

	NATO	NORTH ATLANTIC COUNCIL
	OTAN	CONSEIL DE L'ATLANTIQUE NORD

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1 February 2016

DOCUMENT
C-M(2016)0006-AS1

**IBAN REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS
OF ALLIED COMMAND TRANSFORMATION (ACT) FOR 2014**

ACTION SHEET

On 29 January 2016, under the silence procedure, the Council noted the IBAN report IBA-AR(2015)15 attached to C-M(2016)0006 and agreed the RPPB recommendation regarding public disclosure.

(Signed) Alexander Vershbow
Deputy Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2016)0006.

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21 January 2016

DOCUMENT
C-M(2016)0006
Silence Procedure ends:
29 Jan 2016 16:00

**IBAN REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS
OF ALLIED COMMAND TRANSFORMATION (ACT) FOR 2014**

Note by the Deputy Secretary General

1. I attach the International Board of Auditors for NATO (IBAN) report on the audit of the consolidated financial statements of the Allied Command Transformation (ACT) for the year ended 31 December 2014. The audit report sets out an unqualified opinion.
2. The IBAN report has been reviewed by the Resource Policy and Planning Board (RPPB). In line with PO(2015)0052, the RPPB disclosure notice, agreed on 10 December 2015, recommends to Council that the subject audit report, together with the related 2014 financial statements, be made available to the public (Annex).
3. I consider that no further discussion regarding this report is required. Consequently, **unless I hear to the contrary by 16:00 hours on Friday, 29 January 2016**, I shall assume that the Council has noted the IBAN report IBA-AR(2015)15 and agreed the RPPB recommendation regarding public disclosure.

(Signed) Alexander Vershbow

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**IBAN REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS
OF ALLIED COMMAND TRANSFORMATION (ACT) FOR 2014**

Disclosure notice by the Resource Policy and Planning Board

References: (A) IBA-A(2015)120 & IBA-AR(2015)15
(B) NOR(DIR)(2015)0180

1. Council agreed with PO(2015)0052 that, in principle, unclassified IBAN audit reports, together with any related financial statements, should be made publicly available after they have been dealt with by Council.
2. The IBAN issued an unqualified audit opinion on the Allied Command Transformation (ACT) 2014 Consolidated Financial Statements. The unqualified audit report (reference (A)) will be forwarded to Council for notation, as per agreed procedures.
3. No reply to the contrary to the proposed public disclosure of the 2014 ACT Consolidated Financial Statements was received from the entity (reference (B)).
4. With regard to public disclosure, the RPPB concludes that the subject IBAN report does not contain information which, according to NATO Policy on Disclosure of NATO Information, shall be withheld from public disclosure, and in line with the agreed policy in PO(2015)0052, therefore recommends that the Council agree to the public disclosure of the subject IBAN report and the related financial statements.

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**Summary Note for Council
by the International Board of Auditors for NATO (Board)
on the audit of the Consolidated Financial Statements of the
Allied Command Transformation (ACT)
for the year ended 31 December 2014**

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 2014 amounted to approximately EUR 133 million.

The Board issued an unqualified opinion on the ACT Consolidated Financial Statements and on compliance for the year ended 31 December 2014.

During the audit, the Board also made 6 observations and recommendations. These findings are summarised in the Letter of Observations and Recommendations (Annex 3).

The main findings are:

- Service Level Agreement to be established with the Joint Electronic Warfare Core Staff (JEWCS)
- Timing of funding provided to the Centre for Maritime Research and Experimentation does not reflect the progress of services being received.
- Internal control weaknesses identified in financial accounting and reporting procedures
- Lack of internal audit reporting
- Improvements needed to property accounting at ACT HQ
- Lack of compliance with new regulations on representation allowances.

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ANNEX 3
C-M(2016)0006
IBA-AR(2015)15

24 July 2015

INTERNATIONAL BOARD OF AUDITORS FOR NATO

AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS OF THE

ALLIED COMMAND TRANSFORMATION

(ACT)

FOR THE YEAR ENDED 31 DECEMBER 2014

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**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 consolidated financial statements of the Allied Command Transformation (ACT), which comprised the Statement of Financial Position as at 31 December 2014, 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 2014.

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 financial statements present fairly, in all material respects, the financial position of ACT as of 31 December 2014, 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, 24 July 2015

Dr Charilaos Charisis
Chairman

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ANNEX 4
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IBA-AR(2015)15

24 July 2015

INTERNATIONAL BOARD OF AUDITORS FOR NATO

LETTER OF OBSERVATIONS AND RECOMMENDATIONS

FOR THE ALLIED COMMAND TRANSFORMATION

(ACT)

FOR THE YEAR ENDED 31 DECEMBER 2014

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Introduction

The International Board of Auditors for NATO (Board) audited the ACT Consolidated Financial Statements for the year ended 31 December 2014, and issued an unqualified opinion on the financial statements of ACT and on compliance for financial year 2014.

Observations and Recommendations

During the audit, the Board identified 6 observations and recommendations. These observations and recommendations do not impact the audit opinion. They are summarised herein:

- Service Level Agreement to be established with the Joint Electronic Warfare Core Staff (JEWCS)
- Timing of funding provided to the Centre for Maritime Research and Experimentation does not reflect the progress of services being received.
- Internal control weaknesses identified in financial accounting and reporting procedures
- Lack of internal audit reporting
- Improvements needed to property accounting at ACT HQ
- Lack of compliance with new regulations on representation allowances.

The Board also followed up on the status of observations from previous years' audits and noted that 2 have been settled, 1 partially settled, 3 superseded by current year observations and 4 were still outstanding.

The Board also issued a Management Letter (reference IBA-AML(2015)06) to the Supreme Allied Commander Transformation (SACT) with observations for management's attention.

OBSERVATIONS AND RECOMMENDATIONS

1. SERVICE LEVEL AGREEMENT NEEDS TO BE ESTABLISHED WITH THE JOINT ELECTRONIC WARFARE CORE STAFF (JEWCS)

Reasoning

1.1 On 27 August 2013, a Memorandum of Understanding (MOU) was concluded between the Joint Electronic Warfare Core Staff (JEWCS), ACO, ACT and 9 nations regarding the organisation, administration, security, funding and manning of the JEWCS in support of NATO. JEWCS is an MOU based entity with a hybrid funding mechanism consisting of a mixture of national, multinational and common funding. Its mission is to provide NATO Commands and NATO nations with electronic warfare expertise, support and training at the tactical, operational and strategic levels.

1.2 The MOU states that: “[...] any services provided by JEWCS to CUSTOMERS will be on a reimbursable cost basis whereby the receiving Nation or Command will pay up to the full cost of the service provided. This cost will include, but not be limited to, travel, asset transportation, personnel costs and a proportion of the annual maintenance and running costs of both the equipment used and the JEWCS Command. The full cost to the receiving CUSTOMER will be quoted to that Nation or Command in advance of the service being provided and invoiced after the service has been provided. “

Finding

1.3 In 2014, ACT paid EUR 520,000 to the JEWCS as a “contribution” to 2014 Electronic Warfare Services. The amount was based on an email from the Director of the JEWCS estimating that the services JEWCS would deliver to NATO (ACO, ACT and IMS) in 2014 would approximately be equivalent to 50% of the JEWCS budget, or EUR 1.3 million. Based on an estimation of the split of services between NATO entities, JEWCS estimated that ACT should pay 40%, or EUR 520,000, for 2014 services.

1.4 This is not in full compliance with the MOU that states that customers shall pay for the services delivered on a reimbursable basis.

1.5 ACT stated to the Board that, in 2014, JEWCS was not in a position to price their services and do proper cost allocations. Therefore, an actual customer-supplier relationship could not be established and ACT is not yet in a position to ensure that the required services are identified and received at the correct pricing. ACT is currently working with the JEWCS to establish an SLA with a service and price catalogue.

Recommendation 1

1.6 The Board recommends ACT to clearly define and set the requirements for the services needed from JEWCS in coordination with ACO and IMS. Based on the services needed, the Board recommends ACT to continue the work to establish and agree an SLA with the JEWCS.

