	NATO	NORTH ATLANTIC COUNCIL
	OTAN	CONSEIL DE L'ATLANTIQUE NORD

NATO UNCLASSIFIED

26 November 2018

DOCUMENT
C-M(2018)0056-AS1

IBAN REPORT ON THE 2017 FINANCIAL STATEMENTS OF ALLIED COMMAND TRANSFORMATION

ACTION SHEET

On 23 November 2018, under the silence procedure, the Council noted the IBAN report on the 2017 financial statements of ACT attached to C-M(2018)0056, endorsed the related RPPB report, and agreed to the public disclosure of the report, the IBAN audit and associated 2017 financial statements of ACT.

(Signed) Jens Stoltenberg
Secretary General

NOTE: This Action Sheet is part of, and shall be attached to C-M(2018)0056

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6 November 2018

DOCUMENT
C-M(2018)0056
Silence Procedure ends:
23 Nov 2018 15:30

**IBAN REPORT ON THE 2017 FINANCIAL STATEMENTS OF ALLIED COMMAND
TRANSFORMATION**

Note by the Secretary General

1. I attach the International Board of Auditors for NATO (IBAN) report on the audit of the 2017 financial statements of Allied Command Transformation (ACT). The IBAN audits produced unqualified opinions on both the financial statements and compliance for ACT.
2. The IBAN reports have been reviewed by the Resource Policy and Planning Board (RPPB) (see Annex 1).
3. I do not believe this issue requires further discussion. Therefore, **unless I hear to the contrary by 15:30 hours on Friday, 23 November 2018**, I shall assume the Council noted the IBAN report on the 2017 financial statements of ACT, endorsed the related RPPB report, and agreed to the public disclosure of this report, the IBAN audit and associated 2017 financial statements of ACT.

(Signed) Jens Stoltenberg

1 Annex
1 Enclosure

Original: English

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IBAN AUDIT ON THE 2017 FINANCIAL STATEMENTS OF ALLIED COMMAND TRANSFORMATION

Report by the Resource Policy and Planning Board (RPPB)

References:

- | | |
|-------------------------|--|
| A. IBA-A(2018)0007 | IBAN Audit on the 2017 Financial Statements of ACT |
| B. BC-D(2017)0199-FINAL | NFR / FRP Lessons Learned Review |
| C. PO(2015)0052 | Wales Summit tasker on transparency and accountability |

BACKGROUND

1. This report by the RPPB addresses the IBAN audits of the 2017 financial statements and compliance of ACT. The IBAN audits set out unqualified opinions on the financial statements and on compliance of ACT in 2017 (reference A).

DISCUSSION

2. The IBAN issued five observations and recommendations in 2017, three of the five were repeat observations and superseded those identified in 2016. All three indicate further progress is needed implementing the NFRs relating to risk management, internal control, and internal audit. The other two observations relate to a deviation from the standard procurement method that was not fully justified and not capitalising inventories above the capitalisation threshold. The IBAN also followed up on the status of observations from previous years' audits and noted that three were partially settled, one remained outstanding, and two were superseded into three current year observations. In general, ACT concurred with the IBANs observations and recommendations.

3. The RPPB notes the progress made by ACT over risk management and internal controls during 2017. ACT drafted a risk management directive, developed some (but not all) risk registers, and created a tool to serve as its comprehensive strategic risk register. ACT also drafted its internal control framework directive and a directive providing procedures and clear roles and responsibilities over property management. The RPPB recognises ACT, like other NATO bodies, is still in the process of dealing with the implementation of the complex and wide ranging requirements of the NFRs. The RPPB is aware that the challenges in this regard have featured prominently in the lessons learned exercise completed by the Budget Committee (BC) in April 2018 (reference B).

4. The IBAN found ACT's Internal Audit performed "external" audits of the NATO School Oberammergau and four NATO Centres of Excellence rather than internal audits of ACT. ACT responded by asserting its use of ACT's Command Auditor helps ensure that financial governance is maintained in the wider NATO. "External" audits may be significantly reduced or eliminated as ACT plans for the role of internal audit at ACT to increase as risk assessments mature; risk assessments will identify additional areas for the ACT Internal Auditor to assess. The RPPB notes both IBAN's finding and ACT's planned approach.

5. The IBAN identified one instance where a procurement method deviation was authorised appropriately for a sole source procurement, but the justification provided was deemed insufficient by the IBAN and therefore International Competitive Bidding (ICB) should have been employed. The procurement was for a bus valued at approximately €295,000. ACT concurred with the observation and requirement and stated that ACT's goal is to ensure that competitive bidding processes are followed as much as possible.

CONCLUSION

6. The IBAN issued an unqualified audit opinions on the 2017 financial statements and on compliance of ACT. The RPPB notes that many observations were repeated from the prior year, but highlights that progress is being made by ACT. The RPPB underscores the importance of following the NATO Financial Regulations and procurement regulation for all procurement actions.

RECOMMENDATIONS

7. The RPPB recommends that the Council:

7.1. note the IBAN report at reference A;

7.2. endorse the conclusion at paragraph 6; and,

7.3. agree to the public disclosure of this report, the IBAN audit and the associated 2017 financial statements of ACT in line with the agreed policy in reference C.



NORTH ATLANTIC TREATY ORGANIZATION
ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD
INTERNATIONAL BOARD OF AUDITORS
COLLÈGE INTERNATIONAL DES COMMISSAIRES AUX COMPTES

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IBA-A(2018)0067
2 July 2018

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

Cc: Supreme Allied Commander Transformation (SACT)
Financial Controller, Allied Command Transformation (ACT)
Chairman, Resource Policy & Planning Board (RPPB)
Branch Head, Plans and Policy Branch, NATO Office of Resources (NOR)
Private Office Registry

Subject: ***International Board of Auditors for NATO (Board) Auditor's Report and Letter of Observations and Recommendations on the audit of the Allied Command Transformation (ACT) Consolidated Financial Statements for the year ended 31 December 2017 – IBA-AR(2018)0007***

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

The Board's report sets out an unqualified opinion on the consolidated financial statements of ACT and on compliance for financial year 2017.

Yours sincerely,

Hervé-Adrien Metzger
Chairman

Attachments: As stated above.



**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 2017**

The International Board of Auditors for NATO (Board) audited the the Allied Command Transformation (ACT) Consolidated Financial Statements for the year ended 31 December 2017, 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 2017 amounted to approximately EUR 136.8 million.

The Board issued an unqualified opinion on the ACT Consolidated Financial Statements and on compliance for the year ended 31 December 2017.

During the audit, the Board identified 5 observations and the related recommendations (Annex 3). These observations and recommendations do not impact the audit opinion.

The main findings were:

1. Improvement to Internal Controls over Property Management in ACT HQ is needed.
2. Inventories above capitalisation threshold not capitalised.
3. Improvements required in the area of risk management and internal control.
4. The Internal Audit Function in ACT.
5. Deviation from normal method of procurement procedures not fully justified.

The Board also followed up on the status of observations from previous years' audits and noted that three observations were partially settled, two were superseded by current year observations and one continued to be outstanding.

The Auditor's Report (Annex 2) and the Letter of Observations and Recommendations (Annex 3) were issued to the Supreme Allied Commander Transformation (SACT) whose comments have been included (Appendix to Annex 3).

29 June 2018

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 2017

**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 2017, and the Statement of Financial Performance, Statement of Net Assets/Equity and Cashflow 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 2017.

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 2017, 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 financial statements are in compliance with the NATO Financial Regulations and the NATO Civilian Personnel Regulations.

29 June 2018



Hervé-Adrien Metzger
Chairman

29 June 2018

INTERNATIONAL BOARD OF AUDITORS FOR NATO

LETTER OF OBSERVATIONS AND RECOMMENDATIONS

FOR THE ALLIED COMMAND TRANSFORMATION

(ACT)

FOR THE YEAR ENDED 31 DECEMBER 2017

Introduction

The International Board of Auditors for NATO (Board) audited the ACT Consolidated Financial Statements for the year ended 31 December 2017, and issued an unqualified opinion on the financial statements of ACT and on compliance for the financial year 2017.

Observations and Recommendations

During the audit, the Board identified 5 observations and provided 5 recommendations. These observations and recommendations do not impact the audit opinion. They are summarised herein:

1. Improvement to Internal Controls over Property Management in ACT HQ is needed.
2. Inventories above capitalisation threshold not capitalised.
3. Improvements required in the area of risk management and internal control.
4. The Internal Audit Function in ACT.
5. Deviation from normal method of procurement procedures not fully justified.

The Board also followed up on the status of observations from previous years' audits and noted that three observations were partially settled, two were superseded by current year observations and one continued to be outstanding.

The Board also issued a Management Letter (reference IBA-AML(2018)0005) to the Supreme Allied Commander Transformation (SACT) with observations for management's attention.

This letter of Observations and Recommendations was formally cleared with ACT and the formal comments are included, with the Board's position on those comments where necessary (Appendix, Annex 3).

OBSERVATIONS AND RECOMMENDATIONS

1. IMPROVEMENT TO INTERNAL CONTROLS OVER PROPERTY MANAGEMENT IN ACT HQ IS NEEDED

Reasoning

1.1 Article 12.1 of the NATO Financial Regulations stipulates that one of the objectives of a NATO Body is to safeguard assets and verify the accuracy and reliability of accounting data and records. According to Article 12.2 of the NFRs, the Financial Controller shall establish and maintain comprehensive accounting records of all assets and liabilities.

1.2 According to the FRPs, the Financial Controller shall ensure that integrated accounting systems are established and maintained for all funds and property. Also, Property Accounting Officer(s) are responsible for receiving and maintaining physical custody of all international property.

1.3 According to the ACT Financial Policy Directive 60-1, suitable records will be maintained for non-expendable property and items of expendable property considered attractive for personal use. The PAO shall ensure that a complete physical inventory of all property is taken at least every two years.

1.4 ACT HQ approved a new HQ SACT property accounting and control directive on 27 March 2018.

Observation

1.5 The Board was provided with the ACT HQ property register. This continues to be incomplete as it only includes property acquired as from 2017. Therefore, ACT HQ continues to lack a complete and holistic asset register. Some individual sections maintain their own property databases, but there are no consistent controls on the assets and registers and no central asset register exists. This observation has been outstanding since 2013.

1.6 Furthermore, a physical inventory of all property, as required by the ACT Financial Policy Directive 60-1, has not been performed in the last two years.

Recommendations

1.7 The Board recommends that ACT HQ:

- Ensure, as soon as possible, the creation of a complete, accurate and comprehensive property register for ACT HQ in accordance with the NFRs, FRPs and local directives.

- Ensure that physical inventory of property is performed on a regular basis at ACT HQ and all ACT subcommands in order to keep the registers accurate and reliable and to reduce the risk of error and fraud.

2. INVENTORIES ABOVE CAPITALISATION THRESHOLD NOT CAPITALISED

Reasoning

2.1 According to the NATO Accounting Framework, the capitalization threshold for inventories (Consumables, Spare parts, Ammunition, Strategic stocks) is EUR 50,000 per location / warehouse.

