

**REPORT OF THE FORTY-SIXTH SESSION OF THE ADVISORY BODY  
ON ADMINISTRATIVE AND FINANCIAL MATTERS****1. Opening of the session**

- 1.1 The Forty-Sixth Session of the Advisory Body on Administrative and Financial Matters (ABAF) was held from 4 to 7 June 2019. The following members participated: Mr Seyed Mehdi Hosseini Esfidvajani, Mr John Foggo (Chairperson), Ms Leslie Hyland, Mr Milan Kerber, Mr Aizaz Khan, Mr Vladimir Kuznetsov, Mr Hans-Christian Mangelsdorf, Mr Arata Mizukami, and Ms Qian Wang. Mr Giridhar Armane did not attend.
- 1.2 The list of documents presented to the ABAF for this session is included as the Annex to this report.
- 1.3 The Deputy Director-General of the Technical Secretariat (hereinafter “the Secretariat”) of the Organisation for the Prohibition of Chemical Weapons (OPCW) welcomed the ABAF members, and notably new members Mr Seyed Mehdi Hosseini Esfidvajani (who had replaced Mr Khodayar Rouzbahani) and Ms Leslie Hyland (who had replaced Mr John Fox). The Deputy Director-General also took the opportunity to congratulate Mr John Foggo, who had been appointed for a second term to the ABAF.
- 1.4 Referring to the agenda for the session, the Deputy Director-General noted that a number of important issues were to be addressed by the ABAF, including the 2018 Financial Statements of the OPCW, and the reports of both the Office of Internal Oversight (OIO) and the National Audit Office of the United Kingdom of Great Britain and Northern Ireland (NAO), the External Auditor of the Organisation.
- 1.5 The Deputy Director-General highlighted to the ABAF that the Organisation had previously brought forward a number of strategic financing areas for consideration by both States Parties and the ABAF. The Deputy Director-General informed the ABAF that some of these concepts would be further considered at this session, most notably the long-term unfunded liabilities of the Organisation, the introduction of a major capital investment fund, and the possibility of introducing biennial budgeting.
- 1.6 With regard to addressing the high-risk areas of cybersecurity, business continuity, and physical infrastructure security, the Deputy Director-General indicated that the Organisation continued to move forward on the implementation of related activities, in addition to the implementation of the decision taken by the Conference of the States Parties (hereinafter “the Conference”) at its Fourth Special Session entitled “Addressing the Threat from Chemical Weapons Use” (C-SS-4/DEC.3, dated 27 June 2018).



- 1.7 The Deputy Director-General informed the ABAF members that they would be briefed on the status of two of the Organisation's most significant initiatives: the upgrading of the OPCW chemical laboratory to a centre for chemistry and technology (ChemTech Centre) and the enterprise resource planning (ERP) system project.
- 1.8 With regard to the 2018 Financial Statements, the Deputy Director-General informed the ABAF members that these had once again received an unqualified audit opinion from the NAO confirming that the financials had been prepared in full compliance with International Public Sector Accounting Standards (IPSAS) and contained no material weaknesses. The Deputy Director-General also noted that, similar to the financial statements for 2017, efforts being made continued to improve the readability of and information provided to the users of the financial statements. Building upon the comprehensive introduction by the Director-General introduced for the 2017 financial reporting, the financial statements this year had been extensively streamlined.
- 1.9 The Deputy Director-General informed the ABAF that, based upon previous recommendations from the NAO and the OIO, measures were being taken to reinforce, for the future, the accompanying statement of internal control through the recent introduction of both an internal control framework and a control self-assessment questionnaire.
- 1.10 Addressing the External Auditor's report, the Deputy Director-General expressed the Secretariat's appreciation to the NAO for its recommendations, which were aimed at enhancing the effectiveness and efficiency of the OPCW.
- 1.11 The Deputy Director-General shared the NAO's view first reported in the 2015 External Auditor's report, and again in subsequent reports, including the most recent for 2018, on the significant General Fund pressures on the Organisation. She indicated that for the majority of the year in 2018, the cash position of the Organisation had been tenuous, resulting largely from the delayed payment of assessed contributions, a high proportion of which occurred late in the year, and from lagging verification reimbursements. As a result, the Organisation had to more closely manage budget expenditure and cash outflows to projected cash inflows. In 2019, the situation was again being closely monitored and States Parties were being kept informed of the situation through the monthly financial situation reports.
- 1.12 Referring to budget implementation, the Deputy Director-General informed the ABAF that the Organisation had achieved a 97% budget implementation rate for 2018, slightly higher than in 2016 and 2% lower than in 2017. With this achievement, however, the aforementioned pressures caused by delays in or non-payment of assessed contributions required the Organisation to maintain its budget contingency throughout the year.
- 1.13 With regard to strategic financing issues, the Deputy Director-General informed the ABAF that the Organisation had brought forward a number of strategic financing concepts for consideration in recent times. These concepts included consideration for the funding of long-term unfunded liabilities, a major capital investment fund, the potential to realise longer-term planning and efficiencies through the introduction of biennial budgeting, and an appropriate level for the Working Capital Fund (WCF).

- 1.14 The Deputy Director-General reminded the ABAF that in 2017 the Open-Ended Working Group on the Future Priorities of the OPCW had been briefed on these strategic financing concepts, while in 2018 a briefing was provided to the Open-Ended Working Group for the Preparation of the Fourth Review Conference.<sup>1</sup> The External Auditor also examined these concepts through a number of engagements and included support for their consideration by States Parties in the NAO's annual reports to the OPCW. Last year the ABAF, during its two annual meetings, also examined the strategic proposals.
- 1.15 The Deputy Director-General indicated that the financial statements showed that there was a long-term unfunded employee benefit liability held by the Organisation. The External Auditor had previously recommended that the Organisation formally decide a way forward to address this liability, whether through a "pay-as-you-go" approach or a direct funding strategy. She informed the ABAF that it would have before it during its meeting a non-paper on the issue and an accompanying survey of 21 United Nations system organisations conducted by the Budget and Finance Branch (BFB), to provide context to how other organisations were addressing the same or similar issues. The Deputy Director-General expressed the Organisation's interest in having the ABAF's recommendation on this matter.
- 1.16 Regarding the strategic issues of introducing a major capital investment fund and biennial budgeting, the Deputy Director-General informed the ABAF that following consultations in the aforementioned open-ended working groups and other forums, two Notes by the Secretariat and accompanying non-papers were provided to States Parties at the Fourth Review Conference in 2018. These Notes and non-papers had also been included in the meeting materials provided to the ABAF.
- 1.17 Referring to the WCF, the Deputy Director-General noted that the Fund now stood above EUR 7 million which, although improved, was a level that provided cash flow coverage for the Organisation for a period of less than two months. The Deputy Director-General informed the ABAF that this issue would be further considered alongside the 2020 draft Programme and Budget, which would be presented to the ABAF at its Forty-Seventh Session later this summer.
- 1.18 Referring to the draft Programme and Budget for 2020, the Deputy Director-General informed the ABAF that it was in the process of being prepared and would be presented by the Director-General to the States Parties in July, just prior to the Ninety-First Session of the Executive Council (hereinafter "the Council"). Copies would be provided to the ABAF ahead of its next session so that it could review the draft prior to the States Parties' programme and budget consultations in September.
- 1.19 With regard to the completed Fourth Review Conference, which was held in conjunction with the Twenty-Third Session of the Conference, the associated cost and

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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.

efficiencies of combining the events would be provided to the ABAF at its Forty-Seventh Session, following up on an earlier request from the ABAF.

