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REPORT BY THE DIRECTOR-GENERAL

FINANCIAL STATEMENTS OF THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS AND REPORT OF THE EXTERNAL AUDITOR FOR THE YEAR ENDING 31 DECEMBER 2020

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TABLE OF CONTENTS[1]

[1] The Financial Statements and Report of the External Auditor are copies of the original audited sets.

Annex 1

ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS

FINANCIAL STATEMENTS
OF THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS
FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL STATEMENTS OF THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS FOR THE YEAR ENDED 31 DECEMBER 2020

Statement by the Director-General

1. Financial Regulation 11.1 of the OPCW stipulates that the Director-General is responsible for submitting annually financial statements prepared in accordance with the International Public Sector Accounting Standards (IPSAS) for the financial period to which they relate. The Regulation further states that the Financial Statements and the notes to the Financial Statements, including significant accounting policies, shall include all funds, where such funds include, amongst other things, the Regular Budget Fund, the Working Capital Fund, and the Voluntary Fund for Assistance. The account(s) shall provide comparative figures for the financial period prior to that being reported on.

2. We believe that the Financial Statements for the year ended 31 December 2020 are presented fairly according to the requirements of IPSAS and the OPCW's Financial Regulations and Rules (reference OPCW-S/DGB/27, dated 10 January 2018).

3. Any other specific directions of the OPCW's policy-making organs, as well as additional information prescribed in Financial Regulations 11.1(a) to (e), are presented within the Appendix to the Financial Statements. The additional information in the Appendix is not part of the IPSAS-compliant financial statements.

4. It is also our opinion that the Financial Statements present a view which is consistent with our understanding of the OPCW's financial position as at 31 December 2020, results of its operations, changes in net assets, and cash flows for the year then ended.

5. This statement of the Director-General is made pursuant to Financial Regulation 11.1(a).

[Signed]	[Signed]
Fernando Arias Director-General	Christopher Buck Director, Administration Principal Financial Officer

28 June 2021

STATEMENT OF INTERNAL CONTROL FOR 2020

Scope of responsibility

As Director-General of the Organisation for the Prohibition of Chemical Weapons (OPCW), in accordance with the responsibility assigned to me and, in particular, Article 10 of the Financial Regulations, I am accountable for maintaining a sound system of internal control to "establish detailed financial rules and procedures to ensure: effective financial administration; the exercise of economy; the efficient use of resources; and the proper custody of the OPCW's physical assets".

Purpose of the system of internal control

Internal control is designed to reduce and manage rather than eliminate the risk of failure to achieve the Organisation's aims, objectives, and related policies. Therefore, it can only provide a reasonable and not absolute assurance of effectiveness. It is based on an ongoing process designed to identify the principal risks, evaluate the nature and extent of those risks, and manage them efficiently, effectively, and economically.

Internal control is a process effected by the policy-making organs, the Director-General, senior management, and other personnel, and designed to provide reasonable assurance on the achievement of the following internal control objectives:

(a) effectiveness and efficiency of operations and the safeguarding of assets;

(b) reliability of financial reporting; and

(c) compliance with applicable rules and regulations.

Thus, on an operational level, the OPCW's internal control system is not solely a policy or procedure that is performed at certain points in time but, rather, operated continually at all levels within the Organisation through internal control processes to ensure the above objectives.

My current statement on the OPCW's internal control processes, as described above, applies for the year ended 31 December 2020, and up to the date of authorisation for issue of the Organisation's 2020 Financial Statements.

Risk management and control framework

The Organisation's risk management programme includes:

(a) the identification of risks classified according to relevance, impact, and probability of occurrence, and are recorded in the risk register accordingly; and

(b) a Risk Management Committee whose mandate is to build up an integrated risk management framework, strengthen risk management capacities and a risk management culture, and regularly re-evaluate risks and the Organisation's tolerance levels in light of the evolving environment.

In addition, the internal control system framework is designed to ensure that the Organisation's objectives are achieved efficiently and will continue to evolve and be strengthened over time. The policy framework for internal control comprising policies, procedures, and processes underpinned by appropriate ethical values includes, but is not limited to, current and comprehensive regulations, rules, and directives for the management and control of administrative processes such as financial management, contracting, travel, and human resources.

Furthermore, my senior team and I are committed to a continuous improvement programme to further strengthen the system of internal control across the Organisation.

Review of effectiveness

My review of the effectiveness of the system of internal control is mainly informed by:

(a) my senior managers, in particular the Division Directors and Office Directors, who play important roles and are accountable for expected results, performance, and for controlling their respective Division and Office activities and the resources entrusted to them. The information channels rely mainly on periodic meetings held by the Management Board. For the year ended 31 December 2020, significant risk and internal control matters outlined below, together with a remedial action plan, have been identified through a formal self-assessment process conducted twice during 2020, and confirmed by my Division and Office Directors' personal written attestations at the end of the financial year. The results are used to inform the governance frameworks in the Organisation as well as to inform in-year;

(b) the Office of Internal Oversight (OIO), on whose reports of internal audits and evaluations I rely. These reports are also provided to the individual Division or Office for strengthening the internal control, risk management, and governance processes. During 2020, the OIO has conducted a number of audits and evaluations to assess the adequacy and effectiveness of internal controls in several high-risk areas, and has made recommendations to further strengthen the system of internal controls, risk management, and governance. These high-risk areas were identified through a comprehensive risk assessment exercise carried out by the OIO so as to focus the audit effort on the areas that matter most to the Organisation. During 2020, the OIO conducted internal and confidentiality audits and evaluations on: management of cash advances; inspection planning process for routine missions; review of the Centre for Chemistry and Technology Project; and segregation of duties in the enterprise resource planning (ERP) system (advisory report). In the four reports on audits and evaluations issued in 2020, the OIO issued 40 recommendations, which included 20 recommendations issued in the advisory report on segregation of duties in the ERP system. The remaining 20 recommendations were included in the Audit Tracker for the follow-up exercise. Of these, seven were "High" priority recommendations and the remaining 13 were of "Medium" priority._ A brief summary of the key audit recommendations issued in 2020, and the impact of those issued and implemented in the past five years is provided in the Annual Report of OIO for 2020 to the Conference of the States Parties (hereinafter "the Conference"). These have contributed significantly to strengthening the system of internal control in the Organisation. Management accepted all the audit recommendations, and is taking action to implement them;

(c) the Advisory Body on Administrative and Financial Matters whose purpose is to advise me on administrative and financial issues;

(d) the recommendations of the Risk Management Committee (RMC) which provided updates of its work to the Management Board four times in March, May, September, and December 2020. Its activities included: reviewing the risk register revised by risk owners in January/February and October 2020; reviewing top risks to be submitted to the Management Board for its consideration four times in March, May, September, and December 2020; the development of underpinning guidance through a revised draft Administrative Directive on Risk Management; and work towards the further integration of the various risk and control tools available in the Organisation into risk determination; and

(e) the recommendations of the External Auditor, whose comments and audit opinion are submitted to the Executive Council and the Conference.

Significant risk and internal control matters

Subsequent to review by the RMC and approval by senior management at Management Board meetings, the following significant risks and internal control issues are reported for 2020, as informed through the above-mentioned channels:

<u>COVID-19 pandemic impact on operations</u>

Like most institutions globally, the OPCW faced significant operational and internal control risks due to the COVID-19 pandemic, largely commencing in March 2020. Because core elements of the Organisation's mandate require extensive and frequent international travel, the risks to and consequences for OPCW operations were particularly acute. The necessary shift to remote working arrangements for most staff, in response to Host Country health measures, also presented numerous novel circumstances and technical challenges, giving rise to further potential control risks. One of the main concerns in this area was ensuring required approval confirmations for administrative actions while most staff were working remotely in the absence of a previously established e-signature modality. This was mitigated by management's development and issuance of extraordinary electronic approval procedures to be used for administrative processes during the COVID-19-related alternative working arrangements. Another risk was the lack of immediately available technology (hardware and software) for staff to work remotely, and the absence of a policy on remote working. These risks were mitigated by the establishment of an interim flexible working arrangements policy and the use of previously procured, but unrolled-out, laptops as well as the further procurement of laptops for all staff as required. In addition, the Organisation procured and trained staff in MS Teams and other tools for remote communication and teamwork (e.g. an increased reliance and use of SharePoint). On balance, with the steady support and recommendations of the OPCW's COVID-19 Task Force chaired by the Deputy Director-General, the Organisation responded with agility and innovation maintaining essential business continuity and achieving a significant portion of its planned 2020 work programme, notwithstanding the major obstacles. Lessons learned through this process will be incorporated into the findings and outputs of the ongoing Business Impact Assessment which is to be completed in Q1 of 2021.

Protection of classified and sensitive information and information systems

In recent years there has been an increasing threat relating to the protection of classified and sensitive information and to the integrity and availability of the OPCW's information and systems. Specific policies, procedures, awareness, and training have been implemented or updated in the last year recognising that our people are at the centre of cyberdefence. A number of security- or confidentiality-related investigations have concluded with the lessons learned, directly feeding into policy, human resources (HR), and technical areas. Significant improvements have been made to both the unclassified and classified ICT systems with a steady identification and procurement programme preparing the Organisation for implementation throughout 2021. Further efforts to prevent, deter, and detect malicious cyber activities are resulting in a more secure and resilient organisation. This work will continue throughout 2021.

Implementation of the enterprise resource planning system

In 2020, the Organisation continued the implementation of its new ERP system. That implementation process presented numerous challenges associated with the very ambitious objective of seeking simultaneously to replace all of the OPCW's numerous HR and financial computer applications with two new interfaced platforms configured to meet nearly 1,800 identified, discrete business requirements of the OPCW. Those business requirements are similar in their complexity to the United Nations system requirements, but the OPCW faced implementation with a fraction of the staffing resources of many other international organisations. The implementation was further challenged by some substantial initial gaps in vendor delivery and an ongoing heavy staff workload unrelated to the ERP itself. These resource challenges incurred some important opportunity costs, such as delays in implementation of some pending OIO and National Audit Office (NAO) recommendations that were reliant on ERP completion and/or limited resource availability, en route to the ultimate goal of attaining a modern and efficient tool to further strengthen management systems and financial controls. The go-live of the core ERP solution took place on 4 January 2021, and completion of the remaining modules (travel and assets management) is planned for Q2, following a planned upgrade to the latest version of the ERP software in order to maintain currency and gain additional functionalities. Legacy systems are being used for the preparation of the 2020 Financial Statements. In order to ensure sufficient internal control is maintained within the new ERP system, the Organisation has put in place continually monitored assurance plans to validate internal control within the new ERP system, including review by the OIO of data migration and a review of user roles and responsibilities system access.

Non-payment of contributions by States Parties

In recent years, the Organisation experienced significant financial issues due to the non- or delayed payment of assessed contributions and reimbursements of Article IV and Article V invoices by certain States Parties. Remedial action, including recapitalisation of the Working Capital Fund and active budget management, has taken place between 2016 and 2020 to address this issue and improve the financial position as at 31 December 2020. The failure of some States Parties to pay contributions still, however, remains a significant risk to the Organisation, and as such the Organisation continues to closely monitor and actively address the cash situation, apprising States Parties of the financial position and outstanding contributions on a monthly basis. The Organisation also continues to maintain a budgetary contingency margin to mitigate the risk of cash flow issues.

Budgetary impact of unforeseen costs

In 2020, significant costs have arisen during the financial year following adoption of the annual Programme and Budget which could not have been foreseen at the time of the budget's preparation. In 2020, this has included significant increased salary costs due to obligatory, yet unforeseen, in-year changes in salary scales, including retroactive applications, and the post adjustment multiplier for the Netherlands prompted by United Nations scale adjustments, consistent with the OPCW Financial Regulations and Rules. Such variables are outside of the control of the Organisation and have continued to place an increased burden on the regular budget of the Organisation. Overall programme and budget management measures, including a three-month recruitment freeze and the withholding of the contingency margin, were used to maintain the Organisation within budget and in adherence to budgetary transfer rules.

Business continuity planning

In December 2015, the OIO identified a number of critical-level findings relating to the Organisation's information technology disaster recover policy and business continuity planning, including supporting physical security arrangements which are under implementation. While the Organisation has taken preliminary steps, as resources and competing priorities have allowed, the ongoing COVID-19 crisis has required the immediate ad hoc implementation of a number of business continuity measures that will substantially inform the ongoing business impact assessment (to be concluded in Q1 of 2021) and subsequent framework envisioned by the recommendations. In the longer term, the Organisation envisages a key role for the Centre for Chemistry and Technology in providing critical business continuity support.

Risk management and control framework

The abovementioned risk management and control framework continues to be embedded within the Organisation; key focus will continue to be placed on the sustainability of the risk management process, and the evolving roles of key internal stakeholders within this, such as the OIO, RMC, and the Management Board. This is especially critical given the continuing unprecedented challenges raised by the COVID-19 pandemic and the subsequent impact on the internal control environment at the Organisation.

Conclusion

Effective internal control, no matter how well-designed, has inherent limitations, including the possibility of circumvention, and therefore, can only provide reasonable assurance. Furthermore, because of changes in conditions, the effectiveness of internal control may vary over time.

I am committed to addressing any weaknesses in internal control noted during the year and brought to my attention. In 2020, amongst other activities, this work included the use of an internal control self-assessment questionnaire to embed a more systematic process of risk management, risk management training conducted by the OIO, and decisions of the

Management Board to elevate the chairpersonship of the RMC to the level of the Deputy Director-General and to ascribe to the RMC responsibility for the management of the Statement of Internal Control Framework.

Based on the assurances I have received as set out in this Statement above, I conclude that, to the best of my knowledge and information, there have been no significant material weaknesses across a broad base of both financial and non-financial controls, nor are there other significant matters arising which would have come to my attention for the period which would need to be raised in the present document for the year ended 31 December 2020.

[signed]

Fernando Arias
Director-General

28 June 2021

TABLE OF CONTENTS

REPORT OF THE DIRECTOR-GENERAL ON THE FINANCIAL STATEMENTS OF THE OPCW FOR THE YEAR ENDED 31 DECEMBER 2020

Introduction

1. I have the honour to present the Financial Statements of the Organisation for the Prohibition of Chemical Weapons (OPCW) for the year ended 31 December 2020.

2. The OPCW is an international organisation which was established by the States Parties to the Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on Their Destruction (hereinafter "the Convention"). The Convention entered into force on 29 April 1997, and the OPCW Headquarters is located at Johan de Wittlaan 32, 2517 JR, The Hague, the Netherlands.

3. The mission of the OPCW is to achieve the object and purpose of the Convention, to ensure the implementation of its provisions, including those for international verification, and to provide a forum for consultation and cooperation among States Parties.

4. The continued existence of the OPCW is dependent on States Parties and their continuing annual appropriations and financial contributions. The comprehensive Financial Statements prepared under the International Public Sector Accounting Standards (IPSAS) are a key enabler to allow the Organisation to deliver its mandate in an efficient manner.

Analysis of Financial Statements

5. The OPCW Financial Statements are general purpose financial statements providing information about the financial position, performance, and cash flows of the Organisation to a wide spectrum of users for decision making, consideration in future planning, and to demonstrate the accountability of the OPCW for the resources entrusted to it.

6. The Financial Statements of the Organisation have been prepared on the accrual basis in accordance with IPSAS. The Organisation's significant accounting policies within the context of IPSAS are detailed in the Financial Statements. The budget, as well as the budgetary basis information contained in the Financial Statements, continues to be prepared on a modified cash basis. There are therefore differences in the accounting bases used for the recognition of revenue, expenses, assets, and liabilities in the budget and the IPSAS Financial Statements for 2020, including timing differences. The Organisation's functional currency is the euro. All financial information in this analysis is quoted on an IPSAS accounting basis unless otherwise stated.

7. During 2020, the Organisation continued to focus on the effective implementation of the Convention and the efficiency of the processes supporting such implementation.

8. Detailed information on the financial year 2020 can be found within the Financial Statements and accompanying disclosure notes. Within this context, the following analysis provides the reader of the Financial Statements with some of the key highlights of the financial year 2020 in perspective:

COVID-19 global pandemic

9. In early 2020, the World Health Organisation declared a global health pandemic relating to the COVID-19 disease which continued through the year. The pandemic as an unforeseen and significant continuing phenomenon has had a tangible impact on the OPCW financial situation for the year ended 31 December 2020. While the Technical Secretariat (hereinafter “the Secretariat”) made every effort to effectively implement the 2020 Programme and Budget throughout the year, the COVID-19 pandemic inevitably impacted some programmatic activities, particularly those relying heavily on official travel for execution, as international travel was severely restricted in 2020, resulting in a lower implementation rate for the year than the traditional OPCW norm.

10. The pandemic has, inter alia, posed temporary though significant financial challenges to many States Parties during 2020 and may be seen as a contributing factor for the increase in outstanding assessed contributions due as at the reporting date. Similarly, the pandemic in 2020 has caused a further tightening of the interest rate environment in the Eurozone, resulting in a decline in fixed income interest. All of the financial institutions with which the Organisation operates continue to be closely monitored by the Secretariat, especially in light of the impacts of the continuing pandemic, and all have maintained a P1 Moody’s Investors Service Global short-term rating of P-1 indicating their continued strength.

11. Furthermore, employee benefit liabilities as at the reporting date, in particular relating to home leave and annual leave, have increased from 2019 due to travel restrictions brought about by the COVID-19 pandemic.

12. The onset and the continuation of the pandemic have resulted in a transition in business continuity and specifically work practices for the Organisation, with a shift to mostly remote working. This shift has required some additional costs, including those in particular for the purchase of IT equipment and services, to enable and facilitate remote working for Secretariat staff.

13. With the pandemic continuing into 2021, it is again likely that there will be an impact on the Organisation. Through Conference of the States Parties (hereinafter “the Conference”) decision (C-25/DEC.7, dated 1 December 2020), a COVID-19 Variability Impact Fund has been established for 2021 reflecting possible variability in programmatic activities due to the continuation of the pandemic in 2021. However, until the situation further matures, as at the date of issuance of these Financial Statements, the full impact of the ongoing pandemic continues to evolve and will continue to be monitored closely by the Secretariat.

Financial highlights of importance

(a) The regular budget (General Fund) experienced an implementation rate of 93.2% for 2020, as compared to 99.3% in the prior year, and was managed through use of a budgetary contingency margin and a temporary in-year hold on recruitments to ensure expenditure management and effective cash flow. The lower budget implementation reflects the inevitable impact of the COVID-19 pandemic upon some programmatic activities, particularly those relying heavily on official travel for their execution.

(b) The level of assessed contributions for 2020 remained at EUR 67.1 million (2019: EUR 67.1 million) as per the Programme and Budget for 2020. The OPCW Programme and Budget (excluding extra-ordinary provisions) increased by 1% in 2020 compared to the prior year for Chapter I and Chapter II programmes.[2] Including extra-ordinary provisions, the increase was 2% in 2020 compared to the prior year.

(c) Trust funds experienced a net increase in revenue from voluntary contributions of EUR 0.3 million compared to 2019, including new contributions for the Centre for Chemistry and Technology, and for the Trust Fund for Syria Missions, totalling EUR 4.0 million and EUR 9.9 million, respectively.

(d) Overall expenses[3], inclusive of the General Fund, trust funds, and special funds, decreased by EUR 5.1 million, primarily within the travel and general operating expenses categories due to the impact of the COVID-19 pandemic. Employee benefit expenses increased by EUR 2.4 million, primarily due to an increase in the accrual for home leave and untaken annual leave accrued by staff members in 2020, due to the impact of the COVID-19 pandemic.

(e) The net surplus (across all funds and special funds) for 2020 was EUR 7.0 million, compared to a net surplus of EUR 7.2 million in the previous year. This EUR 0.2 million decrease in net surplus was due to an almost equal decrease in both revenue and expenses in 2020.

(f) The overall value of cash and cash equivalents across the General Fund, trust funds, and special funds increased to EUR 50.9 million in 2020 from EUR 46.8 million in 2019, and was comprised primarily of an increase of EUR 9.1 million in General Fund cash balances and EUR 3.2 million in trust fund cash balances. The increase in General Fund cash balances included borrowings from the Working Capital Fund (WCF) of EUR 7.5 million.

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2 The total approved OPCW Budget for 2020 was EUR 71.0 million including an appropriation of EUR 1.8 million for extra-ordinary provisions (C-24/DEC.12, dated 28 November 2019).

3 Including net finance income and costs.

(g) A slightly lower collection rate of assessed contributions of 92.3% was experienced during 2020, as compared to a rate of 92.6% in 2019, leading to an overall increase in the cumulative total amount (2020 and prior years) of gross outstanding assessed contributions by EUR 3.0 million to EUR 10.1 million. As in 2019, a high proportion of current year assessed contributions was received in the final quarter of 2020.

(h) Outstanding total Article IV and V reimbursements decreased by EUR 0.2 million, to EUR 7.8 million.

(i) The overall net book value of property, plant, and equipment increased by EUR 1.2 million, reflecting design costs of EUR 1.2 million for the Centre for Chemistry and Technology capitalised in 2020, and the purchase of inspection and verification equipment of EUR 1.0 million primarily for capacity building and training, offset by the annual depreciation of in-use assets. The net book value of intangible assets increased by EUR 2.2 million in 2020, mainly due to ongoing work associated with the development of the new enterprise resource planning (ERP) system, and also due to an increased level of other software development projects across the Organisation.

(j) The Organisation's total liabilities in 2020 increased by EUR 5.9 million, primarily due to an increase of EUR 7.4 million in the assessed contributions, with performance obligations relating to the estimated cash surplus for 2020[4], and a net increase of EUR 4.8 million in deferred revenue for voluntary contributions, primarily relating to the Centre for Chemistry and Technology. These increases were offset by a decrease of EUR 2.3 million in the cash surplus payable as at 31 December 2020, as a cash deficit was reported for 2019. The level of the WCF remained consistent with 2019, with no change to the overall approved level. A decrease of EUR 1.2 million in accounts payable as the result of a significant number of payments administered in the last month of the year offset slightly the overall increase in Organisational liabilities.

(k) The total employee benefit liability determined by the OPCW actuary increased by EUR 1.4 million in 2020 to a total of EUR 10.4 million, primarily due to an increase in the balance of accrued home leave and annual leave during the year resulting from the travel restrictions arising from the COVID-19 pandemic. The liability continues to be unfunded on a long-term basis and addressed on a pay-as-you-go approach as considered and recommended by the Advisory Body on Administrative and Financial Matters at its Forty-Sixth Session.

(l) The total net assets position experienced an increase of EUR 7.5 million, primarily due to the net surplus of EUR 7.0 million reported in 2020, and a small actuarial gain. The closing net asset deficit for the General Fund increased to negative EUR 6.1 million, primarily due to the long-term employee benefit

4 The final cash surplus for 2020 will be determined in 2021.

liabilities. Net assets for trust funds and special funds were EUR 32.2 million, representing resources which will be spent in future years.

(m) In 2020, a final cash deficit was determined for 2019 in the amount of negative EUR 1.2 million, a significant change from the cash surplus for 2018 reported in 2019 of EUR 2.3 million. This decrease was largely due to the lower level of receipts in 2020 of outstanding assessed contributions relating to 2019 and prior, which was included in the calculation of the final cash deficit for 2019. The treatment of the cash deficit for 2019 will be determined through a decision by the Conference in future reporting periods.

Financial performance

14. A summary of the financial performance by all trust funds and special funds for 2020 is shown in Table 1 below.

TABLE 1: SUMMARY OF FINANCIAL PERFORMANCE BY ALL TRUST FUNDS AND SPECIAL FUNDS FOR THE YEAR ENDED 31 DECEMBER 2020 (EUR MILLIONS)

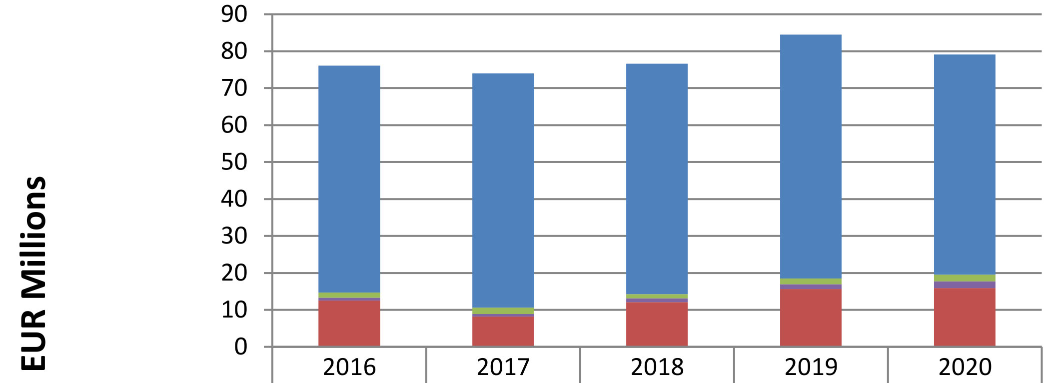
	Regular Budget	**Trust Funds and Special Funds**	**Total**
Total revenue	61.4	17.7	**79.1**
Total expenses[5]	(63.6)	(8.5)	**(72.1)**
Net surplus / (deficit) for the year	**(2.2)**	**9.2**	**7.0**

15. Taking into account all funds and special funds of the OPCW, the difference between revenue and expenses for 2020 resulted in a net surplus of EUR 7.0 million, compared to a net surplus of EUR 7.2 million in the previous year.

5 Including net finance income and costs.

Revenue analysis

FIGURE 1: COMPOSITION OF REVENUE FOR FINANCIAL YEARS 2016 TO 2020 (EUR MILLIONS)

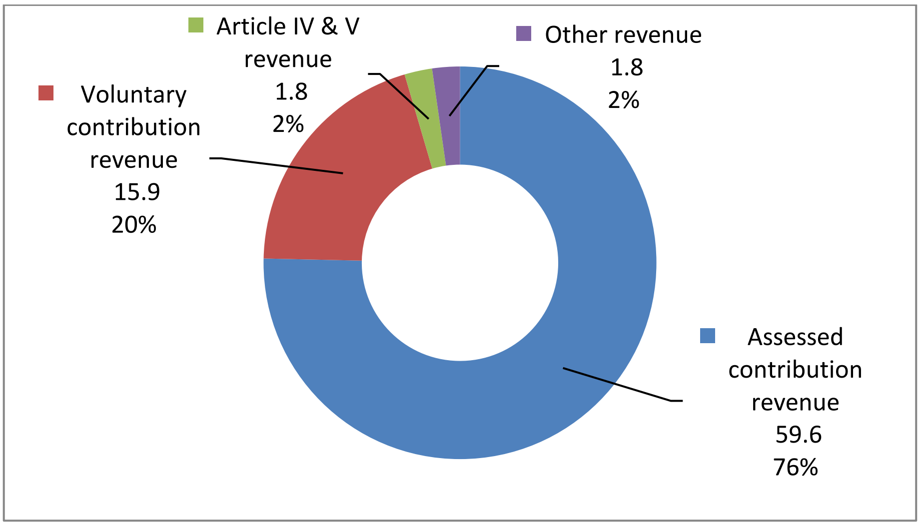


	2016	2017	2018	2019	2020
Assessed contribution revenue	61.4	63.4	62.3	66.0	59.6
Article IV & V revenue	1.4	1.7	1.2	1.6	1.8
Other revenue	0.8	0.7	1.0	1.3	1.8
Voluntary contribution revenue	12.5	8.2	12.1	15.6	15.9

16. Figure 1 above shows the composition of revenue by type over the past five financial years. Having shown a gradual increase between 2017 and 2019, total revenue has fallen slightly to EUR 79.1 million in 2020, due to a decrease in assessed contribution revenue recognised on an IPSAS basis. Gross assessed contributions as per the OPCW Programme and Budget have remained consistent between 2019 and 2020. Voluntary contribution revenue grew by 2% to EUR 15.9 million in 2020 from EUR 15.6 million in 2019, and Article IV and V revenue also increased moderately from 2019 levels.

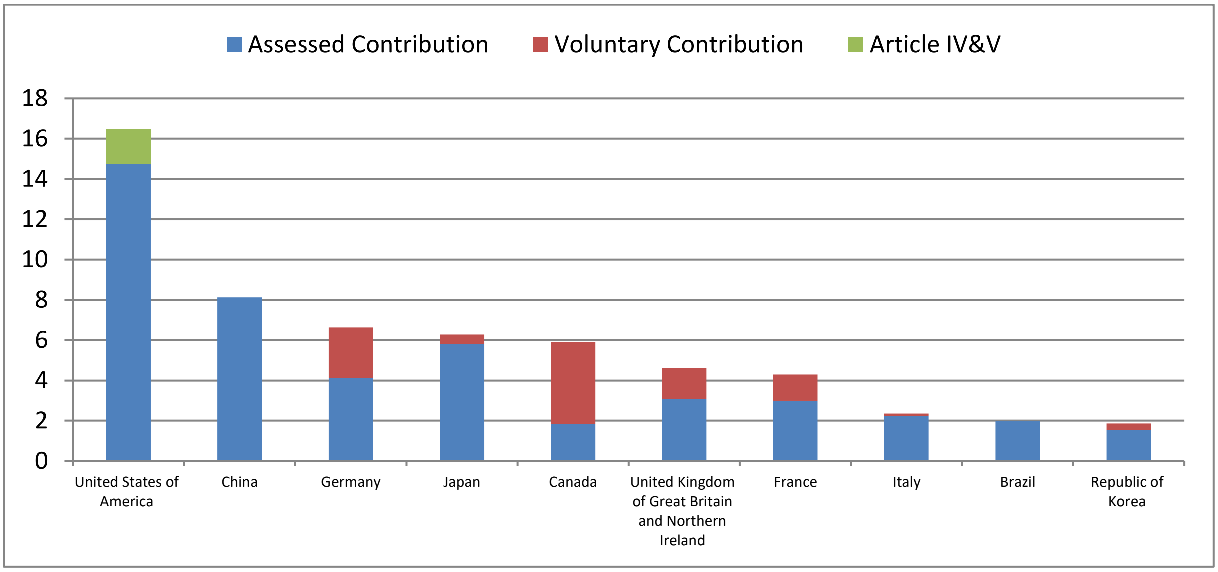
17. Assessed contribution revenue remains the largest revenue stream for the Organisation, forming 76% of total revenue for 2020, with voluntary contributions accounting for 20% of revenue, as noted in Figure 2 below.

FIGURE 2: COMPOSITION OF REVENUE FOR 2020 (EUR MILLIONS)



18. The top 10 contributors to the OPCW accounted for a combined total of EUR 58.5 million of total revenue in 2020, as indicated in Figure 3 below, a decrease of EUR 12.1 million when compared with 2019.

FIGURE 3: TOP 10 CONTRIBUTORS TO OPCW REVENUE IN 2020, COMBINING ASSESSED CONTRIBUTIONS, VOLUNTARY CONTRIBUTIONS, AND ARTICLE IV AND V REVENUE (EUR MILLIONS)[6]



19. Article IV and V revenue has increased by EUR 0.2 million (13%) to EUR 1.8 million in 2020 (2019: EUR 1.6 million), and includes amounts accrued but not yet invoiced.

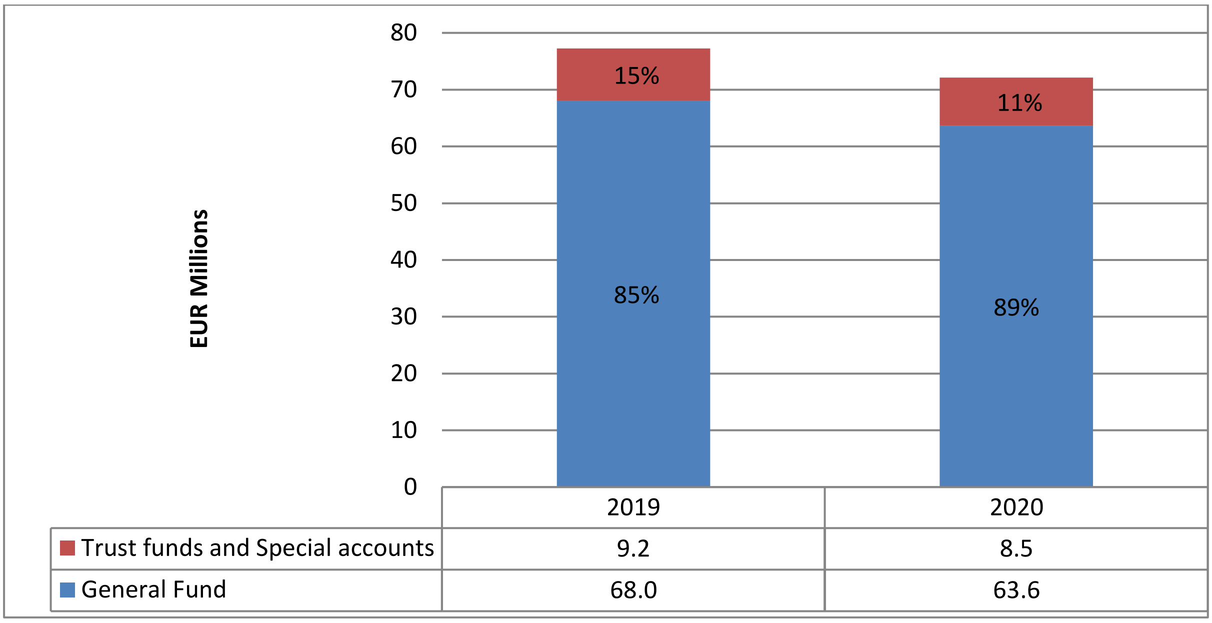
20. Other revenue has increased by EUR 0.5 million in 2020, including revenue for special funds.

6 Reported on a modified cash basis. The figures included represent amounts invoiced to States Parties and not all amounts have been received in 2020. Assessed contributions recoverable and Article IV and V receivables are detailed in notes 7 and 8 of the Financial Statements, respectively.

Expense analysis

21. Figure 4 below shows a comparison of expenses between 2019 and 2020:

FIGURE 4: EXPENSE ANALYSIS BY FUNDING SOURCE FOR 2019 AND 2020 (EUR MILLIONS)



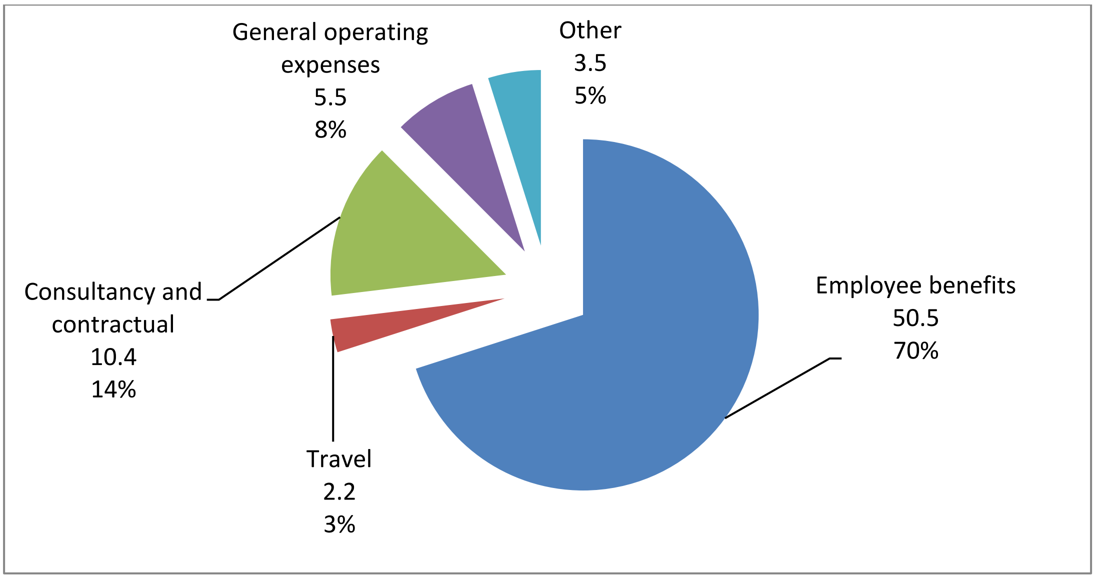
22. In 2020, total expenses (including net finance income and costs) were EUR 72.1 million, denoting a decrease of EUR 5.1 million (7%) compared to the previous year. The overall decrease in expenses is largely related to the decrease in travel expenses of EUR 6.1 million and in operating expenses of EUR 1.8 million, offset with an increase of employee benefit expenses of EUR 2.4 million in 2020.

23. The proportion of activities funded by General Fund resources increased moderately to 89% in 2020, from 85% in 2019.

24. In line with the lower budget implementation in 2020 than in the prior year, general fund and trust fund expenses decreased by EUR 4.4 million and EUR 0.7 million, respectively in 2020.

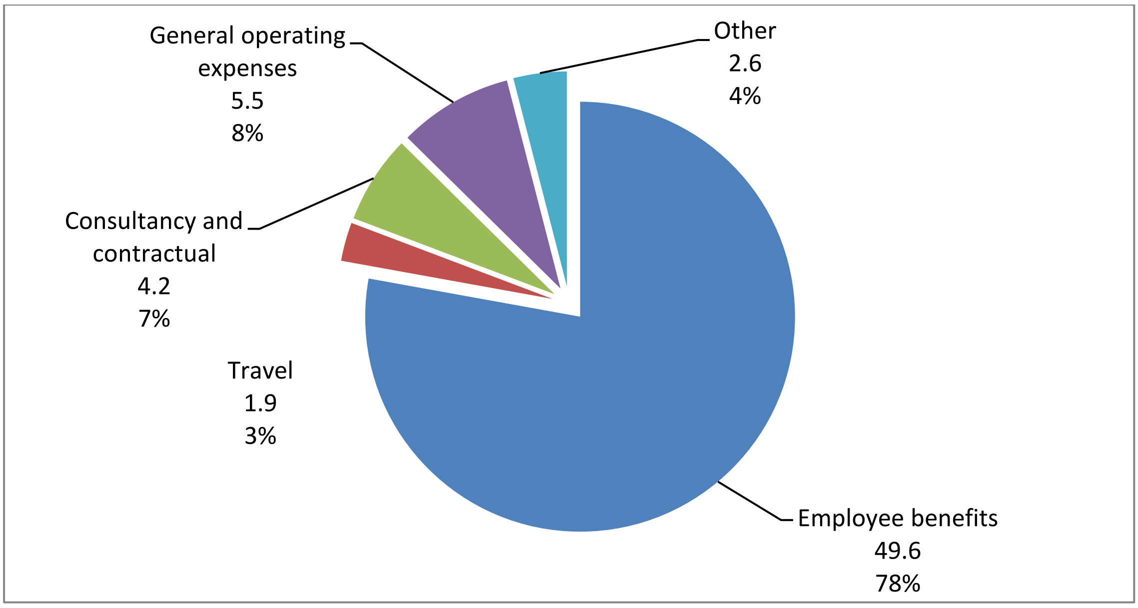
25. Employee benefit expenses (including salaries) represent the largest cost category in 2020 at EUR 50.5 million (70%), followed by consultancy and contractual services (EUR 10.4 million, 14%), and general operating expenses (EUR 5.5 million, 8%). Figure 5 below shows the breakdown of 2020 expenses by nature for all funds.

FIGURE 5: EXPENSE ANALYSIS FOR THE PERIOD ENDED 31 DECEMBER 2020 – ALL FUNDS (EUR MILLIONS)



26. Figure 6 below further shows the analysis of expenses for the General Fund only, highlighting that a lower proportion of consultancy and contractual services is paid from the General Fund. This is due in part to the cost of significant contractual services work in the Syrian Arab Republic being funded through trust fund resources. The figure also highlights that the majority of employee benefit costs are funded through the General Fund.

FIGURE 6: EXPENSE ANALYSIS FOR THE PERIOD ENDED 31 DECEMBER 2020 – GENERAL FUND (EUR MILLIONS)[7]



7 Expenses reported on an IPSAS basis.

27. Table 2 below shows that the increase in total expenses was mainly in the categories of employee benefits and other expenses, with a decrease in consultancy and contractual services costs.

