23 November 2017

DOCUMENT
C-M(2017)0055-AS1

IBAN AUDIT ON THE 2016 FINANCIAL STATEMENTS OF ALLIED COMMAND OPERATIONS (ACO)

ACTION SHEET

On 22 November 2017, under the silence procedure, the Council noted the IBAN report on the 2016 financial statements of ACO attached to C-M(2017)0055, endorsed the conclusions of the RPPB and approved the public disclosure of the financial statements and the associated audit report.

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2017)0055.

15 November 2017

DOCUMENT
C-M(2017)0055
Silence Procedure ends:
22 Nov 2017 17:30

IBAN AUDIT ON THE 2016 FINANCIAL STATEMENTS OF ALLIED COMMAND OPERATIONS (ACO)

Note by the Secretary General

1. I attach the International Board of Auditors for NATO (IBAN) report on the audit of the 2016 financial statements of Allied Command Operations (ACO).

2. The IBAN report on ACO sets out a qualified opinion on the financial statements of ACO and on compliance for 2016. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB) (see Annex).

3. I do not believe that this matter requires discussion in the Council. Consequently, **unless I hear to the contrary by 17:30 hrs on Wednesday, 22 November 2017**, I shall assume that the Council has noted the IBAN report on the 2016 financial statements of ACO, endorsed the conclusions of the RPPB and approved the public disclosure of the financial statements and the associated audit report.

(Signed) Jens Stoltenberg

Annex 1:	RPPB report
Enclosure 1:	IBAN report
Enclosure 2:	ACO 2016 consolidated financial statements

1 Annex
2 Enclosures

Original: English

IBAN AUDIT ON THE 2016 FINANCIAL STATEMENTS OF ALLIED COMMAND OPERATIONS

Report by the Resource Policy and Planning Board

Reference: IBA-AR(2017)08 IBAN audit report

BACKGROUND

1. This report covers the audit of the consolidated financial statements of Allied Command Operations (ACO) for 2016.

DISCUSSION

2. The IBAN have issued a qualified opinion on the financial statements of ACO and on compliance for 2016. The IBAN has issued six observations with recommendations. Weaknesses in asset management and reporting has again impacted the audit opinion on both the financial statements and on compliance. The other five observations did not impact the audit opinion.

3. <u>Observation 1 – weaknesses in asset management</u>: The IBAN found that although ACO has made significant improvements in asset management weaknesses remain. Some of the weaknesses arise because ACO still does not yet have a proper IT system in place where all assets can be recorded. The RPPB notes that discussions are continuing in the Investment Committee about the technical solution identified for an integrated asset management tool. ACO fully recognises the importance of tackling this one remaining observation to the achievement of an unqualified audit opinion. The situation in Afghanistan is exacerbated by a lack of continuity created by high staff rotation also continues to be a problem affecting asset management. ACO provided a comprehensive response to the issues highlighted in the audit and the IBAN is satisfied to note that actions have been taken and they will follow up on these in the audit on ACO's financial statements for 2017.

4. The RPPB is reassured by the wide range of efforts ACO continues to make to improve asset management. In particular the RPPB recognises the impact of the revisions to the ACO directive on property accounting and control which has led to improvements between asset management and asset accounting. ACO has also continued to improve staff training, developed better procedures to be followed by various stakeholders across ACO (as well as with other NATO entities) and established clearer delineation of responsibilities. Implementation of these improvements will take time and the RPPB concurs with the IBAN finding that asset management is an area where attention will always be required in order to ensure proper internal controls and complete recording of assets. The RPPB reaffirms its conclusion from its report on the audit of the 2015 financial

statements of ACO[1] that a continuous effort NATO-wide is required across all areas: people, policies, procedures and systems to tackle asset management.

5. Observation 2 – implementation of the NATO Financial Regulations (NFRs): The IBAN found that ACO has continued to make progress to implement the NFRs, particularly with regards those articles relating to internal control, risk management and internal audit. The IBAN found that the important work of assessing and documenting internal control and risk management procedures continues and that ACO has adopted COSO as its Internal Control Framework. The RPPB recalls that the issue of an internal control framework has been raised as part of the lessons learned from NFR implementation and that discussions in this regard are continuing in the BC. The RPPB underlines the need to ensure that strengthening internal control and risk management in accordance with the NFRs is the responsibility of the Head of NATO body and not solely within the remit of Financial Controllers.

6. The RPPB notes the IBAN observations with regards to Article 25 of the NFRs on commitments, carry forward and contract authority and that the BC will take these into consideration as part of the lessons learned exercise to see if these can be resolved without the need for amendments to the NFRs before the end of 2017. The RPPB supports the practical way that the "modified cash basis" of accounting has been applied by ACO with regards goods and services provided under Foreign Military Sales (FMS) agreements with the United States and welcomes the IBAN's acceptance of this interpretation. While acknowledging the IBAN's concerns about the reliability of estimates in budgeting for FMS cases, the RPPB also supports the approach taken by the NAEW&CF[2] and endorses the ACO assessment that such interpretation of Article 25.3 is within the spirit of the NFRs.

7. Observation 3 – operation of key system in NAEW&CF not ensured: The IBAN raised concerns over the Programme Integrated Logistics System (PILS) used to handle inventory by the NAEW&CF particularly the reduction in day-to-day administrative support for the system caused by staff cutbacks. ACO concurs with the IBAN observation the RPPB notes that a business continuity plan is being put in place for PILS.

8. Observation 4 – carry forwards not in compliance with the NFRs: The IBAN found unusually high levels of carry forward, totalling EUR 12M, in the budget supporting the sustainment of the common funded capability of the NATO Integrated Air Defence System which it considered inconsistent with the principle of annual budgeting contained in the NFRs. The RPPB is pleased to note the corrective action taken by ACO in consultation with the NATO Support and Procurement Agency (NSPA) who is the service provider to ACO in this regard. As a result of additional Contract Authority and returning uncommitted appropriations that are not going to be needed in 2017, the amount of carry forward in this budget area will decrease significantly in line with the NFRs and for the preparation of the 2018 budget, NSPA has already adapted its approach to ensure that the budget is based

[1] AC/335-N(2016)0092
[2] NATO Airborne Early Warning and Control Force

on an accurate forecast of deliverables in the year. Thus this observation is expected to be resolved by the time of the audit of the 2017 financial statements.

9. Observation 5 – no memorandum of agreement (MOA) in place with NCIA[3]: The IBAN found that ACO does not yet have an overarching agreement in place with NCIA to set out the general principles and roles and responsibilities to serve as the formal framework for cooperation between the two parties. ACO does have a number of service level agreements (SLAs) with NCIA for the provision of specific CIS support. ACO acknowledges the IBAN observation and negotiations over a MOA are continuing but given the complexity of the issues involved it is not able to identify a date for completion of these talks. The RPPB is disappointed that no MOA has yet been agreed and expects both sides to conclude negotiations as quickly as possible to ensure compliance with the appropriate Financial Rules and Procedures[4].

10. Observation 6 – accumulated surpluses not yet handed back to the NSIP[5]: The IBAN have highlighted a historic issue relating to EUR 8.9M of accumulated surpluses that should be reimbursed to the NSIP. These surpluses relate to realised and unrealised currency fluctuations for the period 1991-2003 and interest earned since 2008. ACO is working with the NATO Office of Resources and with the IBAN on the proper approach to deal with these amounts and a way ahead is expected to be finalised before the end of 2017.

11. Status of prior year observations: The IBAN followed up on the status of observations from previous years' audits and found that 5 had been superseded by current year observations, two had been settled, two had been partially settled and one was outstanding. With regards the latter, ACO has finalised the CIS support plan for the Resolute Support mission in Afghanistan and this is currently being reviewed by NCIA.

CONCLUSIONS

12. The IBAN have issued a qualified opinion on the 2016 financial statements of ACO and on compliance. Weaknesses in asset management and reporting has again impacted the audit opinion. This continues to be the main obstacle to achieving a clean audit opinion on the financial statements although ACO has made significant improvements in this area. The RPPB reaffirms that a continuous effort NATO-wide is required across all areas: people, policies, procedures and systems to tackle asset management. The RPPB is reassured by the sustained effort ACO is making to tackle all of the issues highlighted by the IBAN in its audit report which is a reflection of the commitment and dedication of all the staff involved throughout ACO. That said, it is important to ensure that strengthening internal control and risk management in accordance with the NFRs is the responsibility of the Head of NATO body and not solely within the remit of Financial Controllers. Negotiations between ACO and NCIA on a MOA should be concluded as quickly as possible to ensure compliance with the appropriate Financial Rules and Procedures.

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[3] NATO Communications and Information Agency

[4] BC-D(2015)0260-REV1 rule XXVII sub-para 3 a)

[5] NATO Security and Investment Programme

RECOMMENDATION

13. The RPPB recommends that the Council:

a) note the IBAN report (IBA-AR(2017)08);

b) endorse the conclusions in paragraph 12; and,

c) approve the public disclosure of this report, the IBAN audit and the associated 2016 financial statements of ACO.

Summary Note for Council
by the International Board of Auditors for NATO (Board)
on the audit of the Consolidated Financial Statements of the
Allied Command Operations (ACO)
for the year ended 31 December 2016

The Board audited the Allied Command Operations (ACO) Consolidated Financial Statements for the year ended 31 December 2016. The total budgetary spend (commitments plus actuals) for ACO against Budget Committee (BC) funded budgets in 2016 amounted to EUR 1.04 billion (EUR 1.04 million in 2015). In addition to the execution of the MBC budgets, ACO also incurred EUR 0.6 million (EUR 1.3 million in 2015) of NATO Security Investment Programme (NSIP) project expenditure.

The Board issued a qualified opinion on the financial statements and on compliance for the year ended 31 December 2016.

During the audit, the Board made six observations and provided recommendations. These findings are in the Letter of Observations and Recommendations (Annex 3).

The main findings are listed below. Observation 1 impacts the audit opinion on the financial statements and on compliance.

1. Weaknesses in asset management and reporting in ACO Commands and Operations.

2. Some progress being made to achieve compliance with the NFRs, particularly those articles on the internal control, risk management and internal audit.

3. Operation of key system in NAEW&CF not ensured.

4. Carry forwards in the Air Defence Ground Budget not in compliance with the NFRs.

5. No Memorandum of Agreement (MOA) in place with NATO Communications and Information Agency (NCIA).

6. EUR 8.9 million accumulated surplus not yet handed back to the NATO Security Investment Programme (NSIP).

The Board also followed up on the status of observations from its previous years' audit. These findings and status are summarised in the follow-up section of the Letter of Observations and Recommendations (Annex 3).

For ACO's Formal Comments and the Board's positions on those comments, see the Appendix to Annex 3. While ACO generally agrees with the Board's observations, they nevertheless provided lengthy detailed formal comments. These comments provide further information to the reader, but to do not change the Board's observations or recommendations. In future, ACO should seek to provide concise comments in order to be more readable for the user. Where appropriate, the Board provided positions to some of the formal comments.

ANNEX 2
IBA-AR(2017)08

22 August 2017

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 2016

REPORT OF THE INTERNATIONAL BOARD OF AUDITORS FOR NATO TO THE NORTH ATLANTIC COUNCIL

Report on the Consolidated Financial Statements

The International Board of Auditors for NATO (Board) audited the accompanying Consolidated Financial Statements of Allied Command Operations (ACO), which comprised the ACO Consolidated Statement of Financial Position as at 31 December 2016, and the Consolidated Statement of Financial Performance, the Consolidated Statement of Changes in Net Equity and the Consolidated Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The Board has also audited the Statement of Budget Execution for the year ended 31 December 2016.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these Consolidated Financial Statements in accordance with the NATO Accounting Framework and the requirements of the NATO Financial Regulations as authorised by the North Atlantic Council (NAC). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit, which is conducted in accordance with our Charter and international standards on auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, due to error or fraud. In making those risk assessments, internal control relevant to the entity's preparation and presentation of the consolidated financial statements is considered 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. An audit also includes evaluating the appropriateness of accounting policies used, the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Basis for Qualified Opinion on the Consolidated Financial Statements

The Board did not obtain sufficient evidence that all Property, Plant and Equipment (PP&E) and intangible assets acquired by ACO prior to 2013 were properly recorded and disclosed in the ACO Consolidated Financial Statements. As a result, the Board was unable to assess whether the disclosures in Tables L-B in the notes to the consolidated financial statements, which relates to PP&E acquired prior to 2013, and are required by the NATO Accounting Framework, fairly present information for ACO commands and operations. This is also supported by the identified material weaknesses in internal controls over asset management reported in Observation 1 of the Letter of Observations and Recommendations accompanying this report

Qualified Opinion on the Consolidated Financial Statements

In our opinion, except for the possible effects of the matters described in the section *Basis for Qualified Opinion on the Consolidated Financial Statements*, the consolidated financial statements present fairly, in all material respects, the financial position of ACO as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with the NATO Accounting Framework.

Report on Compliance

Management's Responsibility for Compliance

In addition to the responsibility for the preparation and presentation of the consolidated financial statements described above, management is also responsible for ensuring that the financial transactions and information reflected in the consolidated financial statements are in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations as authorised by the North Atlantic Council.

Auditor's Responsibility

In addition to the responsibility to express an opinion on the financial statements described above, our responsibility includes expressing an opinion on whether the financial transactions and information reflected in the financial statements are, in all material respects, in compliance with NATO Financial Regulations and the NATO Civilian Personnel Regulations. This responsibility includes performing procedures to obtain reasonable assurance about whether the funds have been used for the settlement of authorised expenditure and whether their operations have been carried out in compliance with the financial and personnel regulations in force. Such procedures include the assessment of the risks of material non-compliance.

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

Basis for Qualified Opinion on Compliance

The Board did not obtain enough evidence that comprehensive accounting records of all property acquired by ACO have been established and maintained as required by Article 12 of the NATO Financial Regulations. In particular, due to weaknesses in the asset management and reporting in several ACO Commands and Operations, ACO cannot ensure accurate property records.

The Board also found material weaknesses in internal control over asset management, including insufficient controls over NATO assets belonging to ACO. This leads to risks of misappropriation, unclear responsibility and accountability, and this could have an operational impact. The details of these weaknesses are reported in Observation 1 of the Letter of Observations and Recommendations accompanying this report.

Qualified Opinion on Compliance

In our opinion, except for the possible effects of the matters described in the section *Basis for Qualified Opinion on Compliance*, the financial transactions and information reflected in the financial statements are in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

Brussels, 22 August 2017

Hervé-Adrien Metzger
Chairman

22 August 2017

INTERNATIONAL BOARD OF AUDITORS FOR NATO

LETTER OF OBSERVATIONS AND RECOMMENDATIONS

FOR THE ALLIED COMMAND OPERATIONS

(ACO)

FOR THE YEAR ENDED 31 DECEMBER 2016

Introduction

The International Board of Auditors for NATO (Board) audited the Allied Command Operations (ACO) Consolidated Financial Statements for the year ended 31 December 2016, and issued a qualified opinion on those financial statements and on compliance.

Observations and Recommendations

During the audit, the Board made six observations with recommendations.

One observation impacts the audit opinion on both the financial statements and on compliance:

1. Weaknesses in asset management and reporting in ACO Commands and Operations.

The remaining five observations do not impact the audit opinion:

2. Some progress being made to achieve compliance with the NFRs, particularly those articles on the internal control, risk management and internal audit.
3. Operation of key system in NAEW&CF not ensured.
4. Carry forwards in the Air Defence Ground Budget not in compliance with the NFRs.
5. No Memorandum of Agreement (MOA) in place with NATO Communications and Information Agency (NCIA).
6. EUR 8.9 million accumulated surplus not yet handed back to the NATO Security Investment Programme (NSIP).

The Board followed up on the status of observations from the previous years' audit and found that two was settled, two were partially settled, one remains outstanding and five were superseded by current year observations**.** Although the Board did see improvement in some areas, five out of 10 observations from our 2015 audit have not yet been settled by ACO and are reported as observations in this report.

The Board also issued a Management Letter (reference IBA-AML(2017)03) to the ACO Chief of Staff with 10 observations related mainly to weaknesses in the procurement process, weaknesses in internal controls when authorising expenditures and weaknesses in identification of accrued expenses.

This Letter of Observations and Recommendations was formally cleared with ACO, and the formal comments are included, with the Board's position on those comments where necessary (Appendix, Annex 3).

OBSERVATIONS AND RECOMMENDATIONS

1. WEAKNESSES IN ASSET MANAGEMENT AND REPORTING IN ACO COMMANDS AND OPERATIONS

Reasoning

1.1 According to the NATO Financial Regulations (NFRs), the Secretary General, the Supreme Commander and the other Heads of NATO bodies are responsible and accountable for sound financial management and shall put in place the necessary governance arrangements to ensure and maintain this. This includes internal control activities to ensure the safeguard of assets, the accuracy and reliability of accounting data and compliance with established policies. Further, the financial controller shall establish and maintain comprehensive accounting records of all assets and liabilities.

1.2 The NFRs, Financial Rules and Procedures (FRPs) and the ACO Directive 060-080 on Property Accounting and Control prescribe the procedures to be complied with to account for NATO assets and the roles and responsibility of Property Accountable Officers (PAO). Also, the NATO Accounting Framework prescribes that all controlled Property, Plant and Equipment (PP&E) above the NATO PP&E capitalisation thresholds shall be capitalised. PP&E acquired prior to 1 January 2013 may be considered as fully expensed but a brief description of PP&E held within their PP&E recording systems shall be provided in the notes to the financial statements. Such disclosure should include, as a minimum, the types of PP&E held; the locations where PP&E is held, and the approximate number of items held per asset category.

1.3 ACO Commanders have overall and ultimate responsibility to safeguard the assets funded through the common funding or otherwise controlled by the commands and for their effective and efficient use. In relation to assets In-theatre, based on guidance from Supreme Headquarters Allied Powers Europe (SHAPE), the Crisis Management Resource Board in 2014 decided that the NATO chain of command will remain accountable for all NATO Funded Equipment and NATO Funded Infrastructure through end of the Resolute Support. Efficient asset management in complex and long-lasting operations such as the current Resolute Support is necessary to conduct military operations. Key staff must have a thorough knowledge of NATO logistics and accounting systems and there must be a consistent and global approach to managing NATO assets in the field.

Observations

1.4 In the Board's audit report on the ACO Consolidated Financial Statements 2015, the Board reported weaknesses in asset management and accounting of assets in Resolute Support, in the NATO CIS Group (NCISG), and in relation to accurate and reliable values of deployable assets in SHAPE. The Board has also reported weaknesses in asset management in ACO in prior years.

1.5 The Board found that significant effort had been made by ACO in 2016 in order to establish a reliable and accurate asset register of NATO assets in Resolute Support. The Joint Force Command Brunssum (JFCBS) Commander emphasised the need for proper asset management procedures In-theatre. New procedures were put in place by logisticians in 2016 whereby regular inspections and spot-checks of NATO funded equipment recorded in the NATO Depot and Support System (NDSS) were done at each locations In-theatre. Each site was visited several times in 2016, and problems found were corrected in the NDSS. Also, engineers started the work of building up an asset register for NATO funded infrastructure and a JFCBS team of finance and logisticians contributed to the accuracy of the asset register.

1.6 In NCISG, based on direction and guidance from the Chief of Staff, significant efforts was put into updating asset registers for each Signal Battalion to ensure that all assets controlled are properly recorded.

1.7 Despite the significant improvement and higher emphasis on ensuring proper asset management in ACO, the Board found a number of weaknesses in asset management in some ACO commands and in Resolute Support. These weaknesses impact the disclosure of PP&E in the ACO Financial Statements and compliance with the NFRs.

1.8 Some of the weaknesses arise because ACO does not have a proper IT-system in place where all assets can be recorded. For example, no system or database exists for the recording of infrastructure assets. Therefore, infrastructure assets are either recorded manually in different excel sheets or other databases or in worst case, there are no records of these assets. For other types of assets, ACO uses either NDSS or the Programme Integrated Logistics System (PILS) for the NATO Airborne Early Warning and Control Force (NAEW&CF) for the recording of the assets and the logistic management thereof. These systems though, do not serve the requirement for financial reporting and they are not fully integrated with the financial system thus, finance staff creates separate lists of all assets to comply with financial reporting requirements. Further, a lack of continuity created by the high rate of staff rotation In-theatre also plays an important role. ACO has informed the Board that a new logistic tool for asset management (LogFS) is being procured with NSIP funds (Host Nation NCIA) but ACO believes that this system will not fully solve the issues faced by ACO, among other things because the new system will not serve the requirements for financial reporting. Also, the new system will not replace all the current systems in place and thus ACO will still have to manage a number of different asset management systems.

1.9 The identified weaknesses and issues found are reported below:

No accurate and complete list of equipment and infrastructure exists yet in Resolute Support

1.10 As reported by the Board in 2015 and prior years, no complete list of infrastructure assets exists for Resolute Support. Work is on-going to establish an asset register of all infrastructure In-theatre but it has not yet been completed. Two NATO sites In-theatre were visited and lists were established as at 31 December 2016, but lists of assets in the remaining three locations are still required to be established. The new lists created for the two sites In-theatre were, though, not validated by the Property Accountable Officer (PAO). The Board also understands that JFCBS engineers in charge of providing reach-back capacity to Resolute Support did not wish to review and accept the lists as they believed the lists were not yet complete and accurate.

1.11 Therefore, ACO could not provide the Board assurance that the number of buildings (134) and other infrastructure assets (52) disclosed in the 2016 ACO Consolidated Financial Statements for Resolute Support are accurate and complete and, thus, that all NATO funded infrastructure were recorded properly, as required by the regulations.

1.12 Despite the significant improvements on the control of NATO assets exercised by the PAO In-theatre, there is uncertainty as to whether all assets belonging to NATO were recorded. Based on discussions during the audit with JFCBS, the Board is aware that some nations and contractors have left the theatre without a proper hand-over/take-over and demobilisation. This means that potentially there are assets that are outside the control of the PAO, but which could be considered as controlled by ACO, and also could represent a liability to ACO. This increases the risk of NATO having to cover the costs for its disposal. It is unclear to the Board whether improved procedures to identify and register assets outside the daily control of the PAO have been implemented. The Board finds it crucial that an enquiry, identification, and registration of these assets is done to provide accurate information for the decision making about the treatment of these assets (e.g., destruction, sale, donation and redeployment).

The process followed for updating the asset register for Resolute Support led to mistakes in the disclosure of PP&E in the financial statements

1.13 For financial reporting purposes, already existing asset register of PP&E prior to 2013 was updated with new information for infrastructure assets based on the site visits conducted. The Board found that, by mistake, several NATO owned infrastructure assets were deleted from the asset register, for example, buildings and other infrastructure in Kandahar that previously were properly recorded as PP&E. The mistake was due to a misunderstanding between finance staff within ACO. Further, a number of assets were deleted to avoid duplications but the new description of the assets and lack of detailed information makes is difficult to verify whether all deletions were justified.

1.14 Therefore, ACO could not provide the Board assurance that all NATO-owned infrastructure disclosed in the 2016 ACO Consolidated Financial Statements for Resolute Support are accurate and complete.

1.15 Further, the Board found that the process followed by ACO finance staff to update the asset register of PP&E prior to 2013 implies a number of risks, for example, assets were reclassified and re-grouped in a different way than how the logisticians were recording the same assets in the NDSS. Therefore, these two data bases, finance asset register and NDSS, did not always reconcile. Updates and changes made in the NDSS were not easily traceable in the asset register maintained by finance. This creates a risk of inaccuracy in the asset register used for financial reporting purposes, in addition to the extremely time-consuming burden of having different stakeholders maintaining two asset registers.

1.16 The Board found that work was on-going In-theatre to re-group equipment into higher-assembly systems. As at 31 December 2016, the work was still on-going and as a result, the same type of assets located at different sites In-theatre were reported at different levels of grouping. For example, a communication and warning system was re-grouped into one single system in one location whereas in other locations, the same system is reported as numerous assets. This means that grouping of assets was not consistently applied as at 31 December 2016.

1.17 Due to mistakes in the re-grouping of assets, the total number of write-offs for Resolute Support disclosed in the financial statements (221 items) did not reconcile to the items listed in the Reports of Survey (246). This is because some items written-off and disposed of were re-grouped incorrectly by finance for the disclosure in the financial statements.

No actions taken on equipment and inventory left by a contractor In-theatre in 2014

1.18 The Board found that equipment and inventory acquired with NATO funds for approximately EUR 1,400,000 (prior to 2013) were left by a contractor In-theatre in 2014. The items were included in the NDSS in 2014, and immediately written-off. The write-off was approved by the Financial Controller in ISAF in July 2014. As at 31 December 2016, these items were still stored in containers In-theatre with no action of disposal taken. The fact that almost 3 years later no action was taken to dispose of these assets is not in compliance with the ACO Directives.

1.19 The Board is aware that the change from ISAF to Resolute Support and the hand-over of Hamid Karzai International Airport to a Framework nation complicated and delayed the decision on disposal of this equipment and inventory due to uncertainty as to whether the equipment would still be needed. Although the Board understands the situation, the Board believes that assets approved for write-off should be timely disposed of or, if not, a decision to revoke the report of survey should be taken and the assets recorded again on the books of NATO. Not disposing of assets in a timely manner creates risk of assets disappearing, unclear responsibility, potential loss of values and fraud.

Asset redeployed from In-theatre without proper hand-over to the requesting entity

1.20 Three cameras, part of a bigger enhanced surveillance system with an initial value of approximately EUR 3,500,000, were redeployed from Afghanistan to Europe upon the request of SHAPE Base Support Group in 2015. The system was no longer required In-theatre and thus, based on decision to distribute serviceable equipment, it was transferred to Europe. Two of the cameras were already in Europe for repair at the NATO Support and Procurement Agency (NSPA), and the remaining camera was shipped to Geilenkirchen.

1.21 The Board found that no proper hand-over of the assets between the sending entity Resolute Support, and the receiving entity SHAPE, took place in 2015. Therefore, the assets were not deleted from the asset register NDSS in Resolute Support and, thus, were not included in the SHAPE asset register.

1.22 Meanwhile, SHAPE decided that they would not be able to use the assets and therefore, in February 2016, it was approved to write-off and dispose of the three cameras. Further, in July 2016, the remaining part of the system was approved for write-off. Since the assets were still recorded in the NDSS of Resolute Support, although not physically present In-theatre, the write-off was approved by the In-theatre Financial Controller. By this time, the assets were in Europe for more than one year, stored at several locations, and with no one responsible for controlling the assets.

1.23 As of today, the assets are still stored in Brunssum with no action taken to dispose of the equipment although approval of write-off took place in spring 2016. Further, the assets were recorded in the finance asset register of JFCBS although the assets were written-off. By mistake, one of the cameras was recorded as acquired after 2013 and thus is included with a net book value of EUR 733,734 in the ACO Consolidated Financial Statements.

1.24 The Board believes that the above shows weaknesses in the internal controls in asset management. No ACO entity accepted the liability to take over the asset once it was redeployed. This means that no entity resumed the responsibility for the management of costly assets and thus physical control of the asset was not assured. This increases the risk of assets being lost, moved or misused without the knowledge of the entity. Further, disposal of the assets were not timely executed, and there was no proper justification for delaying the disposal.

Incomplete asset register of PP&E prior to 2013 for NCISG

1.25 During stock takes at several NCISG locations, the Board identified a number of discrepancies in the asset registers prior to 2013:

- In CIS Sustainment Support Centre and hangars located in Brunssum, the Board found that 16 items of PP&E (out of the 39 items tested) were physically present but not recorded in any asset register. In addition, the Board found 5 trailers redeployed from Afghanistan and controlled by JFCBS but not included in the JFCBS asset register. NCISG informed JFCBS about this.

- In the 2nd NATO Signal Battalion, the Board found 10 items of PP&E (out of 150 items tested) that were not recorded in the asset register although physically present.

1.26 Due to the above, ACO has not provided the Board assurance that assets reported by NCISG and included in the ACO Consolidated Financial Statements are accurate and complete. Considering that the purpose of NCISG is to deploy and sustain deployable capabilities, it is especially important to have proper records of deployable assets.

Assets belonging to NCISG not timely disposed of

1.27 During a stock take, the Board found 42 items of transportation and mission equipment stored in- and outside hangars in Brunssum. The equipment was not recorded in the asset register of NCISG since it had presumably been written-off years ACO but no disposal action had yet taken place. The majority of the assets have been stored there for several years and were not in use.

1.28 Some of the assets belonged to the former NATO Communication and Information Systems Services Agency (NCSA) and had never been properly handed over to NCISG. The assets had been written-off in the period 2008-2012 but had never been disposed of. In other cases, it was unclear whether the items had already been written off and, thus, NCISG needs to investigate whether approval of write-off has already taken place. If not, report of surveys needs to be prepared so that the items can be properly disposed of.

1.29 According to ACO Directives, items written-off should be turned over to the Property Disposal Officer without delay so timely and efficient disposal can take place. The fact that transportation equipment have been stored for years without any action of disposal increases the risk of assets disappearing, unclear responsibility, and fraud.

Incomplete financial reporting of vehicles prior to 2013 in NAEW&CF

1.30 NAEW&CF had in total 275 vehicles of different types; 40 of these were acquired after 2012 and properly recorded in PILS and in the NAEW&CF accounting system, the remaining 235 vehicles were acquired prior to 2013.

1.31 The Board found that out of the 235 vehicles acquired prior to 2013, 203 vehicles were not disclosed in the ACO Consolidated Financial Statements Table L-B of PP&E prior to 2013. Thus the reporting of PP&E for NAEW&CF is incomplete.

1.32 The 203 vehicles are NATO Furnished Equipment stored and in use at different locations where the AWACS are being repaired and maintained (Source of Repairs). The Board understands, that prior to 2013, equipment on loan at Source of Repairs was tracked differently in the logistic tool PILS. Therefore, these vehicles did not show up on the PILS end-of-year reports used for financial reporting purposes since these reports only show items on stock but not items on loan.

Incorrect value of PP&E recorded in the Statement of Financial Position as at 31 December 2016

1.33 The Board found several examples of incompleteness of assets acquired after 2013 as well as inaccuracies in the value of PP&E recorded.

- In NCISG, three items (one per each Battalion) acquired for a value of EUR 18,000 were not recorded as PP&E in the Statement of Financial Position.
- In Resolute Support, 11 fuel bags were replaced at two sites in 2016 since existing ones had reached their end of lifetime. Total costs amounted to United States Dollar (USD) 464,322. The assets were not recorded and recognised as PP&E in 2016 but were only recorded in 2017 after payment to the contractor was made.
- In NAEW&CF, three items acquired in 2016 for a total value of EUR 281,496 were not capitalised as PP&E in the Statement of Financial Position. The assets were issued on loan to other divisions without being serialised and thus was treated as inventory issued from stock.
- As at 31 December 2016, SHAPE reported EUR 91,825,204 (net book value EUR 46,366,224) as PP&E acquired in the period 2013-2016. In relation to deployable assets stored by NSPA in Southern Operations Centre, Taranto, the Board found a number of cases where the reported cost of the assets was different from values indicated in the supporting documentation. The differences included over and understatements of asset costs. In one case related to 6 items of mission equipment with a total cost of EUR 698,000, the Board was unable to obtain the supporting documentation for the value reported. The deviations were explained by a number of factors – timing differences, late invoicing, human errors. Based on the population tested, the average rate of deviations (in absolute values) was estimated by the Board to be approximately 6%. The highest amount of deviations was identified in the acquisition of deployable assets in the years 2013

and 2014, while no significant deviation was identified in acquisitions in years 2015 and 2016. Although a number of differences in the value of PP&E were identified, the Board believes that a material misstatement in the reported value of SHAPE PP&E due to these weaknesses is not likely.

Recommendations

1.34 The Board recommends ACO to continue the efforts of updating the asset registers with the actual assets controlled by each entity. To this aim, it should be ensured that asset records in logistic tools (NDSS, PILS or manual lists) are reconciled to asset registers used for financial reporting purposes. Further, proper coordination among all stakeholders must be ensured and sufficient staff to accomplish necessary tasks must be allocated.

1.35 In relation to the implementation of a new logistic tool for asset management (LogFS), the Board recommends ACO to work closely with the Host Nation to ensure that any new system serves the requirements of ACO for both asset management and financial reporting. Further, ACO should work with the Host Nation to ensure that any new system, to the extent possible, replaces current asset management systems so that one single logistic tool is used across ACO.

1.36 The Board recommends ACO to ensure that procedures for disposal of assets written-off are correctly applied, ensuring that unserviceable assets are timely written-off, disposed and, when necessary, deleted from NDSS and other assets registers.

1.37 Further, the Board recommends ACO to assess, substantiate and justify decisions made about the use, redeployment or disposal of costly equipment. Once decisions are made, it is essential that assets are physically tracked and properly transferred and actions according to the decision made are taken.

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

Reasoning

2.1 The North Atlantic Council (Council) approved the revised NFRs effective as from 4 May 2015. This was the first time in more than 30 years that the NFRs were revised. While Article 36 of the revised NFRs states that “*the NFRs will take effect immediately (i.e. 4 May 2015)”*, Council also agreed that full implementation was only expected by the end of 2015. Furthermore, Article 4 of the revised NFRs states that “*the finance committee shall approve a set of Financial Rules and Procedures (FRPs) that provide additional guidance to ensure the effective implementation of the revised NFRs.”*

2.2 The revised NFRs are more explicit than the previous version in the areas of Risk Management (Article 11), Internal Control (Article 12), Internal Audit (Article 13) and the establishment of an Audit Advisory Panel (Article 16). They require the establishment of effective, efficient and economical risk management procedures, that there are necessary management functions in place to support effective internal control, and that NATO bodies have access to a permanent, adequately resourced, internal audit function that is compliant with internationally accepted Internal Auditing Standards. They also require the establishment of an Audit Advisory Panel. Furthermore, Article 3 requires, as a demonstration of responsibility and accountability, that both the annual Financial Statements and Statements of Internal Control be signed by both the NATO Head of Body and Financial Controller; and Article 25 authorises the commitment of budgetary credits for goods and services to be rendered during the financial year.

