



**OPCW**

**Advisory Body on Administrative and  
Financial Matters**

Forty-Fifth Session  
31 July – 3 August 2018

ABAF-45/1  
3 August 2018  
Original: ENGLISH

**REPORT OF THE FORTY-FIFTH SESSION OF THE ADVISORY BODY ON  
ADMINISTRATIVE AND FINANCIAL MATTERS**

**1. Opening of the session**

- 1.1 The Forty-Fifth Session of the Advisory Body on Administrative and Financial Matters (ABAF) was held from 31 July to 3 August 2018. The following members participated: Mr Giridhar Armane, Mr John Foggo (Chairperson), Mr John Fox, Mr Milan Kerber, Mr Aizaz Khan, Mr Vladimir Kuznetsov, Mr Hans-Christian Mangelsdorf, Mr Arata Mizukami, Mr Khodayar Rouzbahani (Vice-Chairperson), and Ms Qian Wang.
- 1.2 The list of documents presented to the ABAF for this session is included as the annex to this report.
- 1.3 The Director-General of the Technical Secretariat (hereinafter “the Secretariat”) of the Organisation for the Prohibition of Chemical Weapons (OPCW) addressed the ABAF members. Referring to the agenda for the session, the Director-General noted that a number of important issues were to be addressed, in particular the Draft Programme and Budget of the OPCW for 2019 (EC-89/CRP.1, dated 6 July 2018), the upgrading of the OPCW Laboratory to a Centre for Chemistry and Technology (ChemTech Centre), as well as the draft revised charter for the Office of Internal Oversight (OIO). The Director-General informed the ABAF members that they would also receive a briefing on the status of the Enterprise Resource Planning (ERP) Project.
- 1.4 The ABAF was informed by the Director-General that, in line with past recommendations of the States Parties, the 2019 Draft Programme and Budget had again been prepared following the principles of results-based management (RBM), and featured zero nominal growth compared to 2018 levels. He further explained the budget remained at EUR 66.8 million, the same level as in 2018, excluding extraordinary provisions.
- 1.5 The Director-General explained that, taking into account an extraordinary provision for high-priority investments in the high-risk areas of cybersecurity and business continuity and the removal of the requirement in 2018 for the Fourth Review Conference,<sup>1</sup> the Draft Programme and Budget for 2019 was EUR 67.3 million, which represented a EUR 81,232 increase (or 0.1%) over 2018. The Director-General indicated that security challenges required the Organisation to further adapt in the

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<sup>1</sup> Fourth Special Session of the Conference of the States Parties to Review the Operation of the Chemical Weapons Convention.



areas of cybersecurity and business continuity. The Draft Programme and Budget included an extraordinary provision for investment in these high organisational risk areas. These extraordinary priority areas could also not be accommodated within a zero nominal growth framework.

- 1.6 The ABAF was assured by the Director-General that the 2019 Draft Programme and Budget had been formulated to ensure adequate resources were allocated to the operational programmes and, in so doing, the split between the operational and support programmes remained the same as in 2018. The Director-General indicated that, overall, the number of fixed-term staff for the Organisation had been reduced by four positions, from 456 to 452. All of the staff reductions were in Chapter 2, from non-operational positions, bringing the cumulative total of non-operational reductions to 10 over the 2018–2019 period, thus meeting the guidance from the States Parties given in the decision on the 2017 Programme and Budget (C-21/DEC.6, dated 1 December 2016).
- 1.7 In light of the recent decision entitled “Addressing the Threat from Chemical Weapons Use” (C-SS-4/DEC.3, dated 27 June 2018) taken by the Conference of the States Parties (hereinafter “the Conference”) at its Fourth Special Session, the Director-General informed the ABAF that the implementation of the decision would require additional human and operational resources. The Director-General pointed out to the ABAF that those resources were not reflected in the 2019 Draft Programme and Budget document, and that an addendum outlining the requirements of the decision would be provided for the consideration of States Parties prior to the September budget facilitation sessions.
- 1.8 The Director-General informed the ABAF that the facilitation process to consider the 2019 Draft Programme and Budget had begun in July 2018, when the Secretariat introduced the draft in detail. The work would continue during the budget facilitation sessions in September. During those sessions, the Secretariat would be making thematic presentations on issues where the States Parties had requested more information or clarification during the intersessional period. The objective was to reach an agreement on the 2019 Draft Programme and Budget during this process so that the Executive Council (hereinafter “the Council”) could, at its upcoming session in October 2018, recommend to the Conference that it adopt the 2019 Draft Programme and Budget at its Twenty-Third Session in November 2018.
- 1.9 Turning to the OPCW Laboratory upgrade project, the Director-General indicated that it was a large-scale and significant initiative that would allow the Organisation to keep pace with current challenges as well as scientific and technological developments, and also streamline the training and capacity-building support for States Parties. The Director-General informed the ABAF members that they would be briefed on the planning, current status, and requirements of the project, including the momentum that was building towards it being financed through extrabudgetary funding.
- 1.10 The ABAF was informed by the Director-General that the OIO would present a revised draft charter for comment. This would be a follow-up to the last meeting of the ABAF during which the OIO shared its thoughts on its strategic vision covering an array of important issues including, inter alia, the updating of its charter, the

strengthening of audit skills, and the acquisition of audit management software that was in use in many international organisations.

- 1.11 The Director-General commented that progress had been made in the ERP project since the last meeting of the ABAF. The Director-General informed the ABAF members that they would be briefed on the phased activities and timeline of this important initiative for the Organisation, leading towards a projected go-live date later this year. Improved automated processes, increased efficiency, and risk mitigation through the use of embedded system controls would bring the Organisation tangible benefits once the system was implemented and stabilised.
- 1.12 The Director-General concluded his remarks with appreciation for the ABAF's contributions to the work of the OPCW and assured the ABAF of the Secretariat's full support in the conduct of its work.

