



NORTH ATLANTIC COUNCIL
CONSEIL DE L'ATLANTIQUE NORD

NATO UNCLASSIFIED

19 December 2024

**DOCUMENT
PO(2024)0426-AS1**

**IBAN AUDIT REPORT ON THE 2023 CONSOLIDATED FINANCIAL STATEMENTS
OF ALLIED COMMAND TRANSFORMATION (ACT)**

ACTION SHEET

On 19 December 2024, under the silence procedure, the Council noted the RPPB report and the IBAN Audit Report attached to PO(2024)0426, approved the conclusions and recommendations in the RPPB report, and approved the public disclosure of the 2023 Consolidated Financial Statements of ACT, the associated IBAN Audit Report and the RPPB report.

(Signed) Mark Rutte
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to PO(2024)0426.

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16 December 2024

DOCUMENT

PO(2024)0426

Silence Procedure ends:

19 Dec 2024 - 17.30

To: Permanent Representatives (Council)

From: Secretary General

IBAN AUDIT REPORT ON THE 2023 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) Audit Report on the 2023 Consolidated Financial Statements of the Allied Command Transformation (ACT). IBAN issued a qualified opinion on the Financial Statements and on compliance for the year ended 31 December 2023.
2. I do not believe this issue requires further discussion in Council. Therefore, **unless I hear to the contrary by 17.30 on Thursday, 19 December 2024**, I shall assume that Council has 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 2023 Consolidated Financial Statements of ACT, the associated IBAN Audit Report and the RPPB report

(Signed) Mark RUTTE

1 Annex
2 Enclosures

Original: English

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**IBAN AUDIT REPORT ON THE 2023 CONSOLIDATED FINANCIAL STATEMENTS OF
ALLIED COMMAND TRANSFORMATION (ACT)****Report by the Resource Policy and Planning Board**

References:

A. IBA-AR(2024)0013	IBAN Audit Report on the Consolidated Financial Statements of the Allied Command Transformation (ACT) for the year ended 31 December 2023
B. C-M(2015)0025	NATO Financial Regulations (NFRs)
C. C-M(2016)0023	NATO Accounting Framework (NAF)
D. PO(64)379	NATO Civilian Personnel Regulations (CPRs)
E. PO(2023)0302 (INV)	NATO Enterprise List of Entities and Points of Presence
F. BC-D(2015)0260-REV3 (INV)	NATO Financial Rules and Procedures (FRP)
G. BC-D(2018)0004-REV1	Budget Procurement Guidance
H. BI-SC Directive 60-70	Bi-Strategic Command Procurement Directive
I. 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 2023 Consolidated Financial Statements of the Allied Command Transformation (ACT). IBAN issued a qualified opinion on the Financial Statements and on compliance for the year ended 31 December 2023 (reference A).

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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, IBAN made seven observations and recommendations for the ACT, including two observations that impacted the audit opinion on the financial statements and on compliance. These two observations concern material incompleteness and non-compliance related to intangible assets, as well as cash and cash equivalents. The other five observations refer to: the need for clarification from Council with respect to the NATO School Oberammergau (NSO) legal, regulatory and control status; need to clarify the regulations regarding the mechanism of pre-financing non-appropriated activities; non-compliance with the NATO Financial Regulations (NFRs) (reference B) concerning the Joint Warfare Centre (JWC) existing contractual arrangements established by Host Nation (HN) Norway and lack of VAT recovery; non-compliance with the NFRs and NATO Accounting

Framework (NAF) (reference C) regarding NATO Security Investment Programme (NSIP) funded assets; non-compliance with the NATO Civilian Personnel Regulations (CPRs) (reference D) regarding a blanket deviation to the subsistence allowance.

3.1. Observation 1 Material incompleteness and non-compliance related to Intangible Assets (basis for a qualified opinion on the financial statements and on compliance): The RPPB supports IBAN's recommendation that the ACT ensure compliance with the NAF and NFRs regarding intangible assets, by (a) recognising and disclosing all intangible assets, including assets under development, in the financial statements, in accordance with the NAF (IPSAS 31), including the accounting policy for the recognition, measurement and disclosure of intangible assets; (b) establishing internal controls to maintain comprehensive accounting records of intangible assets and assets under development, in accordance with Article 12 of the NFRs; (c) requesting authorisation from the Budget Committee (BC) for all intangible assets transferred or donated to third parties, and disclosing this information in the Financial Statements, in accordance with Article 17.4 of the NFRs; and (d) implementing a Directive or Standard Operating Procedures to address the sub-recommendations (a) to (c).

3.1.1. ACT agreed with the IBAN recommendation.

3.2. Observation 2 Material incompleteness and non-compliance related to cash and cash equivalents (basis for a qualified opinion on the Financial Statements and on compliance): The RPPB supports IBAN's recommendation that the ACT comply with the NFRs and NAF, by (a) recognising and disclosing in its Statement of Financial Position financial assets related to third-party cash balances under HQ Supreme Allied Command Transformation (SACT) authority, and their associated financial liabilities towards third-parties in accordance with the NAF; (b) recognising the bank account balance related to ACT conferences fees collection as cash and cash equivalent on the face of ACT Statement of Financial Position, and (c) strengthening internal controls over the reporting of cash and cash equivalents, financial assets and financial liabilities in accordance with Article 12 of the NFRs.

3.2.1. In its reply to IBAN, the ACT disagreed with the sub-recommendation (c), noting that the reporting of cash and cash equivalents, financial assets and financial liabilities is an issue related to ACT policy interpretation and not a matter of internal controls. From IBAN's point of view this matter is related to internal control as per Article 12 of the NFRs, which requires to safeguard assets, verify the accuracy and reliability of accounting data and records, and establish and maintain comprehensive accounting records of all assets and liabilities. At the RPPB meeting held on 7 November, the ACT agreed to implement this recommendation in a timely manner.

3.3. Observation 3 Clarification needed from the North Atlantic Council with respect to the NATO School Oberammergau legal, regulatory and control status: In 2023, the Consultation, Command and Control Board approved a new version of the NATO Enterprise List of Entities and Points of Presence (reference E). IBAN reviewed the list and noticed that it includes the NSO as part of the NATO Enterprise List of Entities. As a result, IBAN performed an assessment of the legal and regulatory status of NSO and found indications supporting that the NSO is a NATO Entity controlled by HQ SACT, and operating under the

juridical personality possessed by HQ SACT. These indications include: (a) the transfer of operational control authority from Supreme Headquarters Allied Powers in Europe (SHAPE) to HQ SACT in 2003; (b) the activation, at the request of HQ SACT, of the NSO as a NATO Military Body under the operational control of SACT in 2004, granting the NSO international status without any restrictions to the relevant provisions of the Protocol on the Status of International Military Headquarters set up pursuant to the North Atlantic Treaty (Paris Protocol); and (c) the handover of NSO infrastructure assets to HQ SACT under the 2004 Support Agreement. As per the IBAN Audit Report, *a Support Agreement concerning 'the transfer, use and support of certain premises and buildings at Hötzenhof-Kaserne and Vicinity Oberammergau, Federal Republic of Germany for the NATO School' was signed in 2004 between the Federal Ministry of Defence of the Federal Republic of Germany (FMOD), Headquarters, United States Army, Europe, and Seventh Army (HQ USAREUR) also acting on behalf of the HQ United States European Command (HQ USEUCOM), the US Army Installation Management Agency – Europe Region (IMA-E) and HQ SACT also acting on behalf of SHAPE.* The NSO is not listed as a participant in this Support Agreement, which according to IBAN, indicates its control by HQ SACT. Therefore, IBAN recommends that ACT seek clarification from the North Atlantic Council regarding the legal, regulatory and control status of the NATO School Oberammergau, including whether it should be governed by the NATO Financial Regulations, and, where applicable, the Civilian Personnel Regulations.

3.3.1. In HQ SACT's view, the NSO does not fall under HQ SACT's juridical personality, and is not subordinate to HQ SACT because all relevant NAC-approved documents since 2004 such as MC58/3, MC 324/3, and MC 458/4 clearly designate NSO as under SACT's coordinating authority only and not under SACT's operational control. HQ SACT regards the NSO as an entity established and funded by two Nations under a bilateral arrangement and the ACT does not consider that the activation in 2004 as a NATO Military Body changed the legal status of the NSO. HQ SACT considers the relationship between HQ SACT and the NSO since 2003 as solely functional and based on coordination to support the HQ SACT in fulfilling its mission related to individual training and education. Moreover, as per MC 0324/3, the NSO is not part of the NATO Command Structure, and without any operational control from HQ SACT, indicating only a coordination requirement towards HQ SACT.

3.3.2. As per the IBAN Audit Report, *HQ SACT established Directive 75-1 (in 2016), which outlined the annual audit of the NSO financial statements shall be performed by the ACT Command Auditor.* In 2023, HQ SACT informed the NSO that ACT could no longer conduct annual financial audits of the NSO's financial statements, and suggested that audit support be requested from IBAN.

3.3.3. The RPPB discussed this observation at their meeting held on 7 November 2024, please refer to paragraphs 8-10 below.

3.4. Observation 4 Need to clarify the regulations regarding the mechanism of pre-financing non-appropriated activities: In relation to the need to clarify the regulations regarding the mechanism of pre-financing non-appropriated activities, the RPPB supports IBAN's recommendation that the ACT seek clarification from the relevant governing body regarding the full compliance of pre-financing or non-appropriated activities with the NFRs and NATO Financial Rules and Procedures (FRPs) (reference F), provide appropriate disclosure in the notes to the financial statements on the use of cash holdings arising from common-funded budgetary appropriations to pre-finance non-appropriated activities, and on the status of any outstanding receivables for these activities, and include a segment reporting disclosure note related to third party reimbursable activities in its financial statements in accordance with the NAF.

3.4.1. The RPPB notes that IBAN raised a similar observation for several NATO entities (ACO and NDC (part of IMS Budget Group)) during the audit of the 2023 financial statements. The RPPB notes that this topic was brought forward and discussed in the Budget Committee (BC), in the context of ACT's budget screening in order to ensure the appropriate governance approval for pre-financing reimbursable costs. The RPPB notes that the International Staff also support addressing this issue in the next budget guidance for all budget holders. As a result, the RPPB acknowledges that the BC, as Finance Committee, approved that the ACT Budget Holder can continue pre-financing appropriated and non-appropriated activity on a reimbursable basis, noting that this approval extends to similar pre-financing arrangements for ACO and IMS Budget Holders (ref. BC-DS(2024)0044).

3.5. Observation 5 Non-compliance with the NATO Financial Regulations concerning JWC existing contractual arrangements established by Host Nation Norway and lack of VAT recovery: The RPPB supports IBAN's recommendation that the ACT ensure full compliance with Article 32 of the NFRs, Article 13 of FRP XXXII, the NAF, the Budget Procurement Guidance (reference G), the Budget Guidance for 2023 (ref. BC-D(2023)0054) and Bi-SC Procurement Directive 60-70 (reference H) by (a) requesting approval from the BC for deviations from standard procurement procedures for existing contractual arrangements established by HN Norway; (b) conducting market surveys at least every five years to ensure that the prices resulting from contractual arrangements established by HN Norway remain fair and reasonable; (c) requesting a claim for VAT recovery from HN Norway for shared costs incurred related to operations and maintenance, waste management, water and sewage, security services, and any other relevant services for which VAT was unduly paid by JWC in accordance with the Memorandum of Agreement (MoA) with HN Norway and its underlying Local Arrangement; (d) recognising VAT receivables and corresponding deferred revenue/liabilities towards Nations related to accumulated unduly paid VAT, subsequent to filing a formal claim for VAT recovery from the HN Norway; (e) ensuring consistency with the provisions of the MoA with HN Norway regarding electricity, gas supplies, and cleaning services, which should be handled on a reimbursable basis, with JWC reimbursing HN Norway rather than paying suppliers directly.

3.5.1. In its reply to IBAN, the ACT disagreed with sub-recommendations (a) stating that while the MoA remains in force, the ACT has the necessary "deviation" to normal procurement in place, and sub-recommendation (e) underlining its compliance with the MoA and confirming the current procedure as the most effective and efficient way to pay for the above services and to identify and claim VAT reimbursement whilst still benefitting from the Norwegian Ministry of Defence negotiated prices. According to IBAN, BC's agreement to proceed with the signing of the MoA should not be construed as a formal approval to deviate from standard competitive procurement rules, and therefore a formal approval from the BC for deviations from standard procurement procedures for existing contractual arrangements established by HN Norway should be obtained. Moreover, the JWC practice of paying directly the suppliers rather than reimbursing Norway is inconsistent with the provisions of the MoA with HN Norway, which stipulates that such costs should be handled on a reimbursable basis, with JWC reimbursing HN Norway instead of paying the suppliers directly.

3.6. Observation 6 Non-compliance with the NATO Financial Regulations and NATO Accounting Framework regarding NSIP funded assets: The RPPB supports IBAN's recommendation that the ACT ensure full compliance with the NAF and NFRs regarding NSIP funded assets recognition, disclosure and audit trail. In particular, the ACT should ensure that NSIP-funded Communication and Information System and Automated Information System equipment handed over to ACT are recognised and disclosed in ACT's financial statements until they are formally handed over to the NATO Communications Information Agency.

3.7. Observation 7 Non-compliance with the NATO Civilian Personnel Regulations regarding a blanket deviation to the subsistence allowance: The RPPB supports IBAN's recommendation that the ACT fully comply with the provisions of Article 41.2 of the NATO CPRs by ensuring that reimbursement of expenditure actually incurred in excess of the full approved rate of subsistence allowance, when this will facilitate the transaction of official business, is authorised only in exceptional cases.

3.7.1. In its formal comments, the ACT disagreed with the recommendation stating that reimbursement authorisation of expenditure incurred in excess of the full approved rate of subsistence allowance, when this will facilitate the transaction of official business, has been delegated to the ACT Financial Controller, in compliance with the NATO CPRs. However, IBAN considers that such a blanket deviation, by its very nature, is contrary to the principle of exception set out in Article 41.2.1 of the NATO CPRs.

3.8. Other Matter¹ on the Financial Statements: IBAN included two Other Matters paragraphs concerning the status of the NSO (reference to observation no. 3) and the accounting treatment of NSIP calls for contributions (reference to observation no. 6).

¹ Other Matter is used when the IBAN considers it necessary to communicate a matter other than those that are presented or disclosed in the financial statements that, in IBAN's judgement, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report.

4. In addition, IBAN followed up on the status of observations and recommendations from the previous years' audits and found that two were closed and two remain in-progress. The 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 recommendation which is in-progress.

DISCUSSION

6. At the RPPB meeting held on 7 November 2024, IBAN presented the two observations leading to a qualified audit opinion on the financial statements and on compliance. Concerning the Other Matter paragraph on the Financial Statements as regards the status of the NSO, IBAN recommended that the ACT seek clarification from Council regarding the legal, regulatory and control status of the NSO.

7. ACT agreed with two IBAN observations that lead to the qualified audit opinion on the financial statements and on compliance and expressed its commitment to do its utmost to implement them as soon as possible.

8. Regarding the Other Matter on the Financial Statements on the NSO legal, regulatory and control status, the ACT disagrees with IBAN's observation and recommendation and per MC 324/3 on 30 January 2013, considers the NSO is not part of the NATO Command Structure or operating under HQ SACT coordinating authority only and is instead under the governance of two Nations. HQ SACT explained that they have no authority to submit a superseding activation request to the NAC for an entity it does not own, unless, as was the case in 2004, requested to do so by two Nations, the "owners" of NSO. In light of the above, ACT reiterated that it did not agree to this observation or recommendation, but stands ready to support the two Nations, should those nations desire this HQ to submit a superseding activation request that clarifies the point that operational control can only be assigned over entities within the NCS.

9. At the RPPB meeting held on 07 November 2024, the respective two Nations acknowledged ACT's position, I. As a result, the RPPB did not support IBAN's recommendation to seek clarification from the NAC regarding the legal, regulatory and control status of the NSO. Furthermore, the RPPB does not consider that the NSO is to be consolidated into ACT's Financial Statements. .

10. Meanwhile, the RPPB emphasized that the NSO should continue to be audited, consistent with IBAN Charter Article 1: *'The Council, in consultation with the Board as appropriate, may authorise the Board to audit other multi-national entities or operations in which NATO has a particular interest.'*

CONCLUSIONS

11. IBAN issued a qualified opinion on both the 2023 ACT Consolidated Financial Statements and on compliance. Seven observations and recommendations were raised for the ACT; two out of which impact the opinion on financial statements and on compliance. Two previous years' observations for the ACT were closed and two were in-progress.

12. The RPPB supports IBAN's recommendation that the ACT makes improvements in relation to the material incompleteness and non-compliance related to intangible assets and cash and cash equivalents.

13. Following the RPPB meeting held on 7 November, the RPPB concluded that ACT does not need to consolidate NSO into its financial statements nor is clarification from Council needed regarding the legal, regulatory and control status of the NSO. Furthermore, the RPPB recommends that NSO should be considered to be audited by IBAN, similar to other multi-national entities.

14. Regarding IBAN's observation on the mechanism of pre-financing non-appropriated activities, the RPPB acknowledges that the BC approved that the ACT Budget Holder can continue pre-financing appropriated and non-appropriated activity on a reimbursable basis, noting that this approval extends to similar pre-financing arrangements for ACO and IMS Budget Holders (ref. BC-DS(2024)0044). The RPPB also notes that the International Staff also support addressing this issue in the next budget guidance for all budget holders.

15. Finally, the RPPB supports IBAN's recommendation that the ACT comply with the NFRs concerning the JWC existing contractual arrangements established by HN Norway and lack of VAT recovery, comply with the NFRs and NAF regarding NSIP funded assets, and comply with the NATO CPRs regarding a blanket deviation to the subsistence allowance.

16. The RPPB notes the improvements made by the ACT and supports ACT's commitment to implement the remaining recommendation which is in-progress.

RECOMMENDATIONS

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

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

17.2. approve the conclusions at paragraphs 11 to 16;

17.3. approve to the public disclosure of the 2023 Consolidated Financial Statements of the ACT, its associated IBAN Audit Report and this report in line with agreed policy at reference I.



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

Brussels - Belgium



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IBA-A(2024)0089
27 August 2024

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

Cc: NATO Permanent Representatives
Chief of Staff, Allied Command Transformation
Supreme Allied Commander Transformation
Financial Controller, Allied Command Transformation
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 2023 – IBA-AR(2024)0013***

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

IBAN's report sets out a qualified opinion on the Financial Statements of the Allied Command Transformation (ACT) and on compliance for financial year 2023.

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 2023**

The International Board of Auditors for NATO (IBAN) audited the Allied Command Transformation (ACT) Consolidated Financial Statements for the year ended 31 December 2023, 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 2023 amounted to approximately EUR 207 million (EUR 174 million in 2022).

IBAN issued a qualified opinion on the Financial Statements and on compliance for the year ended 31 December 2023.

IBAN raised two Other Matters on the Financial Statements concerning the status of the NATO School Oberammergau (NSO) and the accounting treatment of NATO Security Investment Programme (NSIP) calls for contributions.

Status of the NATO School Oberammergau (NSO)

We draw attention to the following matters regarding the NATO School Oberammergau (NSO) legal, regulatory, and control status towards HQ SACT:

We found clear indications that the NSO is a NATO Entity controlled by HQ SACT, operating under its juridical personality. This includes:

- the transfer of operational control authority from Supreme Headquarters Allied Powers in Europe (SHAPE) to HQ SACT in 2003;
- the activation, at the request of HQ SACT, of the NSO as a NATO Military Body under the operational control of SACT in 2004, granting the NSO international status without any restrictions to the relevant provisions of the Protocol on the Status of International Military Headquarters set up pursuant to the North Atlantic Treaty (Paris Protocol);
- the handover of NSO infrastructure assets to HQ SACT under the 2004 Support Agreement.

HQ SACT has treated the NSO as a third-party entity and therefore has not required it to follow NATO Financial Regulations (NFRs) and other applicable regulations such

as the NATO Civilian Personnel Regulations (NCPRs). HQ SACT views the NSO as established by Germany and the United States of America under a bilateral arrangement and considers its relationship with the NSO as functional coordination only. Moreover, NSO is not part of the NATO Command Structure, indicating only a coordination requirement towards HQ SACT.

Consequently, the ACT 2023 Consolidated Financial Statements do not include the NSO's financial information. We found no evidence contradicting the NSO's status as a NATO Entity under HQ SACT's control, nor any deviation from Article 1 or Article 34 of the NFRs regarding the NSO.

We believe that the NSO's legal, regulatory, and control status towards HQ SACT requires clarification, as well as whether the NSO should be governed by the NATO Financial Regulations, and, where applicable, the Civilian Personnel Regulations.

Accounting treatment of NATO Security Investment Programme (NSIP) calls for contributions

Following last year's audit observation (IBA-AR(2023)0011) on weaknesses identified in the accounting treatment of NATO Security Investment Programme (NSIP) calls for contributions, ACT correctly recognised 'NSIP advance contributions' related to the first quarter of 2024 in 2023 for an amount of EUR 0.2 million in its Statement of Financial Position. However, ACT did not correct the comparative figures, resulting in an understatement of ACT's 2022 Current Assets and Liabilities by a total amount of EUR 1.4 million.

Our opinion is not modified in respect of these matters.

IBAN made seven observations and recommendations.

Two observations impact the audit opinion on the financial statements and on compliance:

1. Material incompleteness and non-compliance related to Intangible Assets.
2. Material incompleteness and non-compliance related to cash and cash equivalents.

The other five observations and recommendations do not impact the audit opinion on the Financial Statements and on compliance:

3. Clarification needed from the North Atlantic Council with respect to the NATO School Oberammergau legal, regulatory and control status.
4. Need to clarify the regulations regarding the mechanism of pre-financing non-appropriated activities.

5. Non-compliance with the NATO Financial Regulations concerning JWC existing contractual arrangements established by Host Nation Norway and lack of VAT recovery.
6. Non-compliance with the NATO Financial Regulations and NATO Accounting Framework regarding NSIP funded assets.
7. Non-compliance with the NATO Civilian Personnel Regulations regarding a blanket deviation to the subsistence allowance.

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

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(2024)0013

27 August 2024

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDIT REPORT ON THE FINANCIAL STATEMENTS OF THE

ALLIED COMMAND TRANSFORMATION

(ACT)

FOR THE YEAR ENDED 31 DECEMBER 2023

PUBLICLY DISCLOSED - PDN(2025)0009 - MIS EN LECTURE PUBLIQUE

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

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of 2023, for the 12-month period ended 31 December 2023, issued under document reference ACT/CG/BUDFIN/TT-8101/SER:NU, and submitted to IBAN on 18 March 2024. These Financial Statements comprise the Statement of Financial Position as at 31 December 2023, 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 2023, 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 2023.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the Financial Statements give a true and fair view of the financial position of ACT as at 31 December 2023, and of its financial performance, its cash flows and budget execution for the 12-month period ended 31 December 2023, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF).

Basis for Qualified Opinion on the Financial Statements

Non-Current Assets reported in the ACT 2023 Consolidated Financial Statements are materially incomplete. Specifically, Intangible Assets are not fully recognised and disclosed in the ACT Statement of Financial Position for an estimated amount of up to EUR 30 million as of 31 December 2023, as required by the NATO Accounting Framework (IPSAS 31). These Intangible Assets relate to integrated information systems including software licenses, and internally generated intangible assets controlled by ACT from 1 January 2013 to 31 December 2023.

