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**STATEMENT OF THE EXTERNAL AUDITOR OF THE OPCW
AT THE SEVENTIETH SESSION OF THE EXECUTIVE COUNCIL**

Ms Chairperson, ladies and gentlemen,

I have the honour to present the essence of my report on the financial statements of the Organisation for the Prohibition of Chemical Weapons (OPCW) for the year ending 31 December 2011. For the first time they were prepared in accordance with International Public Sector Accounting Standards (IPSAS).

The report is based on the discussions with the Secretariat on the financial policies applicable under IPSAS and the financial and performance audits my audit team conducted. The audit was carried out in accordance with Article XIII of the Financial Regulations of the OPCW, the additional terms of reference governing the work of external audit, and the International Auditing Standards as adopted by the Panel of External Auditors.

The implementation of IPSAS in the OPCW was an exercise which took several years and was accomplished together with my team, which carried out special audits of the pro forma financial statements as of 30 June 2010 and of the financial statements as of 31 December 2010—prepared in accordance with the old UNSAS system and converted into IPSAS. The IPSAS closure balance of 2010 then served as the IPSAS opening balance for 2011.

My team and I have been very impressed with the level of enthusiasm and energy with which the Secretariat tackled the implementation project of IPSAS. We believe that the Organisation and its staff can rightly be proud of their achievement. An important success factor was surely that the Secretariat took sufficient time to change the Financial Regulations and Rules, to formulate the new financial policy according to IPSAS requirements and to do the conversion in two steps in 2010 and 2011.

My report comments on financial results under IPSAS and possible improvements in managing the work carried out by the different departments of the OPCW. In particular, I would like to draw your attention to risk management in general, which should include proper delegation of authority within the Secretariat and reasonable internal controls. I further convey some proposals for the full recovery of costs of Articles IV and V inspections and the proper staffing of the Operations Centre.



The structure of my report follows the structure of my last years' reports. Thanks to the cooperation of the Secretariat I am again able to present a result which does not show different positions because all my recommendations were accepted by the Secretariat.

Let me now turn to the results of my team's work and start with the main result, which is the most important one for the Secretariat.

Our audit examination revealed no weaknesses or errors, which I considered material to the accuracy, completeness, and validity of the financial statements as a whole. Furthermore, the financial transactions reflected in the statements, which we have tested as part of our audit, have in all significant aspects been in accordance with the applicable Financial Regulations and legislative authority. Consequently, I have placed an unqualified audit opinion on the OPCW's financial statements for 2011.

Notwithstanding this clean opinion our audit resulted in a number of findings that should be addressed. Let me now present this part of my report. I am convinced that the implementation of my numerous recommendations on performance issues would improve the OPCW's efficiency and effectiveness.

The implementation of IPSAS involved a number of policy decisions which had to be taken by the Secretariat in agreement with me and my team. The decisions taken regarding some types of inventories need further monitoring because they were considered immaterial for the time being. In case of major changes in the policy a new assessment may be necessary.

Let me continue with some remarks on the Secretariat's enterprise resource planning (ERP) system called SmartStream.

SmartStream has been acquired in the early days of the OPCW. This system is an integrated financial, human resources and purchasing tool with several interfaces to further applications and was designed to cope with UNSAS accounting. However, it does not fully meet the challenges after the implementation of IPSAS. 16,000 manual conversions of financial transactions in Excel sheets were necessary because the IT system was not providing complete information necessary for IPSAS.

To reduce the amount of manual work required, especially in the Finance and Accounts Branch, an ERP working group was established that met to discuss open business process cases and requests for change, as well as to prioritise them. A SWOT analysis (SWOT stands for: strengths, weaknesses, opportunities and threats) was conducted to compare the current IT system SmartStream and a new ERP system. My staff noticed that the conclusions of all four parts predominantly argued for a new ERP system.

Indeed, the current system does not support recording transactions required by IPSAS. A new ERP system, however, would require substantial investment and manpower that is needed for the implementation. Also the future of the Secretariat after 2012 should be taken into consideration. In any case I recommend evaluating possible co-operation within the UN family when implementing a new ERP system, to benefit from the harmonisation effects provided by implementing IPSAS.