## **2. Adoption of the agenda**

The ABAF adopted the following agenda:

1. Opening of the session
2. Adoption of the agenda
3. Introductory matters:
  - (a) Introduction of new ABAF members as per EC-88 decisions
  - (b) Financial updates: cash position, status of collection of assessed contributions and reimbursements, recommendations for write-offs (if any)
  - (c) Status of 2018 financial performance (first half of 2018)
4. Review of the report of the previous session
5. ERP Project update
6. Office of Internal Oversight revised draft charter
7. Update on the Upgrading of the OPCW Chemical Laboratory to a Centre for Chemistry and Technology Project
8. Draft Programme and Budget for 2019
9. Financial Regulation 6.3
10. Election of the Chairperson and Vice-Chairperson of the ABAF
11. Any other business
  - (a) Streamlining of the OPCW Financial Statements
  - (b) OPCW Financial Statements for 2018 and exceptional closure extension

- (c) Status of the Implementation of the Recommendations of the External Auditor

12. Next session and agenda

13. Adoption of the report

### **3. Introductory matters**

#### **Subitem 3(a): Introduction of new ABAF members as per EC-88 decisions**

- 3.1 The Chairman of the ABAF welcomed its two new members, Mr Milan Kerber and Ms Qian Wang (previously observers), both of whom were appointed by the Council to the ABAF as members following their nominations submitted to the Secretariat (EC-88/S/3 and EC-88/S/4, both dated 8 June 2018).

#### **Subitem 3(b): Financial updates**

##### Cash position

- 3.2 The ABAF reviewed the report by the Director-General entitled “OPCW Income and Expenditure for the Period 1 January to 30 June 2018 (Second Quarter of the Financial Year Ending 31 December 2018)” (S/1651/2018, dated 10 July 2018 and Corr.1, dated 17 July 2018) and the Note by the Director-General containing the monthly financial situation report as at 30 June 2018 (S/1650/2018, dated 10 July 2018). The ABAF noted that the cash balance of the OPCW General Fund was EUR 5.4 million as at 30 June 2018—vastly lower than at the same period last year (EUR 22.5 million). The ABAF was provided with an update during the course of the meeting on the cash position of the Organisation’s General Fund as at 31 July, which stood at EUR 9.32 million (20.9 million at 31 July 2017).
- 3.3 The ABAF expressed strong concern that the Secretariat was forecasting a negative cash position of EUR 1.4 million at the end of the year and that the Working Capital Fund (WCF) could need to be utilised as early as September of this year and would likely need to be utilised to maintain liquidity in late 2018 and early 2019.

##### Status of collection of assessed contributions

- 3.4 The ABAF noted that as at 30 June 2018, the Secretariat had collected 58.09% of assessed contributions for the year, which was lower than the same period last year when 77.79% of assessed contributions for 2017 had been received. During the course of the meeting the ABAF was provided with an update on the rate of collection of 2018 assessed contributions as at 31 July 2018, which stood at 71.76% compared to 83.80% at the same time the year prior.
- 3.5 The ABAF also noted that 94.82% of 2017 assessed contributions had been received by 30 June 2018 (same as of 31 July 2018). The ABAF expressed concern that the payment of assessed contributions continued to lag and encouraged the Secretariat to continue to remind States Parties of the importance of the timely payment of assessed contributions.

Status of Article IV and Article V reimbursements

- 3.6 The ABAF noted with concern the status of Article IV and V reimbursements as at 30 June 2018 and the cumulative outstanding amount of EUR 5,535,962. The ABAF was informed that since the end of June, an additional EUR 0.367 million of the outstanding amount had been received, bringing the total outstanding amount to EUR 5,168,809. The ABAF reiterated its concern regarding the impact of non-payment, and strongly recommended that the Council address this issue.

Recommendations for write-offs

- 3.7 The ABAF was informed that the write-off cases, including irrecoverable accounts receivable, irrecoverable foreign value-added tax (VAT), and losses of assets for this year had been reviewed and that the Budget and Finance Branch had determined that, in accordance with Financial Regulation 10.5, there would be no amounts requiring the approval of the Council and Conference in 2018. Instead, the Director-General would be presented with the write-off amounts as in total they were less than EUR 10,000 and individually less than EUR 500 per asset, which was below the threshold requiring Council and Conference approval.

**Subitem 3(c): Status of 2018 financial performance (first half of 2018)**

- 3.8 The ABAF was briefed on the status of the 2018 budget and was informed that the 2018 Programme and Budget was EUR 66.8 million (not including the provision for the Fourth Review Conference), of which EUR 65 million had been allotted to programmes to incur expenditure. As at the end of June, the mid-point of the year, 55% of the budget had been utilised against allotment (53% against budget). As in past years, this was higher than a linear rate of implementation, but not unusual in international organisations at the mid-year point of the financial year, given the advance obligation of contracts.
- 3.9 The Secretariat informed the ABAF that the contingency margin within the budget of 2.7% was being managed within the context of many variables. These variables included the cash forecast, the high volatility and lag in the receipt of assessed contributions (which seemed to be amplified in 2018), unplanned costs such as the Fourth Special Session of the Conference (part of which was being accommodated within the General Fund), the effects of foreign exchange, a high rate of programme implementation similar to that in 2017, and budget transfer rules.
- 3.10 The ABAF was informed that the forecast to the end of the year indicated that the Organisation would be under budget by year end, however the free balance margin was expected to be low. The ABAF was informed that there were definite budgetary pressures within Chapter 2, especially within Executive Management. Mitigating approaches included the use of other forecasted available funds within the chapter and, where possible, the use of trust funds for certain expenditures.
- 3.11 The ABAF was advised that, thus far, foreign exchange rates were having an immaterial impact on the budget. The Budget and Finance Branch would continue to monitor the trend in exchange rates and apply mitigating measures if needed.