Observation

2.2 Joint Warfare Centre (JWC) provided the Board with a listing of inventories as at 31 December 2017. According to this report, the value of consumables was Norwegian Kroner (NOK) 3.8 million and Spare parts was NOK 1.2 million. Both types of inventories in EUR equivalent exceed the capitalization threshold but was not capitalised as inventory in the ACT Consolidated Financial Statements.

2.3 We further found that a number of items of PP&E was incorrectly classified and recorded as inventory.

Recommendations

2.4 The Board recommends ACT to capitalize inventories (if any) above the threshold of EUR 50,000. Furthermore, we recommend ACT to verify the accuracy, completeness and valuation of items in the accounting system in JWC, JFTC and JALLC in order to ensure that inventories above the threshold are properly accounted for.

3. IMPROVEMENTS REQUIRED IN THE AREA OF RISK MANAGEMENT AND INTERNAL CONTROL

Reasoning

3.1 According to the NATO Financial Regulations (NFRs) Article 11, the Heads of NATO bodies shall ensure effective, efficient and economical risk management procedures are in place to support the achievement of objectives as set by the Nations. Risks to the achievement of these objectives shall be identified, assessed and mitigated.

3.2 Article XI of the NATO Financial Rules and Procedures (FRPs) states that the Financial Controller will be responsible for financial risk management including the establishment of financial risk management standards and an appropriate Internal Control framework to be reviewed by the Internal Control Officer.

3.3 The NFRs Article 12 requires that the Heads of NATO bodies shall ensure the necessary internal management functions are in place to support effective internal control and internal control activities shall include periodic assessment and review of the risk and the sound functioning of the internal control system. In order to meet the desired internal control standards the Financial Controller shall establish a system of internal financial and budgetary control, embracing all aspects of financial management.

Observation

Risk Management

3.4 The Board acknowledges the overall ACT progress in the development of the Risk Management Framework. The Audit Advisory Panel created in 2016 appears to be an effective instrument in the facilitation of the implementation of risk management and internal controls ACT-wide.

3.5 The Board was provided with the ACT Risk Management Directive (ACT Dir 20-3.2), approved by the Chief of Staff on 22 January 2018.

3.6 ACT is developing a tool called “Athena”, designed to contribute to the practical implementation of risk management at ACT. The tool will link ACT strategic objectives with related activities and risks and will help to generate a comprehensive risk register at the strategic level. Due to the ongoing work on “Athena”, the complete and comprehensive risk register has not yet been compiled at the level of Supreme Allied Command Transformation (SACT). Nevertheless, a number of significant strategic risks are regularly presented to the Management Board meetings.

3.7 Also, we noted that a risk appetite had not clearly been set and defined.

3.8 The Budget and Finance divisions of JWC, JALLC and JFTC have developed their risks registers, deriving from their objectives. At the same time, a risk register has not yet been developed for the ACT HQ Budget and Finance. Further, development of risk registers by other ACT functions is an ongoing process, however no formal risk registers have been developed yet.

Internal controls

3.9 Significant progress was made in the area of implementation of internal control activities at ACT. The “ACT Internal Control Framework Directive 6-2” was approved on 29 January 2018.

3.10 A system of internal financial and budgetary control is operating through policies, procedures and standing instructions at ACT. At the same time, no formal mapping of critical processes, associated risks and existing internal controls are performed. The absence of the abovementioned mapping increases the likelihood of not identifying potential vulnerabilities and does not allow to evaluate the nature and extent of risks, as

well as manage them efficiently, effectively and economically. Documentation of specific internal controls and risk management is essential in order to ensure and to clearly demonstrate to others that a complete system of internal control and risk management is in place.

Recommendations

3.11 The Board recommends that ACT:

- Continue the on-going work of establishing comprehensive and robust risk registers at both the strategic and operational levels and ensure the risk registers are capturing significant risks across all functions of the organization, ensuring the “completeness” of risks. This includes ensuring that ACT fully embeds its entity-wide risk management policy throughout the organisation.
- Clearly define and set a “risk appetite” (both at SACT and Financial Controller level).
- Document the internal controls and associated risks in place for main processes within ACT operations and assess the compliance with the framework chosen.

4. THE INTERNAL AUDIT FUNCTION IN ACT

Reasoning

4.1 According to the paragraph 13.1 of the NATO Financial Regulations, all NATO bodies shall undertake internal audit activities in order to evaluate risk exposures and the effectiveness of internal controls in managing risk within the organisation’s governance, operations and information systems.

4.2 According to FRP XI and FRP XIII, the Internal Audit shall monitor and evaluate the effectiveness of the organization's risk management processes. The internal audit plan should be developed based on the prioritization of the audit universe using a risk-based methodology.

Observation

4.3 The Board noted that no internal audit engagements on risk management was undertaken in 2017 due to the fact that no documented internal control and risk management procedures were available and the above-mentioned processes were considered immature. According to the SACT Strategic Audit Planning Memorandum for the period ending 31 December 2018, internal audit is going to undertake “Risk Management - review of maturity” engagement in 2018.

4.4 Further, the development of the internal audit plan for 2018 was not fully “risk-based” and not fully based on the analysis of the complete audit universe although internal audit topics selected for 2018 relate to “elevated risk” areas (such as budgetary control, custody and control of assets). The reason for that was the lack of risk registers from ACT functions and description of critical ACT processes and associated risks and internal controls.

4.5 ACT Internal Audit continued to perform ‘external’ audits of a number of non-ACT entities (the NATO School Oberammergau, four NATO Centres of Excellence) in 2017. At the same time, some planned audit topics for 2017 (Procurement at ACT, procurement at ACT subcommands) were not executed but rolled-forward to the next year. The Board’s opinion is that ACT’s Internal Audit should not use common funded resources to audit non-ACT entities while delaying planned ACT internal audits.

Recommendations

4.6 The Board recommends that:

- ACT Internal Audit fully evaluate the system of internal control and risk management throughout ACT, and that this work be clearly documented so as to be able to conclude on the effectiveness of ACT’s risk management and internal controls.
- ACT Internal Audit uses inputs from risk registers of all ACT functions (when available) in planning internal audit engagements. This will help ensuring a structured, formally justified, risk-based approach to the selection of audit topics.
- ACT does not audit non-ACT entities while not having sufficient capacity for audit engagements directly related to ACT and its subcommands. The internal audits limited capacity should be focussed on audit engagements directly related to ACT.

5. DEVIATION FROM NORMAL METHOD OF PROCUREMENT NOT FULLY JUSTIFIED

Reasoning

5.1 According to Article 32 of the NATO Financial Regulations (NFR) timely acquisition of goods and services is to be achieved wherever possible through a competitive bidding process, using approved procurement procedures to achieve the most effective, efficient and economical solution. Goods and services will be procured, in a transparent and fair manner built upon the principle of non-discrimination and fairness in which eligible suppliers are given the same opportunity and treated in the same fair manner.

5.2 Further for all procurement actions exceeding Level D of the EFL (€160,000), formal procurement consisting of International Competitive Bidding and Proposals must be organized. Departures may only be authorized by the Financial Controller in the interests of security, urgency, standardization of equipment, or in exceptional circumstances.

Observation

5.3 On 14 December 2017, JWC requested an authorization to depart from the normal method of procurement for the purchase of a bus (blue fleet vehicle) the in amount of NOK 2,9 million (approx. EUR 295 thousand). The deviation was approved by the ACT HQ Financial Controller. As per the deviation, the requirement was for a standard bus providing personnel transportation for which the normal method of procurement would have been international competitive bidding (ICB).

5.4 In accordance with the Memorandum of Agreement with the Host Nation, the latter provides transportation services and drivers free of charge, as well as manages their shared vehicle pool. The departure from International Competitive Bidding was requested for a sole source procurement in the interest of standardization of equipment. The standardization should ensure compatibility, interoperability and safety according to the deviation. As the Host Nation purchased a new bus for the shared vehicle pool from a specific supplier, JWC identified another bus with the same specifications which was available for immediate delivery from the same supplier.

5.5 When reviewing the statement of requirement for the bus, the Board found that the JWC specifications (type of engine, transmission, number of seats, cargo, air-conditioning, locking of doors, colour and tires) could be considered as standard specifications.

5.6 Taking into consideration the JWC requirements for the bus, the Board is of the opinion that these do not provide sufficient adequate justification for departing from full and open competition as required by the NFRs and FRPs.

5.7 Moreover, the Board found that JWC only obtained an estimated cost for a similar bus with delivery in 2018, but from the same supplier (Quotation of NOK 3,345,000). Thus, deviation to sole source procurement implied that there was no access of other eligible suppliers to participate in a competitive bidding. This might have prevented JWC from achieving the most effective, efficient and economical solution.

Recommendation

5.8 The Board recommends that JWC follow the NFRs and procurement regulations in place and ensures that deviations are fully supported and based on valid justifications supported by the NFRs.

FOLLOW-UP OF PREVIOUS YEARS' OBSERVATIONS

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

OBSERVATION/RECOMMENDATION	ACTION TAKEN	STATUS
<p>(1) ACT FY 2016 IBA-AR(2017)06, paragraph 1.7</p> <p>COMPLIANCE WITH THE NATO FINANCIAL REGULATIONS, PARTICULARLY THOSE ARTICLES ON INTERNAL CONTROL, RISK MANAGEMENT AND INTERNAL AUDIT</p> <p>Board's recommendations</p> <p>a) The Board recommends that ACT perform a systematic and detailed assessment and documentation of its internal control and risk management procedures to support compliance with its recently approved internal control framework, COSO. This includes ensuring that it fully embeds its entity-wide risk management policy throughout the organisation and that risk registers are developed and employed throughout all ACT departments and operations.</p> <p>b) The Board recommends that ACT Internal Audit fully evaluate internal control and risk management throughout ACT, and that this work be clearly documented so as to be able to conclude as to ACT's compliance against COSO.</p> <p>c) The Board recommends that ACT Internal Audit fully focus its limited resources on the internal auditing of ACT and not on performing 'external' audits of the NATO School Oberammergau and non-NATO bodies such as the Centres of Excellence.</p> <p>d) The Board recommends that Council ensure that the NFRs and FRPs are aligned in respect to the level of flexibility allowed when carrying forward current year budget credits for goods and services that are expected to be rendered during the following financial year, not the current financial year. This should be taken into account during the revised NFRs lessons learned exercise expected to be completed in 2017.</p>	<p>d) ACT in all material aspects was following the requirements of the NFRs regarding the carrying forward of current year budget credits. No significant travel expenses in the beginning of next financial year.</p>	<p>Observation Superseded by current year Observation 3.</p> <p>Observation Superseded by current year Observation 4.</p> <p>Observation Superseded by current year Observation 4.</p> <p>Observation Settled.</p>

