

	NATO	NORTH ATLANTIC COUNCIL
	OTAN	CONSEIL DE L'ATLANTIQUE NORD

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12 January 2024

DOCUMENT
PO(2023)0469-AS1 (INV)

**IBAN AUDIT REPORT ON THE 2022 CONSOLIDATED FINANCIAL STATEMENTS
OF ALLIED COMMAND OPERATIONS (ACO)**

ACTION SHEET

On 12 January 2024, under the silence procedure, the Council noted the RPPB report and the IBAN Audit Report attached to PO(2023)0469 (INV), approved the conclusions and recommendations in the RPPB report and approved the public disclosure of the RPPB report, the IBAN Audit Report and associated Financial statements of ACO enclosed to PO(2023)0469 (INV).

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to PO(2023)0469 (INV).

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20 December 2023

DOCUMENT
PO(2023)0469 (INV)
Silence Procedure ends:
12 Jan 2024 - 15:30

To: Permanent Representatives (Council)

From: Secretary General

**IBAN AUDIT REPORT ON THE 2022 CONSOLIDATED FINANCIAL STATEMENTS OF
ALLIED COMMAND OPERATIONS (ACO)**

1. I attach the Resource Policy and Planning Board (RPPB) report on the International Board of Auditors for NATO (IBAN) Audit Report on the 2022 Consolidated Financial Statements of the Allied Command Operations (ACO). The IBAN issued an unqualified opinion on the Financial Statements and on compliance for the year ended 31 December 2022.
2. I do not believe this issue requires further discussion in Council. Therefore, **unless I hear to the contrary by 15:30 hours on Friday, 12 January 2024**, I shall assume the Council noted the RPPB report and the IBAN Audit Report, approved the conclusions and recommendations in the RPPB report and approved the public disclosure of the RPPB report, the IBAN Audit Report and associated Financial statements of ACO.

(Signed) Jens Stoltenberg

1 Annex
2 Enclosures

Original: English



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ANNEX TO
PO(2023)0469 (INV)

**IBAN AUDIT REPORT ON THE 2022 CONSOLIDATED FINANCIAL STATEMENTS OF
ALLIED COMMAND OPERATIONS (ACO)**

Report by the Resource Policy and Planning Board

References:

A. IBA-AR(2023)0012	IBAN Audit Report on the Consolidated Financial Statements of the Allied Command Operations (ACO) for the year ended on 31 December 2022
B. C-M(2015)0025	NATO Financial Regulations (NFR)
C. BC-D(2015)0260- REV3 (INV)	NATO Financial Rules and Procedures (FRP)
D. C-M(2016)0023	NATO Accounting Framework (NAF)
E. PO(64)379	NATO Civilian Personnel Regulations (CPRs)
F. PO(2015)0052	Wales Summit tasker on transparency and accountability

INTRODUCTION

1. This report by the Resource Policy and Planning Board (RPPB) addresses the IBAN Audit Report on the 2022 Consolidated Financial Statements of the Allied Command Operations (ACO). The IBAN issued an unqualified opinion on the Financial Statements and on compliance for the year ended 31 December 2022 (reference A).

AIM

2. This report highlights key issues in the IBAN Audit Report with the aim to enable the RPPB to reflect on strategic challenges resulting from the audit of Financial Statements of NATO entities and to recommend courses of action to Council as applicable, in order to improve transparency, accountability and consistency.

OBSERVATIONS AND RPPB VIEW

3. In 2022, the IBAN made five observations and recommendations for the ACO. One of them relate to the need to strengthen internal controls over the preparation of the Financial Statements and another one on the non-compliance with the NATO Financial Regulations (NFR) (reference B) and the Financial Rules and Procedures (FRP) (reference C) concerning dual signature rights for bank transfers. Other three observations and recommendations relate to insufficient justification of deviations from normal method of procurement, weaknesses in the recruitment and employment process for consultants and weaknesses in the contracting process for temporary staff. These observations and recommendations did not affect the audit opinion on the Financial Statements, neither on compliance.

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3.1. Observation 1: The RPPB supports IBAN's recommendation that the ACO strengthen internal controls over the preparation of the Financial Statements to provide a reasonable basis for obtaining assurance that Financial Statements are in compliance with the NFR and NATO Accounting Framework (NAF) (reference D).

3.2. Observation 2: With regard to non-compliance with the NFR and FRP concerning dual signature rights for bank transfers, the RPPB supports IBAN's recommendation that the ACO comply with the NFR and FRP section XXXI concerning the principle of segregation of duties and specifically with the requirement of dual signature regarding bank transfers in the cases identified in the IBAN's report (the USD bank account managed by ACO Corporate Accounting and Control Branch and the Morale and Welfare Activities bank accounts of the Allied Air Command (AIRCOM), and NATO Communications & Information Systems Group (NCISG)).

3.3. Observation 3: Concerning deviations from normal procurement method, the RPPB supports IBAN's recommendation that, when approving departure from normal methods of procurement, the ACO properly justify and document its decisions, in accordance with the provisions of the NFR and FRP.

3.4. Observation 4: In relation to identified weaknesses in the recruitment and employment process for consultants, the RPPB supports IBAN's recommendation that ACO comply with the provisions of the NATO Civilian Personnel Regulations (CPRs) (reference E) concerning the recruitment and employment of consultants, by ensuring the award of consultant contracts for a period longer than 180 days only in exceptional and well-defined cases; and considering the possibility of contracting consultancy services through competitive procurement procedures, especially if the value of the consultancy contract exceeds the threshold for competitive bidding under the NFR.

3.5. Observation 5: The IBAN identified weaknesses in the contracting process for temporary staff and recommended that ACO request specific prior budgetary approval from the Nations in case the services of temporary personnel are deemed necessary for a period exceeding one year, or there is a requirement to offer a temporary contract for a period of six months up to one year, as per the CPRs Chapter XVII Article 78.2. In its reply to IBAN, ACO did not agree that "the prior budgetary approval required for the extension of temporary contracts beyond one year is a specific requirement under the CPRs, beyond any requirements under the annual budgeting process", and believes that it can be provided through the approval of the annual budget if the temporary position is clearly identified and justified in the budget submission. In order to obtain a clear position from the Budget Committee (BC) on the subject, ACO will request the BC to specifically address this question in the annual budget guidance (issued in the March – April timeframe). Although CPRs requirement is independent from the current requirements of the annual budget submission, the IBAN acknowledged that the prior budgetary approval of temporary personnel under the conditions specified in Article 78.2 of the CPRs could be provided through the approval of the annual budget, and will review any clarification on this matter in the annual budget

guidance approved by the BC. The RPPB supports IBAN's sub-recommendation a), that ACO comply with the provisions of the NATO CRPs concerning the employment and contracting of temporary personnel, by requesting prior budgetary approval from the Nations. Furthermore, the RPPB considers that in case the services of temporary personnel meets the conditions specified in Article 78.2, the prior budgetary approval of temporary personnel could be provided through the approval of the annual budget if addressed in the annual budget guidance. In that case, the extension of temporary personnel should be clearly identified, explained and justified in the annual budget submission. The RPPB supports IBAN's sub-recommendation b), that the ACO update the wording of the employment contracts offered to NATO temporary personnel following a legal analysis of compliance with the provisions of the CPRs.

4. Also, the IBAN followed up on the status of observations and recommendations from the previous years' audits and found that four were closed and seven remain in-progress. During the audit, IBAN closed observations on ensuring the operation of key system in NATO Airborne Early Warning and Control Force (NAEW&CF), on the need to mitigate risks that arise with using NATO customer-funded agencies, and on the NAEW&CF and Alliance Ground Surveillance (AGS) contribution in kind recognition and disclosure. Observation 1 superseded the IBAN's financial year 2021 recommendation on the need to strengthen internal controls over the preparation of the Financial Statements. The observations are detailed in document at reference A.

IBAN PREVIOUS YEARS' OBSERVATIONS AND RECOMMENDATIONS IN-PROGRESS OR OPEN FOR MORE THAN THREE YEARS

5. When submitting their response on the IBAN audit of 2023 Financial Statements, the ACO may still have 2016 and 2018 financial year observations and recommendations that are in-progress. If such is the case, the RPPB recommends that Council invite the ACO to provide an action plan to Council with timelines on the implementation of in-progress observations and recommendations that will be older than three years when submitting response on the IBAN audit of 2023 Financial Statements. These observations are detailed in document at reference A. The RPPB supports the ACO's efforts to continue applying remedial actions with the aim to address IBAN's observations and recommendations in-progress for more than three years.

CONCLUSIONS

6. The IBAN issued an unqualified opinion on the 2022 ACO Consolidated Financial Statements and on compliance. Five observations and recommendations were raised for the ACO. As of the date of the IBAN Audit Report, seven previous years' observations for the ACO were in-progress and four were closed.

7. The RPPB supports IBAN's recommendation that the ACO strengthen internal controls over the preparation of the Financial Statements and ensure the compliance with

NFR and FRP concerning dual signature rights for bank transfers. In addition, the RPPB supports IBAN's recommendation that the ACO justify deviations from normal method of procurement and mitigate weaknesses in the recruitment and employment process for consultants and weaknesses in the contracting process for temporary staff.

8. In respect of previous years' observations and recommendations, the RPPB notes the improvements made by the ACO and welcomes the ACO management commitment to commence with the corrective actions with the aim to promptly implement in-progress recommendations.

9. The RPPB recommends that Council invite the ACO to provide an action plan to Council with timelines on the implementation of observations and recommendations that will be older than three years when submitting their response on the IBAN audit of 2023 Financial Statements.

RECOMMENDATIONS

10. The Resource Policy and Planning Board recommend that the Council;

10.1. note this report and the IBAN Audit Report at reference A;

10.2. approve the conclusions at paragraphs 6 to 9;

10.3. invite the ACO to provide an action plan to Council with timelines on the implementation of recommendations that will be older than three years when submitting their response on the IBAN audit of 2023 Financial Statements; and

10.4. approve to the public disclosure of the 2022 Consolidated Financial Statements for the ACO, its associated IBAN Audit Report and this report in line with agreed policy at reference F.



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

Brussels - Belgium



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IBA-A(2023)0076
25 August 2023

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

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

Subject: ***International Board of Auditors for NATO (IBAN) Audit Report on the audit of the Allied Command Operations (ACO) Financial Statements for the year ended 31 December 2022 – IBA-AR(2023)0012***

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

IBAN's report sets out an unqualified opinion on the Financial Statements of the Allied Command Operations (ACO) and on compliance for financial year 2022.

Yours sincerely,

Radek Visinger
Chair

Attachments: As stated above.

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**Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Financial Statements of the
Allied Command Operations (ACO)
for the year ended 31 December 2022**

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

IBAN audited the ACO Consolidated Financial Statements for the year ended 31 December 2022. The total spent for ACO in 2022 (actuals plus commitments which include special carry forwards) against all Budget Committee (BC) funded budgets amounted to approximately EUR 1.5 billion (EUR 1.4 billion in 2021). In addition to the execution of the Budget Committee (BC) budgets, ACO also incurred approximately EUR 3 million (EUR 3 million in 2021) of NATO Security Investment Programme (NSIP) project expenditure.

IBAN issued an unqualified opinion on the 2022 Consolidated Financial Statements resubmitted to IBAN on 27 June 2023 and on compliance for the year ended 31 December 2022. IBAN made five observations and recommendations. These observations do not impact the audit opinion on the Consolidated Financial Statements and on compliance:

1. Need to strengthen internal controls over the preparation of the financial statements.
2. Non-compliance with the NATO Financial Regulations and the Financial Rules and Procedures concerning dual signature rights for bank transfers.
3. Deviations from normal method of procurement not properly justified.
4. Weaknesses in the recruitment and employment process for consultants.
5. Weaknesses in the contracting process for temporary staff.

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

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

The observations and recommendations that are not in the Audit Report are included in a Management Letter addressed to ACO management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under ACO executive responsibility.

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IBA-AR(2023)0012

25 August 2023

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDIT REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS OF THE

ALLIED COMMAND OPERATIONS

(ACO)

FOR THE YEAR ENDED 31 DECEMBER 2022

PUBLICLY DISCLOSED - PDN(2024)0007 - MIS EN LECTURE PUBLIQUE

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

The International Board of Auditors for NATO (IBAN) has audited the Consolidated Financial Statements of Allied Command Operations (ACO) for the 12 month period ended 31 December 2022, issued under document reference SH/FINAC/CAC/FC116/23-014325, and resubmitted to IBAN on 27 June 2023. These Financial Statements comprise the Statement of Financial Position as at 31 December 2022, the Statement of Financial Performance, the Statement of Changes in Net Assets/Equity and the Statement of Cash Flow, for the 12 month period ended 31 December 2022, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a Budget Execution Statement for the 12 month period ended 31 December 2022.

In our opinion, the Consolidated Financial Statements give a true and fair view of the financial position of ACO as at 31 December 2022, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2022, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF).

Basis for Opinion on the Financial Statements

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

We have conducted our audit in accordance with the International Organisation of Supreme Audit Institutions (INTOSAI) Principles as per our Charter, and standards consistent with the International Standards of Supreme Audit Institutions (ISSAI 2000-2899).

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

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

Management's Responsibility for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

Compliance

Opinion on Compliance

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

Basis for Opinion on Compliance

We have conducted our compliance audit in accordance with the International Organisation of Supreme Audit Institutions (INTOSAI) Principles as per our Charter, and standards consistent with the International Standards of Supreme Audit Institutions (ISSAI 4000-4899).

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

Management's Responsibility for Compliance

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

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

Auditor's Responsibilities for Compliance

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

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

Brussels, 25 August 2023



Radek Visinger
Chair

OBSERVATIONS AND RECOMMENDATIONS

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

1. Need to strengthen internal controls over the preparation of the financial statements.
2. Non-compliance with the NATO Financial Regulations and the Financial Rules and Procedures concerning dual signature rights for bank transfers.
3. Deviations from normal method of procurement not properly justified.
4. Weaknesses in the recruitment and employment process for consultants.
5. Weaknesses in the contracting process for temporary staff.

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

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

The observations and recommendations that are not in the Audit Report are included in a Management Letter addressed to ACO management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under ACO executive responsibility.

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

Reasoning

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

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

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

Observations

1.4 IBAN identified a material non-disclosure error during the audit of the ACO Consolidated Financial Statements first submitted to IBAN on 31 March 2023, as described below. This was corrected in the Resubmitted Financial Statements submitted to IBAN on 27 June 2023.

1.5 The ACO Consolidated Financial Statements first submitted were corrected in order to include a disclosure in note “D. *Contingent Assets, Contingent Liabilities and Provisions*” for a contingent liability related to the commitment to provide a loan to Defence Innovation Accelerator for the North Atlantic (DIANA) of up to EUR 23 million.

1.6 The above corrected misstatement demonstrates the need to ensure adequate processes are in place for the preparation, review and reporting of the financial statements to avoid material misstatements or errors in disclosures.

Recommendations

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

2. NON-COMPLIANCE WITH THE NATO FINANCIAL REGULATIONS AND THE FINANCIAL RULES AND PROCEDURES CONCERNING DUAL SIGNATURE RIGHTS FOR BANK TRANSFERS

Reasoning

2.1 According to Article 12.2. of the NATO Financial Regulations (NFRs) “*In order to meet the desired internal control standards the Financial Controller shall:*

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

2.2 Article 12.3 of the NFRs states that “*Internal control activities shall include, but not be limited to: (a) segregation of duties; [...]*”

2.3 Article 31 of the NFRs further describes the principles concerning the deposit and investment of funds owned by NATO bodies.

2.4 The management of bank accounts and the related signature rights and responsibilities are further detailed under the NATO Financial Rules and Procedures (FRPs) section XXXI:

“Management of Bank Accounts

1) The Financial Controller shall be responsible for the establishment and overall management of all bank and short term low risk investment accounts to be operated by the Treasury and Disbursing Officers designated pursuant to FRP VI.”

“Dual Signature

2) Transfers and withdrawals from bank and short term low risk investment accounts operated by Treasury and Disbursing Officers (where such posts exist) shall be authorised by two signatories designated by the Financial Controller.”

Observations

2.5 We identified six ACO bank accounts for which there was no requirement of dual signature for bank transfers, five of which were related to Moral and Welfare Activities (MWA). This is not compliant with the segregation of duties principle referred to under Article 12 of the NFRs and also not compliant with the provisions of the FRPs section XXXI (2).

2.6 The details concerning the six bank accounts are as follows:

- One bank account was opened centrally by the ACO Corporate Accounting and Control Branch for transactions in US Dollars and had a year-end balance of EUR 1,348,783.
- Three bank accounts were opened locally in Allied Air Command (AIRCOM) for MWA activities, specifically related to the:
 - o Combined Air Operations Centre in Uedem (one bank account, with a year-end balance of EUR 17,994);
 - o Deployable Air Command & Control Centre in Poggio Renatico (two bank accounts, with a cumulated balance at year-end of EUR 277,260).
- Two bank accounts were opened locally in the NATO Communications & Information Systems Group (NCISG) for MWA activities for the 1st Signal Battalion in Wesel, with a cumulated balance at year-end of EUR 12,867.

2.7 As regards the bank account operated centrally by the ACO Corporate Accounting and Control Branch, ACO informed us that they were not aware of the possibility of setting up a dual signature in the online banking application. However, ACO put in place mitigating internal controls, by which all designated signatories were provided with the details of payments to be done before the payment batches were

run in the banking system with one signature. No mitigating controls have been noted concerning the five MWA bank accounts.

Recommendations

2.8 IBAN recommends that ACO comply with the NFRs and FRPs section XXXI concerning the principle of segregation of duties and specifically with the requirement of dual signature regarding bank transfers in the case of the ACO Corporate Accounting and Control Branch, AIRCOM, and NCISG.

3. DEVIATIONS FROM NORMAL PROCUREMENT METHOD NOT PROPERLY JUSTIFIED

Reasoning

3.1 According to Article 32.1 of the NRFs, NATO Procurement and Contracting shall be governed by the following procedures:

“a) The timely acquisition of goods and services to be achieved wherever possible through a competitive bidding process, using approved procurement procedures [...];

(b) Goods and services will be procured, in a transparent and fair manner built upon the principle of non-discrimination and fairness in which eligible suppliers are given the same opportunity and treated in the same fair manner;”

3.2 In addition to this, as per paragraph 5 a) and b) of the FRPs XXXII:

“(a) (iii) Goods and services with an estimated cost exceeding twice Level B of the EFL (€40,000) but below Level D of the EFL (€160,000) shall be procured through soliciting offers from at least five suppliers known to meet the technical and commercial standards.

(b) Formal procurement, consisting of International Competitive Bidding and Proposals for all procurement actions exceeding Level D of the EFL (€160,000).”

3.3 Regarding the deviations from the normal procurement procedures, paragraph 13 of section XXXII of the FRPs refers to waivers of procurement rules and procedures:

“Departures from the above requirements may only be authorised by the Financial Controller in the interests of security, urgency, standardisation of equipment, or in exceptional circumstances. When the total amount exceeds the equivalent of Level E of the EFL (€800,000), such cases shall be reported to the Budget Committee for decision.”

3.4 Furthermore, Annex B of the Bi-Strategic Command Directive 060-070 (Bi-SCD 060-070) mentions that:

“4. Sole Source. A Sole Source selection process is not only a deviation from the prescribed contracting method, but it also circumvents the safeguards and protections of international competitive bidding. For that reason, authorisation is strictly controlled and must be required because of at least one of the four criteria:

- a. Security: Classified or Access to NATO or proprietary information.*
- b. Operational Urgency: Compressed timeline, emergent requirement (poor planning is not valid justification).*
- c. Standardisation: Integrates, Communicates with other NATO systems.*
- d. Imperative Practical Considerations: Includes cost, feasibility, prior experience.”*

5. Best Value. “Best Value” applies weighted value to the various criteria identified in the SOW. (...) The ‘best value’ contracting practice must still follow the bedrock principles of fair and open competition and transparency of contracting decisions. For that reason, all of the required qualifications, as well as their weighted value, must be precisely specified in advance of the competitive bidding.”

3.5 ACO letter SH/J8/BUP/FC021/1 of 08 February 2018 on established financial limits applicable to ACO procurement activities signed by the ACO Head of Contracts and ACO Financial Controller, states that:

“Notwithstanding the simplified procurement authorized the use of known suppliers from which offers are solicited, Contracting Officers are encouraged to periodically ensure that offers remain fair and reasonable by reviewing the availability of additional potential suppliers that could meet the technical and commercial standards.”

3.6 Finally, ACO Directive 060-102 on Contracting of External Legal Counsel states in section 2.6.:

“b. The source selection process shall recognise that the more complex, specialized and unusual the subject matter, the more likely it is that specific experience and expertise will provide a superior result. Consequently, the selection process will focus primarily on the specialised expertise of bidders in cases involving complex or specialised legal questions. To this effect Best Value shall be considered.”

Observations

3.7 IBAN found two cases of deviation from the normal method of procurement out of 25 cases subject to review that were not properly justified in accordance with the provisions of the NFRs and of the FRPs.

3.8 The first case concerns the approval by the NATO Alliance Ground Surveillance Force (NAGSF) of a deviation from the normal method of procurement for the adaptation of a conference room. The scope of the work included the implementation of noise mitigation measures, a video presentation system, and conferencing system adaptation and renewal of office furniture, for an estimated contract value of EUR 160,000.

3.9 Considering the estimated amount, the FRPs require the invitation of at least five bidders as the normal procurement method. Instead, a deviation from normal procurement methods was authorised by the NAGSF Financial Controller and the contract was awarded by sole source. The value of the signed contract was EUR 159,834.

3.10 The justification offered for the deviation from the normal procurement procedures is operational urgency, understood as the essential need to guarantee comfort standards, noise mitigation measures and optimise seating settings in the conference room.

3.11 The description of the operational urgency provided in the deviation request does not meet the criteria in the Bi-SCD 060-070 (compressed timeline, emergent requirement). Also, there is no information about when the works should be performed, nor is there information about the impact if deadlines were not met. Therefore, the justification does not explain why the procurement needs could not be met via a competitive procedure, i.e. via the normal procurement method.

3.12 The justifications for the use of sole source only relate to the previous performance of the contractor, their experience with similar projects in other ACO sites and their possession of a security clearance to execute the works in classified areas. This goes against existing ACO guidance that encourages Commands to review the availability of additional potential suppliers that could meet the technical and commercial standards. For example, there is no information about how NAGSF has concluded that the selected contractor was the only one in possession of the security clearance or that it is the only one with the technical ability to perform the work.

3.13 Given that the signed contract value is very close to the Established Financial Limit D (EUR 160,000) which is the lower ceiling for International Competitive Bidding, NAGSF could have considered using market surveys (national and international) to identify any other suitable contractors.

3.14 The second case concerned by the IBAN finding is related to the NATO Joint Force Command Naples (JFCNP) approval of a deviation from the normal method of procurement for the provision of legal assistance services specialised in Italian civil law.

3.15 The estimated value of the contract was EUR 90,000. Considering this, the FRPs require the invitation of at least five bidders as the normal procurement method.

Instead, a deviation was authorised by the JFCNP Financial Controller and the contract was awarded by sole source.

3.16 The justification offered for the deviation from the normal procurement procedures is “other practical considerations”, namely that the selected law firm has been providing legal assistance to JFCNP for more than 20 years, it has professional knowledge concerning the rules applicable in the NATO environment and it is currently representing the Command in three court cases with significant monetary implications. An additional justification presented in the deviation is that, in the Italian legal environment, a contract for legal services should not be assigned based on purely financial considerations only, but should rely on the level of trust in the professional abilities and moral characteristics of the contractor.

3.17 The justifications put forth in the deviation from the normal procurement procedures do not fully explain why the procurement needs could not be met via the normal procurement method. The familiarity of the selected contractor with NATO legal regulations and its reputability in the area of Italian civil law do not preclude the existence of other law firms with similar competencies on the market that could successfully provide the required level of legal services. The availability and suitability of such suppliers can only be assessed following the application of competitive procurement, as provided for in the NFRs.

3.18 Furthermore, the scope of the services contracted is legal assistance and court representation by a licensed attorney specialised in Italian civil law. While the cases for which legal aid is requested may be specific, the legal specialisation and the type of representation requested from the supplier do not fall in the scope of an unusual subject matter, as provided for under ACO Directive 060-102.

3.19 Finally, we note that the selected contractor has been awarded successive contracts based on deviations from the normal procurement procedures since at least 2013. This practice goes against the overarching principle of a competitive bidding process required by the NFRs and ACO directives.

3.20 Based on the above, we conclude that, in the two cases above, the deviations from the normal method of procurement are not properly justified.

Recommendations

3.21 IBAN recommends that, when approving departure from normal methods of procurement, ACO properly justify and document its decisions, in accordance with the provisions of the NATO Financial Regulations and the FRPs.

4. WEAKNESSES IN THE RECRUITMENT AND EMPLOYMENT PROCESS FOR CONSULTANTS

Reasoning

4.1 As per the Preamble of the NATO Civilian Personnel Regulations (CPRs), the CPRs are applicable throughout NATO and govern personnel administration in each NATO body for personnel of the following classes: international civilian personnel, consultants and temporary (civilian) staff.

4.2 Chapter XVI of the CPRs details the provisions applicable to consultants:

“68.1 The Head of the NATO body may call on the services of consultants when necessary.

68.2 A consultant is defined as a recognized expert or specialist engaged to serve in an advisory or technical capacity. (...)

69.1 The duration of employment of consultants shall be stipulated in the contract and shall not normally exceed a period of 90 consecutive days. However, if required by circumstances, such contracts may be extended by one further period not exceeding 90 days.

69.2 Where, in exceptional and well-defined cases, the services of a consultant are known to be required for a period longer than 180 days, specific budgetary provision shall be made.”

4.3 Moreover, the Internal Guidelines for NATO Administrators on the employment of Temporary Staff and Consultants (AP-WP(2009) 0001-Final dated 17 March 2010) define the consultant as *“a recognised expert or specialist engaged to serve in an advisory capacity not provided for by the establishment approved for the NATO body concerned. Typical characteristics of consultants are that they are engaged to provide clearly defined deliverables rather than to perform daily tasks.”*

4.4 The same Guidelines also stipulate that *“3.6 Before a decision is taken to engage a consultant under Chapter XVI of CPRs, careful consideration should be given to the possibility of contracting for their services through the NATO body’s Purchasing and Contracts procedures, especially if the value of the consultancy contract would exceed the threshold for competitive bidding under the NATO Financial Regulations.”*

4.5 The Allied Joint Force Command Brunssum (JFCBS) Standard Operating Procedure on Consultants & Temporary personnel section 5, dated 10 December 2010, establishes that consultants can be recruited through three methods: competitive hiring, sole source or through an employment agency.

Observations

4.6 In one case out of eight subject to review, IBAN found that the practice followed by ACO concerning the recruitment and employment of consultants does not fully comply with the provisions of the CPRs regarding the use of consultants.

4.7 ACO JFCBS engaged the services of a consultant starting January 2012. From January 2012 to December 2022, the consultant was employed almost continuously, with the following exceptions: in six instances the contract was interrupted for periods not exceeding 15 days, and in two instances, the contract was interrupted for periods not exceeding 1 month. Considering the consultant was engaged through a number of contracts starting in 2012, although budgetary provisions were made for periods exceeding 180 days, we have not found evidence to justify that those contracts were for exceptional and well-defined cases, as required by article 69.2 of the CPRs.

4.8 During the period of employment, the consultant has held a multitude of roles (analyst, senior advisor, staff officer, and consultant) in varied areas (Joint Policy Application, Headquarters Transition Implementation, Integrated Advisory, NATO Command Structure Adaptation etc.). This is against the understanding that a consultant is a recognised expert or specialist as defined by article 68.2 of the CPRs, and is normally engaged to provide clearly defined deliverables rather than to perform daily tasks.

4.9 The initial recruitment of the consultant and the subsequent contract extensions were conducted through a sole source procedure. The fees paid to the consultant by ACO JFCBS from January 2012 to December 2022 exceed EUR 160,000, i.e. the threshold for international competitive bidding according to Section XXXII of the FRPs.

4.10 Considering the above, we conclude that the practice followed by JFCBS in this case does not fully comply with the provisions of the CPRs regarding the use of consultants. Furthermore, given the length of the engagement and the nature of the work performed by the consultant, an analysis should have been carried out regarding the need to contract the consulting services via a competitive procurement procedure.

Recommendations

4.11 IBAN recommends that ACO comply with the provisions of the NATO CRPs concerning the recruitment and employment of consultants, by:

- a) Ensuring the award of consultant contracts for a period longer than 180 days only in exceptional and well-defined cases;
- b) Considering the possibility of contracting consultancy services through competitive procurement procedures, especially if the value of the consultancy

contract exceeds the threshold for competitive bidding under the NATO Financial Regulations.

5. WEAKNESSES IN THE CONTRACTING PROCESS FOR TEMPORARY STAFF

Reasoning

5.1 As per the Preamble of the CPRs, the CPRs are applicable throughout NATO and govern personnel administration in each NATO body for personnel of the following classes: international civilian personnel, consultants and temporary (civilian) staff.

5.2 Chapter XVII of the CPRs details the provisions applicable to temporary personnel:

“78.2 Where, in exceptional cases, the services of temporary personnel are required for a period exceeding one year, or there is a requirement to offer a temporary contract which is for a period of six months up to one year, the Head of the NATO body shall seek prior budgetary approval from Nations before the contract could be offered.

78.3 Temporary contracts for periods of less than three months can be terminated by either party with one week’s notice. Temporary contracts of three months or more can be terminated by either party with two weeks’ notice. Exceptionally, the Head of the NATO body may substitute the payment of the corresponding emoluments for part or all of the period of notice.

78.4 Temporary personnel shall not be offered further temporary employment in the same NATO body after their contract ends, for a period which is equal to the duration of their initial temporary contract, up to a maximum of three months.

79.1 The remuneration of temporary personnel, based on rates established by the Council, will be specified in their contracts.

79.2 Unless otherwise foreseen in bi-lateral agreements under Article 85, the remuneration of temporary personnel is not exempt from taxation. Temporary personnel are responsible for acquitting themselves of their responsibilities for the payment of taxes.”

Observations

5.3 IBAN found three cases out of 11 tested in which the practice followed by ACO with respect to the employment and contracting of temporary staff does not fully comply with the provisions of the NATO CPRs.

5.4 In the period 2020-2022, HQ Allied Land Command (LANDCOM) employed four temporary staff. Three of the four staff were employed in this period in the same assignment, on successive contracts of six and then twelve months, until the end of 2022.