- 3.12 The ABAF was informed that increased and scheduled engagement between the Budget and Finance Branch and the programmes on budget implementation and forecast had been initiated in 2018.
- 3.13 The ABAF welcomed the update and encouraged the Secretariat to maintain close management of the contingency margin and budget forecast and to take early measures to ensure sufficient budgetary margin was maintained to year end. Furthermore, the ABAF noted that the Secretariat was projecting a negative cash flow position by year end, which could then materialise into a possible cash deficit similar to the possible cash deficit that could arise once the 2017 cash surplus/deficit was confirmed by the External Auditor. The ABAF noted that the non-payment or lag in payment of assessed contributions and Article IV and V reimbursements was not sustainable for the Organisation and created serious risks to programme implementation.

#### **4. Review of the report of the previous session**

The ABAF reviewed the report of its previous session (ABAF 44/1, dated 8 June 2018 and Corr.1, dated 10 July 2018) and did not have any specific comments of note. The ABAF agreed that all follow-on actions from its previous meeting were reflected in the current meeting agenda.

#### **5. ERP project update**

- 5.1 The ABAF was briefed by the ERP Project Manager on the ERP Project, including on the status of implementation of the system of record (SoR) and systems of differentiation (SoD), next steps, and the financial status of the project.
- 5.2 The ABAF was informed that the go-live date for the SoR was still planned for late 2018. With regard to the SoD, the ABAF was informed that within the talent management solution the recruitment component was scheduled for roll-out in late September, with the performance management and learning management components to follow at a later date. In addition, the asset management and travel management implementations were on hold pending the finalisation of the SoR solution design.
- 5.3 The ABAF was informed that there was a potential savings of EUR 0.385 million from the project budget, down from previous levels. The ABAF noted that, a year ago, the savings from the project budget was anticipated at approximately 0.7 million, and that at the last ABAF meeting the anticipated savings were approximately 0.4 million. The ABAF requested and was provided with further details of the Phase 1 expenditure for the project.
- 5.4 The Secretariat informed the ABAF that a third-party quality assurance resource had been extremely useful in helping to identify shortcomings in a number of design solutions proposed by the implementing partner, as well as in providing support to OPCW business process owners in ERP processes and functionality. In doing so, the third-party quality assurance resource was helping to ensure that the OPCW's requirements would be met by the ERP system. The ABAF reiterated its previous recommendation that the Secretariat conduct contingency planning in the event that the implementing partner, for whatever reason, did not complete the project.

- 5.5 The ABAF encouraged the Secretariat to continue to focus on ensuring that the project delivered the intended benefits.
- 5.6 The ABAF recommended that the Secretariat undertake a lessons-learned exercise once the ERP project had been implemented.
- 5.7 The ABAF requested that an ERP Project update be given at its next meeting, and encouraged the Secretariat to keep States Parties informed of the project status.

## **6. Office of Internal Oversight revised draft charter**

- 6.1 The ABAF welcomed the draft charter that the OIO had submitted for its consideration. The charter defined the purpose, scope, responsibilities, and authority of the OIO, and served as a framework for the internal oversight activities at the OPCW intended to provide independent, objective assurance and consulting services designed to improve the OPCW's operations. The ABAF noted that the draft charter was based on the latest template issued by the Institute of Internal Auditors (IIA), and incorporated both the IIA 2015 External Assessment and the OPCW External Auditor's recommendations, substantially updating the current charter issued in 2011.
- 6.2 The ABAF emphasised that the revised OIO draft charter should reaffirm the operational independence and impartiality of the work done by the OIO and strengthen the Office to meet the challenges of the future, in accordance with its strategic vision. The ABAF was informed by the Director of the OIO that the draft charter was in line with the current Financial Regulations and Rules (FRR). However, the ABAF noted that the FRR contained provisions regarding the mandate and functions of the internal oversight mechanism and urged that the Office of the Legal Adviser ensure that the proposed charter was in full accord with relevant provisions in the FRR. The ABAF suggested that the OIO should carefully consider whether any update of the FRR would be required in the future and requested the Office to report back on the subject at the next ABAF session.
- 6.3 Furthermore, the ABAF also suggested that the OIO should highlight the most important changes in the draft Charter vis-à-vis the current version when submitting this document to the Director-General and to the Conference for their consideration. The ABAF endorsed the recommendation of the IIA External Assessment that the charter should be kept up to date by reviewing it once every three years at a minimum. The ABAF considered the revised charter to be a comprehensive document and, in line with the requirements of the IIA Standards and as recommended by the External Auditor, recommended that any revisions to it should be submitted for approval by States Parties after acceptance by the Director-General, so as to ensure the operational independence of the oversight function. The ABAF suggested that, should revision to the FRR be required as a result of the proposed changes to the charter, consideration should be given to having the FRR require there to be an independent and objective OIO based on a charter approved by States Parties, which would allow for future updates to be made to the charter (which should be considered at least every three years) without having to re-amend the FRR. The ABAF suggested that States Parties should be given an opportunity to carefully scrutinise the revised charter before it was submitted to the Conference for final approval.

6.4 The ABAF noted the list of management processes identified by the OIO to perform its annual risk assessment. This list of management processes had been requested by the ABAF at its previous meeting. These processes would be looked at alongside the ABAF's consideration of risk management at its next meeting.

## **7. Update on the Upgrading of the OPCW Chemical Laboratory to a Centre for Chemistry and Technology Project**

7.1 The ABAF was provided with a presentation on the project to upgrade the OPCW Laboratory to a ChemTech Centre. The presentation provided the ABAF with a project overview, information on the proposed location for the Centre, the funding status of the project, and the next steps envisaged. The ABAF welcomed the briefing by the Secretariat.