- 1.20 The Deputy Director-General informed the ABAF members that they would be briefed on the ChemTech Centre Project, a large project for the Organisation that was increasingly gaining momentum. This new Centre would allow the Organisation to update the OPCW Laboratory, better support the capacity building of States Parties, improve the efficiency of the OPCW Equipment Store, and remain ahead of current threats.
- 1.21 With regard to the ERP project, the Deputy Director-General indicated that although it had been delayed, the project was progressing and the ABAF would be briefed on the phased activities and project timeline. She informed the ABAF that the project continued to represent a prospectively significant step forward in the OPCW's efforts to streamline its operations through automated business processes, increased efficiency, and embedded system controls; once implemented and stabilised, these benefits would be realised. However, with the delay in the go-live, the ABAF was informed that the project was facing budgetary pressures and could require further financial resources in order to complete all elements of the phased project.
- 1.22 The Deputy Director-General concluded her remarks by underlining how much the Organisation valued the advice of the ABAF, and how it played an important role in the continuous review and improvement of the administrative and financial management areas of the Organisation, with the aim of allowing the Organisation to fulfil its mandate in the strongest possible manner.

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

The ABAF adopted the following 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) Election of the Vice-Chairperson of the ABAF
  - (c) 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
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)
  - (a) Major capital investment fund
  - (b) Biennial budgeting
17. Any other business
18. Next session and agenda
19. Adoption of the report

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

The ABAF had no comments on its previous report, noting that follow-up areas had been included in the agenda of its Forty-Sixth Session.

### **4. Introductory matters**

#### **Subitem 4(a): ABAF members as per EC-89 and EC-90 decisions**

- 4.1 The Chairperson of the ABAF welcomed all members to the Forty-Sixth Session of the ABAF, including members newly appointed through decisions of the Council at its Ninetieth Session.<sup>2</sup> The Chairperson expressed that he looked forward to working with the new members through this and future ABAF sessions.

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<sup>2</sup> No ABAF members were appointed by the Council at its Eighty-Ninth Session.

**Subitem 4(b): Election of the Vice-Chairperson of the ABAF**

- 4.2 With the departure from the ABAF of Mr Khodayar Rouzbahani, who had held the duties of Vice-Chairperson, the ABAF membership elected at this meeting Mr Milan Kerber as Vice-Chairperson.

**Subitem 4(c): Financial updates: cash position, status of collection of assessed contributions and reimbursements, Working Capital Fund**

Cash position

- 4.3 To set the context for further discussions, the ABAF was informed of the OPCW's cash position at 31 December 2018. In this regard, the ABAF was informed that at the end of 2018, the cash position of the General Fund was approximately EUR 4.16 million, owing in part to the receipt of advance 2019 assessed contributions and end-of-year payments of current and prior year assessed contributions. The collection of 2018 assessed contributions at year end stood at 96.71%, up from 92.68% at the same point in the prior year. At the end of 2018, the collection rate of 2017 assessed contributions stood at 98.75%. The ABAF noted that, as outlined in OPCW Financial Regulation 5.4, States Parties had a responsibility to pay in full their assessed contributions within 30 days of being informed by the Secretariat, or on the first day of the financial period to which the assessment related, whichever was later.
- 4.4 The ABAF received a presentation on the OPCW's current cash situation as at 31 May 2019, including the status of assessed contributions from States Parties. The ABAF noted that as at that date, EUR 36.17 million was outstanding for the period 1993 to 2019, of which EUR 33.31 million was for 2019 and EUR 2.86 million was for prior years. The ABAF noted the comparison of the status of assessed contributions from States Parties at the same date in the prior year, whereby EUR 41.69 million was outstanding for the period 1993 to 2018, of which EUR 34.8 million was for 2018 and EUR 6.89 million was for prior years.
- 4.5 The ABAF was informed of the basis of the cash forecast for 2019 and the underlying assumptions. The ABAF noted that the Secretariat was forecasting a slightly positive cash position for the General Fund for 2019 on the order of EUR 1.4 million.
- 4.6 The Secretariat informed the ABAF that the General Fund cash position of the Organisation at 31 May 2019 was approximately EUR 11.2 million, higher than at the same time last year (EUR 3.4 million).
- 4.7 The ABAF noted that the Secretariat was indicating that cash inflows were beginning to lag against forecast with an inflow in May of only EUR 0.1 million. For that reason, the Secretariat was anticipating the possibility (in the absence of improved collectability of assessed contributions) of having to use the WCF in July, far earlier than the end-of-year projection originally anticipated.
- 4.8 The ABAF inquired as to the banking arrangements of the Organisation. The Secretariat informed the ABAF that the Organisation banks with four banking institutions operating in the Netherlands. In a negative-interest environment, cash management, which was overseen by the Treasury Section of the BFB and the

Investment Committee for the Organisation, was especially important. The ABAF inquired as to what banking arrangements could be realised outside of the Netherlands where perhaps more favourable terms could be available. The Secretariat indicated that this issue had been examined in the past, however the Organisation could bank only where it had sufficient privileges and immunities. The ABAF requested for its next meeting a presentation on the Organisation's banking arrangements, banking renewal considerations, and the issue of banking beyond the Netherlands.

#### Working Capital Fund

- 4.9 The Secretariat indicated that the current level of the WCF as at 31 May 2019 was approximately EUR 7.3 million, up slightly from the same point last year. This was due to the receipt of the last incentive payment for the Tenancy Agreement, which had been applied to the WCF. The Secretariat indicated that should the WCF need to be drawn upon in 2019, in the absence of significant movements in the receipt of assessed contributions the WCF would sustain operational liquidity for only a short period of approximately one and a half months. The Secretariat indicated that previous budget decisions, including the decision for the 2019 Programme and Budget (C-23/DEC.10, dated 20 November 2018), stipulated that the WCF should be brought to a level between EUR 7 million and EUR 9 million. The Secretariat informed the ABAF that consideration for increasing the level of the WCF could be included as part of the draft 2020 Programme and Budget. The ABAF noted the operational risk to the Organisation and further encouraged the Secretariat to develop a contingency plan, should the lag in the receipt of assessed contributions increase.

#### Status of collection of assessed contributions and Article IV and V reimbursements

- 4.10 The ABAF was briefed on the status of the Organisation's assessed contributions and reimbursements under Articles IV and V of the Chemical Weapons Convention (hereinafter "the Convention"). The Secretariat informed the ABAF that as of 31 May 2019 the receipt of assessed contributions had improved slightly, with 50.36% of assessed contributions received as of 31 May 2019, compared to 46.88% at the same point last year. The ABAF noted, however, that the delays in the collection of assessed contributions continued and encouraged the Secretariat to continue to remind States Parties of their payment responsibilities under Regulation 5.4 of the OPCW Financial Regulations and Rules.
- 4.11 The ABAF was informed that approximately EUR 5.8 million was outstanding for Article IV and V reimbursements as at 31 May 2019.
- 4.12 The ABAF expressed serious concern as to the number of States Parties in arrears or late in the payment of assessed contributions and the cumulative outstanding balances for the reimbursement of inspections invoiced under Articles IV and V.
- 4.13 The ABAF requested the Secretariat, despite current delays in the payment of Article IV and V reimbursements, to ensure that its invoicing to States Parties was timely and current, which would serve to improve cash inflow should the situation with the delays in these payments improve.

