

	NATO	NORTH ATLANTIC COUNCIL
	OTAN	CONSEIL DE L'ATLANTIQUE NORD

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Releasable to Sweden

19 January 2024

DOCUMENT
PO(2024)0007-AS1 (INV)

**IBAN AUDIT REPORT ON THE 2022 CONSOLIDATED FINANCIAL STATEMENTS
OF ALLIED COMMAND TRANSFORMATION (ACT)**

ACTION SHEET

On 19 January 2024, under the silence procedure, the Council noted the RPPB report and the IBAN Audit Report attached to PO(2024)0007 (INV), approved the conclusions and recommendations in the RPPB report and approved the public disclosure of the RPPB report, the IBAN Audit Report and associated Financial statements of ACT.

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to PO(2024)0007 (INV).

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12 January 2024

DOCUMENT

PO(2024)0007 (INV)

Silence Procedure ends:
19 Jan 2024 – 15:30

To: Permanent Representatives (Council)

From: Secretary General

**IBAN AUDIT REPORT ON THE 2022 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 2022 Consolidated Financial Statements of the Allied Command Transformation (ACT). The IBAN issued an unqualified opinion on the Financial Statements and on compliance for the year ended 31 December 2022.

2. I do not believe this issue requires further discussion in Council. Therefore, **unless I hear to the contrary by 15:30 hours on Friday, 19 January 2024**, I shall assume the Council noted the RPPB report and the IBAN Audit Report, approved the conclusions and recommendations in the RPPB report and approved the public disclosure of the RPPB report, the IBAN Audit Report and associated Financial statements of ACT.

(Signed) Jens Stoltenberg

1 Annex
2 Enclosures

Original: English

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**IBAN AUDIT REPORT ON THE 2022 CONSOLIDATED FINANCIAL STATEMENTS OF
ALLIED COMMAND TRANSFORMATION (ACT)**

Report by the Resource Policy and Planning Board

References:

- | | |
|------------------------------|---|
| A. IBA-AR(2023)0011 | IBAN Audit Report on the Consolidated Financial Statements of the Allied Command Transformation (ACT) for the year ended 31 December 2022 |
| B. BC-D(2015)0260-REV3 (INV) | NATO Financial Rules and Procedures (FRP) |
| C. C-M(2017)0022 (INV) | NATO Accounting Policy for Property, Plant & Equipment |
| D. BI-SC Directive 60-70 | Bi-Strategic Command Procurement Directive |
| E. PO(2015)0052 | Wales Summit tasker on transparency and accountability |

INTRODUCTION

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

AIM

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

OBSERVATIONS AND RPPB VIEW

3. During the audit, the IBAN made three observations and recommendations for the ACT. They relate to the weaknesses identified in the accounting treatment of NATO Security Investment Programme (NSIP) calls for contributions, instances of non-compliance with procurement rules identified in Joint Warfare Centre (JWC)'s procurement activities and improvements required in Joint Force Training Centre (JFTC)'s asset management of NSIP funded assets. These observations and recommendations did not affect the audit opinion on the Financial Statements, neither on compliance.

3.1. Observation 1: With regard to identified weaknesses in the accounting treatment of NSIP calls for contributions, the RPPB supports IBAN's recommendation that the ACT strengthen internal controls on its NSIP quarterly reporting in Common Funded Integrated Resources Information System (CIRIS), by ensuring that their quarterly CIRIS reporting reconciles to their accounting records, or that any reconciliation differences between the quarterly CIRIS reporting and accounting records can be justified. Furthermore, the RPPB

supports IBAN's recommendation that the ACT recognise any NSIP contributions to be received, or paid, in accordance with the payment guidelines of the NSIP calls for contributions, and recognise any existing financial assets and financial liabilities in relation to NSIP contributions separately in its Statement of Financial Position.

3.2. Observation 2: Regarding instances of non-compliance with procurement rules identified at JWC, the RPPB supports IBAN's recommendation that the ACT ensure that contracts, including contract modifications, are signed, and specify on which conditions a contract is validly signed by ACT in accordance with the provisions of Financial Rules and Procedures (FRP) XXXII (reference B) and the Bi-Strategic Command Procurement Directive (reference C). In addition, the RPPB supports IBAN's recommendation that the ACT ensure that procurement actions above twice Level B of the established financial limits are advertised through its procurement opportunities website in order to foster competition and transparency. Finally, the RPPB supports IBAN's recommendation that the ACT provide additional training on procurement rules to JWC Staff, maintain an adequate audit trail throughout the procurement process, and strengthen supervision on procurement actions in order to prevent non-compliance with procurement regulations.

3.3. Observation 3: The RPPB supports IBAN's recommendation that the ACT ensure that the fixed asset register for JFTC's NSIP funded assets meets the minimum information requirements, as defined in paragraph 8.2 of the NATO Accounting Policy for Property, Plant & Equipment (reference D), by including all NSIP funded assets in JFTC's asset register held for asset management purposes.

4. 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 2022, the IBAN closed observations on the instances of non-compliance in respect of representation allowances, weaknesses in Joint Analysis and Lessons Learned Centre cash management, and non-approval of departure from standard procurement procedures. Observations are detailed in document at reference A.

5. The RPPB welcomes the improvements made by the ACT in implementing IBAN's observations and recommendations and supports the ACT's efforts to continue applying remedial actions with an aim to address the remaining in-progress recommendation.

CONCLUSIONS

6. The IBAN issued an unqualified opinion on the 2022 ACT Consolidated Financial Statements and on compliance. Three observations and recommendations were raised for the ACT. As of the date of the IBAN Audit Report, three previous years' observations for the ACT were closed and one was in-progress.

7. The RPPB supports IBAN's recommendation that the ACT makes improvements in relation to the accounting treatment of NSIP calls for contributions, compliance with procurement rules in JWC and asset management of NSIP funded assets in JFTC.

8. The RPPB notes the improvements made by the ACT and supports the ACT management commitment to implement the remaining in-progress recommendation.

RECOMMENDATIONS

9. The Resource Policy and Planning Board recommends that Council:

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

9.2. approve the conclusions at paragraphs 6 to 8;

9.3. approve to the public disclosure of the 2022 Consolidated Financial Statements of the ACT, its associated IBAN Audit Report and this report in line with agreed policy at reference E.



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

Brussels - Belgium



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IBA-A(2023)0073
25 August 2023

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's (ACT) Financial Statements for the year ended 31 December 2022 – IBA-AR(2023)0011***

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 (ACT) and on compliance for financial year 2022.

Yours sincerely,

Radek Visinger
Chair

Attachments: As stated above.

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

The International Board of Auditors for NATO (IBAN) audited the Allied Command Transformation (ACT) Consolidated Financial Statements for the year ended 31 December 2022, 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 2022 amounted to approximately EUR 173.8 million.

IBAN issued an unqualified opinion on the Financial Statements and on compliance for the year ended 31 December 2022.

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

1. Weaknesses identified in the accounting treatment of NSIP calls for contributions.
2. Instances of non-compliance with procurement rules identified in JWC's procurement activities.
3. Improvements required in JFTC's asset management of NSIP funded assets.

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 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.

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IBA-AR(2023)0011

25 August 2023

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE

ALLIED COMMAND TRANSFORMATION

(ACT)

FOR THE YEAR ENDED 31 DECEMBER 2022

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

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

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of Allied Command Transformation (ACT), for the 12 month period ended 31 December 2022, issued under document reference ACT/BUDFIN/TT-6644/SER:NU1573, and submitted to IBAN on 31 March 2023. These Financial Statements comprise the Statement of Financial Position as at 31 December 2022, the Statement of Financial Performance, the Statement of Changes in Net Assets/Equity and the Statement of Cash Flow, for the 12 month period ended 31 December 2022, including a summary of significant accounting policies and other explanatory notes. In addition, the Financial Statements include a Budget Execution Statement for the 12 month period ended 31 December 2022.

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

Basis for Opinion on the Financial Statements

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

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

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

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

Management's Responsibility for the Financial Statements

Management's responsibility for the financial statements is laid down in the NFRs. The Financial Statements of 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 standards consistent with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

Compliance

Opinion on Compliance

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

Basis for Opinion on Compliance

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

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

Management's Responsibility for Compliance

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

The Supreme Allied Commander 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, 25 August 2023



Radek Visinger
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. Weaknesses identified in the accounting treatment of NSIP calls for contributions.
2. Instances of non-compliance with procurement rules identified at JWC.
3. Improvements required in JFTC's asset management of NSIP funded assets.

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 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.

1. WEAKNESSES IDENTIFIED IN THE ACCOUNTING TREATMENT OF NSIP CALLS FOR CONTRIBUTIONS

Reasoning

1.1 The NATO Accounting Framework's IPSAS 1 on 'Presentation of Financial Statements' defines assets as *"resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity"*, and liabilities as *"present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential."*

1.2 With regard to offsetting financial assets and financial liabilities, IPSAS 1 states that *"Assets and liabilities, and revenue and expenses, shall not be offset unless required or permitted by an IPSAS"*. IPSAS 28 on 'Financial Instruments: presentation' permits to offset a financial asset and a financial liability, and as such, to present the net amount in the statement of financial position when, and only when, an entity:

- "(a) Currently has a legally enforceable right to set off the recognized amounts; and*
- (b) Intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously."*

1.3 In case of an adjusting event after the reporting date, entities shall adjust any assets or liabilities recognised in the financial statements in order to reflect these adjusting events in accordance with IPSAS 14 on 'Events after the reporting date'. Adjusting events after the reporting date, are those events, both favourable and unfavourable, *"that occur between the reporting date and the date on which the financial statements are authorized for issue"* and *"that provide evidence of conditions that existed at the reporting date."*

1.4 The NATO Security Investment Programme (NSIP) consists of a programme of capital investments in military capabilities, that provides funds for the development, construction and implementation of facilities and equipment that are required by NATO's Strategic Commanders to complete their missions and necessary for providing, restoring and enhancing assets.

1.5 The NSIP is constituted of multiple NSIP projects implemented by Host Nations (HNs), which can be a Nation on whose territory the project is to be implemented, a NATO agency or a Strategic Command. NSIP is funded by NATO Nations through quarterly calls for contribution approved by the Investment Committee (IC) based on authorised NSIP projects per Host Nation. The International Staff (IS) manages the allocation of the disbursement of funds through a system of multilateral compensation.

1.6 In order for the IS to prepare the quarterly calls for contributions, the HNs each quarter have to report on the forecast of future expenditures foreseen on authorised projects within their responsibility, and any excess or shortfall in contributions received in the past in relation to these projects based on actual expenditures incurred. The reporting takes place in the online tool named Common Funded Integrated Resources Information System (CIRIS).

1.7 Based on the quarterly reporting by the NSIP HNs in CIRIS, IS prepares the quarterly NSIP calls for contributions for the IC approval. These NSIP calls for contribution determine the amounts to be paid by each contributing Nation, the amounts to be received, or returned, by each HN, and the applicable payment guidelines. In order to reduce the number of payment transactions for NSIP contributions, IS offsets any payable by a given HN against the total of contributions payable to that HN (i.e. receivable for that HN).

1.8 The payment guidelines of these NSIP calls for contributions state that: *"the payment of contributions shall be made as early as possible after the day the NSIP Call for Contributions becomes final (reference (e)) to facilitate the timely implementation of capabilities delivered by NSIP projects"*. Reference (e) in this regard refers to document 'AC-4-D-2731', which states that *"the payment of contributions by the contributing countries to the host country will follow automatically from the decision of the Committee approving the quarterly estimates, unless the Committee makes a specific reservation thereto."*

Observations

1.9 On 13 December 2022, the IC approved the NSIP call for contributions for the first quarter of 2023 (reference AC/4(PP)D/28456(INV) and AC/4-DS(2022)0031(INV)). The basis for this call is the IS's validation of the actual expenditures for the third quarter 2022 and the forecasted expenditures for the first quarter 2023, as extracted from CIRIS. In accordance with the NSIP payment guidelines, the IC's approval of this call for contributions resulted in an obligation to pay for the contributing countries from 14 December 2022 onwards.