Let me inform you about problems with invoices to Member States for costs of verification under Article IV and V of the Chemical Weapons Convention. The Convention states that

each State Party shall meet the costs of verification of storage and destruction of chemical weapons and the costs of verification of destruction of chemical weapons production facilities unless the Executive Council decides otherwise.

Despite the valid principle that all costs have to be invoiced, my team identified discrepancies. This result was partly caused by States Parties that refused full payment of all costs incurred by the Secretariat. As there are no exceptions defined by the Executive Council, I would like to remind all States Parties to pay inspection costs incurred by the Secretariat in full.

The invoicing process for costs of verification under Article IV and V of the Chemical Weapons Convention is not supported by the IT system (SmartStream) because this does not have the necessary functions to fully automate the process. As a result, a large amount of manual work with repeated data entries is required. I propose an effort should be made to improve the whole process. An improved administrative procedure would enable the Secretariat to recover inspection-related costs completely, in accordance with the Chemical Weapons Convention, and establish a consistent, comprehensive and routine process.

In the OPCW Operations Centre (OPC), professional-staff inspectors serve as duty officers, supported by general-services staff communication clerks. The OPCW runs the OPC as the central point of contact for all inspection activities 24 hours a day and 365 days a year. The OPC is part of the Inspectorate Division.

OPCW inspectors are employed and trained to serve as experts in conducting inspection and verification missions. They are not selected and trained as communication experts. Nevertheless, the Secretariat sees added value in the engagement of inspectors in the OPC, who are not on mission duty, as focal points for inspection teams on mission, supported by a communication expert. In my opinion the Secretariat needs to ensure that the OPC is always staffed with a sufficient number of dedicated communication experts.

In our reports we always follow up our recommendations of former years. In my last two reports I noted that the Secretariat has to be aware of its operational, financial and reputational risks. I noticed that a risk-management system was lacking within the Secretariat. In the meantime the Secretariat had already taken first steps to develop such risk-management system. However, a specific adequate risk-management system for the OPCW has not been implemented yet.

I would like to encourage the Secretariat to take this opportunity and combine its risk management with the development of a Statement of Internal Control (SIC). This is a governance instrument that is just being introduced also in the UN family.

It requires finalising the risk-management plan that was recommended by me two years ago and to assess the proper relationship between risks and internal control. What is needed is a clear culture of personal responsibility and accountability on the part of individual managers and to avoid internal controls where they are not needed. This can be achieved by clear delegation of authority down through the Organisation.

I would like to encourage the Secretariat to develop an SIC, which should be much more than a paper exercise. The statement itself is only an articulation of the existing structures. The

main benefit would be derived from the discipline of increasing the Organisation's capacity to handle risk and to establish an effective risk and control framework.

Risk management is an ongoing process and has to take into account each and every new, emerging challenge. High risks should be met with a higher degree of internal control. At the same time it should also be kept in mind that cumbersome and unnecessary internal control procedures in low-risk areas can be extremely frustrating and expensive. Therefore, the issuance of an SIC needs to go hand in hand with a reasonable delegation of authority in the Secretariat, and here I still see considerable room for improvement.

Finally I would like to appeal to the relatively small number of States Parties in arrears to fully pay assessed contributions. I repeatedly pointed out that it is hardly acceptable that assessed contributions are not paid when due. I encourage the States Parties concerned to pay in full or at least to make use of the payment plans offered by the Secretariat.

I particularly wish to emphasise that the OPCW's IPSAS accounting policy to write down assessed contributions recoverable does not relieve States Parties from their obligation to pay these assessed contributions.

Ms Chairperson, ladies and gentlemen,

This has been a brief overview of my main findings regarding the Secretariat's management and performance. If you have any questions, we will be happy to answer them to the extent possible.

I should like to thank again the Director-General and all the staff of the OPCW Secretariat for their cooperative and responsive attitude, their kind and expert assistance and for the facilities made available to my audit team.

Thank you for your kind attention.

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