Programme support costs

- 4.14 The ABAF was provided with an update on the status of programme support costs. The ABAF noted that the programme support costs balance at 31 May 2019 was approximately EUR 419,000, a change from the 2018 year-end closing balance of EUR 534,668. The ABAF would return to this issue in the context of the draft 2020 programme and budget discussion at its next meeting.

2018 Programme and Budget implementation

- 4.15 The ABAF commended the Secretariat for achieving an overall 97% Programme and Budget implementation rate for 2018. The ABAF was informed by the Secretariat that budget contingency had been maintained throughout the year because of the volatility of receipt of cash inflows, with a higher-than-normal proportion of cash inflows being received in the last months of the year, which was not conducive to programme implementation. The ABAF noted that cash receipt pressures on the Organisation had to be carefully balanced against budget implementation, as a very high budget implementation rate, although good, might not programmatically lend itself to a sustainable financial situation if cash inflows did not match the expenditure incurred. The ABAF requested that the Secretariat bring this issue again to the attention of States Parties through different mechanisms at its disposal, including the monthly financial situation reporting, reminder notices to States Parties, and also during the draft 2020 programme and budget consultations.

**5. Status of the 2019 financial performance (to date)**

The ABAF was briefed by the Secretariat on the implementation of the 2019 Programme and Budget and was informed that, as at 30 April 2019, the budget in the amount of EUR 68,234,912 (before extraordinary provisions) had been 39.19% obligated, at a rate similar to the same point in the prior year. The Secretariat stated that this figure was deemed reasonable, given the early recognition of contractual obligations for the year, notably with regard to the Headquarters building. The ABAF was informed that in order to mitigate the risk of non- or delayed payment of assessed contributions, close control over the use of a contingency margin continued to be applied to the 2019 budget in accordance with the OPCW Financial Regulations and Rules. This margin provided a EUR 1.67 million buffer (2.45% contingency margin) aimed at ensuring that 2019 income exceeded expenditure, taking into consideration assessed contribution collection patterns over the past years and mitigating the potential risks of exposure to exchange rate fluctuations and other unforeseen factors such as price adjustments or unplanned activities. While staff costs had been allotted 100% of appropriations, for the most part only 90% of operational cost budgets had been allocated. The ABAF was informed that a detailed review of actual and projected expenditures would be conducted at mid-year and, as in past years, with increasing frequency in the second half of the year, along with a review of assessed contributions and Article IV and V collections, which could result in an adjustment to the contingency margin. The ABAF welcomed the continuing initiatives taken by the Organisation to avoid both a budget deficit and the need for transfer of funds between chapters.



## **6. 2018 budget transfers**

- 6.1 The ABAF welcomed the draft report on transfers of funds in 2018, which confirmed that all transfers had been within the stipulations prescribed in the Organisation's Financial Regulations and Rules. As a result, no transfers had been made between chapters and all other transfers were within the allowable parameters of transfers between programmes and subprogrammes. The ABAF also noted that all transfers took place without detriment to the approved activities of the respective programmes.
- 6.2 The ABAF was briefed on the transfers within 2018 by the Secretariat, which explained that compared to 2017, the overall amount of budget transfers required between programmes and subprogrammes reduced from EUR 2.564 million in 2017 to EUR 2.243 million in 2018. In 2017 a significant portion of budget transfers (60% or EUR 1.531 million) had been made to cover staff cost shortfalls. As a result, for 2018 the standard costing for staff costs had been revised. A total of EUR 1.463 million (67%) in budget transfers in 2018 were related to staff costs but not necessarily related to the standard staff cost rates applied to each of the position grades. A significant portion of the staff-related transfers were due to operational requirement shifts in staffing in the Inspectorate (EUR 0.549 million) and to higher-than-anticipated costs related to the extraordinary staff turnover caused by the transition of senior management into and out of the Organisation (Director-General, Chief of Cabinet, Directors, etc.), which necessitated budget transfers to accommodate these transitions (approximately EUR 0.441 million). The ABAF requested that the budget transfers report include a footnote to highlight the above reasons for these transfers, to make the report more informative for its readers.
- 6.3 The ABAF noted that the draft note on budget transfers in 2018 would be issued formally for the Ninety-First Session of the Council.

## **7. 2018 programme performance**

The ABAF recalled its previous recommendations (last made at its Forty-Fourth Session) regarding the Organisation's programme performance reports in the context of the most recent such report for 2018 (S/1745/2019, dated 29 April 2019). The Secretariat informed the ABAF that it recognised the continued encouragement of the ABAF to further develop the programme performance report into a "programme and budget performance report" taking into account financial performance. The Secretariat commented that the ERP system, once implemented, would assist in providing the linkage between programme performance and budget performance through a newly implemented chart of accounts. The Secretariat also indicated that, further to the ABAF's suggestion, it would be looking to include in subsequent reporting a narrative for the report to highlight specific areas of achievement, lessons learned, and an assessment of outcomes and activities.

**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**

- 8.1 The ABAF was briefed by the Secretariat on the 2018 Financial Statements, which had been formulated for the eighth time in accordance with IPSAS. The ABAF commended the Secretariat on the high quality of the financial statements and noted the particular usefulness of the Director-General's comprehensive introduction, which highlighted in narrative and graphical form the key concepts and results from the 2018 financial year.
- 8.2 The Secretariat informed the ABAF that a significant streamlining of the 2018 financial statements had occurred in consultation with the External Auditor. A benchmarking exercise against other United Nations system organisations showed that the OPCW financial statements were at the higher end of the spectrum in terms of length and level of extra detail, in particular in regard to the budgetary accounts. The Secretariat indicated that information removed from the financial statements was still available to States Parties through the quarterly income and expenditure reporting. The ABAF noted the streamlining exercise and welcomed the approach of the Secretariat to improve the readability of the financial statements and to focus on the requirements of IPSAS as well as key notes and disclosures. The ABAF noted that a balance had to be kept between transparency and too much or complex detail.
- 8.3 The ABAF noted that with the delay in the ERP go-live, the Secretariat proceeded according to the normal schedule to prepare the 2018 financial statements. The exceptional request for an extension of the submission date for the 2018 financial statements to the External Auditor, which had been supported by the ABAF and the External Auditor and approved by the Conference at its Twenty-Third Session, was not exercised. The ABAF noted however that that same request could again be required for the 2019 financial statements should the ERP go-live date extend beyond 2019 or should the Secretariat require more time when using a new ERP system to prepare the year-end accounts and financial statements. The ABAF agreed to revisit this issue at its Forty-Seventh Session.
- 8.4 The Secretariat informed the ABAF of the key expenditure categories (IPSAS-basis) for 2018 for all funds together (extrabudgetary and General Fund) and also for the General Fund alone. For the General Fund, as in past years employee benefits were the primary cost driver at 70% (EUR 44.5 million), with travel at 11% (EUR 6.8 million), general operating expenses at 9% (EUR 5.9 million), and consultancy and contractual expenses at 6% (EUR 3.9 million).
- 8.5 The ABAF was advised that the net assets of the OPCW at the end of 2018 amounted to EUR 11.4 million, representing an increase of 33% from the 2017 year-end level of EUR 8.6 million. The net asset position of the Organisation remained positive largely because of positive trust fund balances, a reduction in overall travel expenditure compared to the prior year, and a lower budget implementation rate in 2018. The General Fund of the Organisation continued to show a negative asset position of EUR 4.1 million (EUR 5.3 million in 2017) because of long-term unfunded employee benefit liabilities (EUR 5.1 million). The ABAF was also informed that for 2018, taking into account all funds and accounts of the OPCW, there was an overall surplus