Management's formal comments

Concur with the recommendation. JEWCS have been granted the authority to recoup 50% of their operations and maintenance costs from their customer base. For 2015 the Service Level Agreement between ACT and JEWCS lists the exercises and the asset mix required from JEWCS. The SLA forms the basis for an ACT Purchase Order against which JEWCS will invoice on a reimbursable basis. ACT remains in coordination with both JEWCS and AIRCOM in developing requirements for the 2016 SLA.

2. TIMING OF FUNDING PROVIDED TO THE CENTRE FOR MARITIME RESEARCH AND EXPERIMENTATION DOES NOT REFLECT THE PROGRESS OF SERVICES BEING RECEIVED

Reasoning

2.1 ACT should be providing funding to goods and service providers as the goods and services are being delivered to ACT. Advance funding should be limited to what is necessary.

Observation

2.2 The Board reviewed the budget for the 2014 ACT Maritime Programme of Work performed by the Centre for Maritime Research and Experimentation (CMRE), which was set at EUR 26.7 million. The Board found that at the end of June 2014, 80% of the funding for the year had already been paid to CMRE. This has enabled the cash position at CMRE to dramatically improve and rose to a peak of EUR 18.4 million in July 2014.

Recommendation 2

2.3 The Board recommends that for 2016 CMRE funding, consideration should be given by ACT to adjusting the payment profile to more accurately reflect the progress of the services being received.

Management's formal comments

Concur with the recommendation. ACT finance staff, in co-ordination with the Program Managers and the STO will address the concern of payment milestones matching the progress of service delivery.

3. INTERNAL CONTROL WEAKNESSES IDENTIFIED IN FINANCIAL ACCOUNTING AND REPORTING PROCEDURES

Reasoning

3.1 Financial statements presented for audit should be free of misstatements, mathematical errors, non-reconciling items, or any other errors or omissions 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

3.2 ACT presented its 2014 financial statements to the Board for audit one month in advance of the 30 April deadline. It did so as a rehearsal for the earlier financial reporting (31 March) that will be required beginning with the 2015 financial statements. The Board appreciates these efforts by ACT at earlier financial reporting. It allowed for the correction of mistakes found during the audit to be made to the financial statements before their final issuance on 30 April 2015. The Board was also able identify a number of disclosure and presentation improvements that were taken into account by ACT.

3.3 That being said, though, there were quite a number of mistakes that were found in the financial statements that were presented for audit. Although the overall monetary impact of these various mistakes was not material, ACT's internal control procedures did not prevent or detect these mistakes from occurring.

Recommendation 3

3.4 As in the prior year, the Board again recommends ACT to improve its verification procedures of the figures and other information in the financial statements. This should include identifying a person independent of the financial statement preparation process who can perform a review of the financial statements.

Management's formal comments

Concur with the recommendation. ACT finance staff will continue to strengthen the verification procedures of figures and information contained in the financial statements prior to audit.

4. LACK OF INTERNAL AUDIT REPORTING

Reasoning

4.1 To be effective and transparent, Internal Auditors should prepare reports for all internal audit activities that are performed, including any ad-hoc pieces of work performed that are not included in the Audit Programme at the beginning of the year. This should include when audit results are satisfactory. Additionally, all work should be summarised into an Annual Report which reports on the activities performed compared to the activities planned at the beginning of the year.

Finding

4.2 At the beginning of 2014, the Internal Auditor of ACT prepared a Summary Audit Planning Memorandum which set out the work to be performed during the year. During 2014, according to the Internal Auditor, all work has been performed. However, the Board found that there has been no reporting on most of the results of those activities. According to the Internal Auditor, this was because there had been no significant observations.

Recommendation 4

4.3 The Board recommends that from 1 January 2015, all results of all audit outputs should be communicated with a written report and at the end of the calendar year an Annual Report be produced for presentation to the Chief of Staff.

Management's formal comments

Concur with the recommendation. From financial year 2015, and for all subsequent years, all audits will be reported. In addition, the ACT COS has instructed that an annual activities report, covering financial year 2015, will be presented to him, for review and comment, no later than January 2016. This will be an ongoing requirement for future financial years.

5. IMPROVEMENTS NEEDED TO PROPERTY ACCOUNTING AT ACT HQ

Reasoning

5.1 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. The maintenance of such property accounts is necessary regardless of whether the property is capitalised as an asset in the financial statements.

The NATO Accounting framework only requires property plant and equipment acquired after 1 January 2013 and meeting certain thresholds to be capitalised as assets in the financial statements.

Finding

5.2 The Board found that each section at ACT HQ has created its own records, and that these have not been consolidated into a centralised listing. As a result, there has been no overall periodic review or control of property by the Property Accounting Officer. This had already been reported in the Board's 2013 audit report. This continues to be an issue in 2014, and needs to be addressed by ACT HQ.

Recommendation 5

5.3 The Board recommends that a standard operating procedure be implemented for all sections in order that they may provide the necessary information to support a system of property accounting throughout ACT.

Management's formal comments

Concur with the recommendation. ACT financial management will develop a standard operating procedure for the maintenance of property accounting records.

6. LACK OF COMPLIANCE WITH NEW REGULATIONS ON REPRESENTATION ALLOWANCES

Reasoning

6.1 In 2013, the North Atlantic Council (Council) issued updated rules and procedures relating to the receipt and use of representation allowances. The new rules were 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 Financial Controllers are now responsible for ensuring the expenditures meet the criteria for reimbursement.

Finding

6.2 During the first part of 2014, the Board found that ACT had followed the old procedures relating to representation allowances. Since August 2014, a new Standard Operating Procedure was developed and implemented which improved the accountability of expenditure. Additional oversight has been improved by the introduction of Internal Review from the FC section. However, there remains an issue

at the end of the year for the settlement of monies given for the Representation Allowance. At the end of 2014, there was over USD 20,000 of unspent representation allowance funding. This unspent amount was not returned to Nations in accordance with rules, moreover they have been rolled forward into 2015 as available funds for use in 2015.

Recommendation 6

6.3 The Board recommends that ACT should ensure that it is fully complying with the new representation allowance regulations that came into effect in 2013. Specifically, it should ensure that unspent funds at year-end are returned to the nations.

Management's formal comments

Partly concur with the recommendation. During the course of the audit this matter was discussed with the lead auditor. As a result the unspent Representation Allowance funds were not rolled forward into 2015 as available funds for use in 2015 but were lapsed. These unspent funds will therefore be returned to the Nations in accordance with the NATO Financial regulations.

FOLLOW-UP OF PREVIOUS YEARS OBSERVATIONS

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

Status of previous years' observations

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p>(1) ACT FY 2013 IBA-AR(2014)16, paragraph 1 Weak financial statement review processes resulting in material and disclosure errors</p> <p>Board's recommendation The Board recommends ACT to establish robust verification procedures of the figures and other information in the financial statements before its final issuance.</p>	<p>The Board found that a number of disclosure and presentational improvements were still necessary. However, the level of mathematical errors was reduced compared to prior years.</p>	<p>Observation Superseded by current year observation 1.</p>
<p>(2) ACT FY 2013 IBA-AR(2014)16, paragraph 2 ACT has retained financial and other risks related to the CMRE, despite its formal transfer to STO</p> <p>Board's recommendation 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.</p>	<p>The Board found that the transfer of the vessels is actively being addressed for the end of 2015. The Board, though, has not seen the results of any analysis.</p>	<p>Observation Outstanding.</p>
<p>Management's formal comments</p> <p><i>With reference to the specific point of the vessel, SACT is following the Nation's mandate to transfer ownership at the end of 2015.</i></p>		

OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p>(3) ACT FY 2013 IBA-AR(2014)16, paragraph 3 No process in place to identify related party relationships and transactions</p> <p>Board's recommendation 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.</p>	<p>The Board found that the disclosure note has been improved with respect to the third party disclosures. However, there is still no request to have key management and staff provide declarations.</p> <p>ACT has stated that they aim to have a process in place for this in 2015. This will be followed up as part of the 2015 audit.</p>	<p>Observation Outstanding.</p>
<p>Management's formal comments</p> <p><i>ACT management is pleased that IBAN recognised the improvement to the disclosure note. Declarations by management and key staff will be in place for the 2015 audit.</i></p>		
<p>(4) ACT FY 2013 IBA-AR(2014)16, paragraph 4 Non-compliance with new regulations on representation allowances</p> <p>Board's recommendation 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.</p> <p>Further, the Board recommends ACT to disclose information on representation allowance in the financial statements, as required by the Council approved procedures.</p>	<p>The Board found that unspent funds at the end of 2014 had not been returned to Nations in accordance with regulations</p>	<p>Observation Superseded by current year observation 6.</p>