<p>(2) ACT FY 2016 IBA-AR(2017)06, paragraph 2.4</p> <p>INSTANCES OF NON-COMPLIANCE IN RESPECT TO REPRESENTATION ALLOWANCES</p> <p>Board's recommendation The Board recommends that ACT:</p> <ul style="list-style-type: none"> - Ensure that there are adequate controls in place in order to prevent incurring expenses which exceed the annual budget. - Provide representation allowance funds to participants only on a reimbursable basis after Financial Controller approval. As a result, ACT credit cards should not be used for representation allowance expenditures. 	<p>The Board found one representation allowance expense where the amount paid for a breakfast event (EUR 58 per person) exceeded the 2017 indicative reimbursement ceilings of EUR 21 per person. Further, the reimbursement included EUR 48 for "extra personnel" without any additional documentation.</p> <p>ACT continued to use credit cards for some representation allowance expenditures and thus representation allowance was in these cases not paid on a reimbursable basis.</p>	<p>Observation Outstanding</p>
<p>(3) ACT FY 2016 IBA-AR(2017)06, paragraph 3.3</p> <p>INTERNAL CONTROL OVER PROPERTY SAFEGUARDING AND ACCOUNTING NEEDS IMPROVEMENT</p> <p>Board's recommendation The Board recommends that ACT implement, as soon as possible, standard property accounting operating procedures throughout ACT. It should also finalise, as soon as possible, a centralised property register at ACT HQ as well as property registers at each of the subcommands (JWC, JFTC and JALLC). These registers need to be properly controlled at the appropriate level and regular property counts should be performed to keep the registers accurate and reliable, and to reduce the risk of error or fraud.</p>		<p>Observation Superseded by current year Observation 1.</p>

<p>(4) ACT FY 2014 IBA-AR(2016)15, paragraph 2</p> <p>TIMING OF FUNDING PROVIDED TO THE CENTRE FOR MARITIME RESEARCH AND EXPERIMENTATION DOES NOT REFLECT THE PROGRESS OF SERVICES BEING RECEIVED</p> <p>Board's recommendation The Board recommends that for 2015 CMRE funding, consideration should be given by ACT to adjusting the payment profile to more accurately reflect the progress of the services being received.</p>	<p>The front-loading of funding to CMRE started to reduce, however the timing of funding provided to CMRE still does not fully reflect the progress of services being received.</p>	<p>Observation Partially Settled.</p>
<p>(5) ACT FY 2014 IBA-AR(2016)15, paragraph 3</p> <p>INTERNAL CONTROL WEAKNESSES IDENTIFIED IN FINANCIAL ACCOUNTING AND REPORTING PROCEDURES</p> <p>Board's recommendation 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.</p>	<p>Although improvements was noted in the quality of the ACT Consolidated Financial Statements, we continued to identify areas of improvements. These have been reported in the Management Letter.</p>	<p>Observation Partially settled.</p>
<p>(6) ACT FY 2013 IBA-AR(2014)16, section 5</p> <p>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>ACT continues to adopt unofficial channels and processes in place to ensure balances with ACO and NCIA at ACT HQ are agreed. However, this was not fully done at JWC, JFTC and JALLC. ACT HQ and all subcommands should formally confirm their asset and liability balances with other NATO bodies at year-end.</p>	<p>Observation Partially Settled.</p>

**SUPREME ALLIED COMMANDER TRANSFORMATION (SACT)
FORMAL COMMENTS
ON THE LETTER OF OBSERVATIONS AND RECOMMENDATIONS
AND THE INTERNATIONAL BOARD OF AUDITORS (BOARD) POSITIONS**

**OBSERVATION 1:
IMPROVEMENT TO INTERNAL CONTROLS OVER PROPERTY MANAGEMENT IN
ACT HQ IS NEEDED**

PARA. 1.7:

Comment of the Supreme Allied Commander Transformation (SACT)

Concur with the recommendation. During 2017, HQ SACT focused its resources to ensure that there is a process in place to capture new items of property acquired by the command. Additionally, work commenced on a new directive that not only provided the procedures but clearly identified roles and responsibilities. The staff worked to the draft directive during the year, and the directive was formally signed in early 2018. In recent months, HQ SACT staff have been populating the property register with a comprehensive list of items and we trust that IBAN will see the results of this work during their next audit.

**OBSERVATION 2:
INVENTORIES ABOVE CAPITALISATION THRESHOLD NOT CAPITALISED**

PARA. 2.4:

Comment of the Supreme Allied Commander Transformation (SACT)

Partially-concur with the recommendation.

The NOK3.8M in consumables consisted of approximately 1,050 different lines in the inventory system. The items identified by the IBAN during the audit visit actually consist of a wide variety of low-value items, including pens, rubber bands, tape measures, body armor and mosquito nets. The most expensive item in the JWC inventory system was one non-consumable item with an original purchase price of NOK39K (or €4K), which is below the ACT capitalization threshold of €50k.

The NOK1.2M in spare parts also identified by the IBAN during the audit visit include a range of items such as table cloths, a fax machine, flag poles, whiteboards, an outdated laptop from 2008, a 17-seater minibus (prior to 2013) and a refrigerator. Even when grouping together similar items from these listings, the only items of significance were flags, in different sizes, acquired over several years. These amount to approximately NOK150K (or €15K), which again is below the €50K threshold.

ACT does, however, accept the IBAN recommendation that there is a need to verify

the accuracy, completeness and valuation of all items recorded in the inventory systems at all entities. The above review at JWC has shown that the quality of information needs to be improved.

**OBSERVATION 3:
IMPROVEMENTS REQUIRED IN THE AREA OF RISK MANAGEMENT AND
INTERNAL CONTROL**

PARA. 3.10:

Comment of the Supreme Allied Commander Transformation (SACT)

Concur with the recommendation. ACT is pleased to note that IBAN recognizes the progress made in the development of the Risk Management Framework and that the implementation of the "ATHENA" tool will help generate a comprehensive risk register at the strategic level. HQ SACT accepts that this work is on-going and will continue to focus management attention on this important issue throughout 2018.

**OBSERVATION 4:
THE INTERNAL AUDIT FUNCTION IN ACT**

PARA. 4.6:

Comment of the Supreme Allied Commander Transformation (SACT)

Partially concur with the recommendation.

On the first point, ACT agrees with the recommendation to fully evaluate the system of internal control and risk management throughout ACT. The implementation of this process is being led by the HQ SACT's Strategic Management Branch (STRATMAN).

On the second point, ACT also agrees with the recommendation that ACT Internal Audit uses inputs from risk registers of all ACT functions (when available) in planning internal audit engagements.

On the third point, ACT's decision to employ the ACT Command Auditor to undertake "external audits" has been taken by the Command's senior management and approved in the ACT Audit Advisory Panel (AAP). In doing so, ACT recognizes that the external audit role, carried out by the ACT Command Auditor (who is, by background, an experienced external auditor), is not a role for a Command Auditor.

However, ACT considers the use of the ACT Command Auditor in this role as an integral part of the command's duty to ensure, in the absence of any other available audit resources, that, as much as possible, financial governance is maintained in organizations that are important to ACT and the wider NATO.

In this respect, the Command sees these external bodies as an essential and integral part of NATO's wider framework and, as such, are key contributors to the

transformation of the alliance.

ACT did recognize, particularly in light of the new requirements and responsibilities placed on internal audit, that the current audit resources and work allocation were due for review and evaluation. As part of the NATO Command Structure-Adaptation, ACT has proposed the creation of a three-person Command Audit cell to address projected audits required in the future for areas identified as high risk. Based on the results of the Risk Management work, the ability for ACT Command Auditors to perform “external” audits may be significantly reduced or eliminated.

Board’s Position

The Board maintain its position that internal audit, considering its limited resources, should firstly focus on effectively auditing ACT.

OBSERVATION 5: DEVIATION FROM NORMAL METHOD OF PROCUREMENT NOT FULLY JUSTIFIED

PARA. 5.8:

Comment of the Supreme Allied Commander Transformation (SACT)

Concur with the recommendation. It is ACT’s goal to ensure that competitive bidding processes are followed as much as possible.

FOLLOW-UP OF THE PREVIOUS YEAR’S OBSERVATIONS

Comment of the Supreme Allied Commander Transformation (SACT)

ACT management is pleased to note that several of the prior year’s observations were settled. In relation to those that remain outstanding, action has been taken as follows:

Instances of non-compliance in respect of representation allowances: The case identified by IBAN was an exceptional occurrence. HQ SACT continues to monitor all Representation Allowance expenditure and the Internal Review Officer conducts a 100% review of expenses. ACT does not anticipate any issues for 2018.

Timing of funding provided to the CMRE: ACT is pleased to see that the IBAN recognizes this issue has been partially settled but will continue to critically address the milestone payments for the Programme of Work in future years.

Internal control weaknesses identified in Financial Accounting and Reporting procedures: ACT management continues to address ways of improving the financial statement process and has initiated a plan to address the specific issues raised in the Management Letter.

Confirmation of year end assets and liabilities outstanding between NATO entities: ACT formalized the approach with ACO to confirm balances for the 2016 financial statements

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APPENDIX
ANNEX 3
IBA-AR(2018)0007

and with NCIA for the 2017 statements. ACT's position is that JALLC and JFTC have very few, if any, end of year assets and liabilities with external NATO entities but will nevertheless seek a formal statement from them. HQ SACT staff will also formalize a process whereby JWC assets and liabilities are included in the NCIA verification, as is already the case with the ACO process.

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NORTH ATLANTIC TREATY ORGANISATION
ORGANISATION DU TRAITÉ DE L'ATLANTIQUE NORD
HEADQUARTERS, SUPREME ALLIED COMMANDER TRANSFORMATION
7857 BLANDY ROAD, SUITE 100
NORFOLK, VIRGINIA, 23551-2490



7000 GSB MBX 0010/FC-25-18/Ser NU0222

TO: Mr Hervé-Adrien Metzger, Chairman, International Board of Auditors for NATO

SUBJECT: 2017 Annual Financial Statements for the ACT Group of Budgets

DATE: 29 March 2018

REFERENCE: A. NATO Financial Regulations, Article 3

1. In accordance with Reference A, I herewith forward the Annual Financial Statements for the Allied Command Transformation Group of Budgets for the Financial Year 2017.

2. I consider that the financial information contained in the Statements agrees with the Allied Command Transformation financial records, and shows the position at the end of the financial year in respect of each of the items listed in Article 34 of the NATO Financial Regulations (NFRs).

3. For these 2017 Financial Statements, ACT has again met the timeline set out in the new NFRs. This states that Financial Statements are to be produced by 31 March. ACT have also worked closely with the International Board of Auditors for NATO (IBAN) on ensuring they could conclude their audit of all ACT sites by this date.

A handwritten signature in black ink, appearing to read "Peter E. Dahl".