of EUR 3.1 million (deficit of EUR 1.8 million in 2017), with revenue exceeding expenses primarily because of the inflows of extrabudgetary income.

- 8.6 The Secretariat highlighted to the ABAF that a higher collection rate of primarily prior year assessed contributions was experienced in 2018 as compared to 2017, leading to an overall decrease in the total amount (2018 and prior years) of gross outstanding assessed contributions by EUR 5 million to EUR 3.6 million, with the caveat that a higher-than-normal proportion of current and prior year assessed contributions was received in the final quarter of 2018. In terms of Article IV and V reimbursements, the ABAF was informed that the outstanding amount at 2018 year end had increased by approximately EUR 0.6 million.
- 8.7 The ABAF noted the overall financial results and expressed concern in particular with the impact of delayed collections of assessed contributions, especially those occurring late in the year, and Article IV and V reimbursements.
- 8.8 With regard to the assets of the Organisation, the ABAF noted that a significant portion of the asset categories (both property, plant and equipment and intangible assets such as software) had fully depreciated assets that would need to be replaced in the future. The Secretariat informed the ABAF that the asset information from the financial statements was a key driver in highlighting the need for asset replacement and strategic concepts, such as the possible introduction of a major capital investment fund. The ABAF encouraged the Secretariat to continue to draw the attention of States Parties to the ageing asset base of the Organisation.
- 8.9 The External Auditor then presented its findings regarding the 2018 Financial Statements and stated that the audit examination had revealed no weaknesses or errors that were considered material to their accuracy, completeness, or validity. The External Auditor informed the ABAF that the preparation of the financial statements had been conducted in compliance with IPSAS and that, in all material respects, the transactions underlying the financial statements had been made in accordance with the financial regulations of the Organisation and applied to the purposes intended by the States Parties.
- 8.10 The External Auditor commented that the preparation of the financial statements remained a highly complicated and manual process owing to the complex audit trails within the existing SmartStream IT system; with the introduction in the future of the new ERP system, it was anticipated that this process would be simplified.
- 8.11 The External Auditor stated that an unqualified audit opinion had been issued with respect to the Financial Statements of the OPCW and the Financial Statements of the OPCW Provident Fund. The ABAF noted with satisfaction that both sets of financial statements had again received unqualified opinions.
- 8.12 The External Auditor referenced the audit completion report for 2018 and indicated that this report formulated the audit process and confirmed the unqualified audit opinion findings.
- 8.13 The External Auditor outlined the key observations of the External Auditor's Report on the 2018 OPCW Financial Statements, informing the ABAF that the audit for 2018

had looked at three main areas: financial management, governance, and major capital projects. The report also provided information related to the status of prior year external audit recommendations.

- 8.14 Addressing financial management, the External Auditor stated that in 2018, as in recent prior years, the OPCW continued to face significant General Fund cash pressures arising mainly from the delayed payment of assessed contributions and Article IV and V inspection reimbursements.
- 8.15 The External Auditor stated that the Organisation continued to maintain a high level of budget utilisation, achieving a rate of 97% (99% in 2017), with the slight decline reflecting the management's control of cash resources, which had reduced the management's ability to implement the remaining budget before year end. The External Auditor noted that, overall, the Organisation continued to demonstrate disciplined financial management.
- 8.16 With regard to strategic financing concepts, the External Auditor indicated that it remained supportive of the Secretariat's efforts to introduce biennial budgeting, which would be more efficient and proportionate for the Organisation. The External Auditor informed the ABAF that if biennial budgeting were to be introduced, it remained important to have clear accountabilities incorporated into the process for review of year one financial performance.
- 8.17 On the issue of establishing a major capital investment fund, the External Auditor indicated that such a fund could provide a smoother profile of resources to fund the effective replacement of capital items over time. The ABAF was informed by the External Auditor that the investment objectives for such a fund should be clearly defined and reported regularly to States Parties.
- 8.18 The ABAF noted that the Secretariat was committed, as suggested by the External Auditor, to reviewing its numerous reserves and trust funds as a means of ensuring optimum effect of use of resources.
- 8.19 On the issue of the long-term unfunded employee benefit liability of the Organisation, the External Auditor noted that the ABAF would be considering this issue during its current session as a means of formalising a recommended approach for States Parties' consideration.
- 8.20 In the areas of governance, the External Auditor noted that the Secretariat had committed to improving the way it reports to States Parties on its internal control environment, following previous observations in reports of the External Auditor. The Secretariat had taken steps to strengthen the processes underlying the preparation of the statement of internal control, which in turn provided a more robust and meaningful assurance to States Parties. In doing so, Directors and Branch Heads would be required to provide a more detailed assessment of the operation of controls within their areas through the completion of detailed internal control questionnaires. Important to this process was that, over time, management would be challenged on these details through review by the OIO and other mechanisms.

- 8.21 The External Auditor reported that other internal control processes in relation to internal control continued to evolve, in particular in relation to risk management, with initial work undertaken in 2018 to synthesise risks from across the Organisation into a high-level risk register, with further work planned in 2019.
- 8.22 The External Auditor commented on recommendations made to improve the clarity of reporting structures within the Organisation to further strengthen governance. This would also include the way in which Senior Management demonstrated and documented oversight of key organisation activities on a regular and systematic basis.
- 8.23 With regard to the OIO, the External Auditor noted that the OIO was an important part of internal control within the Organisation, and areas that had improved had been noted. The External Auditor informed the ABAF that it remained important that the resources of the OIO be focused on key areas and be carefully balanced between assurance work and other activities, especially given the vacancy of the post of Director of the OIO. The External Auditor reiterated the importance of a comprehensive review of outstanding recommendations as the OIO implemented a new tracking software for recommendations.
- 8.24 Moving to the area of major capital projects, the External Auditor noted that since its last report there had been a further delay in the implementation of the ERP project and that management had recognised the risks that the project budget may not be sufficient to fully implement the project.
- 8.25 The External Auditor noted that, at the end of its audit, a plan to implement the ERP system was under discussion with the implementing partner that would lead to a September go-live date. The External Auditor indicated that the plan was still under development and its feasibility had not been fully corroborated by a detailed plan, and that the plan appeared to be ambitious given build progress to date and, in particular, the low pass rate for user acceptance testing. The External Auditor informed the ABAF that it remained important for the Organisation to plan carefully for the next stages of the project and set a realistic go-live date, allowing for appropriate time for testing and detailed training of users, fostering user engagement and cultural change, noting that a further failure to achieve a new implementation date would undermine confidence in ERP implementation. The External Auditor also expressed caution about a go-live date late in the year and suggested that careful consideration be given as to whether an end of year go-live date would be less burdensome on the Organisation and reduce the considerable risk with a system cutover.
- 8.26 The External Auditor suggested that, similar to the exercise undertaken in 2018, the Secretariat assess what a late-year go-live would mean in terms of the financial closure activities and the burden on staff who would also be busy trying to stabilise the system. It should also assess what the implication would be for the timeline for preparation of the 2019 Financial Statements. The External Auditor indicated that if the Secretariat saw this as a risk it should again, like in 2018, engage early with States Parties to agree to a later timeline for the 2019 Financial Statements.
- 8.27 With regard to the ChemTech Centre, the External Auditor was encouraged by the approach taken by the Organisation, which built upon recommendations that had been made at the start of the ERP project for improved project management. The External

