

16 April 2015

**IBAN REPORT ON THE AUDIT OF THE RESTATED CONSOLIDATED FINANCIAL  
STATEMENTS OF ALLIED COMMAND TRANSFORMATION (ACT) FOR 2013**

**ACTION SHEET**

On 16 April 2015, under the silence procedure, the Council noted the IBAN report IBA-AR(2014)16 and agreed the RPPB recommendation regarding public disclosure.

NOTE: This Action Sheet is part of, and shall be attached to C-M(2015)0024.

8 April 2015

**IBAN REPORT ON THE AUDIT OF THE RESTATED CONSOLIDATED FINANCIAL  
STATEMENTS OF ALLIED COMMAND TRANSFORMATION (ACT) FOR 2013**

**Note by the Deputy Secretary General**

1. I attach the International Board of Auditors for NATO (IBAN) report on the audit of the restated consolidated financial statements of Allied Command Transformation (ACT) for the year ended 31 December 2013. The audit report sets out an unqualified opinion.
2. The IBAN report was brought to the attention of the Resource Policy and Planning Board (RPPB) and the Budget Committee (BC).
3. In accordance with the Council decision of June 2012 (C-M(2012)0041), the RPPB recommends that the IBAN report on the audit of ACT for the year 2013, the related financial statements and other component parts, should be made available to the public.
4. I consider that no further discussion regarding this report is required. Consequently, unless I hear to the contrary **by 18:00 hours on Wednesday, 15 April 2015**, I shall assume that the Council has noted the IBAN report IBA-AR(2014)16 and agreed the RPPB recommendation regarding public disclosure.

30 January 2014

**RESOURCE POLICY AND PLANNING BOARD**

**IBAN REPORT AND LETTER OF OBSERVATIONS AND RECOMMENDATIONS ON  
THE AUDIT OF ALLIED COMMAND TRANSFORMATION RESTATED  
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER  
2013**

**Note by the Chairman**

References: IBA-A(2014)163  
IBA-AR(2014)16

1. You will recall that silence was broken by one nation on AC/335-N(2014)0068 concerning the public disclosure of the subject IBAN report. Following consultations, an additional paragraph has been added to this revised notice giving more details on the involvement of the entity concerned (see paragraph 4).
2. Council agreed in May 2012 (C-M(2012)0041) that, as of the reporting year 2013, all unclassified IBAN reports, together with any related financial statements, should be disclosed to the public, based on a case-by-case agreement by the Council based on a recommendation by the RPPB.
3. The IBAN issued an unqualified audit opinion on the 2013 financial statements of Allied Command Transformation and the unqualified audit report will be forwarded to Council for notation, as per agreed procedures.
4. The Financial Controller of ACT has reviewed the financial statements in accordance with agreed policies (C-M(2012)0041 and C-M(2008)0116) and does not have any issues which he wishes to highlight for consideration by the RPPB before it concludes its recommendations to Council.
5. The RPPB is invited to confirm that the subject audit report does not contain information which, according to the NATO Policy on Public Disclosure of NATO Information, shall be withheld from public disclosure and, in line with the agreed policy in C-M(2012)0041, to recommend that Council agree to the public disclosure of the IBAN report IBA-A(2014)163 the related financial statements and other component parts.

6. I do not believe it is necessary for the RPPB to discuss this matter at a meeting and accordingly agreement will be assumed unless comments to the contrary are received by **18:00 on Monday 9 February 2015**.

Original: English

### **Note by the Secretary**

On 9 February 2015, under the silence procedure, the RPPB confirmed the recommendation to the Council regarding the public disclosure of the subject IBAN report as proposed in paragraph 5 of AC/335-N(2014)0068-REV1.

**Summary Note for Council  
by the International Board of Auditors for NATO (Board)  
on the audit of the Restated Consolidated Financial Statements of the  
Allied Command Transformation (ACT)  
for the year ended 31 December 2013**

The Board audited the Allied Command Transformation (ACT), which consists of four main entities; ACT HQ, 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. It also supports Allied Command Operations (ACO) in developing and conducting exercises to train Allied and Partner forces in NATO combined and joint operations.

The total expenditure of ACT in 2013 amounted to approximately EUR 133 million.

The Board issued an unqualified opinion on the ACT Restated Consolidated Financial Statements and on compliance for the year ended 31 December 2013.

During the audit, the Board also made 7 observations and 8 recommendations. These findings are summarised in the Letter of Observations and Recommendations (Annex 3).

The main findings are:

- Weak financial statement review processes resulting in material mathematical and disclosure errors.
- ACT has retained financial risks related to the CMRE, despite its formal transfer to STO.
- No process in place to identify related party relationships and transactions.
- Non-compliance with new regulations on representation allowances.
- Confirmation of year-end assets and liabilities outstanding between NATO entities.
- Non-compliance with IPSAS disclosure requirements.
- Lack of complete property listings.

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18 July 2014

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**AUDITOR'S REPORT ON THE RESTATED CONSOLIDATED FINANCIAL  
STATEMENTS OF THE**

**ALLIED COMMAND TRANSFORMATION**

**(ACT)**

**FOR THE YEAR ENDED 31 DECEMBER 2013**

## **REPORT OF THE INTERNATIONAL BOARD OF AUDITORS FOR NATO TO THE NORTH ATLANTIC COUNCIL**

### **Report on the Financial Statements**

The International Board of Auditors for NATO (Board) audited the accompanying restated consolidated financial statements of the Allied Command Transformation (ACT), which comprised the Statement of Financial Position as at 31 December 2013, and the Statement of Financial Performance, Statement of Net Assets & Equity and Cash Flow Statement for the year then ended, and Notes to the Financial Statements, including a Statement of Accounting Policies. The Board also audited the Budget Execution Statements for the year ended 31 December 2013.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the NATO Accounting Framework and the requirements of the NATO Financial Regulations as authorized by the North Atlantic Council (NAC). This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit, which is conducted in accordance with our Charter and international standards on auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, due to fraud or error. In making those risk assessments, internal control relevant to the entity's preparation and presentation of financial statements is considered 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 internal control. An audit also includes evaluating the appropriateness of accounting policies used, the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



### *Opinion on Financial Statements*

In our opinion, the restated financial statements present fairly, in all material respects, the financial position of ACT as of 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with the NATO Accounting Framework.

### **Report on Compliance**

#### *Management's Responsibility for Compliance*

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the financial transactions and information reflected in the financial statements are in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations as authorised by the North Atlantic Council (NAC).

#### *Auditor's Responsibility*

In addition to the responsibility to express an opinion on the financial statements described above, our responsibility includes expressing an opinion on whether the financial transactions and information reflected in the financial statements are, in all material respects, in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations. This responsibility includes performing procedures to obtain reasonable assurance about whether the funds have been used for the settlement of authorised expenditure and whether their operations have been carried out in compliance with the financial and personnel regulations in force. Such procedures include the assessment of the risks of material non-compliance.

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

#### *Opinion on Compliance*

In our opinion, in all material respects, the financial transactions and information reflected in the restated financial statements are in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

Brussels, 18 July 2014

Dr Charilaos Charisis  
Chairman

18 July 2014

**INTERNATIONAL BOARD OF AUDITORS FOR NATO**

**LETTER OF OBSERVATIONS AND RECOMMENDATIONS**

**FOR THE ALLIED COMMAND TRANSFORMATION**

**(ACT)**

**FOR THE YEAR ENDED 31 DECEMBER 2013**

## **Introduction**

The International Board of Auditors for NATO (Board) audited the ACT restated consolidated Financial Statements for the year ended 31 December 2013, and issued an unqualified opinion on those restated financial statements and on compliance.

## **Observations and Recommendations**

During the audit, the Board identified 7 observations and provided 8 recommendations. These observations and recommendations do not impact the audit opinion. They are summarised herein:

- Weak financial statement review processes resulting in material mathematical and disclosure errors.
- ACT has retained financial risks related to the CMRE, despite its formal transfer to STO.
- No process in place to identify related party relationships and transactions.
- Non-compliance with new regulations on representation allowances.
- Confirmation of year-end assets and liabilities outstanding between NATO entities.
- Non-compliance with IPSAS disclosure requirements.
- Lack of complete property listings.

The Board also followed up on the status of observations from previous years' audits and noted that 5 have been settled, one superseded by current year observation and 3 are still outstanding.

The Board issued a Management Letter (reference IBA-AML(2014)05) to the Supreme Allied Commander Transformation (SACT) with one observation related to segregation of duties weaknesses.

## **OBSERVATIONS AND RECOMMENDATIONS**

### **1. WEAK FINANCIAL STATEMENT REVIEW PROCESSES RESULTING IN MATERIAL MATHEMATICAL AND DISCLOSURE ERRORS**

#### **Reasoning**

1.1 The final financial statements should be free of any mathematical errors, non-reconciling items, or any other errors caused by lack of control during its preparation. Entities should have proper internal controls, including reviews, in place to ensure the consistency and accuracy of information presented in the statements before its issuance.

#### **Observation**

1.2 The Board identified several mathematical errors, non-reconciling items and/or omitted information in the financial statements as published on 29 April 2014 (Reference BC-D(2014)0063/ 7000 TSC MBX 0010/FC-24-14/Ser:NU0393). Some of the errors were immaterial, but some led to material misstatements of certain parts of the financial statements, including the Budget Execution Statements. These findings were discussed with ACT and corrected by ACT during the audit. As a result, ACT issued restated financial statements on 6 June 2014 (reference 7000 TSC MBX 0010/FC-51-14) which were audited by the Board.

#### **Recommendation**

1.3 The Board recommends ACT to establish robust verification procedures of the figures and other information in the financial statements before its final issuance.

#### ***Management's formal comments***

*Para 1.3 - Concur with the recommendation. ACT financial management will implement a revised, more robust review procedure to ensure that clerical errors are corrected prior to publication of the 2014 financial statements.*

## **2. ACT HAS RETAINED FINANCIAL AND OTHER RISKS RELATED TO THE CMRE, DESPITE ITS FORMAL TRANSFER TO STO**

### **Reasoning**

2.1 NATO reform was, amongst other objectives, designed to increase the accountability and transparency of NATO activities (ref. PO(2010)0159).

### **Observation**

2.2 With agency reform, the Centre for Maritime Research (CMRE) was transferred to the Science and Technology Organisation (STO), an umbrella entity which covers many research activities in NATO. Furthermore, CMRE became a customer-funded entity as part of this reform. Despite this reform, though, the following key risks have been retained by ACT:

- The vessels which are used by CMRE for their research activities were not transferred to and re-registered with CMRE, but rather, remained with ACT. This exposes ACT to the financial costs associated with any damage caused or incurred by the vessels.
- The contracts to manage the vessels were not transferred to CMRE, but rather, remained with ACT. Therefore, ACT is a party to the contract with the operator, and therefore bears the associated financial risks, but has limited control over the operation of vessels.
- ACT remained the main customer of CMRE, providing about 97% of the funding to the CMRE in 2013. This was the case even though, according to interviews the Board held with ACT personnel, ACT utilizes CMRE research results to a limited extent. ACT requests the budget on the basis of CMRE needs. The CMRE related budget in 2013 exceeds EUR 26 million, more than 20% of ACT's total budget.

2.3 The Board understands that Council had originally approved that the vessels and related contracts should be transferred from ACT to CMRE by 31 December 2013. However, the transfer was postponed until 31 December 2015.

### **Recommendation**

2.4 The Board recommends that ACT, STO and their governing bodies should complete a thorough analysis of CMRE's activities with a view towards addressing the risks that ACT has retained related to CMRE. In particular, there should be a consideration of the outputs of the research, including its relevance to NATO's goals and other activities, as well as a further consideration of the operational model of the

vessels, taking into account ownership, accountability, governance and costs of the maritime research.

### **Management's formal comments**

*Para 2.4 - Concur with the recommendation. ACT welcomes the IBAN comments on both the output of CMRE and the control of the vessels. The resolution of these issues has wider NATO implications and is a challenge to which ACT's management is willing to contribute. The procurement of CMRE outputs is briefed to the Nations during the budget screening process and has been approved. The management of the vessels has been brought before the nations on several occasions and in view of the lack of viable alternatives, the nations decided that the date of vessel transfer should be postponed until the end of 2015.*

## **3. NO PROCESS IN PLACE TO IDENTIFY RELATED PARTY RELATIONSHIPS AND TRANSACTIONS**

### **Reasoning**

3.1 IPSAS 20, *Related Parties*, provides guidance on the identification of related party relationships and related party transactions. Paragraphs 25 and 27 of IPSAS 20 require the disclosure in the financial statements of such relationships and transactions. Such disclosures are required for accountability purposes.

### **Finding**

3.2 The Board found that ACT and the subcommands do not have a process in place to identify related party relationships and transactions. Without such a process, the ACT is not in a position to ensure the completeness of the related party information that it provides in the notes to the ACT Financial Statements.

3.3 Several other NATO bodies have initiated proactive procedures whereby certain members of the governing bodies, key management and staff have been asked to sign declarations of interest attesting to the fact that they don't have any related party relationships or transactions, or reporting those that they do have.

### **Recommendation**

3.4 The Board recommends that ACT and the subcommands initiate procedures whereby certain members of key management and staff are asked to sign declarations of interest attesting to the fact that they don't have any related party relationships or transactions, or reporting those that they do have.