1.10 On 23 March 2023, the IC approved the NSIP call for contributions for the second quarter of 2023 (reference AC/4(PP)D/28498(INV) and AC/4-DS(2023)0007). The basis for this call is the IS's validation of the actual expenditures for the fourth quarter 2022 and the forecasted expenditures for the second quarter 2023, as extracted from CIRIS. In accordance with the NSIP payment guidelines, the IC's approval of this call for contributions resulted in an obligation to pay for the contributing countries from 24 March 2023 onwards.

1.11 The IC's approval of the NSIP call for contributions for the second quarter of 2023, which either includes a payable or receivable in relation to the fourth quarter of 2022, is an adjusting event in accordance with IPSAS 14. This is because the obligation to pay for the contributing countries existed from 24 March 2023, prior to the date of issue of the financial statements on 31 March 2023. A reporting entity is required to adjust any assets or liabilities recognised in the financial statements in order to reflect the financial impact of the adjusting event.

1.12 The NSIP calls for contributions for the first and second quarters of 2023 therefore include both an advance and an adjustment between forecasted and actual expenditures incurred for the third and fourth quarter of 2022. IBAN found that ACT's receivables and financial liabilities from NSIP contributions at 31 December 2022 are understated in total by EUR 1,401,960 due to the following three issues.

1.13 Firstly, with regard to contributions to be received for the first quarter of 2023 as part of the NSIP call for contributions, we found that ACT did not recognise a receivable and advance in relation to this NSIP contribution prior to 31 December 2022. This is not compliant with IPSAS 1, as the NSIP contributing countries had an obligation to pay these NSIP contributions to ACT from the day following the decision of the IC to approve the call for contributions (14 December 2022). This resulted in an understatement of ACT's receivables and financial liabilities from NSIP contributions of EUR 267,750 at 31 December 2022.

1.14 Secondly, in ACT's accounting records, we found that ACT offset its receivables in relation to shortfalls in NSIP contributions amounting to EUR 673,002 with its deferred revenue (financial liability) position of unspent NSIP contributions, and presented the net amount as deferred revenue in its Statement of Financial Position at 31 December 2022. This is not compliant with IPSAS 28, since ACT does not have a legally enforceable right to settle the net amount of its receivables and

financial liabilities in relation to NSIP contributions through one single payment or transaction, and does not intend to do so either. This resulted in a second understatement of ACT's receivables and financial liabilities by EUR 673,002 at 31 December 2022.

1.15 Thirdly, ACT incurred higher actual expenditures than received in the previous calls for contributions according to their CIRIS reporting, respectively EUR 567,106 and EUR 567,105 in the third and fourth quarter 2022. In total, expenditure of EUR 1,134,210 was incurred in excess of the amount received in the call for contributions according to ACT's CIRIS reporting. As ACT's accounting records only show a total shortfall of EUR 673,002 at 31 December 2022, the difference between ACT's accounting records and CIRIS reporting resulted in a third understatement of ACT's receivables and financial liabilities by EUR 461,208 at 31 December 2022.

1.16 We therefore conclude that ACT's receivables and financial liabilities from NSIP contributions are understated by a total amount of EUR 1,401,960 at 31 December 2022:

	EUR
- First quarter of 2023 call for contributions	267,750
- Offset of receivables for shortfalls at 31 December 2022	673,002
- Third and fourth quarter of 2022 adjustment	<u>461,208</u>
	1,401,960

Recommendations

1.17 IBAN recommends that ACT:

- a) Strengthen internal controls on its NSIP quarterly reporting in CIRIS, by ensuring that their quarterly CIRIS reporting reconciles to their accounting records, or that any reconciliation differences between the quarterly CIRIS reporting and accounting records can be justified;
- b) Based on sub-recommendation (a), recognise any NSIP contributions to be received, or paid, in accordance with the payment guidelines of the NSIP calls for contributions, as approved by the NATO Investment Committee;
- c) Recognise financial assets and financial liabilities in relation to NSIP contributions separately in its Statement of Financial Position, except for those situations in which offsetting financial assets and financial liabilities is compliant with IPSAS 28.

2. INSTANCES OF NON-COMPLIANCE WITH PROCUREMENT RULES IDENTIFIED AT JWC

Reasoning

2.1 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.

2.2 With regard to the signature of contracts, FRP XXXII (21) states that contracts shall be *“co-signed by the Financial Controller or designated representative, whenever their total value, original or as modified by subsequent changes, exceeds the value of Level C and be worded to specify that their validity is conditional on this dual signature.”*

2.3 In order to foster transparency and competition, FRP XXXII (9) states that *“NATO bodies shall advertise procurement actions above twice Level B of the EFLs (€40,000) through their procurement opportunities website.”*

2.4 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.”*

2.5 Paragraph 5-12 of the Bi-Strategic Command Procurement Directive defines a contract modification as *“any written change in the original terms and conditions of a contract. It is executed to reflect changes to the original requirement, to reflect the solution of performance problems or to comply with formal administrative considerations”,* and further clarifies that *“a contract modification may cover the following matters: extension of time to complete the contract; change to specifications; change to price; administrative changes like change of name, legal status, address etc.”*

2.6 With regard to the execution and signature of contract modifications, paragraph 5-12 states that *“only Contracting Officers, acting within the scope of their authority, are empowered to execute contract modifications on behalf of ACO/ACT HQs”,* and that *“all contract modifications exceeding 2 X EFL B are to be countersigned by the Financial Controller or his representative.”*

2.7 With regard to internal controls and maintaining an adequate audit trail on procurement documentation, the Bi-Strategic Command Procurement Directive states that *“it is recommended to link NAFS [NATO Automated Financial System] Purchase*

Orders to CPAs [Contract Purchase Agreements] belonging to one contractor for audit trails."

2.8 At the start of each financial year, the ACT Financial Controller converts the Established Financial Limits (EFLs) of the NFRs, expressed in Euro, into local currencies based on the applicable ACT exchange rate at 1 January of the financial year concerned. The approved EFLs in local currencies are promulgated by letter to all ACT Commands.

2.9 The 2022 equivalent of EFL B (EUR 20,000) in NOK corresponds to NOK 200,226, and the 2022 equivalent of EFL C (EUR 80,000) corresponds to NOK 800,904.

Observations

2.10 With regard to ACT procurement activities performed by the Joint Warfare Centre (JWC), we found compliance issues with the procurement rules for two out of 15 contracts awarded by JWC in 2022.

2.11 A contract with an estimated contract value of NOK 521,781 (EUR 52,119) was awarded in 2022 through a simplified procurement procedure. We noted that the procurement action was not advertised on JWC's procurement opportunity website, although the estimated contract value exceeded the value of twice Level B of the 2022 EFL (NOK 400,452). This is not compliant with the provisions of FRP XXXII (9).

2.12 Another compliance issue related to a contract modification signed by JWC on 15 November 2022 after identifying the need for additional requirements in excess of the scope of the initial contract. The initial contract value amounted to NOK 34,869,552 (EUR 3,489,019), and was increased by NOK 3,890,880 (EUR 388,649) as a result of the contract modification.

2.13 We noted that the contract modification was only signed by a JWC Contracting Officer. The contract was not co-signed by the JWC Financial Controller and did not specify that the validity of the contract modification's provisions was conditional on a dual signature by the Financial Controller. This is not compliant with the provisions of FRP XXXII (21) which requires that all contracts are co-signed by the Financial Controller, or their designated representative, whenever their total value, original or as modified by subsequent changes, exceeds the value of Level C (NOK 800,904), and be worded to specify that their validity is conditional on this dual signature.

2.14 It should be noted that a purchase order for the same amount and service description as the contract modification was co-signed by the JWC Financial Controller on 22 November 2022. However, this purchase order was signed and released one week after the countersigned contract modification by JWC was sent to the supplier concerned. It does not contain a reference to the contract modification or the initial contract, and does not stipulate the applicable terms and conditions. As a result, there is an incomplete audit trail between the contract modification and the purchase order.

This is not in line with the recommendation of the Bi-Strategic Command Procurement Directive on keeping NAFS Purchase Orders linked to Contract Purchase Agreements to ensure a better audit trail.

Recommendations

2.15 IBAN recommends that ACT:

- a) Ensure that contracts, including contract modifications, are signed and specify on which conditions a contract is validly signed by ACT in accordance with the provisions of FRP XXXII and the Bi-Strategic Command Procurement Directive;
- b) Ensure that procurement actions above twice Level B of the EFL are advertised through its procurement opportunities website in accordance with the provisions of FRP XXXII in order to foster competition and transparency;
- c) Provide additional training on procurement rules to JWC Staff, maintain an adequate audit trail throughout the procurement process, and strengthen supervision on procurement actions in order to prevent non-compliance with procurement regulations.

3. IMPROVEMENTS REQUIRED IN JFTC'S ASSET MANAGEMENT OF NSIP FUNDED ASSETS

Reasoning

3.1 With regard to Property, Plant and Equipment (PP&E), the NATO Accounting Framework (NAF) states that NATO entities *"shall capitalise all controlled PPE above the NATO PPE Capitalisation Thresholds. For anything below the threshold, NATO entities would have the flexibility to expense specific items"*, and that *"the information on such equipment will be properly reported in the balance sheets in financial statements and in asset registers."*

3.2 In accordance with Article 12 of the NATO Financial Regulations (NFRs), 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 With regard to safeguarding assets and verifying the accuracy and reliability of accounting data and records, paragraph 8.1 of the NATO Accounting Policy for Property, Plant and Equipment states that *“a NATO entity shall maintain a fixed asset register that identifies and groups all fixed assets into PP&E categories. It serves as a tool for safeguarding of assets. A review of fixed assets has to be conducted to ensure the assets remain fit for use and to ensure accuracy and completeness of the fixed asset register and the property accounting records.”*

3.4 According to paragraph 8.2 of the NATO Accounting Policy for PP&E, a *“fixed asset register should contain as a minimum the following information, if applicable:*

- a) Asset information;*
- b) Cost information;*
- c) Dates;*
- d) Quantity information, and;*
- e) Link with other assets.”*

Observations

3.5 The Joint Force Training Centre (JFTC) maintains two separate asset registers: an asset register for property accounting purposes, and an asset register for asset management purposes.

3.6 The asset register for accounting purposes is maintained by the JFTC Budget and Finance branch (hereafter: JFTC BUDFIN), and contains the asset category, the description, the acquisition date, and the acquisition value of all capitalised assets. Assets recorded in this register often are constituted of multiple sub-items or components. This is especially the case for NSIP funded assets handed over to JFTC by the Territorial Host Nation (hereafter: NSIP funded assets). JFTC BUDFIN maintains the asset description and asset valuation provided by the Territorial Host Nation upon recognition of these assets, regardless of whether the asset item is constituted of multiple sub-items or components. This is in order to maintain a clear audit trail between the JFTC property accounts and the handover documents.

3.7 The asset register for asset management purposes is maintained by the JFTC Base Support Branch, and contains the unique asset number, the description, the quantity, and the cost information of all assets. Each tangible asset receives a label with a unique asset number that can be traced to the asset register. In the process of registering and labelling all tangible assets, the Base Support Branch will identify all sub-items, or components, of all recognised assets.

3.8 When combined, the information available in both asset registers meets the minimum information requirements of a NATO fixed asset register, as defined in paragraph 8.2 of the NATO Accounting Policy for PP&E.

3.9 In preparation of our physical inspection of JFTC PP&E, we noted that JFTC's NSIP funded assets were recorded in the asset register for accounting purposes.

