



NORTH ATLANTIC COUNCIL

CONSEIL DE L'ATLANTIQUE NORD

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16 December 2022

DOCUMENT
PO(2022)0505-AS1 (INV)

**IBAN AUDIT REPORT ON THE AUDIT OF 2021 CONSOLIDATED FINANCIAL
STATEMENTS OF ALLIED COMMAND TRANSFORMATION (ACT)**

ACTION SHEET

On 15 December 2022, under the silence procedure, the Council noted the RPPB report and approved its conclusions and recommendations as outlined in PO(2022)0505 (INV).

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to PO(2022)0505 (INV).

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09 December 2022

DOCUMENT
PO(2022)0505 (INV)
Silence Procedure ends:
15 Dec 2022 – 17:30

To: Permanent Representatives (Council)

From: Secretary General

IBAN AUDIT REPORT ON THE AUDIT OF 2021 CONSOLIDATED FINANCIAL STATEMENTS OF ALLIED COMMAND TRANSFORMATION (ACT)

1. I attach the Resource Policy and Planning Board (RPPB) report on the International Board of Auditors for NATO (IBAN) Report on the audit of the 2021 consolidated financial statements of the Allied Command Transformation (ACT). This IBAN Audit Report sets out an unqualified audit opinion on the financial statements and on compliance for the ACT for the 2021 financial year.

2. I do not believe this issue requires further discussion in the Council. Therefore, **unless I hear to the contrary by 17:30 hours on Thursday, 12 December 2022**, I shall assume the Council noted the RPPB report and approved its conclusions and recommendations.

(Signed) Jens Stoltenberg

1 Annex
2 Enclosures

Original: English



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

Report by the Resource Policy and Planning Board (RPPB)

References:

A.	IBA-AR(2022)0006	IBAN Audit Report on the audit of 2021 consolidated financial statements of the Allied Command Transformation (ACT)
B.	PO(2022)0180-AS1	Action Sheet on the IBAN Audit Report on the audit of 2021 financial statements of Allied Command Transformation (ACT)
C.	AC/335-D(2022)0055 (INV)	Handling arrangements for 2021 Financial Statements Audit Reports
D.	C-M(2015)0025	NATO Financial Regulations (NFR) and Financial Rules and Procedures (FRP)
E.	BC-D(2022)0207 (INV)	Action plans for IBAN observations older than three years
F.	BC-D(2022)0217 (INV)	Budget Committee's Advice on Action plans for IBAN observations older than three years
G.	PO(2015)0052	Wales Summit tasker on transparency and accountability

INTRODUCTION

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

AIM

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

DISCUSSION

3. During the audit, the IBAN made three observations with recommendations for the ACT. They relate to the non-approval of the departure from standard procurement procedures and weaknesses identified in the recognition of NSIP funded assets and Joint Analysis and Lessons Learned Centre (JALLC) cash management. None of the observations impacted the audit opinion on financial statements or on compliance. Additionally, the IBAN followed up on the status of observations and recommendations from the previous years' audits and found that three were closed and one remains in-progress. In 2021, the IBAN closed observations on the need to strengthen internal controls over the reporting of reimbursable activities undertaken as an agent, recognition of NSIP funded

assets and foreign currency conversions and disclosure at year-end. Observations are detailed in document at reference A.

3.1. Observation 1: The RPPB supports IBAN's recommendation that the ACT in order to ensure compliance with the FRPs (reference D) and the Bi-Strategic Procurement Directive 060-70 strengthen and revise its internal controls on the submission of requests for, and existence of, approvals of deviation from normal methods of procurement. Furthermore, the RPPB supports IBAN's recommendation that the ACT issue written guidance in relation to the submission and the justification of requests for deviations from standard procurement procedures that identify the roles and responsibilities of the Procurement Division and Budget Division in this process, and improve the coordination and communication between both divisions.

3.2. Observation 2: The RPPB supports IBAN's recommendation that the ACT ensure a harmonised asset recognition method for NSIP funded assets across all ACT Commands by issuing written guidance on how to determine the acquisition date and value of NSIP funded assets as well as the documentation to be requested from territorial NSIP Host Nations by the Commands. In addition, the RPPB supports IBAN's recommendation that the ACT inform territorial NSIP Host Nations of the documents that ACT Commands require in order to account for NSIP funded assets in a complete, accurate, uniform and timely manner in accordance with the written guidance and introduce a check by the Headquarters Supreme Allied Command Transformation Property Accounting Officer on the completeness, accuracy and uniformity of property accounting records of all ACT Commands. Furthermore, in order not to have procedural discrepancies between NATO common funded entities, the RPPB recommends that the development of harmonised asset recognition method for NSIP funded assets is coordinated with the Allied Command Operations.

3.3. Observation 3: The RPPB supports IBAN's recommendation that the ACT strengthen supervision and monitoring on the implementation of internal procedures on cash management and cash collection, and consider revising existing, or introducing additional, internal controls and provide guidance and training on how to perform accurate and reliable cash reconciliations, in order to mitigate the risk of accounting errors or undetected cash losses.

3.4. Observations in-progress or open for more than three years for the financial year 2020: In the document at reference B, the Council invited the ACT to provide an action plan with deadlines on the implementation as regards one 2016 financial year recommendation. As no action plan has been received by the ACT for the outstanding recommendation, in the document at reference C, the RPPB invited the ACT management to provide a remedial action plan by 15 October 2022 and the ACT Financial Controller to update the Budget Committee (BC) that subsequently provided advice and recommendation to the RPPB (reference F). The ACT presented its action plan (reference E) to the BC at the meeting held on 9 November 2022. The RPPB supports the ACT's efforts to continue applying remedial

actions with an aim to address IBAN recommendation outstanding for more than three years within deadlines set out in the action plan (reference F).

CONCLUSIONS

4. The IBAN Audit Report sets out unqualified opinions on the consolidated financial statements and on compliance for the ACT in 2021. Three new observations were raised, but with no impact on the audit opinion. As of the date of the respective IBAN Audit Report on the 2021 consolidated financial statements three prior years' observations for the ACT were closed and one was in-progress.

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

6. The RPPB supports the IBAN's recommendation that the ACT makes improvements in relation to the authorisation of the deviation from standard procurement procedures and weaknesses identified in the recognition of NSIP funded assets and JALLC cash management.

7. ACT provided an action plan regarding IBAN 2016 financial year recommendations and updated the BC that subsequently provided advice and recommendation to the RPPB. The RPPB welcomes the ACT's commitment to continue with its progress in addressing IBAN recommendation outstanding for more than three years within deadlines set out in the action plan.

RECOMMENDATIONS

8. The Resource Policy and Planning Board recommends that the Council;

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

8.2. approve the conclusions at paragraphs 4 to 7; and

8.3. agree to the public disclosure of the 2021 consolidated financial statements for the ACT, its associated IBAN Audit Report and this report in line with agreed policy at reference G.



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

Brussels - Belgium



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IBA-A(2022)0089
20 July 2022

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

Cc: NATO Permanent Representatives
Supreme Allied Commander Transformation
Financial Controller, ACT
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 Transformation (ACT) Consolidated Financial Statements for the year ended 31 December 2021 – IBA-AR(2022)0006***

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 Transformation and on compliance for financial year 2021.

Yours sincerely,

Daniela Morgante
Chair

Attachments: As stated above.

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**Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Financial Statements of the
Allied Command Transformation (ACT)
for the year ended 31 December 2021**

The International Board of Auditors for NATO (IBAN) audited the Allied Command Transformation (ACT) Consolidated Financial Statements for the year ended 31 December 2021, which consists of four main entities: Headquarters Supreme Allied Command Transformation (HQ SACT), Joint Warfare Centre (JWC), Joint Force Training Centre (JFTC) and Joint Analysis and Lessons Learned Centre (JALLC). ACT is responsible to the NATO Military Committee for overall recommendations on NATO transformation. ACT explores concepts, promotes doctrine development, and conducts research experiments.

The total expenses of ACT in 2021 amounted to approximately EUR 148 million.

IBAN issued an unqualified opinion on the Financial Statements and on compliance for the year ended 31 December 2021.

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

1. Departure from standard procurement procedures not approved.
2. Weaknesses identified in the recognition of NSIP funded assets.
3. Weaknesses identified in JALLC cash management.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that three were closed, and one remains in progress.

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

The observations and recommendations and the follow-up of the previous years' observations and recommendations that are not in the Audit Report are included in a Management Letter addressed to ACT management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under ACT executive responsibility. In this year's Management Letter, among other recommendations, we recommended ACT management to ensure compliance with all provisions of Annex X to the NATO Civilian Personnel Regulations on disciplinary proceedings and disciplinary action.

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IBA-AR(2022)0006

20 July 2022

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE

ALLIED COMMAND TRANSFORMATION

(ACT)

FOR THE YEAR ENDED 31 DECEMBER 2021

PUBLICLY DISCLOSED - PDN(2023)0002 - 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 Financial Statements of Allied Command Transformation (ACT), for the 12 month period ended 31 December 2021, issued under document reference ACT/BUDFIN/TT-5226/SER:NU, and submitted to IBAN on 31 March 2022. These Financial Statements comprise the Statement of Financial Position as at 31 December 2021, the Statement of Financial Performance, the Statement of Changes in Net Assets/Equity and the Statement of Cash Flow, for the 12 month period ended 31 December 2021, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a Budget Execution Statement for the 12 month period ended 31 December 2021.

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

Basis for Opinion on the Financial Statements

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

We have conducted our audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 2200-2899) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

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

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

Management's Responsibility for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

Compliance

Opinion on Compliance

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

Basis for Opinion on Compliance

We have conducted our compliance audit in accordance with the International Standards of Supreme Audit Institutions (ISSAI 4000-4899) developed by the International Organisation of Supreme Audit Institutions (INTOSAI) and in accordance with the additional terms of reference defined in our Charter.

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

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 Transformation 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, 20 July 2022



Daniela Morgante
Chair

OBSERVATIONS AND RECOMMENDATIONS

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

1. Departure from standard procurement procedures not approved.
2. Weaknesses identified in the recognition of NSIP funded assets.
3. Weaknesses identified in JALLC cash management.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that three were closed, and one remains in progress.

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

The observations and recommendations and the follow-up of the previous years' observations and recommendations that are not in the Audit Report are included in a Management Letter addressed to ACT management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under ACT executive responsibility. In this year's Management Letter, among other recommendations, we recommended ACT Management to ensure compliance with all provisions of Annex X to the NATO Civilian Personnel Regulations on disciplinary proceedings and disciplinary action.

1. DEPARTURE FROM STANDARD PROCUREMENT PROCEDURES NOT APPROVED**Reasoning**

1.1 Article 32 of the NFRs describes the principles to which NATO Procurement and Contracting shall adhere. In accordance with the NFRs, ACT, as a common funded military headquarter, implements the regulations as per Article 32 of the NFRs through FRP XXXII.

1.2 According to FRP XXXII (13) on 'Waivers of procurement rules and procedures', departures from the requirements described in paragraphs 1 to 12 of FRP XXXII '*may only be authorized 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.*'

1.3 In accordance with FRP III (1), the ACT and ACO issued a Bi-Strategic Command Procurement Directive 060-070, which includes the policy, roles and responsibilities, and outlines procedures, for the procurement of goods, services, and

construction funded through the NATO Military Budget or from any other international or national funding sources. In the area of procurement, this directive *'aims to harmonise procurement approaches, encourage consistency and thus increase efficiency between the two Strategic Commands and subordinate HQs in performing procurement activities'*.

1.4 Paragraph 1-1 of the Bi-Strategic Command Procurement Directive sets out that NATO Bodies shall comply, among others, with the principles of competition, value for money and accountability when executing procurement activities.

1.5 Paragraph 2-4 of this procurement directive states the following concerning deviations from normal procurement procedures:

- *'b. all requests for exceptions/departures must be fully justified, and contract files must retain documentation of such justification. All such requests must be decided on a case-by-case basis by the approving authority. Deviations may be granted in the interest of security, operational urgency, standardisation, and other practical considerations. Deviation requests should be based on the inability for the ACO/ACT HQs to reasonably comply with competitive requirements. Also, urgency caused through lack of timely action is not a valid basis for deviating from minimum sourcing requirements, and not maximizing competition amongst eligible sources.'*

1.6 With regard to requests for deviations from normal methods of procurement, Article 4 of Annex B to the Bi-Strategic Command Procurement Directive describes the requirements for a sole source selection process:

'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.'*

1.7 The 2021 ACT Established Financial Limits (EFL) in USD for Level D and Level E respectively amount to USD 194,416 and USD 972,080.

Observations

1.8 In 2021, out of 64 HQ SACT contracts awarded based on a departure from the standard procedures for procurement as per the Bi-Strategic Command Procurement Directive, we found one contract where the departure from standard procedures for procurement was not approved in accordance with the FRPs. The contract amounting to USD 450,001 related to services in the area of cyberspace operations.

1.9 Taking into account the value of the contract awarded, the standard procedure for procurement should have been an international competitive bidding in accordance with FRPs and the Bi-Strategic Command Procurement Directive. Instead, a sole source selection process was followed as ACT considered that only one company was capable of performing the work in order to maintain the strategic partnership in place and the technical knowledge acquired in these areas.

1.10 For this contract award, we found that the Procurement Division did not request approval for a sole source selection process from the Financial Controller and that the Budget Division did not request advance approval for a sole source selection process from the Budget Committee as part of the ACT Budget Submission for 2021.

1.11 ACT was not able to provide evidence in support of the approval of sole source as a procurement method for the contract award described above. Therefore, the process followed by ACT for this contract award is not compliant with FRPs and the Bi-Strategic Procurement Directive 060-70.

Recommendations

1.12 IBAN recommends that ACT:

- a) Ensure compliance with FRPs and the Bi-Strategic Procurement Directive 060-70 by strengthening and revising its existing internal controls on the submission of requests for, and existence of, approvals of deviation from normal methods of procurement.
- b) Issue written guidance in relation to the submission and the justification of requests for deviations from standard procurement procedures that identifies the roles and responsibilities of the Procurement Division and Budget Division in this process, and improves the coordination and communication between both divisions.

2. WEAKNESSES IDENTIFIED IN THE RECOGNITION OF NSIP FUNDED ASSETS

Reasoning

2.1 In accordance with IPSAS 35, which establishes accounting requirements for consolidated financial statements, *'a controlling entity shall prepare consolidated financial statements using uniform accounting policies for like transactions and other events in similar circumstances'*.

