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21 April 2022

DOCUMENT
PO(2022)0180-AS1

**IBAN AUDIT REPORT ON THE AUDIT OF 2020 RESTATED CONSOLIDATED
FINANCIAL STATEMENTS OF ALLIED COMMAND TRANSFORMATION (ACT)**

ACTION SHEET

On 20 April 2022, under the silence procedure, the Council noted the RPPB report at annex to PO(2022)0180, agreed its conclusions and recommendations, noted the IBAN Audit Report and agreed to the public disclosure of this report, the IBAN Audit Report and associated 2020 restated consolidated financial statements of ACT.

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to PO(2022)0180.

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13 April 2022

DOCUMENT
PO(2022)0180
Silence Procedure ends:
20 Apr 2022 – 17.30hrs

To: Permanent Representatives (Council)
From: Secretary General

**IBAN AUDIT REPORT ON THE AUDIT OF 2020 RESTATED CONSOLIDATED
FINANCIAL STATEMENTS OF ALLIED COMMAND TRANSFORMATION (ACT)**

1. I attach the Resource Policy and Planning Board (RPPB) report on the International Board of Auditors for NATO (IBAN) Audit Report on the audit of the 2020 restated consolidated financial statements of Allied Command Transformation (ACT). This IBAN Audit Report sets out unqualified opinions on both the 2020 restated consolidated financial statements and on compliance.
2. The IBAN Audit Report has been reviewed by the RPPB (see Annex 1).
3. I do not believe this issue requires further discussion in the Council. Therefore, **unless I hear to the contrary by 17:30 hours on Wednesday, 20 April 2022**, I shall assume the Council noted the RPPB report, agreed its conclusions and recommendations, noted the IBAN Audit Report and agreed to the public disclosure of this report, the IBAN Audit Report and associated 2020 restated consolidated financial statements of ACT.

(Signed) Jens Stoltenberg

Annex 1:
Enclosure 1:

Original: English

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IBAN AUDIT REPORT ON THE AUDIT OF 2020 RESTATED CONSOLIDATED FINANCIAL STATEMENTS OF ALLIED COMMAND TRANSFORMATION (ACT)

Report by the Resource Policy and Planning Board

References:

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|----|-----------------|--|
| A. | IBA-A(2021)0163 | IBAN Audit Report on the audit of 2020 restated consolidated financial statements of the Allied Command Transformation (ACT) |
| B. | C-M(2016)0023 | NATO Accounting Framework (NAF) |
| C. | PO(2013)0154 | Representation Allowance Process |
| D. | PO(2015)0052 | Wales Summit tasker on transparency and accountability |

INTRODUCTION

1. This report by the RPPB addresses the IBAN Audit Report on the audit of 2020 restated consolidated financial statements of the ACT. The IBAN Audit Report sets out unqualified opinions on both the restated consolidated financial statements and compliance for the ACT in 2020 (reference A).

AIM

2. This report highlights key issues in the IBAN Audit 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. During the audit, the IBAN made one observation with recommendation for the ACT on the need to strengthen internal controls over the reporting of reimbursable activities undertaken as an agent, which did not impact the audit opinion¹. Additionally, the IBAN followed up on the status of observations and recommendations from the previous years' audits and found that two were closed and three remain in-progress.

¹ In this year's Management Letter addressed to the ACT management, the IBAN recommended strengthening of internal controls over the procurement and contracts award process.

3.1 Observation: During the audit, the IBAN found that in the financial statements initially submitted to the IBAN for audit, the ACT reimbursable activity² included transactions for which the ACT acts as an agent that consequently should not have been recognised and disclosed in the Statement of Financial Performance. As a result, to reflect their agent role the ACT restated its Financial Statements, by only reporting in its Statement of Financial Performance activities where the ACT acts as a principal. In addition, the IBAN found that in the financial statements initially submitted for audit, the ACT did not comply with the NATO Accounting Framework (NAF) (reference B) disclosure requirements (NATO adapted IPSAS 1) allowing for data provided by the Foreign Military Sales (FMS) programme and US contractors under the US Government Acquisition Agreement (USGAA) on a modified cash basis and not accrual-based. The ACT corrected this issue in the Restated Financial Statements by including details on FMS expenses. The Board supports the IBAN's recommendation that the ACT strengthen internal controls over the preparation of the financial statements in order to ensure that reimbursable activities are correctly disclosed by applying the agent versus principal criteria and by taking into account the disclosure requirements related to the FMS in accordance with the NAF.

3.2 Prior year closed observations: In the financial year 2020, the IBAN closed observations on the improvement to internal controls over property management in the ACT HQ and on the confirmation of year-end assets and liabilities outstanding balances it has with other NATO reporting entities as part of the preparation of the financial statements.

3.3 Prior year observations in-progress: The Board notes that due to COVID-19 the Headquarters Supreme Allied Command Transformation (HQ SACT) was unable to fully address the observation on the recognition of NSIP funded assets. The HQ SACT still needs to perform on the spot checks at the subordinate Commands. Furthermore, though the ACT made progress in foreign currency conversions and disclosure at year-end, the Board note that additional improvements are needed in the accuracy of information in the disclosure note related to Property, Plant & Equipment (PP&E). The ACT accepted the IBAN's observation even though the omission IBAN noted was corrected in the ACT restated financial statements.

3.4 Prior year observations in-progress or open for more than three years: The Board is generally concerned regarding the qualified opinions and open observations that apply to all NATO reporting entities, especially those that have remained open for more than three years. The Board notes that the subject report includes unqualified audit opinions and in this case the only concern relates to one outstanding observation open for more than three years. In this respect, the Board invited the International Staff – NATO Office of Resources, in coordination with IBAN, to advise the Board whether further discussion with the management/governance of the ACT or more focused Board recommendations to Council are necessary to accelerate actions on this outstanding item. The following paragraph covers this related in-progress observation.

² The ACT reimbursable activity is comprised of procurement activities undertaken by the ACT on behalf of third parties such as the ACO, NCIA, NSPA, Ministry of Defenses etc. The ACT is an agent for these activities because it arranges for the goods or services to be provided by third parties without taking control over those goods or services.

3.4.1 For the 2016 financial year, the IBAN made an observation on the instances of non-compliance in respect of representation allowances (reference C). The Board took note that the ACT Financial Controller delivered formal letters of delegation of authority to the SACT Office providing them with authorisation to commit to purchases in line with specific ACT policy. However, any delegation of authority to approve requests for commitment of appropriations should remain within the ACT Financial Controller's Office and should not be granted to the SACT Office as noted in the NFR Article 25, FRP Article XXV³. For instance, although in 2020 the ACT set a credit card monthly limit to prevent incurring expenses that exceed the annual budget, the use of credit cards are not designed to comply with the aforementioned provisions of the NFR. As a result, the representation allowances continued to be incurred prior to Financial Controller's approval while these expenses should be made on a reimbursable basis after Financial Controller's approval. The Board note the improvement made in addressing this observation; however, due to its longevity, recommends the ACT to accelerate actions on this outstanding item. The Board recommends that Council invites the ACT to provide a clear remedial action plan to the Council with deadlines on the implementation of the recommendation, submitted with the ACT's response on the IBAN audit of the 2021 financial statements.

CONCLUSIONS

4. The IBAN Audit Report sets out unqualified opinions on the restated consolidated financial statements and on compliance for the ACT in 2020. One new observation was raised, but with no impact on the audit opinion. As of the date of the respective IBAN Audit Report on the 2020 restated consolidated financial statements two prior year observations for the ACT were closed and three were in-progress.

5. In 2020, the IBAN recommended that improvements were needed in strengthening of internal controls over the reporting of reimbursable activities and in the disclosure requirements related to the FMS. In this regard, the Board supports the IBAN's recommendation.

6. In respect to prior year observations, the Board notes the improvements made by the ACT and supports the IBAN's recommendation that the ACT performs on the spot checks on the status of NSIP funded assets and makes additional progress related to the PP&E disclosure issues.

7. As regards the IBAN's recommendation for the 2016 financial year, although the ACT made progress in setting detective controls over the representation allowance expenses, the preventive controls are still lacking. The Board recommends that the ACT representation allowance expenses are made on a reimbursable basis following the approval of the Financial Controller. In that light, the Board recommends that Council invites the ACT to provide a plan to the Council with deadlines on the implementation of recommendation, submitted with the ACT's response on the IBAN audit of the 2021 financial statements.

³ *The Financial Controller, who remains accountable at all times, may delegate authority to approve requests for commitment of appropriations and contract authorities, or amendment of commitments, to the Finance and Accounting Officer. Such delegation of authority may be general or specific and, when granted, shall be documented.*

RECOMMENDATIONS

8. The Resource Policy and Planning Board recommend that the Council:
- 8.1 note this report and IBAN Audit Report at reference A;
 - 8.2 agree the conclusions at paragraphs 4 to 7;
 - 8.3 invite the ACT to provide a plan to the Council with deadlines on the implementation of the outstanding recommendation, submitted with the ACT's response on the IBAN audit of the 2021 financial statements; and,
 - 8.4 agree to the public disclosure of the 2020 restated consolidated financial statements for the ACT, its associated IBAN Audit Report and this report in line with agreed policy at reference D.



