2 September 2021

DOCUMENT C-M(2021)0018-AS1

IBAN AUDITOR'S REPORT ON THE 2019 FINANCIAL YEAR STATEMENTS OF ALLIED COMMAND TRANSFORMATION (ACT)

ACTION SHEET

Reference: C-M(2021)0018-COR1

On 1 September 2021, under the silence procedure, the Council noted the RPPB report attached to C-M(2021)0018, agreed its conclusions and recommendations, and agreed to the public disclosure of the report, the IBAN Auditor's Report and associated 2019 consolidated financial statements of ACT.

(Signed) Jens Stoltenberg Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2021)0016.

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20 August 2021

DOCUMENT C-M(2021)0018-COR1

ENGLISH ONLY

IBAN AUDITOR'S REPORT ON THE 2019 FINANCIAL YEAR STATEMENTS OF ALLIED COMMAND TRANSFORMATION (ACT)

Note by the Secretary General

Please note that correct title of C-M(2021)0018 should read "IBAN AUDITOR'S REPORT ON THE 2019 FINANCIAL YEAR STATEMENTS OF ALLIED COMMAND TRANSFORMATION (ACT)".

(Signed) Jens Stoltenberg

Original: English





18 August 2021

DOCUMENT C-M(2021)0018 Silence Procedure ends: 01 Sep 2021 - 17:30

IBAN AUDIT ON THE 2017 FINANCIAL STATEMENTS OF THE NATO ALLIANCE GROUND SURVEILLANCE MANAGEMENT ORGANISATION

Note by the Secretary General

- I attach the International Board of Auditors for NATO (IBAN) Auditor's Report on the 2019 consolidated financial statements of Allied Command Transformation (ACT). The IBAN Auditor's Report set out unqualified opinions on both the 2019 financial statements and on compliance for ACT.
- 2. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB) (see Annex 1).
- 3. I do not believe this issue requires further discussion. Therefore, **unless I hear to the contrary by 17:30 hours on Thursday, 01 September 2021**, I shall assume the Council noted the RPPB report, agreed its conclusions and recommendations, and agreed to the public disclosure of this report, the IBAN Auditor's Report and associated 2019 consolidated financial statements of ACT.

(Signed) Jens Stoltenberg

1 Annex 1 Enclosure

Original: English



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IBAN AUDITOR'S REPORT ON THE 2019 FINANCIAL YEAR STATEMENTS OF ALLIED COMMAND TRANSFORMATION (ACT)

Report by the Resource Policy and Planning Board

References:

A. IBA-A(2021)0038 IBAN's Auditor's Report on the audit of 2019 consolidated financial

statements of the Allied Command Transformation (ACT)

B. C-M(2015)0025 NATO Financial Regulations (NFR)
 C. BC-D(2015)0260-REV1 Financial rules and procedures (FRP)
 D. C-M(2016)0023 NATO Accounting Framework (NAF)

E. PO(2015)0052 Wales Summit tasker on transparency and accountability

INTRODUCTION

1. This report by the RPPB addresses IBAN's Auditor's Report on the 2019 consolidated financial statements of ACT. IBAN Auditor's Report sets out unqualified opinions on both the financial statements and compliance for ACT in 2019 (reference A).

AIM

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

DISCUSSION

- 3. In 2019, IBAN issued two observations and recommendations which did not impact the audit opinions: firstly, recognition of NSIP-funded assets and, secondly, foreign currency conversions and disclosure at year-end. Additionally, IBAN followed up on the status of observations and recommendations from the previous years' audits and noted that one was closed, one remained open and two were in-progress.
- 3.1. Observation 1: During the audit of ACT subordinate Command, the Joint Warfare Centre (JWC), IBAN found NSIP-funded assets of approximately EUR 2.4 million that were handed over but not recorded in the JWC asset register and not reported to and not accounted by the Headquarters Supreme Allied Command Transformation (HQ SACT) Property Accounting Officer (PAO). Following IBAN's preliminary recommendation, the HQ

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SACT PAO corrected the accounts prior to the issuance of the 2019 ACT Financial Statements.

- 3.1.1. IBAN, supported by the Board, recommends that HQ SACT capitalise completed and delivered NSIP-funded assets and implement an internal control top-down process for their identification and tracking, including those provided by Host Nations to the subordinate Commands to ensure completeness and accuracy of property accounting records. ACT concurred with the recommendation and noted that the issue identified at JWC was the result of a coordination breakdown.
- 3.2. Observation 2: IBAN found that at each reporting date, HQ SACT used the closing rate instead of the exchange rate at the date of the transaction to convert non-monetary assets measured at historical cost in a foreign currency. Following IBAN's preliminary recommendation HQ SACT measured the value of Property, Plant & Equipment (PP&E), i.e. non-monetary item as at 31 December 2019 using the proper method in accordance with the NAF (reference D) and IPSAS. However, the PP&E opening balance at 1 January 2019 in the 2019 Statement of Financial Position remained underestimated by approximately EUR 1 million. IBAN also found that HQ SACT does not systematically account for unrealised gains or losses on exchange rates that are not settled at year-end and that JWC did not revaluate transactions in foreign currencies at year-end using the closing exchange rate, in accordance with IPSAS. Also, IBAN noticed a disclosure note error on the PP&E total net book value.
- 3.2.1. IBAN, supported by the Board, recommends that ACT convert non-monetary items that are measured at historical cost in a foreign currency using the exchange rate at the date of transaction and account for unrealised gains and losses on exchange rate differences from foreign currency monetary items transactions that are not settled at year-end. Furthermore, the Board upholds IBAN's recommendation on the conversion of monetary items that are measured in a foreign currency using the exchange rate at the closing rate at year-end and on the assurance of accuracy of financial information. ACT welcomed IBAN's recommendation that PP&E, i.e. non-monetary items should be recorded at historical cost as it simplified the process.
- 3.3. <u>Prior-year closed observations:</u> In the course of audit, IBAN closed the 2017 recommendation related to the improvements in the area of risk management and internal control.
- 3.4. <u>Prior-year observations open and in-progress:</u> In 2013 IBAN recommended that ACT confirm the outstanding asset and liability balances it had with other NATO Reporting Entities as part of the preparation of the financial statements. The Board recognises that this observation is a major undertaking and has implications in the way outstanding balances are accounted for across other NATO Reporting Entities.
- 3.4.1. In 2016 IBAN recommended ACT to prevent incurring expenses which exceed the annual budget and to provide representation allowance only on a reimbursable basis after

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its approval in order to comply with Article 6 and 25 of the NFRs (reference B). In addition, during the 2017 audit IBAN recommended that ACT create a property register and ensure regular inventory of property. Although ACT has shown progress, the first observation remains open and the second one is in progress.

CONCLUSIONS

- 4. IBAN Auditor's Report sets out unqualified opinions on both the financial statements and on compliance for ACT in 2019. IBAN raised two new observations, but no new observations impacted the audit opinions. As of the date of IBAN Auditor's Report two prior year observations for ACT were in-progress, one remained open and one was closed.
- 5. In 2019, IBAN identified that improvements were needed in the recognition of NSIP-funded assets and in the conversion of foreign currency monetary and non-monetary items and its disclosure at year-end. In this regard, the Board supports IBAN's recommendation that HQ SACT capitalise NSIP-funded assets and implement a top-down process to ensure the completeness and accuracy of property accounting records of all NSIP-funded assets handed-over to all the subordinate Commands. Furthermore, the Board also supports IBAN's recommendation that for conversion of monetary and non-monetary items ACT use the exchange rate in accordance with NAF and IPSAS, accounts for unrealised gains or losses on exchange rate differences and ensure the accuracy of financial information in the disclosure notes.
- 6. During the course of the audit, IBAN confirmed that the introduction of duly implemented risk registers resulted in closing the 2017 observation on risk management and internal control. In respect of prior-year in-progress and open observations, the Board notes the improvement made by ACT and supports the continued efforts to bring these observations to closure.

RECOMMENDATIONS

- 7. The Resource Policy and Planning Board recommends that the Council:
- 7.1. note this report and IBAN Auditor's Report at reference A;
- 7.2. agree the conclusions at paragraphs 4 to 6; and
- 7.3. agree to the public disclosure of the 2019 consolidated financial statements for ACT, its associated IBAN Auditor's Report and this report in line with agreed policy at reference E.



NORTH ATLANTIC TREATY ORGANIZATION ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD INTERNATIONAL BOARD OF AUDITORS COLLÈGE INTERNATIONAL DES AUDITEURS EXTERNES DE L'OTAN

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IBA-A(2021)0038 21 April 2021

To: Secretary General

(Attn: Director of the Private Office)

Cc: NATO Permanent Representatives

Supreme Allied Commander Transformation (SACT)

Financial Controller, Allied Command Transformation (ACT)

Chairman, Resource Policy & Planning Board

Branch Head, Secretariat and Finance Branch, NATO Office of Resources

Private Office Registry

Subject: International Board of Auditors for NATO (IBAN) Auditor's Report and Letter of Observations and Recommendations on the audit of the Allied Command Transformation (ACT)'s Consolidated Financial Statements for the year ended 31 December 2019 – IBA-AR(2021)0001

IBAN submits herewith its approved Auditor's Report (Annex 2) and Letter of Observations and Recommendations (Annex 3) with a Summary Note for distribution to the Council (Annex 1).

IBAN's report sets out an unqualified opinion on the Consolidated Financial Statements of the ACT and on compliance for financial year 2019.

Yours sincerely,

Daniela Morgante

Chair

Attachments: As stated above.

ANNEX 1

Summary Note for Council by the International Board of Auditors for NATO (IBAN) on the audit of the Consolidated Financial Statements of the Allied Command Transformation (ACT) for the year ended 31 December 2019

The International Board of Auditors for NATO (IBAN) audited the Allied Command Transformation (ACT) Consolidated Financial Statements for the year ended 31 December 2019, 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 2019 amounted to approximately EUR 148.44 million.

IBAN issued an unqualified opinion on the Financial Statements and on compliance for the year ended 31 December 2019.

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

The main findings are listed below and do not impact the audit opinion on the Financial Statements and on compliance:

- 1. Recognition of NSIP funded assets.
- 2. Foreign currency conversions and disclosure at year-end.

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

The Auditor's Report and the Letter of Observations and Recommendations were issued to ACT whose comments have been included, with the IBAN's position on those comments where necessary, see the Appendix to Annex 3.

The observations and recommendations raised during the audit as well as the followup of the previous years' observations, which have not been included in the IBAN's Letter of Observations and Recommendations 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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16 April 2021

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE ALLIED COMMAND TRANSFORMATION (ACT)

FOR THE YEAR ENDED 31 DECEMBER 2019

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INDEPENDENT EXTERNAL AUDITOR'S REPORT TO THE NORTH ATLANTIC COUNCIL

Report on the Audit of the Financial Statements

Opinion on the Financial Statements

The International Board of Auditors for NATO (IBAN) has audited the Financial Statements of Allied Command Transformation (ACT), for the 12 month period ended 31 December 2019, issued under document reference 7000 GSB MBX 0010/FC-34-20 dated 27 March 2020 and submitted to IBAN on 2 April 2020 These Financial Statements comprise the Statement of Financial Position as at 31 December 2019, 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 2019, 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 2019.

In our opinion, the Financial Statements give a true and fair view of the financial position of ACT as at 31 December 2019, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2019, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF).

Basis for Opinion on the Financial Statements

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

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

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

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

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Management's Responsibility for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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- 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.

Report on Compliance

Opinion on Compliance

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

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Basis for Opinion on Compliance

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

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

Management's Responsibility for Compliance

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

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

Auditor's Responsibilities for Compliance

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

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

Brussels, 16 April 2021

Daniela Morgante

Chair

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16 April 2021

INTERNATIONAL BOARD OF AUDITORS FOR NATO

FOR ALLIED COMMAND TRANSFORMATION

(ACT)

FOR THE YEAR ENDED 31 DECEMBER 2019

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Introduction

The International Board of Auditors for NATO (IBAN) audited the ACT Financial Statements for the year ended 31 December 2019, and issued an unqualified opinion on the Financial Statements and an unqualified opinion on compliance.