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OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p>(5) ACT FY 2013 IBA-AR(2014)16, paragraph 5 Confirmation of year-end assets and liabilities outstanding between NATO entities</p> <p>Board's recommendation 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.</p>	<p>Efforts were made by ACT to reduce the amount of receivables outstanding. However, ACT did not perform a confirmation of all outstanding assets and liabilities with NATO bodies.</p>	<p>Observation Outstanding.</p>
<p>Management's formal comments</p> <p><i>ACT will work with other NATO entities to confirm balances for the 2015 financial statements.</i></p>		
<p>(6) ACT FY 2013 IBA-AR(2014)16, paragraph 6 Non-compliance with IPSAS disclosure requirements</p> <p>Board's recommendation The Board recommends ACT to continue to improve the note disclosures to fully comply with IPSAS requirements.</p>	<p>The Board found some improvements in note disclosures, but recommends that ACT continue to improve the note disclosures to fully comply with IPSAS requirements.</p>	<p>Observation Partially Settled.</p>
<p>(7) ACT FY 2013 IBA-AR(2014)16, paragraph 7 Lack of complete property listings</p> <p>Board's recommendation 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.</p>	<p>The Board found that no centralized asset register has been put in place.</p>	<p>Observation Superseded by current year observation 5.</p>

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OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
<p>(8) ACT FY 2012 IBA-AR(2013)21, paragraph 5.3 Long Outstanding Receivables from nations in ACT HQ</p> <p>Board's recommendation 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.</p>	<p>During 2014, ACT has taken action to collect the funds for less than 365 days and has put in place chasing arrangements for those balances outstanding for more than 365 days. The amount of receivables from nations that has been outstanding for more than 360 days has remained at over EUR 1.1 million as of 31 December 2014. This is consistent with the prior year.</p>	<p>Observation Outstanding.</p>
<p>Management's formal comments</p> <p><i>Progress was made during 2014 as a result of focused management efforts to reduce these long outstanding amounts. Finance staff will continue to directly engage with the nations to resolve this matter.</i></p>		
<p>(9) ACT FY 2012 IBA-AR(2013)21, paragraph 5.5 Weaknesses in the procurement process – JWC and ACT HQ</p> <p>Board's recommendation 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.</p>	<p>In the 2014 testing, the Board did not find any instances of non-compliance with bidding requirements.</p>	<p>Observation Settled.</p>
<p>(10) ACT HQ FY 2010 IBA-AR(2011)22 paragraph 5.4.6 The management of the newly established Voluntary National Contribution Fund</p> <p>Board's recommendation 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>The trust fund was closed in the beginning of 2013 and funds transferred back to participating nations correctly.</p> <p>The Board noted that ACT has</p>	<p>Observation Settled.</p>

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OBSERVATION / RECOMMENDATION	ACTION TAKEN	STATUS
Also, the Board recommends ACT disclose information on fund activities in the financial year in the financial statements.	improved disclosure of non-common funded activities carried out by ACT in the 2014 financial statements.	

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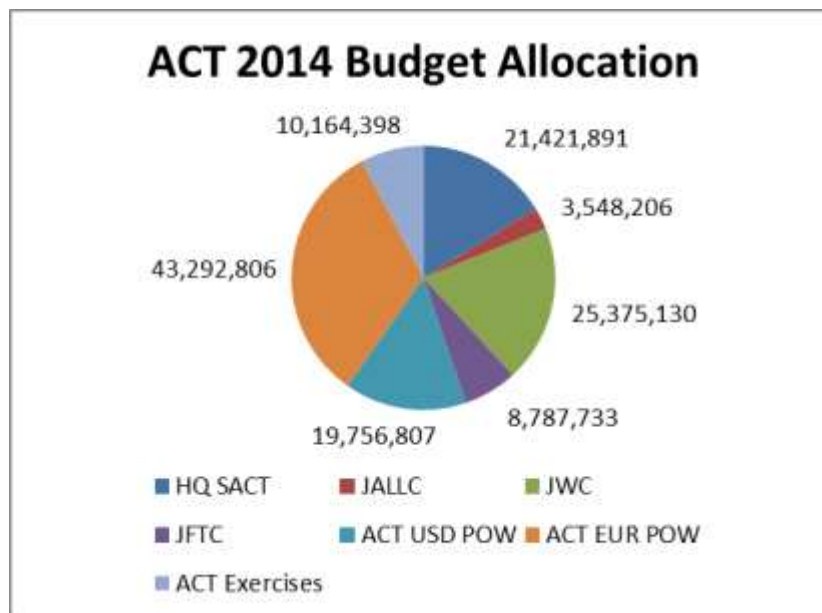
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FINANCIAL CONTROLLER'S FOREWORD AND REPORT ON THE 2014 ACT FINANCIAL STATEMENTS

1. The Allied Command Transformation (ACT) Annual Financial Statements for the ACT Group of Budgets cover the period of 1 January 2014 to 31 December 2014 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 2014 programme, committed its resources, and contributed to Alliance Capabilities in accordance with the NATO Military Authorities (NMA) Strategic Priorities and Objectives (SPO) 2014 – 2017. The format follows Military Committee (MC) guidance and seeks to ensure that ACT's work is totally transparent.

FINANCIAL SUMMARY

3. For 2014, ACT was awarded a budget of €132,346,972 (based on January 2013 exchange rates). These funds were distributed across the ACT budgets as follows:



4. As at 31 December 2014 ACT had committed €129.68M or 98.0% of the total budget, which resulted in ACT lapsing approximately €2.67M. The execution rate is somewhat lower than in the years prior to 2013, but can be explained by a lower than anticipated expenditure in the exercise programme (€405K); reduced programme costs in Exploring Future Science and Technology and NATO Expeditionary Medical Support (€359K); reduced training undertaken by HQ SACT (€280K); and finally, a significant reduction in the travel actually undertaken by HQ SACT personnel in the fourth quarter of 2014 (€1.2M).

%	2008	2009	2010	2011	2012	2013	2014
ACT Budget Execution	99.8	99.76	99.9	99.58	99.02	97.3	98.0

Figure 2: ACT budget execution expressed in % of the total amount from 2008 to 2014

5. It should also be noted that ACT requested and received authorization for a Special Carry Forward of €532K within the 255 Joint Warfare Centre (JWC) and 256 Joint Forces Training Centre (JFTC) Budget. This figure is included in the €129.68M committed.

6. ACT continues to be a good custodian of the nation's funds. During 2014, the International Board of Auditors for NATO (IBAN) issued an unqualified opinion on the ACT Restated Consolidated Financial Statements for the year ended 31 December 2013.

SIGNIFICANT ACTIVITY

7. 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.

8. In order to ensure the success of this mission, the Command developed 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.

9 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.

WAY AHEAD

10. SACT's intent is to continue pursuing a dynamic transformational agenda that represents the best balance between the pressing need to enhance the Alliance's responsiveness and the strategic requirement to focus ACT's effort on safeguarding the long-term military relevance of the Alliance. This balance of effort is the key to ensure an effective and sustainable ACT role as a fundamental contributor to preserve NATO's ability to perform its core tasks now and in the future.

11. In the short to medium-term, ACT will continue to implement the outcomes of the Wales Summit and to support operational transformation leading up to the Warsaw Summit in 2016. HQ SACT will continue to provide inputs to support SHAPE for the implementation of the RAP tasking, including the final analysis of the adaptation requirements to address the threats and challenges emanating from the Southern Flank.

NATO ADAPTED ACCOUNTING FRAMEWORK

12. The NATO Adapted Accounting Framework was endorsed by the NAC on 14 February 2013 and applies to 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. This Framework formed the basis of the 2013 ACT financial statements and once again ACT achieved an unqualified audit opinion from the IBAN. ACT continues to apply the NAC endorsed Accounting Framework to these 2014 Consolidated Financial Statements.