TABLE 2: COMPARATIVE EXPENSE ANALYSIS FOR 2019 AND 2020 (EUR MILLIONS)

	2020	2019	Difference	Change (%)
Employee benefits	50.5	48.1	2.4	5.0%
Consultancy and contractual	10.4	10.6	(0.2)	(1.9%)
Travel	2.2	8.3	(6.1)	(73.5%)
General operating expenses	5.5	7.3	(1.8)	(24.7%)
Other expenses[8]	3.5	2.9	0.6	19.1%
Total expenses	**72.1**	**77.2**	**(5.1)**	**(6.7%)**

28. Salaries and employee benefits include the accrued costs of post-employment and other long-term employee benefits which better account for the true cost of employing staff on annual basis. The increase of 5% in 2020 compared to the prior year relates primarily to the increase in the liability for accrued annual leave.

29. Travel expenses have decreased significantly in 2020 compared to the prior year, due to the restrictions on travel arising from the COVID-19 pandemic. The most significant element (69%) of travel expenses in 2020 was for inspections (EUR 1.5 million).

30. General operating expenses were also lower in 2020 than in 2019, following exceptionally higher impairment charges for assessed contributions recoverable in 2019.

31. Expenses relating to consultancy and contractual services have remained consistent year-on-year between 2019 and 2020.

32. Other expenses increased by EUR 0.6 million (19.1%) in 2020, reflecting an increase in exchange rate-related finance costs.

Net surplus/deficit of the year

33. The overall net surplus for 2020 was EUR 7.0 million, decreasing from a net surplus of EUR 7.2 million in 2019. This change was primarily due to a moderate overall decrease in revenue, offset by a notable decrease in travel and general operating expenses in 2020, and a lower budget implementation rate in 2020.

34. The surplus had a positive impact on the overall net assets of the Organisation. After also taking into account actuarial gains of EUR 0.6 million, overall net assets increased by 41%, to EUR 26.1 million in 2020, from EUR 18.6 million in 2019, as noted in Figure 7 below.

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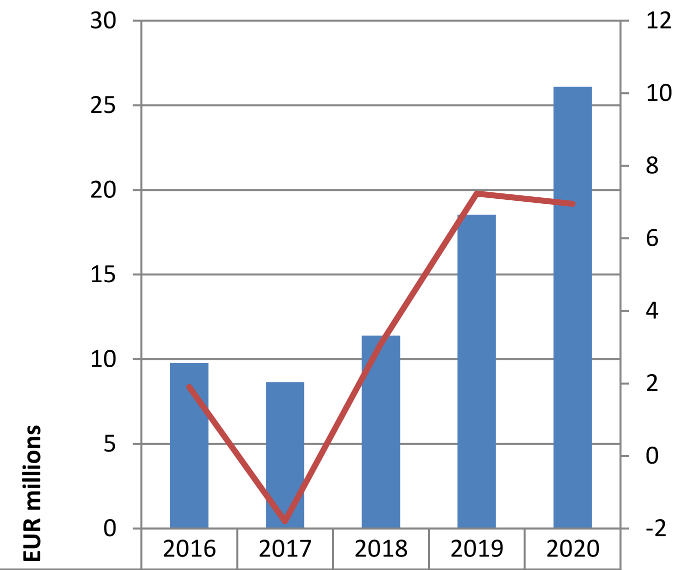
8 Including other operating expenses, depreciation, impairment and amortisation, and net finance income and costs.

FIGURE 7: EVOLUTION OF ANNUAL SURPLUS/(DEFICIT) AND NET ASSETS BETWEEN 2016 AND 2020 (EUR MILLIONS)



	2016	2017	2018	2019	2020
Total cumulative net assets/equity	9.8	8.6	11.4	18.6	26.1
Net surplus/(deficit) for the period	1.9	-1.8	3.1	7.2	7.0

Budgetary performance

35. The regular budget of the Organisation continues to be prepared on a modified cash basis and is presented in the Financial Statements as Statement V(a), Statement of Comparison of Budget and Actual Amounts. In order to facilitate a comparison between the Budget and the Financial Statements that are prepared under IPSAS, reconciliation of the budget to the cash flow statement is included in note 40.8 to the Financial Statements.

36. The regular budget appropriation for 2020 was approved for EUR 69.2 million for Chapter I and Chapter II programmes[9] (EUR 68.2 million in 2019). Total operational regular budget expenditures for Chapter I and Chapter II programmes, measured on a modified cash basis, were EUR 64.5 million. In 2019, these expenditures totalled EUR 67.8 million. The total General Fund budget implementation rate for Chapter I and Chapter II programmes for 2020 was 93.2%, a decrease of slightly more than 6.1% from 2019 (99.3%).

37. While the Secretariat made every effort to effectively implement the 2020 Programme and Budget throughout the year, the COVID-19 pandemic inevitably impacted some programmatic activities, particularly those relying heavily on official travel for their execution, thus resulting in a relatively lower implementation rate for the year than the historic OPCW norm.

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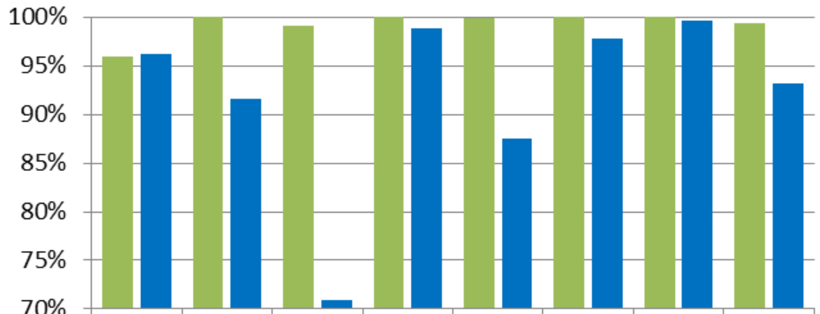
[9] Before extra-ordinary provisions.

FIGURE 8: REGULAR BUDGET IMPLEMENTATION BY PROGRAMME IN 2019 AND 2020



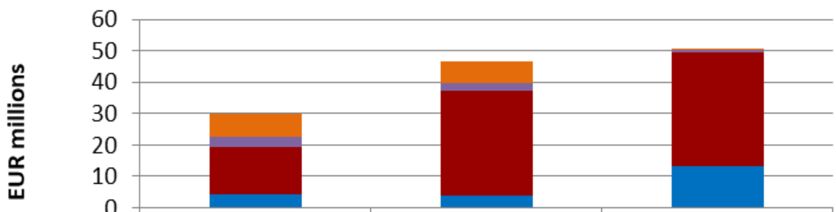
	VER	INS	ICA	PMO	ERD	EXM	ADM	Total
2019	96%	100%	99%	100%	100%	100%	100%	99%
2020	96%	92%	71%	99%	88%	98%	100%	93%

Financial position

<u>Cash, investments, and liquidity analysis</u>

38. In 2020, total cash and cash equivalents increased by EUR 4.1 million (8.7%), to EUR 50.9 million, at 31 December 2020, as noted in Figure 9 below. Cash balances in the General Fund increased by EUR 9.1 million (227%), to EUR 13.1 million, as at 31 December 2020. This increase reflects EUR 6.7 million of advanced receipts of 2022 assessed contributions and a borrowing of EUR 7.5 million from the WCF. Without these advanced receipts and borrowings, the General Fund cash balance would have been negative on 31 December 2020.

FIGURE 9: COMPOSITION OF CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER 2018, 2019, AND 2020 (EUR MILLIONS)

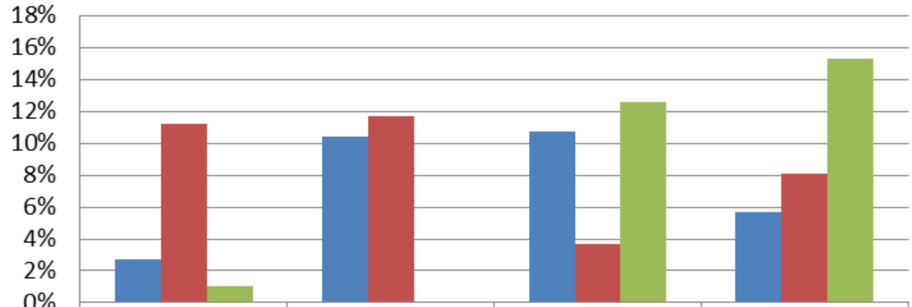


	2018	2019	2020
Working Capital Fund	7.1	7.3	0.6
Special ERP Fund	3.5	2.2	0.9
Trust Funds, Voluntary Fund for Assistance and special accounts	15.1	33.3	36.3
General Fund	4.2	4.0	13.1

39. Trust funds and special fund balances (excluding the special ERP fund) accounted for EUR 36.9 million (72.5%) of the total cash and cash equivalents at 31 December 2020, as noted in Figure 9 above.

40. Cash received in the General Fund account was heavily concentrated in the last quarter of the year, as noted in Figure 10 below.

FIGURE 10: GENERAL FUND CASH INFLOW: SEPTEMBER TO DECEMBER (2018 – 2020)



	September	October	November	December
Total Cash Inflow (2018)	2.7%	10.4%	10.8%	5.7%
Total Cash Inflow (2019)	11.2%	11.7%	3.7%	8.1%
Total Cash Inflow (2020)	1.0%	0.0%	12.6%	15.3%

41. In 2020, 27.9% of total cash inflows for the General Fund were in the last quarter of the year, compared to an average of 25.1% in the preceding two years. As noted in 2019, this was again due to the delayed payment of assessed contributions into the last months of 2020. This had an adverse effect on the cash flow of the Organisation in the first three quarters of the year.

42. A significant budgetary contingency margin and temporary hiring freeze were used to align budget implementation with cash receipts and significant unbudgeted mandatory increases in staff entitlements, in order to manage these cash liquidity and budgetary pressures. Through the year, as the COVD-19 pandemic continued, these pressures were also offset by substantially lower travel expenditures.

<u>Accounts receivable</u>

43. Overall, the total gross receivables[10] for assessed contributions and Article IV and V reimbursements increased by EUR 2.8 million to EUR 17.9 million at 31 December 2020. Receivables for assessed contributions on a gross basis increased by EUR 3.0 million and receivables for Article IV and V reimbursements decreased by EUR 0.2 million. As indicated in Figure 11 below, the amount of cumulative outstanding assessed contributions for all periods as at 31 December 2020 (EUR 10.1 million) is the highest level in the past five years, placing significant cash pressures on the Organisation. The high level of outstanding assessed contributions is a key factor leading to the cash deficit for 2019.

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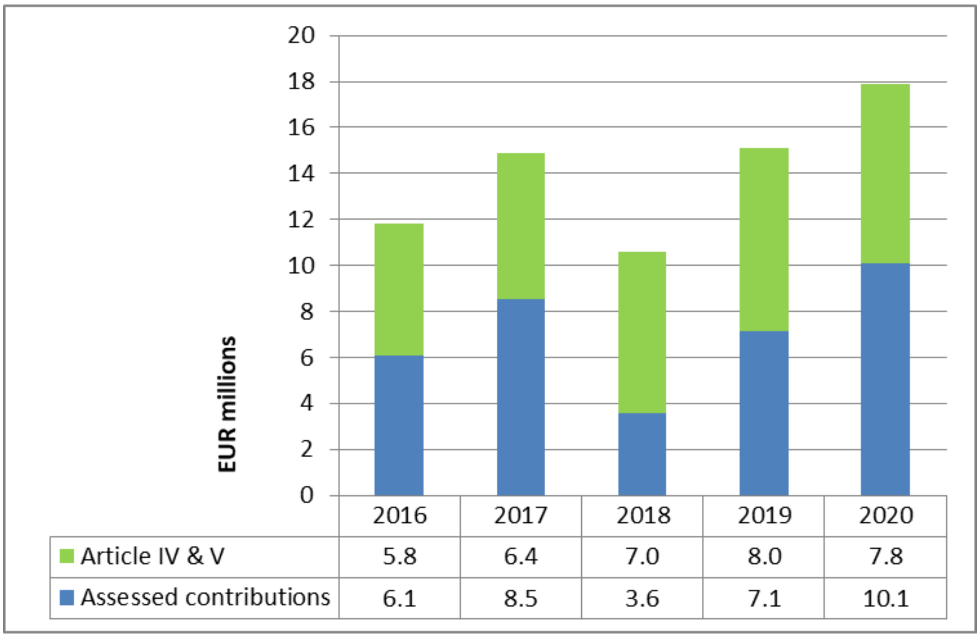
10 Receivables are reported net of impairment on the face of the Statement of Financial Position. Gross receivables prior to impairment are reported in notes 7 and 8 of the Financial Statements.

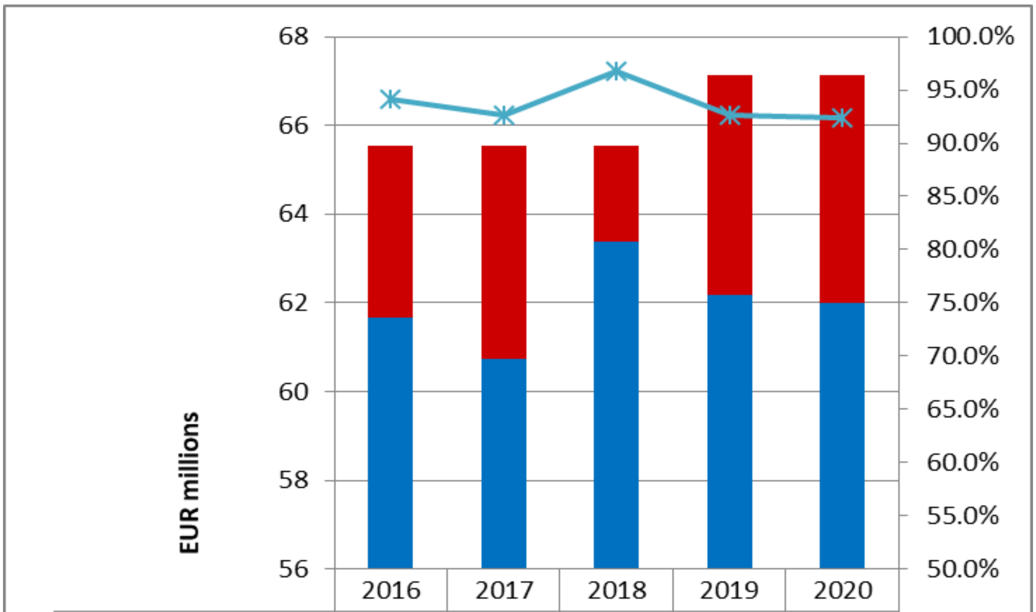
FIGURE 11: OUTSTANDING TOTAL ASSESSED CONTRIBUTIONS AND ARTICLE IV AND V REIMBURSEMENTS 2016 TO 2020 (EUR MILLIONS)



44. The collection rate for assessed contributions has remained broadly consistent between 2019 and 2020, and it is lower than the previous three years, as represented in Figure 12 below. The figure shows the collection rate for the specific year as at 31 December of the year (i.e. the collection after 12 months).

45. The late payment of assessed contributions to the Organisation continues to present challenges to the General Fund cash flow, and the Secretariat continues to report on outstanding balances to States Parties on a monthly basis, as well as maintaining a budgetary contingency margin through the year.

FIGURE 12: ASSESSED CONTRIBUTION BALANCES AND COLLECTION RATES 2016 TO 2020 [11] (EUR MILLIONS)

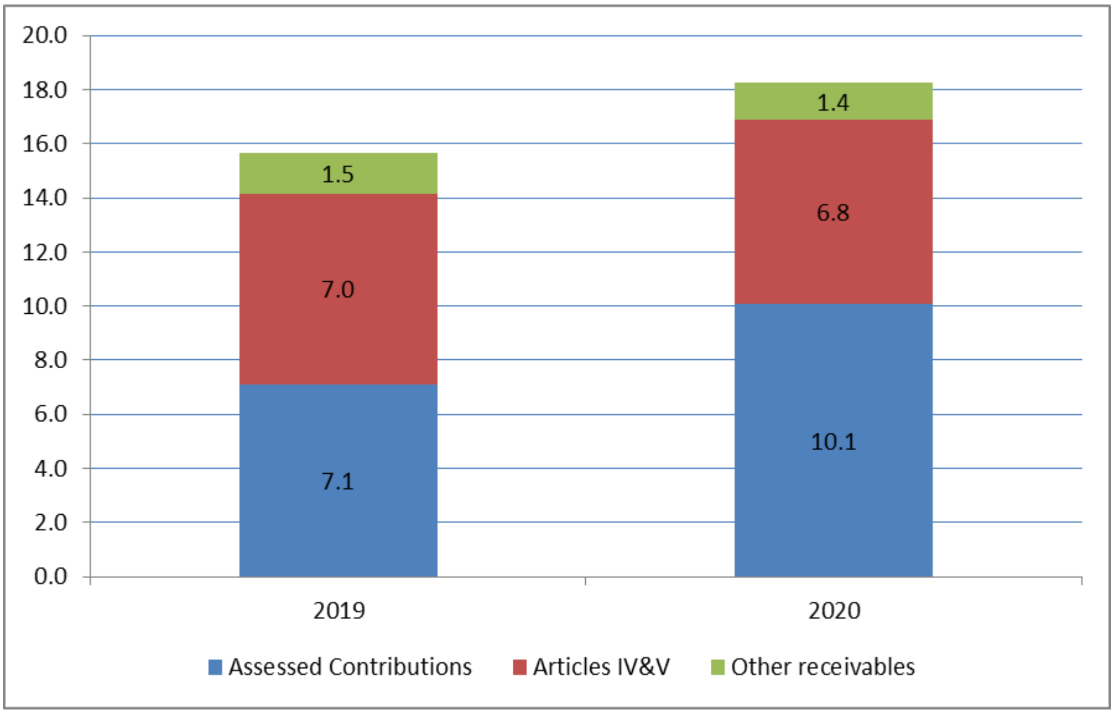


	2016	2017	2018	2019	2020
Outstanding	3.9	4.8	2.2	5.0	5.1
Received	61.7	60.7	63.4	62.2	62.0
% Collection rate	94.1%	92.7%	96.7%	92.6%	92.3%

46. Figure 13 below shows that the overall outstanding amounts due to the General Fund have increased in 2020 as a result of a continually low collection rate of assessed contributions in the year, and an increase in other taxation receivables, slightly offset by a moderate decrease in arrears for Article IV and V reimbursements.

11 As of 31 December each year.

FIGURE 13: OUTSTANDING AMOUNTS DUE TO GENERAL FUND AS AT 31 DECEMBER 2019 AND 2020 (EUR MILLIONS)



Cash surplus/deficit

47. Figure 14 below highlights the provisional and final cash surplus/deficit for the budgetary years 2016 to 2020. The provisional cash surplus/deficit is determined at the end of the financial year in question, and the final cash surplus/deficit is determined in the following financial year.

48. In 2020, the final cash deficit for 2019 was determined as negative EUR 1.2 million, a decrease of EUR 3.5 million from the final cash surplus for 2018 (EUR 2.3 million). This decrease was primarily due to the lower level of receipts in 2020 of outstanding assessed contributions relating to 2019 and prior. This level of receipts was lower than required, when taken together with the high budget implementation rate for 2019, resulting in the calculation of a final cash deficit for 2019. In future reporting periods, the Conference will be required to decide (similar to when a cash deficit arose for 2014)[12] the manner in which to liquidate the 2019 cash deficit.

49. In 2020, the Conference approved the transfer of the cash surplus for 2018 of EUR 2.3 million to the Major Capital Investment Fund (EUR 0.2 million), to the Special Fund for the OPCW Equipment Store (EUR 0.3 million), to the Special Fund

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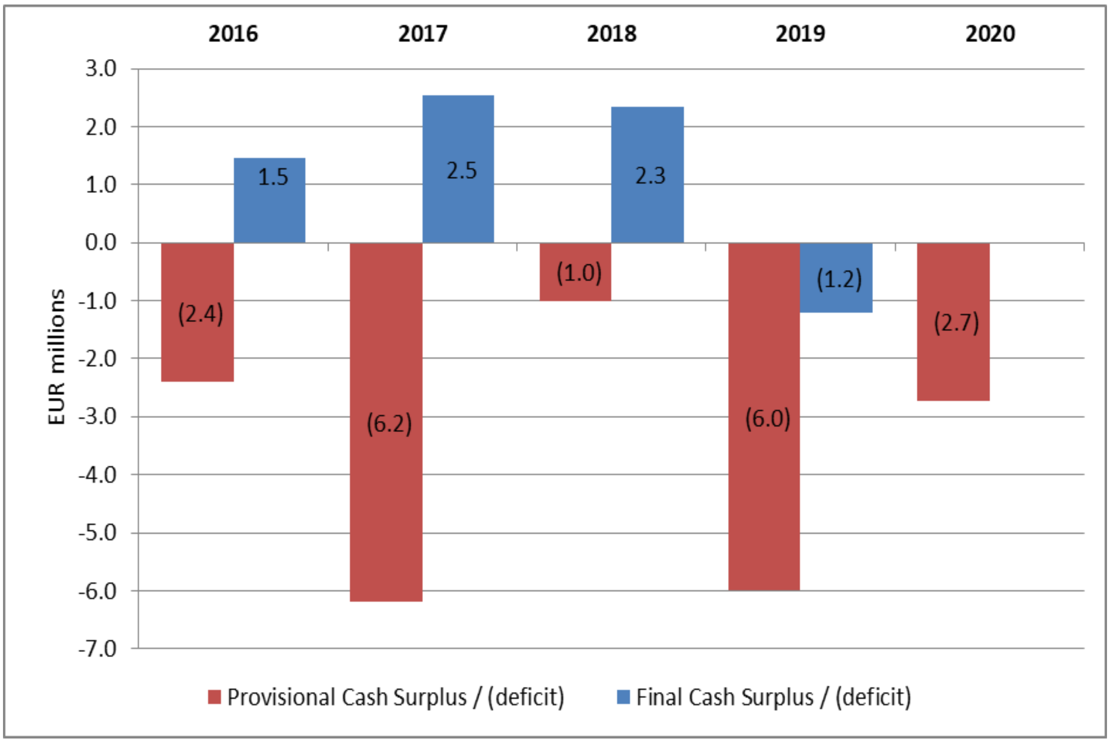
12 The 2014 cash deficit was liquidated through application of a portion of the 2015 cash surplus, as decided by the Twenty-Second Session of the Conference (CSP-22/DEC.7, dated 30 November 2017).

for designated laboratories and laboratory equipment (EUR 0.4 million), and to the COVID-19 Variability Impact Fund (EUR 1.4 million).[13]

50. The final cash surplus for 2020 will be determined in 2021 and reported in the Financial Statements for 2021. The provisional cash deficit for 2020 is EUR 2.7 million; this may again result in a final cash deficit for 2020 unless significant 2020 and prior year assessed contributions are received in 2021.

FIGURE 14: PROVISIONAL AND FINAL CASH SURPLUSES 2016 – 2020 (EUR MILLIONS)



Long-term assets

<u>Property, plant, and equipment</u>

51. The total net book value of property, plant, and equipment increased by EUR 1.2 million in 2020, which relates primarily to the capitalisation of design costs for the Centre for Chemistry and Technology as an asset under construction, and the purchase of inspection and verification equipment, slightly offset by a number of asset disposals and ongoing depreciation charges.

52. As can be seen from Figure 15 below, inspection and verification equipment continues to account for the largest component (EUR 3.7 million, 48%) of the net book value of property, plant, and equipment. The Figure also highlights the asset under construction and land for the Centre for Chemistry and Technology forming a greater proportion of

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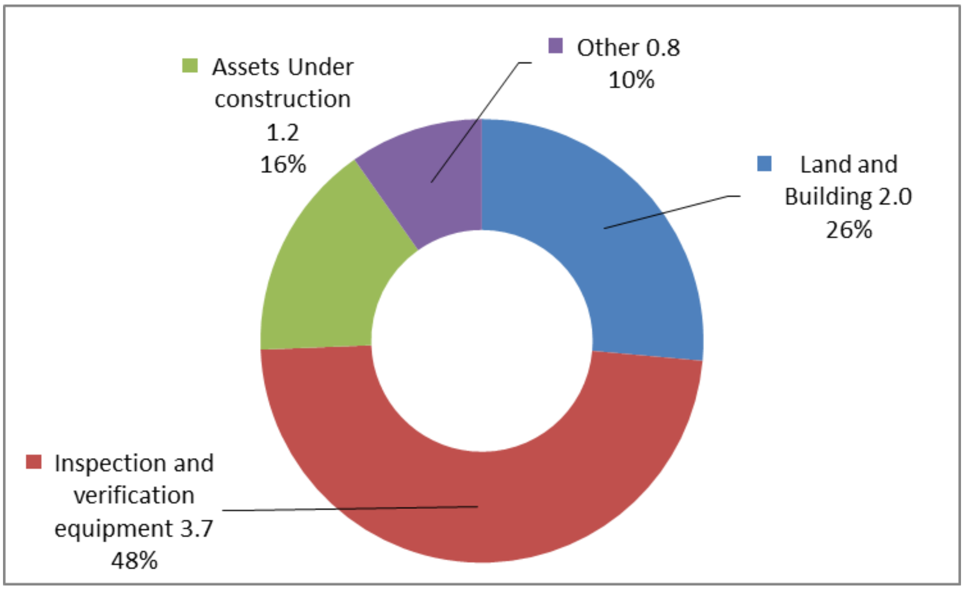
13 C-25/DEC.7.

the asset base (42%), which will continue into 2021 and beyond as construction of the Centre starts.

FIGURE 15: COMPOSITION OF PROPERTY, PLANT, AND EQUIPMENT (NET BOOK VALUE AT 31 DECEMBER 2020) (EUR MILLIONS)[14]



53. Inspection and verification equipment is on average 61% of the way through its useful life, reflecting the annual asset replacement programme for significant items of equipment, as noted in Figure 16 below.

54. Other asset types have less remaining net book value and may require replacement in the near term. Initial steps have been taken to address this issue through the establishment of a Special Fund for Major Capital Investments[15], with the objective of reducing the one-off impact of replacing major assets on the heavily pressured regular budget resources.

55. Land is assumed to have an infinite useful life, and hence the land and buildings component in Figure 16 has no accumulated depreciation as at 31 December 2020. Equally, depreciation for assets under construction starts when the asset is available for use, which will be the case for the Centre for Chemistry and Technology.

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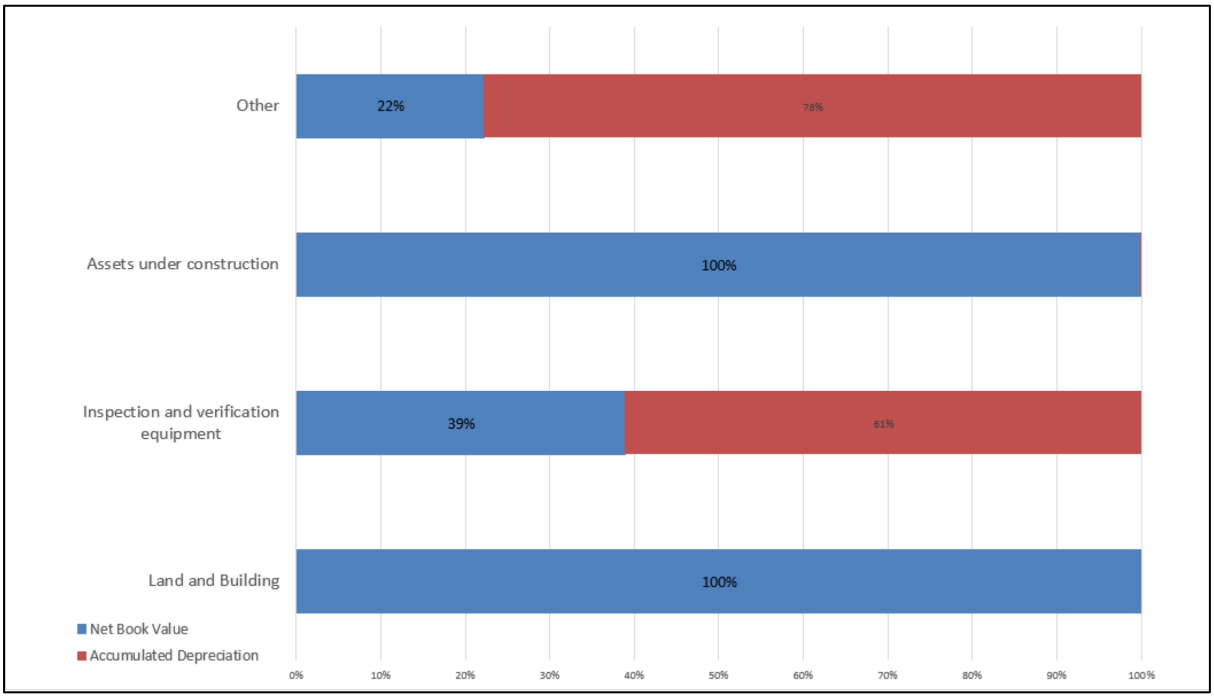
14 Other assets include hardware equipment, office furniture and equipment, vehicles, and leasehold improvements.

15 C-24/DEC.12, dated 28 November 2019.

FIGURE 16: NET BOOK VALUE AND DEPRECIATION OF PROPERTY, PLANT, AND EQUIPMENT AS AT 31 DECEMBER 2020 (EUR MILLIONS)[16]

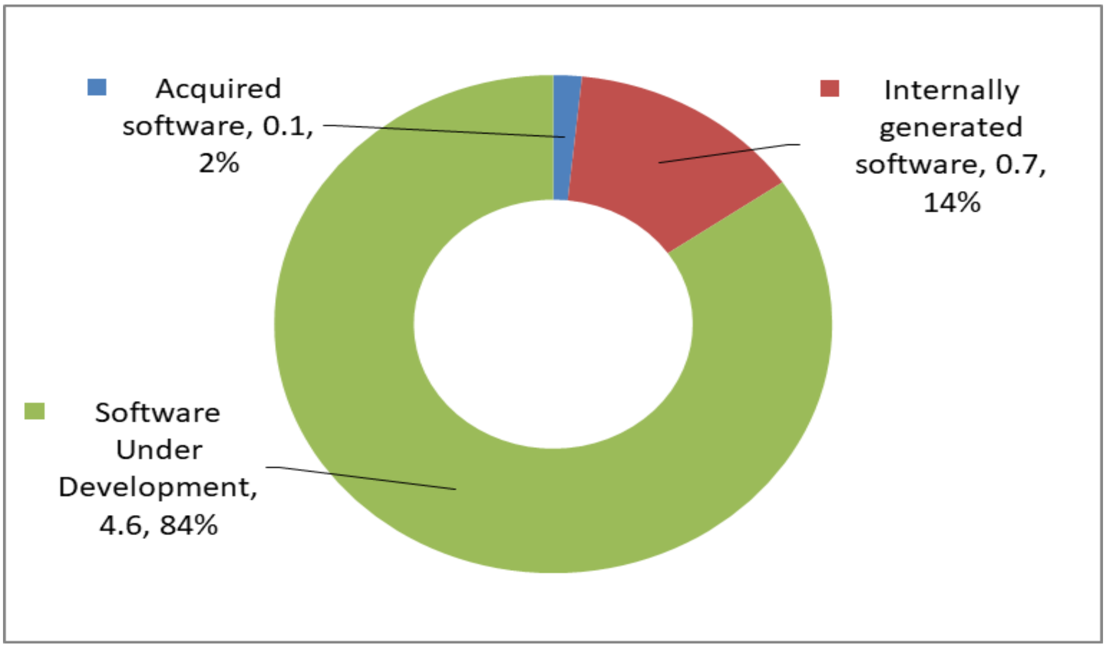


Intangible assets

56. The total net carrying amount of intangible assets increased by EUR 2.2 million as at 31 December 2020. As shown in Figure 17 below, the major component of intangible assets at this date was software under development (EUR 4.6 million), representing 84% of the intangible asset base for the Organisation, which mainly relates to the ongoing development work on the new ERP system and various internally developed software projects across the Organisation. The core functionality of the new ERP system went live in early January 2021.

16 Office and leasehold comprises office furniture and equipment and leasehold improvements.

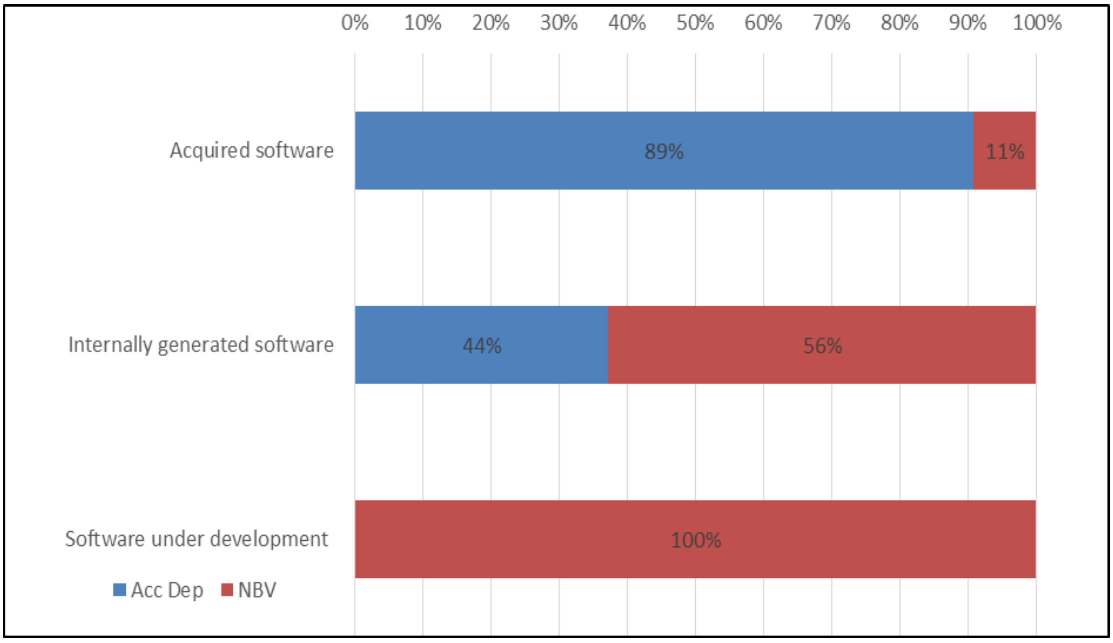
FIGURE 17: COMPOSITION OF INTANGIBLE ASSETS (NET BOOK VALUE AT 31 DECEMBER 2020) (EUR MILLIONS)



57. Amortisation for assets under construction does not start until the system go-live, and hence the net book value of the assets under construction is equal to their cost. Figure 18 below shows the remaining net book value for acquired software and internally generated software which is currently in use, including the in-use elements of the new ERP system.

58. Acquired intangible assets are 89% of the way through their useful lives (2019: 79%), meaning that some software licences may require replacement in the near future. The aforementioned approval for the establishment of a Special Fund for Major Capital Investment is also applicable for the replacement of intangible assets. Internally generated software is 44% through its useful life (2019: 71%), reflecting the recent go-live in 2020 of several internal development projects, and the live elements of the new ERP system, which are at an early stage in their life cycles.

FIGURE 18: NET BOOK VALUE AND AMORTISATION OF INTANGIBLE ASSETS AT 31 DECEMBER 2020 (EUR MILLIONS)



Employee benefit liabilities

59. Employee benefit liabilities consist of short-term employee benefits payable (such as salaries, annual leave, and education grants), and long-term employee benefits (such as accrued home leave and removal/repatriation entitlements). Long-term employee benefits are accrued as staff members earn the rights to entitlements and as such an actuarial method is used to calculate such liabilities as at the end of the financial year.

60. Total employee benefit liabilities increased by EUR 1.4 million in the past year, to EUR 10.4 million at 31 December 2020, from EUR 9.0 million at 31 December 2019. As shown in Figure 19 below, the most significant movement in actuarially determined employee benefit liabilities has been in home leave, with liabilities for post-employment benefits, including repatriation benefits, remaining similar year-on-year. The increase of EUR 0.7 million in the liability for home leave reflects the delay in taking home leave as a result of the COVID-19 pandemic. Unused annual leave has increased by EUR 0.8 million in 2020, also due to COVID-19 travel restrictions.

61. These employee benefit liabilities continue to be unfunded, meaning that specific funds are not set aside as the entitlements to these benefits are earned by staff members. Instead, the necessary funding is provided on a pay-as-you-go basis through the annual budget cycle. In 2019, the Advisory Body on Administration and Finance at its Forty-Sixth Session[17] 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.

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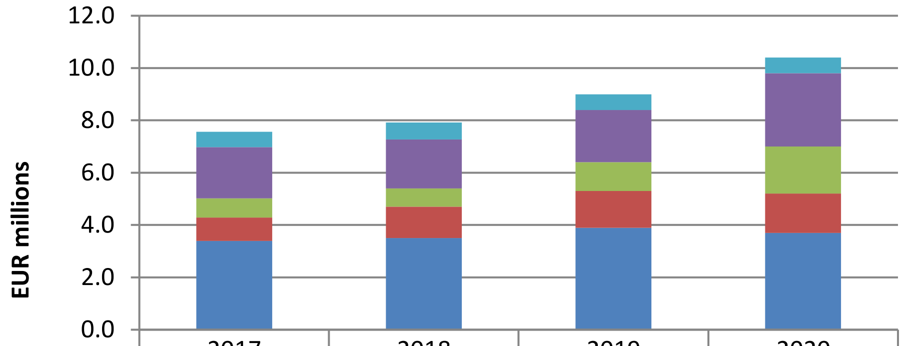
17 ABAF-46/1, dated 7 June 2019, para 9.5.

FIGURE 19: EVOLUTION OF THE COMPOSITION OF THE MAIN EMPLOYEE BENEFIT LIABILITIES (EUR MILLIONS)



	2017	2018	2019	2020
Other	0.6	0.6	0.6	0.6
Annual leave	2.0	1.9	2.0	2.8
Home leave	0.7	0.7	1.1	1.8
Removal benefits	0.9	1.2	1.4	1.5
Repatriation benefits	3.4	3.5	3.9	3.7

Working Capital Fund

62. The overall level of the WCF remained at EUR 8.1 million in 2020. However, due to the cash pressures faced in the financial year resulting from unreceived assessed contributions, a borrowing of EUR 7.5 million was made by the General Fund, highlighting the vital importance of the WCF in providing financial liquidity to the Organisation. Use of the WCF coupled with the receipt of early 2021 assessed contributions was essential to avoiding a negative cash position at year end. The WCF at its current level provides liquidity coverage for a period of less than two months of expenditure.

63. The Conference has reaffirmed that the WCF shall be maintained at a target level of EUR 8.0 million to EUR 9.0 million in 2021 and 2022, including by proposing additional steps when necessary to maintain the target level.[18]

Net assets/equity

64. Net assets represent the difference between an Organisation's assets and its liabilities, which is illustrated by Figure 20 below. In 2020, total assets increased by EUR 17.2 million and total liabilities increased by 9.7 million, leading to an increase in net assets of EUR 7.5 million.

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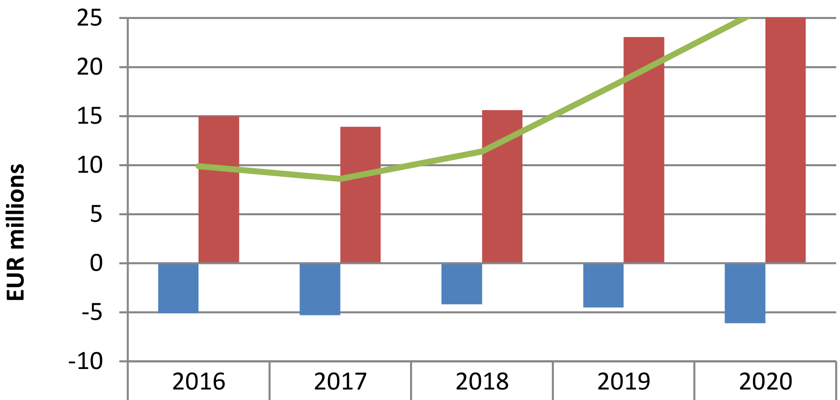
18 C-25/DEC.7.

FIGURE 20: EVOLUTION OF NET ASSETS 2016 TO 2020 (EUR MILLIONS)



	2016	2017	2018	2019	2020
General Fund	-5.1	-5.3	-4.2	-4.5	-6.1
Trust Funds and special accounts	15.0	13.9	15.6	23.1	32.2
Total net assets	9.9	8.6	11.4	18.6	26.1

65. While overall net assets are positive, General Fund net assets continue to be negative, principally due to the unfunded employee benefit liabilities. The General Fund net assets decreased by EUR 1.6 million between 2019 and 2020 (36%).

