



OPCW

**Advisory Body on Administrative and
Financial Matters**

Thirty-Fourth Session
27 – 29 May 2013

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**REPORT OF THE THIRTY-FOURTH SESSION OF THE ADVISORY BODY
ON ADMINISTRATIVE AND FINANCIAL MATTERS**

1. Opening of the session

- 1.1 The Thirty-Fourth Session of the Advisory Body on Administrative and Financial Matters (ABAF), convened by its Chairperson, Ms Mary B. Rios, was held from 27 to 29 May 2013. The following experts participated: Mr Artur Brunner, Mr Teddy Ceke, Mr Mahmoud Esfahaninejad, Mr Subhash Garg, Ms Sakiko Hayakawa, Mr Vladimir A. Iosifov, Mr Mohamed Louati, Mr Milan Kerber, Mr Hervé-Adrien Metzger, and Mr Jiang Bo.
- 1.2 The list of documents presented to the ABAF for this session is included as an annex to the present report.
- 1.3 The Director-General of the Technical Secretariat (hereinafter “the Secretariat”) of the Organisation for the Prohibition of Chemical Weapons (OPCW) welcomed the ABAF members, especially new member Mr Jiang Bo. In regard to the agenda for this session, the Director-General noted that a number of important issues were to be addressed by the ABAF, in particular the Financial Statements of the OPCW for 2012, the report of the Office of Internal Oversight (OIO) for the period ending December 2012 (EC-72/DG.2 C-18/DG.3, dated 2 April 2013), and the document on the implementation in 2012 of the OIO recommendations contained in its report for 2011 (EC-72/DG.3, dated 2 April 2013).
- 1.4 With regard to the Financial Statements, the Director-General informed the ABAF members that the OPCW had received an unqualified audit opinion on its second International Public Sector Accounting Standards (IPSAS)-compliant Financial Statements. The final report of the External Auditor was not ready for this session, but the initial findings were to be presented by the External Auditor.
- 1.5 Turning to the annual report of the OIO, the Director-General noted that the recommendations had been given due attention by the relevant Divisions within the Secretariat, especially those recommendations rated as critical. The cumulative rate of implementation of the OIO recommendations stood at 85% at the end of 2012, compared to 84.2% at the end of 2011.
- 1.6 The Director-General informed the ABAF that the new Office of Strategy and Policy has been functioning with a new mandate that includes the preparation of the Medium-Term Plan (MTP). This year, the Organisation will present a brief update to the current MTP, and prepare a fully revised MTP along with the draft Programme



and Budget for 2015, which will reflect the recommendations of the Third Special Session of the Conference of the States Parties to Review the Operation of the Chemical Weapons Convention, and present a longer-term perspective.

- 1.7 In regard to the conclusion of a transfer agreement with the United Nations Joint Staff Pension Fund (UNJSPF), the Director-General reported that the UNJSPF had concluded the agreement with the OPCW, and that it had been signed by both parties.
- 1.8 Although the draft Programme and Budget for 2014 was not on the agenda of this ABAF session, the Director-General mentioned that the Secretariat was finalising its preparation, and that the draft Programme and Budget for 2014 would be ready for discussion at the next session of the ABAF. The Director-General intends to present a realistic budget covering the ongoing and new programmatic work of the Organisation, while taking the current financial situation of the States Parties into account.
- 1.9 The Director-General went on to note that the Secretariat is preparing a non-paper on the OPCW as a knowledge repository, to be submitted to States Parties in mid-June. The paper is based on a multi-dimensional concept and will include aspects of research, engagement, training, and capacity building. The paper will include details of the initiative to establish a training and research centre; some of the elements related to the centre will be reflected in the draft Programme and Budget for 2014.