Observations and Recommendations:

During the audit, IBAN made two observations and recommendations.

These observations do not impact the audit opinion on the Financial Statements and on compliance:

- 1. Recognition of NSIP funded assets.
- 2. Foreign currency conversions and disclosure at year-end.

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

The observations and recommendations raised during the audit as well as the followup of the previous years' observations, which have not been included in the IBAN's Letter of Observations and Recommendations are included in a Management Letter addressed to the Supreme Allied Commander Transformation. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under the Supreme Allied Commander Transformation responsibility.

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OBSERVATIONS AND RECOMMENDATIONS

1. RECOGNITION OF NSIP FUNDED ASSETS

Reasoning

- 1.1 As per the NATO accounting policy for Property, Plant and Equipment (PP&E), on asset recognition:
 - "The moment of recognition of an item of PPE is when the end user of the NATO entity receives the item for NATO's operational use".
 - "Financial Information must be provided on a timely and regular basis and at the latest by the end of January of the next financial year to ensure proper asset management accounting and reliable financial reporting as required by the NATO Financial Regulations."
 - "When a territorial Host Nation constructs an asset the NATO entity is required to capitalise these assets once construction has been completed and the assets have been handed over. The NATO entity has to request the required financial information from the territorial Host Nation in order to be able to account for these assets in its Financial Statements. According to the NATO Property, Plant and Equipment Accounting Policy, in the case that not all required financial information is provided by the territorial Host Nation, the end-user is allowed to use estimates for the capitalisation of costs. Where it is not possible to breakdown the information provided by the Host Nation into specific asset categories, the NATO entity is allowed to group assets of a different nature or function into the most appropriate asset category."
 - "It is essential that all stakeholders involved in the requirements, acquisition and acceptance process provide the FC community with the required information, especially for the accounting treatment of PP&E assets funded through the NSIP."
- 1.2 As per the ACT Financial Policy Directive on Property records, the Property Accounting Officer (PAO) is responsible for the maintenance and accuracy of property accounting records which show, by line item, the receipt, issue and disposal of international property as well as the balance on hand and other identifying or stock control data as required.
- 1.3 The Headquarters Supreme Allied Command Transformation (HQ SACT) PAO is responsible for the accounting records of ACT properties that includes NSIP funded assets handed over to the subordinate Commands. The HQ SACT PAO has access to the NSIP Common-funded Integrated Resource Information System (CIRIS) reports where ACT is Host Nation.

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1.4 According to the 2019 ACT consolidation process, subordinate Commands (the Joint Warfare Centre, the Joint Force Training Centre, and the Joint Analysis Lessons Learned Centre) should have submitted complete asset registers to the HQ SACT PAO before the 7th of February 2020. The HQ SACT PAO records the assets on behalf of the sub-commands into the Centralized NATO Automated Financial System (CNAFS) on the basis of the information provided by the subordinate Commands, without ensuring their completeness.

Observations

- 1.5 As at 31 December 2019, ACT is the end user of several NSIP funded assets of which some were completed and handed over by Host Nations before the end of 2019.
- 1.6 During the final audit fieldwork of the Joint Warfare Centre (JWC), IBAN found material NSIP funded assets amounting to approximately EUR 2.4 million that were handed over but not recorded in the JWC asset register, and not reported to and not accounted by the HQ SACT PAO. Following IBAN's preliminary recommendation during the course of the audit, the HQ SACT PAO corrected the accounts prior to the issuance of the 2019 ACT Financial Statements.
- 1.7 The above shows that there is a risk of material misstatement and incompleteness of PP&E, which could have led, if not corrected, to a qualification of the 2019 ACT Financial Statements.
- 1.8 Since the HQ SACT PAO is responsible of the accounting of all subordinate Commands assets, whether they are NSIP funded or not, the HQ SACT PAO should implement an internal control process to identify and track NSIP funded assets and request further information from subordinate Commands related to their status when needed.
- 1.9 Although CIRIS is not designed to provide complete information for accounting purposes (actual costs and milestone dates are not always updated in a timely manner), it provides up-to-date information on existing NSIP funded projects, which is a useful point of reference to ensure the completeness of NSIP funded assets recognised by ACT. Moreover, Host Nations may provide to the subordinate Commands an updated CIRIS report or a status of on-going projects upon request with actual costs and milestone dates that could be used as a best estimate.
- 1.10 Therefore, it is important to implement a top down process to capture in a timely manner all NSIP assets handed-over by Host Nations to the subordinate Commands.

Recommendations

1.11 In order to reduce the risk of material errors related to the non-recognition of

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NSIP-funded assets handed over to Commands, IBAN recommends that HQ SACT for ACT:

- a) Capitalises NSIP-funded assets that have been completed and handed over to the Commands.
- b) Implements a top down process initiated in a timely manner by the HQ SACT PAO to ensure the completeness and accuracy of property accounting records of all NSIP funded assets handed-over to all the Commands.

2. FOREIGN CURRENCY CONVERSIONS AND DISCLOSURE AT YEAR-END

Reasoning

- 2.1 Financial statements need to be free from inconsistencies, mathematical errors, non-reconciling items, any other errors or omissions caused by ineffective controls over the preparation process. The NATO Financial Regulations require NATO Bodies to develop effective internal controls, including reviews and reconciliations, to ensure the consistency and accuracy of information presented in the financial statements.
- 2.2 As per the NATO Accounting Framework and IPSAS 4 related to the effects of changes in foreign exchange rates:
 - "At each reporting date:
 - (a) Foreign currency monetary items shall be translated using the closing rate;
 - (b) Nonmonetary items that are measured in terms of historical cost in a foreign currency shall be translated using the exchange rate at the date of the transaction; and
 - (c) Nonmonetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was determined."
 - Paragraph 24 states that the effects of changes in foreign exchange rates states that a foreign currency transaction shall be recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.
 - Paragraph 32 states that when monetary items arise from a foreign currency transaction and there is a change in the exchange rate between the transaction date and the date of settlement, an exchange difference results.
 When a transaction is settled in a subsequent accounting period, the

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exchange difference is recognized in each period up to the date of settlement is determined by the change in exchange rates during each period.

- In addition, paragraph 33 states that when the transaction is settled within the same accounting period as that in which it occurred, all the exchange difference is recognized in that period. However, when the transaction is settled in a subsequent accounting period, the exchange difference recognized in each period up to the date of settlement is determined by the change in exchange rates during each period.
- 2.3 As per IPSAS 1 related to the presentation of the financial statements:
 - Gains and losses arising from a group of similar transactions are reported on a net basis, for example, foreign exchange gains and losses and gains and losses arising on financial instruments held for trading. Such gains and losses are, however, reported separately if they are material.
- 2.4 The ACT Financial Statements' functional currency is the Euro.

Observations

- 2.5 As at 31 December 2018, the net book value of ACT's non-monetary assets (Property, Plant & Equipment) including the assets of all ACT Commands (HQ SACT, JWC, the Joint Analysis and Lessons Learned Centre (JALLC) and the Joint Force Training Centre (JFTC)) was EUR 25.9 million.
- 2.6 IBAN found that at each reporting date, HQ SACT used the closing rate instead of the exchange rate at the date of the transaction to convert non-monetary assets measured at historical cost in a foreign currency (USD, NOK and PLN). Following IBAN's preliminary recommendation raised during the course of the audit, HQ SACT measured the value of PP&E as at 31 December 2019 using the proper method in accordance with the NATO Accounting Framework.
- 2.7 However, the Property, Plant & Equipment (PP&E) opening balance in the 2019 Statement of Financial Position remains understated by approximately EUR 1 million.
- 2.8 IBAN also found that:
 - At the end of each year, HQ SACT generates a report of all payables and receivables made in a foreign currency and takes a management decision on whether to record exchange differences in the financial system, depending on their perceived materiality. Therefore, HQ SACT does not systematically account for unrealised gains or losses on exchange rates arising from monetary items transactions in foreign currencies that are not settled at year-

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end. This situation does not comply with IPSAS 1 and IPSAS 4, which do not set materiality as a recognition criteria for foreign currency gains and losses.

- JWC did not revaluate monetary items transactions in foreign currencies at year-end using the closing exchange rate. For instance, based on the Open Items Revaluation Report provided by JWC, we understand that the payables revaluated amount is NOK 13,497,093 while the year-end balance as per the trial balance is NOK 13,467,561. As a result, JWC's accounts payable are understated by NOK 29,532.
- Finally, we found a disclosure note error in Note 6 Property, Plant & Equipment. The PP&E total net book value at 1 January 2019 should be EUR 26,795,206 instead of EUR 26,756,560, the difference is explained by the net book value of the Machinery of EUR 38,646 that is missing.
- 2.9 Although the impacts of the above are not significant as at 31 December 2019, depending on exchange rate fluctuations, this could have led to a significant over or understatement of monetary items value in the ACT Statements of Financial Position.

Recommendations

- 2.10 IBAN recommends that ACT complies with the NATO Accounting Framework's IPSAS 4 and the NATO Financial Regulations. This can be achieved by:
 - a) Converting monetary items that are measured in a foreign currency using the exchange rate at the closing rate at year-end,
 - b) Accounting for unrealised gains or losses on exchange rate differences arising from foreign currency monetary items transactions that are not settled at yearend,
 - c) Ensuring the accuracy of information in the disclosure note related to PP&E and its consistency with the Statement of Financial Position.

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FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

IBAN followed up on the status of observations from the previous years' audit. The observations, 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 2017 IBA-AR(2018)0007, paragraph 1.7		
IMPROVEMENT TO INTERNAL CONTROLS OVER PROPERTY MANAGEMENT IN ACT HQ IS NEEDED		Observation In-Progress.
 IBAN's recommendation IBAN recommends that ACT HQ: Ensures, as soon as possible, the creation of a complete, accurate and comprehensive property register for ACT HQ in accordance with the NFRs, FRPs and local directives. Ensures that physical inventory of property is performed on a regular basis at ACT HQ and all ACT subcommands in order to keep the registers accurate and reliable and to reduce the risk of error and fraud. 	ACT has tagged its property with a bar code. However, due to the COVID-19 situation and related travel restrictions, the physical inventory of property could not be assessed by IBAN and will be reviewed during the next audit visit.	
(2) ACT FY 2017 IBA-AR(2018)0007, paragraph 3.11		
IMPROVEMENTS REQUIRED IN THE AREA OF RISK MANAGEMENT AND INTERNAL CONTROL		Observation Closed.
 IBAN's recommendation IBAN recommends that ACT: Continue the on-going work of establishing comprehensive and robust risk registers at both the strategic and operational levels and ensure the risk 	ACT is able to identify strategic risks and develop mitigating measures, managed in a dedicated IT tool (i.e.: ACT Dashboard).Risks are formally	

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OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
registers are capturing significant risks across all functions of the organization, ensuring the "completeness" of risks. This includes ensuring that ACT fully embeds its entity-wide risk management policy throughout the organisation.	managed in a risk register at all Commands. Observation Closed.	
Clearly define and set a "risk appetite" (both at SACT and Financial Controller level).	The risk appetite is formalised at SACT and Financial Controller level. Observation Closed.	
Document the internal controls and associated risks in place for main processes within ACT operations and assess the compliance with the framework chosen.	ACT mapped its objectives and processes with associated risks and existing internal controls. Observation Closed.	
	As a result, IBAN regards this recommendation as Closed .	
(3) ACT FY 2016 IBA-AR(2017)06, paragraph 2.4		
INSTANCES OF NON-COMPLIANCE IN RESPECT OF REPRESENTATION ALLOWANCES		Observation Open.
IBAN's recommendation IBAN recommends that ACT: - Ensures that there are adequate controls in place in order to prevent incurring expenses which exceed the annual budget. - Provides representation allowance funds to participants only on a reimbursable basis after Financial Controller approval. As a result, ACT credit cards should not be used for representation allowance expenditures.	In 2019, we did not find instances where the reimbursement thresholds of representation expenditures were exceeded. Detective controls are in place but preventive controls are still lacking since ACT continues to use credit cards for some representation allowance expenditures.	
	IBAN highlights the importance of being compliant with Articles 6 and 25 of the NFRs and Representation Allowance guidelines.	
	We have not been informed of any progress concerning HQ SACT's attempt to seek a deviation from the revised NFRs on this matter.	