Additionally, the Current Assets reported in the ACT 2023 Consolidated Financial Statements are materially incomplete and therefore understated due to the omission of financial assets in EUR equivalent, including cash balances, held in three bank accounts, totalling USD 3,442,937 as of 31 December 2023, and USD 4,043,705 as of 31 December 2022. These three bank accounts, opened and operated by Headquarters Supreme Allied Command Transformation (HQ SACT), were not recognised or disclosed in EUR equivalent in the ACT 2023 Consolidated Financial Statements. Two of the accounts are operated on behalf of Joint Force Command Norfolk and Naval Striking and Support Forces NATO (STRIKFORNATO), with closing balances of USD 3,441,277 as of 31 December 2023, and USD 4,023,380 as of 31 December 2022. The third account, mainly related to the collection of ACT conference fees, had a closing balance of USD 1,660 as of 31 December 2023, and

USD 20,325 as of 31 December 2022.

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.

Other Matter on the Financial Statements

Status of the NATO School Oberammergau (NSO)

We draw attention to the following matters regarding the NATO School Oberammergau (NSO) legal, regulatory, and control status towards HQ SACT:

We found clear indications that the NSO is a NATO Entity controlled by HQ SACT, operating under its juridical personality. This includes:

- the transfer of operational control authority from Supreme Headquarters Allied Powers in Europe (SHAPE) to HQ SACT in 2003;
- the activation, at the request of HQ SACT, of the NSO as a NATO Military Body under the operational control of SACT in 2004, granting the NSO international status without any restrictions to the relevant provisions of the Protocol on the Status of International Military Headquarters set up pursuant to the North Atlantic Treaty (Paris Protocol);
- the handover of NSO infrastructure assets to HQ SACT under the 2004 Support Agreement.

HQ SACT has treated the NSO as a third-party entity and therefore has not required it to follow NATO Financial Regulations (NFRs) and other applicable regulations such as the NATO Civilian Personnel Regulations (NCPRs). HQ SACT views the NSO as established by Germany and the United States of America under a bilateral arrangement and considers its relationship with the NSO as functional coordination

only. Moreover, NSO is not part of the NATO Command Structure, indicating only a coordination requirement towards HQ SACT.

Consequently, the ACT 2023 Consolidated Financial Statements do not include the NSO's financial information. We found no evidence contradicting the NSO's status as a NATO Entity under HQ SACT's control, nor any deviation from Article 1 or Article 34 of the NFRs regarding the NSO.

We believe that the NSO's legal, regulatory, and control status towards HQ SACT requires clarification, as well as whether the NSO should be governed by the NATO Financial Regulations, and, where applicable, the Civilian Personnel Regulations.

Accounting treatment of NATO Security Investment Programme (NSIP) calls for contributions

Following last year's audit observation (IBA-AR(2023)0011) on weaknesses identified in the accounting treatment of NATO Security Investment Programme (NSIP) calls for contributions, ACT correctly recognised 'NSIP advance contributions' related to the first quarter of 2024 in 2023 for an amount of EUR 0.2 million in its Statement of Financial Position. However, ACT did not correct the comparative figures, resulting in an understatement of ACT's 2022 Current Assets and Liabilities by a total amount of EUR 1.4 million.

Our opinion is not modified in respect of these matters.

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

Qualified Opinion on Compliance

Based on the procedures we performed, except for the matter described in the basis of qualification paragraph, 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 Qualified Opinion on Compliance

Establishing and maintaining a comprehensive inventory of assets is an important control to ensure the safeguard of ACT's assets in accordance with Article 12 of the NATO Financial Regulations.

ACT has not yet established comprehensive accounting records of Intangible Assets irrespective of when they were acquired or developed, including both intangible assets under development and completed assets.

Additionally, ACT has not established comprehensive accounting records for cash at bank under its authority to ensure the proper safeguarding of ACT cash at bank.

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 Commanders 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 authorised 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, 27 August 2024



Radek Visinger
Chair

OBSERVATIONS AND RECOMMENDATIONS

IBAN made seven observations and recommendations.

Two observations impact the audit opinion on the financial statements and on compliance:

1. Material incompleteness and non-compliance related to Intangible Assets.
2. Material incompleteness and non-compliance related to cash and cash equivalents.

The other five observations and recommendations do not impact the audit opinion on the Financial Statements and on compliance:

3. Clarification needed from the North Atlantic Council with respect to the NATO School Oberammergau legal, regulatory and control status.
4. Need to clarify the regulations regarding the mechanism of pre-financing non-appropriated activities.
5. Non-compliance with the NATO Financial Regulations concerning JWC existing contractual arrangements established by Host Nation Norway and lack of VAT recovery.
6. Non-compliance with the NATO Financial Regulations and NATO Accounting Framework regarding NSIP funded assets.
7. Non-compliance with the NATO Civilian Personnel Regulations regarding a blanket deviation to the subsistence allowance.

IBAN followed up on the status of observations and recommendations from the previous years' audits and found that two were closed, and two remain in progress. 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. MATERIAL INCOMPLETENESS AND NON-COMPLIANCE RELATED TO INTANGIBLE ASSETS

Reasoning

1.1 The NATO Accounting Framework (NAF) on Intangible assets Financial Reporting and Disclosure Requirements states that:

“NATO Reporting entities:

- Shall capitalise all controlled intangible assets above the NATO Intangible Asset Capitalisation Threshold. (...)
- Shall capitalise integrated systems and include research, development, implementation and can include both software and hardware elements;

(...)

- Shall capitalise other types of intangible assets acquired after 1 January 2013 including:
 - Copyright
 - Intellectual Property Rights
 - Software development;

(...)

- May consider Intangible Assets acquired prior to 1 January 2013 as fully expensed;
- Shall report controlled Intangible assets in its financial statements. (...)
- Shall, for intangible assets held prior to the 1 January 2013, and not previously recognized as an asset, provide a brief description of intangible assets in the notes to the financial statements. Such disclosure should include as a minimum the types of intangible held, locations where intangible assets are held and the approximate number of items held per asset category;

(...)

Where this adaptation conflicts with another requirement of IPSAS this adaptation shall apply. For the remainder, IPSAS 31 shall apply.”

1.2 According to the NAF on Intangible assets Disclosure Requirements: “In addition to what is needed as part of the foregoing Financial Reporting Requirements, the NATO Reporting Entity shall fully disclose in its accounting policies the use they made of the adapted IPSAS.”

1.3 From a compliance perspective, Article 12.1 of the NATO Financial Regulations (NFRs) states that: “The Secretary General, the Supreme Commanders, subordinate commanders by delegation and the other Heads of NATO bodies 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 (...).”

1.4 Article 12.2 of the NFRs on Internal Control requires NATO bodies to establish and maintain comprehensive accounting records of all assets and liabilities. Such accounting records include an inventory of PP&E and Intangible Assets, including assets under construction, indicating for instance the types of assets held, locations, the number of items per asset category and asset value. Article 12 of the NFRs applies to all assets, irrespective of when they were acquired.

1.5 According to article 17.4 of the NFRs, “Donations of property/assets which a NATO body has ownership and control of, shall only be authorised by the relevant finance committee. Donations shall be reported in the Annual Financial Statements.”

1.6 Articles 11 and 12 of the Financial Rules and Procedures (FRPs) XVII, on Donations and transfers, state that:

“11) Donations: a transaction that involves giving property/assets that has been written off to a non-NATO entity, free of charge. Donations shall be approved by the relevant finance committee.

12) Transfers: a transaction covering the movement of surplus property/assets between NATO entities. Such transactions shall be made at net book value and should be attempted before write-off procedures are initiated. Transfers of surplus serviceable assets shall be managed within the delegated authority of the Financial Controller and reported to the relevant finance committee on an annual basis.”

1.7 According to the NAF, if the NATO Communication Information Organisation (NCIO) acts as a service provider to NATO Commands for Computer Information System (CIS) and/or Automated Information Systems (AIS) assets including development of these assets, NCIO has control over these CIS and/or AIS assets. As a result, a significant part of CIS and AIS assets within NATO fall under the control of NCIO for financial reporting purposes.

1.8 As NCIO had not fully recognised its intangible assets in accordance with the NAF until financial year 2022, complete financial information regarding the recognition of intangible assets by NCIO was not available until the audit in 2023. Following the full recognition of CIS and AIS assets by NCIO in its 2022 Financial Statements, IBAN noted that not all CIS and AIS assets acquired and developed within NATO were in fact recognised by NCIO. This includes intangible assets directly acquired and developed by other NATO reporting entities that are not used by NCIO when providing goods and services to its customers as a service provider.

1.9 ACT had not recognised intangible assets in its previous financial statements and has not developed a Directive or Standard Operating Procedure related to the recognition, measurement and disclosure of Intangible Assets. IBAN, therefore, reviewed, as part of its risks-based audit of the ACT 2023 Financial Statements, whether ACT had acquired or developed any CIS and/or AIS assets, which had not been recognised by NCIO, in accordance with the NAF.

1.10 IBAN initiated this review during the interim audit of ACT in October 2023 and found clear indications that ACT had in fact acquired and/or developed in-house intangible assets, such as integrated information systems including software licenses, intellectual property, and internally developed intangible assets described above. This is because ACT's activities include applying innovation to capability development and warfare development efforts in order to deliver operational capabilities.

1.11 Firstly, the ACT as part of its Innovation Programme develops integrated information systems, such as Minimum Viable Products (MVPs). Based on the information provided, the ACT total expenditures related to Innovation amounted to approximately EUR 50 million since 2016, a significant part of which related to the

delivery of integrated information systems. Out of the EUR 50 million, EUR 42 million were incurred since 2021. This amount excludes indirect costs such as overheads and travel expenses.

1.12 Secondly, ACT acquired and incurred costs for several indefinite or multi-year software licences, the most important of which are the Joint Theatre Level Simulation (JTLS) and Joint Conflict and Tactical Simulation (JCATS), the Electronic Military Training and Exercise Programme (eMTEP) for military exercises, the Electronic Education and Individual Training Programme (eITEP) and the NATO Deterrence Reporting Tool (NDRT) for education, training and evaluation.

1.13 This software is critical to support ACT's Education, Training, Exercises and Evaluation activities conducted by HQ SACT, the Joint Warfare Centre (JWC) and Joint Force Training Centre (JFTC). JTLS and JCAST have been continuously renewed for five-year periods since 2004, while eITEP and eMTEP have been acquired and improved in-house by ACT since 2011 and 2015 respectively.

1.14 Finally, JWC has acquired over the years a significant amount of intellectual property and patents related to warfare information that are utilised as settings to develop military exercise scenarios. These settings and scenarios are stored in a database that is continuously utilised for recurring military exercises or for the development of new ones.

Observations

1.15 In 2023, ACT initiated an analysis and recognised in its Consolidated Financial Statements, for the first time, a Work in Progress (WiP) related to MVPs under development classified under the Property, Plant, and Equipment (PP&E) asset category on the face of its Statement of Financial Position for an amount of EUR 2 million.

1.16 IBAN found that Intangible Assets reported in the ACT 2023 Consolidated Financial Statements, are materially incomplete, as they are not fully recognised in the Statement of Financial Position, as required by the NAF (IPSAS 31). These Intangible Assets relate mainly to integrated information systems including software licenses, and internally generated intangible assets controlled by ACT from 1 January 2013 to 31 December 2023. More specifically, IBAN found the following misstatements:

- a) The WiP is understated, as it only includes expenses related to the external workforce and cloud infrastructure for five intangible assets under development. It does not include one MVP that was assessed as eligible for capitalisation but not capitalised for an amount of EUR 0.6 million. This amount, based on the ACT Innovation Branch's 2023 expenditures, excludes approximately EUR 18 million of other research and development expenses in 2023, some of which could be eligible for capitalisation;

- b) The value of completed intangible assets and assets under development prior to 2023, amounting to an estimated maximum amount of up to EUR 30 million, based solely on the ACT Innovation Programme budget since 2016, was not recognised and disclosed in the ACT Consolidated Financial Statements, as required by the NAF;
- c) The amount recognised and disclosed as WiP is incorrectly categorised under PP&E rather than being categorised and disclosed in the ACT Consolidated Financial Statements as Intangible Assets, as required by the NAF;
- d) The Intangible Assets acquired or developed prior to 1 January 2013, such as multi-year software licenses (JTLS, JCAST, etc.), and previously expensed are not disclosed in the notes to the financial statements, as required by the NAF;
- e) The accounting policy related to intangible assets disclosed in the ACT Consolidated Financial Statements does not disclose the specific accounting policy for the recognition, measurement and disclosure of assets under development as required by the NAF.

1.17 From a compliance perspective, IBAN found that ACT has not yet established comprehensive records of Intangible Assets irrespective of when they were acquired or developed, including both asset under development and completed assets, in accordance with Article 12 of the NFRs. Establishing and maintaining a comprehensive inventory of assets is an important control to ensure the safeguard of ACT's assets.

1.18 In addition, ACT has transferred or donated integrated information systems to third parties, such as Nations or other NATO bodies, and has granted the right to use integrated information systems to third parties through licencing agreements that include provisions for Intellectual Property Rights (IPRs) to protect ACT's intellectual property. Such transfers and donations were not authorised by the Budget Committee and reported in the annual financial statements, as required by Article 17.4 of the NFRs.

1.19 The material misstatements and non-compliance related to Intangible assets in the ACT 2023 Consolidated Financial Statements described above indicate that there are significant weaknesses in ACT's internal control over Intangible Assets, regarding compliance with the NAF and NFRs. The initiative taken by ACT to recognise assets related to integrated information systems in the ACT 2023 Consolidated Financial Statements shows that ACT has identified these internal control weaknesses and intends to address them going forward.

Recommendations

1.20 IBAN recommends that ACT ensure compliance with the NATO Accounting Framework (NAF) and NATO Financial Regulations (NFRs) regarding Intangible Assets by:

- a) Recognising and disclosing all Intangible Assets, including Assets under Development, in the financial statements, in accordance with the NAF (IPSAS 31). This includes the accounting policy for the recognition, measurement and disclosure of intangible assets;
- b) Establishing internal controls to maintain comprehensive accounting records of Intangible Assets and Assets under Development, in accordance with Article 12 of the NFRs;
- c) Requesting authorisation from the Budget Committee for all Intangible Assets transferred or donated to third parties, and disclosing this information in the Financial Statements, in accordance with Article 17.4 of the NFRs;
- d) Implementing a Directive or Standard Operating Procedures to address the sub-recommendations above.

2. MATERIAL INCOMPLETENESS AND NON-COMPLIANCE RELATED TO CASH AND CASH EQUIVALENTS

Reasoning

2.1 Article 6 of the NATO Financial Regulations (NFRs) requires the Financial Controller (FC) to exercise the responsibility of budgeting, accounting and reporting activities of the NATO body. This includes being responsible for the financial internal control system, and for the preparation of the financial statements in accordance with the NATO Accounting Framework.

2.2 Article 12.1 of the NFRs states that: *“The Secretary General, the Supreme Commanders, subordinate commanders by delegation and the other Heads of NATO bodies 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; [...].”*

2.3 Article 12.2 of the NFRs states that: *“In order to meet the desired internal control standards the Financial Controller shall:*

- (a) establish a system of internal financial and budgetary control, embracing all aspects of financial management including transactions for which appropriations have been approved and those funded from such non-appropriated fund accounts as they may authorise within their jurisdiction;(...)*
- (c) establish and maintain comprehensive accounting records of all assets and liabilities.”*

2.4 As per the NATO Accounting Framework (NAF), paragraph 15 of IPSAS 1 *“Financial statements are a structured representation of the financial position and financial performance of an entity. The objectives of general purpose financial statements are to provide information about the financial position, financial performance, and cash flows of an entity that is useful to a wide range of users [...]”*.

2.5 As per paragraph 17 of IPSAS 1 *“[...] the financial statements provide information about an entity’s: Assets; Liabilities [...]; Cash flows.”*

2.6 As per paragraph 27 of IPSAS 1, *“Financial statements shall present fairly the financial position, financial performance, and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue, and expenses set out in IPSAS. The application of IPSAS, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation.”*

2.7 As per paragraph 9 of IPSAS 28, *“A financial asset is any asset that is: (a) Cash [...]”*. It also states that *“A financial liability is any liability that is: (a) A contractual obligation: (i) To deliver cash or another financial asset to another entity”*.

2.8 As per paragraph 23 of IPSAS 28, *“If an entity does not have an unconditional right to avoid delivering cash or another financial asset to settle a contractual obligation, the obligation meets the definition of a financial liability [...]”*. In paragraph 24 it further explains that *“A financial instrument that does not explicitly establish a contractual obligation to deliver cash or another financial asset may establish an obligation indirectly through its terms and conditions.”*

2.9 As per the NATO Financial Rules and Procedures (FRPs) XXXI, *“The Financial Controller shall be responsible for the establishment and overall management of all bank and short term low risk investment accounts to be operated by the Treasury and Disbursing Officers designated pursuant to FRP VI.”*

2.10 The ACT directive 60-1, article 5-B-2 (b), in annex B states that *“FCs are responsible for ensuring that their activity accounting systems provide, at a minimum, for accounts which show: (4) Cash balances on hand, bank balances, imprest advances and advances to Disbursing Officers.”*

Observations

2.11 IBAN found, as part of bank confirmation audit procedures, that three USD bank accounts were opened and operated by HQ SACT on behalf of third parties, but were not recognised and disclosed in the ACT 2023 Consolidated Financial Statements.

2.12 Out of these three bank accounts, two were opened by HQ SACT BUDFIN to hold cash on behalf of Joint Force Command Norfolk and Naval Striking and Support

Forces NATO (STRIKFORNATO), with a closing balance of USD 3,441,277 as of December 31, 2023, and USD 4,023,380 as of December 31, 2022. These accounts fall under HQ SACT's authority since they were opened in the name of HQ SACT, which has signatory power with these banks. These bank account balances should have been recognised and disclosed in EUR equivalent as financial liabilities towards JFC Norfolk and Strike Force NATO in counterparty of a financial asset to reflect HQ SACT's contractual rights and obligations to deliver cash.

2.13 In addition, IBAN found a bank account with a closing balance of USD 1,660 as of December 31, 2023 and USD 20,325 as of December 31, 2022 that contains conference fees received by HQ SACT in relation to conferences organised and/or hosted by HQ SACT, and for which conference participants make electronic payments in advance. This bank account balance was not recognised and disclosed as cash and cash equivalents in EUR equivalent in the ACT 2023 Consolidated Financial Statements.

2.14 From a compliance perspective, it is important to verify the accuracy and reliability of accounting data and records, and to establish and maintain comprehensive accounting records of all assets and liabilities, to ensure the proper safeguarding of ACT cash at bank, in accordance with the principles of Article 12 of the NFRs.

2.15 As a result of the above, the ACT 2023 Consolidated Financial Statements are materially misstated and not compliant with the NAF and the internal control requirements outlined in Article 12 of the NFRs.

Recommendations

2.16 IBAN recommends that ACT comply with the NATO Financial Regulations and NATO Accounting Framework, by:

- a) Recognising and disclosing in its Statement of Financial Position financial assets related to third-party cash balances under HQ SACT authority, and their associated financial liabilities towards third-parties in accordance with the NATO Accounting Framework;
- b) Recognising the bank account balance related to ACT conferences fees collection as cash and cash equivalent on the face of ACT Statement of Financial Position;
- c) Strengthening internal controls over the reporting of cash and cash equivalents, financial assets and financial liabilities in accordance with Article 12 of the NFRs.

3. CLARIFICATION NEEDED FROM THE NORTH ATLANTIC COUNCIL WITH RESPECT TO THE NATO SCHOOL OBERAMMERGAU LEGAL, REGULATORY AND CONTROL STATUS

Reasoning

3.1 In 2023, the Consultation, Command and Control Board (C3B) approved a new version of the NATO Enterprise List of Entities and Points of Presence (Annex to PO(2023)0302 (INV)). IBAN reviewed this list and noted that the NATO School Oberammergau (NSO) was included as part of the NATO Enterprise List of Entities. However, IBAN had not been informed of this and, therefore, had not treated the School as a NATO entity for audit purposes. It is important to determine the legal and regulatory status of NSO, since the financial administration of all civilian and military headquarters and other organisations established pursuant to the North Atlantic Treaty, subject to the provisions of either the 1951 Ottawa Agreement or the 1952 Paris Protocol (i.e. NATO bodies as defined in the NFRs), are governed by the North Atlantic Council and shall apply the NATO Financial Regulations (NFRs).

3.2 As a result of the above, IBAN performed an assessment of the legal and regulatory status of NSO, in order to establish whether the School is a NATO body operating under one of the three juridical personalities possessed by NATO by virtue of the Ottawa Agreement or the Paris Protocol.

3.3 The conditions under which international military headquarters and agencies are granted international status are set out in their respective activation document, in accordance with the Procedures for the Activation and Reorganization in Peacetime of NATO Military Bodies and Rules for Granting them International Status and International Financing (C-M(69)22). IBAN obtained the activation document for NSO (C-M(2004)0076-AS1) and noted that, based on a formal request by HQ SACT and endorsed by the Military Committee (MCM-166-04), Council approved on 06 September 2004 the activation of the NSO as a NATO Military Body, applying Article XIV of Paris Protocol to the NSO, without any restrictions.

3.4 According to paragraph 4. a. on International Status of the Military Committee document endorsing the activation of the NSO: *“As stated in paragraph 12(c) of C-M(69)22, NATO Military Bodies other than international military headquarters may be granted international status by the Council if they are composed of significant elements from more than one member country and are truly international in mission and if the Council considers the execution of their peacetime missions to be conditional on the enjoyment of such status. NSO is an international organisation not included in the definitions in paragraphs b. and c. of Article I of the Paris Protocol. Accordingly it is hereby requested that relevant provisions, without any restrictions, of the Paris Protocol be applied to the NSO by virtue of Article XIV of the Protocol and that the NSO be accorded international status pursuant to paragraph 11.(a) of the Annex to C-M(69)22.”*

3.5 This activation granted international status to the NSO. Once activated and granted international status, both Allied Headquarters and International Military Headquarters or Organisations enjoy the same status under Article XIV of the Paris Protocol, unless the Council provides specific comments to the contrary.