7.2 The ABAF was informed that the current facility in Rijswijk would not be fit for purpose for a number of reasons, including an ageing infrastructure and significant space constraints, and that no major infrastructure updates had been undertaken in over 20 years. The Secretariat indicated that major maintenance was required at a cost estimated at more than EUR 5 million, and a major renovation would require the facility to be out of service for approximately one year. It was also highlighted that more tasks and higher workloads needed to be accommodated; it would be important to keep abreast of latest technologies and to keep level with partner designated laboratories. There was a requirement to accommodate enhanced needs for training and capacity building.

7.3 The Secretariat informed the ABAF that the ChemTech Centre project consisted of four components: a chemical laboratory, an equipment store, training facilities, and disaster recovery/business continuity. The Secretariat highlighted expected project results and the ABAF deemed the project to be highly worthwhile and timely. The ABAF suggested that the Secretariat use more metrics to further highlight the business case for the project. Furthermore, the ABAF recommended that the Secretariat make clear, and better incorporate within its project documentation and communication to States Parties, that the four components formed part of one integrated project.

7.4 The ABAF commented that the ChemTech Centre project requirement of approximately EUR 20 to 25 million was currently planned to be funded exclusively through extrabudgetary resources. The ABAF stated, however, that the ChemTech Centre, when completed, would be a core activity of the Organisation. The ABAF recommended that appropriate consideration should be given by States Parties to have the project requirement be part of the regular budget, with the cost shared by all States Parties. The ABAF noted the unpredictability and unsustainability of extrabudgetary funding and that there could be no certainty that the Secretariat would receive enough extrabudgetary funding to complete the project. Similarly, during the course of the project, there could be times when funds were insufficient to progress. The ABAF acknowledged that lags in payment of assessed contributions, as currently experienced by the Organisation, could also be of certain risk to the project if cash shortage in the regular budget meant that cash was not available to the project when required.



- 7.5 The ABAF referred to the strategic financing ideas proposed by the Secretariat at its last meeting and specifically the concept of a major capital investment fund for the OPCW. The ABAF indicated that such a fund, if in place, could help to finance such a project as well as the equipment requirements and future replacements.
- 7.6 The Secretariat indicated that the operating and maintenance costs for the ChemTech Centre, once operational, would be incorporated into the regular budget of the OPCW. The ABAF inquired what the operating and maintenance costs were expected to be. The Secretariat informed the ABAF that more clarity on such costs would be determined as the ChemTech Centre design matured. The Secretariat indicated that the current rent paid for the Rijswijk facility would no longer be required once the ChemTech Centre project was completed, because the new facility would be owned by the OPCW. The savings in annual rent payments, coupled with a more modern, efficient facility, would help to minimise any increase in operating and maintenance costs.
- 7.7 The ABAF flagged the apparent disconnect within the regular budget between the future regularisation of operating and maintenance costs of the new facility, once operational, and the cost to construct the facility not being incorporated into the regular budget.
- 7.8 With regard to the location for the new ChemTech Centre, the Secretariat informed the ABAF of the proposed location and its benefits. The ABAF suggested engagement with the local population at an early stage to avoid the possibility of misapprehensions later on.
- 7.9 The ABAF suggested that the Secretariat emphasise in its project documentation to States Parties that the role of the OPCW Laboratory would not change as a result of the new ChemTech Centre, nor would the role of designated laboratories.
- 7.10 The ABAF was pleased to hear that the Secretariat would be running the ChemTech Centre project as a well-structured project, establishing the necessary processes in due course.
- 7.11 The Secretariat informed the ABAF that the ChemTech Centre project, during construction and once completed, would be a significant asset holding of the Organisation and reflected as such in the OPCW Financial Statements. For the first time the OPCW would become a facility owner and would need to consider the operational implications attached to this aspect. The Secretariat indicated that the construction would have to be tracked properly to ensure fiscal control and also compliance with the requirements of International Public Sector Accounting Standards (IPSAS).
- 7.12 The ABAF noted that the ChemTech Centre project was still at an early stage. The ABAF requested updates on the project at its next and subsequent meetings, and also requested that States Parties receive updates on a regular basis.

## **8. Draft Programme and Budget for 2019**

- 8.1 The ABAF was briefed on the 2019 Draft Programme and Budget (EC-89/CRP.1), which was presented for its consideration. It was recalled that the Programme and

Budget had been developed over a period of several months, starting with the issuance of budget instructions, meetings and discussions with programme managers, and taking into account priority areas. The Draft Programme and Budget was announced by the Director-General in July, and introduced to the budget meeting with States Parties in the same month. The ABAF was informed there would be a series of consultations on the budget with States Parties in September.

- 8.2 The ABAF was informed that the Draft Programme and Budget was based on the operational core activities, including destruction of chemical weapons (with 70.6 planned Article IV and V inspections), industry inspections (with 241 planned Article VI Inspections), and international cooperation and assistance activities. New and continuing priorities in the 2019 Draft Programme and Budget included national capacity development and education and outreach activities, the OPCW Laboratory (ChemTech Centre) project, investment in technology (strengthening of the Secure Information Exchange System and the phased implementation of the enterprise content management system within the Security Critical Network), comprehensive knowledge management capacity, and an extraordinary provision for cybersecurity and business continuity.
- 8.3 The ABAF was presented with an overview of the Draft Programme and Budget totalling EUR 66.8 million which, not including an extraordinary provision for high priority investment in cybersecurity and business continuity, was the same level as in 2018. The ABAF noted that the budget, excluding the extraordinary provision, had been prepared taking zero nominal growth into account.
- 8.4 The ABAF noted that with the extraordinary provision, largely offset by discontinued costs for the Fourth Review Conference in 2018, the Draft Programme and Budget totalled EUR 67.3 million, a 0.1% increase (EUR 81,232) as compared to 2018.
- 8.5 The ABAF was presented with details of the 2019 Draft Programme and Budget for operational programmes, support programmes, and Executive Management. The ABAF noted that the Draft Programme and Budget (excluding the extraordinary provision) maintained the same balance as in 2018 between Chapter 1 (43.4%) and Chapter 2 (56.6%) programmes and the same balance as in 2018 between the operational (54.8%) and support (45.2%) programmes.
- 8.6 The ABAF reiterated the need for a clearer linkage in the budget formulation between resources required and the results to be achieved as part of implementing RBM. The ABAF noted the Secretariat's assurances that, with improvements to be brought about by the new ERP system (once operational), there would be an opportunity to make a clearer linkage in future programmes and budgets. The Secretariat also indicated that the determination of results from a key performance indicator (KPI) level to an impact measurement level was a process and took time.
- 8.7 On the topic of fixed-term staffing, the ABAF noted that the 2019 Draft Programme and Budget (EC-89/CRP.1) showed a net reduction of four staff members from 2018 levels, with 452 positions in 2019 compared to 456 in 2018. The ABAF also noted that the net reductions were all in non-operational positions from the support programmes. The ABAF referred to the decision on the 2017 Programme and Budget (C-21/DEC.6) requiring the Secretariat to focus its resources on operational