2. Adoption of the agenda

The ABAF **adopted** the following agenda:

1. Opening of the session
2. Adoption of the agenda
3. Election of the Vice Chairperson of the ABAF
4. Review of the report of the previous session
5. Status of the 2013 budget performance (first quarter of 2013)
6. Financial Statements of the OPCW and the report of the External Auditor for the year ending 31 December 2012
7. Report of the Office of Internal Oversight for the year ending 31 December 2012
8. Any other business
9. Next session and agenda
10. Adoption of the report

3. Election of the Vice-Chairperson of the ABAF

Under Rule 4 of its Rules of Procedure (Annex 2 of ABAF-27/1, dated 3 September 2009 and Corr.1, dated 15 October 2009), the ABAF **re-elected** Mr Mahmoud Esfahaninejad as its Vice-Chairperson for a period of one year.

4. Review of the report of the previous session

- 4.1 In connection with paragraph 4.3 of the report of its Thirty-Third Session (ABAF-33/1, dated 30 August 2012) the ABAF **noted** that the programme of work of the OIO for 2011 had resulted in 13 final reports, totalling 71 recommendations, of which 18 had been implemented as at August 2012. The ABAF had encouraged the Director-General to implement the recommendations in a timely fashion. The ABAF was informed that during 2012, the OIO had continued to conduct quarterly follow-up exercises on the status of implementation of its recommendations and to submit quarterly reports to the Director-General and the Management Board. With regard to the 71 recommendations issued in 2011, 57 of them had been fully implemented as at 31 December 2012, which resulted in an implementation rate of 80.3%.
- 4.2 In regard to paragraph 4.4 of ABAF-33/1, the ABAF **reviewed** the OIO recommendation on the need for a Chief Information Officer (CIO) in the Secretariat. The ABAF had previously recommended that consideration be given to reforming the existing Information Services Steering Sub-Committee (ISSC) by revisiting the ISSC's terms of reference and work procedures, with a view to prioritising the allocation of information-technology (IT) resources in order to improve the effectiveness of the ISSC. The ABAF was informed that a list of all proposed IT projects had been compiled by the CIO with assistance from a core group of Secretariat staff and that all projects had been prioritised. To ensure that the Information Services Branch (ISB) is able to optimally allocate resources, the CIO and the core group keep the projects and priorities list updated as needed, and present the list to the ISSC for consideration of the recommendations, and subsequent approval by the Director-General. The ABAF **questioned** the added value of the ISSC under the new arrangement, and **recommended** reviewing the ISSC's role and continued existence, with a view to eliminating a possible conflict of authority and streamlining the number of layers and working groups. Furthermore, the ABAF **recommended** that the core group of Secretariat staff be formalised and that terms of reference be developed in order to ensure an efficient and effective structure for decision-making that takes into consideration the needs of all OPCW units.
- 4.3 With regard to paragraph 5.7 of ABAF-33/1, the ABAF had been informed that the funds received in voluntary contributions did not include a component for recovery of programme-support costs. Considering the additional reporting and review requirements for some voluntary contributions, the ABAF had recommended exploring the possibility of formalising recovery of support costs in line with practices in some organisations in the United Nations system. The ABAF was informed that programme-support costs of 7% will be included up front in the budgeted costs for programming activities funded through voluntary contributions. The ABAF **recommended** formalising the guidelines for application of support cost recovery, as well as guidelines for the allocation and use of the amount collected.