Peter E. Dahl
Financial Controller
Allied Command Transformation

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

Denis Mercier
General, French Air Force
Supreme Allied Commander Transformation

ENCLOSURE

1. 2017 ACT Financial Statements

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DISTRIBUTION:

External: -

Action:

Chairman, IBAN
Budget Committee Secretariat

Information:

Commander JWC
Commander JFTC
Commander JALLC
SACTREPEUR

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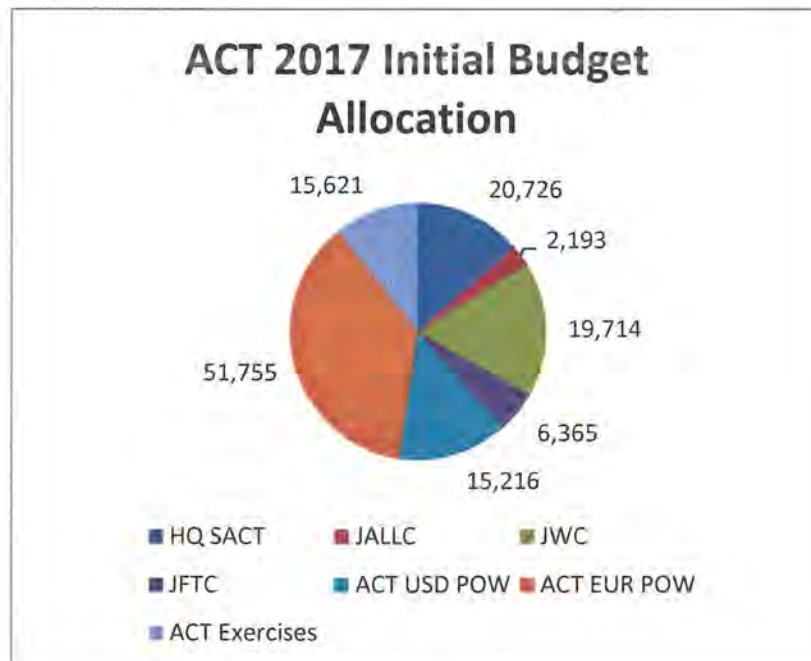
FINANCIAL CONTROLLER'S FOREWORD AND REPORT ON THE 2017 ACT FINANCIAL STATEMENTS

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

FINANCIAL SUMMARY

3. On January 1, 2017, ACT was awarded a budget of €130.126M (based on January 2016 exchange rates). Contained within this budget award was an arbitrary reduction of €2M in recognition of future CIS efficiency savings to be delivered by the NCI Agency. Through the course of 2017 the NCI Agency identified savings amounting to €0.536M the balance of €1.464M was transferred from ACO in December increasing the ACT Budget to €131.59M. During the course of the year surplus credits amounting to €2.682M were identified and returned to the nations for reuse. At the end of 2017 the NAC approved the special carry forward identified surplus as well as an additional €1.539M of surplus funds from ACO and IMS for use against 2018 requirements. This resulted in a final budget allocation of €133.13M.



4. As at 31 December 2017 ACT had committed €127.36M or 97.8% of the remaining €128.908M budget authorisation.

%	2015	2016	2017
ACT Budget Execution	95.0	97.7	97.8

ACT budget execution expressed in % of the total amount from 2015 to 2017

5. The 2017 Budget Allocation represents €4.763M increase over the 2016 allocation. The increase in allocation was driven by increased support to the exercise programme, specifically in exercises STREADFEST COBALT and TRIDENT JAVELIN. Outside of the exercise budget all other budgets were reduced by SACT with the exception of the EUR POW budget which was increased by €0.65M to support increased CIS costs across the Command. The table below also highlights the impact of exchange rates on the ACT budget group. Although the Euro value of the non-exercise budget remains unchanged, with the exception of the JALLC, all budgets had to be reduced. This effectively reduced the collective purchasing power across the non-exercise budgets by €3M.

6. Noting that the ACT PoW and overhead elements were executed in accordance with the approved budget, the ACT surpluses were generated predominantly from variations in the Military Training and Exercise Programme. These surpluses came from a variety of sources: including frozen funds that could not be utilised, efficiency gains through the use of open source geographic material in exercise scenario development, an inability to contract for certain items and stay within the new NATO Financial Regulations, unplanned civilian gapping as well as in-year changes to the resource assumptions in the exercise programme.

7. An examination of budget commitment and expenditure by input category indicates that the commitment pattern is consistent with the previous years.

Chapter	2017	2016	2015	2014
71 (Personnel cost)	23.22%	22.18%	20.53%	21.3%
72 (Contractual Supplies and Services)	76.4%	77.63%	79.35%	78.6%
73 (Capital Investment).	0.38%	0.19%	0.12%	1%

OVERVIEW

8. Global instability, together with new and emerging challenges in areas such as cyber security, hybrid warfare, and insecurity created by state and non-state actors, compel the Alliance to increase its pace of adaptation. From a military perspective, the complexity and uncertainty of the strategic environment and the growing challenges to the Alliance's technological edge, require a step change in our mind-set and the conduct

of warfare development. The Alliance must make the right decisions today if it is to remain credible and relevant now and in the foreseeable future.

9. In this context, ACT works to strengthen NATO's Defence and Deterrence Posture ensuring that it remains credible, responsive and able to fulfil the Alliance's three core tasks: Collective Defence, Crisis Management, and Cooperative Security. ACT's focus is to support and improve today's operational capability; while simultaneously developing and shaping requirements for the future, and continuously bridging the two. Through innovative thinking, concept development and experimentation; advanced education, training and exercises, and continuous engagement with partners and stakeholders, ACT delivers unfettered military advice to NATO Nations and partners to support them in the preparation of their future capabilities, in the most rigorous and cost-efficient way.

10. The Annual Report describes significant transformational activities executed by ACT during 2017 against each of these objectives

WAY AHEAD

11. 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.

12. In the longer term, ACT will remain committed to ensuring that NATO's transformation is directed to guarantee the Alliance's relevance and credibility within a constantly evolving geostrategic environment. As a result, ACT will pursue its transformational agenda, with the limitation imposed by a scenario of economy constraints, retaining the adequate balance between the need to enhance the Alliance's responsiveness and readiness, as well as the strategic requirement to preserve the Alliance state-of-art.

BASIS OF FINANCIAL REPORTING

13. These financial statements are prepared on an accrual accounting basis. NATO adopted the International Public Sector Accounting Standards (IPSAS) as the guiding principle for preparation of all financial statements. This approach was modified with the NATO Adapted Accounting Framework, which was introduced in 2013. The Accounting Framework for NATO was developed to provide minimum requirements for financial reporting for all NATO reporting entities and has formed the basis of ACT financial statements since introduction. ACT continues to apply the NAC endorsed Accounting Framework to these 2017 Consolidated Financial Statements.

AUDIT

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

REPORT ON THE STATEMENTS

15. 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 2017.



PETER E. DAHL
Financial Controller
Allied Command Transformation

GOVERNANCE STATEMENT

The Scope of Responsibility

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.

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

The Purpose of the System of Internal Control

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.

The Command's system of internal control is based on an ongoing process to identify, and prioritise, 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. A system of internal control has been in place, throughout the Command, during the year ended 31 December 2017 and up to the date of publication of these Consolidated Financial Statements; this accords with the Nations' guidance.

This process has been enhanced, during 2017, by the ACT Audit Advisory Panel (AAP), which comprises senior members of the Command, under the Chairmanship of the ACT Chief of Staff.

The AAP's remit is to advise on the adequacy of audit arrangements and on the implications of assurances provided in respect of risk management and internal control systems within the Command. In this regard, the Panel met on three occasions during 2017 and reviewed the progress being made, by the Command, in the implementation risk management and business continuity processes. This work is ongoing, and we expect to see all risk areas to have been reviewed, and risk registers to be mainly populated, by the end of 2018.

Capacity to Handle Risk

Risk management must be embedded into the corporate planning and programme management systems. We recognize that the Command still has some way to go in achieving this.

During 2017, this progress will saw a solidifying of ACT's approach to risk management through the determination of roles and responsibilities for risk governance; the ongoing development of business continuity; and security and incidence and crisis management. These aims and objectives have been

encapsulated in the Command's Risk Management Directive which was issued in January 2018.

By the end of 2018, the Command expects to have appointed its dedicated risk champions, and to have populated its first round of risk registers identifying and assessing risks. These will be staffed to the Command Group.

A significant element of this process is the development of "Athena" – ACT's campaign plan management tool. This tool will be used as the Command's primary vehicle for its Portfolio, Programme and Project Management system. This is designed to support decision making at all levels and performance assessment for the delivery of quality outputs.

During 2017, staff training continued to enable better understanding of risk management awareness, and the principals of risk management. These courses will continue during 2018.

In addition to our overall risk implementation process, our specific aims continued to ensure that:

- Our budgetary systems, during 2017, were fit for purpose so that they were effectively tied to the budget and resource allocation management and reporting process.
- The Command's top level management Boards effectively reviewed periodic and annual financial reports so that they were seen to be in a good position to manage financial performance against forecasts and possible risks.
- Meaningful targets existed to measure financial in year management and other performance areas.
- Effective project management disciplines were in place.
- The Command's key risks were identified, regularly reviewed and, where appropriate, actions were taken to mitigate the effects of any of these risks impacting the Command.

The Risk and Control Framework

The financial risk matrix was further developed, and we continue to work towards a process where this will provide clarity and aid prioritization of risks, at both the corporate and lower levels, and will be used as a model for other risk registers so as to define the risk appetite throughout the Command. These registers will be reviewed by the AAP.

The review role of the AAP continues to be key, to this risk and control process, in allowing senior management to have the ability to better monitor near or emerging risks and, where possible, agree and put in place risk mitigation actions.

We always saw the successful implementation of this process, by the end of 2017, as a challenge for the Command, and its continuation, into 2018, reflects the scale of the task presented to us. Our training programme and implementation of a wide-ranging baseline risk management processes, based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework, as our internal control model, will, we believe, under the management of our Resources and Management Directorate, set us up for further major progress in 2018.

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.

Review of Effectiveness

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

Our review of the effectiveness of these systems is informed by the work of our Budget Holders and Fund Managers, and comments made by our internal and external auditors.

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

Ensuring that the Command's internal audit structure is adequate for the tasks assigned is important for the Command. Therefore, as part of the ongoing Command's restructuring review, the AAP has decided to review the staffing structure of internal audit, within the Command, to ensure that it is adequately resourced, for its current and future tasks, and properly focused.

We have a responsibility for the development and maintenance of the Command's internal control framework.

In particular this includes ensuring that:

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

In addition, the Command's Code of Conduct, revised and reissued in 2017, is specifically designed to ensure that all members of staff are conscious of their individual responsibilities.

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

- Qualified officials are assigned to the financial positions reflected in the Command's internal organisation.
- The tasks and responsibilities of those officials are clearly reflected in the relevant job descriptions.
- Formal delegation of authority for financial matters is in place.
- Effective controls are in place, areas of concern are being highlighted and where necessary, effective remedial action is undertaken.