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)0163
17 December 2021

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

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

Subject: ***International Board of Auditors for NATO (IBAN) Audit Report on the audit of the Allied Command Transformation's (ACT) Restated Consolidated Financial Statements for the year ended 31 December 2020 – IBA-AR(2021)0038***

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

IBAN's report sets out an unqualified opinion on the Restated Consolidated Financial Statements of the Allied Command Transformation and on compliance for financial year 2020.

Yours sincerely,

Daniela Morgante
Chair

Attachments: As stated above.

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**Summary Note for Council
by the International Board of Auditors for NATO (IBAN)
on the audit of the Restated Consolidated Financial Statements of the
Allied Command Transformation (ACT)
for the year ended 31 December 2020**

The International Board of Auditors for NATO (IBAN) audited the Allied Command Transformation (ACT) Consolidated Financial Statements for the year ended 31 December 2020, 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 2020 amounted to approximately EUR 139.3 million.

IBAN issued an unqualified opinion on the Restated Financial Statements and on compliance for the year ended 31 December 2020.

IBAN made one observation and recommendation. This finding is listed below and does not impact the audit opinion on the Restated Financial Statements and on compliance:

1. Need to strengthen internal controls over the reporting of reimbursable activities undertaken as an agent.

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

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

The observations and recommendations and the follow-up of the previous years' observations and recommendations that are not in the Audit Report are included in a Management Letter addressed to ACT management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under ACT executive responsibility. In this year's Management Letter, we recommended ACT management to strengthen internal controls over the procurement and contracts award process.

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IBA-AR(2021)0038

17 December 2021

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDIT REPORT ON THE RESTATED FINANCIAL STATEMENTS OF THE

ALLIED COMMAND TRANSFORMATION

(ACT)

FOR THE YEAR ENDED 31 DECEMBER 2020

PUBLICLY DISCLOSED - PDN(2022)0017 - MIS EN LECTURE PUBLIQUE

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

The International Board of Auditors for NATO (IBAN) has audited the Restated Financial Statements of ACT, for the 12 month period ended 31 December 2020, issued under document reference 7000 GSB MBX 0010/FC-53-21, and submitted to IBAN on 15 September 2021. These Restated Financial Statements comprise the Statement of Financial Position as at 31 December 2020, 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 2020, 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 2020.

In our opinion, the Restated Financial Statements give a true and fair view of the financial position of ACT as at 31 December 2020, and of its financial performance, its cash flows and budget execution for the 12 month period ended 31 December 2020, in accordance with accounting requirements and reporting standards consistent with the NATO Accounting Framework (NAF).

Basis for Opinion on the Restated Financial Statements

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

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

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

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

Management's Responsibility for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

Compliance

Opinion on Compliance

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

Basis for Opinion on Compliance

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

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

Management's Responsibility for Compliance

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

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

Auditor's Responsibilities for Compliance

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

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

Brussels, 17 December 2021



Daniela Morgante
Chair

OBSERVATIONS AND RECOMMENDATIONS

IBAN made one observation and recommendation. This observation does not impact the audit opinion on the restated financial statements and on compliance:

1. Need to strengthen internal controls over the reporting of reimbursable activities undertaken as an agent

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

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

The observations and recommendations and the follow-up of the previous years' observations and recommendations that are not in the Audit Report are included in a Management Letter addressed to ACT management. This is because IBAN considers that these matters are to be addressed by Management and therefore fall under ACT executive responsibility. In this year's Management Letter, we recommended ACT management to strengthen internal controls over the procurement and contracts award process.

1. NEED TO STRENGTHEN INTERNAL CONTROLS OVER THE REPORTING OF REIMBURSABLE ACTIVITIES UNDERTAKEN AS AN AGENT**Reasoning**

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

1.2 IPSAS 9 states: "*The amounts collected on behalf of the principal are not revenue. Instead, revenue is the amount of any commission received or receivable for the collection or handling of the gross flows.*" This means that an agent should recognise only fees or commissions and should not recognise revenue and expenses in gross amounts in the Statement of Financial Performance.

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

Observation

1.4 The ACT reimbursable activity is comprised of procurement activities undertaken by ACT on behalf of third parties such as ACO, NCIA, NSPA, Ministry of Defenses, etc. ACT is an agent for these activities because it arranges for the goods or services to be provided by third parties without taking control over those goods or services.

1.5 In the Financial Statements initially submitted to IBAN for audit, the ACT reimbursable activity for EUR 7.5 million included transactions for which ACT acts as an agent. These transactions should not have been recognised and disclosed in the Statement of Financial Performance.

1.6 Following IBAN's request for clarification on its role for each contract that falls under this reimbursable activity, ACT performed an analysis to determine whether it acts as an agent or principal and to determine the magnitude of the activities undertaken as an agent versus a principal, by applying the respective criteria in accordance with the NATO Accounting Framework. This analysis led to the conclusion that ACT acts as an agent for EUR 4.4 million in 2020 and for EUR 1.4 million in 2019. As a result, ACT restated its Financial Statements to reflect their agent role, by only reporting in its Statement of Financial Performance transactions where ACT acts as a principal. This led to a significant decrease of the "Other revenue" and "Other expenses" categories in the Restated Statement of Financial Performance, by EUR 4.4 million for 2020 and EUR 1.4 million for 2019.

1.7 In addition, ACT undertakes a portion of this reimbursable activity through the Foreign Military Sales (FMS) Programme with the US government and with some US contractors under the US Government Acquisition Agreement (USGAA). We found that in the Financial Statements initially submitted for audit, ACT did not comply with the NATO adapted IPSAS 1 disclosure requirements regarding data provided by the FMS Programme and US contractors under the USGAA that is on a modified cash basis and not accrual-based. ACT corrected this issue in the Restated Financial Statements by including more information in the notes on in-year expenses to detail the expenses on Foreign Military Sales (FMS).

Recommendation

1.8 IBAN recommends that ACT strengthen internal controls over the preparation of the financial statements in order to ensure that reimbursable activities are correctly disclosed by applying the agent versus principal criteria and by taking into account the disclosure requirements related to FMS, in accordance with the NATO Accounting Framework and NFRs.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

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

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

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>(1) ACT FY 2019 IBA-AR(2021)0001, paragraph 1.11</p> <p>RECOGNITION OF NSIP FUNDED ASSETS</p> <p>IBAN's Recommendation In order to reduce the risk of material errors related to the non-recognition of NSIP-funded assets handed over to Commands, IBAN recommends that HQ SACT for ACT:</p> <p>a) Capitalises NSIP-funded assets that have been completed and handed over to the Commands.</p> <p>b) Implements a top down process initiated in a timely manner by the HQ SACT PAO to ensure the completeness and accuracy of property accounting records of all NSIP funded assets handed-over to all the Commands.</p>	<p>a) In 2020, HQ SACT capitalised all the NSIP funded assets above capitalisation thresholds as at 31 December 2020. Closed.</p> <p>b) In 2020, HQ SACT implemented a top down process to request information on the status of NSIP funded assets in the subordinate Commands. This is formalised in the year-end consolidation guidelines. Due to the COVID-19, the HQ SACT team was unable to perform on site visit to perform spot checks at the subordinate Commands. In-Progress.</p>	<p>Observation In-Progress.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>(2) ACT FY 2019 IBA-AR(2021)0001, paragraph 2.10</p> <p>FOREIGN CURRENCY CONVERSIONS AND DISCLOSURE AT YEAR-END</p> <p>IBAN's Recommendation IBAN recommends that ACT complies with the NATO Accounting Framework's IPSAS 4 and the NATO Financial Regulations. This can be achieved by :</p> <p>a) Converting monetary items that are measured in a foreign currency using the exchange rate at the closing rate at year-end,</p> <p>b) Accounting for unrealised gains or losses on exchange rate differences arising from foreign currency monetary items transactions that are not settled at year-end,</p> <p>c) Ensuring the accuracy of information in the disclosure note related to PP&E and its consistency with the Statement of Financial Position.</p>	<p>a) In 2020, ACT systematically converted monetary items measured in a foreign currency by using the exchange rate at the closing rate at year-end. Closed.</p> <p>b) In 2020, ACT recognised unrealised gains or losses on exchange rate differences arising from foreign currency monetary items that are not settled at year-end. Closed.</p> <p>c) IBAN identified errors in the 2020 ACT Consolidated Cash Flow Statements related to PP&E acquisitions that were incorrectly disclosed in 2019 and 2020, respectively for EUR 346,000 and EUR 451,000. Although these errors were corrected in the 2020 ACT Restated Financial Statements, this shows that the HQ SACT review process over the information in the disclosure note related to PP&E still requires improvements. In-Progress.</p>	<p>Observation In-Progress.</p>
<p>(3) ACT FY 2017 IBA-AR(2018)0007, paragraph 1.7</p> <p>IMPROVEMENT TO INTERNAL CONTROLS OVER PROPERTY MANAGEMENT IN ACT HQ IS NEEDED</p>		<p>Observation Closed.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
<p>IBAN's Recommendation IBAN recommends that ACT HQ:</p> <ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> a) ACT created a complete, accurate and comprehensive property register in accordance with the NFRs, FRPs and directives. Closed. b) IBAN note that physical inventory of property is performed and documented on a regular basis at HQ SACT and ACT subcommands. Closed. 	
<p>(4) ACT FY 2016 IBA-AR(2017)06, paragraph 2.4</p> <p>INSTANCES OF NON-COMPLIANCE IN RESPECT OF REPRESENTATION ALLOWANCES</p> <p>IBAN's Recommendation IBAN recommends that ACT:</p> <ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> a) We noted the fact that a monthly limit is set on the credit card to prevent incurring expenses that exceed the annual budget. Closed. b) In 2020, ACT continued to use credit cards for representation allowance expenses while these expenses should be made on a reimbursable basis after Financial Controller approval. As a result, IBAN regards this recommendation as In-Progress. 	<p>Observation In-Progress.</p>
<p>(5) ACT FY 2013 IBA-AR(2014)16, section 5</p> <p>CONFIRMATION OF YEAR-END ASSETS AND LIABILITIES OUTSTANDING BETWEEN NATO ENTITIES</p> <p>IBAN's Recommendation IBAN recommends ACT, as from 2014, to</p>	<p>All ACT sub-entities request for</p>	<p>Observation Closed.</p>