3.6 Article XIV.1 of the Paris Protocol states that: *“The whole or any part of the present Protocol or of the Agreement may be applied, by decision of the North Atlantic Council, to any international military Headquarters or organization (not included in the definitions in paragraphs b. and c. of Article I of this Protocol) which is established pursuant to the North Atlantic Treaty.”*

3.7 According to Article I of the Paris Protocol:

“b. ‘Supreme Headquarters’ means Supreme Headquarters Allied Powers in Europe [SHAPE], Headquarters of the Supreme Allied Commander Atlantic [presently Headquarters Supreme Allied Command Transformation (HQ SACT)] and any equivalent international military Headquarters set up pursuant to the North Atlantic Treaty;

c. ‘Allied Headquarters’ means any Supreme Headquarters and any international military Headquarters set up pursuant to the North Atlantic Treaty which is immediately subordinate to a Supreme Headquarters;”

3.8 Article X of the Paris Protocol addresses the legal personality of Supreme Headquarters and their subordinate bodies. This article states that: *“Each Supreme Headquarters shall possess juridical personality; it shall have the capacity to conclude contracts and to acquire and dispose of property. The receiving State may, however, make the exercise of such capacity subject to special arrangements between it and the Supreme Headquarters or any subordinate Allied Headquarters acting on behalf of the Supreme Headquarters.”*

3.9 The Military Committee document endorsing the activation of the NSO (MCM-166-04) NSO as a NATO Military Body also includes the following provisions:

On the Requirement for Activation of the NSO:

“In accordance with MC 324/I (Final), 28 May 2004, the NSO is one of the NATO Education Facilities that are used to train and educate leaders and specialists. Consistent with NATO’s decision to realign the responsibilities of its two Supreme Allied Commanders along functional and operational lines and, as a part of this realignment, to synchronise NATO training, education and exercise programmes, operational control over the NSO was transferred from SHAPE to HQ SACT, effective 27 June 2003. [...] The execution of the NSO mission is impaired without consistent and equitable treatment for all its faculty and staff members, and is thus conditional on the enjoyment of Paris Protocol Status.”

3.10 Based on the above, NSO was activated as a NATO Military Body by Council.

On Command Relationships:

“The NSO is operated as a multinational, cost-sharing arrangement between the US European Command, and the German Ministry of Defence, under the operational control of Supreme Allied Commander Transformation (SACT). On behalf of SACT, Deputy Assistant Chief Of Staff for Joint Education and Training (DACOS JET) is the principal co-ordinating authority for education and training matters related to the NSO. Administrative and logistic support is furnished by the Federal Republic of Germany, the US Installation Management Agency - Europe Region (IMA-E) and US Army Europe (USAREUR). Representatives from NATO HQ (International Staff, and International Military Staff), the Strategic Commands and their subordinates, nations, and subject matter experts provide speaker support, Officers of Primary Responsibility (OPR)/Co-OPRs, support regarding course offerings/curricula, and other assistance to courses.”

3.11 Based on the above, the SACT has operational control over the NSO. Moreover, on behalf of SACT, the DACOS JET, which forms part of ACT, is the principal coordinating authority for education and training matters related to the School.

On Responsibilities:

“The NSO Commandant is SACT’s representative for all matters pertaining to the operation of the NSO.

The Commandant:

- (a) Commands all personnel attached or assigned to NSO.*
- (b) Ensures that the necessary administrative, logistical, personnel and security support are provided by the designated agents in accordance with existing agreements.*
- (c) Coordinates directly with German Ministry of Defence (MOD), HQ SACT, HQ USEUCOM, USAREUR, and IMA-E on matters of operational and logistical support for the NSO.*
- (d) Negotiates with the National MODS, in coordination with National Liaison Representatives (NLRs) at HQ SACT, as appropriate, for the appointment of personnel filling the non-US and non-German posts at NSO, keeping SACT informed.*
- (e) Implements specific existing agreements as required for the filling of US and German posts.*
- (f) Submits periodic reports to SACT via DACOS JET.*
- (g) Conducts the annual Bidding and Allocation Process for seats to attend the NSO.*
- (h) Serves as the Chairman of the Conference of PfP Training Centres.”*

On the International Financing:

“NSO is a customer-funded organisation that relies primarily on tuition fees for its operations and maintenance. US and Germany provide some infrastructure support. Given the current mission parameters, it is intended that NSO remain customer-funded; therefore no approval for NATO Common Funding beyond the current

capability package is needed or sought.”

On the assumption of Legal Commitment:

“The NSO has entered into contracts, stationing agreements, memoranda of understanding, and memoranda of agreement with host nations, and other third parties in furtherance and support of its mission. These support commitments will not be affected by the granting of Paris Protocol status to the NSO and its staff.”

3.12 In conjunction with the activation of the NSO as a NATO Military Body, a Support Agreement concerning “the transfer, use and support of certain premises and buildings at Hötzenhof-Kaserne and Vicinity Oberammergau, Federal Republic of Germany for the NATO School” was signed in 2004 between The Federal Ministry of Defence of the Federal Republic of Germany (FMOD), Headquarters, United States Army, Europe, and Seventh Army (HQ USAREUR) also acting on behalf of the HQ United States European Command (HQ USEUCOM), the US Army Installation Management Agency – Europe Region (IMA-E) and HQ SACT also acting on behalf of SHAPE. The NSO is not listed as a participant in this Support Agreement, which further indicates its control by HQ SACT.

According to this Support Agreement:

“[...] CONSIDERING that the operational control authority and support responsibilities for the NATO School was transferred from SHAPE to HQ SACT on 27 June 2003.

CONSIDERING that there are numerous agreements and understandings between SHAPE and the NATO School and also between SHAPE and national entities (such as U.S. and German authorities) that define and govern the operation, manning, and financial support of the NATO School which will be maintained and honoured by HQ SACT in accordance with the Memorandum of Agreement between SHAPE and HQ SACT concerning the Transfer of Authority over the NATO School (SHAPE) signed on 27 June 2003.

CONSIDERING that [...] HQ SACT will initiate steps to obtain international status for the NATO School under Article 14 of the Paris Protocol, and that it is the understanding of the Participants that, within a reasonable time after obtaining status under the Paris Protocol, efforts will be undertaken to conclude an appropriate cost sharing mechanism

[...]

DESIRING to establish terms and conditions for the use by the NATO School of those premises and buildings – have made the following arrangements:

Article 1

(1) The FMOD will make available to HQ SACT and the NATO School for their sole

use, free of charge, the premises recorded in the Land Register of Garmisch-Partenkirchen [...] including the buildings 615, 616, 617 and 622, as well as all other structures thereon, used for the NATO School, operated under Operational Control by HQ SACT as school and administration buildings. This includes the buildings 630 and 633 which were made available by FMOD to HQ USAREUR [...]

(4) The Participants acknowledge that buildings 615 and 616 will be handed over in accordance with NATO procedures to HQ SACT when modified and renovated to cater for academic and administrative use in the context of the NSIP funded project, and that building 617 will be handed over to HQ SACT in its “as is” state.

(5) The Participants acknowledge that in addition to the premises and buildings mentioned under paragraph (1) of this Article, some premises and buildings are provided by USAREUR, IMA-E and/or FMOD for sole use or co-use by the NATO School under current arrangements which are:

a) the buildings 612, 613, 632, 634, 761, 762, 763 and 764 and their surrounding premises for sole use by the NATO School;

b) the buildings 602, 604, 607, 608, 609, 610, 614, 618, 619, 620, 621, the helicopter landing pad and parking places for co-use by the NATO School and the Bundeswehr.

[...]”

3.13 The Support Agreement reaffirms that the NSO is under HQ SACT operational control, and therefore infrastructure assets are transferred to HQ SACT for use by both the NSO and HQ SACT.

3.14 Prior to its activation, the NSO was under the authority of SHAPE. On 27 June 2003, a Memorandum of Agreement (MOA) between Headquarters Supreme Allied Commander Transformation (HQ SACT) and Supreme Headquarters Allied Power Europe (SHAPE) concerning the Transfer of Authority over the NATO School was signed. This MOA states that:

On the general agreements:

“1. Consistent with NATO’s decision to realign the responsibilities of its Supreme Commanders along functional and operational lines, and, as part of this realignment, to synchronise NATO education, training and exercise programmes, operational control of the NATO School is hereby transferred from SHAPE to HQ SACT.

2. This MOA constitutes partial implementation of the joint decisions regarding the NATO School made on 13 March 2003 by SACEUR and SACLANT. These decisions encompass the following points:

a. Transfer of operational control authority for the NATO School from SHAPE to HQ SACT on 27 June 2003 proceeds upon the assumption that support from Germany and the United States European Command (USEUCOM) will continue until a longer-

term solution for NATO School support is identified;

b. Development of a transfer MOA that determines the Supreme Commanders' future responsibilities relating to the NATO School, including the re-allocation of administrative and financial support and oversight;

[...]

3. There are numerous agreements and understandings between SHAPE and the NATO School, and also between SHAPE and national entities (such as U.S. and German military authorities) that define and govern the operation, manning, and financial support of the NATO School. To the extent possible, consistent with Alliance needs and the terms of this current MOA, HQ SACT will maintain and honour all commitments, understandings and agreements existing between SHAPE and other public or private concerning operation of the NATO School."

On specific arrangements:

"[...]

7. SHAPE (ACE/BUDFIN) financial overview of the NATO School will end of 27 June 2003. After this date, HQ SACT BUDFIN will assume this overview function."

3.15 This MOA transferred the operational control authority for the NSO from SHAPE to HQ SACT including the function of financial overview of the NATO School.

3.16 Following NSO activation, HQ SACT established a directive (Directive 75-1) to specify the relationship and responsibilities between HQ SACT and NSO. Regarding the NSO financial reporting and financial audit, the Directive 75-1 states that: *"NSO will follow the NATO accepted standard, International Public Sector Accounting Standards (IPSAS) in its resource management, budgeting, and accounting procedures. Notwithstanding that HQ SACT directives related to budget matters do not apply to the NSO. HQ SACT will undertake an audit of the budget at least once per year.*

(1) The annual audit of the NSO shall be performed by the ACT Command Auditor.

(2) The scope of the annual financial audit will be conducted to achieve reasonable assurance that the financial statements fairly represent the NSO's financial position, at the year end, in accordance with IPSAS.

(3) The ACT Command Auditor may provide advice and reports to SACT and the NSO Commandant on the economy, efficiency, and effectiveness of NSO financial operations and processes. This support is referred to as "ad hoc studies." All requests for these studies must be approved by the Chief of Staff HQ SACT with notification of ad hoc study results to the two supporting nations."

3.17 According to the IPSAS Conceptual Framework on the Reporting Entity definition:

“4.1 A public sector reporting entity is a government or other public sector organization, program or identifiable area of activity (hereafter referred to as an entity or public sector entity) that prepares General Purpose Financial Reporting (GPFRs).

4.2 A public sector reporting entity may comprise two or more separate entities that present GPFRs as if they are a single entity—such a reporting entity is referred to as a group reporting entity.

4.3 Key characteristics of a public sector reporting entity are that:

- It is an entity that raises resources from, or on behalf of, constituents and/or uses resources to undertake activities for the benefit of, or on behalf of, those constituents; and*
- There are service recipients or resource providers dependent on GPFRs of the entity for information for accountability or decision-making purposes.*

4.4 A government may establish and/or operate through administrative units such as ministries or departments. It may also operate through trusts, statutory authorities, government corporations and other entities with a separate legal identity or operational autonomy to undertake or otherwise support the provision of services to constituents. Other public sector organizations, including international public sector organizations and municipal authorities, may also undertake certain activities through, and may benefit from and be exposed to a financial burden or loss as a result of, the activities of entities with a separate legal identity or operational autonomy.

4.5 GPFRs are prepared to report information useful to users for accountability and decision-making purposes. Service recipients and resource providers are the primary users of GPFRs. Consequently, a key characteristic of a reporting entity, including a group reporting entity, is the existence of service recipients or resource providers who are dependent on GPFRs of that entity or group of entities for information for accountability or decision-making purposes.”

3.18 According to the NATO Accounting Framework (NAF), IPSAS 1 paragraph 15:

“Financial statements are a structured representation of the financial position and financial performance of an entity. The objectives of general purpose financial statements are to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources. Specifically, the objectives of general purpose financial reporting in the public sector should be to provide information useful for decision-making, and to demonstrate the accountability of the entity for the resources entrusted to it by:

- (a) Providing information about the sources, allocation and uses of financial resources;*
- (b) Providing information about how the entity financed its activities and met its cash requirements;*
- (c) Providing information that is useful in evaluating the entity’s ability to finance its*

activities and to meet its liabilities and commitments;

(d) Providing information about the financial condition of the entity and changes in it; and

(e) Providing aggregate information useful in evaluating the entity's performance in terms of service costs, efficiency and accomplishments."

3.19 According to the NAF, IPSAS 1 paragraph 27: *"Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in IPSASs. The application of IPSASs, with additional disclosures when necessary, is presumed to result in financial statements that achieve a fair presentation."*

3.20 Article 1 of the NATO Financial Regulations (NFRs) states that, *"These Regulations shall govern the financial administration of all civilian and military headquarters and other organizations established pursuant to the North Atlantic Treaty (hereinafter referred to as "NATO bodies")."*

3.21 According to the Articles 3.1, 3.2 and 3.3 of the NFRs on Responsibility and Accountability:

"3.1 The Secretary General, the Supreme Commanders and the other Heads of NATO bodies are responsible and accountable for sound financial management and shall put in place the necessary governance arrangements to ensure and maintain this. This shall include, but is not limited to, the establishment and maintenance of financial governance, resource management practices, internal controls and financial information systems to achieve the efficient and effective use of resources.

3.2 The adherence to article 3.1 is confirmed annually by signature of the Financial Statements and Statements of Internal Control. Both documents should be signed by the Head of the NATO body and the Financial Controller."

3.3 [...] All NATO international civilian, temporary and consulting staff shall be dealt with in accordance with the disciplinary procedures defined under the NATO Civilian Personnel Regulations [CPRs]."

3.22 As stated in its Preamble: *"These Civilian Personnel Regulations are applicable throughout the North Atlantic Treaty Organization and shall govern personnel administration in each NATO body for personnel of the following classes: international civilian personnel
consultants
temporary (civilian) personnel."*

3.23 According to the Articles 4.2 of the NFRs on Financial Management:

"4.2 The financial administration of NATO bodies must be based on clear delegations

of authority and ensure the most cost efficient, cost effective and economic use of resources incorporating the following principles:

- (a) propriety;*
- (b) sound governance;*
- (c) accountability;*
- (d) transparency;*
- (e) risk management and internal control;*
- (f) internal audit;*
- (g) external audit; and*
- (h) fraud prevention and detection.”*

3.24 According to Articles 6.1 and 6.2 of the NFRs on Financial Controller Responsibilities:

“6.1 The Secretary General, the Supreme Commanders and the other Heads of NATO bodies shall have a Financial Controller on their staffs to be their principal financial advisor and who exercises in their names responsibilities for, but not limited to:

- (a) the budgeting, accounting and reporting activities of the NATO body;*
- (b) ensuring adherence to the principles of sound financial management as laid down in article 4;*
- (c) the management of appropriated and non-appropriated funds;*
- (d) the responsibility for the organisation and administration of the financial internal control system established pursuant to article 12.1;*
- (e) prior approval of commitments consistent with article 25;*
- (f) management of commitments in line with article 25;*
- (g) the authority to make transfers of approved authorisations permissible in accordance with article 26;*
- (h) the authority to, coordinate, inspect and control the functions of the Financial Controllers of NATO bodies subordinate to their own.*

6.2 The Financial Controller shall be responsible to the Head of the NATO body and shall be accountable to the relevant finance committee on the management of appropriated and non-appropriated funds.”

3.25 From a financial reporting perspective, according to Article 34 on Accounting Requirements: *“34.1 NATO bodies shall adhere to the accounting requirements and reporting standards consistent with the NATO Accounting Framework as approved by the Council.”*

Observations

3.26 Based on the above review of the legal and regulatory status of NSO, IBAN found clear indications supporting that the NSO is a NATO Entity controlled by HQ SACT, operating under the juridical personality possessed by HQ SACT. These indications include:

- the transfer of operational control authority from Supreme Headquarters Allied Powers in Europe (SHAPE) to HQ SACT in 2003;
- the activation, at the request of HQ SACT, of the NSO as a NATO Military Body under the operational control of SACT in 2004, granting the NSO international status without any restrictions to the relevant provisions of the Protocol on the Status of International Military Headquarters set up pursuant to the North Atlantic Treaty (Paris Protocol);
- the handover of NSO infrastructure assets to HQ SACT under the 2004 Support Agreement.

3.27 Moreover, IBAN found no evidence contradicting this fact. Therefore, IBAN found no evidence to support that the NSO should not follow the NFRs, the NATO Financial Rules and Procedures (FRPs) and other regulations applicable to NATO Entities, such as the CPRs, and that ACT should not comply with the NAF with regards the NSO. IBAN is not aware of any deviation to Article 1 of the NFRs regarding the NSO.

3.28 HQ SACT has treated the NSO as a third-party entity, not as its subordinate NATO Entity operating under its juridical personality. As a result, ACT has not required that the NSO follow the NFRs, the FRPs and other regulations applicable to NATO bodies such as the CPRs.

3.29 In HQ SACT's view, the NSO does not fall under HQ SACT's juridical personality, nor is the NSO subordinate to HQ SACT. HQ SACT regards the NSO as an entity established by Germany and the US under a bilateral arrangement and ACT does not consider that the activation in 2004 as a NATO Military Body changed the legal status of NSO. HQ SACT acknowledges that the responsibility for coordinating NATO's involvement with the NSO as part of ACT's mission was transferred from SHAPE to HQ SACT in 2003. Nevertheless, HQ SACT considers that the relationship between HQ SACT and the NSO since 2003 is solely functional and based on coordination to support the SACT in fulfilling his/her mission related to individual training and education. Moreover, NSO is not part of the NATO Command Structure, indicating only a coordination requirement towards HQ SACT.

3.30 In 2023, based on HQ SACT's interpretation mentioned above, HQ SACT informed the NSO that ACT could no longer conduct annual financial audits of the NSO's financial statements as outlined in the ACT Directive 75-1 regarding NSO, and suggested that audit support be requested from IBAN.

3.31 From a financial reporting perspective and because of the above, IBAN found that the ACT 2023 Consolidated Financial Statements do not include the financial statements information of the NSO. IBAN is not aware of any additional decision or agreement that supersedes the provisions outlined for the activation of the NSO as a

NATO Military Body under the operational control of SACT, nor of any deviation to Article 34 of the NFRs regarding the NSO.

3.32 As a result, IBAN considers that the NSO's legal, regulatory, and control status towards HQ SACT requires clarification, as well as whether the NSO should be governed by the NATO Financial Regulations, and, where applicable, the Civilian Personnel Regulations.

Recommendations

3.33 IBAN recommends that ACT seek clarification from the North Atlantic Council regarding the legal, regulatory and control status of the NATO School Oberammergau, including whether it should be governed by the NATO Financial Regulations, and, where applicable, the Civilian Personnel Regulations.

4. NEED TO CLARIFY THE REGULATIONS REGARDING THE MECHANISM OF PRE-FINANCING NON-APPROPRIATED ACTIVITIES

Reasoning

4.1 According to 12.2 of the NATO Financial Regulations (NFRs): *"In order to meet the desired internal control standards, the Financial Controller shall:*

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

4.2 Article 25.1 of the NFRs states that: *"On approval of their annual and supplementary budget, the Secretary General, the Supreme Commanders, Subordinate Commanders by delegation and the other Heads of NATO bodies, subject to the concurrence of the Financial Controller, are: [...] (b) authorized to make payments in relation to the appropriations which have been approved and within the limits of such appropriations; [...]"*

4.3 The NFRs define an appropriation as *"an authorisation granted by the member nations as represented on the appropriate governing body or finance committee to allocate funds, incur legal obligations and make payments for specified purposes."*

4.4 According to Article 28 to 30 of FRP XXV regarding commitments in advance of budget approval:

"28) Cash that has been called on the basis of the approved budget can only be used for different purposes, as an interim and temporary solution, if all the following conditions are met:

- (a) it supports the execution of unforeseen, urgent and exceptional operational activities consistent with NAC decisions; and,
- (b) the Budget Committee deems it impossible to accommodate the additional requirements within existing and approved budgets; and,
- (c) the need to fund these activities occurred after the regular budget recommendations submitted to Council; and,
- (d) the Budget Committee's authority is delegated to it as part of the annual budget recommendations approved by Council.

29) The Budget Committee will immediately notify the RPPB of its decision to apply the abovementioned mechanism and the reasoning for it.

30) The use of cash within this framework shall be recorded via a suspense account and regularised as soon as possible either as part of the normal budget process (preparation or execution) or specifically approved by the NAC."

4.5 The NFRs therefore do not include provisions for pre-financing, on a reimbursable basis, for activities undertaken by common-funded NATO bodies on behalf of third parties such as other NATO bodies, Nations and multinational entities.

4.6 In addition, Article 31.2 of the NFRs on deposit and investment of funds states that: *"The Heads of NATO bodies are authorised to make short-term low risk investments of funds not immediately required according to the basic principles of sound financial management. They shall declare to the relevant finance committee the income on such investments as miscellaneous income in the annual financial statements."*

4.7 The NATO Accounting Framework (NAF) IPSAS 18 on Segment Reporting requires entities to disclose information about their operating segments, which are components of an entity engaged in providing products or services, generating revenues, and incurring expenses that are regularly reviewed by the entity's governing structure.

4.8 The NAF IPSAS 18 defines a segment as *"a distinguishable activity or group of activities of an entity for which it is appropriate to separately report financial information for the purpose of (a) evaluating the entity's past performance in achieving its objectives, and (b) making decisions about the future allocation of resources."*

4.9 The NAF IPSAS 18, paragraphs 51 to 66 on the disclosure requirements, state that:

"An entity shall disclose segment revenue and segment expense for each segment. Segment revenue from budget appropriation or similar allocation, segment revenue from other external sources, and segment revenue from transactions with other segments shall be separately reported."

An entity shall disclose the total carrying amount of segment assets for each segment. An entity shall disclose the total carrying amount of segment liabilities for each segment."

An entity shall disclose the total cost incurred during the period to acquire segment assets that are expected to be used during more than one period for each segment.”

4.10 ACT has implemented a pre-financing mechanism for third-party reimbursable activities for a number of years and has communicated to the Budget Committee on this type of activity. In 2020, following Budget Committee approval, ACT wrote off long-outstanding cash receivables amounting to EUR 0.3 million from pre-financed third-party reimbursable activities. This is because some third parties, although committed to reimbursing ACT, have challenged EUR 0.3 million relating to invoices that ACT has been unable to validate against the original information. ACT explained that this unreconciled amount was likely eligible for common funding and therefore should be written off (BC-D(2020)0211):

“[...] Although every effort was made by ACT to challenge the costs incurred and/or provide additional information to the participating Nations to support reimbursement, it is our belief that these charges should likely have been charged to NATO common funds at the time and not invoiced to individual nations. As such, there are little or no options but to consider the write-off of this amount as an irrecoverable receivable. [...]”

Observations

4.11 As part of our audit procedures on the ACT 2023 Consolidated Financial Statements, it came to our attention that ACT pre-financed third-party reimbursable activities in 2023 for a minimum amount of EUR 6 million, temporarily using cash holdings arising from common-funded budgetary appropriations. This pre-financing mechanism has an opportunity cost related to the absence of bank interest income on cash holdings arising from common-funded budgetary appropriations utilised to pre-finance non-appropriated activities. In addition, even though the risk is assessed as low by ACT, this creates a risk of non-recovery of funds, which could lead again to a potential write-off of cash receivables.

4.12 In the 2023 ACT Budget Submission, ACT has partially communicated to the Budget Committee on its third-party reimbursable activities, as follow:

““Furthermore, JALLC will execute a series of Reimbursable Budgets related to the provision - to Personnel and Entities attached to the HQ (e.g. National Support Elements) - of other support activities that currently can be only provided by the JALLC, in accordance with local legal requirements. All these funding sources are, with minor exceptions, not related to the JALLC core mission, but refer to support services without which such organizations would be unable to operate.”