66. Net assets for trust funds and special funds increased by EUR 9.1 million (49%) in 2020 to EUR 32.2 million at 31 December 2020, reflecting the time lag between the receipt of high levels of voluntary contributions in 2020 and the implementation of activities in 2020 and those to occur in later years.

Risk management

67. The Financial Statements prepared under IPSAS provide details of how the Organisation manages its financial risk, including credit risk, market risk (foreign currency exchange and interest rate), and liquidity risk. From an overall perspective, the Organisation maintains only euro and United States dollar current accounts, and instant access savings accounts in euros with P-1 rated financial institutions, ensuring sufficient liquidity to meet cash operating requirements and limiting exposure to foreign currency fluctuations. Despite the downwards re-rating of some financial institutions by ratings agencies as a result of the COVID-19 pandemic, the banks used by the OPCW continued to retain a P-1 rating as at 31 December 2020.

Summary

68. The Financial Statements presented for 2020 show an overall increase of EUR 7.5 million in the net assets of the Organisation. Despite this increase, the General Fund remains in a negative net asset position, predominately due to long-term employee benefit liabilities, which continue to be funded on a pay-as-you-go basis through the annual budget cycle.

69. Outstanding unpaid assessed contributions increased significantly over the year; however, with a large proportion received in the last quarter of 2020, a contingency margin was again utilised to manage cash flow efficiently alongside an inevitably lower budget implementation rate due to the impact of the COVID-19 pandemic, with the travel category being the most notable area of expenditure where costs had decreased.

70. The Organisation's fixed asset base has increased with the capitalisation of design costs for the Centre of Chemistry and Technology and final implementation work on the core elements of the ERP system, and other software development projects in 2020. Outside of this project, whilst major items of equipment are replaced on a regular basis, there remains a large volume of equipment which requires replacement. The initial funding of a Major Capital Investment Fund in 2019 and 2020 has laid the foundations to enable this to progress for both property, plant, and equipment as well as intangible assets.

71. The cash deficit reported for 2019 has arisen as a result of a greater level of outstanding assessed contributions for 2019 and prior years coupled with a high budget implementation rate for 2019. Consideration will need to be given by the Conference in 2021 and beyond to determine how the deficit can be addressed, possibly through the use of future cash surpluses, similar to the manner in which the cash deficit for 2014 was liquidated.

72. 2020 was indeed a challenging year both operationally and financially, as the impact of the COVID-19 pandemic forced the Organisation to demonstrate agility in the delivery of operations and the management of financial resources; that the Organisation has been able to continue to implement its mandate during 2020 against a backdrop of uncertain cash flows and ongoing operational requirements has been an important achievement. In the financial context, the establishment in 2020 of a COVID-19 Variability Impact Fund will help support the delivery of operations in the short term, and the Secretariat will continue to engage with States Parties to ensure timely payment of assessed contributions to support the financial stability of the Organisation.

[signed]

Fernando Arias
Director-General

28 June 2021

THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS

STATEMENT I – STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

(expressed in euro ‘000s)

	Note	2020	2019
Assets			
Current assets			
Cash and cash equivalents	13	50,877	46,811
Assessed contributions recoverable	7	8,705	5,902
Article IV and V receivables	8	1,859	2,169
Voluntary contributions recoverable	9	15,831	9,134
Other assets	10	2,451	2,178
Prepayments	11	3,696	3,398
Inventories	12	729	706
Total current assets		**84,148**	**70,298**
Non-current assets			
Property, plant, and equipment	6.1	7,741	6,573
Intangible assets	6.2	5,395	3,215
Total non-current assets		**13,136**	**9,788**
Total assets		**97,284**	**80,086**
Liabilities			
Current liabilities			
Accounts payable	19	1,425	2,646
Employee benefits	18	6,555	4,624
Cash surplus—current	17	18	20
Deferred revenue	21	35,389	30,542
Other current liabilities	22	3,345	3,960
Total current liabilities		**46,732**	**41,792**
Non-current liabilities			
Employee benefits	18	3,863	4,364
Other non-current liabilities	20	10,684	3,336
Cash surplus—non-current	17	-	2,341
Voluntary Fund for Assistance	16	1,568	1,563
Working Capital Fund	15	8,140	8,140
Provisions	23	200	-
Total non-current liabilities		**24,455**	**19,744**
Total liabilities		**71,187**	**61,536**
Net assets		**26,097**	**18,550**
Net assets			
Accumulated surplus/(deficit)		26,097	18,550
Total net assets		**26,097**	**18,550**

THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS

STATEMENT II – STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER 2020

(expressed in euro '000s)

	Note	For the Period Ended 31 December 2020	For the Period Ended 31 December 2019
Revenue			
Assessed contributions	24	59,633	66,004
Voluntary contributions	25	15,822	15,581
Article IV and V	26	1,768	1,606
Other revenue	27	1,837	1,264
Total revenue		**79,060**	**84,455**
Expenses			
Employee benefit expenses	28	50,445	48,110
Consultancy and contractual services	29	10,381	10,557
Travel expenses	30	2,155	8,317
Depreciation, amortisation, and impairment	6.1, 6.2	1,472	1,475
General operating expenses	31	5,547	7,331
Other operating expenses	32	1,510	1,491
Total expenses		**71,510**	**77,281**
Net finance income/(cost)	33	**(600)**	**60**
Net surplus/(deficit) for the period		**6,950**	**7,234**

THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS

STATEMENT III – STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 31 DECEMBER 2020

(expressed in euro '000s)

	Note	Attributable to States Parties		
		General Fund	**Trust Funds, Working Capital Fund, and Special Funds**	**Total Net Assets**
Balance at 1 January 2019		**(4,259)**	**15,640**	**11,381**
Changes recognised in net assets:				
Actuarial gains/(losses) on post-employment benefit obligations	18.7	(65)	-	(65)
Net revenue recognised directly in net assets		**(65)**	**-**	**(65)**
Surplus/(deficit) for the period		(179)	7,413	7,234
Total recognised revenue and expense for the year 2019		**(244)**	**7,413**	**7,169**
Balance at 31 December 2019		**(4,503)**	**23,053**	**18,550**
Balance at 1 January 2020		**(4,503)**	**23,053**	**18,550**
Changes recognised in net assets:				
Actuarial gains/(losses) on post-employment benefit obligations	18.7	597	-	597
Net revenue recognised directly in net assets		**597**	**-**	**597**
Surplus/(deficit) for the period		(2,235)	9,185	6,950
Total recognised revenue and expense for the year 2020		**(1,638)**	**9,185**	**7,547**
Balance at 31 December 2020		**(6,141)**	**32,238**	**26,097**

THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS

STATEMENT IV – CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020

(expressed in euro '000s)[19]

	Note	For the Year Ended 31 December 2020	For the Year Ended 31 December 2019
Cash flows from operating activities			
Net surplus/(deficit) for the period		6,950	7,234
Non-cash movements			
Depreciation, amortisation, and impairment	6.1, 6.2	1,472	1,475
(Gains)/losses on disposal of property, plant, and equipment	27, 32	-	21
Increase/(decrease) in provision for impairment of recoverables and receivables	7.5, 8.5	261	957
Unrealised currency exchange gain/(loss)		689	4
Repayments of cash surplus	17.3	(2)	-
Changes in assets			
(Increase)/decrease in recoverables and receivables (current)	7-11	(10,021)	(12,799)
(Increase)/decrease in inventories	12	(23)	160
Changes in liabilities, net assets/equity			
Increase/(decrease) in cash surplus (non-cash)	17.3	(2,341)	(206)
Movement in employee benefits (liability)	18.1 – 18.6	2,027	909
Increase/(decrease) in 'other non-current liabilities'	20	7,348	(1,366)
Increase/(decrease) in provisions	23	200	-
Increase/(decrease) in deferred income, accounts payable, and other current liabilities	19, 21, 22	3,011	23,490
Net cash flows from operating activities		**9,571**	**19,879**
Cash flows from investing activities			
Proceeds from sale of property, plant, and equipment		-	16
Purchases of property, plant, and equipment		(2,352)	(2,472)
Purchases of intangible assets	6.2	(2,469)	(1,282)
Net cash flows from investing activities		**(4,821)**	**(3,738)**
Cash flows from financing activities			
Increase/(decrease) in the Working Capital Fund	15	-	797
Proceeds received for the Voluntary Fund for Assistance	16	5	-
Net cash flows from financing activities		**5**	**797**
Net increase/(decrease) in cash and cash equivalents		**4,755**	**16,938**
Cash and cash equivalents at beginning of the period	13	46,811	29,877
Unrealised currency exchange gain/(loss)		(689)	(4)
Cash and cash equivalents at end of the period	13	**50,877**	**46,811**

[19] Minor rounding differences may exist between the Cash Flow Statement and supporting notes.

THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS

STATEMENT V(a) – STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 31 DECEMBER 2020

(expressed in euro '000s)

	Budgeted Amounts for the Period Ended 31 December 2020		Actual Amounts on Comparable Basis[20]	Difference Final Budget and Actual
	Original	Final		
Receipts				
Assessed contributions	67,120	67,120	67,120	-
Voluntary contributions [21]	170	170	170	-
Articles IV and V	1,894	1,894	1,741	153
Miscellaneous income[22]	25	25	(483)	508
Cash surplus for major capital investment projects	1,750	1,750	1,750	-
Total receipts	**70,959**	**70,959**	**70,298**	**661**
Expenditure				
Chapter One				
Verification	9,549	9,549	9,176	373
Inspectorate	21,213	21,213	19,460	1,753
Total Chapter One	**30,762**	**30,762**	**28,636**	**2,125**
Chapter Two				
International Cooperation and Assistance	7,610	6,916	4,909	2,007
Support to the Policy-Making Organs	4,929	4,929	4,871	58
External Relations	2,024	2,024	1,768	256
Executive Management	9,533	9,497	9,277	220
Administration	14,351	15,081	15,018	63
Total Chapter Two	**38,447**	**38,447**	**35,843**	**2,604**
Total expenditure	**69,209**	**69,209**	**64,479**	**4,730**
Cash surplus for major capital investment projects (transfer) [23]	1,750	1,750	1,750	-
Total expenditure and transfers	**70,959**	**70,959**	**66,229**	**4,730**
Net receipts/(expenditure)[24]	**-**	**-**	**4,069**	**(4,069)**

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20 The actual amounts are based on the budgetary accounts, which are maintained on a modified cash basis.

21 Voluntary contributions received as services in kind are disclosed in note 34.

22 Actual miscellaneous income is negative in 2020 due to unrealised exchange rate losses on US dollar cash and receivables resulting from a weakening of the currency against the euro in 2020.

23 Please refer to the Programme and Budget of the OPCW for 2020 (C-24/DEC.12).

24 A reconciliation of the actual amounts from the budgetary basis to the net cash flows from operating, investing, and financing activities is presented in note 40.8.

THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS

STATEMENT V(b) – STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 31 DECEMBER 2019

(expressed in euro '000s)

	Budgeted Amounts for the Period Ended 31 December 2019		Actual Amounts on Comparable Basis[25]	Difference Final Budget and Actual
	Original	Final		
Receipts				
Assessed contributions	67,120	67,120	67,120	-
Voluntary contributions [26]	-	-	-	-
Articles IV and V	1,090	1,090	1,606	(516)
Miscellaneous income	25	25	467	(442)
Cash surplus for major capital investment projects	1,455	1,455	1,455	-
Total receipts	**69,690**	**69,690**	**70,648**	**(958)**
Expenditure				
Chapter One				
Verification	9,853	9,853	9,449	404
Inspectorate	20,270	20,270	20,267	3
Total Chapter One	**30,123**	**30,123**	**29,716**	**407**
Chapter Two				
International Cooperation and Assistance	7,610	7,294	7,231	63
Support to the Policy-Making Organs	4,929	4,850	4,849	1
External Relations	2,024	1,974	1,972	2
Executive Management	9,647	9,573	9,569	4
Administration	13,902	14,421	14,418	3
Total Chapter Two	**38,112**	**38,112**	**38,039**	**73**
Total expenditure	**68,235**	**68,235**	**67,755**	**480**
Extra-ordinary provisions for major capital investment projects[27]	1,455	1,455	1,455	-
Total expenditure and transfers	**69,690**	**69,690**	**69,210**	**480**
Net receipts/(expenditure)[28]			**1,438**	**(1,438)**

25 The actual amounts are based on the budgetary accounts, which are maintained on a modified cash basis.

26 Voluntary contributions received as services in kind are disclosed in note 32.

27 Please refer to the Programme and Budget of the OPCW for 2019 (C-23/DEC.10, dated 20 November 2018).

28 A reconciliation of the actual amounts from the budgetary basis to the net cash flows from operating, investing, and financing activities is presented in note 38.7.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

1.1 The Organisation for the Prohibition of Chemical Weapons (OPCW) is an international organisation which was established by the States Parties to the Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on Their Destruction (hereinafter "the Convention"). The Convention entered into force on 29 April 1997, and the OPCW is located at Johan de Wittlaan 32, 2517 JR, The Hague, the Netherlands.

1.2 The mission of the OPCW is to achieve the object and purpose of the Convention, to ensure the implementation of its provisions, including those for international verification, and to provide a forum for consultation and cooperation among States Parties.

1.3 The continued existence of the OPCW in its present form, with its present programmes of activity, is dependent on States Parties and their continuing annual appropriations and financial contributions.

1.4 The reporting entity, the OPCW, comprises the General Fund, the Working Capital Fund (note 15), Special Funds (note 39.1), the Voluntary Fund for Assistance (note 16), and the Trust Funds (note 39.1).

2. BASIS OF PREPARATION

2.1 The Financial Statements have been prepared on an accruals and going concern basis and comply with the requirements of IPSAS. Where IPSAS is silent concerning any specific standard, the IPSAS Conceptual Framework and subsequently the appropriate International Financial Reporting Standards (IFRS) is applied.

2.2 OPCW applies the historical cost principle unless stated otherwise. Accounting policies have been applied consistently throughout the year.

2.3 The Financial Statements are presented in euros, rounded to the nearest thousand. These Financial Statements cover the calendar year ended 31 December 2020. The financial period is the calendar year.

Future accounting pronouncements

2.4 The following significant future accounting pronouncements from the IPSAS Board have been issued as at 31 December 2020, but are not yet effective:

Standard	Objective of Standard	Effective Date[29]	Estimated Impact on OPCW Financial Statements
IPSAS 41 Financial Instruments	To establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.	1 January 2023	Changes may apply to the classification of OPCW financial instruments and consideration of impairment of financial assets. Hedge accounting changes are expected to have a minimal impact as OPCW does not engage in hedging activities. OPCW will further review and consider the impact of the changes prescribed in this Standard in the period prior to the effective date.
IPSAS 42 Social Benefits	To provide guidance on accounting for social benefits expenditure, defining social benefits as cash transfers paid to specific individuals and/or households to mitigate the effect of social risk.	1 January 2023	Not applicable as the OPCW does not incur expenditure on social benefits.

29 The effective dates of these Standards have been deferred by 1 year from 2022 to 2023 due to the COVID-19 pandemic and the challenges it has created.

3. SIGNIFICANT ACCOUNTING POLICIES

Consolidation

3.1 The scope of consolidation of the OPCW comprises one entity, the OPCW. No associates or joint operations or controlled entities have been identified for inclusion in the scope of consolidation of these Financial Statements.

Foreign currency translation

3.2 The following exchange rates have the most significant impact on the preparation of these Financial Statements:

Period	USD/EUR	JPY/EUR	GBP/EUR
31 December 2020	0.815	0.008	1.101
Average 12 months	0.878	0.008	1.129
Period	**USD/EUR**	**JPY/EUR**	**GBP/EUR**
31 December 2019	0.896	0.008	1.174
Average 12 months	0.893	0.008	1.137

Functional and presentation currency

Items included in the Financial Statements are measured using the euro, the functional currency, which is the currency of the primary economic environment in which the OPCW operates. The Financial Statements are also presented in euros, the presentation currency of the OPCW.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the United Nations Operational Rate of Exchange (UNORE), prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of financial performance. Year-end balances of monetary assets and liabilities denominated in foreign currencies are converted into euros on the basis of the exchange rates applicable on 31 December 2020.

Cash and cash equivalents

3.3 Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments that are readily convertible to cash and subject to insignificant risk of changes in value, with original maturities of three months or less, and bank overdrafts. The OPCW is prohibited from having any bank overdrafts, and accordingly does not have any.

Financial assets

Classification

3.4 The OPCW classifies its financial assets as loans and receivables. These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months of the reporting date, which are classified as non-current. The OPCW's loans and receivables comprise "receivables and recoverables from 'non-exchange transactions' and receivables from exchange transactions".

Recognition and measurement

3.5 Loans and receivables are initially recognised at fair value plus transaction costs, and are derecognised when the rights to receive cash flows have expired or have been transferred and the OPCW has transferred substantially all risks and rewards of ownership.

Subsequent measurement

3.6 Loans and receivables are carried at amortised cost using the effective interest method.

Impairment

3.7 All financial assets are subject to review for impairment at each reporting date. Assessed contributions recoverable are impaired in line with paragraph 8 of Article VIII of the Convention concerning the voting rights of States Parties. Assessed contributions recoverable are therefore impaired in full if a State Party has over three years of unpaid assessed contributions. The impairment is calculated net of any outstanding cash surpluses eligible for distribution and excludes the current year contribution. Assessed contributions recoverable may also be impaired if there is objective evidence such assets are impaired. The impairment of other financial assets (including Article IV and V receivables) as at the reporting date is based on whether there is objective evidence that a financial asset is impaired.

Inventories

3.8 Inventories are stated at the lower of cost and current replacement cost. The cost of finished goods comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Cost is determined using the first in, first out (FIFO) method. Current replacement cost is the cost the entity would incur to acquire the asset on the reporting date. Inventory items acquired in non-exchange transactions are measured at their fair value on the date of acquisition in accordance with IPSAS 12.

Property, plant, and equipment

3.9 Property, plant, and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items, including costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Items of property, plant, and equipment equal to or exceeding EUR 5,000 per unit, and leasehold improvements equal to or exceeding EUR 50,000 per unit are capitalised. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset only when it is probable that future economic benefits or service potential, associated with the item, will flow to the OPCW and the cost of the item can be reliably measured. All other repairs and maintenance are charged to the statement of financial performance during the financial period in which they are incurred. Assets under construction are not depreciated but are subject to impairment. Subsequent to construction completion and upon the in-service date, the assets are transferred to the above categories and the corresponding useful life will be applied.

3.10 Depreciation is calculated using the straight-line method to allocate costs to their residual values over their estimated useful lives, which are as follows:

Asset	Estimated Useful Life
Inspection and verification equipment	Shorter of operational period of asset or 10 years
Security and health equipment	5 years
Office furniture and equipment	7 years
Hardware equipment	4 years
Vehicles	5 years
Leasehold improvements	Shorter of lease term or useful life
Freehold land	Indefinite

3.11 The residual value will be set at nil value as per the acquisition date. An asset's carrying amount is written down immediately to its recoverable service amount if the asset's carrying amount is greater than its estimated recoverable amount (refer to note 3.17 'Impairment of non-cash-generating assets' below). Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in 'other income' and 'other operating expenses', respectively within the statement of financial performance.

Leases

<u>Operating lease</u>

3.12 An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term. As a lessee, the OPCW rents premises, equipment, and other facilities under contracts that are considered operating leases. As a lessor, the OPCW rents small portions of office space to third parties on the OPCW's premises at Johan de Wittlaan 32 in The Hague. The rent receipts are recognised as other income.

Intangible assets

3.13 Intangible assets are carried at cost less accumulated amortisation and impairment. Donated intangible assets are recognised at cost, using the fair value at the acquisition date. The OPCW recognises as intangible assets both acquired software with a cost equal to or exceeding EUR 5,000 and internally generated software with a cost equal to or exceeding EUR 50,000. Internally generated software is capitalised when the criteria stated in note 3.14 below are met. The development of new software or the development of new functionalities of software that is already in operation, and purchased software which requires significant customisation or configuration before it can be used by the OPCW may be recognised as internally generated software. Acquired computer software meeting the recognition criteria is capitalised based on costs incurred to acquire and bring the specific software to use. The cost of internally generated software comprises all directly attributable costs to create, produce, and prepare the asset to be capable of operating in the manner intended by management, including costs of materials and services, and employee benefits determined based on a standard rate that includes an appropriate portion of relevant overheads. Costs associated with maintaining computer software programmes are recognised as expenses as incurred.

3.14 Development costs that are directly associated with the development of software for use by the OPCW are capitalised as an intangible asset in line with the development criteria set out in IPSAS 31:

(a) it is technically feasible to complete the software product so that it will be available for use;

(b) management intends to complete the software product and use or sell it;

(c) there is an ability to use or sell the software product;

(d) it can be demonstrated how the software product will generate probable future economic benefits or service potential;

(e) adequate technical, financial, and other resources to complete the development and to use or sell the software product are available; and

(f) the expenditure attributable to the software product during its development can be reliably measured.

3.15 Expenditures that do not meet these criteria are recognised as expenses as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Research costs are recognised as an expense in the financial period in which they are incurred.

3.16 Amortisation is recorded on a straight-line basis on all intangible assets of finite life, at rates that will write off the cost or value of the assets to their estimated residual values. Intangible assets under construction are not amortised but are subject to impairment. The useful lives of major classes of intangible assets have been estimated as follows:

Asset	Estimated Useful Life
Acquired software	3 to 5 years
Internally developed software	3 to 10 years

Impairment of non-cash-generating assets

3.17 Non-cash-generating assets are property, plant, and equipment, and intangible assets (note 6). As such, these are assessed at each reporting date to determine whether there are any indications that the carrying amount of the assets may not be recoverable and that such assets may be impaired. The asset's recoverable service amount is the higher of the asset's fair value less costs to sell and its value in use. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable service amount. Impairment losses are recognised immediately in the statement of financial performance.

Employee benefits

Short-term employee benefits

3.18 Short-term employee benefits are expected to be settled within 12 months of the reporting period and are measured at their nominal values based on accrued entitlements at current rates of pay. Short-term employee benefits comprise: recurring benefits, deductions, and contributions (including salaries, special post allowances, and dependency allowances); compensated absences (annual leave, special leave, and sick leave); and other short-term benefits (salary advances, retroactive payments, education grants, employee income tax reimbursement, travel and removal costs at initial appointment, and assignment grants). These are treated as current liabilities.

Post-employment benefits

3.19 Post-employment benefits include travel and removal costs at separation, and repatriation grants and death benefits after the completion of employment. Post-employment benefit plans are classified as either defined contribution or defined benefit plans.

3.20 For defined contribution post-employment plans, such as the OPCW Provident Fund, the obligation for each period is determined by the amounts to be contributed for that period, and no actuarial assumptions are required to measure the obligation or the expense. Actuarial gains and losses for post-employment benefits are recognised in net assets in the period in which they occur.

Other long-term employee benefits

3.21 Other long-term employee benefits include home leave and long-term sick leave. Long-term employee benefits which are expected to be settled more than 12 months after the end of the reporting period are treated as non-current liabilities and are measured at the present value of the estimated future cash flows if the payments and the impact of discounting are considered to be material. Actuarial gains and losses for other long-term employee benefits are recognised directly in surplus/deficit in the period in which they occur.

Financial liabilities

3.22 The OPCW's financial liabilities include accounts payable, 'Working Capital Fund', 'Voluntary Fund for Assistance', and 'Cash Surplus'. These financial liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. The financial liabilities 'Working Capital Fund', 'Voluntary Fund for Assistance', and 'Cash surplus' are not discounted considering the specific objectives and the indefinite nature of these amounts (similar to a permanent advance) and the restrictions imposed on these amounts.

Provisions and contingencies

Provisions

3.23 Provisions are recognised for future expenditures of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event; it is probable that expenditures will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are not made for future operating losses. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

Contingent liabilities

3.24 A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of future events not wholly within the control of the entity. A contingency is also recognised when it is not probable that a present obligation exists, but all other aspects of the definition of a provision are met. Contingent liabilities are not recognised in the Financial Statements but are disclosed in the notes to the Financial Statements.

Contingent assets

3.25 A contingent asset is a possible asset that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent assets are not recognised in the Financial Statements but are disclosed in the notes to the Financial Statements.

Taxes

3.26 The OPCW enjoys privileged tax exemption, and as such, assets, income and other properties are exempt from all direct taxation.

Revenue recognition

Revenue from non-exchange transactions

3.27 The OPCW's major categories of non-exchange revenue are assessed contributions and voluntary contributions (as described in notes 24 and 25). Assessed contributions are assessed annually based on the scale of assessments as approved by the Conference. Voluntary contributions are received from various States Parties and other parties (hereinafter "donors") for various purposes as specified in each donor agreement. In certain agreements, donors advance a proportion of the total agreement amount at the project inception, and pay the remaining amount upon receipt of a final project report.

3.28 Voluntary contributions can include specified performance obligations by the OPCW, the consideration payable by the donor, and other general terms and conditions. Conditions that may be attached to the contributions include, inter alia, stipulations that a training or workshop be organised in a certain region, conditions related to progress and completion of research performed, and refund of unspent amounts contributed. The carrying amounts of the voluntary contributions are primarily denominated in euros.

3.29 Non-exchange revenue represents transactions in which the OPCW receives value from another entity without providing approximately equal value to another entity in exchange. Non-exchange revenue is measured at the amount of the increase in net assets recognised by the OPCW. IPSAS require that inflow of resources from a non-exchange transaction are recognised as an asset and revenue, except to the extent that a present obligation exists in respect of the same inflow (a performance obligation), which is recognised as liability (deferred revenue). As the OPCW satisfies this present obligation, it reduces the carrying amount of the liability and recognises revenue. Further information regarding the judgement required in determining performance obligations is included in note 4.6.

3.30 For non-exchange revenue which has not yet been received by the OPCW, but where a donor agreement has been signed, a recoverable relating to non-exchange revenue is recognised at the net realisable amount, after reducing any impaired receivable from the carrying amount. Goods in kind are recognised as assets when the goods are received or when there is a binding agreement to receive the goods and no conditions are attached. The measurement of goods in kind is based on the fair value of the goods received as determined by the OPCW as recipient services in kind are not recognised.

3.31 Balances in relation to these agreements are reported within voluntary contribution revenue (note 25) and/or deferred revenue (note 21), and voluntary contributions recoverable (note 9).

Revenue from exchange transactions

3.32 The OPCW's major category of exchange revenue is Article IV and V revenue, amounts that are invoiced to States Parties for various services (as described in note 26 'Article IV and V revenue') provided in the verification of and destruction of chemical weapons.

3.33 Revenue from exchange transactions is measured at the fair value of the consideration received or receivable and is recognised as services are rendered according to the estimated stage of completion when the outcome of a transaction can be estimated reliably.

Expenses

3.34 The OPCW recognises expenses when goods and services are delivered or provided, and accepted.

Segment information

3.35 A segment is a distinguishable activity or group of activities for which it is appropriate to separately report financial information. At the OPCW, segment information is based on the principal distinguishable services that are engaged in achieving the OPCW's objectives. Assets and liabilities are not allocated to segments.

4. MATERIALITY, CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS

4.1 In accordance with IPSAS and generally accepted accounting principles, the Financial Statements include amounts based on estimates and assumptions, based on the materiality of the relevant transactions and events. The OPCW makes estimates and assumptions concerning the future. The resulting accounting estimates will seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below.

Employee benefits: Post-employment benefits and other long-term employee benefits

4.2 The present value of the employee benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Actuarial assumptions are established to anticipate future events and are used in calculating post-employment benefits and other long-term employee benefit expense and liability. Assumptions have been made with respect to the discount rate, inflation, indexation, rates of future compensation increases, turnover rates, and life expectancy. Any changes in these assumptions will impact the amount of benefits expense and the related liability.

4.3 The OPCW determines the discount rate annually. This is the interest rate that should be used to determine the present value of the estimated future cash outflows expected to be required to settle the employee benefit obligations. In determining the appropriate discount rate, the OPCW considers the interest rate of government bonds within the Eurozone that have terms to maturity approximating the terms of the related employee benefit liabilities.

4.4 The other assumptions are based in part on current market conditions and historical experience of the OPCW. Additional information is disclosed in note 18 ‘Employee benefits’.

Receivables: Determination of impairment

4.5 The OPCW’s receivables are required to be reviewed at the end of each reporting period for impairment and indications of uncollectibility. The OPCW makes an estimate of the amount of receivables that it is not able to recover based on prior payment history and expectations of future amounts it expects to recover from these receivables.

Revenue recognition: Conditions on voluntary contributions

4.6 Revenue for non-exchange transactions is recognised by OPCW in line with the policy set out in notes 3.27 to 3.31, and with IPSAS 23 (revenue from non-exchange transactions). When reviewing stipulations linked to voluntary contributions and assessing the extent to which revenue may be recognised, the OPCW makes a judgement to determine whether a present obligation to the OPCW exists which would give rise to a financial liability. The OPCW uses contractual information and past practice with donors to inform this judgement.

Enterprise resource planning system

4.7 Whilst implementation of the new ERP system was ongoing as at the reporting date, a system go-live was achieved in early 2021. In previous reporting periods, accounting estimates had been made to determine the costs accrued as at the reporting date, which in turn informed the related expense recognition and the degree of capitalisation of eligible development costs relating to the intangible ERP asset under construction.

4.8 The majority of costs relating to the ERP asset under construction were finalised and paid in 2020, and as such, less estimation of the value of the asset under construction was required as at the reporting date. Given the change in implementing partner of the ERP system in 2020, management has also reviewed the elements of this project capitalised as work in progress (including software licences, consultancy, and OPCW staff time) at the reporting date for impairment. No further impairments were made as at 31 December 2020 in addition to those already recognised in 2018.

5. FINANCIAL RISK MANAGEMENT

Financial risk factors

5.1 The OPCW’s activities expose it to a variety of financial risks, including market risk (currency risk, interest rate risk, and price risk), credit risk, and liquidity risk. The OPCW’s overall financial risk management programme is carried out by the Treasury Section under policies approved by the Investment Committee. The OPCW does not enter into hedging activities and does not use derivative financial instruments.

Market risk: Foreign exchange risk

5.2 Foreign exchange risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The OPCW operates internationally and is exposed to limited foreign exchange risk arising from certain currency exposures. The OPCW holds cash in bank accounts denominated in euros and US dollars.

5.3 The OPCW's cash inflows are predominantly denominated in euros, with some voluntary contributions denominated in US dollars, GB pounds, and Canadian dollars. The OPCW minimises this risk by immediately converting most foreign currency denominated voluntary contributions into euros at the spot rate of the receiving bank.

5.4 The OPCW's cash outflows relate primarily to payments to employees and payments to vendors. Employee salaries are denominated in US dollars, however, are paid in euros. 92% of payments to vendors in 2020 were denominated in euros.

5.5 At 31 December 2020, if the euro had weakened/strengthened by 10% against the US dollar, net surplus/deficit for the year would have been EUR 690,000 higher/lower, mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated assets including cash, assessed contributions recoverable, and other receivables.

Market risk: Interest rate risk

5.6 Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The OPCW mitigates interest rate risk by investing cash and cash equivalents in accounts with financial institutions for short-term maturities at fixed interest rates, as per the investment policies established by the OPCW's Investment Committee. The Programme and Budget of the OPCW is also not heavily dependent on interest income as a revenue stream, hence significantly reducing interest rate risk.

Credit risk

5.7 Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk arises from cash and cash equivalents with banks and financial institutions (note 13) and exposures to receivables from States Parties (notes 7 and 8).

5.8 As expected, credit rating agencies put a number of banks on negative outlook watch and downgraded some due to the more difficult operating and economic conditions, low-interest rate environment, and likely deteriorating loan asset quality concerns as a result of the COVID-19 pandemic. The OPCW is actively monitoring all ratings for the financial institutions with which it holds cash.

5.9 The OPCW's Investment Committee meets at least quarterly to review the OPCW's investment policies for financial assets and determines which financial institutions may be used for the investment of cash and cash equivalents. The OPCW will only invest deposits in financial institutions with a Moody's Investors Service Global short-term rating of no lower than a P-1 rating. Furthermore, the OPCW investment policies limit the amount that the OPCW may routinely invest with a single financial institution. Despite the aforementioned impact of the COVID-19 pandemic on the credit ratings of some financial institutions, the banks used by the OPCW continued to hold a P-1 rating as at the reporting date.

	(expressed in euro '000s)	
Moody's Investors Service Ratings	**31-Dec-2020**	**31-Dec-2019**
Rating P-1[30]	50,877	46,811
Non-rated	-	-
Total cash and cash equivalents	**50,877**	**46,811**

Liquidity risk

5.10 Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The OPCW has obligations to make certain payments for financial liabilities; liquidity risk arises in that the OPCW may encounter difficulties in meeting these obligations. Cash flow forecasting is performed by the OPCW on a daily, weekly, and monthly basis. The Treasury Section may invest surplus cash in short-term deposits, investing these amounts for periods of no longer than 12 months. Investments are denominated in euros to avoid foreign currency fluctuations. The tables below analyse the OPCW's financial liabilities into relevant maturity groupings based on their contractual undiscounted cash flows.

As at 31 December 2020:

(expressed in euro '000s)	**Less Than 1 Year**	**1 to 5 Years**	**5 to 10 Years**	**Beyond 10 Years**	**Undefined Maturity**	**Total**
Working Capital Fund	-	-	-	-	8,140	**8,140**
Voluntary Fund for Assistance	-	-	-	-	1,568	**1,568**
Cash surplus eligible for distribution	18	-	-	-	-	**18**
Accounts payable	1,424	-	-	-	-	**1,424**
Total financial liabilities	**1,442**	**-**	**-**	**-**	**9,708**	**11,150**

As at 31 December 2019:

(expressed in euro '000s)	**Less Than 1 Year**	**1 to 5 Years**	**5 to 10 Years**	**Beyond 10 Years**	**Undefined Maturity**	**Total**
Working Capital Fund	-	-	-	-	8,140	**8,140**
Voluntary Fund for Assistance	-	-	-	-	1,563	**1,563**
Cash surplus eligible for distribution	20	2,341	-	-	-	**2,361**
Accounts payable	2,646	-	-	-	-	**2,646**
Total financial liabilities	**2,666**	**2,341**	**-**	**-**	**9,703**	**14,710**

30 Issuers (or supporting institutions) rated Prime-1 (P-1) have a superior ability to repay short-term debt obligations.

5.11 Liquidity risk is generally managed on an individual fund basis. For all funds except the General Fund, commitments can generally only be made once funds are available, and therefore liquidity risk is minimal. For the General Fund, the appropriation-based framework for expense authorisation ensures that expenses do not exceed revenue streams for any given year, while the WCF is a mechanism for providing liquidity, should issues arise around the timing of cash outflows and cash inflows (relating primarily to State Party assessed contributions).

5.12 Regulation 6.4 of the OPCW Financial Regulations and Rules states that the WCF should not exceed two-twelfths of the budget provision for the financial period. The WCF provides a liquidity buffer for the OPCW's General Fund of approximately one month's (one-twelfth) cash flow. Furthermore, a contingency margin is applied to regular budget appropriations and managed in line with incoming cash flows to mitigate liquidity risk. In paragraph 8(s) of the decision adopting the Programme and Budget of the OPCW for 2021 (C-25/DEC.7), the Conference has also reaffirmed that the WCF shall be maintained at a target level of EUR 8.0 million to 9.0 million in 2021 and 2022, including by proposing additional steps when necessary to maintain the target level.

6. PROPERTY, PLANT, AND EQUIPMENT AND INTANGIBLE ASSETS

Property, plant, and equipment

6.1 As at 31 December 2020:

(expressed in euro '000s)	Land and Buildings	Inspection and Verification Equipment	Security and Health Equipment	Office Furniture and Equipment	Hardware Equipment	Vehicles	Leasehold Improvements	Assets Under Construction	Total
At 1 January 2020:									
Cost	2,046	8,584	1,275	356	1,282	276	209	18	**14,046**
Accumulated depreciation & impairment	-	(5,021)	(671)	(322)	(1,026)	(227)	(206)	-	**(7,473)**
Net book amount	**2,046**	**3,563**	**604**	**34**	**256**	**49**	**3**	**18**	**6,573**
Year ended 31 December 2020:									
Opening net book amount	2,046	3,563	604	34	256	49	3	18	**6,573**
Additions	-	982	24	-	135	-	-	1,210	**2,351**
Transfers	-	(26)	9	(2)	19	-	-	-	**-**
Disposals	-	-	(27)	(14)	(134)	-	-	-	**(175)**
Accumulated depreciation on disposed assets	-	-	27	14	134	-	-	-	**175**
Depreciation charge	-	(808)	(198)	(13)	(140)	(21)	(3)	-	**(1,183)**
Closing net book amount	**2,046**	**3,711**	**439**	**19**	**270**	**28**	**0**	**1,228**	**7,741**
At 31 December 2020:									
Cost	2,046	9,540	1,281	340	1,302	276	209	1,228	**16,222**
Accumulated depreciation & impairment	-	(5,829)	(842)	(321)	(1,032)	(248)	(209)	-	**(8,481)**
Net book amount	**2,046**	**3,711**	**439**	**19**	**270**	**28**	**-**	**1,228**	**7,741**

There are no restrictions on the title to the OPCW's property, plant, and equipment. No items of property, plant, and equipment were impaired in 2020.

Additions to assets under construction in 2020 include design costs for the new Centre for Chemistry and Technology.

6.2 As at 31 December 2019:

(expressed in euro '000s)	Land and Buildings	Inspection and Verification Equipment	Security and Health Equipment	Office Furniture and Equipment	Hardware Equipment	Vehicles	Leasehold Improvements	Assets Under Construction	Total
At 1 January 2019:									
Cost	-	8,957	891	356	1,229	276	209	271	**12,189**
Accumulated depreciation & impairment	-	(4,550)	(515)	(304)	(1,016)	(205)	(164)	-	**(6,754)**
Net book amount	**-**	**4,407**	**376**	**52**	**213**	**71**	**45**	**271**	**5,435**
Year ended 31 December 2019:									
Opening net book amount	**-**	**4,407**	**376**	**52**	**213**	**71**	**45**	**271**	**5,435**
Additions	2,046	84	193	-	132	-		17	**2,472**
Transfers	-	20	214	-	36	-	-	(270)	-
Disposals	-	(477)	(21)	-	(115)	-	-	-	**(613)**
Accumulated depreciation on disposed assets	-	445	21		110	-		-	**576**
Depreciation charge	-	(916)	(179)	(18)	(120)	(22)	(42)	-	**(1,297)**
Closing net book amount	**2,046**	**3,563**	**604**	**34**	**256**	**49**	**3**	**18**	**6,573**
At 31 December 2019:									
Cost	2,046	8,584	1,275	356	1,282	276	209	18	**14,046**
Accumulated depreciation & impairment	-	(5,021)	(671)	(322)	(1,026)	(227)	(206)	-	**(7,473)**
Net book amount	**2,046**	**3,563**	**604**	**34**	**256**	**49**	**3**	**18**	**6,573**

There are no restrictions on the title to the OPCW's property, plant, and equipment. No items of property, plant, and equipment were impaired in 2019.

Additions to land and buildings in 2019 represent the purchase of land for the Centre for Chemistry and Technology.

Intangible assets

6.3 As at 31 December 2020:

(expressed in euro '000s)	Acquired Software	Internally Generated Software	Intangible Assets Under Construction	Total
Balance as at 1 January 2020:				
Cost	744	548	2,920	**4,212**
Accumulated amortisation & impairment	(587)	(388)	(22)	**(997)**
Net book amount	**157**	**160**	**2,898**	**3,215**
Year ended 31 December 2020:				
Opening net book value	157	160	2,898	**3,215**
Additions	31	-	2,438	**2,469**
Transfers	-	769	(769)	**-**
Amortisation charge	(99)	(190)	-	**(289)**
Net book amount as at 31 December 2020	**89**	**739**	**4,567**	**5,395**
As at 31 December 2020:				
Cost	775	1,317	4,589	**6,681**
Accumulated amortisation & impairment	(686)	(578)	(22)	**(1,286)**
Net book amount as at 31 December 2020	**89**	**739**	**4,567**	**5,395**

6.4 As at 31 December 2019:

(expressed in euro '000s)	Acquired Software	Internally Generated Software	Intangible Assets Under Construction	Total
Balance as at 1 January 2019:				
Cost	714	548	1,668	**2,930**
Accumulated amortisation & impairment	(452)	(345)	(22)	**(819)**
Net book amount	**262**	**203**	**1,646**	**2,111**
Year ended 31 December 2019:				
Opening net book value	262	203	1,646	**2,111**
Additions	30	-	1,252	**1,282**
Transfers	-	-	-	**-**
Amortisation charge	(135)	(43)	-	**(178)**
Net book amount as at 31 December 2019	**157**	**160**	**2,898**	**3,215**
As at 31 December 2019:				
Cost	744	548	2,920	**4,212**
Accumulated amortisation & impairment	(587)	(388)	(22)	**(997)**
Net book amount as at 31 December 2019	**157**	**160**	**2,898**	**3,215**

6.5 Intangible assets include elements of the new ERP system with a total cost of EUR 259 thousand which were in use by the Organisation as at 31 December 2020, including the new OPCW recruitment system. The OPCW performance and development modules within Talentsoft went live in early 2020.