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OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
	As a result, IBAN regards this recommendation as Open .	
(4) ACT FY 2013 IBA-AR(2014)16, section 5		
CONFIRMATION OF YEAR-END ASSETS AND LIABILITIES OUTSTANDING BETWEEN NATO ENTITIES		Observation In-Progress.
IBAN's recommendation IBAN recommends ACT, as from 2014, to confirm the outstanding asset and liability balances it has with other NATO bodies as part of the preparation of the financial statements.	All ACT sub-entities request the confirmation of outstanding asset and liability balances they have with other NATO bodies as part of the preparation of the financial statements. However, we found that balances are not fully confirmed given that discrepancies are not systematically investigated or documented. As a result, IBAN regards this recommendation as In-Progress.	

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ALLIED COMMAND TRANSFORMATION (ACT) FORMAL COMMENTS ON THE LETTER OF OBSERVATIONS AND RECOMMENDATIONS AND THE INTERNATIONAL BOARD OF AUDITORS (IBAN) POSITIONS

OBSERVATION 1: RECOGNITION OF NSIP FUNDED ASSETS

ACT's Formal Comments

The ACT Chief Accountant has co-ordinated with the Heads of Finance at each of the subordinate Commands to establish a thorough review of all NSIP funded projects at their HQs. Staff have been reminded of the importance of capturing all assets.

The issue identified at JWC during the IBAN audit was the result of a breakdown in the formal co-ordination between the Host Nation, Base Support staff and the local finance team.

OBSERVATION 2: FOREIGN CURRENCY CONVERSIONS AND DISCLOSURE AT YEAR-END

ACT's Formal Comments

In relation to the revaluation of Property, Plant & Equipment (PP&E), ACT's position is that the revaluation methodology used prior to 2019 had been discussed and agreed upon during previous year's audits. ACT welcomes the IBAN statement that items of PP&E should be recorded at historic cost as this simplifies the process considerably and is in line with accounting convention. This historic cost principle was therefore adopted in the 2019 financial statements.

At the end of each year, ACT staff run a revaluation report of all payables and receivables that were originated in a foreign currency. The ACT Chief Accountant then takes a management decision if the amount is sufficiently material to actually post in the financial system. The process of posting unrealised gains or losses is not an automated one but rather very resource intensive, and comes at a time of year when key manpower is stretched to the limit. If the amount of such a revaluation was significant, it would certainly be posted. The IBAN observation is noted.

This was an Excel calculation error and additional checks will be carried out for the 2020 financial statement process.

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IBAN's Position

The accounting policies of ACT, including those regarding Property, Plant & Equipment (PP&E), fall under the sole responsibility of Management. IBAN notes that ACT records exchange differences in the accounting system, when these are perceived as material. However, IBAN maintains its recommendation, given that the NATO Accounting Framework does not set materiality as a recognition criteria for foreign currency gains and losses.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

(1) ACT FY 2017
IBA-AR(2018)0007, paragraph 1.7
IMPROVEMENT TO INTERNAL CONTROLS OVER PROPERTY MANAGEMENT IN ACT HQ IS NEEDED

ACT's Formal Comments

ACT believes that IBAN will see significant progress on the development of the HQ SACT property register. Significant resources have been directed at ensuring an effective property management process at the HQ. It is our belief that this observation can be closed following the 2020 audit.

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

ACT's Formal Comments

IBAN states that "in 2019, we did not find instances where the reimbursement thresholds of representation expenditures were exceeded.

In 2019, ACT continued to use credit cards for some representation allowance expenditures.

IBAN highlights the importance of being compliant with Representation Allowance guidelines due to reputational considerations. We have not been informed of any progress concerning HQ SACT's attempt to seek a deviation from the revised NFRs on this matter.

As a result, IBAN regards this recommendation as **Open**."

HQ SACT Internal Audit (IA) conduct a 100% review of all transactions. SACT support staff are fully familiar with the ACT Directive on Representation Allowance (RA). When required, training by the Financial Controller's team is

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provided.

During the past 5 years, there have been no issues with non-compliance with the ACT Directive and all funds have been properly accounted for.

Our position is that the use of a credit card, combined with the policies and procedures in place, a trained support staff, and full IA oversight, provides for extensive control. ACT requests that IBAN detail which NFR is contravened.

IBAN's Position

IBAN acknowledges that detective control procedures are in place to identify any non-compliance in respect of representation allowances. However, ACT continues to make use of an ACT credit card, thereby incurring representation allowance expenses without prior approval by the ACT Financial Controller. This situation does not comply with Article 6 and 25 of the NFRs on prior approval of commitments. The Action Taken by Auditee in the Follow-up of Previous Years' Observations table above was modified accordingly.

(4) ACT FY 2013
IBA-AR(2014)16, section 5
CONFIRMATION OF YEAR-END ASSETS AND LIABILITIES OUTSTANDING
BETWEEN NATO ENTITIES

ACT's Formal Comments

ACT is pleased to note IBAN states "All ACT entities confirm the outstanding asset and liability balances they have with other NATO bodies as part of the preparation of the financial statements."

ACT has improved the process of documenting investigations into any Accounts Payable or Accounts Receivable discrepancies and will provide this evidence to the IBAN during their 2020 audit. It is hoped that this recommendation can then be closed.

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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; we will include an Emphasis of
 Matter paragraph in the auditor's report provided.
- 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; we will include an
 Other Matter paragraph in the auditor's report.



NORTH ATLANTIC TREATY ORGANISATION ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD

HEADQUARTERS, SUPREME ALLIED COMMANDER TRANSFORMATION 7857 BLANDY ROAD, SUITE 100 NORFOLK, VIRGINIA, 23551-2490



7000 GSB MBX 0010/FC-34-20

TO:

Dr Daniela Morgante, Chairman, International Board of

Auditors for NATO

SUBJECT:

2019 Annual ACT Consolidated Financial Statements

DATE:

27 March 2020

REFERENCE:

A. NATO Financial Regulations, Article 3

- 1. In accordance with Reference A, I herewith forward the 2019 Annual Consolidated Financial Statements for Allied Command Transformation (ACT).
- 2. I consider that the financial information contained in the Statements agrees with the ACT financial records, and shows the position at the end of the financial year in respect of each of the items listed in Article 34 of the NATO Financial Regulations (NFRs).
- 3. For these 2019 Financial Statements, ACT has again met the timeline set out in the NFRs. This states that Financial Statements are to be produced by 31 March. ACT have also worked closely with the International Board of Auditors for NATO (IBAN), whose audit work is currently ongoing.

Peter E. Dahl

Financial Controller

Allied Command Transformation

André Lanata

General, French Air Force

Supreme Allied Commander Transformation

ENCLOSURE

1. 2019 ACT Financial Statements

DISTRIBUTION:

External: -

Action:

Chairman, IBAN Budget Committee Secretariat

Information:

Commander JWC Commander JFTC Commander JALLC SACTREPEUR

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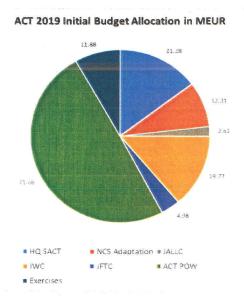
FINANCIAL CONTROLLER'S FOREWORD AND REPORT ON THE 2019 ACT FINANCIAL STATEMENTS

- 1. The Allied Command Transformation (ACT) Annual Financial Statements for the ACT Group of Budgets cover the period of 1 January 2019 to 31 December 2019 and have been prepared in accordance with the NATO Financial Regulations (NFRs), as well as International Public Sector Accounting Standards (IPSAS) as decided in 2002 by the North Atlantic Council (NAC) and subsequently modified by their decision to introduce the NATO Adapted Framework.
- 2. These Financial Statements should be read in conjunction with the ACT Annual Report and together, both documents provide visibility to the Nations on how ACT executed its 2019 programme, committed its resources, and contributed to Alliance Capabilities in accordance with the NATO Military Authorities (NMA) Strategic Priorities and Objectives (SPO). The format follows Military Committee (MC) guidance and seeks to ensure that ACT's work is totally transparent.

FINANCIAL SUMMARY

3. On January 1, 2019, ACT was awarded a budget of €144.504M (based on January 2018 exchange rates), which included an amount of €12.3M for the implementation of the adapted NATO Command Structure. Since the award of Budget Authorisation 3 at the end of October 2019, surplus credits amounting to €3.112M have been identified and authorized to be carried forward into 2020 for use against items that could not be contracted in 2019, as well as emerging items since the 2020 Budget Submission.

ACT 2019 INITIAL BUDGET ALLOCATION



4. As of 31 December 2019, ACT has provisionally committed €138.2M or 97.7% of the remaining €141.4M budget authorisation with the remaining €3.2M of surplus credits

lapsing and being returned to Nations. This commitment rate is consistent with previous years' execution:

%	2019	2018	2017
ACT Budget Execution	97.7	98.5	97.8

ACT budget execution expressed in % of the total amount from 2016 to 2018

- 5. The overall 2019 Budget Allocation represents a €4.1M increase over the 2018 allocation. However, this masked an overall reduction in the core ACT budgets. By removing the NCS-Adaptation element, the core ACT budgets decrease by nearly €8.3M. This reduction is driven by two key cost drivers: the decrease in the cost of the TRIDENT JUNCTURE exercise which, following the high visibility LIVEX in 2018, returned to a standard CAX exercise in 2019; and the impact of USD/EUR exchange rate in the HQ SACT and ACT POW USD budgets (although a slight increase in the functional currency, there was a significant decrease in the euro equivalent).
- An examination of budget commitment and expenditure by input category indicates a slight proportional increase in civilian personnel costs compared to the expenditure on contractual supplies and services. This represents an emphasis on the use of in house expertise rather than outsourcing.
- 7. An examination of budget commitment and expenditure by input category indicates that the commitment pattern is consistent with the previous years.

Chapter	2019	2018	2017	2016
71 (Personnel cost)	23.71%	23.52%	23.22%	22.18%
72 (Contractual Supplies and Services)	75.92%	76.28%	76.4%	77.63%
73 (Capital Investment).	0.37%	0.20%	0.38%	0.19%

OVERVIEW

- 8. In 2019 NATO celebrated its 70th anniversary as the most successful international political military alliance ever. Throughout this period, NATO succeeded because of its ability to adapt. This remarkable ability has been repeatedly demonstrated over the past 70 years as the Alliance has resolutely maintained the values that bind the Allies together.
- 9. Success to date, however, does not mean that we do not continually face new or emerging challenges. We must undertake persistent adaptation of the Alliance if we are to maintain our military edge. This adaptation, is comprehensive in nature, not limited exclusively to technology and capability development, and is the raison d'etre of ACT.