2.3 The revised NFRs provide an opportunity for NATO bodies to solidify and codify their overall internal control frameworks, including risk management. They also provide internal audit functions with clear expectations that they must be in a position to fully evaluate the effectiveness and efficiency of operations and internal controls, including risk management. Importantly they also required a robust control environment in place around the preparation of Financial Statements to ensure the quality and accuracy of the financial information is of the highest standard as it is now publicly available.

2.4 The accounting standards adopted by NATO is the NATO Accounting Framework. This framework is based on accruals based IPSAS, with a few exceptions. One of the exceptions is that NATO bodies are allowed to use a “modified cash basis” to account for Foreign Military Sales (FMS) expenditures because it was stated that the reporting from the US wasn’t on the accrual basis. In these cases, FMS expenses are reported based on billing statements from the US, which are based on when the US pays the supplier. A precise definition of “modified cash basis” was not included in the framework, leaving it open to interpretation.

Observations

2.5 The Board found that ACO has continued to make progress towards achieving full compliance with all the revised NFRs, but more steps are still needed. This result, though, is not unexpected considering that the more detailed FRPs, which were required by Article 4 of the revised NFRs, were not approved until the end of February 2016. Furthermore, these changes to the NFRs are significant, and the Board understands that some time is needed to implement them properly. It is expected that doing so will increase the likelihood that the benefits accruing to ACO will be real, rather than it just being an exercise to demonstrate compliance with the revised NFRs.

2.6 As a result, the Board understands that 2016 is a transition year for ACO. The Board expects compliance to be achieved in 2017. It has again chosen to report on the progress against certain of these revised Articles of the NFRs, and to make recommendations against that progress. The compliance audit opinion will not be impacted in 2016 as a result of these observations.

2.7 The Board reports the status in the following areas:

Article 3 Responsibility and Accountability

2.7.1 The Board found that the Supreme Allied Commander Europe together with the ACO Financial Controller signed both the Statement of Internal Control and the financial statements. This is in full compliance with the new NFRs.

Article 11 Risk Management and Article 12 Internal Control

2.7.2 Risk management at strategic and operational levels in ACO started to be implemented in 2012 with the new Command Structure and has evolved since then. The ACO risk management framework supports the ACO Strategic Management Plan 2016-2020, which is updated yearly. ACO aligns its risk management activities with its strategic goals and objectives and those of its subcommand. Each command is responsible for implementing its own command-level risk management processes and aligning it with the ACO framework. A centralised risk register is in place and maintained by SHAPE.

2.7.3 The NAEW&C Force does not participate in the ACO strategic risk management framework. The NAEW&C Force is currently developing its own risk management Framework in response to an instruction issued by the Force Commander. The Board found that progress is evident and in line with direction and guidance.

2.7.4 In 2015, ACO adopted The Committee of Sponsoring Organisations of the Treadway Commission (COSO) Framework as their Internal Control Framework. COSO includes a risk management element. A number of other NATO bodies, including Allied Command Transformation (ACT) and NATO Communications & Information Organisation (NCIO), have also adopted COSO. The adoption of a specific and internationally recognised framework, one that is also being adopted by other NATO bodies, is an important step forward.

2.7.5 The important work of assessing and documenting specific internal control and risk management procedures has been on-going since beginning of 2016. Internal controls for the procurement activities were identified in 2016 based on a self-assessment made by the local Financial Controller and Head of Procurement and Contracting and further review at ACO level. Further work is on-going to assess and document internal controls in other main functionalities with the ACO Financial Controller’s responsibilities. For risk management, ACO identified and documented risks in the activities related to cash management and the use of purchase cards. Further process and activities within budgeting, procurement and finance is expected to be completed in 2017 and risks identified.

2.7.6 Documentation of specific internal control and risk management is essential in order to ensure and to clearly demonstrate to others that a complete system of internal control and risk management is in place. Until this assessment and documentation is completed, the Board will not be in a position to state that there is a full system of internal control, including risk management, in place that is in accordance with Articles 11 and 12 of the revised NFRs.

Article 13 Internal Audit

2.7.7 The Board found that ACO Internal Audit has not yet fully evaluated, throughout the organisation, the risk exposures and the effectiveness of internal controls in managing risk within the governance, operations and information systems as required by Article 13. Part of the reason for this is that ACO, as already stated earlier, has not yet fully documented their internal control and risk management procedures.

Article 16 Audit Advisory Panel

2.7.8 The Board found that ACO established an Audit Advisory Panel as required by Article 16 in 2016. It convened three times as of the date of our audit. The Audit Advisory Panel approved the ACO's internal audit plan for 2016.

Article 25 Commitments, Contract Authority and Carry Forward

2.7.9 The Board found that all ACO commands continued to enter into some commitments for goods and services, mainly travel, to be rendered during the following financial year, not the current financial year. The amount of such commitments is not significant and is less than 1% of the budget.

2.7.10 In order to justify these carry forwards, ACO referred to Article XXV, paragraph 17, of the FRPs, which states:

> "*In order to facilitate the receipt of goods and services requiring delivery early in the financial year for operational reasons, Financial Controllers may commit current year appropriations for goods and services receivable by the end of February in the following financial year, provided that the total amount remains no more than 1% of the entity's budget. Individual commitments will not be more than EUR 20,000"*.

2.7.11 The Board does not have any particular views in respect to the level of flexibility in the FRPs. However, it finds that the NFRs do not provide for such flexibility. As a result, the FRPs go beyond what is actually allowed in the NFRs. As a matter of principle, this situation should be resolved.

Article 25 Commitments and Carry Forward for FMS

2.7.12 Normally, and as is done in other NATO bodies, FMS payments are recorded as prepayments (an asset) until US billings statements are subsequently received, at which time it would be considered an expense. However, the Board found that NAEW&CF records FMS expenses in the Statement of Financial Performance based on payments that it makes to NSPA, who is contracted to procure FMS goods and service on their behalf, rather than at the time the US billing statements are received. Since there isn't a precise definition of "modified cash basis" in the NATO Accounting Framework, the Board accepts this interpretation as long as it is clearly disclosed in the financial statements.

2.7.13 For the budget, though, the Board found the following:

- Commitment of current year budget credits is based on estimated current year activities per signed FMS Letters of Acceptance (LOA) with the US.
- Budget execution (expenses) are also recorded at the time that payments are made to NSPA rather than at the time the US billing statements are received. This generally allows NAEW&CF to execute its budget within two financial years, even though the good or service may or may not have been received within two financial years.

2.7.14 Uncertainties in the timing of the receipt of FMS goods and services and the subsequent US billing led to adaptations to the NATO Accounting Framework. However, there are no similar FMS adaptations to the revised NFRs, which promote that budget credits should be committed and budget expenses recorded for goods and services to be received in the current year. The fact that budget credits are being committed and either carried forward or recorded as expenses in the Budget Execution Statement, even though it is not always certain when or whether the goods or services have actually been delivered, let alone when the subsequent US billing will arrive, is not in compliance with the NFRs.

2.7.15 As at 31 December 2016, NAEW&CF carried forward EUR 18,467,559 related to FMS cases. Because of the above, the Board cannot assess whether the carry forwards were due to delays in the contract execution as they are required to be in the FRPs and, thus, whether the carry forward balance is in compliance with the NFRs and FRPs.

Recommendations

2.8 The Board recommends that:

a) ACO continues on-going work of assessing and documenting the internal control and risk management procedures to support compliance with its internal control framework.

b) 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 against COSO.

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.

d) Council note NAEW&CF's interpretation of "modified cash basis" of accounting for FMS in the Statement of Financial Performance (i.e. expensed when advance payments made to NSPA) and the Board's acceptance of this interpretation.

3. OPERATION OF KEY SYSTEM IN NAEW&CF NOT ENSURED

Reasoning

3.1 For asset management, NAEW&CF uses Programme Integrated Logistics System (PILS). PILS is a software developed under Oracle by an external company. NAEW&CF started using PILS in 2002. It is a leased software and annual maintenance costs are paid by NAEW&CF. PILS handles the life cycle of inventory, i.e. from requirement through procurement to delivery. There are approximately 700 users in 8 different countries and PILS interfaces with both ACO accounting system FinS and NSPA's accounting system Systems, Applications & Products (SAP). The system has been adapted and modified to the NAEW&CF business needs and therefore has become a unique system.

3.2 PILS is maintained at NAEW&CF by 4 staff in the Force Command Engineering, Maintenance and Logistics Support division. The Role of the PILS Division is to perform system administration, monitor the PILS database, develop new features, system enhancements and reports together with the external private company, serve as the helpdesk to the user community, and prepare end-of-year reports of PP&E and inventory values. 10 staff used to be dedicated to maintain and manage PILS, but with the new Peacetime Establishment (PE) implemented end of 2015, this was reduced to 4 staff.

Observations

3.3 NAEW&CF is to a large extent dependent on one key person for the day to day system administration and for the year end preparation of PILS reports. No back up function has been put in place by NAEW&CF management after the deletion of several positions in the new PE. This makes the organisation vulnerable and creates a number of risks for the organisation, both in relation to accurate financial reporting, but more importantly, also in relation of the operations and logistic life-cycle management of inventory and PP&E. If PILS does not function properly the users cannot access the system and the aircrafts will not fly on mission, or be repaired, etc.

3.4 For financial reporting purposes, because of the above, it led to delays in the accounting of values for inventory and PP&E and impacted the preparation and accuracy of the ACO Consolidated Financial Statements. It also delayed the certification received from NSPA of data in PILS managed by them. Sufficient time for review of the correctness of the data in the end of year reports was not possible due to the late preparation of the PILS reports and therefore, a number of mistakes were found in the ACO Consolidated Financial Statements. For example, total quantities of PP&E acquired prior to 2013 for NAEW&CF was disclosed as 83,537 but should be 66,880, therefore an overstatement of 16,657.

Recommendation

3.5 The Board recommends NAEW&CF to develop a plan for ensuring proper system administration of PILS. 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.

4. CARRY FORWARDS IN THE AIR DEFENCE GROUND BUDGET NOT IN COMPLIANCE WITH THE NATO FINANCIAL REGULATIONS (NFRS)

Reasoning

4.1 According to the Article 25 of the NFRs, NATO entities are authorised to enter into commitments for goods and services to be rendered during the financial year. Appropriated funds which have been committed and for which goods and services have been rendered but the invoice has not been received by the end of the financial year, shall be recorded as an accrued liability and the commitment shall be reduced.

4.2 Appropriated funds which have been committed, supported by a legal obligation, and for which goods and services have not yet been rendered by the end of the financial year shall be automatically carried forward to be used as soon as possible within the next two following financial years.

4.3 The Air Defence Ground budget supports the sustainment of the common funded capability of the NATO Integrated Air Defence System. NSPA provides logistic services and technical support which includes supply, maintenance and engineering support and spares to maintain the Air Defence Ground Environment.

Observations

4.4 The Board found that ACO carried forward EUR 12,046,033 of credits into 2017 in the Air Defence Ground Budget. The balance consists of credits carried forward from 2015 of EUR 2,709,623 and from 2016 of EUR 9,336,411. These credits were committed via two purchase orders issued to NSPA. The services ordered from NSPA in 2016 amount to EUR 17,778,781 (excluding admin costs) and thus the carry forward of 2016 credits into 2017 is 52% of the ordered annual services.

4.5 Considering the fact that the authorised budget for 2016 was EUR 29,576,693, and that new NFRs adopt the principle of annual budgeting, the amount carried forward seemed unusually high to the Board.

4.6 The Board found that the situation was similar in 2015 where an amount of EUR 12,283,434 was carried forward into 2016. The Budget Committee requested ACO and NSPA to analyse and report the reasons for having high level of carry forwards in this budget (BC-DS(2016)0046). The analysis conducted by ACO showed that the carry forward balance of EUR 12,283,434 from 2015 into 2016 was not in all cases in compliance with the NFRs. For example, EUR 1,700,000 should have been accrued since services were delivered in 2015 and contract authority should have been sought for EUR 3,200,000 since services were to be received in 2016.

4.7 Since neither ACO nor NSPA had sufficient time to conduct a similar analysis of the 2016 carry forward balance or to modify the process of reporting and budgeting, the Board believes that it is likely that the same type of inaccuracies in the amount carried forward from 2016 into 2017 exists. Therefore, ACO could not provide assurance to the Board that the carry-forward of credits into 2017 in the Air Defence Ground Budget is fully in compliance with the NFRs.

Recommendation

4.8 The Board recommends ACO, in coordination with NSPA, to identify the timing of services more precisely and to prepare annual budgets accordingly.

5. NO MEMORANDUM OF AGREEMENT (MOA) IN PLACE WITH NCIA

Reasoning

5.1 NCIA conducts various tasks on behalf of ACO, in particular maintenance of information and communication systems across ACO Headquarters and in Afghanistan and the Balkans.

5.2 According to the FRPs Article XXVII paragraph 3, agreements with Customer-Funded bodies are divided into three main categories:

- an overarching agreement outlining the general principles establishing the relationship between both parties with general procedures necessary to engage into specific tasks, projects and programmes.
- functional level agreements detailing the detailed deliverables, performance standards and financial terms and conditions applicable to tasks, projects and programmes. Agreements having multi-year costs and liabilities, shall be submitted to the Budget Committee for approval.
- upon budget approval, annual commitments for the procurement of goods/services through the customer-funded bodies will be in accordance with the applicable procurement directives.

5.3 The agreements will be binding to the extent practicable between NATO Bodies and will specify the appropriate dispute resolution methods.

Observations

5.4 The Board found that ACO does not yet have an overarching agreement, i.e., a MOA, in place with NCIA. The purpose of an MOA is to outline general principles and roles and responsibilities between ACO and NCIA and to serve as the formal framework for cooperation between the parties. The Board understands that ACO is working on establishing an MOA with NCIA.

5.5 ACO has a number of service level agreements (SLAs) in place with NCIA for the provision of specific CIS support. However, the Board found that there was not yet a SLA in place for the provision of CIS support in KFOR although NCIA took over the CIS support 1 January 2017. Services are provided based upon annual purchase orders but this does not replace the need for a SLA detailing the services delivered.

Recommendation

5.6 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.

6. EUR 8.9 MILLION ACCUMULATED SURPLUS NOT YET HANDED BACK TO THE NATO SECURITY INVESTMENT PROGRAMME (NSIP)

Reasoning

6.1 According to existing NSIP procedures for NATO agencies and Commands, bank interests and profit and loss on rates of exchange is to be reimbursed to the NSIP Programme.

6.2 In 2002, the Board issued a report on the audit of the NSIP Pay Sheets (IBA-IR(2002)86) and found that timely reimbursement of interests from NATO agencies and Commands had not taken place. The Board recommended that a proper regulatory framework be established for the reimbursement of interest earned on NSIP cash advanced by NATO agencies and Commands.

Observations

6.3 The Board found that as at 31 December 2016, ACO has accumulated surplus (bank interests) of EUR 1,282.564 from the period 2008-2016 earned on NSIP funds and not yet handed back to the NSIP Programme and redistributed to nations.

6.4 Further, ACO has an amount of EUR 7,622,095 booked as a liability to the NSIP Programme. This amount relates to realised and unrealised currency fluctuations from NSIP funds from the period 1991-2003. Prior to 2003, and before the introduction of the Euro, ACO's legacy accounting system did not distinguish between realised and unrealised currency gains and losses and the Board qualified ACO Financial Statements for the years 1999 and 2000, mainly because of doubts on the accuracy of the figures reported for 'currency fluctuation'. The balance of EUR 7,622,095 represented accumulated currency fluctuations as at 31 December 2003 when ACO migrated to the accounting system NAFS.

6.5 According to ACO, they regularly inform the NATO Office of Resources (NOR) of these outstanding balances, but the NOR has not yet requested ACO for reimbursement of the above amounts.

Recommendations

6.6 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.

6.7 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.

FOLLOW-UP OF THE PREVIOUS YEARS' OBSERVATIONS

The Board followed up on the status of observations from the previous years' audit and noticed that three were settled, two were partially settled, four were superseded by current year observations, one was lapsed due to adaptions made to the NATO Accounting Framework and one remains outstanding**.** The observations and their status are summarised in the table below.

STATUS OF PREVIOUS YEARS' OBSERVATIONS

OBSERVATION/RECOMMENDATION	ACTION	STATUS
(1) ACO FY 2015 **IBA-AR(2016)09, paragraph 1** **WEAKNESSES IN ASSET MANAGEMENT FOR RESOLUTE SUPPORT** **Board's Recommendation** The Board recommends that ACO continue the effort of identifying, recording and reporting all assets held In-theatre. The command should implement clear procedures and methodologies, ensure proper coordination among all stakeholders and allocate sufficient staff to accomplish necessary tasks. The Board also recommends that ACO establish and follow clear procedures for the handover/takeover of NATO property, for internal transfer and transfers to Nations, contractors or other entities. This is critical considering the future plan of transferring extensive and valuable NATO property to GIROA or other NATO Nations.		Observation **Superseded by current year observation 1**.
(2) ACO FY 2015 **IBA-AR(2016)09, paragraph 2** **AMOUNTS REPORTED FOR DEPLOYABLE ASSETS TO SHAPE HQ BY NSPA ARE NOT ACCURATE AND RELIABLE** **Board's Recommendation** The Board recommends ACO, in coordination with NSPA, to review the value of all deployable assets recorded and to make proper adjustments to the assets' values. It is important that documentation supporting the costs of assets (i.e. cost allocation, calculations, listing of invoices etc.) is retained and kept readily available. In general, the information exchange between ACO and NSPA should be improved, and, if possible, take place on a more regular basis. In addition, ACO should ensure that a proper coordination occurs internally among all ACO stakeholders. The Board further recommends that ACO, in coordination with the NATO Head of Financial		Observation **Superseded by current year observation 1**.

OBSERVATION/RECOMMENDATION	ACTION	STATUS
Reporting Policy and other NATO entities, develops detailed accounting policy for reporting requirements and responsibilities when a NATO agency acts as a service provider to another NATO body. Especially, this is important in cases where NATO agencies acts as Host Nation on projects funded with NSIP funds but the user of the assets being delivered is another NATO body.		
(3) ACO FY 2015 **IBA-AR(2016)09, paragraph 3** **INACCURATE DISCLOSURE OF PP&E BOTH PRIOR TO AND AFTER 2013 IN THE NCIS GROUP** **Board's Recommendation** The Board recommends that ACO ensure its assets are properly reported and recognised in the Financial Statements in accordance with the NATO Accounting Framework after the assets have been delivered and accepted by ACO. In the specific case of the NCIS Group, it must be clear that assets, once delivered and accepted, are under the control of ACO, regardless of the storage location.		Observation **Superseded by current year observation 1**.
(4) ACO FY 2015 **IBA-AR(2016)09, paragraph 4** **WEAKNESSES IN THE PLANNING PROCESS FOR EXERCISE TRIDENT JUNCTURE 2015 IMPACTED THE PROCUREMENT SOLUTION** **Board's Recommendation** To ensure that NATO obtains the best solution in terms of cost, the Board recommends that, for future exercises, ACO take steps to ensure sufficient lead time in planning to allow for careful assessment of possible solutions and more frequent use of competitive bidding procedures.	The Board did not notice excessive use of non-competitive bidding procedures in JFCBS's contractual activities in 2016, although it should be noted that, in 2016, JFCBS did not conduct an exercise of comparable size to Trident Juncture.	Observation **Settled**.
(5) ACO FY 2015 **IBA-AR(2016)09, paragraph 5** **WEAKNESSES IN THE PROCUREMENT PROCESS IN E3A COMPONENT, JFC NAPLES AND AIRCOM** **Board's Recommendation** The Board recommends ACO to continue the effort of improving processes in the area of contracting and procurement in order to ensure compliance with the NFRs, FRPs and Bi-SC 60-70 Procurement Directive. In relation to procurement of aviation fuel in E3A Component, ACO should ensure that a detailed logistic service agreement with the Host Nation is in	The Board reported some weaknesses in the procurement process in the Management Letter to ACO. The Board does not consider these weaknesses significant	Observation **Settled**.

OBSERVATION/RECOMMENDATION	ACTION	STATUS
place to ensure a clear legal basis and to ensure clear roles and responsibilities, terms and conditions.	to ACO.	
(6) ACO FY 2015 **IBA-AR(2016)09, paragraph 6** **NEED TO PREPARE NEW LOGISTIC SUPPORT AGREEMENTS WITH NSPA** **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.	In 2016, a Logistic Support Agreement was signed with NSPA for In-Service Support of deployable non-CIS capability packages (CP). NAEW is in process of drafting a new logistic support agreement with NSPA.	Observation **Partially settled**.
(7) ACO FY 2015 **IBA-AR(2016)09, paragraph 7** **FURTHER STEPS ARE REQUIRED TO ACHIEVE FULL COMPLIANCE WITH THE REVISED NATO FINANCIAL REGULATIONS ON INTERNAL CONTROL, INTERNAL AUDIT AND RISK MANAGEMENT** **Board's Recommendation** The Board recommends that ACO: a) continues on-going work to implement financial risk management, including the establishment and use of a financial risk register. b) continues to develop a specific Internal Control Framework, based on internationally accepted standards, and systematically document the detailed internal control procedures which support it. In the Board's opinion, this should be coordinated to ensure consistent treatment across NATO Bodies. c) ensure that internal audit activities are sufficiently focussed on evaluating risk management and internal control throughout the ACO.		Observation **Superseded by current year observation 4**.
(8) ACO FY 2014 **IBA-AR(2015)19, paragraph 2** **INACCURATE DISCLOSURE OF ASSETS ACQUIRED PRIOR TO 2013** **Board's Recommendation** The Board recommends ACO reconsider how they prepare the table for the 2015 financial statements by taking into consideration the overall purpose of disclosure of information on legacy assets and to ensure a clear and accurate disclosure of information		Observation **Superseded by current year observation 1**.

OBSERVATION/RECOMMENDATION	ACTION	STATUS
in the financial statements. Further, the Board recommends ACO to ensure consistency across the ACO Headquarters in the treatment and categorisation of PP&E acquired prior to 2013. Finally, ACO should ensure that only assets controlled by ACO are disclosed.		
(9) ACO FY 2013 **IBA-AR(2014)20, paragraph 4** **LEGAL AGREEMENT WITH NATO COMMUNICATIONS AND INFORMATION AGENCY (NCIA) FOR PROVISION OF SERVICES AT INTERNATIONAL SECURITY ASSISTANCE FORCE (ISAF) IS MISSING** **Board's Recommendation** The Board recommends that HQ JFC Brunssum formalise a detailed arrangement for the Communications Information Systems (CIS) support for ISAF prior to issuing annual purchase orders to cover operation & maintenance costs. The Board has been recommending this for several years now.	The Board is aware that ACO is in process of drafting a CIS Support Plan for Resolute Support.	Observation **Outstanding**.
(10) ACO FY 2013 **IBA-AR(2014)20, paragraph 5** **CONFIRMATION OF YEAR-END ASSETS AND LIABILITIES OUTSTANDING BETWEEN NATO ENTITIES SHOULD BE PERFORMED** **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.	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. Further, each ACO command was in contact with other NATO entities during the closure of the accounts to confirm the detailed balances. 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 Resolute Support, outstanding balances were not in all cases fully confirmed. The Board recommends ACO, in close coordination with	Observation **Partially Settled**.

OBSERVATION/RECOMMENDATION	ACTION	STATUS
	NSPA and NCIA, to continue the process established of confirming outstanding balances with other NATO entities.	

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

OBSERVATION 1:
WEAKNESSES IN ASSET MANAGEMENT AND REPORTING IN ACO COMMANDS AND OPERATIONS

ACO's Formal Comments

1. *As stated in the Board's report, this observation impacts the audit opinion on both the financial statements (FS) and compliance. Moreover, the Board stated that the material weaknesses found in internal control over asset management, including insufficient controls over NATO assets belonging to ACO, leads to risks of misappropriation, unclear responsibility and accountability.*

2. *Whilst ACO partially concurs with the observation on lack of comprehensive records of all property acquired by ACO, ACO does not concur with the observation related to risks of misappropriation, unclear responsibility and accountability.*

3. *Over the last years, the Board has always recognised the improvements made by ACO in the identification and recording of assets despite the lack of an adequate integrated tool to support the activities related to asset management and financial data reporting. On the contrary, the existing variety of different tools not integrated between each other makes those activities even more cumbersome. Nevertheless, ACO has continued to make efforts for contributing to the accounting policies on property NATO-wide as well as on improving its internal policies on asset management and asset accounting in coordination with all the relevant stakeholders, which are not limited to the Finance staff but also to the logistics, engineers, besides the staff working as Property Accountable Officers and Property Disposal Officers which traditionally falls outside the Financial Controllers' area of responsibility.*
The year 2016 represented a significant step forward towards improving the ACO policy on asset management and accountability, by reviewing the ACO Directive 060-080 on property accounting and control which was dated November 1994. One of the main reasons for updating this directive was indeed to stress the principles and procedures established by the revised NFRs/FRPs on responsibility and accountability (art. 3), internal control (art. 12), write-off and disposal (art. 17), and to align the directive to the accounting rules for assets set forth by the NATO Accounting Framework (NAF) including those principles which have been formalised in the NAF implementing policies on Plant Property and Equipment (PP&E) and later on Inventories. The revision of the directive is aimed at reviewing the business processes and building a bridge between asset

management and asset accounting to guarantee reliable financial reporting and ensure adequate Management oversight on the assets in terms of physical checks for quantity and quality, and reconciliations. Moreover, ACO is devoting significant efforts in the implementation of the ACO Directive 060-080 across the ACO Commands after the promulgation of the Directive. There are several initiatives ongoing led by the SHAPE J8 Corporate Accounting & Control Branch in strict coordination with the local Financial Controllers and the involvement of all the relevant stakeholders to ensure there is a consistent approach on business processes and procedures related to asset management and accounting ACO-wide in compliance with the NATO rules and the ACO Directive. These initiatives include on-site visits to all those ACO Commands which are deemed more critical and still requiring some improvements in terms of asset data reporting and coordination with staff responsible for managing the assets; stressing the roles and responsibilities of the ACO finance staff to implement proper controls to foster the accurateness and assets data held by the logistic staff; implementing an iterative process on a quarterly basis to ensure the data are corrected and reconciled as necessary following the results of the physical check of the assets held. Moreover, those controls are also deemed to cover areas where the assets are managed by third parties on ACO's behalf, such as for the deployable assets held by NSPA in the Southern Operation Centre (SOC), Italy. Therefore, ACO believes that there is a very good level of accurateness and controls in place with regard to asset management and accounting with clear procedures to follow by the various stakeholders, with a clear delineation of responsibilities and accountabilities to actually mitigate and reduce to the minimum the risks of misappropriation of the ACO property, thus safeguarding the operational capability of ACO to make use of its common-funded assets in pursuing its strategic objectives.

4. *ACO is glad to read that the Board recognises the improvements made and that some of the weaknesses identified are due to the lack of an integrated IT system (Paragraph 1.8). This is more evident in an Operational environment such as Resolute Support and with particular regard to the infrastructure assets for which the implementation of an asset log is still ongoing. With the revision of the Directive 080-102 (former AD 80-100 under ISAF) following the transition from the ISAF Mission to the Resolute Support mission, a process started for transferring infrastructure assets and related installed equipment from the NATO Depot and Support System (NDSS) to an infrastructure asset register further to a recommendation made by JFCBS J4. The reason was mainly to identify the fixed assets and related installed equipment to ease the transfer of those assets to the Government of the Islamic Republic of Afghanistan (GiRoA) when declared surplus to NATO and in accordance with the NATO-GiRoA real estate agreement based on which, on the one hand, the Government of Afghanistan is the owner of fixed infrastructure and, on the other hand, NATO is not responsible for the removal of these works at the end of their utility. However, the process of establishing and finalising a complete infrastructure asset log requires time and*

availability of staff. Nevertheless, ACO is confident that the procedures set forth in the AD 080-102 and in particular in the Standing Operating Procedures (SOP) related to the redeployment and disposal of NATO-Funded Equipment / NATO-Funded Infrastructure (NFE/NFI) can ensure an effective and efficient transition of such assets to GiRoA.

5. *In relation to the lack of validation from JFCBS engineers of the list of infrastructure assets that the Board has underlined at Paragraph 1.10 of the report, in ACO's view, this validation should not be a responsibility of the JFCBS engineers. The responsibility of recording and tracking NATO-funded assets is vested in the Property Accountable Officers in accordance with the revised AD 060-080 and the NATO Financial Regulations / Financial Rules and Procedures (NFRs/FRPs); whereas, Technical Divisions are supposed to provide the Property Accountable Officers (PAOs) with a technical advice on the operational status and use of the equipment. They can be requested to screen applications for write-off and provide an assessment on whether the proposal made to write-off an asset is properly justified or not, but they are not responsible to validate asset data. The validation of Resolute Support fixed assets that the Board is seeking from the JFCBS engineers would be only a formality as the CJENG have neither direct visibility on assets held in Resolute Support, nor responsibility for that. Following the completion of the Resolute Support infrastructure asset register, ACO will appoint a PAO responsible for the management and reporting of these infrastructure assets in light of the policies and procedures established by the AD 060-080 as well as those specifically approved for Resolute Support as laid down in the AD 080-102.*

6. *Concerning the Board's recommendation at Paragraph 1.35, ACO fully recognizes the importance of having a proper and single tool managing the assets. All the divisions involved in the process are working closely with the Host Nation in order to fulfil this requirement. This initiative is part of the various projects under the Logistics Functional Services (LOGFS) umbrella.*

7. *Regarding the Board's comment at Paragraph 1.12 on assets left in Theatre by contractors or Nations without a proper hand-over/takeover and demobilisation, ACO does not concur with the comment made by the Board about the assets that Nations and Contracts leave in Theatre "could be considered as controlled by ACO". ACO would like to point out that this observation should not be part of an asset management matter, nor should it be considered as an indicator to address weaknesses in the way NFE/NFI are recorded and tracked by ACO in Resolute Support.*

8. *AD 080-102 clearly specifies that Contractor-owned equipment and TCNs' property are not in the scope of the AD 080-102 i.e. the responsibility for the management of the assets remains with the Contractors and Nations, respectively. Although NATO should oversee the draw-down of TCNs and*

Contractors and ensure that NATO's interest is properly represented, it is the responsibility of those stakeholders to clean, remediate and clear their properties on NATO bases at the end of the mission or when leaving the mission. Contractors failing to properly clear their properties are liable to legal action by NATO and for NATO's costs performing these actions. Likewise, TCNs may be pursued by NATO for costs incurred in performing these actions. The issue is, therefore, more related to NATO's retaining liabilities towards GiRoA for third parties' responsibilities, rather than an asset management issue. On this ground, ACO does not concur with the Board's statement that the lack of control by ACO over those assets increases the risk to NATO to cover costs for the disposal of Contractor-owned equipment and TCNs' property. This is a risk that NATO has due to its responsibility to coordinate the demobilisation of contractors and TCNs property; however, it does not imply that ACO assumes the control over these assets. In line with NATO policies, ACO policies and directives clearly limit the responsibility of NATO on planning and executing the redeployment of contractors.

9. *It should be noted that based on AD 080-102, the responsibility for coordinating the drawdown of contractors does not belong solely to ACO but it is shared amongst NATO entities and TCNs for their respective contractors. NATO Agencies, for instance, which are largely using contractor support, are responsible to ensure that their contractors are leaving the theatre in a proper manner without leaving any burden to the Afghans, TCNs and NATO. Whilst, as far as the TCNs are concerned, AD 080-102 specifies that TCNs are directly responsible for the planning and execution of disposition of their forces and assets.*

10. *ACO agrees with the Board that the inobservance of rules of a proper demobilisation by Contractors or TCNs exposes NATO to incur costs. However, it is the lack of a proper planning and coordination with such third parties by all the NATO entities concerned and operating in Theatre that can increase this risk, and not weaknesses in asset management by ACO. The issue is, therefore, to be tackled in relation to any contingent liability or provision to be, respectively, disclosed or recognised by the responsible NATO entity as specified above in its FS; as well as any action to be initiated for the recovery of actual costs incurred by NATO. As far as ACO is concerned, it should be noted that JFCBS has reported liabilities due to the termination of the ISAF mission which have been disclosed in the 2016 ACO FS; moreover, ACO has ring-fenced funds amounting to 15.9M€ from the 2014 ISAF Budget to cater for costs related to Potential Residual ISAF requirements in 2016, such as the redeployment activities.*

11. *On Paragraph 1.13 of the report, ACO does not concur with the wording "deleted" used by the Board. It is true that by mistake assets were not included in the new list but they were not "deleted". This word improperly implies a deliberate decision not to recognise them as assets. The Board would also like*

to note that the final figures reported in the 2016 ACO FS are matching the final report provided by JFCBS except for buildings and other infrastructure where the assets were not reported from the one hand and were deleted from the other hand.