5.5 According to the CPRs Chapter XVII Article 78.2, prior budgetary approval is required from the Nations in case the services of temporary personnel are deemed necessary on a period exceeding six months. We note that this is a specific requirement under the CPRs, beyond any requirements under the annual budgeting process. LANDCOM has not provided any evidence that they have obtained specific Budget Committee approvals before offering the multiple employment contracts to the three staff. Not obtaining such an approval is not compliant with the provisions of Article 78.2 in the CPRs.

5.6 IBAN also noted that the employment contracts of the NATO temporary staff do not include any reference to the NATO CPRs or to the Articles in the CPRs that govern the employment of NATO temporary personnel. Instead, the contracts include several references to the national labour law of Türkiye and specify that *“the provisions of the law and legislation shall apply for matters not regulated in this Contract”*. In effect, the wording of the employment contracts for NATO temporary staff is virtually the same as the wording in the employment contracts of local wage rate staff that does not fall under the CPRs.

5.7 The absence of specific contracts for NATO temporary staff that adequately reference the NATO CPRs, reflect the basis for remuneration and detail the applicable rules concerning social benefits and taxation, exposes LANDCOM to an increased risk of legal disputes and to requests for potentially undue payments.

5.8 For example, for the three staff referred to above, LANDCOM made severance payments of approximately EUR 5,400 at the end of their final contracts in 2022, based on the understanding that this is required under the provisions of the national legislation. However, no such payments are foreseen for NATO temporary staff under the CPRs.

5.9 Considering the above, we conclude that the practice followed by LANDCOM in the employment and contracting of temporary staff does not fully comply with the provisions of the NATO CPRs.

Recommendations

5.10 IBAN recommends that ACO fully comply with the provisions of the NATO CRPs concerning the employment and contracting of temporary personnel, by:

- a) Requesting prior budgetary approval from the Nations in case the services of temporary personnel are deemed necessary for a period exceeding six months;

- b) Updating the wording of the employment contracts offered to NATO temporary personnel following a legal analysis of compliance with the provisions of the CPRs.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

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

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

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
(1) ACO FY 2021 IBA-AR(2022)0011-REV1, paragraph 1 NEED TO STRENGTHEN INTERNAL CONTROLS OVER THE PREPARATION OF THE FINANCIAL STATEMENTS IBAN's Recommendation IBAN recommends that ACO strengthen internal controls over the preparation of the financial statements to provide a reasonable basis for obtaining assurance that financial statements are in compliance with the NATO Accounting Framework and NATO Financial Regulations.	Superseded by Observation 1.	Observation Closed.
(2) ACO FY 2021 IBA-AR(2022)0011-REV1, paragraph 2 INTERNAL CONTROL WEAKNESSES REGARDING MORALE AND WELFARE ACTIVITIES (MWA) AND INCOMPLETENESS OF THE ACO MWA DISCLOSURE NOTE IBAN's Recommendation IBAN recommends that ACO ensure an adequate internal control over the management and reporting of MWA and related activities that embraces all aspects	IBAN found several internal control deficiencies which can negatively impact the safeguarding of MWA funds and property. These refer to the area of cash	Observation In-Progress.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
of the MWA regulations, the NFRs and the NATO Accounting Framework. This could be achieved by : a) Ensuring that all operating MWA and related activities are formally approved by the local Commanders and that unapproved activities are not allowed to operate in accordance with Article 4.2 of the MWA regulations; b) Ensuring the completeness of the ACO MWA and related activities scope for financial reporting, including the activities funded from non-appropriated funds such as the clubs, in accordance with Articles 3.5 and 4.7 of the MWA regulations and Article 6.2 of the NATO Accounting Framework; c) Developing an internal control policy for MWA and related activities in accordance with the Articles 3.5 and 4.1 of the MWA regulations;	at SHAPE MWA: i. SHAPE MWA does not perform bank reconciliations with respect to the bank accounts reported in the ACO Financial Statements MWA disclosure note. ii. In several cases, the SHAPE MWA balances reported at year-end for cash on hand (petty cash, change funds) are either higher or lower than the balances internally authorised for such funds. a) IBAN did not further identify MWA activities that have not been approved by the local Commanders. Closed. b) IBAN notes that ACO has not disclosed in the 2022 Financial Statements disclosure note "M. ACO Morale & Welfare Activities" the liabilities (including provisions and contingent liabilities) and the number of full-time equivalent personnel directly supporting MWA in relation to the 69 clubs and associations reported as established across ACO. Since these activities are run under the authorised framework of MWA, the absence of the disclosure is against the reporting requirements foreseen under Section 6.2 of the NATO Accounting Framework and the MWA Regulations. Open. c) ACO has made updates to the "ACO Accounting Policy for MWA" and to the "MWA ACO End of Year Guidance" documents, to ensure guidance and clarifications are provided as regards the reporting of clubs and associations. Also, it has introduced control elements such as reporting templates for year end, a requirement of certification of financial data from the local headquarters, completion of an interim closure exercise, additional information requested for the identification of MWA bank accounts. IBAN considers that the above, together with other on-going measures aimed to	

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
d) Conducting internal audit or internal review on an annual basis of MWA and non-appropriated funds as required by the Article 4.7 of the MWA regulations.	strengthen internal control in the area of MWA can be included in an updated version of the ACO MWA Directive. In-Progress. d) With the exception of SHAPE MWA which has established a function of internal reviewer, ACO MWA entities rely on the ACO Internal Audit function to meet the requirements for internal audit and review foreseen in the MWA Regulations C-M (2019)0026(INV). In this context, the audits and reviews are subject to the availability of resources and to the annual planning of internal audit activities. However, IBAN reiterates that the MWA Regulations Article 4.7 c) clearly provides that: <i>“minimally, MWAs and revenue received from related activities will undergo an annual assessment by internal audit or internal review”.</i> In-Progress.	
(3) ACO FY 2021 IBA-AR(2022)0011-REV1, paragraph 3 NEED TO ENSURE THE EARLIEST POSSIBLE CANCELLATION OF UNUSED BALANCES RELATED TO ACCRUED LIABILITIES IBAN's Recommendation IBAN recommends NAEW&CF to comply with the Articles XXV 20) to 22) of the FRPs by ensuring the earliest possible cancellation of unused balances related to accrued expenses against actual year-end liabilities. This can be achieved by: a) Requesting the assistance of the respective delegations to NATO or of the Budget Committee in securing timely presentation of claims for payment; b) Informing the Budget Committee of claims for payment receivable against committed appropriations brought forward which are liable to final cancellation at the end of the year.	a) b) ACO has put in place a process for the review and closure of outstanding accrual balances, which includes follow-up as part of the monthly reconciliation process performed by the headquarters and the eventual request for assistance to delegations and reporting to the Budget Committee. The results concerning the identified cases of outstanding accruals are expected by end-2023. In-Progress.	Observation In-Progress.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
(4) ACO FY 2021 IBA-AR(2022)0011-REV1, paragraph 3 FINANCIAL REGULATIONS AND REPORTING FRAMEWORK TO BE CLARIFIED BASED ON THE LEGAL STATUS OF THE SHAPE INTERNATIONAL SCHOOL IBAN's Recommendation IBAN recommends that the SHAPE Financial Controller in coordination with the SHAPE International School, clarify with the appropriate SHAPE governing body in accordance with article 7.1 of the NATO Financial Regulations (NFRs), whether the SHAPE International School financial administration should be governed by the NFRs.	IBAN notes that as per PO(2022)0504, ACO will work with involved parties (identified as SHAPE International School, Office of Legal Affairs, NATO Office of Resources) to clarify the regulatory framework applicable to the School as well as the way ahead. The North Atlantic Council is the governing body responsible for the oversight and discharge of management responsibilities of NATO entities established under either the Ottawa Agreement or the Paris Protocol. This includes SHAPE, which from a legal perspective incorporates the SHAPE International School. In this context, IBAN reiterates that SHAPE Financial Controller together with the SHAPE International School need to clarify with the North Atlantic Council the governance arrangements for the School, including the application of the NATO Financial Regulations and the NATO Accounting Framework. In-Progress.	Observation In-Progress.
(5) ACO FY 2020 IBA-AR(2021)0030, paragraph 1 ESTIMATED FINANCIAL IMPACT OF RESOLUTE SUPPORT MISSION WITHDRAWAL NOT AVAILABLE IBAN's Recommendation IBAN recommends that ACO: a) Finalise the analysis of the estimated financial impact of the RS withdrawal as soon as possible and inform all stakeholders thereof.	a) IBAN notes that a significant number of liabilities related to the Resolute Support withdrawal were closed. ACO is coordinating with NSPA for the monitoring and closing of all remaining items. Closed.	Observation In-Progress.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
b) For other on-going NATO missions, establishes procedures to ensure that an updated analysis and overview of the financial impact of possible restructuring or closure of an operation is readily available, at a minimum annually.	b) IBAN reiterates that, at a minimum, a procedure should be designed outlining the main areas of financial impact and listing the main activities to be performed and the key responsibilities in a restructuring or closure scenario. IBAN will review such a procedure after issuance. Open.	
(6) ACO FY 2020 IBA-AR(2021)0030, paragraph 2 NAEW&C AND AGS CONTRIBUTION IN KIND RECOGNITION AND DISCLOSURE IBAN's Recommendation IBAN recommends that ACO: a) Recognise or at minima disclose the two Nations' Contribution in Kind to the NAEW&CF and associated expenses in the ACO Financial Statements. b) Develop a specific accounting and financial reporting policy regarding Contribution in Kind agreements.	a) Closed in IBA-AR(2022)0011-REV1. b) IBAN notes that Contributions in Kind are a NATO-wide matter, and that ACO aims to address this recommendation as part of the review of the NATO Accounting Framework (NAF). Closed.	Observation Closed.
(7) ACO FY 2020 IBA-AR(2021)0030, paragraph 4 NSIP INFRASTRUCTURE ASSETS RECOGNITION AND DISCLOSURE IBAN's Recommendation IBAN recommends that NAEW&CF: a) Account and disclose as PP&E the NSIP infrastructure assets that were completed and in-service for an amount up to EUR 22 million. b) Implement a process to wholly capture, in a timely manner, all NSIP infrastructure assets handed-over or upgraded.	a) Closed in IBA-AR(2022)0011-REV1. b) IBAN notes that ACO has put in place measures to ensure that all NSIP assets are captured in the fixed assets registers in a timely manner. For example, each headquarter is reviewing on a quarterly basis extractions from the Common Funded Integrated Resources Information System (CIRIS), to identify potential infrastructure assets that they are in control of.	Observation In-Progress.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
	However, IBAN identified in 2022 a number of assets, although of immaterial impact, that were not captured in a timely manner in the fixed asset registers of Allied Joint Force Command Brunssum (JFCBS) and Kosovo Force (KFOR). In-Progress.	
(8) ACO FY 2018 IBA-AR(2019)0016, paragraph 1 ACO NEEDS TO BE AN “INTELLIGENT CUSTOMER” WITH NATO CUSTOMER-FUNDED AGENCIES IBAN’s Recommendation IBAN recommends that ACO develop an action plan to increase its ability to challenge the validity of information and solutions provided by the two major agencies. a) For CIS services, ACO should develop and monitor the following information systems: - Verification of personnel time and costs estimated by NCIA - Verification of the coherence between investments, and Operations and Maintenance (O&M) costs of Capability Packages - Measurement of quality and performance of services delivered by NCIA b) For other military goods and services, ACO should: - Clarify with NSPA their shared roles and responsibilities with the Contract Integrator team at a workflow level in the Logistics Support Agreement and Associated Programme of Works. - Develop the capacity to challenge the advice and logistic support solutions defined by the CI team and delivered by NSPA to ACO, by improving the use of key performance indicators.	IBAN notes that ACO has not yet centralised in an action plan the measures taken to implement the intelligent customer concept. a) ACO improved the monitoring by the headquarters of NCIA's performance and organised working groups to address topics related to key performance indicators measurement. In-Progress. b) ACO engaged with NSPA to clarify shared responsibilities in areas such as the airworthiness for the Alliance Ground Surveillance (AGS) System. Also, ACO continues to work with NSPA for the setting-up of Logistics Support Agreements in areas such as the NATO Integrated Air & Missile Defence System (NATINAMDS) and to improve the monitoring of NSPA performance. In-Progress.	Observation In-Progress.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
(9) ACO FY 2018 IBA-AR(2019)0016, paragraph 2 ACO NEEDS TO MITIGATE RISKS THAT ARISE WITH USING NATO CUSTOMER-FUNDED AGENCIES IBAN's Recommendation IBAN recommends that ACO manage all major operational, financial and legal risks arising with using customer-funded NATO agencies, by incorporating these in the operational and financial risk registers and developing clear mitigating measures. More specifically, IBAN recommends that the following risks are addressed: - Large delays in NATO operations and missions, and associated costs - Insufficient quality of CIS equipment and services delivered, in particular by external CIS contractors outside of the Service Level Agreement with NCIA - Cost overruns related to External CIS contractors, given the inconsistent application of the Firm Fixed Price agreements - Low enforceability of Agreements with agencies and unclear sharing of financial liabilities arising	IBAN notes that operational and financial risks are now reflected and monitored in the ACO global risk register. Closed.	Observation Closed.
(10) ACO FY 2016 IBA-AR(2017)08, paragraph 3 OPERATION OF KEY SYSTEM IN NAEW&CF NOT ENSURED Board's Recommendation The Board recommends NAEW&CF to develop a plan for ensuring proper system administration of PILS (Programme Integrated Logistics System). This could be, for example, by ensuring training of other staff, and back-up functions by ensuring written procedures and manual of the process or by exploring the possibility of the use of external contractors to some functions. Further, NAEW&CF should make sure that relevant capacity for the maintenance and system administration of PILS is in place.	A PILS system upgrade was completed in 2022 and staffing shortages are being addressed, with one new member of staff joining in early 2023, and the other expected to join by the end of 2023. IBAN notes that no formal plan was developed, however taking into account the above improvements, the recommendation is considered closed. Closed.	Observation Closed.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
(11) ACO FY 2016 IBA-AR(2017)08, paragraph 5 NO MEMORANDUM OF AGREEMENT (MOA) IN PLACE WITH NCIA Board's Recommendation The Board recommends ACO to continue the effort of establishing a MOA with NCIA. Further, a SLA for KFOR should be established as soon as possible.	IBAN notes that there is still no MOA in place with the NATO Communications and Information Agency (NCIA) and also notes the lack of consensus among stakeholders regarding the need to establish such a document. The MOA is assimilated to “<i>an overarching agreement outlining the general principles establishing the relationship between both parties</i>”, as per Financial Rules and Procedures (FRPs) XXVII point 3). However, this category of agreement with customer-funded bodies is only established “<i>in principle</i>” under the FRPs. Considering this, and also the overall ACO efforts to conclude Service Level Agreements (SLAs) with NCIA for most of its activities, the recommendation is closed. Closed. IBAN notes the on-going discussions between KFOR, Joint Force Command Naples and NCIA to establish the KFOR Service Level Agreement. In-Progress.	Observation In-Progress.

ALLIED COMMAND OPERATIONS (ACO) FORMAL COMMENTS ON THE AUDIT REPORT AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS

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

ACO's Formal Comments

Agreed.

ACO is constantly striving to improve internal controls and compliance with end-of-year "lessons learned" workshops used to identify improvements in the end of year process and production of the Financial Statements (FS). Further improvements to the internal controls will be implemented for the 2023 FS.

For the 2022 FS, additional controls were introduced to the already extensive controls in place for the FS (annual updated end-of-year guidance, checklists and certifications), these included:

- Collection of bank account listings to ensure completeness of reporting bank accounts and balances;*
- Implementation of a new process for asset recognition from NSIP projects;*
- Additional controls in relation to MWA reporting.*

In addition, FINAC has initiated a process review of the different finance processes, including financial reporting preparation. The on-going process review is considered an effective approach to implement internal control as it ensures a systematic identification of process risks and the design, documentation and testing of appropriate control activities.

OBSERVATION 2: NON-COMPLIANCE WITH THE NATO FINANCIAL REGULATIONS AND THE FINANCIAL RULES AND PROCEDURES CONCERNING DUAL SIGNATURE RIGHTS FOR BANK TRANSFERS

ACO's Formal Comments

Agreed.

ACO Corporate Accounting and Control Branch have started discussions with the relevant bank with the aim of making the necessary changes required to satisfy the requirements of the NFRs and FRPs in relation to dual signatures regarding bank transfers. However, due to the potential impact on other NATO entities and technical IT system challenges with both the external bank

and NATO systems (which require the input of NCIA), timelines for completion of the system changes are currently unknown.

For the MWA bank accounts, both AIRCOM and NCISG have started to make changes to the bank account requirements ensuring dual signatures are required for bank transfers.

**OBSERVATION 3:
DEVIATIONS FROM NORMAL PROCUREMENT METHOD NOT PROPERLY
JUSTIFIED**

ACO's Formal Comments

Agreed in principle.

ACO makes every effort to comply with the NATO Financial Regulations and FRPs and agrees with IBAN that it is important to ensure that HQs properly justify and document their decisions in relation to deviations from the normal procurement methods.

In both instances identified by the IBAN, the issue is not linked to the request for deviation but rather the approval to deviate from normal procurement methods. As both examples were at the HQ level; the HQ Financial Controller is responsible for ensuring the decision is compliant and adequately documented to ensure that auditors (both internal and external) can understand any unique circumstances or factors beyond the HQ's control and part of the final record. The ACO Head of Contracts provides briefings to HQ Financial Controllers and P&C Office Chiefs at every conference to ensure all concerned fully understand the requirement for comprehensive documentation.

Lastly, a key stakeholder in the process is the requirement holder who is uniquely placed to provide an assessment of the impact. It is imperative that future audits include interviews with the requirement holder where, at face value, the IBAN considers that the justification is insufficient for deviation from normal procurement methods.

IBAN's Position

IBAN acknowledges that the issue is related to the approval to deviate from normal procurement methods and has amended the recommendation in paragraph 3.21 accordingly.

**OBSERVATION 4:
WEAKNESSES IN THE RECRUITMENT AND EMPLOYMENT PROCESS FOR
CONSULTANTS**

ACO's Formal Comments

Agreed.

ACO makes every effort to comply with the provisions of the NATO CRPs concerning the recruitment and employment of consultants. However, the constantly evolving requirements of exercises and operations overseen by operational commands can lead to challenges in drafting formal work requirements that meet both the requirements of the organisation and commercially contracted consultancy solutions. ACO will consider using commercially contracted consultancy solutions in such circumstances and ensure contracts of a period longer than 180 days are properly justified.

**OBSERVATION 5:
WEAKNESSES IN THE CONTRACTING PROCESS FOR TEMPORARY STAFF**

ACO's Formal Comments

Partially Agreed.

a) ACO does not agree with the IBAN conclusion that the prior budgetary approval required for the extension of temporary contracts beyond one year "is a specific requirement under the CPRs, beyond any requirements under the annual budgeting process". ACO believes that this is an interpretation of the CPRs that is not substantiated by either the text of the CPRs, or Budget Committee (BC) guidance and/or practice.

In ACO's opinion, "prior budgetary approval" can be provided through the approval of the annual budget if the temporary position is clearly identified and justified in the budget submission. This practice has been used extensively in the ACO Adaptation Budget (BC124), due to the large number of temporary positions, and not objected by the BC. Due to the high number of temporary employees in ACO (especially in the context of the NATO 2030 initiative), it is impractical to request contract extensions as individual submissions.

In order to obtain a clear position from the BC on the subject, ACO will request the BC to specifically address this question in the annual budget guidance (issued in the March – April timeframe).

b) ACO agrees with this observation. The wording of the employment contracts offered to NATO temporary personnel will be updated to clearly reflect the need for compliance with the provisions of the CPRs.

IBAN's Position

IBAN recommended that ACO request prior budgetary approval from the Nations in case the services of temporary personnel are deemed necessary for a period exceeding six months, as per the CPRs Chapter XVII Article 78.2. This CPR requirement is independent from the current requirements of the annual budget submission. IBAN acknowledges that the prior budgetary approval of temporary personnel beyond six months could be provided through the approval of the annual budget, if the extension of personnel beyond six months is clearly identified, explained and justified in the annual budget submission. IBAN will review any clarification on this matter in the annual budget guidance approved by the Budget Committee. The recommendation is maintained.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS**(1) ACO FY 2021**

IBA-AR(2022)0011-REV1, paragraph 1

NEED TO STRENGTHEN INTERNAL CONTROLS OVER THE PREPARATION OF THE FINANCIAL STATEMENTS***ACO's Formal Comments***

Agreed.

Superseded by Observation 1 (IBA-AR(2023)0012).

(2) ACO FY 2021

IBA-AR(2022)0011-REV1, paragraph 2

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

Partially agreed.

In principle, ACO continues to agree with the recommendations even though they do not seem realistic considering the current level of resources. ACO reiterates that resources are not available to fully address all recommendations and that a risk-based approach for all MWA topics is required considering the materiality of the MWA activities and the available resources.

During 2022, internal controls were strengthened with the inclusion of additional checks and validations. For example:

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- Updated ACO Accounting Policy for MWA and end of year guidance.
- Local HQ Financial Controller checklist certifying that data submitted for the Financial Statements is complete and in compliance with relevant rules and directives.
- Additional data requests for validation (list of MWA controlled entities, bank account lists, etc.).
- Improved end of year templates to improve efficiency and reduce potential for human error.

In addition, the FINAC process review process was completed for the MWA financial reporting in April 2023. This process ensures a systematic identification of process risks and the design, documentation and testing of appropriate control activities.

Finally, in relation to an annual internal audit or internal review, only SHAPE has an internal reviewer for MWA at the SHAPE HQ. Other locations have no resources available to undertake internal reviews of Morale and Welfare and would be reliant on SHAPE AIA to perform these tasks. SHAPE AIA is not sufficiently resourced to provide support to all HQs and the Morale and Welfare activities would not feature sufficiently highly on a risk profile, for ACO as a whole, which should drive the AIA annual programming.

It is recommended that an alternative approach be investigated to meet the equivalent objectives of an internal review or audit.

IBAN's Position

IBAN takes note of the resource constraints highlighted by ACO as regards the MWA area. However, the Council-approved MWA Regulations (C-M (2019)0026(INV)) that have come into effect on 1 January 2022 have clear requirements as regards the scope of MWA reporting as well as the need to conduct internal audits and reviews and the need to have an adequate internal control environment. The recommendations are therefore maintained.

(3) ACO FY 2021

IBA-AR(2022)0011-REV1, paragraph 3

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

Agreed.

A cyclical process has been introduced to address unused balances relating to accrued liabilities at, not only NAEW&CF, but ACO-wide.

Guidance has been issued to ACO HQs on the process for reviewing and closing outstanding accruals and, as part of the monthly reconciliation

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packages sent to HQs, outstanding accruals are identified, reviewed and closed where appropriate.

For NAEW&CF, a number of outstanding accruals have been closed but work continues on other outstanding accruals.

During the first cycle of this process, only a few Nations were identified as responsible for outstanding balances over 12 months and insufficient information was available to support the request for assistance from the respective delegation to NATO.

The cyclical process will be strengthened in 2024 when the ACO FINAC CAC Branch Head will contact relevant delegations to NATO if required.

(4) ACO FY 2021

IBA-AR(2022)0011-REV1, paragraph 3

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

Agreed in principle.

ACO has worked with relevant parties (notably, SHAPE International School, Office of Legal Affairs, NATO Office of Resources) to clarify the regulatory framework, however, clarification with the North Atlantic Council is still required on the governance arrangements.

(5) ACO FY 2020

IBA-AR(2021)0030, paragraph 1

ESTIMATED FINANCIAL IMPACT OF RESOLUTE SUPPORT MISSION WITHDRAWAL NOT AVAILABLE

*a) The IBAN notes that a significant number of liabilities related to the Resolute Support withdrawal were closed. ACO is coordinating with NSPA for the monitoring and closing of all remaining items.
Closed.*

b) Due to the inherent complexity of operations and missions, and the lack of information about the circumstances of their potential closure, any analysis of data and the information produced thereof would be uncertain and unreliable. Therefore, ACO continues to assert that the implementation of this observation in its fullest sense is impractical and not cost effective considering the level of effort it would take, the absence of workforce to execute, and the lack of sufficient value to the organization.

IBAN's Position

IBAN takes note of the complexity of the operations and missions environment, as highlighted by ACO. Considering specifically this context and the past experience concerning the Resolute Support Mission, IBAN reiterates that, at a minimum, a procedure should be designed outlining the main areas of financial impact and listing the main activities to be performed and the key responsibilities in a restructuring or closure scenario. The recommendation is therefore maintained.

(6) ACO FY 2020

IBA-AR(2021)0030, paragraph 2

NAEW&C AND AGS CONTRIBUTION IN KIND RECOGNITION AND DISCLOSURE

Agreed.

a) Closed in IBA-AR(2022)0011-REV1.

b) IBAN notes that Contributions in Kind are a NATO-wide matter, and that ACO aims to address this recommendation as part of the review of the NATO Accounting Framework (NAF).

Closed.

(7) ACO FY 2020

IBA-AR(2021)0030, paragraph 4

NSIP INFRASTRUCTURE ASSETS RECOGNITION AND DISCLOSURE

Agreed.

a) Closed in IBA-AR(2022)0011-REV1.

b) ACO continues to strengthen the recognition of assets from NSIP projects with the embedding of the process to extract quarterly reports from the Common Funded Integrated Resource Information System (CIRIS) and communicate with ACO HQs to properly recognise assets.

(8) ACO FY 2018

IBA-AR(2019)0016, paragraph 1

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

Agreed.

ACO FINAC is finalising the ACO action plan to implement the intelligent customer concept with NATO Agencies. The plan reflects the measures

undertaken so far and those that are planned in the future years to support this principle. The paper will integrate the input from J6 and NCIA.

(9) ACO FY 2018

IBA-AR(2019)0016, paragraph 2

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

Agreed.

The IBAN notes that operational and financial risks are now reflected and monitored in the ACO global risk register.

Closed.

(10) ACO FY 2016

IBA-AR(2017)08, paragraph 3

OPERATION OF KEY SYSTEM IN NAEW&CF NOT ENSURED

A PILS system upgrade was completed in 2022 and staffing shortages are being addressed, with one new member of staff joining in early 2023, and the other expected to join by the end of 2023. The IBAN notes that no formal plan was developed, however taking into account the above improvements, the recommendation is considered closed.

Closed.

(11) ACO FY 2016

IBA-AR(2017)08, paragraph 5

NO MEMORANDUM OF AGREEMENT (MOA) IN PLACE WITH NCIA

Agreed.

The IBAN notes that there is still no MOA in place with the NATO Communications and Information Agency (NCIA) and also notes the lack of consensus among stakeholders regarding the need to establish such a document.

The MOA is assimilated to "an overarching agreement outlining the general principles establishing the relationship between both parties", as per Financial Rules and Procedures (FRPs) XXVII point 3). However, this category of agreement with customer-funded bodies is only established "in principle" under the FRPs. Considering this, and also the overall ACO efforts to conclude Service Level Agreements (SLAs) with NCIA for most of its activities, the recommendation is closed.

Discussions continue between KFOR, JFCNP and NCIA to establish the SLA for KFOR.

GLOSSARY OF TERMS

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

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

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

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



ALLIED COMMAND OPERATIONS

CONSOLIDATED FINANCIAL STATEMENTS 2022

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CERTIFICATION OF THE 2022 ACO CONSOLIDATED FINANCIAL STATEMENTS

1. As per the NATO Financial Regulation (NFR) 35.1, ACO shall submit consolidated annual financial statements for audit to the International Board of Auditors for NATO (IBAN) by the 31 March following the end of the financial year. Attached herewith is the full set of the 2022 ACO Consolidated Financial Statements including the Statement of Internal Control.
2. The ACO Financial Controller is required by the NFRs and the Financial Rules and Procedures (FRPs) to maintain accounting records and to prepare consolidated annual financial statements. To lay the foundations for the financial statements, the ACO Financial Controller is responsible for establishing detailed financial rules and procedures to ensure that funds entrusted to ACO by the NATO Nations to support critical activities and operations are spent in an effective and efficient manner, transparently and with full accountability. The ACO Financial Controller is also required to maintain internal financial control, which shall provide an effective control mechanism of the financial transactions to ensure the regularity of the receipt, custody and use of all funds and other financial resources of the entity; and the conformity of expenditures with the appropriations approved by the Committees.
3. Significant activities from 2022 involve the strengthening of internal controls due to ongoing initiatives at ACO and in response to prior year observations in spite of the fact that the position of ACO Financial Controller was only filled towards the end of 2022, and the Finance & Acquisition Directorate saw the departure of key finance and accounting personnel from central and local teams. This has placed additional pressure and challenges on the directorate in the run up to the financial closure and during the preparation of the ACO Consolidated Financial Statements.
4. Nonetheless, in Finance & Accounting, a process was developed and implemented to improve the identification and reporting of NSIP funded assets, and for financial reporting, additional controls were introduced to ensure the completeness of data in relation to bank accounts and MWA.
5. The ACO Corporate Accounting and Control Branch Head (CAC BH), responsible for all finance and accounting processes including the ACO Consolidated Financial Statements, provided reasonable assurance that the ACO Consolidated accounts present fairly, in all material aspects, the financial position, the results of the operations, the cash-flow and the notes of the ACO entity. This is assured due to the well-established finance and accounting processes and controls and the level of expertise and professional knowledge of key positions at corporate and decentralised level. The key business processes enable risk management, guarantee transparency, promote accountability and ensure the integrity of financial data. The annual financial closure is performed with an annually updated end of year guidance including a specific checklist and certification that provide evidence of the controls in place and alert the CAC Branch Head of any areas that require action.

RESPONSIBILITY

6. The attached, unaudited fiscal year 2022 ACO Consolidated Financial Statements for the period starting 01 January 2022 and ending 31 December 2022 have been prepared in accordance with the NFR, NATO Accounting Framework (NAF) and relevant International Public Sector Accounting Standards (IPSAS). In accordance with NFR Article 3.2, they are jointly signed by the ACO Strategic Commander and the ACO Financial Controller, and conform to the responsibility and accountability principles prescribed in the NFR 3.1, and are submitted to the International Board of Auditors for NATO in accordance with the NFR 35.

7. In preparing these accounts, ACO has:

- a. Observed the relevant accounting and disclosure requirements, and applied suitable accounting policies on a consistent basis.
- b. Made judgements and estimates on a reasonable basis.
- c. Prepared the accounts on a going concern basis.

8. 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 2022.



Javier Carrasco Pena
Financial Controller
Allied Command Operations



Christopher G. Cavoli
General, U.S. Army
Supreme Allied Commander Europe

2022 ACO STATEMENT OF INTERNAL CONTROL

1. The policies and procedures adopted by the management for the proper execution of all functional activities constitute the ACO Internal Control Framework¹. ACO Internal Control Framework is COSO²-based and applies to all activities within ACO entities. The System of Internal Control has been in place and operated for the entire year of 2022.