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IBA-AR(2021)0038

OBSERVATION / RECOMMENDATION	ACTION TAKEN BY AUDITEE	STATUS
confirm the outstanding asset and liability balances it has with other NATO bodies as part of the preparation of the financial statements.	<p>confirmation of outstanding asset and liability balances they have with other NATO bodies as part of the preparation of the financial statements. Balances are fully confirmed given that discrepancies are systematically investigated and documented.</p> <p>As a result, IBAN regards this recommendation as Closed.</p>	

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

**OBSERVATION 1:
NEED TO STRENGTHEN INTERNAL CONTROLS OVER THE REPORTING OF
REIMBURSABLE ACTIVITIES UNDERTAKEN AS AN AGENT**

ACT's Formal Comments

Agreed.

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 reimbursable activity against the principle versus agent criteria.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

**(1) ACT FY 2019
IBA-AR(2021)0001, paragraph 1.11
RECOGNITION OF NSIP FUNDED ASSETS**

ACT's Formal Comments

Recommendations a) and b): Agreed.

ACT is pleased to see that IBAN recognises the controls put in place to ensure all assets are recognised.

ACT understands the IBAN position that "due to the COVID-19, the HQ SACT team was unable to perform on site visit to perform spot checks at the subordinate Commands."

ACT trusts that this observation will be closed completely once the IBAN teams conduct their site visits as part of the 2021 audit.

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

ACT's Formal Comments

Recommendations a) and b): Agreed.

Recommendation c): Not agreed.

ACT accepts the IBAN observation for 2020 but does not see a link between the error identified by IBAN and this prior year observation on currency conversion, since the error was not related to exchange rates.

Additionally, the omission was corrected in the restated financial statements.

IBAN's Position

This recommendation covers foreign currency conversions and financial statements disclosure issues at year-end.

Sub-recommendation c) relates to PP&E disclosure issues and does not relate to the error identified on foreign currency conversions, which is covered in sub-recommendation b).

Although these omissions relating to the disclosure of PP&E acquisitions in the Cash Flow Statements were corrected in the Restated Financial Statements, we maintain the status of this sub-recommendation as in-progress, given that improvements to the financial reporting process are still required. We will review its implementation in the next year's audit.

(3) 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

Agreed.

(4) ACT FY 2016

IBA-AR(2017)06, paragraph 2.4

INSTANCES OF NON-COMPLIANCE IN RESPECT OF REPRESENTATION ALLOWANCES

ACT's Formal Comments

Recommendation a): Agreed.

Recommendation b): Not agreed.

The ACT Financial Controller has provided formal letters of delegation to

members of SACT's team providing them with authorisation to commit to purchases in line with specific ACT policy The ACT 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 is hopeful that this observation will close in the 2021 audit.

IBAN's Position

Representation allowance expenses were not made on a reimbursable basis after Financial Controller approval in 2020 which is not in compliance with the NFRs.

We maintain the status of this sub-recommendation as in-progress and will review its implementation in the next year's audit.

(5) ACT FY 2013

IBA-AR(2014)16, section 5

CONFIRMATION OF YEAR-END ASSETS AND LIABILITIES OUTSTANDING BETWEEN NATO ENTITIES

ACT's Formal Comments

Agreed.

GLOSSARY OF TERMS

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

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

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

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



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

Norfolk, Virginia | USA



ACT/BUDFIN/TT-4597/FC-54-21/SER:NU

TO: Mr, Amipal Manchandra, Chairman, International Board of Auditors
for NATO

SUBJECT: **RESTATEMENT OF 2020 ANNUAL ACT CONSOLIDATED
FINANCIAL STATEMENTS**

DATE: 15 October 2021

REFERENCE: A. 7000 GSB MBX 0010/FC-53-21 dated 15 Sep 21

1. Following the recent on-site audit by IBAN, ACT formally asked the IBAN Board to accept a restated 2020 Annual Consolidated Financial Statement (reference A). This request was necessary in order to address the following issues raised during the course of the audit:

- a. The treatment of certain classes of reimbursable revenue and expenses in accordance with the Principle versus Agent criteria
- b. Add the new capitalized assets to the Cashflow Statement
- c. On the Budget Execution Statement, separate funds relating to special carry forward from the regular commitments by adding a column
- d. Expand the note on in-year expenditure to detail the expenses on Foreign Military Sales (FMS)

2. The restated 2020 Annual Consolidated Financial Statement for ACT, issued under cover of this letter, have therefore revised the Statements of Position, Changes in Net Assets, Performance, Cashflow and Notes to the Accounts. A reformatted Budget Execution Statement is also included. The Financial Controller's Foreword and Report, as well as the Governance Statement, remain unchanged.

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3. ACT expresses their appreciation to the IBAN Board for allowing us the opportunity to provide these restated financial statements and we believe that these will satisfy the IBAN Board. We look forward to receiving your Report in due course.



Nicholas Garland
Financial Controller
Allied Command Transformation



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

ENCLOSURE:

1. Restated 2020 ACT Financial Statement

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
2020 ACT FINANCIAL STATEMENTS**

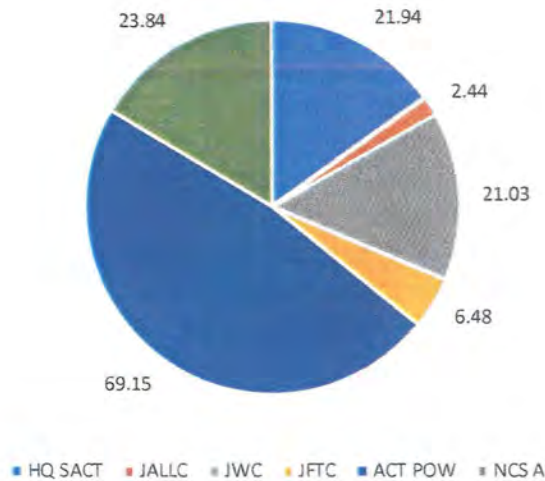
1. The Allied Command Transformation (ACT) Annual Financial Statements for the ACT Group of Budgets cover the period of 1 January 2020 to 31 December 2020. They have been prepared in accordance with the NATO Financial Regulations (NFRs), as well as International Public Sector Accounting Standards (IPSAS) 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 2020 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, 2020, ACT was awarded a budget of €144.874M (based on January 2019 exchange rates), which included an amount of €23.836M for the implementation of the adapted NATO Command Structure. Since the award of Budget Authorization 3 at the end of October 2020, surplus credits amounting to €2.188M have been identified and authorized to be carried forward into 2021 for use against items that could not be contracted in 2020, as well as emerging items since the 2021 Budget Submission.

ACT 2020 Initial Budget Allocation in MEUR



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4. As of 31 December 2020, ACT has committed €133.7M or 92.3% of the 2020 budget. This represents a significant departure from previous years' commitment rates:

%	2020	2019	2018
ACT Budget Execution	92.3	97.7	98.5

ACT budget execution expressed in % of the total amount from 2018 to 2020

5. From a financial perspective, COVID-19 has had a significant impact on budget commitment rates. Travel virtually ceased in March 2020 and large-scale conferences/workshops were either cancelled or undertaken virtually. The inability to travel coupled with at-home working resulted in delays in the delivery of requirements by NATO Agencies and Industry, the cancellation of exercises and the reduction in scope of ACT's two major exercises in the fall of 2020; all of which contributed to the low commitment rates. Overall €11.2M was generated as surplus funds in 2020.

6. An examination of budget commitment and expenditure by input category indicates a significant increase of civilian personnel costs as a proportion of the total budget committed in 2020. This is a direct reflection of a relatively stable workforce that was unable to travel coupled with the inability of industry and the NATO Agencies to deliver against planned activity.

Chapter	2020	2019	2018	2017
71 (Personnel cost)	27.35%	23.71%	23.52%	23.22%
72 (Contractual Supplies and Services)	72.61%	75.92%	76.28%	76.40%
73 (Capital Investment).	0.04%	0.37%	0.20%	0.38%

OVERVIEW

7. ACT's planned activity for 2020 was developed on the basis of the Contribution Ceilings approved by nations in the 2020-2024 Medium Term Resource Plan. In agreeing the ceilings, Nations accepted ACT's, and the other Budget Holder's (BHs) (ACO and the IMS BG), risk assessment of the operational risk that could be successfully manage while still delivering NATO's core tasks and missions in accordance with the Alliance's objectives and priorities.