However, JFTC did not record its NSIP funded assets in its asset register for asset management purposes. This resulted in missing information on, or uncertainty about, the location, the quantity, and the associated sub-items or components of these NSIP funded assets.

3.10 The absence of this information for NSIP funded assets also complicates the performance by JFTC of an internal review of fixed assets in order to ensure that these assets remain fit for use, and to ensure accuracy and completeness of its fixed asset register and its property accounting records. With regard to assessing whether the assets remain fit for use, JFTC did not identify any deficiencies of, or damage to, the assets concerned at 31 December 2022 as part of the JFTC Base Support Branch's daily operations.

3.11 As a result, we conclude that the fixed asset information available for NSIP funded assets under JFTC's control does not meet the minimum requirements of paragraph 8.2 of the NATO Accounting Policy for PP&E. The total acquisition value of these NSIP funded assets amounts to EUR 3.8 million (PLN 16.6 million), which had a remaining net book value of EUR 2.7 million (PLN 11.7 million) at 31 December 2022. In accordance with the NAF, these assets have been recognised as PP&E and have been reported accordingly in the ACT 2022 Consolidated Financial Statements.

Recommendations

3.12 IBAN recommends ACT to ensure that the fixed asset register for JFTC's NSIP funded assets meets the minimum information requirements, as defined in paragraph 8.2 of the NATO Accounting Policy for PP&E, by including all NSIP funded assets in JFTC's asset register held for asset management purposes.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

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

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

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
(1) ACT FY 2021 IBA-AR(2022)0006, paragraph 1.12 DEPARTURE FROM STANDARD PROCUREMENT PROCEDURES NOT APPROVED IBAN's Recommendation 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.	We did not identify any instances of non-compliance with procurement rules related to departure from standard procurement procedures. Closed. In 2022, ACT issued written guidance on the submission and justification of requests for deviations from standard procurement in accordance with sub-recommendation (b). Closed.	Observation Closed.
(2) ACT FY 2021 IBA-AR(2022)0006, paragraph 2.17 WEAKNESSES IDENTIFIED IN THE RECOGNITION OF NSIP FUNDED ASSETS IBAN's Recommendation 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	In 2022, ACT did not issue any additional written guidance but presented the already available written guidance to all ACT BUDFIN teams during a joint training. As part of our 2022 audit procedures, we identified different approaches in the accounting treatment of, and the asset recognition method for, NSIP funded assets. Therefore, additional written guidance is still needed in order to ensure a harmonised approach. In-progress. Based on our 2022 audit procedures, we conclude that	Observation In-Progress.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
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.	further action is still required with regard to this sub-recommendation as some territorial NSIP Host Nations currently only provide ACT with the necessary information on NSIP funded assets as part of a report prepared after the completion of a Joint Final Acceptance and Inspection (JFAI). ACT should inform the Host Nation concerned of the difficulties it currently faces when recognising these assets, and explore options for receiving the required information in a different form and at an earlier stage. In-progress. We identified missing NSIP funded assets in ACT's Consolidated PP&E at 31 December 2022. It should be noted that we informed ACT of this omission, after which ACT corrected this error prior to the issuance of the 2022 ACT Consolidated Financial Statements. In-progress.	
(3) ACT FY 2021 IBA-AR(2022)0006, paragraph 3.18 WEAKNESSES IDENTIFIED IN JALLC CASH MANAGEMENT IBAN's Recommendation 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;	We noted that ACT introduced a system for collecting conferences fees by bank transfer at JALLC. This in order to avoid, or strongly reduce, the collection of payments received in cash. In addition to that, monthly cash reconciliation were performed by JALLC in 2022 in which the completeness, existence and accuracy of all JALLC cash balances were verified. Closed.	Observation Closed.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
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.	In 2022, ACT provided guidance and training on cash reconciliations in accordance with sub-recommendation (b). Closed.	
(4) ACT FY 2016 IBA-AR(2017)06, paragraph 2.4 INSTANCES OF NON-COMPLIANCE IN RESPECT OF REPRESENTATION ALLOWANCES IBAN's Recommendation IBAN recommends that ACT: a) Ensures that there are adequate controls in place in order to prevent incurring expenses which exceed the annual budget. 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.	This sub-recommendation was closed in IBA-AR(2021)0038. Closed. In 2022, ACT introduced a process that ensures the prior-approval of commitment by the ACT Financial Controller for all purchases made by credit card with representation allowance funds. Closed.	Observation Closed.

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

**OBSERVATION 1:
WEAKNESSES IDENTIFIED IN THE ACCOUNTING TREATMENT OF NSIP CALLS
FOR CONTRIBUTIONS**

ACT's Formal Comments

Recommendation a): Agreed.

ACT will work with NATO IS staff to ensure that quarterly reports from CIRIS are received, in order that these can be reviewed against the information recorded in the CNAFS Ledger.

Recommendation b): Agreed.

ACT will direct staff resources to analysing the 4th quarter NSIP cash call in order to identify the amount advanced for the following year. ACT will record this amount as an Accounts Receivable.

Recommendation c): Agreed.

ACT will separate NSIP financial assets and financial liabilities in future financial statements.

**OBSERVATION 2:
INSTANCES OF NON-COMPLIANCE WITH PROCUREMENT RULES IDENTIFIED
AT JWC**

ACT's Formal Comments

Recommendation a): Agreed.

JWC Staff will ensure that contracts are validly signed in accordance with the provisions of FRP XXXI I and the Bi-Strategic Command Procurement Directive. Further, the HQ ACT FC has directed - as an enhanced compliance measure - that the JWC Internal Control Officer perform quarterly reviews of all contracts to ensure they comply with NATO and ACT procurement policies.

Recommendation b): Agreed.

JWC Staff will ensure that contracts are advertised in accordance with the provisions of FRP XXXII and the Bi-Strategic Command Procurement

Directive.

Recommendation c): Agreed.

The ACT Head of Contracts will provide on-site training to JWC Contracting Staff to reinforce NATO procurement processes.

**OBSERVATION 3:
IMPROVEMENTS REQUIRED IN JFTC'S ASSET MANAGEMENT OF NSIP
FUNDED ASSETS**

ACT's Formal Comments

Agreed.

ACT management is pleased to note that the JFTC information reported in the ACT Consolidated Financial Statements was audited without issue.

In respect of the JFTC Property Register, this matter was discussed between the ACT Chief Accountant and the Branch Head of the JFTC Base Support Unit during an on-site visit in May 2023. ACT now expects that this matter will be resolved during 2023.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(1) ACT FY 2021

IBA-AR(2022)0006, paragraph 1.12

**DEPARTURE FROM STANDARD PROCUREMENT PROCEDURES NOT
APPROVED**

ACT's Formal Comments

Agreed.

None.

(2) ACT FY 2021

IBA-AR(2022)0006, paragraph 2.17

WEAKNESSES IDENTIFIED IN THE RECOGNITION OF NSIP FUNDED ASSETS

ACT's Formal Comments

Recommendations a), b) and c): Agreed.

Action being taken.

(3) ACT FY 2021

IBA-AR(2022)0006, paragraph 3.18

WEAKNESSES IDENTIFIED IN JALLC CASH MANAGEMENT

ACT's Formal Comments

Recommendations a) and b): Agreed.

None.

(4) ACT FY 2016

IBA-AR(2017)06, paragraph 2.4

INSTANCES OF NON-COMPLIANCE IN RESPECT OF REPRESENTATION ALLOWANCES

Recommendations a) and b): Agreed.

None.

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.



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

Norfolk, Virginia | USA



ACT/BUDFIN/TT-6644/SER:NU1573

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

SUBJECT: **2022 ALLIED COMMAND TRANSFORMATION
CONSOLIDATED FINANCIAL STATEMENTS**

DATE: 31 March 2023

REFERENCE: A. NATO Financial Regulations Article 35.

1. In accordance with the Reference, we herewith forward the 2022 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 2022 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.

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

Nicholas Garland
Financial Controller
Allied Command Transformation

DISTRIBUTION:



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External -

Action:

ACT Board Member, IBAN
Budget Committee Secretariat

Information:

Commander JWC
Commander JFTC
Commander JALLC
SACTREPEUR



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ALLIED COMMAND TRANSFORMATION

NORFOLK, VA.

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2022

**ALLIED COMMAND TRANSFORMATION
CONSOLIDATED FINANCIAL STATEMENTS**

NATO'S WARFARE DEVELOPMENT COMMAND

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SUPREME ALLIED COMMANDER TRANSFORMATION FOREWORD AND REPORT



In the face of a persistent, boundless, and simultaneous security environment, our competitors seek to place us in a position of disadvantage. We are operating in an ever more complex security environment. All around us, the digital revolution is shortening all cycles: research and development cycles, training cycles, user cycles. We have entered the era of agility, open architectures and constant questioning.

Russia's aggressive actions against Ukraine during the course of 2022 have highlighted this challenge, but at the same time, we must prepare for long-term, non-linear competition, including the increasing challenge of China.

Importantly, our Military Instrument of Power is now equipped with a package of the best military thinking. The NATO Military Strategy, Concept for Deterrence and Defence of the Euro-Atlantic Area, and the NATO Warfighting Capstone Concept collectively provide a solid trajectory for our Alliance's military adaptation out to 2040 in order to build advantage over those who would seek to challenge our objectives and undermine Alliance security.

For Allied Command Transformation, the NATO Warfighting Capstone Concept as the Alliance's military strategic warfare development concept formed the basis for development of the Warfare Development Agenda. This development agenda was endorsed by the NATO Heads of States and Governments during the Madrid Summit in June 2022 and maintains the strategic development momentum translating it into concrete military requirements. The Agenda charts a course to align efforts to understand better, decide faster, and act stronger together and forms the foundation for the Warfare Development Imperatives. These imperatives: Cognitive Superiority, Layered Resilience, Influence and Power Projection, Cross-Domain Command, and Integrated Multi-Domain Defence form an interconnected framework to organize Alliance-wide warfare development work and in particular shape the work of the Command.

While we have delivered on the conceptual framework, 2022 represented a transitional year for the Command as over time I expect the Warfare Development Agenda to become better integrated into ACT planning in order to deliver a sustainable Programmes of Work. In this transitional year my two key strategic priorities were:

Digital transformation of the Alliance. Central to the Warfare Development Agenda success will be a set of parallel and interconnected efforts across the Alliance to modernise, optimize and transform out digital capability. It is all about data exploitation – increasing our data literacy, understanding the role of data, enabling data exploitation and moving towards a data-driven organization in order to deliver secure data-centric, software based capabilities and services operating across an underpinning digital backbone.

Capability Delivery at the right time. The North Atlantic Council approved our 2022 funding to deliver new, critical capabilities at time of need. We progressed development across the full spectrum of common funded capability in 2022 as well as continuing the implementation and operationalisation of the Common Funded Capability Delivery Governance Model.

Key Outputs

Policy Development

During 2022, ACT reinvigorated the Strategic Foresight Cycle, identifying global trends and associated defence, security and military implications to build understanding of the rapidly evolving global environment. We delivered the initial Multi-Domain Operations concept and worked on the development of the roadmap for Multi-Domain Operations

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implementation, generating a Not Classified NATO Warfighting Capstone Concept and started on the Cognitive Warfare Concept. We worked on a number of key studies including climate change and completed 360 Offence/Defence Missile Study. Furthermore, ACT provided best military advice and recommendations to 25 Military Committee Standardization Boards and Working Groups, facilitated the review and revision of 38 Allied Joint Doctrine Publications which included the finalization of NATO's capstone publication AJP-01(F) which was promulgated in December 2022.