2. The ACO System of Internal Control is designed to provide reasonable assurance that ACO will achieve its objectives and conduct proper execution of all functional activities. Absolute assurance cannot be achieved due to internal features (like human mistakes or errors of judgment) and factors outside of ACO control (like natural or man-made disasters).

ACO System of Internal Control and Review of its Effectiveness

3. A description and brief assessment³ of the key elements of ACO System of Internal Control are:

a. **Control Environment.** The Control Environment sets the tone for ACO. The Key Documents, Boards, Stakeholders and their basic responsibilities are detailed in ACO Directive 015-029, Internal Control Framework in ACO, dated 28 January 2021. ACO staff are familiar with the extant regulations of ACO Directive 040-007 Standards of Conduct, ACO Directive 015-028 Fraud Prevention, Detection and Investigation, Bi-SC Directive 040-001 Integrating Gender Perspective into the NATO Command Structure, ON(2017)0026 Building Integrity – Code of Conduct and ON(2020)0057 NATO Policy on the Prevention, Management and Combatting of Harassment, Bullying and Discrimination in the Workplace.

b. **Objective Setting.** The ACO Strategic Management Plan (ASMP) provides the highest strategic-level direction and guidance for the development of ACO objectives to successfully contribute to the delivery of NATO's core tasks: Deterrence and Defence, Crisis Prevention and Management, and Cooperative Security. Lower level objectives are set in accordance with the ASMP and Statement of Functions determined by NATO's International Peacetime Establishment⁴. All ACO Headquarters and Divisions are aware of the importance and have established clear and SMART⁵ objectives which are actively monitored. Irregularities are identified, responded to and escalated as necessary.

c. **Risk Management.** Risks and Issues for the achievement of objectives, the execution of organizational functions and operations/missions are managed within and in accordance with the ACO Strategic Management process⁶. Risks and Issues are identified and assessed on a regular basis and response strategies are routinely discussed and updated as required⁷.

d. **Control Activities.** The design, implementation and operation of policies and procedures through proportionate controls is based on the assessment of related

¹ Details are in ACO Directive 015-029 on Internal Control Framework in ACO, dated 28 January 2021. The Purpose of the System of Internal Control and the Scope of Responsibilities derives from C-M(2015)0025, Review NATO Financial Regulations, dated 24 April 2015, Article 12.

² Committee of Sponsoring Organization of the Treadway Commission.

³ Based on management self-assessment, and internal and external audit opinions.

⁴ MC 0500/2 Final.

⁵ SMART: Specific, Measurable, Achievable, Relevant, and Time-bounded.

⁶ In accordance with ACO Directive 015-027, ACO Strategic Management System, dated 12 July 2022.

⁷ Based on management self-assessment questionnaires.

risks. Controls are subject to review, irregularities are properly investigated and corrective actions are taken. ACO's dynamic strategic direction and the associated risk and issue profile requires a continuous evolution of internal controls; for example, the replacement of paper transactions with automated processes and embedded internal controls of a preventive nature in day-to-day operations.

e. **Information and Communication.** ACO has extensive documentation of its procedures, processes and control mechanisms including job descriptions, policies, directives, standard operating procedures, manuals, risk registers, issue logs, and records of audit findings. Documents and necessary information are processed using the Enterprise Document Management System and the NATO Information Portal. Workforce and personnel data is identified, captured and processed using the Automated Personnel Management System and the Human Resource Data Services Establishment Review Tool. Personnel have access to relevant information from reliable sources in a timely manner based on the need-to-know principle.

f. **Monitoring.** Evaluations are initiated, developed and performed to ascertain whether activities are performed according to expectations. Identified deficiencies are timely communicated to the parties involved and corrective actions are taken. Procedures are in place to ensure that external and internal audit findings, and other reviews are promptly evaluated, appropriate responses are selected, and issues resolved as early as possible.

g. **Financial Management system.** A certification of self-assessment of internal controls was obtained from NCIA confirming that general IT and application controls were implemented to maintain Information Communication Technologies security, including control activities in the following areas: integrity/availability, security, confidentiality/privacy, access to security controls, and application software development and change controls.

h. **Responsibilities.** Responsibilities are established and expectations are set for ACO personnel. All ACO Headquarters and Divisions have communicated statement of functions for key activities⁸. In 2022 Job-descriptions (JD) were updated during the yearly Peacetime Establishment Refinement Cycle and NATO 2030 efforts, and their content is aligned with the related Statement of Functions. The review of JDs continues to ensure they remain relevant.

Three-Line-Model

4. ACO adopted the Three-Line-Model⁹ to inform our understanding of the structures that best assist the achievement of objectives and facilitate strong governance and risk management. Governance requires appropriate structures and processes that enable: Accountability, Actions, Assurance, and Advice.

5. The first line is managerial, the second line is subject matter experts providing support to leadership (Internal Control Officers, Risk Officers, Health and Safety Officers, etc.), and the third line is ACO Internal Audit (AIA).

⁸ As per MC 0500/2 Final.

⁹ Details are in ACO Directive 015-029 on Internal Control Framework in ACO, dated 28 January 2021.

- a. As part of the first line assurance, ACO Division and Directorate Heads completed their annual certification through self-assessment¹⁰.
- b. With the exception of Financial Control, second line assurance sources offer room for improvement, providing only limited visibility of the control framework and reporting requires improvement. Work is ongoing to strengthen the second line assurances including the establishment of command-wide, cross-functional Internal Control Officer posts in the Command Groups of ACO Headquarters under the 2022-23 Peacetime Establishment refinement cycle.
- c. Third line assurance (AIA) identified a number of deficiencies in 2022 and identified the need for risk-based judgements to better drive the allocation of resources and prioritisation of activity at all levels.

Significant Internal Control Deficiencies and Areas of Improvement

6. The following Internal Control deficiencies were identified in 2022:

- a. **Distribution and Applicability of ACO Policy Documents.** Inconsistencies in the construct, distribution and applicability of ACO Policy Documents from SHAPE, the policy lifecycle management and the amount of orphan Directives were identified in 2022. Corrective actions have been developed, however, the focus on UKR and DDA development has slowed down the corrective actions.
- b. **Occupational Health and Safety (OHS).** The audits of Occupational Health and Safety indicated the need to mature OHS management systems and better articulate responsibilities towards OHS across the command structure in order to provide senior management with a clearer understanding of the safety, reputational and legal OHS risks.
- c. **Education and Individual Training (E&IT).** The approach to E&IT at SHAPE was not coherent, consistent or coordinated. Requirement setting, training allocation, delivery, and quality management processes all required improvement to better align training provision to organisational needs.
- d. **Management and Accounting of Property.** The system of internal control for the management and accounting of property required improvement in areas such as record keeping, stock and inventory tracking, reconciliation of property records, and controlling expendable items. One of the issues requiring further action is the handover/takeover of assets delivered through the NATO Investment Programme¹¹ that led to the restatement of the 2021 ACO Consolidated Financial Statements. Steps have already been taken to improve the process and the International Board of Auditors for NATO (IBAN) was informed about the progress made so far.
- e. **Destruction of documents/records/information.** An ACO entity reported concerns with the availability of safeguards to prevent unauthorized destruction of documents/records/information. This issue, compounded by the fact that information was not always timely available, is being addressed via the creation of a new internal tasker and the results will be initially assessed in the first quarter of 2023.

¹⁰ As required by SHAPE COS Order No. 228, 2022 Internal Control Certification Process and the designation/confirmation of the Internal Control Focal Points, dated 22 July 2022.

¹¹ International Board of Auditors for NATO (IBAN) audit finding.

7. Plans to address identified deficiencies will continue to be monitored and refined and will be a key focal point in the coming year's Certification Process.

Control Improvements achieved in 2022

8. The following further control improvements were achieved in 2022:

a. **ACO Strategic Management (ASM).** The members of the ACO Management Board (AMB) continued to enhance the employment of the ASM cycle by updating their Strategic Objectives, Initiatives and Deliverables for incorporation in the interim ACO Strategic Management Plan 2023-2027¹². The enhancements to the ASM Cycle support ongoing DDA alignment, Strategic Warfighting, and NATO 2030 work strands. AMB members' management of risks and issues has matured in parallel, resulting in a significantly enhanced ASM system overall.

b. **The alignment of the Medium Term Resource Planning process with the process for identifying future Collective Training & Exercise requirements.** Establishment of the J7 Resource Programming Planning Board to ensure alignment between resources and requirements significantly assisted in aligning these processes.

c. **Business Continuity (BC).** The ACO BC Policy and Planning Directive (AD 080-116) was revised, the first SHAPE BC Directive (SD 080-021) was published and a live SHAPE BC exercise was conducted. A SHAPE Emergency Response Plan (SD 070-007) was developed and implemented, and finally, ACO-wide Business Continuity Management System Maturity Levels were assessed.

d. **Mitigation measures for the prevention of Harassment, Bullying and Discrimination in the Workplace.** SHAPE mitigation measures included training, an information campaign, launch of a survey by an independent provider, and introduction of a help line.

9. Based on ACO's 2022 Certification Process, the involvement of the AMB, the ACO Audit Advisory Panel, and the ACO Financial Controller's independent fiduciary assessment, we are satisfied that actions were taken to remedy significant identified weaknesses, including the prevention and detection of potential fraudulent activities within ACO.

10. Therefore, we confirm that, over the past calendar year, to the best of our knowledge after undertaking all relevant procedures, and subject to the ongoing work to address the deficiencies identified, ACO had an effective Framework of Internal Control in place to provide reasonable assurance regarding the effectiveness and efficiency of operations, the reliability and accuracy of reporting (including financial information), the compliance with applicable rules and regulations, and the safeguarding of assets.

Javier Carrasco Peña
Financial Controller
Allied Command Operations



Christopher G. Cavoli
General, U.S. Army
Supreme Allied Commander Europe

¹² Signed by AMB Chairperson, COS SHAPE, on 2 February 2023, and will be finalised after the NATO summit in Vilnius.

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STATEMENT 1: ACO CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(I)				
<i>As at 31 December 2022</i>				
<i>in EUR</i>	<i>Notes</i>	<i>2022</i>	<i>Restated 2021 (II)</i>	<i>2021</i>
ASSETS				
Current Assets				
Cash and Cash Equivalents	B.1	819,694,656	1,363,491,891	1,363,491,891
Short Term Investments	B.2	930,497,605	520,048,947	520,048,947
Receivables	B.3	81,555,751	205,102,748	205,102,748
Prepayments & Loans	B.4	11,759,072	10,282,089	10,282,089
Other Current Assets	B.5	5,336,899	940,973	940,973
Inventories	B.6	60,183,724	52,720,982	47,007,170
Total Current Assets		1,909,027,707	2,152,587,630	2,146,873,818
Non-current Assets				
Receivables	B.7	1,028,017	1,031,072	1,031,072
Property, Plant & Equipment	B.8	915,255,718	794,242,663	789,230,102
Other Non-current Assets	B.9	6,727,350	7,297,226	7,297,226
Total Non-current Assets		923,011,084	802,570,961	797,558,400
Total ASSETS		2,832,038,791	2,955,158,591	2,944,432,218
LIABILITIES				
Current Liabilities				
Payables (III)	B.10	(381,117,539)	(372,435,901)	(372,435,901)
Deferred Revenue & Other liab.	B.11	(1,264,799,663)	(1,578,201,831)	(1,572,488,019)
Advances	B.12	(333,306,758)	(280,327,948)	(280,327,948)
Short Term Provisions	B.13	(1,126,709)	(543,052)	(543,052)
Total Current Liabilities		(1,980,350,669)	(2,231,508,732)	(2,225,794,920)
Non-current Liabilities				
Long Term Provisions	B.14	(8,953,626)	(9,312,981)	(9,312,981)
Non-current Deferred Revenue	B.15	(842,734,496)	(714,336,878)	(709,324,316)
Total Non-current Liabilities		(851,688,122)	(723,649,859)	(718,637,297)
Total LIABILITIES		(2,832,038,791)	(2,955,158,591)	(2,944,432,217)
NET ASSETS	C.19	-	-	-

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

(II) Restatements relate to PP&E and inventory. More information can be found in the relevant note disclosure.

(III) Not all balances provided are reported on accrual basis. More information can be found in the notes A (Significant accounting policies - basis of preparation) and B.10.

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STATEMENT 2: ACO CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE

(I)

For the year ended 31 December 2022

<i>in EUR</i>	<i>Notes</i>	<i>2022</i>	<i>Restated 2021 (II)</i>	<i>2021</i>
Revenue				
Revenue		(1,171,658,486)	(1,125,930,847)	(1,132,489,146)
Other Revenue		(4,113,074)	(3,292,051)	(3,292,051)
Financial Revenue		(4,057,462)	(923,766)	(923,766)
Total to be returned to the Nations	C.18	2,145,866	(1,025,986)	(1,025,986)
Total Revenue	C.16	(1,177,683,156)	(1,131,172,650)	(1,137,730,949)
Expenses				
Personnel		208,272,317	195,544,716	195,544,716
Contractual Supplies and Services		847,116,396	764,238,011	771,031,820
Foreign Military Sales (FMS) (III)		32,816,575	15,222,118	15,222,118
Depreciation and Amortization		83,439,418	151,857,921	151,622,411
Provisions		53,657	856,903	856,903
Other Expenses		113	1,453	1,453
Financial Costs		5,984,681	3,451,527	3,451,527
Total Expenses	C.17	1,177,683,156	1,131,172,650	1,137,730,949
Result of the year		-	-	-

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

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

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

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STATEMENT 3: ACO CONSOLIDATED STATEMENT OF CASH FLOWS

(I)			
<i>As at 31 December 2022</i>			
<i>in EUR</i>	<i>2022</i>	<i>Restated 2021 (II)</i>	<i>2021</i>
CASH FLOWS FROM OPERATING ACTIVITIES			
Result of the year	-	-	-
Non-cash movements			
Depreciation	83,439,418	151,857,921	151,622,411
Increase (Decrease) in payables	9,086,908	88,481,869	88,481,869
Increase (Decrease) in other current liabilities	(252,860,407)	(26,576,064)	(32,289,876)
Increase (Decrease) in other non-current liabilities	(359,355)	(961,872)	(961,872)
Increase (Decrease) in current deferred revenue for PP&E	(7,384,564)	(23,855,861)	(23,855,861)
Increase (Decrease) in non-current deferred revenue for PP&E	128,397,619	29,291,548	24,278,986
(III) Property, plant and equipment, from other funding	(188,864,207)	(99,958,139)	(101,503,876)
(Increase) Decrease in other current assets	(5,872,909)	(960,537)	(960,537)
(Increase) Decrease in other non-current assets	572,931	738,714	738,714
(Increase) Decrease in receivables	123,546,997	(24,987,392)	(24,987,392)
(Increase) Decrease in Inventories	(7,462,743)	(7,518,390)	(1,804,578)
Net cash flows from operating activities	(117,760,312)	85,551,797	78,757,988
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and AuC	(15,588,266)	(57,335,469)	(50,541,660)
Proceeds from sale of plant and equipment	-	-	-
Proceeds from sale of investments	-	-	-
Short term investment	(410,448,657)	412,836,526	412,836,526
Net cash flows from investing activities	(426,036,923)	355,501,057	362,294,866
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	-	-	-
Repayment of borrowings	-	-	-
Distribution/dividend to Nations	-	-	-
Net cash flows from financing activities	-	-	-
Change in cash flow	(543,797,235)	441,052,854	441,052,853
Cash and cash equivalents at beginning of period	1,363,491,891	922,439,037	922,439,037
Cash and cash equivalents at end of period	819,694,656	1,363,491,891	1,363,491,891
Net increase/(decrease) in cash and cash equivalents	(543,797,235)	441,052,854	441,052,854

(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) Restatements relate to PP&E and inventory. More information can be found in the relevant note disclosure.

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

ACO Consolidated Financial Statements 2022

STATEMENT 4: ACO CONSOLIDATED STATEMENT OF CHANGES IN NET EQUITY*For the year ended 31 December 2022*

<i>in EUR</i>	<i>Notes</i>	<i>2022</i>	<i>Restated 2021</i>	<i>2021</i>
Equity at beginning of year		-	-	-
Result of for the year		-	-	-
Net recognized revenue and expenses for the year		-	-	-
Equity at End of year	C.19	-	-	-

ACO Consolidated Financial Statements 2022

STATEMENT 5/1: ACO BC BUDGET EXECUTION REPORT

(Note H)

	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments/ Special Carry Forward (*)	Expenses	Total spent	Carry Forward/ Special Carry Forward (*)	Lapsed
2022 NCSEP												
	589,117,895	-	589,117,895	-	589,117,895	-	589,117,895	35,503,361	538,805,612	574,308,974	35,503,361	14,808,922
Budget 101 SHAPE	79,284,306	1,940,000	81,224,306	1,720,971	82,945,277	-	82,945,277	2,759,076	77,827,439	80,586,515	2,759,076	2,358,762
Budget 103 JFC HQ BRUNSSUM	26,489,027	704,016	27,193,043	400,019	27,593,062	350,000	27,943,062	638,593	27,304,469	27,943,062	638,593	-
Budget 104 JFC HQ NAPLES	29,117,567	2,700,000	31,817,567	4,000,000	35,817,567	305,000	36,122,567	276,621	34,248,167	34,524,788	276,621	1,597,779
Budget 105 HQ AIRCOM RAMSTEIN	24,225,805	-	24,225,805	-	24,225,805	362,394	24,588,199	1,550,948	22,484,342	24,035,290	1,550,948	552,909
Budget 111 HQ LANDCOM IZMIR	10,842,819	-	10,842,819	61,000	10,903,819	179,789	11,083,608	1,397,252	9,019,917	10,417,169	1,397,252	666,439
Budget 118 HQ MARCOM NORTHWOOD	11,007,022	267,469	11,274,491	160,577	11,435,068	122,204	11,557,272	467,746	10,904,738	11,372,483	467,746	184,789
Budget 131 HQ DEPLOYABLE ASSETS	11,906,974	-	11,906,974	-	11,906,974	420,000	12,326,974	493,524	11,777,695	12,271,219	493,524	55,755
Budget 157 MILITARY TRAINING AND EXERCISE PROGRAMME	16,941,000	-	16,941,000	-	16,941,000	(1,200,000)	15,741,000	760,814	11,398,227	12,159,041	760,814	3,581,959
Budget 164 NATINAMDS NON C2 ELEMENTS	37,592,727	-	37,592,727	(1,752,048)	35,840,679	(420,000)	35,420,679	6,925,241	27,758,398	34,683,639	6,925,241	737,040
Budget 166 NATINAMDS C2 ELEMENTS	106,727,932	-	106,727,932	(1,721,386)	105,006,546	-	105,006,546	14,067,625	87,573,811	101,641,436	14,067,625	3,365,110
Budget 177 NCCB	183,443,115	(5,209,437)	178,233,678	(2,171,181)	176,062,497	(586,154)	175,476,343	3,040,762	171,898,025	174,938,787	3,040,762	537,556
Budget 178 NATO CIS GROUP (NCISG)	47,029,601	(402,048)	46,627,553	(697,952)	45,929,601	1,006,767	46,936,368	2,987,000	43,139,595	46,126,595	2,987,000	809,773
Budget 502 OUTREACH PROGRAMMES (ACO)	4,510,000	-	4,510,000	-	4,510,000	(540,000)	3,970,000	138,159	3,470,791	3,608,950	138,159	361,050
2022 NCSEP												
	4,559,879	-	4,559,879	-	4,559,879	-	4,559,879	-	4,087,669	4,087,669	-	472,210
Budget 176 NCNCB	4,559,879	-	4,559,879	-	4,559,879	-	4,559,879	-	4,087,669	4,087,669	-	472,210
2022 NCS-ADAPTATION												
	32,456,224	-	32,456,224	-	32,456,224	-	32,456,224	577,385	28,192,391	28,769,776	577,385	3,686,447
Budget 124 NCS-ADAPTATION (ACO)	32,456,224	-	32,456,224	-	32,456,224	-	32,456,224	577,385	28,192,391	28,769,776	577,385	3,686,447
2022 AGS												
	191,722,313	-	191,722,313	-	191,722,313	-	191,722,313	69,533,350	111,437,920	180,971,270	69,533,350	10,751,043
Budget 167 AGS O&S	191,722,313	-	191,722,313	-	191,722,313	-	191,722,313	69,533,350	111,437,920	180,971,270	69,533,350	10,751,043
2022 AGS												
	3,610,500	-	3,610,500	-	3,610,500	-	3,610,500	1,165	3,556,747	3,557,912	1,165	52,588
Budget 168 AGS CIS	3,610,500	-	3,610,500	-	3,610,500	-	3,610,500	1,165	3,556,747	3,557,912	1,165	52,588
2022 NAEW												
	186,956,000	15,100,000	202,056,000	-	202,056,000	16,965,508	219,021,508	31,130,463	186,799,134	217,929,597	31,130,463	1,091,910
Budget 163 NAEW&CF EMPLOYMENT	186,956,000	15,100,000	202,056,000	-	202,056,000	16,965,508	219,021,508	31,130,463	186,799,134	217,929,597	31,130,463	1,091,910
2022 NAEW												
	129,944,000	(15,100,000)	114,844,000	-	114,844,000	-	114,844,000	45,912,650	68,806,935	114,719,585	45,912,650	124,415
Budget 162 NAEW&CF PROVISIONING	129,944,000	(15,100,000)	114,844,000	-	114,844,000	-	114,844,000	45,912,650	68,806,935	114,719,585	45,912,650	124,415
2022 AOM												
	47,548,619	-	47,548,620	(405,270)	47,143,349	-	47,143,349	8,348,326	37,094,536	45,442,862	8,348,326	1,700,487
Budget 183 BALKANS OPERATIONS	26,165,439	-	26,165,439	-	26,165,439	-	26,165,439	2,234,359	23,315,525	25,549,884	2,234,359	615,555
Budget 187 NATO SUPPORT TO THE AFRICAN UNION	517,565	-	517,565	(130,000)	387,565	-	387,565	1,441	247,821	249,263	1,441	138,302
Budget 189 OPERATION SEA GUARDIAN	909,430	-	909,430	(275,270)	634,160	-	634,160	6,805	610,234	617,038	6,805	17,122
Budget 195 NATO MISSION IRAQ	19,956,185	-	19,956,185	-	19,956,185	-	19,956,185	6,105,720	12,920,956	19,026,677	6,105,720	929,508
Total 2022	1,185,915,430	-	1,185,915,430	(405,270)	1,185,510,160	16,965,508	1,202,475,667	191,006,700	978,780,945	1,169,787,645	191,006,700	32,688,022

(*) See Table H.D. - ACO Special Carry Forward.

	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments/ Special Carry Forward (*)	Expenses	Total spent	Carry Forward/ Special Carry Forward (*)	Lapsed
2021 NCSEP												
	43,981,342	-	43,981,342	-	43,981,342	-	43,981,342	11,537,298	26,123,261	37,660,559	11,537,298	6,320,783
Budget 101 SHAPE	1,707,457	-	1,707,457	-	1,707,457	-	1,707,457	29,325	1,476,808	1,506,133	29,325	201,324
Budget 103 JFC HQ BRUNSSUM	460,307	-	460,307	-	460,307	-	460,307	-	433,111	433,111	-	27,196
Budget 104 JFC HQ NAPLES	1,052,245	-	1,052,245	-	1,052,245	-	1,052,245	17,925	938,388	956,313	17,925	95,932
Budget 105 HQ AIRCOM RAMSTEIN	892,917	-	892,917	-	892,917	68,454	961,371	387,984	544,774	932,758	387,984	28,613
Budget 111 HQ LANDCOM IZMIR	682,732	-	682,732	-	682,732	-	682,732	1,716	399,896	401,613	1,716	281,120
Budget 118 HQ MARCOM NORTHWOOD	1,005,986	-	1,005,986	-	1,005,986	-	1,005,986	687,698	208,534	896,232	687,698	109,754
Budget 131 HQ DEPLOYABLE ASSETS	326,221	-	326,221	-	326,221	-	326,221	10,130	299,462	309,592	10,130	16,629
Budget 157 MILITARY TRAINING AND EXERCISE PROGRAMME	2,999,216	-	2,999,216	-	2,999,216	(68,454)	2,930,762	2,300	1,942,956	1,945,257	2,300	985,505
Budget 164 NATINAMDS NON C2 ELEMENTS	7,367,666	-	7,367,666	-	7,367,666	-	7,367,666	2,161,761	4,834,537	6,996,298	2,161,761	371,369
Budget 166 NATINAMDS C2 ELEMENTS	14,834,905	-	14,834,905	-	14,834,905	-	14,834,905	4,427,695	10,407,100	14,834,796	4,427,695	109
Budget 177 NCCB	11,234,179	-	11,234,179	-	11,234,179	-	11,234,179	3,457,471	3,735,678	7,193,149	3,457,471	4,041,030
Budget 178 NATO CIS GROUP (NCISG)	1,378,540	-	1,378,540	-	1,378,540	-	1,378,540	351,093	876,171	1,227,264	351,093	151,277
Budget 502 OUTREACH PROGRAMMES (ACO)	38,970	-	38,970	-	38,970	-	38,970	2,200	25,844	28,044	2,200	10,926
2021 NCSEP												
	300,000	-	300,000	-	300,000	-	300,000	-	-	-	-	300,000
Budget 176 NCNCB	300,000	-	300,000	-	300,000	-	300,000	-	-	-	-	300,000
2021 NCS-ADAPTATION												
	1,220,620	-	1,220,620	-	1,220,620	-	1,220,620	126,001	999,311	1,125,312	126,001	95,307
Budget 124 NCS-ADAPTATION (ACO)	1,220,620	-	1,220,620	-	1,220,620	-	1,220,620	126,001	999,311	1,125,312	126,001	95,307
2021 AGS												
	46,366,277	-	46,366,277	-	46,366,277	-	46,366,277	4,455,132	41,718,212	46,173,344	4,455,132	192,933
Budget 167 AGS O&S	46,366,277	-	46,366,277	-	46,366,277	-	46,366,277	4,455,132	41,718,212	46,173,344	4,455,132	192,933
2021 AGS												
	139,309	-	139,309	-	139,309	-	139,309	-	139,309	139,309	-	-
Budget 168 AGS CIS	139,309	-	139,309	-	139,309	-	139,309	-	139,309	139,309	-	-
2021 NAEW												
	23,284,048	-	23,284,048	-	23,284,048	-	23,284,048	6,240,818	15,562,855	21,803,673	6,240,818	1,480,375
Budget 163 NAEW&CF EMPLOYMENT	23,284,048	-	23,284,048	-	23,284,048	-	23,284,048	6,240,818	15,562,855	21,803,673	6,240,818	1,480,375
2021 NAEW												
	63,739,788	-	63,739,788	-	63,739,788	-	63,739,788	30,201,185	33,269,375	63,470,559	30,201,185	269,228
Budget 162 NAEW&CF PROVISIONING	63,739,788	-	63,739,788	-	63,739,788	-	63,739,788	30,201,185	33,269,375	63,470,559	30,201,185	269,228
2021 AOM												
	81,210,408	-	81,210,408	-	81,210,408	-	81,210,408	74,958,955	5,754,697	80,713,652	74,958,955	496,756
Budget 183 BALKANS OPERATIONS	1,600,503	-	1,600,503	-	1,600,503	-	1,600,503	818,220	623,334	1,441,554	818,220	158,949
Budget 187 NATO SUPPORT TO THE AFRICAN UNION	12,526	-	12,526	-	12,526	-	12,526	-	-	-	-	12,526
Budget 189 OPERATION SEA GUARDIAN	6,914	-	6,914	-	6,914	-	6,914	71	5,335	5,406	71	1,507
Budget 194 RESOLUTE SUPPORT	73,097,238	-	73,097,238	-	73,097,238	(650,000)	72,447,238	70,475,934	1,954,729	72,430,662	70,475,934	16,576
Budget 195 NATO MISSION IRAQ	3,948,972	-	3,948,972	-	3,948,972	-	3,948,972	3,610,832	238,850	3,849,682	3,610,832	99,289
Budget 196 ALLIED SOLACE	2,544,255	-	2,544,255	-	2,544,255	650,000	3,194,255	53,898	2,932,449	2,986,347	53,898	207,908
Total 2021	260,241,791	-	260,241,791	-	260,241,791	-	260,241,791	127,519,389	123,567,019	251,086,409	127,519,389	9,155,382

(*) See Table H.D. - ACO Special Carry Forward.

	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments/ Special Carry Forward (*)	Expenses	Total spent	Carry Forward/ Special Carry Forward (*)	Lapsed
2020 NCSEP												
	8,454,963	-	8,454,963	-	8,454,963	-	8,454,963	263,885	7,582,789	7,846,674	263,885	608,289
Budget 101 SHAPE	11,333	-	11,333	-	11,333	-	11,333	-	206	206	-	11,127
Budget 103 JFC HQ BRUNSSUM	17,272	-	17,272	-	17,272	-	17,272	-	15,522	15,522	-	1,750
Budget 104 JFC HQ NAPLES	375	-	375	-	375	-	375	-	-	-	-	375
Budget 105 HQ AIRCOM RAMSTEIN	5,091	-	5,091	-	5,091	97,500	102,591	-	102,480	102,480	-	111
Budget 111 HQ LANDCOM IZMIR	27,118	-	27,118	-	27,118	-	27,118	-	10,186	10,187	-	16,931
Budget 118 HQ MARCOM NORTHWOOD	167,788	-	167,788	-	167,788	-	167,788	-	163,238	163,238	-	4,550
Budget 131 HQ DEPLOYABLE ASSETS	17,362	-	17,362	-	17,362	-	17,362	-	1,000	1,000	-	16,362
Budget 157 MILITARY TRAINING AND EXERCISE PROGRA	42,091	-	42,091	-	42,091	-	42,091	-	879	879	-	41,212
Budget 164 NATINAMDS NON C2 ELEMENTS	971,686	-	971,686	-	971,686	-	971,686	-	668,118	668,118	-	303,568
Budget 166 NATINAMDS C2 ELEMENTS	6,074,536	-	6,074,536	-	6,074,536	(97,500)	5,977,036	-	5,977,036	5,977,036	-	-
Budget 177 NCCB	792,772	-	792,772	-	792,772	-	792,772	263,885	526,651	790,536	263,885	2,236
Budget 178 NATO CIS GROUP (NCISG)	327,540	-	327,540	-	327,540	-	327,540	-	117,472	117,472	-	210,067
2020 NCS-ADAPTATION												
	204,540	-	204,540	-	204,540	-	204,540	-	9,392	9,392	-	195,148
Budget 124 NCS-ADAPTATION (ACO)	204,540	-	204,540	-	204,540	-	204,540	-	9,392	9,392	-	195,148
2020 AGS												
	22,630,537	-	22,630,537	-	22,630,537	-	22,630,537	13,600,000	9,029,494	22,629,494	13,600,000	1,043
Budget 167 AGS O&S	22,630,537	-	22,630,537	-	22,630,537	-	22,630,537	13,600,000	9,029,494	22,629,494	13,600,000	1,043
2020 NAEW												
	3,734,601	-	3,734,601	-	3,734,601	-	3,734,601	-	2,818,548	2,818,548	-	916,053
Budget 163 NAEW&CF EMPLOYMENT	3,734,601	-	3,734,601	-	3,734,601	-	3,734,601	-	2,818,548	2,818,548	-	916,053
2020 NAEW												
	12,048,535	-	12,048,535	-	12,048,535	-	12,048,535	-	7,391,948	7,391,948	-	4,656,587
Budget 162 NAEW&CF PROVISIONING	12,048,535	-	12,048,535	-	12,048,535	-	12,048,535	-	7,391,948	7,391,948	-	4,656,587
2020 AOM												
	8,639,138	-	8,639,138	-	8,639,138	-	8,639,138	7,500,000	465,186	7,965,186	7,500,000	673,952
Budget 183 BALKANS OPERATIONS	347,883	-	347,883	-	347,883	-	347,883	-	46,999	46,999	-	300,884
Budget 194 RESOLUTE SUPPORT	388,921	-	388,921	-	388,921	-	388,921	-	38,059	38,059	-	350,862
Budget 195 NATO MISSION IRAQ	7,902,334	-	7,902,334	-	7,902,334	-	7,902,334	7,500,000	380,128	7,880,128	7,500,000	22,206
Total 2020	55,712,314	-	55,712,314	-	55,712,314	-	55,712,314	21,363,885	27,297,357	48,661,242	21,363,885	7,051,072

(*) See Table H.D. - ACO Special Carry Forward.