[...]

“In addition, JWC supports reimbursable activities for various NATO and governmental bodies, normally in the range of MNOK 6 to 10 per fiscal year.””

4.13 The 2023 Budget submission does not include any reference to the HQ SACT and Joint Force Training Centre (JFTC) third-party reimbursable activities. The third-

party reimbursable activity expenses for HQ SACT, Joint Warfare Centre (JWC), JFTC, and Joint Analysis and Lessons Learned Centre (JALLC) in 2023 amount to approximately EUR 4 million, EUR 1 million, EUR 0.4 million, and EUR 0.3 million, respectively.

4.14 According to Article 25.1 of the NFRs, the Supreme Commander, subject to the concurrence of the Financial Controller, on approval of the annual and supplementary budget, is authorised to make payments in relation to the appropriations, which have been approved and within the limits of such appropriations.

4.15 However, this article does not specify whether payments can be made to pre-finance non-appropriated activities with cash holdings arising from common-funded budgetary appropriations. Moreover, the definition of an appropriation in the NFRs includes making payments for specified purposes.

4.16 The FRPs provide in Article 28 of FRP XXV for the situation where cash called on the basis of the approved budget can be used for different purposes under specific conditions. However, none of the conditions are met in the case of these third-party reimbursable activities, and there are no NFR or FRP addressing the pre-financing of non-appropriated activities with cash holdings arising from common-funded budgetary appropriations.

4.17 As a result, we conclude that that it is unclear whether the current process of pre-financing non-appropriated activities with cash holdings arising from common-funded budgetary appropriations, is fully compliant with the NFRs and FRPs. This is because it could reasonably be construed that these regulations and rules only provide for the situation in which cash holdings arising from common funded budgetary appropriations should be used only for the specified common funded activities.

4.18 Finally, IBAN found that the ACT 2023 Consolidated Financial Statements do not include a disclosure note on Segment Reporting regarding third-party reimbursable activities, as required by NAF IPSAS 18.

Recommendations

4.19 IBAN recommends that ACT:

- a) Seek clarification from the relevant governing body regarding the full compliance of pre-financing of non-appropriated activities with the NFRs and FRPs, drawing attention to the opportunity cost related to the lack of bank interest income, and potential risk of not recovering some of the funds;
- b) Provide appropriate disclosure in the notes to the financial statements on the use of cash holdings arising from common-funded budgetary appropriations to pre-finance non-appropriated activities, and on the status of any outstanding receivables for these activities;

- c) Include a segment reporting disclosure note related to third party reimbursable activities in its financial statements in accordance with the NATO Accounting Framework IPSAS 18.

5. NON-COMPLIANCE WITH THE NATO FINANCIAL REGULATIONS CONCERNING JWC EXISTING CONTRACTUAL ARRANGEMENTS ESTABLISHED BY HOST NATION NORWAY AND LACK OF VAT RECOVERY

Reasoning

5.1 The Joint Warfare Centre (JWC) has a Memorandum of Agreement (MoA) with the Ministry of Defence of the Kingdom of Norway for the scope of base support to be provided by the Host Nation (HN) to JWC, effective from 1 April 2014. Some of these base support costs are shared with HN Norway, while others are reimbursed to HN Norway based on actual consumption by JWC. The MoA reflects under paragraph 4 of Annex B, how the non-cost shared operational services based on actual consumption of utilities and services are provided to JWC *'on a reimbursable basis by the Host Nation (HN) unless the JWC selects a solution not involving the HN'*. This means that while JWC could be a third-party beneficiary to the HN contracts, it is allowed to select another solution that does not involve the HN. The current situation is one where JWC has chosen to apply the MoA's provisions, wherein the HN holds the contracting rights to select the provider and has authority over the contract.

5.2 The non-cost shared operational services based on actual consumption of utilities and services, including electricity, gas, heating, and cleaning, are procured by HN and paid by JWC on a reimbursable basis. The total amount of these non-cost shared operational services for 2023 amounts to approximately NOK 19 million (EUR 1.7 million) as follows:

- Electricity, for NOK 12 million (EUR 1.1 million);
- Cleaning services, for NOK 6 million (EUR 0.5 million);
- Gas, for NOK 1 million (EUR 0.1 million).

5.3 In addition, JWC incurs approximately NOK 6 million (approximately EUR 0.5 million) annually for cost-shared operating and maintenance expenses, as well as other services such as waste management, water and sewage, and security services. These costs are shared with HN Norway and procured under existing contractual arrangements established by HN Norway in accordance with the MoA. Some of these services are provided by private sector companies that charge VAT (25% standard rate in 2023), and JWC is entitled to recover its share of the VAT costs. The invoices for operating and maintenance, waste management, water and sewage, and security services are issued to JWC by the Accounting Office of the Norwegian Ministry of Defence.

5.4 JWC and HN Norway established a Local Arrangement (LA) to implement the provision of support outlined in the MoA. As stated in the paragraph 9.13 of the LA: *“As laid down in Article 8 of the Paris Protocol, all NATO entities are exempt from national taxes and duties, and therefore JWC shall not be invoiced for any local or government taxes or fees. In a case where Host Nation is invoicing goods and/or services where taxes (e.g. VAT) have been applied, either delivered by Host Nation or a third party, all such taxes should be deducted, or at least be specified, to enable reimbursement according to current arrangements with Norway’s MOD.”*

5.5 According to the NATO Financial Regulations (NFRs) Article 32.1 on Procurement and Contracting Principles:

“NATO Procurement and Contracting shall adhere to the following principles:

(a) The timely acquisition of goods and services to be achieved wherever possible through a competitive bidding process, using approved procurement procedures to achieve the most effective, efficient and economical solution; [...]”

5.6 As per Article 13 of Financial Rules and Procedures (FRP) XXXII: *“Departures from the above requirements may only be authorized by the Financial Controller in the interests of security, urgency, standardisation of equipment, or in exceptional circumstances. When the total amount exceeds the equivalent of Level E of the NATO Established Financial Limits (EFL) (€800,000), such cases shall be reported to the Budget Committee for decision.”*

5.7 According to the Budget Committee Budget Procurement Guidance (BC-D(2018)0004-FINAL), paragraph 25 and 26:

“25. Budget Holders must ensure that all requests for deviations are submitted in a timely fashion to allow proper consideration by the BC. Budget Holders must not assume that requests to deviate from normal procurement procedures will automatically be granted.

26. Noting the procurement principles specified in Article 32 of the NFRs, there may be instances where obtaining goods and services for a NATO Body (who is part of the NATO Command Structure) from existing contractual arrangements put in place by the Territorial Host Nation may be desirable in lieu of the normal competitive procurement process. BC approval shall be required in such circumstances. In these ad hoc occasions, market surveys should be conducted at least every 5 years to ensure that the price remains fair and reasonable for the standing deviation to continue. The precise funding shall be articulated in agreements formalised between the Territorial Host Nation concerned and the NATO Procurement Authority.”

5.8 Paragraph 1-1g. of the Bi-Sc Procurement Directive 60-70 states: *“Contracting Officers/Specialists shall effectively discharge their personal procurement responsibilities by ensuring that effective contractual mechanisms are in-place for all procurement activities.”* Additionally, paragraph 1-2 (4) reads *“The Contracting Officer*

is responsible for ensuring effective contracting, compliance with procurement terms and conditions, and safeguarding the interests of ACO/ACT HQs in all its contractual relationships.”

5.9 The Bi-Sc Procurement Directive 60-70 also stresses in paragraph 2-5 the importance of Contracting Officers in performing market research by establishing that *“Contracting Officers should maximize the use of standard commercial products as well as the application of standard commercial terms and conditions. In order to be successful here, it is important for P&C Branch Staff to perform market surveys to determine the extent of competition.”*

5.10 Paragraph 2-4 of the Bi-Sc Procurement Directive 60-70 describes when there are deviations from normal procurement procedures:

“a. Cases may occur in which the interests of the NATO Body are not best served by routine application of procedural regulations as detailed per this directive. In such well-justified cases, Contracting Officers may request FC’s authorisation to deviate from minimum competition requirements or other established procedures upon the requestor’s justification.

b. All requests for exceptions/departures must be fully justified, and contract files must retain documentation of such justification. All such requests must be decided on a case-by-case basis by the approving authority. Deviations may be granted in the interest of security, operational urgency, standardisation, and other practical considerations. Deviation requests should be based on the inability for the ACO/ACT HQs to reasonably comply with competitive requirements.

c. The level to which deviation authority must be sought is based on the estimated accumulated value of a contract. Unless precluded by applicable regulations, HQs’ FCs may, within the limits of their appointment (i.e., up to level D of the EFL and up to level E of the EFL for ACO/ACT FCs), authorise deviations from procurement rules and procedures when necessary to meet the specific needs and requirements of each ACO/ACT HQ or programme.

d. Approval of requests for departures exceeding FC’s delegated authority shall be submitted to the ACO/ACT FC for approval. All departures from standard procedures for procurements in excess of level E of the EFL will be submitted, via the ACO/ACT FC, to the NATO Budget Committee (BC) for decision.”

5.11 The Budget Guidance for 2023 determined that *“any waiver [requiring BC approval] from the standard rules of procurement should be submitted separately from the Budget Submission and ideally before the budgets are approved.”*

5.12 According to Article 8 of the Paris Protocol, all NATO entities are exempt from national taxes and duties. Furthermore, NATO Commands, are exempt from paying VAT as stated in paragraph 2-19 of the Bi-Sc Procurement Directive 60-70: *“International agreements approved by NATO Nations and most partner Nations*

ensure that NATO HQs are exempt from paying taxes and duties on commercially procured goods and services. These include the Paris Protocol (Article VIII) "Protocol on the Status of International Military HQs Set Up Pursuant to the North Atlantic Treaty" (Reference B), and relevant Host Nation agreements drawn up in application of Article XVI of the referred Protocol. Other protocols may apply as well. Generally speaking, P&C Branches should procure goods and services without paying taxes (e.g., Value Added Tax) or duties or establish a procedure, under the Financial Controller (FC) guidance, to recuperate paid taxes or similar fee."

5.13 According to the NATO Accounting Framework (NAF) IPSAS 1: *"Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in IPSASs."*

Observations

5.14 IBAN found that JWC did not request any deviation from the Budget Committee and did not conduct independent formal market research or surveys to ensure that the prices for non-cost-shared operational services, amounting to approximately NOK 19 million (EUR 1.7 million) per year under existing contractual arrangements established by Host Nation Norway, remained fair and reasonable, as required by the BC Budget Procurement Guidance and Bi-SC Procurement Directive 60-70.

5.15 IBAN also notes that, contrary to the provisions of the MoA and LA, JWC is directly receiving and paying invoices for electricity, gas, and cleaning services. According to the MoA, these services should be handled on a reimbursable basis, with JWC reimbursing HN Norway. This current practice of JWC paying suppliers directly without having authority over the contracts does not comply with the agreed terms.

5.16 In addition, IBAN found that since 2014, and possibly earlier, some invoices related to cost-shared operating and maintenance expenses, as well as other services such as waste management, water and sewage, and security services, included VAT that JWC did not claim back from HN Norway. JWC explained that identifying the VAT on some invoices was not possible until 2023 because, although required in paragraph 9.13 of the LA, the Accounting Office of the Norwegian Ministry of Defence did not provide sufficient supporting details, such as a separate VAT amount included in some invoices. Consequently, JWC considers that it is unable to assess the exact VAT amount to be recovered due to the need to review, together with HN Norway, over 700 invoices issued since at least 2014.

5.17 The situation described above does not comply with NAF IPSAS 1, leading to an understatement of JWC VAT receivables and deferred revenue/liabilities towards Nations as of December 31, 2023, due to unduly paid VAT that should be recovered and returned to Nations. The estimated maximum amount of unduly paid VAT is NOK

1.5 million (approximately EUR 0.2 million) per year since at least 2014, with a total estimated maximum amount of EUR 1.2 million since 2014.

Recommendations

5.18 IBAN recommends that ACT ensure full compliance with Article 32 of the NFRs, Article 13 of FRP XXXII, The NATO Accounting Framework (NAF), the Budget Procurement Guidance, the Budget Guidance for 2023 and Bi-SC Procurement Directive 60-70 by:

- a) Requesting approval from the Budget Committee for deviations from standard procurement procedures for existing contractual arrangements established by Host Nation Norway, in accordance with Article 32 of the NFRs, Budget Procurement Guidance, Budget Guidance for 2023 and Article 13 of FRP XXXII;
- b) Conducting market surveys at least every five years to ensure that the prices resulting from contractual arrangements established by Host Nation Norway remain fair and reasonable, thereby justifying the continuation of the deviations in line with Budget Procurement Guidance and Bi-SC Procurement Directive 60-70;
- c) Requesting a claim for VAT recovery from Host Nation Norway for shared costs incurred related to operations and maintenance, waste management, water and sewage, security services, and any other relevant services for which VAT was unduly paid by JWC in accordance with the Memorandum of Agreement with Host Nation Norway and its underlying Local Arrangement;
- d) Recognising VAT receivables and corresponding deferred revenue/liabilities towards Nations related to accumulated unduly paid VAT, in accordance with NAF IPSAS 1, subsequent to filing a formal claim for VAT recovery from the Host Nation Norway;
- e) Ensuring consistency with the provisions of the Memorandum of Agreement with Host Nation Norway regarding electricity, gas supplies, and cleaning services, which should be handled on a reimbursable basis, with JWC reimbursing Host Nation Norway rather than paying suppliers directly.

6. NON-COMPLIANCE WITH THE NATO FINANCIAL REGULATIONS AND NATO ACCOUNTING FRAMEWORK REGARDING NSIP FUNDED ASSETS

Reasoning

6.1 Article 6 of the NATO Financial Regulations (NFRs) requires the Financial Controller to exercise the responsibility of budgeting, accounting and reporting

activities of the NATO body. This includes being responsible for the financial internal control system, and for the preparation of the financial statements in accordance with the NATO Accounting Framework.

6.2 Article 12.1 of the NFRs states that: *“The Secretary General, the Supreme Commanders, subordinate commanders by delegation and the other Heads of NATO bodies 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:*

*safeguard assets;
verify the accuracy and reliability of accounting data and records; [...]*”

6.3 Article 12.2 of the NFRs states that: *“In order to meet the desired internal control standards the Financial Controller shall:*

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

(c) establish and maintain comprehensive accounting records of all assets and liabilities.”

6.4 Article 12.2 of the NFRs on Internal Control requires NATO bodies to establish and maintain comprehensive accounting records of all assets and liabilities. Such accounting records include an inventory of PP&E and Intangible Assets, including assets under construction, indicating for instance the types of assets held, locations, the number of items per asset category and asset value. Article 12 of the NFRs applies to all assets, irrespective of when they were acquired.

6.5 According to Article 1 h) of Financial Rules and Procedures (FRPs) related to the Property Accountable Officer: *“Property Accountable Officer(s), to be responsible for receiving and maintaining physical custody of all international property as well as for accounting for such property and maintaining up to date the entity’s asset register.”*

6.6 The NATO Accounting Framework (NAF) (IPSAS 17) defines Property, Plant and Equipment (PP&E) as tangible items that are *“held for use in the production or supply of goods and services, for rental to others, or for administrative purposes”,* and are *“expected to be used during more than reporting period.”*

6.7 The NAF states that NATO Bodies *“shall capitalise all controlled PPE above the NATO PPE Capitalisation Thresholds”,* and that *“the information on such equipment will be properly reported in the balance sheets in financial statements and in asset registers.”*

6.8 The NATO Accounting Policy on PP&E further clarifies that *“the cost of an item of PP&E is first recognised as an asset in the Financial Statements of a NATO*

entity if: it is probable that future economic benefits or service potential associated with the item will flow to the NATO entity;

*the cost or fair value can be measured reliably (estimates are also permitted);
the NATO entity has control over it; and
it is expected to be used during more than one 12 month reporting period.”*

6.9 According to NAF, IPSAS 17 paragraph 22: *“Parts of some items of property, plant, and equipment may require replacement at regular intervals. For example, a road may need resurfacing every few years, a furnace may require relining after a specified number of hours of use, or aircraft interiors such as seats and galleys may require replacement several times during the life of the airframe. Items of property, plant, and equipment may also be required to make a less frequently recurring replacement, such as replacing the interior walls of a building, or to make a non-recurring replacement. Under the recognition principle in paragraph 14, an entity recognizes in the carrying amount of an item of property, plant, and equipment the cost of replacing part of such an item when that cost is incurred if the recognition criteria are met.”*

6.10 Tangible items accounted for as PP&E by NATO Reporting Entities can have various funding sources. Those PP&E items funded by the NATO Security Investment Programme (NSIP) are referred to as NSIP funded assets in this observation.

6.11 With regard to the moment of recognition of NSIP funded assets, the NATO Accounting Policy on PP&E defines the moment of recognition as being *“when the end-user of the NATO entity receives the item for NATO’s operational use (paragraph 3.1.6) to distinguish it from the moment the Joint Final Acceptance and Inspection (JFAI) is conducted in accordance with NSIP procedures.”*

6.12 With regard to the acquisition date and the acquisition value of NSIP funded assets, the NATO Accounting Policy on PP&E states the following: *“When a territorial Host Nation constructs an asset and the NATO entity does not receive timely the complete and reliable financial information, the NATO entity is allowed to capitalise these assets after construction has been completed and the assets have been handed over. The NATO entity has to request the required financial information (see paragraph 3.5.1) from the territorial Host Nation in order be able to account for these assets accordingly in its Financial Statements. In the case that not all required financial information is provided by the territorial Host Nation, the end-user is allowed to use estimates for the capitalisation of costs.”*

6.13 According to the Principles and Procedures for Joint Final Inspection and Formal Acceptance (JFAI) of NATO Infrastructure Works (AC/4-D/2074(1988 Edition):

“The host nation should submit a formal request for final inspection as soon as the works are completed and in any case not later than six months after completion (Note 3). Requests for inspection of parts of a project which are usable in themselves should be submitted wherever possible without awaiting completion of the entire project. The

user and custodial (where appropriate) nations will be notified that the JFAI has been requested.[...].

“Note 3: The completion date is the date on which technical acceptance (provisional or not) vis-a-vis the contractor (or contractors) is performed by the host nation, i.e. the date on which the host nation checked that the works have been built according to the contract (or contracts) specifications.”

6.14 This means that when a Host Nation requests a JFAI, the works have been completed and technically accepted by the Host Nation with regard to the contractor, and that the asset has been handed-over to the user.

6.15 ACT does not have a fixed assets accounting module in its current accounting software, and informed us that it has been awaiting the implementation of a new accounting software for many years. In absence of a fixed assets accounting module, the PP&E accounting asset registers and accounting records are currently manually kept outside of ACT's accounting software. Each ACT Command maintains their own PP&E accounting asset register that is shared with HQ SACT as input to the ACT Consolidated Financial Statements, after which HQ SACT will calculate ACT's consolidated PP&E position by manually consolidating all input received on PP&E.

Observations

6.16 IBAN found that two NSIP-funded assets, authorised by the Investment Committee to supports JWC requirements, totalling approximately EUR 1.4 million, were not capitalised and reported on the face of ACT's Statement of Financial Position and in the note disclosure. These assets relate to the following two NSIP projects, with JWC designated as the User Nation, for which Host Nation Norway formally requested a Joint Formal Acceptance Inspection in October 2023:

- Power Supply Restoration (NSIP project 2021/9TI11126-M-NO-30B) for approximately EUR 1 million, in use since December 2022 according to the Host Nation Norway JFAI request. The project involved the provision of two 600kVA diesel generators, control panels, power cabling, a main distribution power frame, and the interconnection of the new system into the existing building management system.
- Data and Power cabling Restoration (NSIP project 2018/9TI11115-00-NO-29B) for approximately EUR 0.3 million, in use since May 2023, according to the JFAI request and JFAI Report (AC/4(PP)FA/13660(INV)): The purpose of the project was to provide 100 additional Network Access Modules (NAMs) for data and power access. IBAN notes that this project may include Communication Information System (CIS) and Automated Information System (AIS) equipment for which there was no formal handover to the NATO Communications Information Agency (NCIA), and therefore ACT is required to account for these NSIP-funded assets until they are formally handed over to NCIA.

6.17 These NSIP funded assets qualify for capitalisation as PP&E in accordance with the provisions of the NAF, and they should have been reported in the ACT asset register. As a result, the ACT 2023 Statement of Financial Position is understated by EUR 1.3 million, and related notes disclosing the total amount of PP&E additions and balances are misstated.

6.18 This is the fourth consecutive financial year in which we identify weaknesses in the recognition of NSIP funded assets (Ref. IBA-AR(2021)0001, IBA-AR(2022)0006, and IBA-AR(2023)0011). IBAN, therefore, stresses the importance of addressing this internal control weakness to ensure appropriate recognition, disclosure, and audit trail over NSIP funded assets in accordance with Article 12 of the NFRs and the provisions of NAF IPSAS 17.

Recommendations

6.19 IBAN recommends that ACT ensure full compliance with the NATO Accounting Framework and NATO Financial Regulations regarding NSIP funded assets recognition, disclosure and audit trail. In particular, ACT should ensure that NSIP-funded Communication and Information System (CIS) and Automated Information System (AIS) equipment handed over to ACT are recognised and disclosed in ACT's financial statements until they are formally handed over to the NATO Communications Information Agency (NCIA).

7. NEED TO ENSURE FULL COMPLIANCE WITH THE NATO CIVILIAN PERSONNEL REGULATIONS REGARDING A BLANKET DEVIATION TO THE SUBSISTENCE ALLOWANCE

Reasoning

7.1 Article 41.2 of the NATO Civilian Personnel Regulations (NCPR) states that:

“41.2.1 Exceptionally, Heads of NATO bodies may authorize the reimbursement of expenditure actually incurred in excess of the full approved rate of subsistence allowance, when this will facilitate the transaction of official business.

41.2.2 If under certain circumstances the expenditure for accommodation and breakfast exceeds 60% of the full approved rate of daily subsistence allowance, it is at the discretion of the Head of the NATO body to reimburse the excess amount partially or totally on presentation of vouchers and sufficient proof that additional expenditure was unavoidable. This reimbursement should normally not exceed 30% of the daily subsistence allowance.”

7.2 The Allied Command Transformation (ACT) Directive 60-1 on Financial Policy was approved by the HQ SACT Chief of Staff for the SACT on 27 May 2022.

7.3 Paragraph 6.27, NATO International Civilian (NIC) Subsistence Allowance General Policies, of the ACT Directive 60-1 states inter alia that: “[...] (h) *Exceptionally, Heads of NATO bodies may authorize the reimbursement of expenditure actually incurred in excess of the approved rate of subsistence allowance, when this will facilitate the transaction of official business. At HQ SACT, this function is delegated to the Financial Controller.*”

7.4 On 5 September 2023, the HQ SACT Travel Office has reissued, on behalf of the ACT Financial Controller, an internal policy authorising a blanket approval for excess per diem stays at six hotels near NATO Headquarters (HQ) in Brussels, up to an average nightly rate exceeding the per diem accommodations limit by 35% (represents an additional EUR 65 per night). In 2023, Brussels served as the primary location visited by HQ SACT staff.