### **Management's formal comments**

*Para 3.4 - Concur with the recommendation. The ACT Financial Controller will work with the Legal Advisor to develop a procedure whereby key members of staff are asked to sign declarations of any related party interests*

## **4. NON-COMPLIANCE WITH NEW REGULATIONS ON REPRESENTATION ALLOWANCES**

### **Reasoning**

4.1 In 2013, the North Atlantic Council (Council) issued updated rules and procedures relating to the receipt and use of representation allowances (PO(2013)0154). The new rules are applicable to all those in NATO entitled to such allowances and were to be effective on 1 June 2013. These allowances should now only be paid on a reimbursable basis, as opposed to being given to the recipient up-front, and the NATO bodies Financial Controllers are now responsible to ensuring the expenditures meet the criteria for reimbursement.

### **Finding**

4.2 The Board found that ACT and subcommands did not properly follow the new regulations as from 1 June 2013, but rather, continued to follow the previous regulations through 2013. The Board found that in 2014, ACT has started to develop detailed guidelines on the use of representation allowance.

### **Recommendation**

4.3 ACT should continue its work on developing and implementing procedures, in coordination with subcommands, in order to properly follow the newly issued regulations on the receipt and use of representation allowances.

4.4 Further, the Board recommends ACT to disclose information on representation allowance in the financial statements, as required by the Council approved procedures.

### **Management's formal comments**

*Para 4.3 - Partly concur with the recommendation. ACT is pleased that the IBAN recognizes the policy development work that had been undertaken to ensure the new regulations could be fully adopted by ACT Commands from 01 January 2014 and full disclosure will be included in the 2014 financial statements. In respect of the finding at paragraph 4.2, ACT management believes that this does not recognize that in the Military Command Structure, Representation Allowance is paid in full at the start of the financial year. It was*

*therefore simply not practical to introduce revised procedures at the mid-year point since the allowance had already been expensed. These expenses were recorded by Command Group staff and an overview was provided to the Financial Controller's staff at the end of 2013.*

## **Board Position**

The new rules for Representation Allowance were applicable from 1 June 2013 and according to Council guidance, a settlement of funds used in the period 1 January to 31 May 2013 should have taken place and any unused funds returned to ACT. As from 1 June 2013 the new procedures should have been implemented.

## **5. CONFIRMATION OF YEAR-END ASSETS AND LIABILITIES OUTSTANDING BETWEEN NATO ENTITIES**

### **Reasoning**

5.1 NATO bodies have significant transactions with other NATO bodies. For example, NCIA provides various services to ACT and ACT delivers services to ACO in relation to exercises. As a result of these transactions, there will be assets and liabilities outstanding between these NATO bodies at year-end. These assets and liabilities are recorded in the respective NATO bodies' financial statements.

### **Finding**

5.2 The Board found that ACT does not confirm outstanding year-end asset and liability balances between ACT and other NATO bodies (ACO, NCIA, etc.) with the other NATO body. Therefore, there is no certainty that the other NATO body agrees on the amount of the outstanding balances.

### **Recommendation**

5.3 The Board recommends ACT, as from 2014, to confirm the outstanding asset and liability balances it has with other NATO bodies as part of the preparation of the financial statements.

### **Management's formal comments**

*Para 5.3 - Concur with the recommendation. ACT financial management will confirm balances of outstanding assets and liabilities with major NATO entities prior to the production of the 2014 financial statements.*



## **6. NON-COMPLIANCE WITH IPSAS DISCLOSURE REQUIREMENTS**

### **Reasoning**

6.1 According to paragraph 127 of IPSAS 1, *Presentation of Financial Statements*, the notes shall disclose information required by IPSAS's that is not presented on the face of the statement of financial position, statement of financial performance, statement of changes in net assets/equity, or cash flow statement.

### **Finding**

6.2 The Board noted that ACT did not fully comply with all IPSAS disclosure requirements. The Board found that ACT should improve disclosure in areas such as related parties (IPSAS 20), segment reporting (IPSAS 18) and leases (IPSAS 13) as information required by IPSAS was not fully disclosed.

### **Recommendation**

6.3 The Board recommends ACT to continue to improve the note disclosures to fully comply with IPSAS requirements.

### ***Management's formal comments***

*Para 6.3 - Concur with the recommendation. ACT financial management will work to improve the notes relating to IPSAS disclosure requirements.*

## **7. LACK OF COMPLETE PROPERTY LISTINGS**

### **Reasoning**

7.1 According to Articles 18 and 26 of the Financial Rules and Procedures (FRP) for Military Headquarters and Agencies, the Property Accounting Officer is responsible for maintaining international property accounts for inventories of non-expendable and controllable property. Further, ACT Directive 60-1 establishes detailed procedures for property accounting.

### **Finding**

7.2 The Board in its Management Letter on the 2012 audit of the ACT Consolidated Financial Statements found that ACT HQ did not have an asset register for furniture and other non-expendable items except for vehicles where a list is maintained. For CIS equipment, the hand-over to NCIA is in process and is expected to take place in the summer of 2014.

7.3 In 2013, ACT HQ has established a list of furniture purchased as from January 2013. The list, though, is not complete as furniture received prior to 2013 is not recorded on the list. Further, no central inventory list exists of other non-expendable property, such as cameras, lenses, GPS', projectors or CIS equipment which falls out of the NCIA responsibility.

7.4 As no central inventory list exists, periodic reviews of property controlled by ACT have not taken place.

### **Recommendation**

7.5 The Board recommends ACT HQ to establish and maintain a complete asset register of all international property controlled by ACT as required by the FRP's and ACT Directive 60-1. ACT should ensure that the hand-over to NCIA of CIS-equipment clearly specifies equipment that remains under the control of ACT.

### ***Management's formal comments***

*Para 7.5 - Concur with the recommendation. ACT financial management has taken steps to achieve full compliance with property accounting procedures.*

## FOLLOW-UP OF PREVIOUS YEARS OBSERVATIONS

The Board reviewed the status of the observations and recommendations arising from the previous audit. The observations and their status are summarised in the table below.

### **Management's formal comments**

*ACT management is pleased to note that all but three of the prior year's observations are settled.*

### **Status of previous years' observations**

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p><b>(1) ACT FY 2012</b>  <b>IBA-AR(2013)21, paragraph 5.1</b>  <b>The transferring of the Centre for Maritime Research &amp; Experimentation (CMRE) to the Science &amp; Technology Organisation (STO)</b></p> <p><b>Board's recommendation</b>  The Board recommends that Council gives clear and timely guidance on how to dissolve and change NATO entities, including from a financial reporting perspective, to ensure that future restructuring of NATO entities is properly handled.</p> <p>The Board recommends that, for future NATO reorganisations, the Council considers that the effective date of the reorganisation be at the start of a calendar year rather than during the year. This will reduce the burden on the impacted NATO bodies.</p> <p>The Board recommends that CMRE and STO recognise any outstanding balance of cruise leave at 31 December 2013 in the STO Consolidated Financial Statements for 2013.</p>	<p>The STO recognized the outstanding balance of cruise leave in its 2013 Financial Statements.</p>	<p>Observation <b>Settled</b>.</p>
<p><b>(2) ACT FY 2012</b>  <b>IBA-AR(2013)21, paragraph 5.2</b>  <b>Property, Plant &amp; Equipment (PP&amp;E) and Intangible Assets</b></p> <p><b>Board's recommendation</b>  The Board recommends that now that an adapted IPSAS framework has been approved with different requirements for PP&amp;E compared to IPSAS 17, ACT should develop a detailed accounting policy on PP&amp;E and ensure</p>	<p>In the 2013 Restated ACT Financial Statements, ACT discloses required information according to the adapted NATO Accounting Framework.</p>	<p>Observation <b>Settled</b>.</p>

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
sufficient note disclosures on PP&E in future financial statements.		
<b>(3) ACT FY 2012</b> <b>IBA-AR(2013)21, paragraph 5.3</b> <b>Long Outstanding Receivables from nations in ACT HQ</b>  <b>Board's recommendation</b> The Board recommends that ACT coordinates with the nations, and that nations co-operate to ensure the payment of the long outstanding receivables as soon as possible.	As of 31 December 2013, EUR 1.1 million of receivables from nations had been outstanding for more than 360 days and remained uncollected as of 23 May, 2014. During 2013, ACT had not taken any action to collect the funds.	Observation <b>Outstanding.</b>
<b>Management's formal comments</b>  <i>ACT financial management will focus efforts on actioning these receivables and bring the major concerns to the attention of the nations.</i>		
<b>(4) ACT FY 2012</b> <b>IBA-AR(2013)21, paragraph 5.4</b> <b>Weaknesses in the process of identifying accrued expenses - JWC and ACT HQ</b>  <b>Board's recommendation</b> The Board recommends that ACT follows their accrual policy and ensures that expenses are well analysed and based on the accrual principle, and are charged to the financial year in which they are incurred in accordance with IPSAS.	The Board did not find any weaknesses in the identification of accrued expenses in the financial year 2013.	Observation <b>Settled.</b>
<b>(5) ACT FY 2012</b> <b>IBA-AR(2013)21, paragraph 5.5</b> <b>Weaknesses in the procurement process – JWC and ACT HQ</b>  <b>Board's recommendation</b> The Board recommends JWC and ACT HQ to strengthen the internal controls in the area of procurement in order to ensure that contracts are always signed appropriately and the correct bidding procedures is applied in accordance with the NFRs.	The Board found 3 instances of non-compliance with bidding requirements in JWC from a sample of 16 procurement actions performed in 2013. 2 of these related to cases where competitive bidding should have been used, but was not, and 1 related to a case where restricted bidding was used (tenders from 3 suppliers) but formal bidding	Observation <b>Outstanding.</b>

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
	(formal tenders from 5 suppliers) should have been used. In all of these cases, there was no evidence that a request for deviation from the normal bidding procedures was provided to or approved by the Financial Controller. Further, in 2 cases, the actual contract amount was approximately twice the amount originally estimated during the bidding procedures. This indicates that the process of estimating the amount of required goods or services needs to be improved. This is important because the estimated amount is used as the basis for determining the level of bidding performed.	
<b>Management's formal comments</b>  <i>ACT management is pleased that no further instances were found at HQ SACT during this 2013 audit. Work will continue with JWC P&amp;C staff on the specific areas identified during the 2013 audit.</i>		
<b>(6) ACT HQ FY 2010</b> <b>IBA-AR(2011)22 paragraph 5.4.3</b> <b>Potential improvements to the information provided in the Notes to the Financial Statements</b>  <b>Board's recommendation</b> The Board recommends that ACT makes further improvements to footnote disclosures in accordance with the requirements of IPSAS 1.	In the 2013 Restated Financial Statements, ACT improved the information provided in the notes.	Observation <b>Settled</b> .
<b>(7) ACT HQ FY 2010</b> <b>IBA-AR(2011)22 paragraph 5.4.5</b> <b>Compliance with IPSAS disclosure requirements</b>  <b>Board's recommendation</b> The Board recommends that ACT continues to improve disclosures in relation to accounting policies; Property, Plant and Equipment; Revenue from non Exchange Transactions, and Presentation of Budget Information.	The Board found that ACT did not comply with all IPSAS disclosure requirements in the 2013 Restated Financial Statements.	Observation <b>Superseded by current year observation 7 above</b> .

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p><b>(8) ACT HQ FY 2010</b>  <b>IBA-AR(2011)22 paragraph 5.4.6</b>  <b>The management of the newly established Voluntary National Contribution Fund</b></p> <p><b>Board's recommendation</b>  The Board recommends that ACT HQ opens a separate bank account to be able to account for the funds received and interests according to the establish guiding principles.</p> <p>Also, the Board recommends ACT disclose information on fund activities in the financial year in the financial statements.</p>	<p>The trust fund was closed in the beginning of 2013 and funds transferred back to participating nations correctly.</p> <p>The Board noted, though, that ACT does not disclose information on trust fund activities undertaken in 2013 in the 2013 financial statements. The Board recommends ACT to improve disclosure of non-common funded activities carried out by ACT.</p>	<p>Observation  <b>Outstanding.</b></p>
<p><b>Management's formal comments</b></p> <p><i>ACT will enhance the disclosure of information on trust fund activities in the Notes to the 2014 financial statements.</i></p>		
<p><b>(9) ACT HQ FY 2007 and FY 2006 Consolidated Financial Statements – Presentation</b>  <b>IBA-AR(2008)23 paragraph 5.8</b>  <b>IBA-AR(2007)23 paragraph 5.7</b></p> <p><b>Board's recommendation</b>  While progress in footnote disclosure has been made, further improvements to footnote disclosure, as follows, should be implemented.</p> <p>(d) Further information on contractor and consultant costs as they represent a large portion of ACT costs.</p> <p>ACT should continue to improve the presentation of the supporting notes.</p>	<p>ACT, in Note 13 to the 2013 Restated Financial Statements, discloses information on significant contractors.</p>	<p>Observation  <b>Settled.</b></p>

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## **FINANCIAL CONTROLLER'S FOREWARD AND REPORT ON THE 2013 ACT FINANCIAL STATEMENTS**

1. The Allied Command Transformation (ACT) Annual Financial Statements for the ACT Group of Budgets cover the period of 1 January 2013 to 31 December 2013 and have been prepared in accordance with the NATO Financial Regulations (NFRs), as well as International Public Sector Accounting Standards (IPSAS) as decided in 2002 by the North Atlantic Council (NAC) and subsequently modified by their decision to introduce the NATO Adapted Framework.