NATO UNCLASSIFIED												SH/FINAC/CAC/FC060/23
EUR												
	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments/ Special Carry Forward (*)	Expenses	Total spent	Carry Forward/ Special Carry Forward (*)	Lapsed
	2019 AGS											
	7,000,000	-	7,000,000	-	7,000,000	-	7,000,000	7,000,000	-	7,000,000	7,000,000	-
Budget 167 AGS O&S	7,000,000	-	7,000,000	-	7,000,000	-	7,000,000	7,000,000	-	7,000,000	7,000,000	-
Total 2019	7,000,000	-	7,000,000	-	7,000,000	-	7,000,000	7,000,000	-	7,000,000	7,000,000	-

NATO UNCLASSIFIED												SH/FINAC/CAC/FC060/23
EUR												
	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments/ Special Carry Forward (*)	Expenses	Total spent	Carry Forward/ Special Carry Forward (*)	Lapsed
	2018 AGS											
	5,000,000	-	5,000,000	-	5,000,000	-	5,000,000	5,000,000	-	5,000,000	5,000,000	-
Budget 167 AGS O&S	5,000,000	-	5,000,000	-	5,000,000	-	5,000,000	5,000,000	-	5,000,000	5,000,000	-
Total 2018	5,000,000	-	5,000,000	-	5,000,000	-	5,000,000	5,000,000	-	5,000,000	5,000,000	-

NATO UNCLASSIFIED												SH/FINAC/CAC/FC060/23
EUR												
	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments/ Special Carry Forward (*)	Expenses	Total spent	Carry Forward/ Special Carry Forward (*)	Lapsed
	2017 AGS											
	23,986,887	-	23,986,887	-	23,986,887	-	23,986,887	-	23,986,887	23,986,887	-	-
Budget 167 AGS O&S	23,986,887	-	23,986,887	-	23,986,887	-	23,986,887	-	23,986,887	23,986,887	-	-
Total 2017	23,986,887	-	23,986,887	-	23,986,887	-	23,986,887	-	23,986,887	23,986,887	-	-

EUR

	Initial budget	Transfers	BA2	Transfers	BA3	Transfers	Final Budget	Commitments/ Special Carry Forward (*)	Expenses	Total spent	Carry Forward/ Special Carry Forward (**)	Lapsed
	2014 AOM											
	5,193,159	-	5,193,159	-	5,193,159	-	5,193,159	4,917,774	275,385	5,193,159	4,917,774	-
Budget 185 ISAF	5,193,159	-	5,193,159	-	5,193,159	-	5,193,159	4,917,774	275,385	5,193,159	4,917,774	-
Total 2014	5,193,159	-	5,193,159	-	5,193,159	-	5,193,159	4,917,774	275,385	5,193,159	4,917,774	-
Total for all MB Cost Shares, Years and Budgets	1,543,049,581	-	1,543,049,581	(405,270)	1,542,644,311	16,965,508	1,559,609,818	356,807,748	1,153,907,592	1,510,715,341	356,807,748	48,894,477

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(*) See Table H.D. - ACO Special Carry Forward.
(**) ACO SCF represents 27.63% of the overall amount.

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**Notes to the
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NOTES TO THE ACO CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2022

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A. Significant Accounting Policies

Basis for Preparation

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

The Financial Statements comply with the financial reporting requirements of the NATO Financial Regulations (NFRs) and 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 was selected.

These Financial Statements have been prepared on the basis that ACO is a going concern and will continue in operation and meet its mandate for the near future. The principal accounting policies are set out below. They have been applied consistently to all periods presented. The accounting principles deemed as appropriate for the recognition, measurement and reporting of the financial position, performance and cash flows on an accrual-based accounting using historical costs have been applied consistently throughout the reporting period. Financial instruments are measured at fair value at the end of each reporting period. There is one exception related to the Foreign Military Sales acquired directly or via a NATO Agency from the US Defence Department where the financial data on accrual basis are not always available and are therefore reflected on a modified cash basis². Details are disclosed in the relevant notes.

In accordance with Article 2.1 of the NFRs, the ACO financial year begins on 01 January 2022 and ends on 31 December 2022.

Changes in Accounting Standards

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

The standards reported below are effective for future annual financial statements.

IPSAS	Name	Effective date for periods beginning on or after	ACO Assessment
IPSAS 43	Leases	01 January 2025	This standard replaces IPSAS 13, approved in December 2021 and issued in January 2022. De-facto, the new standard will align IPSAS to International Financial Reporting Standard 16, which relates to Leases. This standard will remove the distinction between finance and operating leases and require the recognition of assets and liabilities created by all leases. ACO has few leases that require specific disclosure in the Financial Statements. The effective date allows preparers like ACO sufficient time to identify and assess the impacts of and to prepare for the implementation of the new standard, if required.

Accounting Estimates and Judgments

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

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

Changes in Accounting Policy

The same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria set in IPSAS 3. For the 2022 FS, the NAF and ACO accounting policies have been applied consistently throughout the reporting period.

There are no major changes in the 2022 ACO accounting policy.

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

¹ C-M(2016)0023, NATO Accounting Framework, dated 29 April 2016

² In accordance with NAF's adaptation of IPSAS 1 – *Presentation of Financial Statement*, ACO reports data on a modified cash basis where ACO Commands are unable to satisfy themselves that the data is presented on a reliable accrual basis. The modified cash basis reflects the FMS goods and services delivered according to United States DD645 reports and for which the United States government received cash payment.

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headings.

Reclassification

For 2022, there were two types of reclassifications made. The first is derived from the reporting of Inventory qualified as “strategic” as a separate category. This reclassification met the materiality criteria for retrospective restatement. The second type of reclassification relates to items of Plant, Property & Equipment (PP&E) that were reported in the Building and Installed equipment categories in the 2021 FS but were reclassified as items of Installed Equipment and Other infrastructure in 2022. The reclassification did not trigger a retrospective restatement as it did not meet the materiality criteria defined in the related ACO policy. No other reclassifications were applied to the 2022 financial data.

Restatements

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

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

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

Based on these criteria, ACO restated PP&E balances for a number of asset categories (the main restatements related to the Other infrastructure and Installed equipment categories). Inventory balances were also restated due to the adjustment and reclassification of some inventory balances.

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

Foreign Currency

These FS are presented in EUR, the ACO functional and reporting currency. All entities included in the consolidated FS adopt EUR as functional currency. Data from ACO budgets approved in different currency are converted and reported in EUR using a fixed rate. The fixed rate applied for GBP for 2022 is equal to 0.8973 EUR representing the NATO exchange rate as of 01 January 2021.

Foreign currency transactions are translated into EUR at the NATO exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at year-end are translated into EUR using the NATO exchange rates applicable at 31 December 2022.

Consolidation

The ACO Consolidated FS include the financial results of the controlling entity³ and its controlled entities. Entities which are consolidated into the financial statements are listed below.

ACO HQ NAME	LOCATION
SHAPE HQ	Casteau, Belgium
JFC Brunssum HQ	Brunssum, Netherlands
NAEW&C Force GK HQ	Geilenkirchen, Germany
JFC Naples HQ ⁴	Naples, Italy
AIRCOM Ramstein ⁵ HQ	Ramstein, Germany
MARCOM Northwood HQ	Northwood, UK
NCIS Group HQ ⁶	Casteau, Belgium
KFOR HQ	Pristina, Kosovo

³ ACO is a functional chain of military command and neither a legal entity nor an organization. The consolidation of statements into the ACO FS cannot be construed as creating any other legal effect that for financial reporting purposes in accordance with IPSAS 6 principles. The term “ACO Headquarters” relates only to those principles and does not supersede the legal status or personality of existing Headquarters across ACO

⁴ Includes data related to NATO Mission Iraq (NMI), under the control of JFCNP HQ.

⁵ Includes data related to AIRCOM HQ, Ramstein, Germany, Deployable Air Command and Control Centre (DACCC), Poggio Renatico, Italy, Combined Air Operations Centre (CAOC), Uedem, Germany, Combined Air Operations Centre (CAOC), Torrejon, Spain

⁶ Includes data related to the NCISG HQ, SHAPE, Belgium, 1st NSB, Wesel, Germany, 2nd NSB, Grazzanise, Italy, 3rd NSB, Bydgoszcz, Poland

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NHQSa HQ	Sarajevo, Bosnia Herzegovina
LANDCOM Izmir HQ	Izmir, Turkey
NAGSF HQ	Sigonella, Italy
ACO Corporate Accounting and Control Office	Casteau, Belgium

Inter-entity balances and transactions have been eliminated in the consolidation. The Financial Controllers of the above-mentioned controlled entities have certified the correctness of the data reported to ACO Corporate Accounting and Control (CAC) for further analysis and consolidation in the ACO FS. This includes the assurance of the checks and balances for the asset reporting.

Moreover, the overall consolidation and reporting process continued to be extremely difficult due to the critical status of the corporate finance and accounting workforce, and the personnel turnover in some HQs.

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

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

Services in-Kind

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

Contributions in-Kind

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

The current IPSAS 23 does not require but only encourages the recognition of Contributions in-Kind (CiK). In accordance with ACO accounting policies, ACO does not recognise or disclose CiK. This treatment is consistent with the deliberations of the Working Group of NATO Financial Controllers regarding this matter.

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

In February 2022⁷, the RPPB noted this practice and, considering the broader political and military implications of a potential CiK disclosure, recommended to address the question of the recognition of CiK as part of the review of the NATO Accounting Framework that will take place after the ongoing review of the NATO Financial Regulations.

Financial Instruments Disclosure/Presentation

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

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

Financial risk factors

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

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

Credit risk

ACO's clients are mainly NATO Member Nations or Troop Contributing Nations (TCN), often sponsored by NATO Nations and NATO agencies. Therefore, ACO is not exposed to material credit risks.

⁷ AC/335-D(2022)0013, dated 18 Feb 2022, approved under AC/335-D(2022)0013-AS1.

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Liquidity risk

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

Foreign currency risk

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

Realised and unrealised gains and losses resulting from the settlement of transactions in foreign currencies and from the revaluation at the reporting date are recognised in the Statement of Financial Performance. Realised foreign exchange gains are generally returnable to the Nations. More information can be found in the relevant notes.

Interest rate risk

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

Assets

Cash and cash equivalents

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

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

Short-term investments

These are term deposits mainly with a maturity of more than 3 months and not exceeding 12 months. ACO also has term deposit packages for a nominal period up to 36 months with the possibility to withdraw the liquidity at no cost within 31 calendar days. This measure helped to mitigate the risk of negative interest until July 22 on the EUR balance held in Treasury for the ACO budget groups and the various projects. The related interest for those packages is accrued at year-end when required.

Receivables

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

Contribution receivables are recognised when a call for contribution is 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.

Prepayments and Loans

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

Inventories

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

Inventory Categories	Threshold	Basis
Consumables	€ 50,000	Per location/warehouse
Spare parts	€ 50,000	Per location/warehouse
Strategic Stock	€ 50,000	Per location/warehouse

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Ammunition	€ 50,000	Per location/warehouse
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ACO Inventory items are classified by group classes, with the exception of NAEW&C Force GK HQ for which the Tech Degree codes (ERRC) is considered the first filter for categorizing items as inventory. Remaining codes are classified in accordance with the assigned group class.

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

ACO inventories are reported using the Weighted Average Cost (WAC) method, with the exception of the spare parts used in meeting NCISG's readiness requirements for NRF kept in a central stock at NSPA in Capellen that are assessed to be under the control of NCISG and valued at replacement cost in the ACO FS.

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

- the total value of non-strategic slow moving items exceeds the materiality threshold of 50,000 EUR;
- the items have not been used over a period of 36 months.

These conditions are met only at NAEW&C Force HQ.

ACO reports legacy assets (i.e. those acquired before 01 January 2013) for NAEW&C Force only by way of a disclosure note to include the approximate number of items per inventory category for each respective location in accordance with NAF.

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 01 January 2013 are capitalised and recognised as non-current assets in the Statement of Financial Position if acquisition cost exceeds 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.

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. To ensure procedures are followed for the proper authorisation for write-off of an international property, the moment of de-recognition is the date when the item of PP&E was formally approved for write-off. Any gain or loss arising from the disposal or retirement of an item is determined as the difference between the sales proceeds and the carrying amount of the asset and it is recognised in the Statement of Financial Performance.

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

Category	Threshold	Depreciation life
Land	€ 200,000	N/A
Buildings	€ 200,000	40 years
Other infrastructure	€ 200,000	Dependent on type
Installed equipment	€ 30,000	Dependent on type
Machinery	€ 30,000	10 years
Vehicles	€ 10,000	5 years
Aircraft (Planes, Major Inspections, Upgrades, 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 Allied Operations and Missions (AOM) assets physically located in a theatre of operation. However, according to the NAF, each of the AOM PP&E asset category has a useful life of one year to reflect the intensive nature of the operations.

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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.

Most of the Communication and Automated Information System (CIS) assets reported in the 2022 ACO FS relate to NHQSa and NAEW&C Force GK HQ. In those ACO sites, the CIS assets are not under the control of the NCIA, but of ACO.

The category of "Asset under Construction" (AuC) refers to NSIP projects expenses occurred after 01 January 2013 for ACO requirements and implementation by SHAPE as Host Nation (HN). AuC are reported by ACO until the project is accepted by the users (completed) and put in service by the receiving HQ. It also includes building, equipment installation and infrastructure projects managed by local HQ via annual budgets. They mainly relate to SHAPE HQ and NAEW&C Force GK HQ. The AuC also includes the Depot Level Maintenance costs at NAEW&C Force GK HQ relating to ongoing Aircraft Major Inspections. ACO does not recognise any other AuC.

Buildings and infrastructure facilities in use across the ACO Static Commands have been analysed in light of the control criteria set forth by the NAF and the Garrison Support Agreements as well as the Host Nation Support Policy and Standards⁸, the Base Support Concept⁹ 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 owner, also maintains a certain level of control over the infrastructure; these buildings and infrastructure are reported in the ACO FS even when for some criteria the control over the infrastructure 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 Force Core System are not reported by ACO, as they fall under the direct responsibility of the AGS Support Partnership which is governed by the NATO Support and Procurement Agency (NSPA) as executive body. Equipment facilities, buildings and capital improvements provided by the HN Italy will remain the property of the HN. Buildings and capital improvements provided through NATO funding will be reported by NAGSF; whilst ownership rights and accountability responsibilities of the AGS Core System assets are transferred from NAGSMO to NSPA as the NATO AGS Governance Body.

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

ACO is reporting the legacy assets (i.e. those acquired before 01 January 2013) by way of a disclosure note to include the approximate number of items per asset category for each respective location.

Leases

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

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

Intangible Assets

ACO does not hold intangible assets at the reporting date.

Impairment of tangible and intangible assets

For 2022, ACO is not reporting any impairment.

⁸ PO(2011)0020, dated 08 February 2011

⁹ CM-128-2011, dated 16 November 2011

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Liabilities

Payables

Payables (including amounts due to other NATO entities) are amounts due to third parties for goods and services received that remained unpaid as at 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 invoiced yet.

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.

Advances

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

Employee benefits

The NATO Civilian employees subject to the NATO Civilian Personnel Regulations (NCPR) in the ACO HQs¹⁰ participate in one of the three NATO pension funds: the Provident Fund, the Coordinated Pension Scheme or the Defined Contribution Pension Scheme (DCPS), all administered by NATO and the Retirees Medical Claims Fund (RMCF). The assets and liabilities for these pension schemes are accounted for centrally at NATO Headquarters, and therefore not recognised in these FS; ACO only accounts for the contributions paid during the year.

DCPS and Provident Fund:

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

Coordinated Pension Scheme:

NATO Civilians employees who have joined NATO before 01 July 2005 are members of the NATO Coordinated Pension Scheme, which is a funded defined benefit plan. Under the plans and upon completion of 10 years employment with NATO, the employees are entitled to retirement benefits of 2% per year of service of final basic salary on attainment of a retirement age of 60. No other post-retirement benefits are provided to these employees. Staff members whose length of service is not sufficient to entitle them to a retirement pension are eligible for a leaving allowance.

Local Wage Rate Employees Termination/Severance/Bonus Benefit

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

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.

¹⁰ ACO is neither a legal entity nor an organization in the legal sense of the term. ACO cannot exert the rights and prerogatives, nor bear the liabilities of an employer. In conformity with NAF and IPSAS 6 principles, the term "employee" is meant for the purposes of financial reporting exclusively. It cannot be construed as superseding existing status or contracts between the relevant legal persons, either moral or natural.

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Revenue and Expense Recognition

Revenue

Revenue comprises contributions from Member Nations and income from other customers to fund ACO 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 2022 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.

Expenses

Budgetary expenses are recognised when they occur, regardless of the timing of payment, in accordance with the accrual basis principle.

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

Result of the Year

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

Trust Funds

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

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

Cash Flow Statement

The Cash Flow Statement is prepared using the indirect method, and the format follows the layout provided by IPSAS 2 (Cash Flow Statement).

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B. Notes to the Statement of Financial Position

Assets – Current Assets

1. Cash and Cash Equivalents

Cash and Cash Equivalents	2022	2021 Restated	2021
Cash accounts	252,520	203,675	203,675
Petty Cash and Advances	167,045	215,866	215,866
Current Bank Accounts	617,160,181	965,877,937	965,877,937
Clearing-Bank accounts	(125,942)	(74,601)	(74,601)
Cash Equivalent	202,240,852	397,269,013	397,269,013
Total	819,694,656	1,363,491,891	1,363,491,891

2. Short Term Investments

Short Term Investments	2022	2021 Restated	2021
Total	930,497,605	520,048,947	520,048,947

The overall cash holdings (Note 1 and 2) in ACO for 2022 is lower compared to the balance of the previous year, due to a decrease of 133 MEUR. The main variances are for the MB cash holdings with an increase of 103 MEUR, ANA TF cash holdings with a decrease of 249 MEUR. The MB cash holdings increase can be explained by the large decrease in receivables at year-end compared to previous year, while the decrease in ANA TF cash holdings is attributed to the closure of the ANA TF initiated in summer of 2021, proceeding with the execution of final drawdowns and close-out return requests from donor nations. This downward trend for the ANA TF cash holdings is expected to continue over the next couple of years.

The ACO cash holdings include a balance of 206 KEUR related to the management of the International Continental Mess (ICM) at SHAPE HQ. As stipulated in the SHAPE ICM directive, any ICM surplus above EFL level C are considered as miscellaneous income in these FS and returned to the Nations. For the fiscal year 2022, the surplus above EFL level C amounts to 69,061 EUR.

The corresponding balance of the Escrow account, net of the 2022 outflow and the accrued interest is higher than 2021 due to the exchange rate between EUR/USD as of 31 December 2022.

The local cash holdings are kept as low as possible due to the centralised cash management structure within ACO. ACO holds bank accounts in foreign currencies to execute the management of activities conducted in foreign currencies.

The variance in total cash and cash equivalents can be attributed to a shift from type of investments. In July 2022, the European Central Bank (ECB) raised the key interest rate by 0.50% for the first time in 11 years and remuneration on accounts were 0% effective Aug 2022 eliminating the risk of negative interest. As a result the financial markets started to offer positive rates for EUR liquidity and term deposits. In addition, the US financial market showed an upward trend in the last quarter of 2022, resulting in favourable interest rates for USD term deposit placements.

ACO continuously reviews its banking arrangements to ensure that there is a low risk of capital loss. At the date the FS were issued, ACO considers that the value of cash and investment balances are correctly stated. During the Resolute Support mission, ACO was using some local bank accounts at the Afghan International Bank (AIB) to support the requirements associated to local contracts and personnel at Resolute Support HQ. In light of the Resolute Support mission closure in 2021, ACO initiated the transfer of all existing cash holdings in AIB towards ACO's primary bank. However, due to the critical events that took place in August 2021 in Afghanistan, the status of Afghanistan's international transfers are still pending. The Afghan Central Bank instructed all banks to stop any international transfer and cash withdrawals from corporate accounts, with the exception of humanitarian activities under specific conditions. As a result, SHAPE is unable to determine when and whether these funds will eventually be transferred back to SHAPE, giving rise to the very significant risk that these cash holdings may not be recovered, despite the efforts engaged by SHAPE. In October 2022, a request for write off was submitted to the Budget Committee (BC). The BC concluded that it was premature to write off the requested amount and requested the topic to be rescheduled at a future meeting¹¹. The potential loss remains at approx. 1.98 MEUR (converted amount) of which 91% of this liquidity

¹¹ BC-DS(2022)0056 (INV), dated 2 February 2023.

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belongs to AOM, while 9% relates to MWA. The overall cash holdings is reported net of the potential impairment related to the AIB liquidity.

Cash equivalents under IPSAS and NFRs/FRPs

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

To ensure the effective and efficient financial management of funds held at ACO and to mitigate the risk linked to the negative interest on the EUR excess held in Treasury for the ACO budget groups and various projects, the BC authorised a deviation¹² to the current FRPs to exceptionally allow EUR denominated term deposits, not to exceed four years up to a cumulative amount of 400 MEUR.

During 2022, ACO continued to work with term deposit packages for a nominal period of maximum 36 months with the possibility to withdraw the liquidity at no cost within 31 calendar days.

Moreover, in 2022, ACO continued to work on ad-hoc payment schedules with some Nations for the first call for contributions, as an additional measure to reduce the impact of negative interest on excess EUR liquidity. Following this approach and the recurring monitoring of the potential financial institutions, ACO managed to limit the impact of negative interest rates.

Effective 1 August 2022, the negative interest rates were no longer used by the banks, and thus the deviation authorised by the BC was no longer applied for new deposits.

Short-term investments reported at the end of 2022 are related to MB Funds for 674 MEUR, ANA Trust Funds for 164 MEUR, other USD accounts for 92 MEUR.

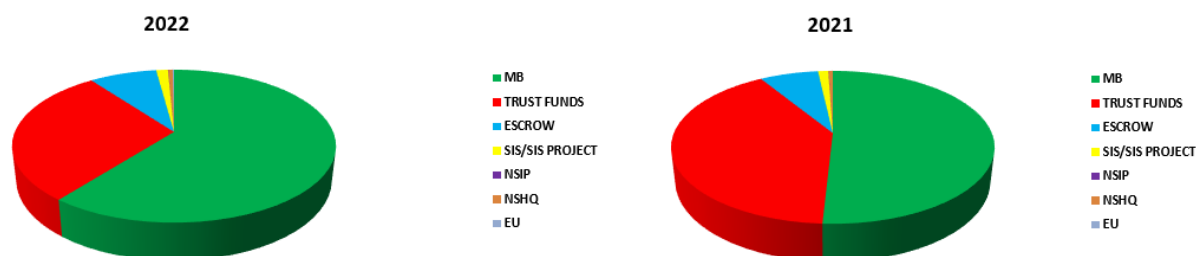
All cash holdings (savings, on-call accounts and term deposits) are managed centrally by ACO CAC Branch.

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

ACO continues to diversify its approach, placing cash liquidity with different financial institutions and focusing on its cash forecast analysis in close coordination with all involved parties (ACO Commands, Nations, NATO Agencies and Financial Institutions). As already indicated, ACO's investment management prioritizes capital preservation as its primary objective, ensuring sufficient liquidity to meet cash operating requirements.

The breakdown for the main categories is reported below:

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



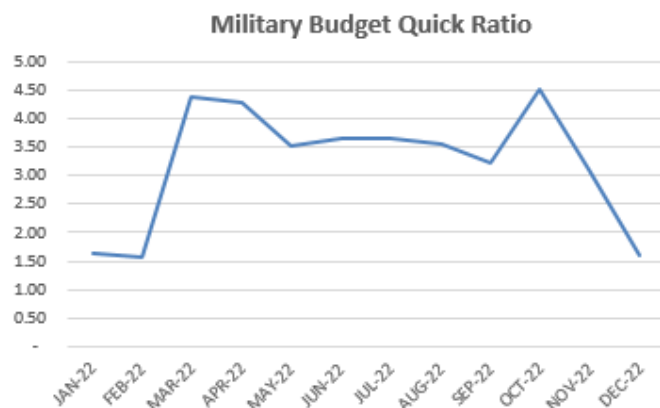
The cash holdings are shown in the chart below through the Quick Ratio. This ratio measures the ability of the entity to meet its short-term obligations at a certain point in time; a value higher than 1 means that the entity can pay off all its short-term liabilities.

¹² BC-DS(2020)0002(INV), dated 05 February 2020

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The ratio during the entire year is higher than 1.

Table B.1/2.B – ACO MB Quick ratio Fiscal year 2022



3. Receivables (current)

Accounts receivable	2022	2021 Restated	2021
Receivables Contribution from NATO Nations	5,720,333	141,495,237	141,495,237
Receivable from Troop Contributing Nations	26,175,716	20,035,926	20,035,926
Receivables from Other NATO bodies	6,684,452	4,455,339	4,455,339
Receivables from Staff Members	110,618	145,640	145,640
Receivables from Nations	10,061,309	4,244,880	4,244,880
Other Receivables/Recoverable	32,803,322	34,725,726	34,725,726
Total	81,555,751	205,102,748	205,102,748

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 Nation Borne Costs (NBC) and other calls for contributions.

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

Receivables Contribution from NATO Nations

The balance represents mainly outstanding calls for contribution for the various ACO Annual budgets: NCSEP and NCS-Adaptation (NCS-A) for 2.5 MEUR (55.8 MEUR in 2021), NAEW&C FC for 1.9 MEUR (64 MEUR in 2021), AOM for 53 KEUR (13.5 MEUR in 2021), AGS for 444 KEUR (8 MEUR in 2021). There is an outstanding credit for NSIP for 824 KEUR (173K in 2021).

Receivables from Troop Contribution Nations and Other Receivables/Recoverable

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

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

NMI: The NATO Mission in Iraq NBC activities continued to increase in 2022. In view of the complexity of the NMI process, due to different locations, parties involved and criteria, timeline for the billing mechanism is often times longer than typical, while occasionally adjustments need to be made. The outstanding receivable at the end of 2022

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for NMI was 15.2 MEUR, of which 7.2MEUR represents actual validated expenditures that were not billed yet to TCN at year end.

ISAF/Resolute Support NBC: The ending receivable balances for 2022 amounts to 8.2 MEUR and is mainly related to HKIA pre-financing. Due to the rigorous reminder procedures and interaction with TCN and sponsor Nations, ACO CAC collected most of these outstanding amounts in February 2023. ACO CAC is working very closely with the Nations involved to pursue resolution of outstanding amounts.

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

KFOR: The NBC pre-financing at the end of 2022 amounted to 2.4 MEUR, of which 1.5 MEUR were not billed yet to TCN.

RAC (NATO Reach-back Analytic Cell): With the closure of Resolute Support mission effective June 2021, the RAC in support of Resolute Support also ceased operations. All costs were billed to the Contributing Nations at the end of 2021. At the end of 2022, 11K EUR were still outstanding.

Allied Solace Mission: With the evacuation of NATO Affiliated Afghan (NAA) citizens and their onward movement and re-settlement within allied countries, the Real Life Support (RLS) costs of TCN personnel attributed to the Allied Solace Mission at Camp Bechtel were approved to be pre-financed and recovered through the NBC Mechanism. These costs incurred during the period December 2021 until March 2022 amounting to 260 KEUR have been billed to TCNs in the 2nd quarter 2022. As at the end of 2022, 230 KEUR were still outstanding.

The other receivables balance is related to outstanding invoices or invoices to be established balances for reimbursable activities, including accrued expenses for NBC. SHAPE has a balance of 3.4 MEUR. In addition, 7.7 MEUR are related to the untaken leave for which the details are at note C.17.

Receivable from Staff Members¹³

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.

4. Prepayments and Loans

Prepayments and Loans	2022	2021 Restated	2021
Advances and Prepayments	8,466,257	10,282,089	10,282,089
Loans	3,292,815	-	-
Total	11,759,072	10,282,089	10,282,089

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

The reported amount reflects mainly advances and prepayments related to FMS for 3.8 MEUR (3.9 MEUR in 2021) and JFC Naples LWR Severance Pay (TFR) for 2.2 MEUR (2 MEUR in 2021) as described in Note A – "Employee benefits".

The loan refers to a temporary transfer of funds made by SHAPE to the Defence Innovation Accelerator for the North Atlantic (DIANA), represented by the NATO International Staff Financial Controller performing the interim duties of DIANA Financial Controller, to support DIANA implementation transition costs¹⁴.

¹³ See footnote 10

¹⁴ PO(2022)0277-AS1 dated 08 July 2022 and FC(DIA)(2022)0002 dated 28 July 2022

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5. Other Current Assets

Other current assets	2022	2021 Restated	2021
Bank Interest Accrued	4,210,190	397,921	397,921
Receivable for provisions	1,126,709	543,052	543,052
Total	5,336,899	940,973	940,973

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

Details for the provisions are reported in Note D.

