. ACO note the Logistics Support Agreement (LSA) between the Agency and ACO will be amended once the Joint C2 structure is implemented.

8. It is worth noting that IBAN also found that ACO was unable to challenge the indicators used by NCIA to measure and report on the quality of locally maintained services which are only disclosed through qualitative reports of customer concerns and complaints. In this respect IBAN note that it is important for ACO to challenge the results recorded thereby increasing the likelihood that services are delivered as planned. IBAN cite a particular case, MARCOM HQ where the CIS services were not received in whole but yet the entire invoice was paid. ACO have put in place a working group to review and assess the Key Performance Indicators (KPI) and Key Quality Indicators (KQI) provided by NCIA. The BC support the actions of ACO to setup a working group to review and assess KPI and KQI and highlight that, like in the case of MARCOM HQ, ACO should challenge whether services were wholly received in the first instance prior to paying the invoice. In this regard the BC invite ACO and its working group to develop a mechanism to assist the requirement holder to identify and assess where all the services (complex and less complex) have not been received in full. This would enable ACO to systematically assess the need for partial payment where services are only partially delivered.

9. Observation 2 – ACO need to mitigate risks that arise with using NATO customer-funded agencies: ACO place significant reliance on the NATO customer-funded agencies to deliver critical parts of its operations. This is particularly the case for CIS services and equipment which, if not delivered on time and to quality could jeopardise the success of an operation. ACO comment that NCIA budget estimates continue to drive much of the risk in its budgets and that the implementation of the CFRF is not fit for purpose in meeting its objectives. In general ACO concurred with the IBAN observations and comment on the IBAN recommendations to address risks in respect of; large delays for NATO operations and missions; insufficient quality of CIS equipment and services; cost overruns related to External CIS contractors; and limited enforceability of Service Level Agreements.

CONCLUSIONS

10. The IBAN issued an unqualified audit opinion on the 2018 ACO financial statements and on compliance. As of the 2018 IBAN audit 5 observations were closed and 9 in progress. Two new observations were raised and neither observation impacted the audit opinion on the financial statement or on compliance. The two new observations covered the need for ACO to be an “intelligent customer” with NATO customer-funded agencies; and mitigate risks that arise with using NATO customer-funded agencies.

11. The BC acknowledge the hard work and range of effort ACO has made that has resulted in an unqualified audit opinion in 2018 furthermore the BC is pleased with the progress ACO has made against prior year observations. The achievement of these significant steps are a reflection of the hard work and dedication of the ACO Financial Controller and the Finance and Accounting team.

12. One of the IBAN concerns is the inability of ACO to conduct a meaningful review of NCIA estimates in order to verify the personnel time and cost. The BC is grateful to the IBAN for its observations and strongly support the ongoing CFRF review in the RPPB and consider that the audit findings should be highlighted during this review so that they can be properly addressed.

13. The BC welcome the implementation of internal directives within ACO to support coherence between O&M estimates and investments made as part of ongoing multi-year CP. Furthermore the BC urge NCIA to be more proactive in identifying delays to delivery of CP.

14. IBAN recommended that the roles and responsibilities need to be made clearer at the operational level. ACO contend that the principles are clear in the FRP and BC Procurement Guidance. The BC welcome the opportunity to enhance the roles and responsibilities in during the planned 2020 review of NFR, FRP and BC Procurement Guidance.

15. The BC support the actions of ACO to setup a working group to review and assess KPI and KQI and highlight that, like in the case of MARCOM HQ, ACO should challenge whether services were wholly received in the first instance prior to paying the invoice. In this regard the BC invite ACO and its working group to develop a mechanism to assist the requirement holder to identify and assess where all the services (complex and less complex) have not been received in full. This would enable ACO to systematically assess the need for partial payment where services are only partially delivered.

RECOMMENDATIONS

16. The BC invite the Resource Policy and Planning Board to recommend that the Council:

16.1. note the IBAN Auditor's Report at reference A; and

16.2. agree the conclusions in paragraphs 10 to 15; and

16.3. agree to the public disclosure of this report, the IBAN Auditor's Report and the associated 2018 financial statements of ACO in line with agreed policy at Reference E.



NORTH ATLANTIC TREATY ORGANIZATION
ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD

INTERNATIONAL BOARD OF AUDITORS FOR NATO
COLLÈGE INTERNATIONAL DES AUDITEURS EXTERNES DE L'OTAN

NATO UNCLASSIFIED



IBA-A(2019)0109
28 August 2019

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

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

Subject: ***International Board of Auditors for NATO (IBAN) Auditor's Report and Letter of Observations and Recommendations on the audit of the Allied Command Operations (ACO) Consolidated Financial Statements for the year ended 31 December 2018 – IBA-AR(2019)0016***

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

IBAN's report sets out an unqualified opinion on the Consolidated Financial Statements of the Allied Command Operations (ACO) and on Compliance for financial year 2018.

Yours sincerely,

Dr. Hans Leijtens
Chairman

Attachments: As stated above.

**Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Consolidated Financial Statements of the
Allied Command Operations (ACO)
for the year ended 31 December 2018**

IBAN audited the Allied Command Operations (ACO) Consolidated Financial Statements (Financial Statements hereafter) for the year ended 31 December 2018. The total budgetary spend (commitments plus actuals) for ACO against Budget Committee (BC) funded budgets in 2018 amounted to EUR 1.13 billion (EUR 1.09 billion in 2017). In addition to the execution of the BC budgets, ACO also incurred EUR 2.27 million (EUR 1.39 million in 2017) 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 2018.

During the audit, IBAN made two observations and recommendations. They do not impact the audit opinion on the financial statements and on compliance:

1. ACO needs to be an “intelligent customer” with NATO customer-funded agencies.
2. ACO needs to mitigate risks that arise with using NATO customer-funded agencies.

These findings are in the Letter of Observations and Recommendations (Annex 3).

IBAN also followed up on the status of observations from its previous years’ audit and noted that five were closed and nine were in-progress.

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

NATO UNCLASSIFIED

ANNEX 2
IBA-AR(2019)0016

28 August 2019

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS OF THE

ALLIED COMMAND OPERATIONS

(ACO)

FOR THE YEAR ENDED 31 DECEMBER 2018

NATO UNCLASSIFIED

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

Report on the Audit of the Financial Statements

Opinion on the Financial Statements

The International Board of Auditors for NATO (IBAN) has audited the Consolidated Financial Statements (Financial Statements hereafter) of Allied Command Operations (ACO), for the 12 month period ended 31 December 2018, issued under document reference SH/FINAC/CAC/FC097/19, and submitted to IBAN on 31 march 2019. These Financial Statements comprise the Statement of Financial Position as at 31 December 2018, 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 2018, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a budget execution report for the 12 month period ended 31 December 2018.

In our opinion, the Financial Statements give a true and fair view of the financial position of ACO as at 31 December 2018, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2018, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework.

Basis for Opinion on the Financial Statements

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

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

We are independent in accordance with the INTOSAI Code of Ethics and we have fulfilled our other ethical responsibilities in accordance with these requirements. The responsibilities of the members of IBAN are more extensively described in the section «Auditor's Responsibilities for the Audit of the Financial Statements» and in our Charter. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's Responsibility for the Financial Statements

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

The Financial Statements are signed by the Head of the NATO body and the Financial Controller. In signing the Financial Statements, the Head of NATO body and the Financial Control 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Report on Compliance

Opinion on Compliance

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

Basis for Opinion

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

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

Management's Responsibility for Compliance

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

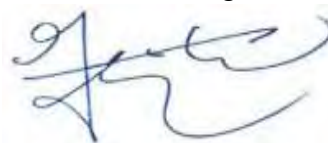
The Supreme Commander is responsible and accountable for sound financial management. The financial administration of NATO bodies must incorporate the principles of propriety, sound governance, accountability, transparency, risk management and internal control, internal audit, external audit, and fraud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

Auditor's Responsibilities for Compliance

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

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

Brussels, 28 August 2019



Dr. Hans Leijtens
Chairman

NATO UNCLASSIFIED

ANNEX 3
IBA-AR(2019)0016

28 August 2019

INTERNATIONAL BOARD OF AUDITORS FOR NATO

LETTER OF OBSERVATIONS AND RECOMMENDATIONS

FOR THE ALLIED COMMAND OPERATIONS

(ACO)

FOR THE YEAR ENDED 31 DECEMBER 2018

NATO UNCLASSIFIED

Introduction

The International Board of Auditors for NATO (IBAN) audited the Allied Command Operations (ACO) Consolidated Financial Statements for the year ended 31 December 2018, and issued an unqualified opinion on those financial statements and on compliance.

IBAN selected as a propriety subject matter area, the relationship with the two major NATO customer-funded agencies from ACO's perspective. This is because significant funds provided to ACO are used to procure services from these two agencies. Potential weaknesses in ACO's financial management in connection with these agencies could therefore pose a risk that ACO does not meet its main objectives. The scope of the audit observations and recommendations presented in this report relate only to ACO and does not cover the two NATO customer-funded agencies.

The general criteria used as part of the audit of propriety compliance are derived from INTOSAI standards. They were shared with ACO during the interim phase of the audit. The main criteria specifically applied were as follows:

- Compliance with an effective and efficient internal control system
- Expectations regarding the utility, quality and timely delivery of goods and services
- Sound transparent financial management
- Acceptable standards or good practices

Observations and Recommendations

During the audit, IBAN made two observations with recommendations.

These observations do not impact the audit opinion on the financial statements and on compliance:

1. ACO needs to be an "intelligent customer" with NATO customer-funded agencies.
2. ACO needs to mitigate risks that arise with using NATO customer-funded agencies.

IBAN followed up on the status of observations from the previous years' audit and found that five were closed and nine were in-progress.

IBAN also issued a Management Letter (reference IBA-AML(2019)0011) to the ACO Chief of Staff with three observations for management's attention.

OBSERVATIONS AND RECOMMENDATIONS

1. ACO NEEDS TO BE AN “INTELLIGENT CUSTOMER” WITH NATO CUSTOMER-FUNDED AGENCIES

Reasoning

1.1 ACO places significant reliance on the two large NATO agencies, NCIA and NSPA, for the delivery of goods and services and logistic support, both to military headquarters and directly to the theatre of operations. This sharing of roles and responsibilities between ACO and the two agencies has been decided by Nations and is designed to ensure that ACO can have access to high quality, cost effective and timely delivery of goods and services through NCIA and NSPA.

1.2 From ACO's perspective, reliance on the two large NATO agencies requires that the various units involved fulfil together the role of an “intelligent customer” in order to ensure that requirements are clearly defined and that the delivery of goods and services is in line with requirements in terms of quality, cost and timeliness. Given its importance to the success of ACO operations, this “intelligent customer” role is regularly recalled in NATO documentation, such as in the introduction entitled *NCIA Customer Funding Regulatory Framework* to the 2018 Budget Guidance of the Budget Committee (BC) for the budget submission of CIS requirements. This role implies having a trained and competent workforce, technical know-how, and planning and monitoring capacity.

1.3 CIS services represent an important part of ACO's budget. In 2018, the budget submission to cover the funding of military CIS capabilities in the year amounted to EUR 145 million.

1.4 Prior to placing orders to its CIS service provider NCIA, ACO first needs to identify the CIS requirements and estimate their cost for inclusion in the NATO Centralised CIS Budget (NCCB: Budget Code 177), approved by the BC. Once the NATO Centralised CIS Budget is approved, a Centralised Service Level Agreement is negotiated and signed by ACO and NCIA. A service level agreement (SLA) is an agreement between a service provider and its internal or external customers that documents what services the provider will deliver, at what costs and defines the service standards the provider is required to meet. An SLA is not necessarily a legally binding document.

1.5 Similar arrangements exist between the military sub-commands and NCIA for their respective local SLA. Within the agreement, when the services are delivered by NCIA through a third party contractor, these are defined as “External CIS”.

1.6 Being an “intelligent customer” requires ACO to be able to ensure that CIS services, including External CIS, are budgeted based on reliable estimates of CIS requirements. This role also requires that ACO is able to verify that CIS services are delivered in accordance with the terms of the SLA and in a manner consistent with applicable NATO standards, policies, codes and best practices.

1.7 For other types of military goods and services and logistic support, ACO relies on its service provider NSPA, which provides ACO with access to integrated commercial support solutions, for both its military headquarters, exercises and the theatre of operations. In 2016, Nations agreed for ACO to establish under common funding a Contract Integrator (CI) capability staffed with a small team of NSPA procurement officers located at SHAPE and multiple sub-commands and at NSPA's Headquarters.

1.8 In the same year, a Logistics Support Agreement (LSA) between SHAPE and NSPA on the provision of the Logistics Contract Integrator Capability was signed to:

Outline the roles and responsibilities of the Parties when providing integrated contract planning, implementation and management to improve the delivery of Contractor provided logistics support options to NATO Command Structure (NCS), NATO Force Structure (NFS) and to nations contributing to NAC approved AOM and exercises.

1.9 The CI Capability was essentially created to facilitate the development of rapidly usable enabling contracts (RUEC), for example relating to Real Life Support. The CI was tasked to deliver a number of RUEC contracts for use by NATO and Nations. The CI's function is to assist the ACO military logistic planners during the Operation Planning Process (OPP) and to act as the interface between NATO and contractors. As an "intelligent customer", ACO must be able to challenge the advice and logistic support solutions defined by the CI team and delivered by NSPA to ACO.

Observation

CIS Services

1.10 For the delivery of CIS Services, IBAN found that ACO is not able to conduct a meaningful review of the budget estimates provided by NCIA. Firstly, ACO does not systematically receive clear justification to support the level of effort or personnel costs required to deliver CIS services. Secondly, ACO does not:

- Have an in-house system to review the coherence between Operations and Maintenance (O&M) cost estimates and investments made as part of ongoing and multiyear Capability Packages (CPs). The existence of an ACO integrated and reliable system would have allowed ACO to identify the delays, request information from NCIA and as a result this would have prevented the 2018 budget being underestimated by EUR 11 million. This is because the cost of the contract extension for the Cyber Defence programme managed by NCIA would have been identified.
- Systematically verify the validity of estimates provided by NCIA that are included in the NCCB budget submission. In practice, due to lack of sufficient qualified staff, mainly Service Operational Coordination Officers, estimates are only

checked by the SHAPE Cyberspace Directorate (J6 Cyber) when there are major deviations from the previous year.

1.11 The need to challenge estimates provided by NCIA is particularly relevant for the maintenance of legacy systems or software. This is because the maintenance period will need to be extended due to delays in implementing new NSIP-funded CPs, potentially leading to an increase in additional unforeseen CIS costs if incorrectly estimated.

1.12 IBAN also found that ACO is unable to challenge the indicators used by NCIA to measure and report on the quality of services provided. NCIA uses Key Quality Indicators (KQIs) to assess customer satisfaction. These KQIs are in principle associated to Key Performance Indicators (KPIs) to quantify the performance of a specific CIS system.

1.13 However only KQIs are used to measure the quality of service delivery through SLAs for most locally maintained services such as Video Tele Conference, CIS Security, NATO General Communication Service or Satellite Communications. In such cases, the Agency reports the quality of services through qualitative reports disclosing complaints, customer concerns and follow-up. For all other services, KPIs are monitored by NCIA with an IT application used to measure performance.

1.14 ACO is therefore not in a position to challenge the results recorded in the Agency's performance measurement IT application, unless there were major operational disruptions that were impossible to ignore. This situation occurred when:

- MARCOM HQ, Northwood suffered a disruption from 24 February to 22 March 2018 due to a major outage of the Document Handling System (DHS) that impacted other IT services such as Task Tracker Enterprise, JCHAT or SharePoint.

1.15 Despite the fact that the services were down, the System Centre Operations Manager (SCOM) operated by NCIA showed the performance of services delivered to MARCOM as "target achieved". At year end, the entire agreed service was paid by HQ MARCOM despite the DHS outage of one month, without any further compensation or retention of payment.

1.16 As an "intelligent customer", it is therefore important to ensure that ACO is able to challenge the estimates used as the basis for the CIS budget submission provided by NCIA and that the services are delivered as planned.

Other military goods and services

1.17 IBAN found that for the delivery of other military goods and services, ACO as Contracting Authority, is not able to fully challenge the advice and proposed solutions provided by the Contract Integrator (CI) team. The CI team assists ACO as Contracting Authority by defining requirements and providing support around the procurement process. In that role, the CI team has five core tasks:

- Support to operations
- Advance planning
- Capability delivery
- Training exercises and education
- Standing tasks, such as conducting industry conferences

1.18 The sharing of roles and responsibilities between the SHAPE Acquisition and Contracting Branch is described in the LSA and its associated Programme of Work. However, the LSA and the Programme of Work do not clearly define at a workflow level roles and responsibilities.

1.19 The LSA states that SHAPE will include key performance indicators for appropriate projects listed in the Programme of Work against which CI programme performance will be measured and reported. However, KPIs to measure the performance of the CI Capability have not been fully established. As a result, responsibilities between the SHAPE Acquisition and Contracting Branch and the CI team for the following four distinct functional elements of rapidly usable enabling contracts (RUEC) are blurred:

- Cost estimates and analysis
- Integrated logistic support (ILS)
- Contracting
- Industrial relations

1.20 As an “intelligent customer”, it is important to ensure that shared responsibilities between ACO and the CI team are clearly defined at the workflow level in the LSA and associated Programme of Works. Moreover, ACO must have the capacity to challenge the advice and logistic support solutions defined by the CI team and delivered by NSPA to ACO.

1.21 Overall, IBAN considers that ACO does not have the full capacity to fulfil its “*intelligent customer*” role with its two major NATO agencies. It is important that ACO addresses this weakness and strengthens this role in order to reduce operational, financial and legal risks associated with running a procurement function.

Recommendations

1.22 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.

1.23 For CIS services, ACO should develop and monitor the following information systems:

- 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

1.24 For other military goods and services, ACO should:

- Clarify with NSPA their shared roles and responsibilities with the Contract Integrator team at a workflow level in the Logistics Support Agreement and Associated Programme of Works.
- Develop the capacity to challenge the advice and logistic support solutions defined by the CI team and delivered by NSPA to ACO, by improving the use of key performance indicators.

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

Reasoning

2.1 ACO places significant reliance on the NATO customer-funded agencies to deliver critical parts of its operations. This is particularly the case for CIS services and equipment, which, if they are not delivered in time and at the required level of quality, could jeopardise the success of an operation.

2.2 As approved by Nations under the current model, all CIS equipment including spare parts used by ACO, is owned and controlled by NCIA. ACO does not have a say as to how spare parts of strategic operational importance are being managed by NCIA.

2.3 The NATO CIS Group (NCISG) relies significantly on NCIA, which is the contracting agent for procurement of CIS equipment and services. The SLA between NCISG and NCIA is the main formal arrangement for the delivery of CIS services. For CIS equipment and services not covered by the SLA, NCIA has put in place a customer request form (CRF), which mentions that goods and service will be delivered as agreed by both parties during the planning and implementation phase of the project. Under the SLA, in case of serious concern about the quality of the goods and services delivered by a third party contractor, ACO may only request the Agency to provide an electronic copy of the contract and “performance reporting deliverables” required by that contract.

2.4 When SHAPE is doing business with NATO customer-funded agencies, this is carried out between two different and separate legal personalities. This is because:

- NCIA and NSPA are part of a single legal entity established by the Agreement of 20 September 1951 on the status of the North Atlantic Treaty Organization, National Representatives and International Staff, the “Ottawa Agreement”.
- SHAPE and its subordinate headquarters within the NATO Command Structure are part of one of the two legal personalities established by the Protocol of 28 August 1952 on the Status of International Military Headquarters set up pursuant to the North Atlantic Treaty, the “Paris Protocol”.

2.5 Although both ACO and the NATO customer-funded agencies report to the North Atlantic Council, contractual arrangements between ACO and the agencies must nevertheless establish for each party liability and audit clauses, and mechanisms to resolve any disputes arising out from the interpretation or application of the agreement, such as when:

- Major disruptions affect the continuity of services
- Cost overruns occur and the responsibilities related to funding these are unclear
- Litigations arise from external contractors concerning the services provided

2.6 This clarification is to ensure that contractual arrangements between different legal entities are sufficiently enforceable and that the legal basis for sharing risks between the entities is sound and based on the NATO operational environment.

Observation

Large delays for NATO operations and missions

2.7 Following the launch of the NATO Mission in Iraq (NMI) in 2018, deploying CIS capability became a matter of urgency given the tight operational deadlines. However, due to insufficient pre-existing deployable CIS equipment available, the Military Budget Committee agreed in September 2018 that the initial CIS network be set up by NCIA using spare parts taken from its available stock.

2.8 At the same time, the stock of spare parts used for the NMI was meant to be replaced through a Crisis Response Operations Urgent Requirements (CUR) procedure funded by the NATO Security Investment Programme (NSIP). Yet, completion of the replenishment of spare parts by NCIA has been already re-scheduled for August 2019, due to a series of delays related to the issuance of the cost estimate for that request. While the absence of rapid replenishment of strategic spare parts used for NMI has been declared acceptable in the short term, the lack of adequate stocks presents a significant risk in the longer term. In addition and in connexion with the NMI, the required outsourcing of CIS services to a civilian company contracted by NCIA is now expected to take an additional two years to be implemented.

2.9 The maritime project relating to the Afloat Command Platform (ACP) limited life extension provides another example of a large delay between the planned and actual timing for the delivery of a project and its operational impact.

- The project was authorised in 2016 and identified as high priority emerging requirements. The Customer Request Form was submitted to NCIA in April 2017 and, following the latest reported information, the system is now aiming to be delivered at the end of 2019.

2.10 From an operational standpoint, until the end of 2019 and the replacement of the obsolete Afloat Command Platform, ACO may not be in a position to provide an optimised support for maritime operations. These delays generate operational risks for ACO that need to be mitigated.

Insufficient quality of CIS equipment and services delivered, in particular by External CIS contractors outside of the Service Level Agreement with NCIA,

2.11 An SLA for deployable CIS was signed by NCISG and NCIA for 2018 for an amount of EUR 17.7 million. NCIA as the contracting agent and the owner of CIS Equipment is responsible to ensure that the goods and services have been properly received based on the contractual terms and conditions.

2.12 Following concerns about the quality and quantity of deliverables provided by external contractors, the NCISG fund Managers have considered part of the SLA as not performed because they had not received the “performance reporting deliverables” as stated in the SLA. As a result, EUR 7 million out of the 17.7 million SLA budget was carried forward although the services were delivered in 2018. This amount should therefore not have been carried forward but recorded as an accrual in 2018.

2.13 However, NCISG formally did not accept the services as being delivered since they had not received the performance report from NCIA for the fourth quarter. This approach does not represent sound financial management over the budget execution. These situations generate both an operational and financial risk for ACO that should be mitigated.

Cost overruns related to External CIS contractors

2.14 SLAs are drawn under a “Firm Fixed Price” model. This model is intended to provide the customer with more stability and make the service-provider bear the majority of un-caveated risks associated with delivering the goods or services within the agreed price.

2.15 When ACO makes an order, it issues a Purchase Order (PO) to NCIA. Throughout the year, but more specifically at year end, POs are revised by ACO in close cooperation with NCIA. This revision is made to reflect the actual costs of External CIS services, including equipment, training, and other services.

- POs are however not revised to reflect changes in the personnel costs of the Agency. Moreover, there is no transmission of data related to time spent by Agency's staff on ACO projects (Agency's Time Accounting System).

2.16 In practice, the Firm Fixed Price model therefore has not been applied consistently. The Agency's personnel costs follow a Firm Fixed Price, the costs for which ACO has little visibility, whilst External CIS in reality follows a cost reimbursement model. In a Firm Fixed Price model, any cost overruns for External CIS would be borne by NCIA.

2.17 The financial impact of risks related to External CIS contracts taken by the Agency are as a result passed on to ACO. IBAN therefore considers that the way the Firm Fixed Price model is in reality applied generates financial risks for ACO that need to be mitigated.

Limited enforceability of Service Level Agreements

2.18 IBAN noted that in general, the agreements between ACO and the customer-funded agencies place the burden of potential financial and legal liabilities on the customer, SHAPE and its subordinate Headquarters. Moreover, the audit clauses are largely inoperable and ACO has no effective option to make the agreement enforceable in case of default or poor performance by the Agency. There is no mechanism for ACO to request the enforceability of the SLA with NCIA for a failure to meet agreed upon obligations.

2.19 As IBAN noted earlier, the measurement of the KQIs/KPIs are recorded by the Agency itself with little option for SHAPE to challenge the results. There is also no option of taking the Agency to any court of arbitration, which in any case would not be suitable in the NATO environment.

2.20 The options at SHAPE's disposal are mostly "soft" actions: internal escalation up to the Agency's General Manager, formal escalation to the Agency Supervisory Board (ASB). A "dispute" can be raised to other boards or committees. Ultimately a "dispute" may be referred to the North Atlantic Council (NAC) for resolution. Those last steps would be exceptional and reserved for the most extreme circumstances. In fact they have never been taken directly by SHAPE.

2.21 For NSPA, all potential liabilities arising out of the agreement are borne by the customer. As an example, the Logistics Support Agreement (LSA) between SHAPE and NSPO for Provision of Logistics Contract Integrator Capability states that:

SHAPE agrees to bear all financial costs which may arise out of legal liabilities sustained by NSPA's actions and/ or omissions, including those arising out of arrangements of any nature concluded by NSPA.

2.22 Moreover, when a contractor or sub-contractor raises a legal claim there is no formal mechanism to ensure coordination between the agency and SHAPE before the

agency agrees to the settlement of the claim. A proper coordination would put the Alliance in a stronger position to respond coherently to a contractor's claim.

2.23 There is no current mechanism at the disposal of ACO to make the agreement enforceable in case of any default or poor performance from the NATO customer-funded agencies. The lack of such mechanisms, which form the basic principles of any customer-funded contractual relationship, makes ACO unable to act as an *"intelligent customer"*.