Defence Planning

At the heart of ACT's outputs is the Command's contribution to the NATO Defence Planning Process. Although ACT leads Step 2, the Determination of Military Requirements, and elements of Step 3, the Apportionment of Requirements and Setting of Targets the focus in 2022 was Step 1. A CT, as part of Step 1 led the military support to the development of Political Guidance for Defence Planning 2023.

Digital Transformation

Work on NATO's Digital backbone continued apace in 2022. ACT was instrumental in delivering key capability products including the Information Technology Modernisation Recovery and Remediation Plan and a capability programme plan for Increment 2 that addressed the effects created by the failure of the Information Technology Modernization component of NATO's core information services programme. Elsewhere, ACT delivered the Deployable Communications and Information Systems capability programme plan that outlined the needed enhancements to Cyber Defence, the NATO Enterprise-Wide Core Communications and Multimedia Access Capability Programme Plan and supported Service Management Control for deployed assets, compliance with the NATO Federated Mission Network and the identification of additional Mission Anchor Functions (MAF) to support multiple parallel operations.

ACT's The Satellite Communications (SATCOM) Capability team completed the first-ever Bi-SC approved SATCOM Capability Development Agenda to ensure a coordinated guidance for on-going SATCOM capability development. The Day Zero Secure Connectivity programme was accelerated in order to be ready for the Finnish and Swedish accession to NATO. With regard to Information Technology Modernization the ACT team developed a recovery and remediation plan, completed the installation of the obsolete end-use devices across the Command and developed a capability programme plan for the follow on Increment 2.

Work on the visualisation and exploitation of data proceeded across a number of strands. Our Joint Intelligence, Surveillance and Reconnaissance capability team developed the NATO Integrated Meteorological and Oceanographic Briefing and User Services and Intelligence and ISR Functional Services capability programme plans. In the Land C2 environment ACT supported the NCI Agency's future Land C2 DEMETER project proposal while directing effort to mitigate software vulnerabilities in the existing Land C2 Information Services capability. The ACT Data Science team led the development of a Bi-SC implementation plan for data exploitation that supports the NATO Data Exploitation Framework Strategic Plan and lays out concrete steps to develop data exploitation and Artificial Intelligence as enabling capabilities among Allies and the Enterprise.

Other Capability Development

Nuclear C2. The ACT capability team in Mons took forward the implementation of Future Nuclear Exercise Environment capability with both Initial Operating Capability and Enhanced Operational Capability being accomplished in 2022; Full Operational Capability is envisaged for early 2023. The Future Nuclear Exercise Environment capability will provide enhanced effectiveness and realism to NATO nuclear exercises and strengthen coherence between NATO nuclear and conventional exercises.

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Medical. The ACT Medical Branch delivered across the range of developmental areas including Concept Development and Experimentation (CD&E), Capability Development (CD), Innovation, and Programme Support to advance medical capacity for the Alliance. The team submitted the Bi-SC NATO Medical Support Capstone Concept to the NATO Military Committee for approval in December. In addition, work began on the first of three functional concepts Medical Consultation, Command and Control. The role out of the Patient Tracking Minimum Viable Product developed in 2021 continued and as of December had been provided to seven nations.

Joint Effects and Space. The Electronic Warfare capability programme plan developed by the Joint Effects team was approved by the North Atlantic Council this year and the Information Environment Assessment capability programme plan was finalized and submitted to governance for approval. The Joint Effects Team were engaged in early collaboration with Allied Command Operations in developing the: Advanced Rapid Targeting and Effects Mission Information System (ARTEMIS) Joint Targeting, the Chemical, Biological, Radiological, and Nuclear Explosives (CBRNE) Defence Functional Services (FS) and Civil-Military Cooperation (CIMIC) operational requirement statements. The ACT Space Team, in close coordination with the Allied Command Operations, actively prepared the transition recommendations to move to Phase III of the Implementation of Space as a Domain Implementation.

Exercises

Support to operations. All three iterations of pre-deployment training in support of NATO Mission Iraq designed to educate and train personnel filling both advisory and/or Command and Control Crisis Establishment positions within the mission were delivered by the Joint Force Training Centre. The training delivered in a blended format of virtual and residential phases was supported by key representatives of the Iraqi armed forces and Iraqi Focus Groups in order to provide realistic training with the most current in-theatre.

Collective Exercises. Two major exercises were delivered in 2022; STEADFAST JUPITER 22 and STEADFAST JACKAL 22 by the Joint Warfare Centre. While the initial planning was hampered or adjusted to COVID methodology (remote support, VTC planning), this year the Joint Warfare Centre was able to deliver the events with a physical presence. These events successfully validated the operational readiness of the headquarters being exercised.

Wargaming. In 2022, the Joint Warfare Centre successfully established a Trial Wargaming Branch designed to improve exercise delivery as well as mitigating growing exercise complexity. Elsewhere, ACT was engaged in the design and delivery of wargaming events. The SASP-SSP Coherence wargame, conducted in March was aimed at supporting the development of more effective and complete plans within the Deterrence and Defence of the Euro-Atlantic Area family of plans. The JETS 3.0 wargame designed to enhance collective understanding of enablement and sustainment C2 roles and responsibilities between NATO and national headquarters marks the first large-scale wargame designed, developed, and delivered completely in-house. Finally the Nuclear Key Leader Training wargame delivered in December to Joint Force Command Naples and NATO's Response Force as part of their battle staff training was designed to "raise the nuclear IQ" within NATO at the operational level.



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Individual Training

The delivery of individual training continued apace in 2022. NATO's Joint Advanced Distributed Learning (JADL) programme was accessed by 39,914 users across 342 courses with a total 496,636 hours of self-paced online instruction being delivered and ACT successfully migrated the JADL user management (help desk) functions to the NCI Academy in November 2022.

Looking to the future a number of technology projects were conducted throughout the year:



- A virtual speaker (Holopod) was tested three times in a real-world setting to conduct key-leader engagements in a virtual format.
- Together with NCI Academy, ACT undertook a pilot project in Augmented Reality (AR) / Virtual Reality (VR) on NATO SATCOM students. Following very positive feedback this endeavour is set to expand in 2023.
- NATO's first micro learning mobile app, the NATO e-Learning Networking App (NeNA) was successfully used to support ACT's newcomer training in summer 2022. Further uses for this type of application are planned for 2023.

Interoperability

As COVID restrictions lifted in 2022, ACT was able to return to the delivery of a full format Coalition Warrior Interoperability eXploration, eXperimentation and eXamination eXercise (CWIX) exercise. CWIX is NATO's premier interoperability event and after the hybrid execution with a small on-site footprint in 2021 we were able to conduct a full-scale event at the Joint Force Training Centre with a record number of 35 Participant and 8 Observer Nations. The Command & Control (C2) Capabilities and IT Services presented at CWIX spanned the complete CIS spectrum and represented the current, near-term, future and experimental capabilities of the Alliance and its Partner Nations. CWIX places an emphasis on systems that will deploy with NATO-led operations, particularly those related to Federated Mission Networking (FMN) as a major component of the enhanced NATO Response Force (eNRF), Very High Readiness Joint Task Force (VJTF), and Initial Follow on Forces Group (IFFG) roadmap to support military readiness. During this year's event CWIX22 tested a record number of 340 capabilities, 100 of which were partially or completely remote at national testing site. In total, more than 22,000 tests were conducted within 18 Focus Areas. For the first time, with the new Space Focus Area, all NATO Operational Domains were represented at CWIX22, preparing the foundation for full Multi-Domain Operations Testing.

Innovation and Experimentation

In 2022, ACT has successfully executed the Maritime S&T Programme of Work to address NATO's requirements in the area of Mine Warfare and Anti-Submarine Warfare domains, including autonomous ASW and MCM unmanned systems. The programme is rapidly adopting the latest advances within areas of Quantum Technologies, Autonomy, AI, and Data.

Directed Innovation. ACT successfully executed the Maritime Science and Technology Programme of Work to address NATO's requirements in the area of Mine Warfare and Anti-Submarine Warfare with the Centre for Maritime Research and Experimentation. The programme is rapidly adopting the latest advances within areas of Quantum Technologies, Autonomy, AI, and Data. Additionally, ACT undertook a significant number of studies with the NCI Agency to address advances within the CIS space, including Quantum Computing, Quantum-safe security, AI for Joint Intelligence Surveillance

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and Reconnaissance cases, Virtual Reality/Extended Reality solutions and 5G. In 2023, the number of ACT's Science and Technology projects is expected to grow and be better aligned with exercises and experimentation opportunities.

Open Innovation. At the request of Allied Command Operations, ACT's Innovation Hub developed several Minimal Viable Products supporting in the areas of cyber and situational awareness, collection management, data analysis and data resilience. Demand in 2022 certainly outstripped capacity and for 2023 ACT will work in close coordination with the newly formed Allied Command Operations Innovation Branch on setting priorities for future projects.

Started in 2017, the ACT Innovation Challenge series is a bi-annual event aiming at finding innovative solutions to answer NATO's operational pain points while growing a NATO-wide Innovation Network. The 2022 Innovation Challenges took place in the Republic of North Macedonia in June and in Romania in October and has proved to be a very efficient way to mobilize non-traditional actors (small and medium enterprises, start-ups) to generate innovative ideas.

Experimentation. The 2022 Experimentation Programme of Work was executed in three contexts: Standalone Experimentation, Experimentation in Exercises and Experimentation in Operations. Three areas were noteworthy:

- The dedicated Experimentation Exercise DYNAMIC MESSENGER 22 was conducted in September 2022 in Troia (Portugal) under joint leadership of ACT and Maritime Command in Northwood (UK). It was an opportunity to test the interoperability of new maritime unmanned systems, ensuring that Allies can work together to counter security challenges such as submarines and sea mines, as well as asymmetric threats.
- A 5G Extended Reality delivery experiment took place in November 2022 at Adazi Base (Latvia). For the first time NATO tested 5G networks to deliver Extended Reality training solutions in a military context.
- ACT was involved in the US led Multinational Capability Development Campaign participating in the following projects: Multi-Domain – A Multi-National Understanding (MD-MNU), Future Lethality and Force Mix of Directed Energy Weapons (FUT-LTH), Multinational Integrated Cyber Fusion – Delivering the Fusion Centre (MNIFC), and the Allies and Partners Experimentation Network (APEX-NET).



Modelling & Simulation.

During 2022, ACT supported the development and approval of three key Operational Requirements: Strategic Political and Military Assisted Decision-Making, NATO Next Generation Modelling & Simulation and the Education, Training, Exercises and Evaluation Functional Services. Although a number of prototypes and Commercial products are in use collectively this represent a significant milestone in the generation of NATO's capability development in this area.

Since 2017, HQ SACT has been using simulation to provide quantifiable data to inform the military advice given to strategic level analytical studies. Nine separate activities were either completed or designed for conduct in 2023. These simulations are built at campaign or mission level depending in support of SACEUR's Area of Responsibility-Wide Strategic Plan.

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Finally, Modelling & Simulation effort on the resilience prototype, and the Resilience Data Analytics Minimum Valuable Product, was synchronized to inform the future NATO Civil Environment Assessment capability programme. The combination of both tools harvests OpenSource data in order to set up the Resilience model to deliver strategic level Civil Environment Assessment. This functionality will be exercised in NATO's Crisis Management Exercise 2023.

Lessons Learned

The Joint Analysis and Lessons Learned Centre completed Joint Analysis (JA) reports on the: Train, Assist and Advice Lessons from the Resolute Support Mission, NATO Standing Naval Forces – Likely Root Causes of Shortfalls in Force Generation. The reports provided substantial evidence and analysis which will enable the customers to drive forward important policy and structural changes in NATO. Further reports on NATO Involvement in Evacuation Operations and Operational Assessment at the Military Strategic Level were undertaken in 2022 with reports due for completion in early 2023.