6. Inventories

Inventories	2022	2021 Restated	2021
Consumable	18,379,918	13,967,729	16,913,526
Spare parts	9,488,475	9,412,177	30,093,644
Strategic Stock	32,315,331	29,341,076	-
Total	60,183,724	52,720,982	47,007,170

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

The category with the highest value of Inventory for 2022 is represented by Strategic Stock held at NAEW&CF. They mainly refer to Airframe Structural Components, Aircraft Hydraulic, Electrical and Electronic accessories and equipment which are deemed essential to the effective operation of the AWACS fleet.

No inventory is pledged as security for liabilities.

Table B.6 – Inventory

Inventory	
Opening as of 1 January 2021	45,202,592
Adjustments to opening	17,211
Adjusted opening as of 1 January 2021	45,219,803
Variance	4,211,742
Write off	(2,256,848)
Adjustments to ending	(167,526)
Ending balance as of 31 December 2021	47,007,170
Restatement 2021	5,713,812
Ending balance as of 31 December 2021 Restated	52,720,982
Opening as of 1 January 2022	52,720,982
Adjustments to opening	27,899
Adjusted opening as of 1 January 2022	52,748,881
Variance	7,934,061
Write off	(499,217)
Adjustments to ending	-
Ending balance as of 31 December 2022	60,183,724

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Restatements of the 2021 Inventories

The main restatement reported for 2021 relates to an increase of 5.7 MEUR of the NAEW&CF Inventory value, and to the reclassification of Consumables and Spare Parts into Strategic Stock items category at NAEW&CF. A minor restatement (51 KEUR) was made at SHAPE for the HRDS equipment erroneously reported previously for a smaller value.

Adjustments of the 2022 Inventories

The adjustment to the 2022 opening balance is due to the inclusion of beginning balances of accounts/warehouses in NHQSa (27 KEUR), and NCISG HQ (2 KEUR) that reached the reporting threshold in 2022. In addition, a minor negative adjustment (1 KEUR) is due to an error in the working paper for Write-Off calculation at SHAPE.

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

Other Non-Current Assets	2022	2021 Restated	2021
Non-current Receivables	1,028,017	1,031,072	1,031,072
Total	1,028,017	1,031,072	1,031,072

The 2022 balance is made up of a long-term guarantee for infrastructure projects to Bundeswehr Dienstleistungszentrum (Bw-DLZ) in NAEW&C Force for 1,022,584 EUR, and 5,433 EUR of deposit payment for the natural gas membership as a guarantee payment in LANDCOM.

8. Property, Plant and Equipment

Property, Plant & Equipment	2022	2021 Restated	2021
Land	-	-	-
Buildings	185,633,117	100,017,550	99,666,968
Other infrastructure	77,130,828	39,763,820	35,047,517
Installed Equipment	60,391,791	36,555,960	35,287,240
Machinery	8,309,106	9,070,982	9,075,760
Vehicles	10,415,001	13,628,259	13,628,259
Aircrafts (Planes, Major inspection, Upgrades, Spare parts)	464,613,829	512,501,151	512,501,151
Mission Equipment	3,727,989	3,756,765	3,756,765
Furniture	2,619,775	2,224,700	2,805,889
Communication	11,493,320	9,813,820	9,764,964
Automated Information Systems	8,372,929	2,685,789	2,685,789
Assets under Construction ¹⁵	82,548,033	64,223,867	65,009,800
Total	915,255,718	794,242,663	789,230,102

In compliance with the NAF, all assets qualified as PP&E under the control of ACO at the reporting date, acquired (received) from 01 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 mainly to CIS assets located at NAEW&C Force GK HQ and NHQSa HQ.

No assets are pledged as security for liabilities.

¹⁵ The category includes the Major Inspection on-going for the NAEW&C Force aircraft (DLM)

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Restatement 2021

The main restatements to 2021 data result from the improved process throughout ACO for following up on the status of NSIP projects for which SHAPE is not the Host Nation, that may result in assets that are assessed to be under ACO control. At three HQs, NAGSF (3.1 MEUR), AIRCOM DACCC (1.1 MEUR) and JFCBS (0.8 MEUR), assets were identified and assessed as being under ACO control and put into service in prior financial years and met the criteria for restatement. The effect of this restatement is shown in Table B.8.

Other restatements included 822 KEUR for assets brought into service in 2021 for which the handover date confirmation was not received until 2022. This restatement was for two projects at SHAPE HQ (773 KEUR) with the remaining amount of 49 KEUR for KFOR.

Finally, as part of a pilot initiative aimed at improving internal control of assets, JFCBS received approval for a deviation to the ACO Directive for Property Accounting and Control aiming to remove the obligation to track items of PP&E below a threshold of 1,000 EUR. This led to the removal from the asset register of low value assets and resulted in the reduction of JFCBS 2021 Net Book Value assets of 586 KEUR.

2022 Data

NAEW&CF: Fleet modernisation

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

The costs (and associated depreciation) from a programme of material upgrades to the airplanes is accounted for with financial value, and is reported in these financial statements.

As reported in 2021, the cost of major inspections for the airplanes is recognised with ongoing costs recognised as Assets under Construction (AuC) until the plane receives its military certificate of airworthiness. When this certificate is received, the AuC costs are capitalised and depreciation is started. In 2022, 17.3 MEUR of costs were recognised as AuC for major inspection costs on six of the airplanes currently undergoing the major inspection cycle. Five of the planes are estimated to complete their major inspection maintenance in 2023 with the other plane estimated for completion in 2024.

In 2022, additional costs were received from NAPMA for upgrades and training systems relating to the airplanes. The significant cost adjustments are summarised below:

- Additional costs for the Full Flight Simulator (FFS) were received resulting in a further 1.5 MEUR added to the capitalised cost of this asset.
- Following the upgrades of the communication and navigation systems (CNS/ATM) from analogue to digital in 2017 and 2018, further additional costs of 4.4 MEUR were received from NAPMA in 2022, and added to the capitalised cost of the upgrade.

NSIP projects

In 2022, a number of high value NSIP projects were completed and resulted in the handover of assets to a number of ACO HQs.

At NAGSF, 93 MEUR of assets were recorded for major infrastructure improvements for the mission operation and flight areas including 72.4 MEUR in the Buildings category, 9.3 MEUR in the Other infrastructures and 11.7 MEUR in Installed equipment.

At NAEW&CF, 60.4 MEUR of assets were recognised in relation to Buildings, Infrastructure and Installed equipment improvements at the main operating base (MOB) in Geilenkirchen (37.6 MEUR), at the Forward Operating Location (FOL) in Oerland, Norway (15.6 MEUR) and at the Forward Operating Bases (FOB) in Konya, Republic of Türkiye (6.7 MEUR) and Trapani, Italy (0.5 MEUR).

At LANDCOM, Izmir and NCISG (2NSB Grazzanise, Italy) building works were completed, both for the value of 1.3 MEUR. Finally, MARCOM, Northwood reported Communications equipment to the value of 0.8 MEUR)

Other significant variances

The other significant variances between 2021 and 2022 PP&E relate to the Vehicles category where 2.8 MEUR of armoured vehicles, procured by NSPA, were handed over to JFC Naples, NHQSa and KFOR in 2022.

For other categories, the variance relates to immaterial additions less depreciation expenses for 2022.

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TABLE B.8 – Property, Plant and Equipment – Breakdown of transactions for the year

Property, Plant and Equipment									
	Land	Buildings	Other Infrastructures	Installative Equipment	Machinery	Vehicles			
Acquisition cost as of 1 January 2021	-	157,029,967	86,559,769	58,952,898	14,101,182	37,625,110			
Adjustment to opening balance	-	-	5,686,249	1,054,263	(8,958)	-			
	-	157,029,967	92,246,048	60,007,149	14,092,226	37,625,110			
Additions FMS	-	287,761	-	2,471,769	3,069,393	1,548,425			
Manual additions - NSP/Other funding	-	9,326,827	69,915,546	4,067,995	1,520,790	1,579,467			
Adjustment to additions 2021	-	359,571	-	426,382	-	-			
Adjustment to additions - NSP/Other funding	-	-	-	-	-	-			
+ Total Additions	-	9,971,159	69,915,546	4,594,376	1,520,790	1,579,467			
- Disposals/retirements	-	(45,066,431)	(107,665,648)	(11,780,026)	(2,857,755)	(7,547,777)			
- Disposals/retirements - NSP/Other funding	-	-	-	-	-	-			
- Capitalized/Expensed WIP	-	-	-	-	-	-			
- Impairments	-	-	-	-	-	-			
- Accumulated depreciation	-	-	-	-	-	-			
Adjustment to opening balance	-	(57,435,066)	(54,555,945)	(4,813,901)	1,735,428	(4,418,885)			
- NSP/Other funding	-	(57,435,066)	(54,555,945)	(4,813,901)	1,735,428	(4,418,885)			
+ Disposals/retirements	-	41,818,515	51,636,142	10,220,783	(7,519,035)	2,706,949			
- Depreciation 2021	-	(6,084,134)	(7,479,840)	(5,136,433)	(1,944,584)	(5,713,771)			
Adjustment to depreciation 2021	-	(8,969)	(209,895)	(18,667,160)	-	(19,577,965)			
	-	(21,696,674)	(108,979)	(18,667,160)	-	(19,577,965)			
Ending balance as of 31 December 2021	-	100,017,580	38,633,629	36,555,950	9,079,932	956			13,822,293
Acquisition cost as of 1 January 2022	-	121,707,223	94,555,945	55,422,720	15,827,653	33,206,225			
Adjustment to opening balance	-	-	-	-	-	-			
	-	121,707,223	94,555,945	55,422,720	15,827,653	33,206,225			
Additions FMS	-	31,290	-	1,801,164	842,774	1,053,194			
Manual additions - NSP/Other funding	-	89,481,756	42,926,862	27,950,103	842,774	3,552,971			
Adjustment to additions 2022	-	-	-	-	-	-			
Adjustment to additions - NSP/Other funding	-	-	-	-	-	-			
+ Total additions	-	89,513,046	42,926,862	29,751,267	842,774	4,606,165			
- Disposals/retirements	-	(0)	(220,515)	-	(180)	(24,005)			
- Disposals/retirements - NSP/Other funding	-	-	-	-	-	-			
- Capitalized/Expensed WIP	-	-	-	-	-	-			
- Impairments	-	-	-	-	-	-			
- Accumulated acquisition cost	-	89,513,046	42,926,862	29,530,752	842,594	4,581,961			
Adjustment to opening balance	-	211,220,269	97,462,808	84,933,472	16,670,247	37,787,786			
- NSP/Other funding	-	(21,089,674)	(14,782,125)	(18,686,760)	(6,756,671)	(19,577,965)			
Adjustment to depreciation as of 1 January 2022	-	(21,089,674)	(14,782,125)	(18,686,760)	(6,756,671)	(19,577,965)			
- NSP/Other funding	-	(21,089,674)	(14,782,125)	(18,686,760)	(6,756,671)	(19,577,965)			
+ Disposals/retirements	-	-	-	-	126	24,005			
- Depreciation 2022	-	(3,897,478)	(5,599,855)	(24,561,682)	(1,802,235)	(7,819,424)			
	-	(5,377,478)	(25,397,152)	(24,561,682)	(8,361,141)	(27,372,785)			
Ending balance as of 31 December 2022	-	185,633,117	77,130,628	60,391,791	8,309,106	10,415,001			

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9. Other Non-Current Assets

Other Non-Current Assets	2022	2021 Restated	2021
Long Term Receivables for Provisions	6,727,350	7,297,226	7,297,226
Total	6,727,350	7,297,226	7,297,226

The accounts Long Term Receivable for Provisions cover amounts reported as provisions for which it is not expected a settlement at short-term. Details are provided in Note D.

Liabilities – Current Liabilities**10. Payables**

Payables	2022	2021 Restated	2021
Payables to Suppliers	(372,635,244)	(363,273,714)	(363,273,714)
Payables to Staff members	(122,433)	(351,358)	(351,358)
Payable to Governments	(459,074)	(670,152)	(670,152)
Other Payables	(7,900,787)	(8,140,677)	(8,140,677)
Total	(381,117,539)	(372,435,901)	(372,435,901)

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

Payables to Suppliers

Payables to suppliers include third parties invoices received from commercial vendors not settled, and goods and services received and accrued where no invoice was received by the reporting date. In 2022, there was an increase of 9.4 MEUR compared to the previous year.

Foreign Military Sales (FMS) Cases

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

Untaken Leave

The balance of untaken leave is classified as "Other payable". For 2022 the balance is 7.7 MEUR (7.8 MEUR in 2021). Detailed information for the amount reported as untaken leave is disclosed in Note C.17.

11. Deferred Revenue and other Liabilities

Deferred Revenue and other Liabilities	2022	2021 Restated	2021
Deferred Revenue	(1,185,464,688)	(1,419,994,611)	(1,414,280,799)
Other Liabilities	(79,334,976)	(158,207,219)	(158,207,219)
Total	(1,264,799,663)	(1,578,201,831)	(1,572,488,019)

Details are reported in the tables below.

Deferred Revenue	2022	2021 Restated	2021
Deferred Revenue MB	(356,807,750)	(357,134,149)	(357,134,149)
Other Deferred Revenue	(695,951,992)	(930,233,695)	(930,233,695)
Deferred Revenue Inventory	(60,183,724)	(52,720,982)	(47,007,170)
Deferred Revenue PP&E	(72,521,221)	(79,905,785)	(79,905,785)
Total	(1,185,464,688)	(1,419,994,611)	(1,414,280,799)

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Deferred Revenue MB

Deferred revenue for MB budgets corresponds to contributions for each budget/cost share under ACO responsibility eligible for call to NATO members nations, for which corresponding expenditures will be incurred after the reporting date. It is accounted for by type, cost share and year in accordance with the ACO policy. The balance corresponds to the Carry Forward (CF) and Special Carry Forward (SCF) reported at the end of 2022 fiscal year.

Other Deferred Revenue

The amount represents funds related to ACO non-core activities like SHAPE International School (SIS), NSHQ, EU Operation Althea, USD cash holding Account, and Trust Funds. Although defined as non-core activities, these can be assessed as critical activities due to their financial management complexity. For two of them, the volume is material.

Details related to Trust Funds are reported at Note K.

Deferred Revenue Inventory

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

Deferred Revenue PP&E

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

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

Other Liabilities

This category includes lapsed appropriations and results of the year as the result of the overall 2022 financial year execution. The ad-hoc liabilities are reported by nature (i.e. budgetary lapses, overestimated accruals, other adjustments) and are accounted for by type, cost share and year in accordance with the ACO policy. Those liabilities represent the main component of the refundable surpluses for the fiscal year 2022, together with the 2022 MB result of the financial year. There is also a liability related to an AOM budget decrease that was approved after the call for contributions where issued.

Other Liabilities	2022	2021 Restated	2021
Liabilities from lapsed appropriations	(76,006,134)	(156,919,956)	(156,919,956)
Liabilities from budget decrease	(405,270)	-	-
Liabilities from result of the year	(3,477,226)	(1,897,074)	(1,897,074)
Liabilities from unrealised exch. rate differences	(94,135)	(1,426,205)	(1,426,205)
Liabilities from NSIP cash call	621,593	2,009,110	2,009,110
Liabilities from NSIP accum. result of the year	26,196	26,906	26,906
Total	(79,334,976)	(158,207,219)	(158,207,219)

Liabilities from Lapsed Appropriations

Lapsed appropriations (MB)	2022	2021 Restated	2021
Budgetary lapses	(48,894,477)	(141,762,252)	(141,762,252)
Overestimated accruals	(26,661,894)	(15,313,822)	(15,313,822)
Other adjustments	(449,763)	156,117	156,117
Total	(76,006,134)	(156,919,956)	(156,919,956)

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The amount of overestimated accruals increased by 11.3 MEUR compared to 2021. These include 13.2 MEUR related to Resolute Support mission, 5.5 MEUR to SHAPE and 3.5 MEUR to NAEW&CF. The 2022 breakdown by budget group is disclosed at Table B.11.

Liabilities from Result of the Year

Distribution of Result of the Year	2022	2021 Restated	2021
Result of the year	(2,145,866)	1,025,986	1,025,986
Unrealised exchange rate gain/loss	(1,332,070)	(2,922,997)	(2,922,997)
Net of NSIP result of the year	710	(63)	(63)
Total Liabilities from Result of the year	(3,477,226)	(1,897,074)	(1,897,074)

The amount of 3,477,226 EUR is made of miscellaneous income, provisions for bad debts (for 39,876 EUR), interest revenue, bank charges, and realised exchange rate gain/losses. The unrealised gain/loss for exchange rate is not part of the redistribution.

Table B.11 – Refundable Surpluses

Type	NCSEP	NCS-A	AGS	NAEW	AOM	TOTAL
Budgetary lapse	(22,510,204)	(3,976,903)	(10,997,607)	(8,538,568)	(2,871,195)	(48,894,477)
Overestimated accruals	(6,879,777)	(157,078)	(590,443)	(3,495,178)	(15,539,419)	(26,661,894)
Other Adjustments	(423,999)	-	-	-	(25,764)	(449,763)
Liabilities from budget decrease	-	-	-	-	(405,270)	(405,270)
TOTAL	(29,813,980)	(4,133,981)	(11,588,049)	(12,033,746)	(18,841,648)	(76,411,404)
Result of the year	(1,667,762)	(72,432)	245,151	(1,728,854)	(253,329)	(3,477,226)
GRAND TOTAL	(31,481,742)	(4,206,413)	(11,342,898)	(13,762,600)	(19,094,977)	(79,888,630)

The overall refundable surplus as at 31 December 2022 is reflected by nature. It will be included in the 2nd Assessment call for 2023 and duly allocated by type, cost share and budget year, unless decided differently by the Budget Committee.

Liabilities from NSIP Cash Call

ACO is reporting NSIP expenses on a quarterly basis.

Liabilities Result for NSIP

NSIP Results	2022	2021 Restated	2021
Accumulated result of previous years	26,906	26,843	26,843
Result of the year	(710)	63	63
Accumulated liabilities from NSIP Result	26,196	26,906	26,906

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

On a quarterly basis, expenses, forecasts and status of the projects are updated in the CIRIS system tracking the NSIP projects for all HN's. The quarterly revision is the basis for the calculations of the NSIP calls for contributions.

12. Advances

Advances	2022	2021 Restated	2021
Advance MB Contributions	(332,494,920)	(280,223,690)	(280,223,690)
Other Advance	(811,838)	(104,258)	(104,258)

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Total	(333,306,758)	(280,327,948)	(280,327,948)
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Advance MB Contributions

The amount is related to:

- Advance contribution allocated via the 2nd call 2022 for an amount of 331,926,141 EUR (AGS/NCSEP/AOM/NAEW cost share)¹⁶. These advances are recorded using appropriate account code by type/year/cost share. While there is no outstanding voluntary advance for MB contributions, a credit balance of 551,283 EUR related to USA AOM 2nd Call 2022 and 17,495 EUR related to UK NAEW 2nd call 2022 are considered as additional advances for the 2023 MB contributions.
- Other advances relate mainly to amounts received for NBC and other centralised activities.

13. Short Term Provisions

Short Term Provisions	2022	2021 Restated	2021
Personnel	-	(5,000)	(5,000)
Services	(1,126,709)	(538,052)	(538,052)
Total	(1,126,709)	(543,052)	(543,052)

Provisions are assessed using the best accounting estimate available.

Provisions are reported either as short term, or long term liability, based on the assessment of when the cases are expected to be settled, and separated into Personnel or Service categories based on the nature of the liability. ACO is reporting as overall provisions 10,080,335 EUR (9,856,033 EUR in 2021); the amount of 1,126,709 EUR (543,052 EUR in 2021) is considered as short term. The main variance between 2022 and 2021 relates to the closure of one case in relation to suppliers at the now terminated Resolute Support mission and the opening of a new case at SHAPE HQ.

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

Liabilities – Non-Current Liabilities

14. Long Term Provisions

Long Term Provisions	2022	2021 Restated	2021
Personnel	(4,005,206)	(4,289,452)	(4,289,452)
Services	(4,948,420)	(5,023,529)	(5,023,529)
Total	(8,953,626)	(9,312,981)	(9,312,981)

The variance between 2022 and 2021 for long term provisions relates to the closure of cases at Resolute Support mission and the reassessment of other provisions at JFCNP and LANDCOM. The amounts of the provisions reported are shown in more detail in Note D, Table B.

15. Non-Current Deferred Revenue

Deferred Revenue	2022	2021 Restated	2021
Deferred Revenue for PP&E and AuC	842,734,496	714,336,878	709,324,316
Total	842,734,496	714,336,878	709,324,316

¹⁶ NCSEP: FC(CC)(2022)0012(MB-02) dated 19 October 2022; AGS: FC(CC)(2022)0020(AGS-02) dated 24 October 2022; AOM: FC(CC)(2022)0006(AOM-02) dated 24 October 2022; NAEW: FC(CC)(2022)0005(NAEW-02) dated 18 November 2022

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

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

C. Notes to Statement of Financial Performance

16. Revenue

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

17. Expenses

Expenses for ACO entities are recognised by nature as follows:

a) *Personnel*¹⁷

Personnel	2022	2021 Restated	2021
Total	208,272,317	195,544,716	195,544,716

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

Employee Disclosure

NATO civilian employees subject to the NCPR

NATO civilian employees subject to the NCPR in ACO are compensated for the service they provide in accordance with rules and amounts established by NATO. The compensation consists of basic salary, various allowances, health insurance, pension plan and other benefits as agreed with each Host Nation and the Protocols of NATO. Cash compensations are exempt from income tax in accordance with NATO Nations agreement. ACO HQs are not liable for retirement benefits.

Different pension plans are applicable to NATO civilian employees subject to the NCPR within the ACO HQs. All pension plans are managed by NATO HQ and are therefore not included in the ACO FS. Contributions to the plans are expensed when occurred. The total amount paid for 2022 is 6,978,432 EUR (which shows an increase compared to 5,795,353 EUR reported in 2021) for NIC staff.

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

Untaken Leave	2022	2021
Opening	7,781,029	7,803,315
Restatements 2021	n/a	n/a
Increase / (decrease) in liability	(31,430)	(22,286)
Ending	7,749,598	7,781,029

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

¹⁷ See footnote n. 10

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Locally hired staff

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

Other

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

Within the ACO HQs various groups of workforces with different status are supporting the ACO activities¹⁸. Below is a table showing a summary of the different groups with number for filled positions.

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

Table C.17.B – ACO Workforce Groups

ACO	Total Filled Positions
PE Positions total	7,224
Military	6,225
Civilian	999
CE Positions total	765
Military	629
NIC (NATO International Civilian)	1
NCIV (National Civilian)	61
MCIV/ICC	74
Others	1,553

b) Contractual Supplies and Services

Contractual Supplies and Services	2022	2021 Restated	2021
Total	847,116,396	764,238,011	771,031,820

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

In 2022, the total expense recorded for Foreign Military Sales (FMS) is 32,816,575 EUR (15,222,118 EUR in 2021). This financial information is reported in a separate line in accordance with the ACO Policy reported at Note A.

Foreign Military Sales	2022	2021 Restated	2021
Total	32,816,575	15,222,118	15,222,118

The 2022 FMS related expenses for SHAPE amount to 4,755 EUR, the remaining amount of EUR 32,811,820 EUR belongs to FMS cases for NAEW&CF managed directly by NSPA. These expenses are reported in the ACO FS on a modified cash basis built on the cash credit request/outflows exchange between the two NATO entities. The expenses for the financial year are not recognised on accrual basis with the exception of the FMS cases where

¹⁸ See footnote n. 10

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tangible information is provided by the NAEW&CF customers with regards to the effective delivery of goods and services.

As a result, credits provided by NAEW&CF to NSPA for those FMS cases may be reconciled by the FMS organisation with a considerable time gap between the NATO release of the funds and the final bill. NAEW&CF 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 that exceed ACO's financial reporting materiality threshold of 50 KEUR per lease contract/year, in relation to lease payments occurred during the reporting year, and expose ACO to future liabilities beyond the reporting period. The information shown in the table includes the amount of payments recognized as an expense in the reporting period, the total of future payments to be made in the subsequent periods, a general description of the leasing arrangements including renewal or purchase options and/or restrictions.

Table C.17.C – Operating leases

ACO HQ	Asset leased / lease description	Amount Paid in 2022 converted to EURO (if other currency)	Amount to pay in 2023	Amount to pay in 2024-2026	Amount to pay after 2026	Renewal/restrictions	Purchase options/restrictions
SHAPE HQ	Rental services 2020 - 28 vehicles 16 vehicles C category 12 vehicles D category	229,516	231,811	-	-	N/A	N/A
SHAPE HQ	4- Year Operational Lease of 2 business passenger vehicles for COS & DSACEUR	51,220	4,268	-	-	N/A	N/A
SHAPE HQ	SACEUR, Renting/Leasing ARMoured VEHICLE	88,450	-	-	-	N/A	N/A
NAGSF HQ	Blue Fleet, 9 vehicles	60,612	60,612	121,223	-	36-month contract as of May 2020.	2-year Contract Option till 2025. PO includes commitment until EOY 2022
NAEW&C Force GK HQ	(BizHub) Printers	160,893	165,000	-	-	Annual renewal based on contractual terms.	N/A
NAEW&C Force GK HQ	13 Oracle T5-2 Servers	196,162	196,162	196,162	-	Annual renewal.	N/A
JFC Brunssum HQ	Blue fleet	147,137	126,071	-	-	Extended till 30-NOV-2023	N/A
JFC Naples HQ	Lease and maintenance of 2 vehicles for NAUC in Addis Ababa	54,000	54,000	199,275	-	N/A	N/A
JFC Naples HQ	Lease of Villa in Addis Ababa for NAUC	120,000	120,000	360,000	-	N/A	N/A

Depreciation

Depreciation and Amortization	2022	2021 Restated	2021
Total	83,439,418	151,857,921	151,622,411

The amount recognised for 2022 includes depreciation for the different asset categories set out in Table B.8. – Property, Plant and Equipment.

The depreciation for each category in 2022 was as follows; 55.4 MEUR for Aircraft (upgrades, spare parts Major Inspection DLM costs), 7.8 MEUR for Vehicles, 5.8 MEUR for installed equipment, 5.6 MEUR for Other infrastructure, 3.9 MEUR for buildings, 1.6 MEUR for Machinery, 1.4 MEUR for AIS (Automated Information Systems), 0.8 MEUR for Communication systems, 0.7 MEUR for Mission Equipment and 0.4 MEUR for Furniture. Finally, the Net Book Value (NBV) of assets retired resulted in retirement losses of 7.5 KEUR (61.3 MEUR in 2021).

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Provisions

The Provision variance reported in 2022 of 53,657 EUR is made by an update to the provision for the funds currently blocked with the AIB bank to reflect the foreign exchange rate at the reporting date, by a small increase in the provisions indicated under Note D, and to provisions for bad and doubtful debts for 39,876 EUR.

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 2022 amount to 62.3 MEUR which reflects an increase of 8.2 MEUR compared to 2021. The reimbursable costs relate to a variety of services financially administered by ACO, as follows:

An amount of 3 MEUR (2021 2.1 MEUR) corresponds to travel services provided to the NCIA by JFC Naples HQ, JFC Brunssum HQ, LANDCOM Izmir HQ, AIRCOM Ramstein HQ and MARCOM Northwood HQ.

A total amount of approximately 24.3 MEUR (2021 24.9 MEUR) corresponds to real life support services provided mainly by JFC Naples HQ (NMI) and KFOR HQ to the TCN, 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 TCN through an established cost recovery mechanism.

Expenses for the remaining amount of 34.9 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 are recovered from the customers through charges calculated on a pro-rata basis. Some expenses are related to the Special Litigation Team at SHAPE¹⁹.

18. Total to be returned

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

19. Net Asset

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

¹⁹ Reference to BC-DS(2016)0054, dated 14 November 2016, BC-DS(2017)0021, dated 02 June 2017, AC/335-N(2018)0015-AS1

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D. Contingent Assets, Contingent Liabilities and Provisions

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

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

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

Contingent Assets

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

For the 2022 Financial Year, ACO is reporting one contingent asset relating to interest allocations to be received from NSPA in relation to interest earned on funds held by NSPA for the period 2012 – 2018. The amount and timing of the allocation is unknown but is expected to occur towards the end of 2023.

Contingent Liabilities and Provisions

Based on IPSAS 19 and the nature of items identified in the 2022 reporting period, ACO aggregated Contingent Liabilities and Provisions reported by ACO consolidated entities in the following categories:

I. NATO Administrative Tribunal: Includes cases related to NATO employees pending before the NATO Administrative Tribunal (NAT).

II. Claims under Art. VIII SOFA: Includes cases related to damages caused to third parties by NATO personnel. The majority of the cases reported relate to damages to property or to individuals, including those provoked due to car accidents or initiated through health and safety offices. The category also includes claims raised in the Bosnia and Herzegovina (BiH) theatre of operations, although the claim process is governed by the GFAP SOFA and Claims Annex to the Technical Arrangement between the Republic of BiH Ministry of Justice and Implementation forces, and not by article VIII of NATO SOFA. The amounts, when disclosed and related to article VIII SOFA, represent 75% due by NATO and the remaining 25% to be paid by the Host Nation; the same cost share does not apply in the BiH where under the terms of GFAP SOFA, the entire burden (100%) for the payment of claims rests with NATO HQ Sarajevo, as legal successor of IFOR and SFOR.

III. Labour court cases: Includes cases pending before local Courts in relation to employment issues.

IV. Litigations: Includes other cases of legal or contractual litigations such as contractual claims for alleged damages.

V. Liabilities due to HQs closure: Includes costs for dismantling/removal of NATO property or any type of direct/indirect liabilities derived from closure of AOMs, ACO Commands, their transformation and transfer or for closure of programmes of works previously contracted.

VI. Others: This is a residual category where there are reported cases that do not fall within one of the above mentioned categories, including liabilities for employees' emoluments due to severance pay, Trattamento di Fine Rapporto (TFR)²⁰, pension's contributions, etc.

Contingent Liabilities

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

²⁰ Liabilities due to TFR for JFCNP are only reported as provisions.

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TABLE D.A – Summary of the 2022 Contingent Liabilities

Contingent Liability Categories	Amount (EUR)
I NATO Administrative Tribunal	-
II Claims under Art. VIII SOFA	374,436
III Labour court cases	10,094,512
IV Litigations	589,044
V Liabilities due to HQs closure	131,563
VI Others	2,144,347
Total	13,333,902

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

I. NATO Administrative Tribunal: Nothing to report for 2022.

II. Claims under Art. VIII SOFA: The total amount disclosed under this category is 374,436 EUR (373,436 EUR in 2021).

In this category, an amount of 363,436 EUR was reported by NHQSa for two claims related to damages arising from the usage of a factory in Visoko, BIH. The remaining amount of 11,000 EUR relates to cases falling under this category for AIRCOM Ramstein and NHQSa. This category also includes various cases reported by SHAPE and NAEW&C Force GK for which it is not possible to reliably estimate the amount required to settle the potential liability. For NAEW&C Force GK, this includes potential liabilities relating to contamination of local waterworks.