programmes and to reduce by 10 the 228 non-operational, fixed-term positions by the end of 2019. The ABAF commended the Secretariat for achieving the reduction of 10 positions from the non-operational programmes achieved through the 2018 and proposed 2019 Programme and Budget, reducing the number of non-operational positions to 216. The ABAF reviewed the movements in staff positions presented in the 2019 Draft Programme and Budget and further noted the reduction in Administration Division posts in particular, and further noted that these reductions were consistent with the requirement to reduce non-operational positions.

- 8.8 The ABAF noted that for the Draft Programme and Budget, the costs for temporary assistance contract salaries had increased by 23.9% (EUR 10,880). The ABAF questioned why this was the case and why these costs were included under the category of staff and not under non-staff costs, consultancy, and contractual services, which provided for consultancies, special service agreements, interpreters and translators, and contractual services. The ABAF further questioned why common staff costs were then attributed to temporary assistance. The Secretariat indicated that temporary assistance resources were used when there was a need to fill a vacant existing staff position, which was therefore different from a consultancy. The classification was consistent with OPCW Administrative Directive AD/PER/11/Rev.2 (dated 2 July 2018) on short-term appointments, whereby such appointments were considered as staff and contract duration was normally between one day and one year minus one day, depending on the needs of the Organisation. The ABAF suggested that the classification of such costs be further considered as to whether they would be best placed under non-staff costs instead of salaries, consistent with the practice of other international organisations.
- 8.9 The Secretariat informed the ABAF that it had considered its recommendation from its Forty-Third Session to add in future budget documents comparative figures for the current and previous budget years to the list of the Secretariat's fixed-term staffing (presented in Appendix 4 of the Programme and Budget documents). The Secretariat, however, indicated that the table in Appendix 4 would become unwieldy and difficult to interpret, as it provided a great deal of detail by position grade and programme. The ABAF was informed that, as part of the 2018 Programme and Budget decision, the Secretariat had been requested to provide a table of staff position movements as part of the Programme and Budget text, and that this would be accommodated in the final version.
- 8.10 The ABAF requested the Secretariat to show, in its 2019 draft and future Programme and Budget documents, requirements that go unfunded with the Programme and Budget. The Secretariat indicated that it would be able to provide those requirements, some of which, when not accommodated through the regular Programme and Budget, were met through extrabudgetary funding as available. The ABAF questioned how unfunded items would be determined, to which the Secretariat indicated that unfunded items would be based on programmatic need and prioritisation.
- 8.11 The ABAF noted that the proposed budget of the International Cooperation and Assistance Programme (ICA) was budget-neutral from the previous year at the level of EUR 7,609,700. The Programme would see an increase in staff costs of 2.8% (EUR 78,376), owing to the transfer of a Senior Administrative Assistant (GS-5) from the Verification Programme and an adjustment to standard staff costs. The ABAF also

noted that, to keep the ICA budget neutral, the Programme's non-staff costs had decreased by the same amount as the staff cost increase. The ABAF noted that the Programme's budget reflected a decrease of 3.4% (EUR -128,000) in travel costs, a decrease of 12.2% (EUR -49,000) in general operating expenses, and a decrease of 100% (EUR -9,000) in furniture and equipment, while consultancy and contractual services had increased by 38.2% (EUR 107,625).

- 8.12 The ABAF requested that the Secretariat provide historical data for 2017 on the expenditure incurred in the regular budget and expenditure incurred from extrabudgetary sources. The Secretariat indicated that it would provide this information, which could also be found in the annual OPCW Financial Statements.
- 8.13 Regarding activities that remained unfunded for the ICA and other programmes and that were not included in the Programme and Budget because of zero nominal growth or other constraints, the ABAF suggested that the Programme and Budget should provide these details so that States Parties would have a comprehensive view of the Organisation's funding requirements.
- 8.14 The ABAF suggested that KPIs for the ICA also include qualitative measures.
- 8.15 The ABAF noted that the ICA had indicated that it was taking measures to improve RBM, including better monitoring and evaluation, and that these measures would take time to be fully implemented and become sustainable.
- 8.16 For the Verification Programme, the ABAF noted that the proposed budget had remained at the same level (EUR 8,713,772) as in the year prior. The ABAF noted that staff costs for the Programme had been reduced mainly because of the transfer of a Senior Administrative Assistant (GS-5) to the International and Cooperation Division (ICA), whereas non-staff costs had increased to the same level as the reduction in staff costs, resulting in a neutral budget.
- 8.17 The ABAF noted that the Inspectorate Division (INS) had remained at the same level as the prior year, with no increase. The ABAF also noted that the INS had experienced budget reductions, or no increases, in past years and questioned if this was sustainable.
- 8.18 The ABAF understood that the INS had significant requirements that remained unfunded within the Programme and Budget, especially in terms of equipment needs, largely owing to the zero nominal growth requirements. The ABAF noted that these requirements, when possible, were accommodated through extrabudgetary resources, noting that these funds were neither certain nor sustainable. The ABAF requested again that unfunded requirements be brought to the attention of States Parties and included within Programme and Budget documents.
- 8.19 Regarding the budget requested for the Office of Confidentiality and Security (OCS), the ABAF noted that the budget was within the same level as the prior year, excluding the extraordinary provision for cybersecurity and business continuity.
- 8.20 The ABAF noted that the extraordinary provision for cybersecurity and business continuity amounted to EUR 514,965. The Secretariat explained to the ABAF that the extraordinary provision had been proposed to be funded utilising a portion of the