Peter E Dahl
Financial Controller
Allied Command Transformation



Denis Mercier
General, French Air Force
Supreme Allied Commander Transformation

ACT CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDING 31 DECEMBER 2017
(EUR)

ASSETS	Notes	2017	2016
Current Assets			
<i>Cash and Cash Equivalents</i>	2	42,764,670	62,698,494
<i>Receivables</i>	4	24,411,978	5,305,521
<i>Prepayments</i>	5	571,118	591,498
Non-Current Assets			
<i>Property, Plant & Equipment</i>	6	26,543,008	25,322,653
TOTAL ASSETS		<u>94,290,774</u>	<u>93,918,166</u>
LIABILITIES			
Current Liabilities			
<i>Payables</i>	7	24,479,288	26,795,094
<i>Deferred Revenue</i>	8	26,734,291	8,784,674
<i>Advance Contributions</i>	9	16,329,696	32,873,543
<i>Other Advances</i>	10	204,490	142,202
TOTAL LIABILITIES		<u>67,747,766</u>	<u>68,595,513</u>
NET ASSETS			
Capital contributions		29,000,634	26,818,886
Accumulated surpluses/(deficits)		(2,457,626)	(1,496,233)
Total net assets / equity*	11	<u>26,543,008</u>	<u>25,322,653</u>

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

**ACT STATEMENT OF CHANGES IN NET ASSETS / EQUITY
FOR THE YEAR ENDING 31 DECEMBER 2017
(EUR)**

	Capital Contributions	Accumulated Surplus / Deficit	Total
Balance as at 01 January 17	26,818,886	(1,496,233)	25,322,653
<i>adjustment for 31 Dec 17 exchange rate</i>	<u>(931,274)</u>	<u>65,203</u>	<u>(866,071)</u>
Balance at 1 January 2017 (using 31 Dec 17 exchange rate)	25,887,612	(1,431,030)	24,456,583
Changes in net assets / equity for the year			
Additional capital contributed by nations in 2017	3,113,022		3,113,022
<i>surplus / deficit for the period</i>		(1,026,596)	(1,026,596)
Balance as at 31 December 17	<u><u>29,000,634</u></u>	<u><u>(2,457,626)</u></u>	<u><u>26,543,008</u></u>

ACT CONSOLIDATED STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDING 31 DECEMBER 2017
(EUR)

	Notes	2017	2016
REVENUE			
<i>Revenue</i>	12	128,782,420	129,939,929
<i>Other revenue</i>	13	6,856,037	6,378,906
<i>Financial revenue</i>	14	91,565	73,693
Total Operating Revenue		<u>135,730,022</u>	<u>136,392,528</u>
OPERATING EXPENSES			
<i>Personnel</i>	15	30,021,696	28,551,172
<i>Contractual Supplies and Services</i>	15	95,995,523	100,582,905
<i>Capital and Investments</i>	15	2,477,186	801,191
<i>Depreciation charges</i>	5	1,026,597	941,019
<i>Other Expenses</i>	17	6,856,164	6,379,659
<i>Finance costs</i>	18	379,452	77,601
Total Operating Expenses		<u>136,756,618</u>	<u>137,333,547</u>
NET SURPLUS/(DEFICIT) FOR THE YEAR		<u>(1,026,596)</u>	<u>(941,019)</u>

**ACT CONSOLIDATED CASHFLOW STATEMENT
FOR THE YEAR ENDING 31 DECEMBER 2016
(EUR)**

	2017	2016
Cash Flow from Operating Activities		
Surplus (deficit)	(1,026,596)	(941,019)
Non-cash movements		
depreciation charges	1,026,596	941,019
Increase (decrease) in payables	(2,315,806)	4,374,272
Increase (decrease) in current liabilities	1,468,058	(12,688,562)
deferred revenue	(616,111)	(188,120)
Decrease / (Increase) in receivables	(19,106,456)	25,199,945
Decrease / (Increase) in Current Assets	20,380	534,530
(Increase)/decrease in Inventories	0	0
	(19,523,339)	18,173,084
Extraordinary Item	0	-
Net cash flow from operating activities	(20,549,935)	17,232,065
Receipts from sale of investments	0	0
Purchase of PPE	616,111	188,120
Net cash flow from investing activities	616,111	188,120
Cash flows from financing activities		
Receipts from borrowings	0	0
Repayment of borrowings	0	0
Net cash flows from financing activities	0	0
Net increase (decrease) in cash and cash equivalents	(19,933,824)	17,420,185
Effect of exchange rate changes on cash and cash equivalents on translation		
Cash and cash equivalents at beginning of period	62,698,494	45,278,308
Cash and cash equivalents at end of period	42,764,670	62,698,494

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ACT CONSOLIDATED BUDGET EXECUTION STATEMENT FOR
THE YEAR ENDING 31 DECEMBER 2017

ALL FIGURES SHOWN IN THE APPROVED BUDGET CURRENCY

Budgets presented in
approved Currency

201 Budget - SACT HQ

	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
2017	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	20,355,500	(11,883)	20,343,617	219,396	20,563,013	17,600	20,580,613	5,700	20,448,630	20,454,330	5,700	126,283
Contractual Supplies & Services	2,324,544	(148,000)	2,176,544	328,150	2,504,694	22,465	2,527,159	38,994	2,382,902	2,421,895	38,994	105,263
Capital Investments	0	0	-	0	-	0	0	0	0	0	0	0
2017 Total	22,680,044	(159,883)	22,520,161	547,546	23,067,707	40,065	23,107,772	44,694	22,831,532	22,876,227	44,694	231,545
2016	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	7,839	0	7,839	0	7,839	0	7,839	0	(488)	(488)	0	8,327
Contractual Supplies & Services	876,387	0	876,387	0	876,387	0	876,387	0	643,785	643,785	0	232,602
2016 Total	884,226	0	884,226	0	884,226	0	884,226	0	643,297	643,297	0	240,929
2015	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	0	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	0	0	0	0	0	0	0	0	(43,707)	(43,707)	0	43,707
Capital Investments	0	0	0	0	0	0	0	0	0	0	0	0
2015 Total	0	0	0	0	0	0	0	0	(43,707)	(43,707)	0	43,707
Budget 201 Grand Total	23,564,270	(159,883)	23,404,387	547,546	23,951,933	40,065	23,991,998	44,694	23,431,123	23,475,817	44,694	516,181

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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
257 Budget - ACT USD Programme of Work												
2017	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	633,504	(13,001)	620,503	1	620,504	(84,486)	536,018	0	530,694	530,694	0	5,323
Contractual Supplies & Services	16,016,918	96,158	16,113,076	762,997	16,876,073	1,766,011	18,642,084	1,401,523	16,740,130	18,141,653	1,401,523	500,431
2017 Total	16,650,422	83,157	16,733,579	762,998	17,496,577	1,681,524	19,178,101	1,401,523	17,270,824	18,672,347	1,401,523	505,754
2016	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	0	0	0	0	0	0	-	0	(29,214)	(29,214)	0	29,214
Contractual Supplies & Services	859,157	0	859,157	0	859,157	0	859,157	0	283,177	283,177	0	575,980
2016 Total	859,157	0	859,157	0	859,157	0	859,157	0	253,963	253,963	0	605,194
2015	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Personnel	0	0	0	0	0	0	0	0	(3,280)	(3,280)	0	3,280
Contractual Supplies & Services	422,194	0	422,194	0	422,194	0	422,194	0	376,361	376,361	0	45,833
2015 Total	422,194	0	422,194	0	422,194	0	422,194	0	373,081	373,081	0	49,113
Budget 257 Grand Total	17,931,773	83,157	18,014,930	762,998	18,777,928	1,681,524	20,459,452	1,401,523	17,897,868	19,299,391	1,401,523	1,160,061

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

2017	€	€	€	€	€	€	€	€	€	€	€	€
Personnel	1,548,731	0	1,548,731	(31,193)	1,517,538	(1,157)	1,516,381	5,813	1,474,607	1,480,420	5,813	35,961
Contractual Supplies & Services	644,459	0	644,459	31,193	675,652	(53,030)	622,622	1,425	621,197	622,622	1,425	0
2017 Total	2,193,190	0	2,193,190	0	2,193,190	(54,187)	2,139,003	7,238	2,095,804	2,103,042	7,238	35,961
2016	€	€	€	€	€	€	€	€	€	€	€	€
Personnel	0	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	0	0	0	0	0	0	0	0	0	0	0	0
2016 Total	0	0	0	0	0	0	0	0	0	0	0	0
Budget 252 Grand Total	2,193,190	0	2,193,190	0	2,193,190	(54,187)	2,139,003	7,238	2,095,804	2,103,042	7,238	35,961

258 Budget - ACT Euro Programme of Work

2017	€	€	€	€	€	€	€	€	€	€	€	€
Personnel	2,557	0	2,557	0	2,557	(1,517)	1,040	0	1,040	1,040	0	0
Contractual Supplies & Services	50,288,583	170,112	50,458,695	(351,747)	50,106,948	2,990,820	53,097,768	3,268,568	49,736,376	53,004,945	3,268,568	92,823
Capital Investments	0	0	0	0	0	0	0	0	0	0	0	0
2017 Total	50,291,140	170,112	50,461,252	(351,747)	50,109,505	2,989,303	53,098,808	3,268,568	49,737,416	53,005,985	3,268,568	92,823
2016	€	€	€	€	€	€	€	€	€	€	€	€
Personnel	0	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	1,548,468	0	1,548,468	0	1,548,468	0	1,548,468	10,000	1,191,677	1,201,677	10,000	346,791
2016 Total	1,548,468	0	1,548,468	0	1,548,468	0	1,548,468	10,000	1,191,677	1,201,677	10,000	346,791
2015	€	€	€	€	€	€	€	€	€	€	€	€
Contractual Supplies & Services	52,992	0	52,992	0	52,992	0	52,992	0	(125,968)	(125,968)	0	178,960
2015 Total	52,992	0	52,992	0	52,992	0	52,992	0	(125,968)	(125,968)	0	178,960
Budget 258 Grand Total	51,892,600	170,112	52,062,712	(351,747)	51,710,965	2,989,303	54,700,268	3,278,568	50,803,126	54,081,694	3,278,568	618,574

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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
259 Budget - ACT Exercise Budget												
2017	€	€	€	€	€	€	€	€	€	€	€	€
Personnel	137,000	(1,000)	136,000	32,000	168,000	(51,000)	117,000	0	78,925	78,925	0	38,075
Contractual Supplies & Services	15,484,245	(149,000)	15,335,245	(282,000)	15,053,245	(1,487,469)	13,565,776	0	12,839,073	12,839,073	0	726,703
2017 Total	15,621,245	(150,000)	15,471,245	(250,000)	15,221,245	(1,538,469)	13,682,776	0	12,917,998	12,917,998	0	764,778
2016	€	€	€	€	€	€	€	€	€	€	€	€
Personnel	0	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	0	0	0	0	0	0	0	0	(445,939)	(445,939)	0	445,939
2016 Total	0	0	0	0	0	0	0	0	(445,939)	(445,939)	0	445,939
2015	€	€	€	€	€	€	€	€	€	€	€	€
Personnel	0	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	0	0	0	0	0	0	0	0	(431,518)	(431,518)	0	431,518
2015 Total	0	0	0	0	0	0	0	0	(431,518)	(431,518)	0	431,518
2014	€	€	€	€	€	€	€	€	€	€	€	€
Personnel	0	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	0	0	0	0	0	0	0	0	(334,594)	(334,594)	0	334,594
2014 Total	0	0	0	0	0	0	0	0	(334,594)	(334,594)	0	334,594
2013	€	€	€	€	€	€	€	€	€	€	€	€
Personnel	0	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	0	0	0	0	0	0	0	0	(121,293)	(121,293)	0	121,293
2013 Total	0	0	0	0	0	0	0	0	(121,293)	(121,293)	0	121,293
Budget 259 Grand Total	15,621,245	(150,000)	15,471,245	(250,000)	15,221,245	(1,538,469)	13,682,776	0	11,584,654	11,584,654	0	2,098,122