III. Labour court cases: Out of the total amount of 10,094,512 EUR (10,650,904 EUR in 2021) disclosed in this category, the amount of 9,819,512 EUR relates to NHQSa's potential liability due to a labour contract dispute. There has been no further update from the reported 2021 figures.

An amount of 275,000 EUR is reported by SHAPE for litigations pending before the Labour Court in relation to the transfer of the Fire Brigade to the Belgium HN under the HNS Policy and Standards.

This category also includes a case where the amount cannot be determined by JFC Naples in relation to a death allegedly caused by asbestos.

IV. Litigations: The total amount disclosed under category IV is 589,044 EUR (476,019 EUR in 2021) and relates to two cases. The first CL relates to KFOR, amounting to 507,171 EUR (537,500 USD) for a claim for accommodation for rental services, contracted in 1999, with a private company to rent premises for housing and related services for KFOR troops at the Sports and Recreation Centre in Pristina. This case is being handled by the NATO/IS LEGAD. The second CL relates to potential liabilities relating to food and catering services in Afghanistan from 2012-2015. This case is being handled by JFCBS.

This category also includes one case relating to a claim by a former contractor for NATO and TCN fuel services for ISAF that could be counterbalanced by the ACO counter claim against the company. However, at this stage the potential outflows/inflows of resources cannot be reliably measured, as previously reported.

V. Liabilities due to HQs closure: Within this category, JFCBS has reported possible liabilities due to the termination of the ISAF operation and Resolute Support mission. The liability is related to the ACO responsibility towards NSPA for the payment of the Loss of Job Indemnities (LOJI) associated with redundant NSPA NIC workforce approved by SHAPE to support the ISAF operation and the Resolute Support mission. The amount of 131,563 (168,264 EUR in 2021) represents NATO's estimated share of the remaining liability.

This category also includes contingent liabilities with no reliable amount relating to fuel Claims via Afghan Fuel Stakeholder Coordination Forum (AFSCF) and NSPA claims linked to the close out of the ISAF operation and Resolute Support mission.

On 29 March 2023, JFCBS received a request for arbitration relating to the Resolute Support mission. SHAPE is unable to assess this claim within the Financial Statements release timeframe. However SHAPE will continue to monitor the progress of the claim and will update its disclosures as additional information becomes available, if required, in the following Financial Statements.

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VI. Others: Of the total 2,144,347 EUR reported in this category, an amount of 1,530,127 EUR is reported by JFCNP for retroactive social contributions in relation to sick and maternity leave. The remaining 614,220 EUR reported in this category relates to Turkish VAT liabilities levied against IAMCO (278,220 EUR) and claims by Resolute Support mission outsourced civilian consultants (336,000 EUR).

This category also includes contingent liabilities with no reliable amount for JFCBS relating to indexation costs for some local wage rate employee pensions.

Provisions

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

Table D.B – Summary of the 2022 Provisions

Provisions	Amount (EUR)
I NATO Administrative Tribunal	-
II Claims under Art. VIII SOFA	97,125
III Labour court cases	1,204,098
IV Litigations	4,779,906
V Liabilities due to HQs closure	-
VI Others	3,999,206
Total	10,080,335

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

I. NATO Administrative Tribunal: Nothing to report for 2022.

II. Claims under Art. VIII SOFA: NHQSa reported provisions within this category totalling 91,125 EUR relating to claims due to car accidents or damages to land and property. The remaining amount of 6,000 EUR is for JFC Naples.

III. Labour court cases: Out of the total amount of 1,204,098 EUR, SHAPE reports 1,038,930 EUR in relation to the transfer of the Fire Brigade to the Belgium HN under the HNS Policy and Standards. KFOR HQ is reporting a provision of 122,721 EUR (previously 150,000 EUR in 2021) relating to Camp Novo Selo and the specific situation related to private land parcels. The final provision under this category for 42,447 EUR relates to a contract dispute at LANDCOM Izmir.

IV. Litigations: The total reported in this category refers to a claim of the former JFCNP energy supplier that has requested the payment of arrears for the period 2005 – 2008 due to a malfunctioning of the electrical meter in the Bagnoli compound. The amount of 4,779,906 EUR has increased from last year (3,864,502 EUR reported in 2021) due to a reassessment of potential interest costs on the arrears amount.

V. Liabilities due to HQs closure: Nothing to report for 2022.

VI. Others: Out of a total 3,999,206 EUR recognised in this category 3,381,916 EUR relates to "Trattamento di Fine Rapporto" (TFR) for JFC Naples. In application of the Italian Law and in accordance with IPSAS 19, TFR is a vested benefit payable to the employee for a part of his/her salary deferred in time to the moment when termination of contract takes place; this applies to LWR. The value of this liability is determined annually and includes interests for the loan forcedly made by the employee to the employer given the fact that payment is deferred to a later time. In view of the foregoing, TFR has to be considered as a termination benefit calculated as one extra monthly instalment of the annual pay.

The remainder of the provision recognised in this category (617,290 EUR) relates to severance allowances that would be payable to local wage rate employees if they were to leave LANDCOM Izmir HQ. The amount is calculated based on the LWR leaving as at the reporting date plus a seven month notice allowance payable on retirement or termination by employer.

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E. Segment Reporting

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

- **"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
- **"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 2022 FS the segment reporting has been prepared in conformity with the accounting policies and also reported in the ACO guidance for EOY 2022.

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 PP&E and inventory. 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 four 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.

Residual assets and liabilities, non-budgetary expenses and revenue and overestimated accruals related to the financial closure of Resolute Support mission are reported under the JFC Brunssum HQ segment.

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Segment reporting MB
Statement of Financial Position per HQ

	SHAPE HQ		NAGSF HQ		JFC Brunsum HQ	
	2022	2021 RESTATED	2021	2022	2021 RESTATED	2021
ASSETS						
Current Assets						
Cash and Cash Equivalents	35,086	20,441	20,441	-	41,287	49,203
Interimty	112,269,930	140,071,653	140,071,653	15,800,762	41,487,245	86,925,844
Receivables	12,692,874	10,821,133	10,821,133	113,733	1,083,738	1,091,090
Prepayments	3,678,612	3,769,350	3,769,350	149,177	9,307	12,333
Other Current Assets	1,038,930	-	-	-	-	435,127
Inventories	858,314	757,620	706,208	133,001	185,357	291,354
Total Current Assets	130,573,745	155,440,197	155,388,785	16,196,673	42,806,933	88,804,952
Non-current Assets						
Receivables	-	-	-	-	-	-
Property, plant & equipment	23,948,779	22,993,039	23,005,581	20,970,327	13,703,913	14,261,941
Other Non-current Assets	-	-	-	-	-	853,660
Total Non-current Assets	23,948,779	22,993,039	23,005,581	20,970,327	13,703,913	15,115,601
Total ASSETS	154,522,524	178,433,236	178,394,367	37,167,000	56,510,847	103,920,553
LIABILITIES						
Current Liabilities						
Payables	(118,806,192)	(149,040,871)	(149,040,871)	(15,096,329)	(26,492,477)	(81,059,530)
Deferred Revenue & Other Current Liabilities	(12,694,177)	(8,783,380)	(8,731,968)	(2,112,146)	(15,568,453)	(9,348,454)
Advances	(367,993)	(20,092)	(20,092)	-	-	-
Short Term Provisions	(1,038,930)	-	-	-	(1,798,848)	(2,222,224)
Surpl./Deficit to be returned	(360,913)	50,646	50,646	(887)	6,562	2,742,582
Total Current Liabilities	(133,268,205)	(157,793,698)	(157,742,286)	(17,198,346)	(43,853,216)	(89,887,625)
Non-current Liabilities						
Payables	-	-	-	-	-	-
Long Term Provisions	-	-	-	-	-	(853,660)
Deferred Revenue	(21,254,319)	(20,639,539)	(20,652,081)	(19,968,654)	(12,657,631)	(13,179,268)
Other Non-current Liabilities	-	-	-	-	-	-
Total Non-current Liabilities	(21,254,319)	(20,639,539)	(20,652,081)	(19,968,654)	(12,657,631)	(14,202,872)
Total LIABILITIES	(154,522,524)	(178,433,236)	(178,394,367)	(37,167,000)	(56,510,847)	(103,920,553)
NET ASSETS	-	-	-	-	-	-

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	AIRCORR Ramstein HQ		NAEWAC Force HQ		JFC Naples HQ	
	2022	2021 RESTATED	2021	2022	2021 RESTATED	2021
ASSETS						
Current Assets						
Cash and Cash Equivalents	29,162	27,798		124,226	139,452	796,353
Interimty	4,830,936	2,772,388		71,060,045	48,146,328	9,586,887
Receivables	532,711	468,031		5,545,036	4,169,213	24,007,290
Prepayments	15,876	9,928		2,173,749	3,855,459	2,309,464
Other Current Assets	-	-		-	5,000	-
Inventories	120,619	285,734		52,514,664	44,981,354	295,250
Total Current Assets	5,529,304	3,563,878		131,417,721	101,296,806	37,846,325
Non-current Assets						43,803,895
Receivables	-	-		1,022,584	1,022,584	-
Property, plant & equipment	3,768,068	3,861,250		694,426,121	662,915,179	1,443,928
Other Non-current Assets	-	-		-	-	5,941,546
Total Non-current Assets	3,768,068	3,861,250		695,448,705	663,937,762	7,385,474
Total ASSETS	9,297,372	7,425,128		826,866,426	765,234,568	45,231,799
LIABILITIES						49,119,035
Current Liabilities						
Payables	(5,280,785)	(3,171,544)		(75,226,770)	(51,958,373)	(34,006,512)
Deferred Revenue & Other Current Liabilities	(595,295)	(654,013)		(112,530,796)	(110,310,592)	(3,284,427)
Advances	-	-		-	-	(1,440)
Short Term Provisions	-	-		-	(5,000)	-
Surpl./Deficit to be returned	(42,166)	3,459		(1,208,134)	(1,471,421)	324,242
Total Current Liabilities	(5,918,246)	(3,822,099)		(188,965,699)	(169,407,787)	(36,968,137)
Non-current Liabilities						(41,829,946)
Payables	-	-		-	-	-
Long Term Provisions	-	-		-	-	(8,167,822)
Deferred Revenue	(3,379,126)	(3,603,030)		(637,900,727)	(595,826,782)	(95,840)
Other Non-current Liabilities	-	-		-	-	-
Total Non-current Liabilities	(3,379,126)	(3,603,030)		(637,900,727)	(595,826,782)	(8,263,662)
Total LIABILITIES	(9,297,372)	(7,425,128)		(826,866,426)	(765,234,568)	(45,231,799)
NET ASSETS	-	-		-	-	-

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	NHQSa HQ			LANDCOM Lzmir HQ			NCIS Group HQ		
	2022	2021	2021 RESTATED	2022	2021 RESTATED	2021	2022	2021 RESTATED	2021
ASSETS									
Current Assets									
Cash and Cash Equivalents	146,422	303,958	303,958	730,414	1,385,589	1,385,589	14,483	17,458	17,458
Integrity	229,982	13,318	13,318	1,249,867	279,071	279,071	5,174,128	12,586,015	12,586,015
Receivables	115,035	98,704	98,704	2,838,548	1,099,458	1,099,458	746,785	620,982	620,982
Prepayments	-	-	-	21,300	-	-	1,337	1,268	1,268
Other Current Assets	45,332	102,925	102,925	44,760	5,164	5,164	-	-	-
Inventories	1,163,444	1,490,396	1,490,396	680,201	592,496	592,496	3,939,959	3,624,720	3,624,720
Total Current Assets	1,700,215	2,009,302	2,009,302	5,565,090	3,361,778	3,361,778	9,876,691	16,850,443	16,850,443
Non-current Assets									
Receivables	-	-	-	5,433	8,488	8,488	-	-	-
Property, plant & equipment	87,121	29,338	29,338	6,502,850	5,284,729	5,284,729	56,109,415	60,177,608	60,177,608
Other Non-current Assets	45,793	-	-	617,290	1,161,926	1,161,926	-	-	-
Total Non-current Assets	132,914	29,338	29,338	7,125,573	6,455,143	6,455,143	56,109,415	60,177,608	60,177,608
Total ASSETS	1,833,129	2,038,640	2,038,640	12,690,663	9,816,921	9,816,921	65,986,106	77,028,050	77,028,050
LIABILITIES									
Current Liabilities									
Payables	(473,838)	(411,071)	(411,071)	(2,730,951)	(3,580,782)	(3,580,782)	(5,838,195)	(13,176,026)	(13,176,026)
Deferred Revenue & Other Current Liabilities	(1,263,460)	(1,523,256)	(1,523,256)	(1,840,060)	(863,582)	(863,582)	(8,555,497)	(9,921,680)	(9,921,680)
Advances	-	-	-	-	-	-	-	-	-
Short Term Provisions	(45,332)	(102,925)	(102,925)	(42,447)	-	-	-	-	-
Surpl./Deficit to be returned	(4,706)	(1,388)	(1,388)	(1,216,968)	870,699	870,699	(98,136)	9,635	9,635
Total Current Liabilities	(1,787,336)	(2,038,640)	(2,038,640)	(5,830,426)	(3,573,665)	(3,573,665)	(14,491,828)	(23,088,071)	(23,088,071)
Non-current Liabilities									
Payables	-	-	-	-	-	-	-	-	-
Long Term Provisions	(45,793)	-	-	(617,290)	(1,161,926)	(1,161,926)	-	-	-
Deferred Revenue	-	-	-	(6,242,947)	(5,081,331)	(5,081,331)	(51,494,278)	(53,939,980)	(53,939,980)
Other Non-current Liabilities	-	-	-	-	-	-	-	-	-
Total Non-current Liabilities	(45,793)	-	-	(6,860,237)	(6,243,257)	(6,243,257)	(51,494,278)	(53,939,980)	(53,939,980)
Total LIABILITIES	(1,833,129)	(2,038,640)	(2,038,640)	(12,690,663)	(9,816,921)	(9,816,921)	(65,986,106)	(77,028,050)	(77,028,050)
NET ASSETS	-	-	-	-	-	-	-	-	-

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	KFOR HQ		MARCOM Northwood HQ		ACO Corporate Accounting and Control Office	
	2022	2021 RESTATED	2021	2022	2021 RESTATED	2021
ASSETS						
Current Assets						
Cash and Cash Equivalents	369,445	2,836,821	2,836,821	56,900	90,958	90,958
Interfund	2,935,437	(254,046)	(254,046)	7,188,819	6,154,722	6,154,722
Receivables	726,154	658,270	658,270	326,721	281,492	281,492
Prepayments	178,312	372,085	372,085	72,920	45,621	45,621
Other Current Assets	-	-	-	-	-	-
Inventories	240,890	253,747	253,747	94,413	77,408	77,408
Total Current Assets	4,450,238	3,866,876	3,866,876	7,739,774	6,650,201	6,650,201
Non-current Assets						
Receivables	-	-	-	-	-	-
Property, plant & equipment	417,293	1,610,122	1,561,266	1,461,950	766,122	766,122
Other Non-current Assets	122,721	150,000	150,000	-	-	-
Total Non-current Assets	540,014	1,760,122	1,711,266	1,461,950	766,122	766,122
Total ASSETS	4,990,252	5,626,998	5,578,142	9,201,724	7,416,323	7,416,323
LIABILITIES						
Current Liabilities						
Payables	(3,944,392)	(3,455,752)	(3,455,752)	(7,666,596)	(6,518,442)	(6,518,442)
Deferred Revenue & Other Current Liabilities	(711,029)	(1,845,936)	(1,845,936)	(431,885)	(180,242)	(180,242)
Advances	-	-	-	-	-	-
Short Term Provisions	-	-	-	-	-	-
Surpl./Deficit to be returned	(212,110)	(126,454)	(126,454)	36,634	598	598
Total Current Liabilities	(4,867,531)	(5,428,142)	(5,428,142)	(8,061,847)	(6,698,085)	(6,698,085)
Non-current Liabilities						
Payables	-	-	-	-	-	-
Long Term Provisions	(122,721)	(150,000)	(150,000)	-	-	-
Deferred Revenue	-	(48,856)	(0)	(1,139,877)	(718,238)	(718,238)
Other Non-current Liabilities	-	-	-	-	-	-
Total Non-current Liabilities	(122,721)	(198,856)	(150,000)	(1,139,877)	(718,238)	(718,238)
Total LIABILITIES	(4,990,252)	(5,626,998)	(5,578,142)	(9,201,724)	(7,416,323)	(7,416,323)
NET ASSETS	-	-	-	-	-	-

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	NSIP	
	2022	2021
ASSETS		
Current Assets		
Cash and Cash Equivalents	585,638	531,771
Short Term Investment	-	-
Interidity	-	-
Receivables	823,629	173,329
Prepayments	-	-
Other Current Assets	-	-
Inventories	-	-
Total Current Assets	1,409,267	705,100
Non-current Assets		
Receivables	-	-
Property, plant & equipment	2,028,440	929,564
Other Non-current Assets	-	-
Total Non-current Assets	2,028,440	929,564
Total ASSETS	3,437,707	1,634,664
LIABILITIES		
Current Liabilities		
Payables	(2,057,056)	(2,741,116)
Deferred Revenue & Other Current Liabilities	621,593	2,009,110
Advances	-	-
Short Term Provisions	-	-
Surpl./Deficit to be returned	26,196	26,906
Total Current Liabilities	(1,409,267)	(705,100)
Non-current Liabilities		
Payables	-	-
Long Term Provisions	-	-
Deferred Revenue	(2,028,440)	(929,564)
Other Non-current Liabilities	-	-
Total Non-current Liabilities	(2,028,440)	(929,564)
Total LIABILITIES	(3,437,707)	(1,634,664)
NET ASSETS	-	-

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	TOTAL FOR SEGMENTS			ELIMINATIONS			CONSOLIDATED		
	2022	2021 RESTATED	2021	2022	2021 RESTATED	2021	2022	2021 RESTATED	2021
ASSETS									
Current Assets									
Cash and Cash Equivalents	821,493,505	1,365,278,987	1,365,278,987				819,694,656	1,363,491,891	1,363,491,891
Short Term Investment	930,497,605	520,048,947	520,048,947	1,798,848	1,787,096	1,787,096	930,497,605	520,048,947	520,048,947
Intendity	-	-	-	-	-	-	-	-	-
Receivables	81,555,751	205,102,748	205,102,748	-	-	-	81,555,751	205,102,748	205,102,748
Prepayments	11,759,072	10,282,089	10,282,089	-	-	-	11,759,072	10,282,089	10,282,089
Other Current Assets	5,336,889	940,973	940,973	-	-	-	5,336,889	940,973	940,973
Inventories	60,183,724	52,720,982	47,007,170	-	-	-	60,183,724	52,720,982	47,007,170
Total Current Assets	1,910,826,555	2,154,374,726	2,148,660,914	1,798,848	1,787,096	1,787,096	1,909,027,707	2,152,587,630	2,146,873,818
Non-current Assets									
Receivables	1,028,017	1,031,072	1,031,072	-	-	-	1,028,017	1,031,072	1,031,072
Property, plant & equipment	915,255,718	794,242,663	789,230,102	-	-	-	915,255,718	794,242,663	789,230,102
Other Non-current Assets	6,727,360	7,297,226	7,297,226	-	-	-	6,727,360	7,297,226	7,297,226
Total Non-current Assets	923,011,084	802,570,961	797,558,399	-	-	-	923,011,084	802,570,961	797,558,400
Total ASSETS	2,833,837,639	2,956,945,687	2,946,219,313	1,798,848	1,787,096	1,787,096	2,832,038,791	2,955,158,591	2,944,432,218
LIABILITIES									
Current Liabilities									
Payables	(381,522,809)	(372,435,901)	(372,435,901)	(405,270)	-	-	(381,117,539)	(372,435,901)	(372,435,901)
Deferred Revenue & Other Current Liabilities	(1,260,943,363)	(1,576,331,862)	(1,570,617,850)	3,856,300	1,870,169	1,870,169	(1,264,799,663)	(1,578,201,831)	(1,572,488,019)
Advances	(333,306,758)	(280,327,948)	(280,327,948)	-	-	-	(333,306,758)	(280,327,948)	(280,327,948)
Short Term Provisions	(2,925,557)	(2,330,149)	(2,330,149)	(1,798,848)	(1,787,097)	(1,787,097)	(1,126,709)	(543,052)	(543,052)
Surpl./Deficit to be returned	(3,451,030)	(1,870,168)	(1,870,168)	(3,451,030)	(1,870,168)	(1,870,168)	-	-	-
Total Current Liabilities	(1,982,149,517)	(2,233,295,628)	(2,227,582,016)	(1,798,848)	(1,787,097)	(1,787,097)	(1,980,350,669)	(2,231,508,732)	(2,225,794,920)
Non-current Liabilities									
Payables	-	-	-	-	-	-	-	-	-
Long Term Provisions	(8,953,626)	(9,312,981)	(9,312,981)	-	-	-	(8,953,626)	(9,312,981)	(9,312,981)
Deferred Revenue	(842,734,496)	(714,336,878)	(709,324,316)	-	-	-	(842,734,496)	(714,336,878)	(709,324,316)
Other Non-current Liabilities	-	-	-	-	-	-	-	-	-
Total Non-current Liabilities	(851,688,122)	(723,649,859)	(718,637,297)	-	-	-	(851,688,122)	(723,649,859)	(718,637,297)
Total LIABILITIES	(2,833,837,639)	(2,956,945,687)	(2,946,219,313)	(1,798,848)	(1,787,097)	(1,787,097)	(2,832,038,791)	(2,955,158,591)	(2,944,432,217)
NET ASSETS	-	-	-	-	-	-	-	-	-

Segment reporting MB

Statement of Financial Performance per HQ

	SHAPE HQ		NAGSF HQ		JFC Brunssum HQ	
	2022	2021 RESTATED	2021	2022	2021 RESTATED	2021
REVENUE						
Revenue	(429,533,046)	(412,934,937)	(412,922,395)	(191,164,586)	(44,377,568)	(17,677,456)
Other Revenue	(364,722)	(23,530)	(23,530)	-	-	(1,342,578)
Financial Revenue	(571,409)	(303,340)	(303,340)	(3,741)	3,118	14,208
Total to be returned to the Nations	360,913	(50,646)	(50,646)	887	(10,128)	(6,562)
Total REVENUE	(430,108,263)	(413,312,452)	(413,299,910)	(191,167,440)	(44,384,579)	(19,012,387)
EXPENSES						
Expenses	424,677,843	410,647,288	410,647,288	188,311,573	43,381,906	17,836,512
Personnel	48,187,329	43,615,670	43,615,670	1,371,328	1,415,836	11,677,089
Contractual Supplies and Services	376,485,759	367,031,618	367,031,618	186,940,245	41,966,070	6,159,423
Foreign Military Sales (FMS)	4,755	-	-	-	-	-
Depreciation	3,816,272	2,287,649	2,275,107	2,853,013	995,662	1,129,730
Provisions	1,037,905	669	669	-	-	-
Other Expenses	-	-	-	-	-	-
Financial Costs	576,243	376,846	376,846	2,854	7,011	1,243
Total EXPENSES	430,108,263	413,312,452	413,299,910	191,167,440	44,384,579	19,012,387
Result of the year	-	-	-	-	-	-
	AIRCOM Ramstein HQ		NAEW&C Force HQ		JFC Naples HQ	
	2022	2021 RESTATED	2021	2022	2021 RESTATED	2021
REVENUE						
Revenue	(27,881,708)	(23,061,240)	(24,683,987)	(340,295,809)	(274,329,384)	(59,971,261)
Other Revenue	-	(25,625)	(25,625)	(1,396,435)	(2,668,714)	(138,110)
Financial Revenue	(16,930)	3,605	3,605	(1,250,076)	(539,907)	528,322
Total to be returned to the Nations	42,166	(3,459)	(3,459)	1,208,134	1,471,421	(324,242)
Total REVENUE	(27,856,471)	(23,086,719)	(24,709,467)	(341,734,186)	(276,066,584)	(60,415,868)
EXPENSES						
Expenses	27,461,385	22,586,693	24,286,453	275,031,668	205,690,605	58,836,051
Personnel	6,531,708	5,963,488	5,963,488	89,936,430	72,281,829	19,642,198
Contractual Supplies and Services	20,929,676	16,623,205	18,322,965	152,283,419	118,186,658	39,193,853
Foreign Military Sales (FMS)	-	-	-	32,811,820	15,222,118	-
Depreciation	420,323	474,546	397,534	65,269,141	68,633,779	325,305
Provisions	-	-	-	-	5,000	809,906
Other Expenses	-	-	-	-	-	-
Financial Costs	(25,236)	25,480	25,480	1,433,377	1,737,200	284,623
Total EXPENSES	27,856,471	23,086,719	24,709,467	341,734,186	276,066,584	60,415,868
Result of the year	-	-	-	-	-	-

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	NHQSa HQ		LANDCOM Izmir HQ		NGIS Group HQ	
	2022	2021 RESTATED	2021	2022	2021 RESTATED	2021
REVENUE						
Revenue	(4,492,005)	(3,266,656)	(3,266,656)	(11,591,351)	(12,763,953)	(47,857,980)
Other Revenue	(17,181)	(16,651)	(16,651)	(2,163,522)	(49,734)	(2,590)
Financial Revenue	(1,114)	(1,344)	(1,344)	(50,126)	(35,480)	14,038
Total to be returned to the Nations	4,706	1,388	1,388	1,216,968	(870,699)	(9,635)
Total REVENUE	(4,505,593)	(3,283,263)	(3,283,263)	(12,588,031)	(13,719,866)	(47,856,167)
EXPENSES						
Expenses	3,984,497	3,233,401	3,233,401	11,833,027	12,584,736	41,741,588
Personnel	2,517,141	2,214,627	2,214,627	2,975,248	2,946,709	10,240,792
Contractual Supplies and Services	1,467,357	1,018,773	1,018,773	8,857,779	9,638,027	31,500,796
Foreign Military Sales (FMS)	-	-	-	-	-	-
Depreciation	519,308	48,255	48,255	260,513	200,831	6,116,392
Provisions	-	-	-	-	-	-
Other Expenses	113	210	210	-	-	-
Financial Costs	1,675	1,397	1,397	494,491	934,299	2,397
Total EXPENSES	4,505,593	3,283,263	3,283,263	12,588,031	13,719,866	47,856,167
Result of the year	-	-	-	-	-	-

	KFOR HQ		MARCOM Northwood HQ		ACO Corporate Accounting and Control Office	
	2022	2021 RESTATED	2021	2022	2021 RESTATED	2021
REVENUE						
Revenue	(17,059,676)	(15,984,720)	(16,033,576)	(14,634,019)	(12,784,717)	-
Other Revenue	(233,301)	(189,109)	(189,109)	-	-	(314,727)
Financial Revenue	(6,646)	(9,461)	(9,461)	(526)	(4,878)	(1,398,250)
Total to be returned to the Nations	212,110	126,454	126,454	(36,634)	(598)	1,581,475
Total REVENUE	(17,087,514)	(16,056,835)	(16,105,692)	(14,671,179)	(12,790,193)	(131,503)
EXPENSES						
Expenses	14,557,453	13,881,338	13,934,635	14,493,171	12,739,810	-
Personnel	6,969,106	6,563,659	6,563,659	3,403,579	3,207,351	-
Contractual Supplies and Services	7,588,347	7,317,679	7,370,976	11,089,592	9,532,460	-
Foreign Military Sales (FMS)	-	-	-	-	-	-
Depreciation	2,529,502	2,163,382	2,158,941	140,848	44,906	-
Provisions	-	-	-	-	-	2,220
Other Expenses	-	-	-	-	-	-
Financial Costs	558	12,116	12,116	37,160	5,476	129,282
Total EXPENSES	17,087,514	16,056,835	16,105,692	14,671,179	12,790,193	131,503
Result of the year	-	-	-	-	-	-

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	NSIP	
	2022	2021
REVENUE		
Revenue	(1,317,881)	(2,632,245)
Other Revenue	-	-
Financial Revenue	(817)	(275)
Total to be returned to the Nations	710	(63)
Total REVENUE	(1,317,988)	(2,632,583)
EXPENSES		
Expenses	1,317,881	2,632,245
Personnel	-	-
Contractual Supplies and Services	1,317,881	2,632,245
Foreign Military Sales (FMS)	-	-
Depreciation	-	-
Provisions	-	-
Other Expenses	-	-
Financial Costs	107	338
Total EXPENSES	1,317,988	2,632,583
Result of the year	-	-

	TOTAL FOR SEGMENTS		ELIMINATIONS		CONSOLIDATED PERFORMANCE	
	2022	2021	2022	2021	2022	2021
REVENUE						
Revenue	(1,171,658,486)	(1,132,489,146)	-	-	(1,171,658,486)	(1,132,489,146)
Other Revenue	(5,907,227)	(3,751,236)	-	-	(4,113,074)	(3,292,051)
Financial Revenue	(4,057,462)	(923,766)	(1,794,153)	(459,184)	(4,057,462)	(923,766)
Total to be returned to the Nations	2,145,866	(1,025,986)	-	-	2,145,866	(1,025,986)
Total REVENUE	(1,179,477,309)	(1,138,190,133)	(1,794,153)	(459,184)	(1,177,683,156)	(1,137,730,949)
EXPENSES						
Expenses	1,088,205,287	981,798,655	-	-	1,088,205,287	981,798,655
Personnel	208,272,317	195,544,716	-	-	208,272,317	195,544,716
Contractual Supplies and Services	847,116,396	771,031,821	-	-	847,116,396	771,031,820
Foreign Military Sales (FMS)	32,816,575	15,222,118	-	-	32,816,575	15,222,118
Depreciation	83,439,418	151,622,411	-	-	83,439,418	151,622,411
Provisions	1,847,810	1,316,087	1,794,153	459,184	53,657	856,903
Other Expenses	113	1,453	-	-	113	1,453
Financial Costs	5,984,681	3,451,527	-	-	5,984,681	3,451,527
Total EXPENSES	1,179,477,309	1,138,190,133	1,794,153	459,184	1,177,683,156	1,137,730,949
Result of the year	-	-	-	-	-	-

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F. Related Parties Disclosure

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

Identification of ACO related parties

(a) Key Management Personnel (KMP) include members of the governing body who have the greatest responsibility for the government of ACO and their close family members. Based on the definitions provided by IPSAS 20, the KMP within ACO have been identified as follows²¹:

- **Members of the governing body of the entity:** SACEUR Commanders Conference (SCC)²² which acts as **the ACO Board of Directors**.
- **Key advisors:** the members of the SHAPE Management Board/Crisis Operations Board (SMB/COB) are considered as the key advisors.
- **Senior management group of the reporting entity:** the ACO Management Board is the principle executive body within ACO for implementing command-wide strategic management on behalf of SACEUR.