2. These Financial Statements should be read in conjunction with the ACT Annual Report and together, both documents provide visibility to the Nations on how ACT executed its 2013 programme, committed its resources, and contributed to Alliance Capabilities in accordance with the NATO Military Authorities (NMA) Strategic Priorities and Objectives (SPO) 2013 – 2017. The format follows Military Committee (MC) guidance and seeks to ensure that ACT's work is totally transparent.

### **FINANCIAL SUMMARY**

3. On 1 January 2013, ACT was awarded a budget of €126.675M (based on September 2012 exchange rates). It should be noted that effective 1 January 2013, the NATO Undersea Research Centre (NURC)(now the Centre for Maritime Research and Experimentation (CMRE)) was no longer part of the ACT structure. However, also effective 1 January 2013, ACT assumed responsibility from Allied Command Operations (ACO) for the execution of the Exercise budget.

4. With the finalization of the 2013 accounts ACT had, as at 31 December 2013, committed €123.18M or 97.3% of the total 2013 budget, resulting in ACT lapsing approximately €3.47M. This is somewhat anomalous when compared to previous year execution rates, which have historically been in the range 99.0 to 99.9% as shown below.

%	2008	2009	2010	2011	2012	2013
ACT Budget Execution	99.8	99.76	99.9	99.58	99.02	97.3

5. It should also be noted that ACT requested and received authorisation for a Special Carry Forward of €2.7M within the 255 JWC Budget and 258 ACT POW Budget. This figure is included in the €123.18M committed. Without this carry forward ACT execution would have dropped to €120.48M or 95.1%.



6. An examination of budget commitment and expenditure by input category indicates that 23% was expended on Chapter 71 (Personnel Costs)(compared to 37% in 2012); 77% was expended on Chapter 72 (Contractual Supplies and Services)(compared to 61% in 2012); and less than 1% was expended on Chapter 73 (Capital Investment)(compared to 2% in 2012). The commitment pattern is consistent with the migration of the CMRE to a service supplier and the addition of the Exercise budget, both of which have the majority of their expenditure in Chapter 72.

7. ACT continues to be a good custodian of the Nation's funds. For the 2012 Financial Statements, the International Board of Auditors for NATO (IBAN) issued an unqualified opinion on whether the activities, financial transactions and information reflected in the 2012 financial statements were, in all material respects, in compliance with authorities which govern them. However, the IBAN did issue two technical accounting qualifications. The first related to material misstatements arising from consolidating the CMRE's Charter and Supplementary Work Programme (SWP) activities into the 2012 Financial Statements of ACT. The second related to non-recognition of Property, Plant & Equipment (PP&E) as required by IPSAS 17. For both of these qualifications, the IBAN recognised the unique nature of 2012 as a transitional financial year. The CMRE transferred to the Science & Technology Organisation (STO) as of 1 July 2012, and the North Atlantic Council (NAC) issued their Adapted Framework document, which impacted how NATO entities would report PP&E, as of 1 January 2013.

## **SIGNIFICANT ACTIVITY**

8. Supreme Allied Commander Transformation's (SACT) stated mission is to contribute to a secure future for the Alliance, and its nations, by leading the transformation and continuous improvement of military structures and capabilities; in particular enhancing the preparation, military effectiveness and interoperability of their forces.

9. In order to ensure the success of this mission, the Command developed, in 2013, a SACT Strategic Campaign plan. This plan forms the basis of ACT's programme of work and identifies, the Command's end state, centre of gravity, strategic objectives, lines of operation and integrated activities.

10. The Strategic Campaign Plan is constructed around four Strategic Objectives. Collectively, these represent the Command's goal of supporting a collective set of national forces, available to the Alliance, that are interoperable, and possess the full range of capabilities and structures for the Alliance that are sufficiently dynamic to meet its level of ambition in a rapidly evolving security environment.

11. Each Strategic Objective is broken down into one or two specific lines of operation, and these are further delineated into integrated and cross functional activities.

**Strategic Objective (SO) 1. Lead NATO's military transformation and develop capabilities to address defence and security challenges.**

12. The year 2013 was fruitful for ACT's contribution to the development of NATO Strategic Thinking. The Long-Term Military Transformation (LTMT) programme was launched in September with the Strategic Foresight Analysis (SFA) setting the intellectual foundation to develop the Framework for Future Alliance Operations (FFAO). By design, SFA and FFAO will together improve the Alliance's long-term perspective of the security environment to support and inform the NATO Defence Planning Process (NDPP), as well as other processes that require an assessment of the future.

13. ACT successfully met its NDPP Step 3 responsibilities by completing 28 Joint Consultations, handing over the leadership of the target setting process and 29 draft target packages to the International Staff. ACT also started its Step 5 responsibilities by completing 22 of 28 draft Bi-SC Impact Analysis Statements. In addition, over the year ACT has tracked and managed some 253 NATO future capabilities and groupings of capabilities.

14. The release of the final draft of the NATO Federated Mission Networking Implementation Plan was a key achievement for ACT as part of the development of the Connected Forces Initiative (CFI). This document sets the stage for future operational interoperability.

15. Training in support of interoperability and readiness made significant progress. During 2013, exercise planning increased to either 4 or 5 major exercises per year, meaning that HQ SACT is simultaneously involved in planning 8 – 10 exercises for execution in 2014 and 2015. The approval of 8 education and training plans in different areas, and the e-learning expansion are also notable achievements.

16. The approval of the NATO Common Funded Capability Package 0A1303 Revision 1 in July was a key milestone and has materialized ACT's support to Ballistic Missile Defence (BMD) capability implementation.

17. Following a Military Committee (MC) requirement to "re-energise" NATO Doctrine, ACT has undertaken a number of important steps to re-establish a solid doctrine development process. This has included the production of a draft campaign plan in line with the programme of work of the Allied Joint Operations Doctrine Working Group as required in AAP-47; the plan expresses the nation's prioritized list of doctrine development to be accomplished in the coming years.

**SO2. Improve NATO's operational commanders' and operational partners' ability to conduct current and future operations in accordance with NATO's level of ambition.**

18. SACT's support to current and future operational training continued with both the Joint Warfare Centre (JWC) and Joint Force Training Centre (JFTC) completing a wide array of training activities. Once again, main focus was on the International Security Assistance Force (ISAF) pre-deployment preparation, together with NATO Command Structure (NCS), NATO Force Structure (NFS), and NATO Response Force (NRF) training. However, the process of reorienting activities to the post-International Security Assistance Force (ISAF) era has been initiated.

19. ACT made steady progress throughout 2013 in the area of Cyber Defence. The most significant progress was made in the areas of education, training, and exercises, as well as in the documental, conceptual and Lessons Learned areas.

20. ACT also supported the Communication and Information Systems (CIS) progression towards the goal of achieving the Bi-SC Automated Information Systems (AIS) and Alliance Ground Surveillance (AGS) CIS as part of delivery against the Lisbon Critical Capabilities.

**SO3: Support the Alliance's efforts to influence its security environment.**

21. ACT implemented its maritime Science & Technology programme of work for the first time in a customer-funded approach. It was executed by the CMRE, and addressed several shortfalls offering innovative solutions to the NATO navies.

22. Within the Conference of National Armaments Directors (CNAD) noted Framework for Collaborative Interaction, ACT continued to foster collaboration with industry on specific topics such as BMD, mobile computing and cyber security.

23. ACT recognized the value of Centres of Excellence (COEs) as transformational agents and has increased the level and emphasis of staff involvement in the COE Requests for Support (RFS) process. ACT has assigned a Flag or General Officer and a designated Subject Matter Expert to each COE in order to obtain the maximum benefit from their expertise.

24. The new NATO Command Structure has succeeded in maintaining military cooperation and the delivery of partnership programmes, undertaking an extensive programme of activities over the year, with an important impact in operations, cooperation, education and training and interoperability.

25. During 2013 HQ SACT began to play a much larger role in activities with the United Nations (UN). In addition, ACT strongly contributed to the reinforcement of relationships between NATO and the European Union (EU) as a unique and essential Alliance partner.

**SO4: Enhance the Alliance's resilience with a SC for transformation that remains relevant in the execution of NATO's objectives.**

26. ACT continues to enhance its engagement with academic institutions, building further relationships with academia and think tanks, as well as strengthening its existing programme to engage young professionals.

27. ACT has had regular engagements with US representatives to maintain the Transatlantic Link, working to strengthen alignment and understanding on the expectations and efforts of both sides of the Alliance, Europe and North America.

28. ACT took the opportunity to modify some aspects of the Headquarters' structure to reflect the experience gained since the last Peacetime Establishment (PE) review and following MC direction. ACT also took on the overall responsibility for managing NATO collective training and exercises without any further expansion of its PE.

**LOOKING AHEAD**

29. For the upcoming year, SACT's overarching goal, as articulated by his priorities, remains unchanged.

30. Implementation of the CFI is ACT's first priority and indeed of the highest importance for the Alliance. Having now assumed full responsibility for all training and exercises, ACT is implementing the approved elements of the plan in close coordination with ACO. Furthermore, to ensure that CFI remains wedded to the military objectives it is designed to support, it continues to be synchronized with and supportive of ACO requirements. ACT is also committed to the development of a dynamic training system through a systematic adoption of experimentation, innovation and lessons learned.

31. The reinforcement of the Transatlantic Link is ACT's second priority and a vital and highly visible element of Alliance cohesion. The implications of nations' post-Afghanistan reshaping of forces as well as the growing capability gap resulting from shrinking defence budgets must be addressed. Burden sharing and nations' reshaping efforts cannot be separated and should be considered simultaneously in order to minimize NATO's strategic risk.

32. With regards to the rationalization and optimization of the design and development of current and future capabilities, through enhanced NDPP, ACT will continue to propose innovative options for capability development along three lines of effort. The first strand of work pertains to refining the process. With a view to maximizing transparency and working closely with the International Staff, ACT is

focusing on improving the visibility and clarity of the outputs for the nations, in particular at the political level. The second strand of work aims to improve the relevance of products to best support the Alliance in their decision making, while the third strand seeks to extend the ACT planning horizon with a view to enabling the Alliance to be better prepared in the long-term. This work seeks to distill the broad strategic insights and military implications from SFA's conclusions and to develop them for presentation in the FFAO, which will contribute to the identification of the future required military capabilities of the Alliance.

33. Last, but not of lesser importance, Partnership has inroads throughout ACT's entire programme of work and therefore, within the agreed framework, ACT will seek a deeper cooperation with Partner nations, international organizations (in particular EU) and external partners such as think tanks, academia and industry. To pursue the further enhancement of cooperation and engagement, ACT will conduct frequent national visits, NATO Industry Forum, Strategic Military Partner's Conference. In addition, specific efforts aimed at building bridges with EU/EDA, UN, and the International Committee of the Red Cross (ICRC) will be undertaken.

34. In conclusion, in the upcoming year, ACT will maintain these four priorities and support the implementation of initiatives to which the nations are already committing themselves. Moreover, in preparation for the upcoming summit, ACT's output and substantive events, including the NATO Transformation Seminar, will focus effort upon the proposals and development of solutions to our most pressing issues with particular attention to maintaining and developing a strong transatlantic link.

## **IPSAS COMPLIANCE**

35. The NAC decision to adopt IPSAS from the 2006 Financial Statements onwards resulted in ACT striving to become IPSAS compliant. ACT was pleased to achieve an unqualified audit opinion from the IBAN in respect of the 2008, 2009 & 2010 financial statements. In respect of the 2011 and 2012 statements, ACT received technical qualifications resulting from efforts to strive to meet the requirements of IPSAS 17. The IBAN report on the ACT 2011 and 2012 Consolidated Financial Statements stated that *"the Board issued an unqualified opinion on whether the activities, financial transactions and information reflected in the financial statements are, in all material respects, in compliance with authorities which govern them."*

36. The struggles of many NATO entities in meeting the requirement of accounting for PP&E lead the NAC to endorse the NATO Adapted Accounting Framework for all NATO Reporting Entities. This is an adapted version of IPSAS as issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants. The Accounting Framework for NATO was developed to provide minimum requirements for financial reporting for all NATO Reporting Entities. Following the NAC endorsement on 14 February 2013, the adapted Accounting Framework forms the basis of these 2013 ACT financial statements

## **REPORT ON THE STATEMENTS**

37. 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 2013.

## **STATEMENT ON INTERNAL CONTROL**

### **The Scope of Responsibility**

The Commander and the ACT Financial Controller are jointly responsible for reviewing the effectiveness of the systems of internal control. In addition, the ACT Financial Controller has responsibility for maintaining a sound system of internal financial control that supports the achievement of the Command's policies, aims and objectives, as set out by the Nations, and to safeguard the Command's funds and assets so as to preclude any fraud, waste and abuse.

In addition, the ACT Financial Controller has personal responsibility for safeguarding the Nations' common funds and assets, in accordance with the responsibilities assigned to him in the NATO Financial Rules and Regulations.

### **The Purpose of the System of Internal Control**

The system of internal controls is designated to manage risk to a reasonable level rather than eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The Command's system of internal control is based on an ongoing process to identify, and prioritise, the principal risks to the achievement of the Command's policies, aims and objectives, to evaluate the nature and extent of those risks being realised, and to manage them efficiently, effectively and economically.

A system of internal control has been in place, throughout the Command, during the year ended 31 December 2013 and up to the date of publication of the 2013 Consolidated Financial Statements; this accords, where relevant, with nations' guidance.