2.2 With regard to uniform accounting policies, it also states that: *'If a member of the economic entity uses accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to that member's financial statements in preparing the consolidated financial statements to ensure conformity with the economic entity's accounting policies'*.

2.3 The NATO accounting policy for Property, Plant and Equipment (PP&E) states the following with regard to asset recognition:

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

2.4 As per the ACT Financial Policy Directive on Property records, the Property Accounting Officer (PAO) is responsible for the maintenance and accuracy of property

accounting records, which show, by line item, the receipt, issue and disposal of international property as well as the balance on hand and other identifying or stock control data as required.

2.5 The HQ SACT PAO is responsible for the accounting records of ACT properties that includes NSIP funded assets handed over to the subordinate Commands. The HQ SACT PAO has access to the NSIP Common-funded Integrated Resource Information System (CIRIS) reports.

2.6 In accordance with the ACT 2021 consolidation process, HQ SACT requested its subordinate Commands (JWC, JFTC and JALLC) to submit complete asset registers to the HQ SACT PAO before 11 February 2022. This in order to prepare the consolidated financial statements in a timely manner.

Observations

2.7 JWC recorded NSIP funded assets amounting to approximately EUR 1.1 million as PP&E additions in 2021 as JWC is the end user of these assets.

2.8 JWC did not obtain, nor did it request, a handover-takeover document from the territorial NSIP Host Nation in order to formally transfer the NSIP funded assets from the territorial NSIP Host Nation to JWC for operational use.

2.9 In the absence of a handover-takeover document that indicates the transfer date and the transfer value, JWC estimated the acquisition date and the acquisition value of these PP&E additions based on a 'Report on Works Recommended for Formal Acceptance under the Special Procedure for JFAI' prepared by the Territorial Host Nation and submitted to the International Staff, NATO Office of Resources.

2.10 The acquisition dates and the acquisition values of these 2021 PP&E additions in the JWC asset register corresponded to the dates of 'Completion of Works Inspected' and the values of 'Estimated Cost to NATO for Works' included in the abovementioned report.

2.11 We noted that the abovementioned report also includes a 'Date of Physical Occupancy by Users of Works Inspected'. The inclusion of two different dates in this report indicates that the date of physical occupancy by users for operational use can differ from the date of completion of the works.

2.12 In 2021, JWC recognised an 'Office Facility for NCIA Staff' in its asset register with a value of EUR 829,381. The 'Date of Physical Occupancy by Users of Works Inspected' is 15 May 2020, which differs from the acquisition date of 8 September 2021 as per JWC asset register. In the absence of a handover-takeover document that indicates the handover-takeover date of the asset, it is unclear on which date JWC became the end user.

2.13 In addition to that, we also found that JWC did not base itself on the abovementioned report for identifying the acquisition date and the acquisition value of other NSIP funded assets that it recorded in its asset register prior to 2021. Therefore, the recognition method followed in 2021 is not consistent with the approach followed in previous years while the ACT accounting policy has remained unchanged.

2.14 During our audit of JFTC accounts in previous years, we noted that the recognition of NSIP funded assets was based on information provided in a handover-takeover document prepared and signed by the national Ministry of Defence representing the territorial NSIP Host Nation.

2.15 Based on the above, we conclude that like transactions in similar circumstances with regard to NSIP funded assets were not accounted for in a uniform manner as the recognition method of NSIP funded assets is not harmonised throughout the ACT Commands.

2.16 It should also be noted that the HQ SACT PAO records the assets on behalf of the ACT's subordinate Commands into an Excel Consolidation File based on information directly provided by the subordinate Commands. The HQ SACT PAO relies on the information provided for, and does not perform any checks on the accuracy, completeness and uniformity of the information presented in the asset registers prepared by the subordinate Commands. Performing these checks is important in order to reduce the risk of errors related to the recognition of NSIP-funded assets handed over to the Commands.

Recommendations

2.17 IBAN recommends that ACT:

- a) Ensure a harmonised asset recognition method for NSIP funded assets across all ACT Commands by issuing written guidance on how to determine the acquisition date and value of NSIP funded assets as well as the documentation to be requested from territorial NSIP Host Nations by the Commands in that regard;
- b) Inform territorial NSIP Host Nations of the documents that ACT Commands require in order to account for NSIP funded assets in a complete, accurate, uniform and timely manner in accordance with the written guidance issued as part of sub-recommendation (a);
- c) Introduce a check by the HQ SACT PAO on the completeness, accuracy and uniformity of property accounting records of all ACT Commands as part of the consolidation process in order to reduce the risk of errors related to the recognition of NSIP-funded assets handed over to ACT Commands.

3. WEAKNESSES IDENTIFIED IN JALLC CASH MANAGEMENT

Reasoning

3.1 According to Article 3.1 of the NFRs, the Supreme Allied Commander Transformation is *'responsible and accountable for sound financial management and shall put in place the necessary governance arrangements to ensure and maintain this. This shall include, but is not limited to, the establishment and maintenance of financial governance, resource management practices, internal controls and financial information systems to achieve the efficient and effective use of resources'*.

3.2 With regard to internal controls, Article 12.1 of the NFRs states that the Supreme Commander and subordinate commanders by delegation *'shall ensure the necessary internal management functions are in place to support effective internal control, designed to provide reasonable assurance that the NATO body will achieve its objectives in the following categories:*

- a) safeguard assets;*
- b) verify the accuracy and reliability of accounting data and records;*
- c) promote operational efficiency; and*
- d) compliance with established managerial and command policies.'*

3.3 In accordance with Article 6 of the NFRs, the Financial Controller is responsible for the management of appropriated and non-appropriated funds, and the organisation and administration of the financial internal control system established pursuant to Article 12.1 of the NFRs.

3.4 In line with FRP VI (4) of the NFRs, the ACT Financial Controller issued Directive 60-1 on 'ACT Financial Policy' to ensure that *'detailed rules and procedures are established to attain effective financial administration'*, and *'all accounts are reconciled and verified on a regular basis, and all activities with financial implications, including multinational and non-appropriated fund activities, controlled by periodic inspection'*.

3.5 Directive 60-1 describes ACT Cash Handling Procedures, and identifies the internal controls required in the cash handling process. It also contains specific procedures for safeguarding funds that are collected in cash during events.

Observations

Cash collection at JALLC events

3.6 On 18, 19 and 20 February 2020, the JALLC organised a 'Human Capital Workshop' that was considered to be a reimbursable activity.

3.7 Reimbursable activities are not expected to be fully funded through JALLC's common budget (i.e. through funds received in relation to 'Budget Code 255 – JALLC'). The expenses incurred in relation to this workshop were to be funded fully, or at least partially, with conference fees collected from workshop participants. In this regard, a conference fee of EUR 70 was requested and collected from each participant on the first day of the workshop.

3.8 Given that the workshop was a reimbursable activity, and in line with usual practice, JALLC used a separate cash suspense account in order to account for all payments made and received in relation to the workshop.

3.9 As part of the year-end accounts closing procedures on revenue for financial year 2020, JALLC could not match the expenses incurred in relation to this reimbursable activity with any income received. The absence of any recorded income for this activity was also confirmed by the closing balance of the suspense account used in relation to this reimbursable activity, as it only contained outgoing payments for EUR 2,181 in total and did not contain any receipts.

3.10 The participant fees for the workshop were collected by a JALLC staff member with delegated disbursing officer responsibilities. This staff member did not deposit the fees collected with a different disbursing officer for reconciliation purposes, nor did this staff member store the fees collected in the JALLC safe in order to keep the funds received safe prior to deposit of the petty cash funds to a JALLC bank account.

3.11 It is unclear which amount of conference fees was collected for this workshop, and as such was lost, as the records kept in support of the control list of all funds collected are incomplete and cannot be verified for accuracy ex post.

3.12 In February 2021, JALLC concluded that the conference fees collected from participants were missing, which remained unidentified until the year-end accounts closing process of financial year 2020 as no cash reconciliation was prepared for this event in the absence of a deposit of funds. It should also be noted that JALLC did not identify the open balance on the cash suspense account as part of its monthly cash reconciliations, as these reconciliations were not performed during several months in 2020 due to staff rotation.

3.13 As a result, the Financial Controller approved a cash write-off of EUR 2,181 in 2021 in order to clear the open balance on the cash suspense account. This means that the expenses incurred in relation to this workshop were fully funded through JALLC's common budget, instead of being fully, or at least partially, funded through conference fees from participants.

3.14 In response to the above, and throughout 2021, HQ SACT monitored whether JALLC implemented the cash handling procedures of Directive 60-1 on 'ACT Financial Policy' and prepared cash reconciliations on a monthly basis. HQ SACT also introduced a system on the basis of which participants can pay conference fees by

bank transfer instead of cash payments, which has been the preferred system for conference fee collection by JALLC in 2021.

Monthly cash reconciliation procedures at JALLC

3.15 JALLC prepared cash reconciliations on a monthly basis throughout financial year 2021. For February 2021, we identified a difference of EUR 3,399 between the initial accounting balance of the cash accounts and the bank statements at the end of February 2021 due to a payment of USD 3,399 on 26 February 2021, which was only debited from the bank accounts on 1 March 2021 for a final amount of EUR 3,306.

3.16 This reconciliation difference was however no longer visible in the JALLC cash reconciliation for February 2021, as JALLC manually cancelled the transaction within its accounting system in February 2021 in order to manually record it again in March 2021.

3.17 One of the purposes of a cash reconciliation is to identify any timing differences that may exist between the accounting transaction date and the actual payment date as per bank statements. As the accounting date of a transaction could be different from the bank execution date, it is incorrect to manually modify or cancel an accounting transaction for bank reconciliation purposes.

Recommendations

3.18 IBAN recommends that ACT:

- a) Strengthen supervision and monitoring on the implementation of internal procedures on cash management and cash collection, and consider revising existing, or introducing additional, internal controls if necessary;
- b) Provide guidance and training on how to perform accurate and reliable cash reconciliations, in order to mitigate the risk of accounting errors or undetected cash losses.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

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

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

recommendations, the status related to each sub-recommendation is indicated in the Action Taken column.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>(1) ACT FY 2020 IBA-AR(2021)0038, paragraph 1.8</p> <p>NEED TO STRENGTHEN INTERNAL CONTROLS OVER THE REPORTING OF REIMBURSABLE ACTIVITIES UNDERTAKEN AS AN AGENT</p> <p>IBAN's Recommendation IBAN recommends that ACT strengthen internal controls over the preparation of the financial statements in order to ensure that reimbursable activities are correctly disclosed by applying the agent versus principal criteria and by taking into account the disclosure requirements related to FMS, in accordance with the NATO Accounting Framework and NFRs.</p>	<p>In 2021, ACT strengthened its internal controls over the preparation of the financial statements, and correctly disclosed its reimbursable and FMS activities in its 2021 Consolidated Financial Statements.</p>	<p>Observation Closed.</p>
<p>(2) ACT FY 2019 IBA-AR(2021)0001, paragraph 1.11</p> <p>RECOGNITION OF NSIP FUNDED ASSETS</p> <p>IBAN's Recommendation In order to reduce the risk of material errors related to the non-recognition of NSIP-funded assets handed over to Commands, IBAN recommends that HQ SACT for ACT:</p> <p>a) Capitalises NSIP-funded assets that have been completed and handed over to the Commands;</p> <p>b) Implements a top down process initiated in a timely manner by the HQ SACT PAO to ensure the completeness and accuracy of property accounting records of all NSIP funded assets handed-over to all the Commands.</p>	<p>This recommendation is closed as superseded by Observation 2 in the current Audit Report.</p>	<p>Observation Closed.</p>
<p>(3) ACT FY 2019 IBA-AR(2021)0001, paragraph 2.10</p> <p>FOREIGN CURRENCY CONVERSIONS AND DISCLOSURE AT YEAR-END</p> <p>IBAN's Recommendation IBAN recommends that ACT complies with the NATO Accounting Framework's IPSAS</p>		<p>Observation Closed.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>4 and the NATO Financial Regulations. This can be achieved by :</p> <p>a) Converting monetary items that are measured in a foreign currency using the exchange rate at the closing rate at year-end;</p> <p>b) Accounting for unrealised gains or losses on exchange rate differences arising from foreign currency monetary items transactions that are not settled at year-end;</p> <p>c) Ensuring the accuracy of information in the disclosure note related to PP&E and its consistency with the Statement of Financial Position.</p>	<p>This sub-recommendation was closed in IBA-AR(2021)0038. Closed.</p> <p>This sub-recommendation was closed in IBA-AR(2021)0038. Closed.</p> <p>In its 2021 Consolidated Financial Statements, ACT ensured the accuracy of the information in the disclosure note related to PP&E and its consistency with the Statement of Financial Position. Closed.</p>	
<p>(4) ACT FY 2016 IBA-AR(2017)06, paragraph 2.4</p> <p>INSTANCES OF NON-COMPLIANCE IN RESPECT OF REPRESENTATION ALLOWANCES</p> <p>IBAN's Recommendation IBAN recommends that ACT:</p> <p>a) Ensures that there are adequate controls in place in order to prevent incurring expenses which exceed the annual budget.</p> <p>b) Provides representation allowance funds to participants only on a reimbursable basis after Financial Controller approval. As a result, ACT credit cards should not be used for representation allowance expenditures.</p>	<p>IBAN did not identify any instances of non-compliance with the applicable guidelines on the use of representation allowance during financial years 2020 and 2021.</p> <p>This observation remained In-Progress at 31 December 2020 due to instances of non-compliance with Article 25.1 of the NFRs on prior-approval of commitments for purchases made in relation to representation allowances.</p> <p>This sub-recommendation was closed in IBA-AR(2021)0038. Closed.</p> <p>In 2021, ACT explored several options for reviewing the approval process for representation allowances. As a result of the action taken in 2021, ACT created a purchase</p>	<p>Observation In-Progress.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
	order for SACT's outer office purchases applicable from 2022 onwards in order to ensure prior approval of commitments in accordance with the NFRs and ACT's policy on representation allowance expenditure. This will be reviewed as part of next year's audit. In-Progress.	

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**ALLIED COMMAND TRANSFORMATION (ACT) FORMAL COMMENTS ON THE
AUDIT REPORT AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN)
POSITIONS**

**OBSERVATION 1:
DEPARTURE FROM STANDARD PROCUREMENT PROCEDURES NOT
APPROVED**

ACT's Formal Comments

Agreed.