- 4.4 With regard to paragraph 6.4 of ABAF-33/1, which concerns travel policy, the ABAF was informed that the revised travel policy will become effective on 1 July 2013, and will raise the threshold for business-class travel from a journey of nine hours' to a journey of 11 hours' duration.
- 4.5 With regard to paragraph 6.8 of ABAF-33/1, concerning the level of General-Services staff included in the 2013 programme of work, the ABAF was informed that, based on its recommendation and the decision by the Conference of the States Parties (hereinafter "the Conference") to request the Director-General to reduce the number of both Professional and General-Services staff in the non-operational programmes by at least 10% from the approved 2012 levels over the following two to three years (C-17/DEC.4, dated 27 November 2012), the Secretariat eliminated 14 temporary-assistance contracts and fixed-term posts for 2013, and continues to make every effort to reach the target, while ensuring that doing so would not adversely affect the delivery of operational programmes. Some of the measures taken include reviewing all vacant posts to confirm their continuing need.
- 4.6 Regarding paragraphs 6.9 and 6.10, dealing with changes to the Programme and Budget for 2013, these were implemented and reflected as part of the final Programme and Budget for 2013 (C-17/DEC.4).
- 4.7 Paragraph 6.12 dealt with, inter alia, the proposal to create the Office of Strategy and Policy. Issues related to the Office were extensively discussed during the informal consultations on the Programme and Budget for 2013. Representatives of the Secretariat addressed all the items and provided responses to them. States Parties adopted the Programme and Budget for 2013, which included the Office of Strategy and Policy.
- 4.8 In regard to paragraph 6.14, which dealt with the proposal in relation to the ISB, the ABAF was informed that EUR 250,000 was included for an Electronic Document Management System (EDMS). The ABAF had recommended possible deferral of this system to 2014 or a splitting of the resource requirement between 2013 and 2014, in light of the current austerity measures being faced. The ABAF was informed that in the framework of the 2013 mid-year review of the budget, the ISB would request EUR 125,000 to fund this initiative, subject to the availability of funds and approval by the Budget Committee. The remaining funds would be included in the proposed ISB budget for 2014 as a priority for the next year.

5. Status of the 2013 budget performance (first quarter of 2013)

- 5.1 The ABAF **reviewed** the report by the Director-General entitled "OPCW Income and Expenditure for the Financial Year to 31 March 2013" (EC-72/DG.5, dated 12 April 2013). The ABAF **received** a further update on the status of assessed contributions as at 24 May 2013. The ABAF **noted** that 44.9% of these contributions had been received, a decrease due to the delay in payment by some major contributors. When compared with the same period in 2012, this figure stood at 71.1%. Nevertheless, the Secretariat reported that the number of States Parties that had already paid in full had increased from 70 to 72.
- 5.2 The ABAF **reiterated its concern** raised in paragraph 5.3 of ABAF-33/1 that, as at 31 March 2013, 33 Member States were in arrears in respect of annual contributions

assessed for previous years in an amount equal to or exceeding the amount of contributions due from them for 2011 and 2012.¹ The ABAF **recommended** that the Executive Council (hereinafter “the Council”) encourage these Member States to regularise the payment of their outstanding annual contributions, if necessary by making use of the multi-year payment plans developed to that end, which were approved by the Conference at its Eleventh Session (C-11/DEC.5, dated 7 December 2006). The Secretariat informed the ABAF that it continued to remind States Parties to fulfil their obligations in this regard. Although no new State Party had signed a multi-year payment plan, the number of States Parties that had lost their right to vote had actually decreased by two, from 35 to 33, as at 31 March 2013.

5.3 As noted in paragraph 5.5 of ABAF-33/1, which addressed the status of appropriations by funding programme, the ABAF **reiterated** its recommendation that the Secretariat should make every attempt to utilise available allotments efficiently and to the maximum extent possible, in line with the Programme and Budget for 2013. The Secretariat informed the ABAF that real-time reports are provided to programme managers to assist them. Additionally, the three largest programmes are requested to provide a monthly update on their utilisation of resources, and to carry out a mid-year review exercise. The Secretariat highlighted the fact that the unutilised balance of the budget had shown a positive trend over the last six years, as follows: 2007: 6.7%, 2008: 5.2%, 2009: 4.1%, 2010: 2.1%, 2011: 3.4%, and 2012: 3.6%.

5.4 With regard to the unliquidated obligations (ULO) listed in Annex 10 of EC-72/DG.5, the ABAF **noted** that, with a few and specific exceptions, ULOs should normally be cleared shortly after the end of the financial period. Usually, the majority of ULOs are cleared by 30 March. If not, questions may arise regarding the validity of the ULOs reported in the Financial Statements. Without specific explanations, at the end of 2012, a very substantial proportion of ULOs for some trust funds had not been cleared. The ABAF **recommended** that ULOs be tightly monitored and that the Financial Statements should provide explanations on the late clearance or cancellation reported at the end of the year.