Recommendations

2.24 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:

- 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

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

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

OBSERVATION/RECOMMENDATION	ACTION	STATUS
<p>(1) ACO FY 2017 IBA-AR(2018)0009, paragraph 1</p> <p>INACCURATE ASSET REGISTERS FOR RESOLUTE SUPPORT (RS)</p> <p>"The Board recommends ACO issue the necessary operating instructions in view of ensuring fully reliable and updated asset registers. This should include clear instruction for application of a consistent approach to recording of assets among the different RS locations (for example, hospitals, runways and other airfield's facilities) in the assets registers. Also, Finance asset registers should be fully supported and reconciled with inventory systems and infrastructure registers maintained by Engineers and logisticians"</p>	<p>For NATO Funded Infrastructure (runways and other airfield facilities, hospitals) these are currently recorded or excluded from asset registers based on relevant control criteria. Starting in September 2019, ACO has decided to implement, a more consistent approach on control criteria. This would also be defined and included in the MOUs with nations.</p> <p>For vehicles in theatre, a reconciliation was made between the list held by logistician and the financial asset register. Also multiple field visits took place as part of the reconciliation exercise. Property Asset Managers have updated the NDSS inventory list accordingly. Following the reconciliation, there has been quarterly adjustments between the two systems, NDSS and the FinS Asset Management Module. In addition, fleet management is one of the internal audit engagements to be performed in 2019 to provide assurance on the accuracy of the list of vehicles.</p>	<p>Observation In-Progress.</p>

OBSERVATION/RECOMMENDATION	ACTION	STATUS
<p>(2) ACO FY 2017 IBA-AR(2018)0009, paragraph 2</p> <p>INACCURATE DISCLOSURE OF ASSET WRITE OFFS FOR RS</p> <p>“The Board recommends ACO establishes procedures ensuring complete disclosure, in the Financial Statements, of all assets written-off and properly authorized during the financial year and that the disclosure reconciles to detailed records of PP&E and ROS’s”.</p>	<p>The approach has been implemented in two steps: Deviation on Asset Management thresholds approved in 2019 for RS. This would reduce dramatically Write-Off. Based on lesson learned that accounting policy will be implemented for all other ACO entities. For 2018, the note on write offs reconciles to details.</p>	<p>Observation Closed.</p>
<p>(3) ACO FY 2017 IBA-AR(2018)0009, paragraph 3</p> <p>APPROVAL OF TRANSFERS IN CARRY FORWARD BUDGETS IN NAEW&CF NOT IN LINE WITH THE NFR’S</p> <p>“The Board recommends NAEW&CF seek Budget Committee approval for transfers above the delegated authority to FC. The qualitative materiality of such a non-compliance could form the basis of a possible qualification on the Financial Statements in the future”.</p>	<p>NAEW requested the BC for increased transfer authority limits for prior year carry forwards.</p> <p>The BC with regard to the NAEW&CF Provisioning Budget (BC 162), approved the deviation request as follows:</p> <ul style="list-style-type: none"> - agreed that the deviation only applies for carry forward credits for the requirements related to i) depot level maintenance; ii) foreign military sales cases; and iii) aviation fuel transactions invoices; - agreed that, for the areas listed above, in cases where the final expenditure requirement exceeds the commitment carried forward by an amount up to Level E of the EFL, per transaction, the Financial Controller is authorised to absorb the 	<p>Observation Closed.</p>

OBSERVATION/RECOMMENDATION	ACTION	STATUS
	<p>difference by a transfer within the total of the appropriations carried forward. Please refer to BC-DS(2018)0058.</p> <p>In 2018, there were no prior year carry-forwards, above level E of EFL and our sample of tested carry-forwards did not reveal any significant discrepancies.</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 coordination with JFCBS, take the necessary actions to:</p> <ul style="list-style-type: none"> 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. 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. c) Immediately update the MOU for Herat to ensure that a written agreement on the costs eligible for common funding is in place”. 	<p>The update of the MOUs is still pending. Eligibility discussions is currently ongoing with the NATO Office of Resources and the Nations have not yet been approached.</p> <p>ACO has considered that use and management of NFE & NFI could be detailed in the amended MOU's instead of in technical arrangements. The new MoU for Herat was approved by the Budget Committee in 2019.</p>	<p>Observation In-progress.</p>

OBSERVATION/RECOMMENDATION	ACTION	STATUS
<p>(5) ACO FY 2017 IBA-AR(2018)0009, paragraph 5</p> <p>TECHNICAL ARRANGEMENTS FOR THE USE OF NATO FUNDED EQUIPMENT AND INFRASTRUCTURE WITH HKIA, MES AND HERAT NOT YET SIGNED</p> <p>“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>Roles and responsibilities for the use of and management of NFE and NFI could be detailed in the amended MOUs instead of in technical arrangements.</p>	<p>Observation In-progress.</p>
<p>(6) ACO FY 2017 IBA-AR(2018)0009</p> <p>DEVIATIONS FROM NORMAL METHOD OF PROCUREMENT NOT PROPERLY JUSTIFIED IN RS</p> <p>“The Board recommends JFCBS, in coordination with RS HQ, ensure deviations from normal method of procurement are properly justified and documented in accordance with existing regulations”.</p>	<p>Our testing of deviations approved in 2018 did not reveal any deviations that were not properly justified and documentation.</p>	<p>Observation Closed.</p>
<p>(7) ACO FY 2017 IBA-AR(2018)0009</p> <p>IMPROVEMENTS NEEDED IN THE PROCESS OF MODIFYING OR REMOVING PENALTY CLAUSES</p> <p>“The Board recommends SHAPE to put in place clear guidance and procedures for approval of modifications to the standard General Terms and Conditions. Reasons for significant change or modification in standard clauses should be explicitly and clearly documented and approved appropriately by the JFCBS and SHAPE P&C.”</p>	<p>HQ RS has been informed to ensure that a qualified Legal Advisor should be involved when in exceptional circumstances a contract clause needs to be changed and or deleted and that such action is approved by the CAC, properly documented and retained for audit purposes.</p>	<p>Observation Closed.</p>

OBSERVATION/RECOMMENDATION	ACTION	STATUS
<p>(8) 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> <ul style="list-style-type: none"> 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. 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. 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>Work still on-going of assessing and documenting the internal control and risk management procedures</p>	<p>Observation In-Progress.</p>
<p>(9) 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 The Board recommends that:</p> <ul style="list-style-type: none"> 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>ACO continued to follow the FRP, art XXV allowing entities to use 1% of the budget for next year's goods/services.</p> <p>The NFRs and FRPs will be reviewed by nations in 2020.</p>	<p>Observation In-Progress.</p>

OBSERVATION/RECOMMENDATION	ACTION	STATUS
<p>(10) 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 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>Although NAEW&CF have increased the use of external contractors, no back-up functions have been ensured as well as existing procedures are not documented in writing. Also, adequate capacity to sustain the maintenance and system administration of the system is not yet ensured.</p> <p>However, PILS was issued with amplifying instructions to the yearly ACO direction on what they are required to produce and when. The PILS reports this year were reviewed in detail by NAEW prior to submission to ACO and no issues were observed during the 2018 review.</p>	Observation In-Progress.
<p>(11) 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>A MOA has not yet been signed with NCIA.</p> <p>Further, no functional level agreement for the provision of CIS services in KFOR is yet in place although NCIA are providing CIS support to KFOR since 1 January 2017.</p>	Observation In-Progress.

OBSERVATION/RECOMMENDATION	ACTION	STATUS
<p>(12) ACO FY 2016 IBA-AR(2017)08, paragraph 6</p> <p>EUR 8.9 MILLION ACCUMULATED SURPLUS NOT YET HANDED BACK TO THE NATO SECURITY INVESTMENT PROGRAMME (NSIP)</p> <p>Board's Recommendation The Board recommends ACO, in coordination with the NOR, to ensure that current procedures are complied with and thus regular reimbursement of accumulated surpluses takes place.</p> <p>Specifically in relation to the balance of EUR 7,622,095 in currency fluctuations, ACO should work with the NOR to find a solution as to whether this balance should be returned to the NSIP Programme.</p>	<p>EUR 8.9 Million was reimbursed to NSIP in the fourth quarter call for contribution 2018.</p>	<p>Observation Closed.</p>
<p>(13) 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>NAEW is in process of drafting a new logistic support agreement with NSPA. The document has been endorsed by NAEW. Still under review by NSPA.</p>	<p>Observation In-Progress.</p>
<p>(14) 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>As part of the end of year procedures, ACO send out letters to other NATO entities requesting confirmation of assets and liability balances outstanding between the NATO entities.</p> <p>Further, each ACO command was in contact with other NATO</p>	<p>Observation In-Progress.</p>

OBSERVATION/RECOMMENDATION	ACTION	STATUS
	<p>entities during the closure of the accounts to confirm the detailed balances.</p> <p>Significant progress was made and many balances were confirmed and agreed but ACO did not in all cases receive responses from NSPA and NCIA. Especially in relation to goods and services delivered in the RS, outstanding balances were not in all cases fully confirmed.</p> <p>This mainly related to the status of advance payment made to NSPA. A closure exercise as of 30 September 2019 is expected to be conducted with a clean-up of balances with the agencies.</p>	

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 Body 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.

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

**OBSERVATION 1:
ACO NEEDS TO BE AN “INTELLIGENT CUSTOMER” WITH NATO CUSTOMER-
FUNDED AGENCIES)**

ACO’s Formal Comments

1a. ACO concurs with the observation and partially agrees with the recommendations.

1b. The IBAN highlights a long standing challenge summarized under the term “intelligent customer”. At its root is the limited understanding of the customer/supplier relationship which exists when dealing with NATO customer-funded agencies.

SHAPE has led numerous efforts to clarify this relationship in the Financial Rules and Procedures (FRPs), internal directives and reflected these changes in agreements signed with the Agencies since the implementation of the Agency Reform.

Notwithstanding, in order to continue to meet the desired level of customer involvement and accountability, the efforts must also include a greater understanding within the various functional requirement holders (across the J structure).

1c. Although required to be an intelligent customer, ACO is not yet in a position to correctly and properly assess and validate the estimates provided by NCIA. With the introduction of the Agency Costed Customer Services Catalogue (CCSC) approved by the Nations, visibility and transparency are no longer provided in terms of External CIS costs (ECIS) and Service Support costs (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 (NCCB and local ACO HQs CIS) in March/April, new and/or changes to requirements are provided by the Agency presenting thus both ECIS and SSC for internal ACO (SHAPE J6CY and FINAC) pre-screening in April, followed by the Working Group of National Technical Experts (WGNTe) and IS-NATO Office of Resources (NOR) screening and validation in May. These estimates are indeed difficult to challenge as Customer,

and final Service rates are not yet approved in May (only approved by the Nations end of June), and increases in external contracts are only estimated for the following year. It is also very difficult to challenge the need of the estimated effort to provide a service. Nevertheless, based on ACO's past experience and in-house technical knowledge, reductions/modifications in Agency estimates are achieved and further proposed to the WGNTN/NOR. In addition, NCIA submits more detailed SSC costs to the WGNTN/NOR, which ACO has now requested to have when initial estimates are provided beginning of the year.

The principles and methodology to calculate the Customer Rates, which are the key cost driver (labour) to calculate the cost of the services provided by the NCIA, are well documented and have been applied over the last six years.

2018 was the first year when a Costed Customer Service Catalogue was used to support the preparation of 2019 budget. An "ad hoc" process, led by the AB/FC and aimed to validate that the transition would not have ended-up in a generalised cost increase, was successfully put in place. Still some flaws remained – the true cost of the services was not yet fully validated, the linkage between changes in requirements and changes in the costs remained unclear.

In 2019, the BC approved the 2020 Customer Rates and the 2020 Service Rates on behalf of all the NCIA customers.

1d. With respect to the IBAN proposed recommendations, ACO has the following comments to provide:

- Verification of Agency personnel time and estimates: After several requests during their Quarterly Service Level reviews (QSLR), ACO has finally been provided with the ECIS execution rate at services level. No access to Time Accounting System (TAS) has ever been granted to ACO. Under the current implementation of the CFRF, the Agency cannot be held accountable for its costs or its delivery failures. ACO's ability to assure accountability for NCIA costs has been consistently reduced since 2015. There is no way under the existing framework for any customer to overcome the inherent information advantage that the Agency holds over its customers. Even if internal customers were to share all information across their agreements with the Agency, ACO would not be in a position to validate that Agency costs were fair and reasonable. This is why the Agency's monopoly over CIS services must be regulated through independent validation of Agency costs. This requires a body with the necessary financial audit capacity and open access to Agency financial records and accountable to governance bodies such as this Board and the Agency Supervisory Board.*
- Verification of the coherence between investments, and Operations and Maintenance (O&M) costs of Capability Packages (CP): A tool to follow*

up the CP progress would indeed be useful; however, the Agency should be more proactive in indicating the delay encountered by their staff for the CP delivery. ACO is developing an internal directive for Operational Acceptance (OA) and in service Benefits Management for IT projects. It describes the OA process, the products and events that contribute to the achievement of OA; defines a clear connection between operational requirements and the operational test results; follows the lifecycle approach and DOTMLPFI capability context; identifies and assigns the responsibilities to conduct the OA along the common-funded process; describes the reporting for the OA; provides a comprehensive handover of a capability that confirms that the capability (across DOTMLPFI) is suitable (meeting the operational requirements) and is sustainable throughout its lifecycle. The directive also includes an in-service chapter, which describes the operation of services based on the Service Level Agreements or the operation of complex capabilities based on their concept of support and the O&M plan.

- *Measurement of quality and performance of services delivered by NCIA: This is an on-going task as an ACO working group composed of J6 technical staff has been put in place to review the Key Performance Indicators (KPI) and the Key Quality Indicators (KQI). The ACO KQI WG was established to better define the indicators used by NCIA to measure and report on the quality of services provided, and to review KPIs and KQIs 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.*

1e. With regard to the issue related to other military goods and services, it is to be highlighted that the roles and responsibilities are clear if the principles of intelligent customer and customer-funded agencies are adhered to. The Financial Rules and Procedures as well as the associated Budget Committee Procurement Guidance set out the nature of the procurement relationship between the NATO body and customer-funded agencies. The relationship is based on a customer / supplier concept and the LSAs must be seen in that context.

There is some misunderstanding as to this relationship within and external to the Command. SHAPE FINAC continues to educate and support functional staff who define the requirements, as to the processes and procedures involved in procuring goods and services from customer-funded agencies (FRP Articles XXVII and XXXII).

The NCS Adaptation will require a closer examination to the tasks performed from a procurement perspective by the NSPA CI once all conceptual work and the Joint C2 structure is completed. Accordingly, the LSA will have to be amended

to match the future services procured through and from the CI programme.

ACO concurs with the recommendation to improve the use of Key Performance Indicators to develop the capacity to challenge the advice and logistics support solutions provided by the CI team.

IBAN's Position

IBAN acknowledges that ACO is largely dependent on information and solutions provided by NCIA for the verification of personnel time and costs estimated by the Agency. Implementing this recommendation under the current Customer Funding Regulatory Framework (CFRF) requires that ACO increases its ability to act as an intelligent customer and challenge the validity of information and solutions provided by NCIA. Given the risks involved, IBAN maintains this recommendation to develop an action plan to become an intelligent customer, as required by the current model.

OBSERVATION 2:

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

ACO's Formal Comments

2a. ACO concurs in general with the observations reported by the Board.

2b. With respect to the IBAN proposed recommendations, ACO has the following general comments:

NCIA budget estimates continue to drive much of the risk in ACO budgets. There is a strong need for better alignment to inform reliable resource planning. The implementation of service rates in the absence of any reporting on the Agency's actual expenditures, particularly for manpower costs, has undermined ACO's ability to have confidence in the reliability and accuracy of the Agency's estimates and handicaps the ability of any customer to obtain satisfactory transparency into Agency costs. Without this transparency, ACO is unable to balance resources versus requirements.

Risk Mitigation Procurement of Goods/Services from NATO Agencies. Under the current construct, whether procurement is done by organic means or through a NATO Agency, the risk ultimately remains with the customer.

IBAN has highlighted a number of valid examples. The aforementioned intelligent customer philosophy also includes this understanding. The Nations have agreed

a number of changes to the FRPs and related Budget Committee Procurement Guidance aimed at clarifying the respective roles and responsibilities of the procurement authority for each NATO Body.

These rules and procedures serve to mitigate to some extent the risk by ensuring only authorized contracting staff can legally commit the NATO Body and by extension the 29 Nations. If respected, this limits the exposure by the Commander to some of the risk. However, it also requires a more robust approach to ensure that any engagements with agencies are dealt with to ensure clarity and explicit agreement to the risks and liabilities associated with the support requested.

FINAC and OLA continue to refine the content and liability aspects of new agreements being developed to ensure agencies are held accountable to the maximum extent possible within the existing limitations of their Charters.

The Board should note that ACO has been making efforts in improving risk management policy and strategy across the organisation. One tangible example is the enduring mitigation risk approach within NCISG with proper Risk Management implementation through the NCISG Risk Improvement Plan in order to support the achievement of NCISG's objectives and the development of the NCISG's IOC/FOC criteria.

ACO agrees that the current implementation of the CFRF is not fit for purpose in meeting its objectives of focus, transparency, value for money and clear accountability.

2c. Concerning the large delays in NATO operations and missions, and associated costs as stated in the IBAN report, NATO did not have a surplus of deployable CIS equipment to meet the requirements of the NATO Mission Iraq (NMI) whose CIS requirement was beyond what could be generated from DCIS held by the Group without impacting readiness for NRF and GRP. An operational analysis and impact assessment was made and the NCISG agreed with NCIA that it could generate the shortfall by using available spares held by NCIA. As such, the NCISG readiness was not directly affected by the activation of the NMI.

- While none of the core DPoPs were taken from NRF, the NRF Deployable CIS Equipment Pool (DCEP) that provides the End-user devices (laptops, desktops, printers, VTCs etc.) was made available to NMI from the DCEP assigned to the Group, thus placing an additional operational risk on the generation of DCIS capability to support NRF. While the prevailing global Indicators and Warnings for NRF activation have not been tripped, the short-term risk to NRF has been deemed minimal especially if considered in the short-term, in light of the initial replenishment plan made by NCIA, which considered to complete the project by August 2019. The strategy to mitigate that risk by replacing*

assets has afterwards proved not to eliminate or reduce the risk due to the delays in the implementation of the Crisis Urgent Requirement (CUR) that the NCISG has no capacity to influence; however, the NCISG continues to monitor the risk and the likelihood of this having an impact in the short-term considering it still low and acceptable; whereas a fulfilment period of more than 1-year for a requirement raised under a CUR is considered anything but urgent and, therefore, not yet efficient as expected.

- *The NCISG is significantly impacted by the delays in implementing a CIS commercial solution in NMI, remaining committed to the Mission with manpower and equipment over additional 2 years at the costs of not being able to provide other support such as a decreased capability to support Military Training and Exercise Programme (MTEP) exercises. The issue has been addressed through the SHAPE CMRB and the risk has been tracked and monitored through the ACO risk register.*

2d. Regarding the cost overruns related to external CIS contractors, given the inconsistent application of the Firm Fixed Price agreements and insufficient quality of CIS equipment and services delivered, in particular by external CIS contractors outside of the SLA with NCIA:

The current SLAs have a “soft” and limited mechanism to resolve any disputes in case of major disruptions affecting the services continuity and litigations arising from external contractors services. When cost overruns occur (especially in case of military level fill rate drops at 70% or below), the SLAs clearly stipulate that both the Agency and the Customer will jointly approach the Nations with a joint assessment and available mitigation options. When cost overruns occur due to external CIS costs, the funding responsibilities are indeed not so clearly indicated. Hence, the risks responsibilities are neither articulated in the SLA’s general terms and conditions, nor under the Firm Fixed price (FFP) model. It should be noted that in case of cost overruns, 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 FFP model is not consistently applied through ACO as some local HQs are able to amend their Purchase Orders (PO) at year-end while others cannot (e.g. NCCB). This also very much depends on the Agency sector’s willingness and understanding of this FFP model. This results in a need for a possible FFP implementation for the Agency SSC and a cost reimbursement model for the Agency ECIS. Discussion is now in progress to review this FFP model, especially for the ECIS, in order to take actions mainly when services are not fully/incompletely provided.*
- *As far as risks are concerned, several combined initiatives are on-going.*

ACO FINAC has recently started to implement the COSO ERM/IC framework also to the NCCB process, hence analysing its relation with the Agency for its CIS services provision and the financial effect of such a customer-funded regime. This project output will then serve as a basis to be implemented to all other ACO local HQs CIS service provision process.

- *Moreover, the NCISG in the context of the ACO J8 Risk Management started to develop 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 an SOP, which aims at describing an internal procedure that enables the NCISG ARs/FMs 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.*

2e. ACO concurs with the observation made by the Board with regard to the limited enforceability of Service Level Agreements

In terms of making SLAs and other agreements more enforceable, the following options will be investigated:

- *Withholding payments where services have clearly not been delivered. However, this entails a number of challenges such as having evidences that the services are not delivered, valuating the amount in a context of lack of cost transparency, agreeing with the Agency.*
- *Escalating breach reporting to the Agency Supervisory Board with regard to Agency performance and to request additional transparency.*

FOLLOW-UP OF THE PREVIOUS YEARS' OBSERVATIONS**ACO's Formal Comments**

The ACO comments on the previous years' IBAN recommendations are reported below only in relation to the "In-Progress" and "Open" recommendations as shown in the Table at Annex 2 of the IBAN 2018 audit report.

IBAN's Position

The status of the follow-up of recommendations takes into account actions up to 31 December 2018. IBAN takes note of the description of actions taken by ACO and will update the status of this observation as part of the audit of the 2019 financial statements.

(1) ACO FY 2017**IBA-AR(2018)0009, paragraph 1****INACCURATE ASSET REGISTERS FOR RESOLUTE SUPPORT (RS)****ACO's Formal Comments****Action taken by Auditee:**

This observation on Resolute Support asset management was due to technical Excel problems during the consolidation process of the Resolute Support Asset Register prior to 2013. Contrary to many other HQs, Resolute Support has to deal with 5 assets registers that have to be consolidated for the financial statements. Some buildings were missing (KAF and HKIA), and some vehicles were duplicated, but these assets were correctly reported in KAF and HKIA Asset Registers prior to 2013.

These assets were correctly reported in 2018. In order to validate the data and as it has been the case since 2017, CJ8, CJ4 and CJENG jointly carried out spot-checks in the 5 camps and did not find any material mistakes; a copy of the reports was given to the IBAN. The runways and hospital issues at Herat and Mazar-e-Sharif (MeS) were addressed in 2018; they were added to the asset register.

Concerning the comments on instruction and guidance, since 2016, Resolute Support has revised its SOPs, has been carrying out inventories (quarterly) and spot-checks. In 2018, an Asset Management Working Group (AMWG) was created. It is composed of CJ4, CJENG and CJ8 staff members and they are meeting monthly.

Concerning the logistic tools for Engineers and logisticians:

- *CJENG: since the end of 2017 ACO and NSPA have been working on the possibility for NDSS to contain Resolute Support infrastructure; Resolute Support was the pilot site. The engineers' data (infrastructure) were uploaded into NDSS in May 2019.*
- *CJ4: the Motor Transport and Maintenance module (MTM) was implemented for the first time in Resolute Support in November 2018.*

Auditee assessment on the status:

Considering the above actions taken, ACO recommends to close this observation / recommendation

(4) & (5) ACO FY 2017

IBA-AR(2018)0009, paragraph 4

**NEED TO UPDATE THE FUNDING ARRANGEMENTS AND MEMORANDA OF UNDERSTANDING (MOU) FOR 5 ESSENTIAL AIRFIELD SERVICES IN RS
TECHNICAL ARRANGEMENTS FOR THE USE OF NATO FUNDED EQUIPMENT AND INFRASTRUCTURE WITH HKIA, MES AND HERAT NOT YET SIGNED**

ACO's Formal Comments

Action taken by Auditee:

The new MoU for Herat is approved by the BC (BC-DS(2019)0018 (INV). The revised MoU was signed by both, ITA and SHAPE, on 14 June and 24 June 2019 respectively. For USA, GER and TUR MOUs, the new Annex has been staffed by SHAPE. OLA confirmed that the revision of this Annex did not require BC approval. Nations were officially contacted via their NMRs.

Auditee assessment on the status:

In-progress.

As already reported, the observation at para 5 is superseded by the approach suggested and currently in progress for the observation reported at para 4. Therefore, it is requested to close the observation at para 5.

**(7) ACO FY 2017
IBA-AR(2018)0009**

**IMPROVEMENTS NEEDED IN THE PROCESS OF MODIFYING OR REMOVING
PENALTY CLAUSES**

ACO's Formal Comments

Action taken by Auditee:

The ACO Head of Contracts in the previous response provided an extensive explanation as to the discretionary realities when negotiating contracts which have potential operational implications. First and foremost, Terms and Conditions must be enforceable. Moreover, the implementation of the Solicitation Review Boards (SRB) provides a second and potentially third opportunity depending on the value of the contract to address changes to the standardized T&Cs. SRBs by default invite LEGAD participation. The observation involved a procurement which was very specific and not within the normal day-to-day procurement activity, and does not represent a significant risk to the majority of procurement actions conducted in Resolute Support and is largely mitigated for larger value procurement through the numerous levels of Review by SRBs.

Terms and conditions will continue to evolve and will require to be amended for different types of goods/services, different types of industry and must not be so ridged as to limit the support provided in theatre. Accordingly, the general terms and conditions should be applied unless a valid reason exists.

Auditee assessment on the status:

As these will be under continuous improvement and given the level of oversight, it is recommended that the observation be closed.

IBAN's Position

Taking note of the actions taken by ACO and the fact that no new instances where penalty clauses were modified or removed were identified in 2018, IBAN agrees that this observation can be closed.

(8) ACO FY 2017

IBA-AR(2018)0009, paragraph 8

**IMPROVEMENTS REQUIRED IN THE AREA OF RISK MANAGEMENT AND
INTERNAL CONTROL**

ACO's Formal Comments

Action taken by Auditee:

ACO recognizes the importance of sound Internal Control and Risk Management practices. The ACO Internal Control System is under development and coordination with all key stakeholders within ACO is ongoing. The aim is to develop an ACO Internal Control concept as a reference for conducting a gap analysis with a view to revising the current Internal Control Framework in ACO directive (080-108) dated 22 August 2017 as needed. IAW COS SHAPE D&G, risk management practices will also be matured through the forthcoming ACO Directive on ACO's Strategic Management System. On top of the assurance mapping process already developed by the ACO Financial Controller for the areas under his responsibility, steps are also being taken to put in place the processes (mostly non-financial) and evidences to support the production of the next Statement of Internal Control, to be attached to the 2019 Financial Statements in March 2020.

ACO Internal Audit (AIA) now has a risk-based audit programme and in 2019 will be auditing two key elements relevant to this observation: the ACO Strategic Management Plan, and the risk management process. AIA in coordination with FINAC also provided a risk and control training to the new internal control officer (ICO) at JFCNP and has been working closely with the ACO Financial Controller and ACO ICO in considering how development of more mature risk and control mechanisms will support the ACO Statement of Internal Control.

Auditee assessment on the status:

In-progress

(9) ACO FY 2016

IBA-AR(2017)08, paragraph 2

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

ACO's Formal Comments

Action taken by Auditee:

The NOR and the NATO entities are working on the revision of the NFRs and FRPs based on the various lessons learned discussed already at Committee level, after the implementation of the new regulation from 2015/2016. Currently, the proposed revision is focusing on the topics reported below.

- 1 - NFR FRP Proposal - Financial Controller Appointment*
- 2 - NFR Proposal - Reporting Entities*
- 3 - NFR FRP Proposal - Audit Committee*
- 4 - NFR FRP Proposal - Audit Advisory Panel*
- 5 - NFR FRP Proposal - Internal Audit*
- 6 - NFR FRP Proposal - Annual Financial Statement Process*
- 7 - NFR FRP Proposal - Budget Process (deadlines)*
- 8a - NFR Proposal - Special Carry Forwards*
- 8b - FRP Proposal - Special Carry Forwards*
- 9 - NFR FRP Proposal - Delegations*
- 10 - NFR FRP Proposal - Risk Management, Internal Controls, Fraud Corruption and Prevention*
- 11 - NFR FRP Proposal - Minor Editorial Changes*
- 12 - NFR FRP Proposal - Donations, Transfers and Investments*

The plan is to submit the proposed revision by October 2019 to the relevant Committee to respect the foreseen deadline of 2020 for the approval of the revision of the NFRs and FRPs related to the different NATO entities.

Auditee assessment on the status:

In-progress

(10) ACO FY 2016
IBA-AR(2017)08, paragraph 3
OPERATION OF KEY SYSTEM IN NAEW&CF NOT ENSURED

ACO's Formal Comments

Action taken by Auditee:

PILS is in the process of a major update that will change the user interface. As a result of this update, FHE requested and will be provided with an additional 750 KEUR in 2020 to cover the new training, documentation of the new system and NAEW specific change requests. In addition, NAEW leadership, under the direction of the Director of Management (DOM), created a small team to analyze what is required to ensure PILS is funded and staffed to complete the mission assigned to them. This will likely result in a requirement for additional PE positions which will be addressed once the study is completed.

Auditee assessment on the status:

In-progress

(11) ACO FY 2016
IBA-AR(2017)08, paragraph 5
NO MEMORANDUM OF AGREEMENT (MOA) IN PLACE WITH NCIA

ACO's Formal Comments

Action taken by Auditee:

SHAPE FINAC, SHAPE J6, NCIA, AND NCISG LEGAD have conducted several meetings regarding this topic. However, several different opinions remain regarding the need/scope to put in place a Memorandum of Agreement (MOA). The process was significantly delayed due to internally manning issue. In July 2019, the initiative was revitalized with a goal for completion by mid-2020, with an implementation effective for 2021.

Auditee assessment on the status:

In-progress

(13) ACO FY 2015
IBA-AR(2016)09, paragraph 6
NEED TO PREPARE NEW LOGISTIC SUPPORT AGREEMENTS WITH NSPA

ACO's Formal Comments

Action taken by Auditee:

The revision of the LSA document with NSPA is on-going. NAEW created a draft which is being assessed by SHAPE. The aim is to circulate the draft to external audiences (NSPA, ACO, NAPMA) for comments in the 4th quarter of 2019.