ACT will issue enhanced guidance that ensures compliance with FRPs and the Bi-Strategic Procurement Directive 060-70 on the submission of requests for, and existence of, approvals of deviation from normal methods of procurement. This guidance will include, where applicable, an outline of the roles and responsibilities of the Procurement Division and Budget Division in this process.

**OBSERVATION 2:
WEAKNESSES IDENTIFIED IN THE RECOGNITION OF NSIP FUNDED ASSETS**

ACT's Formal Comments

Recommendation a): Agreed.

Written guidance will be issued to ensure that a standardised approach is formalised across ACT.

Recommendation b): Agreed.

Discussions have taken place with Base Support Teams and they will engage with Host Nations once the standard ACT guidance is published.

Recommendation c): Agreed.

**OBSERVATION 3:
WEAKNESSES IDENTIFIED IN JALLC CASH MANAGEMENT**

ACT's Formal Comments

Recommendation a): Agreed.

As stated in the observation, this issue relates to an incident in 2020 that only came to the attention of HQ SACT staff during the end of year processes in

early 2021. The cash loss was therefore reported in these 2021 financial statements following a Financial Controller directed review of all events.

Recommendation b): Not agreed.

As stated in the IBAN observation, “in response to the above, and throughout 2021, HQ SACT monitored whether JALLC implemented the cash handling procedures of Directive 60-1 on ‘ACT Financial Policy’ and prepared cash reconciliations on a monthly basis.”

ACT does not believe that additional written guidance is required. Rather, ACT has focused resources to on-site training and compliance with existing procedures.

IBAN’s Position

IBAN acknowledges that training and training materials on how to perform accurate and reliable cash reconciliations would also be effective in mitigating the risk of accounting errors or undetected cash losses. We have amended the recommendation accordingly in the final version of the Audit Report.

FOLLOW-UP OF PREVIOUS YEARS’ OBSERVATIONS

(1) ACT FY 2020

IBA-AR(2021)0038, paragraph 1.8

NEED TO STRENGTHEN INTERNAL CONTROLS OVER THE REPORTING OF REIMBURSABLE ACTIVITIES UNDERTAKEN AS AN AGENT

ACT’s Formal Comments

Agreed.

(2) ACT FY 2019

IBA-AR(2021)0001, paragraph 1.11

RECOGNITION OF NSIP FUNDED ASSETS

ACT’s Formal Comments

Agreed.

As stated by IBAN, this observation is replaced with observation number 3 in the current Report.

**(3) ACT FY 2019
IBA-AR(2021)0001, paragraph 2.10
FOREIGN CURRENCY CONVERSIONS AND DISCLOSURE AT YEAR-END**

ACT's Formal Comments

Agreed.

**(4) ACT FY 2016
IBA-AR(2017)06, paragraph 2.4
INSTANCES OF NON-COMPLIANCE IN RESPECT OF REPRESENTATION
ALLOWANCES**

ACT's Formal Comments

Recommendation a): Agreed.

Recommendation b): Agreed.

ACT believes that the actions taken in early 2022 will enable this item to finally be closed following the audit of the 2022 financial statement.

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.



NATO
+
OTAN

ALLIED COMMAND TRANSFORMATION

NORFOLK, VA.

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2021

ALLIED COMMAND TRANSFORMATION
CONSOLIDATED FINANCIAL STATEMENTS

NATO'S WARFARE DEVELOPMENT COMMAND



HQ Supreme Allied Commander Transformation
Command Group, Office of Budget and Finance

Norfolk, Virginia | USA



ACT/BUDFIN/TT-5226/SER:NU

TO: Ms, Daniela Morgante, Chairperson, International Board of Auditors for NATO

SUBJECT: **2021 ALLIED COMMAND TRANSFORMATION CONSOLIDATED FINANCIAL STATEMENTS**

DATE: 31 March 2022

REFERENCE: A. NATO Financial Regulations Article 35.

1. In accordance with the Reference, we herewith forward the 2021 Annual Consolidated Financial Statements for Allied Command Transformation (ACT).
2. We consider that the financial information contained in the Statements agrees with the ACT financial records, and shows the position at the end of the financial year in respect of each of the items listed in Article 34 of the NATO Financial Regulations (NFRs).
3. For these 2021 Financial Statements, ACT has again met the timeline set out at the Reference. This states that Financial Statements are to be produced by 31 March.

A handwritten signature in black ink, appearing to read "Philippe Lavigne".

Philippe Lavigne
General, French Air & Space Force
Supreme Allied Commander Transformation

A handwritten signature in black ink, appearing to read "Nicholas Garland".

Nicholas Garland
Financial Controller
Allied Command Transformation

DISTRIBUTION:

External -

Action:

ACT Board Member, IBAN
Budget Committee Secretariat

Information:

Commander JWC
Commander JFTC
Commander JALLC
SACTREPEUR

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SUPREME ALLIED COMMAND TRANSFORMATION FOREWORD AND REPORT



In general, terms, 2021 has been another challenging year for Allied Command Transformation (ACT) as we dealt with the continuing impact of the COVID pandemic. Following the programme delays in 2020, our pace of delivery at the start of 2021 was significantly slowed but by the Summer, as some of the COVID restrictions were removed, we were seeing a return to more normal levels of production. It is at this stage that I took over from my predecessor and began my tenure as Supreme Allied Commander Transformation. Unfortunately, this return to productivity was somewhat short lived as we then ended the year with increased restrictions as the Omicron variant took hold. Notwithstanding this, as a Command we managed to deliver approximately 90% of our planned output. Furthermore, we have seen progress in three notable areas: the approval, following two years of work, of the NATO Warfighting Capstone Concept and subsequent development of the initial Warfare Development Agenda; the consolidation of the Common Funded Capability Delivery Governance Model; and the reinforcement of the virtual environment as a tool to engage stakeholders and complement training activities.

Key Outputs

The work of ACT is certainly diverse in supporting our objective to ensure NATO's decisive advantage and the following only touches upon some of the highlights delivered by the team in 2021.

Remediation and Mitigation of the effects created by the failure of the IT Modernization (ITM) component of NATO's core information services programme continued to dominate much of 2021. In order to mitigate this collapse a revised programming strategy to recoup as much lost time as possible, a plan that bridges the gap between the remainder of the programme and the failed ITM elements, and the development and submission of the Protected Business Network and Operational Network project proposals have been submitted to governance.

Regarding Cyber, ACT has contributed to the provision of urgently required cyberspace capabilities through development of the CIS Security Maintenance Capability Programme Plan (CPP) and support to Allied Command Operation's (ACO) production of the Cyberspace Operational Requirements Statement (ORS), and the continued development of a cyberspace situational awareness concept.

The Joint Intelligence, Surveillance and Reconnaissance (JISR) and Awareness Programme successfully executed its main 2021 task to translate ACO operational requirements for Open Source Intelligence, Imagery Production, and Meteorology Functional Services into three Capability Requirement Briefs (CRB). All three were approved in 2021.

The priority objectives of the Alliance Future Surveillance and Control (AFSC) programme were met and included refinement of the AFSC requirements, development of an initial operating concept and operational scenarios, and the provision of assistance to the preparation of a statement of work. ACT also developed an enterprise-level C4I architecture to ensure AFSC coherence with existing and planned capabilities, and to enable the NATO Support and Procurement Agency's capability architecture development.



The Future Land Command and Control (C2) Capability Programme Plan was completed and the plan submitted to governance. The urgent requirement for a life extension to the legacy Land C2 Information System took significant effort to address the key software vulnerabilities that threaten production of the recognized ground picture pending Full Operating Capability of the Future Land C2 solution.



Following the submission of the Special Operations Forces C2 Communications and Information System CPP ACT focused on ensuring a smooth transition of the programme to the host nation and follow-on work on the required addendum to the CPP. Transition planning and management included the organization of the first project proposal workshop and ACT remains closely engaged with the host nation and other stakeholders.

Enablement Support Service (ESS) will enhance situational awareness and decision-making through information management over logistics, medical and military engineering functional areas. In support of this ACT contributed to the CPP for the medical suite of tools within ESS. Alongside and in support of this, ACT supported the development of a prototype patient-tracking tool. This was done in a novel-for-NATO proof-of-concept approach to agile requirements elicitation and a security-centric software development method.

The North Atlantic Council decided in February to continue the Air Command and Control System programme under enhanced governance oversight coupled with further risk mitigation measures and the switch to a new capability architecture. In line with this ACT contributed to the planning of the migration to the modified programme and governance structures. This included production in June of the transition programme of work, consolidation of current and future foreseeable requirements, and the creation of a requirements management repository as a single source of information on all Air C2 requirements.

As part of the ACT commitment on climate change, and in support of the NATO Secretary General's 'Reduction of Greenhouse Gas Emissions' task, ACT has worked on assessing NATO Command Structure (NCS) headquarters' greenhouse gas emissions, planning reduction targets and measures (with indicative resource implications) and assessing the feasibility of reaching net zero emissions by 2050.

Regarding Exercise delivery, Joint Warfare Centre and Joint Force Training Centre delivered by virtual, in-person or via hybrid means the following exercises: STEADFAST JUPITER 21 (STJU21), STEADFAST JACKAL 21 (STJA21), GRIFFIN LIGHTNING 21 (GRLI 21), COALITION WARRIOR INTEROPERABILITY EXERCISE 2021 (CWIX 21), STEADFAST PYRAMID/STEADFAST PINNACLE 21 (STPYPI 21), and STEADFAST LEDA 21 (STLE 21).



While the initial processes for the exercises were hampered or adjusted to COVID methodology (remote support, VTC planning), the 2021 execution deliverables were delivered to a large extent by physical presence. This was made possible as quarantine restrictions were gradually lifted throughout Europe, allowing exercise development workshops as well as battle staff training and execution phases to be conducted within acceptable budget spending.

Due to the pandemic in 2021 JALLC was forced to provide significantly less support to exercises; furthermore, the provision of Lessons Learned (LL) training to the NCS, NATO Force Structure (NFS) and partners was significantly curtailed (close to 80% of the planned activities were cancelled due to travel restrictions). Although LL online training was offered as a compensation for cancelled activities, its effectiveness provides no comparison with residential engagements, assessments, and courses. On a positive note though, a significant achievement has been accomplished in 2021 in the LL Training area, as the accreditation process of the LL Management Course in NATO School Oberammergau was successfully completed.

In support of pre-deployment training, JFTC planned and delivered Pre-deployment Training (PDT) for NATO Mission Iraq (NMI) and Resolute Support Mission (RSM). In this regard it is worth mentioning that after the relaxation of COVID travel restrictions, all training delivery methods (residential, virtual and blended) were reviewed; blended delivery was subsequently considered to be the most effective method of delivering content at both unclassified and classified level.

Over several years, the entire 'bookshelf' of Allied Joint Doctrine publications has been revised under ACT's lead to address the full scope of NATO operations. This demonstrably improved the quality of publications and led to greater accuracy, timeliness and coherence of extant doctrine for operational commanders across all warfare areas.

Standardization remains an essential pillar of interoperability and ACT has been one of the main standardization actors in NATO, leading the development of some NATO standards and contributing with virtually all NATO standardization tasking authorities, in particular with the Consultation, Command and Control (C3) Board. Among other standardization efforts in 2021, ACT co-authored a NATO Bi Strategic Command Tactical Data Link Interoperability Roadmap.

ACT's Innovation branch has completed 10 prototypes / minimum viable products (MVP), exploiting Emerging Disruptive Technologies and strengthening our ability to harness civilian innovation. It has also demonstrated 6 innovative products during exercises. ACT is pressing hard to transition some of these experimental products under the provision of the Governance Model for Common Funded Capabilities toward a scaled capability. In parallel, ACT is developing the concepts, doctrine and standards to support these capabilities.



A significant milestone for ACT during 2021 was the approval of the NATO Warfighting Capstone Concept and the subsequent work to develop the initial Warfare Development Agenda (WDA) around the 5 Warfare Development Imperatives (WDI), which harnesses this strategic momentum and translates it to concrete military requirements. The WDA, which will be completed in 2022, charts a course to align efforts to understand better and decide faster, and thus leads to an Alliance that is stronger together. The Multi Domain Operations (MDO) and Digital Transformation are the underpinning efforts already started in 2021 and continuing over 2022.

NATO Defence Planning Process (NDPP) 2021 activities focused on NDPP 18-22 Step 3 and preparation for Step 5. NDPP 22-26 officially commenced 1 Jan 2021 and emphasized Step 1 research and planning for the Bi-SC inputs into Political Guidance 2023 (PG23) and Step 2 groundwork for Minimum Capability Requirements 2024 (MCR24).

In order to meet new roles and responsibilities in Innovation, in implementation of the Capability Governance Model, and in Cyberspace, as well as to meet emergent political/military tasking derived from the ever-changing security environment, ACT has implemented some flexibility measures ahead of Full Operating Capability (FOC) of the NCS-Adaptation (NCS-A). In

the medium term, to address some of the challenges identified, a Refinement workforce change has been submitted in accordance with the recent validation by the NATO Defence Workforce Audit Authority (NDWAA). However, in the longer term, recognising the continuous nature of these challenges, there will be a need for continuous adaptation. Innovation, Space, the Capability Governance Model, Cyber, Warfare Development and Climate Change tasking will all require supporting structures to be reviewed and adjusted as necessary in the medium to longer term.

As a reflection of vital supported/supporting interrelationship of the Strategic Commands, and increased risks to implementation caused by the delay of the IT Modernisation programme, it is assessed that HQ SACT cannot declare NCS-Adaptation Full Operating Capability (FOC) without inherently causing the NCS to be misaligned. Consequently, HQ SACT will delay FOC until both Strategic Commanders assess that the combined conditions in both Commands are sufficient to declare the NCS fit-for-purpose.

NATO's focus on EDTs and innovation is strongly linked to cooperation between stakeholders within the NATO Enterprise (such as Defence Investment, ACO, ACT, Science and Technology Organization and NCIA,), in the public and private sector, academia and civil society. In ACT, this is enabled by an extensive network that bring best of class thinking from the Nations, Industry and Academia to support the assessment of operational problems and to apply innovative solutions when appropriate.



Despite the COVID pandemic, Operational Experimentation (OPEX) continues to develop and execute its programme of work, and adapt accordingly to deliver controlled investigations that discover, test, and validate before the Alliance commits significant resources. OPEX expects to return to its pre-pandemic battle rhythm with 24 experiments planned for 2022.

