



OPCW

**Advisory Body on Administrative and
Financial Matters**

Forty-First Session
30 August – 1 September 2016

ABAF-41/1
1 September 2016
Original: ENGLISH

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

1. Opening of the session

- 1.1 The Forty-First Session of the Advisory Body on Administrative and Financial Matters (ABAF) was held from 30 August to 1 September 2016. The following members participated: Mr John Foggo, Mr John Fox, Mr Zhongkun Hu, Mr Milan Kerber, Mr Peter Maddens, Mr Khodayar Rouzbahani, Mr Hiroshi Sanomura, and Ms Claudia Spahl. Mr Alexander Kuklin attended as an observer.
- 1.2 The list of documents presented to the ABAF for this session is included as the annex to this report.
- 1.3 The Director of Administration of the Technical Secretariat (hereinafter “the Secretariat”) of the Organisation for the Prohibition of Chemical Weapons (OPCW) welcomed the ABAF members, and notably Mr John Foggo, who had joined as a new member. Referring to the agenda for the session, the Director of Administration noted that a number of important issues were to be addressed, in particular the Draft Programme and Budget of the OPCW for 2017 (EC-83/CRP.1, dated 8 July 2016).

2. Adoption of the agenda

The ABAF adopted the following agenda:

1. Opening of the session
2. Adoption of the agenda
3. Review of the report of the previous session
4. Status of 2016 financial performance (first half of 2016)
5. Draft Programme and Budget for 2017 (including the Programme Performance Report for 2015)
6. Any other business
7. Next session and agenda
8. Adoption of the report



3. Review of the report of the previous session

- 3.1 In paragraph 4.4 of the report of its Fortieth Session (ABAF-40/1, dated 9 June 2016 and Corr.1, dated 24 June 2016), the ABAF **supported** the establishment of an audit committee and **suggested** that consideration could be given to enhancing the role of the ABAF so that it takes on the responsibilities of such a committee, acknowledging that this would require a change to the ABAF's terms of reference.
- 3.2 The ABAF was informed that while the Secretariat would not be in a position to provide a paper until the Director-General was able to discuss the idea in detail with States Parties, the Office of Internal Oversight (OIO) had done an initial evaluation of the concept. This was presented to the ABAF.
- 3.3 The OIO stated that the establishment of an audit committee had been proposed by the External Auditors and added that while a number of international organisations have such bodies, others do not, notably the International Atomic Energy Agency (IAEA) and Preparatory Commission for the Comprehensive Nuclear-Test-Ban Treaty Organization (CTBTO). The OIO detailed the mandates and main responsibilities of an audit committee and stated that these were normally customised to fit the requirements of the organisations they serve. The OIO then compared the mandates of an audit committee and the ABAF.
- 3.4 The ABAF **commended** the Secretariat on the progress made in analysing its suggestion. Addressing the OIO presentation, the ABAF **raised concern** that the creation of an OPCW audit committee could produce a new and unnecessary layer of governance and **stressed** the importance of avoiding duplication of work. The ABAF **requested** the Secretariat to review the ABAF's terms of reference, structure, and membership criteria in order to provide an assessment of the steps that would need to be taken in order for the Body to take on the responsibilities of an audit committee. The ABAF **requested** that the findings of the assessment be submitted informally to its members in March 2017 with a view to considering a definitive version at its Forty-Second Session.
- 3.5 In paragraph 5.4 of ABAF-40/1, the ABAF **recommended** that the Secretariat develop its concept for a strategic capability investment fund (SCIF), which would seek to provide a means to finance one-off capital expenditures using extrabudgetary resources as part of a strategy to relieve pressure on regular budget cash outflows. In response to the ABAF's request for a briefing on progress made to establish the SCIF, a presentation was provided by the Office of the Director-General. The ABAF was informed that such a fund would serve to facilitate the introduction of new and indispensable technology and additional capacity that would not be provided for in the regular budget. The ABAF was advised that the SCIF project had started with the development of a draft concept, which was being followed up by internal discussions on the new capabilities that were foreseen. Later, briefings would be given to regional groups on the concept before the issuance of a Note by the Secretariat to States Parties to outline details of the fund and to request donor financing.
- 3.6 The ABAF **acknowledged** the progress made to date and, in discussing the briefing that was presented, concluded that the concept of an SCIF offered what could be a way to cope with the challenge facing the OPCW: how to meet periodic major new