REPORT ON THE STATEMENTS

13. 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 2014.



PETER E. DAHL
Financial Controller
Allied Command Transformation

STATEMENT ON INTERNAL CONTROL

The Scope of Responsibility

1. As Supreme Allied Commander Transformation, I am responsible for maintaining a sound system of internal control that supports the achievement of the Command's policies, aims and objectives. These are articulated in my Strategic Plan and my Strategic Direction and Guidance.
2. As ACT Financial Controller, I have responsibility for safeguarding the Nations' common funds and assets, in accordance with the responsibilities assigned to me in the NATO Financial Rules and Regulations.

The Purpose of the System of Internal Control

3. The system of internal control is designed to manage risk at 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.
4. The Command's system of internal control is based on an ongoing process to identify, and prioritize, the principle risks to the achievement of the Command's policies, aims and objectives, to evaluate the nature and extent of those risks being realized, and to manage them effectively, efficiently and economically.
5. A system of internal control has been in place, throughout the Command, during the year ended 31 December 2014 and up to the date of publication of these Consolidated Financial Statements; this accords with the Nations' guidance.

Capacity to Handle Risk

6. Management of risk is essential for the effective achievement of the Command's objectives, and to the way our business is conducted. Our risk mitigation process is strengthened through our comprehensive sets of Directives and Standard Operating Procedures which are available to all staff on the Command's intranet.

Review of Effectiveness

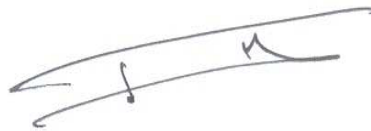
7. We are responsible for reviewing the effectiveness of the systems of internal control that support the achievement of the Command's policies, aims and objectives, as set out by the Nations.
8. Our review of the effectiveness of these systems is informed by the work of our Budget Holders and Fund Managers, and comments made by our external auditors.

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

9. governance processes are operating in an efficient and effective manner;
10. comprehensive budget management systems exist, which are linked to NATO's resource management process; and
11. there are regular reviews, by the Command's Management Board, which monitor and manage budget activity and financial performance.
12. In addition, the Command's Code of Conduct is specifically designed to ensure that all members of staff are conscious of their individual responsibilities
13. We are responsible for reviewing the effectiveness of the Command's systems of internal control. As such, we are committed to a policy of continuous improvement, of our procedures, regulations and internal processes, so as to provide a comprehensive and relevant process of risk management, compliance and assurance.
14. We will therefore continue to ensure that:
 - a. qualified officials are assigned to the financial positions reflected in the Command's internal organization;
 - b. the tasks and responsibilities of those officials are clearly reflected in the relevant job descriptions;
 - c. formal delegation of authority for financial matters is in place; and
 - d. effective controls are in place, areas of concern are being highlighted and where necessary, effective remedial action is undertaken.



Peter E Dahl
Financial Controller
Allied Command Transformation



Jean-Paul Paloméros
General, French Air Force
Supreme Allied Commander Transformation

NATO UNCLASSIFIED

ACT CONSOLIDATED STATEMENT OF FINANCIAL POSITION						
FOR THE YEAR ENDING 31 DECEMBER 2014						
(EUR)						
ASSETS		Notes	2014		2013	
Current Assets						
Cash and Cash Equivalents						
	<i>Cash and Cash Equivalents</i>	2	64,943,413			62,504,003
Receivables						
	<i>Receivables</i>	3	6,062,664		14,345,726	
Prepayments & Miscellaneous Assets						
	<i>Prepayments</i>	4	452,848		480,564	
	<i>Advances to Non Consolidated Entities</i>	5	382,002		4,093,121	
			6,897,515			18,919,411
Total Current Assets			71,840,928			81,423,414
Non-Current Assets						
	<i>Land and buildings</i>		0			
	<i>Ships</i>		0			
	<i>Plant and equipment</i>		0			
Total Non Current Assets			0			0
TOTAL ASSETS			71,840,928			81,423,414
LIABILITIES						
Current Liabilities						
	<i>Payables</i>	6	16,918,496		20,323,877	
	<i>BC Unearned Revenue</i>	7	16,311,310		23,609,771	
	<i>Other Unearned Revenue</i>	7	1,405,764		1,214,865	
	<i>Advance Contributions</i>	8	36,785,723		35,896,517	
	<i>Other Advances</i>		55,013		137,135	
	<i>Invoices to be Received</i>		364,622		241,250	
Total Current Liabilities			71,840,928			81,423,414
	<i>Non Curent Liabilites</i>		0			0
TOTAL LIABILITIES			71,840,928			81,423,414
NET ASSETS			0			0

NATO UNCLASSIFIED

ACT CONSOLIDATED STATEMENT OF NET ASSETS & EQUITY						
FOR THE YEAR ENDING 31 DECEMBER 2014						
(EUR)						
			Notes	2014		2013
NET ASSETS AND EQUITY						
Net Capital Contributed by Nations						
Accumulated Surpluses/Defecits						
		Accumulated Surpluses/ Deficits as of 31 Dec prior year		0		0
		Accumulated Surplus/Deficit for the Period	0		0	
		Depreciation of Nation's Capital Contributions for the period				
		Net Surlus/(Deficit) For The Year		0		0
Unrealised Gains & Losses						
		Unrealised Translation I-E Gain on consolidation	0			
				0		0
TOTAL NET ASSETS & EQUITY				0		0

NATO UNCLASSIFIED

ACT CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE					
FOR THE YEAR ENDING 31 DECEMBER 2014					
(EUR)					
	Notes	2014		2013	
OPERATING REVENUE					
<i>Assessment Calls</i>	9	126,681,392		118,011,501	
<i>Reimbursable Revenue</i>	10	5,919,307		14,143,986	
<i>NSIP Revenue</i>	13	21,720		75,988	
<i>Interest income</i>		254,604		255,069	
<i>Other Income</i>	9	38,486		311,510	
Total Operating Revenue			132,915,509		132,798,054
OPERATING EXPENSES					
<i>Personnel Costs</i>	11/12	26,211,959		26,635,708	
<i>Contractual Supplies and Services</i>	11	100,436,712		89,834,432	
<i>Capital and Investments</i>	11	44,599		1,609,858	
<i>NSIP Expenditure</i>	13	21,792		78,039	
<i>Reimbursable Expenditure</i>	10	5,919,306		14,143,986	
<i>Net Realised Exchange Rate Loss</i>		265,167		480,907	
<i>Other Expenses</i>		15,974		15,124	
Total Operating Expenses			(132,915,509)		(132,798,054)
NET SURPLUS/(DEFICIT) FOR THE YEAR					
			0		0

NATO UNCLASSIFIED

ACT CONSOLIDATED CASHFLOW STATEMENT				
FOR THE YEAR ENDING 31 DECEMBER 2014				
(EUR)				
		2014	2013	
Cash Flow from Operating Activities				
Surplus (deficit) from ordinary activities		0	0	
Increase (decrease) in payables	(3,282,008)		2,542,115	
Increase (decrease) in unearned revenue	(7,107,562)		3,510,786	
Increase (decrease) in advance contributions	889,206		627,899	
Increase (decrease) in other advances	(82,122)		(15,998)	
(Increase) decrease in Nation's Contribution receivable	0		13,042,038	
(Increase) decrease in Receivables	487,205		1,310,626	
(Increase)/decrease Reimbursable Receivables	7,795,857		1,526,206	
(Increase)/decrease Advances / Prepayments	3,738,835		284,974	
(Increase)/decrease in Inventories	0		-	
		2,439,410	22,828,646	
Extraordinary Item		0	-	
Net cash flow from operating activities		2,439,410	22,828,646	
transfer of 2011 equity to STO	0		-	
Receipts from sale of investments	0		-	
Purchase of PPE	0		-	
Net cash flow from investing activities		0	-	
Cash flows from financing activities				
Receipts from borrowings	0		-	
Repayment of borrowings	0		-	
Net cash flows from financing activities		0	-	
Net increase (decrease) in cash and cash equivalents		2,439,410	22,828,646	
Effect of exchange rate changes on cash and cash equivalents on translation				
Cash and cash equivalents at beginning of period		62,504,003	39,675,357	
Cash and cash equivalents at end of period		64,943,413	62,504,003	