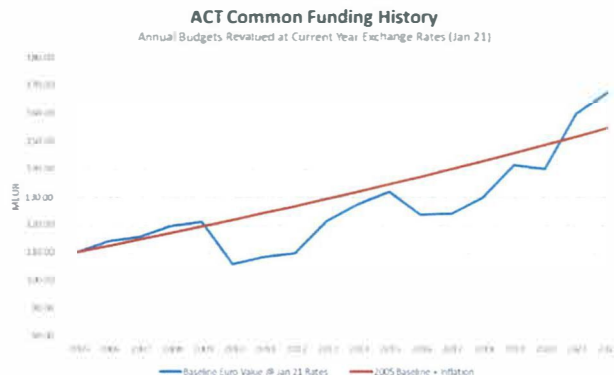
Regarding Strategic Partnership and Engagement, we have been able to deliver as planned, matching objectives and milestones and supporting the net of stakeholders from SHAPE to NATO HQ.

All assessments undertaken by ACT showed that NATO Centre of Excellences' products and services provided to the Alliance remain consistent with the quality, standards, practices and procedures within NATO and all merited continuous NATO accreditation.

In sum, notwithstanding the disruption caused by the pandemic we have been able to deliver about 90% of our planned Programme of Work and achieve the key strategic goals of consolidating the pace at which ACT delivers capabilities and the endorsement of the NWCC by the Alliance.

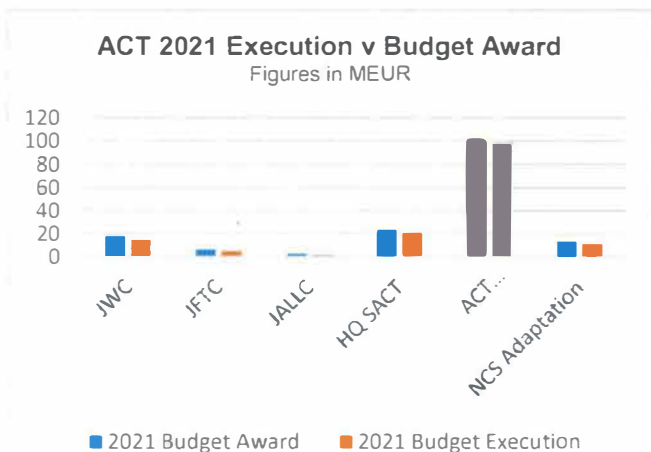
Financial Overview

To support this level of activity the NATO Nations awarded ACT a budget of €168M (revalued to €160M for comparison purposes). As can be seen from the chart opposite this represented a significant increase in the level of investment made by the Nations in support of transformational activity and this has not only restored but increased the purchase power of the command beyond that last seen in 2009. With the award of the latest budget, this trend has continued into 2022.



The ACT funds are provided in a number of currencies Euros, US Dollars, Norwegian Krone and Polish Zloty but they are consolidated and presented in the financial statements in Euros. However, the 2021 execution in budget currency can be examined in the detailed Budget Execution Statements.

The ACT group of budgets are split into three categories. Firstly, there are the budgets supporting the ACT Command Headquarters: the Joint Warfare Centre (JWC) in Stavanger, Norway, Joint Force Training Centre (JFTC) in Bydgoszcz, Poland and the Joint Analysis Lessons Learned Centre (JALLC) in Lisbon, Portugal as well as a budget supporting Headquarters Supreme Allied Command Transformation (HQ SACT) based in Norfolk, Virginia, USA. Secondly, there are budgets supporting the ACT programmes of work and thirdly the final ACT budget supports the specific ACT requirements in transitioning to the adapted NATO Command Structure.



Although ACT was awarded budgets totalling €168M COVID impacted the Commands ability to commit funds in accordance with its plan. Travel was severely impacted by the pandemic restrictions and delays in the delivery of programme milestones resulted in reduced awards to the ACT supplier base. Prior to the pandemic ACT would regularly execute 97-98% of its budget for 2021 ACT only committed 90% of the overall budget allocation. Although the Command executed more money than in any previous year, our overall execution rate was the lowest recorded for ACT resulting in the return of over €16M to the NATO nations.

Vision for the Future

The Alliance faces non-linear escalation and pervasive, boundless and simultaneous competition. Our Strategic contenders are already working to shape the operating environment to achieve their objectives and to prevent NATO and our Nations from meeting ours. We must become proactive enough to shape and contest the environment to our advantage.

To collectively ensure NATO's decisive advantage, the challenge is to take the right actions to constantly adapt our military instrument of power. My vision to achieve this objective is to improve our Alliance's ability to ***understand better, decide faster and be stronger together***.

Firstly, we must ***Understand*** the environment of pervasive competition we are facing in order to avoid misperception and miscalculation. We need to better distribute and analyse information. We need to understand the effects of emerging and disruptive technologies such as hypervelocity and quantum. While we deter and stand ready to defend if necessary against current threats, we must also seek to understand new global challenges such as the rise of China. And we must anticipate threat multipliers such as climate change. Our need, in essence, is full situational awareness. With this awareness, the Alliance will be better placed to shape the environment and win the "battle of opportunities".

Secondly, we must ***Decide faster*** than our adversaries. Accelerating the decision-making process means improving the continuum from political decision to tactical action. It requires that we train together (using audacious wargaming) and develop effective escalation management tools. We also need to provide native interoperable systems to the warfighter to ensure command and control superiority. It is about generating speed.

Finally, timely understanding and the ability to decide swiftly will reinforce the cohesion of the Alliance in order to ***Be Stronger Together***. Our Alliance remains defensive in nature but must actively defend its assets while integrating the Cyber and Space domains. We must widen the scope of possible answers to challenges by combining non-kinetic and kinetic effects. At the same time, the Alliance must have the ability to better leverage existing networks and pull the expertise from within Nations. These efforts will allow us to win as a team.



Philippe Lavigne
General, French Air & Space Force
Supreme Allied Commander Transformation

STATEMENT OF INTERNAL CONTROL

The Scope of Responsibility

As Supreme Allied Commander Transformation (SACT), I have responsibility for maintaining effective governance and a sound system of internal control that supports the achievement of the Allied Command Transformation (ACT) policies, aims and objectives, while safeguarding the Nations' funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me by the Nations.

As ACT Financial Controller, I have responsibility for safeguarding the Nations' common funds and assets, in accordance with the responsibilities assigned to me in the NATO Financial Regulations.

Internal Control Statement

The Nations ensure that an annual Internal Control Statement is prepared under our direction. This statement forms part of the Command's annual consolidated financial statements. As such, it is reviewed by our external auditors, the International Board of Auditors for NATO, as part of their annual certification of our accounts.

This Statement describes the extent to which ACT has, for the year ended 31 December 2021, complied with its internal controls and the requirements of the NATO Financial Regulations. It also describes how the effectiveness of the internal control arrangements have been monitored and evaluated during the year and sets out any changes planned for the financial year 2022. This statement, therefore, aims to provide assurance and an assessment of the risk profile and the effectiveness in managing those risks.

Control Environment

Internal Control Framework

ACT's governance structure has been developed and implemented in accordance with the requirements of the NATO Member Nations, either directly during their annual Summits, or through the Nations' appointed NATO Committees, who exercise proportionate and independent oversight and controls over our own operations.

Our Internal Control Framework described in ACT Directive 60-2 consists of the systems and processes by which the Command is directed and controlled and through which it accounts to, engages with and leads on behalf of NATO. It also includes our values and culture. It enables us to monitor the achievement of our objectives and to consider whether these have led to the delivery of appropriate, cost effective output. The application of internal controls cannot eliminate all risk of failure in meeting our aims and objectives it can only provide reasonable and not absolute assurance of the Command's effectiveness.

As the Command improves the way it delivers its output, it is important that the governance arrangements remain robust but also flexible and proportionate. In order to review the effectiveness of the governance framework, assurances are provided to, and challenged by, the Senior Leadership Team, the Audit Advisory Panel and externally by the NATO Nations. During the course of 2021, our internal auditors have noted some areas for improvement e.g. record keeping whilst confirming continued progress and assurance with our governance framework and systems.

¹ Based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO) – Internal Control Integrated Framework May 2013

Leadership Team

As SACT, I am supported by a leadership team, which meets regularly and provides executive, management and governance guidance and advice on the operations of the Command. The leadership team provides effective support and challenge in improving the Command's operations, and by providing additional rigour and discipline in decision making to inform the strategic thinking of ACT. Under my direction, the strategy for the Command, an estimate of the Command's resources for each financial year, and an annual report on the Command's activities are prepared and submitted to the Nations.

Mission and Values

As I begin my tenure as NATO Supreme Allied Commander Transformation my challenge, as outlined in my 90-day letter to the Secretary General, in ensuring NATO maintains its decisive advantage is to take the right actions to constantly adapt our military instrument of power. My vision to achieve this is to improve the Alliance's ability to understand better, decide faster and be stronger together. In 2021, ACT began the adaptation from a broader focus area approach on transformation to one based on the implementation of the NATO Warfighting Capstone Concept through the Warfare Development Agenda. As we transition into 2022 my priorities will focus firstly on the establishment of secure, data centric, software-based capabilities and services, with the "digital backbone" as a core asset and secondly on the delivery of new, critical capabilities at the right moment. Innovation will not only be key in delivering my priorities but also needs to permeate the way we think in order to help us become more agile and robust as an alliance.

Core to both the delivery of our output in 2021 and delivery in the future are our core values of Integrity, Impartiality, Loyalty, Accountability and Professionalism. ACT shares NATO's core values, which form the benchmark used to measure our conduct and ethical standards. We will aim together to act and behave at all times in a manner that meets and operationalizes these values. We must apply these values in order to retain our credibility with all the stakeholders in our work, including the NATO Command Structure, NATO Headquarters, the nations, and the international community.

ACT Culture

As NATO staff, we are professionals who are entrusted to carry out our duties to the utmost of our abilities for the common good and for the advancement of the goals of the Alliance. Equally, we must always maintain the highest standards of personal conduct, ensuring that we comply with NATO and Command guidance, and remain fit and proper persons to undertake the work assigned to us.

As SACT, I am committed to maintaining the highest standards of integrity and ethical values and it is my responsibility to ensure that the correct environment and culture are in place and are adhered too. In support of this, we are committed to attracting, developing and retaining a competent and diverse workforce.

These standards are outlined in the following ACT Directives: ACT Code of Conduct and Core Values, Strengthening Gender Perspective in ACT and Ethical conduct with contractors and other entities. I am committed to a thorough and complete investigation of all reports of breaches to either our values or code of conduct and will adopt a "zero tolerance" attitude when such a breach occurs.

Authorities and Responsibilities

Authorities and responsibilities are clearly articulated in the ACT Statement of Functions and individual Job Descriptions. Evaluation of our structures takes place on a periodic basis and is a key tenet of our desire to maintain a flexible and agile workforce. Following on from the NATO Command Structure Adaptation implementation, ACT has submitted a further refinement to our Peacetime Establishment to optimize our contribution to Warfare Development for consideration by the NATO Nations. Additionally, the NATO Defence Workforce Audit Authority undertook a detailed examination of our finance

function and made a number of recommendations on the function and placement of the finance staff across ACT to better support the division of roles and responsibilities.

Accountability

Personnel objective setting and their evaluation at all levels within the organization is a core element of the ACT personnel management process. Equally, the establishment of goals and targets on ACT outputs are identified annually and are outlined in the ACT Campaign Plan.

The Campaign Steering Board reviewed our output throughout 2021 and where necessary realigned workforce and/or resources. As was the case in 2020, planned performance in 2021 was severely impacted by the continued presence of COVID. A number of events were cancelled and output milestones had to be delayed by Senior Management following engagement with relevant stakeholders.

Risk Assessment

Identification and assessment of risk

The Command's overall approach to risk management is captured in the ACT Risk Management Directive 20-3.2 dated 3 November 2020. This contains detailed guidance and ACT's policy on the effective execution of risk management based on the Management of Risk (MoR[®]) best practices methodology.

As SACT, I recognize the responsibility for ensuring that a comprehensive and effective risk management structure is in place. To achieve this, the Command will continue to strengthen its extant risk management processes, as well as introduce additional reporting and monitoring mechanisms, covering governance risk and internal control. The review of these processes and mechanisms will be integrated into a broader role for the ACT Auditor and reviewed by the Command's Audit Advisory Panel prior to the outcomes being brought to me.

Our internal controls have been in place for the whole of 2021. We assess how the achievement of our policies, aims and objectives might be affected by the risks we face especially this year as we continued to manage the impact of COVID-19. We therefore aim to design a system of controls, which mitigate these risks. Such systems are not designed to eliminate all risk but to strike an appropriate, proportionate balance, between control, cost and risk management.

Our tolerance for individual risks is informed by their potential impact on ACT's ability to fulfil its function as a NATO Strategic Command and the likelihood of their occurrence. ACT's risk management strategy was reviewed and updated in 2020 and the Command's risk maturity continues to develop. Our eventual aim is to enable the Command to reach a maturity level where we are managing our risks in a structured manner as a means to support and inform our wider strategic management and decision-making.

In addition to our evolving overall risk implementation process, our specific aims continue to be that:

- Our budgetary systems are fit for purpose so that they are effectively tied to the budget and resource allocation management and reporting process.
- The Command's management boards effectively review periodic and annual, financial reports so that they are able to manage financial performance against forecasts and possible risks.
- Meaningful targets exist to measure performance in-year.
- Effective project management disciplines are in place.
- The Command's key risks are identified, regularly reviewed, and, where appropriate, actions are taken to mitigate the effects of any identified risks affecting the Command.

Each strategic risk is owned by a member of the leadership team, with lower level risks being owned and managed at the lowest effective level across the Command. The whole being integrated into a single ACT Risk Register. We continue to strive to ensure that there is an appropriate framework of controls and mitigating actions, in place, to manage identified and potential exposures.

Throughout the course of 2021 the monthly Campaign Steering Board, chaired by the ACT Chief Of Staff, assessed performance against the delivery of SACT's objectives. The CSB further actively reviewed and managed board-level risks that had been identified along the lines of ACT's ability to Disrupt, Deliver, Implement and Inform. Further, at each CSB, "deep dives" were performed for at least two of these board level risks.

Tackling Fraud and Corruption

In 2021², the Council agreed on the Resource Policy and Planning Board's (RPPB) recommendations to address deficiencies reported in the IBAN Fraud and Corruption Report which found, inter alia, that NATO:

- Has no organization wide strategy to prevent, detect and respond to fraud and corruption;
- Policies for the prevention, detection and response to fraud and corruption are fragmented;
- Bodies do not consistently assess fraud risks;
- Is vulnerable to risks of fraud and corruption;
- Good practices for preventing, detecting and responding to fraud and corruption are not fully in place.