needs of overriding importance to the basic mission of the Organisation while still respecting the strong insistence of most States Parties that there be zero nominal growth (ZNG) in the regular budget. The ABAF **raised concern** that it may not represent sound budgetary practice. When deciding on a budget level, there should be a considered agreement among States Parties on what priorities must be supported. If a full examination indicates that overriding needs cannot be absorbed within an existing budget ceiling, then good budgetary discipline requires acceptance of an increased budget level. To ignore this reality would be a disservice to the Organisation. In addition, resorting to the use of extrabudgetary funding from donors that are able and willing to provide financing for what are recognised as central and essential needs, especially on a repeated basis, ultimately undermines both the integrity of the budget process and a necessary shared sense of corporate responsibility among the States Parties. The ABAF **noted** that it would not be asked for advice on the final SCIF proposal before a Note by the Secretariat was issued but, if deemed useful, it looked forward to providing further advice on the establishment, implementation, and management of the SCIF at its future sessions. In considering a proposal for establishing an SCIF, the ABAF **urged** States Parties to give careful consideration to these issues and their implications.

- 3.7 In paragraph 6.4 of ABAF-40/1, the Secretariat was requested to present a paper at its next session on options to consolidate trust funds to enable greater flexibility in their use. The ABAF received a presentation from the Budget, Planning and Control Branch (BUD) which addressed this topic, as well as the broader issue of ways to strengthen trust fund management within the OPCW. The BUD informed the ABAF that increased pressure on the regular OPCW budget caused by ZNG and the appreciation of the United States dollar (USD) against the euro (EUR) had caused the Organisation to increasingly use extrabudgetary resources (i.e. trust funds) to fund its activities, notably its contingency operations. The ABAF was informed that the Secretariat was planning and/or undertaking a number of initiatives to improve its trust fund management, including the creation of a centralised extrabudgetary operations capability and the development of programme-based trust funds. The ABAF **commended** the Secretariat on its presentation and agreed that trust funds were likely to become an increasingly important source of financing if the policy of ZNG for the regular budget were maintained. The ABAF **acknowledged** the administrative challenges that result from the increased use of extrabudgetary resources and the Secretariat's efforts to strengthen trust fund management. The ABAF **stressed the importance** of ensuring the alignment of trust fund programmes with the core objectives of the OPCW and agreed that success in streamlining extrabudgetary operations required support from the States Parties, as the changes proposed represented a shift in the approach to trust fund financing and management.

4. Status of the 2016 financial performance (first half of 2016)

- 4.1 The ABAF **reviewed** the report by the Director-General entitled "OPCW Income and Expenditure for the Financial Year to 30 June 2016 (Second Quarter of the Financial Year Ending 31 December 2016)" (S/1399/2016, dated 25 July 2016) and the Note by the Director-General entitled "Monthly Financial Report as at 31 July 2016" (S/1403/2016, dated 8 August 2016). The ABAF **noted** that 77.9% of the assessed contributions for 2016 had been received by the end of July 2016, lower than the 84.8% received in the same period in 2015, leaving an outstanding balance of

EUR 14.5 million. The ABAF **noted with concern** the fact that several major contributing States Parties, which usually settle their assessed contributions by the end of July, were behind schedule with their payments this year.

- 4.2 The ABAF was informed that while 2015 budgetary implementation was over 99%, 4.2% or EUR 2.8 million of 2015 assessed contributions still remained outstanding, and EUR 871,629 of 2015 Article IV and V inspection mission costs had not been reimbursed by States Parties. As a result, a gap between cash collected and disbursed with regard to 2015 Programme and Budget could result in a final cash deficit for that year, which would be calculated in accordance with Financial Regulation 6.3.¹ The ABAF **continued to encourage** States Parties to pay their current and prior years' assessed contributions in a timely manner to ensure that the cash flow situation and programme implementation of the Organisation were not negatively impacted.
- 4.3 As in previous sessions, the ABAF **expressed concern** that, as at 30 June 2016, 29 States Parties 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 2014 and 2015.² The ABAF reviewed the status of multi-year payment plans and **recommended** that the Executive Council (hereinafter "the Council") continue to encourage these States Parties 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 had been approved by the Conference of the States Parties (hereinafter "the Conference") at its Eleventh Session (C-11/DEC.5, dated 7 December 2006).
- 4.4 The ABAF **noted with concern** the cumulative outstanding balance of EUR 4,874,369 for the reimbursement of inspections invoiced under Articles IV and V as at 31 July 2016, **reiterated its concern** regarding the impact of non-payment, and **recommended** that the Council address this issue.
- 4.5 The ABAF was briefed on the 2016 budget status and was informed that the 2016 Programme and Budget was 58% obligated at the end of June. This was higher than a linear rate of implementation but not unusual in international organisations at the mid-year point of the financial year, given the advance obligation of contracts. The ABAF was informed that staff costs were marginally above budget but should realign later in the year, when costs related to trust fund activities were recharged. The ABAF was advised that the impact of the appreciation of the USD against the EUR was having less of an impact than in 2015 and was informed that the Secretariat was implementing a number of mitigating measures to protect against any potential budget