Budgets presented in
approved Currency

255 Budget - Joint Warfare Centre

2017

	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
Personnel	79,980,068	1,012,500	80,992,568	585,000	81,577,568	672,831	82,250,399	41,537	82,147,196	82,188,733	41,537	61,466
Contractual Supplies & Services	105,811,377	(3,843,599)	101,967,778	(2,472,400)	99,495,378	(1,999,054)	97,496,324	5,111,023	92,045,060	97,156,072	5,111,023	340,252
Capital Investments	250,000	0	250,000	0	250,000	4,118,000	4,368,000	0	4,363,478	4,363,478	0	4,522
2017 Total	186,041,445	(2,831,099)	183,210,346	(1,887,400)	181,322,946	2,791,577	184,114,523	5,152,560	178,555,724	183,708,284	5,152,560	406,239

2016

	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
Personnel	132,553	0	132,553	0	132,553	0	132,553	0	69,444	69,444	0	63,109
Contractual Supplies & Services	11,458,552	0	11,458,552	0	11,458,552	0	11,458,552	701,036	9,018,906	9,719,942	701,036	1,738,610
Capital Investments	0	0	0	0	0	0	0	0	0	0	0	0
2016 Total	11,591,105	0	11,591,105	0	11,591,105	0	11,591,105	701,036	9,088,350	9,789,386	701,036	1,801,719

2015

	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
Personnel	3,729	0	3,729	0	3,729	0	3,729	0	0	0	0	3,729
Contractual Supplies & Services	1,211,202	0	1,211,202	0	1,211,202	0	1,211,202	0	(1,554,909)	(1,554,909)	0	2,768,111
2015 Total	1,211,202	0	1,211,202	0	1,211,202	0	1,211,202	0	(1,554,909)	(1,554,909)	0	2,768,840

Budget 255 Grand Total	198,843,752	(2,831,099)	196,012,653	(1,887,400)	194,125,253	2,791,577	196,916,830	5,853,596	186,089,160	191,942,761	5,853,595	4,977,798
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Budgets presented in
approved Currency

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

2017	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN
Personnel	5,326,999	0	5,326,999	0	5,326,999	(397,196)	4,929,803	0	4,900,976	4,900,976	0	28,828
Contractual Supplies & Services	21,948,103	1,361,716	23,309,819	(1,730,737)	21,579,082	(887,224)	20,691,858	2,005,803	18,216,519	20,222,323	2,005,803	469,535
Capital Investments	0	138,000	138,000	34,511	172,511	0	172,511	0	172,511	172,511	0	0
2017 Total	27,275,102	1,499,716	28,774,818	(1,696,226)	27,078,592	(1,284,419)	25,794,173	2,005,803	23,290,006	25,295,810	2,005,803	498,363
2016	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN
Personnel	0	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	638,012	0	638,012	0	638,012	0	638,012	0	471,575	471,575	0	166,438
Capital Investments	-	0	-	0	-	0	-	0	0	0	0	0
2016 Total	638,012	0	638,012	0	638,012	0	638,012	0	471,575	471,575	0	166,438
2015	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN	PLN
Personnel	0	0	0	0	0	0	0	0	0	0	0	0
Contractual Supplies & Services	0	0	0	0	0	0	0	0	0	0	0	0
Capital Investments	307,500	0	307,500	0	307,500	0	307,500	0	307,500	307,500	0	0
2015 Total	307,500	0	307,500	0	307,500	0	307,500	0	307,500	307,500	0	0
Budget 266 Grand Total	28,220,614	1,499,716	29,720,330	(1,696,226)	28,024,104	(1,284,419)	26,739,685	2,005,803	24,069,081	26,074,884	2,005,803	664,800

Allied Command Transformation
Notes to the Financial Statements
For the year ended 31 December 2017
All amounts stated in Thousands of Euros (€'000), unless otherwise stated

NOTES TO THE ACCOUNTS

1. Significant Accounting Policies

1.1 Basis of preparation

The financial statements of Allied Command Transformation (ACT) have been prepared in accordance with the International Public Sector Accounting Standards (IPSAS) and based on International Financial Reporting Standards (IFRS/IAS), as adopted by the North Atlantic Council (NAC) in 2002. In 2013, the NAC adopted an adaptation to IPSAS to better suit the specific requirements of the Alliance and an associated NATO accounting framework, applicable for financial reporting periods beginning on 1 January 2013. The application of the adaptation to IPSAS and the associated NATO accounting framework has had no material impact on the disclosures or on the amounts recognised in the ACT financial statements. The financial statements comply with the accounting requirements of the NATO Financial Regulations (NFRs) and the relevant entity directives and policies. In instances where there is a conflict between IPSAS and the NFRs this has been noted.

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

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

1.2 Accounting estimates and judgments

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

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

1.3 Changes in Accounting Policy and Standards (if applicable)

The same accounting policies are applied within each period and from one period to the next, unless a change in accounting policy meets one of the criteria set in IPSAS 3. For the 2017 financial statements, the accounting policies have been applied consistently throughout the reporting period.

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

1.4 Changes in pronouncements

Some new standards, alignments of standards and interpretations were issued or became effective for the financial years beginning on 1 January 2017. These have either been classed as not applicable to the entity or have been applied by the entity in preparing the financial statements. Neither of the Standards are expected to have a significant effect on the financial statements of the entity.

IPSAS	Name		Effective date for periods beginning on or after	Comment
35	Consolidated Financial Statements		01 January 2017	Replaces IPSAS 6. No longer permits exemption for temporarily controlled entities. This aspect does not impact the ACT consolidated group
36	Investments in Associates and Joint Ventures		01 January 2017	Not applicable to ACT consolidated group

1.5 Foreign currency

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

ACT HQs that have a functional currency other than Euro are translated into the reporting currency. All assets and liabilities of such entities at year-end were translated using the NATO exchange rates that were applicable at 31 December 2017. Revenue and expenses were translated using an average of the NATO exchange rates applicable during the reporting period. Unrealised gains and losses resulting from the translation of statements in currencies other than Euro are recognised in the Statement of Financial Position.

1.6 Consolidation

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

Controlled entities which are consolidated into the financial statements are listed below.

Name	Location	Functional Currency
HQ SACT	Norfolk, Virginia, USA	Euro and US Dollar
JALLC	Lisbon, Portugal	Euro
JFTC	Bydgoszcz, Poland	Polish Zloty
JWC	Stavanger, Norway	Norwegian Kroner

While Morale & Welfare activities are under the control of the Supreme Allied Commander

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Transformation (SACT), in accordance with the NATO Accounting Framework, they have not been consolidated into these financial statements. A separate activity report as required by the NFRs is submitted to the Budget Committee.

1.7 Services in-kind

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

1.8 Financial Instruments disclosure/presentation

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

1.9 Cash and cash equivalents

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

1.10 Short-term investments

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

1.11 Receivables

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

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

1.12 Property, Plant and Equipment (PP&E)

PP&E with the exception of land are stated at cost less accumulated depreciation and accumulated impairment losses.

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

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

PP&E categories are listed in the table below:

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

During 2017, ACT staff conducted a thorough analysis of all purchases made during the year to establish if any fell within the categories and capitalisation thresholds detailed in the table above. PP&E held in ACT is detailed in Note 6.

1.13 Leases

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

All other leases are classified as operating leases.

Rental payable under lease contract are recognised as an expense in the statement of financial performance on a straight line basis over the lease term. (if applicable). As at 31 December 2017, ACT had the following amounts owed on non-cancellable leases at HQ SACT, JFTC and JALLC.

Item	amounts due in 2018	amounts due in 2019 - 2022
Various vehicles	€107k	€265k

1.14 Intangible assets

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

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

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

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proceeds and the carrying amount of the asset and is recognised in the statement of financial performance.

1.15 Payables

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

1.16 Deferred Revenue

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

1.17 Advances

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

1.18 Employee benefits

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

1.19 Provisions

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

1.20 Net Assets

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

1.21 Revenue and expense recognition

Revenue

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

Interest income is accrued on a time-basis, by reference to the principal outstanding and at the effective interest rate applicable. Bank interest earned and accrued as of 31 December 2017; exchange rate revenue due to transactions in foreign currency; and realised exchange

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rate revenue are recognised as financial revenue.

Finance costs

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

1.22 Surplus or deficit for the period

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

1.23 Trust Funds

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

1.24 Cash-flow statement

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

2. Cash and cash equivalents

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

	2017	2016
Total Euro Accounts	27,910	39,741
Total non-Euro Accounts	14,855	22,957
	42,765	62,698

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 2017. The Euro account includes an amount of €196k, which represents the remainder of funds deposited by nations contributing to Trust Funds (see Note 3 below).

The cash holdings are significantly lower than the previous year, which is a result of three nations not settling their cash call contributions by the end of 2017. As a result, ACT carried a €17.5m receivable for cash call contributions. In the previous year all nations had settled their cash calls by 31 December 2016.

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

3. Trust Funds

ACT is responsible for separate Voluntary National Contribution Funds (VNCF), which are operated by HQ SACT. One fund is being used to provide training during 2017 and

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2018 for weapons inspector teams from NATO nations, as well as Partnership for Peace (PfP) countries. Deposits received for this 2-year initiative amounted to €233k, of which €189k was not expensed as at 31 December 2017. The other fund relates to the Commander's Counter-Marauding Terrorist Course and deposits received against this amounted to €67k, of which €7k was not expensed at year end. This latter amount will be returned to nations in 2018. Details are summarised in the table below:

Name of Fund	Balance as at 01 Jan 17	Money transferred in	In year expenses	Balance as at 31 Dec 17
Weapons Intelligence Team Training 2015-2016 (WITT 2015-2016)	108.2	N/A	49,3 (for 2016 expenditures); 58,8 transferred back to NATO IS	0
Weapons Intelligence Team Training 2017-2018 (WITT 2017-2018)	0	232.7	43.6	189.1
2nd Advanced Commander's Counter-Marauding Terrorist Attach Course (2nd ACC-MTA)	0	67.0	60.0	7.0

4. Receivables

	2017	2016
Receivables	6,921	5,306
Contributions receivables from nations	17,491	0
	24,412	5,306

As at 31 December 2017 and as referred to in Note 2 above, ACT had not received full settlement of the 2nd 2017 cash call. This leads to a significant increase in that particular receivable category. ACT was still awaiting funds from nations for significant parts of the Euro call, the Norwegian Kroner (NOK) call and the Polish Zloty (PLN) call.

While the NOK and PLN call were settled in early January 2018, the €12M outstanding Euro call was not deposited on the ACT bank account until March 2018, which had a direct impact on ACT's ability to pay debtors.