Auditor noted positively that a detailed needs assessment for the project had been prepared, defining the key aims and objectives and fully considering alternative means of meeting laboratory needs. With regard to the procurement approach, the External Auditor reported that a proportionate and considered procurement strategy had been prepared.

- 8.28 Referring to the status of previous recommendations, the External Auditor indicated that implementation progress had remained slow in some areas, partly owing to the delay in the implementation of the ERP project. However, despite this, the External Auditor noted that good progress was being made in the areas of procurement and human resources, which were adopting more strategic approaches based on underpinning performance data.

## **9. OPCW net deficit approach**

- 9.1 The ABAF noted that the External Auditor had raised the issue of the long-term unfunded employee benefit liability of the Organisation at its Forty-Fourth Session. On the issue of the continued long-term employee benefit liability in the General Fund, the External Auditor stated that the Organisation should make a formal decision if it would continue using a “pay-as-you-go” approach or move towards a more funded model. The ABAF agreed in its session report to consider the issue at a future session with a view to advising States Parties.
- 9.2 To assist the ABAF in its consideration of the issue at its Forty-Sixth Session, the Secretariat had prepared a comprehensive non-paper on the OPCW net General Fund deficit position and unfunded long-term liabilities, which included an accompanying survey of 21 United Nations system organisations, to determine what their unfunded long-term liabilities were and what approach, if any, they had been taking to fund them. The ABAF commended the Secretariat on the non-paper and found that it served as a sound reference for the ABAF to consider the issue of the Organisation’s unfunded long-term employee benefit liability, which as at the end of 2018 stood at approximately EUR 5.1 million.
- 9.3 The ABAF noted that, to date, the Organisation had been using a “pay-as-you-go” approach to pay for the liabilities as they became due, rather than establishing a separate fund to accrue funds for the liabilities. In terms of the possibility of utilising the WCF to provide financing for the unfunded liability, the ABAF did not deem this as appropriate, nor did it deem appropriate the use of a cash surplus to establish a separate fund that would hold funds for the liability over a long period of time.
- 9.4 Furthermore, the ABAF noted that the Organisation was currently operating in an environment of zero-nominal growth with seemingly little appetite among States Parties for an increase in assessed contribution levels.
- 9.5 The ABAF recommended that the Organisation continue to use the “pay-as-you-go” approach to liquidate the long-term unfunded employee benefit liabilities as they come due. In doing so, the ABAF suggested that the Secretariat investigate whether the common staff cost element could be increased to accommodate in-year costs that would pay for the unfunded employee benefit liabilities. The Secretariat noted that should staff costs increase in a zero-nominal growth environment, there would be an

opportunity cost, as something else would have to be reduced in the non-staff cost budget elements.

- 9.6 The ABAF suggested that the Secretariat provide, as part of the Organisation's financial statements and/or the Director-General's introduction to the financial statements, an ageing profile with, for example, a five-year horizon of the expected liquidation of the unfunded liability. This would highlight for States Parties where the pressure points could be and where zero nominal growth might not accommodate the required need. The Secretariat indicated that the financial statements differentiated between the current and non-current aspects of the liability based on actuarial valuation, but in terms of a liquidation profile, discussions would have to occur with the actuary to determine what level of information could be derived for this purpose.

## **10. Report of the Office of Internal Oversight for the year ending 31 December 2018**

- 10.1 The ABAF received a presentation from the OIO on its annual report for the period from 1 January to 31 December 2018 (EC-91/DG.8 C-24/DG.3, dated 28 May 2019). The ABAF was informed that the implementation of the OIO's 2018 work programme resulted in 10 audit/evaluation/Quality Management System assignments, in which 37 audit recommendations had been issued.
- 10.2 The ABAF welcomed the detailed and informative presentation given by the OIO on its work undertaken in 2018 and confirmed its strong support of the work of the OIO.
- 10.3 The ABAF inquired about the status of the recruitment of the Director of the OIO, noting that this post had been vacant since the beginning of the year. The ABAF asked the OIO whether the absence of the Director had any detriment to the work of the Office. The Secretariat indicated that the recruitment of the Director had recently been concluded and that the new Director of the OIO was expected to be onboarded in August 2019.
- 10.4 The ABAF noted the main recommendations of the audits conducted by the OIO and the fact that the OIO was once again able to maintain its certification from the Dutch Accreditation Council (RvA). The ABAF also noted that the Charter of the Office of Internal Oversight had been updated in November 2018 with the approval of the Conference.
- 10.5 The OIO briefed the ABAF that, in line with the 2016 External Auditor recommendations, the OIO's overall work programme had been structured on a risk-based approach. The OIO informed the ABAF that the revised risk assessment process being followed had been developed based on an assessment and prioritisation of organisational risks. The OIO brought to the attention of the ABAF its revised risk assessment methodology for annual work planning for 2019, focused on management processes and assessment of their relative riskiness based on risk parameters and relative weightings. Based on the ABAF's suggestion (made at its Forty-Fourth Session in June 2018) that these management processes be reviewed each year at the time of preparation of the annual work programme, the OIO reviewed these processes with inputs from Management and revised the list of management processes to 91 in total. The ABAF noted that the OIO would place priority on covering all 16 high-risk