¹ At the end of the twelve-month period after each financial period, the cash surplus for the financial period shall be determined by crediting to the provisional cash balance: any arrears of prior years' contributions received during that period; any savings from the provisions made for unliquidated obligations; and any receipts of miscellaneous income relating to prior years.

² 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.

deficit. The ABAF **commended** the initiatives taken to avoid a budget deficit and **encouraged** the Secretariat to continue to make every attempt to utilise available allotments to the maximum extent possible, in line with organisational priorities.

5. Draft Programme and Budget for 2017 (including the Programme Performance Report for 2015)

- 5.1 The ABAF received a briefing on the main highlights of the Draft Programme and Budget for 2017. The ABAF **noted** that the proposed budget totalled EUR 67.0 million, EUR 59,800 less than the 2016 approved budget and EUR 2.3 million less than the 2015 budget. The ABAF also **noted** that the 2017 budget required annual assessed contributions of EUR 64.9 million, which represented a decrease of 1% in comparison to 2016's assessed contributions, given the EUR 611,400 increase in budgeted income from the reimbursement of Article IV and V inspections.
- 5.2 The ABAF **noted with concern** the gradual trend of increased support programme budgets and staffing levels compared to the core operational programmes. It also **noted** that standard staff rates were calculated based on a combination of historical and projected data and that fluctuations in the USD to EUR exchange rate represented a significant risk to the budget. The ABAF questioned the proposed 11.8% increase in the overall consultancy and contracting budget and was advised that this was due to planned information and communication technology (ICT) projects within the Verification Programme and increased outsourcing of ICT services within the Administration Programme, both as part of longer-term strategies aimed at enhancing the effectiveness and efficiency of systems and services. The ABAF **noted** that the increase was caused by exigencies but **recommended** that such increases should not become structural within the budget.
- 5.3 The ABAF **noted** that the draft Verification Programme budget reflected an overall 2.7% increase against 2016. It was advised that the Programme's focus remained on chemical weapons disarmament, the non-proliferation of chemical weapons, assistance and protection, and the development of States Party and Secretariat capabilities, notably in the areas of training and knowledge management. New and emerging priorities include technology development, increased data processing and analysis, and the extended use of the Rijswijk training facility for State Party capacity-building. The ABAF was informed that the budget increase was primarily due to the Knowledge Management Officer post being budgeted for a full year,³ an increase in contractual services to conduct data analysis and develop training capacity within the OPCW Laboratory, and hardware and software investments for the Electronic Declarations Tool for National Authorities (EDNA), Verification Information System (VIS), enterprise content management (ECM), and Secure Information Exchange System (SIX). The ABAF inquired whether the investment in SIX could lead to efficiencies and was advised that while no staff savings were foreseen, the investments in this and the other systems would provide better analytical capability. The ABAF also asked what resources were being used for assistance and protection and was informed that Verification Division staff members provide support as trainers in the International Cooperation and Assistance Programme's capacity-building courses that target this area.

³

The Knowledge Management Officer post has been budgeted for six months in 2016.