12. *At Paragraph 1.15, the Board has made a comment on actions performed by the ACO finance staff to update the legacy asset register. Besides the consideration that the legacy assets are phasing down and that in future this issue will be naturally overcome, it should also be noted that the reclassification and regrouping of assets was made based on existing ACO asset accounting policies, which are duly implemented across ACO and promulgated through the ACO end of year (EOY) Guidance. The update was made by the finance staff after the NDSS system had been closed for the 2016 FY. After its closure, the logistic staff is no longer able to modify the data in NDSS; therefore, it is only the finance staff who is able to update the Asset Registers with the correct information. As the two tools (NDSS/FinS) are not interfaced for asset tracking, there is no possibility that they will never fully match each other. However, it should be noted that the NAF requires NATO entities to keep accurate asset registers and not that the various reporting tools are fully reconciled. Until such a time when there will be an integrated logistics and financial tool for asset data management and reporting, the official ACO asset registers are those formalised in the ACO FS. For the legacy assets, this is so far accomplished through Excel files with data provided through NDSS reports but verified and corrected for compliance to NATO/ACO accounting policies by the ACO finance staff at corporate level.*

13. *As far as the write-off of grouped assets is concerned, ACO believes that the discrepancy that might be generated by writing off components of the parent asset which is reported in the ACO FS at group level can be explained in the ACO FS by means of a disclosure note. This will ensure that on the one hand, the write-off of assets complies with article 17 of the NFRs/FRPs and, on the other hand, that the write-offs reported in the FS are fully reconciled with the Report of Survey approved during the concerned year.*

14. *Concerning the Board's observation that "No actions taken on equipment and inventory left by a contractor In-theatre in 2014", the initial plan was to sell all the B4/B9 items to the current contractor. Due to unforeseen circumstances, the plan has changed. The B4/B9 items are currently being utilized to conduct repairs on structures that were damaged as a result of the late-May attack in Kabul. A pre-authorization was given by JFCBS JENG (on behalf of the ACO Requirements Review Board (RRB) and it will be presented during an upcoming RRB for inclusion in the minutes. Once the repairs are completed and the contractors no longer need access to the items, NSPA will be tasked to conduct an inventory of the items. Any item that is not in NDSS will be recorded in the system. NSPA will also be tasked to sell any serviceable items. Items that are unserviceable, as well as items that we are not able to sell, will be disposed of.*

15. *In relation to the Board's comment made at Paragraph 1.18 of the report, ACO reiterates the comments made above in relation to the Board's observation at Paragraph 1.12 of the report. The same attempt was made in 2016 with a new contractor ECOLOG. Immediate disposal as scrap would have foreseen the incurrence of costs by ACO; therefore, it was a Management decision to attempt the sale of the property in line with the disposal methods foreseen by the AD 060-080 with the aim of generating revenue rather than incurring in costs.*

16. *The lack of a proper hand-over/take-over of the Enhanced Surveillance System (ESS) cameras was due to the fact that initially, the items were transferred from Resolute Support to SHAPE by means of a Lateral Transfer which was never signed off by SHAPE BSG due to a change in the decision to make use of those cameras and because of the need for refurbishing of one of the three cameras. As a consequence, the KAF Resolute Support PAO could not delete them from his asset register. Because there was some discussion whether SHAPE should be obliged to take over the equipment or not, the whole process was delayed until SHAPE J8 requested Resolute Support to formalise the write-off in January 2016 as surplus equipment. It should be noted that AD 080-102 does not foresee in the redistribution process an obligation of the requesting entity to take over the equipment after the request has been made. This gap has been overcome by the new AD 60-80 which in reviewing the redistribution process poses an obligation to the requesting entity to take over the assets once the request for surplus has been submitted to SHAPE and DCOS RES has approved the redistribution plan. The revised AD 060-080 says that "Whilst the declaring entities shall ensure the most accurate reporting of assets in surplus to reflect their current status, the requesting entities, by submitting the application for redistribution, accept the liability to take over the asset "as is" without the possibility to refuse the asset and return it to the sending entity".*

17. *As far as the issue of the delay in the disposal of the cameras is concerned, it should be noted that this was due to a new ACO operational requirements that changed the previous decision to declare the 3 cameras as surplus and, consequently, to dispose them after the redistribution failed. The new requirement and change in the status of the assets had to pass through the validation of the ACO RRBs in accordance with the procedures set forth by AD 080-102. Consequently, the previous decision to write-off the cameras was revoked and the assets recorded in the ACO asset register of JFCBS as the cameras had been redeployed to Europe. This is in line with the recommendation made by the Board at Paragraph 1.19 that there could be cases where it is necessary to revoke approved Report of Surveys and record the assets back to the books of NATO.*

18. As far as the NCISG is concerned, ACO's view is that the statements in support to this observation at Paragraphs 1.25 – 1.29 do not accurately reflect the facts. In relation to Paragraph 1.25, the Board should note that, as of 31

December 2016, there were 39 assets in NDSS, 38 were physically present on the site, and one item is in Turkey. On the Fixed Asset Register (FAR) prior to 2013, there were only 23 assets reported in the Financial Statements. The NCISG will take care to duly report the missing 16 items. ACO does not concur with the observation related to 9 items of PP&E. According to ACO EOY Guidance, those items are reflected in the financial reporting as one single asset, since they were procured not to be used separately. In addition, the Diagnosis NG3 (lap-box) and the Pressure test gauge, were reclassified as inventories and, as such, they are no longer recorded in the FAR prior to 2013.

19. *ACO concurs with the observation for the remaining item, namely the Brian James. The asset was procured by NSPA. Reporting did not happen in the FS for 2016, although delivery and entry into NDSS happened in August 2016. NSPA did not report it to ACO CAC either on the list of items delivered in CP149 during the EOY procedure.*

20. *ACO will, moreover, continue to work with NSPA to improve the asset financial information required by ACO for its end-of-year process to ensure that NSPA provide all the necessary information about the assets delivered by NSPA as part of the CP149.*

21. *ACO concurs with the observation of not disposing in a timely manner of some written-off items by the NCISG. On 29 June 2017, NCISG HQ J4 organised the kick-off meeting in Brunssum with PAO (1NSB) and the PDO of JFCBS to start the handover of written-off vehicles to JFCBS PDO for disposal. NCISG expects that the disposal of all items will be completed before the end of this year.*

22. *ACO does not concur with the Board's observation of 28 items belonging to NCISG that have not been recorded in the NCISG FAR and provides the Board with some additional information, as follows:*

a. 1 vehicle (RC 6697) belongs to JFCBS.

b. 2 assets of NCISG HQ (2x MERCEDES - 1017 A, CAR/CAN) were both recorded on FAR prior to 2013, but without indication of their location. Such information has already been added.

c. 20 vehicles belonged to the former NCSA. The NCISG conducted an investigation and found out that those vehicles were written off by NCSA in 2008 (1 item), in 2009 (3 items), in 2010 (2 items) and in 2012 (14 items). Despite the fact that they were never transferred to NCISG (written-off even before NCISG was created), the Group engaged with JFCBS PDO and disposal of the items started on 29 June 2017.

d. 5 assets were under investigation at the time of the audit field visit to define the owner for property accounting. The result of the investigation is that:

(1) 2 items belonged to the former NCSA, and like the other 20 vehicles above, they were written off by NCSA. They will be part of the disposal together with the other items.

(2) 3 assets cannot be identified as there is no reference visible on the items. NCISG is of the opinion that assets most likely belonged to the former NCSA and were never transferred to the Group.

23. ACO/NCISG concurs with the observation of 14 items belonging to NCISG. ACO will make sure that the missing 14 items are duly reported.

24. *Additionally, ACO concurs with the Board's findings that, at the NCISG, three items (one per each Battalion) acquired for a value of EUR 18,000 were not recorded as PP&E in the Statement of Financial Position.*

25. The Board would also like to note that the iterative process implemented by the revised AD 060-080 on a quarterly basis for the reporting of the assets by the Property Accountable Officer to the Finance & Accounting Officer will reduce or eliminate future similar issues of discrepancies between logistics and financial systems due to human errors.

26. In relation to the examples found by the Board of incompleteness of assets acquired after 2013 as well as inaccuracies in the value of PP&E recorded, as far as the NAEW assets are concerned, it should be noted that NAEW is working to have all assets in the PILS system and to create the Asset Register from PILS, therefore ensuring that the system and the register are in synchronization. ACO agrees with the comment on staffing issues and is working closely with Force Command Engineering Division whom PILS reports to, in an effort to ensure adequate staffing of this functionality. NAEW&C Force Financial Controller does not employ PILS and, as such, the finance staff has limited influence in the setting of priorities for the PILS team.

Board's position

The Board recognises the significant improvements made by ACO over the past years in identifying and recording assets. Asset management is an area where management attention will always be required in order to ensure proper internal controls and complete recording of assets.

The Board is satisfied to note that actions are taken by ACO in order to solve the issues found by the Board in relation to Resolute Support, NCISG and NAEW. The Board will follow up on this in its audit of the ACO 2017 financial statements.

OBSERVATION 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

27. *ACO concurs with the Board's recommendation to continue to work on assessing and documenting the internal control and risk management procedures. ACO is committed to foster the ACO Risk Management Framework (ARMF), identifying the overall risk management structure, roles and responsibilities, objectives and activities required to successfully conduct Strategic Risk Management. The aim is to ensure a directed, deliberate approach to risk management, through the acknowledgement of ACO's risk environment and the identification, assessment, prioritisation and effective, efficient management of risks impacting the achievement of objectives. ACO deems that there is already an organisational structure for planning, executing, controlling and monitoring business operations in place in ACO in order to achieve the Command's objectives with lines of responsibility and delegations of authority properly documented.*

28. *It should also be noted that ACO is stressing the responsibility of each ACO Command for implementing its own command-level risk management processes and for aligning it with the ACO risk management framework. As part of this implementation, identification of internal control and risk management procedures are vested within the functionalities and responsibilities of the ACO Financial Controller. Some specific internal control and risk management procedures have already been identified and implemented for the procurement activities. Additionally, work is ongoing to assess and document internal controls in the areas of the iterative process for outstanding assets and liabilities between NATO entities and the Procurement process as well. Furthermore, the ACO FC is working with the local FCs to identify, assess risks and document internal controls and risk management procedures within the other two J8 functionalities i.e. budget and finance & accounting to be completed by the end of 2017.*

29. *ACO concurs with the Board's recommendation to the NAC to ensure that the NFRs and FRPs are aligned. ACO is contributing to the NFRs/FRPs lessons learned and has already brought the issue of the discrepancy between the NFRs and the FRPs in relation to the flexibility allowed when carrying forward current year budget credits for goods and services to the attention of the NOR and the Committee in the Lessons Learned' document. ACO also pointed out that the need for such flexibility is unquestionable in order to avoid nugatory staff work at the end of the fiscal year and at the beginning of the next one.*

30. *ACO welcomes the recommendation at Paragraph 2.8 (d) to the NAC to acknowledge and accept the NAEW&CF's interpretation of "modified cash basis" of accounting for FMS cases. In ACO's view, this can be a workable solution to the problems of a strict interpretation of the NFRs and the limitations of the US FMS accounting system.*

31. For the budgetary aspects of FMS cases, the Board also observed that it should be determined whether, for budget purposes, adaptations to the NFRs are needed and proposed that this should be taken into account during the revised NFRs lessons learned exercise. SHAPE discussed the concerns related to the NAEW budget execution extensively in the Lessons Learned document sent to the BC. It was mentioned that, as a general approach, the NAEW Force is extensively using cash credits and contract authority within the budget in an effort to align the expenses with the year the goods and services are delivered. The USA FMS process is based on estimated delivery times over multiple years and delays in or modifications to delivery times are not always known in a timely manner to adjust the cash credit / contract authority mix. Due to the magnitude of the cost, such adjustment could result in lapsing significant amounts of money one year and having significant shortfalls in the following year(s). In order to avoid this, the NAEW considers that for the purposes of the FMS cases their contractual partner is NSPA, and interprets the initial NSPA estimates as contracts for commitment purpose. In the course of execution, the NAEW uses the bi-annual NSPA reviews and the bi-annual Foreign Military Sales (FMS) case reviews to identify major contracting and/or delivery delays. As a result, they re-align the cash credits versus contract authority mix to the extent possible. These changes are reflected in the 1st and 2nd Budget Execution Reports (BERs). Where unplanned changes occur between the 2nd BER and the EOY, best judgement is used to determine if normal carry forward, special carry forward or lapse is the most appropriate vehicle to reflect the change in accordance with the NFRs/FRPs. It is ACO's assessment that such interpretation of Article 25.3 is within the spirit of the regulations and no amendment to the NFRs is required.

Board's position

In respect to the budgetary aspects of FMS cases, the Board's concern is that, due to the uncertainties inherent in the timing of FMS delivery and reporting, such estimates and best judgements will not be reliable enough to be consistently audited against the NFRs as currently written.

OBSERVATION 3:
OPERATION OF KEY SYSTEM IN NAEW&CF NOT ENSURED

ACO's Formal Comments

32. ACO concurs with the Board's recommendation. PILS reports to the Division Chief FHE (Engineering and Logistics) within the NAEW&C Force. FHE has recently been tasked by the Force Commander to ensure a business continuity plan is in place for PILS. This will include the training of additional staff members on the interpretation of the PILS results (particularly for Finance & Accounting reports); the enhanced training of existing staff members and the contracting out of specific year-end process to allow the current PILS team to focus on the management of the system. Also under investigation is the requirement to fully document the PILS system from the perception of all PILS users to ensure the current and future systems properly support the NAEW& C Force mission. The current PILS team is limited in its ability because of the number of employees and FHE is investigating, as part of the Force Review Optimization process, the proper size of this function in the new Peacetime Establishment (PE).

OBSERVATION 4:
CARRY FORWARDS IN THE AIR DEFENCE GROUND BUDGET NOT IN COMPLIANCE WITH THE NATO FINANCIAL REGULATIONS (NFRS)

ACO's Formal Comments

33. It was observed several times that some ACO budgets predominantly managed by NSPA on ACO's behalf show a high level of regular carry forward of appropriations (especially for the Air Defence Ground Budget). Even though some carry forward can be directly linked to the nature of the programmes (unexpected delays in the delivery of goods and services in accordance with Art 25.3) others were suspected to be commitments of appropriations for goods and services that were not expected to be delivered within the fiscal year. ACO and NSPA have acknowledged the issue and corrective action is on course to review the 2017 annual budgets accordingly. For the 2017 Budget, NSPA has identified the credits budgeted for deliverables that will not take place in 2017 and proposed a return of credits to ACO. NSPA has simultaneously requested Contract Authority so the necessary contracts to ensure continued support of air defence radars can still be placed. ACO received the approval of the BC on 12 July 2017 for the corresponding Contract Authority. As a result of additional contract authority and returning the funds that are not going to be needed for 2017, amount of 2017 carry forwards will decrease significantly in line with the NFRs. For the preparation of the 2018 Budget, NSPA has already adapted its approach to ensure that the budget request is based on an accurate forecast of deliverables *in the year. This is also reflected in the BC Air Defence Ground Budget Book prepared by ACO.*

OBSERVATION 5:
NO MEMORANDUM OF AGREEMENT (MOA) IN PLACE WITH NCIA

ACO's Formal Comments

34. *ACO continues coordinating with NCIA for the establishment of an appropriate mechanism for governing relationships between the two organisations. This relationship is unique, in that SACEUR has C2 arrangements over the Agency that take some elements of support out of an agreements context, and put them in the realm of operational orders. Given the complexity of this matter, ACO cannot predict the end date of coordination process as this depends on agreement on terms between both parties. Furthermore, both JFCNP and KFOR are currently in the coordination process with NCIA for the establishment of an SLA referred to KFOR site.*

OBSERVATION 6:
EUR 8.9 MILLION ACCUMULATED SURPLUS NOT YET HANDED BACK TO THE NATO SECURITY INVESTMENT PROGRAMME (NSIP)

ACO's Formal Comments

35. *ACO concurs with this observation. While we confirm that this kind of data is reported to the NOR on an annual basis for the preparation of the Cash calls that are calculated and released by the NOR, we will also further coordinate with them to assess the proper approach to deal with the balance still reflected in the ACO NSIP book.*

FOLLOW-UP OF THE PREVIOUS YEARS' OBSERVATIONS

*36. The ACO comments on the previous years' IBAN recommendations are reported below only in relation to the **"Partially settled"** and **"Outstanding"** recommendations as shown in the Table at Annex 2 of the IBAN 2016 audit report.*

(5) ACO FY 2015
IBA-AR(2016)09, paragraph 5
WEAKNESSES IN THE PROCUREMENT PROCESS IN E3A COMPONENT, JFC NAPLES AND AIRCOM

ACO's Formal Comments

37. *ACO does not concur with the status of this observation in the report, as the Board's observation 6 is not related to this issue. ACO is glad to note that a similar issue has been addressed by the Board in the Management letter for the 2016 FS. Therefore, ACO assumes that the aforementioned Board observation from previous years in the audit report can be considered "settled".*

38. *If the above ACO's comment is agreed by the Board, the recap made at Page 2-2 of the report on the status of observations from previous years' audit is not correct as an extra observation 'settled' should be added to the other one reported by the Board. Moreover, ACO deems that the following comment of the Board that for "6 out of 10" observations from 2015 audit have not been settled is not factual and, moreover, misleading as the remaining 5 observations have been superseded by current year observations.*

Board's position

The Board made proper corrections.

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

ACO's Formal Comments

39. The Logistics Support Agreement (LSA) for non-CIS deployable assets has been in place since June 2016 and is an effective Agreement covering all the points contained in the observation. Progress towards a new LSA for NAEW for NSPA services continues to be slower than ACO would wish. There are various reasons for this including the lack of NAEW Contracting staff, the recent departure of the Financial Controller, the lack of a clear requirement and service "owners" on the NAEW side, the initial reluctance of the NSPA to engage and the complexity of review and updating existing agreements which are now more than 30 years old. All these obstacles are being tackled and the aim is to develop a draft updated LSA which will be released to NSPA for comment during August 2017.

(9) ACO FY 2013
IBA-AR(2014)20, paragraph 4
LEGAL AGREEMENT WITH NATO COMMUNICATIONS AND INFORMATION AGENCY (NCIA) FOR PROVISION OF SERVICES AT INTERNATIONAL SECURITY ASSISTANCE FORCE (ISAF) IS MISSING

ACO's Formal Comments

40. *After years of negotiation and rejection of various ACO proposals, it has been agreed with NCIA that these services will be covered in a new Annex to the CISSUPLAN for the RS Mission. ACO has issued a draft for final commenting by mid July 17. It is ACO's intention to have this Agreement signed in the final quarter of 2017 and services from 01 January 2018 to be covered by the updated plan.*

(10) 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

41. *ACO acknowledges that this is an outstanding issue and an area of concern. As recognized by the Board during the field audit, the quality of the information received has significantly improved; however, there are still some areas were additional procedures need to be reinforced. This is mainly related to the interaction between ACO Operations and the NATO Agencies. ACO will continue to work in coordination with the NATO agencies to make sure that information provided is timely and accurate.*

ENCLOSURE 2
C-M(2017)0055

ALLIED COMMAND OPERATIONS

CONSOLIDATED FINANCIAL STATEMENTS

2016

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Allied Command Operations Consolidated Financial Statements 2016

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Allied Command Operations

Executive Summary

Introduction

1. The Allied Command Operations' (ACO) mission is to fulfil NATO's core tasks 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. The ultimate controlling and decision-making entity for the Alliance and its components are the 28 Alliance Member Nations, which provide military forces along with physical and financial resources for the daily operations of ACO and its subordinate Commands.

3. ACO's principal headquarters, the Supreme Headquarters Allied Powers Europe (SHAPE), is located in Casteau, Belgium. The ACO organisation includes two Allied Joint Force Commands (JFCs) located in Brunssum, the Netherland 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 a Deployable Air Command and Control Centre (DACCC) in Poggio Renatico, Italy and two Combined Air Operations Centre (CAOC), one co-located within the DACCC and the other in Torrejon, Spain. The NATO Communications and Information Systems Group (NCISG) is located in Casteau, Belgium and includes three subordinate NATO Signal Battalions located in Wesel, Germany; Grazzianise, 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 GK) in Geilenkirchen, Germany, and the NATO Alliance Ground Surveillance Force (NAGSF) in Sigonella, Italy.

4. 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 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 AGS system is being acquired by 15 Allies[1] and will be made available to the Alliance in the 2017-2018 timeframe. The engagement of NATO common funds for infrastructure, communications, operation and support will follow normal funding authorisation procedures applicable within the Alliance.

[1] Bulgaria, Czech Republic, Denmark, Estonia, Germany, Italy, Latvia, Lithuania, Luxembourg, Norway, Poland, Romania, Slovakia, Slovenia and the United States.

Role of ACO

5. ACO's mission is supported by the ACO Strategic Management Plan (ASMP) which, coupled with reporting and risk management systems, seeks to enable a unity of effort across ACO in delivering the required outputs by synchronising the prioritisation and resource management processes with developing operational requirements.

6. The ASMP provides the highest level direction and guidance in ACO's hierarchy of strategic guidance, setting the expectations for the organisation in terms of the conduct and delivery of all ACO activities over the coming five year period. As such, it is to be used by all ACO staff as their primary reference point in the planning and conduct of their functions. The ASMP provides the framework for the development and management of ACO's objectives; its main aim is to foster the delivery of timely, accurate and evidence-based information related to the capacity and ability of ACO's processes, structures and resources to achieve its stated tasks. The products of the strategic management system aim to support decision-making on the synchronisation and balance of operational requirements, resources, capabilities and tasks. This will ensure that steps can be taken to align ACO towards the realistic and efficient accomplishment of its missions and tasks, and identify, communicate and solve problems at an early stage. The ASMP's Strategic Management system is composed of a coherent and standardised set of Goals and measurable Objectives applied across ACO, and reported against consistently and coherently across all levels of ACO. The system provides internal controls, performance measurement, performance management and risk management functions across ACO, in compliance with NATO rules and policy standards, as well as with international best practice

7. The ASMP includes a number of explicit and implicit tasks and activities that are essential to support a visible deterrence posture, to maintain situational awareness, to detect emerging crises, and to contribute to Alliance security. These tasks are prioritised and executed in a comprehensive and synergistic way and include:

a. Core tasks: Collective Defence, Crisis Management and Cooperative Security.

b. Permanent tasks: Strategic Awareness Deterrence; Visible Assurance; Air and Missile Defense; Cyber Defense; Chemical, Biological, Radiological, Nuclear (CBRN) Defense; and Advanced Planning.

2016 Highlights

8. On December 2015, at the Foreign Ministers' meeting of NATO Allies it was agreed to sustain the Resolute Support Mission presence in Afghanistan, which was established effective 01 January 2015, during 2016. Six months later, in May 2016, it was agreed to sustain the presence beyond 2016; a decision that was confirmed by Allied leaders at the NATO Summit in Warsaw in July 2016. The Mission is providing training, advice and assistance activities at the security ministries and national institutional levels and the higher levels of army and police command across the country. As of July 2016, it has approximately 13,000 personnel from NATO Allies and partner countries, operating in one hub (Kabul/Bagram) and four spokes (Mazar-e Sharif in the north, Herat in the west, Kandahar in the south, and Laghman in the east). Key to this effort was the transfer of base operating and support functions from NATO to specified Framework Nations and established operating bases. ACO coordinated the required approvals through the NATO Resource Boards and Finance Committees for NATO operational support areas eligible for NATO Common Funding and further negotiated the necessary support agreements between ACO, the respective Framework Nations, and as required, with NATO

Agencies. Planning efforts continued for post Resolute Support Mission operations, and NATO member and partner nations continue to support the long-term financial sustainment of the Afghan National Army (ANA) via the NATO-ANA Trust Fund, which is financially administered by SHAPE.

9. NATO has been leading a peace-support operation in Kosovo – the Kosovo Force (KFOR) – since June, 1999 contributing towards maintaining a safe and secure environment in Kosovo and freedom of movement for all. On 19 April 2013, Belgrade and Pristina reached an EU-facilitated First Agreement of Principles Governing the Normalisation of Relations; an implementation plan was agreed on 22 May 2013. In June 2013, the European Council decided to open accession negotiations with Belgrade and negotiations with Pristina on a Stabilisation and Association Agreement (SAA). The SAA agreement was signed on 27 October 2015 and entered into force on 01 April 2016. NATO continues to offer strong political support to the Belgrade-Pristina Agreement, and KFOR stands ready to support its implementation within its current mandate.

10. Operation ACTIVE ENDEAVOUR launched in response to the terrorist attacks against the United States in 2001 to support the deterrence of terrorist activity in the Mediterranean Sea was terminated in October 2016 and succeeded by the operation SEA GUARDIAN. This operation was created at the Warsaw Summit in July 2016 as part of the 2011 Alliance Maritime Strategy and is currently operating in the Mediterranean Sea under the command of Allied Maritime Command (HQ MARCOM), Northwood, United Kingdom. It can perform a broad range of maritime security tasks such as maritime situational awareness, freedom of navigation, maritime interdiction, countering the proliferation of weapons of mass destruction, protecting critical infrastructure, countering terrorism at sea and maritime security capacity-building. NATO also terminated Operation OCEAN SHIELD on December 2016 following the absence of successful piracy attacks since 2012.

11. NATO and Iraq are engaged in political dialogue and practical cooperation aimed at developing the capacity of Iraq’s security forces, its defense and security institutions, and its national defense academies. At the NATO Summit in Warsaw in July 2016, Allied leaders agreed to provide a training and capacity building effort within Iraq (NTCB-I). SHAPE has been consequently tasked to take all necessary steps to initiate, facilitate and support the commencement of NTCB-I.

ACO Military Budget

12. ACO managed approximately €897 Million in allocated NATO common funding within the annual 2016 Military Budget, as well as providing oversight for NATO Security and Investment Programmes (NSIP) funds, Nation Borne Costs (NBC), Trust Funds, and Morale and Welfare Activity (MWA) Funds.

Policies

13. The approval of the new NATO Financial Regulations (NFRs) effective 01 May 2015, marked the first major revision of NATO financial policies in over 30 years. The associated revisions to the Financial Rules and Procedures (FRP) came into force in January 2016. The revised NFRs and FRPs capture, among others, the new NATO Command Structure (NCS), Agency Reform initiatives, the adoption of International Public Sector Accounting Standards (IPSAS), the introduction of the NATO Accounting Framework (NAF), and address the demands by the Nations for transparency and strengthened accountability for sound financial management.

14. When approving the FRPs the Budget Committee (BC) commissioned an interim lessons learned exercise requesting inputs from the Financial Controllers (FCs) of all NATO bodies to assess the effectiveness of the NFRs and FRPs in improving the financial governance of NATO common funded entities.

15. The NFRs have introduced major changes in a wide number of areas that are meant to improve financial management and budget discipline across all NATO entities. Stricter rules have been established within the financial management area. These have tightened up internal processes such as the revised commitment practices and contract authority of NFR article 25. Moreover, measures have been introduced to improve and strengthen the internal control and risk management processes within the NATO entities. For ACO the establishment of Audit Advisory Panels (AAP) (NFR Article 16) represents a significant improvement in strengthening internal control arrangements and an effective and important tool to improve the proper governance of the organisation. The BC has encouraged ACO to share its experience with other FCs of the NCS.

16. In November 2016 the BC approved its report on the NFRs/FRPs Interim Lessons Learned stressing the need for senior management and not just the Financial Controllers (FCs) to lead efforts to ensure adherence to the NFRs and FRPs on internal control and risk management. However, the main issue faced by ACO, as well as by other NATO entities, is the lack of additional resources to cope with some of the changes introduced by the NFRs/FRPs. This issue is now part of the ACO 2017 Budget Recommendations to ensure that Council is aware of the need for a transition period that could take until 2018 for NATO bodies to be in full compliance with the NFR articles on internal control and risk management.

17. The BC has already requested a more thorough review of the NFRs and FRPs with inputs from the FCs of all NATO bodies; this is scheduled to take place at the end of the 2016 budget cycle. A report will be prepared for the BC by the end of June 2017 based on the input received from the FCs and discussions in the BC. Any proposed changes or amendments to the NFRs resulting from this full review would still require Council approval.

18. 2016 represented a significant step forward in improving the ACO policy on asset management and accountability, by reviewing the ACO Directive 60-80 on property accounting and control dated November 1994. This directive was obsolete and required an update in light of the principles and procedures established by the revised NFRs/FRPs on responsibility and accountability (art. 3), internal control (art. 12), write-off and disposal (art. 17), and by the NAF. Not only does the Directive aim to review some business processes but also to bridge the asset management to the asset accounting to guarantee a reliable financial reporting.

ACO Relations with NATO Agencies

19. ACO has continued to work with the NATO Support and Procurement Agency (NSPA) and NATO Communications and Information Agency (NCI Agency) throughout 2016 to implement the necessary agreements and contractual arrangements in light of the overarching Memorandum of Understanding (MOU) on logistics cooperation that was finalised in July 2015, establishing the principles for services to be further supplemented by individual Logistic Service Agreements (LSA) for each major programme.

20. Existing LSAs include the provision of Integrated Logistics Support Services (ILSS) for the Resolute Support Mission, the provision of support and maintenance for the Deployable non-CIS Capability Packages, the AGS Support Partnership, the Basic Text Agreements for NAEW&CF and the Sales Agreement for provision of KFOR Fuel. ACO and NSPA have also committed resources towards the development of key quality indicators and key performance

indicators as part of the customer funded relationship between the two organisations. Following a practice established in 2015, the NSPA Director of Finance has been providing ACO with an official financial certification of the reliability of the financial data and controls executed by the service provider. This is an on-going process where ACO will continue to invest efforts to guarantee improvements on the levels of quality control for services provided.

21. Both ACO and the NCI Agency have started to jointly work on the introduction of a standardised text for the centralised and local SLAs, in order to provide consistent Communication and Information Systems (CIS) service funding and control mechanisms throughout ACO. The standardised text is expected to be enforced starting from the 2018 SLAs.

22. In response to a long outstanding IBAN observation, SHAPE intended to conclude an agreement covering the sizeable contracts and services provided through and by NCI Agency in support of ISAF and the subsequent transition to the Resolute Support missions. However, considering the operational requirement outside the normal SLA construct established for the static non-operational CIS services, SHAPE is currently discussing internally and with JFCBS which approach to follow, to cope with the operational environment and to address the IBAN concerns. The option which is currently under discussion is to capture the Resolute Support requirements for the CIS services in a CIS Support Plan (SUPPLAN) for an operation under SACEUR's C2 arrangement authority. The SUPPLAN could better reflect the relationship between the supplier and the operational receiver in Theatre, rather than the service provider and the customer as in the ACO static commands. This requires the amendment and the termination of the disputes clauses that are normally foreseen by the SLAs for the static commands. For Resolute Support the Agency should not be able to unilaterally terminate its required support to the mission under an operational CIS Support plan and disputes should be handled through the appropriate chain of command.

IBAN Observations on Previous ACO Financial Statements

23. The 2015 ACO FS have been qualified by the IBAN due to issues caused by the lack of proper asset management in Resolute Support as well as by the approach used by the NATO agencies providing services to ACO. The key findings of the IBAN which impacted on the audit opinion, included the lack of reliable data reported by NSPA on deployable assets, the inaccurate disclosure of Property, Plant & Equipment (PP&E) both prior to and after 2013, and weaknesses in asset management for Resolute Support Mission. The latter observation impacted also the audit opinion on compliance.

24. Notwithstanding the statements made by IBAN in its report which identified several areas where ACO has made progress and improvements compared to previous years, asset management continues to represent the main challenge for ACO in achieving an unqualified audit opinion, especially in relation to ACO's assets managed by third parties, mainly NSPA. For this reason SHAPE is devoting efforts to develop a common policy NATO-wide on PP&E under the auspices of the IS-NOR and the Head of Financial Reporting Policies (HFRP), and in coordination with the NATO Agencies as this policy is deemed to reduce discrepancies in asset management and help removing the IBAN qualification. However, the disparity between the various NATO reporting and inventory management systems, prevents proper consolidation and centralisation of information, including those for financial accounting, inventory and reporting, and highlights the need to better align the various processes, systems and policies.

25. ACO will continue to focus and work on improving the accuracy and reliability of financial data and to complete the development of the ACO Internal Control Framework, optimise internal business processes and develop a strong risk and performance management culture across

ACO. Moreover, ACO will continue to cooperate with the NATO Agencies and other third parties a well as to implement best practises within the AOM.

Responsibility

26. The attached, unaudited fiscal year 2016 ACO consolidated financial statements for the period starting 01 January 2016 and ending 31 December 2016, have been prepared in accordance with the NFRs, NAF and IPSAS standards. In accordance with NFR Article 3.2, they are jointly signed by the ACO Strategic Commander and the ACO Financial Controller, and conform to the responsibility and accountability principles prescribed in NFR Article 3.1, and are submitted to the IBAN in accordance with NFR Article 35.

27. 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; and

d. Prepared the accounts on a going concern basis.

28. 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 2016.

Mr Christophe Rappe
Financial Controller
Allied Command Operations

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

STATEMENT OF INTERNAL CONTROL

Scope of Responsibility

1. As Supreme Allied Commander Europe, I am responsible and accountable for maintaining a sound system of internal control that supports the achievement of ACO's goals, objectives, and priority of efforts and resources. These are detailed in the ACO Strategic Management Plan (ASMP), which establishes an objective, evidence-based management system to determine ACO's capacity and ability to undertake its current and future functions and activities, as well as align activities, track organisational progress and manage risk.

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 (NFR).

Purpose of the System of Internal Control

3. At the organisational level, Internal Control is broadly defined as a process carried out by the entity's management and other personnel in order to minimise risks and to provide reasonable assurance that the objectives of the organisation are achieved, specifically with regards to the efficiency and effectiveness of operations; accuracy and reliability of financial reporting; and compliance with laws and regulations. Internal Control is designed to manage, rather than to eliminate risk, and therefore it can only provide reasonable and not absolute assurance of effectiveness.

4. ACO's Internal Control system is an on-going process designed, within a risk management framework, to identify the principal tasks necessary for achieving the organisation's aims and objectives, to evaluate the nature and extent of those risks, and to manage them efficiently, effectively and economically.

Capacity to Handle Risk

5. The Command's ability to respond to the demands of a complex and resource constrained strategic environment is paramount. The agility required to realign priority of efforts and resources relies on fundamental knowledge of the operating environment, clear understanding of objectives, and proper risk management and performance management in key areas. As such, risk and performance management are at the core of ACO's strategic management functions. ACO Strategic Risk Management is conducted at all levels of the organisation, requiring stakeholders to identify, assess and respond to risks and opportunities within their area of responsibility.

6. Nevertheless, some risks and issues with significant operational impact remain beyond ACO's capacity to handle and are usually dependent upon the Nations in the areas of manning, capability delivery, and common funded resources.

7. ACO's ability to provide sustainable, scalable static and deployable joint Command and Control (C2) for operations in accordance with NATO Level of Ambition (LoA) is highly dependent on personnel augmentation, training and critical support enablers. For example,

limitations have been identified in deployable assets to support deployment of multiple headquarters simultaneously.