Observations

7.5 IBAN found that the internal policy allowing blanket approval for excess per diem stays, issued on behalf of the ACT Financial Controller, does not fully comply with the provisions of NCPRs Article 41.2 and the ACT Directive 60-1, which prescribe that such approval should be made on an exceptional basis and only when this will facilitate the transaction of official business.

7.6 In HQ SACT Budget and Finance (BUDFIN)’s view, the internal policy allowing blanket approval for excess per diem stays is exceptional by nature, because it is focused on a small number of hotels in one specific city, out of all the destinations their travellers visit. The waiver only applies to six hotels in Brussels, specifically in the immediate area of NATO HQ. Additionally, HQ SACT BUDFIN explained that the waiver is designed to reduce the unnecessary administrative burden on staff who would otherwise need to request excess per diem during times when hotel rates in Brussels are known to be high.

7.7 In IBAN’s opinion, issuing a blanket approval for excess per diem based on this interpretation is not founded, and therefore represents a deviation by the ACT Financial Controller from the NCPRs under the delegated authority from the SACT.

Recommendations

7.8 IBAN recommends that ACT fully comply with the provisions of Article 41.2 of the NATO Civilian Personnel Regulations by ensuring that reimbursement of expenditure actually incurred in excess of the full approved rate of subsistence allowance, when this will facilitate the transaction of official business, is authorised only in exceptional cases.

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 2022 IBA-AR(2023)0011, paragraph 1.17 WEAKNESSES IDENTIFIED IN THE ACCOUNTING TREATMENT OF NSIP CALLS FOR CONTRIBUTIONS IBAN's Recommendation 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;	a) IBAN noted that ACT implemented a reconciliation process in 2023 to ensure that ACT's quarterly CIRIS reporting reconciles with accounting records. However, such reconciliation was not performed for the comparative figures because ACT did not correct the opening balances. In-Progress. b) IBAN found that although ACT recognised NSIP contributions related to quarter one of 2024 in 2023 for an amount of EUR 0.2 million, ACT still did not correct the comparative figures, resulting in a persistent understatement of ACT's 2022 receivables and financial liabilities from NSIP contributions by a total amount of EUR 1.4 million. In-Progress.	Observation In-Progress.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
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.	c) Same as sub-recommendation b) In-Progress.	
(2) ACT FY 2022 IBA-AR(2023)0011, paragraph 2.15 INSTANCES OF NON-COMPLIANCE WITH PROCUREMENT RULES IDENTIFIED AT JWC IBAN's Recommendation 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.	a) As part of our audit procedures at JWC on procurement actions, we did not find any instances of non-compliance related to unsigned contract modifications. Closed. b) As part of our audit procedures at JWC on procurement actions, we did not find any instances of unadvertised procurement actions above twice Level B of the EFL. Closed. c) IBAN noted that HQ SACT provided further guidance and training to maintain an adequate audit trail throughout the procurement process and strengthen supervision of procurement actions at JWC in 2023. Closed.	Observation Closed.

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
(3) ACT FY 2022 IBA-AR(2023)0011, paragraph 3.12 IMPROVEMENTS REQUIRED IN JFTC'S ASSET MANAGEMENT OF NSIP FUNDED ASSETS IBAN's Recommendation 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.	IBAN noted that JFTC's NSIP funded asset register meets the minimum information requirements required in paragraph 8.2 of the NATO Accounting Policy for PP&E and includes NSIP funded assets handed-over as of 31 December 2023. Closed.	Observation Closed.
(4) 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 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	a) In 2023, ACT drafted initial written guidance on NSIP asset recognition and the issues were discussed with all the Subordinate Commands teams during a joint training. However, a formal written guidance is still needed to ensure a harmonised approach across ACT Commands. In-progress. b) IBAN noted that, as part of the written guidance, ACT will adopt a standardised template in 2024 to be completed each time an NSIP-funded asset is handed over. In-Progress. c) We identified missing NSIP funded assets in ACT's Consolidated PP&E at 31 December 2023 amounting to approximately EUR 1.3	Observation In-Progress.

to reduce the risk of errors related to the recognition of NSIP-funded assets handed over to ACT Commands.	million as reported in Observation 6 of this Report. In-progress.	
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**ALLIED COMMAND TRANSFORMATION (ACT) FORMAL COMMENTS ON THE
AUDIT REPORT AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN)
POSITIONS**

**OBSERVATION 1:
MATERIAL INCOMPLETENESS AND NON-COMPLIANCE RELATED TO
INTANGIBLE ASSETS**

ACT's Formal Comments

Agreed.

None.

**OBSERVATION 2:
MATERIAL INCOMPLETENESS AND NON-COMPLIANCE RELATED TO CASH
AND CASH EQUIVALENTS**

ACT's Formal Comments

Recommendation a): Agreed.

The IPSASB "Conceptual Framework for General Purpose Financial Reporting by Public Sector Reporting Entities" states (para 5.11) that:

"An entity must have control of the resource.

Control of the resource entails the ability of the entity to use the resource (or direct other bodies on its use) so as to derive the benefit of the service potential or economic benefits embodied in the resource in the achievement of its service delivery or other objectives."

It is clear that HQ SACT does not in any way "derive the benefit of the service potential or economic benefits embodied in the resource" as these bank accounts are not for HQ SACT business but rather for use by SFN and JFC(N).

IPSAS 1 defines an asset 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" based on this definition the cash holdings for SFN and JFC(N) can't be defined as ACT assets as no service potential will ever flow to ACT.

IPSAS 1 further states that an "economic entity [ACT] is a controlling entity and its controlled entities." Neither SFN nor JFC(N), which are run as discrete and separate business units, meet this definition and on that basis have not been consolidated within the ACT Financial Statements. This is reinforced by

IPSAS 6 which states that a consolidating group of entities "comprising the controlling entity and any controlled entities". Neither SFN nor JFC(N) qualify as controlled entities.

It is for the above reasons that ACT believes that incorporating these cash balances (even with a corresponding equal and opposite liability) would seriously misrepresent the ACT financial position.

Recommendation b): Agreed.

These are minimal at the year-end. ACT will clear completely to regular bank accounts if the minimal balance is an issue for IBAN.

Recommendation c): Not agreed.

See above comments relating to JFC NF and SFN bank accounts. This is not a matter of internal controls, which work well and need no strengthening, it is an issue related to ACT policy interpretation.

IBAN's Position

Sub-recommendation c)

IBAN reiterates that, since the bank accounts are opened in the legal name of ACT (HQ SACT), the related bank balances should be reported in the Statement of Financial Position of the ACT Consolidated Financial Statements.

In case ACT finally considers that it has no control over the bank accounts in scope (including opening and closing the bank accounts), the related funds and how these are spent, it is necessary for ACT to assess why the bank accounts are opened in the legal name of ACT (HQ SACT).

IBAN takes note of ACT's comment that the issue is not related to internal controls but rather to ACT's policy interpretation. IBAN considers that this matter is related to internal control as per Article 12 of the NFRs, which requires to safeguard assets, verify the accuracy and reliability of accounting data and records, and establish and maintain comprehensive accounting records of all assets and liabilities.

IBAN therefore maintains its observation and recommendation.

**OBSERVATION 3:
CLARIFICATION NEEDED FROM THE NORTH ATLANTIC COUNCIL WITH
RESPECT TO THE NATO SCHOOL OBERAMMERGAU LEGAL, REGULATORY
AND CONTROL STATUS**

ACT's Formal Comments

Not agreed.

NATO School Oberammergau (NSO) has been granted Paris Protocol status by a NAC activation. It does not form part of the NATO Command Structure, nor is it assigned international funding.

NSO is a multinational entity, it does not form part of the NATO Command Structure, NSO is a designated NETF (MC 458/4) under SACT coordinating authority (MC 324/3); it is granted international status as foreseen in the Paris Protocol and in CM(69)22. NSO is not assigned to the NCS nor has ACT FINCON been assigned budget control and approval; it is not funded through a common-funded budget; and it is not assigned a NAC approved PE. Rather, HQ SACT has a functional relationship with the NSO in order to deliver the individual training and education mission assigned to SACT. The governance over NSO is vested in the two NSO nations, DEU and USA. DEU and USA has as recently as April 2024 repeated their enduring commitment to NSO and its NATO mission as a non-NCS NETF, and HQ SACT will continue the coordination with the two nations and NSO in this regard.

The April 2024 arrangement acknowledges that the NSO is maintained by the two nations, that a governance framework is being considered by those nations, and that the NSO mission as an NETF under SACT's coordinating authority is unchanged and remains consistent with MC 324/3 (par. 23) and SACT TOR, as well as MC 458/4.

Based on MC 324/3 and the stated position of Germany and the United States, HQ SACT sees no reason to seek clarifications from the North Atlantic Council on the legal, regulatory or control status of NSO.

In order to clearly identify that NFR do not apply directly to multinational entities that are not common-funded, HQ SACT suggests that this be identified in NFR upon their next revision. AAP- 16 includes a statement that may be considered for this purpose. CPR already - by definition - states its non-applicability in this context.

IBAN's Position

IBAN takes note of ACT's comments regarding the command structure, funding and personal establishment status of NSO. Nevertheless, considering the clear indications outlined in the audit observation showing that the NSO is a NATO

Entity controlled by HQ SACT, operating under the juridical personality of HQ SACT, IBAN considers that further clarification is required from the North Atlantic Council. This clarification should address the legal, regulatory, and control status of NSO, including whether it should be governed by the NATO Financial Regulations and, where applicable, the Civilian Personnel Regulations. IBAN therefore maintains its observation and recommendation.

**OBSERVATION 4:
NEED TO CLARIFY THE REGULATIONS REGARDING THE MECHANISM OF
PRE-FINANCING NON APPROPRIATED ACTIVITIES**

ACT's Formal Comments

Recommendation a): Agreed.

ACT will obtain clearer approvals for reimbursable activity in its 2025 Budget Submissions.

Recommendation b): Agreed.

None.

Recommendation c): Agreed.

None.

**OBSERVATION 5:
NON-COMPLIANCE WITH THE NATO FINANCIAL REGULATIONS CONCERNING
JWC EXISTING CONTRACTUAL ARRANGEMENTS ESTABLISHED BY HOST
NATION NORWAY AND LACK OF VAT RECOVERY**

ACT's Formal Comments

Recommendation a): Not agreed.

JWC is in a sole source relationship with Norway. However, ACT would contend that when the Budget Committee agreed that ACT could move forward with signing the MOA, they effectively agreed to Norway acting as the sole source provider of these services to JWC. It is our view, that while the MOA remains in force then we have the necessary "deviation" to normal procurement in place and there is no requirement to renew this on an annual basis with the BC.

Recommendation b): Agreed.

NATO UNCLASSIFIED

IBA-AR(2024)0013

Although Norway is responsible for delivering the service and contracting with individual suppliers and the Norwegian Defence Estate Agency routinely undertakes market surveys. JWC acknowledges that periodic market surveys undertaken by JWC to provide reassurance that prices are fair and reasonable are reasonable.

Recommendation c): Agreed.

ACT agrees that the JWC may not have fully claimed for VAT recovery from the Host Nation Norway. However, at the end of 2023 the Norwegian system was unable to provide invoices with VAT broken out. Work is ongoing with Norwegian Defence Estate Agency to refine their system in order to determine what element of the monthly, yearly invoice is eligible for tax recovery. In 2024, results are encouraging and it is hoped that future invoices will have this breakdown.

ACT will work with the Norwegian authorities to try to identify outstanding VAT reimbursement. ACT considers that the 1.2 MEUR estimate contained in the draft report is an over statement based on the fact that a significant proportion of the monthly Norwegian invoice is made up by payments to Norwegian Defence Estate Agency staff which do not attract VAT.

Recommendation d): Agreed.

None.

Recommendation e): Not agreed.

The report suggests that JWC is not fully compliant with the MoA with regard to the payment of suppliers of electricity, gas (a metered service) and cleaning services (discrete contract set up by Norway) in that JWC pays the supplier directly rather than reimbursing Norway for the service.

ACT considers that JWC is still compliant with the MoA. The MOA states "MOD NOR will, through the HN POC provide the full complement of such utilities and services to the JWC where operational services and consumables are provided on a reimbursable basis by the HN unless the JWC selects a solution not involving the HN (Annex B para 4a)".

In addition to being compliant with the MoA ACT also considers this the most effective and efficient way to pay for these services and to identify and claim VAT reimbursement whilst still benefitting from the Norwegian MOD negotiated prices.

NATO UNCLASSIFIED

IBAN's Position***Sub-recommendation a):***

IBAN takes note that ACT considers JWC to be in a sole source relationship with Norway and contend that when the Budget Committee agreed that ACT could move forward with signing the Memorandum of Agreement (MOA), they effectively agreed to Norway acting as the sole source provider. However, the MOA with Norway states that the non-cost shared operational services based on actual consumption of utilities and services (electricity, gas supply, and cleaning services) are provided to JWC *'on a reimbursable basis by the Host Nation (HN) unless the JWC selects a solution not involving the HN'*. This means that while JWC has chosen to enter into a sole source relationship with Norway for these specific services, the MOA still permits the selection of alternatives that do not involve the HN.

Consequently, IBAN considers that the Budget Committee's agreement to proceed with the signing of the MOA should not be construed as a formal approval to deviate from standard competitive procurement rules for the provision of non-cost shared operational services based on actual consumption of utilities and services. As a result, formal approval from the Budget Committee for deviations from standard procurement procedures for existing contractual arrangements established by Host Nation Norway should be obtained, in accordance with Article 32 of the NFRs, Budget Procurement Guidance, Budget Guidance for 2023 and Article 13 of FRP XXXII. IBAN therefore maintains sub-recommendation a).

Sub-recommendation e):

IBAN notes that ACT acknowledges that JWC is paying directly the suppliers of electricity, gas and cleaning services, rather than reimbursing Norway. This practice is inconsistent with the provisions of the MOA with Host Nation Norway, which stipulates that such costs should be handled on a reimbursable basis, with JWC reimbursing Host Nation Norway instead of paying the suppliers directly. IBAN therefore maintains sub-recommendation e).

OBSERVATION 6:**NON-COMPLIANCE WITH THE NATO FINANCIAL REGULATIONS AND NATO ACCOUNTING FRAMEWORK REGARDING NSIP FUNDED ASSETS*****ACT's Formal Comments***

Agreed.

ACT agrees with the recommendation but makes the following observation.

Although, Host Nation Norway requested a Joint Final Acceptance Report (JFAI) in October 2023 for the JWC Power Restoration Project (2021/9TI11126-M). ACT considers that the necessary access and control of the generators was not in place to record these NSIP assets in its Statement of Position:

- 1. The supplier contract stated that the generators remained under a test period until 1 Jan 2024, and*
- 2. The generator room is located in block 0-1 of the in rock facility which remained off limits to JWC personnel in 2023.*

OBSERVATION 7:

NEED TO ENSURE FULL COMPLIANCE WITH THE NATO CIVILIAN PERSONNEL REGULATIONS REGARDING A BLANKET DEVIATION TO THE SUBSISTENCE ALLOWANCE

ACT's Formal Comments

Not agreed.

Article 41.2.1 states that:

"Exceptionally, Heads of NATO bodies may authorize the reimbursement of expenditure incurred in excess of the full approved rate of subsistence allowance, when this will facilitate the transaction of official business."

In HQ SACT, this has been delegated to the ACT Financial Controller. Based on this delegation ACT has issued, for 6 hotels in the vicinity of NATO HQ in Brussels, a standing approval for the negotiated NATO rate with these hotels. ACT considers that this is exceptional in nature and is, therefore, compliant with the Civilian Personnel Regulations.

IBAN's Position

IBAN takes note of ACT's interpretation of Article 41.2.1 of the NATO Civilian Personnel Regulations, regarding the granting of a blanket deviation to the subsistence allowance. IBAN considers that such a blanket deviation, by its very nature, is contrary to the principle of exception set out in Article 41.2.1 of the NATO Civilian Personnel Regulations. IBAN therefore maintains this recommendation.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(1) ACT 2022 FY

IBA-AR(2023)0011, paragraph 1.17

WEAKNESSES IDENTIFIED IN THE ACCOUNTING TREATMENT OF NSIP CALLS FOR CONTRIBUTIONS

*ACT's Formal Comments**Recommendation a): Agreed.**None.**Recommendation b): Not agreed.**ACT position is that NSIP contributions were received in the year in which the call was issued.**Recommendation c): Not agreed.**ACT position is that this was indeed the case in the 2023 financial statements.***IBAN's Position***Sub-recommendation b) and c):*

IBAN acknowledges that ACT recognised NSIP contributions related to the first quarter of 2024 in 2023, amounting to EUR 0.2 million, in the 2023 ACT Consolidated Financial Statements. However, ACT did not correct the comparative figures as recommended in the 2022 Audit Report (IBA-AR(2023)0011), leading to an understatement in the 2023 ACT Consolidated Financial Statements of ACT's 2022 receivables and financial liabilities from NSIP contributions, totalling EUR 1.4 million. IBAN therefore maintains sub-recommendations b) and c) as In-Progress.

(2) ACT 2022 FY

IBA-AR(2023)0011, paragraph 2.15

INSTANCES OF NON-COMPLIANCE WITH PROCUREMENT RULES IDENTIFIED AT JWC

*ACT's Formal Comments**Recommendation a): Agreed.**None.*

Recommendation b): Agreed.

None.

Recommendation c): Agreed.

None.

**(3) ACT 2022 FY
IBA-AR(2023)0011, paragraph 3.12
IMPROVEMENTS REQUIRED IN JFTC'S ASSET MANAGEMENT OF NSIP
FUNDED ASSETS**

ACT's Formal Comments

Agreed.

None.

**(4) ACT 2021 FY
IBA-AR(2022)0006, paragraph 2.17
WEAKNESSES IDENTIFIED IN THE RECOGNITION OF NSIP FUNDED ASSETS**

ACT's Formal Comments

Recommendation a): Not agreed.

Written guidance was provided and training provided to subordinate Commands.

Recommendation b): Agreed.

None.

Recommendation c): Not agreed.

ACT disputes the assessment of the NSIP funded asset acceptance reported in FY 2023 Observation 6.

HQ SACT did complete a thorough check on the completeness, accuracy and uniformity of property accounting records.

IBAN's Position

Sub-recommendation a) and c):

Regarding sub-recommendation a), IBAN notes the comment that written guidance and training were provided to subordinate Commands. However, we were not provided with formal audit evidence supporting this and we will follow-up this matter during the next audit.

Regarding sub-recommendation c), IBAN notes the comment, however given the new observation 6 raised in this year's audit regarding NSIP funded assets, we maintain this sub-recommendation as in-progress.

GLOSSARY OF TERMS

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

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

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

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

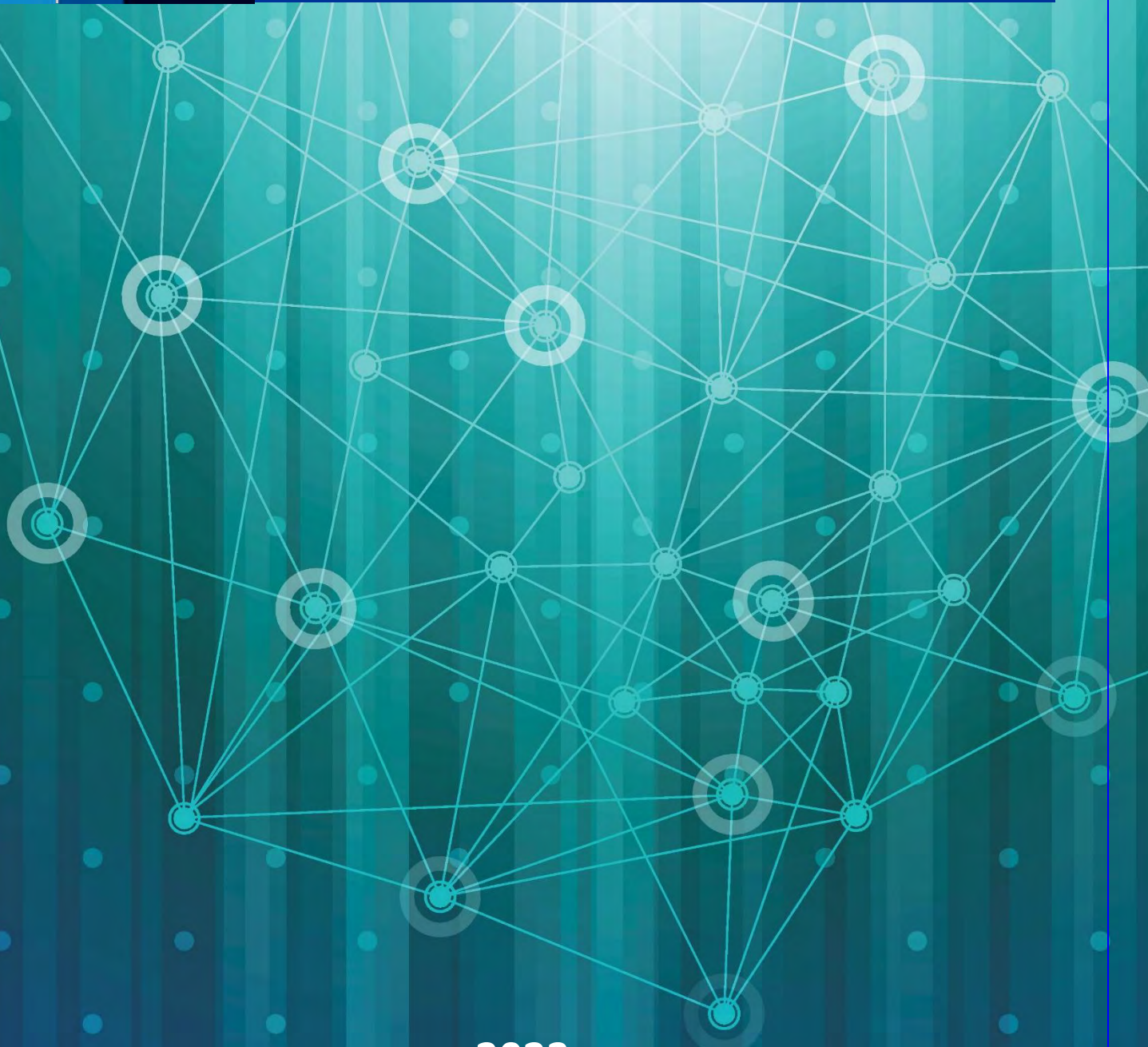


NATO
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ALLIED COMMAND TRANSFORMATION

NORFOLK, VA

PUBLICLY DISCLOSED - PDN(2025)0009 - MIS EN LECTURE PUBLIQUE



2023

ALLIED COMMAND TRANSFORMATION
CONSOLIDATED FINANCIAL STATEMENTS

NATO'S WARFARE DEVELOPMENT COMMAND



HQ Supreme Allied Commander Transformation
Command Group, Office of Budget and Finance
Norfolk, Virginia | USA



ACT/CG/BUDFIN/TT-8101/SER:NU

TO: Mr Radek Visinger, Chairperson, International Board of Auditors
for NATO

SUBJECT: **2023 ALLIED COMMAND TRANSFORMATION
CONSOLIDATED FINANCIAL STATEMENTS**

DATE: 18 March 2024

REFERENCE: A. NATO Financial Regulations Article 34 and 35.