Auditee assessment on the status:

In-progress

(14) ACO FY 2013
IBA-AR(2014)20, paragraph 5
CONFIRMATION OF YEAR-END ASSETS AND LIABILITIES OUTSTANDING
BETWEEN NATO ENTITIES SHOULD BE PERFORMED

ACO's Formal Comments

Action taken by Auditee:

ACO acknowledges that this is an outstanding issue despite several efforts made in coordination with the other NATO entities. As recognized by the Board during the field audit, significant progress was made and many balances were duly confirmed. In addition, the quality of the information received has further improved. Additional coordinated approaches mainly with the corporate office, Agencies and the sites in charge of the AOM activities are currently in place and we expect a further improvement during the 2019 financial year in order to close this outstanding issue as well.

Auditee assessment on the status:

In-progress



ALLIED COMMAND OPERATIONS CONSOLIDATED FINANCIAL STATEMENTS 2018



ACO Consolidated Financial Statements 2018

**THIS PAGE IS INTENTIONALLY LEFT BLANK
THIS PAGE IS NOT INCLUDED IN THE PAGE COUNT**

ACO Consolidated Financial Statements 2018

Allied Command Operations Consolidated Financial Statements 2018

ACO Consolidated Financial Statements 2018

**THIS PAGE IS INTENTIONALLY LEFT BLANK
THIS PAGE IS NOT INCLUDED IN THE PAGE COUNT**

ACO Consolidated Financial Statements 2018

TABLE OF CONTENTS

Executive Statement Allied Command Operations (ACO)	1
Statement of Internal Control	4
Statement 1 ACO Consolidated Statement of Financial Position	S1-1
Statement 2 ACO Consolidated Statement of Financial Performance	S2-1
Statement 3 ACO Consolidated Cash Flow Statement	S3-1
Statement 4 ACO Consolidated Statement of Changes in Net Equity	S4-1
Statement 5/1 ACO MB Budget Execution Report	S5/1-1
Statement 5/2 Summary Budget Execution Report - Other	S5/2-1
Notes to the Financial Statements	N-1
Acronyms	

ACO Consolidated Financial Statements 2018

**THIS PAGE IS INTENTIONALLY LEFT BLANK
THIS PAGE IS NOT INCLUDED IN THE PAGE COUNT**

Allied Command Operations

Executive Summary

INTRODUCTION

1. The Allied Command Operations' (ACO) mission is to fulfil NATO's core tasks, permanent tasks and other agreed objectives by providing early crisis identification; planning, preparing and conducting military operations; and cooperating with partners in order to contribute to the overall security and territorial integrity of NATO member states.

2. ACO is a functional chain of military command and is neither a legal entity nor a juridical organisation. ACO Consolidated Financial Statements cannot be construed as superseding any existing agreements or organisational norms, or otherwise creating any legal effect.

3. The ultimate controlling and decision-making entity for the Alliance and its components are the 29 Alliance Member Nations, which provide military forces along with physical and financial resources for the daily operations of ACO and its subordinate commands.

4. The ACO Strategic Management Plan (ASMP) determines ACO's goals and ASMP objectives critical for the realization of SACEUR's Vision for ACO to efficiently and effectively contribute to the successful delivery of the tasks and other agreed objectives mandated by Nations. It also provides the structures, procedures and tools for the measurement of performance in achieving ASMP objectives and the management of risks associated with them.

5. ACO's principal headquarters, the Supreme Headquarters Allied Powers Europe (SHAPE), is located in Casteau, Belgium. The ACO subordinate commands include two Allied Joint Force Commands (JFCs) located in Brunssum, The Netherlands and Naples, Italy. The JFCs currently provide theatre oversight and assistance, respectively, in Afghanistan and the Balkans (Sarajevo, Bosnia Herzegovina; Pristina, Kosovo). There are three ACO single service commands: Allied Land Command in Izmir, Turkey; Allied Maritime Command in Northwood, United Kingdom; and Allied Air Command in Ramstein, Germany. The latter also includes two Combined Air Operations Centres (CAOC), one in Uedem, Germany and the other in Torrejon, Spain. Additionally, the Deployable Air Command and Control Centre (DACCC), located at Poggio Renatico (Italy), is a hybrid entity which consists of three elements: a Deployable Air Control Centre – Recognized Air Picture Production Centre – Sensor Fusion Post (DARS), a D-AOC and a Deployable Sensors Suite (DSS). The NATO Communications and Information Systems Group (NCISG) is located in Casteau, Belgium and includes three subordinate NATO Signal Battalions located in Wesel, Germany; Grazzanise, Italy; and Bydgoszcz, Poland. There are two NATO Force Structure units with organisational and financial reporting requirements to ACO: the NATO Airborne Early Warning and Control Force (NAEW&CF) in Geilenkirchen, Germany, and the NATO Alliance Ground Surveillance Force (NAGSF) in Sigonella, Italy.

6. The NAEW&CF GK aircraft are a key element of the Alliance's early warning capability, providing airborne surveillance, warning and control capability over large distances and at low altitude. The NAEW&CF implemented its new force structure in November 2015. The restructuring included a reduction in the number of wings and squadrons, with the deactivation of the Information Technology Wing, the Training Wing, the Aircraft Maintenance Squadron, the Electronic Maintenance Squadron and Flying Squadron 3 as of 01 November 2015. The Base Support Wing was reactivated and will be the backbone of the Control Force operational structure together with the Operation Wing and the Logistics Wing. The NAGSF core capabilities enable the Alliance to perform persistent

NATO UNCLASSIFIED
Releasable to North Macedonia

surveillance over wide areas from High-Altitude Long-Endurance (HALE) aircraft, operating at considerable stand-off distances and in any weather or light conditions. The NAGSF main operating base is located at Sigonella Air Base, Italy, which serves multiple purposes as a NATO Joint Intelligence, Surveillance and Reconnaissance (JISR) deployment base, and data exploitation and training centre. The engagement of NATO common funds for infrastructure, communications, operation and support will follow normal funding authorisation procedures applicable within the Alliance.

2018 HIGHLIGHTS

7. At the NATO Summit in Brussels, July 2018, following a request from the Iraqi government, Allied leaders launched a new training mission in Iraq, called NATO Mission Iraq (NMI). This new mission will build on training and capacity building efforts already conducted in Iraq through the NATO Training and Capacity Building Initiative for Iraq. This initiative was completed at the end of October 2018.

8. At the Warsaw Summit in 2016, the heads of state and government announced the need to assess NATO's Command Structure in recognition of the changing security environment. The decision allowed NATO to remain robust and agile, and able to undertake effective command and control of simultaneous challenges across the full spectrum of missions. Emerging threats such as regional instability, terrorism, mass migration, a more assertive Russia, as well as hybrid and cyber activities required greater operational capability. Most recently, at the February 2018 Defence Ministerial Conference, the leaders agreed to bolster maritime security, logistics and military mobility, and cyber defence. A new joint force command for the Atlantic will aid the protection of sea lines of communication between North America and Europe. The establishment of a new command to support logistics, reinforcement and military mobility will facilitate the movement of troops and equipment for NATO's collective deterrence and defence. New elements within each of the commands, including a new cyber operations centre at SHAPE, are aimed at adapting and further strengthening NATO's defences for today's dynamic security environment. These reforms will also improve NATO's ability to integrate the NATO Force Structure (NFS), a group of Allied national and multinational forces as well as headquarters at NATO's disposal. This adaptation directly supports the three core Alliance tasks: collective defence, crisis management and cooperative security. While a large scale and complex effort, the reformed NATO Command Structure will maximise the deterrent effects of NATO forces and ensure realignment to today's geopolitical context in time of peace, crisis and conflict.

9. With around 50,000 participants, 250 aircraft, 65 ships and up to 10,000 vehicles from 31 nations, NATO's exercise TRIDENT JUNCTURE 2018 was NATO's largest high visibility exercise in decades, with Norway and Iceland serving as host nations. Over 20,000 land forces, 24,000 navy personnel, including US Marines, 3,500 air personnel, around 1,000 logistics specialists and 1,300 personnel from a range of NATO commands participated in the live portion of the exercise. TRIDENT JUNCTURE 2018 is designed to ensure that NATO forces are trained and ready. It has been an important test, and a tremendous display of NATO's collective capabilities.

RESPONSIBILITY

21. The attached, unaudited fiscal year 2018 ACO consolidated financial statements for the period starting 01 January 2018 and ending 31 December 2018, have been prepared in accordance with the NATO Financial Regulations (NFRs), 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

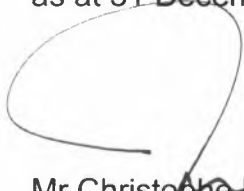
NATO UNCLASSIFIED
Releasable to North Macedonia

responsibility and accountability principles prescribed in NFR Article 3.1, and are submitted to the IBAN in accordance with NFR Article 35.

22. In preparing these accounts, ACO has:

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

23. 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 2018.



Mr Christophe Rappe
Financial Controller
Allied Command Operations



Curtis M. Scaparrotti
General, U.S. Army
Supreme Allied Commander Europe

ACO Consolidated Financial Statements 2018

**THIS PAGE IS INTENTIONALLY LEFT BLANK
THIS PAGE IS NOT INCLUDED IN THE PAGE COUNT**

STATEMENT OF INTERNAL CONTROL

I. Scope of Responsibility

1. As Supreme Allied Commander Europe, I am responsible and accountable for maintaining a sound system of internal control providing reasonable assurance regarding the delivery of the tasks and other agreed objectives mandated by Nations.
2. As ACO Financial Controller, I am responsible for safeguarding the Nations' common funds that have been entrusted to ACO, in accordance with the responsibilities assigned to me in the NATO Financial Regulations (NFRs).

II. Purpose of ACO's Internal Control System and limitations of the SIC

3. ACO's Internal Control System, detailed in ACO Directive (AD) 080-108, provides NATO Nations, ACO's management level and staff with reasonable assurance regarding ACO's state of conduct and risk profile, the accuracy and reliability of its financial reporting and its compliance with laws, regulations and standards.
4. As ACO is neither a legal entity nor a juridical organisation, the SIC 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

5. The ACO Strategic Management Plan (ASMP) determines ACO's Goals and ASMP Objectives critical for the realization of SACEUR's Vision for ACO to efficiently and effectively contribute to the successful delivery of the tasks and other agreed objectives mandated by Nations. The required degree of reasonable assurance within the scope of the ASMP, which was subject to a major review in 2018 currently being considered by COS SHAPE for approval, is ensured through the structures and procedures for the setting of ACO Goals and ASMP Objectives, the measurement of performance in achieving them, and the management of risks associated with them.
 - a. SHAPE Directorates and subordinated Headquarters (HQs) are required to set SMART (specific, measureable, achievable, realistic and time-bound) objectives which are of strategic relevance and critical to the efficient and effective achievement of ACO Goals. ASMP Objectives are to be endorsed by the ACO Management Board (AMB) and approved by COS SHAPE.
 - b. Data is systematically collected and analysed in order to determine the success, or otherwise, in achieving ASMP Objectives. Findings are reported to the AMB and SHAPE Management Board, which direct remedial actions as required.
 - c. ACO Risk Holders (RHs) identify, assess and respond to hazards and opportunities impacting on the achievement of ASMP Objectives. The risk tolerance against each ASMP Objective is determined as part of the ASMP objective setting process and is regularly reviewed by COS SHAPE during weekly and monthly risk review/assurance activities. The AMB and SMB provide the RHs with the regular

opportunity to gain assurance from COS SHAPE and fellow board members that the risk management activities within their Area of Responsibility (AoR) are effective. It should be noted that some risks (often in the areas of manning, capability delivery, and common funded resources) with significant impact on the achievement of ASMP objectives cannot be effectively mitigated by ACO and should therefore be escalated to NATO HQ.

6. The ACO centralised Financial System (FinS) provides a technical platform for improved business processes, which enhances the accuracy and reliability of financial data reporting while also serving as a key enabler for the financial internal control framework. The latter includes control procedures designed to ensure complete and accurate accounting for financial transactions and to limit potential exposure to fraud or loss of assets. These procedures are relevant across ACO and provide for incremental approvals and monitoring at increasingly higher levels of management. Specific internal control frameworks for procurement and budgetary processes have also been developed ACO-wide.

7. Additional key elements of ACO's Internal Control System are provided for by:

- a. NATO Code of Conduct.
- b. NATO Financial Regulations (NFR) and Financial Rules and Procedures (FRP).
- c. NATO Civilian Personnel Regulations (NCPRs).
- d. Military Budget Medium Term Financial Plan.
- e. Annual Military Budget Guidance.
- f. Bi-SC/ACO Directives and standard operating procedures and policies.
- g. ACO Internal Audit function¹ and an associated ACO Audit Advisory Panel (AAP).
- h. A clear delineation of responsibilities in line with the NFRs as well as an effective delegation system compliant with the FRPs; and
- i. Proper and effective segregation of duties between Budget Officers, Authorising Officers, Finance and Accounting Officers, Treasurer, and between requirement holders and Purchasing and Contracting Officers.

¹ The ACO Internal Audit function is designed to provide management with reasonable assurances regarding risk exposures and the effectiveness of internal controls in managing risk within ACO's governance, operations and information systems. During 2018, the Internal Audit was relocated under the COS's direct oversight which reinforced the effective and perceived independency of the Internal audit as well as underlying the broader scope of their activities. The annual Internal Audit Plan is developed in accordance with the International audit standards and is based on a risk assessment. A revised Audit Charter was recently approved by the ACO Audit Advisory Panel (AAP). An annual Internal Audit Activity Report is presented to the AAP for review.

IV. Review of Effectiveness

AAP Assessment

8. Recognising that NATO Nations have an expectation that Allied Command Operations (ACO) Commanders will provide their assessments of the management and control of resources for which they are directly responsible, this Audit Advisory Panel's (AAP)² overall assessment provides the AAP's ACO-wide assurance perspective for 2018.

9. This assessment is based primarily on inquiries undertaken throughout the year, presentations given and subsequent discussions during AAP meetings, internal and external audit reports and also research and analysis conducted to measure the effectiveness and efficiency of the following NATO Command Structure (NCS) - Adaptation (NCS-A) Implementation activities scrutinised during 2018:

- a. Governance Framework including the effective implementation of the Internal Control Framework,
- b. Risk Management Process and output,
- c. Enhancement of assured access to non-NCS capabilities, and
- d. Criteria for implementation of Initial Operational Capability (IOC) and Full Operational Capability (FOC).

Overall responsibility for the governance and execution of NCS Adaptation is ultimately vested in the ACO Management Board, with a regular involvement of Board members that has provided adequate direction and guidance for the implementation programme to move forward. Furthermore, the submission of the 03 December 2018, Bi-SC NATO Command Structure Adaptation Annual Implementation Status Report³ represents the first annual report on the implementation of the adapted NATO Command Structure and provides ACO's assessment of Initial and Full Operational Capability progress, including identified areas of risk.

10. The AAP recognises that the extent to which formalised and improved relationships between the NCS and non-NCS entities are achieved, combined with the willingness of Nations to proffer such access, are absolutely key to the success of the Mutually Agreed Access Framework. The AAP also acknowledges that the establishment of Capabilities and Force Integration Teams (CFITs) and delivery of planned initiatives to extend Common Funding eligibility, develop doctrine to further incorporate the NATO Force Structure (NFS) and to review and adapt Crisis Response Measures (CRM) to better reflect an increased dependency on the NFS, will all contribute positively to the enhancement of the Mutually Agreed Access initiative.

² The ACO AAP was established in 2015 with a charge to provide ACO strategic oversight of ACO Internal Audit functions, ACO-related IBAN audit observations, and to monitor the effectiveness of existing internal control systems and proper implementation of necessary corrective actions for identified deficiencies.

³ SH/COM/COS/OAC/18-001356 refers.

NATO UNCLASSIFIED
Releasable to North Macedonia

11. From an NCS Adaptation risk management perspective, structured processes for identifying, assessing, communicating and managing risks were designed in accordance with established ACO Strategic Management Plan risk management procedures and have been administered with support by the SHAPE ACO Strategic Management Planning Section. Having been collated at SHAPE, top risks faced by each ACO entity were escalated to either the SHAPE Management Board (SMB) or the ACO Management Board (AMB), as appropriate, for review.

12. The AAP advises that whilst there is evidence that this NCS Adaptation risk and control framework identifies selected changes in the risk environment, there are issues that it commends should be afforded further concerted exposure and review. These should include the provision of guidance and control to enable leadership and other personnel to understand and carry out the full range of their internal control responsibilities, a proper assessment of the effectiveness of internal controls related to risks and the regular review of the progress (or otherwise) made on implementing internal and External Audit recommendations.

13. The AAP's inquiries into aspects surrounding the enhancement of 'assured access' to non-NCS capabilities revealed that what is now termed the 'Mutually Agreed Access Framework' is intended to enable NATO Commanders to integrate ready-to-employ and flexible NATO Force Structure Entities and the effects of National Retained Capabilities. Within this context, Mutually Agreed Access is the present working term employed to define the agreed availability of headquarters, Capabilities and Forces by individual Nations to SACEUR.

14. With regard to NCS Adaptation Implementation IOC/FOC Criteria, all ACO Commanders will declare their IOC/FOC based on their individual assessments taking into account their agreed criteria. Their individual declarations and the achievement of FOC across the adapted NATO Command Structure will, nevertheless, require continued commitment of the Nations to provide the 100% fill of qualified manpower, greater reliance on non-NATO Command Structure Warfighting and Warfare Development entities, and updated NATO Policy to support a NATO Command Structure able to succeed in the current and emerging complex security environment. Nevertheless, ACO remains on track for a mid-2020 IOC declaration.

15. In order to provide what the AAP considers to be a comprehensive assurance assessment of ACO throughout 2019, the Panel has planned its 2019 Programme of Work to focus primarily on the following key areas:

- a. Assurance that an NCS Adaptation Internal Control process is created, in order to measure/evaluate the achievement of IOC and FOC implementation across ACO, and to ensure that it is adequate, reliable, transparent and properly supports Commanders in assessing their own Headquarters' progress;
- b. Oversight of the primary risks to the successful implementation of the Adapted NCS and how they are being mitigated;
- c. Continued monitoring of the resolution of outstanding Asset Management issues, especially with regard to RESOLUTE SUPPORT;

- d. Persistent oversight of the selection, development, implementation and performance of key internal controls across ACO and an assessment of their effectiveness;
- e. With the advent of the establishment of Internal Control Officer posts at SHAPE, in Joint Force Command Headquarters and in the Single Service Commands, to provide guidance for the development and implementation of a revised ACO Internal Control Framework;
- f. Continued oversight of the findings of all Internal Audit reports and ACO-related IBAN Reports and the measures taken by ACO Commanders to address those findings.

V. ACO Financial Controller Assessment

Internal control frameworks and risk management (finance and procurement)

16. Within the ACO Financial Risk Management, the Acquisition Community has been the forefront of implementation of Internal Control Framework initiative and 2018 was its third year of using a formalised process and methodology. It uses the Committee of Sponsoring Organisation (COSO) Internal Control-Integrated Framework model and consists of a Framework Document which is adjusted as required based on input obtained from all ACO HQs, through an Internal Control Self-Assessment performed by each HQ Financial Controller supported by the Purchasing and Contracting (P&C) Office Chief. The results are reviewed at the ACO level by the ACO Financial Controller and the ACO Head of Contracts.

17. The same approach was adopted in 2018 for budgetary processes (ACO wide) as well as for Morale and welfare activities at SHAPE level with the establishment and completion of an Internal Control questionnaire endorsed by the Base Support Group Commander. The intention is to expand the use of the internal control questionnaire for MWA to all the ACO HQs during 2019.

18. Finally the ACO FINCON also developed an assurance mapping process based on the concept of the Three Lines of defence (encouraged by the Institute of Internal Auditors); this methodology is to improve the overall assurance on the level of internal control as well as to provide an evidence based assessment on the areas under the ACO FINCON's responsibility.

Procurement activities

19. The Control self-assessment process on procurement activities relies on the professional integrity of the local Financial Controllers and results are reviewed and discussed with the ACO Head of Contracts during the Staff Assistance Visit (SAVs), mandated by COS SHAPE and performed within means and capabilities. SAVs are an extremely valuable tool which provides the ACO Head of Contracts the ability to engage with the local organic P&C offices and Financial Controllers in a collegiate manner while also conducting his functional oversight in accordance with FRP Article III 1. Overall, the internal control framework currently in place in the procurement area provides a relatively good level of assurance on the state of controls within ACO. However, weaknesses in available human resources, the lack of complete

approach in risk management and internal control, limited the success during the 2018 financial year.

Financial management and accounting

20. ACO has strong controls in place within the financial management functions, such as procure-to-pay, General Ledger, Accounts Payable, Accounts Receivable, Cash management, managing significant amounts of moneys on behalf of the NATO's Nations and for the ANA Trust Funds Program. Since 2012 ACO has progressively implemented control mechanisms providing reasonable assurance that the local financial data making up the Consolidated Financial Statement reflects accurate and complete financial information pertaining to each of the ACO Commands before its release to the IBAN. It must be noted that some of this financial data is provided by other NATO entities, e.g. NSPA, NAPMA. Therefore, an iterative reconciliation process is in place and a formal certification is required at the end of the year from those entities' Financial Controllers to compensate for the lack of direct access and control of the provided data.

21. In 2018, the SHAPE Internal audit performed an independent review of the management by SHAPE of the ANA Trust fund as per the Memorandum of Understanding signed between SHAPE, NATO-IS and the United States; no major findings were identified leading to a reasonable assurance about the proper management of this activity.

Enterprise resource planning (ERP) and Segregation of duties

22. The reliability of ACO's financial reporting is also dependent upon sound internal control systems that include an effective Enterprise Resource Planning (ERP) system. The ACO FinS system utilises a corporate architecture for centralised financial transactions and reporting, which has enhanced internal business processes and contributed to improving the accuracy and reliability of financial data. Specifically, FinS provides appropriate budgetary controls applicable to funding in order to monitor variance and properly reflect authorised deviations by:

- a. Appropriate levels of financial transaction reviews and approvals by ACO personnel responsible for the local ACO entities.
- b. Accurate access for ACO personnel with delegated financial responsibilities.
- c. A system of authorisation, recording and procedures adequate to provide accounting control in relation to assets, liabilities, revenue and expenses directly managed by ACO.
- d. Proper segregation of functional responsibilities and procedures to review the adequacies of and compliance with the rules and regulations.

23. Specific audits have been conducted by the SHAPE Internal audit on key activities processed thru FinS; no major findings were identified except the need to better monitor the security patching on the application; useful recommendations related to the potential benefits of further automated controls have been put on hold considering the critical shortfall of ERP dedicated resources within SHAPE FINAC. The full implementation of the NCS-A will have as a consequence to reinforce this capability.

24. Within the assessment of the proper implementation of the revised NFRs/FRPs and the use of best practice, ACO launched the "Fortification Project" to tackle the control activities and directly relate to the control objectives. These controls are respectively designed to limit the possibility of an undesirable outcome being realised, ensure that objectives are achieved, and potential issues detected straight away. It also aims to detect violations through the regular running and analysis of reports to identify potential issues. In this context, all of the functions assigned to the different responsibilities have been analysed and documented and a revised ACO Segregation of Duties Matrix ("SoD Matrix") has been approved and released during 2018. Additional milestones for the completion of the project will be assessed during 2019 since the current lack of resources within the Internal Control and Financial Management System Office (within SHAPE FINAC) hamper a rapid implementation of the recommendations generated by the project. The revised SoD will provide a useful tool to manage the effective level of control within the financial processes managed in FinS.

Areas of Improvement or Concern

On-going major litigation

25. The legacy issues related to the ISAF Fuel Basic Ordering Agreement (BOA), have implied additional workload for ACO's staff. Since late 2015 with the unprecedented lawsuit launched by a former Fuel supplier and disciplinary actions appeals at the Administrative Tribunal, both LEGAD and J8 staffs have dedicated substantial time and efforts to follow-on and provide oversight of the proper close-out and potential final settlement of the ISAF fuel contracts, as well as following up the development of Food contracts in ISAF. The Resource Planning Policy Board (RPPB) has recognised the challenges faced by ACO in this respect and has agreed to allocate additional resources with the creation of the Special Litigation Team (SPL) at SHAPE level under the VCOS supervision. Since March 2017, when the Handover Takeover process with JFCBS was concluded, SHAPE SPL has been in the full lead of the Fuel Case against the Supreme Group (SG). The main proceedings, initiated by the Fuel supplier in December 2015, remain stayed by the incidental proceedings on immunity from jurisdiction since June 2016. On 08 February 2017, the Dutch First Instance Court acknowledged the said immunity, but has refused to uphold it when balanced against Art. 6 of the European Convention on Human Rights. This decision was appealed by SHAPE/JFCBS. The interim appeal against such decision was filed on 09 May 2017. A decision in appeal can be reasonably expected by early summer 2019. SHAPE's Paris Protocol-based Immunity from Execution has been successfully recognised and upheld by the Dutch courts in first instance and appeal. Moreover, proceedings to declare both judgements enforceable in Belgium have also been successful. On 21 August 2017, the Supreme Group appealed in cassation the ruling on Immunity from execution before the Supreme Court of the Netherlands. Since the Supreme Court requested the Court of Justice of the European Union for interpretative guidance, a decision of the Supreme Court cannot be expected earlier than 2020. Furthermore, SPL is currently engaged with the fuel customer Troop Contributing Nations (TCNs) in order to build substantial evidence to counter Supreme's claims and introduce counter claims.

26. As done in the Supreme Food case, and as agreed upon by the BOA customer nations, SPL is to achieve to settle the case out of court, with mediation procedures as a first step starting in late March/ early April 2019. The proper management of this dispute by SPL that entails legal, as well as out of court proceedings must be further supported by ACO in order to reduce risks to NATO's immunities and mitigate the potential financial impact on NATO and fuel BOA customers TCNs.

Asset management and reporting

27. ACO continues to face challenges with third party asset management and reporting, particularly with organisations that utilise disparate Information Technology (IT) systems that are not compatible with FinS for transactional reporting. The NATO Logistics Functional Services (LOGFS) IT system was expected to provide a platform after 2018. However, this project is now on-hold and no specific date can be foreseen at short-term.

28. Therefore, ACO Commands continue to face gaps and challenges already identified in the use of the legacy systems. The main issues related to RESOLUTE SUPPORT Mission were deeply analysed during 2018. As requested by SHAPE COS, JFCBS provided a written detailed action plan to guarantee that the identified measures required to fix the gaps were on track. The action plan was assessed and a simplified approach for asset tracking/reporting with a threshold of 1,000 EUR, as ad-hoc deviation for the RSHQ was agreed. SHAPE conducted a site visit in theatre to further assess the functional and technical feasibility using the existing logistic and financial tools. In addition, it was requested and approved to reclassify a CJ4 CE military position in a ICC. This position was assessed as critical for the effective management of the NATO assets in RSHQ by assuring continuity, control and corporate knowledge.

ACO prevention and detection of fraud

29. COS SHAPE agreed on 18 December 2018 that an Integrated Planning Team (IPT) would be established in response to IBA-A (2018)0140, Performance Audit Report to Council on the need for NATO to take actions to prevent, detect and respond to fraud and corruption – IBA – AR (2018_0027, dated 3 Dec. 2018). The aim is to produce a risk assessment on fraud awareness, prevention and detection at the ACO level.

Evidence based SIC – full completion of internal control and risk management initiatives

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

MWA

31. Having taken account of the 2015 NFRs, it was decided to also pursue an Internal Control (IC) agenda for non-appropriated funds, i.e., MWA at SHAPE. To support the development, an informal working group (WG) was established between FINAC and the MWA Branch under Base Support Group (BSG). The WG, based on the COSO framework, conceived an Internal Control questionnaire tailored for SHAPE MWA. The questionnaire was approved by the ACO Financial Controller, Commander BSG and the Director of Management who chairs the MWA Council in SHAPE. Subsequently, the IC questionnaire was applied in SHAPE MWA and results were retrieved. While the general conclusion of the exercise was that

NATO UNCLASSIFIED
Releasable to North Macedonia

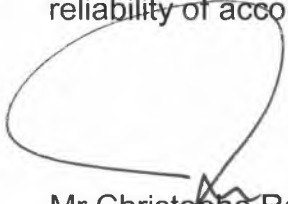
the current MWA activities do not pose any risk for common funding, some findings indicated that there is room for improvement for Strategic Management, Risk Management, Information and Communication Management, Market Research and Stock Control. SHAPE will use the valuable information obtained as a prompt to improve the IC especially in those mentioned areas whilst continuing to improving in other areas, too.