- 10. To deal with these contemporary strategic challenges, ACT has a close and vital relationship with ACO. Working together on the adaptation of people, processes and systems, we ensure that we operate and adapt at the speed of relevance. With the support of Allies, we are already seeing the benefits of our on-going change programme with the clear delineation of roles, responsibilities and authorities strengthening the NATO Command Structure and ensuring that it is fit for purpose.
- 11. The Annual Report describes significant transformational activities executed by ACT during 2019 against each of these objectives

WAY AHEAD

- 12. To cope simultaneously with the complexity and uncertainty of our security environment, our Human Capital concept is of utmost importance. It is designed to ensure the quantity and, most importantly, quality of NATO's people ensuring the right mind-set, competences and skills to meet the strategic challenges of today and tomorrow.
- 13. Innovation is an integral aspect of our work. It is a force multiplier that will retain the Alliance's edge and assure the effectiveness of our military instrument of power. We actively promote the culture of innovation and have created the conditions for its realization, especially in the area of emerging and disruptive technologies. ACT is adapting its internal organisation to apply innovation across our capability and warfare development efforts; to inform NATO's Governance level on the implications of technological innovation; and to foster the adoption of Innovation within the Alliance.
- 14. ACT's focus, as the Warfare Development Command, is to prepare the Alliance for the "security environment of tomorrow". During 2019, ACT worked extensively to implement the new governance model for the through-life management of Common Funded Capabilities, and together with ACO and the NATO Agencies we are managing over thirty Common Funded programmes. As we undertake this critical work, we are aware that technology has a high impact on the broader social, political and cultural aspects that determine the context of future conflict. Consequently, we maintain a strong focus on critical emerging and disruptive technologies to understand how these can be used to best effect in the development of our future capabilities.
- 15. The ongoing work on the NATO Warfighting Capstone Concept is a key component of this work, which will enable us to set a vision to develop collectively the Alliance's future Military Instrument of Power while ensuring its effectiveness and employability. Based on the war fighting of tomorrow, I see this Concept setting a direction of travel for warfare development that needs to start today. It will support Allies' efforts to set the ambition for 20 years hence, and therefore enable the Alliance to identify and pull forward the most important ongoing and new warfare development efforts.
- 16. The NATO Defence Planning Process complements this work and is fundamental to delivering mutual support, cohesion and interoperability. It is through this process that we are able to shape the capability development efforts of the Allies and to translate

political guidance into a Minimum Capability Requirement and associated targets. This provides coherence to the capability development efforts, and facilitates, in conjunction with the International Staff Defence Investment, the identification of multi-national initiatives.

BASIS OF FINANCIAL REPORTING

17. These financial statements are prepared on an accrual accounting basis. NATO adopted the International Public Sector Accounting Standards (IPSAS) as the guiding principle for preparation of all financial statements. This approach was modified with the NATO Adapted Accounting Framework, which was introduced in 2013. The Accounting Framework for NATO was developed to provide minimum requirements for financial reporting for all NATO reporting entities and has formed the basis of ACT financial statements since introduction. ACT continues to apply the NAC endorsed Accounting Framework to these 2019 Consolidated Financial Statements.

AUDIT

18. As is the case with all NATO entities, these financial statements are audited by the International Board of Auditors for NATO (IBAN), who are the body responsible for rendering an audit opinion.

REPORT ON THE STATEMENTS

19. These financial statements incorporate the accounting records of the ACT Headquarters, as well as those of the subordinate Commands within the ACT Budget Group. They have been consolidated under my direction to provide a true and fair view of the financial activities of ACT during financial year 2019.

PETER E. DAHL Financial Controller

Allied Command Transformation

GOVERNANCE STATEMENT 2019

The Scope of Responsibility

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

These requirements are articulated in my "90 Day" letter dated 14 December 2018, my Commander's Vision and Intent issued 26 March 2019, my Strategic Objectives issued in November 2019 and the Command's Directives and Standard Operating procedures (SOPs).

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

Governance Statement

The Nations require that an annual Governance 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, therefore, aims to provide assurance and an assessment of the risk profile and the effectiveness in managing those risks.

Structure of Governance

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

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 so as to inform the strategic thinking of ACT. It has specific responsibilities, reporting to me as SACT, for ACT's overall strategy and resource budget.

GOVERNANCE STATEMENT 2019

Under my direction, the strategy for the Command, an estimate of the Command's resources for each financial year, and an annual report on the Command's activities are prepared and submitted to the Nations.

Risk Management and Control

The Command's overall approach to risk management is summarized in the ACT Risk Management Directive 20-3.2 dated 22 January 2018. This contains detailed guidance and ACT's policy on the effective execution of risk management. Following consultation with Allied Command Operations (ACO), the ACT Risk Management directive is being updated to achieve greater Bi-Strategic Command (Bi-SC) alignment on definitions and assessment criteria.

The Command has been working diligently towards developing a comprehensive list of "bottom up" risks, anchored on fully populated and approved risk registers, and "top down" high-level strategic risks. The effort has been impacted by the significant changes in ACT's roles, responsibilities and activities, as well as significant internal reorganisation required to deliver the adapted NATO Command Structure (NCS). However, work is ongoing with the construct of the new Capability Delivery Governance Model to support the development of risk management as an enterprise-wide discipline, with submissions already made by ACT to the Military Committee (MC). While this process continues to mature, it remains a work in progress.

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, and risk and internal control. The review of these enhanced functions will be integrated into a broader role for the ACT Command Auditor, whose team was expanded as part of the adaptation of the NCS, and reviewed by the Command's Audit Advisory Panel prior to the outcomes being brought to me.

Our internal controls have been in place for the whole of 2019. We assess how the achievement of our policies, aims and objectives might be affected by the risks we face. We therefore aim to design a system of controls, which mitigate these risks. Such systems are not designed to eliminate all risk but to strike an appropriate, proportionate balance, between control, cost and risk management.

Our tolerance for individual risks is informed by their potential impact on ACT's ability to fulfil its function as a NATO Strategic Command and the likelihood of their occurrence. ACT's risk management strategy is still evolving, as is the maturity of our management system. However, its eventual aim is to enable the Command to manage its risks in a structured manner as a means to support and inform our wider strategic management and decision-making.

GOVERNANCE STATEMENT 2019

We introduced, in 2019, a three 'lines of defence' model of risk management:

- Line 1: Business Operations Comprising integrated programme areas, "clusters" and planning groups. The oversight processes, which would exist, within these areas, will be used to derive assurance on how objectives are being met, and resources and risks managed.
- Line 2: Corporate Oversight Comprising the Leadership Team, supported by ACT's board structure.
- Line 3: Providers of assurance, internal and external our internal and external auditors who provide independent and objective assurance over the Command's framework of governance, risk management and control.

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. 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.

To support this effort, ACT utilizes the monthly Campaign Steering Board (CSB), chaired by the ACT Chief Of Staff, to assess the performance against the delivery of SACT's objectives as articulated in twenty Lines of Effort. The CSB further actively reviews and manages sixteen board-level risks that have been identified along the lines of ACT's ability to Disrupt, Deliver, Implement and Inform. Further, at each CSB, "deep dives" are performed for at least two of these board level risks.

The ACT Audit Advisory Panel

The ACT Audit Advisory Panel (AAP), comprising five members, including an external member, is chaired by the ACT Chief of Staff, Vice Admiral Paul Bennett. The AAP may review and, if necessary, challenge the Command's approach to internal control. It also may provide advice, to the Command Group, as to the effectiveness of the policies and processes in use.

For 2019, the AAP focused on providing more support to the Command's Command Group and high level Boards, and to drive the risk programme with a greater degree of ownership, as well as providing a higher level of feedback and assurance by holding risk owners to account. Key to this is the composition of the AAP and having a more internal focus.

The AAP challenged the Command's previous approach to internal control, and will be working with the new ACT Command Auditor in 2020 to provide advice, both to the Commander and the Financial Controller, as to the effectiveness of the policies and processes in use.

GOVERNANCE STATEMENT 2019

It is the intent of the AAP in 2020 to focus the Internal Audit function towards increased performance auditing. The expanded construct of the Internal Audit organization will also allow for continued review of financial operations.

Capacity to Handle Risk

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 reviewed periodic, and annual, financial reports so that they are seen to be in a good position to manage financial performance against forecasts and possible risks.
- Meaningful targets exist to measure financial in-year management, and other performance areas.
- Effective project management disciplines are in place.
- The Command's key risks will be identified, regularly reviewed, and, where appropriate, actions taken to mitigate the effects of any identified risks impacting the Command.

As SACT, I am responsible for ensuring that processes are in place that effectively review the Command's systems of internal control. As such, we are committed to a policy of continuous improvement, to our procedures, regulations and internal processes, so as to provide a comprehensive and relevant process of risk management, compliance and assurance.

Statement of Information Risk

As SACT, together with the staff of ACT, I have access to data and information which are needed to enable me to discharge the responsibilities and duties assigned by the Nations.

ACT continues to ensure 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, I have arrived at my conclusion by taking into account a framework of measures. These have been designed to reduce the incidence of security incidents occurring and/or to provide early warning that an incident has occurred, or is likely to occur. These measures include:

GOVERNANCE STATEMENT 2019

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

ACT continues to develop a policy, and set of strategies, for the protection of personally identifiable information. The draft directive - "ACT Personal Data Privacy Protection" - will set out an ACT wide policy on data protection and is currently being staffed. For 2019, there were no reported incidents.

Finally, the corona virus pandemic has highlighted the need for responsive and sustained actions to ensure that ACT can provide business continuity, and we will be reviewing our information risk with renewed vigor in 2020.

Compliance with Policies and Procedures

As a Command, we acknowledge that we must comply, where appropriate, with the policies and procedures of NATO, and our host nations.

We therefore ensure that the requirements of NATO and host nation security policies are taken account of and that we benchmark our approach against them.

To assess the adequacy of our current measures, and to ensure the effective implementation of relevant action plans, we are also undertaking, in consultation, where necessary, with our host nations, deep dives into different areas of our operations. Examples of these are our ongoing reviews of our health and safety processes, business continuity plans, and human resources procedures.

GOVERNANCE STATEMENT 2019

We work with nations, and other NATO bodies, to ensure our strategic partners, who handle data on our behalf, comply with all relevant data security requirements.

Tackling Fraud and Corruption

The Command reviewed the 2018 issued IBAN Fraud and Corruption Report, which was subsequently presented to the NATO Resource Policy and Planning Board (RPPB). Although no ACT specific issues were identified, the IBAN Report highlighted areas of possible weakness, NATO wide, which should be addressed by the Command. The report found, *inter alia*, that NATO:

- has no organization wide strategy to prevent, detect and respond to fraud and corruption;
- policies for the prevention, detection and response to fraud and corruption are fragmented;
- bodies do not consistently assess fraud risks;
- is vulnerable to risks of fraud and corruption;
- good practices for preventing, detecting and responding to fraud and corruption are not fully in place.

As a result of these IBAN findings, the AAP commissioned the ACT Internal Auditor to undertake a fraud health check, throughout the Command, to determine whether: clear reporting strategies exist; an effective, well implemented control environment is functioning; the Command has an ability to measure and evaluate actions taken; and the reporting process is fair and transparent. The Auditor did not find any instances of fraud.

Internal Audit

ACT internal audit's role is to advise on the effectiveness of governance, risk and control arrangements in place, and also advise on the progress being made in implementing the risk management processes articulated above.

Ensuring that the Command's internal audit structure maintains its independence, and is adequate, for the tasks assigned, is important for the Command. That is why, as part of the adaptation of the NCS, the existing staffing structure was reviewed, and found to be inadequate for the governance needs of the Command. Additional resources were, therefore, allocated, from the second half of 2019.

GOVERNANCE STATEMENT 2019

Looking Ahead

ACT continues to focus on maintaining and improving our performance. And, we continue to position ourselves to be able to understand, and respond to, any major areas of change in our external environment and the challenges and opportunities that they bring. Our 2019, and beyond, objectives aim to provide focus on issues of strategic priority, both for us, and our stakeholders.

We recognize, therefore, that we need to plan intelligently to address the impact of changes on the Command – for example, NCS Adaptation. We will, therefore, continue to champion efficient and transparent working practices throughout ACT.

Review of Effectiveness

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

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

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

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

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

- Qualified officials are assigned to the financial positions reflected in the Command's internal organization.
- The tasks and responsibilities of those officials are clearly reflected in the relevant job descriptions.
- Formal delegation of authority for financial matters is in place.

GOVERNANCE STATEMENT 2019

- 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.