2016 cash surplus, and that it could not be accommodated within zero nominal growth. The ABAF noted that the majority of the requirement (EUR 464,965) was for OCS, and that a smaller component (EUR 50,000) was for the Information Services Branch (ISB) within the Administration Programme. The ABAF suggested that, taking into consideration confidentiality requirements, more information be provided to States Parties on the cost elements of the extraordinary provision at the September budget consultations and within the Programme and Budget document.

- 8.21 For the Support to the Policy-Making Organs Programme (PMO), the ABAF noted that the Programme's budget for 2019 had increased slightly by EUR 1,824. Staff costs had decreased by 1.1% (EUR 39,414) owing to an upgrade of a Reprographic Operator post (to GS-4), and the abolishment of a Conference Services Clerk (GS-3) post. The ABAF questioned again whether temporary assistance should be classified as salaries or as consultancy.
- 8.22 Regarding the budget proposed for the External Relations Programme (ERD), the ABAF noted a slight increase of 0.35% (EUR 6,960), the result of increases in staff costs (0.16%) and non-staff costs (1.57%).
- 8.23 For the Health and Safety Branch (HSB), the ABAF noted that there had been a reduction of EUR 7,656 (0.83%) in the proposed budget.
- 8.24 The ABAF noted that the proposed budget of the Office of the Legal Advisor (LAO) had increased by 6.83% (EUR 79,626), primarily owing to an increase of EUR 75,000 in mandatory International Labour Office Administrative Tribunal (ILOAT) fees for three additional cases expected in 2019. The LAO explained to the ABAF the various measures that had been taken to reduce the number of cases that could reach the ILOAT stage and to reduce settlements should they arise.
- 8.25 The ABAF observed that, since 2017, the LAO had a provision for consultancy/special service agreements that was available and suggested that the Secretariat consider an additional legal staff member instead of consultancy should this need be constant from year to year.
- 8.26 Regarding the budget requested for the Office of Strategy and Policy (OSP), the ABAF noted that the Office had no significant change from the prior year. The ABAF questioned the KPIs of the OSP and whether metrics with 100% targets were the most useful or if other measurements could also be considered.
- 8.27 The ABAF also noted that the budget for the Office of Internal Oversight (OIO) had an increase of 3.28% (EUR 30,382), owing to an increase in non-staff costs for new audit management software, offset partially by a decrease in consultancy and contractual services.
- 8.28 The ABAF recommended that the OIO include within the Programme and Budget an additional narrative explaining the four functional areas of the OIO mandate.
- 8.29 The ABAF commented that KPI 1.3 concerning the rate of implementation of OIO recommendations should perhaps be a KPI for the programmes and not the OIO, as there was a potential conflict of interest.

- 8.30 The ABAF noted that the Administration Programme's draft budget showed a decrease of EUR 148,359 (-1.1%) from the previous year. The ABAF commented that this was due primarily to a -2.7% reduction in staffing costs (amounting to EUR 208,228) as a result of a reduction of posts in this Programme.
- 8.31 The ABAF commented that within the Administration Programme, KPI 1.3 "External Auditor's unqualified opinion on Financial Statements" should not be a KPI, as it would be expected to occur in the normal course of operations. The ABAF also questioned the measurability of KPI 1.5 "Attracting and recruiting diverse world-class talent". In addition to quantitative measures, the ABAF supported the use of qualitative KPIs for the Programme.
- 8.32 The ABAF reiterated its previous recommendation that the Organisation continue to pursue future reductions in costs related to travel and consultancy and contractual services, as these expenditure categories were typically prone to cost increases in international organisations.
- 8.33 The ABAF was informed that the recent decision "Addressing the Threat from Chemical Weapons Use" (C-SS-4/DEC.3), taken by the Conference at its Fourth Special Session, would entail both human and operational resource requirements and that those requirements were not reflected in the Draft Programme and Budget presented. The ABAF noted that an addendum outlining the requirements of the decision would be provided to States Parties for consideration prior to the September budget consultations.
- 8.34 The ABAF was pleased to see that the draft Programme and Budget document had incorporated its recommendation from its Forty-Third Session to include the target KPIs for the current budget year, understanding that full year results would not yet have been obtained.
- 8.35 The ABAF recommended that future Programme and Budget documents include a section for each programme on its emerging and continuing priorities, and that each of these priorities should have an associated cost attributed to them.
- 8.36 The ABAF also reiterated its recommendation that future Programme and Budget documents include a comprehensive list of changes, similar to what was presented by the programmes during the briefing to the ABAF. The ABAF felt that, in this manner, the Programme and Budget document would read better, with key changes clearly presented to allow comparison.
- 8.37 The ABAF requested the Secretariat to further develop its RBM efforts and to embed them within future programmes and budgets.

## **9. Financial Regulation 6.3**

- 9.1 In response to Note Verbale 08/18 (dated 28 February 2018) from the Permanent Representation of Germany to the OPCW, the ABAF at its last session reviewed Regulation 6.3 to determine if it was in the best interest of the Organisation. The ABAF was also requested to elaborate a recommendation for consideration by the Council in autumn 2018 on whether to revert back to the previous version of the regulation or to modify the existing one.