32. After confidence is gained with the application of IC at SHAPE, the plan is to roll out the IC effort for MWA to the remaining ACO HQs in the period 2019-2020. The experience to be gained from ACO-wide application is considered an opportunity to refine the framework and the questionnaire. The expansion of IC is expected to give even more certainty that ACO MWA operations carry minimal or no risk to Common Funds (CF).

VI. Overall assessment

33. The ASMP, ARM and Financial Internal control and Risk Management initiative will all require continuous monitoring and refinement in order to ensure the efficient and effective use of resources and the achievement of ACO's strategic objectives. An ACO Internal Control Framework Directive was approved in 2017 where the primary mechanisms and elements are institutionalised. It also established the foundation for a deliberate, comprehensive and systematic approach towards the achievement of the objectives set for ACO. We are confident that we can optimise our existing business processes and are committed to instilling a strong risk management and performance measurement culture throughout ACO.

34. 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.



Mr Christophe Rappe
ACO Financial Controller
Allied Command Operations



Curtis M. Scaparrotti
General, U.S. Army
Supreme Allied Commander Europe

ACO Consolidated Financial Statements 2018

**THIS PAGE IS INTENTIONALLY LEFT BLANK
THIS PAGE IS NOT INCLUDED IN THE PAGE COUNT**

ACO Consolidated Financial Statements 2018

STATEMENT 1: ACO CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(I)

For the year ended 31 December 2018

in EUR

	<i>Notes</i>	<i>2018</i>	<i>Restated 2017 (II)</i>	<i>2017</i>
ASSETS				
Current Assets				
Cash and Cash Equivalents	B.1	1,094,089,689	1,081,354,197	1,081,354,197
Short Term Investments	B.2	533,503,561	440,241,700	440,241,700
Receivables	B.3	128,284,580	65,910,140	65,910,140
Prepayments	B.4	18,375,831	31,691,249	25,988,825
Other Current Assets	B.5	4,229,874	4,470,044	4,474,933
Inventories	B.6	43,219,462	37,624,149	37,624,149
Total Current Assets		1,821,702,997	1,661,291,479	1,655,593,944
Non-current Assets				
Receivables		-	-	-
Property, Plant & Equipment	B.7	562,283,404	340,696,365	323,505,807
Other Non-current Assets	B.8	6,657,673	6,611,547	6,611,547
Total Non-current Assets		568,941,077	347,307,912	330,117,354
Total ASSETS		2,390,644,074	2,008,599,391	1,985,711,298
LIABILITIES				
Current Liabilities				
Payables (III)	B.9	(300,110,139)	(319,969,496)	(314,271,961)
Deferred Revenue	B.10	(1,277,623,142)	(1,072,431,404)	(1,072,431,404)
Advances	B.11	(295,513,643)	(298,687,399)	(298,687,399)
Short Term Provisions	B.12	(3,701,831)	(5,200,489)	(5,200,489)
Total Current Liabilities		(1,876,948,755)	(1,696,288,788)	(1,690,591,253)
Non-current Liabilities				
Long Term Provisions	B.13	(7,181,987)	(7,187,038)	(7,187,038)
Non-current Deferred Revenue	B.14	(506,513,332)	(305,123,566)	(287,933,007)
Total Non-current Liabilities		(513,695,319)	(312,310,603)	(295,120,045)
Total LIABILITIES		(2,390,644,074)	(2,008,599,391)	(1,985,711,298)
NET ASSETS	C.18	-	-	-

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

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

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

ACO Consolidated Financial Statements 2018

STATEMENT 2: ACO CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

(I)

For the year ended 31 December 2018
in EUR

	<i>Notes</i>	2018	Restated 2017 (II)	2017
Revenue				
Revenue		(1,014,434,635)	(940,095,315)	(941,909,256)
Other Revenue		(4,303,971)	(3,149,101)	(3,149,101)
Financial Revenue		(8,297,940)	(4,338,153)	(4,338,153)
Total to be returned to the Nations	C.17	5,171,303	2,700,773	2,700,773
Total Revenue		(1,021,865,243)	(944,881,796)	(946,695,736)
Expenses				
Personnel		189,657,916	180,598,686	180,598,686
Contractual Supplies and Services		742,744,513	696,137,348	697,689,621
Foreign Military Sales (FMS) (III)		24,286,640	27,154,230	27,154,230
Depreciation and Amortization		59,421,321	37,654,062	37,915,730
Provisions		-	-	-
Other Expenses		75	14,447	14,447
Financial Costs		5,754,779	3,323,022	3,323,022
Total Expenses	C.16	1,021,865,243	944,881,796	946,695,736
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 mainly concerns prepayments and PP&E. More information can be found in the relevant note disclosure

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

ACO Consolidated Financial Statements 2018

STATEMENT 3: ACO CONSOLIDATED STATEMENT OF CASH FLOWS

(I)

*As at 31 December 2018
in EUR*

*Restated
2017 (II)*

	<i>2018</i>	<i>2017 (II)</i>	<i>2017</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Result of the year	-	-	-
Non-cash movements			
Depreciation	59,421,321	37,654,062	37,915,730
Increase (Decrease) in payables	(19,859,358)	29,169,203	23,471,668
Increase (Decrease) in other current liabilities	180,322,051	287,991,017	288,491,016
Increase (Decrease) in other non-current liabilities	(5,050)	(855,424)	(577,964)
Increase (Decrease) in current deferred revenue for PP&E	20,197,273	10,741,438	(24,831,361)
Increase (Decrease) in non-current deferred revenue for PP&E	201,389,766	203,833,181	221,978,157
(III) Property, plant and equipment, from other funding	(267,281,851)	(228,734,267)	(224,576,585)
(Increase) Decrease in other current assets	13,555,588	8,453,518	13,651,053
(Increase) Decrease in other non-current assets	(46,126)	709,729	432,269
(Increase) Decrease in receivables	(62,374,439)	2,978,900	2,978,900
(Increase) Decrease in Inventories	(5,595,313)	(2,575,710)	(2,575,710)
Net cash flows from operating activities	119,723,862	349,365,646	336,357,173
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and AuC	(13,726,509)	(23,494,414)	(10,485,941)
Proceeds from sale of plant and equipment	-	-	-
Proceeds from sale of investments	-	-	-
Short term investment	(93,261,861)	(344,146,745)	(344,146,745)
Net cash flows from investing activities	(106,988,370)	(367,641,159)	(354,632,686)
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	12,735,492	(18,275,513)	(18,275,513)
Cash and cash equivalents at beginning of period	1,081,354,197	1,099,629,710	1,099,629,710
Cash and cash equivalents at end of period	1,094,089,689	1,081,354,197	1,081,354,197
Net increase/(decrease) in cash and cash equivalents	12,735,492	(18,275,513)	(18,275,513)

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

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

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

ACO Consolidated Financial Statements 2018

STATEMENT 4: ACO CONSOLIDATED STATEMENT OF CHANGES IN NET EQUITY

<i>For the year ended 31 December 2018</i>			<i>Restated</i>	
<i>in EUR</i>	<i>Notes</i>	<i>2018</i>	<i>2017</i>	<i>2017</i>
Equity at beginning of year		-	-	-
Result of for the year	C.19	-	-	-
<i>Net recognized revenue and expenses for the year</i>		-	-	-
Equity at End of year		-	-	-

ACO Consolidated Financial Statements 2018

STATEMENT 5/1: ACO BC BUDGET EXECUTION REPORT

(Note H)

EUR

	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments	Expenses	Total spent	Carry-forward	Lapsed
2018 NCSEP												
	458,558,475	(320)	458,558,155	(2,266,578)	456,291,578	3,017,200	459,308,778	27,598,868	428,150,120	455,748,988	27,598,868	3,559,790
Budget 101 SHAPE	62,551,148	323,695	62,874,843	192,500	63,067,343	2,100,000	65,167,343	919,950	64,170,288	65,090,239	919,950	77,104
Budget 103 JFC HQ BRUNSSUM	23,912,852	97,786	24,010,638	(1,107,007)	22,903,631	(720,000)	22,183,631	261,192	21,562,123	21,823,314	261,192	360,317
Budget 104 JFC HQ NAPLES	27,558,818	74,524	27,633,342	(700,000)	26,933,342	(200,000)	26,733,342	38,167	26,677,471	26,715,638	38,167	17,704
Budget 105 HQ AIRCOM RAMSTEIN	21,793,067	(190,217)	21,602,850	(245,000)	21,357,850	(1,550,000)	19,807,850	539,419	18,747,057	19,286,476	539,419	521,374
Budget 111 HQ LANDCOM IZMIR	10,869,562	43,075	10,912,637	-	10,912,637	(110,000)	10,802,637	9,578	10,675,718	10,685,296	9,578	117,341
Budget 118 HQ MARCOM NORTHWOOD	7,733,421	18,938	7,752,359	(302,071)	7,450,289	(57,783)	7,392,506	81,648	7,227,444	7,309,092	81,648	83,414
Budget 131 HQ DEPLOYABLE ASSETS	10,538,000	(383,194)	10,154,806	-	10,154,806	(250,000)	9,904,806	-	9,873,323	9,873,323	-	31,483
Budget 164 AIR DEFENCE (GROUND)	30,000,000	37,680	30,037,680	-	30,037,680	3,942,597	33,980,277	7,437,626	26,308,864	33,746,490	7,437,626	233,787
Budget 166 ACCS Support	78,600,000	4,525	78,604,525	240,000	78,844,525	1,200,000	80,044,525	3,238,330	75,228,895	78,467,226	3,238,330	1,577,299
Budget 177 NCCB	145,546,838	(48,872)	145,497,966	(240,000)	145,257,966	(937,614)	144,320,352	7,117,292	137,202,977	144,320,269	7,117,292	83
Budget 178 NATO CIS GROUP (NCISG)	35,214,769	21,740	35,236,509	(105,000)	35,131,509	(500,000)	34,631,509	7,952,350	26,202,858	34,155,208	7,952,350	476,301
Budget 502 OUTREACH PROGRAMMES (ACO)	4,240,000	-	4,240,000	-	4,240,000	100,000	4,340,000	3,315	4,273,100	4,276,415	3,315	63,585
2018 AGS												
	20,903,150	-	20,903,150	-	20,903,150	-	20,903,150	6,407,307	10,984,066	17,391,373	6,407,307	3,511,777
Budget 167 AGS O&S	20,903,150	-	20,903,150	-	20,903,150	-	20,903,150	6,407,307	10,984,066	17,391,373	6,407,307	3,511,777
2018 AGS												
	2,366,666	-	2,366,666	-	2,366,666	-	2,366,666	-	2,338,369	2,338,369	-	28,298
Budget 168 AGS CIS	2,366,666	-	2,366,666	-	2,366,666	-	2,366,666	-	2,338,369	2,338,369	-	28,298
2018 NAEW												
	161,017,867	-	161,017,867	-	161,017,867	-	161,017,867	12,310,529	146,519,014	158,829,543	12,310,529	2,188,324
Budget 163 NAEW&CF EMPLOYMENT	161,017,867	-	161,017,867	-	161,017,867	-	161,017,867	12,310,529	146,519,014	158,829,543	12,310,529	2,188,324
2018 NAEW												
	103,801,460	-	103,801,460	-	103,801,460	-	103,801,460	26,140,042	77,503,785	103,643,827	26,140,042	157,633
Budget 162 NAEW&CF PROVISIONING	102,982,133	-	102,982,133	-	102,982,133	-	102,982,133	25,702,507	77,255,596	102,958,102	25,702,507	24,031
Budget 123 NAEW&CF REORGANISATION	819,327	-	819,327	-	819,327	-	819,327	437,536	248,189	685,725	437,536	133,602
2018 AOM												
	252,947,086	-	252,947,086	50,163	252,997,249	(1)	252,997,249	6,673,911	242,034,009	248,707,920	6,673,911	4,289,329
Budget 183 Balkans Operations	22,386,514	-	22,386,514	-	22,386,514	(131,000)	22,255,514	1,395,516	20,506,390	21,901,906	1,395,516	353,608
Budget 187 NATO Support to the African Union	443,046	-	443,046	-	443,046	(80,000)	363,046	5,829	298,256	304,085	5,829	58,961
Budget 189 Operation SEA GUARDIAN	255,779	-	255,779	(92,766)	163,013	(11,557)	151,456	23,778	109,327	133,105	23,778	18,351
Budget 194 RESOLUTE SUPPORT	229,861,747	-	229,861,747	(891,898)	228,969,849	(2,608,108)	226,361,741	4,605,420	218,410,915	223,016,335	4,605,420	3,345,406
Budget 195 NMI	-	-	-	1,034,828	1,034,828	2,830,664	3,865,492	643,370	2,709,120	3,352,490	643,370	513,002
Total 2018	999,594,704	(320)	999,594,385	(2,216,414)	997,377,970	3,017,199	1,000,395,170	79,130,657	907,529,363	986,660,020	79,130,657	13,735,150

EUR

	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments	Expenses	Total spent	Carry-forward	Lapsed
2017 NCSEP												
	11,526,026	-	11,526,026	-	11,526,026	-	11,526,026	3,556,298	7,379,856	10,936,153	3,556,298	589,873
Budget 101 SHAPE	690,442	-	690,442	-	690,442	-	690,442	17,527	579,965	597,492	17,527	92,950
Budget 103 JFC HQ BRUNSSUM	1,165,186	-	1,165,186	-	1,165,186	-	1,165,186	388,415	763,846	1,152,261	388,415	12,924
Budget 104 JFC HQ NAPLES	110,347	-	110,347	-	110,347	-	110,347	-	99,456	99,456	-	10,890
Budget 105 HQ AIRCOM RAMSTEIN	336,432	-	336,432	-	336,432	-	336,432	12,564	271,006	283,569	12,564	52,863
Budget 111 HQ LANDCOM IZMIR	682,691	-	682,691	-	682,691	-	682,691	-	682,167	682,167	-	524
Budget 118 HQ MARCOM NORTHWOOD	233,294	-	233,294	-	233,294	-	233,294	-	223,134	223,134	-	10,160
Budget 131 HQ DEPLOYABLE ASSETS	408,136	-	408,136	-	408,136	-	408,136	-	408,136	408,136	-	-
Budget 164 AIR DEFENCE (GROUND)	5,560,863	-	5,560,863	-	5,560,863	-	5,560,863	3,053,689	2,390,755	5,444,444	3,053,689	116,419
Budget 166 ACCS Support	560,919	-	560,919	-	560,919	-	560,919	84,102	345,692	429,794	84,102	131,124
Budget 177 NCCB	1,567,500	-	1,567,500	-	1,567,500	-	1,567,500	-	1,567,500	1,567,500	-	-
Budget 178 NATO CIS GROUP (NCISG)	187,643	-	187,643	-	187,643	-	187,643	-	33,808	33,808	-	153,835
Budget 502 OUTREACH PROGRAMMES (ACO)	22,574	-	22,574	-	22,574	-	22,574	-	14,391	14,391	-	8,183
2017 AGS												
	44,565,169	-	44,565,169	-	44,565,169	-	44,565,169	43,518,795	1,030,886	44,549,681	43,518,795	15,489
Budget 167 AGS O&S	44,565,169	-	44,565,169	-	44,565,169	-	44,565,169	43,518,795	1,030,886	44,549,681	43,518,795	15,489
2017 NAEW												
	47,155,409	-	47,155,409	-	47,155,409	-	47,155,409	7,427,231	37,173,921	44,601,152	7,427,231	2,554,257
Budget 162 NAEW&CF PROVISIONING	47,155,409	-	47,155,409	-	47,155,409	-	47,155,409	7,427,231	37,173,921	44,601,152	7,427,231	2,554,257
2017 NAEW												
	479,893	-	479,893	-	479,893	-	479,893	173,340	260,010	433,351	173,340	46,542
Budget 123 NAEW&CF REORGANISATION	479,893	-	479,893	-	479,893	-	479,893	173,340	260,010	433,351	173,340	46,542
2017 AOM												
	2,558,832	-	2,558,832	-	2,558,832	-	2,558,832	-	2,176,323	2,176,323	-	382,509
Budget 183 Balkans Operations	1,190,441	-	1,190,441	-	1,190,441	-	1,190,441	-	975,560	975,560	-	214,880
Budget 187 NATO Support to the African Union	19,666	-	19,666	-	19,666	-	19,666	-	12,328	12,328	-	7,338
Budget 189 Operation SEA GUARDIAN	1,193	-	1,193	-	1,193	-	1,193	-	1,180	1,180	-	14
Budget 194 RESOLUTE SUPPORT	1,347,532	-	1,347,532	-	1,347,532	-	1,347,532	-	1,187,255	1,187,255	-	160,277
Total 2017	106,285,329	-	106,285,329	-	106,285,329	-	106,285,329	54,675,664	48,020,996	102,696,660	54,675,664	3,588,668

EUR

	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments	Expenses	Total spent	Carry-forward	Lapsed
2016 NCSEP												
	1,415,450	-	1,415,450	-	1,415,450	-	1,415,450	-	822,443	822,443	-	593,006
Budget 103 JFC HQ BRUNSSUM	35,000	-	35,000	-	35,000	-	35,000	-	28,469	28,469	-	6,531
Budget 104 JFC HQ NAPLES	47,958	-	47,958	-	47,958	-	47,958	-	26,196	26,196	-	21,762
Budget 105 HQ AIRCOM RAMSTEIN	293,558	-	293,558	-	293,558	-	293,558	-	69,416	69,416	-	224,143
Budget 118 HQ MARCOM NORTHWOOD	14,049	-	14,049	-	14,049	-	14,049	-	11,704	11,704	-	2,346
Budget 164 AIR DEFENCE (GROUND)	693,019	-	693,019	-	693,019	-	693,019	-	433,465	433,465	-	259,553
Budget 166 ACCS Support	91,866	-	91,866	-	91,866	-	91,866	-	13,194	13,194	-	78,672
Budget 177 NCCB	240,000	-	240,000	-	240,000	-	240,000	-	240,000	240,000	-	-
2016 NAEW												
	8,748,038	-	8,748,038	-	8,748,038	-	8,748,038	-	5,241,994	5,241,994	-	3,506,044
Budget 162 NAEW&CF PROVISIONING	8,748,038	-	8,748,038	-	8,748,038	-	8,748,038	-	5,241,994	5,241,994	-	3,506,044
2016 NAEW												
	485,370	-	485,370	-	485,370	-	485,370	-	297,508	297,508	-	187,862
Budget 123 NAEW&CF REORGANISATION	485,370	-	485,370	-	485,370	-	485,370	-	297,508	297,508	-	187,862
2016 AOM												
	8,075,097	-	8,075,097	-	8,075,097	-	8,075,097	-	7,515,920	7,515,920	-	559,177
Budget 183 Balkans Operations	15,308	-	15,308	-	15,308	-	15,308	-	5,244	5,244	-	10,064
Budget 194 RESOLUTE SUPPORT	-	-	8,059,789	-	8,059,789	(4,847,378)	3,212,411	-	3,212,411	3,212,411	-	-
Budget 195 NMI	-	-	-	-	-	4,847,378	4,847,378	-	4,298,265	4,298,265	-	549,113
Total 2016	18,723,954	-	18,723,954	-	18,723,954	-	18,723,954	-	13,877,865	13,877,865	-	4,846,089

EUR

	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments	Expenses	Total spent	Carry-forward	Lapsed
2015 NCSEP												
	449,667	-	449,667	-	449,667	-	449,667	-	414,467	414,467	-	35,200
Budget 101 SHAPE	449,667	-	449,667	-	449,667	-	449,667	-	414,467	414,467	-	35,200
2015 NAEW												
	1,000,000	-	1,000,000	-	1,000,000	-	1,000,000	-	-	-	-	1,000,000
Budget 123 NAEW&CF REORGANISATION	1,000,000	-	1,000,000	-	1,000,000	-	1,000,000	-	-	-	-	1,000,000
Total 2015	1,449,667	-	1,449,667	-	1,449,667	-	1,449,667	-	414,467	414,467	-	1,035,200

EUR

	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments	Expenses	Total spent	Carry-forward	Lapsed
2014 NCSEP												
	172,930	-	172,930	-	172,930	-	172,930	-	172,592	172,592	-	338
Budget 101 SHAPE	172,930	-	172,930	-	172,930	-	172,930	-	172,592	172,592	-	338
2014 AOM												
	26,144,910	-	26,144,910	-	26,144,910	-	26,144,910	25,807,206	325,626	26,132,832	25,807,206	12,078
Budget 185 ISAF	26,144,910	-	26,144,910	-	26,144,910	-	26,144,910	25,807,206	325,626	26,132,832	25,807,206	12,078
Total 2014	26,317,840	-	26,317,840	-	26,317,840	-	26,317,840	25,807,206	498,217	26,305,423	25,807,206	12,417

EUR

	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments	Expenses	Total spent	Carry-forward	Lapsed
2013 NCSEP												
	4,087,528	-	4,087,528	-	4,087,528	-	4,087,528	300,324	3,219,393	3,519,717	300,324	567,811
Budget 101 SHAPE	299,458	-	299,458	-	299,458	-	299,458	-	250,704	250,704	-	48,754
Budget 177 NCCB	293,000	-	293,000	-	293,000	-	293,000	-	-	-	-	293,000
Budget 178 NATO CIS GROUP (NCISG)	3,495,070	-	3,495,070	-	3,495,070	-	3,495,070	300,324	2,968,689	3,269,013	300,324	226,058
Total 2013	4,087,528	-	4,087,528	-	4,087,528	-	4,087,528	300,324	3,219,393	3,519,717	300,324	567,811
Total for all MB Cost Shares, Years and Budgets	1,156,459,022	(320)	1,156,458,703	(2,216,414)	1,154,242,288	3,017,199	1,157,259,488	159,913,850	973,560,302	1,133,474,152	159,913,850	23,785,336

ACO Consolidated Financial Statements 2018
ACO BC CONTRACT AUTHORITIES

EUR

	<i>Initial budget</i>	<i>Transfers</i>	<i>BA2</i>	<i>Transfers</i>	<i>BA3</i>	<i>Transfers (*)</i>	<i>Final Budget</i>	<i>Net Commitment</i>
NCSEP								
	196,245,405	1,982,365	198,227,770	(335,129)	197,892,641	39,479,152	237,371,793	151,711,639
101 SHAPE	13,760,503	126,015	13,886,517	1	13,886,518	1	13,886,519	1,330,183
103 JFC HQ BRUNSSUM	4,199,622	276,350	4,475,972	-	4,475,972	-	4,475,972	-
104 JFC HQ NAPLES	1,943,845	-	1,943,845	-	1,943,845	0	1,943,845	1,880,580
105 HQ AIRCOM RAMSTEIN	104,600	-	104,600	(7,000)	97,600	-	97,600	69,558
118 HQ MARCOM NORTHWOOD	425,091	-	425,091	(378,129)	46,962	-	46,962	27,975
131 HQ DEPLOYABLE ASSETS	703,195	-	703,195	-	703,195	-	703,195	244,023
164 AIR DEFENCE (GROUND)	17,191,000	-	17,191,000	-	17,191,000	-	17,191,000	12,486,000
166 ACCS Support	61,723,380	1,580,000	63,303,380	-	63,303,380	-	63,303,380	-
177 NCCB	96,194,169	-	96,194,169	50,000	96,244,169	39,479,151	135,723,320	135,673,320
AGS								
	4,133,160	17,630,000	21,763,160	5,422,000	27,185,160	-	27,185,160	16,991,146
167 AGS O&S	4,133,160	17,630,000	21,763,160	5,422,000	27,185,160	-	27,185,160	16,991,146
NAEW								
	56,631,581	7,054,122	63,685,703	-	63,685,703	-	63,685,703	45,453,487
162 NAEW&CF PROVISIONING	56,631,581	7,054,122	63,685,703	-	63,685,703	-	63,685,703	45,453,487
NAEW								
	50,648,825	1,295,495	51,944,320	(1)	51,944,319	-	51,944,319	37,557,830
163 NAEW&CF EMPLOYMENT	50,648,825	1,295,495	51,944,320	(1)	51,944,319	-	51,944,319	37,557,830
AOM								
	9,884,968	(1,451,825)	8,433,143	91,003,951	99,437,094	58,103,000	157,540,094	16,302,708
183 Balkans Operations	9,884,968	(1,769,725)	8,115,243	-	8,115,243	-	8,115,243	611,432
194 RESOLUTE SUPPORT	-	317,900	317,900	90,331,951	90,649,851	58,103,000	148,752,851	15,691,276
195 NMI	-	-	-	672,000	672,000	-	672,000	-
Total for all MBC Cost Shares, Years and Budget	317,543,939	26,510,157	344,054,096	96,090,822	440,144,918	97,582,152	537,727,069	268,016,810

(*) Budget 177: the difference is due to the funding increase as per BC-DS(2018)0062.

(*) Budget 194: the difference is due to the Funding Authority authorized as per BC-DS(2018)0048.

ACO Consolidated Financial Statements 2018
STATEMENT 5/2: SUMMARY BUDGET EXECUTION REPORT - OTHER

EUR

	<i>Expenditure Ceiling</i>	<i>Net Commitment</i>	<i>Actual Expenses</i>	<i>Total Spent</i>
Non-Consolidated BC				
	15,964,871	351,941	14,382,104	14,734,045
2018	15,231,092	351,941	14,353,637	14,705,578
259 ACT EXERCISES & TRAINING	15,231,092	351,941	14,353,637	14,705,578
2017	692,132	-	28,717	28,717
259 ACT EXERCISES & TRAINING	692,132	-	28,717	28,717
2016	41,646	-	(250)	(250)
259 ACT EXERCISES & TRAINING	41,646	-	(250)	(250)

ACO Consolidated Financial Statements 2018

**THIS PAGE IS INTENTIONALLY LEFT BLANK
THIS PAGE IS NOT INCLUDED IN THE PAGE COUNT**

ACO Consolidated Financial Statements 2018

**Notes to the
ACO Consolidated Financial Statements 2018**

ACO Consolidated Financial Statements 2018

**THIS PAGE IS INTENTIONALLY LEFT BLANK
THIS PAGE IS NOT INCLUDED IN THE PAGE COUNT**

NOTES TO THE ACO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2018

INDEX	PAGE N
A. SIGNIFICANT ACCOUNTING POLICIES	2
Basis of preparation	2
Changes in Accounting Standards	2
Accounting estimates and judgments	2
Changes in Accounting Policy	3
Reclassification	3
Restatements	3
Foreign currency	3
Consolidation	3
Services in-kind	4
Financial Instruments disclosure/presentation	4
Assets	4
Liabilities	7
Net Assets	8
Revenue and expense recognition	8
Result of the year	9
Trust Funds	9
Cash-flow statement	9
B. NOTES TO STATEMENT OF FINANCIAL POSITION	10
1. Cash and cash equivalents	10
2. Short Term Investments	10
3. Receivables	11
4. Prepayments	13
5. Other current assets	13
6. Inventories	13
7. Property, Plant and Equipment	14
8. Other Non-Current Assets	17
9. Payables	17
10. Deferred Revenue	18
11. Advances	19
12. Short Term Provisions	19
13. Long Term Provisions	20
14. Non-current Deferred Revenue	20
C. NOTES TO STATEMENT OF FINANCIAL PERFORMANCE	20
15. Revenue	20
16. Expenses	20
17. Total to be returned	23
18. Net Asset	23
D. CONTINGENT ASSETS, CONTINGENT LIABILITIES AND PROVISIONS	23
E. SEGMENT REPORTING	27
F. RELATED PARTIES DISCLOSURE	37
G. EVENTS AFTER REPORTING DATE	38
H. MB BUDGET EXECUTION	38
I. NSIP PROJECT EXECUTION	42
J. WRITE-OFF AND DONATIONS	43
K. TRUST FUNDS	44
L. INVENTORY AND PP&E PRIOR TO 2013	45
M. ACO MORALE & WELFARE ACTIVITIES	46

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 which means that ACO will continue in existence for at least a year from the date the financial statements are issued.