The Centre also provided Short Term Analysis reports on: Exercise STEADFAST BONUS 2022-Potential Lessons Identified, Recurring Issues and Considerations; and Lessons Learned Strategic Trends and Issues Oct 21 – Oct 22. Additionally the Centre completed An Analysis of NATO's Military Response to the Situation in Ukraine. This emergent tasking from the Military Committee sought to capture strategic observations on Force Employment and the Activation of Plans.

Centres of Excellence

ACT coordination with the NATO-accredited COEs returned to normality as COVID restrictions were released. Nine periodic assessments, with two conducted virtually, were successfully achieved in 2022 (for CCD, ENSEC, CWO, MILENG, HCOE, STRATCOM, AO, CMDR and NMW). All assessments demonstrating that Centre of Excellences' products and services provided to the Alliance remain consistent with the quality, standards, practices and procedures within NATO, and all merited continued NATO accreditation. ACT continued to support the establishment of future NATO-accredited Centres of Excellence with assistance being provided to the SPACE Centre of Excellence (in Toulouse, France) and the Climate Change and Security (CCAS) Centre of Excellence (Canada)

In April, the Combined Joint Operations from the Sea (CJOS) Centre of Excellence and HQ SACT co-hosted the Directors Conference in Norfolk, Virginia. This, combined with the two-day Centres of Excellence Marketplace held in May at NATO HQ Brussels, provided the opportunity for the Centres of Excellence to showcase their products to the wider NATO Stakeholder community.

Other

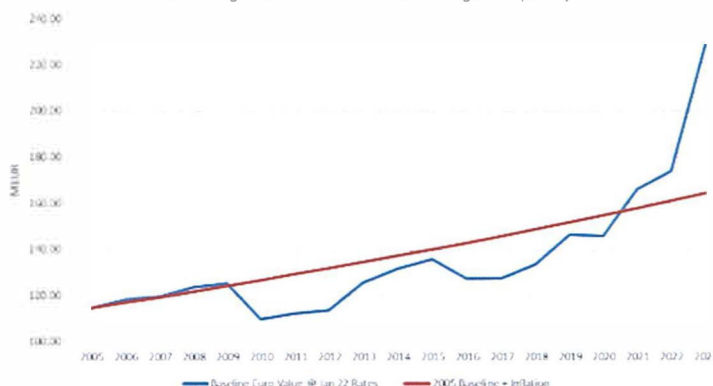
As part of the ACT commitment on climate change, and in support of the NATO Secretary General's 'Reduction of Greenhouse Gas Emissions' task, ACT has worked on assessing NATO Command Structure (NCS) headquarters' greenhouse gas emissions, planning reduction targets and measures (with indicative resource implications), and assessing the feasibility of reaching net zero emissions by 2050. In 2022, ACT also worked with Canada on the establishment process for the Climate Change and Security (CCAS) Centre of Excellence.

In sum, 2022 represented a return to normality with regard to the impact of COVID. However, the war in Ukraine has generated a new focus and impetus in the development of NATO capability. Certainly, in the latter half of 2022 we have concentrated on reshaping our delivery to support the Warfare Development Agenda and to pre-position ourselves for the increase in activity generated from the funding authorized at the Madrid Summit.

Financial Overview

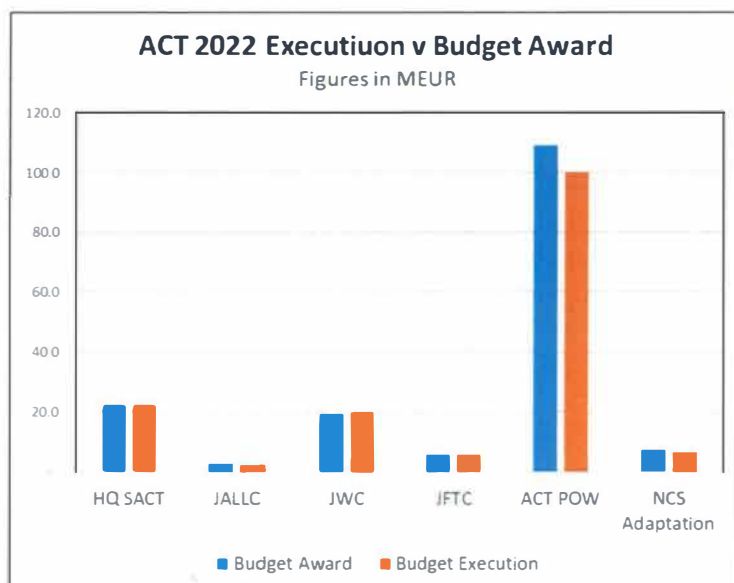
To support this level of activity the NATO Nations awarded ACT a budget of €167M (revalued to €174M (Jan 22 Exchange Rates) for comparison purposes). As can be seen from the chart opposite this represented a significant increase in the level of investment made by the Nations in support of transformational activity and this continued the recent trend to reinvest in Common Funded capability development. The impact of the MADRID Summit declaration to award an increase to the NATO Military Budget of 25% is clearly seen in the award of the 2023 ACT budget. This increases the ACT budgets to nearly €229M

ACT Common Funding History
Annual Budgets Revalued at Current Year Exchange Rates (Jan 22)



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 2022 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 €167M COVID continued to impact the Commands ability to commit funds in accordance with its plan. Travel was again impacted in the first half of 2022 and delays in the delivery of programme milestones from 2021 resulted in reduced awards to the ACT supplier base. Overall ACT has executed 95% of its budget resulting in the return of over €12M to the NATO nations. Although we have yet to see a return to the pre-pandemic execution rates of 97-98% the funds committed in 2022 do represent a significant and welcome increase on the 2021 execution rate of 90%.

Vision for the Future

2023 is the 20-year anniversary of ACT and its unique role it provides in delivering NATO's continued adaptation. It is also a special year as many of the projects started in 2022 will converge on the Vilnius Summit. With the additional funding provided by nations ACT will work on:

Evolving NATO beyond the Joint Operations of armies, navies and air forces to a more multi-domain approach that leverages the full scope of Alliance capabilities, including Space and Cyber. We will deliver the Multi-Domain Operations concept and an initial roadmap to guide the transformation towards a multi-domain enabled Alliance. We will phase it into training and exercises, capability development and the NATO defence planning process, using innovation, experimentation and wargaming to grow our thinking, educate our personnel and shift our mindset. With interoperability baked-in as NATO's added value to the Nations' capabilities. To enable this we will, from a military perspective, contribute to the Digital Transformation Strategy, shaping the definition, roadmap and data exploitation plan to set the foundations for a data drive Alliance.

Bolstering NATO's deterrence and defence posture is fundamental to enhancing the Alliance's ability to protect our nations security interests. We will inform the transformation of our Military Instrument of Power by providing advice on the lessons from Russia's war in Ukraine. We will lead determination of Military Requirements in Step 2 of the NATO defence planning process, we will lead the Military Integration process for Finland and Sweden as they seek accession to the Alliance, we will proactively and incrementally help master the art of escalation dynamics at the political-military level through education and wargaming and lastly we will incorporate the new NATO 2030 capability requirements into an overarching capability development plan focussed on critical programmes such as Cyber Defence, Nuclear Consultation, Command and Control; and targeting.

A better understanding of the ever-changing operating environment. We will provide a comprehensive picture of future trends, challenges and implications through our Strategic Foresight work, we will deliver the Exploratory Cognitive Warfare concept which will propose how we increase our cognitive resilience by protecting and enhancing decision superiority to ensure freedom of action. Finally, we will accelerate and scale up NATO experimentation and wargaming with the Nations, academia and industry in order to drive forward NATO understanding, knowledge and assessment of emerging trends, opportunities and threats.

The success of our Alliance depends on ACT's strategic understanding of the continuously evolving global security environment and ACT leading the transformation and modernization of NATO's Military Instrument of Power. By understanding better and deciding faster, together we ensure the Alliance's warfighter is able to deter, defend and fight today and tomorrow.



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 2022, 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 2023. 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 and migrates towards the delivery of the Warfare Development Agenda, 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.

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 and priorities 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

My challenge in ensuring that 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 2022, the North Atlantic Council approved and during the Madrid Summit the NATO Heads of States and Governments endorsed the Warfare Development Agenda as the implementation framework for the NATO Warfighting Capstone Concept. As a consequence ACT's programme of work transitioned into the delivery of the NATO Warfighting Capstone Concept through the Warfare Development Agenda with a focus on firstly 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 continued to be key in delivering my priorities but also permeated 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 2022 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.

As part of an examination into the ACT Culture, we conducted a workforce climate survey, which has acted as a catalyst for the creation of several programmes including the 3M (Modernise, Message and Manage) programme aimed at modernising our physical infrastructure, improving our working practices and updating the tools used by the Command. Furthermore, we reviewed the Internal Training Directive, created a new directive providing guidance of workforce flexibility within the Command and took the opportunity to review the ACT Code of Conduct.

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 submitted a further refinement to our Peacetime Establishment to optimize our contribution to Warfare Development that was approved by NATO Nations in June 2022. Additionally, the recommendations stemming from NATO Defence Workforce Audit Authority examination of the ACT finance function were endorsed by the NATO Defence Workforce Committee. The formal adjustment to ACT's workforce structure takes time and in order to implement the NATO Warfighting Concept as well as the resource decisions following the 2022 Summit a number of trial structures have been authorized.

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 were identified and outlined in the 2022 ACT Campaign Plan.

The Campaign Steering Board reviewed our output throughout 2022 and where necessary realigned workforce and/or resources. Additionally, work commenced on the development of the 2023 Warfare Development Plan with the aim of aligning out outputs and objectives to the Warfare Development Imperatives derived from the NATO Warfighting Capstone Concept.

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 is an integral element of ACT audit function and will be reviewed by the Command's Audit Advisory Panel prior to the outcomes being brought to me.

Our internal controls framework is outlined in ACT Directive 60-2 and has been in place throughout 2022. Our aim is 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. The assessment of how the achievement of our policies, aims and objectives might be affected by the risks we face is made in the Warfare Development Board (previously the Campaign Steering Board). 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. It is my intention to complete the next ACT risk maturity assessment by November 2023 (Exploitation of the results of the risk management audit and survey for declaration of 'provisional' Maturity Level at AAP 1/2023 (8 May 2023) and 'consolidated' Maturity Level at AAP 2 (6 Nov 2023)).

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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 ACT's output performance in-year.
- Effective project management disciplines are in place.
- Proper risk management training is delivered based on the Management of Risk (MoR®) best practices methodology.
- 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 2022 the bimonthly Campaign Steering Board, chaired by the ACT Chief Of Staff, assessed performance against the delivery of SACT's objectives. The Campaign Steering Board 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 board meeting, "deep dives" were performed for at least two of these board level risks.

Tackling Fraud and Corruption

In 2021¹, 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.

In 2022, the North Atlantic Council endorsed the NATO wide strategy on the prevention, detection and response to fraud and corruption. In January, ACT issued its own directive ACT 015-28 with regard to the prevention, detection and response to fraud and corruption. I have established the ACT Anti-Fraud Committee and established the mechanisms for reporting fraud and corruption. An awareness campaign was undertaken in 2022 and Anti-Fraud and Corruption has been included in our induction process. The delivery of on-line training modules is being considered as part of our workforce annual refresher training.

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.

¹ C-M(2020)0037 dated 22 Sep 21

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Control activities include diverse processes and actions such as clear delegation of authority, required approvals, authorizations, 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.

The development of NATO Common Funded Capability is a key, if not the key, output of the Command and the fundamental control activities supporting the delivery of this output is our participation in the Capability Management Function. ACT acts as the Capability Requirements Authority and works with the other Capability Management Authorities in developing and implementing NATO Common Funded capabilities. We, along with the other Capability Management Authorities, apply a programmatic approach to capability development and the application of tolerances. Across ACT significant effort is placed on monitoring and reporting performance against these tolerances, the identification of programme risks and the preparation of remedial action plans for consideration by Governance (NATO nations).