6.6 In 2020, the new Electronic Declaration Information System (EDIS), the Official-Series Documents Portal (OSD), and Correspondence Management System (CMS) also went live and were transferred from intangible assets under construction to internally generated software.

6.7 Intangible assets under construction in the amount of EUR 4,165 thousand related to the new ERP system. This balance includes costs for software licences, implementation consultancy costs, and eligible OPCW staff time in line with IPSAS 31. The ERP system went live in early 2021.

6.8 Following delay in the go-live date of the new ERP system until 2021, and in line with IPSAS 21 (impairment of non-cash generating assets) and IPSAS 31 (intangible assets), the intangible assets under construction balance relating to the core ERP system has been assessed for impairment as at the reporting date. No elements have been impaired in 2020; the remaining intangible asset under construction balance is deemed by management to continue to deliver future service potential and has not been impaired.

6.9 Other intangible assets under construction also includes EUR 424 thousand relating to investment in the development of the Enterprise Content Management (ECM) and Extranet systems, Laboratory-related software, and further development of EDIS, amongst other initiatives.

7. ASSESSED CONTRIBUTIONS RECOVERABLE

	(expressed in euro '000s)	
	2020	**2019**
Assessed contributions	10,096	7,120
Less: allowance for impairment of assessed contributions	(1,391)	(1,218)
Total assessed contributions – net	**8,705**	**5,902**

7.1 Every Member State is assessed an annual contribution due to the OPCW. The assessed contributions are issued at the beginning of each calendar year and are payable in full within 30 days of States Parties' receipt of the requests for payments or on the first day of the financial period to which they relate, whichever is later.

7.2 As of 31 December 2020, assessed contributions of EUR 8,705 thousand were past due but not impaired (2019: EUR 5,902 thousand). These include assessed contributions recoverable of States Parties with arrears of less than three years old and receivables from States Parties who have made proposal for multi-year payment plans, irrespective of the age of the receivables, but exclude assessed contributions recoverable of States Parties who are in arrears in such multi-year payment plans. The ageing analysis of these assessed contributions is as follows:

	(expressed in euro '000s)			
	2020	**%**	**2019**	**%**
Up to 1 year old	4,661	54%	4,634	79%
Older than 1 year and up to 2 years old	3,640	42%	1,015	17%
Older than 2 years and up to 3 years old	389	4%	221	4%
Older than 3 years and up to 10 years old	-	0%	5	0%
Older than 10 years	15	0%	27	0%
	8,705	**100%**	**5,902**	**100%**

7.3 The COVID-19 pandemic has, inter-alia, placed temporary though significant financial challenges onto many States Parties during 2020 and may be seen as a major contributing factor for the increase in arrears relating to assessed contributions as at the reporting date. Management has considered the carrying value of assessed contributions recoverable in this regard and in line with accounting policy outlined in note 3.7.

7.4 As of 31 December 2020, assessed contributions of EUR 1,391 thousand (2019: EUR 1,218 thousand) were deemed to be impaired. The assessed contributions recoverable in the statement of financial position are shown net of an allowance for impairment; this, however, does not constitute legal discharges of concerned States Parties from their obligations to make payments to the OPCW. The ageing analysis of these assessed contributions is as follows:

	(expressed in euro '000s)			
	2020	**%**	**2019**	**%**
Up to 1 year old	474	34%	316	26%
Older than 1 year and up to 2 years old	92	7%	78	6%
Older than 2 years and up to 3 years old	67	5%	160	13%
Older than 3 years and up to 10 years old	612	44%	551	46%
Older than 10 years	146	10%	113	9%
	1,391	**100%**	**1,218**	**100%**

7.5 Movements in the OPCW's allowance for impairment of assessed contributions are as follows:

	(expressed in euro '000s)	
	2020	**2019**
At 1 January	1,218	302
Increase in allowance for impairment of assessed contributions (write-down)[31]	276	954
Reversal of allowance for impairment of assessed contributions [32]	(103)	(38)
At 31 December	**1,391**	**1,218**

8. ARTICLE IV AND V RECEIVABLES

	(expressed in euro '000s)	
	2020	**2019**
Article IV and V receivables	7,786	8,008
Less: allowance for impairment of Article IV and V receivables (write-down)	(5,927)	(5,839)
Total Article IV and V receivables – net	**1,859**	**2,169**

8.1 The OPCW charges States Parties for its services provided in the verification and destruction of chemical weapons, including staff and travel costs. The amounts charged to States Parties for services provided include amounts to cover OPCW staff costs, travel expenses, daily subsistence allowance, and transportation charges for hazardous materials. The rates relating to staff costs charged to States Parties by the OPCW are established annually by agreement of the States Parties, taking into account actual expenses incurred. The OPCW provides services in exchange for generating this revenue in the form of expertise of its employees regarding chemical weapons.

8.2 As of 31 December 2020, Article IV and V receivables of EUR 1,858 thousand (2019: EUR 2,169 thousand) were past due but not impaired. Amounts are impaired, without implying legal discharge of the concerned States Parties' obligation to pay, when there is no expectation of recovering additional cash.

[31] The increase in allowance for the impairment of assessed contributions is recognised in general operating expenses.

[32] The reversal of the allowance for the impairment of assessed contributions is made when impaired amounts are received and is recognised in other revenue.

8.3 The ageing analysis of net Article IV and V receivables is as follows:

	(expressed in euro '000s)			
	2020	**%**	**2019**	**%**
Up to 3 months old	1,444	78%	879	41%
Older than 3 months and up to 6 months old	-	0%	998	46%
Older than 6 months and up to 1 year old	-	0%	-	0%
Older than 1 year and up to 2 years old	334	18%	292	13%
Older than 2 years and up to 3 years old	81	4%	-	0%
	1,859	**100%**	**2,169**	**100%**

8.4 As of 31 December 2020, Article IV and V receivables of EUR 5,927 thousand (2019: EUR 5,839 thousand) were deemed to be impaired, without legally discharging the concerned States Parties' obligations to make payments to the OPCW. The Article IV and V receivables in the statement of financial position are shown net of this allowance. The ageing analysis of impaired Article IV and V receivables is as follows:

	(expressed in euro '000s)			
	2020	**%**	**2019**	**%**
Up to 3 months old	130	2%	42	1%
Older than 3 months and up to 6 months old	-	0%	141	2%
6 months to 1 year old	-	0%	-	-
Older than 1 year and up to 2 years old	141	2%	172	3%
Older than 2 years and up to 3 years old	172	3%	306	5%
Older than 3 years and up to 10 years old	5,484	93%	5,178	89%
	5,927	**100%**	**5,839**	100%

8.5 Movements in the OPCW's allowance for impairment of Article IV and V receivables are as follows:

	(expressed in euro '000s)	
At 1 January	**2020**	**2019**
Beginning of period	5,839	5,798
Increase in allowance for impairment of Article IV and V receivables[33]	88	55
Reversal of allowance for impairment of Article IV and V receivables[34]	-	(14)
At 31 December	**5,927**	**5,839**

33 The increase in allowance for the impairment of Article IV and V receivables is recognised in general operating expenses (note 29).

34 The reversal of the allowance for the impairment of Article IV and V receivables is made when impaired amounts are received, or when estimates of invoiced amounts are revised, and is recognised in other revenue (note 25).

9. VOLUNTARY CONTRIBUTIONS RECOVERABLE

	(expressed in euro '000s)	
	2020	**2019**
Trust fund for EU Council decision 2019	7,916	7,916
Trust fund for a Centre for Chemistry and Technology	6,003	200
Trust fund for Security and Business Continuity	1,607	-
Trust funds for Libya	150	700
Trust funds for Syria	155	318
Other trust funds		
Voluntary contributions recoverable	**15,831**	**9,134**

Voluntary contributions recoverable represent balances due to the OPCW under 'signed contribution' agreements. Voluntary contributions receivable for the trust fund for EU Council decision 2019 include amounts for the Centre for Chemistry and Technology.

10. OTHER ASSETS

	(expressed in euro '000s)	
	2020	**2019**
	Current	**Current**
Receivables from staff members	1,142	1,210
Value-added tax and other recoverable taxes	1,219	867
Receivables from vendors	39	29
Interest receivable	-	40
Miscellaneous	47	28
Working Capital Fund contributions receivable	4	4
Other assets	**2,451**	**2,178**

10.1 Value-added tax and other recoverable taxes include refundable taxes primarily relating to environmental taxes, energy taxes, and US income taxes. These receivables arise due to the OPCW's tax-exempt status. In 2020, there was an increase in the amounts outstanding relating to VAT recoverable due to delays in processing claims resulting from the impact of the COVID-19 pandemic.

10.2 Receivables from staff members comprise receivables due for advances made relating to travel expenses and employee benefit advances.

10.3 Receivables from vendors relate primarily to the current and non-current portions of the incentive payment for the extension of the Tenancy Agreement through 2028, paid in instalments to the OPCW.

11. PREPAYMENTS

	(expressed in euro '000s)	
	2020	**2019**
Prepayments - UNOPS	2,022	1,932
Prepayments - vendors	1,655	1,435
Prepayments - other	19	31
Total prepayments	**3,696**	**3,398**

Prepayments to vendors primarily comprise prepaid rent for the Headquarters building. Prepayments to the United Nations Office for Project Services (UNOPS) primarily comprise advances for the provision of services to support OPCW operations in the Syrian Arab Republic.

12. INVENTORIES

	(expressed in euro '000s)		
	2020		
	Primary	**Secondary**	**Total**
At 1 January 2020	**286**	**420**	**706**
Purchases	42	38	80
Inventory consumed	(32)	(44)	(76)
Other adjustments	9	10	19
At 31 December 2020	**305**	**424**	**729**

	(expressed in euro '000s)		
	2019		
	Primary	**Secondary**	**Total**
At 1 January 2019	**319**	**547**	**866**
Purchases	72	74	**146**
Inventory consumed	(86)	(189)	**(275)**
Other adjustments	(19)	(12)	**(31)**
At 31 December 2019	**286**	**420**	**706**

12.1 The OPCW's inventories relate primarily to its inspection and verification activities and are located in the OPCW Equipment Store in Rijswijk, the Netherlands. Primary consumables consist of consumable items that are listed by name within the "List of Approved Equipment with Operational Requirements and Technical Specifications" (C-I/DEC.71[*], dated 30 November 2010) as approved by the Conference. Secondary consumables consist of consumable items that are integral parts of the approved inspection equipment.

12.2 The physical stock count of primary and secondary consumables was carried out as at 31 December 2020. The carrying amount of inventories is shown at lower of cost or current replacement cost as at 31 December 2020.

13. CASH AND CASH EQUIVALENTS

	(expressed in euro '000s)	
	2020	**2019**
Unrestricted		
Current accounts	48,676	37,911
Total unrestricted	**48,676**	**37,911**
Restricted		
Current accounts	2,201	8,900
Total restricted	**2,201**	**8,900**
Total cash and cash equivalents	**50,877**	**46,811**

The following amounts of cash and cash equivalents are not available for use by the OPCW without prior approval:

	(expressed in euro '000s)	
	2020	**2019**
Restricted cash and cash equivalents		
Working Capital Fund	633	7,337
Voluntary Fund for Assistance	1,568	1,563
Total restricted cash and cash equivalents	**2,201**	**8,900**

14. CONTINGENT ASSETS

14.1 In accordance with the OPCW's regulations, a cash surplus based on the cash basis of accounting is applied to the OPCW's budget. After finalisation, this amount, including any necessary adjustments, is returned to States Parties proportional to the assessed contributions in the year in which the surplus arose, by means of an adjustment to the assessed contributions.

14.2 At 31 December 2020, the OPCW reported a final cash deficit of EUR 1,236 thousand for 2019 (Appendix 3.4), instead of a cash surplus, primarily due to arrears in assessed contributions and Article IV and V receivables.

14.3 In the event of a cash deficit, the OPCW may obtain the right, through a decision by the Conference, to recover the amount of the cash deficit from States Parties. The basis of this recovery is determined in the decision made by the Conference, as the Financial Regulation does not prescribe the steps to be taken in the event of cash deficit.

14.4 Given the uncertainty of the amount that may be recoverable by the OPCW, and timing of this decision, no asset is recognised for this amount. Instead, a contingent asset of EUR 1,236 thousand (2019: nil) is disclosed.

15. WORKING CAPITAL FUND

15.1 The WCF has been established to meet short-term liquidity problems, including temporarily funding appropriated budgetary expenditures pending the receipt of contributions. The Working Capital Fund is financed from advances by all States Parties in accordance with the scale of assessment determined by the Conference.

15.2 Any new States Parties joining the OPCW make an advance to the WCF in accordance with the scale of assessment applicable to the budget of the year of their ratification of, or accession to, the Convention. In 2020, no new State Party joined the OPCW and made a contribution to the WCF (2019: none).

15.3 The movement in the balance of the WCF during the reporting period, and the amount held in it, is explained as follows:

	(expressed in euro '000s)	
	2020	**2019**
Movement in the WCF liability		
At 1 January	8,140	7,343
Transfer from final cash surplus for 2017	-	797
Total WCF as at 31 December	**8,140**	**8,140**
Of which:		
Non-current portion of WCF liability	8,140	8,140
Current portion of WCF liability	-	-
Total WCF as at 31 December	**8,140**	**8,140**

15.4 The WCF liability balance at 31 December 2019 and 2020 differs to the WCF cash balance reported in note 13 due to contributions receivable for the WCF reported in note 10, and borrowings of Euro made to the General Fund in line with the liquidity requirements, as set out in note 5.11. As at 31 December 2020, borrowings totalling EUR 7,500 thousand had been made to the General Fund from the WCF to provide short-term cash liquidity.

16. VOLUNTARY FUND FOR ASSISTANCE

16.1 The Voluntary Fund for Assistance was established by the Conference at its First Session (C-I/DEC.52, dated 16 May 1997). Its objective is to provide funding to coordinate and deliver assistance to a State Party, in terms of Article X of the Convention, when requested in the event of use or threat of use of chemical weapons. The Fund is financed through voluntary contributions from States Parties. Receipts are recorded as liabilities until the related performance obligations are fulfilled, based on which revenue will be recognised.

16.2 The movement of the Voluntary Fund for Assistance during the reporting period is as follows:

	(expressed in euro '000s)	
	2020	**2019**
Balance as at 1 January	**1,563**	**1,563**
Contributions received/disbursement from States Parties	5	-
Net proceeds received for Voluntary Fund for Assistance	**5**	**-**
Total Voluntary Fund for Assistance as at 31 December	**1,568**	**1,563**
Of which:		
Non-current portion	1,568	1,563
Current portion	-	-
Total Voluntary Fund for Assistance as at 31 December	**1,568**	**1,563**

17. CASH SURPLUS

17.1 In accordance with the OPCW's Regulations, a cash surplus based on the cash basis of accounting is applied to the OPCW's budget. After finalisation, this amount, including any necessary adjustments, is eligible for distribution to States Parties in line with Financial Regulation 6.3 proportional to the assessed contributions in the year in which the surplus arose, by means of an adjustment to the assessed contributions, unless otherwise decided by the Conference.

17.2 Current liabilities at 31 December 2020 of EUR 18 thousand (2019: EUR 20 thousand) represent cash surpluses from 2011 and prior years withheld from the States Parties due to non-payment of assessed contributions to the OPCW.

17.3 The following amounts have been recognised as a financial liability in the statement of financial position:

(expressed in euro '000s)	**2020**	
	Non-current	**Current**
Balance as at 1 January 2020	**2,341**	**20**
Distributed cash surplus		(2)
Transfers[35]:		
Transfer to the special fund for the OPCW Equipment Store	(315)	-
Transfer to the special fund for OPCW designated laboratories and laboratory equipment	(450)	-
Transfer to the Special Fund for Major Capital Investments	(205)	-
Transfer to the COVID-19 Variability Impact Fund	(1,371)	-
Balance as at 31 December 2020	**-**	**18**

35 C-24/DEC.12.

(expressed in euro '000s)	2019	
	Non-current	Current
Balance as at 1 January 2019	**2,547**	**20**
Distributed cash surplus		-
Transfers[36]:		
Transfer to the Working Capital Fund	(797)	-
Transfer to the Special fund for the implementation of a new ERP system	(770)	-
Transfer to the Special Fund for Major Capital Investments	(600)	-
Transfer to the Special Fund for Capacity Building for Laboratories	(380)	-
Final cash surplus for 2018	2,341	-
Balance as at 31 December 2019	**2,341**	**20**

17.4 Further details regarding the calculation of the cash surplus are presented in the Appendix.

18. EMPLOYEE BENEFITS

18.1 Employee benefit liabilities comprise the following items:

		(expressed in euro '000s)					
		2020			2019		
Employee Benefit	**Note**	**Non-current**	**Current**	**Total**	**Non-current**	**Current**	**Total**
Long-term employee benefits							
Post-employment benefits							
Repatriation grant	18.6	2,115	990	**3,105**	2,327	947	**3,274**
Removal	18.6	1,009	524	**1,533**	1,122	304	**1,426**
Repatriation travel	18.6	382	275	**657**	567	110	**677**
Death benefit	18.6	344	35	**379**	348	38	**386**
Total post-employment benefits		**3,850**	**1,824**	**5,674**	**4,364**	**1,399**	**5,763**
Other long-term employee benefits							
Home leave	18.12	13	1,759	**1,772**	-	1,050	**1,050**
Total long-term employee benefits		**3,863**	**3,583**	**7,446**	**4,364**	**2,449**	**6,813**
Short-term employee benefits							
Annual leave	18.2	-	2,787	**2,787**	-	1,980	**1,980**
Other short-term employee benefits	18.2	-	185	**185**	-	195	**195**
Total short-term employee benefits		**-**	**2,972**	**2,972**	**-**	**2,175**	**2,175**
Total employee benefits		**3,863**	**6,555**	**10,418**	**4,364**	**4,624**	**8,988**

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[36] C-23/DEC.11, dated 20 November 2018.

Short-term employee benefits

18.2 As described in note 3.18, short-term employee benefits comprise: recurring benefits, deductions, and contributions (including salaries, post adjustments, and dependency allowances); compensated absences (annual leave); other short-term benefits (retroactive payments, education grants, income tax reimbursements, travel and removal costs at initial appointment, and assignment grants); and the current portion of long-term benefits provided to current employees.

18.3 Short-term employee benefit liabilities at the reporting date, in particular relating to annual leave, have increased from 2019 due to the travel restrictions brought about by the COVID-19 pandemic.

18.4 Further disclosure of these items is provided in notes 28 (employee benefit expenses) and 38 (key management remuneration).

Post-employment benefits

18.5 Liabilities relating to post-employment are calculated by a qualified and independent actuary. The actuarial valuation as at 31 December 2020 was performed on 15 March 2021.

Defined contribution plans

18.6 The OPCW's pension plan is the Provident Fund. The OPCW contributes a fixed amount for all employees into the Provident Fund. Upon departure from the OPCW (provided a minimum service period of three months has been performed), the employee receives contributions made by the OPCW on their behalf and accrued interest. After this payment upon departure, the OPCW has no remaining legal or constructive obligations to pay further contributions. During the period ended 31 December 2020, a Provident Fund contribution of EUR 7,705 thousand (2019: EUR 7,458 thousand) has been recognised in the employee benefit expenses line of the statement of financial performance (note 28), representing the OPCW's contribution to the Provident Fund "B" accounts for 2020.

Defined benefit plans

18.7 The OPCW provides the following post-employment benefits to eligible employees: death benefits (payments to surviving spouse and dependents); repatriation grant (assistance with repatriation expenses upon separation from the OPCW); travel costs at separation (assistance with travel expenses upon separation from the OPCW); and removal costs at separation (assistance with removal costs upon separation from the OPCW). The movement in the defined benefit obligation over the year is as follows:

	(expressed in euro '000s)	
Post-Employment Benefits	Per Actuarial Valuation	
	2020	2019
Balance as at 1 January	**5,763**	**5,135**
Current service cost	1,452	1,204
Interest cost	(13)	9
Actuarial (gains)/losses	(597)	65
Benefits paid	(931)	(650)
Balance as at 31 December	**5,674**	**5,763**

18.8 The defined benefit obligation disclosed above is wholly unfunded. As a result, there are no plan assets.

	(expressed in euro '000s)	
Post-Employment Benefits	2020	2019
Balance as at 31 December		
Present value of defined benefit obligation	5,674	5,763
Fair value of plan assets	-	-
Deficit/(surplus) in the plan	**5,674**	**5,763**

18.9 A reconciliation of the present value of the defined benefit obligation to the liability in the statement of financial position is as follows:

	(expressed in euro '000s)				
Post-Employment Benefits	2020	2019	2018	2017	2016
Present value of unfunded obligations	5,674	5,763	5,135	4,579	5,174
Liability in the statement of financial position	**5,674**	**5,763**	**5,135**	**4,579**	**5,174**

18.10 The amounts recognised in the statement of financial performance based on actuarial valuation of post-employment benefits are as follows:

	(expressed in euro '000s)	
Post-Employment Benefits	2020	2019
Current service cost	1,452	1,204
Interest cost	(13)	9
Total expense recognised in statement of financial performance	**1,439**	**1,213**

18.11 The statement of changes in net assets includes a positive change of EUR 597 thousand relating to actuarial gains and losses in 2020 (2019: negative EUR 65 thousand). Post-employment benefits are not funded, and hence there is a net defined benefit liability.

18.12 The expected total contribution to post-employment benefit plans (expected benefit payment to beneficiaries) for the year ended 31 December 2021 is EUR 1,825 thousand (2020: EUR 1,399 thousand).

Other long-term employee benefits

18.13 As described in note 3.21, other long-term employee benefits include home leave benefits. The movement in other long-term employee benefit liabilities over the year is as follows:

	(expressed in euro ‘000s)	
Other long-term employee benefits (home leave benefits)	**2020**	**2019**
Balance as at 1 January	1,050	**720**
Current service cost	910	818
Interest cost	(6)	(2)
Actuarial (gains)/losses	(125)	(149)
Benefits paid	(57)	(337)
Balance as at 31 December	**1,772**	**1,050**

18.14 The significant actuarial gain noted for home leave benefits in 2020 represents the difference between predicted and actual home leave taken by eligible staff and is recognised within employee benefit expenses as a reduction in the home leave expense.

18.15 The defined benefit obligation in respect of other long-term employee benefits is wholly unfunded. As a result, there are no plan assets.

	(expressed in euro ‘000s)	
Other long-term employee benefits (home leave benefits)	**2020**	**2019**
Balance as at 31 December		
Present value of defined benefit obligation	1,772	1,050
Fair value of plan assets		-
Deficit/(surplus) in the plan	**1,772**	**1,050**

18.16 The amount recognised in the statement of financial performance based on actuarial valuation of other long-term employee benefits is as follows:

	(expressed in euro '000s)	
Other long-term employee benefits (home leave benefits)	**2020**	**2019**
Current service cost	910	818
Interest cost	(6)	(2)
Actuarial (gains)/losses	(125)	(149)
Total expense recognised in statement of financial performance	**779**	**667**

18.17 The principal assumptions used for post-employment benefits and other long-term employee benefits as of 31 December 2020 are the following:

Long-term employee benefits	**2020**	**2019**
Discount rate: Death benefits	0.00%	0.60%
Discount rate: Repatriation grant, removal costs, travel costs	-0.55%	-0.25%
Discount rate: Home leave	-0.60%	-0.40%
Inflation	1.60%	1.60%
Indexation: Travel and removal costs	2.25%	2.25%
Indexation: Home leave	0.00%	0.00%
Mortality tables: Dutch generational tables "AG prognosis table"	2018 table	2018 table
Future salary increases	Based on UN salary scales and inflation	

18.18 If the discount rates used in the determination of the employee benefit expense and liability for active participants were higher or lower by 0.25% from the management's estimate, the carrying amount of the benefit liability would be an estimated EUR 41 thousand lower (2019: EUR 44 thousand lower) or EUR 42 thousand higher (2019: EUR 35 thousand higher), respectively.

19. ACCOUNTS PAYABLE

	(expressed in euro '000s)	
	2020	**2019**[37]
Accounts payable – vendors	1,039	2,116
Accounts payable – staff	353	520
Reimbursements to governments	33	10
Total accounts payable	**1,425**	**2,646**

Accounts payable have decreased significantly as at the reporting date when compared with 2019, as all outstanding invoices were paid prior to the migration of data to the

37 Amounts reported for 2019 relating to accounts payable – staff, and reimbursements to governments have been reclassified within note 19.

new ERP system. Accounts payable balances, therefore, represent year-end balances related to accrued expenditure.

20. OTHER NON-CURRENT LIABILITIES

	(expressed in euro '000s)	
Other non-current liabilities	**2020**	**2019**
Assessed contributions with performance obligations	9,844	2,356
Headquarters lease incentive liability	840	980
Total other non-current liabilities	**10,684**	**3,336**

Assessed contributions with performance obligations

20.1 Assessed contributions with performance obligations represent the estimated final cash surplus for 2020, which will be determined in 2021. IPSAS requires that a liability be recognised in respect of an inflow of resources from a non-exchange transaction that are also recognised as assets, to the extent that a present obligation exists against the same inflow. Performance obligations exist as at 31 December 2020 with respect to assessed contributions received or receivable requiring recognition of a corresponding liability.

20.2 The increase in assessed contributions with performance obligations in 2020 relates to a higher forecast cash surplus for 2020 as at the reporting date. This is primarily due to a lower budget implementation in 2020 resulting from the COVID-19 pandemic, and the anticipated collection in 2021 of unimpaired assessed contribution arrears relating to 2020 and prior.

20.3 The cash deficit for 2019 was determined in 2020 as per note 14 and Appendix 3.4.

Headquarters lease incentive liability

20.4 A liability is recognised for the Headquarters operating lease incentive in line with IPSAS 13 and IFRS (SIC-15[5]). The non-current portion of this Headquarters lease incentive liability is EUR 840 thousand at the reporting date (2019: EUR 980 thousand). The Headquarters lease incentive liability is offset against operating lease expenses over the ten-year lease term from 2019, on a straight-line basis. The current portion of this liability is detailed in note 22.

21. DEFERRED REVENUE

	(expressed in euro '000s)	
	2020	**2019**
Deferred voluntary contributions		
Trust fund for EU Council decision 2019	10,584	11,208
Trust fund for a Centre for Chemistry and Technology	9,983	3,092
Trust funds for Syria	4,981	8,910
US Voluntary Fund	1,244	1,330
Trust fund for Security and Business Continuity	1,000	-
Other trust funds	680	960
Total deferred voluntary contributions	**28,472**	**25,500**
Deferred assessed contributions	6,917	5,042
Total deferred revenue	**35,389**	**30,542**

Some voluntary contributions received for trust funds as at the reporting date also require the recognition of liabilities, as they contain performance obligations which have not been met at the reporting date, and where the donor demonstrates a history of repayment of unspent balances. During the reporting period, the OPCW also received assessed contributions relating to the subsequent financial year. These receipts represent liabilities since they apply to a future financial year.

22. OTHER CURRENT LIABILITIES

	(expressed in euro '000s)	
	2020	**2019** [38]
Special funds with conditions	2,749	2,144
Voluntary contributions received in advance	448	1,673
Headquarters lease incentive liability	140	140
Other liabilities	8	3
Total other liabilities	**3,345**	**3,960**

22.1 Special funds with performance obligations represent the balance of certain special funds where any unspent balances are to be returned to States Parties.

22.2 Voluntary contributions received in advance represent cash amounts received where the relevant contribution agreement has not been finalised as at the reporting date. This differs to deferred revenue, where the purpose of the funding has been determined as at the reporting date.

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[38] Amounts reported for 2019 relating to special funds with conditions and voluntary contributions received in advance have been reclassified within note 22.

23. PROVISIONS

	(expressed in euro ‘000s)	
	2020	**2019**
At 1 January	-	-
Increase of provisions	200	-
Used during the year	-	-
Reversal of unused provisions	-	-
At 31 December	**200**	**-**

Provisions raised in 2020 relate to the anticipated costs associated with the move from the Rijswijk Laboratory and Equipment Store premises in 2023 (upon completion of the construction of the Centre for Chemistry and Technology), for which there is a present obligation for the OPCW as at the reporting date, in line with IPSAS 19 (note 3.23).

24. ASSESSED CONTRIBUTION REVENUE

Every Member State is assessed a contribution due to the OPCW each year. The amounts of assessed contributions approved by the Conference for the year 2020 are EUR 67,120 thousand (2019: EUR 67,120 thousand). The amount recognised as revenue in 2020 with respect to inflow of resources in assessed contributions as well as reduction of previously recognised liabilities relating to satisfied obligations is EUR 59,633 thousand (2019: EUR 66,004 thousand). Amounts for which the OPCW does not satisfy the obligations are eligible for distribution as cash surplus that is determined in the budgetary accounts (see Appendix 3.3).

25. VOLUNTARY CONTRIBUTION REVENUE

	(expressed in euro ‘000s)	
Voluntary contribution revenue	**2020**	**2019**
Trust funds for Syria	7,105	6,533
Trust fund for a Centre for Chemistry and Technology	4,202	6,111
Trust Fund for Security and Business Continuity	2,750	567
Other trust funds	1,765	2,370
Total voluntary contribution revenue	**15,822**	**15,581**

Refer to note 21 ‘Deferred revenue’ for additional information regarding liabilities recognised with account for voluntary contributions with conditions.

26. ARTICLE IV AND V REVENUE

26.1 The OPCW charges States Parties for its services provided in the verification and destruction of chemical weapons.

26.2 With respect to these specific services provided, the OPCW invoices amounts to possessor States Parties relating to inspectors’ salaries, inspection travel expenses, including airfare tickets, daily subsistence allowances, interpretation and cargo expenses, and other costs incurred while performing these services.

27. OTHER REVENUE

	(expressed in euro '000s)	
	2020	**2019**
Other non-exchange revenue	103	1,061
Other exchange revenue	1,734	131
Receipt of receivables previously impaired	-	51
Rental income	-	11
Gain on sale of assets	-	10
Total other operating revenue	**1,837**	**1,264**

27.1 Other exchange revenue relates cost-reimbursement for services provided to a State Party.

27.2 Other non-exchange revenue relates to revenue recognised for special funds.

27.3 Rental income comprises the rental of office space to third parties in the OPCW's premises at Johan de Wittlaan 32 in The Hague.

28. EMPLOYEE BENEFIT EXPENSES

	(expressed in euro '000s)	
	2020	**2019**
Short-term employee benefit expenses		
Salaries and post-adjustment expense	31,192	28,560
Common staff costs	10,007	10,434
Total short-term employee benefit expenses	**41,199**	**38,994**
Post-employment benefit expenses		
Provident Fund pension expense (defined contribution plan)	7,705	7,458
Other post-employment benefits	1,476	1,332
Total post-employment benefit expenses	**9,181**	**8,790**
Other long-term employee benefit expenses		
Home leave expense	786	703
Total other long-term employee benefit expenses	**786**	**703**
Total – Employee benefit expenses	**51,166**	**48,487**
Less: Capitalised employee benefit expenses - intangible assets under construction by OPCW staff	(721)	(377)
Net employee benefit expenses	**50,445**	**48,110**

28.1 Common staff costs include salaries and post adjustment expenses, dependency allowances, rental subsidies, medical insurance subsidies, death and disability insurances, annual leave expenses, child care allowance, employee on-boarding expenses, educational grant/travel expenses, and other expenses.

28.2 Other post-employment benefits include Provident Fund pension expenses (defined contribution plan), death benefit expenses, repatriation grant expenses, travel costs upon separation from the OPCW, and removal costs upon separation from the OPCW.

28.3 Home leave expenses include actuarial gains and losses as detailed in notes 3.21 and 18.4.

28.4 Capitalised employee benefit expenses include work by staff members on internally developed intangible assets as detailed in notes 6.6 and 6.7.

29. CONSULTANCY AND CONTRACTUAL SERVICES

	(expressed in euro ‘000s)	
	2020	**2019**
Consultancy and Special Service agreements	3,005	3,025
UNOPS contractual services	2,789	3,533
ICT Services	1,994	991
Training fees	603	703
Translation and interpretation	470	836
Other contractual services	1,520	1,469
Total consultancy and contractual services	**10,381**	**10,557**

Consultancy and contractual services represent expenses incurred in relation to UNOPS services, as well as consultant fees, interpretation services, laboratory and inspector services. Expenses for ICT services have increased as a result of the changes implemented to enable remote working during the COVID-19 pandemic.

30. TRAVEL EXPENSES

	(expressed in euro ‘000s)	
	2020	**2019**
Inspection travel	1,480	2,813
Official travel – non-staff	401	3,622
Official travel – staff	203	1,458
Training travel	71	424
Total travel expenses	**2,155**	**8,317**

Travel expenses represent costs incurred in relation to official inspection and training travel for staff and contractors. Costs include expenses incurred for transportation, daily subsistence allowance, and other travel costs. Due to the COVID-19 pandemic, international travel was severely restricted in 2020, and hence travel costs in the reporting period reduced significantly when compared to 2019.

31. GENERAL OPERATING EXPENSES

	(expressed in euro '000s)	
	2020	**2019**
Operating lease rental expense	3,349	3,378
Other general operating expenses	654	1,043
Maintenance	522	859
Supplies and materials	356	372
Utilities	306	317
Impairment of assessed contributions receivable	276	954
Impairment of Article IV and V receivables	89	55
Inventories	86	413
Total general operating expenses	**5,638**	**7,391**
Less: capitalised general operating expenses – intangible assets under construction	(91)	(60)
Total general operating expenses	**5,547**	**7,331**

General operating expenses include rental expenses for premises used by the OPCW, including the rental of the Headquarters building.

32. OTHER OPERATING EXPENSES

	(expressed in euro '000s)	
	2020	**2019**
Purchases of furniture and equipment	993	785
Internships, grants, contributions to seminars, and workshops	176	484
Other staff costs	141	191
Movement in provisions	200	-
Loss on disposal of property, plant, and equipment	-	31
Total other expenses	**1,510**	**1,491**

Other operating expenses include the purchase costs of equipment which does not qualify as property, plant, and equipment (note 6), which has increased in 2020. This includes the purchase of IT equipment to facilitate remote working during the COVID-19 pandemic, which falls below the EUR 5,000 threshold for capitalisation.

33. FINANCE INCOME AND COSTS

	(expressed in euro '000s)	
	2020	**2019**
Finance income		
Foreign currency gains	86	103
Interest income arising on cash and cash equivalents	13	21
Total finance income	**99**	**124**
Finance costs		
Foreign currency losses	717	56
Unwinding of discounts on employee benefits	(18)	8
Total finance costs	**699**	**64**
Net finance income/(costs)	**(600)**	**60**

33.1 Finance income and costs include gains and losses associated with foreign currency transactions where the United Nations Operational Rate of Exchange differs to the exchange rate offered by the bank(s) party to the transaction. Foreign currency losses in 2020 also include losses made on US dollar denominated cash and receivables due to the weakening of the US dollar against the euro.

33.2 There has been an overall decline in finance income caused by the lower interest rates in 2020 due, in part, to the economic situation brought about by the COVID-19 pandemic.

34. SERVICES IN KIND

34.1 Services in kind are services provided to the OPCW by individuals and States Parties in a non-exchange transaction. The major classes of services in kind received by the OPCW are described below.

Accommodation and transportation services

34.2 For various OPCW activities, such as training seminars and international meetings, accommodation and transportation services are provided.

Security services

34.3 During various OPCW activities, such as training seminars and international meetings, security services are provided to ensure the security and safety of attendees.

Laboratory services

34.4 Specialised laboratory services are provided regarding the testing and evaluation of data, preparation and analysis of samples, and other specialised services.

Usage of facilities

34.5 For various OPCW activities such as training seminars and international meetings, facilities (such as usage of meeting facilities, break facilities, etc.) are provided. Elements of the rental of the World Forum Convention Centre, The Hague by the OPCW were funded directly by the Host Country.

Other services

34.6 Other services provided to the OPCW include the transportation of chemical samples, specialised employees for the delivery of training courses, catering consultancy regarding website design, and printing services.

Services provided by the OPCW to the Provident Fund

34.7 The staff members of the Budget and Finance Branch provide the OPCW's Provident Fund with disbursements, accounting, reporting, and other administrative services. The Provident Fund Management Board is formed of six staff members including the Deputy Director-General, the Director of Administration, two Professional and higher staff and two General Service staff, who provide services on a voluntary basis. The OPCW provides necessary materials and facilities needed for the Provident Fund's operations. The Provident Fund does not compensate the staff members for such services.

35. CONTINGENT LIABILITIES

The OPCW has contingent liabilities in respect of claims arising in the course of business for which estimates cannot be made at present.

36. COMMITMENTS

Capital commitments

36.1 Capital expenditure contracted for at the reporting date, but not yet incurred, is as follows:

	(expressed in euro '000s)	
Capital Commitments	**2020**	**2019**
Property, plant, and equipment	1,812	586
Intangible assets	49	1,218
	1,861	**1,804**

Operating lease commitments

36.2 The future aggregate minimum lease payments under non-cancellable operating leases where the OPCW is lessee are as follows:

	(expressed in euro '000s)	
Operating Leases (OPCW as lessee)	**2020**	**2019**
No later than 1 year	3,150	3,059
Later than 1 year and no later than 5 years	11,892	11,859
Later than 5 years	6,183	9,095
	21,225	**24,013**

36.3 The OPCW leases various buildings (including its Headquarters in The Hague, the Netherlands), office space, conference facilities, parking facilities, and various items of office and laboratory equipment under non-cancellable operating leases. The lease terms generally range from one year to ten years. The OPCW is typically required to provide a notice period in order to cancel any of these operating lease agreements.

36.4 Operating lease payments that are recognised in the statement of financial performance amount to EUR 3,349 thousand (2019: EUR 3,378 thousand) and are disclosed in note 31.

37. RELATED PARTY TRANSACTIONS

37.1 The OPCW is not controlled by another entity; however, the OPCW Provident Fund is considered a related party of the OPCW as it shares key management personnel (Deputy Director-General), and the OPCW provides the principal source of Provident Fund participants' contributions.

37.2 The OPCW provides administrative support to the Provident Fund free of charge (note 34.7). All other transactions between the OPCW and the Provident Fund are conducted at arm's length. As at 31 December 2020, EUR 4 thousand was payable from the OPCW to the Provident Fund (2019: EUR 0), and no amount was due from the Provident Fund to the OPCW (2019: EUR 0.1 thousand).

37.3 The OPCW is not party to any further arrangements that could be considered as related parties.

38. KEY MANAGEMENT REMUNERATION

38.1 Key management personnel for the OPCW are the Director-General and Deputy Director-General. No close family member of the key management personnel was employed by the OPCW during the year.

38.2 The remuneration paid to key management for employee services is shown below, and includes benefits available in line with the OPCW Staff Regulations (e.g. base salary, post adjustment, provident fund contributions, education grant, home leave, and repatriation costs):

(expressed in euro '000s)	2020	
	Number of Posts	**Aggregate Remuneration**
Director-General and Deputy Director-General	2	635

(expressed in euro '000s)	2019	
	Number of Posts	**Aggregate Remuneration**
Director-General and Deputy Director-General	2	615

38.3 The undue effort required for the OPCW to determine the amount of post-employment benefits and other long-term employee benefits relating to key management precludes disclosure of these amounts.