- 5.4 The ABAF **noted** that the draft Inspections Programme budget reflected an overall 3.3% decrease against the 2016 level and provided for a net reduction of four staff. The ABAF was informed that the number of inspectors budgeted for 2016, determined by the number of inspector missions/days and staffing requirements to implement the Programme's core activities, as detailed in its key performance indicators (KPIs), were considered by the Secretariat to be adequate to perform the planned programme of work. The ABAF was briefed that the number of core inspectors was proposed to increase from 89 in 2016 to 96 in 2017, and that a number of posts would be held in reserve. The ABAF was informed that the Inspection Programme's focus would be on verification of the destruction and storage of chemical weapons by States Parties, verification of the non-proliferation of chemical weapons, the provision of capability to respond to any challenge inspection or investigation of alleged use, and preparedness for contingency operations and technical assistance visits to investigate any alleged use of toxic chemicals as weapons. The ABAF was also briefed that the Programme's new and emerging priorities include Capacity Building and Contingency Planning Cell training, the establishment of an Information Cell, the Rapid Response Assistance Team, and the development of the Situation Centre. Turning to resources, the ABAF was advised that the Inspections staffing table would decrease by five posts, but would also include a new position of Information Assistant (GS-6). Financial resources for the programme would reduce by EUR 728,300, with a EUR 1.6 million reduction in the staff cost budget being partially offset by an increase in the operational cost budget, the result of a 15.6% increase in the number of inspector days. The ABAF **noted** the Programme's new organisation chart and the fact that the Operations and Administration Branch was being created through the merger of two existing branches. The ABAF also inquired on the specific role of the Information Cell and was informed that it would primarily provide operational planning support. Looking at the staffing table for the number of inspectors in 2017, the ABAF **noted** that the figures provided a reserve to accommodate for the overlaps caused by rotations of inspector groups, but **requested** that more information be provided at its Forty-Second Session on the methodology used to calculate inspector staff numbers and budgets.
- 5.5 The ABAF **noted** that the draft International Cooperation and Assistance Programme budget reflected no change from 2016. The ABAF was informed that the Programme's focus in 2017 would be to develop and enhance the preparedness and response capabilities of States Parties for assistance and protection against the use or threat of use of chemical weapons at the national and regional level; to develop and enhance the capacity of States Parties to support full and effective national implementation of the provisions of Article VII; and to support the full and effective implementation of Article XI through the promotion of and equal access to the peaceful uses of chemistry. The ABAF was briefed that the Programme's priorities for 2017 included increasing emphasis on specialised training in areas such as medical care, sampling and analysis, and training of trainers; facilitating States Parties' legislative processes; and enhancing international cooperation mechanisms through curriculum development, enhanced training, needs assessments, and the compilation of best practices. The ABAF was informed that the International Cooperation and Assistance Programme budget continued to place focus on the delivery of operational and primarily regional-based activities that sought to benefit a wide range of States Parties. The ABAF inquired as to what measures of achievement were being used to

evaluate the effectiveness of the Programme's activities and was informed that the Programme was placing increased focus on the monitoring and evaluation of its activities to better assess their outcomes and impact. The ABAF asked why the internships and grants budget line was being reduced by 43.6%. It was informed that the internships and grants overall programme budget was not being reduced, but that participant travel costs were now being reflected in the travel category rather than in this budget line.

- 5.6 The ABAF **noted** that the draft Administration Programme budget request reflected a 3.2% overall increase compared to 2016. The ABAF was informed that the increase was primarily due to the transfer of two Movement Clerks (GS-5) from the Inspections Programme, the conversion of the special service agreement (SSA) post of Human Resources Legal Officer (P-3) to fixed-term status, and the conversion of the contractor post of Staff Council Assistant (GS-4) to fixed-term status. The ABAF was informed that the purpose of the transfer of the Movement Clerks was to consolidate travel functions within the Administration Programme in an effort to seek operational efficiencies, while the conversion of the Human Resources Legal Officer and Staff Council Assistant posts were aimed at regularising these roles to meet the long-term needs of the Organisation. The ABAF was advised that the operational cost budget was largely unchanged from 2016, with the only material changes being a EUR 195,400 increase in consulting and contracting costs, which was being offset by a EUR 185,600 reduction in the equipment budget. This shift in resources was the result of a shift towards outsourcing of services within the Information Services Branch (ISB). The ABAF **noted** that KPI 1.8 for the Administration Programme includes a 2017 target of 97% for ICT infrastructure "uptime" when a result of 99.6% had been achieved in 2015. The ABAF was informed that the 2017 target took into consideration the increasing unreliability of OPCW legacy systems, which was one of the reasons why the implementation of an enterprise resource planning (ERP) system was a high priority for the Organisation.
- 5.7 The ABAF reviewed the Programme Performance Report for the Year 2015 (S/1377/2016, dated 22 April 2016) and **noted** the importance of this document. In this regard, it **encouraged** the Secretariat to consider including information on financial performance so that the document becomes a "Programme and Budget Performance Report". The ABAF again **encouraged** the Secretariat to further develop a narrative for the report that could highlight achievements made during the year, provide a meaningful assessment of the outcomes and impact of activities, and detail lessons learned during programme implementation. The ABAF was informed that the Secretariat had been reviewing the format of the performance report and looking at ways to better reflect progress made towards the achievement of programme objectives. It was also advised that the implementation of the ERP system should enable the Secretariat to better analyse budgets and expenditures by programme objective, in line with the principles of results-based management (RBM).