Our biggest asset is our workforce and the ACT Personnel Continuity Plan is the key tool in providing the command leadership with an up to date holistic view of the current and predicted workforce. This visibility allows for proper mitigation efforts to be developed and executed prior to emergence of shortfalls in our capability and capacity.

As a military organization, security is fundamental. All newcomers received a security course and existing staff undertook annual security training as a mandatory requirement. During 2022, we introduced a new security course aimed at senior management to support their understanding of their roles and responsibilities with regard to security. Finally, the security arrangements for HQ SACT were inspected by the NATO Office for Security while the final report has yet to be received the overall status for HQ SACT was considered satisfactory. Current plans are for the Office of Security to inspect the ACT subordinate commands during 2023.

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 on 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.

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 and will be the subject of an internal audit in 2023.

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 developed.

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:

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- 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 2022, the AAP reviewed and closed 21 of the outstanding 51 recommendations/improvements from reports issued in 2021 and early 2022. In 2022, the AAP considered a total of four internal audit reports and a total of 37 open recommendations are being carried forward into 2023.

At its November meeting, the AAP endorsed the 2023 Risk Based Audit Plan, which incorporates performance audits, financial audits and Internal Control assessments as well as the systematic follow up on outstanding recommendations. This balanced programme of work includes audits of ACT risk management, CIS security, workforce, procurement and asset management. In addition, the ACT Financial Controller asked the ACT Office of Internal Audit to review and test Internal Control Assurance at the ACT subordinate Commands resulting in a moderate to substantial assessments.

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.

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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

SUPREME ALLIED COMMAND TRANSFORMATION FOREWORD AND REPORT

ACT STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDING 31 DECEMBER 2022

(all figures are in Euros)	Notes	2022	2021
ASSETS			
Current Assets			
Cash and Cash Equivalents	2	81,256,776	82,134,328
Receivables	3	3,172,467	3,131,470
Prepayments	4	1,356,039	1,088,282
Non-Current Assets			
Property, Plant & Equipment	5	52,477,747	27,353,766
TOTAL ASSETS		<u>138,263,029</u>	<u>113,707,846</u>
LIABILITIES			
Current Liabilities			
Payables	6	20,095,975	18,843,547
Deferred Revenue & Liabilities to Nations	7	21,317,305	29,097,893
Advance Contributions	8	44,375,108	38,405,549
TOTAL LIABILITIES		<u>85,788,388</u>	<u>86,346,989</u>
NET ASSETS			
Capital contributions	9	63,523,895	36,582,736
Accumulated surpluses/(deficits)	9	(11,046,148)	(9,228,970)
TOTAL NET ASSETS/EQUITY*	9	<u>52,477,747</u>	<u>27,353,766</u>
Unrealised exchange rate gain / (loss)		(3,106)	7,093
		<u>52,474,641</u>	<u>27,360,859</u>

*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 2022

(all figures are in Euros)	Capital Contributions	Accumulated Surplus / (Deficit)	Unrealised Exchange Rate Gain/(Loss)	Total
Balance as at 1 January 2022	36,582,736	(9,228,970)	7,093	27,360,859
Changes in net assets / equity for the year				
Adjustment to value of PP&E	(18,690)			(18,680)
Disposal of PP&E	(369,342)			(369,342)
Additions to PP&E	27,329,191			27,329,191
Adjustment to correct prior year depreciation		375,454		375,454
Surplus / (deficit) for the period		(2,192,632)		(2,192,632)
Reverse unrealised exchange gain / (loss) 2021			(7,093)	(7,093)
Unrealised exchange rate gain / (loss) 2022			(3,106)	(3,106)
Balance as at 31 December 2022	<u>63,523,895</u>	<u>(11,046,148)</u>	<u>(3,106)</u>	<u>52,474,641</u>

ACT CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDING 31 DECEMBER 2022

(all figures are in Euros)

	Notes	2022	2021
REVENUE			
Revenue	10	168,782,340	143,906,442
Other revenue	11	2,151,453	1,356,212
Financial revenue	12	643,902	857,114
Total Operating Revenue		171,577,695	146,119,768
OPERATING EXPENSES			
Personnel	13	45,192,480	38,561,529
Contractual Supplies and Services	13	123,031,819	104,373,061
Capital and Investments	13	801,654	773,845
Depreciation charges	5	2,192,632	1,896,947
Other Expenses	15	2,151,453	1,358,393
Finance Costs	16	400,289	1,052,941
Total Operating Expenses		173,770,327	148,016,716
NET SURPLUS / (DEFICIT) FOR THE YEAR		(2,192,632)	(1,896,948)

ACT CONSOLIDATED CASHFLOW STATEMENT FOR THE YEAR ENDING 31 DECEMBER 2022

(all figures are in Euros)

	2022	2021
Cash Flow from Operating Activities		
Surplus (Deficit)	(2,192,632)	(1,896,948)
Capital contributions for PP&E (ACT procured)	(746,196)	
Non-cash movements		
Capital contributions for PP&E (NSIP handover)	(26,570,417)	
Decrease in capital contributions due to Disposals	375,454	
Depreciation Charges	2,192,632	1,896,947
Increase (decrease) in payables	1,252,428	(5,627,940)
Increase (decrease) in current liabilities deferred revenue	(1,811,027)	12,901,609
Increase (decrease) in PP&E due to Capital Contributions	26,570,417	
Disposals - PP&E handover	(375,454)	
Decrease (increase) in receivables	(40,997)	759,528
Decrease (increase) in current assets	(267,757)	(546,537)
	579,083	9,383,607
Extraordinary Item		
Net cash flow from operating activities	(1,613,549)	7,486,659
Purchase of PPE	746,196	204,950
Net cash flow from investing activities	746,196	204,950
Net increase (decrease) in cash and cash equivalents	(867,353)	7,691,609
Effect of exchange rate changes on cash and cash equivalents on translation	(10,199)	34,260
Cash and cash equivalents at beginning of period	82,134,328	74,408,459
Cash and cash equivalents at end of period	81,256,776	82,134,328

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ACT CONSOLIDATED BUDGET EXECUTION STATEMENT FOR THE YEAR ENDING 31 DECEMBER 2022 (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
2022											
Personnel	24,419,497	813,407	25,232,904	(250,837)	24,982,067	0	24,188,427	24,188,427	0	0	793,640
Contractual Supplies & Services	2,994,462	434,238	3,428,700	155,978	3,584,678	231,161	2,955,950	3,187,111	0	231,161	397,567
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2022	27,413,959	1,247,645	28,661,604	(94,860)	28,566,744	231,161	27,144,376	27,375,537	0	231,161	1,191,207
2021											
Personnel	24,120	0	24,120	0	24,120	0	15,163	15,163	0	0	8,957
Contractual Supplies & Services	31,299	0	31,299	0	31,299	0	(19,939)	(19,939)	0	0	51,238
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2021	55,419	0	55,419	0	55,419	0	(4,776)	(4,776)	0	0	60,195
2020											
Personnel	0	0	0	0	0	0	(4,981)	(4,981)	0	0	4,981
Contractual Supplies & Services	0	0	0	0	0	0	(1,935)	(1,935)	0	0	1,935
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2020	0	0	0	0	0	0	(6,916)	(6,916)	0	0	6,916
Budget Code 201 Grand Total	27,469,378	1,247,645	28,717,023	(94,860)	28,622,163	231,161	27,132,684	27,363,845	0	231,161	1,258,318

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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
2022											
Personnel	8,577,717	(321)	8,577,396	(4,250)	8,573,146	0	7,424,128	7,424,128	0	0	1,149,017
Contractual Supplies & Services	588,724	322	589,046	4,250	593,296	7,200	528,265	535,465	0	7,200	57,831
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2022	9,166,441	1	9,166,442	0	9,166,442	7,200	7,952,393	7,959,593	0	7,200	1,206,848
2021											
Personnel	0	0	0	0	0	0	(353)	(353)	0	0	353
Contractual Supplies & Services	0	0	0	0	0	0	(5,239)	(5,239)	0	0	5,239
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2021	0	0	0	0	0	0	(5,592)	(5,592)	0	0	5,592
2020											
Personnel	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	0	0	0	0	0	0	(119,018)	(119,018)	0	0	119,018
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2020	0	0	0	0	0	0	(119,018)	(119,018)	0	0	119,018
Budget Code 211 Grand Total	9,166,441	1	9,166,442	0	9,166,442	7,200	7,827,783	7,834,983	0	7,200	1,331,458

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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
2022											
Personnel	830,000	(252,350)	577,650	399,436	977,086	0	899,956	899,956	0	0	77,130
Contractual Supplies & Services	44,662,710	(2,183,603)	42,479,107	(259,581)	42,219,526	1,275,270	33,984,783	35,402,053	142,000	1,417,270	6,817,473
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2022	45,492,710	(2,435,953)	43,056,757	139,855	43,196,612	1,275,270	34,884,739	36,302,009	142,000	1,417,270	6,894,603
2021											
Personnel	1,500	0	1,500	0	1,500	0	305	305	0	0	1,195
Contractual Supplies & Services	2,968,852	0	2,968,852	0	2,968,852	0	2,739,231	2,739,231	0	0	229,621
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2021	2,970,352	0	2,970,352	0	2,970,352	0	2,739,536	2,739,536	0	0	230,816
2020											
Personnel	0	0	0	0	0	0	(1,440)	(1,440)	0	0	1,440
Contractual Supplies & Services	0	0	0	0	0	0	(8,727)	(8,727)	0	0	8,727
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2020	0	0	0	0	0	0	(10,167)	(10,167)	0	0	10,167
Budget Code 257 Grand Total	48,463,062	(2,435,953)	46,027,109	139,855	46,166,964	1,275,270	37,614,108	39,031,378	142,000	1,417,270	7,135,586

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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
2022											
Personnel	1,691,383	1	1,691,384	(1)	1,691,383	0	1,645,061	1,645,061	0	0	46,322
Contractual Supplies & Services	1,168,657	(1)	1,168,656	(146,634)	1,022,022	4,030	898,096	902,126	0	4,030	119,896
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2022	2,860,040	0	2,860,040	(146,635)	2,713,405	4,030	2,543,157	2,547,187	0	4,030	166,218
2021											
Personnel	0	0	0	0	0	0	(659)	(659)	0	0	659
Contractual Supplies & Services	4,005	0	4,005	0	4,005	0	(7,974)	(7,974)	0	0	11,979
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2021	4,005	0	4,005	0	4,005	0	(8,633)	(8,633)	0	0	12,638
2020											
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 2020	0	0	0	0	0	0	0	0	0	0	0
Budget Code 252 Grand Total	2,864,045	0	2,864,045	(146,635)	2,717,410	4,030	2,534,523	258,553	0	4,030	178,856

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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
2022											
Personnel	2,500	193,400	195,900	0	195,900	0	175,378	175,378	0	0	20,522
Contractual Supplies & Services	71,467,595	10,035	71,477,630	(168,913)	71,308,717	1,995,394	67,498,347	69,748,741	255,000	2,250,394	1,559,976
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2022	71,470,095	203,435	71,673,530	(168,913)	71,504,617	1,995,394	67,673,725	69,924,119	255,000	2,250,394	1,580,498
2021											
Personnel	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	3,208,854	0	3,208,854	0	3,208,854	188,401	2,481,188	2,669,589	0	188,401	539,264
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2021	3,208,854	0	3,208,854	0	3,208,854	188,401	2,481,188	2,669,589	0	188,401	539,264
2020											
Personnel	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	219,981	0	219,981	0	219,981	0	208,094	208,094	0	0	11,887
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2020	219,981	0	219,981	0	219,981	0	208,094	208,094	0	0	11,887
Budget Code 258 Grand Total	74,898,930	203,435	75,102,365	(168,913)	74,933,452	2,183,795	70,363,007	72,801,802	255,000	2,438,795	2,131,649