39. SEGMENT INFORMATION

39.1 The OPCW's segment reporting is based on the structure of the OPCW's Programme and Budget, as this reflects the OPCW's manner of evaluating past performance in achieving its objectives and making decisions about future allocation of resources in the OPCW. The OPCW's segments are as follows:

General Fund

(a) Verification;

(b) Inspections;

(c) International Cooperation and Assistance;

(d) Support to the Policy-Making Organs;

(e) External Relations;

(f) Executive Management; and

(g) Administration

Special funds and Voluntary Fund for Assistance

(a) Special account for the OPCW Equipment Store;

(b) Special account for activities related to designated laboratories;

(c) Special account for new ERP system;

(d) Special fund for OPCW Special Missions;

(e) Special fund for the Fourth Review Conference in 2018;

(f) Special fund for Cybersecurity, Business Continuity, and Physical Infrastructure Security;

(g) Special Fund for IT infrastructure to support the implementation of decision C-SS-4/DEC.3;

(h) Special Fund for Capacity Building for Laboratories;

(i) Special fund for Major Capital Investments;

(j) COVID-19 Variability Impact Fund; and

(k) Voluntary Fund for Assistance.

Trust funds

(a) Trust fund for regional seminars;

(b) Trust fund for courses for personnel of National Authorities;

(c) Trust fund for the implementation of Article X;

(d) United States voluntary trust fund;

(e) Trust fund for the Associate Programme;

(f) Trust fund for the procurement of GC-MS systems;

(g) Trust fund for the implementation of Article VII obligations;

(h) Trust fund for the Internship-Support Programme;

(i) Trust fund for the Scientific Advisory Board;

(j) Trust fund for OPCW events;

(k) Trust fund for the conference on international cooperation and chemical safety and security;

(l) Trust fund for training;

(m) Trust fund for the International Support Network for Victims of Chemical Weapons

(n) European Union support for OPCW activities 2012;

(o) Syria Trust Fund for the Destruction of Chemical Weapons;

(p) OPCW Nobel Prize trust fund;

(q) Trust fund for programme support costs;

(r) Trust Fund for Syria Missions;

(s) Trust fund for support to Libya;

(t) Trust Fund for a Centre for Chemistry and Technology;

(u) Trust Fund for Security and Business Continuity;

(v) Trust Fund for the Junior Professional Officers Programme; and

(w) Trust Fund for EU Council decision 2019.

Further details regarding OPCW segments are provided in the Appendix.

Segment Information
For the period ended 31 December 2020

(expressed in euro '000s)	Verification	Inspections	International Cooperation and Assistance	Support to the Policy-Making Organs	External Relations	Executive Management	Administration	Trust Funds and Special Funds	Unallocated[39]	Total
Total segment revenue/income	**8,228**	**20,046**	**5,959**	**4,247**	**1,744**	**8,183**	**12,994**	**17,556**	**103**	**79,060**
Segment revenue from budget allocation:										
Assessed contributions	8,228	18,278	5,959	4,247	1,744	8,183	12,994	-		59,633
Article IV & V revenue		1,768								1,768
Segment revenue from external sources :										-
Voluntary contributions								15,822	-	15,822
Other income /revenue		-						1,734	103	1,837
Total segment expense	**8,349**	**18,294**	**3,886**	**4,647**	**1,788**	**8,817**	**13,821**	**7,764**	**4,144**	**71,510**
Employee benefit expenses	7,410	15,972	3,075	3,922	1,624	7,957	7,405	823	2,257	50,445
Travel expenses	11	1,466	241	101	7	26	(1)	304	-	2,155
Contractual services	572	477	315	279	107	653	1,828	6,151	-	10,382
General operating expenses	343	253	3	314	45	54	4,056	64	415	5,547
Others	13	126	252	31	5	127	533	422	1,472	2,981

The OPCW does not attribute assets and liabilities to reporting segments.

39 Unallocated revenue and expenses represent revenue and expenses that cannot be directly attributed, or allocated on a reasonable basis, to individual segments.

Segment Information
For the period ended 31 December 2019

(expressed in euro '000s)	Verification	Inspections	International Cooperation and Assistance	Support to the Policy-Making Organs (PMO)	External Relations	Executive Management	Administration	Trust Funds and Special Funds	Unallocated	Total
Total segment revenue/income	**9,531**	**21,214**	**7,057**	**4,691**	**1,910**	**9,259**	**13,948**	**16,642**	**203**	**84,455**
Segment revenue from budget allocation:										
Assessed contributions	9,531	19,608	7,057	4,691	1,910	9,259	13,948	-		66,004
Article IV & V revenue	-	1,606	-	-	-	-	-	-	-	1,606
Segment revenue from external sources:										
Voluntary contributions	-	-	-	-	-	-	-	15,581	-	15,581
Other income/revenue	-	-	-	-	-	-	-	1,061	203	1,264
Total segment expense	**8,488**	**19,458**	**6,786**	**4,667**	**1,909**	**9,462**	**13,342**	**8,492**	**4,677**	**77,281**
Employee benefit expenses	7,252	14,815	2,621	3,920	1,649	7,977	7,446	536	1,894	48,110
Travel expenses	220	3,160	3,059	203	27	398	39	1,211	-	8,317
Contractual services	468	897	462	268	128	841	1,436	6,057	-	10,557
General operating expenses	375	454	99	274	82	87	4,213	470	1,277	7,331
Others	173	132	545	2	23	159	208	218	1,506	2,966

The OPCW does not attribute assets and liabilities to reporting segments.

40. BUDGETARY INFORMATION

40.1 The approved Programme and Budget covers the period from 1 January 2020 to 31 December 2020. No additional entities are included. The Budget is prepared using a combination of cash and commitment-based accounting whilst these Financial Statements are prepared using accrual-based accounting. Additional information regarding the budgetary accounts is presented as an Appendix. The Appendix is not considered part of the IPSAS Financial Statements.

Differences between budget and actual amounts

40.2 The following is an overview of the significant differences that have arisen between the OPCW's revised budget and actual amounts, presented in Statement V 'Statement of comparison of budget and actual amounts' of these Financial Statements.

40.3 There was no change between the overall original and final budgets during 2020, which totalled EUR 69,209 thousand for Chapter One and Two programmes.

40.4 While the Secretariat made every effort to effectively implement the 2020 Programme and Budget throughout the year, the COVID-19 pandemic inevitably impacted some programmatic activities, particularly those relying heavily on official travel for their execution, thus resulting in a relatively lower implementation rate for the year than the historic OPCW norm.

40.5 The level of expenditure for 2020 reflects an overall budget utilisation rate of 93.2% for Chapter One and Two programmes. The Chapter One utilisation rate was 93.1%; the Chapter Two rate was 93.3%.

40.6 The Secretariat spent less than the final budget in nearly all programmes. The utilisation of programme budgets was between 71% and 99.6%. Factors influencing the budget utilisation will be detailed in the 2020 Programme Performance Report and taken into consideration when formulating the biennial Programme and Budget for 2022–2023.

40.7 Transfers were made between programmes and subprogrammes in accordance with Financial Regulation 4.6.

Reconciliation of actual amounts from budgetary basis to financial statement basis

40.8 The modified cash basis is used to prepare the budgetary amounts. A reconciliation of the actual amounts on the budgetary basis to the net cash flows from operating, investing, and financing activities is presented below.

For the year ended 31 December 2020:

(expressed in euro '000s)	Operating	Financing	Investing	Total
Actual net surplus amount on budgetary basis (Statement of Comparison of Budget and Actual Amounts)	4,069	**-**	**-**	**4,069**
Basis differences	(21,145)	-	**-**	**(21,145)**
Presentation Differences	1,548	-	(1,548)	**-**
Entity differences				
Trust funds and special funds	25,099	5	(3,273)	**21,831**
Actual amount in the IPSAS cash flow statement	**9,571**	**5**	**(4,821)**	**4,755**

For the year ended 31 December 2019:

(expressed in euro '000s)	Operating	Financing	Investing	Total
Actual net surplus amount on budgetary basis (Statement of Comparison of Budget and Actual Amounts)	1,439	**-**	**-**	**1,439**
Basis differences	(2,156)	**-**	**-**	**(2,156)**
Presentation Differences	466	-	(466)	**-**
Entity differences				
Trust funds and special funds	20,130	797	(3,272)	**17,655**
Actual amount in the IPSAS cash flow statement	**19,879**	**797**	**(3,738)**	**16,938**

40.9 The differences arising are basis and entity differences. Basis differences arise because the budgetary amounts are prepared on a different basis than the IPSAS Financial Statements, as described above. Entity differences typically arise because the budget includes transactions relating to the General Fund only, whereas the OPCW consolidated IPSAS Financial Statements include all programmes and entities. Timing differences typically do not arise because the budget period and the reporting period for these Financial Statements are identical.

41. EVENTS AFTER THE REPORTING PERIOD

41.1 In early 2020, the World Health Organisation declared a global health pandemic relating to the COVID-19 virus, which has continued into the financial year 2021. The OPCW has considered the impact of this event upon the Financial Statements for the year ended 31 December 2020 and has concluded that there are no elements which would constitute an adjusting event for 2020; suitable impairments, including those for accounts receivable, have already been considered at 31 December 2020 and considered appropriate at the date of authorisation for issue. Considering all information available and understanding that the full prospective impact of the COVID-19 cannot be measured by the Organisation until the situation further matures, at the date of authorisation for issue of the Financial Statements, the OPCW is expected without reservation to continue as a going concern.

41.2 No other events are reported after the reporting date. The date of authorisation for issue is the date at which the Financial Statements are certified by the external auditors.

Appendix: Additional Information to the Financial Statements (Unaudited)

APPENDIX

ADDITIONAL INFORMATION TO THE FINANCIAL STATEMENTS (UNAUDITED)

1. BUDGETARY ACCOUNTS

1.1 The OPCW's Financial Regulations 11.1(b) to 11.1(e) require the Director-General to provide the following information in addition to the Financial Statements prepared in accordance with the International Public Sector Accounting Standards (IPSAS).

(a) a statement for the status of appropriations, as per Financial Regulation 11.1(b), including:

(i) the original budget appropriations;

(ii) the appropriations as modified by any transfers of funds;

(iii) credits, if any, other than appropriations approved by the Conference of the States Parties (hereinafter "the Conference");

(iv) the amounts charged against the appropriations and/or other credits; and

(v) an unobligated balance of appropriations.

(b) a statement on the investments held at 31 December as per Financial Regulation 11.1(c);

(c) such notes, other statements, and schedules, as are required to provide a fair presentation of the Financial Statements and the results of the OPCW's operations for the financial period as per Financial Regulation 11.1(d); and

(d) a statement of all losses, as per Financial Regulation 11.1(e).

1.2 Furthermore, Financial Rule 10.4.01 requires the disclosure of any including ex-gratia payments authorised by the Director-General and paid during the financial year.

1.3 Accordingly, such information for items 1.1(a) and (b) is provided in the IPSAS Financial Statements and supporting note disclosures. This Appendix presents information relating to item 1.1(c) and (d), and 1.2 above, and also further statements and schedules based on financial information derived within the OPCW's budgetary accounting.

1.4 Pursuant to the OPCW's Financial Regulation 2.2, the budgetary accounting involves the recording and reporting of financial information on a modified cash basis, the same basis as that followed for appropriations for the regular budget or for other funds governed by other agreements, in a manner that is consistent with the Financial Regulations and Rules, with Financial Directives, and with any other instructions as may be issued by or on behalf of the Director-General for their administration. This budgetary account differs in nature to the IPSAS basis of reporting, as set out in note 40 of the IPSAS Financial Statements.

1.5 The required additional information has, therefore, been extracted from the budgetary accounts and presented in the following schedules and statements under the indicated paragraphs of the Appendix:

(a) Statement of cash and investments (paragraph 2);

(b) Income and expenditure - All Funds (paragraphs 3.1 and 3.2);

(c) Statement of cash surplus for 2020 General Fund – as at 31 December 2020 (paragraph 3.3);

(d) Statement of cash surplus for 2019 – General Fund – as at 31 December 2020 (paragraph 3.4);

(e) Statement of cash surpluses credited to Member States – General Fund (paragraph 3.5);

(f) Statement of expenditure by funding programme and major expenditure category – General Fund (paragraph 3.6);

(g) Statement of savings on prior year’s obligations – General Fund (paragraph 3.7);

(h) Trust funds – voluntary contributions by donors (paragraph 3.8);

(i) Ex-gratia payments (paragraph 4);

(j) Statement of losses (paragraph 5); and

(k) Overview of OPCW programmes, special funds, and trust funds (paragraph 6).

2. STATEMENT OF CASH AND INVESTMENTS (INCLUDING TERM DEPOSITS[40]) – ALL FUNDS (FINANCIAL REGULATION 11.1(C))

2.1 Statement of cash and investments (term deposits) – All funds as at 31 December 2020.

(expressed in euros)

Fund	Cash	Investments	Total
General Fund	13,094,708	-	**13,094,708**
Working Capital Fund	633,388	-	**633,388**
Voluntary Fund for Assistance	1,567,950	-	**1,567,950**
Trust funds	32,779,871	-	**32,779,871**
Special funds	2,800,726	-	**2,800,726**
Total Cash and Investments	**50,876,643**	**-**	**50,876,643**

2.2 Statement of cash and investments (term deposits) – All funds as at 31 December 2019.

(expressed in euros)

Fund	Cash	Investments	Total
General Fund	3,980,862	-	**3,980,862**
Working Capital Fund	7,336,791	-	**7,336,791**
Voluntary Fund for Assistance	1,562,975	-	**1,562,975**
Trust funds	29,575,971	-	**29,575,971**
Special funds	4,354,401	-	**4,354,401**
Total Cash and Investments	**46,811,000**	**-**	**46,811,000**

40 No term deposit investments were held at the reporting dates, due to negative interest rates charged on such deposits.

3. OTHER STATEMENTS (FINANCIAL REGULATION 11.1(D))

3.1 Budgetary accounts: Income and expenditure – All Funds – For the period ended 31 December 2020 (expressed in euros)

2020	General Fund	Special Funds and Voluntary Fund for Assistance[41]	Trust Funds	Total
Income				
Assessed annual contributions	67,119,590	-	-	**67,119,590**
Voluntary contributions	-	5,000	12,217,702	**12,222,702**
Miscellaneous income:				**-**
Verification contributions under Articles IV and V	1,741,010	-	-	**1,741,010**
Assessed annual contributions – new Member States	-	-	-	**-**
Interest income	9,838	(213)	73,772	**83,397**
Currency-exchange gains/(losses)	(493,023)	-	(166,386)	**(659,409)**
Other income	137	-	362,267	**362,404**
Total Income	**68,377,552**	**4,787**	**12,487,356**	**80,869,695**
Expenditure				
Staff costs	48,753,080	82,323	1,665,711	**50,501,115**
Travel costs	1,880,441	5,795	384,787	**2,271,022**
Contractual services	4,797,441	2,673,591	4,501,562	**11,972,594**
Workshops, seminars, and meetings	188,982	-	35,454	**224,436**
General operating expenses	5,953,407	48,781	1,344,952	**7,347,140**
Furniture and equipment	2,906,282	227,636	183,275	**3,317,193**
Total Expenditure	**64,479,632**	**3,038,127**	**8,115,741**	**75,633,499**

3.2 Budgetary accounts: Income and expenditure – All Funds – For the period ended 31 December 2019 (expressed in euros)

2019	General Fund	Special Funds and Voluntary Fund for Assistance [42]	Trust Funds	Total
Income				
Assessed annual contributions	67,119,590	-	-	**67,119,590**
Voluntary contributions	-	-	26,451,675	**26,451,675**
Miscellaneous income:				
Verification contributions under Articles IV and V	1,606,105	-	-	**1,606,105**
Assessed annual contributions – new Member States	-	-	-	**-**
Interest income	51,512	13	50,865	**102,390**
Currency-exchange gains	23,742	-	5,035	**28,777**
Other income	392,459	-	550,488	**942,947**
Total Income	**69,193,408**	**13**	**27,058,061**	**96,251,482**
Expenditure				
Staff costs	47,217,749	1,350	1,608,110	**48,827,209**
Travel costs	7,217,939	3,984	1,361,740	**8,583,663**
Contractual services	5,004,045	1,075,428	3,583,563	**9,663,036**
Workshops, seminars and meetings	470,698	-	5,000	**475,698**
General operating expenses	6,127,547	290,882	1,607,669	**8,026,098**
Furniture and equipment	1,718,460	236,436	228,140	**2,183,036**
Total Expenditure	**67,756,438**	**1,608,080**	**8,394,223**	**77,758,741**

41 Excludes transfers from cash surplus for 2019 in 2020 (C-25/DEC.7, dated 1 December 2020).

42 Excludes transfers from cash surplus for 2019 in 2020 (C-25/DEC.7).

3.3 Budgetary accounts: Statement of cash surplus for 2020 – General Fund – as at 31 December 2020 (expressed in euros)

The provisional cash surplus for 2020 was determined in 2020:

PROVISIONAL CASH SURPLUS FOR 2020	2020
Receipts	61,755,742
Disbursements	(60,400,304)
EXCESS / (SHORTFALL) OF RECEIPTS OVER DISBURSEMENTS	**1,355,438**
Unliquidated obligations	(4,079,328)
Transfers to/from other funds	-
PROVISIONAL SURPLUS / (DEFICIT) AS AT END OF 2020	**(2,723,890)**

The final cash surplus for 2020 will be determined in 2021.

3.4 Budgetary accounts: Statement of cash surplus for 2019 – General Fund – as at 31 December 2020 (expressed in euros)

The provisional cash surplus for 2019 was determined in 2019. The final cash surplus for 2019 was determined in 2020:

PROVISIONAL CASH SURPLUS FOR 2019 (determined in 2019)	2019
Receipts	62,460,622
Disbursements	(64,493,831)
EXCESS/(SHORTFALL) OF RECEIPTS OVER DISBURSEMENTS	**(2,033,209)**
Unliquidated obligations	(3,262,607)
Transfers to/from other funds	(686,235)
PROVISIONAL SURPLUS/(DEFICIT) AS AT END OF 2019	**(5,982,051)**
FINAL CASH SURPLUS FOR 2019 (determined in 2020)	**2019**
PROVISIONAL SURPLUS/(DEFICIT)	**(5,982,051)**
Receipt of:	
Arrears from prior years' annual contributions	2,159,277
Miscellaneous income from prior years	1,911,662
Savings on prior period's obligations (paragraph 5.11)	784,876
PRIOR YEAR CASH SURPLUS/(DEFICIT)	**(1,126,235)**
Prior period adjustment	(109,781)
Prior period transfers from the General Fund to special funds	-
FINAL CASH SURPLUS[43]/(DEFICIT)	**(1,236,016)**

43 Final cash surpluses identified for any past period eligible for distribution to States Parties in accordance with Financial Regulation 6.3 and the scale of assessment for the period to which the cash surplus relates, unless otherwise decided by the Conference. The allocation is applied only to amounts owed to the OPCW by a State Party, and for States Parties which have paid their respective contributions in full for the period to which a cash surplus relates. In the IPSAS-based financial statements, cash surpluses are recognised as liabilities.

3.5 Budgetary accounts: Statement of cash surpluses credited to States Parties – General Fund – During the period ended 31 December 2020 (expressed in euros)

State Party	**Cash Surpluses Credited During 2020 Relating to 1993 – 2011**
Djibouti	230
Dominica	448
Nauru	1,162
TOTAL	**1,840**

No cash surpluses relating to 2012 – 2018 were applied in 2020. In 2014, a cash deficit was reported.

3.6 Budgetary accounts: Statement of expenditure by funding programme and major expenditure category – General Fund (expressed in euros)

(a) For the period ended 31 December 2020:

Funding Programme	Staff Costs	Travel Costs	Contractual Services	Workshops, Seminars and Meetings	General Operating Expenses	Furniture and Equipment	Total Expenditure	Of Which: Budgetary Obligations
Programme 1. Verification	7,487,895	12,127	821,666	-	445,991	408,782	**9,176,461**	**357,175**
Programme 2. Inspections	16,144,624	1,447,522	525,028	-	577,856	765,445	**19,460,475**	**1,140,835**
Total verification costs (Chapter 1)	**23,632,520**	**1,459,649**	**1,346,693**	**-**	**1,023,846**	**1,174,227**	**28,636,936**	**1,498,010**
Programme 3. International Cooperation and Assistance	3,128,939	266,542	364,164	188,982	3,787	956,279	**4,908,694**	**1,052,011**
Programme 4. Support to the Policy-Making Organs	4,090,124	121,236	325,981	-	327,075	6,233	**4,870,650**	**163,268**
Programme 5. External Relations	1,605,446	7,220	108,885	-	45,267	1,026	**1,767,845**	**19,010**
Programme 6. Executive Management	8,293,842	26,241	732,775	-	73,900	150,707	**9,277,464**	**363,389**
Programme 7. Administration	8,002,209	(448)	1,918,942	-	4,479,532	617,808	**15,018,043**	**983,641**
Total administrative and other costs (Chapter 2)	**25,120,560**	**420,792**	**3,450,747**	**188,982**	**4,929,561**	**1,732,054**	**35,842,696**	**2,581,318**
TOTAL EXPENDITURE	**48,753,080**	**1,880,441**	**4,797,441**	**188,982**	**5,953,407**	**2,906,282**	**64,479,632**	**4,079,328**

(b) For the period ended 31 December 2019:

Funding Programme	Staff Costs	Travel Costs	Contractual Services	Workshops, Seminars and Meetings	General Operating Expenses	Furniture and Equipment	Total Expenditure	Of which: Budgetary Obligations
Programme 1. Verification	7,479,627	220,091	661,940	1,500	416,259	669,350	**9,448,767**	**897,146**
Programme 2. Inspections	15,154,445	3,222,431	923,815	-	610,688	355,844	**20,267,224**	**685,963**
Total verification costs (Chapter 1)	**22,634,072**	**3,442,522**	**1,585,755**	**1,500**	**1,026,947**	**1,025,194**	**29,715,991**	**1,583,109**
Programme 3. International Cooperation and Assistance	2,950,966	3,087,626	541,333	457,176	104,341	89,776	**7,231,218**	**410,913**
Programme 4. Support to the Policy-Making Organs	4,054,406	224,578	290,105	-	280,461	-	**4,849,549**	**77,626**
Programme 5. External Relations	1,700,072	25,978	135,462	12,022	87,793	11,073	**1,972,401**	**65,740**
Programme 6. Executive Management	7,943,469	398,680	946,201	-	94,916	185,556	**9,568,822**	**369,006**
Programme 7. Administration	7,934,764	38,556	1,505,188	-	4,533,089	406,860	**14,418,457**	**756,214**
Total administrative and other costs (Chapter 2)	**24,583,677**	**3,775,417**	**3,418,290**	**469,198**	**5,100,600**	**693,266**	**38,040,447**	**1,679,498**
TOTAL EXPENDITURE	**47,217,749**	**7,217,939**	**5,004,045**	**470,698**	**6,127,547**	**1,718,460**	**67,756,438**	**3,262,607**

3.7 Budgetary accounts: Statement of savings on prior year's obligations – General Fund (expressed in euros)

(a) For the period ended 31 December 2020

Funding Programme	Unliquidated Obligations as at End of 2019	Disbursements During 2020	Savings on Prior Year's Obligations
Programme 1. Verification	897,146	773,600	**123,546**
Programme 2. Inspections	685,963	550,692	**135,271**
Total verification costs (Chapter 1)	**1,583,109**	**1,324,292**	**258,817**
Programme 3. International Cooperation and Assistance	410,913	280,344	**130,569**
Programme 4. Support to the Policy-Making Organs	77,626	52,299	**25,327**
Programme 5. External Relations	65,740	16,650	**49,090**
Programme 6. Executive Management	369,006	237,520	**131,486**
Programme 7. Administration	756,214	566,627	**189,587**
Total administrative and other costs (Chapter 2)	**1,679,499**	**1,153,440**	**526,059**
TOTAL	**3,262,608**	**2,477,732**	**784,876**

(b) For the period ended 31 December 2019

Funding Programme	Unliquidated Obligations as at End of 2018	Disbursements During 2019	Savings on Prior Year's Obligations
Programme 1. Verification	397,243	274,137	**123,106**
Programme 2. Inspections	822,180	567,798	**254,382**
Total verification costs (Chapter 1)	**1,219,423**	**841,935**	**377,488**
Programme 3. International Cooperation and Assistance	653,444	376,023	**277,421**
Programme 4. Support to the Policy-Making Organs	149,473	38,616	**110,857**
Programme 5. External Relations	89,113	62,221	**26,892**
Programme 6. Executive Management	296,726	166,005	**130,721**
Programme 7. Administration	673,381	305,577	**367,804**
Total administrative and other costs (Chapter 2)	**1,862,137**	**948,442**	**913,695**
TOTAL	**3,081,560**	**1,790,378**	**1,291,182**

3.8 Voluntary contributions by donors in 2020 (expressed in euros) 44

Donor	2020[45]
Regional Seminars	
Republic of Korea	20,462
Qatar	49,954
Subtotal	**70,416**
Implementation of Article X	
United Kingdom of Great Britain and Northern Ireland	**110,411**
Trust Fund for Training	
United Kingdom of Great Britain and Northern Ireland	**268,947**
Trust Fund for Security and Business Continuity	
Canada	484,847
Germany	1,000,000
United Kingdom of Great Britain and Northern Ireland	658,650
Subtotal	**2,143,497**
Trust Fund for Syria Missions	
Australia	100,000
Canada	1,002,017
Finland	100,000
France	908,973
Japan	480,000
Luxembourg	25,000
Monaco	10,000
Netherlands	500,000
Sweden	288,953
Switzerland	91,647
United Kingdom of Great Britain and Northern Ireland	214,532
Subtotal	**3,721,122**

44 Voluntary contributions are reported on a cash basis, representing contributions received in cash in the reporting period. Amounts relating to contribution agreements signed but not yet received as at the reporting date will be reported in the financial year of the receipt.

45 The following contributions were received in 2020 and deferred to 2021:

Regional seminars:		
Qatar	EUR	38,000
Total	**EUR**	**38,000**
Trust Fund for a Centre for Chemistry and Technology:		
Morocco	EUR	15,000
Republic of Korea	EUR	91,000
Spain	EUR	60,000
Total	**EUR**	**166,000**
Trust Fund for Implementation of Article X:		
Czech Republic	EUR	10,963
Total	**EUR**	**10,963**

Donor	**2020**[45]
Trust Fund for the Junior Professional Officers Programme	
France	290,462
Italy	203,813
Republic of Korea	114,541
Subtotal	**608,816**
Trust Fund for a Centre for Chemistry and Technology	
Andorra	5,000
Angola	25,000
Australia	121,027
Canada	2,567,938
Cyprus	20,000
Finland	100,000
France	100,000
Germany	1,500,000
Greece	30,000
Indonesia	9,900
Kazakhstan	10,000
Lithuania	10,000
Luxembourg	17,000
Malaysia	10,000
Malta	10,000
Republic of Korea	100,000
Romania	9,847
Slovenia	5,000
State of Israel	12,500
Sweden	38,319
Switzerland	283,262
Thailand	12,434
United Kingdom of Great Britain and Northern Ireland	277,264
Subtotal	**5,289,491**
Total Trust Funds	**12,217,700**

4. EX-GRATIA PAYMENTS

An ex-gratia payment of EUR 2,275 (2019: EUR nil) was made by the OPCW during the reporting period.

5. STATEMENT OF LOSSES (FINANCIAL REGULATION 11.1(E))

5.1 During the 2020 financial year, no items required approval for write-off by the Conference in line with Financial Regulation 10.5 and relevant administrative directives. The Director-General approved irrecoverable accounts receivable and foreign VAT of EUR 2,567 for write-off in the 2020 financial year.

5.2 In addition, the OPCW Property Survey Board recommended during 2020 the write-off of further assets as losses.

6. OVERVIEW OF OPCW PROGRAMMES, SPECIAL FUNDS, AND TRUST FUNDS

General Fund programmes

6.1 General Fund programmes are funded through the regular budget of the Organisation, as per the annual Programme and Budget of the OPCW:

<u>Verification</u>

(a) The main activities are related to the implementation of the verification regime provided for by the Convention. The types of activities include planning, overseeing and finalising inspections; providing operational and policy guidance on verification and inspection regimes; and providing technical support.

(b) The following subprogrammes are included: Office of the Director, Chemical Demilitarisation Branch, Declarations Branch, Industry Verification Branch, the OPCW Laboratory, and the Investigation and Identification Team.

<u>Inspections</u>

(c) The main activities are related to providing inspections to verify the destruction and storage of chemical weapons by States Parties, inspecting the status of production facilities, and non-proliferation of chemical weapons in compliance with the Convention.

(d) The following subprogrammes are included: Office of the Director, Operations and Administration Branch, Inspection Capacity Building and Contingency Planning Cell, Demilitarisation Inspections Cell, Industry Inspection Cell, and Safety and Analytical Cell.

<u>International Cooperation and Assistance</u>

(e) The main activities include promoting the peaceful use of chemistry, facilitating implementation by States Parties of their national obligations under the Convention, and assisting States Parties to develop capabilities to deal with any situation arising out of the use or threat of use of chemical weapons.

(f) The following subprogrammes are included: Office of the Director, Assistance and Protection Branch, International Cooperation Branch, and Implementation Support Branch.

<u>Support to the Policy-Making Organs</u>

(g) The main activities are related to facilitating meetings and wider consultations between States Parties and with the OPCW's Secretariat, ensuring substantive and operating support in their decision-making process, follow-up of decisions, coordination of the preparation and translation of formal documents, and providing interpretation services for formal meetings.

(h) The following subprogrammes are included: Office of the Director, and Language Services Branch.

External Relations

(i) The main activities include support and encouraging cooperation between the OPCW and States Parties in implementing the Convention, increasing the international level of involvement in OPCW activities and events, and enhancing partnerships and cooperation between the OPCW and the United Nations and other regional and international organisations.

(j) The following subprogrammes are included: Office of the Director, Political Affairs and Protocol Branch, and Public Affairs Branch.

Executive Management

(k) The main activities are related to providing strategic guidance and direction, effective governance and accountability, and organisational management and leadership within the Secretariat.

(l) The following subprogrammes are included: Office of the Director-General, Office of the Deputy Director-General, Office of Internal Oversight, Office of the Legal Adviser, Office of Strategy and Policy, Office of Confidentiality and Security, and Health and Safety Branch.

Administration

(m) The main activities are related to providing support for budget, finance, human resources, information services, procurement and infrastructure support, and training.

(n) The following subprogrammes are included: Office of the Director (including Procurement Section, General Services Section, and Knowledge Management Section), Budget and Finance Branch, Human Resources Branch, and Information Services Branch.

Special funds and Voluntary Fund for Assistance

6.2 Special funds are established for specific purposes, with funding derived from the General Fund through the transfer of cash surpluses and/or budgetary surpluses in specific programmes.

(a) Special account for the OPCW Equipment Store: The purposes of this special account are:

(i) to provide a basis for evaluating new technologies and samples of new equipment, the availability of which cannot be forecast on a calendar basis, and for purchasing new equipment approved by the Conference, which cannot necessarily be accomplished within the calendar year; and

(ii) to provide an account from which to make payments for reimbursements to States Parties for costs incurred in disposing of or decontaminating equipment on site.

(b) Special account for activities related to designated laboratories: The purpose of this special account is to provide funds for paying designated laboratories for the analysis of samples taken during on-site inspections.

(c) Special account for new ERP system: The purpose of this special account is to provide funds to meet the financial requirements of implementing the new ERP, as set out in Conference decision C-19/DEC.7, dated 3 December 2014.

(d) Special fund for OPCW special missions: The purpose of this fund is to provide a funding source for future, unforeseen special mission deployments, which will be undertaken at short notice and outside the regular programme of work, as set out in Conference decision C-20/DEC.11, dated 3 December 2015.

(e) Special fund for the Fourth Review Conference in 2018: The purpose of this fund is to cover the cost of organising the Fourth Review Conference in 2018 as set out in Conference decision C-22/DEC.10, dated 30 November 2017.

(f) Special fund for Cybersecurity, Business Continuity, and Physical Infrastructure Security: The purpose of this fund is to ensure priority investment in the areas of high organisational risk relating to cybersecurity, business continuity, and physical infrastructure security as set out in Conference decision C-23/DEC.12, dated 20 November 2018.

(g) Special Fund for IT Infrastructure to Support the implementation of decision C-SS-4/DEC.3: The purpose of this fund is to support investment in IT infrastructure in order to support the implementation of decision C-SS-4/DEC.3, as set out in Conference decision C-23/DEC.13, dated 20 November 2018.

(h) Special Fund for Capacity Building for Laboratories: The purpose of this fund is to augment the Organisation's capacity-building activities, with a focus on assistance and protection, chemical safety and security management, and support for laboratories in developing countries or in countries with economies in transition.

(i) Special fund for Major Capital Investments. The purpose of this fund is to provide funding for major capital investments for property, plant, equipment, and intangible assets.

(j) COVID-19 Variability Impact Fund: The activities included in the fund are traditionally core activities that will be moved to the fund as a direct result of the temporary operational uncertainty surrounding the ongoing situation brought about by COVID-19 and the intention of maintaining zero nominal growth of States Parties' assessments in 2021.

6.3 The objective of the Voluntary Fund for Assistance is to coordinate and deliver assistance, in terms of Article X of the Convention, to a State Party when requested.

Trust funds

6.4 Trust funds are established to account for voluntary contributions. They may be established by the Conference or the Director-General for clearly defined activities that are consistent with the policies, aims, and activities of the OPCW for the implementation of the Convention. Presently, the following trust funds are operational within the OPCW:

(a) Trust fund for regional seminars;

(b) Trust fund for courses for personnel of National Authorities;

(c) Trust fund for the implementation of Article X in relation to the provision of assistance and protection, on request, to any Member State in the event of the use or threat of use of chemical weapons;

(d) United States voluntary trust fund to meet costs associated with the inspection and verification regime and with international cooperation (including support for enhancing national measures to combat chemical terrorism);

(e) Trust fund for the Associate Programme;

(f) Trust fund for the procurement of GC-MS[46] systems to support on- and off-site chemical analysis;

(g) Trust fund for the implementation of Article VII obligations;

(h) Trust fund for the Internship-Support Programme to finance four internships at OPCW Headquarters and the OPCW Laboratory;

(i) Trust fund for the Scientific Advisory Board;

(j) Trust fund to support participation in the OPCW events established in 2008 and revised in 2017 in order to accommodate more general activities related to OPCW events. The fund will also be used for commemorative events, public events, and other OPCW events not fully supported by the regular budget of the OPCW;

(k) Trust fund for the conference on international cooperation and chemical safety and security;

[46] GC-MS = gas chromatography-mass spectrometry.

(l) Trust fund for training: support to the OPCW in its transition as its main activities change focus, with work on verifying destruction of chemical weapons stockpiles moving towards completion;

(m) Trust fund for the International Support Network for Victims of Chemical Weapons;

(n) European Union support for OPCW activities 2012 in the framework of the implementation of the European Union Strategy Against Proliferation of Weapons of Mass Destruction;

(o) Syria Trust Fund for the destruction of chemical weapons pursuant to the decision of the Executive Council (EC-M-34/DEC.1, dated 15 November 2013);

(p) OPCW Nobel Prize trust fund to support the allocation of an annual prize to nominees selected by the OPCW Prize Committee for their contribution to the Convention;

(q) Trust fund for programme support costs established in September 2014 to recover indirect support costs associated with the implementation and administration of programme activities funded by voluntary contributions;

(r) Trust Fund for Syria Missions established in November 2015 to support full elimination of the Syrian chemical weapons programme and clarification of facts related to the alleged use of chemical weapons, in accordance with the relevant decisions of the policy-making organs of the OPCW;

(s) Trust fund for support to Libya established in July 2016 to provide extra-budgetary resources necessary to cover operational planning costs, as well as costs to support the removal, destruction, and verification of Libyan chemical weapons;

(t) Trust Fund for a Centre for Chemistry and Technology established in October 2017 to enhance the capability of leading the network of partner laboratories, as well as to assist States Parties in research and capacity building.;

(u) Trust Fund for Security and Business Continuity established in September 2018 to strengthen the physical and cybersecurity of the OPCW infrastructure, provide a safe working environment for personnel, and support OPCW business continuity management processes;

(v) Trust Fund for the Junior Professional Officers Programme established in November 2018 to provide opportunities for States Parties to sponsor young professionals to work at the OPCW in a professional capacity; and

(w) Trust fund for EU Council decision 2019 established in May 2019 to support OPCW activities in the framework of the implementation of the European Union Strategy Against Proliferation of Weapons of Mass Destruction from 1 May 2019 to 30 April 2022, including supporting the laboratory upgrade project.

Annex 2

FINANCIAL STATEMENTS OF THE PROVIDENT FUND OF THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS FOR THE YEAR ENDED 31 DECEMBER 2020

Statement by the Management Board of the Provident Fund of the OPCW

The Management Board of the Provident Fund believes that the attached Financial Statements of the Provident Fund of the Organisation for the Prohibition of Chemical Weapons (OPCW) for the year ended 31 December 2020 are presented according to the requirements of:

- the *Charter and Administrative Rules of the Provident Fund of the OPCW*, including Article 11;
- the *OPCW Financial Regulations and Rules*, as applicable; and
- the *International Public Sector Accounting Standards (IPSAS).*

It is the Board's opinion that the Financial Statements present a view that is consistent with its understanding of the Provident Fund's financial position as at 31 December 2020, financial performance, and cash flows for the year then ended.

[Signed]

The Hague, 28 June 2021

Odette Melono
Chairperson,
Management Board of the
Provident Fund

FINANCIAL STATEMENTS OF THE PROVIDENT FUND OF THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS FOR THE YEAR ENDED 31 DECEMBER 2020

TABLE OF CONTENTS

THE PROVIDENT FUND OF THE OPCW

STATEMENT I
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020
(expressed in euro '000s)

	Notes	2020	2019
Assets			
Current assets			
Investments	6	411	399
Accounts receivable	7	8	8
Cash and cash equivalents	8	66,147	63,906
Total current assets		**66,566**	**64,313**
Total assets		**66,566**	**64,313**
Liabilities			
Current liabilities			
Accounts payable	9	3,062	2,687
Total current liabilities		**3,062**	**2,687**
Total liabilities		**3,062**	**2,687**
Net assets		**63,504**	**61,626**
Net assets/equity			
Participants' capital accounts	10.1	63,410	61,535
Special reserves	10.2	80	80
Accumulated surplus/(deficit)	10.3	14	11
Total net assets/equity		**63,504**	**61,626**

THE PROVIDENT FUND OF THE OPCW

STATEMENT II
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 31 DECEMBER 2020

(expressed in euro ‘000s)

	Notes	2020	2019
Revenue			
Interest income on Participants’ capital accounts	11	193	256
Gain on changes in fair value of investments	12	20	49
Total revenue		**213**	**305**
Expenses			
General operating expenses	13	1	-
Total expenses		**1**	**-**
Net finance income/(cost)	14	**(12)**	**8**
Net surplus/(deficit) for the period		**200**	**313**
Net surplus/(deficit) for the period			
Attributable to Participants of the Provident Fund		200	313
Attributable to special reserve		**-**	**-**
Accumulated surplus/(deficit)		**(1)**	**-**
		199	**313**

THE PROVIDENT FUND OF THE OPCW

STATEMENT III
STATEMENT OF CHANGES IN NET ASSETS/EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020
(expressed in euro '000s)

	For the Year Ended 31 December 2020				**For the Year Ended 31 December 2019**			
	Participants' Capital Accounts	**Special Reserve**	**Accumulated Surplus/ (Deficit)**	**Total Net Assets/ Equity**	**Participants' Capital Accounts**	**Special Reserve**	**Accumulated Surplus/ (Deficit)**	**Total Net Assets/ Equity**
Balance at 1 January	**61,535**	**80**	**11**	**61,626**	**56,510**	**80**	**11**	**56,601**
Changes recognised in net assets/equity:								
Current year contributions	11,726	-	-	11,726	11,423	-	-	11,423
Payouts[47]	(10,051)	-	-	(10,051)	(6,711)	-	-	(6,711)
Other adjustments to net assets	-	-	4	4	-	-	-	-
Subtotal	**1,675**	**-**	**4**	**1,679**	**4,712**	**-**	**-**	**4,712**
Surplus/(deficit) for the period	200	-	(1)	**199**	313	-	-	**313**
Total recognised revenue and expense for the period	**200**	**-**	**(1)**	**199**	**313**	**-**	**-**	**313**
Balance at 31 December	**63,410**	**80**	**14**	**63,504**	**61,535**	**80**	**11**	**61,626**

[47] Payouts include payout requests outstanding at 31 December and transfers to the UNJSPF. In 2020, there were two transfers to the UNJSPF (2019: 3).