1. In accordance with the Reference, we herewith forward the 2023 Annual Consolidated Financial Statements for Allied Command Transformation (ACT).
2. The financial information contained in the Statements agrees with the ACT financial records, showing the position at the end of the financial year for each of the items listed in Article 34 of the NATO Financial Regulations (NFRs).
3. For these 2023 Financial Statements, ACT has again met the timeline set out at the Reference, which states that Financial Statements are to be produced by 31 March.

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

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

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

Nicholas Garland
Financial Controller
Allied Command Transformation

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DISTRIBUTION:

External -

Action:

ACT Board Member, IBAN
Budget Committee Secretariat

Information:

Commander JWC
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Commander JALLC
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SUPREME ALLIED COMMANDER TRANSFORMATION FOREWORD AND REPORT



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

At the Madrid Summit in June 2022, the Heads of States and Government agreed to a new and transformational NATO Strategic Concept in order for NATO to adapt to a more dangerous and fast changing world. The nations agreed to increase support to Ukraine and to reinforce NATO's deterrence and defence posture, as well as inviting Finland and Sweden to join the Alliance. Since then Finland has joined the Alliance and the NATO nations have agreed to the Political Guidance 2023, which serves as ACT's guide for our capability development work.

Our mission is to contribute to preserving the peace, security and territorial integrity of the Alliance member states by leading the strategic warfare development of military structures, forces, capabilities and doctrines. ACT is positioned to constantly look ahead to prepare for the necessary adaptation and transformation of our Military Instrument of Power. In 2022 we delivered the conceptual framework and NATO's North Star 20 year vision. In 2023 we started to incorporate that framework through the Warfare Development Agenda and its five Warfare Development Imperatives¹ into the delivery of our Programme of Work. To support us in our endeavours, the decisions made in Madrid became a reality as €30M of additional funding was applied to our Programme of Work with a particular focus 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. These include Space and Cyber as well as creating the foundations for a data-driven Alliance through the implementation of its Digital Transformation Strategy.

In 2023 we marked the 20 year anniversary for the Command. As NATO's warfare development command, now more than ever, the success of our Alliance depends on ACT's strategic understanding of the security environment and on the transformation and modernization of the Military Instrument of Power. ACT leads transformation in a unified, agile and cross-functional approach within the entire strategic community, with SACEUR, in close collaboration with all NATO entities, and in recognition of the Allied consensus. Our unique responsibilities enable collaboration with institutions, industry, academia and think tanks. Our location in the United States allows for fruitful interactions with American partners. The outcome is an adaptable, foresighted and powerful combination to enhance NATO's posture, military mindset, structures, forces, capabilities, policy, and doctrines. We transform through strategic thinking, defence planning, innovation and experimentation, capability and interoperability development. We understand that defence planning fosters harmonization, synchronization and fair burden sharing amongst Allies. We provide common-funded capabilities, interoperability initiatives, doctrine and education for our talented workforce as the glue among national capabilities, which enable the Alliance to meet its core tasks. Transformational efforts are found throughout ACT, which has its Headquarters in Norfolk, Virginia, along with three subordinate entities in Norway (Joint Warfare Centre), in Poland (Joint Force Training Centre) and in Portugal (Joint Analysis & Lessons Learned Centre). ACT also includes SACT Representative Europe (SACTREPEUR) at NATO Headquarters in Brussels, and ACT Staff Element Europe (SEE), which sits alongside Allied Command Operations (ACO) Headquarters at Supreme Headquarters Allied Powers Europe (SHAPE). ACT conducts experiments,

¹ Cognitive Superiority, Layered Resilience, Influence and Power Projection, Cross Domain Command and Integrated Multi-Domain Defence

develops doctrine, innovates solutions and delivers new, necessary tools to the Allied warfighters to ensure they are able to deter, defend and fight today and tomorrow.

In the paragraphs below, I have highlighted ACT's key outputs, financial overview, and vision for the future.. As it is impossible to report on everything the Command has undertaken in 2023, the following sections present some of our most significant achievements.

Key Outputs

Policy and Doctrine Development

Following the reinvigoration of the Strategic Foresight Cycle in 2022, we delivered the Strategic Foresight Analysis 2023. This analysis will educate and improve Alliance-wide future understanding over general trends assessment, and serves as the foundation of the Future Operating Environment 2024 report. In 2023, we also established a China Analysis and Cross-Function Support Capacity. This capacity will support NATO's efforts to better understand the People's Republic of China's capabilities, policies, and potential effects on NATO, and its impact on the security environment.

Work on our Four Square and Integrated Deterrence Study focussed on improving deterrence through better integration and coherence across the Diplomatic, Information, Military, and Economic instruments of power and the conventional and nuclear capabilities. As part of this Study, ACT conducted a revolutionary deterrent wargame at NATO Headquarters in 2023, pitting senior country delegates against a top-tier group of diversified experts. The game was instrumental in drawing insights on strategic thinking, decision-calculus, deterrence, and escalation dynamics.

We initiated work on the Cross-Domain Command Concept, which will establish the basis for strengthening the Military Instrument of Power through reviewing, revising, and as necessary, adapting, refining and advancing current conceptual approaches to Command and Control in a multi-domain perspective. The Cross-Domain Command concept is designed to provide the foundation for the development of requirements to inform Digital Transformation and the NATO Command Information Services Initiative. We expect the delivery of this Concept by the end of 2024.

Other notable outputs include the delivery of the Multi Domain Operations in Urban Environment Concept, NATO Military Resilient Risk Assessment Methodology, Cognitive Superiority Implementation Strategy and Long Term Military Strategic Shaping Strategic Framework, as well as a non-classified NATO Warfighting Capstone Concept.

As Allied forces require clearly understood and agreed joint doctrine to plan, execute, assess and sustain operations, ACT continued to play an essential role in Allied joint doctrine development. We provided the best military advice and recommendations to 25 Military Committee Standardization Boards and Working Groups.

In addition, ACT managed the Allied Joint Doctrine Campaign Plan on behalf of the Military Committee Joint Standardization Board. The purpose was to manage the development of NATO's joint, operational-level publications by programming the staggered revision of all publications over a five-year cycle to ensure coherence between doctrine and other publications. Nine revisions were initiated through a doctrine task approved by the Joint Standardization Board. All doctrine tasks, including a new publication for Space Operations, will contain guidance to consider the Allied Multi-domain Operations concept to enable the mind-set shift to move from joint to Multi-Domain Operations.

Capability Development



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With the delivery of the ACT-produced Strategic Capability Development Plan in July 2023, NATO now has a strategically aligned portfolio-level view against which NATO capabilities will be planned, delivered and maintained. It is a key document to prioritize and sequence our common funded capabilities.

Digital Transformation

In close collaboration with Allied Command Operations, nations and the wider NATO community, ACT had a leading role to align and accelerate data centricity, data exploitation and AI capability delivery programmes, thus leveraging the latest technologies such as Large Language Models. In response to the Allies' Digital Transformation Implementation Strategy, ACT is leading 19 Lines of Effort and supporting 17 others as a cross-directorate endeavour. At the forefront of the NATO Artificial Intelligence Strategy, we provided the military requirements and recommendations for applying the NATO Principles of Responsible Use for AI in defence, which will help steer NATO's transatlantic efforts in alignment with Alliance values and norms and with international law.

To support the Digital Transformation, the NATO Command Information Systems Initiative facilitated the delivery of a NATO Digital Backbone for the Alliance. This initiative exploits the current and planned capability programming in close coordination with the Federated Mission Networking community to ensure the necessary "Interoperability Continuum" among NATO nations and partners.

ACT working groups have been analysing the Individual Training requirements to support Digital Transformation. ACT is also leading the effort to establish a digital employment framework for Individual Training. Additionally, analysis of Digital Transformation themes and the conduct of pilot training courses has resulted in the identification of new NATO requirements. During their Orientation training, all NATO newcomers will use e-learning to enhance their digital awareness through achievement of the "NATO Digital Literacy Standard". This focuses on areas such as Cyber Security, Networks and Knowledge Management, Data, Applications, and more. The future warfighters will increase their proficiency and their decision-making in the digital world by understanding the connection between Multi-Domain Operations and Digital Transformation.

Interoperability



In 2023, ACT led several efforts aiming at improving NATO's communications and information systems interoperability, from the strategic to the tactical levels of command. We organized and ran our largest ever Coalition Warrior interoperability exercise, where more than 40 nations conducted over 22,000 tests among more than 400 capabilities, which made a significant contribution to improving the Alliance's interoperability. In addition, our TIDE Sprint and iO360 events advanced the Alliance's future interoperability by prioritizing the elements needed to make significant progress in NATO's Digital Transformation and to enable Multi-Domain Operations.

Space and Cyber

The implementation of the 5-phased Space Domain Action Plan for NATO progressed in 2023. As threats in cyberspace have continued to grow in number and complexity, the initiation of a Cyber Operations Concept will further operationalize the implementation of the Cyber Domain in NATO's operational environment.

Other Capability Development

The Alliance Future Surveillance and Control (AFSC) programme progressed significantly in 2023 with the delivery of technical concepts by industry. NATO's operational requirements will start the incremental approach to meet AFSC 2035

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objectives, which will provide tactical data exchange pathways and gateways to enable a system-of-systems approach consisting of legacy and next generation warfighting assets. Often described as the Tactical Multi-Domain Operations programme, AFSC is a demonstrator of future NATO required capabilities.

Work progressed on the main enablers for the NATO Command Information Systems Initiative: Core Services, Communication Services, IT Service Management and Deployable Communications Information System. Specifically, the delivery of the NATO Enterprise Wide Core Communications and Multi-Media Access Services programme will provide the foundation for the Operational Network and is essential to enhance interoperability through development of a smaller, more resilient NATO network.

In 2023, ACT led the development and coordination of the delivery of common funded capabilities supporting the Warfare Development Imperative “Influence and Power Projection” through the delivery of functional Joint Effects capabilities, while building the initial framework to synchronize joint effects across functions, disciplines, and domains. Efforts included the implementation of the Command and Control of Electronic Warfare and Information Environment Assessment Capability Programme Plans to formulate early non-kinetic integration and the development of a holistic Joint Targeting Advanced Rapid Targeting and Effects Mission Information System (ARTEMIS) Capability Programme Plan.

As part of the Layered Resilience Warfare Development Imperative, ACT, supported by 31 Territorial Host Nations, continued to make progress in the production of Infrastructure capability delivery but also to facilitate the Reception, Staging and Onward movement of Allies within SACEUR’s Area of Responsibility.

In the logistics domain, the Command has initiated a “Collective Logistics Concept” that aims to align multinational logistics efforts within the Alliance. The NATO “Fuel Supply Chain” programme for improving resilience across the Alliance made huge steps in 2023 and will lead to a Capability Programme Plan to be delivered by the end of 2024. ACT participated in the development of the Multinational Ammunition Warehousing Initiative and coordinated the development of updated Stockpile Planning Guidance.

Innovation

ACT will continue to push the limits for Alliance-wide innovation initiatives, in close collaboration with NATO’s Defence Innovation Accelerator for the North Atlantic (DIANA), industry and academia, continuously seeking to investigate new ideas that can support the warfighter in being faster than the adversary. The development of Minimal Viable Products, together with operational users at the forefront of the military requirements, will leverage emerging technologies or critical capabilities to test and demonstrate solutions to implement and operationalize MDO. In 2023, Emerging & Disruptive Technologies (EDTs) were leveraged to support data science & AI, quantum technologies, secure communication-enabled protocols, Cloud-based capabilities, and the protection of critical undersea infrastructure. We successfully ran our bi-annual innovation challenges, organized with a host nation, to tackle military problems of interest, bringing together a wide range of innovation partners.

Exercises

Support to NATO Current Operations: The Joint Force Training Centre delivered 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. The training was conducted in a blended format of virtual and residential phases and was supported by key representatives of the Iraqi Armed Forces and Iraqi Focus Groups. This ensured the training was realistic and up-to-date with all current in-theatre issues.

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Support to NATO Future Operations: With all support to NATO future operations based on SACEUR's requirements, the Joint Warfare Centre successfully executed two major computer-assisted exercises/command post exercises (CAX/CPX) and concurrently planned and prepared for seven others to be executed in 2024 and 2025. This included Exercise STEADFAST JUPITER 2023, the largest CPX in the history of the Alliance, involving nearly 7,000 civilian and military personnel and 24 training audiences. Additionally, eight NATO Centres of Excellence and seven international/non-governmental organizations participated in the exercise. These exercises enabled the certification of 11 NATO Command Structure/Force Structure HQs. The Joint Force Training Centre (JFTC) designed, programmed, planned and executed the NATO Command Structure Key Leaders Exercises STEADFAST PYRAMID and STEADFAST PINNACLE. JFTC also designed, planned and set the conditions for the successful execution of the major Land Domain Exercise LOYAL LEDA to be held in early 2024, aimed at certifying a NATO Warfighting Corps HQ. Further support was provided to the NATO Force Structure by hosting the 1st German/Netherlands Corps and the Rapid Reaction Corps France in their interoperability and readiness exercises, GRIFFIN LIGHTNING 23 and CITADEL BONUS 23.



Support the Partnership Programme: The Joint Force Training Centre maintained its close ties with the Georgian Joint Training and Evaluation Centre and facilitated seven iterations of Ukrainian Armed Forces training with NATO Command Structure Mobile Training Teams.

Looking ahead, we see opportunities and challenges for 2024, especially in light of the transition to the new exercise model, as ACT Training Commands serve as Officer Directing the Exercise (ODE) for STEADFAST DETERRENCE, DUEL, DAGGER, FOXTROT and LOYAL LEDA.

Individual Training

ACT continued to manage and develop the electronic Individual Training and Education Programme (e-ITEP), NATO's in-use Training Management System designed to manage NATO Education and Individual Training within the Global Programming framework. There are currently 205 Education Training Facilities and 2554 users registered in e-ITEP, and the tool is under continuous development to adapt its capabilities to existing needs.

A priority in 2023 was working towards a Multi-Domain Operations (MDO)-enabled Alliance made possible through Digital Transformation. As one of the initial steps towards shifting mind-sets towards Multi-Domain Operations, ACT developed an online MDO course, which is expected to be released to the NATO Enterprise in early 2024. Additionally, in 2023 ACT undertook a comprehensive NATO training analysis to establish the requirement for individual training courses to be modified to incorporate MDO themes and vignettes in line with new doctrine.

Warfare Development & Experimentation

ACT commenced a new initiative entitled Warfare Development in Exercises that employed Warfare Development Exploitation Teams in exercises, with the initial deployment to STEADFAST JUPITER 23. Its intent was to establish a baseline of Alliance knowledge about the Concept for Multi-Domain Operations and the use of MDO Instruments of Power during Article V operations. The baseline is to be used for implementation and for MDO in upcoming exercises in 2024 and beyond.

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With regard to wargaming and experimentation, ACT continues to grow its capacity both in the Headquarters in Norfolk and through the extension of the Joint Warfare Centre's trial structure, which has been extended until the end of 2025.

The first combined 2023 Experimentation and Wargaming Programme of Work was executed in four contexts: Standalone Experimentation, Experimentation in Exercises, Experimentation in Operations, and Standalone Wargames. Four areas are noteworthy:

- The applicability of the Multi-Domain Operations in an Urban Environment Concept as an operational level concept was evaluated via a two-week wargame at JFC Naples in February 2023. The analytical effort focussed on validating the six MDO in Urban Environment principles.
- The second iteration of dedicated Experimentation Exercise DYNAMIC MESSENGER 23 was conducted in September 2023 in Troia (Portugal) under the 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.
- A second round of 5G experimentation took place in October 2023 at Adazi Base (Latvia). One experiment explored the application of 5G networks to enable telehealth on the field in military settings, and to compare different telehealth equipment and assess their use under different 5G networks.
- ACT involvement in the US-led Multinational Capability Development Campaign, participating in the following projects: Allies & Partners Experimentation Network, Artificial Intelligence Enabled Sensor Fusion, and Multinational Wargaming.

Modelling and Simulation

As the provision of quantifiable data to inform the military advice given to strategic-level analytical studies is critical, ACT's Modelling and Simulation team tested both the Resilience Prototype and the Resilience Data Analytics Minimum Valuable Product in NATO's 2023 Crisis Management Exercise. Additionally, ACT's work on the Political Military Assisted Decision Making programme reached an important milestone with the delivery of the Capability Requirements Brief to the Military Committee and Resource Policy and Planning Board in 2023.

ACT continually investigates emerging technologies and provides development and delivery of e-Learning solutions. In 2023, the main focuses were the development of Augmented Reality supported trainers. In 2024, the main focus will be investigation and implementation of Artificial Intelligence (AI) enabled solutions for adaptive learning.

Lessons Learned

ACT provided a comprehensive report on military strategic considerations and recommendations in regards to the effects Russia's war against Ukraine have on the Military Instrument of Power (MIoP). The report focuses on the significant and long-lasting impacts, which require NATO's continuous observation, deduction, and assessment.

The Joint Analysis and Lessons Learned Centre completed Joint Analysis reports on NATO Involvement in Evacuation Operations – Lessons from Operation ALLIED SOLACE for SHAPE Comprehensive Crisis and Operations Management Centre. 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 Technical Exploitation and Battlefield Evidence in NATO were undertaken in 2023, with the report on Human Security in Operations for SHAPE J9 due for completion in the third quarter of 2024. The Joint Analysis and Lessons Learned Centre completed a Short Term Analysis report on Chemical Biological Radiological and Nuclear (CBRN) expertise and Operational Assessment at the Military Strategic Level and a further two Short Term Analysis Reports on Ukraine Operations lessons with the aim to influence the development of training and exercises provided by the Joint Force Training Centre. Additionally, the Joint Analysis Lessons Learned Centre (JALLC) provided support through implementing the NATO Lessons Learned Capability to NATO entities, Nations, and Partners and providing 22 outreach engagements and nine different courses in 2023.

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Also in 2023, JALLC conducted several innovation-related activities developing the Lessons Learned Ontology and Semantic Representation for Lessons Learned Exploitation, as well as the developing the Observation Collection and Analysis Tool. These activities were focussed on supporting the future implementation of the user requirements for a new NATO Lessons Learned Toolset while remaining connected to a wider NATO innovation network.

Accession and Integration of Finland and Sweden:

Finland formally acceded to the Alliance on 04 April 2023. This enabled ACT to lead the Finnish Accession and Integration Working Group culminating in the Final Integration Conference, followed by a Joint Signing Ceremony, held at the Presidential Palace in Helsinki, where SACT and the Finnish Chief of Defence signed a joint declaration as an affirmation of the fulfilment of Finland's Integration Phase objectives on 12 June 2023.

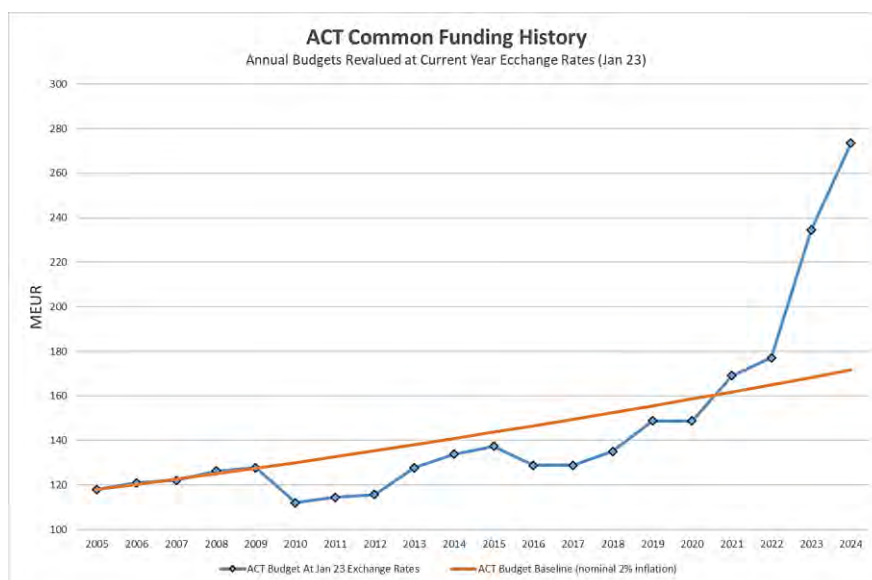
The Military Integration of Sweden led by ACT progressed in 2023 to the point where it could be formally completed at a Final Integration Conference. However, this can only take place after the final ratification of the Accession Protocol by all NATO Allies.

NATO Centres of Excellence:

ACT conducted seven periodic assessments for the NATO-accredited Centres of Excellence (COE) in 2023. In addition, we continued to support the establishment and accreditation of the two new COEs under development: the new Climate Change and Security COE, located in Montreal (Canada), and the NATO SPACE COE in Toulouse (France). On 15 October 2023, ACT launched a new system of coordination and management of the COEs with the main objective to synchronize the Community of Interest and sharpen the focus on NATO priorities and common opportunities.

Financial Overview

To support this level of activity, NATO Nations awarded ACT a budget of €229M (revalued to €234M (Jan 23 Exchange Rates) for comparison purposes). As can be seen from the chart opposite, this award represents a step change increase in the level of investment made by the Nations in support of transformational activity as a direct consequence of the 2022 MADRID Summit declaration to award an increase to the NATO Military Budget of 25%. This trend continues into 2024 with an awarded ACT budget of €273M.

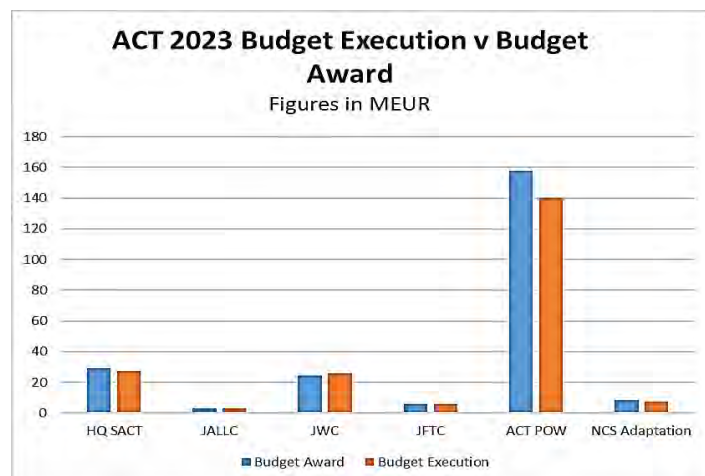


The ACT funds are provided in a number of currencies (Euros, US Dollars, Norwegian Krone and Polish Zloty) but are consolidated and presented in the financial statements in Euros. The 2023 execution in budget currency can be examined in the detailed Budget Execution Statements.

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 the budget supporting Headquarters Supreme Allied Command Transformation (HQ SACT) based in Norfolk, Virginia, USA. Secondly, there are budgets

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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.



As shown in the graph at left, the vast majority of the additional €55M in funding was allocated to ACT's programme of work. Unfortunately, the Command struggled to commit these funds. The necessary enablers were not foreseen or in place in 2022 to facilitate a fast start to committing the additional resources in 2023. As a consequence, there were delays in developing our programmes which, when combined with a lack of relevant capacity in both NATO suppliers and industry, resulted in lower-than-expected budget execution rates. Although ACT committed its highest ever total of €210M (91.7%), it did result in ACT returning €19M to the NATO nations.