8. In many strategic areas the absence of doctrine or the needs for amendments to reflect the changes to the threat environment have been identified. Environment changes have not been matched fully by timely and responsive changes to organisation, training, doctrine and processes. A good example is the NATO Command Structure (NCS) Cyber Organisation (RAP PE Change), delayed until at least the second quarter of 2017.

9. In addition, the current peacetime organisation is unable to provide several capacities. The problems were identified and reported among different studies; however, current capacity has not yet been enhanced, for instance Intel 24/7, the planning capacity and the Strategic Communication.

10. Within the ACO Strategic Risk Management construct, the ACO Financial Controller manages risk under a Financial Risk Management framework, which was introduced in 2015 for initial implementation throughout the ACO financial community in 2016. Identified risks that are beyond the remit of the ACO Financial Controller will be reported through the ASMP and further to the appropriate NATO authority as necessary.

Risk and Control Framework

11. The ACO Risk Management Framework (ARMF), contained within Annex D of the ASMP, describes the overall risk management structure, roles and responsibilities, objectives and activities required to successfully conduct Strategic Risk Management. The aim of ARMF is to ensure a directed, deliberate approach to risk management, through the acknowledgement of ACO's risk environment and the identification, assessment, prioritisation and effective, efficient management of risks impacting the achievement of objectives.

12. ACO has an organisational structure for planning, executing, controlling and monitoring business operations in order to achieve the Command's objectives. Lines of responsibility and delegations of authority are documented. Key elements of the internal control system include, but are not limited to:

a. NATO Code of Conduct;

b. NATO Financial Regulations (NFR) and Financial Rules and Procedures (FRP);

c. NATO Civilian Personnel Regulations;

d. 2015-2020 Military Budget Medium Term Financial Plan;

e. Annual Military Budget Guidance;

f. ACO Strategic Management Plan;

g. ACO Risk Management Framework;

h. Bi-SC Directives, ACO Directives and standard operating procedures and policies;

i. An ACO Internal Audit function and an associated ACO Audit Advisory Panel;

j. An Internal Control Framework for the ACO Procurement Activities;

k. A clear delineation of responsibilities in line with the NFRs as well as an effective delegation system compliant with the FRPs; and

l. 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.

13. 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 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.

Review of Effectiveness

14. The current ASMP format was established in 2014 as a mechanism to track ACO's progress in achieving Full Operating Capability (FOC). While the initial risks and issues reported from all ACO Headquarters were against progress to FOC, the scope was broadened in 2015 to include all strategic-level risks. The current Risk & Issue Database (Risk Register) is available ACO-wide, and the revised ARMF was included in the new 2016-2020 ASMP, which was approved in 2015. The ARMF is intended to operate on a continuum by revising or creating new objectives and the associated risks and issues, as they arise in ACO's dynamic strategic environment.

15. ACO financial operations undergo periodic strategic reviews, which include consideration of long-term financial projections and the evaluation of possible alternatives. The consolidated ACO annual budget and five-year strategic plans are actively monitored, with performance objectives reviewed internally by the ACO Management Board and externally at various NATO oversight Boards and Committees.

16. 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. The annual Internal Audit Plan is developed in accordance with the criteria set forth in the FRPs. The required Charter was recently approved by the ACO Audit Advisory Panel (AAP). ACO Internal Audit findings, recommendations, and corrective actions are maintained in a centralised database and an annual Internal Audit Activity Report is presented to the AAP for review.

17. 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.

18. Since its inception, the AAP has provided a forum for discussion and review in respect of ACO-related audits conducted by the IBAN and the ACO Internal Audit Branch and, as such remains well placed to direct activities necessary to provide SACEUR with a pragmatic annual

assurance assessment. In addition, when the Supreme Commanders were tasked, by the Heads of State and Government, to conduct a Functional Assessment of the NCS, the assessment presented the AAP with a comprehensive insight and snap shot of ACO's strengths, deficiencies and areas of risk. In doing so, the consolidated findings of the Functional Assessment also provided the AAP with a comprehensive assurance assessment across the spectrum of functions and tasks that ACO performs. Overall the 'assurance' evaluation concluded that ACO was considered to be *'partially fit for purpose at best'* and required adaptation. Recent POL/MIL guidance, to undertake follow-on work to adapt the NCS, in order for it to be able to fulfil its new functions and tasks in peacetime, crisis and conflict, provides the AAP with the opportunity to further refine and calibrate both existing and new internal control measures.

19. During 2016, ACO introduced some Financial Risk Management initiatives including the Internal Control Framework (ICF) on the procurement activities, the first of the three covering the main functionalities within the ACO Financial Controller's responsibilities. It uses the Committee of Sponsoring Organisation (COSO) Internal Control-Integrated Framework model as its underpinning methodology.

20. The Staff Assistance Visits assessment previously performed, was the basis for the initial draft of the ICF report, assessing five components. The ICF, reviewed by the SHAPE COS and released to all ACO, was used for a first self-assessment made by the local Financial Controller and Chief Procurement and Contracting of each ACO static HQ.

21. The overall results indicated a high level of consistency and identified a need for additional effort for the full implementation of the ICF with regards to the understanding and implementation of risk management and information/communication processes. The input received during the ICF process will also educate changes to the self-assessment factors and included in the next iteration. The overall assessment is that there is no identified major risk impacting directly the Procurement activities. However, one risk impacting some ACO Commands more than others, is the manpower shortage and the necessary prioritisation of certain control activities due to lack of staff. Although this is ultimately beyond ACO's control, ACO continues to address the shortfalls with Nations in order to fill critical Purchasing and Contracting posts in the Peacetime establishment with qualified personnel.

22. The reliability of ACO's financial reporting is dependent upon sound internal control systems to include an effective Enterprise Resource Planning (ERP) system. The ACO FinS system utilises a corporate architecture for centralised financial transactions and reporting, which have enhanced internal business processes and improved the accuracy and reliability of financial data. More specifically, it provides:

a. appropriate budgetary controls applicable to funding, to monitor variance and properly reflect authorised deviations;

b. appropriate levels of financial transaction reviews and approvals by ACO personnel responsible for the local ACO entities;

c. accurate access and relevant financial reports for ACO personnel with delegated financial responsibilities;

d. a system of authorisation, recording and procedures adequate to provide accounting control in relation to assets, liabilities, revenue and expenses directly managed by ACO;

e. proper segregation of functional responsibilities and procedures to review the adequacies of and compliance with the rules and regulations;

Areas of Improvement or Concern

23. The global strategic environment will continue to influence NATO's political and military objectives, just as it will influence the member Nations' individual resource capabilities. As such, ACO must continue to focus on the efficient, effective and economic management of available resources. The current NCS does not have sufficient capacity to deliver the required volume and scope of readiness training, exercise, force preparation and validation. The business continuity planning for CIS, hardened facility, and fall back capabilities is still not mature enough and is reducing resilience and adding operational risk.

24. The legacy issues related to the ISAF Fuel Basic Ordering Agreement (BOA) have implied additional workload for ACO's staff. Especially since late 2015 with the judicial proceedings 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. Since the beginning of 2016, the additional burden of this ISAF BOA on-going court case has required a significant increase in data calls and tailored meetings involving the Command Group and Resource Committees, as well as substantial toll on ACO J8 and the Office of the ACO Legal Advisor resources, in order to counter the multiple moves from the former supplier. The additional challenges involving exceptional legacy issues have, to a certain extent, made it particularly challenging to properly exercise the core competencies of the J8 Division and LEGAD Office during 2016. 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.

25. 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 is expected to provide a common platform in the future, but is now scheduled for implementation after 2018. Two of the key principles of this project were to optimise the use of existing assets and capabilities and to improve the life cycle cost effectiveness. While it is recognised that the complexity, size and duration of the LOGFS project involving many stakeholders made it extremely challenging to manage, some approaches are not clear to the customer. The perceived lack of life cycle approach in the management of the project is a key question. When key decisions to define high level of architectures and to select tools are made, the principles of avoiding redundancies and of dismantling legacy systems must be foreseen. This has a direct impact on the Military Budget that must maintain and support a variety of different capabilities and tools.

26. Until a proper system is implemented, ACO in conjunction with Head of Financial Reporting Policy and the IBAN will continue to identify mitigation measures necessary to resolve property accounting discrepancies. ACO will also continue to participate in the development and implementation of the LOGFS system in order to ensure the final capability enables full reporting compliance for ACO assets. Enduring efforts are also being applied towards the improved accountability of assets in ACO theatres of operation, specifically within the Resolute Support Mission. Proper asset management and reporting in the Resolute Support Mission is an on-going process and requires continuous oversight and monitoring of asset registers due to

the high rotation of staff in key accountability positions, as well as a very dynamic operational environment and high rate of asset turnover.

27. The ASMP, ARMF and Financial Risk Management initiative will all require continuous monitoring and refinement in order to ensure the efficient and effective use of scare resources and the achievement of ACO's strategic objectives. In addition, an ACO Internal Control Framework Directive is under development for implementation by 2017. We are confident that we can optimise our existing business processes and are committed to instilling an even stronger risk and performance management culture throughout ACO.

28. 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
Financial Controller
Allied Command Operations

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

ACO Consolidated Financial Statements 2016

STATEMENT 1: ACO CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2016 *in EUR*	*Notes*	*2016*	*Restated 2015 (II)*	*2015*
ASSETS				
Current Assets				
Cash and Cash Equivalents	B.1	1,099,629,710	873,029,369	873,029,369
Short Term Investments	B.2	96,094,955	230,000,000	230,000,000
Receivables	B.3	68,889,040	139,242,345	135,150,946
Prepayments	B.4	24,087,826	32,496,525	29,365,867
Other Current Assets	B.5	3,404,290	17,441,093	21,560,979
Inventories	B.6	35,039,841	31,202,384	27,721,714
Total Current Assets		**1,327,145,662**	**1,323,411,716**	**1,316,828,875**
Non-current Assets				
Receivables		-	1,777	1,777
Property, Plant & Equipment	B.7	116,075,182	110,663,239	109,469,300
Other Non-current Assets	B.8	4,719,831	4,208,214	4,208,214
Total Non-current Assets		**120,795,013**	**114,873,230**	**113,679,291**
Total ASSETS		**1,447,940,675**	**1,438,284,946**	**1,430,508,166**
LIABILITIES				
Current Liabilities				
Payables	B.9	(279,232,283)	(250,604,292)	(248,207,693)
Deferred Revenue	B.10	(808,589,155)	(775,101,154)	(734,964,984)
Advances	B.11	(258,413,312)	(309,019,416)	(309,019,416)
Short Term Provisions	B.12	(5,743,473)	(20,518,674)	(24,638,559)
Other Current Liabilities	B.13	(96,991)	(31,436)	(31,436)
Total Current Liabilities		**(1,352,075,214)**	**(1,355,274,972)**	**(1,316,862,088)**
Non-current Liabilities				
Long Term Provisions	B.14	(4,719,831)	(4,208,214)	(4,208,214)
Non-current Deferred Revenue	B.15	(90,946,285)	(78,717,090)	(109,353,193)
Other Non-current Liabilities	B.16	(199,345)	(84,670)	(84,670)
Total Non-current Liabilities		**(95,865,461)**	**(83,009,975)**	**(113,646,077)**
Total LIABILITIES		**(1,447,940,675)**	**(1,438,284,947)**	**(1,430,508,165)**
NET ASSETS	C.21	-	-	-

(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 inventory and PP&E. More information can be found in the relevant note disclosure
(III) Not all balances provided are reported on accrual basis. More information can be found in the Note B4. Ref. ACO Accounting Policy, Note A.

STATEMENT 2: ACO CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 31 December 2016 *in EUR*	*Notes*	*2016*	*Restated 2015 (II)*	*2015*
Revenue				
Revenue		(899,456,977)	(885,028,063)	(891,665,389)
Other Revenue		(16,463,959)	(3,559,099)	(3,559,099)
Financial Revenue		(2,979,766)	(10,055,241)	(10,055,241)
Total to be returned to the Nations		1,365,900	9,947,565	9,947,565
Total Revenue	C.17	**(917,534,803)**	**(888,694,837)**	**(895,332,164)**
Expenses				
Personnel		197,245,902	191,215,532	191,734,179
Contractual Supplies and Services		673,338,772	626,690,435	623,553,098
Foreign Military Sales (FMS) *(III)*		11,432,009	29,872,108	36,228,169
Depreciation and Amortization		31,830,042	36,033,791	38,982,871
Provisions		-	1,217,487	1,168,363
Other Expenses		6,200	15,985	15,985
Financial Costs		3,681,878	3,649,499	3,649,499
Total Expenses	C.18	**917,534,803**	**888,694,837**	**895,332,164**
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 inventory and PP&E. More information can be found in the relevant note disclosure

(III) The amount for FMS is on cash rather than accrual basis. Ref. ACO Accounting Policy, Note A.

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STATEMENT 3: ACO CONSOLIDATED STATEMENT OF CASH FLOWS

As at 31 December 2016 in EUR		2016	Restated 2015 (II)	2015
CASH FLOWS FROM OPERATING ACTIVITIES				
Result of the year		-	-	-
Non-cash movements				
	Depreciation	31,830,042	36,033,791	38,982,871
	Increase (Decrease) in payables	28,627,991	13,877,609	11,481,011
	Increase (Decrease) in other current liabilities	(24,894,622)	171,016,399	166,830,156
	Increase (Decrease) in other non-current liabilities	511,617	855,329	855,329
	Increase (Decrease) in current deferred revenue for PP&E	(6,998,681)	(4,203,749)	(4,203,749)
	Increase (Decrease) in non-current deferred revenue for PP&E	12,229,195	31,121,379	29,927,440
(III)	Property, plant and equipment, from other funding	(28,582,119)	(53,336,907)	(54,355,884)
	(Increase) Decrease in other current assets	22,445,502	(19,373,637)	(20,362,865)
	(Increase) Decrease in other non-current assets	(509,840)	(855,329)	(855,329)
	(Increase) Decrease in receivables	70,353,305	(71,949)	4,019,450
	(Increase) Decrease in Inventories	(3,837,457)	(3,396,161)	84,509
Net cash flows from operating activities		101,174,933	171,666,775	172,402,939
CASH FLOWS FROM INVESTING ACTIVITIES				
	Purchase of property, plant and equipment and AuC	(8,659,867)	(9,730,620)	(10,466,784)
	Proceeds from sale of plant and equipment	-	-	-
	Proceeds from sale of investments	-	-	-
	Short term investment	133,905,045	(150,000,000)	(150,000,000)
Net cash flows from investing activities		125,245,178	(159,730,620)	(160,466,784)
CASH FLOWS FROM FINANCING ACTIVITIES				
	Proceeds from borrowings	258,000	139,900	139,900
	Repayment of borrowings	(77,770)	(23,794)	(23,794)
	Distribution/dividend to Nations	-	-	-
Net cash flows from financing activities		180,230	116,106	116,106
Change in cash flow		**226,600,341**	**12,052,261**	**12,052,261**
Cash and cash equivalents at beginning of period		*873,029,369*	*860,977,108*	*860,977,108*
Cash and cash equivalents at end of period		*1,099,629,710*	*873,029,369*	*873,029,369*
Net increase/(decrease) in cash and cash equivalents		**226,600,341**	**12,052,261**	**12,052,261**

(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 inventory, PP&E and accrual data. More information can be found in the relevant note disclosure
(III) Other funding refers to assets funded through NSIP 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.

STATEMENT 4: ACO CONSOLIDATED STATEMENT OF CHANGES IN NET EQUITY

For the year ended 31 December 2016			*Restated*	
in EUR	***Notes***	***2016***	***2015***	***2015***
Equity at beginning of year		-	-	-
Result of for the year		-	-	-
Net recognized revenue and expenses for the year		**-**	**-**	**-**
Equity at End of year		**-**	**-**	**-**

ACO Consolidated Financial Statements 2016

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*
2016 NCSEP at 28												
	401,440,116	***-***	***401,440,115***	***-***	***401,440,116***	***467,415***	***401,907,531***	***17,247,771***	***380,437,171***	***397,684,942***	***17,247,771***	***4,222,589***
Budget 101 SHAPE	58,706,551	-	58,706,551	1,116,000	59,822,551	(115,000)	59,707,551	1,011,110	57,930,674	58,941,783	1,011,110	765,768
Budget 103 JFC HQ BRUNSSUM	22,712,790	-	22,712,790	(204,000)	22,508,790	(549,095)	21,959,695	99,330	21,771,698	21,871,028	99,330	88,667
Budget 104 JFC HQ NAPLES	26,288,083	-	26,288,083	(180,000)	26,108,083	(75,000)	26,033,083	316,938	25,188,176	25,505,114	316,938	527,969
Budget 105 HQ AC RAMSTEIN	17,346,541	-	17,346,541	-	17,346,541	-	17,346,541	2,185,699	14,973,820	17,159,519	2,185,699	187,022
Budget 111 HQ AC IZMIR	11,688,101	-	11,688,101	82,625	11,770,726	(85,000)	11,685,726	90,233	11,557,884	11,648,117	90,233	37,609
Budget 118 HQ MC NORTHWOOD	8,268,612	-	8,268,611	-	8,268,611	(147,703)	8,120,909	862,567	7,257,156	8,119,723	862,567	1,185
Budget 131 DEPLOYABLE ASSETS	9,339,000	-	9,339,000	(340,500)	8,998,500	(103,500)	8,895,000	-	8,883,608	8,883,608	-	11,392
Budget 164 AIR DEFENCE (GROUND)	29,576,693	-	29,576,693	-	29,576,693	-	29,576,693	9,336,411	19,898,013	29,234,424	9,336,411	342,269
Budget 166 ACCS Support	49,058,553	-	49,058,553	-	49,058,553	1,604,555	50,663,108	2,435,574	46,156,462	48,592,036	2,435,574	2,071,072
Budget 177 NCCB	132,268,740	-	132,268,740	-	132,268,740	584,388	132,853,128	289,702	132,467,864	132,757,566	289,702	95,562
Budget 178 NATO CIS GROUP (NCISG)	32,912,452	-	32,912,452	(824,125)	32,088,327	(446,230)	31,642,097	577,171	30,987,187	31,564,358	577,171	77,739
Budget 502 PFP ACO	3,274,000	-	3,274,000	350,000	3,624,000	(200,000)	3,424,000	43,036	3,364,629	3,407,665	43,036	16,335
2016 AGS at 26												
	11,280,000	***(7,148)***	***11,272,852***	***-***	***11,272,852***	***-***	***11,272,852***	***6,782***	***4,908,220***	***4,915,003***	***6,782***	***6,357,849***
Budget 167 AGS	11,280,000	(7,148)	11,272,852	-	11,272,852	-	11,272,852	6,782	4,908,220	4,915,003	6,782	6,357,849
2016 AGS at 28												
	1,569,767	***7,148***	***1,576,915***	***-***	***1,576,915***	***-***	***1,576,915***	***2,638***	***1,564,767***	***1,567,405***	***2,638***	***9,510***
Budget 168 AGS CIS	1,569,767	7,148	1,576,915	-	1,576,915	-	1,576,915	2,638	1,564,767	1,567,405	2,638	9,510
2016 NAEW at 16+1												
	258,000,000	***-***	***258,000,000***	***-***	***258,000,000***	***-***	***258,000,000***	***44,144,511***	***211,562,722***	***255,707,233***	***44,144,511***	***2,292,767***
Budget 162 NAEW&CF	258,000,000	-	258,000,000	-	258,000,000	-	258,000,000	44,144,511	211,562,722	255,707,233	44,144,511	2,292,767
2016 NAEW at 16												
	20,000,000	***-***	***20,000,000***	***-***	***20,000,000***	***-***	***20,000,000***	***4,385,398***	***14,711,412***	***19,096,810***	***4,385,398***	***903,190***
Budget 123 NAEW Reorganisation	20,000,000	-	20,000,000	-	20,000,000	-	20,000,000	4,385,398	14,711,412	19,096,810	4,385,398	903,190
2016 AOM at 28												
	204,120,629	***-***	***204,120,629***	***(54,596)***	***204,066,033***	***-***	***204,066,032***	***10,136,484***	***190,993,846***	***201,130,330***	***10,136,484***	***2,935,701***
Budget 183 Balkans Operations	21,673,864	-	21,673,864	-	21,673,864	-	21,673,864	858,401	19,465,612	20,324,012	858,401	1,349,852
Budget 187 NATO Support to the African Union	342,420	-	342,420	-	342,420	-	342,420	-	316,969	316,969	-	25,451
Budget 189 Operation Active Endeavour	245,673	-	245,673	-	245,673	-	245,673	18,705	177,242	195,947	18,705	49,726
Budget 191 Operation Ocean Shield	268,636	-	268,636	(54,596)	214,040	-	214,040	1,259	196,095	197,355	1,259	16,685
Budget 194 RSM	181,590,036	-	181,590,036	-	181,590,036	-	181,590,035	9,258,119	170,837,929	180,096,048	9,258,119	1,493,987
Total 2016	**896,410,512**		**896,410,512**		**896,355,916**	**467,415**	**896,823,330**	**75,923,585**	**804,178,138**	**880,101,722**	**75,923,585**	**16,721,608**

EUR	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments	Expenses	Total spent	Carry-forward	Lapsed
2015 NCSEP at 28												
	30,726,771	***-***	***30,726,771***	***-***	***30,726,771***	***-***	***30,726,771***	***12,917,602***	***16,227,411***	***29,145,013***	***12,917,602***	***1,581,758***
Budget 101 SHAPE	4,512,167	-	4,512,167	-	4,512,167	912,974	5,425,141	1,081,326	4,124,436	5,205,762	1,081,326	219,380
Budget 103 JFC HQ BRUNSSUM	368,202	-	368,202	-	368,202	-	368,202	-	272,405	272,405	-	95,797
Budget 104 JFC HQ NAPLES	816,309	-	816,309	-	816,309	-	816,309	1,560	812,262	813,822	1,560	2,488
Budget 105 HQ AC RAMSTEIN	975,225	-	975,225	-	975,225	-	975,225	254,077	599,079	853,157	254,077	122,068
Budget 111 HQ AC IZMIR	1,126,217	-	1,126,217	-	1,126,217	-	1,126,217	-	1,037,776	1,037,776	-	88,441
Budget 118 HQ MC NORTHWOOD	420,331	-	420,331	-	420,331	-	420,331	125	383,069	383,194	125	37,137
Budget 122 ACO TRANSITION BUDGET	8,944,168	-	8,944,168	-	8,944,168	(8,926,077)	18,091	-	12,130	12,130	-	5,961
Budget 131 DEPLOYABLE ASSETS	1,386,750	-	1,386,750	-	1,386,750	-	1,386,750	31,628	1,040,498	1,072,126	31,628	314,624
Budget 164 AIR DEFENCE (GROUND)	9,871,756	-	9,871,756	-	9,871,756	-	9,871,756	2,709,623	6,774,760	9,484,383	2,709,623	387,374
Budget 166 ACCS Support	1,067,239	-	1,067,239	-	1,067,239	8,013,103	9,080,342	8,388,563	503,663	8,892,225	8,388,563	188,117
Budget 177 NCCB	1,054,197	-	1,054,197	-	1,054,197	-	1,054,197	450,000	593,271	1,043,271	450,000	10,926
Budget 178 NATO CIS GROUP (NCISG)	50,738	-	50,738	-	50,738	-	50,738	-	22,576	22,576	-	28,162
Budget 502 PFP ACO	110,767	-	110,767	-	110,767	-	110,767	700	32,058	32,758	700	78,009
Budget 506 MEDITERRANEAN DIALOGUE (ACO)	22,704	-	22,704	-	22,704	-	22,704	-	19,428	19,428	-	3,276
2015 AGS at 26												
	51,045	***-***	***51,045***	***-***	***51,045***	***-***	***51,045***	***-***	***13,191***	***13,191***	***-***	***37,855***
Budget 167 AGS	51,045	-	51,045	-	51,045	-	51,045	-	13,191	13,191	-	37,855
2015 AGS at 28												
	9,374	***-***	***9,374***	***-***	***9,374***	***-***	***9,374***	***5,537***	***3,837***	***9,374***	***5,537***	***-***
Budget 168 AGS CIS	9,374	-	9,374	-	9,374	-	9,374	5,537	3,837	9,374	5,537	-
2015 NAEW at 16												
	36,294,344	***-***	***36,294,344***	***-***	***36,294,344***	***-***	***36,294,342***	***16,441,003***	***18,751,673***	***35,192,677***	***16,441,003***	***1,101,666***
Budget 162 NAEW&CF	34,559,179	-	34,559,179	-	34,559,179	-	34,559,177	15,155,364	18,368,508	33,523,872	15,155,364	1,035,305
Budget 123 NAEW Reorganisation	1,735,165	-	1,735,165	-	1,735,165	-	1,735,165	1,285,639	383,165	1,668,805	1,285,639	66,360
2015 NAEW at 17												
	24,432	***-***	***24,432***	***-***	***24,432***	***-***	***24,432***	***618***	***156***	***775***	***618***	***23,658***
Budget 112 NAEW&C FC	24,432	-	24,432	-	24,432	-	24,432	618	156	775	618	23,658
2015 AOM at 28												
	50,755,683	***-***	***50,755,683***	***-***	***50,755,683***	***-***	***50,755,683***	***1,116,003***	***47,533,785***	***48,649,788***	***1,116,003***	***2,105,895***
Budget 183 Balkans Operations	3,912,080	-	3,912,080	-	3,912,080	-	3,912,080	1,067,660	2,397,724	3,465,384	1,067,660	446,696
Budget 187 NATO Support to the African Union	1,821	-	1,821	-	1,821	-	1,821	-	120	120	-	1,701
Budget 189 Operation Active Endeavour	56,322	-	56,322	-	56,322	-	56,322	1,949	38,766	40,715	1,949	15,607
Budget 191 Operation Ocean Shield	5,648	-	5,648	-	5,648	-	5,648	-	4,625	4,625	-	1,023
Budget 194 RSM	46,779,811	-	46,779,811	-	46,779,811	-	46,779,811	46,394	45,092,549	45,138,943	46,394	1,640,869
Total 2015	**117,861,650**		**117,861,650**		**117,861,650**	**-**	**117,861,648**	**30,480,764**	**82,530,053**	**113,010,816**	**30,480,764**	**4,850,832**

EUR

	Initial budget	*Transfers*	*BA2*	*Transfers*	*BA3*	*Transfers*	*Final Budget*	*Commitments*	*Expenses*	*Total spent*	*Carry-forward*	*Lapsed*
2014 NCSEP at 28												
	6,396,290	***-***	***6,396,290***	***-***	***6,396,290***	***-***	***6,396,291***	***810,579***	***3,238,191***	***4,048,770***	***810,579***	***2,347,521***
Budget 101 SHAPE	738,374	-	738,374	-	738,374	810,579	1,548,953	810,579	657,128	1,467,707	810,579	81,247
Budget 104 JFC HQ NAPLES	24,552	-	24,552	-	24,552	-	24,552	-	22,146	22,146	-	2,405
Budget 105 HQ AC RAMSTEIN	249,799	-	249,799	-	249,799	-	249,799	-	206,797	206,797	-	43,003
Budget 118 HQ MC NORTHWOOD	20,000	-	20,000	-	20,000	-	20,000	-	-	-	-	20,000
Budget 122 ACO TRANSITION BUDGET	810,579	-	810,579	-	810,579	(810,579)	-	-	-	-	-	-
Budget 131 DEPLOYABLE ASSETS	25,754	-	25,754	-	25,754	-	25,754	-	1,624	1,624	-	24,129
Budget 164 AIR DEFENCE (GROUND)	2,411,678	-	2,411,678	-	2,411,678	-	2,411,678	-	2,137,691	2,137,691	-	273,986
Budget 166 ACCS Support	2,115,554	-	2,115,554	-	2,115,554	-	2,115,554	-	212,805	212,805	-	1,902,749
2014 AGS at 26												
	7,521	***-***	***7,521***	***-***	***7,521***	***-***	***7,521***	***-***	***7,521***	***7,521***	***-***	***-***
Budget 167 AGS	7,521	-	7,521	-	7,521	-	7,521	-	7,521	7,521	-	-
2014 NAEW at 16												
	6,801,110	***-***	***6,801,110***	***-***	***6,801,110***	***-***	***6,801,110***	***-***	***3,350,972***	***3,350,972***	***-***	***3,450,139***
Budget 162 NAEW&CF	6,801,110	-	6,801,110	-	6,801,110	-	6,801,110	-	3,350,972	3,350,972	-	3,450,139
2014 NAEW at 26												
	2,330,226	***-***	***2,330,226***	***-***	***2,330,226***	***-***	***2,330,226***	***-***	***-***	***-***	***-***	***2,330,226***
Budget 161 NAEW&C Reassurance Measures	2,330,226	-	2,330,226	-	2,330,226	-	2,330,226	-	-	-	-	2,330,226
2014 AOM at 28												
	37,492,309	***-***	***37,492,309***	***-***	***37,492,309***	***-***	***37,492,309***	***26,474,910***	***9,646,120***	***36,121,030***	***26,474,910***	***1,371,278***
Budget 183 Balkans Operations	62,769	-	62,769	-	62,769	-	62,769	-	57,748	57,748	-	5,021
Budget 185 ISAF	37,370,555	-	37,370,555	-	37,370,555	-	37,370,555	26,474,910	9,567,053	36,041,963	26,474,910	1,328,592
Budget 187 NATO Support to the African Union	244	-	244	-	244	-	244	-	-	-	-	244
Budget 189 Operation Active Endeavour	54,774	-	54,774	-	54,774	-	54,774	-	21,319	21,319	-	33,454
Budget 191 Operation Ocean Shield	3,967	-	3,967	-	3,967	-	3,967	-	-	-	-	3,967
Total 2014	**53,027,456**		**53,027,456**		**53,027,456**	**-**	**53,027,457**	**27,285,489**	**16,242,804**	**43,528,293**	**27,285,489**	**9,499,164**

EUR

	Initial budget	*Transfers*	*BA2*	*Transfers*	*BA3*	*Transfers*	*Final Budget*	*Commitments*	*Expenses*	*Total spent*	*Carry-forward*	*Lapsed*
2013 NCSEP at 28												
	6,595,247	***-***	***6,595,247***	***-***	***6,595,247***	***-***	***6,595,247***	***6,595,247***	***-***	***6,595,247***	***6,595,247***	***-***
Budget 101 SHAPE	-	-	-	-	-	688,247	688,247	688,247	-	688,247	688,247	-
Budget 105 HQ AC RAMSTEIN	-	-	-	-	-	650,000	650,000	650,000	-	650,000	650,000	-
Budget 122 ACO TRANSITION BUDGET	6,595,247	-	6,595,247	-	6,595,247	(6,595,247)	-	-	-	-	-	-
Budget 166 ACCS Support	-	-	-	-	-	300,000	300,000	300,000	-	300,000	300,000	-
Budget 177 NCCB	-	-	-	-	-	1,207,000	1,207,000	1,207,000	-	1,207,000	1,207,000	-
Budget 178 NATO CIS GROUP (NCISG)	-	-	-	-	-	3,750,000	3,750,000	3,750,000	-	3,750,000	3,750,000	-
Total 2013	**6,595,247**		**6,595,247**		**6,595,247**	**-**	**6,595,247**	**6,595,247**	**-**	**6,595,247**	**6,595,247**	**-**
Total for all MB Cost Shares, Years and Budgets	**1,073,894,866**		**1,073,894,866**		**1,073,840,269**	**467,415**	**1,074,307,683**	**140,285,085**	**902,950,995**	**1,043,236,079**	**140,285,085**	**31,071,603**

ACO Consolidated Financial Statements 2016

ACO BC CONTRACT AUTHORITIES

EUR

	Initial budget	*Transfers*	*BA2*	*Transfers*	*BA3*	*Transfers*	*Final Budget*	*Net Commitment*
NCSEP at 28								
	226,435,661	***991,744***	***227,427,405***	***1,605,959***	***229,033,364***	***984,595***	***230,017,961***	***136,604,304***
101 SHAPE	9,492,123	125,985	9,618,108	5,054	9,623,162	-	9,623,164	1,423,115
103 JFC HQ BRUNSSUM	4,529,541	19,812	4,549,353	17,242	4,566,595	-	4,566,595	19,200
104 JFC HQ NAPLES	1,616,343	120,433	1,736,776	861,366	2,598,142	-	2,598,142	2,126,403
105 HQ AC RAMSTEIN	90,000	89,581	179,581	44,419	224,000	-	224,000	188,365
118 HQ MC NORTHWOOD	1,263,847	-	1,263,847	-	1,263,847	-	1,263,847	16,117
131 DEPLOYABLE ASSETS	-	-	-	-	-	984,595	984,595	-
164 AIR DEFENCE GROUND (ADG)	10,425,000	-	10,425,000	-	10,425,000	-	10,425,000	-
166 ACCS Support	65,928,000	934,637	66,862,637	422,580	67,285,217	-	67,285,217	-
177 NCCB	129,479,257	3,312,846	132,792,103	216,298	133,008,401	-	133,008,401	132,792,103
178 NATO CIS GROUP (NCISG)	3,611,550	(3,611,550)	-	39,000	39,000	-	39,000	39,000
AGS at 26								
	-	***10,910,000***	***10,910,000***	***-***	***10,910,000***	***-***	***10,910,000***	***1,500,000***
167 AGS	-	10,910,000	10,910,000	-	10,910,000	-	10,910,000	1,500,000
NAEW at 16+1								
	169,553,272	***172,004***	***169,725,275***	***(35,965,132)***	***133,760,143***	***-***	***133,760,143***	***112,924,036***
162 NAEW & CF	166,514,618	172,004	166,686,621	(35,965,132)	130,721,489	-	130,721,489	112,924,036
NAEW at 16								
	3,038,654	***-***	***3,038,654***	***-***	***3,038,654***	***-***	***3,038,654***	***-***
123 NAEW Reorganisation	3,038,654	-	3,038,654	-	3,038,654	-	3,038,654	-
AOM at 28								
	3,997,614	***3,421,125***	***7,418,739***	***75,910,130***	***83,328,869***	***73,493,000***	***156,821,869***	***128,545,388***
183 Balkans Operations	3,997,614	1,831,125	5,828,739	(481,879)	5,346,860	-	5,346,860	960,948
194 Resolute Support Mission	-	1,590,000	1,590,000	76,392,009	77,982,009	73,493,000	151,475,009	127,584,440
Total for all MBC Cost Shares, Years and Budget	**399,986,547**	**15,494,872**	**415,481,420**	**41,550,956**	**457,032,376**	**74,477,595**	**531,509,973**	**379,573,727**

ACO Consolidated Financial Statements 2016

STATEMENT 5/2: SUMMARY BUDGET EXECUTION REPORT - OTHER

EUR

	Expenditure Ceiling	*Net Commitment*	*Actual Expenses*	*Total Spend*
	Non-Consolidated BC			
	9,138,445	***315,815***	***8,588,080***	***8,903,896***
2016	**8,272,085**	**312,105**	**7,855,945**	**8,168,050**
259 ACT EXERCISES & TRAINING	8,272,085	312,105	7,855,945	8,168,050
2015	**857,871**	**3,710**	**732,136**	**735,846**
259 ACT EXERCISES & TRAINING	857,871	3,710	732,136	735,846
2014	**8,490**	**-**	**-**	**-**
259 ACT EXERCISES & TRAINING	8,490	-	-	-

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Notes to the ACO Consolidated Financial Statements 2016

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NOTES TO THE ACO CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2016

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A. Significant accounting Policies

Basis of preparation

The consolidated financial statements (FS) of the Allied Command Operation (ACO) have been prepared in accordance with the NATO Accounting Framework[1] (NAF) as adopted by the NATO Council. The NATO Accounting Framework is based upon 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 2016 and ends on 31 December 2016.