The FS have been prepared 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 2018 and ends on 31 December 2018.

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 2018. The new relevant standards have not been applied by ACO in preparing the ACO Consolidated 2018 FS. They are expected to have no material impact on ACO's financial reporting.

<i>IPSAS</i>	<i>Name</i>	<i>Effective date for periods beginning on or after</i>
<i>IPSAS 39</i>	<i>Employee Benefits</i>	<i>1 January 2018</i>
<i>IPSAS 40</i>	<i>Public Sector Combinations</i>	<i>1 January 2019</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 CNS/ATM upgrades managed by NAPMA include also all the costs related to the development. Some of the upgrades were already reported during 2017 and the remaining are now reflected in the 2018 data. The development costs were apportioned to each upgraded unit accordingly.

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

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

subject to measurement uncertainty. The effect of changes to such estimates and assumptions in future periods could be significant to the FS.

Changes in Accounting Policy

The same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria set in IPSAS 3. For the 2018 FS, the NAF and ACO accounting policies have been applied consistently throughout the reporting period.

There is no major change in the 2018 ACO accounting policy. If any specific change in the financial data, the impacts have been identified in the notes under the appropriate headings.

Reclassification

No reclassification applied to the 2018 financial data.

Restatements

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

Foreign currency

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

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 2018. 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	Naples, Italy
AIRCOM Ramstein ³ HQ	Ramstein, Germany
MARCOM Northwood HQ	Northwood, UK
NCIS Group HQ ⁴	Casteau, Belgium
KFOR HQ	Pristina, Kosovo
NHQSa HQ	Sarajevo, Bosnia Herzegovina
LANDCOM Izmir HQ	Izmir, Turkey
NAGSF HQ	Sigonella, Italy
ACO Corporate Accounting and Control Office	Casteau, Belgium

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

³ It includes data related to AIRCOM HQ, Ramstein, Germany, Deployable Air Command and Control Centre (DACCC), Poggio Renatico, Italy, Combined Air Operations Centre (CAOC), Uedem, Germany, Combined Air Operations Centre (CAOC), Torrejon, Spain

⁴ It includes data related to the NCISG HQ, SHAPE, Belgium, 1st NSB, Wesel, Germany, 2nd NSB, Grazianise, Italy, 3rd NSB, Bydgoszcz, Poland

Inter-entity balances and transactions have been eliminated in consolidation. ACO has obtained from the above listed Commands all the information and financial data necessary 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.

The ACO MWA financial data are not consolidated into the primary ACO FS in accordance with the adapted IPSAS 6 included in the NAF which prescribes that the NATO reporting entities shall not consolidate the Morale and Welfare Activities and/or Staff Association activities into their respective FS even when they are considered to be under the control, from a financial reporting perspective, of the NATO Reporting Entity preparing and issuing the FS. Relevant details are reported by way of a disclosure note (Note M).

Services in-kind

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

Financial Instruments disclosure/presentation

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

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

Financial risk factors

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

Credit risk

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

Liquidity risk

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

Foreign currency risk

ACO has some exposure to foreign currency because some contracts and activities are denominated in currencies different than Euro, mainly USD, GBP and AFN. A constant monitoring of the various activities in foreign currencies is executed to identify the potential exposure to exchange rate variations and to manage the risk accordingly. ACO doesn't maintain significant assets or liabilities in foreign currency, except for some operational balances related to service provided at MARCOM HQ, NAEW&C Force, and Resolute Support HQ and for 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. Therefore, the cash holding is mainly kept and managed at corporate level with few exceptions. Liquidity is invested in saving accounts until 3 months, short term deposits for not more than 12 months and term deposits divided in packages that can be liquidated within 31 calendar days at no cost. All investments profiles are in accordance with NFRs, to ensure the best possible return on cash holdings considering the current financial market situation. The exposure to interest risk strictly follows the current market for all public and international organisations.

Assets

a. Cash and cash equivalents

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

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

b. Short-term investments

These are term investments mainly with a maturity of more than 3 and less than 12 months. During 2018, ACO made also term deposit packages for a nominal period of 36 months with the possibility to withdraw the liquidity at no cost within 31 calendar days. This measure was done to mitigate the risk of negative interest on the EUR balance held in Treasury for the ACO budget groups and the various projects. The related interests for those packages are reported on a quarterly basis⁵.

c. Receivables

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

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

d. Inventories

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

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

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

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

ACO inventories are reported using the 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 in Capellen are under the direct control of NSPA in charge of short delivery timeliness in accordance with the NCISG's Notice to Move (NTM) requirements as mandated by the NCISG Concept of Operations (CONOPS). Therefore, they are not included in the ACO Consolidated FS.

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

e. Property, Plant and Equipment

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

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

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

⁵ The overall approach was included in the annual ACO Cash Holding briefing submitted to the BC on July 2018.

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 2018 ACO FS relate to NHQSa and NAEW&C Force GK HQ. In those 2 ACO sites the CIS assets are not under the control of the NCIA but of ACO.

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

ACO is not recognising any other AuC.

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

Building and infrastructure facilities in use across the ACO static Commands have been analysed in light of the control criteria set forth by the NAF and the Garrison Support Agreements as well as the Host Nation Support Policy and 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.

⁶ PO(2011)0020 dated 8 February 2011

⁷ CM-128-2011 dated 16 November 2011

In reassessing the control criteria for Castlegate, ACO identified that there was not enough and reliable information for the financial reporting of the new item related to this location. Therefore, the SSLP was used for the valuation of those specific assets reported under the JFCBS segment reporting.

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 2018 ACO is not reporting any impairment.

Liabilities

a. Payables

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

b. Deferred Revenue

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

c. Advances

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

d. Employee benefits

The employees in ACO⁸ participate in one of the three NATO pensions 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

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.

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.

Further to an analysis covering the last years of the history of death in service risks in relation to premiums paid by the Organisation during 2012-2015, a compensation of 6 MEUR at the NATO-wide level was agreed by the insurance company. At the end of 2018, the NATO Secretary General decided that a fraction of this amount (circa 1.7 MEUR) should be paid to NATO staff who were members of the DCPS during the period 2012-2015 in proportion to the contributions they made to the DCPS. Staff employed by "NATO body" during the period 2012-2015 and affiliated to the DCPS is therefore entitled to a payment to be made from the NATO DCPS accounts. A decision still has to be taken concerning the remaining amount of the compensation, which may result in a proportional payment to "NATO body".

Coordinated Pension Scheme:

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

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

e. Provisions

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

Net Assets

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

Revenue and expense recognition

a. Revenue

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

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

Bank interests earned and accrued as of 31 December 2018, exchange rate revenue due to transactions in foreign currency and realised exchange rate revenue in accordance with the entity Policy IPSAS 4 – Effect of the foreign exchange rate are recognised as financial revenue.

b. Expenses

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

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

Result of the year

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

Trust Funds

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

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

Cash-flow statement

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

B. Notes to Statement of Financial Position

Assets – Current Assets

1. Cash and cash equivalents

Cash and cash equivalents	2018	2017 Restated	2017
Cash accounts	249,700	235,919	235,919
Petty Cash and Advances	341,910	332,057	332,057
Current Bank Accounts	800,982,541	826,818,213	826,818,213
Clearing-Bank accounts	(39,036)	(192,807)	(192,807)
Cash Equivalent	292, 554,574	254, 160,815	254, 160,815
Total	1,094,089,689	1,081,354,197	1,081,354,197

2. Short Term Investments

Short Term Investments	2018	2017 Restated	2017
Total	533,503,561	440,241,700	440,241,700

The overall cash holding in ACO for 2018 is higher compared to the balance of the previous year, due to an increase of 106 MEUR.

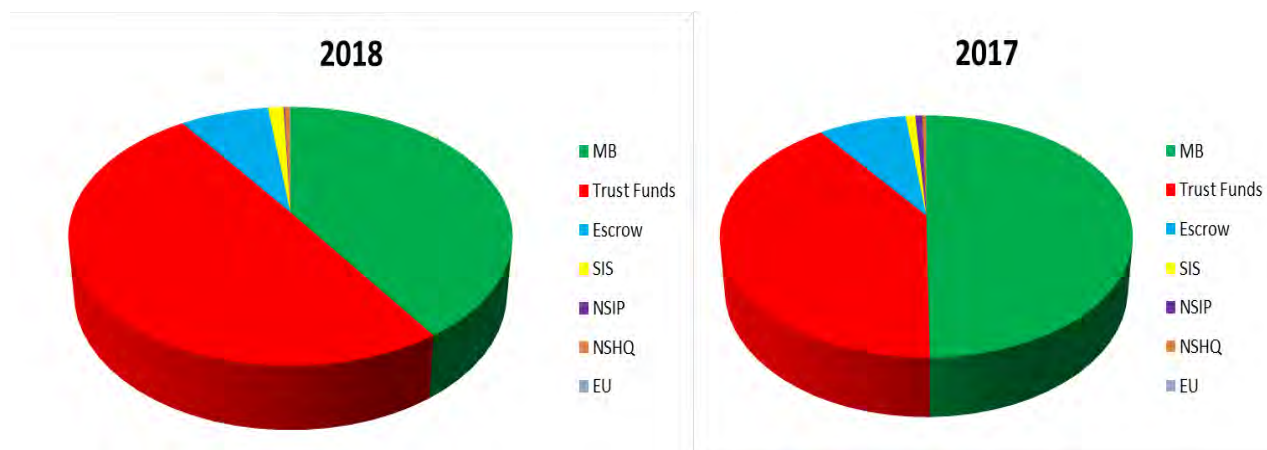
The main variances are for the MB cash holdings with a decrease of 73 MEUR, ANA TF cash holdings with an increase of 200 MEUR and NSIP cash holdings for a decrease of 8.6 MEUR.

The corresponding balance of the Escrow account, net of the 2018 outflow and the accrued interest is higher than 2017 due to the exchange rate between EUR/USD as of 31 December 2018.

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

The breakdown for the main categories is reported below:

Table 1.A – ACO Cash holding breakdown

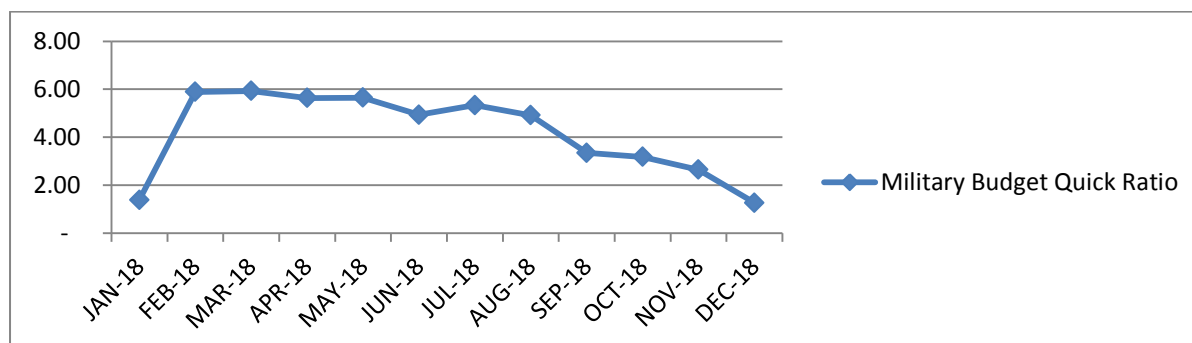


The year-end balance is not representative of the average cash holdings during the financial year. Cash holdings tend to increase towards the end of the financial year due to the cash received upon the final cash call and the request of some nations to liquidate uncalled contributions for the following year. The trend continues until March of the following financial year.

The Quick Ratio disclosed in the table below 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 above 1 at the end of 2018 due to the end of year assessment of accruals which has a direct impact on the level of liability recognised at year-end.

Table 1.B – ACO MB Quick ratio Fiscal year 2018



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 2018 is 160 MEUR. The Trust Funds cash equivalent at the end of 2018 is 132.5 MEUR.

Short-term investments include term deposits for a period within 12 months. During 2018, ACO made also term deposit packages for a nominal period of 36 months with the possibility to withdraw the liquidity at no cost within 31 calendar days. This measure was done to mitigate the risk of negative interest on the EUR balance held in Treasury for the ACO budget groups and the various projects. The related interests for those packages are reported on a quarterly basis

The STIs reported at the end of 2018 are related to MB Funds for 263.5 MEUR, ANA Trust Funds for 260 MEUR and to other projects for 10 MEUR.

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

Interest rates

From early 2016 some banks started charging negative interests to customers holding deposits of above 5 MEUR in their bank account. ACO managed so far to avoid any negative interest despite the considerable EUR balance. 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 analyse and consider as well the most valuable approach regarding foreign currencies.

3. Receivables

Receivables	2018	2017 Restated	2017
Receivables Contribution from Member Nations	48,707,136	36,704,093	36,704,093
Receivable Assessment/under call 2018	3,017,200	0	0
Receivables from Troop Contributing Nations	45,669,686	7,544,426	7,544,426
Receivables from Other NATO bodies	15,113,485	6,719,873	6,645,285
Receivables from Staff Members	218,900	93,719	168,726
Receivables from Nations	3,725,681	4,417,406	4,416,987
Other Receivables/Recoverable	11,832,491	10,430,623	10,430,623
Total	128,284,580	65,910,140	65,910,140

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

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

Receivable Contribution from Member Nations

The balance represents mainly outstanding calls for contribution for the various ACO Annual budgets: NCSEP for 14.8 MEUR, NAEW&C FC for 27.4 MEUR, AOM for 6.1 MEUR, AGS for 87 KEUR. It includes as well an outstanding credit for NSIP for 202 KEUR.

Called assessment/under called 2018

The balance represents the NCSEP budget increase due to the additional funds authorised for SHAPE Budget for a total of 2.2 MEUR due to estimated LOJI for LWR at SHAPE, the transfers made by IMS and ACT for a total of 717.2 KEUR and 100 KEUR respectively for potential emerging 2019 requirements for the Air Defence Ground Budget.

Receivable from TCNs

Receivable from TCNs	2018	2017 Restated	2017
NHQSa NBC	88,948	60,064	60,064
KFOR NBC	1,761,800	1,568,451	1,568,451
RAC	41,054		
ISAF/Resolute Support NBC/HKIA	40,136,720	5,725,701	5,725,701
Supreme Food Claim	2,704,044	0	0
NTCB-Iraq	937,120	192,309	192,309
Total	45,669,686	7,546,525	7,546,525

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. NBC workload continues to be work intensive due to the constant required liaison between ACO and the TCNs. While some of the amounts have been outstanding for a significant period of time, it is considered that they remain collectable and ACO will continue to work with Nations to pursue resolution.

ISAF/Resolute Support NBC

Resolute Support HQ is still a large NBC work oriented area. The ending receivable balances for 2018 is showing a significant increase in amount of uncollected NBC items for ISAF/Resolute Support. This is mainly related to HKIA pre-financing. As per NAC (PO (2018)0009), ACO is tasked to manage the HKIA billing and follow-up for TCNs during the fiscal year 2018 and 2019. The last billing of Dec. 2018 was for an amount of 17MEUR. Efforts are ongoing to resolve significant TCNs outstanding credits for more than 60 days.

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

KFOR: In 2018 there have been no significant billing issues related to TCNs for KFOR HQ NBC.

NTCB-Iraq: Due to the establishment of a NATO Training and Capacity building Activity in Iraq, some limited NBC were performed during 2018. This kind of services will increase during the following years due to the new NMI mission in Iraq.

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

Currently the 19.29% of the total amount has been reimbursed by the majority of the TCNs billed, leaving an outstanding credit of 80.71% related to few TCNs. ACO is tasked to provide a status report to the BC by June 2019.

Receivable from other NATO bodies

These are receivables for other NATO entities for services provided to them. The balance includes 8.2 MEUR for ACT (only MEUR 1.9 due in 2018), 576 KEUR for NCIA, 537 KEUR for NSPA and, 4.2 MEUR for NSHQ.

Receivable from staff members⁹

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. The change is due to the reclassification of advances paid for travels which has been transferred to advances.

4. Prepayments

Prepayments	2018	2017 Restated	2017
Advances and Prepayments	18,375,831	31,691,249	25,988,825
Total	18,375,831	31,691,249	25,988,825

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'. It should be noted that the prepayments related to NAEW&C Force GK HQ is made by advances done to NSPA for FMS for which financial data on accrual basis are not available. This prepayment balance includes as well 3 MEUR paid by SHAPE HQ for FMS cases and 4.6 MEUR paid by NAEW&C Force GK HQ to NAPMA for upgrade related to the Mode 5 projects.

5. Other current assets

Other current assets	2018	2017 Restated	2017
Bank Interest Accrued	2,424,323	1,494,414	1,499,303
Receivable for Provisions	1,805,551	2,975,630	2,975,630
Total	4,229,874	4,470,044	4,474,933

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	2018	2017 Restated	2017
Consumables	16,995,664	14,817,647	14,817,647
Spare parts	26,223,798	22,806,502	22,806,502
Total	43,219,462	37,624,149	37,624,149

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

No inventory is pledged as security for liabilities.

⁹ See footnote n. 8 at page N-7.

Inventory	
Opening as of 1 January 2017	35,048,439
Adjustments to opening	(1,271,712)
Adjusted opening as of 1 January 2017	33,776,727
Additions	35,880,607
Expensed	(31,961,226)
Write off/write down	(2,441)
Adjustments to ending	(69,518)
Ending balance as of 31 December 2017	37,624,149
Opening as of 1 January 2018	37,624,149
Adjustments to opening	89,451
Adjusted opening as of 1 January 2018	37,713,600
Additions	39,204,988
Expensed	(34,748,793)
Write off/write down	(42,548)
Adjustments to ending	1,092,215
Ending balance as of 31 December 2018	43,219,462

The adjustments reported above are due to the exclusion of balances below the applicable threshold; the adjustments to opening FY 2018 are mainly due to the inclusion of beginning balances that are now above the applicable threshold. Those adjustments were mainly performed for NAGSF HQ, NHQSa and RSHQ.

RSHQ reported an adjustment increase of 1.1 MEUR mainly for items held outside of NDSS. To further strengthen the required control, at RSHQ it has been agreed that all inventory will be recorded in NDSS until issued to the end user and quantity held by the end users will be restricted to the designated operational requirement. This will ensure maximum transparency and most efficient management of the available material in theatre.

Assets - Non-current Assets

7. Property, Plant and Equipment

Property, Plant & Equipment	2018	2017 Restated	2017
Land	-	-	-
Buildings	64,117,359	48,374,938	46,054,001
Other infrastructure	22,689,402	20,800,061	17,235,744
Installed Equipment	28,484,139	23,468,173	22,806,233
Machinery	6,782,594	6,539,011	6,465,730
Vehicles	16,782,557	4,564,148	4,222,622
Aircrafts (Planes, Upgrades & Spare parts)	359,907,453	184,488,167	175,424,410
Mission Equipment	28,939,009	27,065,613	27,142,099
Furniture	2,237,072	1,788,776	1,424,873
Communication	19,547,150	11,383,791	11,037,501
Automated Information Systems	5,962,040	5,106,976	5,106,976
AuC	6,834,630	7,116,712	6,585,617
Total for Property, Plant and Equipment	562,283,404	340,696,365	323,505,807

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 2017

The main restatements reported are related to NAEW, RSHQ, JFCBS and LANDCOM.

The relevant restatements for NAEW are related to the Building asset category for an amount of 1,4 MEUR, other infrastructure for an amount of 2.6 MEUR, Planes, upgrades and spare parts for an amount of 9 MEUR

The increase of 1 MEUR of 2017 RSHQ financial data is mainly due to the inclusion of fuel bladders that were delivered at the end of 2017.

At NAEW&FC GK HQ the cost of the CNS/ATM upgrade for seven planes were adjusted/restated in accordance with the 2017 IBAN recommendation. The amendments required were related to the exchange rate used for the foreign currency expenses provided by NAPMA, the revision of the distribution of O&S funding and the cost distribution of global spares to fourteen planes instead of the initial seven planes delivered in 2017.

In addition, the upgrade of the first seven planes has been restated based on additional cost information acquired for the whole project at the end of 2018 with an impact on the NBV equal to 5.3 MEUR. Future costs still expected to occur will be added to the plane upgrades as cost adjustment in the year the expense is recognised due to the link with FMS framework used by the procurement agency.

NAEW made also some additional restatements related to Infrastructure for a total increase of 2.6 MEUR and Asset under Construction with an increase of 531 KEUR.

2018 data

NAEW: CNS/ATM upgrade

The main variance reported in the PP&E is still for NAEW&C Force GK HQ. NAEW&C Force GK HQ operates a fleet of fourteen surveillance (E3A) airplanes, however as they relate to data prior 2013, they are not accounted with a financial value. A material upgrade of the communication and navigation systems from analogue to digital has been completed for all planes, as well as training devices, during 2017 and 2018. This has been recorded with a financial value within 3 groups of transportation equipment-airplanes; spare parts with a lifetime of 5 years, cost of actual upgrade with a lifetime of 20 years, and training devices with a lifetime of 20 years. This has materially increased the non-current assets for NAEW.

Two of the planes upgraded during 2018 were delayed in being returned to NAEW due to unforeseen defects, unrelated to the CNS/ATM upgrade. These two planes were kept at AIRBUS, Germany until this critical and unscheduled repair was completed. Because the delay was not linked to the upgrade, the delivery date of the planes at AIRBUS has been used as the date placed in service for the upgrade.

Another upgrade, MODE 5/IIP COMMs started in 2018 impacting four planes of the fleet, which have been retrofitted. The equipment was delivered to NAEW, either installed in an aircraft or in the warehouse or recorded in the NAEW fixed asset register. Even though four planes have been upgraded, the system has not yet been accepted or authorised for operational use. Therefore their depreciation is on hold until the upgrade acceptance.

As a part of this modernisation the fleet was reduced as well 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.

Other ACO sites

An increase of 12 MEUR in the Vehicle asset category is mainly due to vehicles funded through the CP 149 and delivered to different NCISG battalions during the reporting period.

An overall increase of 15.7 MEUR in the Building Asset category is due to several projects at KFOR for 3.9 MEUR for 4 new accommodations in Camp Film City; at NCISG First NSB for a new main building for 4.6 MEUR; at HKIA for a new main building for 2.4 MEUR and a new passenger terminal and control tower for 700 KEUR; at NAGSF for the upgrade to NAOC Building and SATCOM including also the delivery of warehouse by NAGSMA for 3.1 MEUR; at CAOC Torrejon for the delivery of a new main building for a total of 644 KEUR; at LANDCOM for a new armoury building and various other upgrades for 1.6 MEUR.

NATO UNCLASSIFIED
Releasable to North Macedonia
ACO Consolidated Financial Statements 2018

SH/FINAC/CAC/FC097/19

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

	Land	Buildings	Other Infrastructures	Installed Equipment	Machinery	Vehicles		
Acquisition cost as of 1 January 2017	-	70,254,555	62,182,583	20,179,718	9,726,402	8,720,146		
Adjustment to opening balance	-	(62,485)	287,200	538,800	(1,076,450)	(2,239,711)		
	-	70,192,070	62,469,783	20,718,518	8,649,952	6,480,434		
Additions FinS	-	396,012	-	1,053,712	241,855	3,126,115		
Manual additions - NSIP/Other funding	-	11,970,014	3,753,751	6,409,365	1,407,652	1,158,643		
Adjustment to additions 2017	-	-	1,096,965	-	-	281,664		
Adjustment to additions - NSIP/Other funding	-	2,391,329	2,423,000	72,116	78,515	-		
+ Total Additions	-	14,757,355	7,273,715	7,535,193	1,728,021	4,566,422		
- Disposals/retirements	-	-	-	-	-	-		
- Capitalized/Expensed WIP	-	-	-	-	-	-		
+ Revaluations	-	-	-	-	-	-		
- Impairments	-	-	-	-	-	-		
	-	14,757,355	7,273,715	7,535,193	1,728,021	4,566,422		
	-	84,949,425	69,743,498	28,253,711	10,377,973	11,046,856		
- Accumulated depreciation	-	(34,535,997)	(45,025,612)	(2,671,297)	(3,847,252)	(7,224,383)		
Adjustment to opening balance	-	40,703	(44,281)	83,325	981,925	2,163,189		
	-	(34,495,294)	(45,069,893)	(2,587,972)	(2,865,327)	(5,061,195)		
+ Disposals/retirements	-	-	-	-	-	-		
- Depreciation 2017	-	(2,030,583)	(3,674,978)	(2,165,265)	(1,062,927)	(1,557,896)		
Adjustment to depreciation 2017	-	(48,610)	(198,567)	(32,301)	89,291	136,385		
Ending balance as of 31 December 2017	-	48,374,938	20,800,061	23,468,173	6,639,011	4,564,148		
Acquisition cost as of 1 January 2018	-	84,949,425	69,743,498	28,253,711	10,377,973	11,046,856		
Adjustment to opening balance	-	-	-	-	(64,423)	-		
	-	84,949,425	69,743,498	28,253,711	10,313,550	11,046,856		
Additions FinS	-	411,345	1,838,695	1,718,766	1,527,365	4,107,750		
Manual additions - NSIP/Other funding	-	20,914,008	4,379,721	7,512,944	92,673	12,657,274		
+ Total additions	-	21,325,351	6,218,416	9,231,310	1,620,039	16,765,024		
- Disposals/retirements	-	(0)	-	0	0	-		
- Capitalized/Expensed WIP	-	-	-	-	-	-		
+ Revaluations	-	-	-	-	-	-		
- Impairments	-	-	-	-	-	-		
	-	21,325,351	6,218,416	9,231,310	1,620,039	16,765,024		
Accumulated acquisition cost	-	106,274,776	75,961,914	37,485,021	11,933,589	27,811,880		
- Accumulated depreciation as of 1 January 2018	-	(36,574,487)	(48,943,437)	(4,785,539)	(3,838,963)	(6,482,708)		
Adjustment to opening balance	-	-	-	-	-	-		
	-	(36,574,487)	(48,943,437)	(4,785,539)	(3,838,963)	(6,482,708)		
+ Disposals/retirements	-	-	-	0	-	-		
- Depreciation 2018	-	(5,582,930)	(42,157,417)	(53,272,512)	(9,000,882)	(5,150,996)		
Ending balance as of 31 December 2018	-	64,117,359	22,689,402	28,484,139	6,782,594	16,782,557		
	Airplanes & Components	Mission Equipment	Furniture	Communications	AIS	AuC	Total	
Acquisition cost as of 1 January 2017	3,793,562	84,638,477	1,308,167	1,687,496	3,615,764	6,065,323	272,172,192	
Adjustment to opening balance	-	(1,189,945)	59,095	(60,860)	-	-	(3,744,356)	
	3,793,562	83,448,532	1,367,262	1,626,637	3,615,764	6,065,323	268,427,837	
Additions FinS	2,042,963	861,156	434,807	-	324,967	-	8,281,587	
Manual additions - NSIP/Other funding	174,594,554	10,646,387	145,916	11,933,053	4,478,576	2,204,354	228,702,265	
Adjustment to additions 2017	-	(463,527)	-	-	-	-	915,102	
Adjustment to additions - NSIP/Other funding	9,434,612	274,054	339,959	466,104	-	531,094	16,010,782	
+ Total Additions	186,072,129	11,118,070	920,683	12,399,156	4,803,543	2,735,448	253,909,736	
- Disposals/retirements	-	-	(163)	-	-	-	(163)	
- Capitalized/Expensed WIP	-	-	-	-	-	(1,684,059)	(1,684,059)	
+ Revaluations	-	-	-	-	-	-	-	
- Impairments	-	-	-	-	-	-	-	
	186,072,129	11,118,070	920,520	12,399,156	4,803,543	1,051,389	252,225,514	
	189,865,891	94,566,603	2,287,782	14,025,793	8,419,307	7,116,712	520,653,351	
- Accumulated depreciation	(248,003)	(49,687,213)	(272,571)	(557,601)	(1,980,518)	-	(146,050,446)	
Adjustment to opening balance	(1,172)	469,216	(6,402)	60,860	-	-	3,747,363	
	(249,175)	(49,217,997)	(278,973)	(496,742)	(1,980,518)	-	(142,303,084)	
+ Disposals/retirements	-	-	163	-	-	-	163	
- Depreciation 2017	(4,758,665)	(19,116,709)	(191,446)	(2,025,447)	(1,331,814)	-	(37,915,730)	
Adjustment to depreciation 2017	(369,683)	(5,377,523)	(67,500,989)	(119,814)	(2,642,002)	-	261,668	
Ending balance as of 31 December 2017	184,488,167	27,065,813	1,788,776	11,383,791	5,106,976	7,116,712	340,696,365	
Acquisition cost as of 1 January 2018	189,865,891	94,566,603	2,287,782	14,025,793	8,419,307	7,116,712	520,653,351	
Adjustment to opening balance	-	(7,656)	-	(117,399)	-	-	(189,478)	
	189,865,891	94,558,947	2,287,782	13,908,393	8,419,307	7,116,712	520,463,872	
Additions FinS	435,117	412,607	215,790	17,775	762,234	-	11,447,446	
Manual additions - NSIP/Other funding	189,373,946	17,567,276	980,105	14,062,941	2,302,510	2,243,116	272,086,113	
+ Total additions	189,809,063	17,979,883	1,195,895	14,080,716	3,064,745	2,243,116	283,533,559	
- Disposals/retirements	(0)	0	(1,207)	-	-	-	(1,207)	
- Capitalized/Expensed WIP	-	-	-	-	-	(2,525,199)	(2,525,199)	
+ Revaluations	-	-	-	-	-	-	-	
- Impairments	-	-	-	-	-	-	-	
	189,809,063	17,979,883	1,194,689	14,080,716	3,064,745	(282,082)	91,198,091	
Accumulated acquisition cost	379,674,754	112,538,830	3,482,471	27,989,109	11,484,052	6,834,630	801,471,027	
- Accumulated depreciation as of 1 January 2018	(5,377,523)	(67,500,989)	(499,006)	(2,642,002)	(3,312,331)	-	(179,956,986)	
Adjustment to opening balance	-	3,038	-	(1,975)	-	-	1,063	
	(5,377,523)	(67,497,951)	(499,006)	(2,643,977)	(3,312,331)	-	(179,955,923)	
+ Disposals/retirements	-	0	1,207	(0)	-	-	1,207	
- Depreciation 2018	(14,389,777)	(19,767,300)	(83,599,820)	(747,599)	(5,797,983)	(5,522,012)	(59,232,906)	
Ending balance as of 31 December 2018	359,907,453	28,939,009	2,237,072	19,547,150	5,962,040	6,834,630	562,283,405	

NATO UNCLASSIFIED
Releasable to North Macedonia
ACO Consolidated Financial Statements 2018

8. Other Non-Current Assets

Other Non-Current Assets	2018	2017 Restated	2017
Long Term Receivables for Provisions	6,657,673	6,611,547	6,611,547
Total	6,657,673	6,611,547	6,611,547

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 2018.