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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
2022											
Personnel	108,806,742	0	108,806,742	2,125,000	110,931,742	8,538	110,833,822	110,842,360	0	8,538	89,382
Contractual Supplies & Services	96,971,502	6,954,375	103,925,877	(662,500)	103,263,377	3,766,500	96,262,475	100,028,974	0	3,766,500	3,234,403
Capital Investments	350,000	0	350,000	222,500	572,500	561,535	0	561,535	0	561,535	10,965
Total 2022	206,128,244	6,954,375	213,082,619	1,685,000	214,767,619	4,336,573	207,096,297	211,432,869	0	4,336,573	3,334,750
2021											
Personnel	0	0	0	0	0	0	(8,824)	(8,824)	0	0	8,824
Contractual Supplies & Services	3,119,544	0	3,119,544	0	3,119,544	0	2,304,598	2,304,598	0	0	814,946
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2021	3,119,544	0	3,119,544	0	3,119,544	0	2,295,774	2,295,774	0	0	823,770
2020											
Personnel	46,811	0	46,811	0	46,811	0	0	0	0	0	46,811
Contractual Supplies & Services	488,038	0	488,038	0	488,038	0	(194,806)	(194,806)	0	0	682,844
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2020	534,849	0	534,849	0	534,849	0	(194,806)	(194,806)	0	0	729,655
Budget Code 255 Grand Total	209,782,637	6,954,375	216,737,012	1,685,000	218,422,012	4,336,573	209,197,265	213,533,837	0	4,336,573	4,888,175

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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
2022											
Personnel	7,403,178	(1,198)	7,401,980	(41,953)	7,360,027	29,906	7,261,363	7,291,269	0	29,906	68,758
Contractual Supplies & Services	18,851,868	531,112	19,382,980	563,409	19,946,389	34,352	19,688,544	19,722,896	0	34,352	223,493
Capital Investments	333,190	(13,700)	319,490	5,828	325,318	0	325,161	325,161	0	0	157
Total 2022	26,588,236	516,214	27,104,450	527,284	27,631,734	64,258	27,275,068	27,339,326	0	64,258	292,408
2021											
Personnel	0	0	0	0	0	0	(10,964)	(10,964)	0	0	10,964
Contractual Supplies & Services	313,224	0	313,224	0	313,224	0	97,957	97,957	0	0	215,267
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2021	313,224	0	313,224	0	313,224	0	86,993	86,993	0	0	226,231
2020											
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 2020	0	0	0	0	0	0	0	0	0	0	0
Budget Code 256 Grand Total	26,901,460	516,214	27,417,674	527,284	27,944,958	64,258	27,362,062	27,426,319	0	64,258	518,639

ACT NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

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 recognized 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 2022 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 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 2022. 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 recognized 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

1.7 Services in-kind

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

1.8 Financial Instruments disclosure/presentation

Financial assets and financial liabilities are recognized 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).

1.10 Short-term investments

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

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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 recognized 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. Where ACT receives an item of PP&E through a nation acting as Host Nation of an NSIP project, all efforts will be made to establish precise costs at the time of capitalisation. However, ACT may use cost estimations in cases where a Host Nation has yet to confirm final expenditure.

Depreciation is recognized 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 derecognized 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 recognized 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 2022, 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.

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Rental payable under lease contract are recognized as an expense in the statement of financial performance on a straight line basis over the lease term (if applicable). As at 31 December 2022, ACT had the following amounts owed on non-cancellable leases at HQ SACT, JFTC and JALLC.

Item	Amounts paid in 2022	Amounts due in 2022 – 2025
Various vehicles	89.5	95.5

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 recognized 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 derecognized 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 recognized 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 recognized 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 recognized 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 recognized in these financial statements. Note 15 below refers.

1.19 Provisions

Provisions are recognized 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.

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.

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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 recognized in the year when these contributions are used for their intended purpose as envisioned by ACT's budgets. Revenue is recognized 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 2022; exchange rate revenue due to transactions in foreign currency; and realized exchange rate revenue are recognized as financial revenue.

Finance costs

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

1.22 Surplus or deficit for the period

In accordance with entity accounting policies entity revenue is recognized 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.

	2022	2021
Total Euro Account	28,397	34,381
Total non-Euro Account	52,860	47,753
	81,257	82,134

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 2022. The cash holdings reflect the fact that all nations settled their cash call contributions by the end of 2022. 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.

3. Receivables

	2022	2021
Receivables	3,172	3,131

Receivables includes invoices amounting to €81 that were raised at the year end to recognize revenue corresponding to reimbursable expenditure incurred during the last quarter of 2022. It is necessary to show the receivable in these financial statements under the matching concept as the expense has been recognized. These receivables were largely cleared in a timely manner in the following year.

4. Prepayments

The following prepayments were recorded:

	2022	2021
Prepayments to 3rd Party Suppliers	1,356	1,088

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	7	JWC, Stavanger, Norway	
Vehicles	0	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 furniture items is not considered material but has been included, where possible, in the appropriate Property Accounting register

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(All figures in Euros)	Buildings	Installed Equipment	Furniture	Vehicles	Machinery	Mission Equipment	Work in Progress	Total
Balance as at 1 January 2022	27,146,957	5,308,736	2,324,629	1,174,680	258,392	369,342	0	36,582,736
Additions	25,247,046	1,335,949		73,194			673,002	27,329,191
Disposals						(369,342)		(369,342)
Revaluation	(18,690)							(18,690)
Balance as at 31 December 2022	52,373,313	5,308,736	2,324,629	1,247,874	258,392	0	673,002	63,523,895
Accumulated depreciation								
Balance as at 1 January 2022	4,743,497	2,313,244	1,194,626	568,513	39,748	369,342	0	9,228,970
Adjustment to correct prior yr Depreciation	(6,112)					(369,342)		(375,454)
Depreciation expense	1,077,245	653,336	232,463	203,749	25,839			2,192,632
Balance as at 31 December 2022	5,814,630	2,966,580	1,427,089	772,262	65,587	0		11,046,148
Net book value								
Balance as at 1 January 2022	22,403,460	2,995,492	1,130,003	606,167	218,644	369,342	0	26,984,424
Balance as at 31 December 2022	46,560,683	3,678,105	897,540	475,612	192,805		673,002	52,477,747

During 2022, a building with a value of €25.2M was added at JWC. This was an NSIP project, where Norway acted as the Host Nation. At JFTC, a security system modernization project was completed with a value of €1.3M. This was also an NSIP project, where Poland acted as the Host Nation. Work also commenced through the NSIP programme on the heating and air conditioning system at HQ SACT. The amount of €673 of work in progress was removed from NSIP expenditure and is shown here as PP&E. Work is scheduled to be completed during 2023. It was ascertained that JWC had previously handed over PP&E with a value of €369 to NCIA, so adjustments were made to the capital items and the depreciation in 2022, with ACT management deciding that no change would be made to the prior year numbers, due the value not being material.

The depreciation charge for the year was €2,193

6. Accounts payable

Accounts Payable is detailed below:

	2022	2021
Suppliers	9,147	8,422
Staff Members	392	271
Non-Consolidated NATO Entities	9,529	8,954
Governments	1,028	1,197
	20,096	18,844

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 recognized at the reporting date.

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7. Deferred revenue & liabilities to nations

Deferred revenue is detailed below:

	2022	2021
Budget related	6,528	8,146
NSIP related	2,088	2,304
Other	638	
Lapses to be returned to nations in cash call	12,063	18,648
	21,317	29,098

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 2022. 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 coordinate with IS Treasury staff to return these lapsed credits to nations through the second cash call process of 2023

8. Advances Contributions

Advanced contributions are detailed below:

	2022	2021
Advanced Contributions	44,375	38,406

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 higher than the previous year, which reflects the budget increases that nations have approved for 2023.

9. Net assets

Net assets are detailed below:

	2022	2021
Capital contributions	63,524	36,583
Accumulated surpluses/(deficits)	(11,046)	(9,229)
Net assets / equity	52,478	27,354
Unrealised Exchange Rate Gain/Loss	(3)	7
Total net assets / equity adjusted for exchange rate gain or loss	52,475	27,361

Net assets relate to PP&E recognized by ACT, less depreciation charges accumulated in the current and prior years. The PP&E recognized 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.

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10. 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 recognized as revenue when it is earned.

The following key revenue items are presented:

	2022	2021
Assessment Calls/Contributions	167,685	142,968
NSIP Revenue	895	814
Other Income	203	124
	168,782	143,906

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 2022	67,877	75,218	206,207	23,001
Amount in Euros (for comparison only)	67,877	71,371	20,267	4,796

11. 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.

Furthermore, following on the issue of Principle vs Agent, ACT has removed €2.25M of transactions where ACT acted in an Agent capacity.

With regard to 3rd party reimbursable activity some €2.15M of activity has been undertaken during 2022.

12. 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.

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13. Expenses

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

	2022	2021
Personnel Costs (Chapter 1)		
Salaries & associated costs	43,471	36,905
Consultants	23	100
Training	1,291	804
Other	407	753
Total Chapter 1	45,192	38,562

Mission Support Costs (Chapter 2)		
General Support and Utility Costs	7,659	6,290
Contractors	48,415	47,203
Travel and Subsistence	7,210	2,767
AIS Support	57,837	46,954
Mission Equipment Costs	75	50
Communications	1,080	662
Training	761	447
Total Chapter 2	123,037	104,373

Capital & Investments (Chapter 3 & NSIP)		
Mission Equipment Assets	0	0
NSIP Funded Contractor Support	802	774
Other	69	0
Total Chapter 3	871	774

Expenses relating to contractors are reflected in Chapter 2 and reflects the Budget Committee guidance set out in BC-D(2021)0046 Rev 2. A significant part of this category of expense is with the CMRE. In 2022, ACT incurred €23,147M of expenses relating to contractor services provided by CMRE. The other significant amount expensed by ACT in relation to contractor costs were payments made to NCIA, which totalled €43,078M in 2022. Included in this amount were payments totalling €21,242M for the NCIA Programme of Work and €21,429M for expenses incurred under the NCIA SLA. The remainder were ad hoc expenses that ACT incurred with NCIA during the year. Additionally, ACT expended €831 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 have increased from the prior year.

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14. Staff resources

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

	2022	2021
Salaries of Civilian Staff	26,799	22,946
Allowances of Civilian Staff	6,851	6,045
Contributions to Health Insurance (c)	5,620	4,842
Contributions to Pension Funds (d)	2,468	2,040
	41,738	35,873

B) Analysis of staff numbers - the number of full-time equivalent persons employed as at 31 December 2022 was:

	HQ SACT	JWC	JFTC	JALLC
Military	478	174	98	30
Civilian	143	60	26	15
Temporary Civilian	13	0	0	0
Reimbursable Civilian	3	0	1	0
Local Wage Rate (LWR)	0	12	0	0
Total	637	246	126	45

Voluntary National Contributions (VNC)	32	1	3	1
Partnership for Peace (PfP)	1	0	1	0
Overages in addition to VNC	3	2	4	0
Host Nation	21	5	0	2
Legacy Transition	12	0	1	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 3.342% to 21.098% of gross salary, which are matched by contributions paid by ACT. For 2022 ACT contributions totalled €5,620M

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 recognized in these financial statements.

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

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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 €2,468M during 2022.

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 2022, ACT civilian staff across all Headquarters carried forward 2,724 leave days. In monetary terms, this equates to approximately €1,474M 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 recognize a liability in these financial statements.

15. 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.