The non-cash call receivables include €1.8m for invoices that still need to be prepared at the end of the financial year. Additionally, invoices amounting to €3m were raised at year end to ACO and IMS to account for a budget transfer decision. Other invoices amounting to €1.2m were raised at the year end to recognise revenue corresponding to expenditure against delegated budgets from ACO since it is necessary to show the receivable in these financial statements under the matching concept as the expense has been recognised. These receivables were cleared in a timely manner in the following year.

5. Prepayments

The following prepayments were recorded:

	2017	2016
Prepayments to 3rd Party Suppliers	571	591

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

6. Property, plant and equipment

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

PP&E category	Approximate number of items	Location of asset	comments
Buildings	5 buildings in 1 geographical HQ location	HQ SACT, Norfolk, Virginia	Buildings were either provided free of charge or fully expensed prior to 01 January 2013. Includes installed equipment.
Buildings	5 buildings in 1 geographical HQ location	JWC, Stavanger, Norway	
Buildings	4 buildings in 1 geographical HQ location	JFTC, Bydgoszcz Poland	
Buildings	1 building in 1 geographical HQ location	JALLC, Lisbon, Portugal	
Vehicles	5	HQ SACT, Norfolk, Virginia	All vehicles held at the HQs were purchased prior to 01 January 2013 and have been fully expensed in the year of purchase.
Vehicles	13	JWC, Stavanger, Norway	
Vehicles	0	JFTC, Bydgoszcz Poland	
Vehicles	0	JALLC, Lisbon, Portugal	

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

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	Buildings & infrastructure EUR	Installed equipment EUR	Furniture EUR	Vehicles EUR	Machinery EUR	Total EUR
Balance at 1 January 2017	22,490,222	2,745,263	1,395,281	139,500	48,619	26,818,886
<i>adjustment for 31 Dec 17 exchange rate</i>	(799,665)	(95,843)	(21,757)	(11,799)	(2,210)	(931,274)
Balance at 1 January 2017 (using 31 Dec 17 exchange rate)	21,690,556	2,649,420	1,373,524	127,702	46,410	25,887,612
Additions	2,444,678	52,233	321,390	294,721		3,113,022
Disposals						
Balance at 31 December 2017	24,135,235	2,701,652	1,694,914	422,423	46,410	29,000,634
Accumulated depreciation						
Balance at 1 January 2017	842,351	389,138	260,223	3,281	1,239	1,496,233
<i>adjustment for 31 Dec 17 exchange rate</i>	(38,089)	(16,567)	(10,258)	(210)	(79)	(65,203)
Balance at 1 January 2017 (using 31 Dec 17 exchange rate)	804,262	372,572	249,965	3,071	1,160	1,431,030
Depreciation expense	627,678	215,760	148,065	30,452	4,641	1,026,597
Accumulated Depreciation at 31 Dec 2017	1,431,939	588,332	398,030	33,524	5,801	2,457,626
Net book value						
Balance at 1 January 2017	21,647,871	2,356,125	1,135,058	136,219	47,380	25,322,653
Balance at 31 December 2017	22,703,295	2,113,321	1,296,884	388,899	40,609	26,543,008

The depreciation charge for the year was €1,027k

7. Accounts Payable

Accounts Payable is detailed below:

	2017	2016
Suppliers	4,571	8,556
Staff Members	193	140
Non-Consolidated NATO Entities	18,720	14,875
Governments	995	3,219
Other payables	0	5
	24,479	26,795

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

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

8. Deferred revenue

	2017	2016
Budget related	24,819	7,842
NSIP related	1,719	835
Other sources	196	108
	<u>26,734</u>	<u>8,785</u>

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

For the financial year ending 31 December 2017, €24.8m was Budget Related, which was a significant increase over the previous year. However, this should be viewed in conjunction with Note 9 below, which shows a corresponding decrease in Advance Contributions received from Nations. The outstanding cash call balances are reflected in total as deferred revenue until settled, when the "Advance Contribution for 2018" part is recorded as "Advance Contributions" as detailed in Note 9 below.

The Other sources figure of €196k relates to the Trust Funds operated by HQ SACT referred to in Note 3 above.

9. Advances Contributions

	2017	2016
Advance Contributions	16,330	32,874

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

Advance contributions to ACT not received as at 31 December 2017 amounted to €12m, NOK40.4m and PLN 5.2m, which explains the significantly lower figure reported in 2017.

10. Other advances

	2017	2016
Other Advances	204	142

Other advances correspond to cash received from external entities against which future payment will be offset. The amount for 2017 relates to cash received at the JALLC from a non-consolidated NATO entity. This will be reduced during 2018 as invoices are received and paid.

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11. Net assets

	2017	2016
Capital contributions	29,001	26,819
Accumulated surpluses/(deficits)	(2,458)	(1,496)
Total net assets / equity	26,543	25,323

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

12. Revenue

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

The following key revenue items are presented:

Recognised Revenue	2017	2016
Assessment Calls/Contributions	126,385	129,063
NSIP Revenue	2,224	715
Other income	173	162
	128,782	129,940

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 2017	54,929	39,086	136,591	16,713
Amount in Euros (for comparison only)	54,929	32,956	13,881	3,957

13. Other revenue

This consists of reimbursable activity within ACT, which is comprised of two elements: activity undertaken between entities within the ACT consolidation group (inter-entity) and activity undertaken between the ACT group and a 3rd party (reimbursable). The inter-entity activity has been eliminated from the ACT consolidated accounts. That is to say that Revenue and 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 eliminated.

With regard to 3rd party reimbursable activity some €7.5m of activity has been undertaken during 2017.

14. Financial revenue

Financial revenue relates to interest earned on deposits during the financial year.

15. Expenses

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

	2017	2016
Chapter 1		
Salaries & associated costs	28,961	27,399
Consultants	184	94
Training	643	706
Other	234	352
TOTAL	30,022	28,551

Chapter 2		
General support and Utility costs	6,033	6,663
Contractors	44,167	48,219
Travel and subsistence	13,619	11,377
ALS Support	28,025	30,127
Mission equipment costs	43	70
Communications	372	223
Training	3,736	3,897
R&D supplies		7
TOTAL	95,995	100,583

Capital & Investments (Chapter 3 & NSIP)		
ALS Capital & Investment	131	86
Mission Equipment Assets	49	0
Building Infrastructures	0	0
NSIP funded contractor support	1,646	0
Other NSIP	545	704
Other	106	11
TOTAL	2,477	801

Expenses relating to contractors are reflected in Chapter 2 and reflects the Budget Committee guidance set out in paragraph 2.2.3 of MBC-M(2010)0039. A significant part of this category of expenditure is with the CMRE. In 2017, ACT incurred €22.1m of expenditure relating to contractor services provided by CMRE. The other significant amount expensed by ACT in relation to contractor costs were payments made to NCIA for the Programme of Work. In 2017, these amounted to €12.3m.

The increase in travel expenditure over the prior year was due to a number of Exercises taking place during 2017, which were over and above those conducted in 2016.

Exercise BRILLIANT SWORD – travel for this amounted to €541k; Exercise TRIDENT JAGUAR – travel for this amounted to €1.64M, whereas in 2016 only €663K was allocated; Exercise TRIDENT JOUST - in 2017 €330K was for the transportation cost

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to JFTC, whereas in 2016, this amounted to €82K.

Capital and Investments include charges against Chapter 3 and NSIP amounting to €3,093k, less capitalised expenditure of €616k, giving a total of €2,477. The Budget Execution Statement shows the actual expenditure against the budgets, before removal of capitalised items.

16. Staff resources

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

	2017	2016
Salaries of Civilian Staff	18,315	17,476
Allowances of Civilian Staff	4,977	4,870
Contributions to Health Insurance (c)	3,990	3,479
Contributions to Pension Funds (d)	1,347	1,278
	<u>28,629</u>	<u>27,103</u>

b) Analysis of staff numbers - the number of full-time equivalent persons employed as at 31 December 2017 was:

	HQ SACT	JWC	JFTC	JALLC
Military	470	169	83	37
Civilian	115	55	14	9
Temporary Civilian	6	0	0	8
Reimbursable Civilians	0	0	1	0
Local Wage Rate (LWR)	0	11	0	0
Total	<u>591</u>	<u>235</u>	<u>98</u>	<u>54</u>
Voluntary National Contributions	31	1	4	4
Partnership for Peace (PfP)	4	0	1	1
Overages in addition to VNC	5	3	1	0
Legacy transition	5	0	0	0

c) Health Insurance - all civilian members of ACT are members of the NATO Health Insurance Scheme, providing sickness, maternity, accident, disablement and death benefits to staff members, their spouses and children. Staff members pay contributions of approximately 3.75% to 9.8% of gross salary, which are matched by contributions paid by ACT. For 2017 ACT contributions totalled €3.99m.

d) Contributions to Pension Funds

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

The NATO Coordinated Pension Scheme: staff members make contributions representing 9.5% of their monthly salary.

Contributions are expensed during the year in which the services are rendered and represent the total pension obligation for ACT. Total pension contributions of ACT across the 3 schemes outlined above totalled €1,347k during 2017.

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 2017, ACT civilian staff across all Headquarters carried forward 1,902 leave days. In monetary terms, this equates to approximately €858k but ACT has a policy of not making an actual financial payment to staff in lieu of this. ACT staff either take the untaken leave by 30 April of the following year or lose the days, unless exceptionally allowed to extend. In view of this policy, and the fact that the vast majority of days are taken by 30 April of the following year, ACT does not recognise a liability in these financial statements.

17. Other expenses

Other expenses consists of reimbursable activity within ACT, which is comprised of two elements: activity undertaken between entities within the ACT consolidation group (inter-entity) and activity undertaken between the ACT group and a 3rd party (reimbursable). The inter-entity activity has been eliminated from the ACT consolidated accounts. That is to say that Revenue and 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 eliminated. The only other expense is a small write off of an outstanding receivable amounting to less than €1k.

18. Finance costs

This includes the sum of exchange rate gains and losses (€358k), as well as bank charges incurred by ACT entities for normal business transactions (€21k).

19. 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 organisation set up under the 1948 Washington Treaty. Those countries that were or have become parties to the Convention, the Member Nations, are regarded as related parties. ACT, as one of the two NATO Strategic Commands, has, during the year, had various material transactions with these Member Nations.

Key Management Personnel

Under IPSAS 20 Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial and operating decisions. IPSAS 20 requires the disclosure of the existence of related party relationships, where control exists, and the disclosure of information about entities and its related parties. This information is required for accountability purposes and to facilitate a better understanding of the financial position and performance of the reporting entity.

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

In addition to the key management personnel of the Command Group, ACT has implemented several controls on staff who are involved in the contract award process to ensure that no related party factors could influence this procedure. All key management personnel are in the process of being asked to sign a related party disclosure document. This will be in place prior to publication of the audit report into the 2017 ACT Consolidated Financial Statements.