During 2021, work on developing a NATO wide strategy on the prevention, detection and response to fraud and corruption took place for endorsement by Council in early 2022. In parallel, ACT developed its own directive ACT 015-28 with regard to the prevention, detection and response to fraud and corruption. Although certain controls are in place predominantly to prevent financial fraud, once the NATO policy has been agreed further controls will be considered along with a comprehensive communication and training plan for ACT personnel.

Control Activities

Control activities are the tools that help identify, prevent or reduce the risks that can impede the achievement of ACT's objectives. They are contained within the policies and procedures to ensure that our directives and instructions are carried out. They occur throughout the Command, at all levels and in all areas of work and activity.

Control activities include diverse processes and actions such as clear delegation of authority, required approvals, authorisations, reconciliations, operating performance reviews, quality control, asset verification and segregation of duties. As SACT, I am responsible for ensuring that these processes are in place, that we have an effective way to review them and that our systems of internal control is communicated throughout. As such, we are committed to a policy of continuous improvement, to our procedures, regulations and internal processes, in order to provide a comprehensive and relevant process of risk management, compliance and assurance.

Technology controls are particularly important, as the Command is totally reliant on technology to access data and information in order to discharge its responsibilities assigned by the Nations. Control activity needs to be in place to cover not only the technology infrastructure across the Command but also the security of the information held this infrastructure. Additionally, with ACT's increasing use of prototypes and experimentation there also needs to be controls on the acquisition, development and maintenance of technology.

² C-M(2020)0037 dated 22 Sep 21

The NATO Communications and Information Agency provides information and communications services and control of these services is generated through the annual Service Level Agreement. This agreement sets out both the level and performance of services required.

The information held on these systems needs to be appropriate in terms of both its content and classification. ACT Directives on Information and Knowledge Management (25-1) and Records Management (25-2) outline what information should be held on the systems. With regard to personal information, a further directive on ACT Personal Data Privacy Protection (40-13) is being drafted.

Finally, cyber security threats both internal and external are a part of our daily lives and I have directed that we focus attention not only on preserving the security of information currently held, but also that we scan the horizon to ensure that we can do so for the future. While assurance cannot be absolute, the controls in place have been designed to reduce the incidence of security incidents occurring and/or to provide early warning that an incident has occurred, or is likely to occur. These measures include:

- In partnership with the relevant host nation, ensuring that measures, for security protection, exist which align with the threat level;
- The adoption of information technology measures, including those to protect against cyber threats. In the case of ACT, this has been developed in concert with our communications and information technology supplier - the NATO Communications and Information Agency;
- The implementation of information security measures, including a network of information asset owners.
- Adoption of measures for personnel security;
- Annual mandatory security training of staff to ensure that they are kept up to date on current security policies and procedures;
- A focus, by management, on security risk;
- Horizon scanning through regular assessments of current and emerging threats.

Monitoring Activities

Monitoring of ACT activities and transactions occur as a normal part of operations across the Command. The routine process of quality assurance is a key component of management responsibilities and is designed to ensure that the internal controls are being adhered to and any observations on quality failings are adequately and promptly resolved.

The ACT Audit Advisory Panel (AAP), chaired by the ACT Chief of Staff, is charged with the regular review of the Commands internal control framework, the adequacy of our policies and practices and the compliance with relevant standards and codes. It is there not only to provide advice but also to challenge the Command's approach to internal control. During 2021, a Risk Based Internal Audit Plan was approved at the June AAP, and in the second half of the year six internal audit reports were released incorporating 51 recommendations / improvement actions all of which were accepted by the audit customers. The main challenges facing the Office of the Command Auditor during 2021, were achieving an adequate quantity and quality of deliverables within the existing limited resources. The Internal Audit Annual Report 2021 has identified instances of poor audit trails/record keeping as a result of Internal Audit work performed during 2021. These matters have been raised with the Financial Controller at the end of 2021 and actions are in place to improve these weaknesses in 2022.

Further developments have led to a revised Internal Audit Plan for 2022, which incorporates Performance Audits, Financial Audits as well as Internal Control work. This balanced programme of work already includes Innovation, Training and Exercises, and Lessons Learned all key levers supporting my direction, guidance and priorities for 2022.

Effectiveness

We are responsible for reviewing the effectiveness of the systems of internal control that support the achievement of the Command's policies, aims and objectives, as set out by the Nations.

Our review of the effectiveness of these systems is informed by the work of our budget holders, and other senior leaders throughout ACT, who have responsibility for the development and maintenance of the internal control framework, and comments made by our internal and external auditors.

We have a further responsibility for the development and maintenance of the Command's internal control framework. In particular, this responsibility includes ensuring that:

- Governance processes are operating in an efficient and effective manner;
- Comprehensive budget management systems exist, which are linked to NATO's resource management process;
- There are regular reviews, by the Command's management boards, to monitor and manage budget activity and financial performance.

As in the past, we will continue to ensure that:

- Qualified officials are assigned to the financial positions reflected in the Command's internal organization;
- The tasks and responsibilities of those officials are clearly reflected in the relevant job descriptions;
- Formal delegation of authority for financial matters is in place;
- Effective controls are in place, areas of concern are being highlighted and where necessary, effective remedial action is undertaken;
- All members of staff are conscious of their individual responsibilities, as set out in the Command's Code of Conduct.



Philippe Lavigne
 General, French Air & Space Force
 Supreme Allied Commander Transformation



Nicholas Garland
 Financial Controller
 Allied Command Transformation

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ACT STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDING 31 DECEMBER 2021

(all figures are in Euros)

	Notes	2021	2020
ASSETS			
Current Assets			
Cash and Cash Equivalents	2	82,134,328	74,408,460
Receivables	3	3,131,470	3,890,998
Prepayments	4	1,088,282	746,696
Non-Current Assets			
Property, Plant & Equipment	5	27,353,766	27,558,716
TOTAL ASSETS		113,707,846	106,604,870
LIABILITIES			
Current Liabilities			
Payables	6	18,843,547	24,471,487
Deferred Revenue & Liabilities to Nations	7	29,097,893	13,060,272
Advance Contributions	8	38,405,549	41,525,783
Other Advances	9	0	15,779
TOTAL LIABILITIES		86,346,989	79,073,321
NET ASSETS			
Capital contributions	10	36,582,736	34,610,767
Accumulated surpluses/(deficits)	10	(9,228,970)	(7,052,051)
TOTAL NET ASSETS/EQUITY*	10	27,353,766	27,558,716
Unrealised exchange rate gain / (loss)		7,093	(27,167)
		27,360,859	27,531,549

*Total Net Assets/Equity is equal to the total Property, Plant and Equipment shown under Non-Current Assets.

ACT STATEMENT OF CHANGES IN NET ASSETS / EQUITY FOR THE YEAR ENDING 31 DECEMBER 2021

(all figures are in Euros)	Capital Contributions	Accumulated Surplus / (Deficit)	Unrealised Exchange Rate Gain/(Loss)	Total
Balance as at 1 January 2021	34,610,767	(7,052,051)	(27,167)	27,531,549
Changes in net assets / equity for the year				
Additions to PP&E	1,971,969			1,971,969
Adjustment to correct prior year depreciation		(279,971)		(279,971)
Surplus / (deficit) for the period		(1,896,948)		(1,896,948)
Reverse unrealised exchange gain / (loss) 2020			27,167	27,167
Unrealised exchange rate gain / (loss) 2021			7,093	7,093
Balance as at 31 December 2021	<u>36,582,736</u>	<u>(9,228,970)</u>	<u>7,093</u>	<u>27,360,859</u>

ACT CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDING 31 DECEMBER 2021

(all figures are in Euros)

	Notes	2021	2020
REVENUE			
Revenue	11	143,906,442	132,955,635
Other revenue	12	1,356,212	3,062,372
Financial revenue	13	857,114	1,597,167
Total Operating Revenue		146,119,768	137,615,174
OPERATING EXPENSES			
Personnel	14	38,561,529	35,627,295
Contractual Supplies and Services	14	104,373,061	94,102,802
Capital and Investments	14	773,845	2,680,600
Depreciation charges	5	1,896,947	1,657,619
Other Expenses	16	1,358,393	3,387,139
Finance Costs	17	1,052,941	1,817,338
Total Operating Expenses		148,016,716	139,272,793
NET SURPLUS / (DEFICIT) FOR THE YEAR		(1,896,948)	(1,657,619)

ACT CONSOLIDATED CASHFLOW STATEMENT FOR THE YEAR ENDING 31 DECEMBER 2021

(all figures are in Euros)

	2021	2020
Cash Flow from Operating Activities		
Surplus (Deficit)	(1,896,948)	(1,657,619)
Non-cash movements		
Depreciation Charges	1,896,947	1,657,619
Increase (decrease) in payables	(5,627,940)	(2,003,149)
Increase (decrease) in current liabilities deferred revenue	12,901,609	3,339,588
Decrease (increase) in receivables	759,528	758,832
Decrease (increase) in current assets	(546,537)	(104,303)
	9,383,607	3,648,587
Extraordinary Item	0	0
Net cash flow from operating activities	7,486,659	1,990,968
Purchase of PPE	204,950	424,199
Net cash flow from investing activities	204,950	424,199
Net increase (decrease) in cash and cash equivalents	7,691,609	2,415,167
Effect of exchange rate changes on cash and cash equivalents on translation	34,260	(27,167)
Cash and cash equivalents at beginning of period	74,408,459	72,020,460
Cash and cash equivalents at end of period	82,134,328	74,408,459

ACT CONSOLIDATED BUDGET EXECUTION STATEMENT FOR THE YEAR ENDING 31 DECEMBER 2021 (All Figures Shown in Budget Currency)

201 Budget – HQ SACT

(all figures in USD)	Initial Authorisation (BA1)	Movement	2 nd Mid Year Authorisation (BA3)	Movement	Final Authorisation	Net Commitment	Actual Expenses	Total Commitment / Spend	Special Carry Forward	Total Carry Forward	Lapse
2021											
Personnel	22,634,315	647,319	23,281,634	(120,229)	23,161,404	24,120	22,350,217	22,374,338	0	24,120	787,067
Contractual Supplies & Services	3,400,188	184,019	3,584,207	133,729	3,717,937	31,299	3,182,021	3,213,320	0	31,299	504,617
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2021	26,034,503	831,338	26,865,841	13,500	26,879,341	55,419	25,532,238	25,587,657	0	55,419	1,291,684
2020											
Personnel	117,836	0	117,836	0	117,836	0	73,079	73,079	0	0	44,757
Contractual Supplies & Services	32,204	0	32,204	0	32,204	0	(15,033)	(15,033)	0	0	47,237
Capital Investments	68,247	0	68,247	0	68,247	0	68,247	68,247	0	0	0
Total 2020	218,287	0	218,287	0	218,287	0	126,293	126,293	0	0	91,994
2019											
Personnel	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	0	0	0	0	0	0	(20,000)	(20,000)	0	0	20,000
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2019	0	0	0	0	0	0	(20,000)	(20,000)	0	0	20,000
Budget Code 201 Grand Total	26,252,790	831,338	27,084,128	13,500	27,097,628	55,419	25,638,531	25,693,950	0	55,419	1,403,678

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211 Budget – NATO Command Structure - Adaptation

(all figures in USD)	Initial Authorisation (BA1)	Movement	2 nd Mid Year Authorisation (BA3)	Movement	Final Authorisation	Net Commitment	Actual Expenses	Total Commitment / Spend	Special Carry Forward	Total Carry Forward	Lapse
2021											
Personnel	7,505,794	(18,068)	7,487,726	28,970	7,516,695	0	7,269,602	7,269,602	0	0	247,093
Contractual Supplies & Services	7,879,849	18,073	7,897,921	(28,970)	7,868,951	0	7,216,187	7,216,187	0	0	652,764
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2021	15,385,643	4	15,385,647	0	15,385,647	0	14,485,790	14,485,790	0	0	899,856
2020											
Personnel	14,304	0	14,304	0	14,304	0	(2,240)	(2,240)	0	0	16,544
Contractual Supplies & Services	364,637	0	364,637	0	364,637	0	(147,212)	(147,212)	0	0	511,849
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2020	378,941	0	378,941	0	378,941	0	(149,452)	(149,452)	0	0	528,393
2019											
Personnel	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	57,644	0	57,644	0	57,644	0	(15,958)	(15,958)	0	0	73,602
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2019	57,644	0	57,644	0	57,644	0	(15,958)	(15,958)	0	0	73,602
Budget Code 211 Grand Total	15,822,228	4	15,822,232	0	15,822,232	0	14,320,379	14,320,379	0	0	1,501,852

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257 Budget – ACT USD Programme of Work

(all figures in USD)	Initial Authorisation (BA1)	Movement	2 nd Mid Year Authorisation (BA3)	Movement	Final Authorisation	Net Commitment	Actual Expenses	Total Commitment / Spend	Special Carry Forward	Total Carry Forward	Lapse
2021											
Personnel	1,369,827	(174,279)	1,195,548	(17,600)	1,177,948	1,500	652,345	653,845	0	1,500	524,104
Contractual Supplies & Services	34,219,184	537,267	34,756,451	(441,674)	34,314,777	2,152,440	21,734,961	23,887,401	816,413	2,968,852	9,610,964
Capital Investments	312,446	(35,001)	277,446	0	277,446	0	0	0	0	0	277,446
Total 2021	35,901,457	327,988	36,229,445	(459,274)	35,770,171	2,153,940	22,387,306	24,541,246	816,413	2,970,352	10,412,513
2020											
Personnel	0	0	0	0	0	0	(9,356)	(9,356)	0	0	9,356
Contractual Supplies & Services	1,666,666	0	1,666,666	0	1,666,666	0	1,432,439	1,432,439	0	0	234,227
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2020	1,666,666	0	1,666,666	0	1,666,666	0	1,423,083	1,423,083	0	0	243,583
2019											
Personnel	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	0	0	0	0	0	0	(22,162)	(22,162)	0	0	22,162
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2019	0	0	0	0	0	0	(22,162)	(22,162)	0	0	22,162
Budget Code 257 Grand Total	37,568,123	327,988	37,896,110	(459,274)	37,436,837	2,153,940	23,788,227	25,942,167	816,413	2,970,352	10,678,257

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252 Budget – Joint Analysis and Lessons Learned Centre

