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STATEMENT BY THE EXTERNAL AUDITOR OF THE OPCW AT THE EIGHTY-NINTH SESSION OF THE EXECUTIVE COUNCIL

Chairperson, distinguished delegates,

On behalf of the Comptroller and Auditor General of the United Kingdom of Great Britain and Northern Ireland, Sir Amyas Morse, I have the honour to outline the findings from this, our third year as your appointed external auditor.

In my presentation I will address the three topics contained in our report, focusing on financial management, procurement, and the status of the Enterprise Resource Management implementation.

I am pleased to report that the External Auditor's opinion was unqualified, and that the audit revealed no errors or weaknesses which we considered material to the accuracy, completeness, and validity of the financial statements as a whole. It also confirms that expenditure has been incurred in accordance with the authorities and regulations set by you as States Parties. We note the continued high quality of financial reporting and the sound processes which underpin the preparation of financial statements. This has been enhanced by the introduction of the Director-General's commentary on the financial statements.

I move now to the first topic area of our report, which speaks to the issues of financial and budgetary management.

During 2017, OPCW achieved a high rate of budget implementation, reflecting the level of activity in that year. Such high levels of implementation require sound budgetary disciplines. These disciplines remain important to manage the cash pressures the organisation continues to face as a result of the increase in none or late payment of assessed contributions, with cash levels reducing by some EUR 1.2 million over the period. It is important that as the OPCW moves towards the Review Conference, attention is given to a longer term approach to the funding of the Organisation, matching financial strategies to the long term objectives of the Organisation, and establishes a clear commitment for States Parties to meet their obligations in respect of contributions. Alongside this it is important for the Organisation to address longer term funding issues, and for the States Parties to formally approve the strategy for the funding of the substantial employee liabilities, determining its approach to the funding of long-term capital investment and the role of extra-budgetary contributions in the overall funding requirement. The OPCW will continue to face cash pressures in the coming period, exacerbated by late payment of Assessed Contributions, which will create significant management pressures at a time when the Technical Secretariat (hereinafter "the Secretariat") faces the challenge of implementing a new ERP system.



Turning now to Procurement, we welcome the improvements that have been made over the past 12 months in the operation of the Procurement function as a response to the Office of Internal Oversight (OIO) observations. OPCW is working towards a comprehensive procurement strategy and consolidating guidance for users. Our review did not highlight any significant weaknesses in OPCW's procurement processes, but did identify a number of areas where improvements were planned or where further effort could secure benefits. We identified the opportunity to better focus on higher-risk procurements, building on the approval of more realistic levels of procurement delegation. We identified scope to extend the Terms of Reference for the Committee on Contracts to encompass greater oversight of the delivery of procurement strategy, to monitor procurement performance, and to use the functionality of improved data from ERP systems to target oversight and compliance efforts. We also identified scope to review contract terms and conditions to ensure that the resources of the legal team are focused proportionately on higher-risk contracts.

For procurement to be fully effective, there needs to be improved training for contract managers to better understand their role in monitoring contractor performance. This should be supported by a more systematic process for monitoring and documenting the assessment of contract delivery, which can then better evidence decisions to renew contracts. There is clear scope for the improved information from the ERP to support improved contracting decisions and oversight. As with all our recommendations, it remains important that the focus is on risk and that improvements are proportionate.

Turning finally to the implementation of the ERP system, over the last three years we have reported on the progress in implementing the ERP solution approved by States Parties. At the time of our audit, the timeline for implementation had slipped significantly and no formal plan or timeline for implementation had been agreed. At the time of this presentation, we understand that testing on the system is taking place but that no final decision on the implementation date has been made.

In reviewing progress, we noted that the decision to appoint an implementing partner was delayed and that there was an optimism bias in the oversight of the implementing partner's progress in building the system functionality. Weaknesses in the oversight of the contractor's performance meant that the status of the build was only determined during the user acceptance testing, which took place close to the planned implementation date. This was driven by a lack of assurance processes and detailed knowledge of the solution to accurately assess progress and risks. Since this became apparent in the autumn of 2017, the Secretariat has taken steps to strengthen oversight and knowledge of the applications. At the time of our audit in April 2018, no formal plan had been agreed with the Implementing Partner and we understand discussions on contract performance remain on-going.

Delay to project implementation will increase costs and delay the delivery of benefits, although the Secretariat tells us that the project costs are still within the approval envelope. It remains important for the Secretariat to ensure oversight and assurance remain robust and that sufficient attention is given to assessing the control environment and over the transfer and reconciliation of data between the old and new systems. Furthermore, it is important that with the delay in implementation the opportunities provided by a new ERP to influence improved processes and the culture of OPCW are not lost. These are key benefits arising from an investment in IT and in our view need to be promoted more fully. As our report sets out, significant risks to implementation continue to require careful oversight.

We are pleased to note that since the conclusion of our work the Secretariat has been taking forward actions in respect of procurement and good progress is being made in responding to our previous recommendations in respect of Human Resources. We noted that a number of older recommendations are long standing, such as those in the area of fraud prevention and detection. We welcome the Director of Administration's commitment to monitor these more systematically as part of standard meetings with senior staff. We will continue to support the Secretariat in implementing our recommendations effectively.

I wish to express my sincere thanks to the Director-General and to all the staff of the OPCW Secretariat for their cooperative and responsive attitude.

Thank you for your kind attention, and if there any questions, I would be happy to take them.

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