### **Governance and Internal Control**

Managers, throughout the Command, undertake development and maintenance of the system. In particular it includes:

- Comprehensive budgeting systems with an annual budget that is agreed as part of NATO's resource management process;
- Regular in year management reviews, by the Command's Management Board, of financial reports. These include financial reports which highlight financial performance against the forecasts;
- Setting targets to measure financial and other performance;
- Clearly defined capital investment control guidelines;

- Formal project management disciplines.

In addition, the Command's Code of Conduct is designed to ensure that all members of staff are conscious of their individual responsibilities for ensuring that the Command's governance processes are operating in an efficient and effective manner.

## **Review of Effectiveness**

The Supreme Allied Commander Transformation and the ACT Financial Controller have a joint responsibility for reviewing the effectiveness of the Command's systems of internal control. Our review of the effectiveness of these systems is informed by the work of the managers within the Command who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their reports.

We are committed to a policy of continuous improvement to examine the existing internal processes within the organisation and to provide a comprehensive and forward looking process of risk management, compliance and assurance.

The Command is continuing to undertake a programme of developing, and enhancing, a comprehensive set of financial procedures and regulations.

During 2013, the review and update of all extant Standard Operating Procedures on accounting policies, internal control, purchasing and contracting, and asset identification and monitoring was completed. This was approved by Command Management and implemented throughout ACT.

In addition, 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; and
- Effective controls are in place, areas of concern are being highlighted and, where necessary, effective remedial action is undertaken;

Reviews of the effectiveness of the system of internal control are enhanced by:

- The executive managers, within the organisation, who have responsibility for the development and maintenance of the internal control framework; and



- Comments made by the external auditors in their annual audit report, or management letters.

**ACT CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**FOR THE YEAR ENDING 31 DECEMBER 2013**  
**(EUR)**

<b>ASSETS</b>	<b>Notes</b>	<b>2013</b>	<b>2012</b> <b>(adjusted - see note1)</b>	<b>2012</b> <b>(as published &amp; audited)</b>
<b>Current Assets</b>				
<b>Cash and Cash Equivalents</b>				
<i>Cash and Cash Equivalents</i>	2	62,504,003	39,675,357	43,501,899
<b>Receivables</b>				
<i>Receivables</i>	3	14,345,726	17,182,557	18,410,503
<i>BC Contributions</i>	3	0	13,042,039	13,042,039
<b>Prepayments &amp; Miscellaneous Assets</b>				
<i>Prepayments</i>	4	480,564	104,048	151,639
<i>Advances to Non Consolidated Entities</i>	5	4,093,121	4,754,611	4,754,611
<b>Total Current Assets</b>		<u>81,423,414</u>	<u>74,758,612</u>	<u>79,860,891</u>
<b>Non-Current Assets</b>				
<i>Land and buildings</i>		0		
<i>Ships</i>		0		
<i>Plant and equipment</i>		0		
<b>Total Non Current Assets</b>		0	0	0
<b>TOTAL ASSETS</b>		<u>81,423,414</u>	<u>74,758,612</u>	<u>79,860,891</u>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
<i>Payables</i>	6	20,323,877	17,688,837	18,040,492
<i>BC Unearned Revenue</i>	7	23,609,771	20,277,493	20,277,493
<i>Other Unearned Revenue</i>	7	1,214,865	1,036,357	1,744,727
<i>Advance Contributions</i>	8	35,896,517	35,268,618	35,268,618
<i>Other Advances</i>		137,135	153,133	1,231,872
<i>Invoices to be Received</i>		241,250	334,174	334,174
<b>Total Current Liabilities</b>		<u>81,423,414</u>	<u>74,758,612</u>	<u>76,897,376</u>
<i>Non Current Liabilities</i>		0	0	0
<b>TOTAL LIABILITIES</b>		<u>81,423,414</u>	<u>74,758,612</u>	<u>76,897,376</u>
<b>NET ASSETS</b>	10	<u>(0)</u>	<u>(0)</u>	<u>2,963,515</u>

ACT CONSOLIDATED STATEMENT OF NET ASSETS & EQUITY  
FOR THE YEAR ENDING 31 DECEMBER 2013  
(EUR)

NET ASSETS AND EQUITY	Notes	2013	2012 (adjusted - see note15)	2012 (as published & audited)
Net Capital Contributed by Nations	10			
Accumulated Surpluses/Defecits				
Accumulated Surpluses/ Deficits as of 31 Dec prior year		0	0	2,785,896
Accumulated Surplus/Deficit for the Period		0	0	177,619
Depreciation of Nation's Capital Contributions for the period			0	
Net Surlus/(Deficit) For The Year		0	0	177,619
Unrealised Gains & Losses				
Unrealised Translation I-E Gain on consolidation		0		
		0	0	0
TOTAL NET ASSETS & EQUITY	10	0	0	2,963,515

**ACT CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE**  
**FOR THE YEAR ENDING 31 DECEMBER 2013**  
**(EUR)**

	Notes	2013		2012 (adjusted - see note1)		2012 (as published & audited)
<b>OPERATING REVENUE</b>						
<i>Assessment Calls</i>	11	118,011,501		111,616,053		111,616,053
<i>Charter/SWP Revenue</i>		0		0		1,138,093
<i>Reimbursable Revenue</i>	12	14,143,986		17,266,781		19,803,481
<i>NSIP Revenue</i>	11	75,988		757,211		757,211
<i>Interest income</i>		255,069		309,268		321,375
<i>Realised Exchange Rate Gain</i>						199,422
<i>Other Income</i>	11	311,510		194,539		249,892
<b>Total Operating Revenue</b>			132,798,054		130,143,852	134,085,527
<b>OPERATING EXPENSES</b>						
<i>Personnel Costs</i>	13/14/18	26,635,708		41,884,000		41,884,000
<i>Contractual Supplies and Services</i>	13/18	89,834,432		68,232,248		68,232,248
<i>Capital and Investments</i>	13/18	1,609,858		1,881,467		1,881,467
<i>Charter/SWP Expenditure</i>		0		0		1,022,819
<i>NSIP Expenditure</i>		78,039		757,669		757,669
<i>Reimbursable Expenditure</i>	12	14,143,986		17,266,781		19,803,481
<i>Net Realised Exchange Rate Loss</i>		480,907		89,735		291,671
<i>Other Expenses</i>		15,124		31,953		34,553
<b>Total Operating Expenses</b>			(132,798,054)		(130,143,852)	(133,907,908)
<b>NET SURPLUS/(DEFICIT) FOR THE YEAR</b>			<u>(0)</u>		<u>0</u>	<u>177,619</u>

**ACT CONSOLIDATED CASHFLOW STATEMENT**  
**FOR THE YEAR ENDING 31 DECEMBER 2013**  
**(EUR)**

	2013	2012 (adjusted)	2012 (as published & audited)
<b>Cash Flow from Operating Activities</b>			
Surplus (deficit) from ordinary activities	0	0	177,619
Increase (decrease) in provisions	0	0	0
Increase (decrease) in payables	2,542,115	586,654	938,309
Increase (decrease) in unearned revenue	3,510,786	(7,036,501)	(6,328,130)
Increase (decrease) in advance contributions	627,899	4,717,690	4,717,690
Increase (decrease) in other advances	(15,998)	(1,072,380)	6,359
(Increase) decrease in Nation's Contribution receivable	13,042,038	(10,360,908)	(10,360,909)
(Increase) decrease in Receivables	1,310,626	1,632,919	404,974
(Increase)/decrease Reimbursable Receivables	1,526,206	(3,804,393)	(3,804,393)
(Increase)/decrease Advances / Prepayments	284,974	(262,152)	(309,943)
(Increase)/decrease Bad Debts	0	0	0
(Increase)/decrease in Inventories	0	0	0
	22,828,646	(15,599,070)	(14,736,043)
<b>Extraordinary Item</b>	0	0	0
<b>Net cash flow from operating activities</b>	22,828,646	(15,599,070)	(14,558,424)
transfer of 2011 equity to STO	0	(2,785,896)	0
Receipts from sale of investments	0	0	0
Purchase of PPE	0	0	0
<b>Net cash flow from investing activities</b>	0	(2,785,896)	0
<b>Cash flows from financing activities</b>			
Receipts from borrowings	0	0	0
Repayment of borrowings	0	0	0
<b>Net cash flows from financing activities</b>	0	0	0
<b>Net increase (decrease) in cash and cash equivalents</b>	22,828,646	(18,384,966)	(14,558,424)
<b>Effect of exchange rate changes on cash and cash equivalents on translation</b>			
<b>Cash and cash equivalents at beginning of period</b>	39,675,357	58,060,323	58,060,323
<b>Cash and cash equivalents at end of period</b>	62,504,004	39,675,357	43,501,899

ACT CONSOLIDATED BUDGET EXECUTION STATEMENT FOR  
THE YEAR ENDING 31 DECEMBER 2013

ALL FIGURES SHOWN IN THE APPROVED BUDGET CURRENCY

Budgets presented in  
approved Currency

	Initial Authorisation (BA1)	Movements	1st Mid Year Authorisation (BA2)	Movements	2nd Mid Year Authorisation (BA3)	Movements	Final Authorisation	Net Commitment	Actual Expenses	Total Commitment/Spend	Carry Forward	Lapse
<b>201 Budget - SACT HQ</b>												
<b>2013</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	17,792,582	(32,996)	17,759,586	128,561	17,888,147	(8,900)	17,879,247	166,681	17,339,290	17,505,971	166,681	373,276
Contractual Supplies & Services	5,819,893	(44,800)	5,775,093	194,339	5,969,432	58,659	6,028,091	2,057,584	3,773,506	5,831,090	2,057,584	197,001
Capital Investments	178,315	(1)	178,314	8,594	186,908	(2,284)	184,624	116,008	68,610	184,618	116,008	5
2013 Total	23,790,790	(77,797)	23,712,993	331,494	24,044,487	47,474	24,091,961	2,340,273	21,181,405	23,521,678	2,340,273	570,283
<b>201 Budget - SACT HQ</b>												
<b>2012</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	237,831	0	237,831	0	237,831	0	237,831	27,310	187,375	214,685	27,310	23,147
Contractual Supplies & Services	2,431,228	0	2,431,228	0	2,431,228	0	2,431,228	284,114	1,824,996	2,109,110	284,114	322,118
Capital Investments	139,161	0	139,161	0	139,161	0	139,161	0	124,557	124,557	0	14,604
2012 Total	2,808,220	0	2,808,220	0	2,808,220	0	2,808,220	311,424	2,136,928	2,448,352	311,424	359,868
<b>201 Budget - SACT HQ</b>												
<b>2011</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	26,245	0	26,245	0	26,245	0	26,245	0	486	486	0	25,759
Contractual Supplies & Services	263,777	0	263,777	0	263,777	0	263,777	0	125,695	125,695	0	138,083
Capital Investments	13,760	0	13,760	0	13,760	0	13,760	0	5,000	5,000	0	8,760
2011 Total	303,782	0	303,782	0	303,782	0	303,782	0	131,181	131,181	0	172,603
<b>Budget 201 Grand Total</b>	<b>26,902,792</b>	<b>(77,797)</b>	<b>26,824,995</b>	<b>331,494</b>	<b>27,156,489</b>	<b>47,474</b>	<b>27,203,963</b>	<b>2,651,697</b>	<b>23,449,514</b>	<b>26,101,211</b>	<b>2,651,697</b>	<b>1,102,754</b>

Budgets presented in  
approved Currency

Initial Authorisation (BA1)	Movements	1st Mid Year Authorisation (BA2)	Movements	2nd Mid Year Authorisation (BA3)	Movements	Final Authorisation	Net Commitment	Actual Expenses	Total Commitment/Spend	Carry Forward	Lapse
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257 Budget - ACT USD Programme of Work

<b>2013</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	267,770	17,193	284,963	5,440	290,403	3,003	293,406	15,209	255,402	270,610	15,209	22,796
Contractual Supplies & Services	26,678,091	472,372	27,150,463	84,188	27,234,651	(909,607)	26,325,044	5,786,754	18,673,793	24,460,547	5,786,754	1,864,497
Capital Investments	0	0	0	0	0	0	0	0	0	0	0	0
2013 Total	26,945,861	489,565	27,435,426	89,628	27,525,054	(906,603)	26,618,451	5,801,963	18,929,195	24,731,157	5,801,963	1,887,293

257 Budget - ACT USD Programme of Work

<b>2012</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	346,203		346,203		346,203		346,203	50	324,523	324,573	50	21,630
Contractual Supplies & Services	6,962,185	0	6,962,185	0	6,962,185	0	6,962,185	1,378,177	5,284,041	6,662,219	1,378,177	299,967
Capital Investments	9,200	0	9,200	0	9,200	0	9,200	9,200	0	9,200	9,200	0
2012 Total	7,317,589	0	7,317,589	0	7,317,589	0	7,317,589	1,387,427	5,608,565	6,995,992	1,387,427	321,597

257 Budget - ACT USD Programme of Work

<b>2011</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	2,151	0	2,151	0	2,151	0	2,151	0	1,024	1,024	0	1,126
Contractual Supplies & Services	701,535	0	701,535	0	701,535	0	701,535	0	336,156	336,156	0	365,379
2011 Total	703,686	0	703,686	0	703,686	0	703,686	0	337,181	337,181	0	366,505