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. There were no new standards issued at the date of reporting that ACO is required to apply. Five were issued in 2015 covering:

IPSAS 34 Separate Financial Statements;

IPSAS 35 Consolidated Financial Statements

IPSAS 36 Investments in Associated and Joint Ventures

IPSAS 37 Joint Arrangements

IPSAS 38 Disclosure of Interest in Other Entities

These standards are effective for annual financial statements covering period beginning on or after 1 January 2017. They have not been applied by ACO in preparing the ACO Consolidated 2016 FS. The new standards are expected to have no material impact on ACO's financial reporting.

Accounting estimates and judgments

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

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

The estimates and underlying assumptions are reviewed on an on-going basis. These estimates and assumptions affect the amounts of assets, liabilities, revenue and expenses reported. By their nature, these

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

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

Changes in Accounting Policy

The same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria set in IPSAS 3. For the 2016 FS, the NAF and ACO accounting policies have been applied consistently throughout the reporting period.

The main change in the financial reporting derives from the further in-depth analysis performed during 2016 within each ACO Command in order to consistently implement the classification of the assets. The assets reported under the category of Mission Equipment specifically used for the Deployable Assets have been reclassified (as Vehicles or Machinery) and the useful life of the remaining items/kits classified as Mission Equipment have been reassessed and extended for additional 3 years when applicable.

The ACO Accounting Policy for the Account Receivable changed; the recognition of the provision is now based on the assessment of each receivable and not anymore using a fixed ratio for all the receivable older than 12 months.

The impacts of any other change to the ACO accounting policy have been identified in the notes under the appropriate headings.

Reclassification

The financial reporting of the Untaken Leave exceeding the ACO threshold has been reclassified from provision to other payable. The methodology for the calculation, threshold and disclosure of the variance is consistent with previous years.

As reported above, the deployable assets at Southern Operation Centre (SOC), NSPA, at Taranto, Italy were reclassified from Mission Equipment to Vehicles and Machinery.

In accordance with IPSAS 1, para 70, the counterpart of the PP&E net value, is disclosed showing separate balance for current and non-current deferred revenue.

Restatements

ACO has restated a number of balances in the FS. They mainly relate to PP&E, Inventory, accruals and proper assessment of previous years ‘audit observations. The review of PP&E has resulted in transfer of balances between ACO entities to disclose them in the proper segment reporting with no impact on the consolidated balances. New information, of acquisition cost and completion, has also resulted in restatement of PP&E for several ACO sites. Further details are shown in the relevant notes.

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 2016 is equal to 0.7330 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 2016. 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 ACO 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[2] HQ	Ramstein, Germany
MARCOM Northwood HQ	Northwood, UK
NCIS Group HQ[3]	Casteau, Belgium
KFOR HQ	Pristina, Kosovo
NHQSa HQ	Sarajevo, Bosnia Herzegovina
LANDCOM Izmir HQ	Izmir, Turkey
NAGSF HQ	Sigonella, Italy
ACO Corporate Accounting and Control Office	Casteau, Belgium

Inter-entity balances and transactions have been eliminated in consolidation. ACO has obtained from the above listed Commands 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 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 and GBP. 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&CF and for the TCNs in theatre.

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

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

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 centre. Therefore, the cash holding is mainly kept and managed at corporate level with few exceptions. Liquidity is invested in saving accounts until 3 months or short term deposits for not more than 12 months 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 investments (with a maturity 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 short-term investments with a maturity of more than 3 and less than 12 months.

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[4]. Remaining codes are classified in accordance with the assigned group class.

The logistic tool used for recording of inventories in most ACO sites (NDSS) is not able to provide reports to identify the OUT transactions in relation to when the items were actually received (i.e. whether prior or after 1 January 2013) for the purpose of recognising items acquired before or after the cut-off date prescribed in the NAF. Therefore, ACO policy is that all write offs and OUT transactions are first applied to items acquired before the cut-off date. This is done on a general basis for quantities per category and location.

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. ACO is using the data related to the recorded quantities for all types of transactions and the monetary value only for items received in inventory systems other than PILS. Based on the quantity and value for received items an overall WAC is applied to the other transactions. This applies to Fiscal year 2013. For the following years the opening quantity balance and value is added to the quantity and value of received items when calculating the overall WAC.

[4] For example, items flagged with XB and XF ERRC codes are always categorized as inventory items regardless of the group class. Items that are serialised and tracked individually are always classified as PP&E regardless of the ERRC code.

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 for the first year only for items identified at NAEW&CF HQ.

ACO is also reporting 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.

e. Property, Plant and Equipment

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

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

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

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

Category	**Threshold**	**Depreciation life**
Land	€200,000	N/A
Buildings	€200,000	40 years
Other infrastructure	€200,000	40 years
Installed equipment	€30,000	Dependent on type
Machinery	€30,000	10 years
Vehicles	€10,000	5 years
Aircraft (& Spare parts)	€200,000	Dependent on type
Vessels	€200,000	Dependent on type
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.

During 2016 SHAPE has continued to work with the subordinate Commands in order to consistently apply proper classification of the assets in accordance with the categories established for PP&E by the NAF. In addition to the work done previously for the categories of Building, Other infrastructures and Installed Equipment and its sub-categories, SHAPE made a further assessment of the Deployable Assets. Based on the analysis made in coordination with SOC, NSPA, the assets were reclassified within the categories Machinery, Vehicles and Mission Equipment. In addition, and in line with the NAF, the useful life of all the assets at SOC acquired from 2013, were technically validated and extended accordingly from 2015.

Due to these changes in the PP&E accounting policy for ACO, the data for PP&E previously recognised in the ACO FS, or reported as acquired before 2013, have been reviewed for restatement/reclassification.

The CIS assets (Communication and Automated Information System) reported in the 2016 ACO FS relate to KFOR, NHQSa and NAEW&C Force GK HQ. In all those 3 ACO sites the CIS assets are not under the control of the NCIA but of ACO. For the latter the CIS assets were not part of the NAC decision to transfer the ownership of the CIS assets from ACO to the NCIA. Whilst at NHQSa and KFOR CIS services are provided through, respectively, EUFOR and NSPA. Consequently, ACO has decided to report the CIS assets held by the NHQSa and KFOR, in addition to its own CIS assets of the NAEW&C Force GK HQ for transparency and accountability.

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. ACO is not recognising any other AuC.

The PP&E data of Resolute Support include the NATO assets located at HQ Resolute Support 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 Resolute Support Mission airfield services refer to Technical Agreements (TA) to be signed between SHAPE and the FWNs to determine the responsibilities for the use of the NATO-funded assets by the FWN. So far only the KAF TA with USA has been signed and the one with TUR for HKIA is in progress. Nonetheless, 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. To this extent the transfer of NATO assets from ISAF to RS Mission following the procedures set forth by the ACO Directive 80-100[5] has been considered under the on-going concern principle.

It should be noted that ACO is making enduring efforts in order to address the IBAN observations made on the 2015 ACO FS on a number of weaknesses in asset management for RSM, which impacted the disclosure of inventory, property, plant and equipment (PP&E) and the disclosure of write-offs, as well on the inaccurate disclosure of PP&E both prior to and after 2013 in the NCIS Group.

For the issues identified in Resolute Support, a team from JFCBS, composed by Finance and Logistic representatives, carried on a site survey from 16 to 23 February 2017 in order to further analyse the procedures in place on asset management and assess their compliance with NFRs/FRPs and ACO Directives on property accountability and control as part of the internal control framework. The visits identified some areas for improvements for the write-offs of international property and aligned the internal procedures to the above mentioned rules and directives.

As far as the NCISG is concerned, the NCISG COS issued on 20 July 2016 a direction and guidance to his Finance and Logistic staff to implement at the NCISG HQ level and the 3 NSBs measures meant at strengthening the NCISG asset management and related financial reporting procedures. Part of these measures included the development of a training plan for the NCISG logistics staff on property accounting procedures as well as the decision to conduct regular on site visits and inspections to the 3 NSBs and related DCMs in order to monitor the implementation of those measures and verify the progress on solving the issues identified by the Board.

Building and infrastructure facilities in use across the ACO static Commands have been analysed in light of the control criteria set forth by the NAF and the Garrison Support Agreements as well as the Host Nation Support Policy and Standards[6], the Base Support Concept[7] and the NSIP regulations, to determine whether they are under the control of ACO or the HNs. Although the analysis highlighted that the HN, besides being the owners maintain also a certain level of control over the infrastructure, these buildings and infrastructure have been reported in the ACO FS even when for some criteria the control over the infrastructure has resulted to be either of ACO or shared between ACO and the HNs. The HQ facilities in Sarajevo for NHQSa are not reported as they are under the control and responsibility of EUFOR based on the Berlin Plus Agreement.

Further to the PO (2015)0342, Organisational Framework for the Operations and Support of NATO Alliance Ground Surveillance (AGS) Force, dated 17 June 2015, the assets of the NATO AGS Core System are not reported by ACO as they fall under the direct responsibility of the AGS Support Partnership which is governed by the NATO Support and Procurement Agency (NSPA) as executive body. The NATO AGS

[5] The ACO DIR 80-100 REV 3(5 May 2014) for ISAF has been revised in the context of RS and under the new Reference ACO DIR 80-102 (23 November 2015).
[6] PO(2011)0020 dated 8 February 2011
[7] CM-128-2011 dated 16 November 2011

Core System is composed of procurement items provided to NATO through the NAGSMO procurement contract and any hardware and software adaptations of these items as part of systems life cycle management. The transition from the Acquisition to the Operations and Support (O&S) phases will be organised through a transition plan jointly developed between NSPA, NAGSMA and SHAPE with NATO HQ oversight. Based on the AGS Transition Plan (Ref. DI(AAC)(2016)(ISR) dated 13 December 2016, it has been clarified that only the equipment and infrastructure that is not included in the AGS Core System and is procured via NSIP or other funding sources will be delivered to NAGSF and owned by ACO. Equipment facilities, building and capital improvements provided by the HN Italy will remain the property of the HN; 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.

For the FY 2016, the temporary building provided by the Host Nation used by NAGSF HQ personnel is assessed to be under NAGSF control. Therefore, the related refurbishment, security and surveillance installations were recognised based on the NSIP project authorisation approved by the IC on 2 December 2013 and on 3 October 2014.

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 reporting assets and liabilities related to finance lease for SHAPE HQ.

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.

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 ACO's employees participate in one of the three NATO pensions funds: the Provident Fund, the Coordinated Pension Scheme or the Defined Contribution Pension Scheme (DCPS) administered by NATO and RMCF. The assets and liabilities for these pension schemes are accounted for centrally at NATO Headquarters and therefore are not recognised in these FS.

<u>DCPS and Provident Fund:</u>

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

Coordinated Pension Scheme:

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

ACO recognises a provision in the Statement of Financial Position for the TFR to be paid to the Italian Local Wage Rate employees by JFC HQ Naples as a termination benefit (further details are disclosed in Note D.

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 2016, 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. Accruing of expenses is based on the concept 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.

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, complimentary 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. Further 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

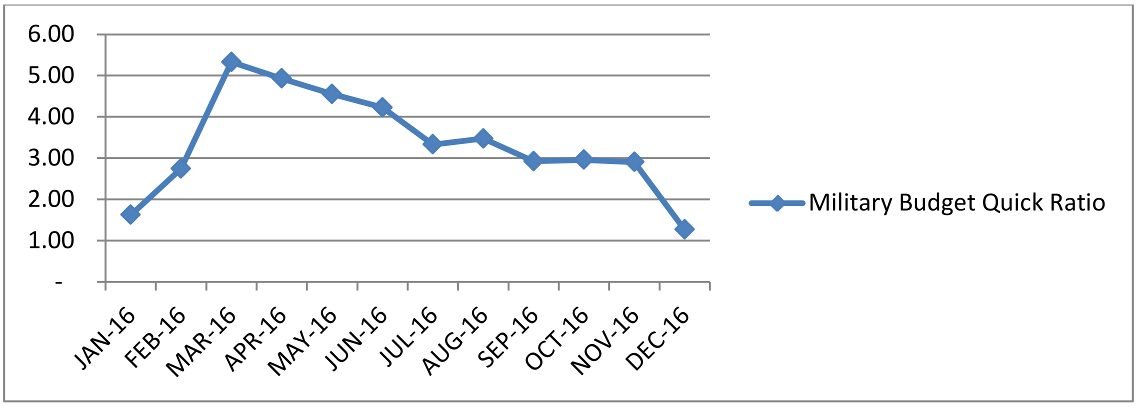
1. Cash and cash equivalents

Cash and cash equivalents	2016	2015 Restated	2015
Cash accounts	231,424	234,612	234,612
Petty Cash and Advances	339,684	320,129	320,129
Current Bank Accounts	829,062,431	872,476,863	872,476,863
Clearing-Bank accounts	(3,829)	(2,235)	(2,235)
Cash Equivalent	270,000,000	0	0
Total	**1,099,629,710**	**873,029,369**	**873,029,369**

Cash and cash equivalents balances 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. Therefore, the year-end balance is not representative of the average cash holdings during the financial year. The trend continues until March of the following financial year. The cash holdings are shown in the chart below through the Quick Ratio. This ratio measures the ability of the entity to meet its short-term obligations at a certain point in time; a value higher than 1 means that the entity can pay off all its short-term liabilities.

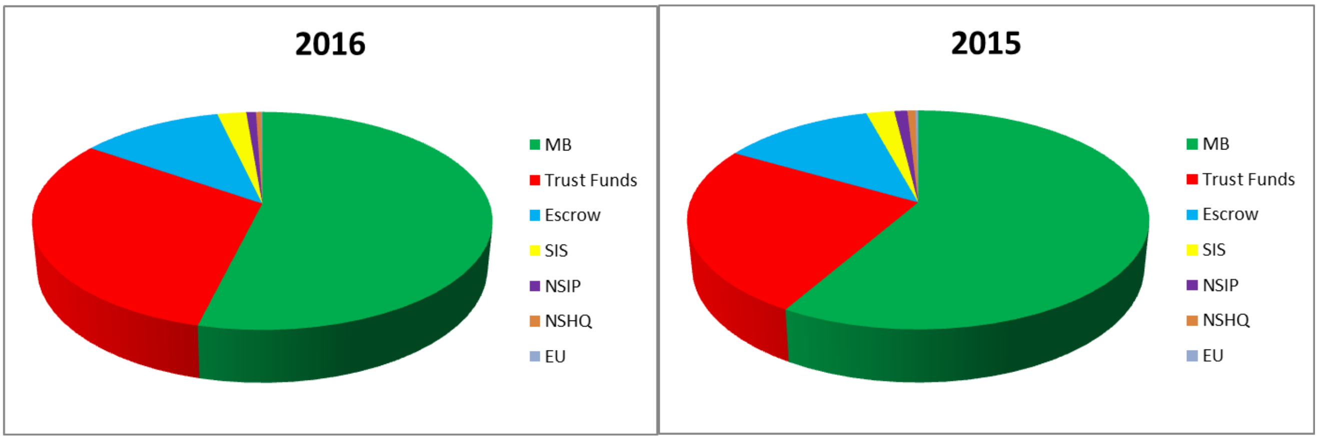
The ratio is close to 1 at the end of 2016 due to the end of year assessment of accruals which has a direct impact on the level of liability recognised at year-end.

Table 1.A – ACO MB Quick ratio Fiscal year 2016



At ACO the cash and cash equivalents shown above 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. The breakdown for the main categories is reported below:

Table 1.B - Cash and cash equivalents breakdown



The overall cash and cash equivalents in 2016 increased for 226, 6 MEUR due to a decrease in the amount invested as Short term Deposit.

ANA trust Funds cash holdings increased for a total 92.7 MEUR. The NSIP overall cash holdings decreased for 2.2 MEUR.

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 in order 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.

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 2016 is 270 MEUR.

2. Short Term Investments

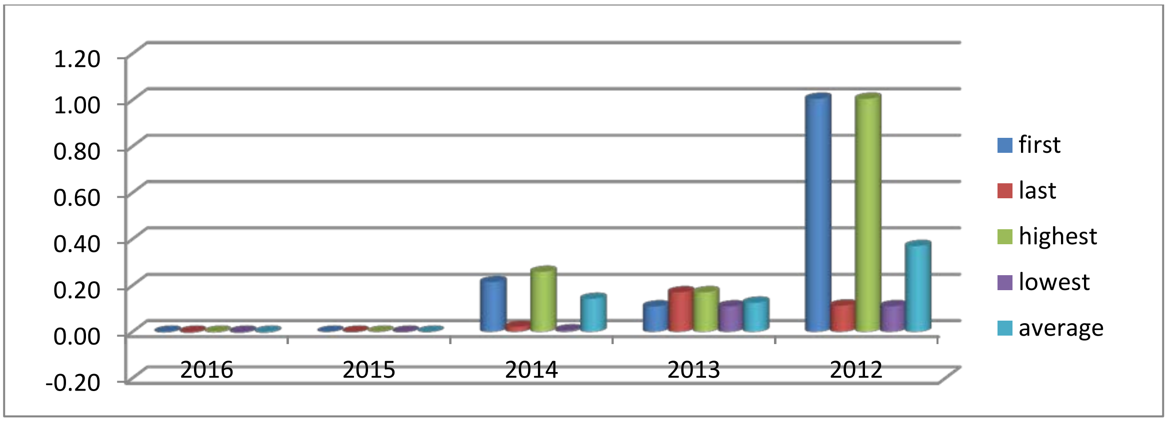
Short Term Investments	**2016**	**2015 Restated**	**2015**
Short Term Investments	96,094,955	230,000,000	230,000,000
Total	**96,094,955**	**230,000,000**	**230,000,000**

Short-term investments include ACO investments if their maturity is within a period of 12 months or less. All investments are managed centrally by ACO CAC branch. The STI reported at the end of 2016 is related only to the ANA Trust Funds.

Interest rates

During the last years, financial markets all over the world crashed and some of the largest economies in the world plunged into recession. When an economy is struggling, it is standard practice for a central bank to cut interest rates. That makes saving less attractive and borrowing more so, boosting the amount of money being spent and kick starting an economic recovery. In June 2014, the European Central Bank (ECB) became the first major central bank to adopt negative rates when it cut the interest rate on its deposit lending facility below zero. A second cut followed a few months later, and a third in December 2015 when the ECB cut the interest again to its current level (minus 0.3%). That explains our decreasing interest revenue since 2014.

Table 3 –EURIBOR – 2012-2016



The tendency to think in nominal terms has prevented most commercials banks from passing on negative rates to customers (in real term the interests have been negative for quite some time now). However, from early 2016 some banks started charging negative interests to customers holding deposits of above 5 million euro in their bank account. Moreover, negative interests could also have some adverse consequences for financial stability.

It is worth noting that ACO managed so far to avoid any negative interest despite the considerable EUR balance. In addition, 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	**2016**	**2015 Restated**	**2015**
Receivables Contribution from Member Nations	34,457,764	45,478,079	40,268,428
Receivable Assessment/under call 2015	428,000	0	0
Receivables from Troop Contributing Nations	11,732,315	52,364,528	40,622,009
Receivables from Other NATO bodies	5,295,333	18,030,504	17,291,247
Receivables from Staff Members	105,489	442,566	470,003
Receivables from Nations	2,190,527	6,225,876	6,059,392
Other Receivables/Recoverable	14,679,612	16,700,792	12,497,831
Receivables > 12 months	0	0	17,942,036
Total	**68,889,040**	**139,242,345**	**135,150,946**

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

In 2016 there is a decrease in receivables contributions outstanding for less than within 12 months mainly because the NAEW second call for contribution 2016 didn't include any advance for Financial Year 2017. This was agreed in order to mitigate the risk of having considerable liquidity and push the main bank charging negative interest. However, some Nations provided voluntary contributions by the end of the reporting period.

Receivable from TCNs

Receivable from TCNs	**2016**	**2015 Restated**	**2015**
NHQSa NBC	64,930	51,109	50,163
KFOR NBC	1,319,664	1,740,432	1,740,432
ISAF/Resolute Support NBC	10,347,721	50,572,987	38,831,414
Total	**11,732,315**	**52,364,528**	**40,622,009**

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

The outstanding credits are monitored on a recurring basis; dunning letters are sent quarterly, with additional exceptional reminders, when required. NBC workload continues to be work intensive despite the decreased amount of outstanding credits due to the constant required liaison between ACO and the TCNs.

The ending receivable balances for 2016 is showing a significant drop in amount of uncollected NBC items. The large amounts accrued from long outstanding NBC payment have been recovered during 2016.

NHQSa/EUFOR: NHQSa remains an EU mission and 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 2016 there have been no significant problems billing the concerned TCNs for KFOR HQ NBC.

Resolute Support HQ: Resolute Support HQ is still a large NBC work oriented area. However, ACO no longer bills the TCNs for catering services at the HQ as this responsibility was taken over by the USA from the beginning of 2016.

HKIA: Although on 1 Jan. 2016 ACO ceased to be responsible for billing the TCNs for NBC at HKIA. However, ACO continues to receive backdated 2015 costs from NSPA. This delay and uncertainty is an area of concerns for ACO due to the risk for managing NBC reimbursement from the TCNs with such a delay.

Receivable from other NATO bodies

These are receivables for other NATO entities for services provided to them. The balance includes approx. 2, 9 MEUR for ACT, 933 KEUR for NCIA, 798 KEUR for NATO Special Operations HQ (NSHQ), 400 KEUR for IMS.

Receivable from staff members

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	2016	2015 Restated	2015
Advances and Prepayments	24,087,826	32,496,525	29,365,867
Total	**24,087,826**	**32,496,525**	**29,365,867**

Prepayments are net of related accruals previously recorded and associated expenses. Advances entered in foreign currency were accrued in that currency. The reported amounts are mainly advances and prepayments to other NATO entities and LWR Severance Pay (TFR) for JFC Naples. It should be noted that the prepayments related to NAEW&C Force GK HQ reflects mainly advances done to NSPA for FMS for which financial data on accrual basis are not available.

This prepayment balance includes also approx. 4.1 MEUR paid by SHAPE HQ for FMS cases, 5,4 MEUR paid by NAEW&C force GK HQ to NAPMA for upgrade of equipment to be delivered in 2017, 7.1 MEUR paid to NSPA for daily management of contracts, including FMS, and 3.9 MEUR paid to Forward Operating Bases (FOB).

5. Other current assets

Other current assets	2016	2015 Restated	2015
Bank Interest Accrued	580,346	679,929	679,929
Receivable for Provisions	2,823,944	16,761,164	20,881,050
Total	**3,404,290**	**17,441,093**	**21,560,979**

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.

The Receivable for Provisions reflects the amount of Short-term Provision for which there is no Special Carry Forward approved and no other budget credits available as of 31 December 2016.

6. Inventories

Inventories	2016	2015 Restated	2015
Consumable	13,416,081	13,345,560	12,496,574
Spare parts	21,623,760	17,856,824	15,225,140
Total	**35,039,841**	**31,202,384**	**27,721,714**

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

No inventory is pledged as security for liabilities.

Restatement of the 2016 inventories

The restatement of the 2016 closing balance for inventories is due to reinstatement for inventory balance as of 31 December 2014 held at KAIA, which is being managed by FWN and will be settled at end of mission or transfer of responsibility back to NATO.

Assets - Non-current Assets

7. Property, Plant and Equipment

Property, Plant & Equipment	2016	2015 Restated	2015
Land	-	-	-
Buildings	28,848,999	16,298,179	14,270,159
Other infrastructure	18,807,449	16,425,203	16,425,203
Installed Equipment	14,745,361	9,415,912	7,917,099
Machinery	5,539,199	5,765,429	617,755
Vehicles	1,475,058	818,924	8,271,712
Airplanes (& Spare Parts)	3,553,089	3,345,816	3,345,816
Mission Equipment	33,445,203	50,424,092	50,124,648
Furniture	806,546	688,960	688,960
Communication	1,129,895	1,145,006	1,841,006
Automated Information Systems	1,664,511	1,867,618	1,328,159
AuC	6,059,871	4,468,099	4,638,782
Total for Property, Plant and Equipment	**116,075,182**	**110,663,239**	**109,469,300**

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, KFOR HQ and NHQSa HQ.

No assets are pledged as security for liabilities.

Restatement 2015

Refurbishment of a building in JFC Brunssum HQ was completed during 2015 and is included in the 2015 restated balances.

Mission equipment, machinery, and vehicles balances changed due to information received from NSPA related to deployable assets at SOC, Taranto reported by SHAPE HQ for CP 156, assets delivered to DACCC, Poggio Renatico, reported by AIRCOM Ramstein HQ for CP 109, and to NCISG HQ for CP149.

2016 data

As already disclosed for the inventory, PP&E items are classified as such using the group classes identified by ACO. There is one exception for NAEW&C Force GK HQ where all serialised items are also always recorded as PP&E and for which the Tech Degree codes (ERRC) is considered the next filter for categorizing items as inventory or PP&E as described in the accounting policy for inventory. Remaining items are categorised based on the assigned group class (e.g. Valves, powered reflected as Installed Equipment versus the Inventory category in use for all the other ACO HQs.

The biggest increase in PP&E for 2016 is in the Building asset category. NAEW completed in May 2016 the upgrade of the lighting system for 320 KEUR and in October 2016 the restoration of one building for a total of 5,9 MEUR. NCISG HQ completed various projects related to the construction of new buildings in three different DCMs for a total of 6,3 MEUR.

2016 data show also an increase in the Installed Equipment asset category due to NAEW projects for 2 MEUR and for which 1,2 MEUR was related to the restoration of the building mentioned above.

NCISG as well had additional installed equipment related to the DCMs buildings. Furthermore, SHAPE added a total of 2,3 MEUR for projects at SHAPE Command centre (SCC) for the UPS installation and the replacement of the cooling tower.

The difference in the Mission Equipment asset category between 2016 and previous year is due to the total of the depreciation recognised in the SHAPE HQ segment reporting for 2016 FY, equal to 21 MEUR, for assets totalling 71 MEUR to be depreciated over 3 years.

TABLE 6 – Property, Plant and Equipment – Breakdown of transactions for the year

Property, Plant and Equipment	Land		Buildings		Other infrastructure		Installed Equipment		Machinery		Vehicles	
Acquisition cost as of 1 Janaury 2015		-		47,529,480		45,124,562		6,436,873		1,937,045		10,874,198
Adjustment to opening balance		-		-		-		-		2,449,093		(6,100,249)
		-		47,529,480		45,124,562		6,436,873		4,386,138		4,773,950
+ Additions	-		-		9,583,934		3,353,912		275,154		5,819,338	
Adjustment to additions 2015	-		2,071,169		-		1,600,008		3,252,263		(5,189,584)	
- Impairments	-	-	-	2,071,169	-	9,583,934	-	4,953,920	-	3,527,417	-	629,754
		-		49,600,649		54,708,496		11,390,794		7,913,555		5,403,703
- Accumulated depreciation	-		(32,590,252)		(23,193,114)		(1,422,694)		(1,141,092)		(4,936,096)	
Adjustment to opening balance	-		-		-		-		(61,227)		1,743,821	
	-		(32,590,252)		(23,193,114)		(1,422,694)		(1,202,319)		(3,192,275)	
+ Disposals/retirements												
- Depreciation 2015	-		(669,069)		(15,090,179)		(450,993)		(453,353)		(3,485,728)	
Adjustment to depreciation 2015	-	-	(43,149)	(33,302,470)	-	(38,283,293)	(101,195)	(1,974,881)	(492,454)	(2,148,126)	2,093,224	(4,584,779)
Ending balance as of 31 December 2015		**-**		**16,298,179**		**16,425,203**		**9,415,912**		**5,765,429**		**818,924**
Acquisition cost as of 1 Janaury 2016		-		49,600,649		54,708,496		11,390,794		7,913,555		5,403,703
Adjustment to opening balance		-		-		-		-		-		-
		-		49,600,649		54,708,496		11,390,794		7,913,555		5,403,703
+ Additions	-		13,205,714		8,349,449		6,590,373		479,966		1,055,415	
- Disposals/retirements	-		-		-		(733,734)		-		(173,523)	
- Impairments	-	-	-	13,205,714	-	8,349,449	-	5,856,639	-	479,966	-	881,892
Accumulated acquisition cost		-		62,806,363		63,057,945		17,247,433		8,393,522		6,285,595
- Accumulated depreciation as of 1 January 2016	-		(33,302,470)		(38,283,293)		(1,974,881)		(2,148,126)		(4,584,779)	
Adjustment to opening balance	-		-		-		-		-		-	
	-		(33,302,470)		(38,283,293)		(1,974,881)		(2,148,126)		(4,584,779)	
+ Disposals/retirements	-		-		-		733,734		-		166,010	
- Depreciation 2016	-	-	(654,894)	(33,957,364)	(5,967,203)	(44,250,496)	(1,260,924)	(2,502,071)	(706,196)	(2,854,322)	(391,768)	(4,810,537)
Ending balance as of 31 December 2016		**-**		**28,848,999**		**18,807,449**		**14,745,361**		**5,539,199**		**1,475,058**

	Airplanes Components		Mission Equipment		Furniture		Communications		AIS		AuC		Total	
Acquisition cost as of 1 Janaury 2015		2,189,911		37,638,816		702,361		1,938,449		1,602,774		1,524,277		157,498,748
Adjustment to opening balance		-		(1,463,713)		-		(435,000)		-				(5,549,869)
		2,189,911		36,175,103		702,361		1,503,449		1,602,774		1,524,277		151,948,879
+ Additions	1,297,613		40,660,694		139,308		261,000		571,982		3,879,494		65,842,429	
Adjustment to additions 2015	-		470,904		-		(261,000)		719,278		(170,684)		2,492,353	
- Disposals/retirements	-		(168,300)		-		-		-				(168,300)	
- Capitalized/Exensed WIP	-	-	-	-	-	-	-	-	-	-	(764,988)		(764,988)	
- Impairments	-	1,297,613	-	40,963,298	-	139,308	-	-	-	1,291,260	-	2,943,822	-	67,401,494
		3,487,524		77,138,401		841,669		1,503,449		2,894,034		4,468,099		219,350,373
- Accumulated depreciation	(64,170)		(10,035,375)		(73,531)		(186,443)		(312,951)		-		(73,955,717)	
Adjustment to opening balance	-		(300,745)		-		-		-				1,381,849	
	(64,170)		(10,336,120)		(73,531)		(186,443)		(312,951)		-		(72,573,868)	
+ Disposals/retirements			(79,475)										(79,475)	
- Depreciation 2015	(77,538)		(17,971,186)		(79,179)		(172,000)		(533,646)		-		(38,982,871)	
Adjustment to depreciation 2015	-	(141,708)	1,672,473	(26,714,308)	-	(152,710)	-	(358,443)	(179,819)	(1,026,416)	-	-	2,949,079	(108,687,135)
Ending balance as of 31 December 2015		**3,345,816**		**50,424,092**		**688,960**		**1,145,006**		**1,867,618**		**4,468,099**		**110,663,239**
Acquisition cost as of 1 Janaury 2016		3,487,524		77,138,401		841,669		1,503,449		2,894,034		4,468,099		219,350,373
Adjustment to opening balance		-		-		-		-		-		-		-
		3,487,524		77,138,401		841,669		1,503,449		2,894,034		4,468,099		219,350,373
+ Additions	306,038		4,517,351		210,017		184,047		759,356		2,475,533		38,133,260	
- Disposals/retirements	-		-		(398)		-		-				(907,655)	
- Capitalized/Exensed WIP											(883,761)		(883,761)	
- Impairments	-	306,038	-	4,517,351	-	209,619	-	184,047	-	759,356	-	1,591,773	-	36,341,844
Accumulated acquisition cost		3,793,562		81,655,752		1,051,289		1,687,496		3,653,390		6,059,871		255,692,217
- Accumulated depreciation as of 1 January 2016	(141,708)		(26,714,308)		(152,710)		(358,443)		(1,026,416)		-		(108,687,135)	
Adjustment to opening balance	-		-		-		-		-		-		-	
	(141,708)		(26,714,308)		(152,710)		(358,443)		(1,026,416)		-		(108,687,135)	
+ Disposals/retirements	-		-		398		-		-		-		900,142	
- Depreciation 2016	(98,765)	(240,473)	(21,496,241)	(48,210,549)	(92,431)	(244,742)	(199,158)	(557,601)	(962,463)	(1,988,879)	-	-	(31,830,042)	(139,617,035)
Ending balance as of 31 December 2016		**3,553,089**		**33,445,203**		**806,546**		**1,129,895**		**1,664,511**		**6,059,871**		**116,075,182**

8. Other Non-Current Assets

Other Non-Current Assets	2016	2015 Restated	2015
Long Term Receivables for Provisions	4,719,831	4,208,214	4,208,214
Total	**4,719,831**	**4,208,214**	**4,208,214**

The accounts Long Term Receivable for Provisions cover amounts reported as Provisions for which there is no Special Carry Forward approved and no other budget credits available as of 31 Dec. 2016. The 2 cases are related to the Pension contribution gap for NHQSa (855,329 EUR) and the Company's claim for electricity arrears at former JFC Naples HQ compound (3,864,502 EUR). Details are provided in Note D.