8. Throughout 2020, the achievement of the ACT programme of work was significantly impacted by the COVID 19 pandemic with delays, stoppages and costs changes directly attributable to the impact of remote working and restricted travel. However, these issues were not related to the operational risks that ACT had identified in the MTRP, which ACT managed successfully. In addition, ACT's active in-year risk management processes allowed additional activity to be undertaken as opportunities were seized to maximize output as resources became available

9. The Annual Report describes significant transformational activities executed by ACT during 2020 against each of these objectives¹.

ACHIEVEMENTS

10. Our principle effort throughout 2020 was the short and long-term adaptation, coordination and coherence of NATO's Military Instrument of Power (MIoP), to that aim ACT's delivery of the NATO Warfighting Capstone Concept (NWCC) in December 2020 offered an aspirational 'North Star' for warfare development - through to 2040, in support of both warfighting and broader military adaptation.

11. A key focus of ACT's effort throughout 2020 was the continued implementation and execution of the Common Funded Capability Delivery Governance Model (CFCDGM), to deliver capabilities to the Operational Commander, together with the evolution of the Command's Warfare Development journey. Further support to the Operational Commander was provided through the ACT Exercise Programme, which, although severely curtailed by the COVID-19 pandemic, delivered the necessary support to operations and certification of the NATO Response Force.

12. ACT took major steps forward in 2020 in the area of innovation, with the establishment of an initial Open Innovation 'Lab' capability, which delivered its first Minimum Viable Product enabling it to "quickly bring to life" innovative ideas and solutions with final users in the loop. ACT also leveraged the Concept Development and Experimentation (CD&E) process and the use of advanced Modelling and Simulation (M&S) tools. Even though ACT's outreach in 2020 was seriously impacted by the COVID-19 Pandemic, significant warfare development progress was achieved through ACT's innovative mindset and creative approaches. It is also worth noting ACT's focused approach to Emerging and Disruptive Technologies (EDTs) assessment, especially those that enable effective decision-making and enhance warfighting.

13. Additionally, the challenges of the COVID-19 pandemic further galvanized our efforts to initiate new ways of working and provide the opportunity to strengthen and increase the resilience and agility of our Headquarters through enhancements to our Health and Safety and Business Continuity programmes to ensure the wellbeing of our staff and the effectiveness of our work.

BASIS OF FINANCIAL REPORTING

14. 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 2020 Consolidated Financial Statements.

¹ A comprehensive report on the ACT 2020 output and achievements was circulated to the Military Committee under cover of ACT/RM/STRATMAN/TT-3245/Ser. NR 0180 dated 2 March 2021

AUDIT

15. 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

16. 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 2020.



Nicholas Garland
Financial Controller
Allied Command Transformation

NATO UNCLASSIFIED
GOVERNANCE STATEMENT
2020

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 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.

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.

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GOVERNANCE STATEMENT
2020

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 as updated on 3 November 2020. This contains detailed guidance and ACT's policy on the effective execution of risk management based on the Management of Risk (MoR®) methodology.

As SACT, I recognize the responsibility for ensuring that a comprehensive and effective risk management structure is in place. To achieve this, the Command will continue to strengthen its extant risk management processes, as well as introduce additional reporting and monitoring mechanisms, covering governance, and risk and internal control. The review of these enhanced functions will be integrated into a broader role for the ACTCommand Auditor, whose team should be fully in place by early 2021 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.

Although our internal control framework has been in place for the whole of 2020, COVID-19 has had a significant impact on our way of working. The introduction of remote working, extensive use of virtual meetings and reduced access to the Classified Network for many has introduced new challenges, greater autonomy and decentralized decision-making. It is recognized that any control system can never be designed to eliminate all risk but to strike an appropriate, proportionate balance, between control, cost and risk management. Equally, any control system cannot be static, as the lessons learned from the COVID pandemic are identified we will need to reassess in 2021 how our existing control framework supports the achievement of our policies, aims and objectives. 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. Although ACT's risk management strategy was reviewed and updated in 2020, it too will need to be reassessed in 2021 to take account of our revised way of working. That said, the Command's risk maturity continues to develop. Our eventual aim is to enable the Command to reach a maturity level where we are managing our risks in a structured manner as a means to support and inform our wider strategic management and decision-making.

With regard to risk, 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.

A member of the leadership team owns each strategic risk, 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.

Throughout the course of 2020 the monthly Campaign Steering Board (CSB), chaired by the ACT Chief Of Staff assessed performance against the delivery of SACT's objectives. The CSB further actively reviewed and managed board-level risks

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2020

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. In addition, as an immediate response to the pandemic the CSB directed that a Command Task Force (CTF) be set up to identify the emerging risks and develop appropriate risk responses. The CTF has been especially effective during 2020 in mitigating the impact of the pandemic on the delivery of ACT output.

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.

After a short hiatus, the AAP was reenergized in 2020. The AAP considered an entirely new approach to Internal Audit; it revised its Terms of Reference and approved the ACT Internal Audit Charter.

The AAP challenged the Command's previous approach to internal control, and will be working with the new ACT Command Auditor in 2021 to provide advice, both to the Commander and the Financial Controller, as to the effectiveness of the policies and processes in use.

It is the intent of the AAP in 2021 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

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2020

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

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:

- 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 2020, there were no reported incidents.

Finally, the COVID-19 virus pandemic has highlighted the need for responsive and sustained actions to ensure that ACT can provide business continuity and we will be reviewing the Command's resilience in 2021.

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.

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GOVERNANCE STATEMENT
2020

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.

Tackling Fraud and Corruption

As a result of the NATO Resource Policy and Planning Board (RPPB) endorsement of the IBAN Fraud and Corruption Report which found, *inter alia*, that NATO:

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

ACT is in the process of developing a new directive ACT 015-28 to formulate our policy with regard to the prevention, detection and response to fraud and corruption.

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. In mid-2020, I welcomed our new Command Auditor to the Command and by early 2021, the enhanced audit function will be fully staffed.

Looking Ahead

ACT continues to focus on maintaining and improving our performance and, as COVID-19 demonstrated, 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.

We recognize, therefore, that we need to plan intelligently to address the impact of changes on the Command such as our refinement to NCS Adaptation,

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GOVERNANCE STATEMENT
2020

Implementation of the Capability Governance Model and the lessons learned from COVID-19. 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.
- 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.



Nicholas Garland
Financial Controller
Allied Command Transformation



Andre Lanata
General, French Air Force
Supreme Allied Commander Transformation

ACT CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDING 31 DECEMBER 2020
(EUR)

ASSETS	Notes	2020	2019
Current Assets			
<i>Cash and Cash Equivalents</i>	2	74,408,460	72,020,460
<i>Receivables</i>	3	3,890,998	4,649,830
<i>Prepayments</i>	4	746,696	1,066,592
Non-Current Assets			
<i>Property, Plant & Equipment</i>	5	27,558,716	27,982,916
TOTAL ASSETS		106,604,870	105,719,798
LIABILITIES			
Current Liabilities			
<i>Payables</i>	6	24,471,487	26,474,636
<i>Deferred Revenue</i>	7	13,060,272	15,848,616
<i>Advance Contributions</i>	8	41,525,783	33,463,207
<i>Other Advances</i>	9	15,779	1,950,423
TOTAL LIABILITIES		79,073,321	77,736,882
NET ASSETS			
Capital contributions	10	34,610,767	33,377,348
Accumulated surpluses/(deficits)	10	(7,052,051)	(5,394,432)
unrealised exchange rate gain	10	(27,167)	
Total net assets / equity*	10	27,531,549	27,982,916

*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 2020
(EUR)**

	Capital Contributions	Accumulated Surplus / Deficit	Unrealised Exchange Rate Gain/Loss	Total
Balance as at 01 January 2020	33,377,348	(5,394,432)		27,982,916
Changes in net assets / equity for the year				
Additional capital contributed by nations in 2020	1,233,419			1,233,419
<i>surplus / deficit for the period</i>		(1,657,619)		(1,657,619)
unrealised exchange rate gain			(27,167)	(27,167)
Balance as at 31 December 2020	<u>34,610,767</u>	<u>(7,052,051)</u>	<u>(27,167)</u>	<u>27,531,549</u>

**ACT CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDING 31 DECEMBER 2020
(EUR)**

REVENUE	Notes	2020	2019 (adjusted)	2019 (as published)
<i>Revenue</i>	11	132,955,635	140,550,073	140,550,073
<i>Other revenue</i>	12	3,062,372	4,565,713	5,982,455
<i>Financial revenue</i>	13	1,597,167	362,520	362,520
Total Operating Revenue		<u>137,615,174</u>	<u>145,478,306</u>	<u>146,895,048</u>
 OPERATING EXPENSES				
<i>Personnel</i>	14	35,627,295	34,418,514	34,418,514
<i>Contractual Supplies and Services</i>	14	94,102,802	102,735,258	102,735,258
<i>Capital and Investments</i>	14	2,680,600	3,286,031	3,286,031
<i>Depreciation charges</i>	5	1,657,619	1,543,277	1,543,277
<i>Other Expenses</i>	16	3,387,139	4,565,713	5,982,455
Finance costs	17	1,817,338	472,790	472,790
Total Operating Expenses		<u>139,272,793</u>	<u>147,021,582</u>	<u>148,438,325</u>
 NET SURPLUS/(DEFICIT) FOR THE YEAR		<u><u>(1,657,619)</u></u>	<u><u>(1,543,277)</u></u>	<u><u>(1,543,277)</u></u>