20. Representation allowance

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

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SACT allocates these funds to his subordinate Commanders, as he considers reasonable. For 2017 the Representation Funds allocated to SACT, and subsequently delegated, were as follows:

Entity	2017 Allocation (Eur)
HQ SACT	34.7
JWC	4.0
JFTC	1.1
JALLC	0.7
TOTAL	40.5

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

During the course of 2017, €21k of available funds were lapsed.

21. Budget Execution Statement Overview

Exchange Rates applicable to Budget Execution Statement:

Year	Initial Authorisation	Mid-Yr Authorisation	Final Authorisation	Net Commitment	Actual Expenses	Carry Forward
2017	Jan 16 ¹	Jan 16	Jan 16	Dec 17 ²	Ave 17 ³	Dec 17
2016/15	Dec 15 ⁴	Dec 15	Dec 16	Dec 17 ²	Ave 17 ³	Dec 17
¹ Rate used in 2017 Budget authorisation ² Rate used to revalue outstanding commitments at year end prior to rolling forward to 2018 ³ Rate used in determining expenditure throughout the year ⁴ Rate used to bring forward commitments remaining at year end 2016						

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

Financial Expenditure recorded in Budget Execution Statements (BES):

Budget 201	20,686	
Budget 252	2,096	
Budget 255	19,969	
Budget 256	5,659	
Budget 257	15,801	
Budget 258	50,803	
Budget 259	11,585	
		<hr/>
		126,599

Expenditure recorded in Statement of Financial Performance:

Chapter 71	30,022	
Chapter 72	95,996	
Chapter 73	581	
		<hr/>
Total Expenditure equal to BES		126,599
Less capitalised Chapter 3 expenditure (PP&E)		(295)
NSIP expenditure		2,512
Less capitalised NSIP expenditure (PP&E)		(321)
Depreciation charges		1,026
Other Expenses		6,856
Finance Costs		379
Total Expenditure in Statement of Financial Performance		<hr/> 136,756

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

The Statements of Financial Position, Financial Performance, Changes in Net Assets and Statement of Cash Flow are prepared on a full accrual basis, whereas the Budget Execution Statements, apart from "actual expenses," are prepared on a commitment accounting basis. Significant budgetary transfers are detailed in the table below.

Budgetary Lapses

Lapses recorded on the Budget Execution Statement have a value of €4.952m. 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.

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Budget Code	Budget Currency	Value of Lapse in Budget Currency (figures shown as complete amounts)						Value of Lapse in Euro (Average Rate of Exchange)
		2013	2014	2015	2016	2017	Total	
201	USD			44	241	231	516	465
252	EUR			0	0	36	36	36
255	NOK			2,770	1,802	406	4,978	537
256	PLN			0	167	498	665	152
257	USD			49	605	506	1,160	1,045
258	EUR			179	347	93	619	619
259	EUR	121	335	431	446	765	2,098	2,098
								4,952

22. Statement of Budgetary Transfers

In accordance with the NATO Financial Regulations (NFRV Article 26) budgetary transfers are recorded on the face of the accounts. All transfers were executed between budgets at the January 2017 rate of exchange. The totality of transfers undertaken in 2017 do not breach the authorised Budget Authority outlined in BC-BA(2017)0003 dated 25 October 2017.

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

23. STATEMENT OF SPECIAL CARRIED FORWARD CREDITS

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

During 2017 ACT was also given specific permission to also make the following Special Carry Forwards. The Council (C-M(2017)0063) refers:

JALLC (BC 252) €6K in support of the 2018 salary adjustments

JWC (BC 255) NOK 5.028M (€533K) in support of the OCCASUS North and FISCO exercise scenario development

JFTC (BC 256) PLN 1.247 (€291K) in support of the delivery of exercise BRILLIANT JOUST 18

ACT USD POW (BC 257) \$1.342 (€1.226M) in support of a Capability Requirement for interim capability and Programme Management support.

ACT EUR POW (BC 258) €2.171 in support of Cyber Domain Transformation requirements.

24. MORALE & WELFARE ACTIVITIES

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

In accordance with NATO reference documents PO(97)98 and MBC-DS(97)23, the consolidated 2017 Annual Report on MWA activity within the ACT Budget Group, has been submitted to the Budget Committee.

25. STATEMENT OF WRITE-OFF

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

26. STATEMENT OF PERFORMANCE 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 2017
Amounts in EUR

STATEMENT OF FINANCIAL POSITION PER HEADQUARTER

	HQ SACT			JWC			JFTC		
	2017	2016	Difference	2017	2016	Difference	2017	2016	Difference
Current Assets									
Total Cash & Cash Equivalents	36,159,904	51,364,409	(15,204,505)	2,854,232	8,435,665	(5,581,433)	1,562,109	1,341,259	220,849
Receivables	23,200,053	3,624,133	19,575,920	415,701	896,436	(480,735)	685,893	2,572,137	(1,886,244)
Total Advances & Prepayments	537,679	377,594		127,346	296,312	(168,966)	34,204	35,655	(1,452)
Non-Current Assets									
Property, Plant & Equipment	23,844,185	25,322,653	(1,478,469)	289,809	0	289,809	2,409,014	0	2,409,014
Total Assets	<u>83,741,821</u>	<u>80,688,789</u>	<u>2,892,947</u>	<u>3,687,089</u>	<u>9,628,414</u>	<u>(5,941,325)</u>	<u>4,691,218</u>	<u>3,949,051</u>	<u>742,167</u>
Liabilities									
Payables	21,127,524	24,424,202	(3,296,679)	2,241,687	3,076,050	(834,363)	942,496	1,266,874	(324,377)
Deferred Revenue	22,875,524	4,656,148	18,219,377	720,484	1,531,444	(810,959)	1,339,708	1,115,341	224,368
Advance Contributions	15,894,588	26,285,786	(10,391,198)	435,108	5,020,921	(4,585,812)		1,566,837	(1,566,837)
Other Advances	0	0	0	0	0	0	0	0	0
Total Liabilities	<u>59,897,636</u>	<u>55,366,136</u>	<u>4,531,500</u>	<u>3,397,279</u>	<u>9,628,414</u>	<u>(6,231,134)</u>	<u>2,282,205</u>	<u>3,949,051</u>	<u>(1,666,846)</u>
Net Assets									
Capital Contributions	29,000,634	26,818,886	2,181,748	0	0	0	0	0	0
Accumulated surplus (deficit)	(2,457,626)	(1,496,233)	(961,393)	0	0	0	0	0	0
Total assets / equity	<u>26,543,008</u>	<u>25,322,653</u>	<u>1,220,354</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 2017
Amounts in EUR

STATEMENT OF FINANCIAL POSITION PER HEADQUARTER

	JALLC			NSIP			Total 2017	Consolidation Postings	Published 2017
	2017	2016	Difference	2017	2016	Difference			
Current Assets									
Total Cash & Cash Equivalents	254,887	280,280	(25,393)	1,869,819	1,248,152	621,667	42,700,950	63,720	42,764,670
Receivables	113,762	643,377	(529,615)				24,415,409	(3,431)	24,411,978
Total Advances & Prepayments	21,889	31,936	(10,047)				721,118	(150,000)	571,118
Non-Current Assets									
Property, Plant & Equipment	0	0	0	0	0	0	26,543,008		26,543,008
Total Assets	<u>390,538</u>	<u>955,594</u>	<u>(565,056)</u>	<u>1,869,819</u>	<u>1,248,152</u>	<u>621,667</u>	<u>94,380,485</u>	<u>(89,711)</u>	<u>94,290,774</u>
Liabilities									
Payables	107,105	191,948	(84,842)	150,188	412,744	(262,556)	24,569,000	(89,711)	24,479,289
Deferred Revenue	78,943	621,444	(542,502)	1,719,631	835,407		26,734,291		26,734,291
Advance Contributions							16,329,696		16,329,696
Other Advances	204,490	142,202	62,288				204,490		204,490
Total Liabilities	<u>390,538</u>	<u>955,594</u>	<u>(565,056)</u>	<u>1,869,819</u>	<u>1,248,152</u>	<u>(262,556)</u>	<u>67,837,477</u>	<u>(89,711)</u>	<u>67,747,766</u>
Net Assets									
Capital Contributed by Nations	0	0	0	0	0	0	29,000,634		29,000,634
Accumulated surplus (deficit)	0	0	0	0	0	0	(2,457,626)		(2,457,626)
Total assets / equity	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>26,543,008</u>	<u>0</u>	<u>26,543,008</u>

For the year ended 31 December 2017
Amounts in EUR

STATEMENT OF FINANCIAL PERFORMANCE PER HEADQUARTER

	HQ SACT			JWC			JFTC		
	2017	2016	Difference	2017	2016	Difference	2017	2016	Difference
Total Revenue	102,787,427	105,779,487	(2,992,061)	20,842,244	15,166,461	1,675,783	7,679,258	8,272,828	(593,571)
Total Expenses	103,814,023	106,720,506	(2,906,483)	20,842,244	19,166,461	1,675,783	7,679,258	8,272,828	(593,571)
End of Year Result	<u>(1,026,596)</u>	<u>(941,019)</u>	<u>(85,578)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(0)</u>

	JALLC			NSIP			Consolidation Eliminations	Published 2017
	2017	2016	Difference	2017	2016	Difference		
Total Revenue	2,197,172	2,458,270	(261,098)	2,223,921	715,483	1,508,439	(6,465,397)	135,730,027
Total Expenses	2,197,172	2,458,270	(261,098)	2,223,921	715,483	1,508,439	(6,465,397)	136,756,618
End of Year Result	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,026,596)</u>

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

Statement of Position

Statement of Performance

	Inter-Entity Eliminations		Inter Entity Eliminations
Assets		Revenue	
Current Assets			
Cash and Cash Equivalents	63,720	Operating revenue	5,671,856
Receivables	(3,431)	Inter Entity Revenue	793,540
Advance to Consolidated Entity	(150,000)		
Total Current Assets	<u>(89,711)</u>	Total Revenue	<u>6,465,397</u>
Liabilities		Expenses	
Payables	89,711	Inter Entity Expenses	(6,465,397)
Unearned Revenue			
Total Liabilities	<u>89,711</u>	Total Expenses	<u>(6,465,397)</u>
Net Assets	<u><u>0</u></u>		

Annex A

ACT Write off Report of International Property 2017

Command	Headquarters property	Net Book Value (in currency)	Number of RoS	comments
HQ SACT	Equipment	\$0	2	Obsolete and no longer required for use at ACT
HQ SACT	Vehicle	\$3.3k	1	Vehicle beyond economical repair
JFTC	Equipment	PLN 0	20	Obsolete and no longer required for use at JFTC
JFTC	Furniture	PLN 0	13	beyond economical repair
JFTC	Vehicle	PLN 0	1	Vehicle beyond economical use
JWC	Equipment	NOK 1.2k	9	Obsolete and no longer required for use at JWC
JWC	Furniture	NOK 0	3	beyond economical repair
JWC	Miscellaneous	NOK 0	6	Obsolete and no longer required for use at JWC
JALLC	Equipment	€0	4	Obsolete and no longer required for use at JALLC
JALLC	Vehicle	€0	1	Vehicle beyond economical use