6. Financial Statements of the OPCW and the report of the External Auditor for the year ending 31 December 2012

6.1 Although the report had not been finalised, the External Auditor presented the initial findings on the statements for the year ending 31 December 2012. The final report of the External Auditor will be discussed by the ABAF at its next session.

6.2 The audit examination revealed no weaknesses or errors material to the accuracy, completeness, and validity of the Financial Statements as a whole; the External Auditor will place an unqualified audit opinion on the Financial Statements of the

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Paragraph 8 of Article VIII of the Chemical Weapons Convention (hereinafter “the Convention”) states the following: “A member of the Organization which is in arrears in the payment of its financial contribution to the Organization shall have no vote in the Organization if the amount of its arrears equals or exceeds the amount of the contribution due from it for the preceding two full years.” In assessing Member States’ voting rights in any given year, the Secretariat, following past practice, does not factor into its calculation of arrears any amounts still outstanding for the current year, and takes into account only amounts outstanding from annual assessments for previous years. Member States that joined the Convention during the preceding two years are not included in this assessment.

OPCW for 2012. The ABAF **commended** the hard work carried out by the Secretariat staff in order to assure a second year of fully IPSAS-compliant Financial Statements.

- 6.3 The External Auditor discussed the lack of an OPCW policy to capture programme-support costs and noted that voluntary contributions had increased from EUR 1.1 million in 2010 to EUR 1.9 million in 2011, and again to EUR 6.2 million in 2012. Since support costs are not charged, the burden of the cost of administering these funds is borne by the regular budget. Although the Organisation has plans to charge a 7% programme-support cost on all the major voluntary contributions, the External Auditor recommended charging a support cost of 7% on all voluntary contributions, regardless of size. The ABAF **reiterated** its recommendation to formalise the guidelines and procedures for charging programme support costs.
- 6.4 The External Auditor noted that the net assets/equity of the Organisation showed a negative balance of EUR 3.5 million, mostly due to unfunded long-term employee liabilities. Although this is not problematic and does not represent a short-term problem for the Organisation, the External Auditor recommended discussing options to consider funding this liability. The ABAF **recommended** that the Secretariat monitor the situation and report as applicable.
- 6.5 The External Auditor reiterated his recommendation regarding the existing enterprise-resource planning (ERP) system. Although it meets the current requirements for the delivery of IPSAS-compliant statements, there might be a need to review the ERP system to enable it to meet the future operational needs of the Secretariat as the OPCW evolves. In order to fully meet IPSAS requirements, the Secretariat staff have to review and manually adjust over 16,000 transaction entries. The ABAF **expressed** its continued consideration that this poses potential risks to the Organisation.
- 6.6 The ABAF **discussed** whether the Working Capital Fund (WCF) had been used to bridge cash-flow shortages as a result of delays in the receipt of assessed contributions and cash management, and whether the current level of EUR 9.9 million was appropriate. The ABAF **recommended** that the level of the WCF be reviewed to reassess what the level should be, taking into consideration patterns of receipts and disbursements.

7. Report of the Office of Internal Oversight for the year ending 31 December 2012

- 7.1 The ABAF **noted** the presentation provided by the Secretariat with regard to the annual report of the OIO for the period from 1 January to 31 December 2012 (EC-72/DG.2 C-18/DG.3).
- 7.2 The programme of work of the OIO for 2012 resulted in 12 final reports with a total of 82 recommendations, including 14 critical recommendations. The OIO reports quarterly to the Director-General and the Management Board on the status of implementation of its recommendations. The ABAF **noted** all the recommendations and concerns presented in the report and **encouraged** the Director-General to implement the recommendations in a timely fashion.