The 4 cases are related to the severance and removal allowance for Resolute Support HQ (EUR 1,431,922) severance and leaving allowance for LWRs in LANDCOM HQ (EUR 1,277,249), the Company's claim for electricity arrears at former JFC Naples HQ compound (EUR 3,864,502) and a court case involving an indemnity payment for JFCBS (EUR 84,000). Details are provided in Note D.

Liabilities – Current Liabilities

9. Payables

Payables	2018	2017 Restated	2017
Payables to Suppliers	(291,248,578)	(294,906,528)	(294,906,528)
Payables to Staff members	(64,213)	(500,657)	(500,657)
Other Payables	(8,797,347)	(24,562,311)	(18,864,776)
Total	(300,110,139)	(319,969,496)	(314,271,961)

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

Other Payables

The data restatement is due to a correction of foreign currency amounts, as well as distribution of O&S funding from seven to fourteen planes in NAEW&CF. More information were reported in note B.4.

Untaken leave

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

NATO UNCLASSIFIED
 Releasable to North Macedonia
 ACO Consolidated Financial Statements 2018

10. Deferred Revenue

Deferred Revenue	2018	2017 Restated	2017
Deferred Revenue MB	(159,389,537)	(155,788,826)	(155,788,826)
Liabilities from MB Lapse	(36,642,692)	(64,204,429)	(64,204,429)
Liabilities from MB Result of the year	(5,538,062)	(1,798,003)	(1,798,003)
Liability from unrealised exchange rate differences	(4,957,163)	(5,278,692)	(5,278,692)
Liabilities from NSIP Cash Call	162,903	317,123	317,123
Liabilities from NSIP Accumulated result of the year	28,664	(8,921,225)	(8,921,225)
Other Deferred Revenue	(972,297,720)	(763,560,403)	(763,560,403)
Deferred Revenue Inventory	(43,219,462)	(37,624,149)	(37,624,149)
Deferred Revenue PP&E	(55,770,073)	(35,572,800)	(35,572,800)
Total	(1,277,623,142)	(1,072,431,404)	(1,072,431,404)

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	2018	2017 Restated	2017
Budgetary lapses	(23,785,336)	(44,487,458)	(44,487,458)
Overestimated accruals	(12,818,394)	(19,201,416)	(19,201,416)
Other adjustments	(38,962)	(515,555)	(515,555)
Total	(36,642,692)	(64,204,429)	(64,204,429)

These liabilities are used to record unused budget credits authorized as of end of year 2018. The lapse is an amount owed back to the Nations. The balance will be included in the 2nd Assessment call for 2019 and will be distributed by type, cost share and budget year.

Liabilities from Result of the year

Distribution of Result of the year	2018	2017 Restated	2017
Result of the year MB	(5,171,303)	(2,700,773)	(2,700,773)
Unrealised exchange rate gain/loss	(321,529)	886,203	886,203
Result of the year NSIP	(45,231)	16,567	16,567
Liabilities from Result of the year	(5,538,062)	(1,798,003)	(1,798,003)

The net amount of miscellaneous income, interest revenue, bank charges, and realised exchange rate gain/losses to be returned to the Nations is summarised at ACO level, apportioned by budget group and cost share, and reported as a liability. The balance will be included in the 2nd Assessment call for 2019 and will be distributed by type and cost share.

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

Deferred Revenue NSIP

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.

Liabilities from NSIP Cash Call

ACO is reporting NSIP expenses on a quarterly basis. No funds are requested in advance for ACO; therefore this positive balance represents expenses to be reimbursed.

NATO UNCLASSIFIED
Releasable to North Macedonia
ACO Consolidated Financial Statements 2018

Liabilities Result of the year NSIP

Result of the year NSIP	2018	2017 Restated	2017
Cumulated result of previous years	(16,567)	(8,904,658)	(8,904,658)
Result of the year	45,231	(16,567)	(16,567)
Liabilities from NSIP Result of the year	28,664	(8,921,225)	(8,921,225)

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

The variance between 2018 and 2017 figures is due to the reimbursement made in Dec. 2018 as approved by the IC¹⁰.

Other Deferred Revenue

The amount represents funds related to ACO non-core activities, like SHAPE International School (SIS), Trusts Funds, NSHQ, EU Operation Althea and the Escrow account.

The 2017 balance of 2.2 MEUR for the final monthly invoices due to a food contractor at ISAF was used for the partial settlement of the Food Case claims under the Food Basic Ordering Agreement ACO-BRU-08-89, having the remaining amount charged to the TCNs. Further details were reported in Note B.3.

Deferred Revenue Inventory

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

Deferred Revenue PP&E

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

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

11. Advances

Advances	2018	2017 Restated	2017
Advance MB Contributions	(295,160,667)	(298,119,810)	(298,119,810)
Other Advance	(352,976)	(567,589)	(567,589)
Total	(295,513,643)	(298,687,399)	(298,687,399)

Advance MB Contributions

The amount is related to:

- Advance contribution called on the 2nd call 2018 for an amount of EUR 249,372,000 (AGS/NCSEP/AOM/NAEW cost share) and related to budget authorization for 2019. These advances are recorded using appropriate account code by type/year/cost share.
- Advances for an amount of EUR 45,788,667 made by some member Nations, mainly in coordination with the NATO IS Treasury for non ACO called advances.
- Other advances relates mainly to amounts received for NBC.

12. Short Term Provisions

Short Term Provisions	2018	2017 Restated	2017
Total	(3,701,831)	(5,200,489)	(5,200,489)

Provisions are assessed using the best accounting estimate available. The amounts of the provisions reported in the ACO 2018 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

¹⁰ See AC/4(PP)D/27926

NATO UNCLASSIFIED
Releasable to North Macedonia
ACO Consolidated Financial Statements 2018

cases are expected to be settled, For 2018 ACO is reporting few cases as long term for a total amount of EUR 7,187,987; the remaining amount of EUR 3,701,831 is considered as short term.

Liabilities – Non-Current Liabilities

13. Long Term Provisions

Long Term Provisions	2018	2017 Restated	2017
Total	(7,181,987)	(7,187,038)	(7,187,038)

See Note B12 for short term provisions.

14. Non-current Deferred Revenue

Deferred Revenue	2018	2017 Restated	2017
Deferred Revenue for PP&E and AuC	(506,513,332)	(305,123,566)	(287,933,007)
Total	(506,513,332)	(305,123,566)	(287,933,007)

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

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

C. Notes to Statement of Financial Performance

15. Revenue

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

16. Expenses

Expenses for ACO entities are recognised by nature as follows:

a) *Personnel*¹¹

Personnel	2018	2017 Restated	2017
Total	189,657,916	180,598,686	180,598,686

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 2018 is EUR 3,909,417 (which shows a slight increase as compared to EUR 3,692,898 paid in 2017) 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 2.5 MEUR.

¹¹ See footnote n. 8 at page N-8.

NATO UNCLASSIFIED
Releasable to North Macedonia
ACO Consolidated Financial Statements 2018

Untaken leave

Untaken Leave	2018	2017
Opening	3,816,172	3,938,019
Addition	4,009,602	3,816,172
Reversed	(3,816,172)	(3,938,019)
Ending	4,009,602	3,816,172

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

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

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 C16 – ACO Personnel

PE positions	
<i>Military</i>	5,660
<i>Civilian</i>	926
Total PE positions	6,586
CE Positions	
<i>Military</i>	1,763
<i>Civilian</i>	5
Total CE positions	1,768
ICC	159
LWR/LCH	986
Others	252

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

b) Contractual Supplies and Services

Contractual Suppliers and Services	2018	2017 Restated	2017
Total	742,744,513	696,137,348	697,689,621

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 2018 in NAEW a total amount of MEUR 40.3 was expensed for the ongoing maintenance related to Depot Level Maintenance (DLM). Two planes completed the DLM and were returned to NAEW&C Force HQ; two other planes started the maintenance and are expected to be completed in 2019 and 2020.

¹² See footnote n. 8 at page N-7.

NATO UNCLASSIFIED
Releasable to North Macedonia
ACO Consolidated Financial Statements 2018

In 2018 the total expense recorded for Foreign Military Sales (FMS) is 24,286,640 EUR. This financial information is reported in a separate line in accordance with the ACO Policy reported at Note A.

Foreign Military Sales (FMS)	2018	2017 Restated	2017
Total	24,286,640	27,154,230	27,154,230

ACO manage directly FMS only for SHAPE HQ and NAGSF HQ. In 2018 SHAPE disclosed an amount of EUR 38,962 and NAGSF an amount of EUR 44,008.

The amount of EUR 24,203,670 belongs to FMS cases for NAEW managed directly by NSPA. Those expenses are reported in the ACO FS on a modified cash basis build on the cash credit request/outflows exchange between the two NATO entities. The expenses for the financial year are not recognised on accrual basis with the exception of the FMS cases where tangible information is provided by the NAEW customers with regards to the effective delivery of goods and services.

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

Operating Leases

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

Site	PP&E Category	Asset Leased	Amount paid in 2018 (EUR)	Amount to pay in 2019 (EUR)	Amount to pay in 2020-2023 (EUR)	Amount to pay after 2023 (EUR)	Renewal or purchase options/restrictions
SHAPE	Transport Equipment	One armored vehicle for SACEUR	64,200	64,200	18,725	0	N/A
SHAPE	Transport Equipment	BSG Transportation Services	338,925	338,925	0	0	N/A
SHAPE	Printing	Reprographic equipment	120,185	170,512	231,834	0	N/A
NCISG	Transport Equipment	Rental cars	54,188	0	0	0	N/A
JFCBS	Transport Equipment	Civilian lease - fleet	54,948	0	0	0	IFIB-ACO-BRU-14-12
JFCBS	Transport Equipment	Civilian lease - fleet	77,290	154,580	386,451	0	IFIB-ACO-BRU-17-18
NAEW	CIS	Servers	289,623	0	0	0	Extension, 1 year contract PO 18PO3046
NAEW	AIS	Printers	120,000	145,817	0	0	CONTRACT/COMMITMENT AMOUNT - OPTION TO EXTEND FOR 4 TIMES ONE YEAR AT SAME COST AS FOR 2019
JFCNP	AIS	Multi-Functional Devices	153,963	30,000	0	0	One base year from 02-MAR-15 to 01-MAR-16 plus four option years
JFCNP	Building	NS2AU Villa Addis Ababa	120,000	240,000	0	0	One base year from 01-JAN-17 to 31-DEC-17 plus four option years
RS	Heavy Duty Equipment	Heavy Duty Equipment	57,720	57,720	0	0	renewal
NAGSF	Transport Equipment	Leased cars	54,188	0	0	0	N/A

c) Depreciation

Depreciation and Amortization	2018	2017 Restated	2017
Total	59,421,321	37,654,062	37,915,730

The amount disclosed for 2018 includes depreciation for different asset categories, like Mission Equipment for a total of 16.1 MEUR, upgrades of airplane and parts for a total of 14.4 MEUR, Vehicles for a total of 4.5 MEUR, Communication Systems and AIS related mainly to the airplanes for a total of 8 MEUR, Other Infrastructures for a total of 4.3 MEUR. The total depreciation reaches 5.6 MEUR on Buildings, 4.2 MEUR on Installed Equipment, 1.3 MEUR on Machinery, 0.8 MEUR on Furniture. Retirement Loss is for 189 KEUR.

NATO UNCLASSIFIED
Releasable to North Macedonia
ACO Consolidated Financial Statements 2018

Provisions

	Total
FS 2017	12,387,527
Adjustment 2017	0
Restated 2017 / Opening 2018	12,387,527
Addition 2018	7,814,314
Used 2018	51,628
Reversed 2018	(9,266,395)
Ending Balance 31-Dec-18	10,883,818

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 2018 amount to 48.3 MEUR which reflects an increase of 354 KEUR compared to 2017, mainly for real life support services required in the missions. The reimbursable costs relate to various services financially administered by ACO, as reported below.

An amount of 5.2 MEUR (2017 4.4 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 2.9 MEUR (2017 2.9 MEUR) corresponds to travel services and administration of payrolls provided to the NCIA by JFC Naples HQ, JFC Brunssum HQ, LANDCOM Izmir HQ, AIRCOM Ramstein HQ and MARCOM Northwood HQ.

A total amount of 12.2 MEUR (2017 15.7 MEUR) corresponds to real life support services provided mainly by KFOR HQ and Resolute Support HQs to the TCNs, such as messing, water, billeting, and laundry, fuel whose costs are not eligible for common funding and, therefore, shall be borne by the Nations (NBC). The NBC costs are, therefore, pre-financed by ACO and afterwards recovered from the TCNs through an established cost recovery mechanism.

Expenses for security guards on SHAPE are managed by SHAPE HQ but reimbursed by Host Nation in accordance with the Garrison Support Agreement; the amount for 2018 is 3 MEUR.

Expenses for the remaining amount of 25 MEUR were made mainly by the ACO Commands on behalf of local NMRs, NSEs, MWAs, Host Nations and other co-located entities in accordance with Memorandum of Understanding or other ad-hoc agreements. This includes, but is not limited to, advance payments made by ACO for shared utilities, maintenance and cleaning services, etc. which is recovered from the customers through charges calculated on a pro-rata basis.

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

17. Total to be returned

The result of the year is the difference of non-budgetary revenue and expenses, such as interests, exchange rate loss or gain, and depreciation. The amount, except unrealised gain/losses for exchange rate, will be re-distributed to the Nations in the 2nd Assessment Call for 2019.

18. Net Asset

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

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.

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

NATO UNCLASSIFIED
Releasable to North Macedonia
ACO Consolidated Financial Statements 2018

For the 2018 Financial Year, ACO assessed an estimated amount of 1.2 MEUR for LANDCOM HQ for Real Life Service provided to the Host-Nation during the period 2014-2018. The estimated amount reflects the Building Life Expectancy cap of 20% increase for Building older than 20 years. The Service Level Agreement (SLA) between the HQ and the Host Nation is at the final stage and its signature is expected any time soon. For 2019, the local Finance Office is already tracking for 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 2018 reporting period, ACO aggregated Contingent Liabilities and Provisions reported by ACO consolidated entities in the following categories:

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

Contingent Liabilities (CL)

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

TABLE A – Summary of the 2018 CL

CL Categories	Total Amount (EUR)
I NATO Administrative Tribunal	0
II Claims under Art. VIII SOFA	537,440
III Labour court cases	9,089,590
IV Litigations	465,852
V Liabilities due to HQs closure	1,579,892
VI Others	612,335
Grand Total	12,285,109

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.

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

NATO UNCLASSIFIED
Releasable to North Macedonia
ACO Consolidated Financial Statements 2018

I. NATO Administrative Tribunal: Nothing to report for 2018.

II. Claims under Art. VIII SOFA: The total amount disclosed under this category is EUR 537,440. Of this, EUR 486,861 was reported by NHQSa, with the remaining amount of EUR 50,579 reported collectively by SHAPE (EUR 3,459), NCISG (EUR 7,120), and JFCNP (EUR 40,000) representing the possible NATO-share of costs for various alleged damages caused to property or individuals as per the NATO SOFA. As far as NHQSa is concerned, two claims are due to damages arising from the usage of a factory in Visoko, BIH for an amount of EUR 363,436. The remaining amount of EUR 123,425 refers to claims pending at the Claims Commission hearing and Arbitration Tribunal still open at the end of 2018. This category includes also various cases reported by SHAPE, JFCNP, KFOR and NHQSa for which it is not possible to estimate reliably the amount to settle the liability. For KFOR this includes Camp Cabra and for NHQSa potential claims in Glamoc Range.

III. Labour court cases: Out of the total amount of € 9,089,590 disclosed in this category, the amount of EUR 8,988,592 EUR relates to NHQSa possible liability due to the labour contract. This case is reported with the same amount as disclosed in the previous years and it is still ongoing before the Belgian Court. The remaining amount of EUR 100,998 disclosed in this category is reported by SHAPE, NAEW, and LANDCOM and it relates to various liabilities for employment cases pending at the reporting date before the respective local labour Courts.

As already disclosed in previous year's ACO FSs, this category includes one case reported by JFCNP for potential claims before the local Labour Court due to cases of death allegedly caused by asbestos. The claims have not been submitted yet to the Court; therefore the amount cannot be determined by JFCNP.

IV. Litigations: The total amount disclosed under category IV consist of a CL already disclosed last year by KFOR amounting to EUR 465,852 (537,500 USD, converted by using the exchange rate valid as of 31 December 2018) 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.

Part of this category is the 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 2017 FS.

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 LOJI associated with redundant NSPA NIC manpower approved by SHAPE to support the ISAF operation and the RS Mission. The amount of EUR 1,579,892 represents the NATO share of the liability. The costs for this liability are part of the special carry forward of credits approved by the BC from the 2014 ISAF Budget.

As part of this category, JFCNP has reported possible liabilities whose amount cannot be reliably measured. JFCNP's liability concerns potential remediation costs for soil pollution at Bagnoli compound.

VI. Others: Liabilities in the amount of EUR 612,335 are updated amounts for RS Severance Pay and Removal Allowance as well as Turkish VAT liabilities levied against IAMCO. 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 334,115 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. The amount of EUR 278,220 is reported for NAEW based on the NSPA reporting due to pending VAT issues with the Turkish Tax Offices in relation to the IMG 2002 contract with IAMCO.

Provisions

The table B 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

NATO UNCLASSIFIED
Releasable to North Macedonia
ACO Consolidated Financial Statements 2018

the out-flow of resources required to settle the obligation is considered to be probable or virtually certain and the amount is above the materiality threshold of € 5,000 and can be reliably measured.

Table B – Summary of the 2018 Provisions

Provisions	Total Amount (EUR)
I NATO Administrative Tribunal	0
II Claims under Art. VIII SOFA	122,925
III Labour court cases	91,202
IV Litigations	4,064,502
V Liabilities due to HQs closure	0
VI Others	6,605,189
Grand Total	10,883,818

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

I. NATO Administrative Tribunal: Nothing to report for 2018.

II. Claims under Art. VIII SOFA: NCISG and NHQSa reported provisions within this category totalling EUR 122,925, which is mainly related to claims due to car accidents or damages to land and property.

III. Labour court cases: Total provisions for this category are EUR 91,202. EUR 84,000 is set aside for a court case involving an indemnity payment for JFCBS. EUR 7,202 is a continuation from 2017 from a court case for LANDCOM.

IV. Litigations: Two provisions are recognised by JFCNP within this category as also reported last year. The total is EUR 4,064,502.

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.

V. Liabilities due to HQs closure: Nothing to report for 2018.

VI. Others: within this category it is recognised the provision of EUR 6,605,189. Two provisions are recognised within this category for JFCBS and 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 524,314) and RS (EUR 1,431,922). 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 1,277,249 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.

A provision amounting to EUR 178,435 is recognised for NAEW based on accruals data provided by NSPA in relation to services rendered by the Agency to NAEW in 2018. Based on the ACO policy on accruals, in the event that NSPA has provided services in excess to what requested by NAEW and the services in excess are covered by a contract authority approved by the BC, NAEW has an obligation to receive the services and cannot deny payment to NSPA.

Finally, a provision is reported within this residual category for the "Trattamento di Fine Rapporto" (TFR) for JFCNP amounting to EUR 3,193,268. 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

NATO UNCLASSIFIED
 Releasable to North Macedonia
 ACO Consolidated Financial Statements 2018

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.

Some provisions below the materiality threshold have been identified, but not recognised, within the categories II for SHAPE, NCISG and NHQSa. The overall amount is EUR 55,082.

Conclusion

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

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

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

E. Segment Reporting

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

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

The financial reporting by segments elected by ACO is based on service segments on the HQ structure shown under the 'Consolidation' section that represents the grouping of activities for which ACO is responsible. In the preparation of the ACO 2018 FS the segment reporting has been prepared in conformity with the accounting policies and also reported in the ACO guidance for EOY 2018.

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.

NATO UNCLASSIFIED
Releasable to North Macedonia
ACO Consolidated Financial Statements 2018
Segment reporting MB
Statement of Financial Position per HQ

	SHAPE HQ			NAGSF HQ			JFC Brunssum HQ		
	2018	2017 RESTATED	2017	2018	2017 RESTATED	2017	2018	2017 RESTATED	2017
ASSETS									
<i>Current Assets</i>									
Cash and Cash Equivalents	14,333	12,636	12,636	122	-	-	73,891	96,643	96,643
Interentity	80,302,999	93,773,022	93,773,022	2,039,698	2,593,674	2,593,674	4,903,801	12,824,096	12,824,096
Receivables	12,862,874	10,963,417	10,963,417	51,272	25,377	25,377	1,578,332	1,113,311	1,113,311
Prepayments	3,945,953	3,554,137	3,554,137	355,938	-	-	35,727	4,852	4,852
Other Current Assets	-	-	-	-	-	-	-	-	-
Inventories	584,739	527,261	527,261	81,581	-	-	189,256	143,495	143,495
Total Current Assets	97,710,898	108,830,473	108,830,473	2,528,612	2,619,051	2,619,051	6,781,006	14,182,398	14,182,398
<i>Non-current Assets</i>									
Receivables	-	-	-	-	-	-	-	-	-
Property, plant & equipment	24,398,621	32,957,587	32,957,587	15,195,922	9,409,944	9,418,152	14,357,485	15,093,509	14,699,632
Other Non-current Assets	-	-	-	-	-	-	84,000	-	-
Total Non-current Assets	24,398,621	32,957,587	32,957,587	15,195,922	9,409,944	9,418,152	14,441,485	15,093,509	14,699,632
Total ASSETS	122,109,518	141,788,060	141,788,060	17,724,534	12,028,996	12,037,203	21,222,491	29,275,907	28,882,030
LIABILITIES									
<i>Current Liabilities</i>									
Payables	(90,233,870)	(100,149,501)	(100,149,501)	(2,443,360)	(1,678,588)	(1,678,588)	(2,508,760)	(4,336,346)	(4,336,346)
Deferred Revenue	(11,573,266)	(17,966,248)	(17,966,248)	(799,130)	(1,398,541)	(1,398,541)	(4,319,765)	(9,922,563)	(9,922,563)
Advances	(3,300)	(19,050)	(19,050)	-	-	-	-	-	-
Short Term Provisions	-	-	-	-	-	-	-	-	-
Other Current Liabilities	-	-	-	-	-	-	-	-	-
Surpl./Deficit to be returned	(581,293)	(743,843)	(743,843)	1,158	(2,302)	(2,302)	(244,996)	(108,726)	(108,726)
Total Current Liabilities	(102,391,730)	(118,878,641)	(118,878,641)	(3,241,333)	(3,079,431)	(3,079,431)	(7,073,521)	(14,367,635)	(14,367,635)
<i>Non-current Liabilities</i>									
Payables	-	-	-	-	-	-	-	-	-
Long Term Provisions	-	-	-	-	-	-	(608,314)	(575,491)	(575,491)
Deferred Revenue	(19,717,789)	(22,909,419)	(22,909,419)	(14,483,201)	(8,949,564)	(8,957,772)	(13,540,655)	(14,332,781)	(13,938,904)
Other Non-current Liabilities	-	-	-	-	-	-	-	-	-
Total Non-current Liabilities	(19,717,789)	(22,909,419)	(22,909,419)	(14,483,201)	(8,949,564)	(8,957,772)	(14,148,970)	(14,908,272)	(14,514,395)
Total LIABILITIES	(122,109,518)	(141,788,060)	(141,788,060)	(17,724,534)	(12,028,996)	(12,037,203)	(21,222,491)	(29,275,907)	(28,882,030)

NATO UNCLASSIFIED
Releasable to North Macedonia
ACO Consolidated Financial Statements 2018