6. Any other business

Recommendation for write-offs of irrecoverable accounts receivable and of losses of assets

- 6.1 Financial Regulation 10.5 of the OPCW stipulates that the write-off of losses exceeding EUR 500 per item and exceeding a total amount of EUR 10,000 in a given financial period are subject to the recommendation of the Council and the approval of the Conference. A total amount of EUR 1,694.46, including losses of assets and irrecoverable accounts receivable, would be presented for the consideration of the Council at its Eighty-Third Session (EC-83/DG.3 C-21/DG.6, dated 2 August 2016). The ABAF **noted** the recommendation for the write-off.

Update on the Enterprise Resource Planning Project

- 6.2 A short briefing was provided to the ABAF on the current status of the ERP project, in which it was informed that a contract for the ERP solution for the “systems of record” should be signed no later than 16 September 2016. The ABAF was informed that a proof of concept for the “system of differentiation” was currently being developed and that the Secretariat was also looking at procuring testing software as part of providing a sustainable solution. The Secretariat stated that it was also addressing data migration issues, which represented a significant challenge for the project. The ABAF **shared its view** that data migration presented the greatest risk to ERP implementation and **encouraged** the Secretariat to take into consideration lessons learned by other international organisations in this regard. The ABAF **noted** that funds available for the ERP project totalled EUR 7.9 million and inquired if these resources would be fully expended. In response, the Secretariat stated that some savings were possible. The ABAF **requested** copies of the existing ERP business case and asked for further updates on the project’s progress, including projected cost savings, at its future sessions.

7. Next session and agenda

The ABAF **adopted** the following provisional agenda for its Forty-Second Session, which will be held from 6 to 9 June 2017.

1. Opening of the session
2. Adoption of the agenda
3. Election of the Vice-Chairperson
4. Review of the report of the previous session
5. Status of 2017 budget performance (first quarter of 2017)
6. Financial Statements of the Organisation for the Prohibition of Chemical Weapons and the report of the External Auditor for the year ending 31 December 2016

7. Report of the Office of Internal Oversight for the year ending 31 December 2016
8. Any other business
9. Next session and agenda
10. Adoption of the report

8. Adoption of the report

The ABAF **adopted** the report of its Forty-First Session on 1 September 2016.

Annex:

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

Annex

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

	Title
1.	Agenda for the Forty-First Session of the Advisory Body on Administrative and Financial Matters
2.	Report of the Fortieth Session of the Advisory Body on Administrative and Financial Matters (ABAF-40/1 and Corr.1)
3.	Note by the Director-General: Comments on the Report of the Advisory Body on Administrative and Financial Matters at its Fortieth Session (EC-82/DG.16, dated 24 June 2016)
4.	Report by the Director-General: OPCW Income and Expenditure for the Financial Year to 30 June 2016 (Second Quarter of the Financial Year Ending 31 December 2016) (S/1399/2016)
5.	Note by the Director-General: Monthly Financial Situation Report as at 31 July 2016 (S/1403/2016)
6.	Note by the Director-General: Draft Programme and Budget of the OPCW for 2017 (EC-83/CRP.1)
7.	Note by the Technical Secretariat: Programme Performance for the Year 2015 (S/1377/2016)
8.	Note by the Director-General: Recommendation for Write-Offs of Irrecoverable Accounts Receivable and of Losses of Assets (EC-83/DG.3 C-21/DG.6)
9.	Note by the Director-General: Enterprise-Resource-Planning Strategy of the OPCW (EC-77/DG.15, dated 12 September 2014)
10.	Presentation: ABAF as an Audit Committee?
11.	Presentation: Strategic Capability Investment Fund
12.	Presentation: Strengthening OPCW Trust Fund Management
13.	Presentation: OPCW Budget Status – 30 June 2016
14.	Poster: ERP Solution
15.	Graphic: ERP Project Activities Status