<b>Budget 257 Grand Total</b>	<b>34,967,135</b>	<b>489,565</b>	<b>35,456,700</b>	<b>89,628</b>	<b>35,546,328</b>	<b>(906,603)</b>	<b>34,639,725</b>	<b>7,189,390</b>	<b>24,874,940</b>	<b>32,064,330</b>	<b>7,189,390</b>	<b>2,575,395</b>
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Budgets presented in  
approved Currency

Initial Authorisation (BA1)	Movements	1st Mid Year Authorisation (BA2)	Movements	2nd Mid Year Authorisation (BA3)	Movements	Final Authorisation	Net Commitment	Actual Expenses	Total Commitment/Spend	Carry Forward	Lapse
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**242 Budget NATO Underwater Research Centre / Centre for Maritime Research & Experimentation**

2012	€	€	€	€	€	€	€	€	€	€	€	
Personnel	59,452	0	59,452	0	59,452	0	59,452	0	19,926	19,926	0	39,526
Contractual Supplies & Services	1,933,633	0	1,933,633	0	1,933,633	0	1,933,633	0	1,494,719	1,494,719	0	438,915
Capital Investments	1,391,355	0	1,391,355	0	1,391,355	0	1,391,355	0	1,123,490	1,123,490	0	267,865
2012 Total	3,384,440	0	3,384,440	0	3,384,440	0	3,384,440	0	2,638,135	2,638,135	0	746,300

**242 Budget NATO Underwater Research Centre**

2011	€	€	€	€	€	€	€	€	€	€	€	
Personnel	2,947	0	2,947	0	2,947	0	2,947	0	(13,009)	(13,009)	0	15,956
Contractual Supplies & Services	491,519	0	491,519	0	491,519	0	491,519	0	363,892	363,892	0	127,627
Capital Investments	36,588	0	36,588	0	36,588	0	36,588	0	34,953	34,953	0	1,635
2011 Total	531,054	0	531,054	0	531,054	0	531,054	0	385,836	385,836	0	145,218
Budget 242 Grand Total	3,915,493	0	3,915,493	0	3,915,493	0	3,915,493	0	3,023,971	3,023,971	0	891,523

**252 Budget - Joint Analysis and Lessons Learned Centre**

2013	€	€	€	€	€	€	€	€	€	€	€	€
Personnel	825,185	0	825,185	40,648	865,833	(11,790)	854,043	10,142	837,402	847,544	10,142	6,499
Contractual Supplies & Services	2,041,431	0	2,041,431	(35,875)	2,005,556	11,790	2,017,346	136,893	1,856,775	1,993,668	136,893	23,678
Capital Investments	0	0	0	0	0	0	0	0	0	0	0	0
2013 Total	2,866,616	0	2,866,616	4,773	2,871,389	0	2,871,389	147,035	2,694,178	2,841,212	147,035	30,177

**252 Budget - Joint Analysis and Lessons Learned Centre**

2012	€	€	€	€	€	€	€	€	€	€	€	€
Personnel	1,150	0	1,150	0	1,150	0	1,150	0	1,150	1,150	0	0
Contractual Supplies & Services	162,058	0	162,058	0	162,058	0	162,058	0	157,980	157,980	0	4,078
Capital Investments	18,500	0	18,500	0	18,500	0	18,500	0	18,500	18,500	0	0
2012 Total	181,708	0	181,708	0	181,708	0	181,708	0	177,630	177,630	0	4,078

Budgets presented in  
approved Currency

Initial Authorisation (BA1)	Movements	1st Mid Year Authorisation (BA2)	Movements	2nd Mid Year Authorisation (BA3)	Movements	Final Authorisation	Net Commitment	Actual Expenses	Total Commitment/Spend	Carry Forward	Lapse
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#### 252 Budget - Joint Analysis and Lessons Learned Centre

<b>2011</b>	€	€	€	€	€	€	€	€	€	€	€
Contractual Supplies & Services	11,984	0	11,984	0	11,984	0	11,984	0	11,984	11,984	0
2011 Total	11,984	0	11,984	0	11,984	0	11,984	0	11,984	11,984	0
<b>Budget 252 Grand Total</b>	<b>3,060,308</b>	<b>0</b>	<b>3,060,308</b>	<b>4,773</b>	<b>3,065,081</b>	<b>0</b>	<b>3,065,081</b>	<b>147,035</b>	<b>2,883,791</b>	<b>3,030,826</b>	<b>147,035</b>
											<b>34,254</b>

#### 258 Budget - ACT Euro Programme of Work

<b>2013</b>	€	€	€	€	€	€	€	€	€	€	€
Personnel	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	44,589,959	421,508	45,011,467	(341,291)	44,670,176	428,984	45,099,160	3,481,752	41,421,006	44,902,758	3,481,752
2013 Total	44,589,959	421,508	45,011,467	(341,291)	44,670,176	428,984	45,099,160	3,481,752	41,421,006	44,902,758	3,481,752
											196,402

#### 258 Budget - ACT Euro Programme of Work

<b>2012</b>	€	€	€	€	€	€	€	€	€	€	€
Personnel	29,000	0	29,000	0	29,000	0	29,000	0	29,000	29,000	0
Contractual Supplies & Services	2,798,179	0	2,798,179	0	2,798,179	0	2,798,179	103,070	2,663,426	2,766,496	103,070
2012 Total	2,827,179	0	2,827,179	0	2,827,179	0	2,827,179	103,070	2,692,426	2,795,496	103,070
											31,683

#### 258 Budget - ACT Euro Programme of Work

<b>2011</b>	€	€	€	€	€	€	€	€	€	€	€
Personnel		0		0		0		0	0	0	0
Contractual Supplies & Services	713,427	0	713,427	0	713,427	0	713,427	0	624,324	624,324	0
Capital Investments		0		0		0		0	0	0	89,103
2011 Total	713,427	0	713,427	0	713,427	0	713,427	0	624,324	624,324	0
											89,103
<b>Budget 258 Grand Total</b>	<b>48,130,566</b>	<b>421,508</b>	<b>48,552,074</b>	<b>(341,291)</b>	<b>48,210,783</b>	<b>428,984</b>	<b>48,639,767</b>	<b>3,584,822</b>	<b>44,737,756</b>	<b>48,322,578</b>	<b>3,584,822</b>
											<b>317,189</b>

#### 259 Budget - ACT Exercise Budget

<b>2013</b>	€	€	€	€	€	€	€	€	€	€	€
Personnel	933,900	(173,000)	760,900	(17,400)	743,500	(163,033)	580,467	284,201	127,267	411,468	284,201
Contractual Supplies & Services	10,089,100	323,500	10,412,600	17,400	10,430,000	(925,474)	9,504,526	3,669,185	4,803,633	8,472,818	3,669,185
2013 Total	11,023,000	150,500	11,173,500	0	11,173,500	(1,088,507)	10,084,993	3,953,386	4,930,900	8,884,286	3,953,386
											1,200,707
<b>Budget 259 Grand Total</b>	<b>11,023,000</b>	<b>150,500</b>	<b>11,173,500</b>	<b>0</b>	<b>11,173,500</b>	<b>(1,088,507)</b>	<b>10,084,993</b>	<b>3,953,386</b>	<b>4,930,900</b>	<b>8,884,286</b>	<b>3,953,386</b>
											<b>1,200,707</b>

Budgets presented in  
approved Currency

255 Budget - Joint Warfare Centre

2013

	Initial Authorisation (BA1)	Movements	1st Mid Year Authorisation (BA2)	Movements	2nd Mid Year Authorisation (BA3)	Movements	Final Authorisation	Net Commitment	Actual Expenses	Total Commitment/Spend	Carry Forward	Lapse
	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK
Personnel	93,981,645	(5,505,667)	88,475,978	(1,500,000)	86,975,978	(2,053,677)	84,922,301	1,923,512	82,945,781	84,869,293	1,923,512	53,008
Contractual Supplies & Services	71,222,389	(994,334)	70,228,055	1,500,000	71,728,055	14,638,414	86,366,469	19,140,876	66,815,969	85,956,845	19,140,876	409,624
Capital Investments	0	0	0	0	0	0	0	0	0	0	0	0
2013 Total	165,204,034	(6,500,001)	158,704,033	0	158,704,033	12,584,737	171,288,770	21,064,389	149,761,750	170,826,139	21,064,389	462,631

255 Budget - Joint Warfare Centre

2012

	Initial Authorisation (BA1)	Movements	1st Mid Year Authorisation (BA2)	Movements	2nd Mid Year Authorisation (BA3)	Movements	Final Authorisation	Net Commitment	Actual Expenses	Total Commitment/Spend	Carry Forward	Lapse
	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK
Personnel	3,249,477	0	3,249,477	0	3,249,477	0	3,249,477	0	2,760,651	2,760,651	0	488,826
Contractual Supplies & Services	8,235,395	0	8,235,395	0	8,235,395	0	8,235,395	199,595	7,162,933	7,362,528	199,595	872,867
Capital Investments	0	0	0	0	-	0	-	0	0	0	0	0
2012 Total	11,484,872	0	11,484,872	0	11,484,872	0	11,484,872	199,595	9,923,584	10,123,179	199,595	1,361,693

255 Budget - Joint Warfare Centre

2011

	Initial Authorisation (BA1)	Movements	1st Mid Year Authorisation (BA2)	Movements	2nd Mid Year Authorisation (BA3)	Movements	Final Authorisation	Net Commitment	Actual Expenses	Total Commitment/Spend	Carry Forward	Lapse
	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK	NOK
Personnel	(19,213)	0	(19,213)	0	(19,213)	0	(19,213)	0	(22,713)	(22,713)	0	3,500
Contractual Supplies & Services	(21,662)	0	(21,662)	0	(21,662)	0	(21,662)	0	(491,670)	(491,670)	0	470,007
Capital Investments	0	0	0	0	0	0	0	0	0	0	0	0
2011 Total	(40,875)	0	(40,875)	0	(40,875)	0	(40,875)	0	(514,382)	(514,382)	0	473,507

<b>Budget 255 Grand Total</b>	<b>176,648,031</b>	<b>(6,500,001)</b>	<b>170,148,030</b>	<b>0</b>	<b>170,148,030</b>	<b>12,584,737</b>	<b>182,732,767</b>	<b>21,263,984</b>	<b>159,170,951</b>	<b>180,434,935</b>	<b>21,263,984</b>	<b>2,297,832</b>
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Budgets presented in  
approved Currency

Initial Authorisation (BA1)	Movements	1st Mid Year Authorisation (BA2)	Movements	2nd Mid Year Authorisation (BA3)	Movements	Final Authorisation	Net Commitment	Actual Expenses	Total Commitment/Spend	Carry Forward	Lapse
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**256 Budget Joint Forces Training Centre**

2013	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN
Personnel	5,881,936	(1)	5,881,935	43,304	5,925,239	(1,178,000)	4,747,239	164,873	4,543,635	4,708,507	164,873	38,732
Contractual Supplies & Services	20,235,418	1	20,235,419	(40,000)	20,195,419	(490,720)	19,704,699	5,324,000	14,255,582	19,579,583	5,324,000	125,116
Capital Investments	0	0	0	40,000	40,000	(10,000)	30,000	0	27,865	27,865	0	2,135
2013 Total	26,117,354	0	26,117,354	43,304	26,160,658	(1,678,720)	24,481,938	5,488,873	18,827,082	24,315,955	5,488,873	165,983

**256 Budget Joint Forces Training Centre**

2012	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN
Personnel	97,193	0	97,193	0	97,193	0	97,193	73,549	19,232	92,781	73,549	4,412
Contractual Supplies & Services	5,039,172	0	5,039,172	0	5,039,172	0	5,039,172	66,863	4,611,527	4,678,390	66,863	360,782
Capital Investments	844,778	0	844,778	0	844,778	0	844,778	15,400	839,090	854,490	15,400	(9,712)
2012 Total	5,981,143	0	5,981,143	0	5,981,143	0	5,981,143	155,811	5,469,849	5,625,661	155,811	355,483

**256 Budget Joint Forces Training Centre**

2011	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN
Personnel	4,764	0	4,764	0	4,764	0	4,764	0	0	0	0	4,764
Contractual Supplies & Services	182,662	0	182,662	0	182,662	0	182,662	0	0	0	0	182,662
Capital Investments	330,000	0	330,000	0	330,000	0	330,000	0	330,000	330,000	0	0
2011 Total	517,426	0	517,426	0	517,426	0	517,426	0	330,000	330,000	0	187,426

<b>Budget 256 Grand Total</b>	<b>32,615,923</b>	<b>0</b>	<b>32,615,923</b>	<b>43,304</b>	<b>32,659,227</b>	<b>(1,678,720)</b>	<b>30,980,507</b>	<b>5,644,684</b>	<b>24,626,931</b>	<b>30,271,616</b>	<b>5,644,684</b>	<b>708,892</b>
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## NOTES TO THE ACCOUNTS

### 1. STATEMENT OF ACCOUNTING POLICIES

#### Basis of Preparation

The financial statements of Allied Command Transformation (ACT) have been prepared on the accrual basis of accounting in accordance with the International Public Sector Accounting Standards (IPSAS) using the historic cost convention; as decided by the North Atlantic Council (NAC) in 2002 and subsequently modified by their decision to introduce the NATO Adapted Framework referred to below. Where an IPSAS does not address a particular issue, the appropriate International Financial Reporting Standard/International Accounting Standard has been applied. Additionally, these financial statements have taken account of the Adapted Framework issued by the NAC. They have also been prepared in accordance with the accounting requirements of the NATO Financial Regulations (NFR) and the associated Financial Rules and Procedures (FRP).