THE PROVIDENT FUND OF THE OPCW

STATEMENT IV
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2020
(expressed in euro '000s)

	Notes	2020	2019
Cash from operating activities			
Net surplus/(deficit) for the period		199	313
Non-cash movements			
(Increase) / decrease in accounts receivable	7	-	(4)
Increase / (decrease) in accounts payable	9	375	(1,213)
Reclassification of net assets/equity to liability	9	(374)	1,213
Unrealised currency exchange loss/(gain) on cash and cash equivalents		6	(6)
Currency exchange loss/(gain) on investments		9	(1)
(Gain)/loss on changes in fair value of investments	12	(20)	(49)
Net cash flows from operating activities		**195**	**253**
Cash flows from investing activities			
Proceeds from sale of investments		-	-
Net cash flows from investing activities		**-**	**-**
Cash flows from financing activities			
Participants' contributions		11,726	11,423
Payouts to separated Participants		(9,674)	(7,924)
Net cash flows from financing activities		**2,052**	**3,499**
Net increase / (decrease) in cash and cash equivalents		**2,247**	**3,752**
Unrealised currency exchange loss/gain on cash and cash equivalents		(6)	6
Cash and cash equivalents at beginning of the period	8	63,906	60,148
Cash and cash equivalents at end of the period		**66,147**	**63,906**

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS OF THE PROVIDENT FUND OF THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS (OPCW) FOR THE YEAR ENDED 31 DECEMBER 2020

1. REPORTING ENTITY

1.1 The Provident Fund of the Organisation for the Prohibition of Chemical Weapons (hereinafter “the Provident Fund”) was established in June 1997 under the authority of the Director-General of the OPCW for the staff members of the Secretariat of the OPCW, and as provided for in Article VI of the Staff Regulations. The Provident Fund Management Board comprises six members and is chaired by the Deputy Director-General of the OPCW. The Board meets at least quarterly.

1.2 The object and purpose of the Provident Fund is to be an instrument of social security for staff members of the OPCW holding a fixed-term appointment. The Board administers resources, which are entrusted to the Provident Fund by eligible staff members and by the OPCW for the benefit of the participating eligible staff members (hereinafter “Participants”). This involves investing the resources as shall be determined from time to time in accordance with established investment policies and guidelines, and returning resources and income earned thereon to such Participants upon the termination of their employment with the OPCW.

1.3 The continued existence of the Provident Fund in its present form is dependent on the existence of the OPCW.

1.4 There are no controlling or controlled entities to the Provident Fund.

1.5 The accounts of the Provident Fund are maintained in accordance with the Charter and Administrative Rules of the Provident Fund, and the relevant OPCW Financial Regulations and Rules.

1.6 Upon separation from the OPCW, or upon Participants’ requests up to three months prior to separation, Participants’ accumulated Provident Fund balances become due for payment. Upon Participants’ requests and approval of the Board, the Provident Fund balances of the separating Participants may also be retained with the Provident Fund up to a period of one year after they leave the service of the OPCW, unless they join a United Nations Joint Staff Pension Fund (UNJSPF) member organisation and opt to transfer their contribution to the UNJSPF, in which case their Provident Fund can be retained for up to two years. Once the Provident Fund balances become due for payment, (following receipt of a valid payout request from Participants), they are recognised as a liability (note 9).

2. BASIS OF PREPARATION

2.1 The Financial Statements of the Provident Fund have been prepared on an accrual and going concern basis and comply with the requirements of IPSAS. Where IPSAS is silent concerning any specific standard, the appropriate International Financial Reporting Standards have been applied.

2.2 The accounting policies set out below have been applied consistently in the preparation and presentation of these Financial Statements.

2.3 The Financial Statements are presented in euros, rounded to the nearest thousand euros, and cover the calendar year ended 31 December 2020.

Future accounting pronouncements

2.4 The following significant future accounting pronouncements from the International Public Sector Accounting Standards Board have been issued as at 31 December 2020, but are not yet effective:

Standard	Objective of Standard	Effective Date[48]	Estimated Impact on Provident Fund Financial Statements
IPSAS 41 Financial Instruments	To establish principles for the financial reporting of financial assets and financial liabilities	1 January 2023	Changes may apply to the classification of the OPCW Provident Fund financial instruments and consideration of impairment of financial assets. The OPCW Provident Fund will further review and consider the impact of the changes prescribed in this Standard in the period prior to the effective date.
IPSAS 42 Social Benefits	To provide guidance on accounting for social benefits expenditure	1 January 2023	Not applicable.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 The objective of these Financial Statements is to provide information about the financial position, performance, and cash flows of the Provident Fund, to demonstrate the accountability of the Provident Fund for the resources entrusted to it by Participants and the OPCW, and to facilitate decision making by Participants and the Board.

48 The effective dates of these Standards have been deferred by one year from 2022 to 2023 due to the COVID-19 pandemic and the challenges it has created.

Foreign currency translation

3.2 Foreign currency balances (in USD) represent less than 0.2% of the total assets of the Provident Fund. The following exchange rates have been used in the preparation of these Financial Statements:

Period	USD/EUR
31 December 2020	0.815
Average 12 months	0.878

Period	USD/EUR
31 December 2019	0.896
Average 12 months	0.893

(a) Functional and presentation currency

Items included in the Financial Statements are measured using the currency of the primary economic environment in which the Provident Fund operates, the functional currency, which is the euro. Assets held in US dollars are converted to euros at the exchange rate of 31 December 2020. Currency gains/losses are recognised in the statement of financial performance throughout the year at the exchange rate applicable at the time of the transactions.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the United Nations Operational Rate of Exchange (UNORE) prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of financial performance. Year-end balances of monetary assets and liabilities denominated in foreign currencies are converted into euros on the basis of the exchange rates applicable on 31 December 2020.

Cash and cash equivalents

3.3 Cash and cash equivalents include current and savings deposits held at call with the ABN AMRO Bank (hereinafter "ABN AMRO"). The Provident Fund is prohibited from having any bank overdrafts and accordingly does not have any bank overdrafts.

Financial assets

Classification

3.4 The Provident Fund classifies its financial assets into the following categories: financial assets at fair value through surplus or deficit (such as investments in UBS units); and receivables. The classification depends on the purpose for which the financial assets were acquired. The classification of the financial assets is determined at initial recognition and re-evaluated at each reporting date.

Recognition and measurement

3.5 Purchases and sales of financial assets at fair value through surplus or deficit are recognised on the trade date and are initially recognised at fair value (usually the transaction price). Transaction costs are expensed in the statement of financial performance. Receivables are initially recognised at fair value plus transaction costs.

Subsequent measurement

3.6 Financial assets at fair value through surplus or deficit are subsequently carried at fair value. Receivables are carried at amortised cost using the effective interest method.

3.7 Gains and losses arising from changes in the fair value of the financial assets at fair value through surplus or deficit are included in the statement of financial performance in the period in which they arise.

3.8 Translation differences arising on monetary items are recognised in the statement of financial performance.

Impairment

3.9 All financial assets except those measured at fair value through surplus or deficit are subject to review for impairment. If there is objective evidence of an impairment loss on receivables, the carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of financial performance.

Financial liabilities

3.10 Financial liabilities are recognised initially at fair value. Accounts payable are recognised initially at fair value, and subsequently measured at amortised cost using the effective interest method.

Tax

3.11 The Provident Fund as an affiliate of the OPCW enjoys the same privileged tax-exemption as the OPCW. As such, all contributions to the Participants' Provident Fund and interest income and gains on investments are exempt from all direct taxation. Any tax obligations of the Participants upon final settlement of their accumulated Provident Fund balances are borne by Participants themselves.

Revenue recognition

Revenue from exchange transactions

3.12 The Provident Fund's major categories of exchange revenue are interest income and gains on changes in fair value of the UBS investments.

3.13 Revenue for interest income is recognised on a time-proportion basis using the effective interest method.

Revenue from non-exchange transactions

3.14 The Provident Fund's sole source of non-exchange revenue is the OPCW's contribution to the Provident Fund of employees who separate from the OPCW, for reasons other than health, before completing the minimum three months of service. The Provident Fund recognises full amounts of such inflows as revenue since no corresponding liabilities exist and the Provident Fund gains control of the received cash resources for its own use (see also note 10.2).

3.15 Non-exchange revenue represents transactions in which the Provident Fund receives value from another entity without providing approximately equal value to another entity in exchange, and is measured at the amount of the increase in net assets recognised by the Provident Fund. Services in kind are not recognised (see note 15).

Expenses

3.16 Expenses are recognised when the relevant goods or services are delivered. In most cases, this is the date for which bank charges relate.

4. MATERIALTY, CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTSMATERIALITY, CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS

4.1 In accordance with IPSAS and generally accepted accounting principles, the Financial Statements include amounts based on estimates and assumptions, based on the materiality of the relevant transactions and events. The Provident Fund Management Board is responsible for estimates and assumptions concerning the future. The resulting accounting estimates will seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below.

Receivables: Determination of impairment

4.2 The Provident Fund's receivables are required to be reviewed at the end of each reporting period for impairment and indications of uncollectibility. The Provident Fund makes an estimate of the amount of receivables that it is not able to recover based on prior payment history and expectations of future amounts it expects to recover from these receivables. Furthermore, the Provident Fund also considers the financial risk factors discussed in note 5, such as credit risk, to determine whether any significant issues may impact the carrying value of cash balances. No impairment has been recognised in the Financial Statements of the Provident Fund as at 31 December 2020.

5. FINANCIAL RISK MANAGEMENT

Financial risk factors

5.1 The Provident Fund's activities expose it to a variety of financial risks such as market risk (including currency risk, interest rate risk, and other price risk), credit risk, and liquidity risk. The Provident Fund's overall risk management programme is carried out pursuant to its investment policy proposed by the Board and approved by the Participants. The major objectives that the investment policy of the Provident Fund targets, are capital preservation, minimum risk, sufficient liquidity, and simplicity. The investment policy also identifies the Pension Services Division of ABN AMRO as the party designated to provide investment and administration services to the Provident Fund.

5.2 The Provident Fund Management Board monitors the performance of ABN AMRO in respect of the stated investment and administrative services based on a Service Level Agreement setting out specific parameters to gauge the performance. The Annual General Meeting of Participants also receive reports on the overall performance of the Provident Fund's financial resources under ABN AMRO's administration. The Annual General Meeting takes important decisions on any changes to the investment policies of the Provident Fund. Special General Meetings may also take place to deal with specific issues. The Provident Fund does not enter into hedging activities and does not use derivative financial instruments.

Market risk: Foreign exchange risk

5.3 Foreign exchange risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Provident Fund operates mainly in euros. Portions of the Provident Fund of some Participants are held in US dollars. Therefore, exposure to foreign exchange risk also exists to the extent of these US dollars holdings. Foreign exchange risk of the Provident Fund is attributed to the specific Participants that are party to the transaction embodying the risk and any ensuing loss is borne by these Participants.

5.4 US dollar denominated balances represent a low proportion of total assets of the Provident Fund, and hence the foreign exchange risk is deemed to be low. At 31 December 2020, if the euro had weakened/strengthened by 10% against the US dollar, the net deficit for the year would have been EUR 13 thousand higher/lower mainly as a result of foreign exchange gains/losses on revaluation of Participants' US dollar denominated Provident Fund balances (including UBS units) and other US dollars cash accounts of the Provident Fund.

Market risk: Interest-rate risk

5.5 Interest-rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

5.6 The Provident Fund does not guarantee an interest rate to Participants and hence does not bear the interest rate risk. Interest rates applicable in the reporting period are as follows:

	2020		**2019**	
	for EUR accounts	**for USD accounts**	**for EUR accounts**	**for USD accounts**
Average interest rate	0.30%	0.49%	0.42%	2.21%
Interest rate at 31 December	0.30%	0.14%	0.31%	1.78%

Market risk: Other price risk

5.7 Other price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. Some Participants of the Provident Fund currently have portions of their Provident Fund balances in UBS investments. The values of these investments fluctuate depending on the movement in the market price of the relevant UBS investment units, and represent only 0.6% of the total assets of the Provident Fund. Market risk of the Provident Fund is attributed to the specific Participants that are party to the transaction embodying the risk and any ensuing loss is borne by these Participants.

Credit risk

5.8 Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk arises from cash and cash equivalents with banks and financial institutions. The Provident Fund Management Board, with the agreement of the Participants, determines the financial institutions with which the responsibilities for maintaining and administering the Provident Fund's resources are to be entrusted based on the investment policy of capital preservation. The majority of the Participants' Provident Fund balances (99%) as at the reporting date are maintained in ABN AMRO savings accounts. As at 31 December 2020, ABN AMRO was 56.3% owned by the Dutch Government (2019: 56.3%). The Provident Fund and other account balances are covered by Deposit Guarantee Scheme, which provides for reimbursement of EUR 100 thousand against the cumulative balance of an individual Participant in all ABN AMRO accounts held by her/him. The Deposit Guarantee Scheme enters into force once a bank facing problems is no longer able to pay customers' credit balances. Information regarding the credit quality of the banks and financial institutions in which the Provident Fund's cash and cash equivalents and investments are held as of the reporting date is as follows (Moody's Global Short-Term Treasury ratings referenced):

ABN AMRO

Moody's Investors Service Ratings	Rating*
Short-term credit rating	P-1

UBS AG

Moody's Investors Service Ratings	Rating*
Short-term issuer level rating	P-1

* Issuers (or supporting institutions) rated Prime-1 (P-1) have a superior ability to repay short-term debt obligations.

5.9 As would be expected, credit rating agencies put a number of banks on negative outlook watch and downgraded some due to the more difficult operating and economic conditions, low interest rate environment, and likely deteriorating loan asset quality concerns as a result of the COVID-19 pandemic. The Provident Fund Management Board is actively monitoring all ratings for the financial institutions with which it holds cash. Despite the aforementioned impact of the COVID-19 pandemic on the credit ratings of some financial institutions, the banks used by Provident Fund continued to hold a P-1 rating as at the reporting date.

5.10 Please refer to note 19 with regard to the impact of the COVID-19 pandemic upon credit risk between the reporting date and date of authorisation for issue of these Financial Statements.

Liquidity risk

5.11 Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Provident Fund's obligations to make payments predominantly relates to settlement of accumulated Provident Fund balances of outgoing Participants. Liquidity risk arises in that the Provident Fund may encounter difficulties in meeting these obligations. Since the Provident Fund's cash resources are held in savings accounts and UBS investments that are readily convertible into cash, the liquidity risk faced by the Provident Fund is almost nil.

5.12 The table below analyses the Provident Fund's financial liabilities into relevant maturity groupings based on their contractual undiscounted cash flows:

(expressed in euro '000s)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Beyond 10 Years	Undefined Maturity	Total
Accounts payable	3,062	-	-	-	-	3,062
Total financial liabilities	**3,062**	**-**	**-**	**-**	**-**	**3,062**

5.13 As detailed in note 9, accounts payable represent payouts requested by Participants that remain unpaid as at the reporting date. Furthermore, payouts to the majority of Professional and higher staff who have not yet requested a payout will be made over a period of one to seven years, due to the tenure policy of the OPCW. Payouts to General Services staff may be made over a longer time period.

6. INVESTMENTS

Participants' Provident Fund balances held in UBS units are as follows:

	(expressed in euro '000s)	
Investments (UBS Units)	**2020**	**2019**
USD units	76	77
EUR units	335	322
Total investments	**411**	**399**

7. ACCOUNTS RECEIVABLE

The receivable amount of EUR 8 thousand as at 31 December 2020 (2019: EUR 8 thousand) represents an amount due to the Provident Fund from a separated participant, and amounts due from the OPCW to the Provident Fund.

8. CASH AND CASH EQUIVALENTS

8.1 The breakdown of cash and cash equivalents into unrestricted and restricted categories is presented as follows:

	(expressed in euro '000s)	
	2020	**2019**
Unrestricted		
Interest-bearing current accounts in EUR	86	86
Interest-bearing current accounts in USD	1	1
Total unrestricted	**87**	**87**
Restricted		
Interest-bearing current and savings accounts in EUR	66,004	63,739
Interest-bearing current and savings accounts in USD	56	80
Total restricted	**66,060**	**63,819**
Total cash and cash equivalents	**66,147**	**63,906**

8.2 Participants' capital represent accumulated Provident Fund balances of Participants maintained in Provident Fund accounts designated as A, B, and C for Participants' own contributions, OPCW matching contributions, and Participants' voluntary contributions. These contributions are payable only to Participants and are not available for use by the Provident Fund for any other purpose.

8.3 For Participants' capital held in A and B accounts, payments are made to Participants only upon their separation from the OPCW. For Participants' capital held in C accounts, payments can be made only to Participants in June and December upon their requests. The breakdown of cash and cash equivalents into these categories is presented as follows:

	(expressed in euro	
Interest-bearing current and savings accounts in EUR	**2020**	**2019**
Participants' contributions (A accounts)	18,887	17,819
OPCW's contributions (B accounts)	37,774	35,637
Participants' contributions (A+B) before 17 December 2007	1,506	1,810
Participants' voluntary contributions (C accounts)	7,837	8,473
Total	**66,004**	**63,739**

9. ACCOUNTS PAYABLE

	(expressed in euro '000s)	
	2020	**2019**
Amounts payable to separating Participants	3,062	2,687
Total	**3,062**	**2,687**

Participants may request payout from the Provident Fund up to three months prior to separation. Amounts payable to separating Participants represent payouts requested by Participants that remain unpaid as at the reporting date.

10. NET ASSETS/EQUITY

10.1 Participants' capital (EUR 63,410 thousand) represents the accumulated Provident Fund balances of Participants including their contributions (A accounts), the OPCW's matching contribution (B accounts), voluntary contributions by Participants (C accounts), and accumulated income earned (or losses incurred) on these resources as at 31 December 2020 (2019: EUR 61,535 thousand).

10.2 Special reserves (EUR 80 thousand) include the OPCW's matching contributions to Provident Fund accounts of Participants (B accounts) who cease to serve the OPCW for other than health reasons before serving the Organisation for a total period of more than three calendar months, as noted in 3.14 (2019: EUR 80 thousand). There were no new cases during 2020.

10.3 Accumulated surplus/(deficit) (EUR 14 thousand) represents the cumulative gain/(loss) that is not attributable to specific Participants' accounts (2019: EUR 11 thousand). The Board will decide how to use the surplus. The movement in 2020 is reflected in the statement of changes in net assets/equity.

11. INTEREST INCOME ON PARTICIPANTS' CAPITAL ACCOUNTS

Interest on Participants' accounts with ABN AMRO for the year ended 31 December 2020 was as follows:

	(expressed in euro	
	2020	**2019**
Interest on Participants' contributions (A accounts)	51	70
Interest on OPCW's contributions (B accounts)	114	141
Interest on contributions (A+B) before 17 December 2007	4	37
Interest on voluntary contributions (C accounts)	24	8
Total	**193**	**256**

12. GAIN ON FINANCIAL ASSETS

In 2020, there is an amount of EUR 20 thousand gain due to changes in fair value of the UBS units (2019: EUR 49 thousand gain).

13. EXPENSES

General operating expenses

The Provident Fund incurred operating expenses in the year 2020 of EUR 1 thousand (2019: EUR 0.07 thousand) relating to bank charges and accrued consultancy fees. The OPCW provides the necessary facilities and human resources for the internal management and administration of the Provident Fund. Therefore, it does not incur operating expenses for day-to-day administration.

14. FINANCE INCOME AND FINANCE COST

Exchange gain and loss are recognised as finance income and finance cost respectively.

	(expressed in euro '000s)	
	2020	**2019**
Finance income		
Foreign currency revaluation gains	1	8
Total finance income	**1**	**8**
Finance costs		
Foreign currency revaluation losses	(13)	-
Total finance costs	**(13)**	**-**
Net finance income/(cost)	**(12)**	**8**

15. SERVICES IN KIND

15.1 Services in kind are services provided by individuals to the Provident Fund in a non-exchange transaction. The major classes of services in kind received by the Provident Fund include the following:

Management Board

15.2 The Provident Fund Management Board's membership is composed of six staff members of the OPCW. The Provident Fund does not pay any remuneration to the members of the Board for their services. The Provident Fund also does not reimburse the OPCW for the time spent by its staff members in managing the Provident Fund.

Administrative support by the OPCW

15.3 The staff of the OPCW Budget and Finance Branch handles the Provident Fund's disbursements, accounting, reporting, and other administrative services. The OPCW provides necessary materials and facilities needed for the running of the Provident Fund's operations. The Provident Fund does not compensate the staff or the OPCW for such administrative support.

16. CONTINGENT LIABILITIES

The Provident Fund does not have any contingent liabilities as at 31 December 2020.

17. RELATED PARTY TRANSACTIONS

17.1 The Provident Fund is not controlled by another entity; however, the OPCW is considered a related party of the Provident Fund as it shares key management personnel and provides the principal source of Participants' contributions.

17.2 The OPCW provides administrative support to the Provident Fund free of charge (note 15.3). All other transactions between the Provident Fund and the OPCW are conducted at arm's length.

17.3 The Provident Fund is not party to any further arrangements that could be considered as related parties.

18. KEY MANAGEMENT REMUNERATION

18.1 Members of the Provident Fund Management Board play the key management role as regards to the Provident Fund. The six members of the Board include the Deputy Director-General and Principal Financial Officer of the OPCW, and four members elected by Provident Fund Participants.

18.2 The members of the Board are not compensated for their services to the Provident Fund. The Provident Fund does not have employees of its own.

19. EVENTS AFTER THE REPORTING PERIOD

19.1 In early 2020, the World Health Organisation declared a global health pandemic relating to COVID-19, which has continued into the financial year 2021. Financial markets have continued to fluctuate in the early part of 2021; however, the Provident Fund has continued to be largely shielded from such fluctuations in global asset prices, as the financial assets held by the Provident Fund primarily are comprised of cash and cash equivalents, in line with the Investment Policy of the Provident Fund. The short-term credit rating of ABN AMRO continued to remain at P-1 (as per Moody's Investor Service Ratings) as at the date of authorisation for issuance of these Financial Statements.

19.2 The continuing impact of this event upon the Financial Statements for the year ended 31 December 2020 has therefore been considered, with the conclusion that there are no elements which would constitute an adjusting event under IPSAS 14. Considering all information available and understanding that the full prospective impact of the COVID-19 pandemic cannot be measured by the Management Board until the situation further matures, as at the date of authorisation for issuance of the Financial Statements, the OPCW Provident Fund is expected without reservation to continue as a going concern.

19.3 No other significant event is reported after the reporting date. The date of authorisation for issue is the date at which the Financial Statements are certified by the External Auditor.

Annex 3

INDEPENDENT AUDITOR'S REPORT TO THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS 2020

Opinion on financial statements

I have audited the financial statements of the Organisation for the Prohibition of Chemical Weapons (OPCW) for the year ended 31 December 2020, which comprise the Statement of Financial Position, Statement of Financial Performance, Statement of Changes in Net Assets, Cash Flow Statement, Statement of Comparison of Budget and Actual Amounts for the year then ended, and the related notes including the significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects the financial position of the OPCW as at 31 December 2020 and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

Opinion on regularity

In my opinion, in all material respects, the revenue and expenses have been applied to the purposes intended by the Conference of States Parties and the financial transactions conform to the Financial Regulations which govern them.

Basis for opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) and the Organization's Financial Regulations. My responsibilities under these are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the OPCW in accordance with the ethical requirements that are relevant to my audit of the financial statements in the United Kingdom. My staff and I have fulfilled out other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinions.

Other Information

Management is responsible for the other information. The other information comprises the Report of the Director General and the Statement of Internal Control. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Public Sector Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the OPCW's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the OPCW or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the OPCW's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My responsibilities are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs; I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the OPCW's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the OPCW's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the OPCW to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the revenue and expenses reported in the financial statements have been applied to the purposes intended by the Conference of State Parties and the financial transactions conform to the Financial Regulations which govern them.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Report

I have also issued a long-form audit report on the results of my audit.

[Signed]

Gareth Davies

Comptroller and Auditor General
National Audit Office

157-197 Buckingham Palace Road
Victoria
London. SW1W 9SP
United Kingdom

2 July 2021

INDEPENDENT AUDITOR'S REPORT TO THE PROVIDENT FUND OF THE ORGANISATION FOR PROHIBITION OF CHEMICAL WEAPONS 2020

Opinion on financial statements

I have audited the financial statements of the Provident Fund of the Organisation for the Prohibition of Chemical Weapons (the Provident Fund) for the year ended 31 December 2020, which comprise the Statement of Financial Position, Statement of Financial Performance, Statement of Changes in Net Assets/Equity, and the Cash Flow Statement, and the related notes including the significant accounting policies, for the year the ended.

In my opinion, the accompanying financial statements present fairly, in all material respects the financial position of the Provident Fund as at 31 December 2020 and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

Opinion on regularity

In my opinion, in all material respects, the revenue and expenses have been applied to the purposes intended by the Conference of the States Parties and the financial transactions conform to the Financial Regulations which govern them.

Basis for opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs) and the Provident Fund's Financial Regulations. My responsibilities under these are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Provident Fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the United Kingdom. My staff and I have fulfilled out other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinions.

Other Information

Management is responsible for the other information. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Public Sector Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Provident Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Provident Fund or to cease operations, or has no realistic alternative but to do so.

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My responsibilities are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs; I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- identify the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Provident Fund's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Provident Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Provident Fund to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the revenue and expenses reported in the financial statements have been applied to the purposes intended by the Conference of the States Parties and the financial transactions conform to the Financial Regulations which govern them.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

[Signed]

Gareth Davies

Comptroller and Auditor General
National Audit Office

157-197 Buckingham Palace Road
Victoria
London, SW1W 9SP
United Kingdom

2 July 2021

REPORT OF THE EXTERNAL AUDITOR

JULY 2021

Organisation for the Prohibition of Chemical Weapons

External Auditor's Report on the 2020 OPCW and OPCW Provident Fund Financial Statements

Contents

The Comptroller and Auditor General is the head of the National Audit Office (NAO), the United Kingdom's Supreme Audit Institution. The Comptroller and Auditor General and the NAO are independent of the United Kingdom Government and ensure the proper and efficient spending of public funds and accountability to the United Kingdom's Parliament. The NAO provides external audit services to a number of international organizations, working independently of its role as the Supreme Audit Institution of the United Kingdom.

EXECUTIVE SUMMARY

1. The Organisation for the Prohibition of Chemical Weapons is the implementing body of the Chemical Weapons Convention, which entered into force in 1997. The Organisation is composed of 193 Member States who share the collective goal of eliminating and preventing the re-emergence of chemical weapons, thereby strengthening international security and facilitating international cooperation. The Organisation's profile has increased in recent years partly as a result of the persistent threat posed from chemical weapons use but also due to new capacity-building initiatives undertaken in the area of international cooperation. OPCW is approaching a period of change as it moves from verification of the destruction of declared chemical weapons to the prevention of their re-emergence.

2. In addition to our opinion on the financial statements of the OPCW and OPCW Provident Fund, this report presents the key findings and recommendations arising from our work. In this the final year of our six-year mandate (2015 through 2020) as OPCW’s external auditors, we are taking the opportunity to highlight the progress and areas for further improvements that can be achieved. Our report comments on OPCW’s financial position, its approach to strategic financial management and internal control and governance arrangements. We have further reviewed progress in areas covered in our performance audit namely, procurement, human resources and the major capital programmes relating to the Enterprise Resource Planning project (ERP) and the Centre for Chemistry and Technology (CCT) project. There are no specific recommendations in respect of the OPCW Provident Fund.

Financial management

<u>Overall audit results</u>

3. Our audit comprised the examination of the financial statements and underlying transactions for both the OPCW and OPCW Provident Fund financial statements for 2020, and was conducted in accordance with International Standards on Auditing and the financial regulations. We provided unqualified audit opinions on both the fair presentation of the financial statements and that the transactions had been in accordance with the financial rules, regulations and authorities set by States Parties.

4. The production of the financial statements remained a highly complicated and manual process due to the final closedown involving the Smartstream legacy financial system. In the context of managing the preparation of the financial statements alongside the introduction of the new ERP, the impacts of the pandemic and continued remote working, the maintenance of quality financial systems represents a significant achievement. Despite major systems changes OPCW was able to maintain the normal timetable for accounts production.

5. While continuing to note the quality of financial reporting, we have made observations in respect of further developing the annual financial report, to include key metrics and financial performance indicators to highlight how resources have been used to deliver key outcomes. OPCW continues to demonstrate strong capabilities in managing and

reporting its use of financial resources and in improving transparency. It will be important to retain this level of quality as the budget and finance teams change due to mandated rotation over the next few years.

Financial commentary

6. In 2020 OPCW achieved an overall surplus of EUR 7.0 million (2019: EUR 7.1 million).This surplus arose solely from Trust and Special Funds, which generated a surplus of EUR 9.2 million (2019: EUR 7.4 million). The General Fund incurred a deficit of EUR 2.2 million (2019: deficit EUR 244 000). As a consequence of this, the net liabilities of the General Fund have increased significantly to EUR 6.1 million (2019: EUR 4.5 million). Overall net assets of both General and Trust and Special Funds was EUR 26.1 million (2019: EUR 18.6 million).

7. The Organisation has continued to face significant financial challenges during 2020, comprising cash-flow pressures from the growth in the level of outstanding assessed contributions; and unbudgeted staff costs arising from changes to International Civil Service Commission (ICSC) allowances and post adjustments. These were initially managed through a freeze on recruitment. Ultimately, reduced expenditures arising from the impact of the COVID-19 pandemic and early receipt of 2021 contributions meant the impact was reduced. Without these events OPCW would have been unable to deliver the budgeted activities within its available cash resources.

8. The outstanding assessed contributions deteriorated from an already high level of EUR 7.1 million in 2019 to EUR 10.1m in 2020. In addition, many of the payments made were substantially later than their due date. Failing to meet obligations on a timely basis meant OPCW had to utilise EUR 7.5 million of the EUR 8.1 million Working Capital Fund to maintain liquidity. It is incumbent on States Parties to ensure payment in line with the Convention to ensure implementation of the approved spending plans and the agreed objectives.

9. As a consequence budget implementation of 93.2 per cent (2019: 99.3 per cent) was significantly lower than the levels previously achieved. The Organisation has faced cash pressures over many of the last six years and has continued to refine budget processes to control costs and to mitigate implementation and monitoring risks. OPCW has successfully implemented budgets to a much higher implementation rate than many other international organisations we have audited, reflecting a good standard of budgetary and financial control.

Strategic Financial Management

10. Financial challenges will continue into 2021 and will require the Organisation to continue refining its approach to financial management. During our mandate we have noted a number of significant developments in the way OPCW manages and plans the use of its financial resources and it has responded well to the recommendations we have made. Early in our mandate we highlighted the importance of integration between business and financial resource planning, better linked to longer term objectives. OPCW developed a Major Capital Investment Plan to better plan the resourcing of capital investments needed to deliver OPCW's programmes. OPCW has also developed

a longer-term resourcing model with the move to a biennial budgeting. The evolution of the biennial budget incorporates important recommendations we have made to enhance the linkage between resourcing and outcomes. This provides a greater focus on results-based management and is supported through the development of meaningful and measurable key performance indicators. While OPCW still has further to go, the principles contained within the latest round of budget guidance place much greater emphasis on these developments.

11. As the Organisation reaches the end of the verification of declared chemical weapon stockpiles, it will become increasingly important to align long term objectives with resource planning needs. As resources from the regular budget have become more constrained, OPCW has increasingly looked to voluntary contributions to fund elements of its activity. It is continuing to emphasize zero based budgeting principles as part of the 2022-23 budgeting cycle as a means of driving efficiency. Our report has highlighted the importance of structured cost reduction as a further mechanism to achieve cost efficiencies, considering the role that increased contracting-out or shared functions might bring. It is important as resources become more constrained to have clear and ambitious strategies to demonstrate the approach to cost reduction.

<u>Internal Control</u>

12. During our tenure the Statement on Internal Control has evolved to be a document supported by a clear evidence base with processes and outcomes now overseen by OPCW’s most senior management. The Statement is a critical accountability document for States Parties, and we continue to encourage OPCW to fully incorporate the work of the Office of Internal Oversight and other forms of assurance available to management. We have not identified any significant control weaknesses during our mandate, but OPCW can further strengthen its control framework by leveraging the opportunities within the new ERP to enhance monitoring and compliance reporting and to take actions when non-compliance is identified.

13. Enterprise risk management (ERM) is an integral part of the internal control framework, supporting management in the systematic identification, management and mitigation of risk. ERM processes within OPCW continue to be established, but it is clear that risk management is being better integrated with decision making through forums such as the Risk Management Committee. A sound framework is now in place, but as processes mature it is important that the level of challenge is sufficient to ensure the risk prioritisation and mitigations are appropriate. This will be supported by the issuance of a new Administrative Directive to cover the risk management process, supported by appropriate training. It is important that process is kept proportionate and that the focus is on using the outputs to review the quality and effectiveness of identified mitigations.

14. Over the last six years the Office of Internal Oversight (OIO) has developed a more risk focused approach to its work. This will be further enhanced when OPCW develops its risk registers, which will help inform risk-based work plans. OIO has enhanced its Charter, providing greater clarity over its independence and it has addressed the vacancies and resourcing issues experienced in the earlier part of our mandate. In 2020 OIO’s arrangements were reviewed against the professional standards of the Institute

of Internal Auditors and was found to be compliant, with no major findings. This is a positive outcome, providing confidence in the quality of the work undertaken. As OPCW develops its ERM processes and embeds new systems it will be important that OIO continues to ensure it has the right level of resource and skills to meet assurance needs.

15. One area where OPCW has been slow to respond is in respect of anti-fraud arrangements. While we have noted a fraud risk assessment has now been undertaken, the further development of the Code of Conduct and the establishment of clear fraud response and prevention plans remain outstanding. We understand that 2021 will see the implementation of an updated Code and associated policies. Clear antifraud and whistleblowing policies are important in setting expectations and establishing mechanisms to both identify and then investigate wrong doing. It is important that there is a clear culture of zero tolerance for fraud and misconduct, supported by policies and processes to identify and respond to any incidences.

16. We have previously reported to OPCW about the benefits of enhanced scrutiny through the establishment of an audit committee to supplement the work of the Advisory Body on Administration and Finance. We continue to believe that these mechanisms, increasingly adopted by other international organisations, would have benefits in enhancing oversight. However, we have noted the view taken that OPCW considers that ABAF serves an equivalent function. We have recommended that States Parties should consider the use of independent experts to establish clear evaluative criteria so that any future external audit appointment process can be objectively assessed. This would provide a framework for recommendations to be made to States Parties which would help secure the continued appointment of appropriately skilled and experienced providers.

17. We have considered how OPCW responded to the COVID-19 pandemic, noting that it entered the situation without any clear continuity plans or mechanisms to facilitate remote working. Management responded through significant investment in enabling technology and developed the response on an ad-hoc basis through an inter-divisional taskforce, chaired by senior management. While arrangements were established to enable OPCW to continue certain activities remotely, there was a significant impact on the physical verification and cooperation activities. The pandemic has exposed the need for a more systematic set of business continuity arrangements, but it also offers opportunities to consider benefits that may be gained from more flexible working arrangements using the new platforms acquired to enable collaborative remote working. A key development during the pandemic was the use of regular staff surveys to refine the organisational response. This has been a new way of engaging with staff which is providing a richer set of data to assess staff well-being.

Performance audit results

<u>Human resources</u>

18. We reported on OPCW's Human Resources management in 2016. Our report identified that processes lacked a strategic focus, and that the approach to talent management,

performance and succession planning were not developed to meet the future needs of OPCW. We also identified that data was not used to monitor HR performance or to identify and manage emerging HR risks. We have noted significant improvement in these areas and OPCW has moved from a largely transactional function to one which has embraced a more strategic approach.

19. There has been significant improvement in the management of staff performance and development, utilising new software implemented in 2020. There is greater emphasis on continuous feedback, and in supporting staff development through better learning opportunities and a focus on leadership and personal development. This is supported by capturing staff feedback, which began through pulse surveys of staff in response to the pandemic, but which we understand will continue as part of plans for regular staff engagement. While these new approaches are embedding, they better position OPCW for its future needs and in supporting data to evidence the forthcoming OPCW People Strategy.

Procurement

20. We reviewed OPCW's procurement function in 2017. We identified areas for improvement in respect of procurement strategies, guidance and contract management. We also identified an absence of management information to inform compliance monitoring and the efficiency of contracting. Again, we have observed significant developments including the finalisation of the procurement strategy in 2021. Following our recommendations there has been a greater emphasis on a risk-based approach, focusing on strategic and higher risk contracting. Although ERP implementation has delayed the development of reporting metrics, we have seen improved reporting to the Committee on Contracts in respect of compliance, and it remains important so that non-compliance is addressed. Further developments in this area will be important to provide feedback on procurement activities and to identify trends.

21. Improvements have been made in respect of contract management, with development of a clear framework, enhanced training and a proportionate risk-based approach to contract monitoring. These improvements should better position OPCW to manage its key contracts and to demonstrate that value is being maximised from them. We have also noted a more proportionate approach to the level of scrutiny within the Committee on Contracts, which at the time of our original review lacked a risk-based approach. Overall, good progress has been made in respect of OPCW's procurement function, which is increasingly strategic and data driven.

Enterprise Resource Planning (ERP) Implementation

22. During the course of our mandate we have reported on the progress of the implementation of OPCW's ERP. The project was a critical business need, to replace outdated legacy systems and to offer an integrated business solution. This would enhance OPCW's ability to manage resources efficiently, to better report on their use and to deliver process improvement. We have noted that the substantive element of the

ERP was introduced and became operational in January 2021, outside the period covered by the scope of our audit of the financial statements.

23. In our early reports we highlighted that in our view the original proposals did not fully consider the planned outcomes and benefits of the ERP, making a clear assessment of the ERP's value to OPCW difficult to measure. Subsequent reports highlighted delays in system developments and testing which ultimately resulted in a change of implementing partner and the main elements of the ERP being implemented in January 2021, some four years later than originally planned.

24. We consider that there are lessons to learn for wider project management from the ERP implementation. These include ensuring project governance safeguards against the risk of optimism bias and that project management incorporates strengthened assurance arrangements over implementing partners; and to minimise the risk of over reliance on a small number of key experts in providing oversight.

25. We have noted that the ERP does not yet include the planned functionality for travel and asset management. Management consider this can be achieved through a more proportionate solution, within remaining resources, although we have not seen a detailed plan for the delivery of this. Consequently, while the major planned elements of the ERP are now implemented, the full anticipated functionality of the ERP has not yet been achieved.

26. The planned costs increased from the original EUR 7.9 million budget to EUR 8.7 million. While this budget has been largely consumed, the overall cost of the ERP does not include the considerable indirect costs of process owners and management time, which have been exacerbated by the extended implementation. It is important that future project activity properly captures these indirect costs to enable a better assessment of overall cost benefits.

27. The ERP offers an opportunity for OPCW to leverage a changed culture. We have reported that there has been a lack of change management planning alongside the implementation of the ERP. It is important that alongside the new working arrangements arising from the pandemic, the opportunities of the new ERP are used to develop organisational culture. This will enable OPCW to capitalise on the ERP investment in leveraging more efficient working processes and better use of data to inform decision making. At present these opportunities have not yet been fully exploited.

Centre for Chemistry and Technology Project

28. Over the last three years we have reviewed the approach to the CCT project. The business case and project governance have addressed some of the issues we had previously highlighted for the ERP Project. As a high-profile project it remains important for OPCW to ensure effective oversight of the risks. OPCW should draw upon the use of appropriate expertise and, where appropriate, external expert assurance to ensure delivery of the contractors, especially since the contracts used are very

different to the ones normally operated by OPCW. It is important that OPCW does not rely on single points of assurance or quality control to minimise risk.

29. The impact of the pandemic could create new risk to the project given market uncertainties. This has been clearly flagged to States Parties by management, but these risks have not been incorporated as a separate contingency budget at the present time. It remains important therefore that there is realism and transparency around costs and timetable, and that the project governance guards against optimism bias. At the time of our audit management considered that the project remained on schedule for completion of the build.