**ACT CONSOLIDATED CASHFLOW STATEMENT
FOR THE YEAR ENDING 31 DECEMBER 2020
(EUR)**

	2020	2019
Cash Flow from Operating Activities		
Surplus (deficit)	(1,657,619)	(1,543,277)
Non-cash movements		
depreciation charges	1,657,619	1,543,277
Increase (decrease) in payables	(2,003,149)	(1,506,002)
Increase (decrease) in current liabilities deferred revenue	3,339,588	10,271,333
Decrease / (Increase) in receivables	758,832	(504,284)
Decrease / (Increase) in Current Assets	(104,303)	(281,465)
	3,648,587	9,522,859
Extraordinary Item		
Net cash flow from operating activities	1,990,968	7,979,582
Purchase of PPE	424,199	
Net cash flow from investing activities	424,199	0
Net increase (decrease) in cash and cash equivalents	2,415,167	7,979,582
Effect of exchange rate changes on cash and cash equivalents on translation	(27,167)	
Cash and cash equivalents at beginning of period	72,020,460	64,040,878
Cash and cash equivalents at end of period	<u>74,408,459</u>	<u>72,020,460</u>

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PUBLICLY DISCLOSED - PDN(2022)0017 - MIS EN LECTURE PUBLIQUE

ACT CONSOLIDATED BUDGET EXECUTION STATEMENT FOR
THE YEAR ENDING 31 DECEMBER 2020

ALL FIGURES SHOWN IN THE APPROVED BUDGET
CURRENCY

Budgets presented in approved Currency	Initial Authorisation (BA1)	Movements	1st Mid Year Authorisation (BA2)	Movement	2nd Mid Year Authorisation (BA3)	Movement	Final Authorisation	Net Commitment	Special Carry Forward	Actual Expenses	Total Commitment/ Spend	Carry Forward	Lapse
252 Budget - Joint Analysis and Lessons Learned Centre													
2020	€	€	€	€	€	€	€	€	€	€	€	€	€
Personnel	1,621,668	(141,410)	1,480,258	0	1,480,258	5,500	1,485,758	0	0	1,432,627	1,432,627	0	53,131
Contractual Supplies & Services	815,277	(189,898)	625,379	0	625,379	(164,000)	461,379	0	56,000	251,897	307,897	56,000	153,482
Capital Investments	0	0	0	0	0	0	0	0	0	0	0	0	0
2020 Total	2,436,945	(331,308)	2,105,637	0	2,105,637	(158,500)	1,947,137	0	56,000	1,684,524	1,740,524	56,000	206,613
2019	€	€	€	€	€	€	€	€	€	€	€	€	€
Personnel	0	0	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	220,000	0	220,000	0	220,000	0	220,000	63,120	0	109,612	172,732	63,120	47,268
2019 Total	220,000	0	220,000	0	220,000	0	220,000	63,120	0	109,612	172,732	63,120	47,268
Budget 252 Grand Total	2,656,945	(331,308)	2,325,637	0	2,325,637	(158,500)	2,167,137	63,120	56,000	1,794,136	1,913,256	119,120	253,881

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Budgets presented in approved Currency	Initial Authorisation (BA1)	Movements	1st Mid Year Authorisation (BA2)	Movement	2nd Mid Year Authorisation (BA3)	Movement	Final Authorisation	Net Commitment	Special Carry Forward	Actual Expenses	Total Commitment/ Spend	Carry Forward	Lapse
258 Budget - ACT Euro Programme of Work													
2020	€	€	€	€	€	€	€	€	€	€	€	€	€
Personnel	0	2,500	2,500	0	2,500	1,500	4,000	0	0	3,449	3,449	0	551
Contractual Supplies & Services	52,647,075	1,429,786	54,076,861	283,563	54,360,424	395,655	54,756,078	1,346,460	1,267,963	50,495,046	53,109,469	2,614,423	1,646,609
Capital Investments	0	0	0	0	-	0	-	0	0	0	0	0	0
2020 Total	52,647,075	1,432,286	54,079,361	283,563	54,362,924	397,155	54,760,078	1,346,460	1,267,963	50,498,495	53,112,918	2,614,423	1,647,160
2019	€	€	€	€	€	€	€	€	€	€	€	€	€
Personnel	0	0	0	0	-	0	-	0	0	0	0	0	0
Contractual Supplies & Services	1,186,345	0	1,186,345	0	1,186,345	0	1,186,345	0	0	1,046,138	1,046,138	0	140,207
2019 Total	1,186,345	0	1,186,345	0	1,186,345	0	1,186,345	0	0	1,046,138	1,046,138	0	140,207
2018	€	€	€	€	€	€	€	€	€	€	€	€	€
Contractual Supplies & Services	0	0	0	0	-	0	-	0	0	(7,580)	(7,580)	0	7,580
2018 Total	0	0	0	0	0	0	0	0	0	(7,580)	(7,580)	0	7,580
Budget 258 Grand Total	53,833,420	1,432,286	55,265,706	283,563	55,549,269	397,155	55,946,423	1,346,460	1,267,963	51,537,053	54,151,476	2,614,423	1,794,947
259 Budget - ACT Exercise Budget													
2019	€	€	€	€	€	€	€	€	€	€	€	€	€
Personnel	0	0	0	0	0	0	0	0	0	(41,344)	(41,344)	0	41,344
Contractual Supplies & Services	0	0	0	0	-	0	-	0	0	(544,093)	(544,093)	0	544,093
2019 Total	0	0	0	0	0	0	0	0	0	(585,437)	(585,437)	0	585,437
2018	€	€	€	€	€	€	€	€	€	€	€	€	€
Personnel	0	0	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	0	0	0	0	0	0	0	0	0	(187,373)	(187,373)	0	187,373
2018 Total	0	0	0	0	0	0	0	0	0	(187,373)	(187,373)	0	187,373
Budget 259 Grand Total	0	0	0	0	0	0	0	0	0	(772,809)	(772,809)	0	772,809

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Budgets presented in approved Currency

	Initial Authorisation (BA1)	Movement	1st Mid Year Authorisation (BA2)	Movement	2nd Mid Year Authorisation (BA3)	Movement	Final Authorisation	Net Commitment	Special Carry Forward	Actual Expenses	Total Commitment/Spend	Carry Forward	Lapse
201 Budget - SACT HQ													
2020	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	21,900,962	68,000	21,968,962	(510,000)	21,458,962	(141,041)	21,317,921	2,456	115,380	21,069,679	21,187,515	117,836	130,406
Contractual Supplies & Services	3,412,164	(33,000)	3,379,164	706,000	4,085,164	90,825	4,175,989	32,204	0	3,504,445	3,536,648	32,204	639,341
Capital Investments	0	0	-	0	0	69,000	69,000	68,247	0	0	68,247	68,247	753
2020 Total	25,313,126	35,000	25,348,126	196,000	25,544,126	18,784	25,562,910	102,907	115,380	24,574,123	24,792,410	218,287	770,500
2019	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	18,962	(0)	18,962	0	18,962	0	18,962	0	0	2,077	2,077	0	16,885
Contractual Supplies & Services	42,239	0	42,239	0	42,239	0	42,239	0	0	3,385	3,385	0	38,854
Capital Investments	0	0	0	0	0	0	0	0	0	0	0	0	0
2019 Total	61,201	(0)	61,201	0	61,201	0	61,201	0	0	5,462	5,462	0	55,739
2018	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	1,500	0	1,500	0	1,500	0	1,500	0	0	(746)	(746)	0	2,246
Contractual Supplies & Services	0	0	0	0	0	0	0	0	0	(6,137)	(6,137)	0	6,137
Capital Investments	0	0	0	0	0	0	0	0	0	0	0	0	0
2018 Total	1,500	0	1,500	0	1,500	0	1,500	0	0	(6,883)	(6,883)	0	8,383
Budget 201 Grand Total	25,375,827	35,000	25,410,827	196,000	25,606,827	18,784	25,625,611	102,907	115,380	24,572,703	24,790,990	218,287	834,621

Budgets presented in approved Currency

	Initial Authorisation (BA1)	Movement	1st Mid Year Authorisation (BA2)	Movement	2nd Mid Year Authorisation (BA3)	Movement	Final Authorisation	Net Commitment	Special Carry Forward	Actual Expenses	Total Commitment/Spend	Carry Forward	Lapse
211 Budget - SACT HQ													
2020	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	6,820,244	40,000	6,860,244	56,257	6,916,501	12,635	6,929,136	14,304	0	6,301,593	6,315,898	14,304	613,238.05
Contractual Supplies & Services	20,681,491	(40,000)	20,641,491	(56,257)	20,585,234	(12,635)	20,572,599	364,637	0	17,025,072	17,389,709	364,637	3,182,890
Capital Investments	0	0	-	0	0	0	0	0	0	0	0	0	0
2020 Total	27,501,735	0	27,501,735	0	27,501,735	0	27,501,735	378,941	0	23,326,666	23,705,607	378,941	3,796,128
2019	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	29,050	0	29,050	0	29,050	0	29,050	0	0	(9,558)	(9,558)	0	38,608.18
Contractual Supplies & Services	1,630,867	0	1,630,867	0	1,630,867	0	1,630,867	57,644	0	1,325,330	1,382,974	57,644	247,894
Capital Investments	0	0	-	0	0	0	0	0	0	0	0	0	0
2019 Total	1,659,917	0	1,659,917	0	1,659,917	0	1,659,917	57,644	0	1,315,772	1,373,415	57,644	286,502
Budget 211 Grand Total	29,161,652	0	29,161,652	0	29,161,652	0	29,161,652	436,585	0	24,642,437	25,079,022	436,585	4,082,630