#### Measurement Base

The accounting principles recognized as appropriate for the measurement and reporting of the financial performance, cash flows, and financial position on an accrual basis using historical cost are followed in the preparation of the financial statements.

#### NATO Adapted Framework

The accounting framework for all NATO Reporting Entities is an adapted version of IPSAS as issued by the International Public Sector Accounting Standards Board of the International Federation of Accountants. This Accounting Framework for NATO was developed to provide minimum requirements for financial reporting for all NATO Reporting Entities following endorsement by the NAC on 14 February 2013 of an IPSAS-adapted Accounting Framework for the Alliance.

This Accounting Framework is applicable for financial reporting periods beginning on 1 January 2013 and is the basis for the preparation of these accounts. Currently the Accounting Framework allows variation from four IPSAS:

- IPSAS 6 - Consolidated and Separate Financial Statements
- IPSAS 12 - Inventories
- IPSAS 17 - Property, Plant, and Equipment
- IPSAS 31 - Intangible Assets

The objective of the adaptation to IPSAS 6 is to allow for the non-consolidation of Morale and Welfare Activities (MWA) and/or Staff Association activities. The objective of the adaptations to IPSAS 12, 17 & 31 is in the main to allow entities to expense all items acquired prior to the implementation date of 01 January 2013. Note 1 (viii) below refers.

#### Currency

The financial statements are presented in Euros (€) rather than the currency in which ACT is domiciled.

### **Accounting Policies**

The following specific accounting policies that materially affect the measurement of financial performance and the financial position are applied:

#### **i) Basis for Consolidation**

The consolidated financial statements, prepared in terms of IPSAS 6, *Consolidated and Separate Financial Statements*, include the financial results of ACT as the controlling entity exercising control over the controlled entities listed below. Inter-entity balances and transactions have been eliminated on consolidation.

- Joint Warfare Centre (JWC),
- Joint Force Training Centre (JFTC), and
- Joint Analysis and Lessons Learned Centre (JALLC),

As part of the Agency reform process in NATO, the NATO Undersea Research Centre (NURC) transitioned to the Centre for Maritime Research & Experimentation (CMRE) as of 01 July 2012, becoming part of the newly created Science and Technology Organisation (STO). The nations, through the Budget Committee (BC) (BC-DS(2012)0026 dated 18 June 2012), formally tasked the ACT Financial Controller with continuing to control and execute oversight of the Budget code 242 credits provided to ACT. The expenditures against the carry forward of this 242 budget from 2011 and 2012 are included in these financial statements. No budget 242 credits are carried forward to financial year 2014.

MWA is not consolidated as per the NATO Accounting Framework, which ACT has implemented from 01 January 2013.

#### **ii) Consolidated Cash Flow Statement**

The consolidated ACT Cash Flow Statement has been compiled using the indirect method.

The following are definitions of the terms used in the consolidated statement of cash flows:

- Cash and cash equivalents comprise cash on hand, current bank balances, and short-term deposits that can be converted to cash within two working days.
- Operating activities include all transactions and other events that are not investing or financing activities.
- Investing activities are those activities relating to the acquisition, holding, and disposal of fixed assets and investments. Investments can include securities not falling within the definition of cash.
- Financing activities are those activities that result in changes to the size and composition of ACT's capital structure. This includes both equity and debt not falling within the definition of cash.

#### **iii) Segmental Reporting**

The ACT consolidation group consists of a number of individual entities as detailed in Note 23. These entities are kept as separate segments for accounting purposes.

*The Statement of Accounting Policies and the accompanying notes form part of the financial statements.*

The individual accounts of these segments are balanced in their functional currency and the inter-entity transactions are removed on consolidation within the ACT group of accounts.

iv) Foreign Currency Transactions

Foreign currency transactions have been recorded in the entity's budget currency by applying the declared NATO exchange rate between the budget currency and foreign currency at the date of the cash outflow/inflow. Realised gains and losses resulting from the settlement of such transactions are recognised as revenue and expenses in the Statement of Financial Performance. Monetary assets and liabilities at year-end which were denominated in foreign currencies were translated into Euro using the NATO rates of exchange applicable at 31 December 2013.

On consolidation, unrealised translation gains and losses were recorded in the Statement of Financial Performance as a result of the application of weighted average rates of exchange throughout the year and in the Statement of Financial Position due to exchange rates applicable at 31 December 2013.

v) Cash and Cash Equivalents

Cash and cash equivalents are defined as current assets. They include cash on hand, deposits held with banks and other short-term, highly liquid investments, the carrying value of which approximate fair value due to their short maturities.

vi) Receivables

Receivables are stated at their estimated realisable value after providing for doubtful and uncollectible debts.

vii) Inventory

Inventories held across ACT are considered to be insignificant in terms of having a material impact on the financial statements. As such, ACT does not capitalise the limited inventory holdings but charges such costs to the Statement of Financial Performance when incurred.

Should an asset meet the definition of inventory as per IPSAS 12 (Inventories) and that individual item be considered material, such inventory shall be valued at the lower of historical cost or net realisable value. The Weighted Average Cost methodology is used to calculate the average historical cost held within inventory. Provision is made to reduce the carrying cost of inventory to the net realisable value where there is no expectation of consumption or sale in the ordinary course of business; such provision will be released to expenses on consumption, disposal and write off.

viii) Compliance with IPSAS

As stated above, the accounting framework for all NATO Reporting Entities was endorsed by the NAC on 14 February 2013. This is an adapted version of IPSAS and was developed to provide minimum requirements for financial reporting for all NATO Reporting Entities.

*The Statement of Accounting Policies and the accompanying notes form part of the financial statements.*

Several NATO entities, including ACT, had stressed that significant resources would be required to fully comply with IPSAS 17, accounting for Property, Plant & Equipment (PP&E). The resources identified were both for funding and manpower, and recognised the size of the task to capitalise previously expensed items. Several nations had questioned the benefit of diverting resources under the current resource constrained environment for the purpose of a technical accounting exercise. In view of the issues faced by many NATO entities, including ACT, the Resource Policy and Planning Board (RPPB) developed proposals for recommendation to the NAC.

For the 2011 financial statements, ACT adopted a limited approach to the introduction of PP&E and received a technical qualification from the International Board of Auditors for NATO (IBAN). This qualification was primarily due to the difficulty in establishing accurate valuations of assets, particularly buildings and the equipment installed within them. Although the majority of these buildings had not been purchased by ACT, they required reporting under IPSAS 17 as ACT had “control” over them whilst they remained in use by ACT.

For the 2012 financial statement process, ACT removed all PP&E reporting since at the time of preparation of these statements, the NAC had already approved the implementation of the Adapted Accounting Framework for the following year. During 2012 ACT had presented to the nations a resource requirement proposal that would support the full successful transition to adopting IPSAS 17. ACT had first set out its position, on the resources required for fixed asset capture and recognition, in 2004. Namely, that compliance could only be achieved if sufficient financial resources could be allocated to this task. Several nations could not support the allocation of scarce resources for this purpose and so ACT management took the decision not to fully implement PP&E accounting in 2012, when the requirement in 2013 would be modified. Again, ACT received a technical qualification from IBAN for not reporting PP&E since the NAC endorsed Adapted Accounting Framework was only applicable from 01 January 2013.

These financial statements for the year ending 31 December 2013 therefore represent the first year covered by the Adapted Accounting Framework. For 2013 the ACT Command decision was that it was not considered economically beneficial to divert scarce resources to tackle the valuation issues raised by the IBAN in their audit for the 2012 statements. Full compliance with IPSAS 17 would require resources to professionally identify and value the installed equipment throughout the entire ACT estate. Under the Adapted Accounting Framework, these assets are not included in the 2013 financial statements, as entities can elect to consider as expensed any assets acquired prior to 01 January 2013.

Consequently, ACT will only report against IPSAS 17, as modified by the NAC endorsed Adapted Accounting Framework. ACT has assessed the minimum capitalisation thresholds detailed in the Adapted Accounting Framework and decided to apply these levels. These capitalisation thresholds, together with the depreciation life and methodology are detailed on the table on the following page.



In addition to the standard assessment of “substance over form”, the ACT fixed assets policy to comply with IPSAS 17 on PP&E establishes the criteria to be used to assist in assessing the level of control that ACT has for reporting assets in its financial statements. Criteria that evidence the control of PP&E are detailed in that policy.

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

In accordance with the NAC approved Adapted Accounting Framework and the ACT policy on accounting for PP&E, consolidated entities will consider PP&E in the state of development at 01 January 2013 to have been acquired before 01 January 2013 and as such development costs incurred after 01 January 2013 shall be considered as fully expensed.

If the PP&E is upgraded the same capitalisation criteria as above will apply.

PP&E held prior to 01 January 2013, and not previously recognized as an asset, are disclosed in the table below:

<b>PP&amp;E category</b>	<b>Approximate number of items</b>	<b>Location of asset</b>	<b>comments</b>
Buildings	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	1 geographical HQ location	JWC, Stavanger, Norway	
Buildings	1 geographical HQ location	JFTC, Bydgoszcz Poland	
Buildings	1 geographical HQ location	JALLC, Lisbon, Portugal	
Vehicles	9	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	21	JWC, Stavanger, Norway	
Vehicles	7	JFTC, Bydgoszcz Poland	
Vehicles	4	JALLC, Lisbon, Portugal	
Ships	2	CMRE, La Spezia, Italy	Although located at CMRE, these vessels are under SACT control

The two research vessels referred to in the table above are solely used by the CMRE, located in La Spezia, Italy. As a result of the Command Structure Review and Agency Reform, on 01 July 2012 the NURC was integrated into the newly created NATO Science & Technology Organisation (STO) as the CMRE. Since 01 January 2013, the CMRE operates under a customer funded regime. SACT is currently the main customer to the CMRE, and will maintain custody of the vessels until 31 December 2015. C-M(2013)0069 dated 11 December 2013, and signed by the Secretary General, refers

During 2013, 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. No PP&E purchases were identified since 01 January 2013. A major construction project to extend the main building at HQ SACT in Norfolk is currently underway. This work is scheduled to be completed in late 2014 or 2015. This project is being separately funded by NSIP with the United States acting as Host Nation. Once completed, the asset will be handed over to ACT and recorded as PP&E.

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 ix) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rentals payable under operating leases are charged to the Statement of Financial Performance on a straight-line basis over the term of the relevant lease. At the balance sheet date, ACT had no outstanding commitments under non-cancellable operating leases.

x) Impairment

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down to its recoverable amount. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price or its value in use. Gains and losses on disposal are determined by comparing proceeds with carrying amounts and are included in the Statement of Financial Performance in the year concerned.

Repairs and maintenance are charged to the Statement of Financial Performance during the financial period in which they are incurred.

xi) Unearned Revenue and Advance Calls for Contributions

Revenue is defined as the contributions of the member nations which for the purposes of the financial statements equate to the budgetary cash costs of ACT, net of earned interest and any revenue in respect of other NATO bodies. As contributions from nations are recognised as non-exchange transactions, revenue is recognised when it is earned.

Unearned revenue represents the contributions received from Nations and/or third parties that have been called for current or prior year budgets but that have not yet been recognised as revenue.

Advance calls for contributions are contributions received related to future years' budgets.

xii) Current Loans

Inter-entity loans provided at 0% interest have been eliminated upon consolidation.

xiii) Payables

Payables are amounts due to third parties based on goods and services provided that remain unpaid. This includes an estimate of accrued obligation to third parties for goods and services received but not yet invoiced.

xiv) Provisions

Provisions are recognised when there is a legal or constructive obligation as a result

*The Statement of Accounting Policies and the accompanying notes form part of the financial statements.*

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of a past event, 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.

xv) Financial Instruments

ACT uses only non-derivative financial instruments as part of its normal operations. These financial instruments could include bank accounts, certificates of deposit, accounts receivable and accounts payable.

All financial instruments are recognized in the statement of financial position at their fair values.

xvi) Revenue

Revenue is the gross inflow of economic benefit or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.

Revenue for Administrative Budgets – Contributions to the Budget is initially recorded as unearned revenue liabilities in the Statement of Financial Position. They are recognised as revenue in the Statement of Financial Performance when such contributions are used for their intended purpose as envisioned in the operational budget.

xvii) Employee Entitlements

Employee entitlements to salaries, wages, annual vacation, pension costs, and other benefits are recognized when they are earned. Annual vacation and other leave have been calculated on an actual entitlement basis at current rates of pay.

ACT contributes to an employee defined contribution retirement benefit plan. Payments to the defined contribution retirement benefit plan are recognized as expenses as they become due.

xviii) Borrowing Costs

Borrowing costs are recognised as an expense in the period in which they occur unless they can be directly attributable to the acquisition, construction or production of a qualifying asset. In this case borrowing costs are capitalised as part of the cost of that asset.

xix) Taxation

Within the scope of its official activities, ACT's assets, property and income are exempt from all direct taxes and duties levied upon goods and services acquired or imported.

xx) Use of Estimates

In accordance with generally accepted accounting principles, the financial

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statements necessarily include amounts based on estimates and assumptions made by management using the most reliable information available to them.