- (3) and high-medium risk (13) processes, as well as a few medium risk processes over a period of three years (2019 to 2021).
- 10.6 The ABAF noted that the overall implementation rate of audit/evaluation recommendations issued in the past five years was 59.3%, and was informed that 99 recommendations issued in the past five years (2013 to 2018) were still outstanding as at 31 December 2018, including one recommendation issued in 2011.
- 10.7 The ABAF cautioned that the Organisation could face audit recommendation fatigue as the quality, not the quantity, of audit recommendations based on risk had to be paramount, while also noting that the recommendations of the OIO were in addition to those made by the External Auditor on an annual basis.
- 10.8 In accordance with the suggestion made by the ABAF at its Forty-Fourth Session that, in future, the OIO should consider in its presentations to the ABAF the feasibility of categorising the reasons for delayed implementation of its recommendations, the OIO conducted a survey of auditees with open recommendations to determine the reason for the recommendations remaining open. This analysis showed that auditees indicated that 7% of recommendations had remained outstanding because of insufficient human resources, 8% because of policy and systemic changes requiring a longer timeline, 13% because of delays in implementation of the ERP solution, and 72% because of delayed implementation. The ABAF appreciated the survey and analysis conducted by the OIO on the reasons for the outstanding audit recommendations.
- 10.9 The OIO informed the ABAF that, as part of the audit process, all audit observations and recommendations had been discussed with Management and that, before finalisation, comments had been obtained for each draft report. The ABAF appreciated the initiatives taken by the OIO to improve the implementation rate, including the implementation of new software that would facilitate the follow-up of recommendations, and the regular follow-up on the implementation status of audit recommendations in Management Board meetings. The ABAF commented that Management and auditees should reinforce the importance of the timelines agreed for audit recommendations, and that perhaps this should become part of the performance criteria for staff.
- 10.10 The ABAF recommended that where the OIO in its reporting indicated for some audit recommendations that an implementation target date was “ongoing”,<sup>3</sup> the OIO should instead state an actual expected date of implementation. This would provide clarity to both the auditee and Management on the agreed expectation. In addition, the ABAF recommended that OIO reporting on the status of audit recommendations clearly indicate the responsible owners for implementation.

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See for example the “Note by the Director General: Implementation in 2018 of the Recommendations Contained in the 2017 Annual Report of the Office of Internal Oversight” (EC-91/DG.3, dated 6 May 2019).



- 10.11 The OIO informed the ABAF that in order to facilitate the implementation of audit recommendations, the OIO had begun the practice of providing the required/expected actions necessary for implementation and ultimate closure of each audit recommendation. The OIO indicated that it would also establish a corresponding timeline for the implementation of audit recommendations based on best practices in the United Nations system.
- 10.12 The ABAF noted that the Director-General had accepted all OIO recommendations issued in 2018 and appreciated the value-added recommendations issued in the areas of strategic planning, physical security, sick leave, and vendor management.
- 10.13 The ABAF encouraged the timely implementation of recommendations, in particular those made in 2011 and 2014. The ABAF noted that it was the responsibility of the Management to ensure that OIO recommendations were implemented in accordance with the agreed timelines. The OIO informed the ABAF that new software, to be purchased in 2019, would further enhance the follow-up process of recommendations.
- 10.14 The ABAF cited examples of other international organisations that utilise reporting dashboards on audit recommendations to highlight open recommendations, expected implementation dates, and the severity of the open recommendations, as a means to increase visibility of recommendations and their status for auditees and Management, but also as a means to increase accountability to action for audit recommendations in a timely manner. The ABAF suggested that the OIO consider the implementation of dashboarding for audit recommendations.
- 10.15 The ABAF welcomed the new section in the report for 2018 on the assessment of the impact of implemented audit and evaluation recommendations, which showed the added value of these recommendations in strengthening the internal control, risk management, and governance systems in the Organisation.

**11. Office of Internal Oversight audit plan**

This item is covered in section 10 above.

**12. Office of Internal Oversight management processes and risk management**

This item is covered in section 10 above.

**13. OPCW statement of internal control**

- 13.1 The Secretariat briefed the ABAF on the work done to improve the underpinning processes to support the Director-General's statement of internal control. In this regard, the ABAF was informed that, based on recommendations from the NAO and the OIO, an overall internal control framework based on the Committee of Sponsoring Organizations of the Treadway Commission (COSO) had been developed, and was supported by a detailed self-assessment questionnaire targeting Branch Heads and Directors. The Management Board was briefed on the concept and approach in February of this year.

- 13.2 The ABAF was informed that United Nations system organisations that had implemented an internal control framework and used a self-assessment questionnaire had been canvassed, along with private sector firms, in order to determine best practice. The best aspects in use by these organisations and firms had been incorporated into the internal control framework and self-assessment questionnaire as applicable for the OPCW.
- 13.3 The self-assessment questionnaire was to be completed twice-yearly with information flowing in a “push” strategy to the various Boards and Committees in the Organisation, from which priorities or high-risk areas were to be vetted and fed through to the OIO Audit Plan and the Risk Management Committee. High risks or priorities then needed to be considered by Senior Management as part of planning and resource allocation. A twice-yearly approach allowed for comprehensive and timely support for the year-end attestation made by Directors to the Director-General and the Director-General’s annual statement of internal control. In addition, the approach was intended to provide a sound basis both for in-year adjustment, should it be required, and information for future year programme planning and budget formulation.
- 13.4 The internal control framework and comprehensive self-assessment questionnaire were formally introduced to Branch Heads and Directors in May through a focused town hall, with the questionnaire also launched in the same month. Lessons from the initial questionnaire would be considered and used in the second questionnaire late in 2019. The intent of the initial launch was to not only gather important information but also to make Branch Heads and Directors aware of the many areas important for internal control, and to ensure their understanding and acceptance of the process.
- 13.5 The ABAF commended the Secretariat for the launch of the internal control framework and self-assessment questionnaire and noted that both were important management tools for the Organisation to minimise risk and support the achievement of organisational objectives. The ABAF noted that these tools needed to be responsive to changes in risks and should be monitored by the Secretariat for changes over time if required. The ABAF noted that the NAO had also reviewed the framework prior to its launch.
- 13.6 The ABAF noted the importance of Senior Management in the culture of effective internal control and in the use of information from tools like the internal control framework and self-assessment questionnaire. The ABAF encouraged Senior Management to be actively involved from the early stages following the launch of these tools.
- 13.7 The ABAF was informed that the process for the onboarding of new Branch Heads and Directors would include both the internal control framework and the self-assessment questionnaire to give these levels of the Organisation immediate awareness of and accountability to the requirements.
- 13.8 The ABAF emphasised the importance of clear, formalised, and detailed designations and delegations of authority from the Director-General as an important component alongside the internal control framework, and suggested that this be looked into by the Secretariat.

- 13.9 The ABAF noted that the BFB had developed the internal control framework and self-assessment questionnaire and was responsible for compiling survey results and providing them to other parts of the Organisation biannually. The ABAF noted that although the statement of internal control could be found in the Organisation's financial statements and thus was linked to the BFB, the ABAF suggested that the Secretariat take into account the experience of other Organisations as to where they had placed the responsibility. The ABAF noted that the internal control framework and questionnaire had just been launched and, as it was still early, the determination of where to place the function could be decided in due course. The ABAF noted that wherever it was placed in the end, there needed to be a senior level of responsibility. The ABAF agreed that it would revisit the issue of the statement of internal control at its Forty-Eighth Session.