(all figures in Euros)	Initial Authorisation (BA1)	Movement	2 nd Mid Year Authorisation (BA3)	Movement	Final Authorisation	Net Commitment	Actual Expenses	Total Commitment / Spend	Special Carry Forward	Total Carry Forward	Lapse
2021											
Personnel	1,675,831	1,500	1,677,331	1,000	1,678,331	0	1,618,572	1,618,572	0	0	59,758
Contractual Supplies & Services	1,214,371	(307,402)	906,969	(41,290)	865,679	4,005	677,871	681,876	0	4,005	183,803
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2021	2,890,202	(305,902)	2,584,300	(40,290)	2,544,010	4,005	2,296,444	2,300,444	0	4,005	243,562
2020											
Personnel	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	56,000	0	56,000	0	56,000	0	54,669	54,669	0	0	1,331
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2020	56,000	0	56,000	0	56,000	0	54,669	54,669	0	0	1,331
2019											
Personnel	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	63,120	0	63,120	0	63,120	0	63,120	63,120	0	0	0
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2019	63,120	0	63,120	0	63,120	0	63,120	63,120	0	0	0
Budget Code 252 Grand Total	3,009,322	(305,902)	2,703,420	(40,290)	2,663,130	4,005	2,414,232	2,418,237	0	4,005	244,893

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258 Budget – ACT Euro Programme of Work

(all figures in Euros)	Initial Authorisation (BA1)	Movement	2 nd Mid Year Authorisation (BA3)	Movement	Final Authorisation	Net Commitment	Actual Expenses	Total Commitment / Spend	Special Carry Forward	Total Carry Forward	Lapse
2021											
Personnel	2,500	0	2,500	2,500	5,000	0	4,018	4,018	0	0	982
Contractual Supplies & Services	69,888,743	(345,674)	69,543,069	63,815	69,606,884	2,601,854	61,053,445	63,655,298	607,000	3,208,854	5,344,586
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2021	69,891,243	(345,674)	69,545,569	66,315	69,611,884	2,601,854	61,057,463	63,659,316	607,000	3,208,854	5,345,568
2020											
Personnel	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	2,614,423	0	2,614,423	0	2,614,423	219,981	2,123,491	2,343,471	0	219,981	270,952
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2020	2,614,423	0	2,614,423	0	2,614,423	219,981	2,123,491	2,343,471	0	219,981	270,952
2019											
Personnel	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	0	0	0	0	0	0	0	0	0	0	0
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2019	0	0	0	0	0	0	0	0	0	0	0
Budget Code 258 Grand Total	72,505,666	(345,674)	72,159,992	66,315	72,226,307	2,821,834	63,180,953	66,002,787	607,000	3,428,834	5,616,520

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259 Budget –ACT Exercise

(all figures in Euros)	Initial Authorisation (BA1)	Movement	2 nd Mid Year Authorisation (BA3)	Movement	Final Authorisation	Net Commitment	Actual Expenses	Total Commitment / Spend	Special Carry Forward	Total Carry Forward	Lapse
2019											
Personnel	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	0	0	0	0	0	0	(218,934)	(218,934)	0	0	218,934
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2019	0	0	0	0	0	0	(218,934)	(218,934)	0	0	218,934
Budget Code 259 Grand Total	0	0	0	0	0	0	(218,934)	(218,934)	0	0	218,934

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255 Budget – Joint Warfare Centre

(all figures in NOK)	Initial Authorisation (BA1)	Movement	2 nd Mid Year Authorisation (BA3)	Movement	Final Authorisation	Net Commitment	Actual Expenses	Total Commitment / Spend	Special Carry Forward	Total Carry Forward	Lapse
2021											
Personnel	96,910,429	(254,400)	96,656,029	2,888,448	99,544,477	0	99,504,353	99,504,353	0	0	40,124
Contractual Supplies & Services	86,253,722	269,702	86,523,424	2,883,752	89,407,176	3,119,544	86,011,834	89,131,378	0	3,119,544	275,798
Capital Investments	0	248,000	248,000	423,500	671,500	0	671,491	671,491	0	0	9
Total 2021	183,164,151	263,302	183,427,453	6,195,700	189,623,153	3,119,544	186,187,678	189,307,222	0	3,119,544	315,931
2020											
Personnel	500,000	0	500,000	0	500,000	46,811	338,470	385,281	0	46,811	114,719
Contractual Supplies & Services	6,139,186	0	6,139,186	0	6,139,186	488,038	4,521,652	5,009,690	0	488,038	1,129,496
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2020	6,639,186	0	6,639,186	0	6,639,186	534,849	4,860,122	5,394,971	0	534,849	1,244,216
2019											
Personnel	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	1,246,411	0	1,246,411	0	1,246,411	0	631,899	631,899	0	0	614,512
Capital Investments	2,952,000	0	2,952,000	0	2,952,000	0	2,952,000	2,952,000	0	0	0
Total 2019	4,198,411	0	4,198,411	0	4,198,411	0	3,583,899	3,583,899	0	0	614,512
Budget Code 255 Grand Total	194,001,748	263,302	194,265,050	6,195,700	200,460,750	3,654,393	194,631,698	198,286,091	0	3,654,393	2,174,659

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256 Budget – Joint Force Training Centre

(all figures in PLN)	Initial Authorisation (BA1)	Movement	2 nd Mid Year Authorisation (BA3)	Movement	Final Authorisation	Net Commitment	Actual Expenses	Total Commitment / Spend	Special Carry Forward	Total Carry Forward	Lapse
2021											
Personnel	7,014,156	(132,898)	6,881,258	(318,000)	6,563,258	0	6,461,233	6,461,233	0	0	102,024
Contractual Supplies & Services	20,115,766	(1,835,472)	18,280,294	(719,900)	17,560,394	313,224	16,796,521	17,109,744	0	313,224	450,650
Capital Investments	540,000	98,400	638,400	(1,600)	636,800	0	636,776	636,776	0	0	24
Total 2021	27,669,922	(1,869,970)	25,799,952	(1,039,500)	24,760,452	313,224	23,894,529	24,207,753	0	313,224	552,699
2020											
Personnel	0	0	0	0	0	0	(1,591)	(1,591)	0	0	1,591
Contractual Supplies & Services	0	0	0	0	0	0	(575,667)	(575,667)	0	0	575,667
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2020	0	0	0	0	0	0	(577,258)	(577,258)	0	0	577,258
2019											
Personnel	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	0	0	0	0	0	0	0	0	0	0	0
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2019	0	0	0	0	0	0	0	0	0	0	0
Budget Code 256 Grand Total	27,669,922	(1,869,970)	25,799,952	(1,039,500)	24,760,452	313,224	23,317,272	23,630,496	0	313,224	1,129,956

ACT NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

All amounts stated in Thousands of Euros (€'000), unless otherwise stated

1. Statement of Accounting Policies

1.1 Basis of preparation

The financial statements of Allied Command Transformation (ACT) have been prepared in accordance with the NATO Accounting Framework

The accounting framework for all NATO Reporting Entities is an adapted version of International Public Sector Accounting Standards (IPSAS) as issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants.

This Accounting Framework has been developed to provide minimum requirements for financial reporting for all NATO Reporting Entities following approval by the North Atlantic Council on 14 February 2013 of an IPSAS-adapted accounting framework for the Alliance.

The financial statements comply with the accounting requirements of the NATO Financial Regulations (NFRs) and the relevant entity directives and policies. In instances where there is a conflict between IPSAS and the NFRs this has been noted.

The financial statements have been prepared on a going-concern basis and the historical cost basis, except for financial instruments that are measured at fair value at the end of each reporting period. The principal accounting policies are set out below. They have been applied consistently to all periods presented. The accounting principles recognised 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.

In accordance with Article 2.1 of the NFRs, the financial year of ACT is 1 January to 31 December.

1.2 Accounting estimates and judgments

In accordance with the Accounting Framework and generally accepted accounting principles, the financial statements 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. In exercising the judgements to make the estimates, a degree of caution was included in light of the principle of 'prudence' required by IPSAS in order not to overstate assets or revenue or understate liabilities or expenses.

The estimates and underlying assumptions are reviewed on an ongoing 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 financial statements.

1.3 Changes in Accounting Policy and Standards (if applicable)

The same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria set in IPSAS 3. For the 2021 Financial statements, the accounting policies have been applied consistently throughout the reporting period.

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

1.4 Changes in pronouncements

The IPSAS Board has published the final pronouncement, COVID-19: Deferral of Effective Dates, which delays the effective dates of recently published Standards and Amendments to IPSAS by one year to January 1, 2023. Responding to the global COVID-19 pandemic and the challenges it has created, the purpose of the IPSAS Board pronouncement was to provide stakeholders with additional implementation time. However, the Standards detailed below are not expected to have a significant effect on the financial statements of the entity.

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IPSAS	Name	Effective date for periods beginning on or after	Comment
42	Social Benefits	01 January 2023	Annual periods beginning on or after 1 January 2023, with earlier application encouraged. This will not impact the ACT consolidated group

1.5 Foreign currency

These financial statements are presented in Euro, which is NATO’s reporting currency. The functional currency of each ACT Headquarter (HQ) is detailed below under “Consolidation” and data from each HQ is converted into Euro to facilitate the consolidation process. Foreign currency transactions are translated into the functional currency of the HQ at the NATO exchange rates prevailing at the date of the transaction.

ACT HQs that have a functional currency other than Euro are translated into the reporting currency. All assets and liabilities of such entities at year-end were translated using the NATO exchange rates that were applicable at 31 December 2021. Revenue and expenses were translated using an average of the NATO exchange rates applicable during the reporting period. Unrealised gains and losses resulting from the translation of statements in currencies other than Euro are recognised in the Statement of Financial Position.

1.6 Consolidation

The consolidated financial statements include the financial results of the controlling entity and its controlled entities. Inter-entity balances and transactions have been eliminated in consolidation. Entities which are consolidated into the financial statements are listed below.

Name	Location	Functional Currency
HQ Supreme Allied Command Transformation (SACT)	Norfolk, Virginia, USA	Euro and US Dollar
Joint Analysis Lessons Learned Centre (JALLC)	Lisbon, Portugal	Euro
Joint Force Training Centre (JFTC)	Bydgoszcz, Poland	Polish Zloty
Joint Warfare Centre (JWC)	Stavanger, Norway	Norwegian Kroner

While Morale & Welfare activities are under the control of the Supreme Allied Commander Transformation (SACT), in accordance with the NATO Accounting Framework, they have not been consolidated into these financial statements. A separate activity report as required by the NFRs is submitted to the Budget Committee.

1.7 Services in-kind

In these financial statements, services in kind are not recognised.

1.8 Financial Instruments disclosure/presentation

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. ACT uses only non-derivative financial instruments as part of its normal operations. These financial instruments include cash and cash equivalents, accounts receivable, liabilities and loans between NATO entities.

1.9 Cash and cash equivalents

Cash and cash equivalents include cash on hand, petty cash, current bank accounts, deposits held with banks, and other short-term investments (with a maturity of three months or less).

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1.10 Short-term investments

These are short-term investments (with a maturity of more than three and less than twelve months).

1.11 Receivables

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

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

1.12 Property, Plant and Equipment (PP&E)

PP&E with the exception of land are stated at cost less accumulated depreciation and accumulated impairment losses. ACT entities are acting in the capacity of a principal.

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

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

PP&E categories are listed in the table below:

Category	Threshold	Depreciation	Method
Land	€200,000	N/A	N/A
Buildings	€200,000	40 years	Straight-line
Other infrastructure	€200,000	40 years	Straight-line
Installed equipment	€30,000	10 years	Straight-line
Machinery	€30,000	10 years	Straight-line
Vehicles	€10,000	5 years	Straight-line
Mission equipment	€50,000	3 years	Straight-line
Furniture	€30,000	10 years	Straight-line
Communications	€50,000	3 years	Straight-line
Automated information systems	€50,000	3 years	Straight-line

During 2021, ACT staff conducted a thorough analysis of all purchases made during the year to establish if any fell within the categories and capitalisation thresholds detailed in the table above. PP&E held in ACT is detailed in Note 5.

1.13 Leases

Leases are classified as finance leases whenever the terms of the lease transfers substantially 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 (if applicable). As at 31 December 2021, ACT had the following amounts owed on non-cancellable leases at HQ SACT, JFTC and JALLC.

Item	Amounts paid in 2021	Amounts due in 2021 - 2024
Various vehicles	€126.5	€161.7

1.14 Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful lives, and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

1.15 Payables

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

1.16 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.

1.17 Advances

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

1.18 Employee benefits

ACT's employees participate in one of the two NATO pensions funds: the Coordinated Pension Scheme or the Defined Contribution Pension Scheme (DCPS) administered by NATO and the Retirees Medical Claims Fund (RMCF). The assets and liabilities for these pension schemes are accounted for centrally at NATO Headquarters and therefore are not recognised in these financial statements. Note 15 below refers.

1.19 Provisions

Provisions are recognised when ACT 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. If the effect is material, provisions are determined by discounting the expected future cash flows to their present value.

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1.20 Net Assets

Net assets represent the residual interest in the assets of the entity after deducting its liabilities. NATO entities perform their activities on a no-profit / no loss basis globally over the reporting period. However, this does not prohibit the realisation of operating surplus or deficit in the financial reporting period.

1.21 Revenue and expense recognition

Revenue

Revenue comprises contributions from Member Nations and income from other customers to fund ACT's budgets. It is recognised in the year when these contributions are used for their intended purpose as envisioned by ACT's budgets. 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 interest earned and accrued as of 31 December 2021; exchange rate revenue due to transactions in foreign currency; and realised exchange rate revenue are recognised as financial revenue.

Finance costs

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

1.22 Surplus or deficit for the period

In accordance with entity accounting policies entity revenue is recognised up to the amount of the matching expenses.

1.23 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).

2. Cash and cash equivalents

Cash and cash equivalents consist of cash held on deposit in financial institutions in instant access accounts.

	2021	2020
Total Euro Account	34,381	25,579
Total non-Euro Account	47,753	48,829
	<hr/>	<hr/>
	82,134	74,408

All non-Euro denominated currencies were converted to Euros using the NATO spot exchange rate for applicable currencies in the Statement of Financial Position as at 31 December 2021. The cash holdings reflect the fact that all nations settled their cash call contributions by the end of 2021. This was also the case in the previous year.

Deposits are partly held in interest-bearing current bank accounts in immediately available funds. Current bank accounts are held in Euro, US Dollar, Polish Zloty and Norwegian Kroner. Funds are held in highly reliable non-interest and interest-bearing bank accounts.