16. Finance costs

This includes the sum of realized exchange rate gains and losses of €375; bank interest of €15; as well as bank charges incurred by ACT entities for normal business transactions (€10.5).

17. Related Party Transactions

NATO is an organization 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 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.

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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 2022 ACT Consolidated Financial Statements.

18. 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 2022 the Representation Funds allocated to SACT, and subsequently delegated, where as follows:

	2022	2021
HQ SACT & STRE	33.7	37.4
JWC	3.7	4.1
JFTC	1.1	1.1
JALLC	0.6	0.7
Total	39.1	43.3

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 2022, €13.7K of available funds were lapsed.

19. 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 2022	Jan 21 ¹	Jan 21	Jan 21	Dec 22 ²	Average 22 ³	Dec 22
FY 2021/20				Dec 22 ²	Average 22 ³	Dec 22
¹ Rate used in 2022 Budget Authorisation ² Rate used to revalue outstanding commitments at year end prior to rolling forward to 2023. FY 2021 & 2022 only ³ Rate used in determining expenditure throughout the year						

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.

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Financial Expenditure recorded in Budget Execution Statements (BES):

Budget 201 – HQ SACT	25,745	
Budget 211 – NCS – Adaptation	7,428	
Budget 252 – JALLC	2,535	
Budget 255 – JWC	20,706	
Budget 256 – JFTC	5,832	
Budget 257 – ACT Programme of Work (USD)	35,690	
Budget 258 – ACT Programme of Work (EUR)	70,363	
Total		168,299

Expenses recorded in Statement of Financial Performance:

Chapter 71	45,193	
Chapter 72	123,032	
Capitalized Chapter 72	5	
Capitalized Chapter 73	69	
Total Expenditure equal to BES	168,299	
NSIP expenditure	1,475	
Less capitalized Chapter 2, 3 & NSIP expenditure (PP&E)	(747)	
Depreciation charges	2,193	
Other expenses	2,151	
Finance Costs	400	
Total Expenses in Statement of Financial Performance		173,771

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 €12M. 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 (End of Year Exchange)
		2020	2021	2022	Total	
201	USD	6,916	60,195	1,191,207	1,258,318	1,187,316
211	USD	119,018	5,592	1,206,848	1,331,458	1,256,330
252	EUR	0	12,638	166,218	178,856	178,856
255	NOK	729,655	823,770	3,334,750	4,888,175	465,430
256	PLN	0	226,231	292,408	518,639	110,695
257	USD	10,167	230,816	6,894,603	7,135,586	6,732,955
258	EUR	11,887	539,264	1,580,498	2,131,649	2,131,649
Total						12,063,231

20. 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 2021 rate of exchange. The totality of transfers undertaken in 2022 do not breach the authorized Budget Authority outlined in BC-BA(2022)0003 dated 22 November 2022.

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.

21. 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 2022, ACT was also given specific permission to also make the following Special Carry Forwards. The BC-D(2022)0239(INV) dated 20 December 2022 refers:

ACT USD POW (BC 257) – 116,863 EUR – next generation M&S and PM-ADM Capability programmes. Synergies and overlaps between MSTL Cap Programs and other capability programs and initiatives.

ACT EUR POW (BC 258) – 255,000 EUR – next generation M&S and PM-ADM capability programmes. For NIAG or other industry organization to evaluate potential viability of requirements from the industry point of view.

22. 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.

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In accordance with NATO reference documents PO(97)98 and MBC-DS(97)23, the consolidated 2022 Annual Report on MWA activity within the ACT Budget Group, has been submitted to the Budget Committee.

Summary data for MWA activity across ACT is shown in the table below

ACT MWA Special Purpose Financial Report				
Financial Year ending 31 December 2022				
	HQ SACT	JWC	JFTC	JALLC
	USD	NOK	PLN	EUR
Total Assets	107,849	11,857,526	1,627,056	1,137,878
Total Liabilities	9,171	6,316,045	675	149,765
Total Equity (Reserves)	98,677	5,541,481	1,626,381	978,605
Total Liability and Equity	107,848	11,857,526	1,627,381	1,128,370
Total Revenue	145,641	7,834,780	841,802	800,920
Total Expenditure	(142,052)	(7,279,481)	(450,721)	(795,265)
Net Profit/(Loss)	3,589	555,298	391,081	5,655
Net Worth Beginning Balance	95,088	4,986,183	1,235,300	972,950
Net Profit/(Loss) Current Year	3,589	555,298	391,081	5,655
Net Worth Ending Balance	98,677	5,541,481	1,626,381	978,605
Number of Employees Full Time Equivalentents (FTE)				
Full Time Employees	-	2	-	3
Part Time Employees	-	11	12	-
Total FTEs	-	13	12	3

23. 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.

24. 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 2022 (Amounts in EUR)

STATEMENT OF FINANCIAL POSITION PER HEADQUARTER

	HQ SACT			JWC			JFTC		
	2022	2021	Difference	2022	2021	Difference	2022	2021	Difference
Current Assets									
Total Cash & Cash Equivalents	70,741,436	70,026,472	714,964	6,044,826	7,841,112	(1,796,287)	2,093,108	1,795,643	297,465
Receivables	1,847,397	1,967,853	(120,455)	1,055,412	785,116	270,296	392,073	1,592,331	(1,200,258)
Total Advances & Prepayments	923,710	800,415	123,296	495,304	378,112	117,192	31,848	39,468	(7,620)
Non-Current Assets									
Property, Plant & Equipment	21,946,780	22,476,563	(529,783)	27,691,110	3,093,526	24,597,584	2,839,856	1,783,677	1,056,179
Total Assets	<u>95,459,323</u>	<u>95,271,303</u>	<u>188,022</u>	<u>35,286,652</u>	<u>12,097,866</u>	<u>23,188,785</u>	<u>5,356,885</u>	<u>5,211,119</u>	<u>145,766</u>
Liabilities									
Payables	16,706,246	16,026,724	679,522	2,456,834	3,316,308	(859,474)	723,146	612,084	111,061
Deferred Revenue	18,777,416	24,749,998	(5,972,583)	225,591	823,529	(597,938)	363,880	1,285,237	(921,357)
Advance Contributions	38,031,987	32,010,924	6,021,063	4,913,116	4,864,503	48,613	1,430,004	1,530,122	(100,117)
Other Advances	0	0	0	0	0	0	0	0	0
Total Liabilities	<u>73,515,649</u>	<u>72,787,646</u>	<u>728,002</u>	<u>7,595,541</u>	<u>9,004,340</u>	<u>(1,408,799)</u>	<u>2,517,030</u>	<u>3,427,443</u>	<u>(910,413)</u>
Net Assets									
Capital Contributions	30,164,461	29,491,459	673,002	29,326,900	4,449,196	24,877,704	4,032,534	2,642,081	1,390,453
Accumulated surplus (deficit)	(8,217,683)	(7,014,897)	(1,202,785)	(1,635,790)	(1,355,670)	(280,119)	(1,192,678)	(858,405)	(334,273)
Unrealised exchange rate gain	(3,105)	7,093	(10,198)						
Total assets / equity	<u>21,943,673</u>	<u>22,483,655</u>	<u>(539,981)</u>	<u>27,691,110</u>	<u>3,093,526</u>	<u>24,597,585</u>	<u>2,839,856</u>	<u>1,783,676</u>	<u>1,056,179</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 2022 (Amounts in EUR)

STATEMENT OF FINANCIAL POSITION PER HEADQUARTER

	JALLC			NSIP			Total	Consolidation	Published
	2022	2021	Difference	2022	2021	Difference	2022	Postings	2022
Current Assets									
Total Cash & Cash Equivalents	146,975	109,220	37,756	2,202,656	2,364,053	(161,397)	81,229,002	27,774	81,256,776
Receivables	71,123	89,338	(18,216)				3,366,005	(193,537)	3,172,467
Total Advances & Prepayments	71,576	20,288	51,288				1,522,438	(166,398)	1,356,039
Non-Current Assets									
Property, Plant & Equipment	0	0	0	0	0	0	52,477,747		52,477,747
Total Assets	<u>289,674</u>	<u>218,846</u>	<u>70,828</u>	<u>2,202,656</u>	<u>2,364,053</u>	<u>(161,397)</u>	<u>138,595,191</u>	<u>(332,161)</u>	<u>138,263,030</u>
Liabilities									
Payables	427,643	283,269	144,374	114,268	60,501	53,767	20,428,137	(332,161)	20,095,976
Deferred Revenue	(137,970)	(64,423)	(73,546)	2,088,388	2,303,552	(215,164)	21,317,305		21,317,305
Advance Contributions							44,375,108		44,375,108
Other Advances			(15,779)				0		0
Total Liabilities	<u>289,673</u>	<u>218,846</u>	<u>55,049</u>	<u>2,202,656</u>	<u>2,364,053</u>	<u>(161,397)</u>	<u>86,120,550</u>	<u>(332,161)</u>	<u>85,788,389</u>
Net Assets									
Capital Contributions	0	0	0	0	0	0	63,523,895		63,523,895
Accumulated surplus (deficit)	0	0	0	0	0	0	(11,046,148)		(11,046,148)
Unrealised exchange rate gain							(3,105)		(3,105)
Total assets / equity	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>52,474,642</u>	<u>0</u>	<u>52,474,642</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 2022 (Amounts in EUR)

STATEMENT OF FINANCIAL PERFORMANCE PER HEADQUARTER

	HQ SACT			JWC			JFTC		
	2022	2021*	Difference	2022	2021	Difference	2022	2021	Difference
Total Revenue	167,391,751	142,055,703	25,336,048	22,124,900	19,462,416	2,662,484	6,880,437	6,821,843	58,594
Total Expenses	169,584,583	143,952,651	25,631,732	22,124,900	19,462,416	2,662,484	6,880,437	6,821,843	58,594
End of Year Result	<u>(2,192,632)</u>	<u>(1,896,947)</u>	<u>(295,684)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

	JALLC			NSIP			Consolidation	Published
	2022	2021	Difference	2022	2021	Difference	Eliminations	2022
Total Revenue	1,271,330	1,060,356	210,974	1,567,663	1,024,604	543,059	(27,658,386)	171,577,695
Total Expenses	1,271,330	1,060,356	210,974	1,567,663	1,024,604	543,059	(27,658,386)	173,770,327
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>(2,192,632)</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

**Note that the prior year revenues for HQ SACT were originally reported in the 2021 financial statements as 119,647,495 and expenses 117,750,548. The inter-entity items were deducted from HQ SACT at the time but are now shown separately as consolidated eliminations*

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Statement of Position		Statement of Performance	
	Inter-Entity Eliminations		Inter-Entity Eliminations
Assets		Revenue	
Current Assets			
Cash and Cash Equivalents	27,775	Operating Revenue	27,672,462
Receivables	(209,936)	Inter-Entity Revenue	(14,076)
Advance to Consolidated Entity	<u>(150,000)</u>		<u> </u>
Total Current Assets	(332,161)	Total Revenue	27,658,386
Liabilities		Expenses	
Payables	332,161	Inter-Entity Expenses	(27,658,386)
	<u> </u>		<u> </u>
Total Liabilities	<u><u>332,161</u></u>	Total Expenses	<u><u>(27,658,386)</u></u>

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ANNEX A TO
ACT CONSOLIDATED FINANCIAL STATEMENTS 2022
DATED 31 MARCH 2023

ACT WRITE OFF REPORT OF INTERNATIONAL PROPERTY 2022

Command	Headquarters Property	Net Book Value (in currency)	Number of Reports of Survey	Comments
HQ SACT	Laptop	\$2,618	1	Loss report
JFTC	Furniture	PLN 1,455	2	After long and intensive use, no longer usable by JFTC
JFTC	Equipment	PLN 1,005	6	After long and intensive use, no longer usable by JFTC