Peter E Dahl

Financial Controller

Allied Command Transformation

André Lanata

General, French Air Force

Supreme Allied Commander Transformation

ACT CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDING 31 DECEMBER 2019 (EUR)

ASSETS Current Assets	Notes	2019	2018
Cash and Cash Equivalents Receivables Prepayments	2 4 5	72,020,460 4,649,830 1,066,592	64,040,878 4,145,546 785,127
Non-Current Assets Property, Plant & Equipment	6	27,982,916	25,925,951
TOTAL ASSETS		105,719,798	94,897,502
LIABILITIES Current Liabilities Payables Deferred Revenue Advance Contributions Other Advances TOTAL LIABILITIES	7 8 9 10	26,474,636 15,848,616 33,463,207 1,950,423 77,736,882	27,980,638 7,686,528 33,298,476 5,909 68,971,551
NET ASSETS Capital contributions Accumulated surpluses/(deficits) Total net assets / equity*	11 11 11	33,377,348 (5,394,432) 27,982,916	29,671,314 (3,745,363) 25,925,951

^{*}total net assets / equity is equal to the total of PP&E shown under Non-Current Assets

ACT STATEMENT OF CHANGES IN NET ASSETS / EQUITY FOR THE YEAR ENDING 31 DECEMBER 2019 (EUR)

	Capital Contributions	Accumulated Surplus / Deficit	Total
Balance as at 01 January 19	29,671,314	(3,745,363)	25,925,951
adjustment for historical exchange rate	975,047	(105,792)	869,255
Balance at 1 January 2019 (using 31 Dec 18 exchange rate)	30,646,361	(3,851,155)	26,795,206
Changes in net assets / equity for the year			
Additional capital contributed by nations in 2019	2,730,987		2,730,987
surplus / deficit for the period		(1,543,277)	(1,543,277)
Balance as at 31 December 19	33,377,348	(5,394,432)	27,982,916

ACT CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDING 31 DECEMBER 2019 (EUR)

	Notes	2019	2018
REVENUE			
Revenue Other revenue	12 13	140,550,073 5,982,455	135,991,117 6,418,971
Financial revenue	14_	362,520	194,183 142,604,271
Total Operating Revenue		146,895,048	142,004,271
OPERATING EXPENSES			
Personnel	15	34,418,514	30,154,431
Contractual Supplies and Services	15	102,735,258	102,819,916
Capital and Investments	15	3,286,031	2,694,710
Depreciation charges	6	1,543,277	1,223,847
Other Expenses	17	5.982.455	6,418,971
Finance costs	18	472,790	516,243_
Total Operating Expenses	_	148,438,325	143,828,118
NET SURPLUS/(DEFICIT) FOR THE YEAR	-	(1,543,277)	(1,223,847)

ACT CONSOLIDATED CASHFLOW STATEMENT FOR THE YEAR ENDING 31 DECEMBER 2019 (EUR)

Cash Flow from Operating Activities		20	19	2018	
Non-cash movements	Cash Flow from Operating Activities	Water to the same		And the second s	
depreciation charges			(1,543,277)		(1,223,848)
Increase (decrease) in payables	Non-cash movements				
Increase (decrease) in current liabilities 10.271,333 (2,277.564) deferred revenue Decrease / (Increase) in receivables (504,284) 20.266,431 (214,009) Extraordinary Item 9,522,859 22,500,055 Extraordinary Item 9,522,859 22,500,055 Purchase of PPE 9,000 Net cash flow from investing activities 7,979,582 21,276,207 Purchase (decrease) in cash and cash equivalents 7,979,582 21,276,207 Effect of exchange rate changes on cash and cash equivalents on translation 64,040,878 42,764,670	depreciation charges	1,543,277		1.223 847	
deferred revenue Decrease / (Increase) in receivables Decrease / (Increase) in Current Assets (281,465) Extraordinary Item Net cash flow from operating activities Purchase of PPE Net cash flow from investing activities Net cash flow from investing activities Net cash flow from investing activities O Net increase (decrease) in cash and cash equivalents T,979,582 21,276,207 Effect of exchange rate changes on cash and cash equivalents on translation Cash and cash equivalents at beginning of period 64,040,878 42,764,670		(1,506,002)		3,501,350	
Decrease / (Increase) in receivables (504,284) (20,266,431 (214,009) (214,009)	Increase (decrease) in current liabilities	10,271,333		(2,277.564)	
Decrease / (Increase) in Current Assets (281,465) (214,009) Extraordinary Item 9,522,859 22,500,055 Extraordinary Item 7,979,582 21,276,207 Purchase of PPE 0 Net cash flow from investing activities 0 Net cash flow from investing activities 0 Net increase (decrease) in cash and cash equivalents 7,979,582 21,276,207 Effect of exchange rate changes on cash and cash equivalents on translation Cash and cash equivalents at beginning of period 64,040,878 42,764,670	deferred revenue				
Extraordinary Item Net cash flow from operating activities Purchase of PPE Net cash flow from investing activities Net cash flow from investing activities Net increase (decrease) in cash and cash equivalents 7,979,582 21,276,207 Effect of exchange rate changes on cash and cash equivalents on translation Cash and cash equivalents at beginning of period 42,764,670	Decrease / (Increase) in receivables	(504,284)		20,266,431	
Extraordinary Item Net cash flow from operating activities 7,979,582 21,276,207 Purchase of PPE Net cash flow from investing activities 0 Net increase (decrease) in cash and cash equivalents 7,979,582 21,276,207 Effect of exchange rate changes on cash and cash equivalents on translation Cash and cash equivalents at beginning of period 64,040,878 42,764,670	Decrease / (Increase) in Current Assets	(281,465)		(214,009)	
Extraordinary Item Net cash flow from operating activities 7,979,582 21,276,207 Purchase of PPE Net cash flow from investing activities 0 Net increase (decrease) in cash and cash equivalents 7,979,582 21,276,207 Effect of exchange rate changes on cash and cash equivalents on translation Cash and cash equivalents at beginning of period 64,040,878 42,764,670					
Net cash flow from operating activities Purchase of PPE Net cash flow from investing activities 0 Net increase (decrease) in cash and cash equivalents 7,979,582 21,276,207 Effect of exchange rate changes on cash and cash equivalents on translation Cash and cash equivalents at beginning of period 64,040,878 42,764,670			9,522,859		22,500,055
Purchase of PPE Net cash flow from investing activities 0 Net increase (decrease) in cash and cash equivalents 7,979,582 21,276,207 Effect of exchange rate changes on cash and cash equivalents on translation Cash and cash equivalents at beginning of period 64,040,878 42,764,670	Extraordinary Item	_			
Purchase of PPE Net cash flow from investing activities 0 Net increase (decrease) in cash and cash equivalents 7,979,582 21,276,207 Effect of exchange rate changes on cash and cash equivalents on translation Cash and cash equivalents at beginning of period 64,040,878 42,764,670	***				
Net cash flow from investing activities Net increase (decrease) in cash and cash equivalents 7,979,582 21,276,207 Effect of exchange rate changes on cash and cash equivalents on translation Cash and cash equivalents at beginning of period 64,040,878 42,764,670	Net cash flow from operating activities		7,979,582		21,276,207
Net increase (decrease) in cash and cash equivalents 7,979,582 21,276,207 Effect of exchange rate changes on cash and cash equivalents on translation Cash and cash equivalents at beginning of period 64,040,878 42,764,670	Purchase of PPE				
Net increase (decrease) in cash and cash equivalents 7,979,582 21,276,207 Effect of exchange rate changes on cash and cash equivalents on translation Cash and cash equivalents at beginning of period 64,040,878 42,764,670		***************************************			
Effect of exchange rate changes on cash and cash equivalents on translation Cash and cash equivalents at beginning of period 64,040,878 42,764,670	Net cash flow from investing activities				0
Effect of exchange rate changes on cash and cash equivalents on translation Cash and cash equivalents at beginning of period 64,040,878 42,764,670					
Effect of exchange rate changes on cash and cash equivalents on translation Cash and cash equivalents at beginning of period 64,040,878 42,764,670	Making and Manager Manager Manager Making and Making Manager M	-		No.	
on translation Cash and cash equivalents at beginning of period 64,040,878 42,764,670	Net increase (decrease) in cash and cash equivalents		7,979,582		21,276,207
on translation Cash and cash equivalents at beginning of period 64,040,878 42,764,670	Effect of evaluation water about a series and and a series are a series and a serie				
Cash and cash equivalents at beginning of period 64,040,878 42,764,670					
	on translation				
	Cash and cash equivalents at beginning of period		64.040.878		42,764,670
Cash and cash equivalents at end of period 72,020,460 64,040,878			2012 112 2		71.2.12.4
	Cash and cash equivalents at end of period		72,020,460	-	64,040.878

ACT CONSOLIDATED BUDGET EXECUTION STATEMENT FOR THE YEAR ENDING 31 DECEMBER 2019

ALL FIGURES SHOWN IN THE APPROVED BUDGET CURRENCY

17 NATO UNCLASSIFIED

Budgets presented in approved Currency	Initial Authorisation (RA1)	大大人(1000年)	1st Mid Year Authorisation (BA2)	THE RESERVE OF THE PARTY OF THE	2nd Mid Year Authorisation (BA3)	Movements	Final Authorisation	Net Commitment	Actual Expenses	Total Commitment/Spend	Carry Forward	Lapse
252 Budget - Joint Analysis and Lessons Learned (Centre											
2019	€	€	€	€	€	€	€	€	€	€	€	€
Personnel	1,508,228	0	1,508,228	(69,999)	1,438,229	(10,513)	1,427,716	0	1,427,716	1,427,716	0	0
<u></u> <u>□</u> Contractual Supplies & Services	705,972	350,000	1,055,972	50,000	1,105,972	80,513	1,186,485	220,000	958,809	1,178,809	220,000	7,676
apital Investments	0	0	0	0	0	0	0	0	0	0	0	0
Econtractual Supplies & Services Capital Investments B 2019 Total	2,214,200	350,000	2,564,200	(19,999)	2,544,201	70,000	2,614,201	220,000	2,386,525	2,606,525	220,000	7,676
02018	€	€	€	€	€	€	€	€	€	€	€	€
Dersonnel Contractual Supplies & Services	0	0	0	0	0	0	0	0	0	0	0	0
□ □ □ □ □ □ □ □ □ □ □ □ □ □ □ □ □ □ □	19,293	(0)	19,293	0	19,293	0	19,293	0	19,293	19,293	0	0
Z U 2018 Total S Budget 252 Grand Total	19,293	(0)	19,293	0	19,293	0	19,293	0	19,293	19,293	0	0
	2,233,493	350,000	2,583,493	(19,999)	2,563,494	70,000	2,633,494	220,000	2,405,818	2,625,818	220,000	7,676
258 Budget - ACT Euro Programe of Work CP019 N Personnel	€	€	€	€	€	€	€	€	€	€	€	€
QPersonnel Q	2,557	0	2,557	0	2,557	(1,200)	1,357	0	1,329	1,329	0	28
Contractual Supplies & Services	53,074,517	(383,439)	52,691,078	60,303	52,751,381	703,442	53,454,824	1,186,345	51,705,933	52,892,277	1,186,345	562,546
Capital Investments	0	0	0	0		0	-	0	0	0	0	0
Contractual Supplies & Services Capital Investments 2019 Total Personnel Contractual Supplies & Services 2018 Total	53,077,074	(383,439)	52,693,635	60,303	52,753,938	702,242	53,456,181	1,186,345	51,707,262	52,893,607	1,186,345	562,574
2018	€	€	€	€	€	€	€	€	€	€	€	€
Personnel	0	0	0	0	-	0	14,	0	0	0	0	0
Contractual Supplies & Services	996,146	0	996,146	0	996,146	0	996,146	0	843,172	843,172	0	152,975
2018 Total	996,146	0	996,146	0	996,146	0	996,146	0	843,172	843,172	0	152,975
2017	€	€	€	€	€	€	€	€	€	€	€	€
Contractual Supplies & Services	27,812	0	27,812	0	27,812	0	27,812	0	27,812	27,812	0	0
2017 Total	27,812	0	27,812	0	27,812	0	27,812	0	27,812	27,812	0	0
Budget 258 Grand Total	54,101,032	(383,439)	53,717,593	60,303	53,777,897 NATO Unclassi	702,242	54,480,139	1,186,345	52,578,245	53,764,590	1,186,345	715,549

Actual

Total

2nd Mid Year

1st Mid Year

Authorisation Movements Authorisation Movements Authorisation Movements

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Budgets presented in approved Currency