NATO UNCLASSIFIED

ACT CONSOLIDATED BUDGET EXECUTION STATEMENT FOR
THE YEAR ENDING 31 DECEMBER 2014
ALL FIGURES SHOWN IN THE APPROVED BUDGET CURRENCY

NATO UNCLASSIFIED

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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
201 Budget - SACT HQ												
2014	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	18,456,997	(18,805)	18,438,192	(387,664)	18,050,528	(367,596)	17,682,932	56,759	17,537,233	17,593,992	56,759	88,940
Contractual Supplies & Services	9,918,440	(5,901,571)	4,016,869	153,887	4,170,756	560,310	4,731,066	1,456,545	2,535,460	3,992,004	1,456,545	739,061
2014 Total	28,375,437	(5,920,376)	22,455,061	(233,777)	22,221,284	192,714	22,413,998	1,513,303	20,072,693	21,585,996	1,513,303	828,002
2013	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	166,681	0	166,681	0	166,681	0	166,681	33,879	114,287	148,167	33,879	18,514
Contractual Supplies & Services	2,057,584	0	2,057,584	0	2,057,584	0	2,057,584	397,791	1,304,754	1,702,546	397,791	355,038
Capital Investments	116,008	0	116,008	0	116,008	0	116,008	49,995	34,919	84,914	49,995	31,095
2013 Total	2,340,273	0	2,340,273	0	2,340,273	0	2,340,273	481,665	1,453,961	1,935,626	481,665	404,647
201 Budget - SACT HQ												
2012	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	27,310	0	27,310	0	27,310	0	27,310	0	95	95	0	27,215
Contractual Supplies & Services	284,114	0	284,114	0	284,114	0	284,114	0	(47,246)	(47,246)	0	331,360
2012 Total	311,424	0	311,424	0	311,424	0	311,424	0	(47,151)	(47,151)	0	358,575
Budget 201 Grand Total	31,027,134	(5,920,376)	25,106,758	(233,777)	24,872,981	192,714	25,065,695	1,994,968	21,479,502	23,474,471	1,994,968	1,591,224

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
257 Budget - ACT USD Programme of Work												
2014	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	968,874	(46,195)	922,679	(102,001)	820,678	(233,025)	587,653	50,553	514,104	564,656	50,553	22,997
Contractual Supplies & Services	25,200,997	(462,978)	24,738,019	136,507	24,874,526	(395,911)	24,478,615	4,367,317	18,159,579	22,526,895	4,367,317	1,951,720
2014 Total	26,169,871	(509,173)	25,660,698	34,506	25,695,204	(628,936)	25,066,268	4,417,869	18,673,682	23,091,552	4,417,869	1,974,716
2013	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	15,209	0	15,209	0	15,209	0	15,209	7,461	6,300	13,761	7,461	1,448
Contractual Supplies & Services	5,786,754	0	5,786,754	0	5,786,754	0	5,786,754	880,377	4,131,534	5,011,911	880,377	774,843
2013 Total	5,801,963	0	5,801,963	0	5,801,963	0	5,801,963	887,838	4,137,834	5,025,671	887,838	776,291
257 Budget - ACT USD Programme of Work												
2012	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	50		50		50		50	0	0	0	0	50
Contractual Supplies & Services	1,378,117	0	1,378,117	0	1,378,117	0	1,378,117	0	691,279	691,279	0	686,838
Capital Investments	9,200	0	9,200	0	9,200	0	9,200	0	0	0	0	9,200
2012 Total	1,387,367	0	1,387,367	0	1,387,367	0	1,387,367	0	691,279	691,279	0	696,088
Budget 257 Grand Total	33,359,201	(509,173)	32,850,028	34,506	32,884,534	(628,936)	32,255,598	5,305,707	23,502,795	28,808,502	5,305,707	3,447,095

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

2014	€	€	€	€	€	€	€	€	€	€	€	€
Personnel	837,731	0	837,731	0	837,731	0	837,731	3,210	831,527	834,737	3,210	2,994
Contractual Supplies & Services	2,710,475	23,887	2,734,362	0	2,734,362	0	2,734,362	91,676	2,600,786	2,692,462	91,676	41,900
2014 Total	3,548,206	23,887	3,572,093	0	3,572,093	0	3,572,093	94,886	3,432,313	3,527,199	94,886	44,894
2013	€	€	€	€	€	€	€	€	€	€	€	€
Personnel	10,142	0	10,142	0	10,142	0	10,142	0	8,392	8,392	0	1,750
Contractual Supplies & Services	136,893	0	136,893	0	136,893	0	136,893	0	133,606	133,606	0	3,287
2013 Total	147,035	0	147,035	0	147,035	0	147,035	0	141,998	141,998	0	5,037
Budget 252 Grand Total	3,695,241	23,887	3,719,128	0	3,719,128	0	3,719,128	94,886	3,574,311	3,669,197	94,886	49,932

258 Budget - ACT Euro Programme of Work

2014	€	€	€	€	€	€	€	€	€	€	€	€
Contractual Supplies & Services	42,917,125	9,754,037	52,671,162	72,484	52,743,646	(49,205)	52,694,441	3,566,464	48,777,092	52,343,556	3,566,464	350,885
2014 Total	42,917,125	9,754,037	52,671,162	72,484	52,743,646	(49,205)	52,694,441	3,566,464	48,777,092	52,343,556	3,566,464	350,885
2013	€	€	€	€	€	€	€	€	€	€	€	€
Contractual Supplies & Services	3,481,752	0	3,481,752	0	3,481,752	0	3,481,752	1,027,852	2,372,862	3,400,714	1,027,852	81,038
2013 Total	3,481,752	0	3,481,752	0	3,481,752	0	3,481,752	1,027,852	2,372,862	3,400,714	1,027,852	81,038
258 Budget - ACT Euro Programme of Work												
2012	€	€	€	€	€	€	€	€	€	€	€	€
Contractual Supplies & Services	103,070	0	103,070	0	103,070	0	103,070	0	72,602	72,602	0	30,468
2012 Total	103,070	0	103,070	0	103,070	0	103,070	0	72,602	72,602	0	30,468
Budget 258 Grand Total	46,501,947	9,754,037	56,255,984	72,484	56,328,468	(49,205)	56,279,263	4,594,317	51,222,555	55,816,872	4,594,317	462,391

NATO UNCLASSIFIED

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
259 Budget - ACT Exercise Budget												
2014	€	€	€	€	€	€	€	€	€	€	€	€
Personnel	8,000	(8,000)	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	10,156,398	8,000	10,164,398	0	10,164,398	0	10,164,398	0	9,562,342	9,562,343	0	602,055
2014 Total	10,164,398	0	10,164,398	0	10,164,398	0	10,164,398	0	9,562,342	9,562,343	0	602,055
2013	€	€	€	€	€	€	€	€	€	€	€	€
Personnel	284,201	0	284,201	0	284,201	0	284,201	0	225,035	225,035	0	59,167
Contractual Supplies & Services	3,669,185	0	3,669,185	0	3,669,185	0	3,669,185	0	2,513,323	2,513,323	0	1,155,862
2013 Total	3,953,386	0	3,953,386	0	3,953,386	0	3,953,386	0	2,738,358	2,738,358	0	1,215,028
Budget 259 Grand Total	14,117,784	0	14,117,784	0	14,117,784	0	14,117,784	0	12,300,700	12,300,701	0	1,817,084