Liabilities – Current Liabilities

9. Payables

Payables	2016	2015 Restated	2015
Payables to Suppliers	(253,369,938)	(235,939,134)	(237,662,423)
Payables to Staff members	(136,498)	(98,069)	(98,069)
Payables to Nations	(5,609,233)	(715,472)	(715,471)
Other Payables	(20,116,614)	(13,851,617)	(9,731,730)
Total	**(279,232,283)**	**(250,604,292)**	**(248,207,693)**

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. Only manual accruals are assigned to an ad-hoc category.

Payables to suppliers

Payables to suppliers include:

a. 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 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 for SHAPE and NAGSF. Further details are shown in the Note 18.

b. NATO Agencies providing services to ACO Commands. The accrued and open payable balances include approx. 5,8 MEUR for ACT, 84,7 MEUR for NSPA and 127, 2 MEUR for NCIA.

Other payables

Following IBAN recommendation[8] unrealised currency fluctuations for NSIP, not yet returned, have been excluded from interest and reimbursements to the Nations, since 1987. At the end of 2001 they amounted to 11,424,945 EUR.

NSIP accounts at SHAPE were maintained on BUDCOM and at the time of migration to NAFS, on 31 December 2003, unrealised currency fluctuations amounted to 7,622,095 EUR.

Since there is no revaluation of the intercompany accounts, the balance is also reported at the end of 2016, adjusted for any other identified currency differences.

Untaken leave

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

[8] See (IBA-IR (2002)86)

10. Deferred Revenue

Deferred Revenue	2016	2015 Restated	2015
Deferred Revenue MB	(145,522,523)	(181,752,984)	(177,968,248)
Liabilities from MB Lapse	(44,107,325)	(56,457,880)	(55,417,157)
Liabilities from MB Result of the year	(2,016,140)	(8,112,360)	(8,112,360)
Liability from unrealised exchange rate differences	(4,392,489)	(5,067,746)	(5,067,746)
Deferred Revenue NSIP	0	(12)	(12)
Liabilities from NSIP Cash Call	730,520	504,919	504,919
Liabilities from NSIP Accumulated result of the year	(1,282,564)	(1,257,547)	(1,257,547)
Other Deferred Revenue	(552,127,432)	(459,925,119)	(459,925,119)
Deferred Revenue Inventory	(35,039,841)	(31,202,384)	(27,721,714)
Deferred Revenue PP&E	(24,831,361)	(31,830,042)	0
Total	**(808,589,155)**	**(775,101,154)**	**(734,964,984)**

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, mission and year in accordance with the ACO policy.

Liabilities from MB Lapse

MB Lapse	2016	2015 Restated	2015
Budgetary lapses	(31,071,603)	(35,090,653)	(35,008,695)
Overestimated accruals	(13,035,722)	(21,238,799)	(20,280,035)
Other adjustments	0	(128,427)	(128,427)
Total	**(44,107,325)**	**(56,457,880)**	**(55,417,157)**

These liabilities are used to record unused budget credits authorized as of end of year 2016. The lapse is an amount owed back to the Nations. The balance will be included in the 2nd Assessment call for 2017 and will be distributed by type and cost share as per below table.

Cost share/ Year	16+1N NAEW	16N NAEW	17N NAEW	26N NAEW	28N NCSEP	26N AGS	28N AGS	28N AOM	Total
2016	2,292,767	903,190	-	-	4,222,588	6,357,850	9,510	2,935,702	16,721,607
2015	1,514,492	-	30,219	-	3,183,652	40,217	17,160	3,081,556	7,867,296
2014	3,460,752	-	26,101,	2,330,226	3,619,319	-	-	8,088,719	17,525,117
2013	26,860	-	-	-	242,466	76,547	-	1,375,960	1,721,833
2012	-	-	-	-	56,402	-	-	592	56,994
2011	-	-	-	-	211,884	-	-	-	211,884
2009	-	-	-	-	2,594	-	-	-	2,594
TOTAL	**7,294,871**	**903,190**	**56,320**	**2,330,226**	**11,538,905**	**6,474,614**	**26,670**	**15,482,529**	**44,107,325**

Liabilities from Result of the year

Distribution of Result of the year	2016	2015 Restated	2015
Result of the year MB	(1,365,900)	(9,947,565)	(9,947,565)
Unrealised exchange rate gain/loss	(675,257)	1,792,659	1,792,659
Result of the year NSIP	25,016	42,546	42,546
Liabilities from Result of the year	**(2,016,140)**	**(8,112,360)**	**(8,112,360)**

The net amount of miscellaneous income, interest revenue, bank charges, and realised gain/losses to be returned to the Nations is summarised at ACO consolidation level, apportioned by type, cost share and mission and reflected as a liability.

The balance will be included in the 2nd Assessment call for 2017 and will be distributed by type and cost share as per below table.

Cost share/ Year	16+1N NAEW	16N NAEW	17N NAEW	26N NAEW	28N NCSEP	26N AGS	28N AGS	28N AOM	Total
2016	215,412	7,110	-	828	690,281	3,908	561	350,507	1,268,606
2015	616,826	-	-	-	118,329	-	-	1,104	736,260
2014	-	-	-	-	-	-	-	459	459
2013	-	-	-	-	110	-	-	-	110
2011	-	-	-	-	10,705	-	-	-	10,705
TOTAL	**832,238**	**7,110**	**-**	**828**	**819,425**	**3,908**	**561**	**352,070**	**2,016,140**

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 HNs. The quarterly revision is the basis for the calculations of the NSIP calls for contributions. Calls not expensed in the year are Deferred Revenue. Any difference is normally returned, or received, with the following cash calls.

Liabilities from NSIP Cash Call

The difference between forecasted expenses and the actual expenses is returned with the cash calls for the following period. The balance represents the forecasted amounts for 3rd and 4th quarter 2015 less actual expenses. The call for 2015 represented the actual expense.

Liabilities Result of the year NSIP

Result of the year NSIP	**2016**	**2015 Restated**	**2015**
Cumulated result of previous years	(1,257,547)	(1,215,001)	(1,215,001)
Result of the year	(25,016)	(42,546)	(42,546)
Liabilities Result of the year NSIP	**(1,282,564)**	**(1,257,547)**	**(1,257,547)**

Interest and results, distributed by cost share, have been reported on a recurring basis. However, the accumulated result from 2008 to 2016 still needs to be redistributed to the Nations. This is the responsibility of the NOR.

Other Deferred Revenue

The amount represents funds called but not used in respect for ACO non-core activities, like SHAPE International School (SIS), Trusts Funds, NSHQ, the EUFOR and the Escrow account.

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

In accordance with the NATO IPSAS Manual, option 1 has been applied in the ACO Consolidated FS. 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 are no surpluses or deficit resulting from asset depreciation or acquisition.

The Current-Deferred Revenue reported here represents the counterpart of the PP&E Net Value net of the amount recorded as liability for finance lease that will be settled within twelve months. Comparative data were reclassified in order to apply the change in the accounting policy consistently.

11. Advances

Advances	**2016**	**2015 Restated**	**2015**
Advance MB Contributions	(258,229,830)	(308,707,154)	(308,707,154)
Other Advance	(183,482)	(312,262)	(312,262)
Total	**(258,413,312)**	**(309,019,416)**	**(309,019,416)**

Advance MB Contributions

The amount is related to:

- Advance contribution called on the 2nd call 2016 for an amount of EUR 154,207,000 (AGS/NCSEP/AOM cost share) and related to budget authorization for 2017. These advances are recorded using appropriate account code by type/year/cost share. The amount is lower than previous years due to the fact that there was no NAEW advance 2017 as part of the 2nd Call 2016.

- Advances for an amount of EUR 104,022,830 made by some member Nations, mainly in coordination with the NATO IS Treasury for non ACO called advances.

12. Short Term Provisions

Short Term Provisions	2016	2015 Restated	2015
Short Term Provisions	(5,743,473)	(20,518,674)	(24,638,559)
Total	**(5,743,473)**	**(20,518,674)**	**(24,638,559)**

Provisions are valued with best accounting estimate available. The amounts of the provisions reported in the ACO 2016 statement of financial position are shown in more detail in Note D, Table. All of them are recognised as Short Term with the exception of 2 totalling 4,719,831 EUR reported as Long Term. The difference between the two reporting periods is due to a decrease on provision for LOJI in NAEW. To note that a payment for this specific purpose was done in 2016 for a total of 13,2 MEUR using the 2016 budget credits.

13. Other Current Liabilities

Other Current Liabilities	2016	2015 Restated	2015
Short Term Loans	(96,991)	(31,436)	(31,436)
Total	**(96,991)**	**(31,436)**	**(31,436)**

The short term loan reported above is the part of the finance leases recorded for SHAPE HQ to be paid in 2016.

Liabilities – Non-Current Liabilities

14. Long Term Provisions

Long Term Provisions	2016	2015 Restated	2015
Long Term Provisions	(4,719,831)	(4,208,214)	(4,208,214)
Total	**(4,719,831)**	**(4,208,214)**	**(4,208,214)**

See Note B8

15. Non-current Deferred Revenue

Deferred Revenue	2016	2015 Restated	2015
Deferred Revenue for PP&E and AuC	(90,946,285)	(78,717,090)	(109,353,193)
Total	**(90,946,285)**	**(78,717,090)**	**(109,353,193)**

In accordance with the NATO IPSAS Manual, option 1 has been applied in the ACO Consolidated FS. 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 are no surpluses or deficit resulting from asset depreciation or acquisition.

The non-current Deferred Revenue is the counterpart of the PP&E Net Value net of the amount recorded as liability for finance lease.Comparative data were reclassified in order to apply consistently the disclosure requirements.

16. Other Non-Current Liabilities

Other Non-Current Liabilities	2016	2015 Restated	2015
Long Term Loans	(199,345)	(84,670)	(84,670)
Total	**(199,345)**	**(84,670)**	**(84,670)**

The long term loan represents the liability related to the finance lease reported for SHAPE HQ.

C. Notes to Statement of Financial Performance

17. Revenue

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

18. Expenses

Expenses for ACO entities are recognised by nature as follows:

a) Personnel

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 2016 is 3,381,640 EUR (which shows a slight increase as compared to 3,170,500 EUR paid in 2015) for NIC staff. Accurate data is not available for locally hired staff, LWR and LCH, but based on available data the total expense is estimated to be 1.6 MEUR.

Untaken leave

	Untaken Leave
FS 2015	**4,119,885**
Addition	3,938,019
Reversed	(4,119,885)
31-Dec-16	**3,938,019**

Paid leave is an employee benefit and as such part of overall personnel expenses. An entity can designate paid leave as transferable to future years or can specify that paid leave can only be taken in the financial year when it is earned.

In ACO the remaining balance at year end may be carried forward to the following calendar year. However, any balance that is carried forward in this way must be taken prior to 30 April. If a – rare - special permission is obtained, leave can be exceptionally expanded to 31 October of the subsequent year[9].

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". In view of the above untaken leave is specifically reported under IPSAS if the monetary value of untaken leave is material: the ratio Untaken Leave at 31 December 2016 / Total Annual Leave Entitlement exceeding 10%.

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 a 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.

[9] This is in accordance with NCPR art. 42.3.5 and 42.3.6 (Amendment 8 April 2012).

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

Table C20 – ACO Personnel

Position	Total Approved	Total Filled
Civilian (PE)	985	938
Civilian (CE)	5	5
Military	8,583	6,863
LWR	649	617
VNC	137	135
Others	90	81
ICC	175	144
LCH	387	343
ACO Total	**11,011**	**9,126**

b) Contractual Supplies and Services

Contractual Suppliers and Services	2016	2015 Restated	2015
Total	**673,338,772**	**626,690,435**	**623,553,098**

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*'.

Expenses for approximately 3,8 MEUR are reported for NAEW for a Commodity-based contract. With this contract NAEW has the possibility to use fuel from the Nation MOD without any immediate outflow. The settlement is only done at a later stage with the same quantity of fuel via a contract in place with NSPA. Historically, there is a time-gap between the use and the settlement and the fuel cost is impacted by the volatility of the EUR/USD exchange rate. The historical cost at the end of 2016 is at 3,8 MEUR. An estimated amount based on the fuel cost known at the end of 2016 would have a positive impact of 653 KEUR. However, only when the fuel reimbursement will be settled, the real cost will be known.

This expense category includes a considerable amount for the maintenance of the NAEW Fleet aircraft performed in three levels: maintenance performed directly by the Logistic Wing for the first and intermediate level; and the third level required by legal or contractual obligations such as Depot Level Maintenance (DLM). The third level is typically performed by Industry and contractually governed by the DLM Contract MG2012 between NSPA and IAMCO. The DLM is required for each plane with a cycle of 72 months, which means that there will always be a part of the NAEW fleet in depot for maintenance and therefore not available for operations.

During 2016, three planes completed the Depot Level Maintenance and were returned to NAEW&C Force HQ; one plane started the maintenance during 2016 and will be completed in 2017, and a second was sent to depot at the very beginning of 2017. A total amount of MEUR 26.2 was expensed during 2016 for the ongoing maintenance described above.

In 2016 the expenses recorded for Foreign Military Sales (FMS) are 11,432,009 EUR. This financial information is reported in a separate line in accordance with the ACO Accounting Policy reported at Note A.

It has to be noted that ACO manage directly only FMS for SHAPE HQ and NAGSF HQ for a total of 48,332 EUR. All the rest 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 50,000 Euro 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. The table does not include lease contracts recognised as finance lease as the future payments are recognised as a liability.

Site	PP&E Category	Asset Leased	Amount paid in 2016 (€)	Amount to pay in 2017 (€)	Amount to pay in 2018-2021 (€)	Renewal or purchase options/restrictions
SHAPE	Transport Equipment	Civilian lease - fleet	239,015.76	237,173.25	-	Expires in 2017
JFCBS	Transport Equipment	Civilian lease - fleet	128,398.32	128,398.32	64,199.16	Expires in 2018
NAEW&CF	AIS	Servers	289,623.12	289,623.12	289,623.12	Expires in 2018
JFCNP	AIS	Multi-Functional Devices	153,980.82	163,325.32	367,481.97	One year contract with option up to four one year extensions
JFCNP	Structures	NS2AU Villa Addis Ababa	151,166.14	115,174.20	460,696.80	Old contract ended 31 Dec. 2016 New contract in 2017 for one year with option up to four one year extensions

c) Depreciation

Depreciation and Amortization	2016	2015 Restated	2015
Total	**31,830,042**	**36,033,791**	**38,982,871**

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 2016 amount to 43.8 MEUR which reflects a decrease of 17.1 MEUR compared to 2015, mainly due to the reduced real life support services required in the missions. The reimbursable costs relate to a variety of services financially administered by ACO, as follows:

- An amount of approximately 4.2 MEUR relates to reimbursable costs made by HQ NAEW&C Force GK HQ for the provision of aviation fuel for national use.
- An amount of 3.6 MEUR corresponds to travel services and administration of payrolls provided to the NCIA by JFCNP, JFCBS, LANDCOM, AIRCOM and MARCOM.
- A total amount of approximately 10.9 MEUR corresponds to real life support services provided mainly by KFOR and RS 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 the remaining amount of 25.1 MEUR were made mainly by the ACO Commands on behalf of local NMRs or NSEs, MWAs, Host Nations and other co-located entities in accordance with Memorandum of Understanding or other ad-hoc agreements. This includes but is not limited to, advance payments made by ACO for shared utilities, maintenance and cleaning services, etc. which is recovered from the customers through charges calculated on a pro-rata basis.

19. 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 2017.

D. Contingent Assets, Contingent Liabilities and Provisions

Contingent Assets

For the closing reporting period ACO has no contingent assets to disclose.

Contingent Liabilities

Based on IPSAS 19.101 and the nature of the items identified for the 2016 reporting period, ACO has aggregated the contingent liabilities (CL) reported by the ACO consolidated entities in the following categories:

I. **NATO Appeal Board**: this category includes cases related to NATO employees pending before the NATO Administrative Tribunal (NAT);

II. **Claims under Art. VIII SOFA**: this category includes cases related to damages caused to third parties by NATO personnel. The majority of the cases reported relate to car accidents or in breach of health and safety regulations. The amounts, when disclosed, represent 75% due by NATO in accordance with article VIII SOFA, being the remaining 25% to be paid by the Host Nation;

III. **Labour court cases**: this category includes cases pending before local Courts in relation to employment issues;

IV. **Litigations**: this category includes cases of legal or contractual litigations such as contractual claims for alleged damages;

V. **Liabilities due to HQs closure**: this category includes costs for dismantling/removal of NATO property or any other type of direct or indirect liabilities derived from the closure of AOMs, ACO Commands, their transformation, transfer or for the closure of programmes of works previously contracted (e.g. DLM Marconi at NAEW), etc.

VI. **Others**: this is a residual category where there are reported cases which do not fall within one of the above mentioned categories.

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 out-flow of resources can be reliably estimated.

TABLE A – Summary of the 2016 CL

CL Categories	Total Amount (€)
I NATO Appeal Board	147,202
II Claims under Art. VIII SOFA	40,877
III Labour court cases	9,096,163
IV Litigations	15,113,734
V Liabilities due to HQs closure	7,126,932
VI Others	2,503,504
Grand Total	**34,028,412**

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

I. **NATO Appeal Board**: the amount of € 147,202 was reported by JFCBS as a new liability for the request of damages claimed by a NIC whose employment was terminated by JFCBS as a result of a disciplinary action.

II. **Claims under Art. VIII SOFA:** JFCNP and SHAPE have reported liabilities within this category, respectively, in the amount of € 40,000 and € 877 representing the possible 75% NATO-share of costs for the alleged damages due to car accidents as per the NATO SOFA. This category includes also various cases reported by SHAPE, AIRCOM and NHQSa for which it is not possible to estimate reliably the amount to settle the liability. For NHQSa this includes some possible claims related to the damages provoked by NATO, IFOR, SFOR and AF BiH to privately owned land and houses in Glamoc Range. In 2016 a special carry forward was approved by the BC amounting to € 900,000 from the 2015 Balkans Budget and a total amount of € 853,725 was spent. There is no additional fund in 2017 for remaining Glamoc Claims. Hence, any new claim will be dealt on a case-by-case basis.

III. **Labour court cases**: Out of the total amount of € 9,096,163 disclosed in this category the amount of € 8,988,592 EUR relates to NHQSa possible liability due to the request of seven ICC to be converted from International Civilian Consultants (ICCs) at NHQSa to NICs before the Court of Mons (BE). During 2016 the NAT ruled in favour to NATO which led two out of nine ICCs to withdraw their claim. However, the remaining seven ICCs have submitted a new claim before the local labour Court. Further to the pronouncement of the NAT SHAPE LEGAD deems unlikely that the remaining ICCs would succeed in pursuing their request; however, a possibility remains that the Court rules in favour of the ICCs. In such event there is a risk that other ICCs employed across ACO would submit similar requests. The remaining amount of € 107,571 disclosed in this category is reported by SHAPE, NAEW and LANDCOM and relates to various liabilities for employment cases pending at the reporting date before the respective local labour Courts. At this time, ACO cannot provide a better estimate as to the outcome of the above lawsuits nor can it determines more precisely the final amount of loss or legal costs associated with the outcome.
An additional case reported by JFCNP belongs to this category for potential claims before the local Labour Court due to cases of death allegedly caused by asbestos. The claims have not been yet submitted to the Court; therefore, the amount cannot be determined yet by JFCNP and it is disclosed as a possible liability with no reliable amount.

IV. **Litigations**: JFCBS has reported CL within this category for € 14,597,850 in relation to a Food Claim raised by the former contractor for NATO food services in ISAF. This amount includes the NATO liability equal to 10% of the above mentioned total amount, plus the share of the Theatre Contributing Nations (TCNs) for the remaining part. It also includes an additional claim for unpaid invoices by JFCBS to the former HQ ISAF catering contractor to offset some overpayments for costs related to the amortization of the dining facility. Further to recommendations of the RPPB [AC/335-N (2015)0006-REV1] and IBAN [C-M (2015)0052] the amount of €2.2 million was unilaterally withheld from the final monthly invoices due to the contractor and it remains secured in the ACO Treasury. The potential costs associated to this liability are part of the special carry forward of € 26 Million from the 2014 ISAF budget approved by the BC in 2017.
The CL reported by KFOR amounting to € 515,884 (537.5 KUSD, converted by using the exchange rate as of 31 Dec. 2016) relates 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. The case is being handled by the SHAPE LEGAD which opposes the court decision as it deems that the ruling violate the special legal status which NATO enjoys under the Ottawa Agreement. Although it is difficult to predict the final outcome SHAPE LEGAD deems it prudent to disclose this issue as a potential liability.
An additional claim belongs to this category. It is a claim submitted against ACO by the former contractor for NATO fuel services in ISAF at KAF and Herat. The potential liability includes the NATO share (approximately 10%), plus the liability attributable to the TCNs. It should be noted that JFCBS, in coordination with SHAPE has prepared a defence and a counterclaim due to possible systemic overcharging of BOA customers by the contractor between 2009 and 2014. However, the potential out-flow of resources for ACO due to the contractor claim and the possible in-flow that can derive from the counter claim prepared by ACO against the company cannot be reliably measured at this stage.

V. **Liabilities due to HQs closure:** within this category JFCBS and NAEW&C Force GK have reported possible liabilities due to, respectively, the termination of the ISAF mission on 31 December 2014 and the NATO reduced footprint in Resolute Support Mission and the closure of HQ NAEW&C Force GK HQ Airframe DLM contractor's Activities. For the former (JFCBS) 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 total amount of € 1,326,932 represents only the NATO share of the liability which is estimated in a total amount of € 4,292,500 including the portion of the TCNs. The costs for this liability are part of a special carry forward of credits amounting to € 26,144,910 which was approved by the BC from the 2014 ISAF Budget. For the latter (NAEW&C Force GK) the liability is due to the deactivation of the aircraft Depot Level Maintenance (DLM) Source of Repair (SOR). NSPA confirmed also in 2016, likewise in 2015, that the total amount of 5.8 MEUR for this liability can be considered eligible for reimbursement to the contractor. It should be noted that the amount of 3,000,000 € has been approved as a special carry forward in 2017 by the BC from the 2015 and 2016 NAEW&C Force GK HQ reorganization budget (respectively, € 1,000,000 and € 2,000,000) to partially cover this liability.

VI. **Others**: a CL was reported by NHQSa within this residual category in relation to the Pension contributions due to NATO for Local Civilian Hire (LCH) Staff. This case was reported also last year in the same amount of 838,585 EUR. The amount represents the difference between the provision recognised in 2016 and the higher amount of € 1,693,913 which includes the member's share of the total contribution in the event NATO will be requested to assume the entire cost of the required contribution. Moreover, JFCBS reported a liability due to some 2015 unpaid invoices to NSPA for a total amount of 2,509,536.16 USD for the provision of fuel delivered to HKIA. These invoices were only reported by NSPA to JFCBS and Resolute Support in March 2017. JFCBS made an analysis of those invoices and assessed that the amount of 1,064,817.71 USD (converted in € 1,021,996.07) is eligible for common funding and, therefore has been accrued; whilst the amount of 1,444,718.45 USD (converted in € 1,386,619.11) refers to customers which cannot yet be clearly at this moment identified and requires additional clarifications; thus the amount is only disclosed as a CL in the 2016 FS.
An additional amount of € 278,300 is reported for NAEW and confirmed by NSPA, due to possible VAT liabilities in relation to tax which may be due with a member nation. Taking into account that NATO is normally exempted from VAT liabilities the possibility that NATO will have to pay the above indicated amount is considered low.

Provisions

Table B – Provision-reconciliation (in EUR currency)

Reconciliation	TFR	Other Provisions	Total
ACO FS 2015	3,125,051	21,601,837	24,726,888
Restatement ACO FS 2015	0	0	0
31-Dec-2015/1 Jan. 2016	**3,125,051**	**21,601,837**	**24,726,888**
Addition	244,750	7,260,841	7,505,591
Used	(167,339)	0	(167,339)
Reversed	0	(21,601,837)	(21,601,837)
Balance as of 31 Dec. 2016	**3,202,462**	**7,260,841**	**10,463,303**

a. <u>TFR</u>

JFCNP HQ posted some provisions for *"Trattamento di Fine Rapporto (TFR)"* in application of the Italian Law and of IPSAS 19. TFR is a vested benefit payable to the employee for a part of his/her salary deferred in time to the moment when termination of contract takes place; this applies to LWR. The value of this liability is determined annually and includes interests for the loan forcedly made by the employee to the employer given the fact that payment is deferred to a later time. In view of the foregoing, TFR has to be considered as a termination benefit calculated as one extra monthly instalment of the annual pay.

b. <u>Other Provisions</u>

The table C below provides the summary of the other provisions at the reporting date, broken down into the six categories disclosed above for the CL, for cases where the likelihood of the out-flow of resources 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 C – Other Provision

Other Provisions	Total Amount (€)
I NATO Appeal Board	300,000
II Claims under Art. VIII SOFA	1,715,960
III Labour court cases	15,382
IV Litigations	4,064,502
V Liabilities due to HQs closure	309,668
VI Others	855,329
Grand Total	**7,260,841**

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

I. **NATO Appeal Board**: NAEW has reported a case amounting totally to € 300,000 pending before the NAT related to a former staff member challenging the termination of employment with LOJI and immaterial damages after the NAEW reorganization.

II. **Claims under Art. VIII SOFA**: JFCBS, JFCNP, NAEW, NCISG, NHQSa reported cases within this category mainly related to claims by third parties due to car accidents totalling € 549,746. The remaining amount of provisions recognised within this category refers to cases reported by KFOR in relation to claims for damages allegedly caused by NATO to third parties' property. These cases include the Gazela Shoe Factory for the outstanding rental costs of the NATO Liaison Office Skopje office location amounting to € 1,060,214 for which the Budget Committee has approved a special carry forward in 2017 from the 2015 Balkans Operations budget. Other cases reported by KFOR for a total of € 106,000 refer to damages to land derived by the use of VHF Communication Network Antennas by KFOR as well as claims of private landlords of the Forward Assembly Area in Novo Selo used by NATO for Reserve Forces.

III. **Labour court cases**: one employment case reported by LANDCOM pending before the local Court whose costs amount to € 15,382 is expected to be settled in favour of the claimants.

IV. **Litigations**: two provisions are recognised by JFCNP within this category. 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 recognised as a provision last year for this liability has been further assessed by JFCNP; therefore, an extra amount is reported for 2016 for a total of € 3,864,502.
The second provision of JFCNP amounting to € 200,000 relates to outstanding payments due to the former provider of cleaning services because of non-satisfactory contract performance. The company obtained in 2014 a payment injunction from the local Tribunal Court of Naples which JFCNP opposed. Other extrajudicial attempts to settle the case have failed so far due to lack of agreement between the parties. JFCNP confirmed the provision recognised at the end of last year.

V. **Liabilities due to HQs closure:**
A provision was confirmed from last year and recognised by JFCNP for remediation cost for soil pollution at Bagnoli compound (€ 194,800). The amount of € 185,000 is included in the Special Carry Forward in 2017 authorized by the BC from the 2016 JFCNP HQ Budget. The remaining € 9,800 to will be funded by the 2017 budget.
NAEW reported two cases amounting totally to € 114,868 due to potential claims from staff members on Long Term Sick Leave. It is still unknown if there will be a decision on the NATO's liability to pay for the LOJI due to reorganization or for the invalidity. However, NAEW deems it probable a payment in favour of the individuals; hence a provision has been recognised in the 2016 FS.
It has to be noted that in 2015 FS a provision of 14,3 MEUR was recognised for LOJI due to NAEW reorganisation. During 2016 an amount of 13,2 MEUR was paid using the 2016 budget authorisation.

VI. **Others:** within this category it is recognised the provision of € 855,329, to be covered by the MB and the NSIP, respectively, in the amount of € 774,657 and € 80,672, for the case of NHQSa related to the LCHs as described above in the same category VI of the CL. The approach followed of splitting the liability between a provision and a CL with the respective amounts are based on the SHAPE internal audit report made in March 2016.
Some provisions below the materiality threshold have been identified, but not recognised, within the categories I, II and III for SHAPE, JFCNP, NAEW, AIRCOM and NHQSa.

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 Command 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 assets and 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 statement, 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 2016 FS the segment reporting has been prepared in conformity with the accounting policies and also reported in the ACO guidance for EOY 2016.

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 inventory 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 4 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.