	(BA1)		(BA2)		(BA3)		Authorisation	Commitment	Expenses	Commitment/Spend			
259 Budget - ACT Exercise Budget													
2019	€	€	€	€	€	€	€	€	€	€	€		€
Personnel Ш	65,500	50,000	115,500	(14,000)	101,500	(13,378)	88,122	0	67,722	67,722		0	20,400
Contractual Supplies & Services	12,888,710	(547,889)	12,340,821	(1,000)	12,339,821	(549,065)	11,790,755	0	10,820,856	10,820,856		0	969,899
2019 Total	12,954,210	(497,889)	12,456,321	(15,000)	12,441,321	(562,443)	11,878,878	0	10,888,578	10,888,578		0	990,299
Personnel Contractual Supplies & Services 2019 Total 2018 Personnel CONTRACTUAL Supplies & Services	€	€	€	€	€	€	€	€	€	€	€		€
Personnel	0	0	0	0	0	0	0	0	(20,831)	(20,831)		0	20,831
○ ∐Contractual Supplies & Services —	0	0	0	0	0	0	0	0	(659,961)	(659,961)		0	659,961
Z 2018 Total	0	0	0	0	0	0	0	Q	(680,792)	(680,792)		0	680,792
<u>0</u> 2017 ≥	€	€	€	€	€	€	€	€	€	€	€		€
Personnel	0	0	0	0	0	0	0	0	0	0		0	0
Contractual Supplies & Services	0	0	0	0	0	0	0	0	(1,653,747)	(1,653,747)		0	1,653,747
Personnel Contractual Supplies & Services 2017 Total Budget 259 Grand Total	0	0	0	0	0	0	0	0	(1,653,747)	(1,653,747)		0	1,653,747
Budget 259 Grand Total	12,954,210	(497,889)	12,456,321	(15,000)	12,441,321	(562,443)	11,878,878	0	8,554,040	8,554,040		0	3, 324, 838
1													

NATO Unclassified

Budgets presented in approved Currency	Initial Authorisation (BA1)	Movements	1st Mid Year uthorisation (BA2)	Movements	2nd Mid Year Authorisation (BA3)	Movements	Final Authorisation	Net Commitment	Actual Expenses	Total Commitment/Spend	Carry Forward	Lapse
201 Budget - SACT HQ												
2019	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	22,462,683	182,375	22,645,057	(182,322)	22,462,735	(571,707)	21,891,028	18,962	21,701,787	21,720,749	18,962	170,280
Contractual Supplies & Services	3,041,472	57,340	3,098,812	138,059	3,236,871	94,701	3,331,572	42,239	3,030,344	3,072,584	42,239	258,989
apital Investments	0	0	at the state of th	0	0	20,248	20,248	0	20,248	20,248	0	0
Contractual Supplies & Services Papital Investments 2019 Total 1019	25,504,155	239,715	25,743,870	(44,263)	25,699,606	(456,758)	25,242,848	61,201	24,752,380	24,813,580	61,201	429,268
Ubb18	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	9,750	0	9,750	0	9,750	0	9,750	1,500	(3,825)	(2,325)	1,500	12,075
Libontractual Supplies & Services	451	0	451	0	451	0	451	0	(136,275)	(136,275)	0	136,726
2018 Total	10,201	0	10,201	0	10,201	0	10,201	1,500	(140,100)	(138,600)	1,500	148,801
<u>©</u> 2 017	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	0	0	0	0	0	0	0	0	(20,673)	(20,673)	0	20,673
entractual Supplies & Services	0	0	0	0	0	0	0	0	0	0	0	0
Sapital Investments	0	0	0	0	0	0	0	0	0	0	0	0
Dersonnel Contractual Supplies & Services Capital Investments 2017 Total	0	0	0	0	0	0	0	0	(20,673)	(20,673)	0	20,673
Laudget 201 Grand Total	25,514,356	239,715	25,754,071	(44, 263)	25,709,807	(456,758)	25,253,049	62,701	24,591,606	24,654,307	62,701	598,742
Qudget 201 Grand Total U O 211 Budget - SACT HQ O 2019								*				
92019	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	3,677,501	(125,000)	3,552,501	0	3,552,501	(140,426)	3,412,075	29,050	3,140,210	3,169,260	29,050	242,815
Personnel Contractual Supplies & Services Contractual Supplies & Services Contractual Supplies & Services	10,924,620	125,000	11,049,620	0	11,049,620	140,426	11,190,046	1,630,867	8,584,747	10,215,614	1,630,867	974,432
apital Investments	0	0	-	0	0	0	0	0	0	0	0	0
2019 Total	14,602,121	. 0	14,602,121	0	14,602,121	0	14,602,121	1,659,917	11,724,957	13,384,874	1,659,917	1,217,247
Budget 211 Grand Total	14,602,121	0	14,602,121	0	14,602,121	0	14,602,121	1,659,917	11,724,957	13,384,874	1,659,917	1,217,247

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Budgets presented in approved Currency	Authorisation (BA1)	Movements	Authorisation (BA2)	Movements	Authorisation (BA3)	Movements	Final Authorisation	Net Commitment	Actual Expenses	Commitment/Spend	Carry Forward	Lapse
257 Budget - ACT USD Programe of Work												
2019	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$.	\$	\$
Personnel	528,598	2	528,600	(16,100)	512,500	14,824	527,324	0	429,361	429,361	0	97,963
☐Contractual Supplies & Services	19,723,879	520,662	20,244,541	789,207	21,033,748	34,170	21,067,918	1,699,389	18,060,090	19,759,479	1,699,389	1,308,438
UContractual Supplies & Services O 2019 Total	20,252,477	520,664	20,773,141	773,107	21,546,248	48,994	21,595,242	1,699,389	18,489,451	20,188,840	1,699,389	1,406,401
<u></u>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel Contractual Supplies & Services 2018 Total	0	0	0	0	0	0	14	0	0	0	0	0
Contractual Supplies & Services	1,317,092	0	1,317,092	0	1,317,092	0	1,317,092	0	1,094,304	1,094,304	0	222,788
2018 Total	1,317,092	0	1,317,092	0	1,317,092	0	1,317,092	0	1,094,304	1,094,304	0	222,788
<i></i>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	0	0	0	0	0	0	0	0	(3,228)	(3,228)	0	3,228
Contractual Supplies & Services	0	0	0	0	0	0	0	0	(174,725)	(174,725)	0	174,725
Contractual Supplies & Services 2017 Total ZBudget 257 Grand Total	0	0	0	0	0	0	0	0	(177,954)	(177,954)	0	177,954
ZBudget 257 Grand Total	21,569,569	520,664	22,090,233	773,107	22,863,340	48,994	22,912,334	1,699,389	19,405,802	21,105,191	1,699,389	1,807,143

					TATO OTICIOS	med						
Budgets presented in approved Curre	Initial Authorisation (BA1)	Movements	1st Mid Year Authorisation (BA2)	Movements	2nd Mid Year Authorisation (BA3)	Movements	Final Authorisation	Net Commitment	Actual Expenses	Total Commitment/Spend	Carry Forward	Lapse
255 Budget - Joint Warfare Centre												
2019	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK
Personnel	92,078,348	(300,000)	91,778,348	(1,401,000)	90,377,348	(1,507,416)	88,869,932	0	88,667,757	88,667,757	0	202,175
Contractual Supplies & Services	101,625,292	(228,970)	101,396,322	(339,000)	101,057,322	(337,713)	100,719,609	2,125,705	98,144,496	100,270,201	2,125,705	449,408
apital Investments	3,710,000	(947,000)	2,763,000	(460,000)	2,303,000	2,662,000	4,965,000	2,952,000	2,012,916	4,964,916	2,952,000	84
Papital Investments C 2019 Total C 2018	197,413,640	(1,475,970)	195,937,670	(2,200,000)	193,737,670	816,871	194,554,541	5,077,705	188,825,168	193,902,874	5,077,705	651,667
☐ ²⁰¹⁸	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK
Ш Mersonnel Contractual Supplies & Services Ш —tapital Investments	0	0	0	0	0	0	0	0	(7,201)	(7,201)	0	7,201
Contractual Supplies & Services	375,437	0	375,437	0	375,437	(0)	375,437	0	34,865	34,865	0	340,571
apital Investments	1,228,351	0	1,228,351	0	1,228,351	0	1,228,351	0	1,228,278	1,228,278	0	73
	1,603,788	0	1,603,788	0	1,603,788	(0)	1,603,788	0	1,255,942	1,255,942	0	347,846
2017	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK
O ersonnel	33,256	0	33,256	0	33,256	0	33,256	0	(11,642)	(11,642)	0	44,898
Contractual Supplies & Services		0		0		0		0	(349,979)	(349,979)	0	349,979
2018 Total SIW 2017 Contractual Supplies & Services Contractual Supplies & Services 2017 Total Budget 255 Grand Total	33,256	0	33,256	0 ~	33,256	0	33,256	0	(361,621)	(361,621)	0	394,877
3	199,050,684	(1,475,970)	197,574,714	(2,200,000)	195,374,714	816,870	196,191,584	5,077,705	189,719,489	194,797,195	5,077,705	1,394,390
PUBLICLY DISCLOSED												

Budgets presented in approved Currency	Initial Authorisation (BA1)	Movements	1st Mid Year authorisation (BA2)	Movements	2nd Mid Year Authorisation (BA3)	Movements F	Final Authorisation	Net Commitment	Actual Expenses	Total Commitment/Spend	Carry Forward	Lapse
256 Budget Joint Forces Training Centre												
2019	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN
Personnel	6,095,256	253,600	6,348,856	(64,000)	6,284,856	(270,000)	6,014,856	4,500	5,960,121	5,964,621	4,500	50,235
Contractual Supplies & Services	16,302,659	(83,823)	16,218,836	(1,694,000)	14,524,836	485,388	15,010,224	236,343	14,587,809	14,824,152	236,343	186,072
Capital Investments	0	0		0		0	0	0	0	0	0	0
Contractual Supplies & Services Capital Investments 2019 Total	22,397,915	169,777	22,567,692	(1,758,000)	20,809,692	215,388	21,025,080	240,843	20,547,930	20,788,773	240,843	236,308
2018	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN
Personnel Contractual Supplies & Services Capital Investments Z 2018 Total	0	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	648,415	(0)	648,415	0	648,415	0	648,415	0	618,934	618,934	0	29,481
Capital Investments	se provinces various encourant review de vilgade opposit en review	0		0		0	*	0	0	0	0	0
SO 2018 Total	648,415	(0)	648,415	0	648,415	0	648,415	0	618,934	618,934	0	29,481
	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN
Personnel	0	0	0	0	0	0	0	0	(161)	(161)	0	. 161
Contractual Supplies & Services	0	0	0	0	0	0	0	0	0	0	0	0
Capital Investments	0	0	0	0	0		0	0	0	0	0	0
Personnel Contractual Supplies & Services Capital Investments 2017 Total	0	0	0	0	0	0	0	0	(161)	(161)	0	161
Budget 256 Grand Total	23,046,330	169,777	23,216,107	(1,758,000)	21,458,107	215,388	21,673,495	240,843	21,166,703	21,407,545	240,843	265,950
Budget 256 Grand Total SOTO								-				
SCI												
<u>□</u> ≻												
ICL		*										
JBL												
₫												

Allied Command Transformation

Notes to the Financial Statements

For the year ended 31 December 2019

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

NOTES TO THE ACCOUNTS

1. Statement of Accounting Policies

1.1 Basis of preparation

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

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

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

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

The financial statements have been prepared on a going-concern basis and the historical cost basis, except for financial instruments that are measured at fair value at the end of each reporting period. The principal accounting policies are set out below. They have been applied consistently to all periods presented. The accounting principles recognised as appropriate for the recognition, measurement and reporting of the financial position, performance and cash flows on an accrual based accounting using historical costs have been applied consistently throughout the reporting period.

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

1.2 Accounting estimates and judgments

In accordance with the Accounting Framework and generally accepted accounting principles, the financial statements necessarily include amounts based on estimates and assumptions made by the management and based on historical experience as well as on the most reliable information available. In exercising the judgements to make the estimates, a degree of caution was included in light of the principle of 'prudence' required by IPSAS in order not to overstate assets or revenue or understate liabilities or expenses.