#### **14. Enterprise Resource Planning Project update**

- 14.1 The ERP Project Manager provided the ABAF with a presentation on the status of the project, including the status of implementation of the system of records (SOR) and system of differentiation (SOD) and next steps, the project budget, and high-level planning. The ABAF acknowledged the presentation as useful and informative. The ABAF expressed its concern, however, with the continued delay of the ERP project's go-live, noting the significant challenges that remained for project delivery and given the complexity of what lied ahead.
- 14.2 The ABAF also noted the significant and continued efforts of the Secretariat to deliver the project to a successful conclusion. The ABAF noted that the current plan for implementation was a September go-live for the SOR portion of the project, with a number of important caveats as identified by the Project Manager. Similar to the comments made by the External Auditor, the ABAF requested that all the risks associated with a go-live and cutover to the new system so late in the year be carefully considered, with the aim of making a sound and practical decision on the matter should the September date materialise. In response to a request from the ABAF, the project manager provided a one-page note on the issues and risks associated with the go-live options for the system of record, providing quantitative and qualitative information including risks on the cutover options, whether they be late in year or at the end of the year.
- 14.3 In terms of the project budget, the Secretariat indicated that the ERP Project had incurred ongoing project costs as a result of the delay in the go-live date. As a result of this, additional funds would be required to complete the entire project. The ABAF was informed that this amount was in the process of final quantification and would be provided to States Parties as part of the draft 2020 Programme and Budget process, for now based on a September go-live date; if the project extended beyond that date, for the SOR there would be additional run costs for the project. The ABAF noted that any decision on the go-live should consider any issues that may remain post go-live and the financial resources that would be required to address them, if any.
- 14.4 With regard to the security of the ERP system, the ABAF had a number of inquiries which were addressed by the Secretariat. The Secretariat agreed to share additional information with the ABAF related to its assessment of security considerations, taking into account in the selection and implementation of the system.

- 14.5 The ABAF requested that at its next session it be provided with a demonstration of the parts of the system that were functional, including reporting capabilities from the Qlik View reporting tool. The ABAF underlined the importance of demonstrating the results thus far, taking into account also the comments of the External Auditor.
- 14.6 Furthermore, the ABAF emphasised that the ERP project was an extremely important undertaking for the Organisation and would represent a significant asset holding for it. The ABAF emphasised that the Secretariat must apportion sufficient attention in the quality of staff resources to the project.
- 14.7 The ABAF inquired when the next update would be given to States Parties regarding the project. The Secretariat indicated that a Note for States Parties was in the process of finalisation and would be provided soon, and in any case prior to the Ninety-First Session of the Council.
- 14.8 The ABAF requested that at its next session it be provided with an update by the Secretariat on progress made in the implementation of the ERP system and that this remain as a standing item until a point after the project go-live.

## **15. OPCW Laboratory project update**

- 15.1 The ABAF was provided with a presentation on the project to upgrade the OPCW Laboratory to a Centre for Chemistry and Technology (ChemTech Centre). The presentation provided the ABAF with a status update on the project, including its funding status, recent activities, and next steps envisaged to be undertaken. The ABAF welcomed the briefing by the Secretariat.
- 15.2 The ABAF noted that the ChemTech Centre was planned to be funded exclusively through extrabudgetary resources and that the funding commitments received to date were a positive indication of commitment towards the project. The ABAF commented, however, that it would be important to demonstrate State Party ownership by obtaining contributions from as many States Parties as possible. In this regard, the ABAF suggested that the Secretariat take increased outreach measures to foster as broad a participation as possible by States Parties in the ChemTech Centre trust fund.
- 15.3 The ABAF noted that a revised cost estimate was soon to be provided, which would be an increase from the initial estimate of approximately EUR 25 million. The ABAF noted, however, that the final design of the ChemTech Centre would be completed at a later stage and only then would a more stable cost be determinable.
- 15.4 The ABAF inquired about the governance structure(s) for the project. The Secretariat informed the ABAF that a project board had been established and was functional. The ABAF requested to receive the terms of reference for the Board for its information and further consideration.
- 15.5 The ABAF noted that a laboratory construction project was a unique, one-time activity and not something in which the Secretariat had experience. The Secretariat indicated that a dedicated project team was in the process of being recruited, including

a project manager with the requisite experience and qualifications necessary for such a project. In addition, the ABAF was informed that the staff of the core project team would be funded by the Organisation from extrabudgetary resources and not special service agreements (SSAs), as in the case of the ERP Project. The ABAF suggested that in the selection of such specific positions the panel should also include experts that would have the appropriate technical knowledge to help determine a candidate's suitability for such positions.

- 15.6 The ABAF reiterated the suggestion it made at its Forty-Fifth Session that the Secretariat engage early with the local population near the envisioned construction site to avoid the possibility of misapprehensions at a later stage. The Secretariat indicated that this was part of the project's communication strategy and would be done. The ABAF requested to see progress on this matter. The ABAF also suggested that the Secretariat receive assurances that there were no environmental issues with the selected site for the ChemTech Centre, including those pertaining to endangered species.

**16. Fourth Review Conference outcomes pertaining to administrative and financial matters (including strategic financing)**

- 16.1 The ABAF welcomed with satisfaction the two Notes by the Secretariat and accompanying non-papers on the proposals to introduce a major capital investment fund (RC-4/S/3, dated 27 November 2018) and biennial budgeting (RC-4/S/2, dated 21 November 2018) that had been provided to the Fourth Review Conference in 2018. The ABAF noted that at its sessions in 2018 it had considered the overall strategic financing non-paper of the Organisation, in which these two concepts had been included. The ABAF welcomed the further detail that these two additional notes and non-papers provided and considered them important to informing States Parties of the approach and requirements for the potential introduction of both concepts in the Organisation.

**Subitem 16(a): Major capital investment fund**

- 16.2 On the issue of a major capital investment fund, the ABAF noted that the key driver for an MCIF was based on the ageing asset base of the Organisation that had developed over a number of years. The ABAF recalled the report of the External Auditor for the year ended 2017 which recommended a strategic approach consisting of long-term investment programme to plan equipment purchases, which would enable better scheduling of both capital investment and procurement activity, provide for greater transparency and clearer alignment of objectives, and enable a more consistent funding strategy to avoid spikes in the annual funding required from States Parties. The ABAF recognised that a major capital investment fund had the potential to support the long-term investment programme and to plan asset purchases, which would better enable scheduling of both capital and procurement activity.
- 16.3 The Secretariat informed the ABAF that the Secretariat's proposed approach to bring forward the major capital investment fund would be as part of the 2020 programme and budget process and, in doing so, the Secretariat would seek Conference approval this year for its establishment in 2020.

- 16.4 The ABAF commented that the introduction of a major capital investment fund would be a pragmatic approach to longer-term planning and facilitating capital replacement, given the ageing asset base of the Organisation in most asset categories, which was evident from the IPSAS-based financial information but not immediately evident from the programme and budget document.
- 16.5 Furthermore, the ABAF noted from the Secretariat's Note and non-paper on the subject that the major capital investment fund would be governed by specific eligibility criteria.
- 16.6 The ABAF suggested that the Secretariat, in its process to bring forward this concept for approval, provide to States Parties a clear plan with additional detail for the required asset replacement or addition, substantiating the financial requirements as well as the linkage to the priorities of the Organisation.