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
255 Budget - Joint Warfare Centre												
2014	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>
Personnel	98,659,922	(9,094,778)	89,565,144	0	89,565,144	(1,438,621)	88,126,523	4,608,686	83,266,355	87,875,041	4,608,686	251,482
Contractual Supplies & Services	90,676,607	(10,341,411)	80,335,196	0	80,335,196	3,438,621	83,773,817	16,900,429	66,071,225	82,971,655	16,900,429	802,162
2014 Total	189,336,529	(19,436,189)	169,900,340	0	169,900,340	2,000,000	171,900,340	21,509,115	149,337,580	170,846,695	21,509,115	1,053,645
255 Budget - Joint Warfare Centre												
2013	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>
Personnel	1,923,512	0	1,923,512	0	1,923,512	0	1,923,512	0	1,751,947	1,751,947	0	171,565
Contractual Supplies & Services	19,140,876	0	19,140,876	0	19,140,876	0	19,140,876	2,647,968	16,007,167	18,655,134	2,647,968	485,742
2013 Total	21,064,389	0	21,064,389	0	21,064,389	0	21,064,389	2,647,968	17,759,114	20,407,081	2,647,968	657,307
255 Budget - Joint Warfare Centre												
2012	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>	<i>NOK</i>
Contractual Supplies & Services	199,595	0	199,595	0	199,595	0	199,595	0	135,695	135,695	0	63,900
2012 Total	199,595	0	199,595	0	199,595	0	199,595	0	135,695	135,695	0	63,900
Budget 255 Grand Total	210,600,513	(19,436,189)	191,164,324	0	191,164,324	2,000,000	193,164,324	24,157,083	167,232,389	191,389,472	24,157,083	1,774,852

NATO UNCLASSIFIED

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

2014	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN
Personnel	5,810,897	0	5,810,897	500,000	6,310,897	(773,640)	5,537,257	10,268	5,490,408	5,500,676	10,268	36,581
Contractual Supplies & Services	29,609,668	(7,623,437)	21,986,231	(500,000)	21,486,231	1,221,215	22,707,446	7,208,983	15,392,546	22,601,529	7,208,983	105,918
Capital Investments	491,382	0	491,382	0	491,382	3,941	495,323	429,285	63,996	493,281	429,285	2,042
2014 Total	35,911,947	(7,623,437)	28,288,510	0	28,288,510	451,517	28,740,027	7,648,536	20,946,949	28,595,485	7,648,536	144,541

2013	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN
Personnel	164,873	0	164,873	0	164,873	0	164,873	12,895	126,941	139,836	12,895	25,037
Contractual Supplies & Services	5,324,000	0	5,324,000	0	5,324,000	0	5,324,000	1,231,811	3,422,859	4,654,670	1,231,811	669,330
2013 Total	5,488,873	0	5,488,873	0	5,488,873	0	5,488,873	1,244,706	3,549,800	4,794,506	1,244,706	694,367

256 Budget Joint Forces Training Centre

2012	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN
Personnel	73,549	0	73,549	0	73,549	0	73,549	0	43,091	43,091	0	30,457
Contractual Supplies & Services	66,863	0	66,863	0	66,863	0	66,863	0	5,530	5,530	0	61,332
Capital Investments	15,400	0	15,400	0	15,400	0	15,400	0	13,200	13,200	0	2,200
2012 Total	155,811	0	155,811	0	155,811	0	155,811	0	61,822	61,822	0	93,990

Budget 256 Grand Total	41,556,631	(7,623,437)	33,933,194	0	33,933,194	451,517	34,384,711	8,893,242	24,558,571	33,451,813	8,893,242	932,897
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Allied Command Transformation
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 For the year ended 31 December 2014
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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 issued by the NAC. Where an IPSAS does not address a particular issue, the appropriate International Financial Reporting Standard/International Accounting Standard has been applied. 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 were 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.

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

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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),

MWA are not consolidated as per the NATO Accounting Framework, which ACT 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 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. Realized gains and losses

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

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resulting from the settlement of such transactions are recognized 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 2014.

On consolidation, unrealized 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 2014.

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 realizable 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 capitalize 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 realizable 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 realizable 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) Property, Plant & Equipment

ACT will adopt the NATO Adapted Framework to account for Property, Plant & Equipment (PP&E) and will use the minimum capitalization thresholds detailed in that Framework. These capitalization thresholds, together with the depreciation life and methodology are detailed in the table on the following page.

In addition to the standard assessment of “substance over form”, the ACT fixed assets policy to comply with PP&E accounting 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.

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

Allied Command Transformation
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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 acquired before 01 January 2013 as fully expensed. PP&E held prior to 01 January 2013, and not previously recognized as an asset, are disclosed in the table below:

PP&E category	Approximate number of items	Location of asset	comments
Buildings	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 Statement of Accounting Policies and the accompanying notes form part of the financial statements.

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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 Organization (STO) as the CMRE. Since 01 January 2013, the CMRE operates under a customer-funded regime. SACT is currently the CMRE's main customer, 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, provides further information.

During 2014, ACT staff conducted a thorough analysis of all purchases made during the year to establish if any fell within the categories and capitalization thresholds detailed in the table above. No PP&E purchases were identified since 01 January 2014.

A major construction project to extend the main building at HQ SACT in Norfolk was completed in early 2015. This project was separately funded by NSIP with the United States acting as Host Nation. Only upon completion is the asset handed over to ACT and so it will be recorded as PP&E in the 2015 financial statements.

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 as charges are paid annually. Additionally, due to the no-penalty release clause in these contracts, ACT had no outstanding commitments for operating leases at the end of this financial year.

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 recognized as non-exchange transactions, revenue is recognized when it is earned.

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

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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 recognized 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 recognized when there is a legal or constructive obligation as a result 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 recognized 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

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

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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 recognized 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 capitalized 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 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 recognized because the amount of the obligation cannot be measured with sufficient reliability.

xxii) Changes in Accounting Policies

There were no significant changes in accounting policies for these 2014 ACT consolidated financial statements.

xxiii) Reclassifications

There were no reclassifications necessary for the prior years' consolidated financial statements.

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2. CASH AND CASH EQUIVALENTS

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

	2014	2013
Total Euro Accounts	35,183	33,152
Total non-Euro Accounts	29,761	29,352
	<u>64,944</u>	<u>62,504</u>

All non-Euro denominated currencies were converted to Euros using the NATO spot exchange rate for applicable currencies in the Statement of Financial Position as at 31 December 2014. The Euro account includes an amount of €350k which represents funds deposited by nations contributing to a Voluntary National Contribution Fund (VNCF) operated by HQ SACT. Total deposits received by ACT during 2014 in relation to this fund amounted to €286k. These will be used to provide training during 2015 and 2016 for weapons inspector teams from NATO nations, as well as Partnership for Peace (PfP) countries.

The cash holdings are broadly in line with the previous year and again represent the nations paying cash call contributions in full just before the end of 2014. As a result, bank balances are high on 31 December compared to other times of the year.

3. RECEIVABLES

	2014	2013
Receivables	6,063	14,346
	<u>6,063</u>	<u>14,346</u>

As at 31 December 2014, ACT had received full settlement of the 2nd 2014 cash call and so no receivable is shown in the HQ SACT accounts. Receivables were given a high priority during 2014, following comments made in the 2013 IBAN Audit Report. With concerted effort, the receivable position was reduced significantly during 2014 as reimbursable debts were collected.

4. PREPAYMENTS

The following prepayments were recorded:

	2014	2013
Prepayments to 3rd Party Suppliers	453	480

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.

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5. ADVANCES TO NON CONSOLIDATED ENTITIES

The following advances were made:

	2014	2013
NATO Communication & Information Agency	0	4,000
Other advances	382	93
Total advances	382	4,093

As a result of NATO Agency reform, the long standing advance of €4M to the NATO Communication and Information Agency (NCIA) was recovered from payments made during 2014.

6. ACCOUNTS PAYABLE

Accounts Payable is detailed below:

	2014	2013
Suppliers	9,254	7,925
Staff Members	107	123
Non-Consolidated NATO Entities	7,523	12,242
Other payables	34	35
	16,918	20,324

The Accounts Payable in relation to Non-Consolidated NATO entities has decreased significantly. This is primarily due to the reduction in the accruals figure reported. Significant effort was made to ensure that invoices were received, and paid, prior to the close of the financial year in order to reduce the payable position.

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 2014, €16.311m was attributable to BC Unearned Revenue (See Note 10).

An additional €1.406m is attributable to Other Unearned Revenue and the majority of this (€1,056m) relates to NSIP, with the remaining balance (€350k) relating to the Trust Funds operated by HQ SACT (see Note 2 above).

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.

	2014	2013
Advance Contributions	36,786	35,897

As outlined in Note 3 above, at 31 December 2014, ACT had received full settlement of the 2nd 2014 cash call

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9. REVENUE

Revenue is recognized 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 recognized as revenue when earned.