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

1.3 Changes in Accounting Policy and Standards (if applicable)

The same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria set in IPSAS 3. For the 2019

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

Some new standards, alignments of standards and interpretations were issued or became effective for the financial years beginning on 1 January 2019. These have either been classed as not applicable to the entity or have been applied by the entity in preparing the financial statements. Neither of the Standards are expected to have a significant effect on the financial statements of the entity.

IPSAS	Name	Effective date for periods beginning on or after	Comment
41	Public Sector Combinations	01 January 2019	Annual periods beginning on or after 1 January 2019, with earlier application encouraged. This will not impact the ACT consolidated group
42	Social Benefits	01 January 2022	Annual periods beginning on or after 1 January 2022, with earlier application encouraged. This will not impact the ACT consolidated group

1.5 Foreign currency

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

ACT HQs that have a functional currency other than Euro are translated into the reporting currency. All assets and liabilities of such entities at year-end were translated using the NATO exchange rates that were applicable at 31 December 2019. Revenue and expenses were translated using an average of the NATO exchange rates applicable during the reporting period. Unrealised gains and losses resulting from the translation of statements in currencies other than Euro are recognised in the Statement of Financial Position.

1.6 Consolidation

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

Entities which are consolidated into the financial statements are listed below.

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

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

1.7 Services in-kind

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

1.8 Financial Instruments disclosure/presentation

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

1.9 Cash and cash equivalents

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

1.10 Short-term investments

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

1.11 Receivables

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

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

1.12 Property, Plant and Equipment (PP&E)

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

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

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

PP&E categories are listed in the table below:

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

During 2019, 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 6.

1.13 Leases

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

All other leases are classified as operating leases.

Rental payable under lease contract are recognised as an expense in the statement of financial performance on a straight line basis over the lease term. (if applicable). As at 31 December 2019, ACT had the following amounts owed on non-cancellable leases at HQ SACT, JFTC and JALLC.

Item	amounts paid in 2019	amounts due in 2020 - 2023
Various vehicles	€131.7	€211.6

1.14 Intangible assets

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

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

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

1.15 Payables

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

1.16 Deferred Revenue

Deferred revenue represents income/contributions from member nations and/or third parties that have been called for current or prior years' budgets and that have not yet been recognised as revenue.

1.17 Advances

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

1.18 Employee benefits

ACT's employees participate in one of the two NATO pensions funds: the Coordinated Pension Scheme or the Defined Contribution Pension Scheme (DCPS) administered by NATO and the Retirees Medical Claims Fund (RMCF). The assets and liabilities for these pension schemes are accounted for centrally at NATO Headquarters and therefore are not recognised in these financial statements. Note 16 below refers.

1.19 Provisions

Provisions are recognised when ACT has a legal or constructive obligation as a result of past event, and where it is probable that an outflow of resources will be required to settle the obligation, and where a reliable estimate of the amount of the obligation can be made. If the effect is material, provisions are determined by discounting the expected future cash flows to their present value.

1.20 Net Assets

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

1.21 Revenue and expense recognition

Revenue

Revenue comprises contributions from Member Nations and income from other customers to

fund ACT's budgets. It is recognised in the year when these contributions are used for their intended purpose as envisioned by ACT's budgets. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be measured reliably. Unused contributions and other revenue that relate to future periods are deferred accordingly.

Interest income is accrued on a time-basis, by reference to the principal outstanding and at the effective interest rate applicable. Bank interest earned and accrued as of 31 December 2019; exchange rate revenue due to transactions in foreign currency; and realised exchange rate revenue are recognised as financial revenue.

Finance costs

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

1.22 Surplus or deficit for the period

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

1.23 Trust Funds

ACT controls a number of specific Trust Funds referred to in Note 3 below. NATO recognises an asset when it controls access to the asset and gains economic benefit or service potential but matches this to an equal liability. ACT does not recognise any expenditure or revenue in relation to the Trust Funds in its statement of financial performance which it does not control.

1.24 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.

Total	Euro Accounts
Total	non-Euro Accounts

2019	2018
29,902	37,616
42,118	26,425
72,020	64,041

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 2019. The cash holdings reflect the fact that all nations settling their cash call contributions by the end of 2019. This was also the case in the previous year.

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

3. Trust Funds

At the beginning of 2019, ACT held residual funds from one Voluntary National Contribution Fund (VNCF) operated by HQ SACT. The fund provided training during 2017 and 2018 for weapons inspector teams from NATO nations, as well as Partnership for Peace (PfP) countries. Deposits received for this 2-year initiative amounted to €233k, of which €44k were expensed in 2017 and €123k were expensed in 2018. The balance of €66k was returned to participating nations in February 2019 via the central NATO Trust Fund account at HQ NATO.

Name of Fund	Balance as at 01 Jan 19	Money transferred in	In year expenses	Balance as at 31 Dec 19
Weapons Intelligence Team Training 2017-2018 (WITT 2017-2018)	65.9	. 0	Returned to nations: 65.9	0

4. Receivables

Receivables Bad debts

2019	2018	
4,325	3,821	
325	325	
4,650	4,146	

Receivables includes invoices amounting to €1m that were raised at the year end to recognise revenue corresponding to reimbursable expenditure incurred during the last quarter of 2019. It is necessary to show the receivable in these financial statements under the matching concept as the expense has been recognised. These receivables were largely cleared in a timely manner in the following year.

An entry has been made for bad debts relating to long outstanding, disputed receivables with three nations. Following several attempts to obtain accurate supporting information from the service provider, ACT acknowledge that there are insufficient records to guarantee the accuracy of the original decision to raise invoices.

5. Prepayments

The following prepayments were recorded:

2019 2018 1,067 785

Prepayments to 3rd Party Suppliers

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.

6. 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		
Buildings	5 buildings in 1 geographical HQ location	JWC, Stavanger, Norway	expensed prior to 01 January 2013. Includes installed		
Buildings	4 buildings in 1 geographical HQ location	JFTC, Bydgoszcz Poland	equipment.		
Buildings	1 building in 1 geographical HQ location	JALLC, Lisbon, Portugal			
Vehicles	5	HQ SACT, Norfolk, Virginia	All vehicles held at the HQs were		
Vehicles	12	JWC, Stavanger, Norway	purchased prior to 01 January 2013 and		
Vehicles 0		JFTC, Bydgoszcz Poland	have been fully expensed in the year		
Vehicles	0	JALLC, Lisbon, Portugal	of purchase.		

The buildings detailed above contain both installed equipment and numerous items of furniture that pre-date the 01 January 2013 date referred to in the NATO Accounting Framework document. The nature and specific number of furniture items is not considered material but has been included, where possible, in the appropriate Property Accounting register

•	Buildings EUR	Installed Equipment EUR	furniture EUR	Vehicles EUR	Machinery EUR	Mission Equipment EUR	Total EUR
Balance at 1 January 2019 Additions Disposals Revaluation	25,538,055 779,522	2,853,908 1,236,153	1,766,239 62,039	438,294 283,931	49,866	369,342	30,646,361 2,730,987
Balance at 31 December 2019	26,317,577	4,090,061	1,828,278	722,225	49,866	369,342	33,377,348
Accumulated depreciation Balance at 1 January 2019 Depreciation expense	2,273,675 766,421	847,196 353,011	594,343 177,141	124,722 118,603	11,220 4,987	123,114	3,851,155 1,543,277
Balance at 31 December 2019	3,040,096	1,200,207	771,484	243,325	16,206	123,114	5,394,433
Net book value Balance at 1 January 2019 Balance at 31	23,264,380	2,006,712	1,171,896	313,572		-	26,756,560
December 2019	23,277,480	2,889,854	1,056,794	478,901	33,659	246,228	27,982,916

The depreciation charge for the year was €1.543M

7. Accounts Payable

Accounts Payable is detailed below:

	2019	2018
Suppliers	8,842	4,253
Staff Members	492	86
Non-Consolidated NATO Entities	15,963	22,480
Governments	1,178	1,162
Other payables	0	0_
	26,475	27,981

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

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

8. Deferred revenue

	2019	2018
Budget related	14,343	5,943
NSIP related	1,494	1,678
Other sources	11	66
	15,848	7,687

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.

For the financial year ending 31 December 2019, €14.3M was budget related, which was a significant increase over the previous year. However, this should be viewed in conjunction with Note 10 below, which shows a corresponding increase in advances received. The balances of the increase relates to HQ SACT retaining revenue for future budgetary liabilities.

9. Advances Contributions

Advance Contributions

2019	2018	
33,463	33,298	

2010

2018

Advance Contributions correspond to cash called from the Nations for the following financial year and represent approximately 25% of the total ACT budget allocation. All advance contributions to ACT were received as at 31 December 2019.

10. Other advances

	2019	2018
Other Advances	1,950	6

Other advances correspond to cash received from external entities against which future payment will be offset. The significant increase is due to HQ SACT receiving funds in advance from external entities, for work that third party suppliers will invoice for at a future date.

11. Net assets

	2019	2010
Capital contributions	33,377	29,671
Accumulated surpluses/(deficits)	(5,394)	(3,745)
Total net assets / equity	27,983	25,926

Net assets relate to PP&E recognised by ACT, less depreciation charges accumulated in the current and prior years. The PP&E recognised was not necessarily purchased by ACT, as it includes assets that ACT has assumed control of through their use. Note 6 above details PP&E holdings and the associated depreciation charges.

12. Revenue

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

The following key revenue items are presented:

Recognised Revenue	2019	2018
Assessment Calls/Contributions NSIP Revenue Other income	136,858 3,343 349	133,227 2,618 146
Other income	140,550	135,991

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 2019	62,565	54,320	187,758	22,975
Amount in Euros (for comparison only)	62,565	49,549	18,816	5,311

13. 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.

With regard to 3rd party reimbursable activity some €5.98M of activity has been undertaken during 2019.

14. Financial revenue

Financial revenue relates to interest earned on deposits during the financial year across all ACT headquarters. The majority of the interest (€363k) was earned on short term USD deposits.

15. Expenses

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

	2019	2018
Chapter 1		
Salaries & associated costs	32,363	29,328
Consultants	99	4
Training	759	636
Other	1,197	186
TOTAL	34,418	30,154

Chapter 2		70
General support and Utility costs	6,631	7,009
Contractors	49,500	43,950
Travel and subsistence	12,020	14,117
AIS Support	31,409	31,540
Mission equipment costs	49	38
Communications	11	106
Training	3,115	6,060
R&D supplies		
TOTAL	102,735	102,820

Capital & Investments (Chapter 3 & NSIP)		
AIS Capital & Investment	0	0
Mission Equipment Assets	11	87
Building Infrastructures	0	26
NSIP funded contractor support	3,268	2,047
Other NSIP	0	535
Other	336	0
TOTAL	3,615	2,695

Expenses relating to contractors are reflected in Chapter 2 and reflects the Budget Committee guidance set out in paragraph 2.2.3 of MBC-M(2010)0039. A significant part of this category of expense is with the CMRE. In 2019, ACT incurred €20.6m 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 for the Programme of Work. In 2019, these amounted to €15,06M.

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

Capital and Investments includes an amount of €329k that has been removed from Chapter 3 in the Statement of Financial Performance due to it representing expenditure that has been capitalised as PP&E. Additionally, NSIP expenditure amounting to €3,268m is shown as Capital & Investments on the Statement of Financial Performance.

16. Staff resources

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

	2019	2018
Salaries of Civilian Staff	20,211	17,860
Allowances of Civilian Staff	5,640	4,928
Contributions to Health Insurance (c)	4,413	3,848
Contributions to Pension Funds (d)	1,569	1,432
	31,833	28,068

b) Analysis of staff numbers - the number of full-time equivalent persons employed as at 31 December 2019 was:

	HQ SACT	JWC	JFTC	JALLC
Military	462	174	86	27
Civilian	134	57	25	15
Temporary Civilian	4	0	0	0
Reimbursable Civilians	2	0	0	0
Local Wage Rate (LWR)	0	11	0	0
Total	602	242	111	42
Voluntary National				
Contributions	28	0	0	3
Partnership for Peace (PfP)	3	0	1	1
Overages in addition to VNC	5	3	4	1
Host Nation	20	6	0	1
Legacy transition	21	0	0	5

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 3.21% to 9.38% of gross salary, which are matched by contributions paid by ACT. For 2019 ACT contributions totalled €3.848m.

d) Contributions to Pension Funds

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

The NATO Coordinated Pension Scheme: staff members make contributions representing 9.5% 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 €1.569M during 2019.