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3. Receivables

	2021	2020
Receivables	3,131	3,891

Receivables includes invoices amounting to €211 that were raised at the year end to recognise revenue corresponding to reimbursable expenditure incurred during the last quarter of 2021. It is necessary to show the receivable in these financial statements under the matching concept as the expense has been recognised. These receivables were largely cleared in a timely manner in the following year.

4. Prepayments

The following prepayments were recorded:

	2021	2020
Prepayments to 3rd Party Suppliers	1,088	747

Prepayments to third party suppliers relate to payments made in advance of goods or services rendered, which will reflect terms and conditions of a contract or agreement. Such prepayments are offset against final payments upon receipt of a final invoice.

5. Property, plant and equipment

In accordance with the NAC approved Accounting Framework and the ACT policy on accounting for PP&E, consolidated entities will consider PP&E acquired before 01 January 2013 as fully expensed. PP&E held prior to 01 January 2013, and not previously recognized as an asset, are disclosed in the table below:

PP&E category	Approximate number of items	Location of asset	Comments
Buildings	5 buildings in 1 geographical HQ location	HQ SACT, Norfolk, Virginia	Buildings were either provided free of charge or fully expensed prior to 01 January 2013. Includes installed equipment
Buildings	5 buildings in 1 geographical HQ location	JWC, Stavanger, Norway	
Buildings	4 buildings in 1 geographical HQ location	JFTC, Bydgoszcz Poland	
Buildings	1 building in 1 geographical HQ location	JALLC, Lisbon, Portugal	
Vehicles	5	HQ SACT, Norfolk, Virginia	All vehicles held at the HQs were purchased prior to 01 January 2013 and have been fully expensed in the year of purchase
Vehicles	9	JWC, Stavanger, Norway	
Vehicles	3	JFTC, Bydgoszcz Poland	
Vehicles	0	JALLC, Lisbon, Portugal	

The buildings detailed above contain both installed equipment and numerous items of furniture that pre-date the 01 January 2013 date referred to in the NATO Accounting Framework document. The nature and specific number of

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furniture items is not considered material but has been included, where possible, in the appropriate Property Accounting register

(All figures in Euros)	Buildings	Installed Equipment	Furniture	Vehicles	Machinery	Mission Equipment	Work in Progress	Total
Balance as at 1 January 2021	26,317,576	4,090,061	2,282,555	722,225	49,866	369,342	779,142	34,610,767
Additions	829,381	1,218,675	42,074	452,455	208,526			2,751,111
Disposals							(779,142)	(779,142)
Balance as at 31 December 2021	27,146,957	5,308,736	2,324,629	1,174,680	258,392	369,342	0	36,582,736
Accumulated depreciation								
Balance as at 1 January 2021	3,877,973	1,553,218	965,669	387,770	21,193	246,228	-	7,052,051
Adjustment to correct prior yr Depreciation		279,973						
Depreciation expense	865,524	480,053	228,957	180,744	18,555	123,114		1,896,947
Balance as at 31 December 2021	4,743,497	2,313,244	1,194,626	568,513	39,748	369,342	0	9,228,970
Net book value								
Balance as at 1 January 2021	22,439,603	2,536,843	1,316,886	334,456	28,673	123,114	779,142	27,982,917
Balance as at 31 December 2021	22,403,460	2,995,492	1,130,003	606,167	218,644	0	0	27,353,766

During 2021, the installation of solar panels at HQ SACT was completed. The amount of €779 of work in progress from the previous year was removed and added to Installed Equipment, along with a further €195 of NSIP expenditure incurred on the solar panels in 2021. Total overall cost being €974.

The depreciation charge for the year was €1.897M but this includes an adjustment of €280 for a miscalculation of depreciation charges for one item in prior years

6. Accounts payable

Accounts Payable is detailed below:

	2021	2020
Suppliers	8,422	12,072
Staff Members	271	77
Non-Consolidated NATO Entities	8,954	10,717
Governments	1,197	1,605
	<u>18,844</u>	<u>24,471</u>

A number of services were received for which ACT had yet to receive an invoice and so consequently these are reflected in the end of financial year payable position.

Payables include invoices received that have not been settled, as well as accruals recognised at the reporting date.

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7. Deferred revenue & liabilities to nations

Deferred revenue is detailed below:

	2021	2020
Budget related	8,146	(1,357)
NSIP related	2,304	1,977
Lapses to be returned to nations in cash call	18,648	12,440
	<u>29,098</u>	<u>13,060</u>

Deferred revenue includes budget credits carried forward which have been committed following a legal and contractual obligation entered into with a supplier but for which the goods and services have not yet been received. The corresponding charges will be incurred after the reporting date.

Liabilities to nations are the budgetary credits lapsing at the end of 2021. In accordance with FRP XXIX, “all lapsed appropriations have to be returned to the Nations. Such refunds shall be effected by deduction from the first call following submission of the financial statements.” ACT will therefore co-ordinate with IS Treasury staff to return these lapsed credits to nations through the second cash call process of 2022

8. Advances Contributions

Advanced contributions are detailed below:

	2021	2020
Advanced Contributions	38,406	41,526

Advance Contributions correspond to cash called from the Nations for the following financial year and represent approximately 25% of the total ACT budget allocation. The figure is lower than the previous year as in 2020, following a decision by nations, ACT increased the amount reported as advance contributions by an amount of 7.12M. Nations decided upon this in order to reduce their cash contributions in the first cash call of 2021. The document, BC-D(2020)0176 Final 2021 referred. All advance contributions to ACT were received as at 31 December 2021.

9. Other advances

Other advances are detailed below:

	2021	2020
Other Advances	0	16

Other advances correspond to cash received from external entities against which future payment will be offset. No advances were outstanding at the end of year

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10. Net assets

Net assets are detailed below:

	2021	2020
Capital contributions	36,583	34,611
Accumulated surpluses/(deficits)	(9,229)	(7,052)
Net assets / equity	27,354	27,559
Unrealised Exchange Rate Gain/Loss	7	(27)
Total net assets / equity adjusted for exchange rate gain or loss	27,361	27,532

Net assets relate to PP&E recognised by ACT, less depreciation charges accumulated in the current and prior years. The PP&E recognised was not necessarily purchased by ACT, as it includes assets that ACT has assumed control of through their use. Note 5 above details PP&E holdings and the associated depreciation charges.

11. Revenue

The revenue recognition is matched with expenses against the entity budgets. Contributions from nations are booked as an advance under deferred revenue and subsequently recognised as revenue when it is earned.

The following key revenue items are presented:

	2021	2020
Assessment Calls/Contributions	142,968	130,179
NSIP Revenue	814	2,682
Other Income	124	95
	143,906	132,956

An analysis of ACT's cash receipts from Nations' is as follows:

	Euro '000	USD '000	NOK '000	PLN '000
Cash Receipt by currency during 2021	74,534	66,858	168,895	23,014
Amount in Euros (for comparison only)	74,534	59,573	16,870	5,031

12. Other revenue

This consists of reimbursable activity within ACT, which is comprised of two elements: activity undertaken between entities within the ACT consolidation group (inter-entity) and activity undertaken between the ACT group and a 3rd party (reimbursable). The inter-entity activity has been eliminated from the ACT consolidated accounts. That is to say that revenue and expenses has only been recorded once in the accounts and not by both consolidating entities. In addition, the end of year asset and liability position between consolidating entities has also been balanced and eliminated.

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Furthermore, following on the issue of Principle vs Agent, ACT has removed €2.26M of transactions where ACT acted in an Agent capacity.

With regard to 3rd party reimbursable activity some €1.36M of activity has been undertaken during 2021.

13. Financial revenue

Financial revenue relates to interest earned on deposits during the financial year across all ACT headquarters. The majority of the interest was earned on short term USD deposits.

14. Expenses

The expenses shown in the Statement of Financial Performance has been calculated after charging the following main elements:

	2021	2020
Personnel Costs (Chapter 1)		
Salaries & associated costs	36,905	34,447
Consultants	100	0
Training	804	598
Other	753	582
Total Chapter 1	38,562	35,627

Mission Support Costs (Chapter 2)		
General Support and Utility Costs	6,290	5,432
Contractors	47,203	54,318
Travel and Subsistence	2,767	1,438
AIS Support	46,954	32,075
Mission Equipment Costs	50	65
Communications	662	27
Training	447	748
Total Chapter 2	104,373	94,103

Capital & Investments (Chapter 3 & NSIP)		
Mission Equipment Assets	0	0
NSIP Funded Contractor Support	774	2,681
Other NSIP	0	779
Other	0	0
Total Chapter 3	774	3,460

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Expenses relating to contractors are reflected in Chapter 2 and reflects the Budget Committee guidance set out in BC-D(2020)0055 Rev 1. A significant part of this category of expense is with the CMRE. In 2021, ACT incurred €21,769M of expenses relating to contractor services provided by CMRE. The other significant amount expended by ACT in relation to contractor costs were payments made to NCIA, which totalled €40.98M in 2021. Included in this amount were payments totalling €21,08M for the NCIA Programme of Work and €19.3M for expenses incurred under the NCIA SLA. The remainder were ad hoc expenses that ACT incurred with NCIA during the year. Additionally, ACT expended €777 on contractor expenses related to FMS contracts, which are reported by the US authorities on a non-accrual basis.

Overall, the levels of expenses across categories are consistent with the prior year

15. Staff resources

A) Analysis of staff costs - the aggregate staff costs, including grants and allowances paid, are detailed below.

	2021	2020
Salaries of Civilian Staff	22,946	21,654
Allowances of Civilian Staff	6,045	6,015
Contributions to Health Insurance (c)	4,842	4,674
Contributions to Pension Funds (d)	2,040	1,842
	35,873	34,185

B) Analysis of staff numbers - the number of full-time equivalent persons employed as at 31 December 2021 was:

	HQ SACT	JWC	JFTC	JALLC
Military	494	174	99	29
Civilian	144	58	27	15
Temporary Civilian	11	0	0	0
Reimbursable Civilian	4	0	1	0
Local Wage Rate (LWR)	0	12	0	0
Total	653	244	127	44

Voluntary National Contributions (VNC)	27	1	4	2
Partnership for Peace (PfP)	1	0	1	0
Overages in addition to VNC	7	2	4	0
Host Nation	20	5	0	2
Legacy Transition	2	0	0	0

C) Health Insurance - all civilian members of ACT are members of the NATO Health Insurance Scheme, providing sickness, maternity, accident, disablement and death benefits to staff members, their spouses and children. Staff members pay contributions of approximately 3.991% to 10.162% of gross salary, which are matched by contributions paid by ACT. For 2021 ACT contributions totalled €4.842M

D) Contributions to Pension Funds

The NATO Defined Contribution Pension Scheme: came into effect on 1 July 2005 and provides for the communal investment of contributions in respect of civilian staff of ACT accorded international status under the NATO Charter. Staff pay contributions equivalent to 8% of their monthly basic salary, and ACT pays a 12% contribution. The assets and liabilities for this scheme are accounted for centrally at NATO Headquarters, located in Brussels, Belgium and are not recognised in these financial statements.

The NATO Coordinated Pension Scheme: staff members make contributions representing 11.8% of their monthly salary.

Contributions are expensed during the year in which the services are rendered and represent the total pension obligation for ACT. Total pension contributions of ACT across the 2 schemes outlined above totalled €2.040M during 2021.

E) Untaken Leave

NATO regulations allow civilian staff to carry forward untaken leave days to the following year. The regulation stipulates that any days carried forward must be taken by 31 October of the following year IAW NCPR Article 42.3 or the leave days are forfeited. At the end of 2021, ACT civilian staff across all Headquarters carried forward 3,562 leave days. In monetary terms, this equates to approximately €1.818M but ACT has a policy of not making an actual financial payment to staff in lieu of this. ACT staff either take the untaken leave by 31 October of the following year or lose the days. In view of this policy, and the fact that the vast majority of days are taken by 31 October of the following year, ACT does not recognise a liability in these financial statements.

16. Other expenses

Other expenses consists of reimbursable activity within ACT, which is comprised of two elements: activity undertaken between entities within the ACT consolidation group (inter-entity) and activity undertaken between the ACT group and a 3rd party (reimbursable). The inter-entity activity has been eliminated from the ACT consolidated accounts. That is to say that revenue and Expenses has only been recorded once in the accounts and not by both consolidating entities. In addition, the end of year asset and liability position between consolidating entities has also been balanced and eliminated. See Note 12 for the Principle vs Agent adjustment to the prior year.

17. Finance costs

This includes the sum of realized exchange rate gains and losses (€172), as well as bank charges incurred by ACT entities for normal business transactions (€10).

18. Related Party Transactions

NATO is an organisation set up under the 1949 Washington Treaty. Those countries that were or have become parties to the Convention, the Member Nations, are regarded as related parties. ACT, as one of the two NATO Strategic Commands, has during the year, had various material transactions with these Member Nations.

Key Management Personnel

Under IPSAS 20 Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial and operating decisions. IPSAS 20 requires the disclosure of the existence of related party relationships, where control exists, and the disclosure of information about entities and

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its related parties. This information is required for accountability purposes and to facilitate a better understanding of the financial position and performance of the reporting entity.

No related party disclosure is made in these financial statements as key management personnel have no significant party relationships that could affect the operation of this reporting entity. The Key Management Personnel are defined as senior members of the Command Group, who together constitute the Management Board of ACT. Remuneration received by individuals has been in accordance with an individual's national military pay scale or in accordance NATO published salary scales. During the period, no key managerial staff or other related parties has undertaken any material transactions that could affect the operation of this reporting entity.

In addition to the key management personnel of the Command Group, ACT has implemented several controls on staff who are involved in the contract award process to ensure that no related party factors could influence this procedure. All key management personnel are in the process of being asked to sign a related party disclosure document. This will be in place prior to publication of the audit report into the 2021 ACT Consolidated Financial Statements.

19. Representation allowance

Representation Funds are provided to SACT by the Nations' Permanent Representatives to NATO for use at his discretion. These funds are allocated in USD to the HQ SACT 257 budget but all numbers have been converted to Euro for the purpose of these financial statements.

SACT allocates these funds to his subordinate Commanders, as he considers reasonable. For 2021 the Representation Funds allocated to SACT, and subsequently delegated, where as follows:

	2021	2020
HQ SACT	37.4	35.5
JWC	4.1	3.9
JFTC	1.1	1.1
JALLC	0.7	0.6
Total	43.3	41.1

The ACT Directive governs the processes to cover the operation of Representation Funds. The use of these funds is monitored on a monthly basis through the office of the Financial Controller and they are also subject to annual audit by the IBAN.