(b) Consolidated entities: they are the ACO subordinate Commands that are controlled by SHAPE. The list of those entities is provided in the Note A.

(c) Other NATO entities: this includes the NATO agencies which provide goods and services to ACO at an agreed price.

Identification of the transactions between ACO and its related parties.

ACO and the KMP. Since the remuneration of the military personnel is a national responsibility under the principle of "costs lie where they fall", the only amount charged against the international funds is to cover the salary payment of 5 NATO International Civilians (NICs) identified within this category, i.e. the ACO Financial Controller, the ACO Office of Legal Affairs Director, the SHAPE Strategic and International Affairs Advisor, the SHAPE Strategic Communications Director and the ACO Internal Audit Head. The net remuneration received during the reporting year by these 5 NICs, including any salary transfer in foreign currencies, amounts to 975,466.97 EUR.

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

ACO and its consolidated entities. All intercompany transactions are posted and balances are reconciled with ACO CAC as of the reporting date. Intercompany balances are eliminated as part of the consolidation.

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.

Gratuities

As part of the effective management of the ethics program and to specifically ensure that any actual, potential or apparent conflicts of interest arising from staff members' financial interests, business relationships or other outside activities can be identified and managed in the best interest of ACO, a list of gratuities accepted by the ACO Commanders on behalf of the respective Headquarters is submitted annually to ACO. This is in accordance with the prescriptions of the ACO Directive 040-007 Standards of Conduct and the ACO Instruction on the Administration of Gratuities from External Sources.

²¹ The composition and job titles have been updated in accordance with the AD 015-004, ACO High level Business Processes, dated 31 October 2013.

²² Only the ACO KMP of the SCC that are part of the NATO Command Structure, plus the NAEW&C Force GK Commander and Commander NAGSF.

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Representation funds

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

Within ACO Representation and Hospitality funds are provided to high officials of the ACO Headquarters, primarily the commanders who may make sub-allocations to their most senior staff and deputy commanders. During 2022, the total expenditure made by ACO for Representation amounted to 407 KEUR which represents 76% of the overall authorised budget of 536 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:

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

On 06 February 2023, a powerful 7.7 magnitude earthquake struck southern Türkiye near Gaziantep, followed by a second one of 7.5 magnitude, which struck the Kahramanmaraş area. The earthquakes affected around 10 cities. Following these tragic events, NATO launched the NATO earthquake relief operation and approved a dedicated suspense account to support the earthquake relief activities. This does not affect ACO's 2022 Consolidated Financial Position, Financial Performance, Cash Flow, Net Assets or Budget Execution.

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

H. Military Budget Execution

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

The ACO budget execution during 2022 is 97.3%, including Regular and Special Carry Forwards. This percentage was higher than previous years (95.3 % in 2021 and 94.1% in 2020). The high execution was due to the high inflation environment with a very significant impact on salaries, utilities, fuel prices, and the activation of Gradual Response Plans (GRPs). The identified surpluses during the year were used to fund 2022 requirements as directed by the RPPB, repurposed to cover unfunded operational requirements, or returned to the contributing nation as lapsed credits. Lapsable credits came particularly from ACO MTEP, NATINAMDS, NCS-Adaptation and AGS.

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

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

Budget Category	Amount (EUR)
ACO portion - NATO Command Structure Entities and Programmes (NCSEP)	593,677,774
ACO portion - NCS-Adaptation	32,456,224
Alliance Operations and Missions (AOM)	47,143,349
NAEW&C Force	333,865,508
NAGS Force	195,332,813
Total ACO	1,202,475,667

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

During the year a budget ceiling increase (16.96 MEUR) was approved under NAEW& CF for the Employment budget (BC 163) in order to cover the budget deficit due to the high energy prices (air fuel in particular), inflation and the GRP activation associated costs.

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NATO COMMAND STRUCTURE ENTITIES AND PROGRAMMES (NCSEP)

In 2022, the Final Budget for the NCSEP budget totalled 594 MEUR. The combined execution rate, including Regular and Special Carry Forwards, reached 97.4% for the ACO part of NCSEP.

Table H.A1 – Final Budget for ACO NCSEP

Budget Code	Budget Title	Final Budget in EUR
101EUR30	SHAPE	82,945,277
103EUR30	JFC HQ Brunssum	27,943,062
104EUR30	JFC HQ Naples	36,122,567
105EUR30	HQ AIRCOM Ramstein	24,588,199
111EUR30	HQ LANDCOM Izmir	11,083,608
118EUR30	HQ MARCOM Northwood	11,557,272
131EUR30	HQ Deployable Assets	12,326,974
157EUR30	ACO MTEP	15,741,000
164EUR30	NATINAMDS Non-C2 Elements	35,420,679
166EUR30	NATINAMDS C2 Elements	105,006,546
176EUR30	NCNCB	4,559,879
177EUR30	NCCB	175,476,353
178EUR30	NATO CIS Group (NCISG)	46,936,368
502EEUR30	Outreach Programmes (ACO)	3,970,000
NCSEP Total		593,677,774

The overall annual execution rate, 97.4%, is higher than previous years due to the inflation environment affecting the nations where budgets are executed and the end of most of the Covid-19 restrictions. The figures in this report reflect the impact of the inflation across the portfolio. The inflation affected the utility prices, fuel prices and salaries. Transfers to cover the salary adjustments and electricity prices were mainly covered from the savings identified during the year under NATINAMDS (BC166), NCNCB (BC 176), NCCB (BC 177), and NCISG (BC 178).

The costs associated with the activation of the GRPs under NCSEP, 2.99 MEUR, were also covered from surpluses identified under ACO MTEP (BC 157) and Outreach programmes (BC 502).

The BC approved the following Special Carry Forwards under the 2022 ACO NCSEP budget:

- a. SHAPE (BC 101) - A total of 1,725,000 EUR for the refurbishment of the main entrance of the SHAPE Command Center, the CCTV security action plan, the repair and replace roof membrane on several buildings, the repairs of existing building canopies and a contracted Software Engineer for HRDS.
- b. HQ AIRCOM (BC 105) - A total of 35,000 EUR to cover two operational requirements, the replacement of a deployable Spectrum Analyser and a Oscilloscope.
- c. NATO Integrated Air & Missile Defence System - NATINAMDS C2 (BC 166) - A total 375,980 EUR for the Hardware Network Device Obsolescence Management requirement.
- d. NATO Centralized CIS Budget - NCCB (BC 177) - A total of 682,761 EUR to cover:
 - i. (SCF) 420,000 EUR to support the ACO/ACT Mission Identification System (AMIS) O&M increase. AMIS 3rd level O&M contract between NCIA and CITI (AMIS Software vendor) will expire at the end-of-year. The 2023 contract cost was higher than anticipated.
 - ii. (SCF) 262,761 EUR to support the SHAPE Human Resources Application Service (APP032). SHAPE has requested NCIA to include within APP032 a new validation (staging) environment to enable operational integration/interfaces of several HR applications (reports, scripts, portals, workflows, etc.).

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- e. NATO Communication & Information System Group (NCISG) (BC 178) - A total of 800,000 EUR for NCIA's support to DCEP according to the FY 2022 SLA. The entire amount is needed to cover the procurement of IT spares next year. The procurement did not materialize in 2022 due to supply chain issues.

It should be noted that the further carry forward of the following SCF from previous years were approved by the BC:

- a. NATO Centralized CIS Budget - NCCB (BC 177) - A total of 263,885 EUR from 2020 to finalise the disposal of 10K crypto devices that could not be accomplished in 2022.
b. NATO Integrated Air & Missile Defence System - NATINAMDS NON C2 (BC 164) - A total of 500,000 EUR from 2021 due to delays in the procurement as consequence of ripple effects from the Covid-19 crisis in combination with unscheduled heavy maintenance in 2021.
c. NATO Centralized CIS Budget - NCCB (BC 177) - A total of 3,300,000 EUR from 2021 to support requirements for the NCIA Asset Management Programme.

Surplus credits in 2022 totalled 15,28 MEUR (2.57% of the budget) only for the ACO part of the NCSEP budget group. Most budget showed an execution over 90% with the exception of the MTEP (BC-157) programme.

Below are the surpluses examples:

- a. SHAPE (BC 101) – 2,358,762 EUR were identified as surplus due to delays in recruitment, lower than expected average cost per person, the under execution in NCIA services delivery, travel and other administrative costs.
b. JFC HQ Brunssum (BC 103) – No surplus was identified under this budget.
c. JFC HQ NAPLES (BC 104) – 1,597,779 EUR were identified as a surplus due to the electricity price fluctuations. A total of 1,500,000 EUR was forecasted to lapse and was requested as SCF however the BC advise to lapse the amount and add it to the concerned budget in order to improve transparency and comparability between fiscal years and allow entire activities to be accurately captured under the authorised budget (e.g. fuel, utilities and salaries).
d. HQ AIRCOM (BC 105) – 552,909 EUR were identified as surplus due to delays filling two vacant positions, limited travels and training activities.
e. HQ LANDCOM (BC 111) – 666,439 EUR were identified as surplus mainly due to the exchange rate depreciations and inflation affecting personnel cost, and due to several building and installed equipment maintenance projects which could not be executed in FY 2022 due to complexity and higher-than-anticipated pricing
f. HQ MARCOM Northwood (BC 118) – 184,789 EUR were identified as surplus due to savings under travel, trainings, salary allowances, and delays in the server migration.
g. DEPLOYABLE HQ ASSETS (BC 131) – 55,755 EUR were identified as surplus.
h. ACO Military Training Exercise and Programs (MTEP) (BC 157) – 3,581,959 EUR. The current geopolitical situation has affected the implementation of the MTEP during 2022 with cancellation and descaling of some exercises, resulting in significant savings.
i. NATO Integrated Air & Missile Defence System (NATINAMDS NON C2) (BC 164) – 737,040 EUR surplus mainly as part of the NSPA allocation due to delays in contracting procedures for equipment replacement outside the control of NSPA.
j. NATO Integrated Air & Missile Defence System (NATINAMDS C2) (BC 166) – 3,365,110 EUR surplus mainly from the funds allocated for the sustainability improvements of the interim and legacy AirC2 systems, the funds for the execution of several projects within AirC2 IS Programme of Work and the IOC declaration of 2nd and 3rd ACCS entity.
k. NATO Centralized Nuclear CIS Budget (NCNCB) (BC 176) – A total of 472,210 EUR surplus related to frozen credits not required during 2022, 372,210 EUR, and 100,000 EUR not required to support Future Nuclear Exercise Environment (FNEE).
l. NATO Centralized CIS Budget (NCCB) (BC 177) – Note a surplus of 537,566 EUR, the majority (460,000 EUR) related to APP080 TRITON Service which was not implemented during 2022 Most of the identified surpluses during the year were transfer to budget deficits under other NSCEP budgets and to cover the GRP related expenditures.
m. NATO Communication & Information System Group (NCISG) (BC 178) - Note a surplus of 809,773 EUR mainly due to delays in recruitment of personnel, the lower than anticipated number of trainings, and other costs that did not materialize.
n. Outreach Programmes (BC 502) - Note a surplus of 361,050 EUR. The war in Ukraine has a particularly impact on the BC 502, leading to cancellations of some outreach programmes. This has resulted in unintended cost reductions (including training, travel costs, and subsidization of eligible partners).

As per BC-D(2022)0237, the Budget Committee affirmed that there is a funding gap of 54.7 MEUR between the 2023 NCSEP budget and the contribution ceilings agreed by Nations as part of the MTRP for both ACO and ACT.

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This funding gap was filled through a combination of refundable surpluses from prior years and a part of the lapsed appropriations detailed above.

NATO Command Structure Adaptation (BC124)

The final Budget Authorization for the ACO NCS-A budget was 32,456,224 EUR.

The execution rate reached 88.6%. The surplus amounts is 3,686,447 EUR but the BC advise to lapse part of the amount requested as SCF, 1,376,303 EUR and add it to the 2023 budget in order to improve transparency and comparability between fiscal years and allow entire activities to be accurately captured under the authorised budget.

Alliance Operations and Missions

The total final Budget Authorization for the AOM budget was 47,143,349 EUR. The Balkans Operations and the NATO Mission Iraq (NMI) were the main cost drivers with a budget of 26,165,439 EUR and 19,956,185 EUR respectively.

Table H.A2 – Final Budget for AOM

Budget Code	Budget Title	Final Budget in Local Currency	Final Budget in EUR
183EUR30	Balkans Operations	26,165,439	26,165,439
187EUR30	NATO Support to the African Union	387,565	387,565
189GBP30	Operation Sea Guardian	569,032	634,160
195EUR30	NATO Mission Iraq	19,956,185	19,956,185
AOM Total		47,078,221	47,143,349

The AOM budget group execution rate is 96.39% including the SCF and Carry forwards. The execution rate is driven by the Balkans Operations and the NMI. The NATO Support to the African Union shows the lowest execution rate 64.32%.

The 2022 SCF under the AOM amount a total of 5,000,000 EUR. The identified surplus of 5,000,000 under NMI was carried forward for future requirements as result of the new NMI mandate. Amongst others, the revised/NMI Mandate foresees an increase in NMI activities conducted, an increase in NMI personnel, potential additional locations and/or a take-over of some capabilities currently provided by CJTF-OIR.

Finally, it is noted that the Nations agreed to SCF into 2023 the following appropriations from previous years:

- a. International Security Assistance Force (ISAF) (BC 185) a total of 5,000,000 EUR from the 2014 SCF, to cover future claims of unpaid ISAF invoices and the salary of an archivist.
- b. NATO Mission Iraq (BC 195) - 11,000,000 EUR in 2020 and 2021, of which 5,500,000 EUR were frozen for funding ECM devices.
- c. Resolute Support (BC194), a total of 72,341,416 EUR were approved to cover unaccounted contractual claims and cost of post-RS activities. Costs may stem from contractor and personnel claims, early termination of contracts, as well as, a number of other potential residual liabilities.

The total AOM lapsable credits identified is 1,700,487 EUR. The lower than forecast activities in the NMI and the Balkans Operations comprised most of these lapsable credits.

The funding gap between the 2023 approved budget and the contribution ceiling is 34,2 MEUR. The funding gap will be covered through refundable surpluses from previous year and the lapsable credits from 2022.

NATO ALLIANCE GROUND SURVEILLANCE FORCE (NAGSF) – BC167 and BC168

The Budget Authorization (BA3) for the Alliance Ground Surveillance force (AGS) budgets (BC167 and BC168) in 2022 was 195,332,813 EUR, as shown on the table below.

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Table H.A3 - Final Budget for NAGSF

Budget Code	Budget Title	Final Budget in Local Currency	Final Budget in EUR
167EUR28+2	AGS Operation & Sustainment	191,772,313	191,772,313
168EUR30	AGS CIS	3,610,500	3,610,500
Total		195,332,813	195,332,813

The AGS execution rate is 94.45% and the surplus is 10,803,631 EUR. There were no SCF from this budget group.

It should be noted that part of the surplus of AGS budget group, was used to address the budget shortfalls in 2023. There was a funding gap of 6.4 MEUR between the recommended budget for 2023 and the contributions agreed by Nations as part of the MTRP. This funding gap is to be filled through refundable surpluses from 2023.

Total carry forward²³ in the AGS budget amounts to 99,6 MEUR is linked to large commitments to the NATO Support and Procurement Agency (NSPA) for training services, logistics, and other technical support.

NATO AIRBORNE EARLY WARNING AND CONTROL FORCE (NAEW&CF) – BC 162 and BC 163

The final Budget Authorization for NAEW (BC162 and BC163) was 333,865,508 EUR, as shown in the table below.

Table H.A4 - Final Budget for NAEW

Budget Code	Budget Title	Final Budget in Local Currency	Final Budget in Local Currency
162EUR16	NAEW&CF Provisioning	219,021,508	219,021,508
162EUR28+2	NAEW&CF Employment	114,844,000	114,844,000
Total		333,865,508	333,865,508

The NAEW execution rate is 99.64%, including the Regular Carry Forwards. There were no SCF under this budget group.

The NAEW surplus is 1,216,325 EUR. Further delays in infrastructure maintenance and explain the 0.4% surplus under this budget group.

As per BC-D(2022)0237, there was a funding gap of 15,000,000 EUR between the recommended budget for 2023 and the contributions agreed by Nations as part of the MTRP in 2022. Furthermore, the budget holder identified an additional budgetary shortfall in 2023 to meet the targeted operational requirements. This funding gap was due to the inflation (especially on aviation fuel prices), the exchange rate fluctuation USD/EUR and the additional cost due to the GRP activation which were not considered in the MTRP ceiling.

²³ Amounts of previous years' Special Carry Forward for fiscal years that became committed appropriations are considered as normal carry forward supported by a legal obligation as per the NFR 25.3

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

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

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

Official Tables	ACO Statement of Financial Performance	Budget execution report (adjusted)
	EUR	EUR
ACO Budget Execution Report: total expenses		1,153,907,592
Budget Execution Report-other: total expenses		-
Inventory variances		(7,434,843)
Property, Plant and Equipment and AuC		(32,892,019)
Over-estimated accruals		(26,661,894)
Untaken Leave		(31,431)
NSIP 2022 execution		1,317,882
		1,088,205,287
ACO Consolidated Statement of Financial Performance:		
Personnel	208,272,317	
Contractual Supplies and Services	847,116,396	
Foreign Military Sales (FMS) (III)	32,816,575	1,088,205,287

Statement of Transfers

In accordance with the NFRs, Art. 26, transfers of appropriations approved by the relevant finance committee or the financial controller within his/her delegated authority shall be recorded in the annual financial statements. Further to the FRPs, which have specified that only inter-budget transfers between NATO bodies shall be reported in the annual FS, no inter-budget group transfers occurred during 2022.

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 was prepared using a similar accrual basis approach in place for the preparation of the statements of financial position and performance.

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

Statement of Credits Carried Forward

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

The carry forwards (CF) represent the remaining credits due to later than expected delivery of goods/services when contracts placed in good faith of delivery before end of 2022 or to specific cases detailed above for each Budget Groups. For all of them, there is a legal liability or a specific authorisation, and are equal to the closing Deferred Revenue.

Special Carry Forward

The total Special Carry Forward of funds authorised into 2023 were 101,024,042 EUR. However, the amount actually specially carried forward from the past eight years for ACO budgets amounts in total to 98,581,156 EUR (2021: 115,855,018 EUR).

NCSEP: An amount of 7,647,626 EUR is carried forward from 2020, 2021 and 2022 to cover various ACO requirements within the ACO Static Commands and programmes. The Special Carry Forward related to BC 105 for a total of 35,000 EUR (2022) approved in BC-D(2022)0237(INV) is not recorded in the table as the funds have been committed at the end of 2022 after the release of the approval document.

AOM: An amount 90,933,530 EUR is carried forward from 2014, 2020, 2021 and 2022 budgets. The 2014 amount for BC 185 relates to the salary of an ISAF Archivist and any other ISAF residual requirements. The amounts for BC 195 for a total of 16,000,000 EUR from 2020 to 2022 relate to emerging requirements for NMI and Electronic Counter

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Measure (ECM) devices upgrade. Finally, an amount of 70,015,756 EUR is carried forward from 2021 in BC 194 to ensure coverage of all potential residual requirements arising from the Resolute Support Mission closure.

Details were already provided at Note H – ACO MB Budget Execution. The table below provides an overall summary of the approved special carry forward into 2023 reconciled with the related contingent liabilities and provisions, if any, as further disclosed in the Note D.

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Table H.D - ACO Special Carry Forward

Ref: BC-D(2022)0237 (INV)

NCSEP	2014	2020	2021	2022	Total	Reference	Note
BC 101 - Refurbishment for the main entrance of the SHAPE Command Center				300,000	300,000	BC-WP(2022)0010-REV8 (INV), BC-D(2022)0212 (INV)	
BC 101 - CCTV security action plan				600,000	600,000	BC-WP(2022)0010-REV8 (INV), BC-D(2022)0212 (INV)	
BC 101 - Building roof repairs and canopies replacement				705,000	705,000	BC-WP(2022)0010-REV8 (INV), BC-D(2022)0212 (INV)	
BC 101 - Contracted human resources data services engineer				120,000	120,000	BC-WP(2022)0010-REV8 (INV), BC-D(2022)0212 (INV)	
BC 105 - Replacement of deployable Spectrum Analyser				-	-	BC-WP(2022)0010-REV8 (INV), BC-D(2022)0212 (INV)	An amount of 15,000 EUR has been authorised in BC-D(2022)0237(INV) as SCF, however the total amount has been committed in FY 2022.
BC 105 - Replacement of Oscilloscope				-	-	BC-WP(2022)0010-REV8 (INV), BC-D(2022)0212 (INV)	An amount of 20,000 EUR has been authorised in BC-D(2022)0237(INV) as SCF, however the total amount has been committed in FY 2022.
BC 164 - RSRP Replacement			500,000		500,000	BC-WP(2022)0010-REV8 (INV), BC-D(2022)0212 (INV)	
BC 166 - ACCS Hardware Network Device Obsolescence Management				375,980	375,980	BC-WP(2022)0010-REV8 (INV), BC-D(2022)0212 (INV)	
BC 177 - GRP requirements adjustment				682,761	682,761	BC-WP(2022)0010-REV8 (INV), BC-D(2022)0212 (INV)	
BC 177 - NCIA asset management programme			3,300,000		3,300,000	BC-WP(2022)0010-REV8 (INV), BC-D(2022)0212 (INV)	
BC 177 - Crypto disposable services		263,885			263,885	BC-WP(2022)0010-REV8 (INV), BC-D(2022)0212 (INV)	
BC 178 - CIS project support				800,000	800,000	BC-WP(2022)0010-REV8 (INV), BC-D(2022)0212 (INV)	
NCSEP Total	-	263,885	3,800,000	3,583,741	7,647,626		
AOM	2014	2020	2021	2022	Total		
BC 185 - To ensure coverage of all potential ISAF related residual requirements	4,917,774				4,917,774	BC-WP(2022)0010-REV8 (INV), BC-D(2022)0212 (INV)	An amount of 5,000,000 EUR has been authorised in BC-D(2022)0237(INV) as SCF, however the difference has been executed in FY 2022.
BC 194 - To ensure coverage of all potential RS related residual requirements			70,015,756		70,015,756	BC-WP(2022)0010-REV8 (INV), BC-D(2022)0212 (INV)	An amount of 72,341,416 EUR has been authorised in BC-D(2022)0237(INV) as SCF, however the difference has been executed in FY 2022.
BC 195 - NMI emerging requirements from revised NMI mandate		7,500,000	3,500,000	5,000,000	16,000,000	BC-WP(2022)0010-REV8 (INV), BC-D(2022)0212 (INV)	
AOM Total	4,917,774	7,500,000	73,515,756	5,000,000	90,933,530		
Total per Budget Authorisation Year	2014	2020	2021	2022	Total		
All ACO budget groups	4,917,774	7,763,885	77,315,756	8,583,741	98,581,156		

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Table H.E - ACO CONTRACT AUTHORITIES as of 31 Dec 2022**ACO BC CONTRACT AUTHORITIES**

EUR	Initial Budget	Variance	BA2	Variance	BA3	Variance	Final Budget	Net Commitment
NCSEP								
	186,910,782	18,870,325	205,781,107	32,770,242	238,551,349	10,337,632	248,888,982	174,827,882
101 SHAPE	12,309,259.00	5,858,269	18,167,528	-	18,167,528	1,465,974	19,633,502	7,248,114
103 JFC HQ BRUNSSUM	5,992,500	804,452	6,796,952	665,300	7,402,252	1,631,275	9,033,527	167,667
104 JFC HQ NAPLES	3,005,000	5,849,334	8,854,334	-	8,854,334	797,499	9,651,833	2,125,757
105 HQ AIRCOM RAMSTEIN	1,055,368	784,342	1,839,710	(150,000)	1,689,710	1,538,555	3,228,265	2,504,654
111 HQ LANDCOM IZMIR	50,000	475,522	525,522	-	525,522	753,744	1,279,266	1,279,266
118 HQ MARCOM NORTHWOOD	71,194	382,750	453,944	(218,284)	235,660	373,649	609,310	177,963
131 HQ DEPLOYABLE ASSETS	-	-	-	-	670,875	-	670,875	-
164 NATINAMDS NON C2 ELEMENTS	30,404,062	2,223,000	32,627,062	750,000	33,377,062	-	33,377,062	33,377,062
166 NATINAMDS C2 ELEMENTS	54,839,772	2,064,000	56,903,772	-	56,903,772	-	56,903,772	48,703,772
177 NCCB	71,002,627	-	71,002,627	31,052,351	102,054,978	3,161,449	105,216,427	71,002,627
178 NATO CIS GROUP (NCISG)	8,241,000	428,656	8,669,656	-	8,669,656	615,487	9,285,143	8,241,000
NCSEP								
	3,200,000	-	3,200,000	520,000	3,720,000	-	3,720,000	3,200,000
176 NCNCB	3,200,000	-	3,200,000	520,000	3,720,000	-	3,720,000	3,200,000
NCS-ADAPTATION								
	861,000	299,491	1,160,491	23,324	1,183,815	66,626	1,250,441	1,112,230
124 NCS-ADAPTATION (ACO)	861,000	299,491	1,160,491	23,324	1,183,815	66,626	1,250,441	1,112,230
AGS								
	139,797,000	-	139,797,000	46,490,000	186,287,000	-	186,287,000	118,140,143
167 AGS O&S	139,797,000	-	139,797,000	46,490,000	186,287,000	-	186,287,000	118,140,143
AGS								
	-	96,378	96,378	-	96,378	89,435	185,813	-
168 AGS CIS	-	96,378	96,378	-	96,378	89,435	185,813	-
NAEW								
	102,219,024	4,731,644	106,950,668	-	106,950,668	-	106,950,668	67,961,960
162 NAEW&CF PROVISIONING	102,219,024	4,731,644	106,950,668	-	106,950,668	-	106,950,668	67,961,960
NAEW								
	82,121,890	24,528,412	106,650,302	13,626,538	120,276,841	213,637	120,490,478	75,149,668
163 NAEW&CF EMPLOYMENT	82,121,890	24,528,412	106,650,302	13,626,538	120,276,841	213,637	120,490,478	75,149,668
AOM								
	6,201,298	4,891,475	11,092,773	-	11,092,773	-	11,092,773	1,338,479
183 BALKANS OPERATIONS	2,203,678	109,119	2,312,797	-	2,312,797	-	2,312,797	648,681
195 NATO MISSION IRAQ	3,997,620	4,782,356	8,779,976	-	8,779,976	-	8,779,976	689,798
Total for all MBC Cost Shares, Years and Budget	521,310,995	53,417,725	574,728,720	93,430,104	668,158,824	10,707,330	678,866,155	441,730,362

The table above shows the ACO Contract Authorities approved by the BC²⁴ or by Financial Controllers²⁵ for the fiscal year 2022, in accordance with FRP XXV sub-para 8 of BC-D(2015)0260REV3.

²⁴ BC-BA(2022)0001, 24 JAN 2022

BC-BA(2022)0002, 22 AUG 2022

BC-BA(2022)0002-COR1, 29 SEP 2022

BC-BA(2022)0003, 22 NOV 2022

BC-BA(2022)0003-COR1, 28 NOV 2022

BC-BA(2022)0003-COR2, 05 DEC 2022

BC-DS(2022)0058, 27 JAN 2023

BC-DS(2022)0066, 10 FEB 2023

BC-BA(2022)0003-COR3, 20 MAR 2023

²⁵ SH/FINAC/BUP/FC210/22, 13 OCT 2022

060/0004/DACCC/CG/FICO/22, 29 NOV 2022

SH/FINAC/BUP/FC282/22, 01 DEC 2022

SH/FINAC/CAC/FC315/22, 15 DEC 2022

Written approval by the Acting MARCOM FC, 09 MAR 2023, 07 MAR 2023, 21 NOV 2022

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Table H.F - Reconciliation between ACO authorized Budgets and Calls in 2022

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

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

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

For NAEW&CF programme, starting from 2018 the funding has been split between provisioning and employment and the employment portion now includes contributions from 28 nations in relation to the operation of the HQ and FOB/FOL facilities, including personnel costs²⁶.

For AGS, the engagement of NATO common funds for infrastructure, communications, operation and support follow the normal funding authorization applicable within the Alliance. For that programme, one Ally has signed a Memorandum of Understanding (MOU) with SHAPE, outlining the modalities for making its contributions in kind available to the Alliance as AGS become operational²⁷. A second one as well is to provide contribution in kind to complement the program. The current reporting policy is provided in the Contribution in Kind section at note A.

The table on next page is showing the reconciliation between the Budget Authorization and the Calls made in 2022:

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²⁶ See <https://awacs.nato.int/default.aspx> and <https://www.napma.nato.int/>

²⁷ See https://www.nato.int/cps/en/natohq/topics_48892.htm

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Budget authorization 2022

Budget Groups	Total Called as of 31 Dec 2022 (1)	Final Budget (2)	Actual as of 31 Dec 22	CF as of 31 Dec 22	Difference between Calls, Actual and CF as of 31 Dec 22	Lapse	Adjustment
30N NCSEP (2)	589,537,139	589,117,895	538,805,612	35,503,361	15,228,165	(14,808,922)	(419,244)
29N NCSEP	4,559,879	4,559,879	4,087,669	-	472,210	(472,210)	-
30N NCS-A (NCSEP)	32,456,224	32,456,224	28,192,391	577,385	3,686,447	(3,686,447)	-
28N+2 AGS	191,722,313	191,722,313	111,437,920	69,533,350	10,751,043	(10,751,043)	-
30N AGS	3,610,500	3,610,500	3,556,747	1,165	52,588	(52,588)	-
28+2N NAEW&CF	219,021,508	219,021,508	186,799,134	31,130,463	1,091,910	(1,091,910)	-
16N NAEW&CF	114,844,000	114,844,000	68,806,935	45,912,650	124,415	(124,415)	-
30N AOM (2)	47,574,383	47,143,349	37,094,536	8,348,326	2,131,521	(1,700,487)	(431,034)
TOTAL	1,203,325,946	1,202,475,667	978,780,945	191,006,700	33,538,300	(32,688,022)	(850,278)

(1) **Total called:** The total 2022 MB contributions called as of 31 Dec 2022 were based on the BA2 (ref: BC-BA(2022)0002-COR1) and the additional approved budget for NAEW&CF employment (ref: PO(2022)0467-AS1).

(2) **Exchange rate:** budgets authorised in GBP were converted and executed using a fixed rate for the fiscal year 2022.

The rate used was as of 1st January 2021, 1 EUR = GBP 0.8973. The 2nd cash call was converted to EUR using the rate 1 EUR = GBP 0.86513 for NCSEP and 1 EUR = GBP 0.87258 for AOM.