**Subitem 16(b): Biennial budgeting**

- 16.7 The ABAF received an update from the Secretariat on the initiative to consider adoption of biennial budgeting for the 2022–2023 programme and budget cycle. In doing so, the Secretariat informed the ABAF that its approach would be to further inform States Parties on biennial budgeting during the 2020 programme and budget facilitations and to seek the approval of the Conference, through a decision, to begin preparations to move the programme and budget to a biennial budget.
- 16.8 With regard to the impact on the Organisation's Financial Regulations and Rules, the Secretariat informed the ABAF that the changes required to support biennial budgeting would not be extensive and these draft changes would be brought forward this year for review by the Office of the Legal Adviser, with the aim of submitting them for the ABAF's review at its Forty-Seventh Session. States Parties' approval, however, would be sought in 2020 after consultation on the changes with States Parties, noting that the changes would not take effect until 2021.
- 16.9 The Secretariat indicated that should Conference approval be granted for biennial budgeting for the 2022–2023 cycle, 2020 would be used to formulate the internal structures required to support the change as well as to educate programme managers and State Party representatives of the details of the forthcoming changes as they would apply to the budget setting and approval process, and in 2021 the 2022–2023 programme and budget would be prepared.
- 16.10 The ABAF indicated that there were merits to the implementation of a biennial budget cycle for the Organisation and supported the Secretariat's strategy for taking the proposal forward to States Parties. In doing so, the ABAF echoed the comments of the External Auditor that the Organisation must determine what is best given its context and its long-term interests.
- 16.11 The ABAF recommended, as the Secretariat further familiarises States Parties on biennial budgeting and seeks the approval of the Conference, that the following points be emphasised as outlined in the Secretariat's Note and non-paper:

- (a) no change to the Convention would be required;
- (b) assessment of States Parties would still be on annual basis;
- (c) benefits would include the longer-term planning focus for programmes;
- (d) OPCW budgetary expenditure mix and allocations were relatively constant;
- (e) there would be increased efficiency of the budget formulation and approval process;
- (f) other similar organisations utilised biennial budgeting; and
- (g) financial reporting to States Parties would remain essentially unchanged and there would be no loss of information or transparency.

16.12 The ABAF suggested in addition that it should be clearly communicated to States Parties that in the first year of the biennium there would be a budget update process which allowed for budget adjustment and reallocation, should it be required, or in more drastic situations where budgetary assumptions changed significantly and required more substantive changes to the programme and budget. Moreover, it should be communicated that States Parties would still be involved in budget considerations through the consultative processes and briefings and by being provided with relevant detailed information, and that the outcome of the budget update process was always with the approval of States Parties.

16.13 The ABAF suggested that the ERP system be examined to determine how it would or could in the future support budget formulation.

## **17. Any other business**

The ABAF requested that an update on the tenure policy be included on the agenda of its Forty-Seventh Session.

## **18. Next session and agenda**

The ABAF adopted the following provisional agenda for its Forty-Seventh Session, which will be held from 30 July to 2 August 2019:

1. Opening of the session
2. Adoption of the agenda
3. Review of the report of the previous session
4. ABAF members as per EC-91 decision
5. Status of 2019 financial performance (first half of 2019)
6. Draft Programme and Budget for 2020

7. Combined Fourth Review Conference and Twenty-Third Conference of the States Parties meeting costing and efficiencies
8. Strategic financing and biennial budgeting regulations and rules
9. OPCW banking arrangements
10. Tenure policy update
11. Status of the ERP Project
12. Update on the OPCW ChemTech Centre project
13. Election of the Chairperson of the ABAF
14. Any other business
  - (a) OPCW Financial Statements for 2019 and exceptional closure extension (if required, contingent on ERP go-live)
  - (b) Status of the implementation of the recommendations of the External Auditor
15. Next session and agenda
16. Adoption of the report

**19. Adoption of the report**

The ABAF adopted the report of its Forty-Sixth Session on 7 June 2019.

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



## Annex

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

<b>Title</b>	
1.	Agenda for the Forty-Sixth Session of the Advisory Body on Administrative and Financial Matters
2.	Report of the Forty-Fifth Session of the Advisory Body on Administrative and Financial Matters (ABAF-45/1, dated 3 August 2018)
3.	Note by the Director-General: Comments on the Report of the Advisory Body on Administrative and Financial Matters at its Forty-Fifth Session (EC-89/DG.11, dated 28 August 2018)
4.	Notes by the Technical Secretariat: Nomination for Membership for the Advisory Body of Administrative and Financial Matters (EC-90/S/3 (dated 15 February 2019) and EC-90/S/4 and EC-90/S/5 (both dated 6 March 2019))
5.	Report by the Director-General: OPCW Income and Expenditure for the Period 1 January to 31 December 2018 (Fourth Quarter of the Financial Year Ending 31 December 2018) (S/1730/2019, dated 1 March 2019)
6.	Report by the Director-General: OPCW Income and Expenditure for the Period 1 January to 31 March 2019 (First Quarter of the Financial Year Ending 31 December 2019), (S/1748/2019, dated 2 May 2019 and Corr.1, dated 7 May 2019)
7.	Note by the Director-General: Monthly Financial Situation Report as at 30 April 2019 (S/1752/2019, dated 14 May 2019)
8.	(Draft) Note by the Director-General: Transfers of Funds During 2018
9.	Note by the Technical Secretariat: Programme Performance for the Year 2018 (S/1745/2019, dated 29 April 2019)
10.	Report of the Director-General on the Financial Statements of the OPCW for the year ended 31 December 2018 (included in the OPCW Financial Statements published final version)
11.	Financial Statements of the Organisation for the Prohibition of Chemical Weapons and Report of the External Auditor for the year ending 31 December 2018 (includes the status of External Auditor recommendations from prior years)
12.	External Auditor Audit Completion Report including management letter on the 2018 OPCW Financial Statement Audit
13.	Note by the Director-General – Implementation in 2018 of the Recommendations Contained in the 2017 Annual Report of the Office of Internal Oversight (EC-91/DG.3, dated 6 May 2019)
14.	Note by the Director General: Annual Report of the Office of Internal Oversight for the Period from 1 January to 31 to December 2018 (EC-91/DG.8 C-24/DG.3, dated 28 May 2019)
15.	Note by the Technical Secretariat and non-paper – Request to Begin Preparations to Move the Programme and Budget of the OPCW to a Biennial Budget (RC-4/S/2, dated 21 November 2018)
16.	Note by the Technical Secretariat and non-paper – Request for the Establishment of a Special Fund for Major Capital Investments (RC-4/S/3, dated 27 November 2018)

17.	Non-paper for review by the ABAF at its Forty-Sixth Session: OPCW Net General Fund Deficit Position and Unfunded Long-Term Liabilities (including United Nations system survey results)
18.	Presentation: OPCW Cash Position, Status of Assessed Contributions and Verification Reimbursements, Working Capital Fund, etc.
19.	Presentation: 2018 Budget Implementation and Budget Transfers in 2018
20.	Presentation: OPCW 2019 first quarter and April budget implementation and forecast
21.	Presentation: OIO Annual Report for 2018
22.	Presentation: OPCW Internal Control Framework
23.	Presentation: OPCW 2018 Financial Statements
24.	Presentation: Streamlining of OPCW Financial Statements
25.	Presentation: ChemTech Centre Project update
26.	Presentation: ERP Project update
27.	Additional ERP information requested by and provided to the ABAF: short note on the issues and risks associated with the go-live options for the system of record

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