	AIRCOM Ramstein HQ			NAEW&C Force HQ			JFC Naples HQ		
	2018	2017 RESTATED	2017	2018	2017 RESTATED	2017	2018	2017 RESTATED	2017
ASSETS									
<i>Current Assets</i>									
Cash and Cash Equivalents	26,357	31,025	31,025	274,443	234,441	234,441	103,149	799,837	799,837
Interentity	1,745,688	1,281,912	1,281,912	40,308,728	38,605,474	38,605,474	8,321,967	4,835,826	4,835,826
Receivables	1,070,397	315,422	315,422	3,455,474	3,011,078	3,011,078	5,500,400	2,574,560	2,574,560
Prepayments	19,661	22,930	22,930	9,314,379	22,709,729	17,012,194	3,211,677	2,000,260	2,000,260
Other Current Assets	-	-	-	178,435	1,047,469	1,047,469	1,497,213	1,676,336	1,676,336
Inventories	143,548	105,746	105,746	32,929,061	29,257,578	29,257,578	92,601	135,610	135,610
Total Current Assets	3,005,650	1,757,035	1,757,035	86,460,520	94,865,769	89,168,234	18,727,007	12,022,430	12,022,430
<i>Non-current Assets</i>									
Receivables	-	-	-	-	-	-	-	-	-
Property, plant & equipment	2,862,738	2,253,581	2,253,581	462,660,843	258,025,971	242,664,266	317,562	373,593	373,593
Other Non-current Assets	-	-	-	-	-	-	3,864,502	3,864,502	3,864,502
Total Non-current Assets	2,862,738	2,253,581	2,253,581	462,660,843	258,025,971	242,664,266	4,182,064	4,238,095	4,238,095
Total ASSETS	5,868,388	4,010,615	4,010,615	549,121,363	352,891,740	331,832,500	22,909,071	16,260,525	16,260,525
LIABILITIES									
<i>Current Liabilities</i>									
Payables	(2,808,227)	(1,448,252)	(1,448,252)	(49,417,331)	(61,512,699)	(55,815,164)	(15,116,534)	(8,456,156)	(8,456,156)
Deferred Revenue	(704,074)	(815,290)	(815,290)	(74,080,671)	(49,345,456)	(49,345,456)	(272,731)	(225,889)	(225,889)
Advances	-	-	-	-	-	-	-	-	-
Short Term Provisions	-	-	-	(178,435)	(1,047,469)	(1,047,469)	(3,393,269)	(3,400,936)	(3,400,936)
Other Current Liabilities	-	-	-	-	-	-	-	-	-
Surpl./Deficit to be returned	14,276	(44,477)	(44,477)	(961,167)	(1,638,611)	(1,638,611)	(18,200)	(10,142)	(10,142)
Total Current Liabilities	(3,498,025)	(2,308,019)	(2,308,019)	(124,637,604)	(113,544,235)	(107,846,700)	(18,800,733)	(12,093,123)	(12,093,123)
<i>Non-current Liabilities</i>									
Payables	-	-	-	-	-	-	-	-	-
Long Term Provisions	-	-	-	-	-	-	(3,864,502)	(3,864,502)	(3,864,502)
Deferred Revenue	(2,370,363)	(1,702,596)	(1,702,596)	(424,483,759)	(239,347,505)	(223,985,800)	(243,836)	(302,900)	(302,900)
Other Non-current Liabilities	-	-	-	-	-	-	-	-	-
Total Non-current Liabilities	(2,370,363)	(1,702,596)	(1,702,596)	(424,483,759)	(239,347,505)	(223,985,800)	(4,108,337)	(4,167,402)	(4,167,402)
Total LIABILITIES	(5,868,388)	(4,010,615)	(4,010,615)	(549,121,363)	(352,891,740)	(331,832,500)	(22,909,071)	(16,260,525)	(16,260,525)

NATO UNCLASSIFIED
Releasable to North Macedonia
ACO Consolidated Financial Statements 2018

	NHQSa HQ			LANDCOM Izmir HQ			NCIS Group HQ		
	2018	2017 RESTATED	2017	2018	2017 RESTATED	2017	2018	2017 RESTATED	2017
ASSETS									
<i>Current Assets</i>									
Cash and Cash Equivalents	333,744	173,777	173,777	1,044,914	821,523	821,523	15,745	10,296	10,296
Interentity	649,258	355,915	355,915	(1,393,689)	(1,054,173)	(1,054,173)	1,518,324	11,375,858	11,375,858
Receivables	84,754	107,045	107,045	1,034,343	510,001	510,001	4,010,450	1,473,115	1,473,115
Prepayments	-	-	-	1,547	-	-	15,910	2,516,473	2,516,473
Other Current Assets	117,925	157,418	157,418	9,415	11,963	11,963	5,000	-	-
Inventories	994,217	827,444	827,444	1,142,578	779,448	779,448	625,298	720,607	720,607
Total Current Assets	2,179,898	1,621,600	1,621,600	1,839,108	1,068,761	1,068,761	6,190,727	16,096,348	16,096,348
<i>Non-current Assets</i>									
Receivables	-	-	-	-	-	-	-	-	-
Property, plant & equipment	-	59,096	59,096	2,643,206	929,326	443,819	30,696,625	14,699,351	14,659,459
Other Non-current Assets	-	-	-	1,277,249	1,675,436	1,675,436	-	-	-
Total Non-current Assets	-	59,096	59,096	3,920,455	2,604,762	2,119,255	30,696,625	14,699,351	14,659,459
Total ASSETS	2,179,898	1,680,696	1,680,696	5,759,562	3,673,524	3,188,017	36,887,352	30,795,699	30,755,807
LIABILITIES									
<i>Current Liabilities</i>									
Payables	(1,048,135)	(124,959)	(124,959)	(842,108)	(448,547)	(448,547)	(5,310,223)	(14,953,939)	(14,953,939)
Deferred Revenue	(996,759)	(893,255)	(893,255)	(1,251,144)	(819,174)	(819,174)	(4,380,554)	(1,898,401)	(1,898,401)
Advances	-	-	-	-	-	-	-	-	-
Short Term Provisions	(117,925)	(657,418)	(657,418)	(7,202)	(9,666)	(9,666)	(5,000)	-	-
Other Current Liabilities	-	-	-	-	-	-	-	-	-
Surpl./Deficit to be returned	(17,079)	(5,065)	(5,065)	154,212	168,920	168,920	(33,147)	(31,821)	(31,821)
Total Current Liabilities	(2,179,898)	(1,680,696)	(1,680,696)	(1,946,243)	(1,108,468)	(1,108,468)	(9,728,923)	(16,884,161)	(16,884,161)
<i>Non-current Liabilities</i>									
Payables	-	-	-	-	-	-	-	-	-
Long Term Provisions	-	-	-	(1,277,249)	(1,675,436)	(1,675,436)	-	-	-
Deferred Revenue	-	-	-	(2,536,071)	(889,620)	(404,113)	(27,158,429)	(13,911,538)	(13,871,646)
Other Non-current Liabilities	-	-	-	-	-	-	-	-	-
Total Non-current Liabilities	-	-	-	(3,813,320)	(2,565,056)	(2,079,549)	(27,158,429)	(13,911,538)	(13,871,646)
Total LIABILITIES	(2,179,898)	(1,680,696)	(1,680,696)	(5,759,562)	(3,673,524)	(3,188,017)	(36,887,352)	(30,795,699)	(30,755,807)

NATO UNCLASSIFIED
Releasable to North Macedonia
ACO Consolidated Financial Statements 2018

	Resolute Support Mission HQ			KFOR HQ			MARCOM Northwood HQ		
	2018	2017 RESTATED	2017	2018	2017 RESTATED	2017	2018	2017 RESTATED	2017
ASSETS									
<i>Current Assets</i>									
Cash and Cash Equivalents	84,053	99,508	99,508	2,068,547	568,626	568,626	71,274	78,856	78,856
Interentity	124,463,002	125,444,978	125,444,978	(875,606)	935,524	935,524	171,348	582,367	582,367
Receivables	207,275	223,761	223,761	373,797	549,908	549,908	615,189	521,869	521,869
Prepayments	57,506	1,147	1,147	374,771	225,039	225,039	536,779	7,507	7,507
Other Current Assets	-	-	-	-	85,000	85,000	-	-	-
Inventories	6,353,545	5,011,426	5,011,426	-	53,812	53,812	83,039	61,723	61,723
Total Current Assets	131,165,381	130,780,820	130,780,820	1,941,508	2,417,908	2,417,908	1,477,630	1,252,321	1,252,321
<i>Non-current Assets</i>									
Receivables	-	-	-	-	-	-	-	-	-
Property, plant & equipment	4,792,025	3,078,135	2,160,351	3,070,375	2,067,740	2,067,740	750,108	782,070	782,070
Other Non-current Assets	1,431,922	1,071,609	1,071,609	-	-	-	-	-	-
Total Non-current Assets	6,223,948	4,149,744	3,231,960	3,070,375	2,067,740	2,067,740	750,108	782,070	782,070
Total ASSETS	137,389,329	134,930,564	134,012,780	5,011,882	4,485,648	4,485,648	2,227,738	2,034,391	2,034,391
LIABILITIES									
<i>Current Liabilities</i>									
Payables	(122,111,585)	(119,460,748)	(119,460,748)	(1,790,923)	(2,015,938)	(2,015,938)	(1,416,775)	(1,110,566)	(1,110,566)
Deferred Revenue	(13,855,331)	(10,375,309)	(10,375,309)	(3,084,605)	(2,173,446)	(2,173,446)	(100,808)	(127,912)	(127,912)
Advances	(225,472)	(212,251)	(212,251)	-	-	-	-	-	-
Short Term Provisions	-	-	-	-	(85,000)	(85,000)	-	-	-
Other Current Liabilities	-	-	-	-	-	-	-	-	-
Surpl./Deficit to be returned	923,335	(2,755,369)	(2,755,369)	(128,350)	(205,469)	(205,469)	34,823	(45,805)	(45,805)
Total Current Liabilities	(135,269,053)	(132,803,677)	(132,803,677)	(5,003,878)	(4,479,854)	(4,479,854)	(1,482,760)	(1,284,283)	(1,284,283)
<i>Non-current Liabilities</i>									
Payables	-	-	-	-	-	-	-	-	-
Long Term Provisions	(1,431,922)	(1,071,609)	(1,071,609)	-	-	-	-	-	-
Deferred Revenue	(688,353)	(1,055,278)	(137,493)	(8,005)	(5,795)	(5,795)	(744,978)	(750,108)	(750,108)
Other Non-current Liabilities	-	-	-	-	-	-	-	-	-
Total Non-current Liabilities	(2,120,276)	(2,126,887)	(1,209,102)	(8,005)	(5,795)	(5,795)	(744,978)	(750,108)	(750,108)
Total LIABILITIES	(137,389,329)	(134,930,564)	(134,012,780)	(5,011,882)	(4,485,648)	(4,485,648)	(2,227,738)	(2,034,391)	(2,034,391)

NATO UNCLASSIFIED
Releasable to North Macedonia
ACO Consolidated Financial Statements 2018

	ACO Corporate Accounting and Control Office			NSIP		
	2018	2017 RESTATED	2017	2018	2017 RESTATED	2017
ASSETS						
<i>Current Assets</i>						
Cash and Cash Equivalents	1,088,591,884	1,068,402,259	1,068,402,259	1,387,233	10,024,770	10,024,770
Short Term Investment	533,503,561	440,241,700	440,241,700	-	-	-
Interentity	(261,797,540)	(291,554,473)	(291,554,473)	(357,978)	-	-
Receivables	97,237,311	44,287,560	44,287,560	202,713	233,715	233,715
Prepayments	505,984	649,175	644,286	-	-	-
Other Current Assets	2,421,886	1,491,859	1,496,748	-	-	-
Inventories	-	-	-	-	-	-
Total Current Assets	1,460,463,085	1,263,518,080	1,263,518,080	1,231,968	10,258,485	10,258,485
<i>Non-current Assets</i>						
Receivables	-	-	-	-	-	-
Property, plant & equipment	-	-	-	537,895	966,460	966,460
Other Non-current Assets	-	-	-	-	-	-
Total Non-current Assets	-	-	-	537,895	966,460	966,460
Total ASSETS	1,460,463,085	1,263,518,080	1,263,518,080	1,769,863	11,224,945	11,224,945
LIABILITIES						
<i>Current Liabilities</i>						
Payables	(3,638,774)	(2,618,874)	(2,618,874)	(1,423,534)	(1,654,383)	(1,654,383)
Deferred Revenue	(1,156,857,808)	(966,067,813)	(966,067,813)	162,903	317,123	317,123
Advances	(295,284,871)	(298,456,099)	(298,456,099)	-	-	-
Short Term Provisions	-	-	-	-	-	-
Other Current Liabilities	-	-	-	-	-	-
Surpl./Deficit to be returned	(4,681,632)	3,624,706	3,624,706	28,664	(8,921,225)	(8,921,225)
Total Current Liabilities	(1,460,463,085)	(1,263,518,080)	(1,263,518,080)	(1,231,968)	(10,258,485)	(10,258,485)
<i>Non-current Liabilities</i>						
Payables	-	-	-	-	-	-
Long Term Provisions	-	-	-	-	-	-
Deferred Revenue	-	-	-	(537,895)	(966,460)	(966,460)
Other Non-current Liabilities	-	-	-	-	-	-
Total Non-current Liabilities	-	-	-	(537,895)	(966,460)	(966,460)
Total LIABILITIES	(1,460,463,085)	(1,263,518,080)	(1,263,518,080)	(1,769,863)	(11,224,945)	(11,224,945)

NATO UNCLASSIFIED
Releasable to North Macedonia
ACO Consolidated Financial Statements 2018

	TOTAL FOR SEGMENTS			ELIMINATIONS			CONSOLIDATED		
	2018	2017 RESTATED	2017	2018	2017 RESTATED	2017	2018	2017 RESTATED	2017
ASSETS									
<i>Current Assets</i>									
Cash and Cash Equivalents	1,094,089,689	1,081,354,197	1,081,354,197	-	-	-	1,094,089,689	1,081,354,197	1,081,354,197
Short Term Investment	533,503,561	440,241,700	440,241,700	-	-	-	533,503,561	440,241,700	440,241,700
Intersity	-	-	-	-	-	-	-	-	-
Receivables	128,284,580	65,910,140	65,910,140	-	-	-	128,284,580	65,910,140	65,910,140
Prepayments	18,375,831	31,691,249	25,988,825	-	-	-	18,375,831	31,691,249	25,988,825
Other Current Assets	4,229,874	4,470,044	4,474,933	-	-	-	4,229,874	4,470,044	4,474,933
Inventories	43,219,462	37,624,149	37,624,149	-	-	-	43,219,462	37,624,149	37,624,149
Total Current Assets	1,821,702,997	1,661,291,479	1,655,593,944	-	-	-	1,821,702,997	1,661,291,479	1,655,593,944
<i>Non-current Assets</i>									
Receivables	-	-	-	-	-	-	-	-	-
Property, plant & equipment	562,283,404	340,696,365	323,505,807	-	-	-	562,283,404	340,696,365	323,505,807
Other Non-current Assets	6,657,673	6,611,547	6,611,547	-	-	-	6,657,673	6,611,547	6,611,547
Total Non-current Assets	568,941,077	347,307,912	330,117,354	-	-	-	568,941,077	347,307,912	330,117,354
Total ASSETS	2,390,644,074	2,008,599,391	1,985,711,298	-	-	-	2,390,644,074	2,008,599,391	1,985,711,298
LIABILITIES									
<i>Current Liabilities</i>									
Payables	(300,110,139)	(319,969,496)	(314,271,961)	-	-	-	(300,110,139)	(319,969,496)	(314,271,961)
Deferred Revenue	(1,272,113,743)	(1,061,712,175)	(1,061,712,175)	5,509,399	10,719,229	10,719,229	(1,277,623,142)	(1,072,431,404)	(1,072,431,404)
Advances	(295,513,643)	(298,687,399)	(298,687,399)	-	-	-	(295,513,643)	(298,687,399)	(298,687,399)
Short Term Provisions	(3,701,831)	(5,200,489)	(5,200,489)	-	-	-	(3,701,831)	(5,200,489)	(5,200,489)
Other Current Liabilities	-	-	-	-	-	-	-	-	-
Surpl./Deficit to be returned	(5,509,399)	(10,719,229)	(10,719,229)	(5,509,399)	(10,719,229)	(10,719,229)	-	-	-
Total Current Liabilities	(1,876,948,755)	(1,696,288,788)	(1,690,591,253)	-	-	-	(1,876,948,755)	(1,696,288,788)	(1,690,591,253)
<i>Non-current Liabilities</i>									
Payables	-	-	-	-	-	-	-	-	-
Long Term Provisions	(7,181,987)	(7,187,038)	(7,187,038)	-	-	-	(7,181,987)	(7,187,038)	(7,187,038)
Deferred Revenue	(506,513,332)	(305,123,566)	(287,933,007)	-	-	-	(506,513,332)	(305,123,566)	(287,933,007)
Other Non-current Liabilities	-	-	-	-	-	-	-	-	-
Total Non-current Liabilities	(513,695,319)	(312,310,603)	(295,120,045)	-	-	-	(513,695,319)	(312,310,603)	(295,120,045)
Total LIABILITIES	(2,390,644,074)	(2,008,599,391)	(1,985,711,298)	-	-	-	(2,390,644,074)	(2,008,599,391)	(1,985,711,298)

NATO UNCLASSIFIED
Releasable to North Macedonia
ACO Consolidated Financial Statements 2018

Segment reporting MB
Statement of Financial Performance per HQ

	SHAPE HQ			NAGSF HQ			JFC Brunssum HQ		
	2018	2017 RESTATED	2017	2018	2017 RESTATED	2017	2018	2017 RESTATED	2017
REVENUE									
Revenue	(336,414,748)	(328,490,669)	(328,490,669)	(14,076,878)	(6,892,132)	(6,888,192)	(21,242,229)	(14,480,071)	(14,451,937)
Other Revenue	(576,945)	(734,892)	(734,892)	-	-	-	(256,049)	(268,566)	(268,566)
Financial Revenue	(480,310)	(118,622)	(118,622)	1,123	(2,347)	(2,347)	(51)	(8)	(8)
Total to be returned to the Nations	581,293	743,843	743,843	(1,158)	2,302	2,302	244,996	108,726	108,726
Total REVENUE	(336,890,709)	(328,600,341)	(328,600,341)	(14,076,913)	(6,892,178)	(6,888,238)	(21,253,333)	(14,639,919)	(14,611,786)
EXPENSES									
Expenses	325,151,249	311,429,399	311,429,399	13,507,718	6,427,812	6,427,812	20,393,996	14,011,329	14,011,329
Personnel	36,295,103	34,354,244	34,354,244	938,985	777,749	777,749	9,218,111	9,618,033	9,618,033
Contractual Supplies and Services	288,817,184	277,059,600	277,059,600	12,524,726	5,650,064	5,650,064	11,175,885	4,393,297	4,393,297
Foreign Military Sales (FMS)	38,962	15,555	15,555	44,008	-	-	-	-	-
Depreciation	11,263,499	17,061,270	17,061,270	569,160	464,320	460,380	815,410	620,144	592,010
Provisions	-	7,490	7,490	-	-	-	32,823	-	-
Other Expenses	-	-	-	-	-	-	-	373	373
Financial Costs	475,962	102,181	102,181	35	46	46	11,104	8,074	8,074
Total EXPENSES	336,890,709	328,600,341	328,600,341	14,076,913	6,892,178	6,888,238	21,253,333	14,639,919	14,611,786
Result of the year	-	-	-	-	-	-	-	-	-

	AIRCOM Ramstein HQ			NAEW&C Force HQ			JFC Naples HQ		
	2018	2017 RESTATED	2017	2018	2017 RESTATED	2017	2018	2017 RESTATED	2017
REVENUE									
Revenue	(21,760,015)	(18,709,659)	(18,709,659)	(283,178,420)	(247,599,843)	(247,569,106)	(41,025,585)	(31,912,179)	(31,912,179)
Other Revenue	(13,404)	(7,588)	(7,588)	(2,467,182)	(337,322)	(337,322)	(193,389)	(677,023)	(677,023)
Financial Revenue	15,785	(20,648)	(20,648)	(237,148)	(871,418)	(871,418)	(10,131)	(878)	(878)
Total to be returned to the Nations	(14,276)	44,477	44,477	961,167	1,638,611	1,638,611	18,200	10,142	10,142
Total REVENUE	(21,771,909)	(18,693,418)	(18,693,418)	(284,921,583)	(247,169,973)	(247,139,236)	(41,210,904)	(32,579,938)	(32,579,938)
EXPENSES									
Expenses	20,968,446	17,966,435	17,966,435	253,055,793	234,673,937	235,311,108	41,134,099	32,505,914	32,505,914
Personnel	4,565,281	4,288,923	4,288,923	75,566,353	71,507,072	71,507,072	14,582,307	13,946,066	13,946,066
Contractual Supplies and Services	16,403,165	13,677,512	13,677,512	153,285,770	136,028,189	136,665,360	26,551,792	18,559,848	18,559,848
Foreign Military Sales (FMS)	-	-	-	24,203,670	27,138,675	27,138,675	-	-	-
Depreciation	791,569	743,224	743,224	30,991,661	12,293,306	11,625,398	71,199	61,409	61,409
Provisions	-	-	-	-	632,601	632,601	-	-	-
Other Expenses	-	-	-	-	-	-	-	-	-
Financial Costs	11,895	(16,240)	(16,240)	874,128	(429,870)	(429,870)	5,606	12,615	12,615
Total EXPENSES	21,771,909	18,693,418	18,693,418	284,921,583	247,169,973	247,139,236	41,210,904	32,579,938	32,579,938
Result of the year	-	-	-	-	-	-	-	-	-

NATO UNCLASSIFIED
Releasable to North Macedonia
ACO Consolidated Financial Statements 2018

	NHQs HQ			LANDCOM Izmir HQ			NCIS Group HQ		
	2018	2017 RESTATED	2017	2018	2017 RESTATED	2017	2018	2017 RESTATED	2017
REVENUE									
Revenue	(3,095,095)	(2,618,349)	(2,618,349)	(11,770,665)	(10,989,562)	(10,981,333)	(34,471,360)	(33,980,024)	(33,945,387)
Other Revenue	(556,819)	(250,749)	(250,749)	(407,782)	(315,483)	(315,483)	(2,703)	(56,000)	(56,000)
Financial Revenue	(1,003)	(388)	(388)	(25,148)	(33,658)	(33,658)	(28,429)	3,880	3,880
Total to be returned to the Nations	17,079	5,065	5,065	(154,212)	(168,920)	(168,920)	33,147	31,821	31,821
Total REVENUE	(3,635,838)	(2,864,420)	(2,864,420)	(12,357,807)	(11,507,622)	(11,499,394)	(34,469,346)	(34,000,323)	(33,965,685)
EXPENSES									
Expenses	3,575,492	2,798,851	2,798,851	12,096,758	11,228,015	11,228,015	32,115,555	33,515,018	33,515,018
Personnel	2,939,621	2,059,394	2,059,394	3,860,784	4,630,979	4,630,979	7,554,097	7,428,595	7,428,595
Contractual Supplies and Services	635,871	739,457	739,457	8,235,974	6,597,037	6,597,037	24,561,458	26,086,423	26,086,423
Foreign Military Sales (FMS)	-	-	-	-	-	-	-	-	-
Depreciation	59,096	64,661	64,661	74,559	37,837	29,608	2,350,805	472,906	438,269
Provisions	-	-	-	-	-	-	5,000	-	-
Other Expenses	75	41	41	-	-	-	-	1,500	1,500
Financial Costs	1,175	867	867	186,491	241,770	241,770	(2,014)	10,898	10,898
Total EXPENSES	3,635,838	2,864,420	2,864,420	12,357,807	11,507,622	11,499,394	34,469,346	34,000,323	33,965,685
Result of the year	-	-	-	-	-	-	-	-	-

	Resolute Support Mission HQ			KFOR HQ			MARCOM Northwood HQ		
	2018	2017 RESTATED	2017	2018	2017 RESTATED	2017	2018	2017 RESTATED	2017
REVENUE									
Revenue	(221,394,082)	(218,469,828)	(220,389,445)	(16,765,338)	(17,409,398)	(17,409,398)	(8,526,286)	(7,952,161)	(7,952,161)
Other Revenue	(0)	(112,618)	(112,618)	(227,834)	(1,308,338)	(1,308,338)	-	(105)	(105)
Financial Revenue	827,555	(2,071,500)	(2,071,500)	(842)	(102)	(102)	34,138	(46,826)	(46,826)
Total to be returned to the Nations	(923,335)	2,755,369	2,755,369	128,350	205,469	205,469	(34,823)	45,805	45,805
Total REVENUE	(221,489,862)	(217,898,577)	(219,818,194)	(16,865,663)	(18,512,368)	(18,512,368)	(8,526,971)	(7,953,286)	(7,953,286)
EXPENSES									
Expenses	212,257,186	216,261,859	217,176,961	13,224,518	14,467,706	14,467,706	8,494,324	7,931,874	7,931,874
Personnel	26,546,067	24,422,214	24,422,214	5,548,693	5,545,300	5,545,300	2,042,516	2,020,117	2,020,117
Contractual Supplies and Services	185,711,119	191,839,645	192,754,747	7,675,825	8,922,406	8,922,406	6,451,808	5,911,757	5,911,757
Foreign Military Sales (FMS)	-	-	-	-	-	-	-	-	-
Depreciation	8,776,582	1,791,794	2,796,309	3,625,820	4,022,906	4,022,906	31,962	20,286	20,286
Provisions	360,313	416,175	416,175	-	-	-	-	-	-
Other Expenses	-	-	-	-	12,534	12,534	-	-	-
Financial Costs	95,780	(571,251)	(571,251)	15,326	9,222	9,222	685	1,126	1,126
Total EXPENSES	221,489,862	217,898,577	219,818,194	16,865,663	18,512,368	18,512,368	8,526,971	7,953,286	7,953,286
Result of the year	-	-	-	-	-	-	-	-	-

NATO UNCLASSIFIED
Releasable to North Macedonia
ACO Consolidated Financial Statements 2018

	ACO Corporate Accounting and Control Office			NSIP		
	2018	2017 RESTATED	2017	2018	2017 RESTATED	2017
REVENUE						
Revenue	-	-	-	(713,935)	(591,442)	(591,442)
Other Revenue	-	(56,011)	(56,011)	-	(80,672)	(80,672)
Financial Revenue	(8,371,174)	(1,158,910)	(1,158,910)	(22,306)	(16,727)	(16,727)
Total to be returned to the Nations	4,360,103	(2,738,504)	(2,738,504)	(45,231)	16,567	16,567
Total REVENUE	(4,011,070)	(3,953,425)	(3,953,425)	(781,472)	(672,273)	(672,273)
EXPENSES						
Expenses	-	-	-	713,935	672,114	672,114
Personnel	-	-	-	-	-	-
Contractual Supplies and Services	-	-	-	713,935	672,114	672,114
Foreign Military Sales (FMS)	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-
Provisions	-	-	-	-	-	-
Other Expenses	-	-	-	-	-	-
Financial Costs	4,011,070	3,953,425	3,953,425	67,537	160	160
Total EXPENSES	4,011,070	3,953,425	3,953,425	781,472	672,273	672,273
Result of the year	-	-	-	-	-	-

	TOTAL FOR SEGMENTS			ELIMINATIONS			CONSOLIDATED PERFORMANCE		
	2018	2017 RESTATED	2017	2018	2017 RESTATED	2017	2018	2017 RESTATED	2017
REVENUE									
Revenue	(1,014,434,635)	(940,095,315)	(941,909,256)	-	-	-	(1,014,434,635)	(940,095,315)	(941,909,256)
Other Revenue	(4,702,108)	(4,205,367)	(4,205,367)	(398,137)	(1,056,266)	(1,056,266)	(4,303,971)	(3,149,101)	(3,149,101)
Financial Revenue	(8,297,940)	(4,338,153)	(4,338,153)	-	-	-	(8,297,940)	(4,338,153)	(4,338,153)
Total to be returned to the Nations	5,171,303	2,700,773	2,700,773	-	-	-	5,171,303	2,700,773	2,700,773
Total REVENUE	(1,022,263,380)	(945,938,062)	(947,752,002)	(398,137)	(1,056,266)	(1,056,266)	(1,021,865,243)	(944,881,796)	(946,695,736)
EXPENSES									
Expenses	956,689,069	903,890,264	905,442,537	-	-	-	956,689,069	903,890,264	905,442,536
Personnel	189,657,916	180,598,686	180,598,686	-	-	-	189,657,916	180,598,686	180,598,686
Contractual Supplies and Services	742,744,512	696,137,348	697,689,621	-	-	-	742,744,513	696,137,348	697,689,621
Foreign Military Sales (FMS)	24,286,640	27,154,230	27,154,230	-	-	-	24,286,640	27,154,230	27,154,230
Depreciation	59,421,321	37,654,062	37,915,730	-	-	-	59,421,321	37,654,062	37,915,730
Provisions	398,137	1,056,266	1,056,266	398,137	1,056,266	1,056,266	-	-	-
Other Expenses	75	14,447	14,447	-	-	-	75	14,447	14,447
Financial Costs	5,754,779	3,323,022	3,323,022	-	-	-	5,754,779	3,323,022	3,323,022
Total EXPENSES	1,022,263,380	945,938,062	947,752,002	398,137	1,056,266	1,056,266	1,021,865,243	944,881,796	946,695,736
Result of the year	-	-	-	-	-	-	-	-	-

NATO UNCLASSIFIED
Releasable to North Macedonia
ACO Consolidated Financial Statements 2018

F. Related Parties Disclosure

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

(1) Identification of ACO related parties.