Segment reporting MB
Statement of Financial Position per HQ

	SHAPE HQ			NAGSF HQ			JFC Brunssum HQ		
	2016	2015 RESTATED	2015	2016	2015 RESTATED	2015	2016	2015 RESTATED	2015
ASSETS									
Current Assets									
Cash and Cash Equivalents	18,234	15,577	15,577	54	-	-	187,834	194,495	194,495
Interentity	72,365,303	39,054,671	39,054,671	2,226,226	-	-	21,546,759	69,061,390	70,039,632
Receivables	10,538,001	21,488,098	20,826,661	38,197	-	-	1,358,049	5,736,277	5,416,736
Prepayments	4,089,805	4,142,523	4,133,601	-	-	-	18,118	42,889	34,489
Other Current Assets	-	228,388	898,747	-	-	-	5,707	-	327,942
Inventories	454,144	503,536	503,536	-	-	-	158,366	204,131	204,131
Total Current Assets	***87,465,487***	***65,432,792***	***65,432,792***	***2,264,477***	***-***	***-***	***23,274,833***	***75,239,183***	***76,217,425***
Non-current Assets									
Receivables	-	1,777	1,777	-	-	-	-	-	-
Property, plant & equipment	46,366,224	60,089,690	55,227,575	313,831	-	-	3,754,351	3,851,597	1,195,907
Other Non-current Assets	-	-	-	-	-	-	-	-	-
Total Non-current Assets	***46,366,224***	***60,091,467***	***55,229,352***	***313,831***	***-***	***-***	***3,754,351***	***3,851,597***	***1,195,907***
Total ASSETS	**133,831,711**	**125,524,259**	**120,662,144**	**2,578,307**	**-**	**-**	**27,029,184**	**79,090,781**	**77,413,332**
LIABILITIES									
Current Liabilities									
Payables	(80,176,990)	(56,278,946)	(55,608,587)	(2,264,477)	-	-	(15,254,246)	(58,010,878)	(58,661,178)
Deferred Revenue	(25,830,416)	(28,917,165)	(8,300,766)	(14,713)	-	-	(8,092,342)	(15,915,410)	(15,684,130)
Advances	-	(1,934)	(1,934)	-	-	-	-	-	-
Short Term Provisions	-	(228,388)	(898,747)	-	-	-	(5,707)	(253,808)	(581,750)
Other Current Liabilities	(96,991)	(31,436)	(31,436)	-	-	-	-	-	-
Surpl./Deficit to be returned	(353,325)	(624,536)	(624,536)	-	-	-	(164,070)	(1,290,368)	(1,290,368)
Total Current Liabilities	***(106,457,722)***	***(86,082,405)***	***(65,466,006)***	***(2,279,190)***	***-***	***-***	***(23,516,365)***	***(75,470,463)***	***(76,217,425)***
Non-current Liabilities									
Payables	-	-	-	-	-	-	-	-	-
Long Term Provisions	-	-	-	-	-	-	-	-	-
Deferred Revenue	(27,174,643)	(39,357,184)	(55,111,468)	(299,117)	-	-	(3,512,819)	(3,620,318)	(1,195,907)
Other Non-current Liabilities	(199,345)	(84,670)	(84,670)	-	-	-	-	-	-
Total Non-current Liabilities	***(27,373,989)***	***(39,441,855)***	***(55,196,138)***	***(299,117)***	***-***	***-***	***(3,512,819)***	***(3,620,318)***	***(1,195,907)***
Total LIABILITIES	**(133,831,711)**	**(125,524,259)**	**(120,662,144)**	**(2,578,307)**	**-**	**-**	**(27,029,184)**	**(79,090,781)**	**(77,413,332)**
NET ASSETS	-	-	-	-	-	-	-	-	-

ACO Consolidated Financial Statements 2016

	AIRCOM Ramstein HQ			NAEW&C Force HQ			JFC Naples HQ		
	2016	2015 RESTATED	2015	2016	2015 RESTATED	2015	2016	2015 RESTATED	2015
ASSETS									
Current Assets									
Cash and Cash Equivalents	53,245	52,400	52,400	370,778	644,841	644,841	88,398	1,154,277	1,154,277
Interentity	843,048	1,063,728	1,063,728	14,942,871	7,067,690	10,068,490	658,372	1,769,287	1,769,287
Receivables	824,832	768,436	606,351	3,545,119	3,351,227	1,940,299	2,568,605	2,823,698	2,027,526
Prepayments	31,129	1,441,085	1,441,085	17,512,774	18,383,087	15,275,553	1,939,947	1,795,504	1,795,004
Other Current Assets	-	-	162,084	414,868	14,215,417	15,631,707	2,146,230	2,076,383	2,873,055
Inventories	122,865	110,875	110,875	25,434,874	21,706,641	21,706,641	224,979	238,171	238,171
Total Current Assets	***1,875,118***	***3,436,523***	***3,436,523***	***62,221,285***	***65,368,903***	***65,267,532***	***7,626,533***	***9,857,319***	***9,857,319***
Non-current Assets									
Receivables	-	-	-	-	-	-	-	-	-
Property, plant & equipment	1,469,641	1,407,375	201,882	50,482,671	40,458,456	40,664,250	275,771	57,971	57,971
Other Non-current Assets	-	-	-	-	-	-	3,864,502	3,352,885	3,352,885
Total Non-current Assets	***1,469,641***	***1,407,375***	***201,882***	***50,482,671***	***40,458,456***	***40,664,250***	***4,140,272***	***3,410,856***	***3,410,856***
Total ASSETS	**3,344,760**	**4,843,898**	**3,638,406**	**112,703,956**	**105,827,359**	**105,931,782**	**11,766,805**	**13,268,176**	**13,268,176**
LIABILITIES									
Current Liabilities									
Payables	(1,517,893)	(2,937,009)	(2,774,925)	(35,133,039)	(29,334,070)	(27,816,408)	(3,328,172)	(5,729,116)	(4,932,444)
Deferred Revenue	(763,770)	(1,074,833)	(509,068)	(28,286,608)	(24,193,193)	(21,706,641)	(296,009)	(527,060)	(483,561)
Advances	-	-	-	(6,150)	-	-	-	-	-
Short Term Provisions	-	-	(162,084)	(414,868)	(14,215,417)	(15,631,707)	(4,005,476)	(3,619,908)	(4,416,580)
Other Current Liabilities	-	-	-	-	-	-	-	-	-
Surpl./Deficit to be returned	(140,595)	9,554	9,554	(778,707)	(112,775)	(112,775)	(51,646)	(24,734)	(24,734)
Total Current Liabilities	***(2,422,259)***	***(4,002,288)***	***(3,436,523)***	***(64,619,373)***	***(67,855,454)***	***(65,267,532)***	***(7,681,303)***	***(9,900,819)***	***(9,857,319)***
Non-current Liabilities									
Payables	-	-	-	-	-	-	-	-	-
Long Term Provisions	-	-	-	-	-	-	(3,864,502)	(3,352,885)	(3,352,885)
Deferred Revenue	(922,501)	(841,610)	(201,882)	(48,084,583)	(37,971,905)	(40,664,250)	(221,001)	(14,472)	(57,971)
Other Non-current Liabilities	-	-	-	-	-	-	-	-	-
Total Non-current Liabilities	***(922,501)***	***(841,610)***	***(201,882)***	***(48,084,583)***	***(37,971,905)***	***(40,664,250)***	***(4,085,503)***	***(3,367,357)***	***(3,410,856)***
Total LIABILITIES	**(3,344,760)**	**(4,843,898)**	**(3,638,406)**	**(112,703,956)**	**(105,827,359)**	**(105,931,782)**	**(11,766,805)**	**(13,268,176)**	**(13,268,176)**
NET ASSETS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

ACO Consolidated Financial Statements 2016

	NHQSa HQ			LANDCOM Izmir HQ			NCIS Group HQ		
	2016	2015 RESTATED	2015	2016	2015 RESTATED	2015	2016	2015 RESTATED	2015
ASSETS									
Current Assets									
Cash and Cash Equivalents	45,311	131,045	131,045	203,344	533,121	533,121	7,371	20,403	20,403
Interentity	81,411	796,489	796,489	(462,634)	(2,313,833)	(2,313,833)	2,413,652	5,133,059	5,133,059
Receivables	70,385	77,982	69,345	679,622	1,662,739	1,594,085	867,487	1,977,705	1,710,492
Prepayments	-	-	-	-	481,353	481,353	28,121	170,927	170,927
Other Current Assets	127,925	127,925	136,562	17,588	28,692	97,346	7,900	5,610	272,823
Inventories	787,854	626,248	626,248	794,704	691,951	691,951	992,761	1,218,792	1,218,792
Total Current Assets	***1,112,885***	***1,759,689***	***1,759,689***	***1,232,624***	***1,084,024***	***1,084,024***	***4,317,291***	***8,526,496***	***8,526,496***
Non-current Assets									
Receivables	-	-	-	-	-	-	-	-	-
Property, plant & equipment	-	33,940	52,440	263,078	136,036	136,036	9,674,638	162,090	7,484,463
Other Non-current Assets	774,657	774,657	774,657	-	-	-	-	-	-
Total Non-current Assets	***774,657***	***808,597***	***827,097***	***263,078***	***136,036***	***136,036***	***9,674,638***	***162,090***	***7,484,463***
Total ASSETS	**1,887,542**	**2,568,286**	**2,586,786**	**1,495,702**	**1,220,059**	**1,220,059**	**13,991,929**	**8,688,586**	**16,010,958**
LIABILITIES									
Current Liabilities									
Payables	(170,535)	(98,708)	(90,070)	(589,052)	(237,629)	(168,976)	(2,881,240)	(7,244,029)	(6,976,817)
Deferred Revenue	(796,270)	(661,629)	(627,689)	(817,842)	(714,259)	(691,951)	(1,764,178)	(1,387,127)	(1,276,518)
Advances	-	-	-	-	-	-	-	-	-
Short Term Provisions	(127,925)	(1,027,875)	(1,036,513)	(15,382)	(27,409)	(96,062)	(7,900)	(5,604)	(272,816)
Other Current Liabilities	-	-	-	-	-	-	-	-	-
Surpl./Deficit to be returned	(18,155)	(5,417)	(5,417)	166,513	(127,034)	(127,034)	(18,338)	(345)	(345)
Total Current Liabilities	***(1,112,885)***	***(1,793,629)***	***(1,759,689)***	***(1,255,762)***	***(1,106,332)***	***(1,084,024)***	***(4,671,655)***	***(8,637,105)***	***(8,526,496)***
Non-current Liabilities									
Payables	-	-	-	-	-	-	-	-	-
Long Term Provisions	(774,657)	(774,657)	(774,657)	-	-	-	-	-	-
Deferred Revenue	-	-	(52,440)	(239,940)	(113,728)	(136,036)	(9,320,274)	(51,481)	(7,484,463)
Other Non-current Liabilities	-	-	-	-	-	-	-	-	-
Total Non-current Liabilities	***(774,657)***	***(774,657)***	***(827,097)***	***(239,940)***	***(113,728)***	***(136,036)***	***(9,320,274)***	***(51,481)***	***(7,484,463)***
Total LIABILITIES	**(1,887,542)**	**(2,568,286)**	**(2,586,786)**	**(1,495,702)**	**(1,220,059)**	**(1,220,059)**	**(13,991,929)**	**(8,688,586)**	**(16,010,958)**
NET ASSETS	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

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	Resolute Support HQ			KFOR HQ			MARCOM Northwood HQ		
	2016	2015 RESTATED	2015	2016	2015 RESTATED	2015	2016	2015 RESTATED	2015
ASSETS									
Current Assets									
Cash and Cash Equivalents	67,715	337,994	337,994	984,428	1,053,791	1,053,791	67,693	43,028	43,028
Interentity	120,612,142	77,179,642	78,026,058	1,649,140	327,140	327,140	601,605	251,161	251,161
Receivables	248,452	689,335	443,478	567,923	806,931	724,112	399,710	846,649	778,590
Prepayments	-	-	-	411,011	458,177	458,177	6,438	6,173	871
Other Current Assets	-	10,052	255,909	106,000	70,000	152,819	-	-	73,360
Inventories	4,472,556	4,367,370	886,700	1,498,315	1,405,983	1,405,983	98,423	128,686	128,686
Total Current Assets	***125,400,865***	***82,584,392***	***79,950,139***	***5,216,818***	***4,122,023***	***4,122,023***	***1,173,869***	***1,275,696***	***1,275,696***
Non-current Assets									
Receivables	-	-	-	-	-	-	-	-	-
Property, plant & equipment	577,587	3,866,210	3,848,903	1,711,536	81,959	81,959	101,828	116,277	116,277
Other Non-current Assets	-	-	-	-	-	-	-	-	-
Total Non-current Assets	***577,587***	***3,866,210***	***3,848,903***	***1,711,536***	***81,959***	***81,959***	***101,828***	***116,277***	***116,277***
Total ASSETS	**125,978,452**	**86,450,602**	**83,799,042**	**6,928,354**	**4,203,982**	**4,203,982**	**1,275,697**	**1,391,972**	**1,391,972**
LIABILITIES									
Current Liabilities									
Payables	(121,102,057)	(77,914,069)	(78,514,629)	(2,342,565)	(1,361,457)	(1,278,638)	(1,020,567)	(965,537)	(892,176)
Deferred Revenue	(5,882,357)	(11,289,993)	(886,700)	(3,258,025)	(2,264,229)	(1,481,610)	(128,945)	(239,111)	(224,663)
Advances	-	-	-	-	-	-	-	-	-
Short Term Provisions	-	(10,052)	(255,909)	(1,166,214)	(1,130,214)	(1,213,033)	-	-	(73,360)
Other Current Liabilities	-	-	-	-	-	-	-	-	-
Surpl./Deficit to be returned	1,005,962	(292,901)	(292,901)	(161,549)	(148,743)	(148,743)	(38,807)	(85,496)	(85,496)
Total Current Liabilities	***(125,978,452)***	***(89,507,015)***	***(79,950,139)***	***(6,928,354)***	***(4,904,642)***	***(4,122,023)***	***(1,188,318)***	***(1,290,144)***	***(1,275,696)***
Non-current Liabilities									
Payables	-	-	-	-	-	-	-	-	-
Long Term Provisions	-	-	-	-	-	-	-	-	-
Deferred Revenue	-	3,056,413	(3,848,903)	-	700,660	(81,959)	(87,379)	(101,828)	(116,277)
Other Non-current Liabilities	-	-	-	-	-	-	-	-	-
Total Non-current Liabilities	***-***	***3,056,413***	***(3,848,903)***	***-***	***700,660***	***(81,959)***	***(87,379)***	***(101,828)***	***(116,277)***
Total LIABILITIES	**(125,978,452)**	**(86,450,602)**	**(83,799,042)**	**(6,928,354)**	**(4,203,982)**	**(4,203,982)**	**(1,275,697)**	**(1,391,972)**	**(1,391,972)**
NET ASSETS	-	-	-	-	-	-	-	-	-

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	ACO Corporate Accounting and Control Office			NSIP		
	2016	2015 RESTATED	2015	2016	2015 RESTATED	2015
ASSETS						
Current Assets						
Cash and Cash Equivalents	1,088,031,520	857,163,389	857,163,389	9,503,785	11,685,007	11,685,007
Short Term Investment	96,094,955	230,000,000	230,000,000	-	-	-
Interentity	(237,477,897)	(199,390,423)	(204,215,881)	-	-	-
Receivables	47,092,523	98,709,028	98,709,028	90,135	304,241	304,241
Prepayments	50,484	5,574,807	5,574,807	-	-	-
Other Current Assets	578,071	678,627	678,627	-	-	-
Inventories	-	-	-	-	-	-
Total Current Assets	***994,369,656***	***992,735,428***	***987,909,970***	***9,593,920***	***11,989,248***	***11,989,248***
Non-current Assets						
Receivables	-	-	-	-	-	-
Property, plant & equipment	-	-	-	1,084,028	401,638	401,638
Other Non-current Assets	-	-	-	80,672	80,672	80,672
Total Non-current Assets	***-***	***-***	***-***	***1,164,700***	***482,310***	***482,310***
Total ASSETS	**994,369,656**	**992,735,428**	**987,909,970**	**10,758,619**	**12,471,558**	**12,471,558**
LIABILITIES						
Current Liabilities						
Payables	(4,409,574)	(1,417,047)	(1,417,047)	(9,041,876)	(9,075,798)	(9,075,798)
Deferred Revenue	(730,089,497)	(676,891,335)	(672,065,877)	730,520	(1,655,903)	(1,655,903)
Advances	(258,407,162)	(309,017,482)	(309,017,482)	-	-	-
Short Term Provisions	-	-	-	-	-	-
Other Current Liabilities	-	-	-	-	-	-
Surpl./Deficit to be returned	(1,463,423)	(5,409,564)	(5,409,564)	(1,282,564)	(1,257,547)	(1,257,547)
Total Current Liabilities	***(994,369,656)***	***(992,735,428)***	***(987,909,970)***	***(9,593,920)***	***(11,989,248)***	***(11,989,248)***
Non-current Liabilities						
Payables	-	-	-	-	-	-
Long Term Provisions	-	-	-	(80,672)	(80,672)	(80,672)
Deferred Revenue	-	-	-	(1,084,028)	(401,638)	(401,638)
Other Non-current Liabilities	-	-	-	-	-	-
Total Non-current Liabilities	***-***	***-***	***-***	***(1,164,700)***	***(482,310)***	***(482,310)***
Total LIABILITIES	**(994,369,656)**	**(992,735,428)**	**(987,909,970)**	**(10,758,619)**	**(12,471,558)**	**(12,471,558)**
NET ASSETS	**-**	**-**	**-**	**-**	**-**	**-**

Segment reporting: Reconciliation to Consolidated Financial Statement
Statement of Financial Position

	TOTAL FOR SEGMENTS			ELIMINATIONS			CONSOLIDATED		
	2016	2015 RESTATED	2015	2016	2015 RESTATED	2015	2016	2015 RESTATED	2015
ASSETS									
Current Assets									
Cash and Cash Equivalents	1,099,629,710	873,029,369	873,029,369	-	-	-	1,099,629,710	873,029,369	873,029,369
Short Term Investment	96,094,955	230,000,000	230,000,000	-	-	-	96,094,955	230,000,000	230,000,000
Interentity	-	-	-	-	-	-	-	-	-
Receivables	68,889,040	139,242,345	135,150,946	-	-	-	68,889,040	139,242,345	135,150,946
Prepayments	24,087,826	32,496,525	29,365,867	-	-	-	24,087,826	32,496,525	29,365,867
Other Current Assets	3,404,290	17,441,093	21,560,979	-	-	-	3,404,290	17,441,093	21,560,979
Inventories	35,039,841	31,202,384	27,721,714	-	-	-	35,039,841	31,202,384	27,721,714
Total Current Assets	***1,327,145,662***	***1,323,411,716***	***1,316,828,875***	-	-	-	***1,327,145,662***	***1,323,411,716***	***1,316,828,875***
Non-current Assets									
Receivables	-	1,777	1,777	-	-	-	-	1,777	1,777
Property, plant & equipment	116,075,182	110,663,239	109,469,300	-	-	-	116,075,182	110,663,239	109,469,300
Other Non-current Assets	4,719,831	4,208,214	4,208,214	-	-	-	4,719,831	4,208,214	4,208,214
Total Non-current Assets	***120,795,013***	***114,873,230***	***113,679,291***	-	-	-	***120,795,013***	***114,873,230***	***113,679,291***
Total ASSETS	**1,447,940,675**	**1,438,284,946**	**1,430,508,166**	-	-	-	**1,447,940,675**	**1,438,284,946**	**1,430,508,166**
LIABILITIES									
Current Liabilities									
Payables	(279,232,283)	(250,604,292)	(248,207,693)	-	-	-	(279,232,283)	(250,604,292)	(248,207,693)
Deferred Revenue	(805,290,451)	(765,731,246)	(725,595,076)	3,298,704	9,369,908	9,369,908	(808,589,155)	(775,101,154)	(734,964,984)
Advances	(258,413,312)	(309,019,416)	(309,019,416)	-	-	-	(258,413,312)	(309,019,416)	(309,019,416)
Short Term Provisions	(5,743,473)	(20,518,674)	(24,638,559)	-	-	-	(5,743,473)	(20,518,674)	(24,638,559)
Other Current Liabilities	(96,991)	(31,436)	(31,436)	-	-	-	(96,991)	(31,436)	(31,436)
Surpl./Deficit to be returned	(3,298,704)	(9,369,907)	(9,369,907)	(3,298,704)	(9,369,907)	(9,369,907)	-	-	-
Total Current Liabilities	***(1,352,075,214)***	***(1,355,274,971)***	***(1,316,862,089)***	-	-	-	***(1,352,075,214)***	***(1,355,274,972)***	***(1,316,862,089)***
Non-current Liabilities									
Payables	-	-	-	-	-	-	-	-	-
Long Term Provisions	(4,719,831)	(4,208,214)	(4,208,214)	-	-	-	(4,719,831)	(4,208,214)	(4,208,214)
Deferred Revenue	(90,946,285)	(78,717,091)	(109,353,193)	-	-	-	(90,946,285)	(78,717,090)	(109,353,193)
Other Non-current Liabilities	(199,345)	(84,670)	(84,670)	-	-	-	(199,345)	(84,670)	(84,670)
Total Non-current Liabilities	***(95,865,461)***	***(83,009,975)***	***(113,646,078)***	-	-	-	***(95,865,461)***	***(83,009,974)***	***(113,646,078)***
Total LIABILITIES	**(1,447,940,675)**	**(1,438,284,946)**	**(1,430,508,166)**	-	-	-	**(1,447,940,675)**	**(1,438,284,946)**	**(1,430,508,167)**
NET ASSETS	-	-	-	-	-	-	-	-	-
	(0)	(0)	(0)	-	-	-	(0)	(0)	(0)

Segment reporting MB
Statement of Financial Performance per HQ

	SHAPE HQ			NAGSF HQ			JFC Brunssum HQ		
	2016	2015 RESTATED	2015	2016	2015 RESTATED	2015	2016	2015 RESTATED	2015
REVENUE									
Revenue	(306,655,054)	(269,258,427)	(271,097,257)	(5,829,418)	-	-	(16,239,998)	(4,301,331)	(4,237,181)
Other Revenue	(636,361)	(482,925)	(482,925)	-	-	-	(303,386)	(15,750,939)	(15,808,276)
Financial Revenue	(19,678)	1,779	1,779	-	-	-	-	-	-
Total to be returned to the Nations	353,325	624,536	624,536	-	-	-	164,070	1,290,368	1,290,368
Total REVENUE	**(306,957,768)**	**(269,115,037)**	**(270,953,867)**	**(5,829,418)**	**-**	**-**	**(16,379,315)**	**(18,761,902)**	**(18,755,089)**
EXPENSES									
Expenses	**286,277,093**	**253,687,515**	**253,855,980**	**5,814,704**	**-**	**-**	**16,256,819**	**18,456,901**	**18,533,716**
Personnel	33,368,857	31,821,560	31,771,403	287,275	-	-	8,332,573	9,785,012	9,842,349
Contractual Supplies and Services	252,902,474	221,865,955	222,084,577	5,484,859	-	-	7,924,246	8,671,889	8,691,367
Foreign Military Sales (FMS)	5,762	-	-	42,570	-	-	-	-	-
Depreciation	20,601,686	15,338,155	16,958,365	14,713	-	-	231,280	170,621	86,994
Provisions	-	234,683	284,839	-	-	-	-	-	-
Other Expenses	-	-	-	-	-	-	-	10,475	10,475
Financial Costs	78,990	(145,317)	(145,317)	-	-	-	(108,784)	123,904	123,904
Total EXPENSES	**306,957,768**	**269,115,037**	**270,953,867**	**5,829,418**	**-**	**-**	**16,379,315**	**18,761,902**	**18,755,089**
Result of the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

	AIRCOM Ramstein HQ			NAEW&C Force HQ			JFC Naples HQ		
	2016	2015 RESTATED	2015	2016	2015 RESTATED	2015	2016	2015 RESTATED	2015
REVENUE									
Revenue	(17,436,680)	(17,867,296)	(17,271,726)	(224,612,623)	(277,481,952)	(279,993,458)	(31,558,602)	(32,148,955)	(32,148,955)
Other Revenue	(148,856)	(1,596)	(10,619)	(14,874,284)	(1,230,497)	(1,230,497)	(47,023)	(100,754)	(111,494)
Financial Revenue	(22)	(79)	(79)	(284,824)	(891,573)	(891,573)	(8,415)	(6,124)	(6,124)
Total to be returned to the Nations	140,595	(9,554)	(9,554)	778,707	112,775	112,775	51,646	24,734	24,734
Total REVENUE	**(17,444,963)**	**(17,878,524)**	**(17,291,978)**	**(238,993,024)**	**(279,491,247)**	**(282,002,753)**	**(31,562,394)**	**(32,231,099)**	**(32,241,839)**
EXPENSES									
Expenses	**16,870,916**	**17,243,615**	**17,252,639**	**235,926,620**	**261,766,087**	**264,646,028**	**30,748,689**	**32,212,061**	**32,222,800**
Personnel	4,315,363	4,996,777	5,005,801	86,778,713	81,971,683	82,670,071	13,699,605	13,953,228	13,963,967
Contractual Supplies and Services	12,555,552	12,246,838	12,246,838	137,764,229	149,922,297	145,747,788	17,049,085	18,258,833	18,258,833
Foreign Military Sales (FMS)	-	-	-	11,383,677	29,872,108	36,228,169	-	-	-
Depreciation	565,765	623,681	28,111	2,486,551	2,107,599	2,049,989	43,499	6,900	6,900
Provisions	-	-	-	-	13,608,943	13,298,118	766,414	-	-
Other Expenses	-	-	-	-	-	-	6,168	3,727	3,727
Financial Costs	8,283	11,228	11,228	579,852	2,008,618	2,008,618	(2,376)	8,412	8,412
Total EXPENSES	**17,444,963**	**17,878,524**	**17,291,978**	**238,993,024**	**279,491,247**	**282,002,753**	**31,562,394**	**32,231,099**	**32,241,839**
Result of the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

ACO Consolidated Financial Statements 2016

	NHQSa HQ			LANDCOM Izmir HQ			NCIS Group HQ		
	2016	2015 RESTATED	2015	2016	2015 RESTATED	2015	2016	2015 RESTATED	2015
REVENUE									
Revenue	(2,508,622)	(3,957,060)	(3,957,060)	(13,299,813)	(12,376,000)	(12,376,000)	(31,089,584)	(24,877,337)	(26,960,322)
Other Revenue	(918,913)	(6,604)	(6,604)	(15,570)	(185,781)	(185,781)	(19,691)	(61)	(61)
Financial Revenue	(61)	(83)	(83)	(19,973)	(30,946)	(30,946)	(2,347)	(849)	(849)
Total to be returned to the Nations	18,155	5,417	5,417	(166,513)	127,034	127,034	18,338	345	345
Total REVENUE	**(3,409,441)**	**(3,958,329)**	**(3,958,329)**	**(13,501,869)**	**(12,465,693)**	**(12,465,693)**	**(31,093,284)**	**(24,877,903)**	**(26,960,888)**
EXPENSES									
Expenses	**3,374,683**	**3,376,559**	**3,367,922**	**13,289,532**	**12,339,772**	**12,350,352**	**30,976,685**	**24,859,291**	**24,819,207**
Personnel	1,862,635	1,971,310	1,962,672	5,567,309	5,305,019	5,315,600	6,824,215	7,290,970	7,250,886
Contractual Supplies and Services	1,512,048	1,405,249	1,405,249	7,722,223	7,034,753	7,034,753	24,152,470	17,568,321	17,568,321
Foreign Military Sales (FMS)	-	-	-	-	-	-	-	-	-
Depreciation	33,940	57,559	57,559	22,308	8,819	8,819	110,609	17,963	2,100,948
Provisions	-	522,946	531,583	-	27,409	16,828	2,290	83	40,167
Other Expenses	32	140	140	-	-	-	-	-	-
Financial Costs	786	1,125	1,125	190,030	89,693	89,693	3,700	565	565
Total EXPENSES	**3,409,441**	**3,958,329**	**3,958,329**	**13,501,869**	**12,465,693**	**12,465,693**	**31,093,284**	**24,877,903**	**26,960,888**
Result of the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

	Resolute Support HQ			KFOR HQ			MARCOM Northwood HQ		
	2016	2015 RESTATED	2015	2016	2015 RESTATED	2015	2016	2015 RESTATED	2015
REVENUE									
Revenue	(225,581,674)	(217,439,859)	(218,303,583)	(15,277,472)	(14,938,651)	(14,938,651)	(8,731,699)	(9,036,901)	(9,036,901)
Other Revenue	(17,702)	(33,041)	(33,041)	(172,876)	(158,170)	(158,170)	(51,263)	(4,871)	(4,871)
Financial Revenue	80,818	(301,717)	(301,717)	(234)	(1,652)	(1,652)	(19,256)	(120,225)	(120,225)
Total to be returned to the Nations	(1,005,962)	292,901	292,901	161,549	148,743	148,743	38,807	85,496	85,496
Total REVENUE	**(226,524,520)**	**(217,481,716)**	**(218,345,440)**	**(15,289,034)**	**(14,949,731)**	**(14,949,731)**	**(8,763,412)**	**(9,076,501)**	**(9,076,501)**
EXPENSES									
Expenses	**218,669,103**	**199,985,254**	**200,620,429**	**14,458,854**	**13,564,945**	**13,573,144**	**8,717,250**	**9,022,453**	**9,009,607**
Personnel	28,291,886	26,383,476	26,219,578	5,525,026	5,505,028	5,513,226	2,392,445	2,231,470	2,218,624
Contractual Supplies and Services	190,377,217	173,601,778	174,400,851	8,933,828	8,059,917	8,059,917	6,324,805	6,790,983	6,790,983
Foreign Military Sales (FMS)	-	-	-	-	-	-	-	-	-
Depreciation	6,922,623	17,444,553	17,427,246	782,619	243,492	243,492	14,449	14,449	14,449
Provisions	-	10,052	255,909	35,954	1,130,214	1,122,016	-	16	12,862
Other Expenses	-	215	215	-	-	-	-	1,428	1,428
Financial Costs	932,794	41,641	41,641	11,607	11,080	11,080	31,713	38,155	38,155
Total EXPENSES	**226,524,520**	**217,481,716**	**218,345,440**	**15,289,034**	**14,949,731**	**14,949,731**	**8,763,412**	**9,076,501**	**9,076,501**
Result of the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

ACO Consolidated Financial Statements 2016

	ACO Corporate Accounting and Control Office			NSIP		
	2016	2015 RESTATED	2015	2016	2015 RESTATED	2015
REVENUE						
Revenue	-	-	-	(635,737)	(1,344,295)	(1,344,295)
Other Revenue	(62,690)	(1,390)	(1,390)	-	-	-
Financial Revenue	(2,680,545)	(8,660,944)	(8,660,944)	(25,231)	(42,829)	(42,829)
Total to be returned to the Nations	788,166	7,202,223	7,202,223	25,016	42,546	42,546
Total REVENUE	**(1,955,069)**	**(1,460,110)**	**(1,460,110)**	**(635,952)**	**(1,344,578)**	**(1,344,578)**
EXPENSES						
Expenses	**-**	**-**	-	**635,737**	**1,263,623**	1,263,623
Personnel	-	-	-	-	-	-
Contractual Supplies and Services	-	-	-	635,737	1,263,623	1,263,623
Foreign Military Sales (FMS)	-	-	-	-	-	-
Depreciation	-	-	-	-	-	-
Provisions	-	-	-	-	80,672	80,672
Other Expenses	-	-	-	-	-	-
Financial Costs	1,955,069	1,460,110	1,460,110	215	283	283
Total EXPENSES	**1,955,069**	**1,460,110**	**1,460,110**	**635,952**	**1,344,578**	**1,344,578**
Result of the year	**-**	**-**	**-**	**-**	**-**	**-**

Segment reporting: Reconciliation to Consolidated Financial Statement
Statement of Financial Performance

	TOTAL FOR SEGMENTS			ELIMINATIONS			CONSOLIDATED PERFORMANCE		
	2016	2015 RESTATED	2015	2016	2015 RESTATED	2015	2016	2015 RESTATED	2015
REVENUE									
Revenue	(899,456,977)	(885,028,063)	(891,665,389)	-	-	-	(899,456,977)	(885,028,063)	(891,665,389)
Other Revenue	(17,268,617)	(17,956,630)	(18,033,730)	(804,657)	(14,397,531)	(14,474,631)	(16,463,959)	(3,559,099)	(3,559,099)
Financial Revenue	(2,979,766)	(10,055,241)	(10,055,241)	-	-	-	(2,979,766)	(10,055,241)	(10,055,241)
Total to be returned to the Nations	1,365,900	9,947,565	9,947,565	-	-	-	1,365,900	9,947,565	9,947,565
Total REVENUE	**(918,339,460)**	**(903,092,368)**	**(909,806,795)**	**(804,657)**	**(14,397,531)**	**(14,474,631)**	**(917,534,803)**	**(888,694,837)**	**(895,332,164)**
EXPENSES									
Expenses	**882,016,684**	**847,778,075**	**851,515,446**				**882,016,684**	**847,778,075**	**851,515,446**
Personnel	197,245,902	191,215,532	191,734,178	-	-	-	197,245,902	191,215,532	191,734,179
Contractual Supplies and Services	673,338,772	626,690,435	623,553,099	-	-	-	673,338,772	626,690,435	623,553,098
Foreign Military Sales (FMS)	11,432,009	29,872,108	36,228,169	-	-	-	11,432,009	29,872,108	36,228,169
Depreciation	31,830,042	36,033,791	38,982,871	-	-	-	31,830,042	36,033,791	38,982,871
Provisions	804,657	15,615,018	15,642,994	804,657	14,397,531	14,474,631	-	1,217,487	1,168,363
Other Expenses	6,200	15,985	15,985	-	-	-	6,200	15,985	15,985
Financial Costs	3,681,878	3,649,499	3,649,499	-	-	-	3,681,878	3,649,499	3,649,499
Total EXPENSES	**918,339,460**	**903,092,368**	**909,806,795**	**804,657**	**14,397,531**	**14,474,631**	**917,534,803**	**888,694,837**	**895,332,164**
Result of the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

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. This information is required for accountability purposes and to facilitate a better understanding of the financial position and performance of the reporting entity. Under IPSAS 20 related parties are parties that control or have significant influence over the reporting entity. IPSAS 20 requires the disclosure of the existence of related party relationships, where control exists, and the disclosure of information about transactions between the entity and its related parties.

(1) Identification of ACO related parties.

(a) key management personnel (KMP). Based on the definitions provided by IPSAS 20.4 the key management personnel within ACO has been identified as follows[10]:

i. Members of the governing body of the entity: SACEUR'S Commanders' Conference which acts as the **ACO Board of Directors**. The members of the SCC considered as ACO KMP for the purpose of IPSAS 20 are those who belong to the ACO Commands which are part of the NATO Command Structure.

ii. Key advisors: in accordance with IPSAS 20.7 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. Based upon higher strategic direction and guidance, strategic management is the proactive and holistic management of performance, resources and associated risks/issues in order to enable the optimal delivery of ACO's core military outputs and purpose.

(b) Consolidated entities: the ACO consolidated entities are considered entities controlled by SHAPE and as such they meet the definition of related party in accordance with IPSAS 20. A list of those entities have been provided in 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 Key management personnel. 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 salary received during the reporting year by these 3 NICs amounts to 489,284 EUR (corresponding to 120,609 EUR plus 154,493 EUR plus 214,182 EUR for respectively the three mentioned NICs). The remunerations of the SHAPE Chief of the Strategic & International Affairs include the transferred salaries in foreign currencies duly converted.

As a result of a campaign of enhancing transparency at ACO and in light of IPSAS 20, as well as the NATO code of conduct, the Key management personnel was requested to fill in and sign a declaration statement of any related party transaction between them, their close family members and ACO that shall be disclosed in accordance with IPSAS 20.

The statements made by the Key Management Personnel identified above were all collected prior to publishing the 2016 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.

(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

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

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

A first revision of the AD 60-52 on Official Representation and Hospitality Funds was made in 2013 to cater for the guidelines on Representation Allowance issued in the same year by the NATO Secretary General[11], which was followed by a second revision in 2015 to establish a more flexible approach in the use of the Funds by the ACO Commanders, whilst ensuring consistency and compliance with the new NFRs. The latest revision aimed at reducing the bureaucracy in the application of the AD; distinguishing Representation versus Hospitality and aligning the type of expenditures eligible for both Funds as well as the ratio to be used between guest(s) and host(s).

Administrative procedures for the payments and reimbursements of costs related to the use of the Representation and Hospitality Funds have been laid down in the ACO Standard Operating Procedure issued in December 2015 in order to ensure consistency in the administration of the Funds across the ACO Commands.

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

During 2016 the total expenditure made by ACO for Representation amounted to 251 KEUR which represents 82% of the overall authorised budget of 306 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.

[11] PO(2013)0154 dated 27 March 2013

Table H-A – ACO Budget Execution/ACO Statement of Financial Performance reconciliation

Official Tables	ACO Statement of Financial Performance	Budget execution report (adjusted)
ACO Budget Execution Report: total expenses		902,950,995
Budget Execution Report-other: total expenses		8,588,080
Inventory variances		*-3,852,899*
Property, Plant and Equipment and WIP		*-8,741,100*
Over-estimated accruals		*-11,995,000*
Untaken Leave		*-169,130*
Expense variance - Upgrade FFS/FTD - NAEW		*-5,400,000*
NSIP 2016 execution		*635,737*
		882,016,683
ACO Consolidated Statement of Financial Performance:		
Personnel	197,245,902	
Contractual Supplies and Services	673,338,772	
Foreign Military Sales (FMS) (IV)	11,432,009	882,016,683

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 statement. Further to the FRPs which have specified that only inter-budget transfer between NATO bodies shall be reported in the annual FS, the following transfers occurred in 2016 from, respectively, ACT and IMS to ACO are hereafter disclosed:

- 400,000 EUR from IMS into the ACCS Support Budget (BC 166);
- 67,415 EUR from ACT into the ACCS Support Budget (BC 166).

Those two amounts were exceptionally carried forward in accordance with the NAC agreement. 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 used 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 2016. 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 authorized by NAC into 2017 from the past four years ACO budgets amount totally to 60,038,188 EUR. 34.9 MEUR was carried forward from the AOM 2014, 2015 and 2016 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 as well as for other NATO liabilities in the Balkans due to unpaid rental services of the Gazela Shoe Factory for the NATO Liaison Office in Skopje. Whereas, the amount of 21.7 MEUR was carried forward from the 2013, 2014, 2015 and 2016 NATO Command Structure Entities and Programmes (NCSEP) to cover various ACO requirements within the ACO Static Commands and programmes such as ACCS and NCCB; plus a total amount of 3.3 MEUR from the 2015 and 2016 NAEW&C Force GK related budgets to cover the removal expenses of redundant staff and ACO contractual liabilities due to the closure of the aircraft Depot Level Maintenance (DLM) Source of Repair (SOR).