- 7.3 The ABAF **noted** that, as at 31 December 2012, the cumulative rate of implementation of the OIO recommendations issued in previous years stood at 85%, compared to 84.2% as at 31 December 2011. With respect to the critical recommendations, 68 of the 85, or 80% of the recommendations issued since 2008 have been implemented.
- 7.4 The ABAF was informed that the Dutch Accreditation Council (RvA) conducted an in-depth assessment visit in September 2012. After correcting three minor non-conformities, the OPCW received an extension of its accreditation as an organisation that fully complies with two ISO² standards until April 2017. The ABAF **commended** the OIO on its achievement.
- 7.5 The ABAF **noted** that the recommendations regarding audit OIO/12/08, “Audit Controls in Organising Training Courses by the International Cooperation and Assistance Division”, did not include a management response. The ABAF **recommended** that future reports include a management response for every recommendation listed.
- 7.6 The ABAF **noted** that some of the OIO observations are the result of outdated and impractical administrative directives that necessitate frequent exception requests. The ABAF **recommended** that special effort be made to evaluate and identify those administrative directives that are problematic, with a view to changing them.
- 7.7 The ABAF **noted** that some observations in the report identified gaps and problems but did not propose a way forward. In order to aid in the decision-making process to resolve these issues, the ABAF **recommended** that the OIO should endeavour to introduce more benchmarking where appropriate by comparing current OPCW practices against what is done at other international organisations.

8. Any other business

Outline of an action plan for results-based management in the OPCW

- 8.1 At its Thirty-Second Session, the ABAF requested the Secretariat to provide a comprehensive vision and action plan of how results-based management (RBM) had been and would be further implemented, to include strategies, resource requirements and timelines, as well as pro forma examples of the draft Programme and Budget for 2013 (paragraph 7.2 of ABAF-32/1, dated 7 June 2012 and paragraph 4.5 of ABAF-33/1).
- 8.2 The OPCW introduced results-based budgeting (RBB) in 2005, and in 2010 took a decision to go beyond RBB and begin the process to introduce RBM. In order to provide an understanding of RBM principles and concepts to programme managers, it was critical that programme managers and their staff gain a good knowledge of RBM. To this end, a total of seven RBM workshops were conducted in 2011.
- 8.3 Additional individual RBM coaching was provided in 2012 to improve results statements and key performance indicators in preparation for the 2013 Programme

² ISO = International Organization for Standardization.

and Budget. RBM training was also provided to the ABAF and to delegates during the Sixty-Fifth Session of the Council.

- 8.4 The ABAF **reviewed** the pro-forma documents of the Programme and Budget for 2013 presented in accordance with RBM principles. The ABAF **noted** that the revised format is intended to bring the programme objectives and key performance indicators to the forefront, in line with RBM. As a result, accurate and meaningful standard-setting for better performance assessment becomes paramount, since the Budget document will now serve as a tool for management performance. The ABAF **recommended** that additional efforts should be made to sharpen the programme objectives and key performance indicators, using outside expertise if necessary.
- 8.5 The ABAF **noted** that the purpose of RBB is to link resources with performance objectives and to move the focus to the results to be achieved in the programme of work and away from the traditional review of budgetary line items. The ABAF **discussed** the potential elimination or retention of the financial resource tables (by objects of expenditure) from future budgets.
- 8.6 The ABAF **highlighted** the importance of the annual performance report in the RBM context and of how its results and findings are validated. The ABAF **recommended** the possible involvement of the External Auditor to provide assurance of the validity of the results presented.
- 8.7 The ABAF **reiterated** its previous recommendation that the Financial Regulations and Rules of the Organisation need to be reviewed in light of a potential change in the format of the budget presentation. Potential changes to the Financial Regulations and Rules should be presented as a package and not as part of a piecemeal approach.

Presentation on the enterprise-resource planning road map for 2013 and 2014

- 8.8 In paragraph 7.4 of ABAF 33/1, the ABAF requested the Secretariat to issue a follow-up report on the risk-mitigation options associated with the current ERP system. The ABAF was informed that the Secretariat had proceeded with the implementation of option B presented in the ERP risk-assessment report. An ERP working group had been created and had approved a road map to improve and automate processes, as well as to mitigate certain risks mentioned in the report. A road map for 2013 and 2014 was presented.
- 8.9 The current Business Analysis Plan included the better-integrated financial-reporting system and the automation of the obligation process, which would greatly reduce, and in some cases eliminate, the need for manual accounting transactions. The ABAF **noted** that although significant improvements are being proposed and completed, SmartStream is an outdated system that cannot fully integrate all the administrative processes of the Secretariat.
- 8.10 The ABAF **recommended** creating a task force to evaluate all the current processes, with a view to streamlining and optimising them. This exercise is necessary not only to improve the operation of current processes, but it is also a necessary preparation for a possible move to a fully-integrated ERP system. Such a system is projected to cost the Organisation about EUR 6 million, spread over three years. The ABAF **requested** further updates as available.