The following key revenue items are presented:

Recognized Revenue	2014	2013
Assessment Calls/Contributions	126,681	118,011
NSIP Revenue	22	76
Other income	38	312

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

	Euro '000	USD '000	NOK '000	PLN '000
Cash Receipt by currency during 2014	59,579	43,043	180,789	20,434
Amount in Euros (for comparison only)	59,579	32,303	21,606	4,869

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 2014. 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 2014.

Reconciliation of Revenue and Unearned Revenue:

Unearned Revenue - Opening Balance 1 January 2014 (31 December 2013 rate)	23,610
Advance Contributions from 2014	35,897
Translation adjustment Adv. Contributions	551
Contributions called and received in 2014	118,357
Translation Adj. Contributions Called 2014	1,398
Total Contributions	156,203
	179,813
Advance Contributions for 2015	-36,786
Revenue recognized in 2014	-126,681
Translation adjustment 31 Dec 14	-35
	-163,502
Unearned Revenue - Closing Balance at 31 December 2014	16,311

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10. 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 €5.9m of activity has been undertaken during 2014. The receivable in Note 3 includes €1.14m 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.

11. CHAPTER EXPENSES

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

	2014	2013
Chapter 1		
Salaries & associated costs	23,993	24,250
Consultants	1,182	1,250
Training	663	570
Other	374	566
TOTAL	26,212	26,636

Chapter 2		
General support and Utility costs	4,945	5,983
Contractors	50,517	47,527
Travel and subsistence	11,742	10,142
AIS Support	27,683	23,430
Mission equipment costs	141	599
Communications	463	776
Training	4,901	1,375
R&D supplies	45	0
Other	0	2
TOTAL	100,437	89,834

Chapter 3		
Mission Equipment Assets	0	1,068
AIS Capital & Investment	19	450
Communications Capital Investment	19	3
Building Infrastructures	0	0
Other	7	89
TOTAL	45	1,610

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Expenses relating to contractors are reflected in Chapter 2 and reflect the Budget Committee guidance set out in paragraph 2.2.3 of MBC-M(2010)0039. A significant part of this category of expenditure is with the CMRE. In 2014, ACT incurred €26.4m of expenditure relating to contractor services provided by CMRE. The other significant amount expensed by ACT in relation to contractor costs and AIS support were payments made to NCIA. In 2014, these amounted to €30m, which is spread across contractor costs and AIS support.

12. STAFF RESOURCES

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

	2014	2013
Salaries of Civilian Staff	15,573	15,839
Allowances of Civilian Staff	4,416	4,494
Contributions to Health Insurance (c)	2,732	2,990
Contributions to Pension Funds (d)	985	927
	<u>23,706</u>	<u>24,250</u>

b) Analysis of staff numbers - the number of full-time equivalent persons employed as at 31 December 2014 was:

	HQ SACT	JWC	JFTC	JALLC
Military	495	177	88	39
Civilian	115	58	14	9
Local Wage Rate (LWR)	0	12	0	0
Total	<u>610</u>	<u>247</u>	<u>102</u>	<u>48</u>
Voluntary National Contributions	28	1	0	3
Partnership for Peace (PfP)	4	1	2	1
Overages in addition to VNC	1	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 2014 ACT contributions totalled €2.732m.

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%

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contribution. The assets and liabilities for this scheme are accounted for centrally at NATO Headquarters, located in Brussels, Belgium and are not recognized in these financial statements.

The NATO 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 €985k during 2014.

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 2014, ACT civilian staff across all Headquarters carried forward 1,425.5 leave days. Although this represents a liability to the organization, 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 recognize a liability in these financial statements.

13. 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:

	2014	2013
Cash and Cash Equivalents	1,078	967
Advances and Prepayments	0	0
Payable	(22)	0
NSIP Unearned Revenue	(1,056)	(967)
Total Net Assets	0	0

The activity for ACT during 2014 is limited to contributions from the Nations (€110k); payments of €22k; and revenue recognized (€22k).

14. FINANCIAL INSTRUMENTS

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

Credit risk

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

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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 2014 is equal to the total amount of bank balances, short-term deposits, and receivables disclosed in the Statement of 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 2014. 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 2014, the carrying amounts approximate the fair values for all financial instruments held by ACT.

15. RELATED PARTY TRANSACTIONS

Controlled Entities:

ACT controls the following reporting entities:

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

NATO is an organization 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

Under IPSAS 20 Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial and operating decisions. IPSAS 20 requires the disclosure of the existence of related parties. *The Statement of Accounting Policies and the accompanying notes form part of the financial statements.*

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party relationships, where control exists, and the disclosure of information about entities and its related parties. This information is required for accountability purposes and to facilitate a better understanding of the financial position and performance of the reporting entity.

No related party disclosure is made in these financial statements as key management personnel have no significant party relationships that could affect the operation of this reporting entity. The Key Management Personnel are defined as 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.

In addition to the key management personnel of the Command Group, ACT has implemented several controls on staff who are involved in the contract award process to ensure that no related party factors could influence this procedure.

16. REPRESENTATION ALLOWANCE

Representation Funds are provided to SACT by the Nations' Permanent Representatives to NATO for use at his discretion. SACT allocates these funds to his subordinate Commanders, as he considers reasonable. For 2014 the Representation Funds allocated to SACT, and subsequently delegated, where as follows:

Entity	2014 Allocation
HQ SACT	27,582
JWC	3,145
JFTC	889
JALLC	535
TOTAL	32,151

ACT has initiated revised processes to meet the new regulations governing the use of Representation Funds. The use is monitored on a monthly basis through the office of the Financial Controller and they are also subject to annual audit by the IBAN.

At the end of 2014, any unused Representation Funds are lapsed and returned to the nations through the normal cash call process.

17. BUDGET EXECUTION STATEMENTS OVERVIEW

Exchange Rates applicable to Budget Execution Statement:

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

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Year	Initial Authorization	Mid-Yr Authorization	Final Authorization	Net Commitment	Actual Expenses	Carry Forward
2014	Sep 13 ¹	Sep 13	Sep 13	Dec 14 ²	Ave 14 ³	Dec 14
2013/12	Dec 12 ⁴	Dec 12	Dec 13	Dec 14 ²	Ave 14 ³	Dec 14
¹ Rate used in 2013 Budget authorization ² Rate used to revalue outstanding commitments at year end prior to rolling forward to 2014 ³ Rate used in determining expenditure throughout the year ⁴ Rate used to bring forward commitments remaining at year end 2013						

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	26,212	
Chapter 72	100,437	
Chapter 73	44	
Total Expenditure		126,693

Financial Expenditure recorded in Budget Execution Statements:

Budget 201	16,120	
Budget 252	3,574	
Budget 255	19,986	
Budget 256	5,852	
Budget 257	17,638	
Budget 258	51,222	
Budget 259	12,301	
		126,693

IPSAS 24. This Standard requires reconciliation between Budget Execution Statements and actual amounts presented in the financial statements where the financial statement and budget are not prepared on a comparable basis. Whilst the table above reconciles the actual expenses recorded in ACT's Budget Execution Statements and the Statement of Financial Performance, the remainder of the Budget Execution Statements is prepared using a different basis.

The Statements of Financial Position, Financial Performance, Changes in Net Assets and Statement of Cash Flow are prepared on a full accrual basis, whereas the Budget Execution Statements, apart from "actual expenses," are prepared on a

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

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commitment accounting basis. Significant budgetary transfers are detailed in the table at Note 18 below.

Budgetary Lapses

Lapses recorded on the Budget Execution Statement have a value of €6.545m. 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)
		2012	2013	2014	Total	
201	USD	359	405	828	1,592	1,195
252	EUR	0	5	45	50	50
255	NOK	64	657	1,054	1,775	212
256	PLN	94	694	144	932	222
257	USD	696	776	1,975	3,447	2,587
258	EUR	30	81	351	462	462
259	EUR	0	1,215	602	1,817	1,817
						6,545

18. 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 2013 rate of exchange. The totality of transfers undertaken in 2014 do not breach the authorized Budget Authority outlined in BC-BA(2014)003 dated 17 October 2014.