- 9.2 The ABAF at its last session recognised the need for the Secretariat to establish the notion of a cash deficit, and that the decision on how to deal with such a deficit ultimately rested with the Conference. The ABAF at its last session recommended however that further analysis of Financial Regulation 6.3 should take place, and encouraged members of the ABAF and the requesting State Party to work with the Secretariat on potential wording for consideration at its Forty-Fifth Session.
- 9.3 The ABAF member from Germany provided the ABAF membership with proposed wording and rationale to modify existing Regulation 6.3. In doing so, the newly introduced concept of a cash deficit was to be retained. However, it was proposed to remove from subparagraph (b) the notion of “charging to the provisional surplus or deficit: the cash deficit, if any, of the financial year for which the cash surplus or deficit is determined”. Also, it was proposed to remove the following portion of subparagraph (c): “the allocation of a final cash deficit will be deferred until a final cash surplus is established in subsequent financial periods. The Conference of the States Parties may defer the allocation of the cash surplus if the surplus is required to finance a temporary cash shortage of the Regular Budget Fund.” Furthermore, in the course of the discussion, it was proposed to add to subparagraph (d) of existing Regulation 6.3 the following sentence at the end of the paragraph: “The liquidation of a cash deficit and the use of a cash surplus shall be determined by the Conference of the States Parties.”
- 9.4 The ABAF, with the Secretariat, agreed to these revisions to Regulation 6.3, pending a review by the LAO to ensure that the wording would be acceptable legally. If not, any further proposed changes could then be circulated to the ABAF electronically for comment and agreement.
- 9.5 In terms of process, the final wording would then be brought forward as a proposed decision by the requesting State Party for approval, first to the Council and subsequently to the Conference.

## **10. Election of the Chairperson and Vice-Chairperson of the ABAF**

According to Rule 4 of its Rules of Procedure (Annex 2 to ABAF-27/1, dated 3 September 2009 and Corr.1, dated 15 October 2009), the ABAF re-elected for a period of one year Mr John Foggo as Chairperson and Mr Khodayar Rouzbahani as Vice-Chairperson, both with immediate effect following the close of its Forty-Fifth Session.

## **11. Any other business**

### **Subitem 11(a): Streamlining of the OPCW Financial Statements**

- 11.1 The ABAF was provided with a presentation on the Secretariat’s proposal to streamline the OPCW Financial Statements. The Secretariat noted that the External Auditor had commented in the past that the OPCW Financial Statements could be streamlined. The Budget and Finance Branch conducted a benchmarking analysis of the length of financial statement and accounts documents from 10 other international organisations. The finding was that the OPCW equivalents were at the upper end of the spectrum in terms of length and number of pages when compared to these 10 organisations.

- 11.2 The ABAF noted the Secretariat's proposal to shorten the OPCW Financial Statements by removing much of the budgetary information, and instead providing the information directly within the quarterly income and expenditure reports provided to States Parties. Essential budgetary elements such as the cash surplus, ex-gratia/losses, cash balances, etc. would still be retained within the OPCW Financial Statements. The ABAF noted that the Secretariat was of the opinion that the readability of the OPCW Financial Statements would significantly improve and other important budget-based information would be more accessible to States Parties.
- 11.3 The ABAF inquired whether any information to States Parties would be lost and if the proposal was in compliance with the FRR. The Secretariat indicated that States Parties would still receive the same level of information, albeit in different documents and in a timelier manner for some, and that the proposal was indeed compliant with the FRR.
- 11.4 The Secretariat thanked the ABAF for its consideration on this matter and indicated that it would also be confirming this approach with the External Auditor prior to the implementation of any changes.

**Subitem 11(b): OPCW Financial Statements for 2018 and exceptional closure extension**

- 11.5 The Secretariat revisited with the ABAF the External Auditor's recommendation in its 2017 long-form report (communicated also to the ABAF at its Forty-Fourth Session and included in its report) that the Secretariat assess what the implication would be for the timeline for the preparation of the 2018 Financial Statements when taking into account an ERP go-live planned for late 2018. The External Auditor indicated that if the Secretariat saw this as a risk it should engage early with States Parties to agree to a later timeline for the 2018 Financial Statements.
- 11.6 The Secretariat indicated that with a late-year ERP go-live in 2018 there would be a significant burden on the Budget and Finance Branch to transition to a new ERP system and also prepare the accounts closure and the 2018 Financial Statements, including the external audit process. In this regard, more time would be required to prepare and finalise the financial statements which, under Regulation 11.4 of the FRR, are to be submitted to the External Auditor by 31 March following the end of the financial period to which they relate. In this regard, the Budget and Finance Branch indicated that, as an exceptional, one-time measure, it would be necessary to request Conference approval to submit the financial statements for 2018 to the External Auditor later, causing the audit opinion and audit report to be issued later than normal. The audit report and financial statements would still, however, be available to States Parties at the Ninety-Second Session of the Council and Twenty-Fourth Session of the Conference, according to the normal schedule.
- 11.7 As a consequence of a later submission of the 2018 financial statements to the External Auditor, the Secretariat indicated that the ABAF would need to consider the 2018 External Auditor's report and the 2018 Financial Statements at its second, rather than first, session of the year. The ABAF agreed to this approach.
- 11.8 The ABAF agreed that, given the ERP go-live, an exceptional request for extension of the submission date for the financial statements to the External Auditor would be



submitted by the Secretariat to the Council at its Eighty-Ninth Session and to the Conference at its Twenty-Third Session for approval.

**Subitem 11(c): Status of the implementation of the recommendations of the External Auditor**

- 11.9 The ABAF was informed that the report on the status of the implementation of the recommendations of the External Auditor was being prepared for issuance to States Parties. In September, prior to the Eighty-Ninth Session of the Council, an informal consultation in line with normal practice would be held with States Parties to update them on the status of the recommendations.