PART ONE - FINANCIAL MANAGEMENT

Overall audit results

1.1 Our audits of the OPCW financial statements revealed no weaknesses or errors which we considered material to their accuracy, completeness or validity. The audit opinion confirms that the financial statements present fairly, in all material respects, the financial position of the Organisation as at 31 December 2020 and of its financial performance and cash flows; statement of changes in net assets and statement of comparison of budget and actual amounts for the year then ended. It also confirms their preparation in accordance with International Public Sector Accounting Standards (IPSAS) and that, in all material respects, the transactions underlying the financial statements have been made in accordance with the Financial Regulations and applied to the purposes intended by States Parties.

1.2 The audit included a general review of the Organisation's accounting procedures, an assessment of internal controls that impact on our audit opinion; and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. Our audit procedures were designed primarily for the purpose of forming an audit opinion. The audit did not involve a detailed review of all aspects of the budgetary and financial information systems, and the results should not be regarded as a comprehensive statement on them. Finally, an examination was carried out to ensure that the financial statements accurately reflected the accounting records and were fairly presented.

1.3 This year’s outcome is consistent with the unqualified opinions and the presentation of quality financial statements that we have experienced throughout our mandate. The presentation of quality financial statements is dependent upon good processes and a knowledgeable Budget and Finance Branch team. There have been challenges in preparing the statements arising from the antiquated Smart Stream accounting system and, over the last three years in particular, from the impact of financial uncertainties, the demands of the delayed ERP implementation on process owners, and latterly the practical challenges of the COVID-19 pandemic. Despite this, the OPCW has achieved positive audit results.

1.4 Preparing high quality financial statements relies on good financial discipline and technical capability and capacity within the finance team, and this has been clearly demonstrated to us. We have noted however, that over 2021 and 2022 the budget and finance function will undergo further change as a result of significant staff turnover as a result of tenure policies. This will create reporting pressures, especially since there are also likely to be further developments and iteration of the ERP systems which will create demands on the finance process owners; a change in external auditor; and the ongoing financial pressures.

OPCW needs to remain mindful of the need for succession planning across the Budget and Finance Branch during a significant period of change to ensure it maintains its technical capability without significant disruption.

1.5 In reporting OPCW's financial performance, we have seen ongoing enhancement and transparency. Early in our tenure, there was little financial reporting of the underlying performance and trends. In 2017, following our observations an Annual Financial Report was introduced to accompany the financial statements, drawing attention to key balances and transactions to allow deeper scrutiny and consideration by States Parties in a more accessible format. We have noted similar developments in quarterly and monthly management reporting.

Exhibit 1

NAO's good-practice principles for Annual Reports

The good-practice principles are grouped under the following headings:

Supporting Accountability

- telling the story of the organisation in a fair and balanced way;
- Compliance with the relevant reporting requirements; and
- Clear action points to take forward.

Transparency

- frank and honest analysis;
- consideration of the challenges an organisation is facing;
- appropriate use of data; and
- quantification of risks and performance measures.

Accessibility

- highlights key trends in the financial statements;
- concise summaries of key points; and
- consideration of how the organisation engages with key stakeholders and meets their needs.

Understandable

Use of:

- plain language to explain difficult concepts;
- infographics and diagrams to communicate important messages; and
- clearly integrated structure to help users navigate it effectively.

1.6 In our view a good annual report provides a fair and balanced description on the Organisation's "corporate story" in a way that is compelling to the wide variety of stakeholders who have an interest in its activities. Financial statements should be accessible and comprehensive, covering performance and financial information in an integrated way. Audited figures in the financial statements offer stakeholders a wealth of information and OPCW should consider how it might add detail of the key outcomes and organisational performance that have resulted from the use of its resources. We set out in Exhibit 1 above, our consideration of the good practice principles.

1.7 The current annual Financial Report outlines the financial performance and position of the Organisation but has little commentary on how this interacts with the results, aims and accountabilities of the Organisation. As OPCW looks to enhance its reporting related to Results Based Management (RBM) and Key Performance Indicators, the Organisation should consider outlining some of these key financial and outcome metrics in the annual financial report and grounding them in the financial results. This would enhance transparency, while giving wider context to the financial information presented. This would not replace or duplicate the level of information provided in the Annual Budget Performance Report.

Recommendation 1: We recommend that, as results-based reporting is enhanced and matures, OPCW further develops its Annual Financial Report to include the most significant measures of key performance data from the Annual Budget Performance Report, to highlight how resources have been utilised to deliver objectives and outcomes.

1.8 Last year we reported that the ERP implementation could impact the timetable for the delivery of financial statements. Despite the January 2021 go-live for the Systems of Record, OPCW has met the requirements of financial regulations to enable us to certify the financial statements in time to ensure the availability of our report to the Executive Council and the ABAF. In our view, while this has been challenging, OPCW has avoided the need to run parallel systems and the risks of in year-data migration. Our work in respect of 2020 has solely relied upon the legacy IT systems which supported the production of the financial statements and recorded all transactions relating to 2020. The scope of our audit has not extended to providing assurance over the controls or effectiveness of the new ERP, which will be audited by our successors.

Financial commentary

1.9 The Organisation recognised revenues of some EUR 79.1 million in 2020 (2019: EUR 84.5 million), which primarily consisted of assessed contributions of EUR 59.6 million (2019: EUR 66.0 million) and voluntary contributions of EUR 15.8 million from States Parties (2019: EUR 15.6 million). Assessed contributions under the IPSAS basis of reporting decreased by some EUR 6.5 million in accordance with estimations of the final cash surplus for 2020, while the gross level of assessed contributions remained consistent with prior years (at EUR 67.1 million). Voluntary contributions continued to remain high due to sustained fundraising for the Security and Business Continuity (TCB) project and for the Centre of Chemistry and Technology project.

1.10 Expenses in 2020 reduced to EUR 71.5 million (2019: EUR 77.3 million), primarily as a result of decreases in travel expenses which fell by EUR 6.1 million, due to the impact of COVID-19 pandemic related travel restrictions and a small drop in general operating expenses of EUR 1.8 million. The reductions were partially offset by a rise in employee benefit expenses by EUR 2.4 million.

1.11 There was an overall surplus (across all funding sources) for the period, with revenue exceeding expenses by EUR 7.0 million. This was solely due to the increase in Trust and Special Fund revenues, which offset the overall General Fund deficit. Overall net assets of the Organisation increased to EUR 26.1 million (2019: EUR 18.6 million), comprising a EUR 6.1 million deficit in the General Fund and EUR 32.2 million surplus in the Trust and Special Funds. The overall General Fund deficit increased by EUR 2.2 million in 2020, reflecting the adverse movement in long-term employee liabilities, reflecting the accumulation of home and annual leave benefit entitlements as a result of the pandemic.

1.12 The Organisation continues to manage its cash in a well-controlled manner and has accommodated cost increases and cashflow pressures around the receipt of assessed contributions through tight financial control. It has also continued to minimise the impact of negative interest rates. As noted in the Director-General's Report, the Working Capital Fund (WCF) was used this year to provide financial liquidity to the organisation, providing the General Fund with EUR 7.5 million to finance regular activities; this left only EUR 0.6 million of cash available within the WCF at the year-end. The Cash Deficit from 2019 (EUR 1.2 million) will need to be replenished and this will create further pressures upon OPCW.

In light of persistent cashflow difficulties OPCW should keep the level of the Working Capital Fund under regular review.

❖ **FIGURE 1: FINANCIAL RATIOS FOR OVERALL OPCW FUNDS**
Our analysis shows consistent cash pressure trends across the six years of our mandate

Ratio	2020	2019	2018	2017	2016	2015
Current ratio[1]						
Current assets: Current liabilities	1.80	1.68	2.32	1.79	1.80	1.50
Total assets: Total liabilities[2]						
Assets: Liabilities	1.37	1.30	1.30	1.20	1.25	1.24
Cash ratio[3]						
Cash and deposits: Current liabilities	1.09	1.12	1.67	1.08	1.16	0.76

1 A high current ratio indicates an entity’s ability to pay off its short-term liabilities.

2 A high asset to liability ratio is a good indicator of solvency.

3 The cash ratio is an indicator of an entity’s liquidity by measuring the amount of cash, cash equivalents or deposited funds there are in current assets to cover current liabilities.

Source: Audited Financial Statements of OPCW

1.13 Figure 1 above highlights the key financial ratios for the Organisation, considering all funds and reserves. We use ratio analysis of an organisation's financial health on all our international audits to show how financial positions change over time. These ratios express the relationship of one item of account against another. For example, there are EUR 1.80 of current assets for every EUR 1 of current liabilities, this is primarily due to the significant balance of Reserve and Trust Funds. Trust Fund balances are generally held for restricted purposes meaning this funding is not available to the Organisation for general liabilities as they fall due. While the ratios suggest a relatively stable and consistent financial position, the liquidity has only been maintained by the influx of Trust Funds resources which have grown over the period largely as a result of increased fund-raising efforts, including for the CCT.

1.14 Overall, the level of outstanding State Party assessed contributions on a gross basis have increased to EUR 10.1 million (2019: EUR 7.1 million), while Article IV and V receivables have reduced moderately to EUR 7.8 million (2019: EUR 8.0 million). The level of outstanding assessed contributions and Article IV and V reimbursements exceed the level of resources available within the WCF. This represents a significant risk to the OPCW, since this level of outstanding contributions and reimbursements means the current mechanisms to fund short term deficits are inadequate. Measures were taken in year to manage expenditure and to delay recruitment, these steps together with the reduction in travel arising from COVID-19 pandemic enabled OPCW to manage these significant cash pressures. These mitigations also helped to limit the full year impact of unforeseen increases to employee costs resulting from changes to post adjustments and a series of staff salary cost increases arising from a review by the ICSC, which had not been factored into the approved regular budget assumptions during 2019 for the approved 2020 programme and budget.

1.15 Cashflow pressures were eased towards the end of the year as a result of payments in advance of 2021 assessed contributions by some States Parties. EUR 6.9 million of contributions were received before the end of 2020 compared to EUR 5.0 million in 2019 and EUR 1.5 million in 2018. A continued trend of delays in payment of assessed contributions could result in significant difficulties in implementing the approved programme and budget once the normal patterns of operational activity recommence post COVID-19 pandemic, especially since there will be no cash surplus available for distribution.

It remains incumbent on States Parties to make timely payments of assessed and Article IV and V contributions to ensure resources are available to deliver the approved programme budget and objectives of the Organisation.

1.16 In 2015 OPCW was not fully IPSAS compliant with the treatment of Article IV and V receivables. IPSAS requires that receivable assets are held at fair value, recognising the extent to which they are readily recoverable. Following our recommendations, OPCW extended its impairment policy to recognise accounting adjustments to the carrying value of these assets, recognising past practice and known risks to recoverability. In 2020 assessed contributions receivable assets were further impaired by a net EUR 0. 2 million, taking the cumulative impairment to EUR 1.4 million. In respect of Article IV and V obligations, total impairments now total a cumulative EUR 5.9 million. The net receivables (after impairments) for assessed contributions and Article IV and V obligations were EUR 8.7 million (2019: EUR 5.9 million) and EUR 1.9 million (2019: EUR 2.2million) respectively. All these receivables remain legal obligations under the Convention, regardless of their impairment status.

1.17 OPCW has consistently demonstrated high levels of budgetary control, managing expenditure closely to the approved budget levels. Due to the impact of the pandemic and the need to manage the cashflow during 2020, the Organisation's budget implementation rate was unusually low at 93.2 per cent, compared to 99.3 per cent in 2019. This underspend was largely due to the unique situation of reductions in inspection and international cooperation and assistance programme activities, caused by travel constraints of the pandemic. Lower levels of implementation were fortuitous in helping to manage the overall cashflow difficulties in year. With the COVID-19 pandemic continuing into 2021 the OPCW should be proactive to manage its budgetary implementation including early re-programming of activities aligned with objectives to facilitate a higher level of implementation.

Trust Funds

1.18 Trust and Special funds are reserves restricted for particular purposes or donor funded activities, with specific stipulations forming part of the contribution agreements. The Organisation holds a number of Trust Funds, 64 per cent (EUR 32.8 million) of cash balances held by the Organisation relate to Trust Funds (2019: EUR 29.6 million). Voluntary funding of this nature is providing much needed additional resources to supplement the Regular Budget and to fund specific policy objectives and projects. We note that an EU Project Trust Fund Co-ordinator has been appointed, and there may be merit in extending this concept to resource similar co-ordination activity to explore potential for sourcing additional contributions to deliver objectives across the Organisation. While some work has commenced in reviewing these Funds, it is important that any long- standing balances are re-purposed or returned as appropriate.

Strategic Financial Management

1.19 In the first year of our mandate we highlighted that OPCW should better integrate its financial strategies with medium-term business planning. We noted a disconnect between the annual planning of resources and the longer-term need for strategic financial management. This was especially important given the future changes to the Organisation following the end of the CW stockpile destruction phase. We have observed positive developments that indicate a more strategic and longer-term focus on funding during the course of our tenure, although this remains constrained by persistent challenges regarding the adequacy and timeliness of resources and States Parties consideration of the future development of OPCW.

1.20 OPCW has now adopted a **biennial based budgeting** model, supported by comprehensive budget guidance, aligned to Financial Rules and Regulations. We had advocated this longer-term budget horizon to reduce the amount of management and State Party effort in the budget setting process, given that generally the variability in funding was relatively low. The Director-General's instructions for the 2022-23 biennial programme has placed a clear emphasis on the need to retain an annual focus within the biennium to avoid underspending in each first year, as we previously recommended. The biennial budget provides scope for a more efficient allocation of resources through improved financial planning, greater certainty on funding priorities and closer alignment with the longer-term strategic programme of the Organisation. The first biennial programme and budget covering the period 2022-2023 will be prepared in 2021 for the consideration and adoption by the Conference at its Twenty-Sixth session.

1.21 The upcoming biennial period is likely to be characterised by a continuation of existing pressures on the regular OPCW budget on the one hand, with growing demand for the OPCW's services from States Parties. These pressures could be exacerbated if, as expected, the Organisation meets one of its core objectives – the verification of the elimination of all declared chemical weapons stockpiles – in 2023, which will become the catalyst for significant organisational transition.

1.22 The Organisation is continuing to embed a zero-based budgeting (ZBB) approach, applying this to the upcoming biennium, with more stringent guidance on costing assumptions and key principles. This requires budget managers to establish the budget from scratch (rather than varying previous budgets). ZBB allocates funding based on necessity and the achievement of key goals and indicators. In contrast to traditional budgeting, no item is automatically included in the next budget. A zero-based approach can encourage better value for money decisions and deliver efficiency and cost reduction, it can also help when an organisation needs to change its approach or strategy and tends to be used more widely by organisations during periods of economic contraction.

1.23 Zero-based budgeting requires an ongoing cultural shift from behaviours that often default to an incremental approach and it is important that the approach becomes further embedded, supported by a robust challenge process. Given that OPCW's focus and activities will evolve, we believe the approach is a necessary one. It will be important that OPCW learns lessons from the further refinement of the ZBB process.

1.24 OPCW has improved its approach to financial planning with the **major capital investment fund (MCIF)** following our recommendation to take a more strategic approach to its capital investment strategy, aligning it to longer-term goals. We believe a strategic and holistic approach to capital planning, drawing upon all available funding sources, offers opportunities to make more efficient investment aligned to organisational objectives. A planned approach minimises the potential budgetary shocks of capital investment and allows longer term planning to support improved procurement.

1.25 Given OPCW's recent financial pressures, we encourage OPCW to consider a **structured cost reduction** strategy as it transitions. The upcoming budgeting process, and in particular the use of the ZBB approach, provides an opportunity to review operating costs with a view to identifying cost savings. Effective cost reduction programmes require a clear strategic direction, full understanding of costs and to consider innovative ways to deliver services. This could encompass greater consideration of contracting out or consideration of the potential benefits of synergies with other Hague based international bodies. Greater use of technology has enabled some UN organisations to share back office services or to move certain non-critical activities to lower cost locations.

1.26 We have previously reported on structured cost reduction and change management in various international organisations and also public sector bodies in the UK. From our reporting in this area, we have highlighted some of the features which underpin effective cost efficiency programmes (Exhibit 2).

As OPCW transitions following the declared chemical weapons stockpiles destruction era, it is important that it considers its approach to structured cost reduction, although the effectiveness of this this will be dependent upon the clarity of the objectives set for management. The newly adopted biennial budgeting process is a potential shift to a clearer consideration of costs and outcomes.

Exhibit 2 - Effective cost reduction

Key feature	Relevance for OPCW
A data-driven approach to understanding, comparing and interrogating costs	Since the beginning of our mandate in 2015 we have highlighted the need for a more data driven, comparative approach to decision making. The Organisation has significantly improved its use of data in that time and the new ERP system provides further potential for improvement. This should be used to full effect in the new biennial budgeting process when interrogating and understanding costs which will help identify opportunities for cost reduction and help improve ongoing financial management. However, many of our recommendations around the use of data are still outstanding which presents a risk to the full use of a data-driven approach.
A comprehensive risk assessment	Effective risk management will provide an efficient, streamlined and formulated plan to help OPCW identify and respond to the likelihood of key risks involved in cost reduction. Though there have been significant improvements to risk management in the Organisation, some of our recommendations in this area still outstanding. We will return to this later.
A robust evidence-based cost reduction strategy	Achieving cost savings while implementing a significant change programme should follow the principles of the core management cycle for effective public service delivery, including clear objectives of what the cost reduction strategy is expected to deliver and a clear plan to migrate from the current state to the new operating. This will need to be linked to OPCW's results-based management approach and the Key Performance Indicators (KPIs).
A change in organisational culture	The challenge of structured cost reduction requires organisations to question how they have always done things, and to be bold in developing alternative ways of doing business. The zero-based budgeting approach will also facilitate this change to be effective. It will require OPCW to look beyond traditional organisational boundaries and take a system view to maximise the opportunities to ensure the delivery of its core mandate and those other priority areas for State Parties.
Effective governance and oversight of plans	The support of those charged with governance is critical in providing resources and guidance to management within a clear mandate and set of objectives. Effective monitoring to hold management to account for the delivery of these enables those charged with governance to demonstrate appropriate oversight.

Source: NAO

1.27 We have focused on how OPCW delivers efficiency and effectiveness in the use of resources in key areas, recommending enhanced reporting of performance metrics. In 2019 we recommended that OPCW enhance its overall approach to **results**-based management (RBM) and the way in which results are reported. We have noted that the Guidelines for the *2022-23 Biennial Budget* highlight the need to align programme objectives with the OPCW's 13 Medium-Term Plan goals, focusing these down onto four key result areas. This offers the potential to address one of our early recommendations to map resources to the medium-term plans and objectives of the Organisation. The concept mirrors a pilot which the Office of Internal Oversight (OIO) developed for their own results reporting and is a positive step.

1.28 As we previously reported, current performance measures are formulaic. In many areas of the business the targets remain static with little movement between years in respect of target or performance and lack trend and comparative information on performance. Divisions have often focused on what is easily measurable rather than the core outputs and outcomes. We also found that the underlying reported performance was not subject to scrutiny to ensure it was reported accurately. The move to biennial budgets and the new ERP chart of accounts will offer opportunities to build more effective measures of performance and to present a more holistic and integrated approach to results-based reporting. It will be important that results are not reported solely at the end of a biennium period, as this would lose value. It is also important that the key performance measures provide clear and challenging metrics which represent the key elements of activity and performance.

We reiterate our existing recommendations which highlight the importance of developing a full framework for results-based reporting. We note the significant emphasis on key performance indicators and the importance of a results-based focus as part of the 2022-2023 biennial budget guidance. It remains to be seen whether this will drive the OPCW to improved indictors which will provide better measures of performance and effectiveness.

Internal control and governance

1.29 Overall, the results of our audit have not identified any significant control weaknesses or evidenced any noticeable deterioration in the control environment as a result of the pandemic and the remote working processes. No issues of this nature have been reported to us by management and none were identified within the Statement on Internal Control or through the work of the Office of Internal Oversight. Maintaining control in the pandemic environment has been a notable achievement. It continues to be important that OPCW has robust processes in place to provide assurance over management's review processes and the sources of assurance which evidence their effectiveness. This will be essential during 2021 with the significant changes to the financial systems arising from the ERP implementation.

1.30 With any new ERP implementation, the effective operation of controls will be an area of risk. As we have previously reported, assurance around data migration is essential. Similarly, and especially in light of the changes in contractors and the way the ERP system has developed, it is important that sufficient expert assurance is obtained to confirm the effective operation of system and financial controls. These assurances require specific expertise given the risks that are involved and the complex build of the ERP system.

Throughout our mandate OPCW has demonstrated a solid and effective system of internal control, and we have identified no significant weaknesses. It will be important to ensure that the significant changes to the control environment in 2021 have been suitably assured to confirm effective operation of controls.

Recommendation 2: During 2021 OPCW should undertake a comprehensive set of assurance procedures to provide comfort that prior year balances and data have successfully migrated between the legacy systems and the new ERP. Furthermore, assurance should be obtained around the effective operation of the control environment and the embedded control functionality within the new system.

1.31 During our mandate we have focused on how our work helps OPCW develop and improve its internal control and governance arrangements. A number of areas remain under implementation, but the overall direction is a positive one. Our focus has extended to the Statement on Internal Control; risk management; work of Office of Internal Oversight and anti-fraud arrangements and audit committees. Our detailed observations can be found in our previous reports. We have also provided observations around the processes for appointment of external auditors, mindful of the recommendations made by the 25th session of the Conference of the States Parties.

1.32 The **Statement on Internal Control** is a key document which conveys the way in which the Director General has ensured appropriate control during the financial period and reports the results of this assessment. We have noted the significant progress that OPCW has made in enhancing its Statement to provide greater transparency on risk and assurance activities and more importantly to ensure the process is underpinned by a clear evidence base. We have supported this process through discussion and recommendations. Self-assessment questionnaires and a control framework were introduced in 2019 to provide a basis for the assurances relied upon by the Director General in making his Statement.

1.33 During 2020 these questionnaires have been further refined and continue to be completed by middle and senior management to report compliance and to confirm the operation of processes during the year. We have noted that following our further recommendations the Risk Management Committee, chaired by the Deputy Director-General, will now oversee the process in a transition from the Budget and Finance Branch. This demonstrates senior management’s commitment to ensuring the quality of responses and to oversight of compliance accountability if further reinforced by the results of the self-assessment questionnaires being considered by the Management Board.

1.34 OPCW can strengthen its control environment through utilising the potential functionality of the new ERP system to develop a suite of regular compliance reports that can be used to confirm the operation of key controls. Using this data and enhanced risk management processes will also provide better data to inform OIO’s risk-based programme and contribute more substantively to the evidence base for the Statement on Internal Control.

OPCW's approach to the Statement on Internal Control significantly improved during the course of our mandate and a good framework, now overseen at senior management level, underpins the oversight of the process. There is scope to further improve using new ERP functionalities to identify non-compliance and to enhance monitoring controls.

Recommendation 3: OPCW should explore a suite of management reports on key areas of compliance to create an evidence base to support the Statement on Internal Control and that it considers a holistic approach to monitoring compliance.

1.35 Throughout our mandate we have stressed the importance of enterprise **risk management** as a systematic process to identify and manage risk across the organisation. OPCW has developed its risk processes during our tenure, and these process are still evolving and maturing. In 2020 we saw greater evidence that risk management was being integrated with business decision making. The evolution of the Risk Management Committee is integrating key areas such as budget (through the Biennium budget instructions), financial strategy and the control environment with the operational risks within the Organisation. This offers the potential to provide a more holistic view of risk to inform senior management decision making.

1.36 In reviewing the recent risk registers we consider that a good framework is now in place, but more attention still needs to be given to the scale of risks identified and the degree of challenge in respect of the assessed impacts and mitigations. It is important to ensure that focused attention is given to the high and medium risks to ensure they have sufficient challenge in respect of the quality of the analysis and the appropriateness of the mitigations. Plans are in place to provide training to staff and a new Directive to cover the risk management process. Together with the Chairmanship of the Risk Management Committee by the Deputy Director-General, there are signs that the key building blocks of risk management will soon be in place.

Risk management processes continue to mature and there is greater evidence that identified risks are being used as part of decision-making processes. Further training will be required to embed these processes, and it remains important that the risk management process has effective and more regular challenge to ensure risks and mitigations are appropriate.

1.37 During our mandate the Office of Internal Oversight (OIO**)** has moved to a more risk focused approach and its independence has been enhanced through adaptation of its Charter. It remains important that OIO has the necessary skills and capacity to support review of significant risks, such as the complexity of the ERP system, to ensure that its assurances are robust and address key risks. We have noted periods over the six years where capacity and skills of the Office were depleted which the Director of OIO now considers to be addressed. Given the new systems and the significant operational changes in the years ahead, it will be important that OIO has sufficient skilled resources to discharge its functions.

1.38 In line with the requirements of internal audit professional standards, OIO were reviewed by the Institute of Internal Auditors – Netherlands. OIO was found to *generally conform*[49] to the mandatory elements of the International Professional Practices Framework and OIO's Charter. This represents a good outcome for OPCW, and we believe the increasing risk focus should be used as an opportunity to move towards provision of a wider opinion on the overall operation of internal control based on the risk focused programme of work.

OIO has developed its risk focus during our mandate and has enhanced its processes, achieving full conformity with professional auditing standards. It should continue to include concepts of materiality and risk within its planning process and that the necessary skills and resources remain available to provide an appropriate level of assurance.

1.39 A clearly documented and comprehensive assessment of the risk of fraud, and how an Organisation will respond to this risk is a vital part of the governance arrangements for **fraud prevention**. In 2015 we recommended that OPCW undertake a fraud risk assessment, which was completed in 2019, and develop a strategy to minimise and respond to cases of fraud. While progress has been slow, we understand that OPCW has now drafted policies which will be issued during 2021, along with a programme of training. These developments will provide guidance to staff on conduct issues and set out how OPCW will respond to fraud and conduct allegations to ensure they follow a clear process. Enforcement of codes of conduct can be enhanced by asking staff to annually confirm that they have read and continue to abide by the code of conduct. Such positive affirmation processes are increasingly being adopted within organisations to help enforce expectations.

1.40 These are long overdue developments, which should place OPCW in a stronger position to establish a new culture of expectation and behaviour, underpinned by clear protection from retaliation. It is important that planned training is supported by a clear commitment from senior management to enforce new policies. This can be further underpinned by the use of exception reporting as outlined earlier.

Recommendation 4: OPCW should consider mandating staff to annually confirm their acceptance and compliance with the Code of Conduct, noting any areas which might require disclosure.

1.41 In the early years of our tenure we strongly advocated the introduction of audit committees, stressing the value they can add to governance through their independent and expert inputs. We always saw the audit committee as complementing the work of the Advisory Body on Administration and Finance (ABAF), with its wider remit. We continue to believe an audit committee would provide greater opportunity for on-going

[49] Institute of Internal Auditors – Netherlands has three overall gradings: generally conform; partially conform; or does not conform.

insight and challenge and it will be important to continue to consider its merits and the value it could add to OPCW's governance on a periodic basis.

Appointment of external auditor

1.42 The OPCW had an extended process for the appointment of a new External Auditor, with the decision originally due in 2020 carried over to an additional Session of States Parties in 2021. In our independent and objective view, States Parties should consider a future process which assesses bids against clear criteria of price, technical experience and quality. A formal evaluation of proposals provides the basis for an objective assessment and, together with input from independent experts (an audit committee traditionally advises on this in many organisations), a basis for a recommendation. State Parties would remain ultimately responsible for the selection of candidates. We have noted that the 25th Session of the Conference of the States Parties recommended that States Parties establish a working group to look at future selection processes. We see appointment through an objective process to be a means of providing additional assurance regarding the continued quality of external audit provision.

Recommendation 5: We recommend that States Parties consider approving a process of evaluation of bids by independent experts against clear and objective criteria of price, experience and quality following the end of the tenure of our successors.

Business continuity and the pandemic response

1.43 The COVID-19 pandemic has had major consequences for all international organisations, changing working practices, placing new strains on financing and most significantly impacting on the nature and extent of operational delivery. As a Headquarters organisation with significant operational inspection activities this has had a major impact OPCW's ability to deliver its full objectives. Staff have had to work remotely, but the scale of disruption has been significant and few preparedness plans across the system had been designed to meet this degree of challenge.

1.44 OPCW entered the pandemic situation with a poorly developed and supported business continuity plan. Weaknesses in this area had been identified in 2015 through the work of OIO but had not been addressed at the time of the pandemic. The Organisation was not, therefore, initially well placed to meet the challenges of remote working, which had been considered a risk to its secure systems. A combination of confidentiality requirements, lack of IT infrastructure, and the absence of a virtual private network capability meant that the initial period after the first lockdown severely curtailed operations.

1.45 At the start of the pandemic OPCW established a Task Force on COVID-19, chaired by the Deputy Director-General. It acted as the governance mechanism for developing the cross organisational response and to establish the working practices and risk management oversight. The Task Force developed the response to the challenges of the pandemic and OPCW procured the necessary equipment and VPN access capability to securely access systems remotely. It also procured new systems such as Microsoft 365 to better facilitate communication and collective working. The pandemic response and the gradual introduction of systems and solutions to facilitate operational and remote working were developed on an ad hoc basis to address the issues and challenges which emerged.

1.46 The developments initiated may have important post-pandemic benefits in changing the culture of OPCW. It is important that management capitalise on these to move to a more agile and flexible way of working. OPCW should consider the cost benefit of investing to maintain the remote capability against savings in travel, productivity and staff wellbeing. It will be important to balance what has emerged as good productive work methods, with those which have been traditionally deployed.

1.47 OPCW identified its key worker staff to enable the Organisation to continue to operate its core functions and systems during the lockdowns. It allowed staff to take special leave where they had caring responsibilities. This provided the opportunity for a focus on using unproductive time to deliver training activities, which had significant take-up during the year. Regular pulse surveys have been used by OPCW to gauge staff morale and a staff welfare officer was brought in to help manage the specific needs of staff during this challenging period. The Task Force has monitored and flexed its guidance as the pandemic has unfolded and as it has identified the issues and challenges staff have faced. It has developed return to work plans and established the criteria for safe working on site.

1.48 Significant reductions in inspectorate activity have resulted from the pandemic. Of 241 planned Article VI inspections, only around a third of these could be completed. Plans have been agreed with States Parties, but much uncertainty remains around the logistics of inspection activity and the impacts on the work programme and the financial costs of it will be felt through to 2022. Recognising this, State Parties have approved a COVID-19 Variability Impact Fund, using a previous cash surplus to account for variability in specific areas of programme implementation that may arise from the pandemic.

1.49 Despite the scale of challenge during 2020, OPCW has continued to function and continue with many of its operations. It is important that the Organisation invests in securing a legacy from the investment in new technologies to ensure it has more effective and better maintained business continuity plans and that it undertakes a clear lessons learned exercise to enable experience to inform the development of a clear and regularly maintained plan. We are aware that the CCT will provide new business continuity capability for OPCW, and that actions are currently in place to develop new plans and Administrative Directives in this area.

1.50 While the OPCW has adjusted its response to the developing pandemic over time, it has not, at the time of our audit, undertaken a review of lessons learned from the experience to leverage the benefits of remote working. This partly reflects the ongoing nature of the pandemic and management informed us that there are plans to learn lessons. Our experience of many organisations is that remote working has identified opportunities to create efficiencies and help to provide staff with a better work life balance to improve productivity and to gain benefits in reducing accommodation needs.

It is important that the Organisation reflects on efficiencies and benefits that might arise from more flexible working arrangements.

Recommendation 6: OPCW should develop a formal and comprehensive business continuity plan, capturing the learned experience from pandemic working, and this should be underpinned by ongoing investment in infrastructure alongside that being made in the CCT project as a recovery site.

Recommendation 7: OPCW should undertake a lessons learned exercise to identify the potential benefits of more flexible working arrangements to secure efficiencies.

OPCW Provident Fund

1.51 During 2020 the OPCW Provident Fund has again returned a surplus, totalling some EUR 0.2 million (2019: EUR 0.3 million). Overall assets of the Provident Fund increased to EUR 63.5 million (2019: EUR 61.6 million). The total of contributions to the Provident Fund again exceeded the level of payments made from it to separated participants. The financial obligations to participants notifying their intention to separate before 31 December are included as liabilities of the Provident Fund, and these accrued expenses increased by some EUR 0.4 million at the year end, totalling some EUR 3.1 million total liabilities at year-end. The inclusion of these obligations has been the significant change arising from our audit of these Funds during our tenure.

1.52 The nature of fund liabilities is such that risk is limited to the payment of funds accumulated from the investments made. Overall, the Provident Fund had sufficient assets to cover its liabilities and free reserves of EUR 0.1 million. (2019: EUR 0.1 million). These reserves are available to the Provident Fund Board to meet the costs of operations and any unforeseen liabilities in accordance with the Regulations. During the course of our mandate we have noted that the administrative cost of the Provident Fund is currently borne by the General Fund, and consequently the Provident Fund Statements do not fully reflect the true costs of their operation. We consider it important that under IPSAS such services in kind are recorded to enhance cost transparency.

Over the period of our mandate Provident Fund arrangements have operated effectively and we have identified no significant control issues during this time.

PART TWO - PERFORMANCE AUDIT WORK

2.1 During our tenure we have focused on key areas of activity and risk within the administrative functions of OPCW as part of our performance audit mandate. During our term we have reviewed and reported on:

- management of Human Resources given it is the most significant area of expenditure;
- procurement given the financial and contracting risks which could result in poor value or non-compliance; and.
- progress on the implementation of the Enterprise Resource Planning system (ERP), given its criticality to supporting the management of OPCW's resources; and
- the Centre for Chemical Technology, given its importance to future operational delivery.

2.2 We made recommendations in each of these areas, a number of which remain outstanding. We have summarised the key issues in each of these areas, providing our final observations for States Parties in respect of the progress made.

Human resources

2.3 Our report in 2016 looked closely at OPCW's human resource management. Our focus was on the need to move from transactional to strategic management of resources. Since our review we have seen significant progress in the development of the HR strategy and of the strategic focus of its work. OPCW has fully embraced the recommendations we made in this area, although progress in some has been delayed as a result of slippage in the ERP implementation.

2.4 During 2020 HR has dealt with the significant impacts of COVID-19 on the workforce alongside the introduction of the new Talentsoft functionality introduced in January 2020. HR is building on the experience of 2020 when the difficulties of remote working facilitated an uptake in learning programmes delivered remotely. New learning policies are being developed to harness this experience to make learning a strategic process. Talentsoft has provided greater visibility of how staff are engaging with learning opportunities, which was a key area we highlighted for improvement. This is important in driving a focus on skills development needed for OPCW's future.

2.5 We were previously critical of OPCW's approach to performance management. During 2020 there has been a move to a process involving continuous conversations on development and performance. These have led to improved focus on development and better engagement with the process of providing feedback to staff compared to the low levels of engagement previously achieved. Training in the operation of the new system is ongoing and there is a plan to supplement technical support with additional 'soft skills' provision covering leadership, personal development and strengthening feedback. Systems now allow better data to monitor that these conversations are taking place. It is not yet clear whether the new approach will lead to improved identification of talent or the management of underperformance and it will be important to evaluate its success.

2.6 Improved development processes better position OPCW to identify skills needs and talent to equip it for the changes that will be required. Succession planning will be particularly important as the declared chemical weapon stockpiles destruction phase of the organisation starts coming to an end. We note that HR reporting to the Management Board has improved significantly but that a long-term staffing plan is yet to be put in place. Tenure remains a policy under review by States Parties, and we have previously expressed that there may be benefits in considering some flexibility in specific technical areas, under exceptional circumstances to address skills or capacity requirements which might prove difficult to address through ordinary recruitment processes. Discussions on tenure policy remain ongoing with States Parties, which HR is supporting with data and other technical assistance.

2.7 The various improvements highlighted above will be key components of the way in which OPCW will deliver its new People Strategy. This will be developed by 2023 and will be central to equipping staff with new skills for changed roles and to enable a more flexible and agile staffing mix. These developments will be underpinned by enhanced reporting, and we have seen good evidence how data is driving improved decision-making. As reported earlier, in light of the pandemic, OPCW initiated Pulse Surveys to provide feedback on staff morale and concerns. HR now has better data on staff priorities, concerns and wellbeing, providing real data on which it can consider its approach and policies. This was an area where we felt OPCW was previously deficient. Our discussions suggest that such staff engagement, together with feedback on results, will be a regular exercise. This will enable OPCW to assess trends and to highlight where attention may need to be focused over time.

2.8 The pulse surveys are one example of where HR is using improved data. With the implementation of the ERP, further data and reporting functionality will become available to inform management’s decisions and to monitor compliance with policies. HR is reporting key metrics on a regular basis to senior management through dashboards and it is evident that the accountability and transparency of HR performance is being enhanced.

During the course of our mandate we have seen HR move from a transactional function to a strategic one, which is well placed to support organisational change and to enable staff to be better equipped to meet the need for new skill demands. It will be important to continue to capitalise on the new system functionalities and to retain some of the cultural benefits of staff engagement which have arisen during the pandemic.

Procurement

2.9 In 2017 we reviewed the procurement processes within OPCW. We found that the procurement function was primarily transactional, and it lacked a strategic and risk-based focus. We identified that contract management was not well understood and that there was a lack of proportionality around the oversight of the function and the work of the Committee on Contracts.

2.10 We have noted that the development of a procurement strategy and manual was delayed. This was as a result of the combined impact of the ERP implementation; the significant pressures arising from Covid-19; and the significant CCT procurement, which stretched the resources of the Procurement function. During 2021, the new strategy was approved by the Committee on Contracts, and there has been a significant shift towards a more strategic and risk-based focus.

2.11 In reviewing progress, we have seen significant changes, and it is evident that the Procurement branch is taking a more strategic approach, recognising the need to make better use of data to monitor and report on procurement activities. Progress is being made, but it has been restricted by the delayed implementation of the ERP, which is the basis for many of the proposed enhancements and reporting functionalities. Consequently, the reporting dashboards and key performance metrics had not yet been developed at the time of our audit, although we have seen more use of data to report on compliance issues.

2.12 We continue to believe that improved reporting will enhance compliance and improve the quality of procurement decisions. We have continued to note that over half of the requisitions received by the Procurement branch continue to be received late, which creates risks to quality decision making. Towards the end of 2020 system alerts were initiated to remind users of the need to provide requisitions where contracts were due to expire. It is important that senior management reiterate the need for timeliness and compliance to ensure effective and planned procurement.

2.13 We have noted that during 2020 there has been a significant programme of training for managers involved with supervising contracts. Enhanced training should improve the quality of contract management to ensure that better value is obtained and will enhance accountability. Alongside this, OPCW has developed a contract management framework as a result of our recommendations. This separates the level of contract management into three categories, Basic, Standard and Advanced. This reflects the proportionate efforts needed to manage the risk of different contracts, to ensure that focus is appropriate. We have noted that this is a new development and that the categorisation will need to be refined in the light of experience, especially since over half of contracts originally categorised were deemed to need ‘Advanced’ management. With the new ERP, these processes for tracking the contract activity can be better managed to provide assurance that contracts are being appropriately monitored and their value maximised.

Overall, good progress has been made in respect of OPCW’s procurement function, which is increasingly strategic and data driven. Pending improvements in reporting functionality will need to be supported by more rigorous action to ensure compliance. A continued risk focus should enable OPCW to demonstrate more effective use of procurement, supported by enhanced contract management to get better value from the contracts awarded.

Enterprise Resource Planning Implementation

2.14 In 2015, OPCW was embarking on the process for procuring and implementing an Enterprise Resource Management system. The Organisation recognised the need to replace its legacy IT systems to enhance business reporting and improve business processes in its Medium-Term Plan for 2015 to 2019. A new ERP system was deemed necessary since the exiting finance system was no longer fully supported and OPCW did not have an integrated IT platform to integrate its key resource functions.

2.15 The primary motive for ERP implementation, as set out for the Executive Council, was to "enhance the effectiveness and efficiency of the Organisation's operations". It was anticipated that the preferred solution would transform internal business systems into a smarter, more agile, and better integrated set of processes. It also sought to address the risks around the sustainability and complexity of the current systems, the need for manual interventions and the inability to easily extract and analyse data. OPCW implemented the core element of its ERP system in January 2021, in addition to earlier elements such as the Talent Soft HR functionality introduced in January 2020.