Estimates include accrued revenue and expenses and actual results may differ from those estimates. Changes in estimates are reflected in the period in which they become known.

xxi) Contingent Liabilities

A contingent liability is defined as a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events wholly within the control of ACT; or a present obligation that arises from past events but is not recognised because the amount of the obligation cannot be measured with sufficient reliability.

xxii) Changes in Accounting Policies

The significant change in accounting policies for these ACT consolidated accounts relates to the introduction of the NAC endorsed Adapted Accounting Framework. See Note 1 above.

xxiii) Reclassifications

Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the presentation used for the year ended 31 December 2013.

The reclassifications had no effect on the previously reported deficit.

xxiv) Adjustment of prior year data

The IBAN audit report on the 2012 ACT consolidated financial statements (IBA-AR(2013)21) issued a qualification on the inclusion of the CMRE Ship's Work Program (SWP) and Charter Income (CI). The IBAN did recognise that ACT management had chosen to include the information to provide nations' with visibility of the data. ACT management's view was that the STO did not, at that time, have a mature financial structure, and so this CMRE activity would go unreported if ACT did not include it as in previous years.

These 2013 financial statements do not include this information as it will be reported by the STO. Consequently the prior year data is shown both as it was originally published and with the CMRE SWP and CI data removed.

Additionally, certain reimbursable activity has been excluded from these 2013 financial statements where ACT acts as an "Agent" rather than as the "Principle." Again, where this information was included in the 2012 financial statements, it has been removed from the adjusted 2012 figures. This mainly affects the Air Defence Ground cost share reimbursable activity managed by JWC.

## 2. CASH AND CASH EQUIVALENTS

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

	2013	2012 (adjusted)	2012 (as published)
Total Euro Accounts	33,152	15,017	18,338
Total non-Euro Accounts	29,352	24,658	25,164
	62,504	39,675	43,502

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 2013. The Euro account includes an amount of €248k which represents funds deposited by nations contributing to a voluntary national contribution fund operated by HQ SACT. Total deposits received by ACT during 2013 in relation to this fund amounted to €50k.

The increase in cash holdings is primarily due to the nations paying cash call contributions in full before the end of 2013. At the end of 2012 ACT was carrying a €13m receivable for unpaid contributions (Note 3 below).

## 3. RECEIVABLES

	2013	2012 (adjusted)	2012 (as published)
BC Contributions	0	13,042	13,042
Receivables	14,346	17,182	18,411
	14,346	30,224	31,453

As at 31 December 2013, ACT had received full settlement of the 2<sup>nd</sup> 2013 cash call and so no receivable is shown in the HQ SACT accounts. Non-cash call receivables were reduced during 2013 as reimbursable debts were collected.

## 4. PREPAYMENTS

The following prepayments were recorded:

	2013	2012 (adjusted)	2012 (as published)
Prepayments to 3rd Party Suppliers	480	104	152

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. ADVANCES TO NON CONSOLIDATED ENTITIES

The following advances were made:

	2013	2012 (adjusted )	2012 (as published)
NATO Communication & Information Agency	4,000	4,226	4,226
Other advances	93	528	528
Total advances	4,093	4,754	4,754

As a result of NATO Agency reform, the long standing advance of \$300k to the NATO CIS Services Agency (NCSA) was recovered from payments made during 2013.

## 6. ACCOUNTS PAYABLE

Accounts Payable is detailed below:

	2013	2012 (adjusted)	2012 (as published)
Suppliers	7,925	14,552	14,904
Staff Members	123	98	98
Non-Consolidated NATO Entities	12,242	3,008	3,008
Other payables	35	30	30
	20,324	17,688	18,040

The Accounts Payable in relation to Non-Consolidated NATO entities has increased significantly. This is primarily due to accruals, where a large number of goods and services were delivered by NATO entities but not invoiced until the following year.

## 7. UNEARNED REVENUE

Unearned revenue consists of contributions and other transfers received or receivable, but for which corresponding charges will be incurred after the reporting date. For the financial year ending 31 December 2013, €23.610m was attributable to BC Unearned Revenue (See Note 11).

An additional €1.215m is attributable to Other Unearned Revenue and this relates to funding that will be received from non consolidated sources.



## 8. ADVANCE CONTRIBUTIONS

Advance Contributions correspond to cash called from the Nations for the following financial year and represent approximately 25% of the total ACT budget allocation.

	2013	2012 (adjusted)	2012 (as published)
Advance Contributions	35,897	35,269	35,269
Less Contributions Receivable	0	13,042	13,042
Advance Contributions actually received	35,897	22,227	22,227

As outlined in Note 3 above, at 31 December 2013, ACT had received full settlement of the 2<sup>nd</sup> 2013 cash call

## 9. CONTINGENT LIABILITY

Contingent liabilities have been established under the criteria of IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*.

In the 2012 financial statements, ACT reported a contingent liability following a management review of the treatment of Cruise Leave at CMRE. This issue revolves around the earning of compensatory time off by CMRE staff while serving on their vessels at sea, which has been allowed to accumulate over the years. When the question of a “one time” payment was presented to the Budget Committee (BC) by the ACT Financial Controller, consensus could not be reached on a financial settlement to CMRE staff members (paragraph 2.6.6 of Budget Committee Decision Sheet BC-DS(2012)0061 refers). Consequently, it was the shared intention of ACT, CMRE, and STO to manage the liability over time, with employees taking time off until the balance of cruise leave days owed to them is exhausted.

With the transfer of the CMRE to the STO, it is ACT's view that this managed approach to the issue of Cruise Leave now becomes the responsibility of STO management.

## 10. NATIONS' EQUITY

The breakdown of Nations' Equity for 2013 is as follows.

Nations' Account	Total €'000
HQ SACT	0
JWC	0
JALLC	0
JFTC	0
Balance Carried Forward	0



## 11. REVENUE

Revenue is recognised to the extent that it is probable that the economic benefit will flow to ACT and that such revenue can be measured reliably. Contributions, when called, are booked as an advance under unearned revenue and subsequently recognised as revenue when earned.

The following key revenue items are presented:

<b>Recognised Revenue</b>	<b>2013</b>	<b>2012 (adjusted)</b>	<b>2012 (as published)</b>
Assessment Calls/Contributions	118,011	111,616	111,616
NSIP Revenue	76	757	757
Charter/SWP Revenue			1,138
Other income	312	195	250

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

	<b>Euro '000</b>	<b>USD '000</b>	<b>NOK '000</b>	<b>PLN '000</b>
Cash Receipt by currency during 2013	58,747	49,256	151,735	25,516
Amount in Euros (for comparison only)	58,747	37,082	19,338	6,048

Nations' contributions are set by the requirements of the Nations' cost shares, approved by the NAC. In this respect, the cash receipts in the table above represent the sums of money that Nations deposited on ACT bank accounts in relation to the two cash calls made by the NATO International Staff during 2013. Additionally, ACO transferred an amount of €1,946 to ACT during 2013. This related to the second 2012 cash call for the 157 Exercise budget, which included an advance for 2013. This Exercise budget was operated by ACT from 01 January 2013. ACT's end of year cash position reflects the fact that as per Note 3, the nations had settled all cash calls by 31 December 2013.

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Reconciliation of Revenue and Unearned Revenue:

Unearned Revenue - Opening Balance 1 January 2013 (31 December 2012 rate)		20,278
Unearned Revenue Translation adj 2012-2013	-382	
Advance Contributions from 2013	35,269	
Translation adjustment Adv Contributions	-606	
157 Budget Cash Received in 2013	1,946	
Contributions called and received in 2013	121,215	
Translation Adj Contributions Called 2013	-1,950	
Total Contributions		<u>155,492</u>
		175,770
Advance Contributions for 2014	-35,897	
Revenue recognised in 2013	-118,011	
Translation adjustment 31 Dec 13	1,748	
		<u>-152,160</u>
Unearned Revenue - Closing Balance at 31 December 2013		<u><u>23, 610</u></u>

## 12. REIMBURSABLE REVENUE AND EXPENSES

Reimbursable activity within ACT 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 Expenditure 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 removed.

With regard to 3rd party reimbursable activity some €14.1m of activity has been undertaken during 2013. The receivable in Note 3 includes €8.9m for invoices that still need to be prepared at the end of the financial year. For the majority of this amount, ACT has yet to receive and pay an invoice since the corresponding expenditure reflects accruals for goods and services provided. The receivable is necessary under the matching concept as the expense, although neither invoiced or paid, has been accrued due to the services already being delivered.

### 13. CHAPTER EXPENSES

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

	2013	2012 (restated as per original)
<b>Chapter 1</b>		
Salaries & associated costs	24,250	37,612
Consultants	1,250	2,156
Training	570	614
Other	566	1,502
<b>TOTAL</b>	<b>26,636</b>	<b>41,884</b>

<b>Chapter 2</b>		
General support and Utility costs	5,983	7,510
Contractors	47,527	30,420
Travel and subsistence	10,142	8,883
AIS Support	23,430	16,754
Mission equipment costs	599	3,414
Communications	776	1,024
Training	1,375	222
Other	2	5
<b>TOTAL</b>	<b>89,834</b>	<b>68,232</b>

<b>Chapter 3</b>		
Mission Equipment Assets	1,068	1,441
AIS Capital & Investment	450	298
Communications Capital Investment	3	49
Building Infrastructures	0	48
Other	89	45
<b>TOTAL</b>	<b>1,610</b>	<b>1,881</b>

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. The 56% increase in this category of expenditure reflects the move of CMRE from part of the ACT Consolidated Group to an external Agency as part of the NATO Agency Reform process. In 2013, ACT incurred €25.3m of expenditure relating to contractor services provided by CMRE. The other significant amount expensed by ACT in relation to contractor costs were payments made to NCIA. In 2013, these amounted to €19.8m.

In 2012, the staff costs of CMRE were charged to Chapter 1 as salary expenses. Starting in 2013, ACT does not directly fund CMRE staff costs. However, as the main customer for the CMRE products and services, ACT makes payment for services provided by CMRE and these are primarily charged to Chapter 2. This explains why ACT's Chapter 1 expenses reduced by 36.4% in 2013.

#### 14. STAFF RESOURCES

a) Analysis of staff costs - the aggregate staff costs, including grants and allowances paid, are detailed below. The 35.5% variation between 2012 and 2013 is due to the change in status of the CMRE as explained in Note 13 above.

	2013	2012 (adjusted)	2012 (as published)
Salaries of Civilian Staff	15,839	25,543	25,543
Allowances of Civilian Staff	4,494	6,451	6,451
Contributions to Health Insurance (c)	2,990	4,171	4,171
Contributions to Pension Funds (d)	927	1,448	1,448
	24,250	37,612	37,612

b) Analysis of staff numbers - the number of full-time equivalent persons employed as at 31 December 2013 was:

	HQ SACT	JWC	JFTC	JALLC
Military	475	164	84	36
Civilian	113	56	14	9
Local Wage Rate (LWR)	0	26	0	0
Total	588	246	98	45

  

Voluntary National Contributions	29	1	0	6
Partnership for Peace (PfP)	3	1	1	1
Overages in addition to VNC	2	1	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 4% to 9% of gross salary, which are matched by contributions paid by SACT. For 2013 ACT contributions totalled €2.990m.

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 Provident Fund:** is a scheme where contributions are invested in a managed account. Staff members make contributions representing 7% of their monthly basic salary, and ACT makes a contribution of 14% of the same monthly salary.

**The NATO Coordinated Pension Scheme:** staff members make contributions representing 9% 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 3 schemes outlined above totalled €927k during 2013.

### Untaken Leave

NATO regulations allow civilian staff to carry forward untaken leave days to the following year. The regulation stipulates that any days carried forward must be taken by 30 April of the following year or the leave days are forfeited. Carry forward beyond this date is only approved by the Human Resources Branch in exceptional circumstances. At the end of 2013, ACT civilian staff across all Headquarters carried forward 1,775 leave days. Although this represents a liability to the organisation, the number of days is consistent with previous years and the vast majority of days are taken by 30 April of the following year. In view of this fact, ACT does not recognise a liability in these financial statements.

## 15. NATO Security Investment Programme (NSIP) OVERVIEW

The following NSIP (being the source of funding for the construction assets) account values are contained in these financial statements as detailed in the table below:

	2013	2012 (adjusted)	2012 (as published)
Cash and Cash Equivalents	967	567	567
Advances and Prepayments	0	0	0
Payable	0	(99)	(99)
NSIP Unearned Revenue	(967)	(468)	(468)
Total Net Assets	0	0	0

The activity for ACT during 2013 is limited to contributions from the Nations (€576k); payments of €78k; exchange rate gain (€2k); and revenue recognized (€76k).

## 16. FINANCIAL INSTRUMENTS

All financial instruments to which ACT is a party are recognized in the financial statements.

### Credit risk

In the normal course of business, ACT incurs credit risk from trade accounts receivable and transactions with banking institutions. ACT manages its exposure to credit risk by:

- holding bank balances and short-term deposits with registered banking institutions; and
- maintaining credit control procedures over receivables

The maximum exposure as at 31 December 2013 is equal to the total amount of bank balances, short-term deposits, and receivables disclosed in the Statement of

*The Statement of Accounting Policies and the accompanying notes form part of the financial statements.*

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Financial Position. Receivables considered uncollectible have been adequately provided for. ACT does not require any collateral or security to support financial instruments and other receivables it holds due to the low risk associated with the realization of these instruments.