Vision for the Future

In order to contribute to shaping and contesting our adversaries today, while at the same time preparing our Military Instrument of Power for the battlespace of tomorrow, I tasked the ACT team to further incorporate the Warfare Development Agenda aligned development activities into our future activity. Some highlights of ongoing work include:

Cognitive Superiority: Understanding the operating environment and potential adversaries relative to the Alliance's own capabilities, capacities and objectives. Work in 2024 will focus on delivering cognitive and warfighter development through ACT's exercise programme, implementation and sustainment of NATO's lessons learned process, further exploitation of data of an ACT data science, analytics and artificial intelligence capacity, the development of cognitive warfare concept, and Intelligence, Surveillance & Reconnaissance (ISR) and Communications & Information System (CIS) capability development. Our long-term military transformational work will continue focussing on understanding the future operating environment and on future military strategic shaping to support development of strategic advice, scenarios for experimentation and evaluation of NATO activities.

Layered Resilience: The ability of NATO's Military Instrument of Power to absorb shock and fight on, across all layers, military, civil-military and military-civilian. In order to enhance the Military Instrument of Power, ACT will continue delivery of Common Funded Infrastructure to alleviate capability shortfalls in the NATO Command Structure regarding maritime, air basing and land as well as ammunition storage, bulk fuel and training facilities. We plan to develop logistic capabilities to support NATO during Multi-Domain Operations and improve logistics effectiveness through work on the NATO Fuel Supply Chain, and energy and medical functional concepts for NATO operations. Lastly, ACT will continue countering threats in the underwater domain to develop innovative solutions utilizing autonomous underwater vehicles for conducting NATO naval mine warfare and seabed surveillance operations.

Influence and Power Projection: Shaping positively the environment to the Alliance's strengths, including generating options and imposing dilemmas on adversaries. In order to improve NATO's ability to effectively address multi-domain, multi-region, and multi-actor escalation, ACT will focus on joint effects and multi-domain capabilities in order to plan, direct and synchronize lethal and non-lethal effects. This will allow the Alliance and our Partners to anticipate, deter, defend against and defeat any potential threats. Resultant effects across domains will be synchronized in time and space to achieve NATO's strategic, operational, and tactical objectives. In the area of cyberspace, we will focus on warfare and capability

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development, security enhancements, and situational awareness for resilience and mission assurance. Lastly, our space programme will improve space capabilities and support the implementation of the space domain.

Cross-Domain Command: Revitalizing and enabling a commander's ability to understand the multi-domain operating environment and act rapidly and effectively. Robust and continuously refreshed communications and information systems are fundamental in achieving this. I have placed special emphasis on NATO's broader digital transformation through the creation of the NATO Command Information Systems Initiative programme, the creation of a Digital Transformation Section and the delivery of a modern Digital Backbone. Furthermore, ACT will continue to be engaged in delivering core capability products across air command and control; interoperability verification; alliance future surveillance and control; ballistic missile defence; core communications including deployable, satellite and wireless communications; core services; joint multi domain, air, maritime, land, special operations forces command and control; and nuclear consultation, command and control.

Integrated Multi-Domain Defence: In the future operating environment of more persistent and boundless competition, the Alliance needs to move towards an integrated, multi-domain approach to defence and a more persistent operation posture. A connected and ready-enabled joint force will be supported through the design, programming, planning and execution of a range of ACT-delivered exercises incorporating experimentation. Our work in cyberspace operationalization supports integrated multi-domain defence through concept development, the delivery of a coherent Cyberspace Domain Services portfolio of capabilities, common-funded governance and the delivery of our annual Cyber Coalition exercise. Additionally, in 2024 we plan to deliver a Pol-Mil Assisted Decision Making demonstrator to support high level decision making. Lastly, work in our environmental knowledge and operational effectiveness maritime and anti-submarine warfare programmes will enhance the Alliance's ability to operate in the maritime domain (surface or underwater) through greater understanding of the operating environment, improvement in decision making and domain awareness, along with innovative future solutions to conduct NATO operations.

Warfare Development Agenda Critical Enablers: As well as fulfilling central functions for the Alliance, including investigating strategic trends and drivers through the Strategic Foresight Analysis process, apportioning the Capability Targets to Nations in Step 3 and supporting the delivery of Steps 2 and 5 in the NATO Defence Planning Process, ACT will work on the six critical enablers to ensure that the Command is fit for purpose. In order to ensure we have the Right People Right Skills, ACT will embrace the use of additional civilian workforce, manage NATO's education and training programmes and coordinate and accredit NATO's Centres of Excellence (COE). In building a data-enabled technological advantage, ACT will expand its work on the use AI and data analytics while engaging in emerging and disruptive technologies and maintaining an Innovation programme focused on closing current capability gaps. In advancing agility, ACT will continue to lead the enterprise-level effort regarding common-funded capability, refine the Strategic Development Capability Plan and work on agile procurement methods. Our work on exercise scenarios, wargaming and the delivery of the next generation of modelling and simulation solutions support persistent preparation and readiness enhancement grown out of improved training and exercises. Finally, ACT will continue to lead and coordinate the military aspects of Day Zero Integration with Non-NATO entities.



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 the 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.

Working closely with me is the ACT Financial Controller, who has the responsibility for safeguarding the Nations' common funds and assets assigned to him in accordance with 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 financial year 2023, 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 2024. 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 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 achievements of our objectives and to consider whether these have led to the delivery of appropriate, cost-effective outputs. The application of internal controls cannot eliminate all risks of failure in meeting our aims and objectives; it can only provide reasonable but not absolute assurance of the Command's effectiveness. The Directive was reviewed and updated in 2023 and now includes a dashboard for measuring the effectiveness of the ACT Internal Control Framework. The first assessment using this dashboard will be undertaken in 2024.

As the Command improves the way it delivers its outputs 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

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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.

I expect clear leadership at all levels, based upon mission command and a clearly structured battle rhythm. To achieve that I have asked the Leadership Team to:

- Focus on priorities: understand what must be done, not what could be done.
- Seek simplicity: deliver products that are informative and easily understood.
- Work as a team: our collective efforts are our greatest strength. Collaboration across the organization is critical (within ACT directorates but also within the NATO Command Structure).
- Be ambitious: use every opportunity to try, innovate, experiment and scale up; be ready to accept failure to learn fast, and move on.
- Be agile: work in an incremental way across boundaries, directorates and divisions.
- Maintain accountability: understand what we own, then own it.
- Consider DOTMLPFI1 implementation in all your transformational efforts.
- Add value to the Alliance: you are the lookout into the future.

Mission and Values

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 the Military Instrument of Power. By understanding better and deciding faster, together we ensure the Alliance's warfighter is able to deter, shape and contest, defend and fight, tonight and tomorrow. Anticipation, capabilities, and talents are our distinctive trademarks!

ACT leads NATO's enduring, fast and massive military transformation with a unified, agile and cross-functional approach within the entire ACT community. This action is accomplished in close collaboration with ACO and all NATO entities, and in recognition of the Allied consensus. Our unique responsibilities also enable collaboration with institutions, industry, academia and think tanks. In addition, our location in the United States allows for fruitful interactions with American partners. The outcome is an adaptable, foresighted and powerful combination to enhance NATO's posture, military mindset, structures, forces, capabilities, policy, concepts and doctrines. We transform through strategic thinking, defence planning, innovation, wargaming and experimentation, and capability and interoperability development. We understand that defence planning fosters harmonization, synchronization and fair burden sharing amongst Allies. We develop common-funded capabilities, norms and standards, interoperability solutions, doctrine and education for our talented workforce, as glue among national capabilities, which enables the Alliance to meet its core tasks.

Core to both the delivery of our output in 2023 and delivery in the future are our core values (updated in May 2023) of Integrity, Loyalty, Accountability, Impartiality 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

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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, for 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.

To support this ACT culture, we continue to adapt and modernise our physical infrastructure, improve our working practices and updating the tools used by the Command. We regularly review and develop our induction programme, introduce training updates on ACT working practices and outputs, and support the use of team building activities.

Authorities and Responsibilities

Authorities and responsibilities are clearly articulated in the ACT Statement of Functions and individual job descriptions. Evaluation of our structures takes place on a periodic basis and is a key tenet of our desire to maintain a flexible and agile workforce. Following on from the NATO Command Structure Adaptation implementation, ACT has submitted further refinements to our Peacetime Establishment to optimize our contribution to Warfare Development. 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. Towards the end of 2023 I have asked DSACT, with the support of our Business Change Team, to review our organization to determine whether we have the right structures, workflows, authorities and responsibilities in place to support the implementation of the Warfare Development Agenda. This work will be finalized in 2024.

Accountability

Personal objective setting is a core element of the ACT personnel management process, as well as evaluations at all levels within the organization. Equally important is the establishment of goals and targets on ACT outputs, which were identified and outlined in the 2023 ACT Warfare Development Plan.

The Warfare Development Steering Board reviewed our output based on our first Warfare Development Plan throughout 2023. I also created the Warfare Development Board Finance Steering Committee to focus purely on resource realignment (workforce and funding).

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.

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Our internal controls framework is outlined in ACT Directive 60-2 and has been in place throughout 2023. 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.

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. An audit on ACT risk management was launched in September 2023. A risk management health check and a 'provisional' maturity assessment were presented at the November Audit Advisory Panel. Finalization of the audit and exploitation of the results of the audit will be conducted in 2024 with a view to achieving a 'consolidated' Maturity Level for the organization.

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 2023 the Warfare Development Board, chaired by the ACT Chief Of Staff, assessed performance against the delivery of SACT's objectives. The 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.

Tackling Fraud and Corruption

In February 2022, ACT issued its own directive ACT 015-28 on the prevention, detection and response to fraud and corruption and established the mechanisms for reporting fraud and corruption. In 2023, the ACT 015-28 directive was reviewed and updated in several areas. A prominent new feature is that ACT subject matter experts must provide progress reports to the Committee and input concerning efforts to implement new and/or strengthened preventive and detective fraud and corruption controls.

The ACT Anti-Fraud Committee met periodically throughout 2023 and zero incidents were reported to the Committee. During 2023, we started work on an on-line training module which will form part of the ACT induction/annual training process and ran a second fraud awareness campaign in November 2023. Finally, in 2023 the Committee approved, and ACT introduced, a Fraud Reporting Mailbox. Here all ACT staff can report suspected fraud and/or corruption cases. This mailbox

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is managed centrally by the Office of the Chief of Staff with support of the HQ SACT anti-fraud focal points (AFFP) to ensure independent oversight, management and reporting.

Control Activities

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

Control activities include diverse processes and actions such as clear delegation of authority, required approvals, 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 Capabilities 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). To support our own understanding, as well as provide a mechanism for external stakeholders, in 2023 ACT developed an initial Strategic Capability Development Plan. This plan provides a high-level, structured view aligned to the Common Funded Capability Framework of all extant and planned common-funded capability activity over a ten-year period. Further development will take place in 2024 based on direction and guidance from NATO Governance.

Our biggest asset is our workforce, so 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 Peacetime Establishment workforce. In 2023, this tool was thoroughly updated in order to reflect not only ACT's Peacetime Establishment but also project-linked NATO International Civilians and contractors. This visibility of ACT's total workforce requirements 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. A new security course was developed, 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 2024.

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. Security Controls need 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. During 2023, we introduced enhanced CIS security measures to protect ACT's public facing web portals, a process that will continue in 2024. Additionally, with ACT's increasing use of prototypes and experimentation, there also needs to be controls on the acquisition, development and maintenance testing and service provision of technology.

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The NATO Communications and Information Agency provides information and communications services. Control of these services is generated through the annual Service Level Agreement, which sets out both the level and performance of services required and was 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. In addition, ACT's Personal Data Privacy Protection (40-13) outlines how personal data should be held and maintained across the Command's information systems.

Finally, security threats both internal and external are a part of our daily lives, so 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 occurrence of security incidents and/or to provide early warning that an incident has occurred, or is likely to occur. These measures include:

- In partnership with the relevant host nation, ensuring that security protection measures 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 close coordination 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 2023, the AAP reviewed 59 audit recommendations from a total of 6 ACT internal audit reports. The result was that the AAP closed 31 of the outstanding 59 recommendations/improvements from reports. After its last meeting in 2023, ACT has issued two additional internal audit reports, resulting in a total of 50 recommendations being carried forward into 2024.

At its November meeting, the AAP endorsed the 2024 Risk Based Audit Plan, which incorporates performance audits, financial audits and Internal Control assessments, as well as the systematic follow-ups on outstanding recommendations. This balanced programme of work includes audits of HQ SACT Travel, ACT Wargaming, ACT Partnerships, ACT Intangibles, JWC MWA Financial Statement Review, and JFTC MWA Financial Statement Review. In addition, two audit recommendation follow-up processes are planned for 2024.

Internal audits play a key role in monitoring efficiency, effectiveness, economy and compliance. The ACT Office of Internal Audit is part of the HQ SACT Staff Advisory Group, under the Office of the Chief of Staff. Tasked by the ACT Audit Advisory

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Panel, the Office of Internal Audit implemented the ACT Risk Based Audit Plan for 2023. The Office had its full workforce available after the first quarter of 2023 and successfully executed approximately 90 percent of the planned number of deliverables and activities. In addition, the office contributed to work in the areas of enhancing fraud prevention and detection, provided internal control in several administrative areas, and performed a number of advisory engagements and tasks for the Chief of Staff and other ACT Senior Leadership. Finally, the Office enhanced its data analytical capability and moved the procurement of a modern audit management and analysis software into its final stage.

Effectiveness

Everyone in ACT is 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, as well as 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 operate in an efficient and effective manner;
- Comprehensive budget management systems exist, which are linked to NATO's resource management process;
- Regular reviews occur, by the Command's management boards, to monitor and manage budget activity and financial performance.

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

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



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



Nicholas Garland
Financial Controller
Allied Command Transformation

SUPREME ALLIED COMMAND TRANSFORMATION FOREWORD AND REPORT

ACT STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDING 31 DECEMBER 2023

(all figures are in Euros)

Notes

2023

2022

ASSETS**Current Assets**

Cash and Cash Equivalents	2	134,878,785	81,256,776
Receivables	3	5,263,204	3,172,467
Prepayments	4	1,421,392	1,356,039

Non-Current Assets

Property, Plant & Equipment	5	52,653,621	52,477,747
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TOTAL ASSETS

194,217,002	138,263,029
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LIABILITIES**Current Liabilities**

Payables	6	46,181,366	20,095,975
Deferred Revenue & Liabilities to Nations	7	38,049,002	21,317,305
Military Budget Advance Contributions	8	57,180,400	44,375,108
NSIP Advance Contributions	8	211,250	
Other Advances	8	10,338	

TOTAL LIABILITIES

141,632,356	85,788,388
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NET ASSETS

Capital contributions	9	66,460,628	63,523,895
Accumulated surpluses/(deficits)	9	(13,807,007)	(11,046,148)

TOTAL NET ASSETS/EQUITY*

52,653,621	52,477,747
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Unrealised exchange rate gain / (loss)		(68,975)	(3,106)
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52,584,646	52,474,641
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*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 2023

(all figures are in Euros)	Capital Contributions	Accumulated Surplus / (Deficit)	Unrealised Exchange Rate Gain/(Loss)	Total
Balance as at 1 January 2023	63,523,895	(11,046,148)	(3,106)	52,474,641
Changes in net assets / equity for the year				
Adjustment to value of PP&E				
Disposal of PP&E	(673,002)			(673,002)
Additions to PP&E	3,609,735			3,609,735
Surplus / (deficit) for the period		(2,760,859)		(2,760,859)
Reverse unrealised exchange gain / (loss) 2022			3,106	3,106
Unrealised exchange rate gain / (loss) 2023			(68,975)	(68,975)
Balance as at 31 December 2023	<u>66,460,628</u>	<u>(13,807,007)</u>	<u>(68,975)</u>	<u>52,584,646</u>

ACT CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDING 31 DECEMBER 2023

(all figures are in Euros)

	Notes	2023	2022
REVENUE			
Revenue	10	199,064,876	168,782,340
Other revenue	11	2,214,788	2,151,453
Financial revenue	12	2,641,694	643,902
Total Operating Revenue		203,921,358	171,577,695
OPERATING EXPENSES			
Personnel	13	47,777,558	45,192,480
Contractual Supplies and Services	13	153,012,694	123,031,819
Capital and Investments	13	695,265	801,654
Depreciation charges	5	2,760,859	2,192,632
Other Expenses	15	2,214,788	2,151,453
Finance Costs	16	221,053	400,289
Total Operating Expenses		206,682,217	173,770,327
NET SURPLUS / (DEFICIT) FOR THE YEAR		(2,760,859)	(2,192,632)

ACT CONSOLIDATED CASHFLOW STATEMENT FOR THE YEAR ENDING 31 DECEMBER 2023

(all figures are in Euros)

	2023	2022
Cash Flow from Operating Activities		
Surplus (Deficit)	(2,760,859)	(2,192,632)
Capital contributions for PP&E (ACT procured)	(2,936,733)	(746,196)
Non-cash movements		
Capital contributions for PP&E (NSIP handover)		(26,570,417)
Decrease in capital contributions due to Disposals	0	375,454
Depreciation Charges	2,760,859	2,192,632
Increase (decrease) in payables	26,085,391	1,252,428
Increase (decrease) in current liabilities deferred revenue	29,758,577	(1,811,027)
Increase (decrease) in PP&E due to Capital Contributions		26,570,417
Disposals - PP&E handover		(375,454)
Decrease (increase) in receivables	(2,090,737)	(40,997)
Decrease (increase) in current assets	(65,353)	(267,757)
	53,512,004	579,083
Extraordinary Item		
Net cash flow from operating activities	50,751,145	(1,613,549)
Purchase of PPE	2,936,733	746,196
Net cash flow from investing activities	2,936,733	746,196
Net increase (decrease) in cash and cash equivalents	53,687,878	(867,353)
Effect of exchange rate changes on cash and cash equivalents on translation	(65,869)	(10,199)
Cash and cash equivalents at beginning of period	81,256,776	82,134,328
Cash and cash equivalents at end of period	134,878,785	81,256,776

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ACT CONSOLIDATED BUDGET EXECUTION STATEMENT FOR THE YEAR ENDING 31 DECEMBER 2023 (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
2023											
Personnel	29,332,570	(383,524)	28,949,046	(418,623)	28,530,423	85,592	26,757,341	26,842,932	0	85,592	1,687,491
Contractual Supplies & Services	3,283,235	169,214	3,452,449	340,983	3,793,432	143,095	3,155,889	3,298,984	0	143,095	494,447
Capital Investments	0	395,976	395,976	23,940	419,916	0	371,986	371,986	0	0	47,931
Total 2023	32,615,805	181,666	32,797,471	(53,700)	32,743,771	228,687	30,285,215	30,513,902	0	228,687	2,229,869
2022											
Personnel	0	0	0	0	0	0	(10,879)	(10,879)	0	0	10,879
Contractual Supplies & Services	231,161	0	231,161	0	231,161	0	206,432	206,432	0	0	24,729
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2022	231,161	0	231,161	0	231,161	0	195,552	195,552	0	0	35,609
2021											
Personnel	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	0	0	0	0	0	0	(96,179)	(96,179)	0	0	96,179
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2021	0	0	0	0	0	0	(96,179)	(96,179)	0	0	96,179
<i>Budget Code 201 Grand Total</i>	32,846,966	181,666	33,028,632	(53,700)	32,974,932	228,687	30,384,589	30,613,275	0	228,687	2,361,657

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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
2023											
Personnel	8,929,346	0	8,929,346	0	8,929,346	750	7,996,610	7,997,360	0	750	931,986
Contractual Supplies & Services	451,139	0	451,139	0	451,139	0	419,501	419,501	0	0	31,638
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2023	9,380,485	0	9,380,485	0	9,380,485	750	8,416,111	8,416,861	0	750	963,624
2022											
Personnel	0	0	0	0	0	0	(1,412)	(1,412)	0	0	1,412
Contractual Supplies & Services	7,200	0	7,200	0	7,200	0	3,768	3,768	0	0	3,432
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2022	7,200	0	7,200	0	7,200	0	2,356	2,356	0	0	4,844
2021											
Personnel	0	0	0	0	0	0	0	0	0	0	0.00
Contractual Supplies & Services	0	0	0	0	0	0	(400)	(400)	0	0	400
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2021	0	0	0	0	0	0	(400)	(400)	0	0	400
Budget Code 211 Grand Total	9,387,685	0	9,387,685	0	9,387,685	750	8,418,067	8,418,817	0	750	968,868

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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
2023											
Personnel	609,160	164,276	773,436	(96,697)	676,739	0	622,828	622,828	0	0	53,911
Contractual Supplies & Services	89,518,263	(3,806,160)	85,712,103	111,398	85,823,501	3,011,338	65,254,995	69,973,093	1,706,760	4,718,098	15,850,408
Capital Investments	0	201,200	201,200	0	201,200	0	192,485	192,485	0	0	8,715
Total 2023	90,127,423	(3,440,684)	86,686,739	14,701	86,701,440	3,011,338	66,070,308	70,788,406	1,706,760	4,718,098	15,913,034
2022											
Personnel	0	0	0	0	0	0	(8,984)	(8,984)	0	0	8,984
Contractual Supplies & Services	1,417,271	0	1,417,271	0	1,417,271	164,894	612,013	776,907	0	164,894	640,364
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2022	1,417,271	0	1,417,271	0	1,417,271	164,894	603,029	767,923	0	164,894	649,348
2021											
Personnel	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	0	0	0	0	0	0	(7,243)	(7,243)	0	0	7,243
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2021	0	0	0	0	0	0	(7,243)	(7,243)	0	0	7,243
Budget Code 257 Grand Total	91,544,693	(3,440,684)	88,104,010	14,701	88,118,711	3,176,232	66,666,095	71,549,086	1,706,760	4,882,992	16,569,624

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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
2023											
Personnel	1,880,774	30,844	1,911,618	170,196	2,081,814	0	2,026,085	2,026,085	0	0	55,728
Contractual Supplies & Services	1,179,976	(30,844)	1,149,132	(170,196)	978,936	36,000	797,973	833,973	0	36,000	144,963
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2023	3,060,750	(0)	3,060,750	0	3,060,750	36,000	2,824,058	2,860,058	0	36,000	200,691
2022											
Personnel	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	4,030	0	4,030	0	4,030	0	(39,411)	(39,411)	0	0	43,441
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2022	4,030	0	4,030	0	4,030	0	(39,411)	(39,411)	0	0	43,441
2021											
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 2021	0	0	0	0	0	0	0	0	0	0	0
Budget Code 252 Grand Total	3,064,780	0	3,064,780	0	3,064,780	36,000	2,784,647	2,820,647	0	36,000	244,133