2.16 Early on, we highlighted that, the business case could have been better articulated and developed, including clearer success criteria and benefit analysis. We reported that the absence of this and not capturing the full costs including the indirect costs, could limit OPCW’s ability to measure and assess value. We regularly highlighted the difficulties that OPCW experienced in ensuring alignment between its own plans and those of its ERP contractor to produce credible and deliverable implementation plans. Consequently, the project has significantly exceeded the original planned implementation date.

2.17 We have reported on the project delays and costs of the project. The original intention in the Project Initiation Document (PID) was to go live in January 2017, with implementation being eventually delayed by some four years. During this period the scope of the ERP was amended to focus on the systems of record (core functionality) and the systems of differentiation (e.g. talent management, analytics reporting and travel and asset management), reflecting the difficulties in implementing the ERP solution. Governance arrangements did not prove sufficiently robust in preventing optimism bias in the contractor’s ability to deliver and the implementing partner was unable to meet regularly revised timelines to deliver to the quality standards required. While OPCW engaged assurance partners alongside the oversight of the Project Team, these arrangements did not prove effective in highlighting risks and deficiencies in the delivery of the project.

2.18 As we have reported during the course of the implementation, management of the contractor’s deliverables was weak. During the development phase, various changes were made to the mode of delivery and in the final year the implementing partner was changed to secure a successful rollout in 2021. Quality assurance arrangements evolved, but they did not sufficiently identify the lack of quality within the systems being developed until late 2017, close to the intended implementation. We reported that OPCW was not in a strong position to challenge the providers’ plans to ensure that future planned implementation dates were realistic or achievable. When the implementing partner proposed a change to contract payment terms, management decided to engage a new implementing partner, utilising the development build to date. Once this decision was taken the implementation moved more swiftly to a point where the solution could be implemented.

2.19 The original budget for the ERP implementation was increased from the original EUR 7.9 million to EUR 8.7 million, and at the end of December 2020 there was an unencumbered balance of EUR 0.1 million. The budget was originally established to cover the full suite of ERP software. At the time of our audit, the plan for implementation of the travel or asset management functions has not yet been developed, although management inform us that it can be delivered within existing funds. While delivering the core systems of record, the ERP has not yet delivered the fully integrated system originally proposed and risks remain to the achievement of the original project scope.

2.20 We understand that there will continue to be system developments throughout 2021 to refine the system and reflect final business requirements. Due to the lengthy development process the implementation utilised an older ‘instance’ of the software, which while it provided necessary functionality will need to be upgraded (Milestone 7) to assure continued system support. Further upgrades will likely be required to update OPCW’s system landscape and retire other legacy on-premise systems.

2.21 We identified in our previous reports that it was important to capture full costs to assess the cost benefits of the project. The significant time and efforts of process owners have not been reflected in the overall project costs and therefore the full costs of implementation are understated. Given the extended implementation the consumption of indirect staff time and therefore costs, especially by process owners, has been considerable. It is important that future significant project activity within OPCW captures indirect costs, better measuring the resources used against the benefits arising.

2.22 There should be a clear and objective assessment of the management of the ERP project to learn lessons for future major capital programmes. This should cover the effectiveness of governance and project management, the use of assurance processes and the measurement of costs and benefits. Management informs us that the Project Team will undertake an assessment at the close of the project, and following our observations undertake a separate lessons learned exercise in consultation with OIO.

2.23 Throughout our mandate we have highlighted the importance of using the opportunity of the ERP to enhance efficiency and drive change in the organisation. We have reported that with the delayed implementation, focus has been lost on securing these benefits. Together with the potential changes to ways of working emerging from the pandemic, the new ERP offers opportunities to support change within OPCW and to enhance flexibility and agility. The ERP offers new reporting opportunities to better measure performance and compliance and to drive more efficient operations. As the system matures it is important that every benefit is maximised to its full potential to drive more efficient process.

In our view, there are lessons to be learned from the ERP implementation to ensure that project governance and management are enhanced, supported by more effective assurance arrangements to better oversee contractor performance and delivery. It is important that mechanisms are developed to track indirect costs to enable a better assessment of cost benefits, which at present cannot be fully measured to assess the delivery of value for money. A clear and objective assessment of these areas will be important to inform future significant capital projects.

Despite the difficulties of the project, the OPCW now has a system which should offer greater potential for efficient working and for enhancing data collection and reporting once it is fully embedded and used to its full potential. It also eliminates the risk of old, unsupported legacy systems. It is important that it fully capitalises on this opportunity.

Centre for Chemistry and Technology Project

2.24 Over the last three years we have commented in detail on the development of the Centre for Chemistry and Technology. This is one of the most significant investment projects in OPCW's history. It is a critical part of the infrastructure to deliver current objectives and it will also provide new opportunities for OPCW as it further evolves as an Organisation. We previously noted that the CCT Project had a stronger business case than the ERP project at its inception and that good lessons had been learned. It remains important however, that OPCW continues to seek measurable ways in which it can demonstrate that the CCT will deliver value to States Parties, considering the principles of the KPIs we outlined in our reports.

2.25 We have previously highlighted the project's governance arrangements, where lessons have been learned from the ERP project. We have continued to review some of the project governance board minutes and noted good practice features. One area where wider lessons could be learned is the way in which the project uses a systematic assessment of risk to provide a focus for decision making. During 2021, a critical risk was addressed, namely that the funding target of EUR 33.5 million was reached in March. OPCW appointed its prime contractor in April 2021 and management inform us they consider that the project remains on track to meet its costs and timetable.

2.26 As a high-profile capital project, risks will inevitably remain. Public procurement of major capital works are often high risk and result in cost increases and delay. OPCW has identified a clear risk that the current laboratory site must be vacated, and this will create additional project pressures. It will be vital that OPCW ensures that the optimism bias which featured in the ERP project is managed by ensuring there is sufficient expert challenge of the risks and that reliance on a small number of individuals is minimised. This is particularly important given the contracting terms are not ones commonly used by OPCW. This will be important during the build phase, as will the need to ensure contract variations are minimised and well controlled.

2.27 As we reported last year, uncertainty around the project may have increased as a result of the pandemic, which has introduced inflationary uncertainties on labour and materials costs. States Parties have been informed that while budget lines have varied in the light of inflation and better data, these have been accommodated within the overall project cost envelope of EUR 33.4 million with construction completed by the end of 2022. Management have reflected this uncertainty within their reporting to States Parties but have not provided contingency for it. Close cost control remains important and there should be clear visibility of the build quality alongside the rate of spend. Realism when costs are no longer containable is important for confidence in the project and OPCW should continue its transparent reporting back to States Parties.

Our reporting has shown that the CCT Project is demonstrating the appropriate features of project management, but risks and uncertainties remain. High risk projects require regular review and it remains important to ensure sufficient independent expert oversight is available to provide assurance that the project remains on track, to support a good level of challenge from the project governance mechanisms and to avoid optimism bias.

PART THREE - PRIOR YEAR FOLLOW-UP

3.1 In this section we summarise the Organisation's progress in implementing our past recommendations. The **Appendix** provides a more detailed review of progress for each prior year recommendation and includes the Technical Secretariat's account of progress.

3.2 As at May 2021, of the 30 recommendations outstanding following our 2019 audit, we considered that 10 recommendations had been implemented in full during the year, with 20 recommendations remaining in progress. It is important to note though that many of the outstanding recommendations are linked to developments expected from the ERP implementation.

3.3 Mindful of recent challenging circumstances, which continue to impact upon management's ability to implement recommendations, we believe there should be a more concerted effort to review recommendations and implement or reassess the applicability of our recommendations as time passes. We are happy to engage with OPCW in this process prior to the informal consultation where management report progress against our recommendations.

Audit handover

3.4 We look forward to meeting our successors from the Office of the Comptroller and Auditor General of India. We have a long-standing relationship with our Indian colleagues, and we have a proven track record of securing effective handovers with them. We will ensure we provide them with our full co-operation and will follow the framework of the UN Panel of External Auditors in handing over key audit documentation. We wish our successors every success in their tenure.

Acknowledgments

3.5 We would like to thank the Director-General, Deputy Director-General and their staff for their co-operation in facilitating the final year of our audit engagement. The audit of 2020 was a more challenging audit, as the entire audit process was conducted remotely, but we enjoyed the continued support of staff to meet the reporting timetable.

3.6 I would like to take this opportunity to thank the States Parties for the confidence they have shown in us during our six-year mandate. During this time, we have seen the Organisation face many challenges and we have welcomed the opportunity of providing you with observations to improve the management of OPCW resources. I wish OPCW and the States Parties well in their future endeavours in furtherance of objectives for the peaceful use of chemistry.

[signed]

Gareth Davies
Comptroller and Auditor General, United Kingdom - External Auditor

2 July 2021

APPENDIX

Prior year follow up details

Ref	Area	Recommendation	OPCW Response	Time Frame	External Auditor Comment
01/2019	Financial Management	The Organisation should report its key performance indicators (KPIs) with data to compare against prior year targets and performance to provide an indication of the improvement trend.	As part of the results-based management (RBM) efforts, and in view of the transition to a biennial Programme and Budget, improvements in KPI presentation will be realised. The Draft Programme and Budget for 2022 – 2023 and the corresponding performance reports will benefit from improved trend presentation.	Q2 2021 and ongoing through first biennium	In progress: We note the timeline for the 2022-23 Biennium budget as the point at which enhancements to RBM will be affected.
02/2019	Financial Management	The Organisation should bring together the various results-based management (RBM) proposals and developments into a single conceptual framework, with the underlying principles to ensure that key performance indicators provide consistent, meaningful, measurable, accurate, and challenging targets for all key areas of the Organisation.	An internal working group has been formed to enhance RBM aspects within the Programmes, including exploring RBM training and outreach. Continuing development and entrenchment of RBM concepts is required. The transition to a biennial Programme and Budget will serve as an important driver for this improvement—especially noting the importance of RBM, longer-term planning, and a longer-term programmatic outlook. In addition, understanding the importance of RBM, especially through the first year of a biennium, it is envisaged	2021 and ongoing through first biennium	In progress: Progress is being made on the development of a RBM system, with 2022-2023 P&B instructions issued to budget managers that embed results in the budgeting process and links to the medium-term plan and objectives. However, it is too early to judge if these developments will deliver meaningful improvement.

Ref	Area	Recommendation	OPCW Response	Time Frame	External Auditor Comment
			that there will be strong cross-organisational synergies in this process that will also have links to the improved strategic longer-term financing approaches. However, it is important to note that a well-functioning RBM system is a long-term initiative that requires maturation and the evaluation of results over time.		
03/2019	Internal Control	Consideration should be given to providing greater detail of the key areas of weakness identified in the Statement on Internal Control (SIC), and for the formation of an overall view of the control environment based on the outcomes of reviews undertaken as part of the risk-based plan.	The integration and maturation of the internal control framework and processes continues. The Risk Management Committee (RMC) has, after consideration by the Management Board in 2020, assumed ownership of the internal survey process from 2021, noting its importance as a key underpinning element of the Organisation's internal control process. It is important to note that it takes time to improve and strengthen links within the Organisation between the risk management framework and governance mechanisms, as well as linkages with the Office of Internal Oversight (OIO), and to ensure that the Statement of Internal Control process continues in a sustainable manner. As the External Auditor	Q3 2021	In progress: The arrangements for completing the SIC continue to develop and we note the process will be managed through the RMC which will better integrate it within the risk landscape. We believe that action still needs to be taken to better integrate the results of OIO assurance work with a view to providing an overall view on the internal control framework.

Ref	Area	Recommendation	OPCW Response	Time Frame	External Auditor Comment
			noted, significant progress has been made, and work in this regard will continue. The OIO will continue to incorporate the areas of weakness identified in the Statement of Internal Control as part of one of the elements that supports the elaboration of the OIO work plan (Q1 2021).		
04/2019	Internal Control	The Organisation should transfer the ownership of the Statement of Internal Control process to the Director-General's/Deputy Director-General's Office to enhance accountability for accuracy and completeness of responses.	The Organisation's Management Board deliberated on the issue of the placement of the Statement of Internal Control process. The Board decided that from 2021 the process would best be placed with the Organisation's Risk Management Committee (RMC), ensuring cross-cutting organisational representation and reach. In addition, it was decided that the Deputy Director-General would assume the chairpersonship of the RMC, thus ensuring senior management oversight of this important process and its outcomes.	Q4 2020 Implemented – propose closure	Closed- involvement of the Deputy Director General through the RMC will enhance the overall importance of the attestation process and the overall engagement with the statement of internal control.
05/2019	ERP	The Organisation should undertake a realistic assessment of the full costs to completion likely to be incurred, and the impact	In the light of the delays in the go-live of the System of Record, the Organisation has reviewed the cost to complete the ERP solution. The impact on the delivery of the	Q2 2021	In progress – We consider that significant uncertainty remains around costs to complete the systems of

Ref	Area	Recommendation	OPCW Response	Time Frame	External Auditor Comment
		this might have on the delivery of Systems of Differentiation. This should include an evaluation of the potential benefits of the project.	Systems of Differentiation can best be determined after the System of Record has gone live and is stabilised. See the OPCW's response to recommendations 12/2017, 13/2017, and 15/2015.		differentiation as part of the ERP.
06/2019	ERP	The Organisation should consider the practical implications and cost benefits of a mid-year/final-quarter implementation, and the extent to which this timeline will provide adequate time for testing, training, and to reinforce the cultural changes to enable the ERP launch to be a success.	The Organisation has again considered the recommendation of the External Auditor, in the light of implementation delays, and has planned the go-live for the end of the 2020 financial year, with cutover in January 2021. See the OPCW's response to recommendations 04/2018 and 05/2016.	Q1 2021	Closed -Implemented – the organisation implemented the new ERP system at the beginning of the financial year. However, as we have noted significant elements of the system remain to be implemented and further upgrades will be required during 2021, which will absorb further time from process owners.
07/2019	CCT (Centre for Chemistry and Technology)	As the Organisation approaches the delivery phase of the project, it must ensure that they are sufficiently prepared, with appropriate contractual mechanisms, including delivery incentives, change control, and performance management processes to ensure	The Secretariat is currently engaged in an extensive preparation process for the construction tender. In addition to the fact that the project manager and design team have extensive experience in the construction industry, the project team has the assistance of an external legal counsel, an external International Federation of Consulting Engineers (FIDIC)	Q1 2021	In progress: Good progress is being made, with experienced staff leading the project. Like many large-scale projects there will be dependencies on single individuals the risks for which will need to be carefully managed. The approaches taken by the organisation to the procurement and eventual

Ref	Area	Recommendation	OPCW Response	Time Frame	External Auditor Comment
		appropriate delivery from any external organisations involved in the successful tender for the construction of the Centre.	consultant with expertise in the FIDIC model construction contract to be used by the Secretariat, and a project management consultant with experience leading similar projects implemented by international organisations, with a view to ensuring a proper balance between securing the interests of the OPCW and attracting a sufficient number of quality bids by respecting best practices on the market. The contract was awarded in Q2 2021.		contract should be subject to review.
08/2019	CCT	When time allows, the Organisation needs to fully assess the potential impact of pandemic risk on the costs and timing of project delivery and reaffirm existing assumptions or make appropriate revisions to the scope of the project and budget, if required. This should also be considered in the context of the costs to deliver the finalised design once this is completed.	There is a possibility that the situation caused by COVID-19 may impact the cost and/or timeline. The Secretariat is making every effort to minimise any potential risk. To date, the project's progress has not been materially impacted by the pandemic. Risks are constantly being monitored and assessed by the Secretariat, as well as by the design and cost consultants. The Secretariat will continue making these efforts.	Ongoing	In-progress: The Secretariat has provided updates to States Parties, which have flagged this risk of these uncertainties, but the impact cannot yet be quantified.
01/2018	Financial Management	If the OPCW moves to biennial budgeting it	Conference decision C-24/DEC.11 (dated 28 November 2019) approved	Ongoing	In progress - arrangements are in place, but we need to

Ref	Area	Recommendation	OPCW Response	Time Frame	External Auditor Comment
		should ensure that there are clear accountabilities for year one financial performance against which budgetary performance can be measured and reported in Statement V. This should include mechanisms to approve transfers of resources during the financial year to reflect any significant known changes, so that the budget remains a process to ensure effective control of funds in each year of the biennium.	the transition of the OPCW to a biennial Programme and Budget. The first biennial Programme and Budget will cover the period 2022 – 2023, with its preparation taking place in 2021. The Secretariat accepts this recommendation and will incorporate these considerations as the structures to support biennial budgeting are prepared. Through 2019 and 2020, the Secretariat has developed structures to support biennial budgeting. These include amendments to the OPCW Financial Regulations and Rules to support biennial budgeting, which were approved by the Conference (C-25/DEC.6, dated 30 November 2020) and took effect from 1 January 2021. Other mechanisms that have been developed include detailed integrated costing sheets and biennial budget formulation templates for programme managers to support biennial budget preparation. In addition, the introduction of major capital planning and the integration of funding mechanisms, including the introduction of a major capital investment fund (MCIF) as part of Conference decision (C-24/DEC.12,		evidence the mechanisms to secure appropriate and meaningful reporting of the first year of the biennium. Early indications of the instructions issued to the budgeting managers suggest a clear focus on annual accountability.

Ref	Area	Recommendation	OPCW Response	Time Frame	External Auditor Comment
			dated 28 November 2019), help to improve budgetary planning and managerial accountabilities. A number of additional and important structural measures, including internal biennial programme and budget instructions for programme managers and a town hall format to introduce the instructions, the way forward, and key considerations in a biennial programme and budget formulation, will be provided to programme managers in February 2021.		
02/2018	Financial Management	The Organisation should ensure that it clearly defines the investment objectives of the Major Capital Investment Fund. These objectives should be kept under review and the progress of the objectives regularly reported to States Parties.	As part of the consultative and approval process for the introduction of a Major Capital Investment Fund (MCIF) in 2020, these considerations (including objectives) were outlined and brought forward to the ABAF, Management, and States Parties. Approval for the introduction of an MCIF was granted through Conference decision C-24/DEC.12 (dated 28 November 2019). The mechanisms of the fund and its objectives will be kept under review.		Closed- recommendation implemented and MCIF is now adopted.
03/2018	Governance	The Organisation should establish a systematic framework to show how	The OIO has initiated an evaluation of the Secretariat’s committee structures, with a view to providing	Completed – propose closure	Closed – OIO has undertaken work which has resulted in the Chairmanship of the

Ref	Area	Recommendation	OPCW Response	Time Frame	External Auditor Comment
		the various Committees of OPCW provide a framework for governance. In addition, the Organisation should develop a more regular and systematic framework to demonstrate the collective senior management oversight of the Organisation.	possible recommendations for further consideration by Management. The first evaluation report on the subject addressing three committees was delivered to the Director-General on 4 April 2020. The OIO plans additional such evaluations in 2021. On 16 December 2020, the Management Board decided to enact two changes to the Organisation's committee structures and functions, with a view to further demonstrating collective senior management oversight of the Organisation: first, the Deputy Director-General (DDG) will assume the chairpersonship of the Risk Management Committee (RMC); and, second, the Risk Management Committee will assume responsibility for managing the Statement of Internal Control process.		RMC by the DDG which will better integrate risk management and governance.
02/2017	Financial Management	As part of the approach to longer term financial planning the Organisation should consider its strategy on Extra-budgetary Funding and how this can complement	The Secretariat continues to note the increasing importance of extra-budgetary resources and implications for long-term financial planning, as outlined in the paper on Strategic Financing that was considered by the Advisory Body on Administrative	Q4 2021	In progress - we have continued to note the growing utility of voluntary funded activities to support OPCW's delivery of objectives and a more strategic approach to how Trust Funds are

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		the Regular Budget in enhancing the delivery of objectives.	and Financial Matters (ABAF) and the External Auditor in 2018. The Secretariat continues to develop and refine its approach in this area, incorporating best practices from other international organisations into the OPCW. The European Union (EU) Liaison Coordination Officer joined the OPCW in 2020 and brings a key strategic aspect to this important area. Work continues to incorporate comprehensive programmatic resource views of regular budget, extra-budgetary, and unfunded requirements, to establish a strategic approach to overall resource requirements and organisational and programme priority areas, in line with recommendations from the External Auditor and the ABAF. The transition to biennial budgeting with a longer-term programmatic and planning outlook is a strong impetus in this direction. In addition, a detailed review of long-established trust fund balances in response to encouragement from the External Auditor continues, in		managed and used. We have commented on this area in our report this year, there remains more to do to embed an Organisation wide approach and ensure this area is being considered strategically.

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			order to assess the status of long-standing inactive trust fund balances and their specified purposes, and to seek opportunities with donors for redeployment if possible. Some of these redeployment opportunities have been analysed and identified and will soon be brought forward to determine next courses of action.		
03/2017	Procurement and Contract Management	The Organisation should formalise its plan for delivering the procurement strategy, supported by the consolidation of procurement guidance to form an end-to-end procurement user guide.	It was difficult finding dedicated time needed to finalise the procurement strategy, owing to continued heavy involvement in ERP implementation and the usual year-end heavier procurement workload. It was completed and endorsed by the Committee on Contracts in Q1 2021. procurement user guidance is part of the procurement intranet pages, and this is being developed step-by-step into more complete guidance. Currently, guidance for procurement in the ERP is being added.	Q1 2021	Closed - implemented. – COVID and ERP implementation pressures delayed progress, but a new procurement strategy is now in place having been formally approved.

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04/2017	Procurement and Contract Management	The Organisation should exploit the potential of the ERP to develop better data analysis and reporting against a more comprehensive set of performance and compliance measures to evaluate the performance of the procurement function.	The first year of the new ERP system will be used to explore which data is available and can be used for reporting and compliance.	End of 2021	In progress – with ERP implementation, we expect improved use of data analysis and reporting against performance and compliance measures, including KPIs when developed.
08/2017	Procurement and Contract Management	The Organisation should undertake a review of the changes to the approval levels and the extent to which delegations have been exceeded and consider the risk of cumulative contracts exceeding these limits.	The new ERP system will provide for electronic approval of expenditure and will be a significant improvement in monitoring cumulative contract expenditure. The Secretariat is proposing to undertake this review through the OIO in 2021 to review the effect of the changes to the approval levels and any remaining risks for exceeding these limits.		In progress - Office of Internal Oversight is to conduct a review in 2021 of changes to approval levels and compliance with delegated limits in the new ERP system
09/2017	Procurement and Contract Management	The Organisation should strengthen its approach to contract management by having a more consistent, proportionate and documented approach to the identification and management of contracts,	More staff was trained in contract management in 2020. A contract management framework that defines the minimum level of contract management depending on the value of contracts, complexity, and risks was put in place in 2020.	Q3 2020	Closed – Training and frameworks for contract management were initiated in 2020. The new ERP is expected to provide improved contract management functionality and we have

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		informed by clearer guidance and training for contract managers. Contract management should be subject to regular oversight by the Committee on Contracts, and for lesser procurements, by the Procurement Authorities.	The framework and relevant guidance for requisitioning units is included in the procurement guidance on the intranet. An initial level of contract management has been set for each contract, and the next step will be to follow up on the implementation and to report to the Committee on Contracts on the progress of the framework and contractors' performance. The contract management framework was endorsed by the Committee.		commented on this in our report.
10/2017	Procurement and Contract Management	The ERP design needs to have functionality to provide data to support contract management disciplines, which need to be enforced proportionate to the risks of the contract and to assess the level of exposure to single suppliers across the contract portfolio.	The contracts module of the new ERP system will provide a contract depository that can be used by both procurement and contract managers to manage contracts and can be used to determine the exposure to single suppliers across the contract portfolio. A contract depository will be built up after the go-live of the new ERP system as part of contract renewal and obligation process and is expected to be completed by the end of 2021.	End of 2021	In progress - The Secretariat expects the new ERP to provide basic functionality to support a more systematic approach to contract management (see Recommendation 09/2017 above).

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12/2017	ERP	The Organisation needs a clear plan to secure the benefits of the system changes in driving improved processes and business culture. This plan should include a clear strategy for communication with the business to ensure appropriate user engagement. It is important that the Implementing Partner retains a focus on driving the benefits in the design solution.	The Secretariat will continue to monitor this throughout the remainder of the implementation and will provide updates on the evaluation of the realised benefits.	Ongoing	In progress – now that the Systems of Record are implemented it is important for there to be a clear plan to secure the benefits. Given the delayed implementation of the full ERP, and the absence of clear success criteria it is difficult to measure the benefits gained at the present time.
13/2017	ERP	The Organisation needs to conclude its considerations on the approach to finalisation of the ERP implementation by establishing a clear and time-bound plan with appropriate monitoring milestones. This should include consideration of the level of resources necessary to conclude the project, as well as	The recommendations proposed by the External Auditor have been considered in determining the planning for the finalisation of the ERP implementation. In the light of additional delays associated with completion and validation of the configuration for the System of Record, the Secretariat has revised its implementation framework with a view to achieving a January 2021 cutover to a solution design and	Ongoing	In progress - this recommendation remains open as the ERP project is ongoing with further phases and essential upgrades. As we have reported, significant risks remain for the project.

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		mechanisms to monitor contractor performance including escalation measures. The plan should also build in sufficient independent challenge and assurance over the build design.	build that meet the defined business requirements.		
15/2017	Governance and Internal Control	The Organisation should establish a process internally to engage management in the follow up to External and Internal Audit recommendations to ensure that implementation rates are improved and that recommendations are kept under review for their continued relevance.	Management Board meetings will continue to incorporate a systematic review of pending audit recommendations, including reports by the relevant programme managers.	Quarterly	Closed – we note that recommendations are being considered and monitored by the management board. This will need to continue, so that the recommendations are implemented in a timely manner, particularly those recommendations that have been open for a significant amount of time.
02/2016	Governance and Internal Control	OIO should consider its current staffing and resourcing model within its overall level of resources, ensuring it has the structure, skills, experience and capacity to deliver a core level of assurance over the key risks to OPCW. Furthermore, OIO should review current activities to	The Director of the OIO has prepared the strategy for the OIO in consultation with the ABAF. The Director-General has considered and approved the strategy document. The document covers the key strategic focus areas to be managed by the OIO, securing a well-balanced delivery between assurance and advisory services.	Completed –propose closure	Closed – OIO arrangements have been reviewed by the Institute of Internal Auditors – Netherlands as reported. We consider that there remains scope to further develop the risk focus of OIO plans as the risk register process matures.

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		ensure they focus on assurance provision rather than attendance in OPCW working groups and ensure appropriate independence from management functions and activities.			
05/2016	ERP	The Organisation should ensure that the training strategy for the ERP is finalised before the end of quarter three to ensure sufficient time to implement and embed. Following implementation there should be an early evaluation of the roll-out of training to ensure any newly identified needs can be addressed through revised training plans.	To ensure that users are fully capable of using the new ERP solution at go-live, and to ensure sustainable training material post go-live, the Secretariat has engaged the services of an external training provider to develop and to deliver end-user training based upon the final configuration of the new ERP solution. All users are to be trained during the month of January 2021.	Ongoing	In progress – We note that the organisation has delivered a training package for the new ERP system. However, this has been relatively limited, and process documentation still remains to be updated to reflect the final solution design and workflow.

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06/2016	ERP	The Organisation should ensure that it retains the audit trail to support timely data migration and that this is subject to review by OIO. Migrated data should be subject to a review process to cleanse information to ensure that only accurate and necessary data is migrated to the new ERP system.	The Secretariat accepts this recommendation and can confirm that the data migration strategy follows an extract, transform, load, and reconcile protocol with a full audit trail, and that only the data that is necessary for the operation of the new ERP solution will be migrated. The OIO reviewed the ERP data migration strategy and will continue to monitor and evaluate the data migration into the new ERP system during and after the go live. A first report on the subject was issued in Q1 2018. The subject will remain under OIO consideration until its finalisation. The Secretariat can further confirm that it has taken the considerations of the OIO review into account and has acquired data analytical software to assist in the validation of the data during the migration process and to provide data validation during the post go-live stabilisation period.	Ongoing	In progress - We note that the Secretariat has considered the work by the OIO and has acquired data analytical software to support the migration of data. We expect an evaluation of the data migration will be needed to ensure that accurate and necessary data has been migrated and that an audit trail is retained. Given implementation took place in January 2021, our successors will form a view on whether this has been adequate during the course of their audit.

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07/2016	ERP	The Organisation should ensure that it has an appropriate assurance plan for validating the operation of system controls and delegations within the new system and a clear plan to manage the impact of implementation on the preparation of the 2017 accounts.	The Secretariat can confirm that assurance plans to validate the system configuration, access controls, roles and responsibilities, segregation of duties, and approval limits and delegations have been put in place. The results of the assurance activities will be continually monitored to ensure the successful implementation of the ERP solution.	Ongoing	In progress - this recommendation remains open since implementation did not take place in 2020. Our successors will form a view on the adequacy of the assurance process through their audit of 2021.
08/2016	ERP	The Secretariat should develop, in conjunction with OIO and Gartner, an appropriate plan of assurance to validate the system security and design prior to implementation. This should be developed on a timely basis to support successful implementation of the ERP solution.	See OPCW response to Recommendation 07/2016.	Ongoing	In progress – as above.
09/2016	HR	The Secretariat should strengthen the governance around HR by:	The integration of a data- and evidence-based approach to strategic HR decision making through the creation of an HR data analytics function has further strengthened the governance function in HRB and will facilitate both the discovery of		Closed - Fully implemented:

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			broad trends and the identification of pressure points.		
		(a) improving reporting to States Parties on HR and other programme areas that use the phrase 'within benchmarked timelines' to show benchmarked timelines over time;	(a) With the introduction of the Qlik Sense analytics platform as part of the ERP implementation, standardised performance reports against established benchmarks have already been provided to and will further be shared regularly with the States Parties.	(a) Propose closure	(a) Implemented - HR has significantly improved its use of data and evidence when making strategic decisions, using automated reports and regular reporting to senior management. OPCW will soon start reporting to State Parties on HR issues which will provide a wider understanding of the strategic HR issues facing the organisation. The ERP system will enhance data availability.
		(b) developing a systematic suite of HR management information and cost data for reporting to all Management Board meetings;	(b) Closed	(b) Propose closure	(b) Closed

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		(c) prioritising the people survey so that response rates are improved and issues highlighted are owned and systematically addressed;	(c) The HRB will continue to build upon the efforts made in response to the staff surveys. In this regard, the HRB recently secured the services of a web-based engagement and feedback tool and concluded an exercise to solicit ideas on improving transparency within the OPCW. The engagement and feedback tool has been complemented by a comprehensive people and culture engagement platform by tapping into the powerful connection between engagement and performance throughout the employee lifecycle. The new tool has an emphasis on manager excellence and guides managers on the follow-up process to surveys, enhancing ownership and accountability, thus achieving a high response rate. It also offers benchmarking against sector/country indicators and full employee journey assessment (from onboarding to exit survey). As recommended, questions in this survey are comparable with those asked in previous staff	(c) Propose closure	(c) Implemented - a cross-organisation personnel ‘pulse’ survey was rolled out in 2020 and used to great effect during the COVID-19 pandemic. The survey results have been reported on regularly to management and to staff with follow-up processes in respect of actions identified. We note that the surveys allow for benchmarking with sector and country indicators to allow comparison, learn from other approaches and develop best practice.

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			surveys, to allow analysis over time. An initial seven -module resilience training programme has been developed and successfully launched. The HRB also launched a "leadership lab" comprising workshops, a monthly newsletter, a manager survey, executive coaching with 360-degree peer feedback, lunch -and -learn sessions, as well as the "Emerging Female Leaders Coaching Programme". In Q4 2018, the HRB undertook an external assessment of OPCW training. Consequently, a consultant visited the OPCW in the last week of January 2019, with a view to changing the training needs analysis for 2020 to better align OPCW training to business needs.		
		(d) formally considering – and reporting to States Parties on – whether the use of dedicated HR resources best meets future business need, taking account of the current high level	(d) Closed		

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		of unfilled HR posts, OPCW's changing business operating model and different models of HR support; and (e) review the need for a more strategic role for HR in the delivery of change.	 (e) Closed		
10/2016	HR	The Technical Secretariat, supported by HR Branch, should strengthen workforce planning by: (a) developing and documenting a specific action plan addressing high-level workforce planning objectives set out in the Mid- To Long-Term Staffing Plan (June 2015); and providing a regular and consistent report to analyse progress against the plan to the Management Board;	 (a) HRB configured the ERP solution to allow for more structured and proactive workforce planning, complemented by automated and timely reports to relevant stakeholders. Regular reporting on progress to the Management Board Meeting has been implemented.		Overall – In progress (a) Implemented- the new ERP provides additional workforce and succession planning capability.

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		(b) completing a skills survey of its personnel and - considering the results of this analysis - considering steps to further address priorities in its Staffing Plan;	(b) Already closed from 2019 - This aspect forms part of the HR strategy. The Competency Framework is being revised to inform the new performance management system under Talentsoft ERP. A comprehensive overhaul of the Competency Framework is planned for 2021. A skills review has been undertaken in Q1 of 2021 for the Inspectorate Division, which included a mapping of future skills needed.		(b) Closed.
		(c) implementing measures to improve recruitment processing performance in those areas over which it has control; and considering establishing targets and plans to improve gender balance at all levels;	(c) The OPCW sourcing strategy has been presented to senior management and States Parties. A number of gender initiatives have been put in place, including attaining OPCW accession to the international Gender Champions initiative, establishment of Gender Focal Points throughout the Organisation, the provision of leadership coaching designed to support the professional development of future female leaders, and amendment of the Staff Rules and Regulations in		(c) In progress - the Secretariat has described a range of measures to address gender balance, underpinned by dedicated funding and amendments to staff regulations and rules.

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			order to include gender balance specifically as a staffing goal. These initiatives have led to a significant increase in gender diversity at the OPCW, such as 60% women in top structure and an overall increase of 8% percentage points of women in P-posts (to 30% of the total). A gender audit has been concluded and recommendations have been presented to senior management.		
		(d) analysing the costs and the benefits of the tenure policy and considering alternatives to inform future decision-making by States Parties especially in the light of known skills and experience deficiencies; and	(d) Already closed from 2019 - Closed		(d) Closed.
		(e) differentiating staff performance more clearly through performance appraisal; and strengthening	(e) With the introduction of the new Performance Management and Development System (PMDS), and the accompanying Continuous Conversations		(e) Implemented – new performance management approach has been launched, enabling continuous feedback

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		underlying systems for identifying and addressing under-performance through the appraisal process.	module, frequent performance check-ins between staff and their supervisors are encouraged and facilitated. Supported by customized feedback training and the new Continuous Conversations module, managers are now better equipped to identify and address underperformance. In addition, the newly updated PMDS Administrative Directive enables supervisors to initiate a performance improvement plan at any point during the performance cycle. This means that supervisors can develop an improvement plan whenever they identify performance gaps, without having to wait until the end of the performance cycle.		which is supported by improved systems and tools.
05/2015	Governance and Internal Control	The Secretariat should maintain and regularly update the risk register and ensure that it is used in the business decision making processes.	The Secretariat has continued to maintain and update the risk register, with top risks being reported to the Management Board as part of the process to further embed it in the business decision-making process. In Q1 2020, the Risk Management Committee completed a revised draft Administrative Directive on Risk Management for consideration by the	Ongoing	In progress - Embedding risk management into decision making is an ongoing process. OPCW's risk management processes need to be matured within a clear framework and delivered alongside a programme of training, which remains to be

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			Office of the Director-General. Following the 16 December decision of the Management Board, according to which the Deputy-Director General will assume the chairpersonship of the Risk Management Committee and the Committee will assume responsibility for managing the Statement of Internal Control process, the draft administrative directive requires further revision. Pending that revision and the required Management approval, the revised directive is envisioned to be promulgated in Q32021, followed by a roll-out process with orientation and training for key staff.		rolled out at the time of our audit.
07/2015 08/2015 09/2015 10/2015	Governance and Internal Control	We recommend that the Organisation conducts a comprehensive fraud risk assessment to determine the Organisation's potential vulnerabilities and exposure to risks of fraud. The Organisation should use the results of this assessment to prepare a fraud and corruption risk strategy.	A fraud risk assessment was conducted via an elaboration of the risk register to include fraud risks. The assessment will be regularly reviewed and updated in conjunction with the periodic updates to the risk register. As the next steps, a fraud risk strategy and a fraud response plan, including relevant roles, responsibilities, policy framework, and mandatory training, are being developed in collaboration with the	Propose closure of 07/2015 Completion of 08/2015, 09/2015 and 10/2015 targeted for Q2 2021	In progress - though there have been improvements, in particular the development of a fraud risk assessment, many key processes and policies remain outstanding. OIO has a programme for delivering the strategies and response plans, creating an overall framework for the

Ref	Area	Recommendation	OPCW Response	Time Frame	External Auditor Comment
		The Organisation should raise awareness of fraud risks through regular communication of fraud issues and through mandatory training courses for all staff on their induction to the Organisation. The Organisation should develop a whistleblowing policy to set out how staff can raise valid concerns which will be appropriately and independently investigated and provide assurance over the protection it offers to staff. Such policies should be clearly accessible and promoted. The Organisation should provide greater clarity over responsibilities and arrangements for the response to an identified fraud by means of an approved fraud response plan. This should include establishing clear	OIO. The work plan for this activity was communicated by the OIO to stakeholders in February 2020. In connection with this project, and in order to provide an appropriately updated baseline for the future policy and plan, a draft revised "Code of Conduct" was submitted to Senior Management in November 2020 for review and comment. The existing administrative directive regarding the procedure to provide for direct confidential access of staff members or others to the office of internal oversight (AD/ADM/9/rev.1, dated 15 December 2008) will be updated in conjunction with the anti-fraud policy framework to ensure that it comprehensively addresses best practices regarding the existing policies on reporting and investigating wrongdoing, and to ensure that it is aligned with the forthcoming fraud risk strategy, roles, and responsibilities. In order to ensure necessary operational support to the future anti-fraud policy framework, a recently vacated post in the OIO at the P-4		OPCW's strategy for fraud prevention and response. We are concerned that since we raised these weaknesses it has taken more than six years for the organisation to deliver an effective response.

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		independence processes to determine the approach and staffing required to appropriately investigate any fraud allegations.	level was revised to include investigatory competencies and was put out for recruitment in Q4 2020. The post is expected to be filled by no later than Q2 2021.		
15/2015	ERP	The Secretariat should ensure it completes its recent exercise to estimate the level of savings arising from the ERP implementation. Sufficient data should be collated to enable an auditable measurement of realised cost benefits on completion of the implementation.	A review of the ERP was initiated with external quality assurance and remains ongoing.	Ongoing	In progress - As the project has delivered HR and systems of record functionality, an initial evaluation of the cost benefits should be made, and this should help inform decisions on future phases or additions to the ERP.

Annex 4

RESPONSE OF THE DIRECTOR-GENERAL TO THE REPORT OF THE EXTERNAL AUDITOR ON THE FINANCIAL STATEMENTS OF THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS FOR THE YEAR ENDED 31 DECEMBER 2020

1. The Director-General wishes to express his appreciation for the observations and recommendations received from the Comptroller and Auditor General and his staff, on the occasion of the external audit of the Financial Statements of the OPCW for the period ended 31 December 2020.

2. The Director-General notes that, in the External Auditor's opinion, the Financial Statements present fairly the financial position as at 31 December 2020, that they were prepared in accordance with the OPCW's stated accounting policies (applied on a basis consistent with the previous period), and that the transactions were in accordance with the Financial Regulations and legislative authority.

3. The Director-General notes the observations and recommendations made by the External Auditor, and action has been initiated to implement these recommendations as appropriate.

Annex 5

RESPONSE OF THE CHAIRPERSON OF THE PROVIDENT FUND MANAGEMENT BOARD TO THE REPORT OF THE EXTERNAL AUDITOR ON THE FINANCIAL STATEMENTS OF THE PROVIDENT FUND OF THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS FOR THE YEAR ENDED 31 DECEMBER 2020

The Chairperson of the Provident Fund Management Board would like to thank the External Auditor for the very useful work done in respect of the audit of the Provident Fund of the OPCW. The Chairperson notes with satisfaction that, in the External Auditor's opinion, the Financial Statements present fairly the financial position as at 31 December 2020, that they were prepared in accordance with the stated accounting policies (applied as far as possible on a basis consistent with the previous period), and that the transactions were in accordance with the Charter and the Administrative Rules and with the OPCW's Financial Regulations (as far as applicable).

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