257 Budget - ACT USD Programme of Work

2020	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	506,310	(248)	506,062	108,690	614,752	(14,808)	599,944	0	0	478,776	478,776	0	121,167
Contractual Supplies & Services	18,535,803	(47,983)	18,487,820	923,040	19,410,860	94,097	19,504,957	1,169,295	497,371	14,100,754	15,767,419	1,666,666	3,737,538
2020 Total	19,042,113	(48,231)	18,993,882	1,031,730	20,025,612	79,289	20,104,901	1,169,295	497,371	14,579,530	16,246,195	1,666,666	3,858,705
2019	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	0	0	0	0	0	0	-	0	0	(6,377)	(6,377)	0	6,377
Contractual Supplies & Services	1,699,389	0	1,699,389	0	1,699,389	0	1,699,389	0	0	1,365,925	1,365,925	0	333,464
2019 Total	1,699,389	0	1,699,389	0	1,699,389	0	1,699,389	0	0	1,359,548	1,359,548	0	339,841
2018	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	0	0	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	0	0	0	0	0	0	0	0	0	(12,117)	(12,117)	0	12,117
2018 Total	0	0	0	0	0	0	0	0	0	(12,117)	(12,117)	0	12,117
Budget 257 Grand Total	20,741,502	(48,231)	20,693,271	1,031,730	21,725,001	79,289	21,804,290	1,169,295	497,371	15,926,961	17,593,627	1,666,666	4,210,663

Budgets presented in approved Currency	Initial Authorisation (BA1)	Movement	1st Mid Year Authorisation (BA2)	Movement	2nd Mid Year Authorisation (BA3)	Movement	Final Authorisation	Net Commitment	Special Carry Forward	Actual Expenses	Total Commitment/Spend	Carry Forward	Lapse
256 Budget Joint Forces Training Centre													
2020	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>
Personnel	6,477,129	(247,638)	6,229,491	0	6,229,491	(91,000)	6,138,491	0	0	5,990,545	5,990,545	0	147,946
Contractual Supplies & Services	21,565,818	(2,964,787)	18,601,031	(1,481,240)	17,119,791	(1,309,000)	15,810,791	(0)	0	13,532,730	13,532,730	(0)	2,278,061
Capital Investments	0	0	0	0	0	0	0	0	0	0	0	0	0
2020 Total	28,042,947	(3,212,425)	24,830,522	(1,481,240)	23,349,282	(1,400,000)	21,949,282	(0)	0	19,523,276	19,523,276	(0)	2,426,007
2019	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>
Personnel	4,500	0	4,500	0	4,500	0	4,500	0	0	4,500	4,500	0	0
Contractual Supplies & Services	236,343	0	236,343	0	236,343	0	236,343	0	0	229,611	229,611	0	6,731
Capital Investments	0	0	-	0	-	0	-	0	0	0	0	0	0
2019 Total	240,843	0	240,843	0	240,843	0	240,843	0	0	234,111	234,111	0	6,731
2018	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>	<i>PLN</i>
Personnel	0	0	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	0	0	0	0	0	0	0	0	0	0	0	0	0
Capital Investments	0	0	0	0	0	0	0	0	0	0	0	0	0
2018 Total	0	0	0	0	0	0	0	0	0	0	0	0	0
Budget 256 Grand Total	28,283,790	(3,212,425)	25,071,365	(1,481,240)	23,590,125	(1,400,000)	22,190,125	(0)	0	19,757,387	19,757,387	(0)	2,432,738

Budgets presented in approved
Currency

	Initial Authorisation (BA1)	Movement	1st Mid Year Authorisation (BA2)	Movement	2nd Mid Year Authorisation (BA3)	Movement	Final Authorisation	Net Commitment	Special Carry Forward	Actual Expenses	Total Commitment/Spend	Carry Forward	Lapse
255 Budget - Joint Warfare Centre													
2020	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>
Personnel	98,689,932	(360,000)	98,329,932	(3,206,000)	95,123,932	0	95,123,932	0	500,000	91,105,989	91,605,989	500,000	3,517,943
Contractual Supplies & Services	109,078,625	(3,072,830)	106,005,795	(6,742,500)	99,263,295	0	99,263,295	3,339,186	2,800,000	82,612,897	88,752,084	6,139,186	10,511,211.32
Capital Investments	350,000	0	350,000	0	350,000	0	350,000	0	0	0	0	0	350,000
2020 Total	208,118,557	(3,432,830)	204,685,727	(9,948,500)	194,737,227	0	194,737,227	3,339,186	3,300,000	173,718,886	180,358,073	6,639,186	14,379,154
2019	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>
Personnel	0	0	0	0	0	0	0	0	0	(24,633)	(24,633)	0	24,633
Contractual Supplies & Services	2,125,705	0	2,125,705	0	2,125,705	0	2,125,705	1,246,411	0	(824,625)	421,786	1,246,411	1,703,919
Capital Investments	2,952,000	0	2,952,000	0	2,952,000	0	2,952,000	2,952,000	0	0	2,952,000	2,952,000	0
2019 Total	5,077,705	0	5,077,705	0	5,077,705	0	5,077,705	4,198,411	0	(849,258)	3,349,153	4,198,411	1,728,552
2018	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>
Personnel	0	0	0	0	0	0	0	0	0	(7,201)	(7,201)	0	7,201
Contractual Supplies & Services	0	0	-	0	-	0	-	0	0	(343,509)	(343,509)	0	343,509
2018 Total	0	0	0	0	0	0	0	0	0	(350,710)	(350,710)	0	350,710
Budget 255 Grand Total	213,196,262	(3,432,830)	209,763,432	(9,948,500)	199,814,932	0	199,814,932	7,537,597	3,300,000	172,518,919	183,356,516	10,837,597	16,458,416

Allied Command Transformation
Notes to the Financial Statements
For the year ended 31 December 2020
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 2020

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financial statements, the accounting policies have been applied consistently throughout the reporting period.

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

1.4 Changes in pronouncements

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

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 2023	Annual periods beginning on or after 1 January 2023, with earlier application encouraged. This will not impact the ACT consolidated group

1.5 Foreign currency

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

ACT HQs that have a functional currency other than Euro are translated into the reporting currency. All assets and liabilities of such entities at year-end were translated using the NATO exchange rates that were applicable at 31 December 2020. 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.

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

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

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

1.7 Services in-kind

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

1.8 Financial Instruments disclosure/presentation

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

1.9 Cash and cash equivalents

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

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.

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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 2020, 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 2020, ACT had the following amounts owed on non-cancellable leases at HQ SACT, JFTC and JALLC.

Item	amounts paid in 2020	amounts due in 2021 - 2024
Various vehicles	€95.4	€133.6

1.14 Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less

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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

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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 2020; exchange rate revenue due to transactions in foreign currency; and realised exchange rate revenue are recognised as financial revenue.

Finance costs

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

1.22 Surplus or deficit for the period

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

1.23 Cash-flow statement

The cash flow statement is prepared using the indirect method and the format follows the layout provided by IPSAS 2 (Cash flow statement).

2. Cash and cash equivalents

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

	2020	2019
Total Euro Accounts	25,579	29,902
Total non-Euro Accounts	48,829	42,118
	<u>74,408</u>	<u>72,020</u>

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 2020. The cash holdings reflect the fact that all nations settling their cash call contributions by the end of 2020. This was also the case in the previous year.

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

3. Receivables

	2020	2019
Receivables	3,891	4,325
Bad debts	0	325
	<u>3,891</u>	<u>4,650</u>

Receivables includes invoices amounting to €829 that were raised at the year end to recognise revenue corresponding to reimbursable expenditure incurred during the last quarter of 2020. 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.