**12. Next session and agenda**

Dates of ABAF sessions in 2019

- 12.1 The ABAF decided on the dates for its 2019 sessions as follows: the Forty-Sixth Session will be held from 4 to 7 June 2019, and the Forty-Seventh Session will be held from 30 July to 2 August 2019.

Provisional Agenda of the Forty-Sixth Session of the ABAF

- 12.2 The ABAF adopted the following provisional agenda for its Forty-Sixth Session:
1. Opening of the session
  2. Adoption of the agenda
  3. Review of the report of the previous session
  4. Introductory matters
    - (a) ABAF members as per EC-89 and EC-90 decisions
    - (b) Financial updates: cash position, status of collection of assessed contributions and reimbursements, Working Capital Fund
  5. Status of the 2019 financial performance (to date)
  6. 2018 Budget Transfers
  7. 2018 Programme Performance
  8. Financial Statements of the Organisation for the Prohibition of Chemical Weapons and the report of the External Auditor for the year ending 31 December 2018 (contingent on ERP go-live with possibility of deferral to ABAF-47)
  9. OPCW net deficit approach
  10. Report of the Office of Internal Oversight for the year ending 31 December 2018

11. OIO Audit Plan
12. OIO Management Processes and Risk Management
13. OPCW Statement of Internal Control
14. ERP project update
15. OPCW Laboratory project update
16. Fourth Review Conference outcomes pertaining to administrative and financial matters (including strategic financing)
17. Any other business
18. Next session and agenda
19. Adoption of the report

**13. Adoption of the report**

The ABAF adopted the report of its Forty-Fifth Session on 3 August 2018.

Annex:

List of Information Papers and Other Documents Presented to the Advisory Body on Administrative and Financial Matters at its Forty-Fifth Session

**Annex**

**LIST OF INFORMATION PAPERS AND OTHER DOCUMENTS  
PRESENTED TO THE ADVISORY BODY ON ADMINISTRATIVE  
AND FINANCIAL MATTERS AT ITS FORTY-FIFTH SESSION**

|     | <b>Title</b>  |
|-----|---|
| 1.  | Agenda for the Forty-Fifth Session of the Advisory Body on Administrative and Financial Matters   |
| 2.  | Note by the Technical Secretariat: Nomination for Membership of the Advisory Body on Administrative and Financial Matters (EC-88/S/3 and EC-88/S/4, both dated 8 June 2018)   |
| 3.  | Report of the Forty-Fourth Session of the Advisory Body on Administrative and Financial Matters (ABAF 44/1, dated 8 June 2018 and Corr.1, dated 10 July 2018)   |
| 4.  | Note by the Director-General: Comments on the Report of the Advisory Body on Administrative and Financial Matters at its Forty-Fourth Session (EC-88/DG.18, dated 28 June 2018)   |
| 5.  | Note by the Director-General: Monthly Financial Situation Report as at 30 June 2018 (S/1650/2018, dated 10 July 2018)   |
| 6.  | Report by the Director-General: OPCW Income and Expenditure for the Period 1 January to 30 June 2018 (Second Quarter of the Financial Year Ending 31 December 2018) (S/1651/2018, dated 10 July 2018 and Corr.1, dated 17 July 2018)                            |
| 7.  | Presentation: OPCW 2018 Financial Performance (first half of 2018)  |
| 8.  | Presentation: ERP Project Update  |
| 9.  | Presentation: Office of Internal Oversight Revised Charter  |
| 10. | Revised Draft Charter of the Office of Internal Oversight   |
| 11. | OIO Audit Universe of Management Processes for Risk Assessment for Work Plan 2018   |
| 12. | OPCW Charter of the Office of Internal Oversight (OIO Charter)  |
| 13. | International Professional Practices Framework, Supplemental Guidance, Model Internal Audit Activity Charter  |
| 14. | Presentation: Upgrading the OPCW Chemical Laboratory to a Centre for Chemistry and Technology   |
| 15. | Note by the Technical Secretariat: Upgrading the OPCW Chemical Laboratory to a Centre for Chemistry and Technology (S/1512/2017, dated 10 July 2017)  |
| 16. | Note by the Technical Secretariat: Request from the Director-General to States Parties for Voluntary Contributions to a New Trust Fund for Upgrading the OPCW Chemical Laboratory to a Centre for Chemistry and Technology (S/1561/2017, dated 8 December 2017) |
| 17. | Note by the Technical Secretariat: Needs Statement for Upgrading the OPCW Chemical Laboratory to a Centre for Chemistry and Technology (S/1564/2017, dated 22 December 2017)  |
| 18. | Note by the Director-General: Draft Programme and Budget of the OPCW for 2019 (EC-89/CRP.1, dated 6 July 2018)  |
| 19. | Presentation: Overview Draft Programme and Budget of the OPCW for 2019  |
| 20. | Programme presentations on the Draft Programme and Budget for the OPCW for 2019   |
| 21. | OPCW Administrative Directive AD/PER/11/Rev.2 (dated 2 July 2018)   |
| 22. | Decision: Addressing the Threat from Chemical Weapon Use (C-SS-4/DEC.3, dated 27 June 2018)   |
| 23. | Report by the Director General: Initial Implementation of Decision C-SS-4/DEC.3 on Addressing the Threat from Chemical Weapons Use (EC-89/DG.2, dated 27 July 2018)   |
| 24. | Note Verbale 08/18 (Federal Republic of Germany) dated 28 February 2018 requesting ABAF-44 review of Financial Rule 6.3   |
| 25. | Note by the Technical Secretariat: Proposed Amendments to the OPCW Financial Regulations and Rules (S/1553/2017, dated 14 September 2017 and Corr.1, dated 10 October 2017)   |
| 26. | Correspondence from Germany regarding proposed change to Regulation 6.3 and rationale   |
| 27. | Presentation: Part A: Streamlining of the OPCW Financial Statements; and Part B: OPCW 2018 Financial Statements – closure extension (preparation and considerations with the ERP go-live)   |