In order to comply with the requirements of IPSAS 24 the significant budgetary transfers are detailed in the table below:

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Budget Code	Currency	Transfer Amount	% of total transfers	Comment
201	USD	(5,919,571)	99%	Transfer of CIS Support costs to BC 258 in order to support SLA with NCIA and reduce currency risk - BC-D(2014)0014 Refers
257	USD	(355,049)	32%	Surplus funds transferred to support JWC 2MNOK requirement
257	USD	(146,350)	13%	Surplus funds to support JFTC 450 KPLN requirement
257	USD	(317,904)	29%	Surplus funds to support CISCO Switch maintenance costs
252	EUR	23,887	100%	Increase in Budget Authority based on revised cost estimate from NCIA - BC-D(2014)0014 Refers
258	EUR	8,939,285	91%	Transfer of CIS Support costs from BC 201, 255 and 256 in order to support SLA with NCIA and reduce currency risk - BC-D(2014)0014 Refers
258	EUR	429,747	4%	Increase in Budget Authority based on revised cost estimate from NCIA - BC-D(2014)0014 Refers
258	EUR	240,000	2%	Additional funds required to support CISCO switch maintenance costs in JWC SLA with NCIA
255	NOK	(19,436,188)	111%	Transfer of CIS Support costs to BC 258 in order to support SLA with NCIA and reduce currency risk - BC-D(2014)0014 Refers
255	NOK	2,000,000	-11%	Additional 2MNOK and Internal transfer to support the JWC Virtual backbone, development of Skolkan 2 scenario and procurement of Geo products for Skolkan 2 and Soratan scenarios - BC-D(2015)0026 Refers
256	PLN	(7,623,439)	106%	Transfer of CIS Support costs to BC 258 in order to support SLA with NCIA and reduce currency risk - BC-D(2014)0014 Refers
256	PLN	451,512	-6%	Additional 450 KPLN and internal transfer to support the JFTC IKM service support contract and additional building maintenance costs - BC-D(2015)0026 Refers

19. 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 authorized 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 programme in 2014.

20. 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

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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 2014 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.

21. 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 7000 TSC GSB-0010/FC-31-15 dated 10 April 2015.

22. STATEMENT OF WRITE-OFF

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

23. 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 2014
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STATEMENT OF FINANCIAL POSITION PER HEADQUARTER

	HQ SACT			JWC			JFTC		
	2014	2013	Difference	2014	2013	Difference	2014	2013	Difference
Current Assets									
Total Cash & Cash Equivalents	51,274,657	47,729,884	3,544,773	7,899,377	8,784,162	(884,785)	3,923,144	4,167,249	(244,105)
Receivables	4,594,519	12,740,815	(8,146,296)	1,471,349	1,747,945	(276,596)	217,770	266,150	(48,380)
Total Advances & Prepayments	399,471	462,270	(62,799)	7,011	11,776	(4,765)	7,289	3,328	3,961
Advance to Consolidated Entity	150,000	1,350,336	(1,200,336)						
Advances to Non Consolidated Entities		4,000,000	(4,000,000)	325,081	85,996	239,085	56,922	7,125	49,797
Total Current Assets	56,418,646	66,283,305	(9,864,659)	9,702,818	10,629,879	(927,061)	4,205,125	4,443,852	(238,727)
Liabilities									
Payables	(14,148,537)	(16,400,081)	2,251,545	(2,356,847)	(4,289,497)	1,932,650	(565,993)	(965,490)	399,497
Unearned Revenue	(11,423,181)	(20,085,829)	8,662,648	(2,682,413)	(1,423,234)	(1,259,179)	(2,014,173)	(1,911,840)	(102,333)
Other Unearned Revenue	(349,723)	(247,413)	(102,309)						
Advance Contributions	(30,497,206)	(29,549,982)	(947,224)	(4,663,558)	(4,801,344)	137,787	(1,624,959)	(1,545,191)	(79,768)
Other Advances	0	0	0	0	(115,804)	115,804	0	(21,331)	21,331
Total Liabilities	(56,418,646)	(66,283,305)	9,864,659	(9,702,818)	(10,629,879)	927,061	(4,205,125)	(4,443,852)	238,727
Total Net Assets	0	0	(0)	0	0	(0)	0	0	(0)
Net Assets and Equity									
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
Total Accumulated Surplus Cf	0	0	0	0	0	0	0	0	0
Unrealised Translation I-E Gain on consolidation	0	0	0	0	0	0	0	0	0
Total Equity	0	0	0	0	0	0	0	0	0

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STATEMENT OF FINANCIAL POSITION PER HEADQUARTER

	JALLC			NSIP			Total 2014	Consolidation Postings	Published 2014
	2014	2013	Difference	2014	2013	Difference			
Current Assets									
Total Cash & Cash Equivalents	726,691	705,256	21,435	1,077,833	967,452	110,381	64,901,702	41,711	64,943,413
Receivables	71,968	319,872	(247,904)				6,355,606	(292,942)	6,062,664
Total Advances & Prepayments	39,077	3,190	35,887				452,848		452,848
Advance to Consolidated Entity							150,000	(150,000)	0
Advances to Non Consolidated Entities							382,002		382,002
Total Current Assets	<u>837,737</u>	<u>1,028,318</u>	<u>(190,581)</u>	<u>1,077,833</u>	<u>967,452</u>	<u>110,381</u>	<u>72,242,159</u>	<u>(401,231)</u>	<u>71,840,928</u>
Liabilities									
Payables	(591,181)	(839,450)	248,268	(21,792)	0	(21,792)	(17,684,350)	401,231	(17,283,118)
Unearned Revenue	(191,543)	(188,868)	(2,674)				(16,311,310)		(16,311,310)
Other Unearned Revenue				(1,056,041)	(967,452)	(88,589)	(1,405,764)		(1,405,764)
Advance by Consolidated Entity									
Advance Contributions							(36,785,723)		(36,785,723)
Other Advances	(55,013)		(55,013)				(55,013)		(55,013)
Miscellaneous Liabilities									
Total Liabilities	<u>(837,737)</u>	<u>(1,028,318)</u>	<u>190,581</u>	<u>(1,077,833)</u>	<u>(967,452)</u>	<u>(110,381)</u>	<u>(72,242,159)</u>	<u>401,231</u>	<u>(71,840,928)</u>
Total Net Assets	<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>
Net Assets and Equity									
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
Total Equity	<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 2014
Amounts in EUR

STATEMENT OF FINANCIAL PERFORMANCE PER HEADQUARTER

	HQ SACT			JWC			JFTC		
	2014	2013	Difference	2014	2013	Difference	2014	2013	Difference
Total Revenue	(98,864,498)	(98,505,407)	(359,091)	(21,531,583)	(22,478,623)	947,040	(8,478,082)	(8,333,753)	(144,330)
Total Expenses	98,864,498	98,505,407	359,091	21,531,583	22,478,623	(947,040)	8,478,082	8,333,753	144,330
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>

	JALLC			NSIP			Published 2014	Consolidation Postings
	2014	2013	Difference	2014	2013	Difference		
Total Revenue	(4,019,554)	(3,395,956)	(623,598)	(21,792)	(84,315)	62,524	(132,915,509)	11,958,786
Total Expenses	4,019,554	3,395,956	623,598	21,792	84,315	(62,524)	132,915,509	(11,958,786)
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>

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

Statement of Position

Statement of Performance

	Inter-Entity Adjustments		Inter Entity Adjustments
Assets		Revenue	
Current Assets			
Cash and Cash Equivalents	41,711	Operating revenue	9,989,454
Receivables	(292,942)	Inter Entity Revenue	1,969,332
Advance to Consoliated Entity	(150,000)	Total Revenue	<u>11,958,786</u>
Total Current Assets	<u>(401,231)</u>	Expenses	
Liabilities		Inter Entity Expenses	(11,958,786)
Payables	401,231	Total Expenses	<u><u>(11,958,786)</u></u>
Total Liabilities	<u>401,231</u>		
Net Assets	<u><u>0</u></u>		

Annex A

ACT Write off Report of International Property 2014

ACT HQ	Headquarters Property		Communications Systems Property
	Equipment	Vehicles	Equipment
HQ SACT	USD 4,565	0	USD 724,953
JWC	NOK 5,739,496	NOK 10,609,295	NOK 48,768,361
JFTC	0	0	PLN 2,274,848
JALLC	0	0	EUR 1,280,791