The bad debt reported in 2019 and relating to long outstanding, disputed receivables with three nations was written off in 2020, following approval by the Budget Committee under cover of BC-D(2020)0211

4. Prepayments

The following prepayments were recorded:

	2020	2019
Prepayments to 3rd Party Suppliers	747	1,067

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

5. Property, plant and equipment

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

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

The buildings detailed above contain both installed equipment and numerous items of

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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	Work in progress EUR	Total EUR
Balance at 1 January 20	26,317,576	4,090,061	1,828,278	722,225	49,866	369,342	-	33,377,348
Additions			454,277				779,142	1,233,419
Disposals								
Balance at 31 December 20	26,317,576	4,090,061	2,282,555	722,225	49,866	369,342	779,142	34,610,767
Accumulated depreciation								
Balance at 1 January 20	3,040,096	1,200,207	771,484	243,325	16,206	123,114	-	5,394,432
Depreciation expense	837,877	353,011	194,185	144,445	4,987	123,114	-	1,657,619
Balance at 31 December 20	3,877,973	1,553,218	965,669	387,770	21,193	246,228	-	7,052,051
Net book value								
Balance at 1 January 20	23,277,480	2,889,854	1,056,794	478,900	33,660	246,228	-	27,982,916
Balance at 31 December 20	22,439,603	2,536,843	1,316,886	334,455	28,673	123,114	779,142	27,558,716

The depreciation charge for the year was €1.66M

6. Accounts Payable

Accounts Payable is detailed below:

	2020	2019
Suppliers	12,072	8,842
Staff Members	77	492
Non-Consolidated NATO Entities	10,717	15,963
Governments	1,605	1,178
	<u>24,471</u>	<u>26,475</u>

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

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

7. Deferred revenue

	2020	2019
Budget related	11,083	14,343
NSIP related	1,977	1,494
Other sources	0	11
	<u>13,060</u>	<u>15,848</u>

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

For the financial year ending 31 December 2020, €11.08M was budget related, which was a decrease over the previous year. However, this should be viewed in conjunction with Note 8 below, which shows a corresponding increase in advances received. These advances include the increases made at the request of nations as part of the 2021 budget approval process.

8. Advances Contributions

	2020	2019
Advance Contributions	41,526	33,463

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

9. Other advances

	2020	2019
Other Advances	16	1,950

Other advances correspond to cash received from external entities against which future payment will be offset. The significant decrease is due to HQ SACT expensing funds from external entities during 2020, for work that third party suppliers requested HQ SACT to support

10. Net assets

	2020	2019
Capital contributions	34,611	33,377
Accumulated surpluses/(deficits)	(7,052)	(5,394)
Unrealised Exchange Rate Gain/Loss	(27)	0
Total net assets / equity	<u>27,532</u>	<u>27,983</u>

Net assets relate to PP&E recognised by ACT, less depreciation charges accumulated

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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.

11. Revenue

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

The following key revenue items are presented:

Recognised Revenue	2020	2019
Assessment Calls/Contributions	130,179	136,858
NSIP Revenue	2,682	3,343
Other income	95	349
	132,956	140,550

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 2020	52,370	70,228	204,336	25,647
Amount in Euros (for comparison only)	52,370	57,796	19,331	5,793

12. Other revenue

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

Furthermore, following discussions with the IBAN on the issue of Principle vs Agent, ACT has removed €4.4M of transactions where ACT acted in an Agent capacity. In order to align the recognition of these transaction types with that of the previous year (2019) an adjustment of €1.4M was made to the "other revenue" and "other expenses" number shown in the Statement of Financial Performance for 2019

With regard to 3rd party reimbursable activity some €3M of activity has been undertaken during 2020.

13. Financial revenue

Financial revenue relates to interest earned on deposits during the financial year across all ACT headquarters. The majority of the interest (€121) was earned on short term USD deposits.

14. Expenses

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

	2020	2019
Chapter 1		
Salaries & associated costs	34,447	32,363
Consultants	0	99
Training	598	759
Other	582	1,197
TOTAL	35,627	34,418

Chapter 2		
General support and Utility costs	5,432	6,631
Contractors	54,318	49,500
Travel and subsistence	1,438	12,020
AI Support	32,075	31,409
Mission equipment costs	65	49
Communications	27	11
Training	748	3,115
TOTAL	94,103	102,735

Capital & Investments (Chapter 3 & NSIP)		
Mission Equipment Assets	0	11
NSIP funded contractor support	2,681	3,268
Other NSIP	779	0
Other	0	336
TOTAL	3,460	3,615

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 2020, ACT incurred €20,304M of expenses relating to contractor services provided by CMRE. The other significant amount expended by ACT in relation to contractor costs were payments made to NCIA, which totalled €36.84M in 2020. Included in this amount were payments totalling €16.95M for the NCIA Programme of Work and €17.91M for expenses incurred under the NCIA SLA. The remainder were ad hoc expenses that ACT incurred with NCIA during the year. Additionally, ACT expended €741 on contractor expenses related to FMS contracts, which are reported by the US authorities on a non-accrual basis.

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

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NSIP expenditure amounting to €2,681M is shown as Capital & Investments on the Statement of Financial Performance. A further €779 of NSIP expenditure was capitalised as work in progress and refers to the installation of solar panels at HQ SACT.

15. Staff resources

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

	2020	2019
Salaries of Civilian Staff	21,654	20,211
Allowances of Civilian Staff	6,015	5,640
Contributions to Health Insurance (c)	4,674	4,413
Contributions to Pension Funds (d)	1,842	1,569
	<u>34,185</u>	<u>31,833</u>

b) Analysis of staff numbers - the number of full-time equivalent persons employed as at 31 December 2020 was:

	HQ SACT	JWC	JFTC	JALLC
Military	499	178	94	27
Civilian	143	56	27	16
Temporary Civilian	6	0	0	0
Reimbursable Civilians	2	0	1	0
Local Wage Rate (LWR)	0	12	0	0
Total	<u>650</u>	<u>246</u>	<u>122</u>	<u>43</u>
Voluntary National Contributions	29	1	3	3
Partnership for Peace (PfP)	2	0	0	0
Overages in addition to VNC	8	2	2	1
Host Nation	19	6	0	1
Legacy transition	6	0	0	0

c) Health Insurance - all civilian members of ACT are members of the NATO Health Insurance Scheme, providing sickness, maternity, accident, disablement and death benefits to staff members, their spouses and children. Staff members pay contributions of approximately 3.830% to 10.162% of gross salary, which are matched by contributions paid by ACT. For 2020 ACT contributions totalled €4.674.

d) Contributions to Pension Funds

The NATO Defined Contribution Pension Scheme: came into effect on 1 July 2005 and provides for the communal investment of contributions in respect of civilian staff

of ACT accorded international status under the NATO Charter. Staff pay contributions equivalent to 8% of their monthly basic salary, and ACT pays a 12% contribution. The assets and liabilities for this scheme are accounted for centrally at NATO Headquarters, located in Brussels, Belgium and are not recognised in these financial statements.

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

Contributions are expensed during the year in which the services are rendered and represent the total pension obligation for ACT. Total pension contributions of ACT across the 2 schemes outlined above totalled €1.842 during 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 31 October of the following year IAW NCPA Article 42.3 or the leave days are forfeited. At the end of 2020, ACT civilian staff across all Headquarters carried forward 3,419 leave days. In monetary terms, this equates to approximately €1,647M but ACT has a policy of not making an actual financial payment to staff in lieu of this. ACT staff either take the untaken leave by 31 October of the following year or lose the days. In view of this policy, and the fact that the vast majority of days are taken by 31 October of the following year, ACT does not recognise a liability in these financial statements.

16. Other expenses

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

17. Finance costs

This includes the sum of exchange rate gains and losses (€328), as well as bank charges incurred by ACT entities for normal business transactions (€14).

18. Related Party Transactions

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

Key Management Personnel

Under IPSAS 20 Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial and operating decisions. IPSAS 20 requires the disclosure of the existence of related party relationships, where control exists, and the disclosure of information about entities and 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 2020 ACT Consolidated Financial Statements.

19. Representation allowance

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

SACT allocates these funds to his subordinate Commanders, as he considers reasonable. For 2020 the Representation Funds allocated to SACT, and subsequently delegated, where as follows:

Entity	2020 Allocation (Eur)
HQ SACT	35.5
JWC	3.9
JFTC	1.1
JALLC	0.6
TOTAL	41.1

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

During the course of 2020, €33 of available funds were lapsed.

20. Budget Execution Statement Overview

Exchange Rates applicable to Budget Execution Statement:

Year	Initial Authorisation	Mid-Yr Authorisation	Final Authorisation	Net Commitment	Actual Expenses	Carry Forward
2020	Jan 19 ¹	Jan 19	Jan 19	Dec 20 ²	Ave 20 ³	Dec 20
2019/18				Dec 20 ²	Ave 20 ³	Dec 20

¹ Rate used in 2020 Budget authorisation
² Rate used to revalue outstanding commitments at year end prior to rolling forward to 2021. Financial Years 2019 & 2020 only
³ Rate used in determining expenditure throughout the year

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

Financial Expenditure recorded in Budget Execution Statements (BES):

Budget 201	21,576	
Budget 211	21,637	
Budget 252	1,794	
Budget 255	16,007	
Budget 256	4,422	
Budget 257	13,984	
Budget 258	51,537	
Budget 259	(773)	
		<u>130,184</u>

Expenses recorded in Statement of Financial Performance:

Chapter 71	35,627	
Chapter 72	94,103	
Capitalised chapter 72	454	
		<u>130,184</u>
Total Expenditure equal to BES		130,184
NSIP expenditure		3,460
Less capitalised Chapter 2 & NSIP expenditure (PP&E)		(1,233)
Depreciation charges		1,658
Other Expenses		7,820
Finance Costs		1,817
Total Expenses in Statement of Financial Performance		<u>143,706</u>

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 €12,908M. This figure is generated as a direct result of the exchange rates. Lapses occur in the original currency in which the budget was approved by the BC.