#### *Currency risk*

ACT operates separate bank accounts in US dollars (USD), Norwegian krone (NOK), Polish zloty (PLN) and Euros. ACT incurs currency risk as a result of the conversion of foreign currency balances held in these bank accounts to Euros as at 31 December 2013. The currency risk associated with this balance is considered minimal and therefore ACT does not hedge its foreign currency exposure. Foreign currency transactions are translated to Euro currency at exchange rates at the date of the transactions.

#### *Interest rate risk*

As ACT has no encumbered debt; no interest rate risk is identified.

#### *Fair values*

As at 31 December 2013, the carrying amounts approximate the fair values for all financial instruments held by ACT (2012: carrying amounts approximate the fair values).

## **17. RELATED PARTY TRANSACTIONS**

#### Controlled Entities:

ACT controls the following reporting entities:

- Joint Warfare Centre (JWC)
- Joint Force Training Centre (JFTC)
- Joint Analysis and Lessons Learnt Centre (JALLC)

NATO is an organisation set up under the 1948 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

The Key Management Personnel are defined as members of the Command Group who together constitute the governing body 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 with ACT during the year.

## 18. BUDGET EXECUTION STATEMENTS OVERVIEW

Exchange Rates applicable to Budget Execution Statement:

Year	Initial Authorisation	Mid-Yr Authorisation	Final Authorisation	Net Commitment	Actual Expenses	Carry Forward
2013	Sep 12 <sup>1</sup>	Sep 12	Sep 12	Dec 13 <sup>2</sup>	Ave 13 <sup>3</sup>	Dec 13
2012/11	Dec 11 <sup>4</sup>	Dec 12	Dec 12	Dec 13 <sup>2</sup>	Ave 13 <sup>3</sup>	Dec 13
<sup>1</sup> Rate used in 2012 Budget authorisation <sup>2</sup> Rate used to revalue outstanding commitments at year end prior to rolling forward to 2013 <sup>3</sup> Rate used in determining expenditure throughout the year <sup>4</sup> Rate used to bring forward commitments remaining at year end 2012						

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.

### Expenditure recorded in Statement of Financial Performance:

Chapter 71	26,636
Chapter 72	89,834
Chapter 73	1,610
	<hr/>
Total Expenditure	118,080

### Financial Expenditure recorded in Budget Execution Statements:

Budget 201	17,654
Budget 242	3,024
Budget 252	2,884
Budget 255	20,285
Budget 256	5,837
Budget 257	18,727
Budget 258	44,738
Budget 259	4,931
	<hr/>
	118,080

At the start of 2013, ACT loaded its initial Budget code 259 to record commitments and expenses against the ACT Exercise Budget (the Exercise Budget was previously part of the ACO Chart of Accounts). This is why there are no lapses recorded in this budget for prior years.

IPSAS 24. This Standard requires reconciliation between Budget Execution Statements and actual amounts presented in the financial statements where the



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

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.

### Budgetary Lapses

Lapses recorded on the Budget Execution Statement have a value of €5.674m. 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)
		2011	2012	2013	Total	
201	USD	173	360	570	1,103	830
242	EUR	145	746	0	891	891
252	EUR	0	4	30	34	34
255	NOK	474	1,362	463	2,299	293
256	PLN	187	355	166	708	168
257	USD	367	322	1,887	2,576	1,939
258	EUR	89	32	196	317	317
259	EUR	0	0	1,201	1,201	1,201
						5,674

## **19. STATEMENT OF BUDGETARY TRANSFERS**

In accordance with the NATO Financial Regulations (NFR II Article 10 – FRP X c 3) budgetary transfers are recorded on the face of the accounts. All transfers were executed between budgets at the Sept 2012 rate of exchange. The totality of transfers undertaken in 2013 do not breach the authorised Budget Authority outlined in BC-BA(2013)003 dated 07 November 2013.

## **20. STATEMENT OF CREDITS CARRIED FORWARD**

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. The Budget Committee authorised ACT to make an exceptional carry forward of €2.9m - BC-DC(2013)0056 refers. This authorisation was to support the NATO-Wide Cyber Defence education program in 2014.

*The Statement of Accounting Policies and the accompanying notes form part of the financial statements.*



## **21. IPSAS DISCLOSURES**

There are IPSAS Standards that are not relevant to ACT and there are Standards that require compliance in future years. ACT can provide the following overview:

IPSAS 27 (Agriculture) - ACT undertakes no activity covered by Standard 27

IPSAS 31 (Intangible Assets) - This Standard is also modified by the Adapted Accounting Framework in a similar way to IPSAS 17, PP&E. Any intangible assets purchased prior to 01 January 2013 can be treated as fully expensed. ACT did not purchase any intangible assets during 2013 as covered by IPSAS 31.

ACT management is reviewed the applicability of Standards 28, 29, & 30:

IPSAS 28 (Financial Instruments - Presentation) - compliance with this Standard was due on or after 01 January 2013. All financial instruments are recognized in the statement of financial position at their fair values.

IPSAS 29 (Financial Instruments - Recognition & Measurement) - compliance with this Standard was due on or after 01 January 2013. All financial instruments are recognized in the statement of financial position at their fair values.

IPSAS 30 (Financial Instruments - Disclosure) - compliance with this Standard was due on or after 01 January 2013. All financial instruments are recognized in the statement of financial position at their fair values.

## **22. MORALE & WELFARE ACTIVITIES**

Under the NAC approved NATO Adapted 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.

ACT submitted MWA financial information for all Headquarters to the Budget Committee under cover of reference BC-D(2014)0062 505 dated 29 April 2014.

## **23. STATEMENT OF WRITE-OFF**

A statement of write off will be sent under separate cover to the Budget Committee.

## **24. STATEMENT OF PERFORMANCE AND 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 2013  
Amounts in EUR

STATEMENT OF FINANCIAL POSITION PER HEADQUARTER

	HQ SACT			JWC			JFTC		
	2013	2012	Difference	2013	2012	Difference	2013	2012	Difference
<b>Current Assets</b>									
Total Cash & Cash Equivalents	47,729,884	25,087,968	22,641,916	8,784,162	7,667,206	1,116,956	4,167,249	391,943	3,775,306
Receivables	12,740,815	15,106,666	(2,365,852)	1,747,945	1,799,847	(51,902)	266,150	310,048	(43,898)
BC contribution receivables	0	13,042,039	(13,042,039)						
Total Advances & Prepayments	462,270	11,945	450,325	11,776	22,300	(10,524)	3,328	20,287	(16,959)
Advance to Consolidated Entity	1,350,336	0	1,350,336						
Adances to Non Consolidated Entities	4,000,000	4,226,415	(226,415)	85,996	94,026	(8,031)	7,125		7,125
<b>Total Current Assets</b>	<u>66,283,305</u>	<u>57,475,033</u>	<u>8,808,272</u>	<u>10,629,879</u>	<u>9,583,379</u>	<u>1,046,500</u>	<u>4,443,852</u>	<u>722,278</u>	<u>3,721,574</u>
<b>Liabilities</b>									
Payables	(16,400,081)	(14,163,580)	(2,236,501)	(4,289,497)	(1,690,254)	(2,599,243)	(965,490)	(399,661)	(565,829)
Unearned Revenue	(20,085,829)	(12,952,024)	(7,133,805)	(1,423,234)	(2,262,095)	838,862	(1,911,840)	(322,618)	(1,589,222)
Other Unearned Revenue	(247,413)	(568,707)	321,293						
Advance Contributions	(29,549,982)	(29,774,114)	224,133	(4,801,344)	(5,494,504)	693,160	(1,545,191)	0	(1,545,191)
Other Advances	0	(16,608)	16,608	(115,804)	(136,525)	20,721	(21,331)	0	(21,331)
<b>Total Liabilities</b>	<u>(66,283,305)</u>	<u>(57,475,033)</u>	<u>(8,808,272)</u>	<u>(10,629,879)</u>	<u>(9,583,379)</u>	<u>(1,046,500)</u>	<u>(4,443,852)</u>	<u>(722,278)</u>	<u>(3,721,574)</u>
<b>Total Net Assets</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(0)</u>
<b>Net Assets and Equity</b>									
Surplus for the Period	0	0	0	0	0	0	0	0	0
Accumulated Surplus Bf	0	0	0	0	0	0	0	0	0
<b>Total Accumulated Surplus Cf</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Unrealised Translation I-E Gain on consolidation	0	0	0	0	0	0	0	0	0
<b>Total Equity</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

For the year ended 31 December 2013  
Amounts in EUR

STATEMENT OF FINANCIAL POSITION PER HEADQUARTER

	JALLC			NSIP				CMRE 230SOB 2012		Total 2013	Consolidation Postings	Published 2013
	2013	2012	Difference	2013	2012	Difference	2013*		Difference			
<b>Current Assets</b>												
Total Cash & Cash Equivalents	705,256	331,521	373,735	967,452	566,993	400,459		5,629,725	(5,629,725)	62,354,003	150,000	62,504,003
Receivables	319,872	197,317	122,555					380,131	(380,131)	15,074,782	(729,056)	14,345,726
BC contribution receivables								9,594	(9,594)			
Total Advances & Prepayments	3,190	39,922	(36,732)					434,170	(434,170)	480,564		480,564
Advance to Consolidated Entity										1,350,336	(1,350,336)	0
Adances to Non Consolidated Entities										4,093,121		4,093,121
<b>Total Current Assets</b>	<b>1,028,318</b>	<b>568,760</b>	<b>459,558</b>	<b>967,452</b>	<b>566,993</b>	<b>400,459</b>	<b>0</b>	<b>6,453,620</b>	<b>(6,453,620)</b>	<b>83,352,806</b>	<b>(1,929,392)</b>	<b>81,423,414</b>
<b>Liabilities</b>												
Payables	(839,450)	(359,477)	(479,973)	0	(99,343)	99,343	0	(1,922,148)	1,922,148	(22,494,519)	1,929,392	(20,565,127)
Unearned Revenue	(188,868)	(209,283)	20,415					(4,531,472)	4,531,472	(23,609,771)		(23,609,771)
Other Unearned Revenue				(967,452)	(467,650)	(499,802)				(1,214,865)		(1,214,865)
Advance by Consolidated Entity												
Advance Contributions										(35,896,517)		(35,896,517)
Other Advances										(137,135)		(137,135)
Miscellaneous Liabilities												
<b>Total Liabilities</b>	<b>(1,028,318)</b>	<b>(568,760)</b>	<b>(459,558)</b>	<b>(967,452)</b>	<b>(566,993)</b>	<b>(400,459)</b>	<b>0</b>	<b>(6,453,620)</b>	<b>6,453,620</b>	<b>(83,352,806)</b>	<b>1,929,392</b>	<b>(81,423,414)</b>
<b>Total Net Assets</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(0)</b>	<b>0</b>	<b>(0)</b>
<b>Net Assets and Equity</b>												
Surplus for the Period	0	0	0	0	0	0	0	0	0	0	0	0
Accumulated Surplus Bf	0	0	0	0	0	0	0	0	0	0	0	0
<b>Total Equity</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

\* CMRE financial data for 2013 is reported in the financial statements of the STO organisation. Any residual assets and liabilities are included as part of the HQ SACT data in 2013

For the year ended 31 December 2013  
Amounts in EUR

STATEMENT OF FINANCIAL PERFORMANCE PER HEADQUARTER

	HQ SACT			JFTC			JWC			Difference (to restated)
	2013	2012	Difference	2013	2012	Difference	2013	2012 (restated)	2012 (as published)	
Total Revenue	(98,505,407)	(69,225,825)	(29,279,581)	(8,333,753)	(7,985,153)	(348,599)	(22,478,623)	(21,829,533)	(24,366,232)	(649,090)
Total Expenses	98,505,407	69,225,825	29,279,581	8,333,753	7,985,153	348,599	22,478,623	21,829,533	24,366,232	649,091
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>0</u>	<u>0</u>	<u>0</u>

  

	JALLC			NSIP			2013*	CMRE 230SOB		Published 2013	Consolidation Postings
	2013	2012	Difference	2013	2012	Difference		2012	Difference		
Total Revenue	(3,395,956)	(3,033,811)	(362,145)	(84,315)	(757,781)	673,465		(27,510,584)	27,510,584	(132,798,054)	13,486,796
Total Expenses	3,395,956	3,033,811	362,145	84,315	757,781	(673,465)		27,510,584	(27,510,584)	132,798,054	(13,486,796)
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>0</u>	<u>0</u>	<u>0</u>	<u>(0)</u>

\* CMRE financial data for 2013 is reported in the financial statements of the STO organisation. Any residual assets and liabilities are included as part of the HQ SACT data in 2013

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

	Inter-Entity Adjustments
<b>Assets</b>	
<b>Current Assets</b>	
Cash and Cash Equivalents	150,000
Receivables	(729,056)
Prepayments	(1,200,336)
Advance to Consolidated Entity	(150,000)
<b>Total Current Assets</b>	<b>(1,929,392)</b>
<b>Liabilities</b>	
Payables	1,929,392
<b>Total Liabilities</b>	<b>1,929,392</b>
<b>Net Assets</b>	<b>0</b>

## Statement of Performance

	Inter Entity Adjustments
<b>Revenue</b>	
Operating revenue	11,987,879
Inter Entity Revenue	1,675,190
<b>Total Revenue</b>	<b>13,663,068</b>
<b>Expenses</b>	
Inter Entity Expenses	(13,663,068)
<b>Total Expenses</b>	<b>(13,663,068)</b>