Further to an analysis covering the last years of the history of death in service risks in relation to premiums paid by the Organisation during 2012-2015, a compensation of €6m at the NATO-wide level was agreed by the insurance company. End 2018, the NATO Secretary General decided that a fraction of this amount (circa €1.7m) should be paid to NATO staff who were members of the DCPS during the period 2012-2015 in proportion to the contributions they made to the DCPS. Staff employed by "NATO body" during the period 2012-2015 and affiliated to the DCPS are therefore entitled to a payment to be made from the NATO DCPS accounts. An amount of €283.6, representing the first portion of the repayment as notified by NATO International Staff, is recorded as a receivable in these financial statements. The actual payment was received in quarter one of 2020.

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 30 April of the following year or the leave days are forfeited. Carry forward beyond this date is only approved by the Human Resources Branch in exceptional circumstances. At the end of 2019, ACT civilian staff across all Headquarters carried forward 2,175 leave days. In monetary terms, this equates to approximately €1.01M 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 30 April of the following year or lose the days, unless exceptionally allowed to extend. In view of this policy, and the fact that the vast majority of days are taken by 30 April of the following year, ACT does not recognise a liability in these financial statements.

17. 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.

18. Finance costs

This includes the sum of exchange rate gains and losses (€453), as well as bank charges incurred by ACT entities for normal business transactions (€20k).

19. Related Party Transactions

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

Key Management Personnel

Under IPSAS 20 Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial and operating decisions. IPSAS 20 requires the disclosure of the existence of related party relationships, where control exists, and the disclosure of information about entities and 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 2017 ACT Consolidated Financial Statements.

20. 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 2019 the Representation Funds allocated to SACT, and subsequently delegated, where as follows:

Entity	2019 Allocation (Eur)	
HQ SACT	34.5	
JWC	3.3	
JFTC	1.1	
JALLC	1.1	
TOTAL	40.0	

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 2019, €22k of available funds were lapsed.

21. Budget Execution Statement Overview

Exchange Rates applicable to Budget Execution Statement:

Year	Initial Authorisati on	Mid-Yr Authorisa tion	Final Authorisation	Net Commit ment	Actual Expenses	Carry Forward
2019	Jan 18 ¹	Jan 18	Jan 18	Dec 19 ²	Ave 19 ³	Dec 19
2018/17	Dec 17 ⁴	Dec 17	Dec 18	Dec 19 ²	Ave 19 ³	Dec 19

¹Rate used in 2017 Budget authorisation

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.

² Rate used to revalue outstanding commitments at year end prior to rolling forward to 2018

³ Rate used in determining expenditure throughout the year

⁴Rate used to bring forward commitments remaining at year end 2017

Financial Expenditure recorded in Budget Execution Statements (BES):

Budget 201	21,978
Budget 211	10,479
Budget 252	2,406
Budget 255	19,268
Budget 256	4,893
Budget 257	17,344
Budget 258	52,578
Budget 259	8,554

137,500

Expenses recorded in Statement of Financial Performance:

Chapter 71	34,418	
Chapter 72	102,735	
Chapter 73	347	
Total Expenditure equal to BES		137,500
NSIP expenditure		3,268
Less capitalised Chapter 3 expenditure (PP&E)		(329)
Depreciation charges		1,543
Other Expenses		5,983
Finance Costs		473
Total Expenses in Statement of Financial Performance		148,438

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.

Budgetary Lapses

Lapses recorded on the Budget Execution Statement have a value of €7,489m. 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.

Value of Lapse in Euro (Average Rate of Exchange)		Value of Lapse in Budget Currency (figures shown as complete amounts)				Budget Code
	Total	2019	2018	2017		
535	599	429	149	21	USD	201
1,088	1,217	1,217	0	0	USD	211
8	8	8	0	0	EUR	252
142	1,394	651	348	395	NOK	255
61	266	236	30	0	PLN	256
1,615	1,807	1,406	223	178	USD	257
715	715	562	153	0	EUR	258
3,325	3,325	990	681	1,654	EUR	259
7,489				:		

22. 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 January 2018 rate of exchange. The totality of transfers undertaken in 2019 do not breach the authorised Budget Authority outlined in BC-BA(2019)0003 dated 31 October 2019.

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.

23. 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 2019 ACT was also given specific permission to also make the following Special Carry Forwards. The Council (C-M(2019)0030) and BC-DS (2019)0067 refers:

NCS-Adaptation (BC 211) 1,299,160 USD to support development of the Information Environment Assessment prototype, development of the Special Operations Force and Land C2 Capability Programme Plans, support to the AI FELIX data analytics experiment and additional capacity to undertake a holistic review of JFTC directives.

JALLC (BC 252) 220,000 to support NATO LL portal development and IT cabling

JWC (BC 255) 4,752,786 NOK For functional development of Joint Exercise Management Module (JEMM), network monitoring performance software, Command Group Facilities improvements and vehicle replacement.

JFTC (BC 256) 215,388 PLN to support Core GIS capability at the JFTC

ACT POW USD (BC 257) 845,820 USD to support the provision of Joint Theatre Level Simulation (JTLS) and Joint Conflict & Tactical Simulation (JCATS), support to development of NATO Warfighting Capstone Document, support to HQ SACT multimedia management experiment and increase in digital media campaign management capacity

ACT POW EUR (BC 258) 539,770 EUR to support technology demonstrations in exercise DYNAMIC MANTA 20

24. 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 2019 Annual Report on MWA activity within the ACT Budget Group, has been submitted to the Budget Committee.

25. 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.

26. Statement of Performance & Position Per Entity

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

For the year ended 31 December 2019 Amounts in EUR

STATEMENT OF FINANCIAL POSITION PER HEADQUARTER

		HQ SACT			JWC			JFTC	
	2019	2018	Difference	2019	2018	Difference	2019	2018	Difference
Current Assets Total Cash & Cash Equivalents Receivables Total Advances & Prepayments	62,446,745 3,040,810 849,037	36,159,904 23,200,053 537,679	26,286,841 (20,159,243)	6,820,748 666,708 296,125	2,854,232 415,701 127,346	3,966,516 251,007 168,778	312,024 2,803,255 48,900	1,562,109 685,893 34,204	(1,250,085) 2,117,363 14,697
Non-Current Assets Property, Plant & Equipment	23,331,309	23,844,185	(512,876)	2,618,222	289,809	2,328,412	2,033,385	2,409,014	(375,629)
Total Assets	89,667,901	83,741,821	5,614,722	10,401,802	3,687,089	6,714,714	5,197,565	4,691,218	506,346
Liabilities									
Payables Deterred Revenue Advance Contributions Other Advances	23,930,214 12,705,256 27,756,034 1,945,089	21,127,524 22,875,524 15,894,588 0	2,802,690 (10,170,268) 11,861,446 1,945,089	2,682,924 /11,219 4,389,437 0	2,241,687 /20,484 435,108 0	441,238 (9,265) 3,954,329 0	1,359,968 486,475 1,317,736 0	942,496 1,339,708	417,472 (853,234) 1,317,736 0
Total Liabilities	66,336,592	59,897,636	6,438,956	7,783,581	3,397,279	4,386,302	3,164,179	2,282,205	881,975
Net Assets									
Capital Contributions Accumulated surplus (defecit)	27,854,729 (4,523,420)	26,209,002 (2,364,817)	1,645,727 (2,158,603)	3,025,709 (407,487)	294,721 (4,912)	2,730,987 (402,575)	2,496,911 (463,526)	2,496,911 (87,897)	0 (375,629)
Total assets / equity	23,331,309	23,844,185	(512,876)	2,618,222	289,809	2,328,412	2,033,385	2,409,014	(375,629)

For the year ended 31 December 2019 Amounts in EUR

STATEMENT OF FINANCIAL POSITION PER HEADQUARTER

		JALLC			NSIP		Total 2019	Consolidation Postings	Published 2019
	2019	2018	Difference	2019	2018	Difference			
Current Assets Total Cash & Cash Equivalents	215,023	169,643	45,379	2,189,336	2,006,989	182,347	71,983,876	36,585	72,020,460
Receivables	615,689	87,697	527,993				7,126,463	(2,476,633)	4,649,830
Total Advances & Prepayments	22,530	63,466	(40,935)				1,216,592	(150,000)	1,066,592
Non-Current Assets Property, Plant & Equipment	0	0	0	0	0	U	27,982,916		27,982,916
Total Assets	853,242	320,806	532,436	2,189,336	2,006,989	182,347	108,309,847	(2,590,048)	105,719,798
Liabilities			2						
Payables	396,390	152,725	243,666	695,188	329,082	366,106	29,064,685	(2,590,048)	26,474,637
Deferred Revenue Advance Contributions	451,517	162,173	289,344	1,494,149	1,677,907		15,848,616 33,463,207		15,848,616 33,463,207
Other Advances	5,335	5,909	(574)				1,950,423		1,950,423
Total Liabilities	853,242	320,806	532,436	2,189,336	2,006,989	366,106	80,320,931	(2,590,048)	77,736,883
Net Assets									
Capital Contributed by Nations Accumulated surplus (defecit)	0	0	0	0	0	0	33,377,348 (5,394,433)		33,377,348 (5,394,433)
Total assets / equity	0	0	0	0	0	0	27,982,916	0	27,982,916

For the year ended 31 December 2019 Amounts in EUR

STATEMENT OF FINANCIAL PERFORMANCE PER HEADQUARTER

		HQ SACT			JVVC			JFTC	
	2019	2018	Difference	2019	2018	Difference	2019	2018	Difference
Total Revenue	115,449,385	111,590,862	3,858,523	19,703,301	19,076,827	626,474	7,139,107	8,296,575	(1,157,468)
Total Expenses	116,992,662	112,814,709	4,177,953	19,/03,301	19,076,827	626,474	7,139,107	8,296,575	(1,157,468)
End of Year Result	(1,543,277)	(1,223,847)	(319,430)	0	0	(0)	0	0	0
		JALLC			NSIP		Consolidation Eliminations	Published 2019	
	2019	2018	Difference	2019	2018	Difference	Lillingtone	2013	
Total Revenue	1,260,066	1,021,511	238,555	3,343,190	2,618,496	724,694	(26,4/2,484)	146,895,049	
I otal Expenses	1,260,066	1,021,511	238,555	3,343,190	2,618,496	724,694	(26,472,484)	148,438,326	
End of Year Result	0	0	0	0	0	(0)	0	(1,543,277)	

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.

Statement of Position

Statement of Performance

		Inter-Entity Eliminations			Inter Entity Eliminations	
Assets			Revenue			
Current Assets	\$					
	Cash and Cash Equivalents	36,585		Operating revenue	25,801,001	
	Receivables	(2,476,633)		Inter Entity Revenue	671,483	
	Advance to Consoliated Entity	(150,000)				
	Total Current Assets	(2,590,048)		Total Revenue	26,472,484	
Liabilities			Expenses			
	Payables	2,590,048		Inter Entity Expenses	(26,472,484)	
	Unearned Revenue					
	Total Liabilities	2,590,048		Total Expenses	(26, 472, 484)	

Annex A ACT Write off Report of International Property 2019

Command	Headquarters property	Net Book Value (in currency)	Number of RoS	comments
JFTC	Equipment	PLN 0	12	Obsolete and no longer required for use at JFTC
JFTC	Furniture	PLN 0	2	beyond economical repair
JWC	Equipment (incl. NEC CCIS CIS)	NOK 7736.85	24	Broken or obsolete and no longer required for use at JWC
JWC	Furniture	NOK 0	6	Broken or obsolete and no longer required for use at JWC