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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
2023											
Personnel	203,460	11,410	214,870	0	214,870	0	200,608	200,608	0	0	14,262
Contractual Supplies & Services	77,339,036	273,635	77,612,671	34,750	77,647,421	1,357,526	73,144,310	74,501,836	0	1,357,526	3,145,585
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2023	77,542,496	285,045	77,827,541	34,750	77,862,291	1,357,526	73,344,919	74,702,444	0	1,357,526	3,159,847
2022											
Personnel	0	0	0	0	0	0	(1,820)	(1,820)	0	0	1,820
Contractual Supplies & Services	2,250,394	0	2,250,394	0	2,250,394	150,000	1,729,003	1,879,003	0	150,000	371,391
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2022	2,250,394	0	2,250,394	0	2,250,394	150,000	1,727,183	1,877,183	0	150,000	373,211
2021											
Personnel	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	188,401	0	188,401	0	188,401	0	140,471	140,471	0	0	47,930
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2021	188,401	0	188,401	0	188,401	0	140,471	140,471	0	0	47,930
Budget Code 258 Grand Total	79,981,291	285,045	80,266,336	34,750	80,301,086	1,507,526	75,212,573	76,720,098	0	1,507,526	3,580,988

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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
2023											
Personnel	120,116,966	2,390,000	122,506,966	572,700	123,079,666	158,298	122,465,523	122,623,821	0	158,298	455,845
Contractual Supplies & Services	125,295,572	18,406,689	143,702,261	(572,700)	143,129,561	10,676,271	124,001,943	134,678,214	0	10,676,271	8,451,347
Capital Investments	550,000	1,000	551,000	0	551,000	0	550,830	550,830	0	0	170
Total 2023	245,962,538	20,797,689	266,760,227	0	266,760,227	10,834,568	247,018,297	257,852,865	0	10,834,568	8,907,362
2022											
Personnel	8,538	0	8,538	0	8,538	0	(44,818)	(44,818)	0	0	53,356
Contractual Supplies & Services	3,766,500	0	3,766,500	0	3,766,500	367,200	2,435,678	2,802,879	0	367,200	963,621
Capital Investments	561,535	0	561,535	0	561,535	0	561,535	561,535	0	0	0
Total 2022	4,336,573	0	4,336,573	0	4,336,573	367,200	2,952,395	3,319,596	0	367,200	1,016,977
2021											
Personnel	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	0	0	0	0	0	0	(5,725)	(5,725)	0	0	5,725
Capital Investments	0	0		0	0	0	0	0	0	0	0
Total 2021	0	0	0	0	0	0	(5,725)	(5,725)	0	0	5,725
Budget Code 255 Grand Total	250,299,111	20,797,689	271,096,800	0	271,096,800	11,201,769	249,964,967	261,166,736	0	11,201,769	9,930,064

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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
2023											
Personnel	11,703,156	(1,388,767)	10,314,389	(126,450)	10,187,939	27,614	9,705,977	9,733,591	0	27,614	454,348
Contractual Supplies & Services	14,534,307	3,804,287	18,338,594	126,450	18,465,044	293,236	17,320,557	17,613,793	0	293,236	851,251
Capital Investments	303,890	61,310	365,200	0	365,200	0	365,191	365,191	0	0	9
Total 2023	26,541,353	2,476,830	29,018,183	0	29,018,184	320,850	27,391,726	27,712,576	0	320,850	1,305,608
2022											
Personnel	29,906	0	29,906	0	29,906	0	20,270	20,270	0	0	9,636
Contractual Supplies & Services	34,352	0	34,352	0	34,352	0	(273,005)	(273,005)	0	0	307,358
Capital Investments	0	0	0	0	0	0	0	0	0	0	0
Total 2022	64,259	0	64,259	0	64,259	0	(252,735)	(252,735)	0	0	316,994
2021											
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 2021	0	0	0	0	0	0	0	0	0	0	0
Budget Code 256 Grand Total	26,605,612	2,476,830	29,082,442	0	29,082,442	320,850	27,138,991	27,459,840	0	320,850	1,622,602

ACT NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

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 2023 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 a number of new standards. However, the Standards detailed below are either pending the implementation date and under review, or 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
43	Leases	01 January 2025	ACT is reviewing the impact (if any) and will implement accordingly
44	Non-current Assets held for sale & discontinued operations	01 January 2025	ACT is reviewing the impact (if any) and will implement accordingly
45	Property, Plant & Equipment (replaces IPSAS 17)	01 January 2025	No significant changes to ACT

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 2023. 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

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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).

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

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During 2023, ACT staff conducted a thorough analysis of all purchases made during the year to establish if any fell within the categories and capitalisation thresholds detailed in the table above. PP&E held in ACT is detailed in Note 5.

1.13 Leases

Leases are classified as finance leases whenever the terms of the lease transfers substantially all the risks and rewards of ownership to the lessee.

All other leases are classified as operating leases.

Rental payable under lease contract are 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 2023, ACT had the following amounts owed on non-cancellable leases at HQ SACT, JFTC and JALLC.

Item	Amounts paid in 2023	Amounts due in 2024 – 2026
Various vehicles	77.75	49.1

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 14 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

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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.

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 2023; 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.

	2023	2022
Total Euro Account	45,972	28,397
Total non-Euro Account	88,907	52,860
	134,879	81,257

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 2023. The cash holdings reflect the fact that all nations settled their cash call contributions by the end of 2023. This was also the case in the previous year.

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

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3. Receivables

	2023	2022
Receivables	5,263	3,172

Receivables includes invoices amounting to €371 that were raised at the year end to recognize revenue corresponding to reimbursable expenditure incurred during the last quarter of 2023. 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:

	2023	2022
Prepayments to 3rd Party Suppliers	1,421	1,356

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	2 buildings in 2 geographical HQ locations	JALLC, Lisbon, Portugal	
Vehicles	4	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

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

	Buildings & infrastructure	Installed Equipment	furniture	Vehicles	Machinery	Auto Info systems	Work in progress	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Balance at 1 January 23	52,375,313	6,644,685	2,324,629	1,247,874	258,392	-	673,002	63,523,895
Additions		1,107,739	-	153,992		278,552	2,069,451	3,609,735
Disposals							(673,002)	(673,002)
Revaluation								-
Balance at 31 December 23	52,375,313	7,752,424	2,324,629	1,401,866	258,392	278,552	2,069,451	66,460,628
Accumulated depreciation								
Balance at 1 January 23	5,814,630	2,966,580	1,427,088	772,263	65,587	-		11,046,148
Depreciation expense	1,550,627	747,549	232,463	183,455	25,839	20,926		2,760,859
Balance at 31 December 23	7,365,257	3,714,129	1,659,551	955,718	91,426	20,926	-	13,807,007
Net book value								
Balance at 1 January 23	46,560,683	3,678,105	897,541	475,611	192,805	-	673,002	52,477,747
Balance at 31 December 23	45,010,056	4,038,296	665,078	446,148	166,966	257,626	2,069,451	52,653,621

During 2023, a main addition to the PP&E of ACT was the capitalisation of Work in Progress (WiP) on several Intangible Assets, which amounted to €1.886M. ACT also has WiP on an AI Server, amounting to €183M was also completed through the NSIP programme on the heating and air conditioning system at HQ SACT. The previous amount of €673 was removed from Work in Progress and together with the additional amount of €435 spent in 2023, a total asset of €1,108 was added to installed equipment

The depreciation charge for the year was €2,761

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6. Accounts payable

Accounts Payable is detailed below:

	2023	2022
Suppliers	23,784	9,147
Staff Members	356	392
Non-Consolidated NATO Entities	20,959	9,529
Governments	1,082	1,028
	<u>46,181</u>	<u>20,096</u>

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

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

7. Deferred revenue & liabilities to nations

Deferred revenue is detailed below:

	2023	2022
Military Budget related	11,208	6,528
NSIP related	3,122	2,088
Other	523	638
Lapses to be returned to nations in cash call	23,196	12,063
	<u>38,049</u>	<u>21,317</u>

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

Liabilities to nations are the budgetary credits lapsing at the end of 2023. 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 2024

8. Advances Contributions

Advanced contributions are detailed below:

	2023	2022
Mil Budget Advanced Contributions	57,180	44,375
NSIP Advanced Contributions	211	

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 2024, as well as an adjustment made to retain and offset lapsed credits

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9. Net assets

Net assets are detailed below:

	2023	2022
Capital contributions	66,461	63,524
Accumulated surpluses/(deficits)	(13,807)	(11,046)
Net assets / equity	52,654	52,478
Unrealised Exchange Rate Gain/Loss	(69)	(3)
Total net assets / equity adjusted for exchange rate gain or loss	52,585	52,475

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.

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:

	2023	2022
Assessment Calls/Contributions	198,410	167,685
NSIP Revenue	525	895
Other Income	130	203
	199,065	168,782

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 2023	80,692	131,639	259,599	28,452
Amount in Euros (for comparison only)	80,692	121,707	22,746	6,255

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.

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Furthermore, following on the issue of Principle vs Agent, ACT has removed €6.67M of transactions where ACT acted in an Agent capacity.

With regard to 3rd party reimbursable activity some €2.21M of activity has been undertaken during 2023.

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.

13. Expenses

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

	2023	2022
Personnel Costs (Chapter 1)		
Salaries & associated costs	46,253	43,471
Consultants	3	23
Training	1,066	1,291
Other	56	407
Total Chapter 1	47,778	45,192

Mission Support Costs (Chapter 2)		
General Support and Utility Costs	9,115	7,659
Contracted services	75,712	48,415
Travel and Subsistence	8,153	7,210
AIS Support	61,013	57,837
Mission Equipment Costs	62	75
Communications	693	1,080
Training	151	761
Total Chapter 2	154,899	123,037

Capital & Investments (Chapter 3 & NSIP)		
Mission Equipment Assets	0	0
NSIP Funded Contractor Support	598	802
Other	97	69
Total Chapter 3	695	871

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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 2023, ACT incurred €26,99M 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 €47,99M in 2023. Included in this amount were payments totalling €26.93M for the NCIA Programme of Work and €21.06M for expenses incurred under the NCIA SLA. The remainder were ad hoc expenses that ACT incurred with NCIA during the year. Additionally, ACT expended €981K 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.

14. Staff resources

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

	2023	2022
Salaries of Civilian Staff	28,283	26,799
Allowances of Civilian Staff	7,047	6,851
Contributions to Health Insurance (c)	5,843	5,620
Contributions to Pension Funds (d)	2,731	2,468
	43,904	41,738

B) Analysis of staff numbers - the number of full-time equivalent persons employed as at 31 December 2023 was:

	HQ SACT	JWC	JFTC	JALLC
Military	480	170	99	28
Civilian	147	56	28	16
Temporary Civilian	22	0	0	0
Reimbursable Civilian	3	0	1	0
Local Wage Rate (LWR)	0	12	20	0
Total	652	238	148	44

Voluntary National Contributions (VNC)	34	1	5	2
Partnership for Peace (PfP)	0	0	1	0
Overages in addition to VNC	2	1	4	0
Host Nation	21	5	0	1
Legacy Transition	1	0	0	0

C) Health Insurance - all civilian members of ACT are members of the NATO Health Insurance Scheme, providing sickness, maternity, accident, disablement and death benefits to staff members, their spouses and children. Staff members pay contributions of approximately 3.342% to 21.098% of gross salary, which are matched by contributions paid by ACT. For 2023 ACT contributions totalled €5,843M

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.

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 €2,731M 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 01 April of the following year IAW NCPR Article 42.3 or the leave days are forfeited. At the end of 2023, ACT civilian staff across all Headquarters carried forward 2,647 leave days. In monetary terms, this equates to approximately €1,407M 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 01 April 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 01 April 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 €211; bank interest of €2,641; as well as bank charges incurred by ACT entities for normal business transactions (€9.3).

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

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

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

In addition to the key management personnel of the Command Group, ACT has implemented several controls on staff who are involved in the contract award process to ensure that no related party factors could influence this procedure. All key management personnel are in the process of being asked to sign a related party disclosure document. This will be in place prior to publication of the audit report into the 2023 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 2023 the Representation Funds allocated to SACT, and subsequently delegated, where as follows:

	2023	2022
HQ SACT & STRE	39.9	33.7
JWC	2.7	3.7
JFTC	1.3	1.1
JALLC	.7	0.6
Total	44.6	39.1

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

During the course of 2023, €13.5K 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 2023	Jan 22 ¹	Jan 22	Jan 22	Dec 23 ²	Average 23	Dec 23
FY 2022/21				Dec 23 ²	Average 22 ³	Dec 23
¹ Rate used in 2023 Budget Authorisation ² Rate used to revalue outstanding commitments at year end prior to rolling forward to 2024. FY 2022 & 2023 only ³ Rate used in determining expenditure throughout the year						

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Expenditure Reconciliation: Budget Execution Statement / Statement of Financial Performance. IPSAS 24 requires a reconciliation of Budget Execution Statement data with the expenses recorded in the Statement of Financial Performance. The expenditure data is in the currency of the budget and then translated using an average exchange rate for the year.

Financial Expenditure recorded in Budget Execution Statements (BES):

Budget 201 – HQ SACT	28,092	
Budget 211 – NCS – Adaptation	7,783	
Budget 252 – JALLC	2,785	
Budget 255 – JWC	21,902	
Budget 256 – JFTC	5,966	
Budget 257 – ACT Programme of Work (USD)	61,636	
Budget 258 – ACT Programme of Work (EUR)	75,213	
Total		203,377

Expenses recorded in Statement of Financial Performance:

Chapter 71	47,778	
Chapter 72	154,900	
Chapter 73	699	
Total Expenditure equal to BES	203,377	
NSIP expenditure	1,033	
Less capitalized Chapter 2, 3 & NSIP expenditure (PP&E)	(2,925)	
Depreciation charges	2,761	
Other expenses	2,215	
Finance Costs	221	
Total Expenses in Statement of Financial Performance		206,682

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 €23M. 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)
		2021	2022	2023	Total	
201	USD	96,179	35,609	2,229,869	2,361,657	2,150,284
211	USD	400	4,844	963,624	968,868	882,152
252	EUR	0	43,441	200,691	244,132	244,133
255	NOK	5,725	1,016,977	8,907,362	9,930,064	877,602
256	PLN	0	316,944	1,305,608	1,622,602	373,846
257	USD	7,243	649,348	15,913,034	16,569,624	15,086,610
258	EUR	47,930	373,211	3,159,847	3,580,988	3,580,988
Total						23,195,615

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 2023 rate of exchange. The totality of transfers undertaken in 2023 do not breach the authorized Budget Authority outlined in BC-BA(2023)0003 dated 09 November 2023.

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 2023, ACT was also given specific permission to also make the following Special Carry Forwards. The BC-D(2023)0243 (INV) dated 13 Dec 2023 refers:

ACT USD POW (BC 257) – 320,770 EUR – Command Data Architecture Assessment. ACT requires an in-depth assessment of its Data Architecture and processes currently in place to identify hurdles to an effective transition to Digital Transformation and bring forward potential solutions for ACT and the whole NATO-Enterprise.

ACT EUR POW (BC 257) – 1,200,000 EUR – Integration Core (INT-Core) - Fully align and implement NCDF Data Lake Application Programming Interface (API) in INT-Core.

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.

In accordance with NATO reference documents PO(97)98 and MBC-DS(97)23, the consolidated 2023 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 2023 (actual number in currency)				
	HQ SACT	JWC	JFTC	JALLC
	USD	NOK	PLN	EUR
Total Assets	125,213	13,109,723	2,075,567	1,018,050
Total Liabilities	20,917	6,669,651	5,275	49,765
Total Equity (Reserves)	104,296	6,440,072	2,070,292	968,285
Total Liability and Equity	125,213	13,109,723	2,075,567	1,018,050
Total Revenue	185,029	9,484,573	1,200,432	665,800
Total Expenditure	(190,557)	(9,023,310)	(756,521)	(676,120)
Other Gain or Loss	11,147	437,329		
Net Profit/(Loss)	5,619	898,591	443,911	(10,320)
Net Worth Beginning Balance	98,677	5,541,481	1,626,381	978,605
Net Profit/(Loss) Current Year	5,619	898,591	443,911	(10,320)
Net Worth Ending Balance	104,296	6,640,072	2,070,292	968,285
Number of Employees Full Time Equivalents (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 2023 (Amounts in EUR)

STATEMENT OF FINANCIAL POSITION PER HEADQUARTER

	HQ SACT			JWC			JFTC		
	2023	2022	Difference	2023	2022	Difference	2023	2022	Difference
Current Assets									
Total Cash & Cash Equivalents	121,378,028	70,741,436	50,636,592	7,099,834	6,044,826	1,055,008	2,607,360	2,093,108	514,252
Receivables	3,800,441	1,847,397	1,953,044	1,088,358	1,055,412	32,946	385,283	392,073	(6,790)
Total Advances & Prepayments	852,234	923,710	(71,476)	546,644	495,304	51,340	29,209	31,848	(2,639)
Non-Current Assets									
Property, Plant & Equipment	23,482,284	21,946,780	1,535,504	26,622,300	27,691,110	(1,068,810)	2,549,035	2,839,856	(290,821)
Total Assets	<u>149,512,987</u>	<u>95,459,323</u>	<u>54,053,663</u>	<u>35,357,136</u>	<u>35,286,652</u>	<u>70,484</u>	<u>5,570,887</u>	<u>5,356,885</u>	<u>214,002</u>
Liabilities									
Payables	42,080,728	16,706,246	25,374,482	3,140,019	2,456,834	683,185	803,130	723,146	79,984
Deferred Revenue	33,863,565	18,777,416	15,086,149	159,554	225,591	-66,037	628,970	363,880	265,090
Advance Contributions	50,155,386	38,031,987	12,123,398	5,435,263	4,913,116	522,147	1,589,752	1,430,004	159,748
Other Advances	0	0	0	0	0	0	0	0	0
Total Liabilities	<u>126,099,679</u>	<u>73,515,649</u>	<u>52,584,030</u>	<u>8,734,836</u>	<u>7,595,541</u>	<u>1,139,295</u>	<u>3,021,852</u>	<u>2,517,030</u>	<u>504,822</u>
Net Assets									
Capital Contributions	33,018,671	30,164,461	2,854,210	29,326,900	29,326,900	0	4,115,057	4,032,534	82,523
Accumulated surplus (deficit)	-9,536,387	(8,217,683)	(1,318,704)	(2,704,600)	(1,635,790)	(1,068,810)	(1,566,022)	(1,192,678)	(373,344)
Unrealised exchange rate gain	-68,975	(3,105)	(65,870)						
Total assets / equity	<u>23,413,309</u>	<u>21,943,673</u>	<u>1,469,636</u>	<u>26,622,300</u>	<u>27,691,110</u>	<u>(1,068,810)</u>	<u>2,549,035</u>	<u>2,839,856</u>	<u>(290,821)</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 2023 (Amounts in EUR)

STATEMENT OF FINANCIAL POSITION PER HEADQUARTER

	JALLC			NSIP			Total	Consolidation	Published
	2023	2022	Difference	2023	2022	Difference	2023	Postings	2023
Current Assets									
Total Cash & Cash Equivalents	344,934	146,975	197,959	3,403,229	2,202,655	1,200,574	134,833,385	45,400	134,878,785
Receivables	81,512	71,123	10,389				5,355,594	(92,391)	5,263,203
Total Advances & Prepayments	143,306	71,576	71,730				1,571,393	(150,000)	1,421,393
Non-Current Assets									
Property, Plant & Equipment	0	0	0	0	0	0	52,653,619		52,653,619
Total Assets	<u>569,752</u>	<u>289,674</u>	<u>280,078</u>	<u>3,403,229</u>	<u>2,202,655</u>	<u>1,200,574</u>	<u>194,413,991</u>	<u>(196,990)</u>	<u>194,217,001</u>
Liabilities									
Payables	284,353	427,643	(143,290)	70,127	114,268	(44,141)	46,378,357	(196,991)	46,181,366
Deferred Revenue	275,061	(137,970)	413,031	3,121,853	2,088,388	1,033,465	38,049,003		38,049,003
Advance Contributions				211,250		211,250	57,391,651		57,391,651
Other Advances	10,338		10,338				10,338		10,338
Total Liabilities	<u>569,752</u>	<u>289,673</u>	<u>280,079</u>	<u>3,403,230</u>	<u>2,202,656</u>	<u>1,200,574</u>	<u>141,829,349</u>	<u>(196,991)</u>	<u>141,632,358</u>
Net Assets									
Capital Contributions	0	0	0	0	0	0	66,460,628		66,460,628
Accumulated surplus (deficit)	0	0	0	0	0	0	-13,807,007		-13,807,007
Unrealised exchange rate gain							-68,975		-68,975
Total assets / equity	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>52,584,646</u>	<u>0</u>	<u>52,584,646</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 2023 (Amounts in EUR)

STATEMENT OF FINANCIAL PERFORMANCE PER HEADQUARTER

	HQ SACT			JWC			JFTC		
	2023	2022*	Difference	2023	2022	Difference	2023	2022	Difference
Total Revenue	205,032,130	167,391,751	37,640,379	23,234,066	22,124,900	1,109,167	7,483,442	6,880,437	603,005
Total Expenses	206,350,832	169,584,383	36,766,449	24,302,877	22,124,900	2,177,977	7,856,787	6,880,437	976,350
End of Year Result	(1,318,703)	(2,192,632)	873,930)	-1,068,811	0	-1,068,810	(373,345)	0	(373,345)

	JALLC			NSIP			Consolidation	Published
	2023	2022	Difference	2023	2022	Difference	Eliminations	2023
Total Revenue	1,114,616	1,271,330	(156,714)	1,015,861	1,567,663	(551,802)	(33,958,758)	203,921,358
Total Expenses	1,114,616	1,271,330	(156,714)	1,015,861	1,567,663	(551,802)	(33,958,758)	206,682,217
End of Year Result	0	0	0	0	0	0	0	(2,760,859)

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

* the end of year result for HQ SACT, JWC & JFTC represents the depreciation charge on capitalised assets. In the prior year all the depreciation for ACT was reported under HQ SACT

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Statement of Position		Statement of Performance	
	Inter-Entity Eliminations		Inter-Entity Eliminations
Assets		Revenue	
Current Assets			
Cash and Cash Equivalents	45,400	Operating Revenue	32,629,957
Receivables	(92,391)	Inter-Entity Revenue	1,328,800
Advance to Consolidated Entity	<u>(150,000)</u>		<u> </u>
Total Current Assets	(196,991)	Total Revenue	33,958,758
Liabilities		Expenses	
Payables	196,991	Inter-Entity Expenses	(33,958,758)
	<u> </u>		<u> </u>
Total Liabilities	<u>196,991</u>	Total Expenses	<u>(33,958,758)</u>

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ANNEX A TO
ACT CONSOLIDATED FINANCIAL STATEMENTS 2023
DATED 18 MARCH 2024

ACT WRITE OFF REPORT OF INTERNATIONAL PROPERTY 2023

Command	Headquarters Property	Net Book Value (in currency)	Number of Reports of Survey	Comments
HQ SACT	Vehicle	\$3,800	1	Written off for disposal due to year, high mileage, and maintenance and is not economically salvageable.
JFTC	Furniture	PLN 0.00	2	Beyond economical repair, no longer usable by JFTC
JFTC	Equipment	PLN 0.00	5	After long and intensive use, no longer usable by JFTC
JWC	Furniture	NOK 0.00	3	After long and intensive use, no longer usable by JWC
JWC	Equipment	NOK 70,014.51	6	After long and intensive use, no longer usable by JWC
JWC	Stock	NOK 122,877.66	4	No longer usable by JWC