The table below provides the summary of the approved 2017 special carry forward reconciled with the related contingent liabilities and provisions as further disclosed in the Note D.

Table H-B – ACO Special Carry Forward/Contingent Liabilities and Provisions

Budget	Amount of Special Carry Forward (EUR) C-M(2016)0077 (INV) - BC-DS(2015)0046	Amount of Special Carry Forward (EUR) Breakdown	Amount of the provision (EUR)	Amount of CL (EUR)	Description
2016 RSM (BC 194)	7,103,000	7,103,000	-	-	SCF of funds in support the potential 2017 RSM increased requirements derived from the current on-going revision of the OPLAN.
2014 ISAF (BC 185)	26,144,910	26,144,910		15,924,782	Potential Residual ISAF requirements in 2016 (e.g. Redeployment Activities, Remediation and Descoping, Container Storage, NSPA LOJI potential liabilities, Food Claim liabilities, NCIA costs, ISAF Archiving)
2014 ISAF (BC 185)	330,000	330,000	-	-	Recruitment of five temporary personnel for ISAF archiving posts for the year 2017 (based on BC-DS(2015)0046)
2015 Balkans Operations (BC 183)	1,060,214	1,060,214	1,060,214	-	Gazela Shoe Factory Claim - outstanding rental costs of the NATO Liaison Office Skopjie
2016 Balkans Operations (BC 183)	350,000	350,000	-	-	Replacement of 17 KFOR vehicles
AOM total	**34,988,124**	**34,988,124**	**1,060,214**	**15,924,782**	
2015 ACO Reorganisation Budget (BC 122)	8,013,103	8,013,103	-	-	MEUR 10 special carry forward, per C-M(2016)0058 (INV), to be transferred to the ACCS Support Budget (BC 166), in support of 2017 requirements
2016 NCSEP Lapsable Credits	1,986,897	1,986,897	-	-	
sub-total	**10,000,000**	**10,000,000**			
2013 ACO Reorganization Budget (BC 122)	6,595,247	6,595,247	-	-	ACO emerging high-priority requirements
2014 ACO Reorganization Budget (BC 122)	810,579	810,579	-	-	
2015 ACO Reorganization Budget (BC 122)	912,974	912,974	-	-	
sub-total	**8,318,800**	**8,318,800**	**-**	**-**	
ACO 2016 NCSEP Credits	3,431,264	610,000	-	-	BC 105 NCIA Support to CAOC Uedem for the parallel operation of ACCS/ICC (currently as unfunded 2017 requirements) (BC-D(2016)0254 (INV) & BC-DS(2016)0073 (INV), II)
		622,000	-	-	BC 101 Replacement/maintenance and repair of five SHAPE Command Centre air handling units and replacement of electrical boards (BC-D(2016)0254 (INV) & BC-DS(2016)0073 (INV), II)
		50,000	-	-	BC 101 Replacement of VTC for Military Parnership Division (BC-D(2016)0254 (INV) & BC-DS(2016)0073 (INV), II)
		185,000	194,800	-	BC 104 Implementing of an approved Environmental Characterization Plan and developing the final Risk Analysis for the Bagnoli site (BC-D(2016)0254 (INV) & BC-DS(2016)0073 (INV), II)
		40,000	-	-	BC 104 Energy saving measures: installation of HVAC pumps inverters and integrations with Desigo (BC-D(2016)0254 (INV) & BC-DS(2016)0073 (INV), II)
		50,000	-	-	BC 104 Water proofing of Building 22 (BC-D(2016)0254 (INV) & BCDS(2016)0073 (INV), II)
		35,000	-	-	BC 104 Health and Safety improvements (BC-D(2016)0254 (INV) & BCDS(2016)0073 (INV), II)
		500,000	-	-	BC 105 Move of deployable CAOC equipment (BC-D(2016)0254 (INV)) from CAOC Uedem to DACCC Pogio Renatico (BC-D(2016)0254 (INV) & BC-DS(2016)0073 (INV), II)
		554,512	-	-	BC 118 Enhancement of the Maritime Situational Awareness (MSA) Baseline Rapid Interactive Experimentation (BRITE) (BC-D(2016)0254 (INV) & BC-DS(2016)0073 (INV), II)
		250,000	-	-	BC 178 Enhancement of VTC capability qith acquisition of 7 units of VTC "Flyaway Kits" (BC-D(2016)0254 (INV) & BC-DS(2016)0073 (INV), II)
		245,050	-	-	BC 178 Acquisition of 13 deployable Environmental Control Units (ECU) (BC-D(2016)0254 (INV) & BC-DS(2016)0073 (INV), II)
		289,702	-	-	BC 177 Partial cost of renewal of McAfee and Trendmicro licences for 2017 (BCDS(2016)0050 (INV), VII)
NCSEP total	**21,750,064**	**21,750,064**	**194,800**		
2016 NAEW Reorganisation Budget (BC 123)	300,000	300,000	-	-	Removal Expenses
2016 NAEW Reorganisation Budget (BC 123)	2,000,000	2,000,000	-	5,800,000.00	Deactivation of Depot Level Maintenance (DLM) Source of Repair (SOR): a. 4.1M€: closure of NE-3A Airframe DLM Acivities at Alenia Aermacchi - Materials (spares) buy back; b. 400K€: closure of NE-3A Airframe DLM Acivities at Alenia Aermacchi - Handling,packaging and support thorugh Alenia Team (5 people for 6 months); c. 450K€: closure of NE-3A Airframe DLM Acivities at Alenia Aermacchi - Repair
2015 NAEW Reorganisation Budget (BC 123)	1,000,000	1,000,000			
NAEW&C total	**3,300,000**	**3,300,000**	**-**	**5,800,000.00**	
GRAND TOTAL	**60,038,188**	**60,038,188**	**1,255,014**	**21,724,782**	

Table H-C – Reconciliation between ACO authorised Budgets and Calls in 2016

The table below is showing the reconciliation between the Budget Authorisation and the Calls made in 2016:

Budget authorization 2016

Budget Groups	Advance 2016 called in 2015	1st Call 2016	2nd Call 2016	Total called as of 31 Dec 2016 (BA3)	Final Budget (1)	Actual as of 31 Dec 16	CF as of 31 Dec 16	Difference between Calls, Actual and CF as of 31 Dec 16	Lapse	Adjustment	
28N NCSEP	91,700,000	208,951,639	99,222,167	399,873,806	401,907,531	380,437,171	17,247,771	2,188,864	(4,222,589)	(2,033,725)	(1) + (2)
26N AGS	730,000	7,730,000	2,812,852	11,272,852	11,272,852	4,908,220	6,782	6,357,850	(6,357,849)		
28N AGS	218,000	959,325	399,590	1,576,915	1,576,915	1,564,767	2,638	9,510	(9,510)		
16+1N NAEW	63,728,583	129,771,417	64,500,000	258,000,000	258,000,000	211,562,722	44,144,511	2,292,767	(2,292,767)		(3)
16N NAEW	600,000	14,400,000	5,000,000	20,000,000	20,000,000	14,711,412	4,385,398	903,190	(903,190)		
28N AOM	68,700,000	84,363,822	50,915,128	203,978,950	204,066,032	190,993,846	10,136,484	2,848,620	(2,935,701)	(87,081)	(1)
TOTAL	**225,676,583**	**446,176,203**	**222,849,737**	**894,702,523**	**896,823,330**	**804,178,138**	**75,923,584**	**14,600,801**	**(16,721,606)**	**(2,120,806)**	

(1) **Exchange rate**: budgets authorised in GBP were converted and executed using a parity rate for the fiscal year 2016.
The rate was fixed using the rate as of 1st January 2016, 1 EUR = GBP 0.7330. The 2nd cash call was converted to EUR using the rate 1 EUR = GBP 0.9043

(2) **Special Carry Forward and exchange rate**: EUR 400,000 was transferred from IMS and EUR 67,415 was transferred from ACT to cover special carry forward in budget 166.
Remaining difference of EUR 1,566,309 is due to exchange rate difference

(3) **Cost Share:** The cost share 16+1 refers to the percentage cost share of 16 Nations and a lump sum for 1 Nation.

Budget authorization 2015

Budget Groups	Carry Forward	Adjustment to Carry Forward (4)	Adjusted Carry Forward	Actual as of 31 Dec 16	CF as of 31 Dec 16	Lapse
28N NCSEP	30,707,293	19,478	30,726,771	16,227,411	12,917,602	(1,581,758)
26N AGS	51,045		51,045	13,191	-	(37,854)
28N AGS	9,374		9,374	3,837	5,537	-
16N NAEW	33,293,964	3,000,378	36,294,342	18,751,673	16,441,003	(1,101,666)
17N NAEW	24,432		24,432	156	618	(23,658)
28N AOM	49,991,225	764,458	50,755,683	47,533,785	1,116,003	(2,105,895)
TOTAL	**114,077,333**	**3,784,314**	**117,861,647**	**82,530,053**	**30,480,763**	**(4,850,831)**

(4) Adjustment to Carry Forward is due to restatements of accrual data for 2015

Budget authorization 2014

Budget Groups	Carry Forward	Adjustment to Carry Forward (4)	Adjusted Carry Forward	Actual as of 31 Dec 16	CF as of 31 Dec 16	Lapse
28N NCSEP (6)	6,396,290		6,396,290	3,238,191	810,579	(2,347,520)
26N AGS	7,521		7,521	7,521	-	-
16N NAEW	6,800,692	418	6,801,110	3,350,972	-	(3,450,138)
26N NAEW	2,330,226		2,330,226	-	-	(2,330,226)
28N AOM (4), (5)	37,492,309		37,492,309	9,646,120	26,474,910	(1,371,279)
TOTAL	**53,027,038**	**418**	**53,027,456**	**16,242,804**	**27,285,489**	**(9,499,163)**

(5) Special carry forward approved by BC with ref. BC-DS(2016)0073	26,144,910
(6) Special carry forward approved by BC with ref. BC-DS(2015)0046	330,000
(7) Special carry forward approved by BC with ref. BC-DS(2016)0073	810,579
	27,285,489

Budget authorization 2013

Budget Groups	Carry Forward	Adjustment to Carry Forward	Adjusted Carry Forward	Actual as of 31 Dec 16	CF as of 31 Dec 16	Lapse
28N NCSEP (7)	6,595,247		6,595,247	-	6,595,247	-
TOTAL	**6,595,247**	**-**	**6,595,247**	**-**	**6,595,247**	**-**

(8) Special carry forward approved by BC with ref. BC-DS(2016)0073	6,595,247

I. NSIP Project Execution

Table I-A - NSIP Active projects[12]

OVERALL - NSIP PROJECT EXECUTION STATUS					
Active projects					
Status	**Authorized Budget**	**Commitments**	**Actuals YTD**	**Actuals PJTD**	**Funds Available**
BRUNSSUM	5,156,261	-	179,440	2,527,437	2,628,824
NAPLES	38,329,518	248,815	450,431	36,938,594	1,142,109
KFOR	14,395,343	-	483,588	13,007,756	1,387,586
NHQSa	7,887,783	-	-	7,887,783	-
SHAPE	81,204,770	236,307	606,306	76,558,773	4,409,691
Grand Total	**146,973,674**	**485,122**	**1,719,765**	**136,920,343**	**9,568,210**
Reimbursement of prefinanced projects					
2006/5VA30399	(4,213,552)	-	(4,213,552)	(4,213,552)	-
2009/5VA30534	(832,700)	-	(832,700)	(832,700)	-
Total	**(5,046,252)**	**-**	**(5,046,252)**	**(5,046,252)**	**-**

TABLE B - NSIP closed projects with COFFA

OVERALL - NSIP PROJECT EXECUTION STATUS					
Closed projects					
Status	**Authorized Budget**	**Commitments**	**Actuals YTD**	**Actuals PJTD**	**Funds Available**
BRUNSSUM	76,170,439	-	-	76,170,437	2
NAPLES	10,524,790	-	-	10,524,790	0
KFOR	83,982,299	-	-	83,982,299	-
NHQSa	114,882,084	-	-	114,882,084	-
SHAPE	559,264,042	-	-	559,264,036	5
Grand Total	**844,823,653**	**-**	**-**	**844,823,645**	**8**

TOTAL TABLES A & B

Total	**986,751,075**	**266,046**	**(3,107,412)**	**976,916,812**	**9,568,217**

The tables A and B above show, respectively, the overall value of NSIP projects assigned to SHAPE HN still active at the reporting date versus those, which have been completed and financially closed. The amounts shown in the tables are broken down by the ACO Command responsible for the implementation of the projects further to the delegation of authority provided by SHAPE.

During 2016, a total amount of 1,938,840 EUR was spent against 10 NSIP projects in total executed by SHAPE (€ 825,382) as well as JFCBS (€ 179,440), JFCNP (€ 450,431) and KFOR (€ 483,587) through delegation. The 10 projects refer to three main categorises as follows:

a) **AOM**. An amount of € 663,027 was charged against AOM projects, for contingency funding to repair the network of strategic Main Supply Routes (MSRs) at KFOR and the MSR Bull Bridge which provides the access road to the border crossing point GATE 1 between Kosovo and Serbia. Other two projects funded the emergency repairs of Air Operating Surfaces and of static force protection installations at RS camps

The projects 2006/5VA30399 and 2009/5VA30534 reported in the table above relate to the reimbursement of NSIP pre-financed projects for third parties. The entire cost, previously billed to the TCNs following the Cost recovery mechanism, was fully reimbursed at the end of 2016.

b) **Static HQs**. An amount of € 1,115,624 was spent for the implementation of various projects at SHAPE such as expanding the existing NCIRC Technical Centre facility; providing a concrete cabin to house all high voltage and low voltage equipment, supply and related works to comply with the Technical Requirements of the Network Connection for high Voltage Distribution); hiring some temporary NIC personnel to support the SHAPE Project Office for the construction of new ACO Main HQ Building. Within this group, one minor work project was delegated to JFCNP for the replacement of video walls.

[12] YTD indicates the actual data as of 31 December 2016; PJTD indicates the cumulated data for all the projects until 31 December 2016.

c) **Centralised projects.** An amount of € 160,189 was spent to upgrade the Force Generation Management Tool required to ensure a better support to the Generation of ISAF/RS forces and their flow in and out Theatre as well as for the implementation of the ACO/ACT Mission Identification System (AMIS) at KFOR to standardise a common AMIS ID card throughout the entire NCS.

During 2016 SHAPE in coordination with the IS-NOR and subject to the approval of the Investment Committee finalised the close out of the ISAF completed projects with an authorised scope of less than 3 MEUR through the enhanced accelerated Joint Formal Acceptance Inspection (JFAI) and the conversion into a lump sum of the actual expenditures. All ISAF related projects were financially closed with the Certificate of Final Financial Acceptance (COFFA) issued by the IBAN. Some other ISAF projects above the ceiling of the 3 MEUR were also closed under the normal NSIP procedures. For the remaining projects the IC has recently approved[13], through a similar accelerated procedure, the close-out of projects programmed before 2011, with an authorised scope below the threshold of 3 MEUR.

The total amount of 844.8 MEUR shown at Table B represents the aggregated value of the projects assigned to SHAPE HN which were closed at the reporting date.

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

J. Write Off and Donations

In accordance with article 17 of the NFRs, an annual summary of property and cash losses written-off in 2016 is annexed to the annual FS at the following tables:

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

Asset Categories	SHAPE		JFCBS		JFCNP		AIRCOM		LANDCOM		NAEW		NCISG		RSM		KFOR		NHQSa		Total	
	QTY	€	QTY	€	QTY	€	QTY	€	QTY	€	QTY	€	QTY	€	QTY	€	QTY	€	QTY	€	QTY	€
Machinery	37	-	74	-	23	-	46	-	29	-	1		-	-	87	-	102	-	30	-	**429**	**-**
Transport equipment - Vehicles	16	-	20	-	22	-	-	-	7	-	19		8	-	20	-	22	-	2	-	**136**	**-**
Mission equipment	4	-	33	-	10	-	10	-	18	-	2		-	-	62	-	197	-	10	-	**346**	**-**
Furniture	706	-	528	325	170	-	331	-	345	-	1		-	-	45	-	522	-	-	-	**2,648**	**325**
Installed equipment											1				7						**8**	
Communication Information System (CIS)	-	-	-	-	-	-	-	-	-	-	2		-	-	-	-	-	-	15	-	**17**	**-**
Automated Information System (AIS)	-	-	-	-	-	-	-	-	-	-	3		-	-	-	-	2	-	165	-	**170**	**-**
Grand Total	**763**	**-**	**655**	**325**	**225**	**-**	**387**	**-**	**399**	**-**	**29**	**-**	**8**	**-**	**221**	**-**	**845**	**-**	**222**	**-**	**3,754**	**325**

The table above shows the number of items written-off during 2016 by the ACO Commands per asset categories and the related accounting value, except for MARCOM which did not report any write-off during 2016. 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). The total quantities shown in the table represent the summary of items acquired prior to as well as after 1 January 2013. 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. However, some of the items included in the total quantities reported above refer to assets acquired after 1 January 2013, however they were not capitalised because their value was below the materiality threshold. Only JFCBS wrote-off, during 2016, one capitalised item of furniture at its NBV of € 325. As part of the write-offs reported by SHAPE there is also a write-off of 1 item of machinery and 1 vehicle which were both located and managed by the SOC of NSPA. This specific write-off included also a list of items belonging to the CP5A0156. They were considered part of the kits reported as mission equipment to support the readiness of this ACO capability. Therefore, the quantities of these items are not included in the Table above.

Table J-2-ACO Headquarters International cash losses and irrecoverable debt write-off

Site	Amount in EUR
JFCNP	6,225
NHQSa	39
Total	**6,264**

[13] AC/4-DS(2017)0002

Only two ACO Commands reported write-offs due to cash losses and/or irrecoverable debts as shown in the table above. The more significant amount of € 6,225 was reported by JFCNP. It relates to the write-off of some longstanding receivables plus the write-off of cash occurred in the NATO Support to Africa Union Funds Addis Ababa (NS2AU) in the amount of USD 4,000 (converted in EUR 3,631). The write-off followed an investigation made by a Board of Inquiry (BOI) nominated in accordance with the ACO Directive 010-019. The Board could not identify any responsibility for the loss; hence, the financial loss was written-off by the JFCNP FC based on the recommendations made by the BOI and the concurrence of the JFCNP Chief of Staff. The other amount reported by NHQSa refers to the write-off of some irrecoverable debts in accordance with the NHQSa policy on Severance Pay for NBC Personnel. Based on this policy the portion of severance payments related to non-NATO nations which are no longer in theatre during the quarterly billing period are written off as a financial loss. Moreover, any severance pay below 5 EUR is not billed to individual NATO nations but is written-off as a financial loss.

ACO Headquarters International Property Donations 2016

In accordance with article 17.4 of the NFRs, donations of property/assets authorised during the year by the relevant finance committee shall also be reported in the Annual FS. In 2016 ACO did not submit any request to seek the relevant Finance Committee’s approval to donate to third parties property it has ownership and control of.

K. Trust Funds

The Trust Funds reported in 2016 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. The majority of Trust Funds are managed purely for inflow and outflow through ACO CAC with the only exception of the remaining KSF project related to KFOR.

One of the main fund is the ANA Trust Fund (ANA TF), originally set up by the NAC in 2006 to support the efforts to equip the Afghan National Army. The role of ANA was expanded first in 2009 and later in 2013 taking into consideration the 2012 Chicago Summit commitments. A revised MOU dated 17 June 2014 was signed by the US, NATO HQ and SHAPE. Based on this MOU SHAPE is 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). Based on the requirements plan developed by the Afghan MoD/MoI with support by CSTC-A, a yearly Implementation Plan aims to satisfy those requirements through ANA TF projects and activities. The yearly Implementation Plan is approved by the ANA TF Board. The Implementation Plan includes funding mechanism (donor nations) and Working Plan with details of each project’s scope, estimated cost, milestones, timelines, priorities and performance objectives. ACO J8 is also responsible for the transfer of funds for project execution pending the physical availability of the donations and the recurring financial reporting.

The ANA TF cash holdings increased in 2016 (94 MEUR) versus 2015 (275 MEUR). The following tables show the execution of the Trust Funds as of 31 December 2016:

	Funds received	Interests	Actual expenses	Cash transfers	Assessment rate	Total	Accumulated balance
ANA Trust Funds							
Previous years	1,059,137,692	3,466,404	(3,461,093)	(802,789,284)	7,838,837	264,192,557	264,192,557
2016	322,951,058	1,064,009		(238,177,129)	8,041,513	93,879,452	358,072,009
Total	1,382,088,750	4,530,413	(3,461,093)	(1,040,966,412)	15,880,351	358,072,009	
KSF Trust Funds							
Previous years	7,673,728	105,823	(7,469,599)	-	-	309,952	309,952
2016	-	250	(233,753)	-	-	(233,503)	76,450
Total	7,673,728	106,073	(7,703,352)	-	-	76,450	
KSF Trust Funds - US National funded							
Previous years	1,777,500	44,254	(418,549)	-	-	1,403,205	1,403,205
2016	-	3,062	-	-	-	3,062	1,406,267
Total	1,777,500	47,316	(418,549)	-	-	1,406,267	
Multinational Helicopter Initiative (MHI)							
Previous years	32,305,215	521,750	-	(23,729,106)	(51,822)	9,046,036	9,046,036
2016	(43)	50	-	(648,073)	-	(648,066)	8,397,970
Total	32,305,172	521,800	-	(24,377,180)	(51,822)	8,397,970	
POHRF - ISAF							
Previous years	5,020,113	(5,183)	-	(4,938,862)	-	76,068	76,068
2016	(36,321)	(49)				(36,370)	39,698
Total	4,983,792	(5,232)	-	(4,938,862)	-	39,698	

L. Inventory and PP&E prior to 2013

As reported in the above Note A, 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 2016 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.

It should be noted that items reported for AIRCOM also include also assets held at the reporting date by the DACCC, the CAOC in Poggio Renatico (ITA) and the CAOC in Torrejon (SP). Likewise the assets reported for the NCISG include data related to the 1st, 2nd and 3rd NSBs located, respectively, in Wesel (GER), Grazianise (ITA) and Bydgoszcz (POL)

Table L-A – Inventory prior to 2013- status as of 31 December 2016 (quantities per site/category)

Inventory Categories	NAEW&C Force GK HQ	RSM HQ	JFCNP HQ	NHQSa	LANDCOM HQ	Total
Consumable	2,136,537	25,563		521,083		**2,683,183**
Spare parts	840,347		11,460	15,083	58,163	**925,053**
Ammunition	18,677					**18,677**
Grand Total	**2,995,561**	**25,563**	**11,460**	**536,166**	**58,163**	**3,626,913**

Inventories acquired prior to 1 January 2013 and still present as of 31 Dec. 2016 are reported by NAEW&C Force GK, JFCNP, NHQSa, LANDCOM and Resolute Support. 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. For the other three static sites the end of year quantity balances are lower than 2015 as expected. The items are continuously monitored through normal stock-counting and technically checked to verify their serviceability. The data reported for Resolute Support represents a reclassification of items erroneously disclosed in 2015 as Mission equipment.

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

TABLE L-B – PP&E prior to 2013 – status as of 31 December 2016 (quantities per site/category)

Asset Categories	SHAPE HQ	JFCBS HQ	AIRCOM HQ	RSM HQ	NAEW &C Force GK HQ	JFCNP HQ	NHQSa	LANDCOM HQ	NCISG HQ	KFOR HQ	MARCOM HQ	Total
LAND	-	1	-	-	1	-	-	-	-	-	-	**2**
BUILDING	24	39	15	134	214	9	-	31	51	109	1	**627**
OTHER INFRASTRUCTURES	53	8		52	193	15	-	17	6	11	-	**355**
INSTALLED EQUIPMENT	92	248	165	631	8,178	65	-	11	166	257	5	**9,818**
MACHINERY	800	1,487	496	1,734	22,286	719	336	568	162	1,986	73	**30,647**
TRANSPORT EQUIPMENT - VEHICLES	233	54	99	409	89	40	79	35	778	116	3	**1,935**
TRANSPORT EQUIPMENT - AIRPLANES	-	-	-	-	16	-	-	-	-	-	-	**16**
TRANSPORT EQUIPMENT - AIRPLANES (& Spare Parts)	-	-	-	-	11,698	-	-	-	-	-	-	**11,698**
MISSION EQUIPMENT	1,089	490	415	2,571	11,786	210	116	375	281	371	6	**17,710**
FURNITURE	31,136	8,925	11,265	1,462	329	16,401	480	8,585	1,057	14,570	2,347	**96,557**
COMMUNICATION	-	-	-	-	25,677	-	513	-	-	1,728	-	**27,918**
AUTOMATED INFORMATION SYSTEM	-	-	-	-	3,070	-	852	-	-	4,035	-	**7,957**
Grand Total	**33,427**	**11,252**	**12,455**	**6,993**	**83,537**	**17,459**	**2,376**	**9,622**	**2,501**	**23,183**	**2,435**	**205,240**

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

The HQ facilities of the NHQSa are not reported as they are under the control and responsibility of EU Operation Althea based on the Berlin-Plus Agreement. MARCOM is reporting only 1 building which is the NATO HQ facility as all the other infrastructures are under the exclusive control of the HN.

During 2016 SHAPE continued to work on asset classification for the items belonging to the category of the installed equipment, namely elevators, Heating, Ventilation and Air Conditioning (HVAC) installations, generators/UPS and access control and surveillance systems such as alarm systems, finger print systems, badge readers etc. and others such as water treatment plants, gates and barriers to ensure a consistent accounting treatment of these assets across the ACO Commands. For this reason some of the legacy PP&E previously reported by ACO under other categories have been reassessed at the reporting date as Installed Equipment.

The category shown in the Table related to Transportation – Aircraft (Spare Parts) includes several airplane major spare parts held by NAEW&C Force GK HQ which are functional to the 16 aircrafts that make the AWACS fleet. Since 1985 NAEW&C Force GK HQ has operated a fleet of 17 E3A AWAC planes providing air surveillance to NATO. The decision to create the Air Ground Surveillance (AGS) and a major upgrade approved for only 14 airplanes have resulted in the decision to dispose 3 of the planes. Plane LX-N-90449, being next in line for a DLM, was transferred in June 2015 to the US; this saved approximately 14 MEUR in maintenance costs. Before the plane was transported to the US sensitive and material parts, more than 1,400 items were removed from the plane to be used as spare parts for the remaining fleet. NAEW&C Force GK HQ has reserved the right to request more parts being returned before final disposal, however the plane itself is no longer under control, nor used by NAEW, so only 16 planes are reported.

The category of Furniture includes a variety of items mainly for offices such as desks, chairs, file cabinets, office storage, conference furniture, etc. There are still differences in the number of assets of legacy furniture reported across the ACO sites which may depend on different stockpiles accumulated over the years and different refurbishment plans applied in relation to the availability of funding vis-à-vis other operational requirements. However, it may also depend on how the assets have been tracked whether on a serialised-based approach in some instances rather than by unit. Further analysis will be carried out on this category to improve the consistency of the approach and reduce discrepancies amongst the various ACO sites.

An in-depth analysis was performed for the installed equipment data reported for Resolute Support. The items were reported as component of the main asset or a single item IAW the ACO Accounting Policy.

Generators and UPS were reported as single items and for all the rest, only the main unit for the different locations were reported.

The only CIS assets reported in the 2016 ACO FS relate to KFOR, NHQSa and NAEW&C Force GK as they are not under the control of the NCIA but rather of ACO as disclosed in Note A above.

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 2016. The result is characterised by an overall profit of 518,108 EUR versus the profit of 742,061 EUR generated in 2015 (restated data). With the exception of JFCNP with a loss of 593,449 EUR, DACCC with a loss of 35,400 EUR and CAOC TJ with a loss of 4,626 EUR, the rest of the ACO Commands have reported a profit. 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.

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
COS	Chief of Staff	A principal staff officer, who is the coordinator of the supporting staff or a primary aide to an important individual
CRP	Consolidated Resource Proposal	Provides a summary of additional NATO and national infrastructure required (as well as associated NATO and national capital costs) and NATO operation and maintenance and manpower costs necessary to achieve the required capability
CSSC	CIS Sustainment Support Centre	NCIA's asset management and repair facility located in Brunssum, Netherlands
DACCC	Deployable Air Command and Control Centre	A fully deployable air command & control centre to support deployed NATO air operations worldwide. Located at Poggio Renatico, Italy
EOY	End of Year	Occurring or done at the end of the fiscal year
ERP	Enterprise Resource Planning	Associated with business application software suites; ERP serves as architecture for integrating business applications, they act as one system even though each module can be implemented alone
EUFOR	European Union Force– Operation Althea	European Union military mission in Sarajevo, starting from 1st December 2004
EUR	Euro	The official currency of the Eurozone; utilized by 19 of the 28 member states of the European Union (EU) consisting of Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania (from 2015), Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain. The currency is also used in Montenegro, Kosovo, Andorra, Monaco, San Marino and Vatican.
EURIBOR	Euro Interbank Offered Rate	A daily reference rate based on the averaged interest rates at which banks offer to lend unsecured funds to other banks in the euro wholesale money market
FA	Fixed Assets	A term used for assets and property which cannot easily be converted into cash
FinS	Financial Accounting System	NAFS is replaced by a newer version of software and a centralised architecture; this new system, pronounced "finesse" is shortened from the Bi-Strategic Command Automated Information Systems Financial Services (Bi-Sc AIS FinS)
FMS	Foreign Military Sales	Facilitates sales of arms, defense equipment, defense services, and military training to foreign governments
FOC	Full Operational Capability Plus	A dedicated communications backbone; this program provides 66 points of

Plus		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
HSG	Headquarters 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
KPC	Kosovo Protection Corps	A civilian protection body having served since 1999; was dissolved on 14 June 2009
KSF	Kosovo Security Force	Dissolution of the KPC took place in parallel with the creation of the KSF; the KSF has primary responsibility for security tasks that are not appropriate for the police such as emergency response, explosive ordnance disposal and civil protection; it may also participate in crisis response operations, including peace support operations; this professional, all-volunteer force is trained according to NATO standards and placed under civilian-led, democratic control
LCH	Local Civilian Hire	ISAF positions meant for Afghan nationals.
LEGAD	Legal Advisor	A label customarily attached to lawyers who advise commanders in the field in NATO operations and within the countries participating in NATO peacekeeping
LIFO	Last In, First Out	An accounting technique used in managing inventory and financial matters meaning that the newest inventory items are recorded as sold first. This techniques is not allowed in accordance with IPSAS
LOJI	Loss of Job Indemnity	Income replacement indemnity payments extended to individuals who have lost employment
LWR	Local Wage Rate	A member of the NATO work force who typically performs skilled or unskilled manual labour
M & W	Morale and Welfare	A network of support and leisure services and activities that enhances the

MWA	Morale and Welfare Activities	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
MOU	Memorandum of Understanding	A document describing a bilateral or multilateral agreement between parties
MTF	Medical Treatment Facility	A facility established for the purpose of furnishing medical and/or dental care to eligible individuals
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
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. • 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 NAMSA; it covers most areas of logistics support, such as item identification, supply, maintenance and property accounting
NFR	NATO Financial Regulations	Regulations published by NATO HQ governing the use and reporting of NATO financial assets
NHQSa	NATO Headquarter Sarajevo	NATO AOM operation in Bosnia Herzegovina
NIC	NATO International Civilian	A permanent international post of NATO grade A, L, B, or C authorized to be filled by a civilian whose pay and allowances are established by the North Atlantic Council and provided from the international budget.
NMA	NATO Military Authority	Consisting of ACO, ACT and NCSA
NMR	National Military Representative	Senior military officers from NATO nations serving as members of the Military Committee
NOR	NATO Office of Resources	Brings together all international staff working on NATO military common-funded issues with the aim of reinforcing military common-funded resource management at the NATO HQ
NSHQ	NATO Special Operations Headquarters	Manages the NATO Special Operations capabilities. HQ is located at SHAPE, Casteau
NSIP	NATO Security Investment Programme	Funds authorized and allocated by the BC for specific NATO projects e.g., runways, bunkers, roads, buildings, etc.
NSPA	NATO Support Agency	Agency created by consolidating former NAMSA, NAMA, and CEPMA.
NSU	National Support Unit	Responsible for relaying logistics and personnel support to the respective national units
O&M	Operations and Maintenance	A category of appropriations which traditionally finance those things whose benefits are derived for a limited period of time, i.e., expenses, rather than investments. Examples of costs financed by O&M funds are headquarters operations, civilian salaries and awards, travel, fuel, minor construction projects, expenses of operational military forces, training and education,

		recruiting, depot maintenance, base operations support,
OCC	Operational Capability Concept	Designed to establish new means and mechanisms to reinforce Partnership for Peace's operational capabilities through enhanced and closer military 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
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
STANAG	Standard NATO Agreement	An agreement promulgated by the Director NATO Standardization Agency under the authority vested in him by the NATO Standardization Organisation Charter
TF	Trust Funds	Funding provided by nations to achieve objectives complimentary to the NATO mission which are not eligible for NATO common funding
TFR	Trattamento di Fine Rapporto	a vested benefit payable to the employee for a part of his/her salary deferred in time to the moment when termination of contract takes place
USAREUR	U. S. Army Europe	Trains and leads Army Forces in support of U.S. European Command and Headquarters, Department of the U. S. Army
VNC	Voluntary National Contribution	Supports NATO's Counter-IED (C-IED) Action Plan the fund facilitates multinational cooperation by combining financial and non-financial national contributions in support of specific C-IED projects
WAC	Weighted Average Cost	A method of calculating ending inventory cost
WG	Working Group	An assembly of experts brought together for intensive work on a specific topic

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