Transfers of funds during 2012

- 8.11 Financial Regulation 4.6 states that the Council is to be notified of any transfers of funds between subprogrammes. None of the transfers in 2012 exceeded 15% of the original appropriation.
- 8.12 The ABAF was informed that the transfers mostly related to staff salaries and common staff costs that proved to be higher than the budgeted standard costs in the respective subprogramme, as well as consultancy fees. The necessary shifts totalled EUR 559,200, or 0.79% of the total budget, an improvement in respect of the shifts needed in 2011, which totalled EUR 1,118,129, or 1.58% of the total budget. The standard costs calculated for the formulation of the Programme and Budget for 2014 will incorporate these shifts, with a view to further fine-tuning the budget-development process.

9. Next session and agenda

The ABAF **adopted** the following provisional agenda for its Thirty-Fifth Session, which will be held from 2 to 6 September 2013.

1. Opening of the session
2. Election of the Chairperson
3. Adoption of the agenda
4. Review of the report of the previous session
5. Status of 2013 financial performance (first half of 2013)
6. Report of the External Auditor for the year ending 31 December 2012
7. Draft Programme and Budget for 2014 (including the Medium-Term Plan and the performance report for 2012)
8. Any other business
9. Next session and agenda
10. Adoption of the report

10. Adoption of the report

The ABAF **adopted** the report of its Thirty-Fourth Session on 29 May 2013.

Annex:

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

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

Title	
1	Agenda for the Thirty-Fourth Session of the Advisory Body on Administrative and Financial Matters
2	Report of the Thirty-Second Session of the Advisory Body on Administrative and Financial Matters (ABAF-32/1)
3	Note by the Director-General: Comments on the Report of the ABAF at its Thirty-Second Session (EC-69/DG.8, dated 29 June 2012)
4	Report of the Thirty-Third Session of the Advisory Body on Administrative and Financial Matters (ABAF-33/1)
5	Note by the Director-General: Comments on the Report of the ABAF at its Thirty-Third Session (EC-70/DG.16, dated 20 September 2012)
6	Informal paper: Responses to Questions Raised in Regard to the ABAF's Report of its Thirty-Third Session
7	Report by the Director-General: OPCW Income and Expenditure for the Financial Year to 31 March 2013 (EC-72/DG.5)
8	Financial Statements of the Organisation for the Prohibition of Chemical Weapons for the Year Ending 31 December 2012 (advance copy)
9	Note by the Director-General: Annual Report of the Office of Internal Oversight for the period from 1 January to 31 December 2012 (EC-72/DG.2 C-18/DG.3)
10	Note by the Director-General: The Implementation in the 2012 of the Recommendations Contained in the 2011 Annual Report of the Office of Internal Oversight (EC-72/DG.3)
11	Note by the Director-General: Transfers of Funds During 2012 (EC-71/DG.14 C-18/DG.2, dated 5 February 2013)
12	Opening Statement by the Director-General to the Thirty-Fourth Session of the ABAF
13	Note by the Technical Secretariat: Nomination for Membership of the Advisory Body on Administrative and Financial Matters (EC-72/S/1, dated 25 March 2013)
14	Informal paper: Pro-Forma Programme and Budget for 2013 for Further Implementation of RBM - All Programmes (Paragraph 4.5 of the Report of the Thirty-Third Session of the ABAF, dated 30 August 2012)
15	Informal paper: Pro-Forma Programme and Budget for 2013 for Further Implementation of RBM - Verification Programme, including Annexes (paragraph 4.5 of the Report of the Thirty-Third Session of the ABAF, dated 30 August 2012)
16	Informal paper: Outline of an Action Plan for Results-Based Management at the OPCW