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

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

- (a) ACO and the KMP. Since the remuneration of the military personnel is a national responsibility under the principle of 'costs lie where they fall' the only amount charged against the international funds is to cover the salary payment of 3 NATO International Civilians (NICs) identified within this category, i.e. the ACO Financial Controller, the SHAPE Legal Advisor and the SHAPE Chief of the Strategic & International Affairs. The net remuneration received during the reporting year by these 3 NICs, including any salary transfer in foreign currencies, amounts to 516,028 EUR (corresponding to 129,914 EUR plus 157,986 EUR plus 228,129 EUR, respectively, for the three mentioned NICs).

As a result of a campaign of enhancing transparency at ACO and in accordance with IPSAS 20 requirements, as well as the NATO code of conduct, the KMP were requested to fill in and sign a declaration statement of any related party transaction between them, their close family members and ACO. The statements made by the ACO KMP were all collected prior to publishing the 2018 FS. They will not be given public disclosure but only made available upon request for audit purposes.

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

(3) Gratuities

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

(4) Representation of funds

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

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

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

NATO UNCLASSIFIED
Releasable to North Macedonia
ACO Consolidated Financial Statements 2018

Within ACO Representation and Hospitality funds are provided to high officials of the ACO Headquarters¹⁷, primarily the Commanders who may make sub-allocations to their most senior staff and deputy Commanders.

During 2018 the total expenditure made by ACO for Representation amounted to 297.2 KEUR which represents 76% of the overall authorised budget of 392.3 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.

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

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

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

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

Official Tables	ACO Statement of Financial Performance	Budget execution report (adjusted)
ACO Budget Execution Report: total expenses		973,560,302
Budget Execution Report-other: total expenses		14,384,067
Inventory variances		(4,413,647)
Property, Plant and Equipment and WIP		(12,150,983)
Over-estimated accruals		(12,818,394)
Untaken Leave		219,392
Expense variance - Upgrade FFS/FTD - NAEW		(2,805,603)
NSIP 2018 execution		713,935
		956,689,069
ACO Consolidated Statement of Financial Performance:		
Personnel	189,657,916	
Contractual Supplies and Services	742,744,513	
Foreign Military Sales (FMS) (IV)	24,286,640	956,689,069

¹⁷ See footnote n. 8 at page N-7.

NATO UNCLASSIFIED
Releasable to North Macedonia
ACO Consolidated Financial Statements 2018

Statement of transfers

In accordance with the NFRs, Art. 26, transfers of appropriations approved by the relevant finance committee or the Financial Controller within his/her delegated authority shall be recorded in the annual financial statements. Further to the FRPs which have specified that only inter-budget transfers between NATO bodies shall be reported in the annual FS, the following NCSEP Budget group transfers occurred in 2018 are hereafter disclosed:

- A transfer of EUR 717,200 from IMS to ACO - Air Defence Ground for special carry forward to cover 2019 potential emerging requirements.
- A transfer of EUR 100,000 from ACT to ACO - Air Defence Ground for special carry forward to cover 2019 potential emerging requirements.

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

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

Statement of Credits Carried forward

The credits carried forward are presented in the Budget Execution Statement. They represent the remaining credits due to later than expected delivery of goods/services when contracts placed in good faith of delivery before end of 2018. For all of them there is a legal liability and are equal to the closing Deferred Revenue.

Special Carry Forward

The total special carry forward of funds authorised by NAC into 2019 from the past six years ACO budgets amount totally to EUR 94,755,957 (2017 EUR 89,544,945).

AOM: An amount of 29.5 MEUR is carried forward from 2014 and 2018 budgets 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.

AGS: An amount of 48.1 MEUR is carried forward from 2017 and 2018 for provision of initial spares and operational test and evaluation as well as the purchase of specialized vehicles. The delivery of equipment was expected during 2018 and related funds were therefore approved and as a consequence of the delay of the delivery a special carry forward was requested and authorised.

NCSEP: An amount of 17.1 MEUR is carried forward from the 2013, 2017 and 2018 to cover various ACO requirements within the ACO Static Commands and programmes such as ADG, NCISG and NCCB.

The table below provides the summary of the approved 2019 special carry forward reconciled with the related contingent liabilities and provisions, if any, as further disclosed in the Note D.

NATO UNCLASSIFIED
Releasable to North Macedonia
ACO Consolidated Financial Statements 2018

Table H-B – ACO Special Carry Forward

NCSEP	2013	2014	2015	2016	2017	2018	Total	Note
BC 101 - Green Fleet vehicles replacement						100,000	100,000	1)
BC 164 - Air Defence Ground					3,000,000		3,000,000	2)
BC 164 - Key Alliance Priorities						3,942,597	3,942,597	2)
BC 166 - NCIA's Customer Service Catalogue						2,300,000	2,300,000	3), 5)
BC 177 - NCCB validated requirements for 2019						5,917,292	5,917,292	4)
BC 177 - SATCOM Services funded from NCCB						1,200,000	1,200,000	5)
BC 178 - NATO CIS Group requirements						390,000	390,000	
BC 178 - Afloat Command Platform equipment and manpower requirements	300,324						300,324	6)
NCSEP Total	300,324	0	0	0	3,000,000	13,849,889	17,150,213	
AGS	2013	2014	2015	2016	2017	2018	Total	
BC 167 - Operational Test & Evaluation					8,000,000		8,000,000	5)
BC 167 - Provision of initial spares					35,000,000		35,000,000	5)
BC 167 - Provision of initial spares						5,000,000	5,000,000	5)
BC 167 - Purchase specialized vehicles						125,000	125,000	5)
AGS Total	0	0	0	0	43,000,000	5,125,000	48,125,000	
AOM	2013	2014	2015	2016	2017	2018	Total	
BC 183 - KFOR Vehicle Replacement Programme						200,000	200,000	
BC 185 - Potential residual requirements in 2018		24,862,334					24,862,334	7)
BC 185 - ISAF Archivist		944,872					944,872	8)
BC 194 - HVAC Requirements						1,581,646	1,581,646	
BC 194 - For potential 2019 requirements						1,891,892	1,891,892	
AOM Total	0	25,807,206	0	0	0	3,673,538	29,480,744	
Total per year	2013	2014	2015	2016	2017	2018	Total	
All budget groups	300,324	25,807,206	0	0	46,000,000	22,648,427	94,755,957	
1) Ref: BC-DS(2018)0054)								
2) Ref: C-M(2018)0040								
3) Ref: BC-D(2018)0215, BC-DS(2018)0058								
4) Ref: BC-DS(2018)0062								
5) Ref: BC-DS(2018)0064								
6) An amount of EUR 3,750,000 was transferred from SCF for emerging high-priority requirements, of which EUR 300,324 has been confirmed as SCF in 2018								
7) A provision is recognised for an amount of EUR 524,314 for severance pay and removal allowance related to ISAF employees; a contingent liability is disclosed for an amount of EUR 828,836 for LOJI related to NSPA staff.								
8) Ref: BC-DS(2018)0054: A total of EUR 1,003,714 was agreed for specific use as Contract Authority for ISAF archivists contracts from 2018 until 2021. The breakdown of the CA for next years is: 311,428EUR for 2019, 329,516EUR for 2020 and 303,928EUR for 2021								

NATO UNCLASSIFIED
Releasable to North Macedonia
ACO Consolidated Financial Statements 2018

Table H-C – Reconciliation between ACO authorised Budgets and Calls in 2018

The table below is showing the reconciliation between the Budget Authorisation and the Calls made in 2018:

Budget authorization 2018										
Budget Groups	Advance 2018 called in 2017	1st Call 2018	2nd Call 2018	Total called as of 31 Dec 2018 (BA3)	Final Budget (1)	Actual as of 31 Dec 18	CF as of 31 Dec 18	Difference between Calls, Actual and CF as of 31 Dec 18	Lapse	Adjustment
29N NCSEP (1), (2), (4)	104,000,000	239,918,856	112,372,722	456,291,578	459,308,778	428,150,120	27,598,868	542,590	(3,559,790)	(3,017,200)
27N AGS (4)	15,182,000	495,363	5,225,787	20,903,150	20,903,150	10,984,066	6,407,307	3,511,777	(3,511,777)	
29N AGS (4)	563,000	1,212,000	591,666	2,366,666	2,366,666	2,338,369	-	28,298	(28,298)	
26+2N/27+2N NAEW (3)	44,236,000	76,603,595	40,178,272	161,017,867	161,017,867	146,519,014	12,310,529	2,188,324	(2,188,324)	
16N NAEW	24,194,000	53,657,095	25,950,365	103,801,460	103,801,460	77,503,785	26,140,042	157,633	(157,633)	
29N AOM (1), (4)	63,262,000	126,448,315	63,286,935	252,997,250	252,997,249	242,034,009	6,673,911	4,289,330	(4,289,329)	
TOTAL	251,437,000	498,335,224	247,605,747	997,377,971	1,000,395,170	907,529,363	79,130,657	10,717,951	(13,735,150)	(3,017,200)
(1) Exchange rate: budgets authorised in GBP were converted and executed using a fixed rate for the fiscal year 2018. The rate used was as of 1st January 2018, 1 EUR = GBP 0.8799. The 2nd cash call was converted to EUR using the rate 1 EUR = GBP 0.8799										
(2) Adjustment: The 3 MEUR adjustment is linked to the BC 101 increase of 2.2 MEUR related to the estimated LOJl for LWR at SHAPE (ref. BC-DS(2018)0062) and linked to the transfers to BC 164 from ACT and IMS for an amount of 100 KEUR and 717.2 KEUR respectively.										
(3) Cost Share: The cost share 26+2 and 27+2 refer to the percentage applicable with effect from 1 July 2017 and 1 April 2018 due to the broadened participation.										
(4) Special carry forward approved by BC with ref. BC-D(2018)0230-REV2										
					13,849,889	NCSEP				
					5,125,000	AGS				
					3,673,538	AOM				
					22,648,427					
Budget authorization 2017										
Budget Groups	Carry Forward	Adjustment to Carry Forward	Adjusted Carry Forward	Actual as of 31 Dec 18	CF as of 31 Dec 18	Lapse				
28/29N NCSEP (5)	11,526,026		11,526,026	7,379,856	3,556,298	(589,873)				
26/27N AGS (5)	44,565,169		44,565,169	1,030,886	43,518,795	(15,488)				
16+1N/26+2N NAEW	47,155,409		47,155,409	37,173,921	7,427,231	(2,554,257)				
16N NAEW	479,893		479,893	260,010	173,340	(46,542)				
28/29N AOM	2,558,832		2,558,832	2,176,323	(0)	(382,509)				
TOTAL	106,285,329	-	106,285,329	48,020,996	54,675,664	(3,588,667)				
(5) Special carry forward approved by BC with ref. BC-D(2018)0230-REV2										
					3,000,000	NCSEP				
					43,000,000	AGS				
					46,000,000					
Budget authorization 2016										
Budget Groups	Carry Forward	Adjustment to Carry Forward	Adjusted Carry Forward	Actual as of 31 Dec 18	CF as of 31 Dec 18	Lapse				
28N NCSEP	1,415,450		1,415,450	822,443	-	(593,006)				
16N NAEW	8,748,038		8,748,038	5,241,994	-	(3,506,044)				
17N NAEW	485,370		485,370	297,508	-	(187,862)				
28N AOM	8,075,097		8,075,097	7,515,920	-	(559,177)				
TOTAL	18,723,955	-	18,723,955	13,877,865	-	(4,846,088)				
Budget authorization 2015										
Budget Groups	Carry Forward	Adjustment to Carry Forward	Adjusted Carry Forward	Actual as of 31 Dec 18	CF as of 31 Dec 18	Lapse				
28N NCSEP	449,667		449,667	414,467	-	(35,200)				
16N NAEW	1,000,000		1,000,000	-	-	(1,000,000)				
TOTAL	1,449,667	-	1,449,667	414,467	-	(1,035,200)				
Budget authorization 2014										
Budget Groups	Carry Forward	Adjustment to Carry Forward	Adjusted Carry Forward	Actual as of 31 Dec 18	CF as of 31 Dec 18	Lapse				
28N NCSEP	172,930		172,930	172,592	-	(338)				
28N AOM (6),(7)	26,144,910		26,144,910	325,626	25,807,206	(12,078)				
TOTAL	26,317,840	-	26,317,840	498,217	25,807,206	(12,417)				
(6) Special carry forward approved by BC with ref. BC-DS(2018)0054										
(7) Special carry forward approved by BC with ref. BC-D(2018)0230-REV2										
					944,872	AOM				
					24,862,334	AOM				
					25,807,206					
Budget authorization 2013										
Budget Groups	Carry Forward	Adjustment to Carry Forward	Adjusted Carry Forward	Actual as of 31 Dec 18	CF as of 31 Dec 18	Lapse				
28N NCSEP (8)	4,087,528		4,087,528	3,219,393	300,324	(567,811)				
TOTAL	4,087,528	-	4,087,528	3,219,393	300,324	(567,811)				
(8) Special carry forward approved by BC with ref. BC-D(2018)0230-REV2										
					300,324	NCSEP				
					300,324					
ACO Budget Groups	Final budget	Actual as of 31 Dec 18	Lapse	Carry Forward	Adjustment					
GRAND TOTAL	1,157,259,488	973,560,302	(23,785,336)	159,913,850	(3,017,200)					
Total special carry forward					94,755,957					

NATO UNCLASSIFIED
Releasable to North Macedonia
ACO Consolidated Financial Statements 2018

I. NSIP Project Execution

Table I-A - NSIP Active projects¹⁸

OVERALL - NSIP PROJECT EXECUTION STATUS					
Active projects					
Status	Authorized Budget	Commitments	Actuals YTD	Actuals PJTD	Funds Available
BRUNSSUM	8,081,400	3,600	960,753	1,905,713	6,172,087
NAPLES	19,749,709	-	-	19,640,261	109,448
KFOR	5,493,660	-	142,278	4,894,643	599,017
NHQSa	7,680,532	-	-	7,680,532	-
SHAPE	81,462,310	587,347	1,172,909	74,297,534	6,577,429
Grand Total	122,467,610	590,947	2,275,939	108,418,683	13,457,981
Reimbursement of prefinanced projects					
2009/SVA30534	(4,213,552)	-	-	(4,213,552)	-
Total	(4,213,552)	-	-	(4,213,552)	-

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	563,357,424	-	-	563,357,424	-
Grand Total	876,993,360	-	-	876,993,360	-
Reimbursement of prefinanced projects					
2006/SVA30399	(832,700)	-	-	(832,700)	-
Total	(832,700)	-	-	(832,700)	-

TOTAL TABLES I-A & I-B

Total	994,414,718	590,947	2,275,939	980,365,790	13,457,981
--------------	--------------------	----------------	------------------	--------------------	-------------------

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 2018 a total amount of EUR 2,275,939 was spent against six NSIP projects in total, which are being executed by SHAPE (EUR 1,172,909) as well as JFCBS (EUR 960,753) and KFOR (EUR 142,278) through delegation. The six projects refer to three main categories as follows:

- AOM.** An amount of EUR 1,103,030 was charged against AOM projects, for one contingency funding to repair the network of strategic Main Supply Routes (MSRs) and one to enhance operations base infrastructure at KFOR. Another project funded a force protection requirement in support of the RS Mission.
- Static HQs.** An amount of EUR 522,179 was spent to hire some additional temporary NIC personnel to support the SHAPE Project Office for the construction of new ACO Main HQ Building.
- Centralised projects.** An amount of EUR 650,730 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.

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

NATO UNCLASSIFIED
Releasable to North Macedonia
ACO Consolidated Financial Statements 2018

The total amount of 876.9 MEUR shown at Table B represents the aggregated value of the projects assigned to SHAPE HN which were closed at the reporting date. The total costs of projects financially closed only during 2018 amount to EUR 220,259.

The projects 2009/5VA30534 and 2006/5VA30399 reported in the table I-A and I-B above are related to the reimbursement of NSIP pre-financed projects for third parties. The entire amount was billed to the TCNs following the Cost recovery mechanism and fully reimbursed at the end of 2016. Although the first project is shown in Table A as part of the NSIP active projects, it has been recently financially audited by the IBAN and just awaiting for the formalization of the related COFFA certificate. The second project on the other hand has been formally closed in 2018.

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. In this regard, a difference of EUR 22,425 has been identified between CIRIS and Fins PJTD actual expenses at the end of 2018. This is due to an accrual expense booked in Fins for project 2014/5WIO2028 after the 2018 closure of the CIRIS Database, which prevented the two systems to be aligned.

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 2018 is annexed to the annual FS at the following tables:

Table J-1 – ACO Headquarters International Property Write-off

	SHAPE		NAGSF		JFCBS		JFCNP		AIRCOM		MARCOM		LANDCOM		NAEW		NCISG		RSM		KFOR		NHQSa		TOTAL	
ASSET CATEGORY	Qty	€	Qty	€	Qty	€	Qty	€	Qty	€	Qty	€	Qty	€	Qty	€	Qty	€	Qty	€	Qty	€	Qty	€	Qty	€
BUILDING	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	9	-	-	-	9	-
OTHER INFRASTRUCTURE	7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	35	-	-	-	-	-	42	-
INSTALLED EQUIPMENT	-	-	-	-	-	-	-	-	1	-	-	-	-	-	206	-	-	-	27	-	18	-	-	-	252	-
MACHINERY	122	-	-	-	37	-	27	-	70	-	2	-	239	-	415	-	3	-	56	-	58	-	19	-	1,048	-
TRANSPORT EQUIPMENT - VEHICLES	21	-	-	-	7	-	15	-	2	-	-	-	2	-	36	-	5	-	25	-	29	-	5	-	147	-
AIRCRAFT	-	-	-	-	-	-	-	-	-	-	-	-	-	-	122	-	-	-	-	-	-	-	-	-	122	-
MISSION EQUIPMENT	74	-	-	-	15	-	-	-	151	-	-	-	124	-	1,238	411	1	-	48	-	11	-	4	-	1,666	411
FURNITURE	2,685	-	-	-	291	730	137	-	205	-	62	-	2,046	-	96	-	-	-	170	-	1,997	-	1,265	-	8,954	730
COMMUNICATIONS	-	-	-	-	-	-	-	-	-	-	-	-	-	-	645	-	-	-	1	-	-	-	1	-	647	-
AUTOMATION INFORMATION SYSTEMS	11	-	-	-	-	-	-	-	2	-	-	-	-	-	9	80	-	-	1	-	1	-	60	-	84	80
Consumables	18,627	20,992	-	-	289	3,913	16	32	129	264	-	-	1,486	2,946	12,820	-	-	-	451	2,037	2,501	5,092	-	-	36,319	35,275
Spare parts	863	7,002	-	-	4	235	-	-	-	-	-	-	7	-	3,722	-	1	22	1	14	-	-	-	-	4,598	7,273
Ammunition	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Grand Total	22,410	27,994	-	-	643	4,878	195	32	560	264	64	-	3,904	2,946	19,309	490	10	22	815	2,051	4,624	5,092	1,354	-	53,888	43,768

The table above shows the number of items written-off during 2018 by the ACO Commands per asset categories and the related accounting value.

In some ACO Commands the full AD 60-80 implementation process was completed during 2018, therefore, several write-offs were finalised by the end of 2018, like at SHAPE and NAEW.

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. SHAPE HQ made also a write-off for all the slow moving inventory items prior to 2013. Some other sites reported a higher number of write-off reports than the previous years, namely KFOR for 37,054 items for ID Cards and Maps.

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 some system in place in some Command, (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.

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 2018 there is no write-off due to cash losses. The only write-off is for irrecoverable debts reported by NHQSa for an amount of EUR 75. The write-off relates to NBC Severance Pay of non-NATO Nations no longer present in theatre.

NATO UNCLASSIFIED
Releasable to North Macedonia
ACO Consolidated Financial Statements 2018

Table J-2 – ACO Headquarters International Property Donations

ASSET CATEGORY	HQ	ITEMS	BENEFICIARY	QTY
TRANSPORT EQUIPMENT - VEHICLES	SHAPE	FORD ESCORT CLX 1.8 TD	Ministry Of Defence, Greece	1
TRANSPORT EQUIPMENT - VEHICLES	SHAPE	FORD TRANSIT COMBI 330LWB	Ministry Of Defence, Greece	1
TRANSPORT EQUIPMENT - VEHICLES	SHAPE	VW TRANSPORTER 7DB1K5	Ministry Of Defence, Greece	1
TRANSPORT EQUIPMENT - VEHICLES	SHAPE	MERCEDES BENZ 290 GD	Ministry Of Defence, Greece	1
MACHINERY	SHAPE	TOM TOM 9W 13D	Canadian Section of the SHAPE International School	1
MACHINERY	SHAPE	TOM TOM 16IN BY 16IN	Canadian Section of the SHAPE International School	1
MACHINERY	SHAPE	PIANO ELEC OP 110V	Canadian Section of the SHAPE International School	1
MACHINERY	SHAPE	SAXOPHONE SOPRANO W/O	Canadian Section of the SHAPE International School	1
MACHINERY	SHAPE	SAXOPHONE TENOR W/2 P	Canadian Section of the SHAPE International School	1
MACHINERY	SHAPE	SAXOPHONE TENOR W/2 P	Canadian Section of the SHAPE International School	1
TRANSPORT EQUIPMENT - VEHICLES	NHQSa	Volkswagen Transporter T5 2.5 TDI Chassis (VIN) #: WV2ZZZ7HZ7H079444	Novo Gorazde Municipality	1
TRANSPORT EQUIPMENT - VEHICLES	NHQSa	MERCEDES G 270 CDI Chassis (VIN) #: WDB4633231X155125; TOYOTA RAV 4 2.2 D-4D Chassis (VIN) #: JTMB431V705031119	State Protection and Investigation Agency	2
TRANSPORT EQUIPMENT - VEHICLES	NHQSa	NISSAN X-TRAIL SE 2.0 DCI Chassis (VIN) #: JN1TCNT31U0031374	Helsinki Committee for Human Rights	1
Total				14

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

The table above shows a list of donations approved in 2018 by the relevant Finance Committee.

K. Trust Funds

The Trust Funds reported in 2018 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. During 2018 KFOR executed the entire procure-to-pay process on behalf of KSF for 346 KEUR.

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

NATO UNCLASSIFIED
Releasable to North Macedonia
ACO Consolidated Financial Statements 2018

The following tables show the Trust Funds balance as of 31 December 2018:

	<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	1,742,191,654	8,037,122	(3,461,093)	(1,127,320,258)	(16,102,436)	603,344,988	603,344,988
2018	444,430,894	7,166,920.63		(265,338,144.32)	13,669,819	199,929,489	803,274,477
Total	2,186,622,548	15,204,042	(3,461,093)	(1,392,658,403)	(2,432,617)	803,274,477	
KSF Trust Funds							
Previous years	7,673,728	106,145	(7,740,777)	-	-	39,096	39,096
2018	-	89	-	-	-	89	39,186
Total	7,673,728	106,234	(7,740,777)	-	-	39,186	
KSF Trust Funds - US National funded							
Previous years	1,777,500	49,051	(1,431,431)	-	-	395,120	395,120
2018	-	715	(346,069)	-	-	(345,354)	49,766
Total	1,777,500	49,766	(1,777,500)	-	-	49,766	
Multinational Helicopter Initiative (MHI)							
Previous years	32,305,172	539,970	-	(25,314,072)	(51,822)	7,479,248	7,479,247.7
2018	-	8,011	-	(2,053,185)	-	(2,045,174)	5,434,074
Total	32,305,172	547,981	-	(27,367,257)	(51,822)	5,434,074	
POHRF - ISAF							
Previous years	4,983,792	(5,232)	-	(4,942,720)	-	35,839	35,839
2018	-	-	-	-	-	-	35,839
Total	4,983,792	(5,232)	-	(4,942,720)	-	35,839	

L. Inventory and PP&E prior to 2013

Almost all the PP&E and Inventory have been analysed across ACO sites in terms of correct quantity, asset category and control criteria. As a consequence the data reported in the 2018 FS have been restated also with regard to the assets acquired prior to 1 January 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 K-A – Inventory prior to 2013- status as of 31 December 2018 (quantities per site/category)

Inventory Categories	NAEW&C Force GK	NHQSA	LANDCOM HQ	Total
CONSUMABLES	1,978,460	489,650		2,468,110
SPARE PARTS	861,871	14,727	20,116	896,714
AMMUNITION	13,304			13,304
Grand Total	2,853,635	504,377	20,116	3,378,128

Inventories acquired prior to 1 January 2013 and still present as of 31 December 2018 are reported by NAEW&C Force GK HQ, NHQSa HQ, and LANDCOM Izmir 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.

Amongst the inventories shown in the Table above there are also CIS legacy for NHQSa HQ 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.

NATO UNCLASSIFIED
Releasable to North Macedonia
ACO Consolidated Financial Statements 2018

TABLE K-B – PP&E prior to 2013 – status as of 31 December 2018 (quantities per site/category)

ASSET CATEGORY	SHAPE	JFCBS	AIRCOM	RSM	NAEW	JFCNP	NHQSa	LANDCOM	NCISG	KFOR	MARCOM	Total
LAND		1			1							2
BUILDING	24	40	15	109	211	9		30	51	114	1	604
OTHER INFRASTRUCTURE	57	15		79	173	18		16	6	11		375
INSTALLED EQUIPMENT	92	267	168	1,369	8,696	65	64	22	166	210	5	11,124
MACHINERY	776	1,249	576	1,315	16,350	659	1,592	335	194	1,915	72	25,033
TRANSPORT EQUIPMENT	219	43	73	402	241	25	96	29	742	85	2	1,957
TRANSPORT EQUIPMENT AIRPLANES (Upgrades, Training Devices & Spare Parts)					15,704							15,704
MISSION EQUIPMENT	998	388	446	2,426	13,210	212	1,899	258	298	360	6	20,501
FURNITURE	30,467	7,870	12,547	1,675	300	14,836	13,690	6,925	2,379	13,567	2,305	106,561
COMMUNICATIONS					20,502		532					21,034
AIS					5,035		733					5,768
Grand Total	32,633	9,873	13,825	7,375	80,423	15,824	18,606	7,615	3,836	16,262	2,391	208,663

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. On 2018, based on an additional assessment of the control criteria, JFCBS recognised SWHQ Castlegate as asset prior to 2013.

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 2018 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.

During 2018 the work on the reconciliation of the logistic systems and the asset registers continued. This analysis led to an increase of assets at LANDCOM and AIRCOM. Furthermore, the table lists an increase of assets prior to 2013 for JFCBS based on the reassessment of the control criteria for the SWHQ Castlegate.

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 2018. The result is characterised by an overall loss of EUR 105,281 versus the loss of EUR 756,532 incurred in 2017 (restated data).

The negative result is mainly due to JFCNP and with a loss of 590 KEUR. However, the vast majority of the MWA activities performed better and achieved a positive result in comparison to 2017 leading to a reduced overall loss for the period. In addition, the structural analysis of the financial data indicates that a high level of cash and capital reserves have been ring-fenced by the various MWA programmes to cater for current losses and for future contingencies as well as to protect themselves against discontinuity of revenue income. This is in accordance with the operating profit model instructed by the ACO Directive 5-1 at Reference C to maintain high liquidity and to establish capital reserves.

ACO Consolidated Financial Statements 2018

**THIS PAGE IS INTENTIONALLY LEFT BLANK
THIS PAGE IS NOT INCLUDED IN THE PAGE COUNT**

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	NCA'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)

NATO UNCLASSIFIED
Releasable to North Macedonia
ACO Consolidated Financial Statements 2018

SH/FINAC/FC097/19

FMS	Foreign Military Sales	Facilitates sales of arms, defense equipment, defense services, and military 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

NATO UNCLASSIFIED
Releasable to North Macedonia
ACO Consolidated Financial Statements 2018

SH/FINAC/FC097/19

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
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

NATO UNCLASSIFIED
Releasable to North Macedonia
ACO Consolidated Financial Statements 2018

SH/FINAC/FC097/19

		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 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