Budget Code	Budget Currency	Value of Lapse in Budget Currency (figures shown as complete amounts)				Value of Lapse in Euro (Average Rate of Exchange)
		2018	2019	2020	Total	
201	USD	8	56	771	835	733
211	USD	0	287	3,796	4,083	3,585
252	EUR	0	47	207	254	254
255	NOK	351	1,728	14,379	16,458	1,527
256	PLN	0	7	2,426	2,433	544
257	USD	12	340	3,859	4,211	3,697
258	EUR	8	140	1,647	1,795	1,795
259	EUR	0	187	586	773	773
						12,908

21. Statement of Budgetary Transfers

In accordance with the NATO Financial Regulations (NFR Section V, Article 26) budgetary transfers are recorded on the face of the accounts. All transfers were executed between budgets at the 1 January 2019 rate of exchange. The totality of transfers undertaken in 2020 do not breach the authorised Budget Authority outlined in BC-BA(2020)0003 dated 05 November 2020.

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

22. Statement of Special Carried Forward Credits

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

During 2020 ACT was also given specific permission to also make the following Special Carry Forwards. The Council (C-M(2020)0059) refers:

HQ SACT (BC 201) – 115,380 USD to support NATO Civilian Home Leave (2020 activity not undertaken).

JALLC (BC 252) – 56,000 EUR Lessons Learned Ontology Survey (2020 activity not undertaken).

JWC (BC 255) – 3,300,000 PLN various activities not undertaken in 2020 including: NATO Civilian Home Leave, JWC Internal Training, JWC Wargaming, Joint Theater Level Simulation (JTLS) testing. Activities occurring after 2021 Budget Submission: JWC EXCON Portal.

ACT USD POW (BC 257) – 497,371 USD various activities not undertaken in 2020 including: Training Technologies Holographic Experiment, Micro Learning Environment Prototype (PERLS), NSHQ Comprehensive Defence Experiment, Joint Doctrine Development, China Specialist. Activities occurring after 2021 Budget Submission: Human Capital Development.

ACT EUR POW (BC 258) – 1,267,963 various activities not undertaken in 2020 including: IAMD Sensors Study, NCIA Support to iLab, Data Science Support. Operational Rapid Acoustic Prediction Service (O-RAPS), Cyberspace Operations, NATO COMMS DCIS. Activities occurring after 2021 Budget Submission: JSIR – Texas IV&V.

23. Morale & Welfare Activities

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

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

24. Statement of Write-Off

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

25. Statement of 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 2020
Amounts in EUR

STATEMENT OF FINANCIAL POSITION PER HEADQUARTER

	HQ SACT			JWC			JFTC		
	2020	2019	Difference	2020	2019	Difference	2020	2019	Difference
Current Assets									
Total Cash & Cash Equivalents	60,435,308	36,159,904	24,275,405	8,755,807	6,820,748	1,935,059	2,255,901	312,024	1,943,878
Receivables	2,452,397	23,200,053	(20,747,656)	868,344	666,708	201,635	1,764,168	2,803,255	(1,039,087)
Total Advances & Prepayments	611,681	537,679		222,934	296,125	(73,190)	29,084	48,900	(19,816)
Non-Current Assets									
Property, Plant & Equipment	23,541,538	23,844,185	(302,646)	2,171,606	2,618,222	(446,616)	1,845,571	2,033,385	(187,814)
Total Assets	<u>87,040,925</u>	<u>83,741,821</u>	<u>3,225,102</u>	<u>12,018,691</u>	<u>10,401,802</u>	<u>1,616,888</u>	<u>5,894,724</u>	<u>5,197,565</u>	<u>697,160</u>
Liabilities									
Payables	21,842,679	23,930,214	(2,087,534)	2,020,059	2,682,924	(662,865)	1,011,636	1,359,968	(348,333)
Deferred Revenue	5,692,799	12,705,256	(7,012,457)	3,692,879	711,219	2,981,660	1,636,958	486,475	1,150,483
Advance Contributions	35,991,076	27,756,034	8,235,042	4,134,147	4,389,437	(255,290)	1,400,560	1,317,736	82,824
Other Advances	0	1,945,089	(1,945,089)	0	0	0	0	0	0
Total Liabilities	<u>63,526,554</u>	<u>66,336,592</u>	<u>(2,810,038)</u>	<u>9,847,085</u>	<u>7,783,581</u>	<u>2,063,504</u>	<u>4,049,154</u>	<u>3,164,179</u>	<u>884,974</u>
Net Assets									
Capital Contributions	29,088,147	27,854,729	1,233,419	3,025,709	3,025,709	0	2,496,911	2,496,911	0
Accumulated surplus (deficit)	(5,546,609)	(4,523,420)	(1,023,189)	(854,103)	(407,487)	(446,616)	(651,340)	(463,526)	(187,814)
unrealised exchange rate gain	(27,167)								
Total assets / equity	<u>23,514,371</u>	<u>23,331,309</u>	<u>210,229</u>	<u>2,171,606</u>	<u>2,618,222</u>	<u>(446,616)</u>	<u>1,845,571</u>	<u>2,033,385</u>	<u>(187,814)</u>

For the year ended 31 December 2020
Amounts in EUR

STATEMENT OF FINANCIAL POSITION PER HEADQUARTER

	JALLC			NSIP			Total 2020	Consolidation Postings	Published 2020
	2020	2019	Difference	2020	2019	Difference			
Current Assets									
Total Cash & Cash Equivalents	105,631	215,023	(109,392)	2,811,665	2,189,336	622,329	74,364,313	44,147	74,408,460
Receivables	30,452	615,689	(585,237)				5,115,361	(1,224,363)	3,890,998
Total Advances & Prepayments	32,996	22,530	10,466				896,696	(150,000)	746,696
Non-Current Assets									
Property, Plant & Equipment	0	0	0	0	0	0	27,558,715		27,558,715
Total Assets	<u>169,079</u>	<u>853,242</u>	<u>(684,163)</u>	<u>2,811,665</u>	<u>2,189,336</u>	<u>622,329</u>	<u>107,935,084</u>	<u>(1,330,215)</u>	<u>106,604,868</u>
Liabilities									
Payables	92,958	396,390	(303,432)	834,370	695,188	139,183	25,801,703	(1,330,216)	24,471,487
Deferred Revenue	60,342	451,517	(391,175)	1,977,294	1,494,149		13,060,272		13,060,272
Advance Contributions							41,525,783		41,525,783
Other Advances	15,779	5,335	10,444				15,779		15,779
Total Liabilities	<u>169,079</u>	<u>853,242</u>	<u>(684,163)</u>	<u>2,811,665</u>	<u>2,189,336</u>	<u>139,183</u>	<u>80,403,536</u>	<u>(1,330,216)</u>	<u>79,073,321</u>
Net Assets									
Capital Contributed by Nations	0	0	0	0	0	0	34,610,767		34,610,767
Accumulated surplus (defecit)	0	0	0	0	0	0	(7,052,051)		(7,052,051)
unrealised exchange rate gain							(27,167)		(27,167)
Total assets / equity	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>27,531,549</u>	<u>0</u>	<u>27,531,549</u>

For the year ended 31 December 2020
Amounts in EUR

STATEMENT OF FINANCIAL PERFORMANCE PER HEADQUARTER

	HQ SACT			JWC			JFTC		
	2020	2019	Difference	2020	2019	Difference	2020	2019	Difference
Total Revenue	110,760,151	115,449,385	(4,689,234)	16,363,506	19,703,301	(3,339,795)	6,398,294	7,139,107	(740,813)
Total Expenses	112,417,770	116,992,662	(4,574,892)	16,363,506	19,703,301	(3,339,795)	6,398,294	7,139,107	(740,813)
End of Year Result	<u>(1,657,619)</u>	<u>(1,543,277)</u>	<u>(114,342)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(0)</u>

	JALLC			NSIP			Consolidation Eliminations	Published 2020
	2020	2019	Difference	2020	2019	Difference		
Total Revenue	577,386	1,260,066	(682,680)	3,515,837	3,343,190	172,647	(27,688,588)	137,615,174
Total Expenses	577,386	1,260,066	(682,680)	3,515,837	3,343,190	172,647	(27,688,588)	139,272,793
End of Year Result	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,657,619)</u>

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

Statement of Position

Statement of Performance

	Inter-Entity Eliminations		Inter Entity Eliminations
Assets		Revenue	
Current Assets			
Cash and Cash Equivalents	44,147	Operating revenue	26,475,559
Receivables	(1,224,363)	Inter Entity Revenue	1,213,029
Advance to Consolated Entity	(150,000)		
Total Current Assets	<u>(1,330,216)</u>	Total Revenue	<u>27,688,588</u>
Liabilities		Expenses	
Payables	1,330,216	Inter Entity Expenses	(27,688,588)
Unearned Revenue			
Total Liabilities	<u><u>1,330,216</u></u>	Total Expenses	<u><u>(27,688,588)</u></u>

Annex A

ACT Write off Report of International Property 2020

Command	Headquarters property	Net Book Value (in currency)	Number of RoS	comments
HQ SACT	Equipment	USD 500	1	Lost. Investigation resulted in no malicious intent. ROS recorded.
JFTC	Furniture	PLN 304.29	1	beyond economical repair
JWC	Equipment (incl. NEC CCIS CIS)	NOK 0	7	Broken or obsolete and no longer required for use at JWC
JWC	Vehicles		3	Broken or obsolete, replaced by new vehicles
JWC	Furniture	NOK 770.92	8	Broken or obsolete and no longer required for use at JWC