Budget authorization 2021

Budget Groups	Carry Forward	Adjustment to Carry Forward	Adjusted Carry Forward	Actual as of 31 Dec 22	CF as of 31 Dec 22	Lapse
30N NCSEP	43,981,342		43,981,342	26,123,261	11,537,298	(6,320,783)
29N NCSEP	300,000		300,000	-	-	(300,000)
30N NCS-A (NCSEP)	1,220,620		1,220,620	999,311	126,001	(95,307)
28N+2 AGS	46,366,277		46,366,277	41,718,212	4,455,132	(192,933)
30N AGS	139,309		139,309	139,309	-	-
28+2N NAEW&CF	23,284,048		23,284,048	15,562,855	6,240,818	(1,480,375)
16N NAEW&CF	63,739,788		63,739,788	33,269,375	30,201,185	(269,228)
30N AOM	81,210,408		81,210,408	5,754,697	74,958,955	(496,756)
TOTAL	260,241,791	-	260,241,791	123,567,019	127,519,389	(9,155,382)

Budget authorization 2020

Budget Groups	Carry Forward	Adjustment to Carry Forward	Adjusted Carry Forward	Actual as of 31 Dec 22	CF as of 31 Dec 22	Lapse
29N/30N NCSEP	8,454,963		8,454,963	7,582,789	263,885	(608,289)
29N/30N NCS-A (NCSEP)	204,540		204,540	9,392	-	(195,148)
27/28+2N AGS	22,630,537		22,630,537	9,029,494	13,600,000	(1,043)
27+2N NAEW&CF	3,734,601		3,734,601	2,818,548	-	(916,053)
16N NAEW&CF	12,048,535		12,048,535	7,391,948	-	(4,656,587)
29N/30N AOM	8,639,138		8,639,138	465,186	7,500,000	(673,952)
TOTAL	55,712,314	-	55,712,314	27,297,357	21,363,885	(7,051,072)

Budget authorization 2019

Budget Groups	Carry Forward	Adjustment to Carry Forward	Adjusted Carry Forward	Actual as of 31 Dec 22	CF as of 31 Dec 22	Lapse
27+2N AGS	7,000,000		7,000,000	-	7,000,000	-
TOTAL	7,000,000	-	7,000,000	-	7,000,000	-

Budget authorization 2018

Budget Groups	Carry Forward	Adjustment to Carry Forward	Adjusted Carry Forward	Actual as of 31 Dec 22	CF as of 31 Dec 22	Lapse
27+2N AGS	5,000,000		5,000,000	-	5,000,000	-
TOTAL	5,000,000	-	5,000,000	-	5,000,000	-

Budget authorization 2017

Budget Groups	Carry Forward	Adjustment to Carry Forward	Adjusted Carry Forward	Actual as of 31 Dec 22	CF as of 31 Dec 22	Lapse
26/27+2N AGS	23,986,887		23,986,887	23,986,887	-	-
TOTAL	23,986,887	-	23,986,887	23,986,887	-	-

Budget authorization 2014

Budget Groups	Carry Forward	Adjustment to Carry Forward	Adjusted Carry Forward	Actual as of 31 Dec 22	CF as of 31 Dec 22	Lapse
28N AOM	5,193,159		5,193,159	275,385	4,917,774	-
TOTAL	5,193,159	-	5,193,159	275,385	4,917,774	-

ACO Budget Groups	Final budget	Actual as of 31 Dec 22	Lapse	Carry Forward	Adjustment
GRAND TOTAL	1,559,609,818	1,153,907,592	(48,894,477)	356,807,748	(850,278)

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I. NSIP Project Execution

Table I.A - NSIP Active projects²⁸

OVERALL - NSIP PROJECT EXECUTION STATUS					
Active projects					
Status	Authorized Budget	Commitments	Actuals YTD	Actuals PJTD	Funds Available
BRUNSSUM	6,215,088	27,866	(25,430)	3,386,510	2,800,712
NAPLES	22,613,689	444,175	152,982	20,212,643	1,956,871
KFOR	6,410,526	86,500	276,002	5,256,937	1,067,089
NHQSa	7,680,532	-	-	7,680,532	-
SHAPE	95,702,775	698,377	2,724,073	81,696,977	13,307,421
Grand Total	138,622,610	1,256,919	3,127,627	118,233,599	19,132,092

TABLE I-B - NSIP closed projects²⁹

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

TOTAL TABLES I-A & I-B

Total	1,010,569,718	1,256,919	3,127,627	990,180,707	19,132,092
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The tables A and B above show the overall value, respectively, of the NSIP projects assigned to SHAPE HN still active and of the projects which have been completed and financially closed at the reporting date. The amounts shown in the tables are broken down by the ACO Commands responsible for the implementation of the projects further to the delegation of authority provided by SHAPE.

During 2022 a total amount of (3,127,627 EUR) was spent against 12 NSIP projects in total, which are being executed by SHAPE (2,724,073 EUR) as well as JFCBS (-25,430 EUR), JFCNP (152,982 EUR) and KFOR (276,002 EUR) through delegations. These projects refer to three main categories as follows:

AOM: A total amount of 250,572 EUR was charged against four AOM projects. This includes an amount of 276,486 EUR spent for a communication upgrade project in KFOR and remaining expenses related to a low value civil work in HKIA. In addition 25,914 EUR of overestimated accruals related to RSM have been reported this year.

Static HQs: A total amount of 2,726,862 EUR was charged against six projects. An amount of 973,093 EUR was spent for temporary NIC personnel and consulting services to support the construction of new ACO Main HQ Building while an amount of 80,984 EUR was spent for personnel supporting the provision of temporary office space required by the NCS adaptation. In addition, an amount of 1,519,804 EUR was spent in three projects for the replacement of obsolete equipment in the main HQ building in SHAPE. Finally, an amount of 152,982 EUR was spent to replace obsolete CIS equipment in JFCNP HQ.

Centralised Projects: An amount of 150,192 EUR was further spent on two projects. One with the amount of 132,252 EUR related to NATO-wide AIR C2 Capabilities and the other one of 13,940 EUR for the upgrade of the ACO/ACT Mission Identification System (AMIS).

²⁸ YTD indicates the actual data as at 31 December 2022; PJTD indicates the cumulated data for all the projects until 31 December 2022.

²⁹ The table includes COFFA projects and completed projects where Host Nation responsibilities are formally discharged according to the IBAN changes in NSIP Audits outlined in (C-M(2020)0010) dated on 2 Jun 2020.

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The difference of 1,809,746 EUR between the 2022 expenses reported at table A above (3,127,627 EUR), and the expenses reported in the note E – NSIP segment of the Statement of Financial Performance – (1,317,881 EUR) represents the expenses that are not recognised as PP&E assets (i.e. salaries/consulting expenses on projects that did not result in the capitalisation of PP&E assets).

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

In terms of NSIP projects closure, 7 projects were submitted to IBAN for “Independent External Auditor's Report” in 2022.

NSIP pre-financed projects ISAF/Resolute Support mission

Further to the RPPB recommendation³⁰, ACO worked in close coordination with the IS-NOR to present the status of projects pre-financed for third parties for which costs had not been recovered. Based on the recommendations made by the International Staff in their report³¹, the IC agreed³² that no additional reimbursement could be sought from non-eligible users and that the costs incurred related to non-eligible portions of AOM pre-financed projects for RSM would not be reimbursed to the NSIP.

J. Write-off and Donations

Write-Offs

In accordance with article 17 of the NFRs, an annual summary of property and cash losses written-off in 2022 is provided in the annual FS:

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

ASSET CATEGORY	SHAPE		AGS		JFCBS		JFCNP		AIRCOM		MARCOM		LANDCOM		NAEW		NCISG		KFOR		NHQSa		TOTAL	
	Qty	€	Qty	€	Qty	€	Qty	€	Qty	€	Qty	€	Qty	€	Qty	€	Qty	€	Qty	€	Qty	€	Qty	€
BUILDING	-	-	-	-	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1	-
OTHER INFRASTRUCTURE	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
INSTALLED EQUIPMENT	-	-	-	-	7	-	3	-	-	-	-	-	-	-	45	-	2	-	86	-	-	-	143	-
MACHINERY	5	-	-	-	230	-	39	-	2	-	2	-	16	-	46	-	13	54	348	-	174	-	875	54
TRANSPORT EQUIPMENT - VEHICLES	1	-	-	-	22	-	9	-	3	-	-	-	-	-	22	-	11	-	15	-	6	-	89	-
AIRCRAFT	-	-	-	-	-	-	-	-	-	-	-	-	-	-	64	-	-	-	-	-	-	-	64	-
MISSION EQUIPMENT	8	-	-	-	8	-	3	-	4	-	-	-	41	-	127	-	27	-	14	-	26	-	258	-
FURNITURE	40	872	-	-	528	-	382	3,072	41	-	6	-	165	-	44	-	137	-	539	-	646	-	2,528	3,944
COMMUNICATIONS	5	-	-	-	192	-	-	-	1	-	-	-	-	-	69	-	-	-	6	-	1,044	-	1,317	-
AUTOMATION INFORMATION SYSTEMS	1	-	-	-	156	-	-	-	-	-	-	-	-	-	876	3,451	47	-	-	-	83	-	1,163	3,451
Consumables	1,219	7,757	-	-	865	91,364	3	422	6	-	-	-	39	6,064	8,915	1,355	703	72,434	5	1,040	379	85,192	12,134	265,627
Spare parts	11	150	-	-	9	-	-	-	-	-	-	-	2	100	3,995	9	4,941	25,465	-	-	380	207,866	9,338	233,590
Strategic Stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ammunition	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Grand Total	1,290	8,779	-	-	2,018	91,364	439	3,494	57	-	8	-	263	6,164	14,203	4,815	5,881	97,953	1,013	1,040	2,738	293,057	27,910	506,667

The table above shows the number of items written-off during 2022 by the ACO Commands per asset categories and the related accounting value (net book value).

The majority of the other write-offs relate to the legacy assets (acquired prior to the aforementioned cut-off date) that are fully depreciated with a zero residual value as per the NAF. Some of the items included in the total quantities reported above refer also to PP&E acquired after 01 January 2013. In accordance with the revised NFRs/FRPs the assets were written off under the authority of the Financial Controllers based on the net book value (NBV).

With regard to Inventories, except for NAEW&C Force GK HQ, the accounting policy does not make any distinction between items acquired prior and after 01 January 2013. Therefore, the write-offs are all recorded at the weighted average cost (WAC).

ACO Headquarters International Cash Losses and Irrecoverable Debt Write-off

In 2022, there were no write-offs due to cash losses. NHQSa reported 113 EUR relating to former employees' pension gap and severance payment. In addition, two write-offs, for which a provision for doubtful debts was recognized in the fiscal year 2021, have been approved in 2022. The first one is related to an uncollectable NBC cost for Malaysia

³⁰ AC/335-D(2022)0013 approved on 25 February 2022

³¹ AC/4-D(2022)0007, dated 12 May 2022

³² AC/4-DS(2022)0013 dated 06 July 2022

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(Supreme Food Case Settlement) for 2,220 Eur. The second is related the uncollectable debts for Afghanistan Partnership Directorate office rental at SHAPE for 669 EUR.

Donations

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

The table below shows a list of donations approved in 2022 by the relevant Finance Committees.

Table J-B - ACO Headquarters International Property Donations

ASSET CATEGORY	HQ	ITEMS	BENEFICIARY	QTY	BC Approval
Mission Equipment	SHAPE	Nikon Camera	Shape American High School	8	BC-D(2022)0118-ADD1-AS1 (INV)
Mission Equipment	SHAPE	Lenses	Shape American High School	9	
Vehicle	JFCNP	Ford Transit	Italian Red Cross	1	BC-D(2022)0095-ADD1-AS1
Vehicle	JFCNP	Iveco Daily	Italian Red Cross	1	
Mission Equipment	AIRCOM	Sony Camera	Lithuanian Air Force	1	BC-DS(2022)0054 (INV)
Mission Equipment	AIRCOM	Memory card Sony	Lithuanian Air Force	1	
Mission Equipment	AIRCOM	Flash Sony	Lithuanian Air Force	1	
Mission Equipment	AIRCOM	Lens Sony	Lithuanian Air Force	1	
Mission Equipment	AIRCOM	Photo Studio	Lithuanian Air Force	1	
Mission Equipment	AIRCOM	GoPro Camera	Lithuanian Air Force	1	
Mission Equipment	AIRCOM	Filter	Lithuanian Air Force	1	

The table above shows the donations approved in 2022 by the Budget Committee.

K. Trust Funds

The Trust Funds reported in 2022 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 executes payments on behalf of the Trust Funds Boards. All incoming and outgoing funds are recorded in the Weekly Status Reports and in FinS. All the Trust Funds at ACO are managed purely for inflow and outflow through ACO CAC with the exception of KSF. In 2022 the MHI Trust Fund has been fully executed.

The main remaining 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 TF was expanded over the years through a series of revised Memorandum of Understandings (MOUs) signed by the US, NATO HQ and SHAPE. These MOUs extended the validity of the ANA Trust Fund Arrangements, Roles and Responsibilities and the terms of Reference for the ANA Trust Fund Board until 31 December 2021 (PO(2018)0091). The role of SHAPE consisted of the financial management of the SHAPE ANA TF bank accounts and providing treasury functions, while the daily management of the ANA TF fell under the NATO ANA TF Office (NATFO).

However, on 15 August 2021, the Government of the Islamic Republic of Afghanistan collapsed and the Afghan National Army ceased to exist. On 20 August 2021, NATO Foreign Ministers decided to suspend all support to the Afghan authorities. Subsequently, the modalities for initiating the closure of the ANA Trust Fund were outlined and a way forward to return residual funds to donors was proposed. In December 2021, the ANA TF Board endorsed the proposed way forward and agreed that the full refund of residual funds would only be finalized upon the complete closure of the Trust Fund once all the claims and potential liabilities will have been covered and residual liquidity duly allocated among Donors. A first tranche of return of funds was approved while its execution started in 2022.

On 7 September 2022 a new MOU (PO(2022)0371) was signed by all the parties involved in order to set out the ANA TF arrangements, roles and responsibilities for the closure of the Fund. The MOU confirmed the role of SHAPE in the financial management of the SHAPE ANA TF bank accounts and treasury function throughout the ANA TF closure program. A second and a third tranche of return of funds to Donors were approved in June and September 2022.

The following table show the Trust Funds balances as of 31 December 2022:

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	Funds received	Interests	Actual expenses	Cash transfers	Assessment rate	Total	Accumulated balance
ANA Trust Funds							
Previous years	2,917,965,906	33,118,422	(3,461,093)	(2,192,829,894)	5,578,053	760,371,394	760,371,394
2022	-	6,867,357	-	(259,301,445)	5,043,647	(247,390,440)	512,980,954
Total	2,917,965,906	39,985,779	(3,461,093)	(2,452,131,339)	10,621,700	512,980,954	
KSF Trust Funds							
Previous years	7,673,728	106,303	(7,740,777)	-	-	39,254	39,254
2022	-	58	-	-	-	58	39,313
Total	7,673,728	106,361	(7,740,777)	-	-	39,313	
KSF Trust Funds - US National funded							
Previous years	1,777,500	49,853	(1,777,500)	-	-	49,853	49,853
2022	-	74	-	-	-	74	49,927
Total	1,777,500	49,927	(1,777,500)	-	-	49,927	
Multinational Helicopter Initiative (MHI)							
Previous years	32,305,172	548,068	-	(32,617,932)	(51,822)	183,486	183,486
2022	-	(42)	-	(183,444)	-	(183,486)	-
Total	32,305,172	548,068	-	(32,801,417)	(51,822)	-	
POHRF - ISAF							
Previous years	4,983,792	(5,232)	-	(4,942,720)	-	35,839	35,839
2022	-	-	-	-	-	-	35,839
Total	4,983,792	(5,232)	-	(4,942,720)	-	35,839	

Due to the closure of the ANA Trust Fund initiated in 2021, there were no contributions received from Trust Fund Donors in 2022.

The equivalent of 259 M EUR in cash transfers was processed during 2022. This figure includes receipts and payments related to the closure of projects as well as the execution of the three return tranches approved by the board in 2021 and 2022. In addition, the fund gained over 6.7M USD and 314K EUR in interests after deductions of bank charges during the year 2022, compared to 1.4M USD and 575K EUR in 2021.

As a result of the 2022 execution the overall EUR holdings of the Fund decreased by 61.2% from 369 M EUR to 143 M EUR while the overall USD holdings decreased by 11.2% from 438.8M USD to 389.5M USD compared to 2021.

L. Inventory and PP&E Prior to 2013

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

Table L.A - Inventory prior to 2013- status as of 31 December 2022 (quantities per site/category)

Inventory Categories	NAEW&C Force GK
CONSUMABLES	173,382
SPARE PARTS	84,894
STRATEGIC STOCK	2,512,919
AMMUNITION	13,955
TOTAL	2,785,150

Inventories acquired prior to 01 January 2013 and still present as of 31 December 2022 are reported only by NAEW&C Force GK HQ. The Force still holds a significant quantity of strategic stocks due to stockpiles accumulated in the past to satisfy maintenance requirements of the of the HQ NAEW&CF AWACS fleet.

The items are continuously monitored through normal stock-counting and technically checked to verify their serviceability. There is currently an effort conducted to identify any parts in excess that would be eligible for sale or relocation while initiating write offs through Reports of Surveys (ROS) for the remainder part. It is important to note that the policy to not consider any parts or equipment as excess when currently installed on E-3A fleet or used by aircrafts support systems, remains applicable. This policy is essential for supporting the E-3A fleet until 2035 due to increasing risk of diminishing manufacturing sources and material shortage.

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

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TABLE L.B - PP&E prior to 2013 – status as of 31 December 2022 (quantities per site/category)

ASSET CATEGORY	SHAPE HQ	JFC Brunssum HQ	AIRCOM HQ	NAEW & C Force GK HQ	JFC Naples HQ	NHQSa HQ	LANDCOM HQ	NCISG HQ	KFOR HQ	MARCOM HQ	Total
LAND	-	1	-	1	-	-	-	-	-	-	2
BUILDING	24	43	16	201	9	203	30	23	106	1	656
OTHER INFRASTRUCTURE	57	18	9	173	18	-	17	3	11	-	306
INSTALLED EQUIPMENT	92	21	146	4,020	65	55	22	38	187	5	4,651
MACHINERY	723	256	424	3,545	563	1,248	277	284	1,878	54	9,252
TRANSPORT EQUIPMENT - VEHICLES	214	22	84	350	25	70	25	721	36	1	1,548
TRANSPORT EQUIPMENT - AIRPLANES (Upgrades, Training Devices & Spare Parts)	-	-	-	15,140	-	-	-	-	-	-	15,140
MISSION EQUIPMENT	932	158	187	7,553	198	1,284	193	203	355	5	11,068
FURNITURE	26,356	391	10,799	151	13,725	11,382	5,936	2,819	11,027	1,653	84,239
COMMUNICATIONS	-	12	11	14,381	-	92	-	2	16	-	14,514
AUTOMATION INFORMATION SYSTEMS	-	9	-	4,478	-	291	-	7	-	-	4,785
Grand Total	28,398	931	11,676	49,993	14,603	14,625	6,500	4,100	13,616	1,719	146,161

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

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

The only significant change in quantities reported during 2022 was due to the deviation approved for JFCBS that removed the obligation to track items of PP&E below a threshold of 1,000 EUR. This resulted in the removal of 7,600 assets with the majority coming from the furniture category.

M. ACO Morale & Welfare Activities

The ACO Morale & Welfare Activities (MWA) report is presented on an annual basis to the Budget Committee while the disclosure note and the statement of assurance for the MWA activities, as requested by the MWA regulations, are part of the ACO Statement of Internal Control 2022.

All the ACO commands with the exception of NHQSa have performed MWA activities during 2022. The result is characterised by an overall loss of 28,720 EUR versus the loss of 761,115 EUR incurred in 2021 (restated data). For most HQs, the profit/loss of MWA remained relatively constant due to increased revenue from the re-opening of activities after COVID-19, offset against increased costs of goods and services due to the increased level of sales and activities, as well as the impact of inflation pressures.

Overall, the MWA entities have maintained a positive operating result with the overall loss being due to non-operating results that have reduced by 41% compared to last year but still remain negative. The Overall revenue increased by 24% while the overall expenses have increased by 21% in comparison to 2021. Close to 93% of revenue is derived from fund generating activities such as international stores and fuel card sales. Revenue from fund generating activities increased by 45% in 2022 and is now back above pre-pandemic revenues.

On the expense side, the contractual supplies and services expenses account for 68% of the overall expenses while personnel expenses account for 27%. As a result of a higher level of MWA activities in 2022, these expenses increased by 26% and 14% respectively compared to the previous reporting period. Although, some MWA entities reported staffing reductions, the impact of inflation and subsequent salary increases has resulted in significant cost pressures in this area.

The 2022 loss can mostly be attributed to the larger activities such as NAEW&CF and JFCNP that have been more severely impacted by the pandemic in terms of revenue loss while having higher fixed costs that impede a swift recovery. These sites were able to reduce the losses significantly compared to last year. NAEW&CF improved the revenue by 28% and had a limited increase of costs. Whereas JFCNP has a positive operating performance, with the loss being mainly due to the increase of provisions. Other significant results were at KFOR who faced an increase of prices and salary costs, and DACCC that reported a negative result due to inflationary pressures and high bank charges. At DACCC, the Council approved the increase in selling prices to increase revenue and the closure of a

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bank account to reduce costs. ACO has 5 other sites reporting negative results: NAGSF, CAOCT, AIRCOM, NCISG, and MARCOM, but the impact of their losses are not significant.

In comparing the 2021 performance to the 2022 performance, a significant amount of the change in financial performance can be attributed to the closure of MWA at the terminated Resolute Support HQ that reported a loss of 271 KEUR in 2021 for costs to close out activities. In 2022, the only activity is related to the reversal of a provision relating to Resolute Support HQ (but now reported centrally as part of the ACO closed MWA balances) for 142 KEUR since the claim is now assessed as having a remote probability of settlement. A revaluation of 10 KEUR has also been completed on the Resolute Support HQ MWA bank deposits and associated bad debt provision. In total this meant that the overall performance of the consolidated MWA entities improved by 732 KEUR.

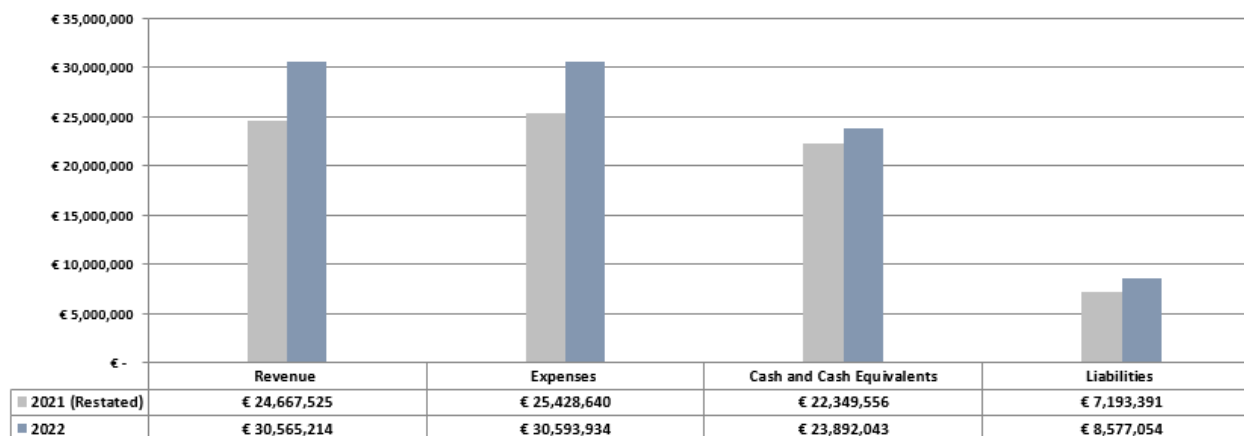
In 2022, the overall cash and cash equivalents have increased by 1.5 MEUR in comparison to 2021. The cash and cash equivalents from Clubs and Associations have been added for a total of 457 KEUR in 2022, with a restatement of 493 KEUR in 2021 added to allow comparative data for the clubs cash and cash equivalent. Besides this, the increase in cash and cash equivalents is attributed to the net cash flow from operating activities and primarily from the overall increase in payables which mainly explains the increase in overall liabilities. In addition, 85% of the cash and cash equivalents are held by the larger activities in SHAPE HQ, NAEW&CF HQ and JFCNP HQ.

The current ratio for the consolidated MWA financial data is 4.21 in 2022 (4.84 in 2021 restated) representing a healthy financial position in the short-term since a ratio above 1:1 indicates that the MWA entities are comfortably able to settle their short-term liabilities. This is reflected in the significant cash and cash equivalents held (23.9 MEUR) when compared to payables (6 MEUR). It must be noted that the current ratio is not an indication of long-term financial health. The assessment of additional criteria is required to evaluate longer-term financial health, especially considering that a number of HQs reported significant cost pressures from inflation that impact on their ability to provide activities that meet the mandate of enhancing life for the individuals at the HQ.

In 2022, the contingent liability reported by LANDCOM HQ was closed relating to former employee whose contract was terminated. Only JFCNP HQ reported other contingent liabilities for which the local MWA Council approved to ring-fence by creating ad hoc reserves. The reserves include a legal reserve for identified legal cases, 371 KEUR, a regional tax reserve of 1 MEUR, the Lago Patria relocation costs of 1.6M EUR, and a loss of Job Indemnity of 2.9 MEUR. Although other MWA entities report reserves, the most significant is in SHAPE HQ that has a severance reserve of 3 MEUR. In the future, SHAPE HQ intends to allocate to this reserve based on a percentage linked to inflation.

SHAPE HQ, NAEW&FC HQ, JFCNP HQ, KFOR HQ, LANDCOM HQ and JFCBS HQ are the only MWA operating entities that reported FTEs formally contracted to support MWA in 2022. The overall number of contracted FTEs was 173.36 for 2022 compared to 184.45 in 2021. A voluntary departure plan was approved in SHAPE HQ to reduce the personnel costs by 4.79 FTE, and at JFCBS, FTE was reduced by 5.3 FTE due to staff leaving the organization. In addition, an estimated total of 14.96 FTE provided direct support to MWA without being directly employed by the activities demonstrating the different sizes and organisational set ups of MWA entities across ACO.

The chart below reflects the 2022/2021 comparative data of the ACO consolidated figures for Revenue, Expense, cash holdings and liabilities:



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ACRONYMS

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

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

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MEUR	Million Euro	€ 1,000,000.00
MHI	Multinational Helicopter Initiative	Supports the financing of helicopter deployment-related activities
MOD	Ministry of Defence	The government department responsible for implementation of government defence policy and the headquarters of the Armed Forces
Mode 5		Aircraft transponder that works as an identification system for friendly or enemy forces. Mode 5 is a secure version of Mode S and is used by the military
MOU	Memorandum of Understanding	A document describing a bilateral or multilateral agreement between parties
NAC	North Atlantic Council	The NAC has effective political authority and powers of decision for NATO; consists of permanent representatives of all member nations and meets at least weekly
NAEW&C Force GK	NATO Airborne Early Warning and Control Force HQ	Single International Military HQ comprising the NAEW&C Force HQ, the E3A-Component and the Mission Systems Engineering Centre. Starting date is 1 Dec. 2015.
NAF	Non-Appropriated Funds	Resources internally generated by NATO military and civilian staffs through retails and service facilities operated by the Command
NAF	NATO Accounting Framework	NATO's adaption to IPSAS (approved by the NAC)
NATO	North Atlantic Treaty Organisation	An intergovernmental military alliance based on the North Atlantic Treaty signed on 4 April 1949; the organization constitutes a system of collective defence whereby its member states agree to mutual defence in response to an attack by any external party
NATO IS	NATO International Staff	An advisory and administrative body, working under the authority of the Secretary General and supporting the delegations of NATO members at different committee levels and helps implement their decisions
NBC	Nation Borne Costs	Cost eligible for common funding: covered by Military Budget and the responsibility of the Troop Contributing Nation; NBC, types include: Individual Real Life Support (RLS) related costs (e.g. Food) National Entities RLS related costs (e.g. power) National Entities usage of NATO capabilities (e.g. CIS)
NCCB	NATO Centralised CIS Budget	
NCIA	NATO Communication and Information Agency	NATO Communication and Information Agency. Created by consolidating former NCSA, NC3A, and NACMA.
NCS	NATO Command Structure	Divided into two commands, one for operations and one for transformation. - Allied Command Operations is located at SHAPE, Mons, Belgium. - Allied Command Transformation is located in Norfolk, Virginia. It
NCSEP	NATO Command Structure Headquarters and Programme	Budget formerly known as "MBC 28 Nations"
NDSS	NATO Depot & Support System	A software package maintained by NSPA; it covers most areas of logistics support, such as item identification, supply, maintenance and property accounting
NFR	NATO Financial Regulations	Regulations published by NATO HQ governing the use and reporting of NATO financial assets
NHQSa	NATO Headquarter Sarajevo	NATO AOM operation in Bosnia Herzegovina
NIC	NATO International Civilian	A permanent international post of NATO grade A, L, B, or C authorized to be filled by a civilian whose pay and allowances are established by the North Atlantic Council and provided from the international budget.
NMA	NATO Military Authority	Consisting of ACO, ACT and NCSA
NMR	National Military Representative	Senior military officers from NATO nations serving as members of the Military Committee
NOR	NATO Office of Resources	Brings together all international staff working on NATO military common-funded issues with the aim of reinforcing military common-funded resource management at the NATO HQ
NSHQ	NATO Special Operations Headquarters	Manages the NATO Special Operations capabilities. HQ is located at SHAPE, Casteau
NSIP	NATO Security Investment Programme	Funds authorized and allocated by the BC for specific NATO projects e.g., runways, bunkers, roads, buildings, etc.
NSPA	NATO Support Agency	Agency created by consolidating former NAMSA, NAMA, and CEPMA.
NSU	National Support Unit	Responsible for relaying logistics and personnel support to the respective national units
O&M	Operations and Maintenance	A category of appropriations which traditionally finance those things whose benefits are derived for a limited period of time, i.e., expenses, rather than investments. Examples of costs financed by O&M funds are headquarters operations, civilian salaries and awards, travel, fuel, minor construction projects, expenses of operational military forces, training and education, recruiting, depot maintenance, base operations support,
OCC	Operational Capability Concept	Designed to establish new means and mechanisms to reinforce Partnership for Peace's operational capabilities through enhanced and closer military cooperation
OPLAN	Operational Plan	Military plan prepared by ACO to conduct a mission approved by the NAC

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