During the course of 2021, €31.5 of available funds were lapsed.

20. Budget Execution Statement Overview

Exchange Rates applicable to Budget Execution Statement:

Year	Initial Authorisation	Mid Year Authorisation	Final Authorisation	Net Commitment	Actual Expenses	Carry Forward
FY 2021	Jan 20 ¹	Jan 20	Jan 20	Dec 21 ²	Average 21 ³	Dec 21
FY 2020/19				Dec 21 ²	Average 21 ³	Dec 21

¹ Rate used in 2021 Budget Authorisation

² Rate used to revalue outstanding commitments at year end prior to rolling forward to 2022. FY 2020 & 2021 only

³ Rate used in determining expenditure throughout the year

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Expenditure Reconciliation: Budget Execution Statement / Statement of Financial Performance. IPSAS 24 requires a reconciliation of Budget Execution Statement data with the expenses recorded in the Statement of Financial Performance. The expenditure data is in the currency of the budget and then translated using an average exchange rate for the year. The negative expenditure reported below against Budget 259 relates to the recognition of over accruals from the prior year. There was no current year expenditure.

Financial Expenditure recorded in Budget Execution Statements (BES):

Budget 201 – HQ SACT	21,715	
Budget 211 – NCS – Adaptation	12,129	
Budget 252 – JALLC	2,414	
Budget 255 – JWC	19,163	
Budget 256 – JFTC	5,117	
Budget 257 – ACT Programme of Work (USD)	20,147	
Budget 258 – ACT Programme of Work (EUR)	63,181	
Budget 259 – ACT Exercises (EUR)	(219)	
Total		143,647

Expenses recorded in Statement of Financial Performance:

Chapter 71	38,562	
Chapter 72	104,373	
Capitalised Chapter 72	158	
Capitalised Chapter 73	554	
Total Expenditure equal to BES		143,647
NSIP expenditure		969
Less capitalized Chapter 2, 3 & NSIP expenditure (PP&E)		(907)
Depreciation charges		1,897
Other expenses		1,358
Finance Costs		1,053
Total Expenses in Statement of Financial Performance		148,017

IPSAS 24. This Standard requires reconciliation between Budget Execution Statements and actual amounts presented in the financial statements where the financial statement and budget are not prepared on a comparable basis. Whilst the table above reconciles the actual expenses recorded in ACT's Budget Execution Statements and the Statement of Financial Performance, the remainder of the Budget Execution Statements is prepared using a different basis.

The Statements of Financial Position, Financial Performance, Changes in Net Assets and Statement of Cash Flow are prepared on a full accrual basis, whereas the Budget Execution Statements, apart from "actual expenses," are prepared on a commitment accounting basis. Significant budgetary transfers are detailed in the table below.

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Budgetary Lapses

Lapses recorded on the Budget Execution Statement have a value of €18,648M. This figure is generated as a direct result of the exchange rates. Lapses occur in the original currency in which the budget was approved by the BC.

Budget Code	Budget Currency	Value of Lapse in Budget Currency (figures shown as complete amounts)				Value of Lapse in Euro (Average Rate of Exchange)
		2019	2020	2021	Total	
201	USD	20	92	1,292	1,404	1,251
211	USD	74	528	900	1,502	1,338
252	EUR	0	1	244	245	245
255	NOK	615	1,244	316	2,175	217
256	PLN	0	577	553	1,130	247
257	USD	22	244	10,412	10,678	9,515
258	EUR	0	271	5,345	5,616	5,616
259	EUR	219	0	0	219	219
Total						18,648

21. Statement of Budgetary Transfers

In accordance with the NATO Financial Regulations (NFR Section V, Article 26) budgetary transfers are recorded on the face of the accounts. All transfers were executed between budgets at the 1 January 2020 rate of exchange. The totality of transfers undertaken in 2021 do not breach the authorised Budget Authority outlined in BC-BA(2021)0003 dated 29 November 2021.

In order to comply with the requirements of IPSAS 24 the significant budgetary transfers are detailed in the Budget Execution Table included with these financial statements.

22. Statement of Special Carried Forward Credits

As required by the NATO Financial Regulations, credits committed and carried forward are separately disclosed by budget and by year in the Budget Execution Statements.

During 2021, ACT was also given specific permission to also make the following Special Carry Forwards. The Council (C-M(2021)0035) refers:

ACT USD POW (BC 257) - 816,744 USD (745K EUR) for the following activities: AI FELIX via Open Innovation Deliverables and Solution Design with Industry and Academia (emergent activity funded through an uplift to the 2022 Budget) - CH 722 - 657,780 USD (600K EUR), and, activities not undertaken in 2021 - Operational Experimentation Exercise Life Cycle (ELC) with Data Framing Services (DFS) - CH 722 - 93,186 USD (85K EUR); JISR OSINT Cost Analysis in support of Analysis of Alternatives (AoA) - CH 722 - 65,778 USD (60K EUR).

ACT EUR POW (BC 258) – 607K EUR for the following activities not undertaken in 2021: NCIA Accreditation of eMTEP, eITEP and JADL - CH 722 – 195K EUR; Information Management for Capability Delivery (IMCD) Gap Analysis - CH 722 – 195K EUR; Special Operations Forces Command and Control (SOF C2) development of the addendum to

the submitted SOF C2 CIS CPP, CH 722 – 192K EUR; GoTo Meeting and GoTo Webinar licences (GTM and GT-Webinar) CH 722 – 25K EUR.

23. Morale & Welfare Activities

Under the NAC approved NATO Accounting Framework implemented with effect from 01 January 2013, NATO entities should capture financial information in support of morale and welfare activities by way of a note disclosure to the financial statements and not consolidated in the financial statements.

In accordance with NATO reference documents PO(97)98 and MBC-DS(97)23, the consolidated 2020 Annual Report on MWA activity within the ACT Budget Group, has been submitted to the Budget Committee.

24. Statement of Write-Off

A summary table of write off is attached at Annex A to these financial statements. A full statement will be sent under separate cover to the Budget Committee.

25. Statement of Cash Loss

During 2021, ACT management completed their investigations into the cash loss that occurred at the JALLC HQ in 2020. This amounted to €2.1K and related to fees collected for a conference, which were subsequently lost. The write-off of this amount is therefore made in these 2021 financial statements. The ACT Financial Controller has reinforced a number of checks and controls at the JALLC and throughout ACT in order to avoid future occurrences.

26. Statement of Performance & Position per Entity

The tables on the following pages show the Statements of Position and Performance of the ACT Headquarters that are part of the consolidated group. There is also a table showing the entries made on consolidation.

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For the year ended 31 December 2021 (Amounts in EUR)

STATEMENT OF FINANCIAL POSITION PER HEADQUARTER

	HQ SACT			JWC			JFTC		
	2021	2020	Difference	2021	2020	Difference	2021	2020	Difference
Current Assets									
Total Cash & Cash Equivalents	70,026,472	60,435,308	9,591,164	7,841,112	8,755,807	(914,695)	1,795,643	2,255,901	(460,258)
Receivables	1,967,853	2,452,397	(484,544)	785,116	868,344	(83,228)	1,592,331	1,764,168	(171,837)
Total Advances & Prepayments	800,415	611,681	188,734	378,112	222,934	155,177	39,468	29,084	10,383
Non-Current Assets									
Property, Plant & Equipment	22,476,563	23,541,538	(1,064,976)	3,093,526	2,171,606	921,920	1,783,677	1,845,571	(61,894)
Total Assets	<u>95,271,302</u>	<u>87,040,925</u>	<u>8,230,377</u>	<u>12,097,866</u>	<u>12,018,691</u>	<u>79,175</u>	<u>5,211,119</u>	<u>5,894,724</u>	<u>(683,605)</u>
Liabilities									
Payables	16,026,724	21,842,679	(5,815,955)	3,316,308	2,020,059	1,296,248	612,084	1,011,636	(399,551)
Deferred Revenue	24,749,998	5,692,799	19,057,200	823,529	3,692,879	(2,869,350)	1,285,237	1,636,958	(351,721)
Advance Contributions	32,010,924	35,991,076	(3,980,152)	4,864,503	4,134,147	730,356	1,530,122	1,400,560	129,561
Other Advances	0	0	0	0	0	0	0	0	0
Total Liabilities	<u>72,787,646</u>	<u>63,526,554</u>	<u>9,261,093</u>	<u>9,004,340</u>	<u>9,847,085</u>	<u>(842,745)</u>	<u>3,427,442</u>	<u>4,049,154</u>	<u>(621,711)</u>
Net Assets									
Capital Contributions	29,491,459	29,088,147	403,312	4,449,196	3,025,709	1,423,487	2,642,081	2,496,911	145,170
Accumulated surplus (deficit)	(7,014,897)	(5,546,609)	(1,468,288)	(1,355,670)	(854,103)	(501,568)	(858,405)	(651,340)	(207,064)
Unrealised exchange rate gain	7,093	(27,167)	34,260	0	0	0	0	0	0
Total assets / equity	<u>22,483,655</u>	<u>23,514,371</u>	<u>(1,030,716)</u>	<u>3,093,526</u>	<u>2,171,606</u>	<u>921,920</u>	<u>1,783,677</u>	<u>1,845,571</u>	<u>(61,894)</u>

Note: Deferred Revenue includes the lapses to be returned to nations detailed in the Budget execution Statement. It does not recognise the cash related to budgetary movements between ACT entities. This is accounted for through the ACT cash call procedure.

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For the year ended 31 December 2021 (Amounts in EUR)

STATEMENT OF FINANCIAL POSITION PER HEADQUARTER

	JALLC			NSIP			Total 2021	Consolidation Postings	Published 2021
	2021	2020	Difference	2021	2020	Difference			
Current Assets									
Total Cash & Cash Equivalents	109,220	105,631	3,589	2,364,053	2,811,665	(447,612)	82,136,500	(2,171)	82,134,329
Receivables	89,338	30,452	58,886	0	0	0	4,434,638	(1,303,168)	3,131,470
Total Advances & Prepayments	20,288	32,996	(12,708)	0	0	0	1,238,282	(150,000)	1,088,282
Non-Current Assets									
Property, Plant & Equipment	0	0	0	0	0	0	27,353,765	0	27,353,765
Total Assets	<u>218,846</u>	<u>169,079</u>	<u>49,766</u>	<u>2,364,053</u>	<u>2,811,665</u>	<u>(447,612)</u>	<u>115,163,185</u>	<u>(1,455,339)</u>	<u>113,707,846</u>
Liabilities									
Payables	283,269	92,958	190,311	60,501	834,370	(773,869)	20,298,886	(1,455,339)	18,843,547
Deferred Revenue	(64,423)	60,342	(124,766)	2,303,552	1,494,149	809,403	29,097,893		29,097,893
Advance Contributions							28,405,549		38,405,549
Other Advances	0	15,779	(15,779)	0	0	0	0	0	0
Total Liabilities	<u>218,846</u>	<u>169,079</u>	<u>49,766</u>	<u>2,364,053</u>	<u>2,328,519</u>	<u>35,534</u>	<u>87,802,327</u>	<u>(1,455,339)</u>	<u>86,346,989</u>
Net Assets									
Capital Contributions	0	0	0	0	0	0	36,582,736	0	36,582,736
Accumulated surplus (deficit)	0	0	0	0	0	0	(9,228,972)	0	(9,228,972)
Unrealised exchange rate gain	0	0	0	0	0	0	7,093	0	7,093
Total assets / equity	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>27,360,858</u>	<u>0</u>	<u>27,360,858</u>

Note: Deferred Revenue includes the lapses to be returned to nations detailed in the Budget execution Statement. It does not recognise the cash related to budgetary movements between ACT entities. This is accounted for through the ACT cash call procedure.

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For the year ended 31 December 2021 (Amounts in EUR)

STATEMENT OF FINANCIAL PERFORMANCE PER HEADQUARTER

	HQ SACT			JWC			JFTC		
	2021	2020	Difference	2021	2020	Difference	2021	2020	Difference
Total Revenue	117,750,548	110,760,151	7,149,518	19,462,416	16,363,506	3,098,910	6,821,843	6,398,294	423,549
Total Expenses	119,647,495	112,417,770	7,388,846	19,462,416	16,363,506	3,098,910	6,821,843	6,398,294	423,549
End of Year Result	<u>(1,896,947)</u>	<u>(1,657,619)</u>	<u>(239,328)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

	JALLC			NSIP			Consolidation	Published
	2021	2020	Difference	2021	2020	Difference	Eliminations	2021
Total Revenue	1,060,356	1,577,386	482,971	1,024,604	3,515,837	(2,491,233)	(24,305,155)	146,119,767
Total Expenses	1,060,356	1,577,386	482,971	1,024,604	3,515,837	(2,491,233)	(24,305,155)	148,016,715
End of Year Result	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,896,946)</u>

Note: Inter-entity revenue and expenses have been removed from the originating entity (mainly HQ SACT) and are shown at the subordinate level. IPSAS 18 applies

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Statement of Position		Statement of Performance	
	Inter-Entity Eliminations		Inter-Entity Eliminations
Assets		Revenue	
Current Assets			
Cash and Cash Equivalents	(2,171)	Operating Revenue	23,377,261
Receivables	(1,303,168)	Inter-Entity Revenue	927,895
Advance to Consolidated Entity	<u>(150,000)</u>		
Total Current Assets	(1,455,339)	Total Revenue	<u>24,305,155</u>
Liabilities		Expenses	
Payables	1,455,339	Inter-Entity Expenses	(24,305,155)
	<u>1,455,339</u>		
Total Liabilities	<u>1,455,339</u>	Total Expenses	<u>(24,305,155)</u>

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ANNEX A TOI
 ACT CONSOLIDATED FINANCIAL STATEMENTS 2021
 DATED 31 MARCH 2022

ACT WRITE OFF REPORT OF INTERNATIONAL PROPERTY 2021

Command	Headquarters Property	Net Book Value (in currency)	Number of Reports of Survey	Comments
JFTC	Equipment	PLN 0	3	Obsolete and no longer required for use at JFTC
JFTC	Furniture	PLN 283.97	1	Beyond economical repair
JFTC	Equipment	PLN 0	1	Loss Report
JWC	Equipment	NOK 43,435	7	Obsolete and no longer required for use at JWC
JWC	Furniture	NOK 0	4	Obsolete and no longer required for use at JWC