



NOTE BY THE DIRECTOR-GENERAL

COMMENTS ON THE REPORT OF THE ADVISORY BODY ON ADMINISTRATIVE AND FINANCIAL MATTERS AT ITS FORTY-SIXTH SESSION

1. At its Thirty-Fourth Session, the Executive Council (hereinafter “the Council”) requested that the Director-General, when submitting reports of the Advisory Body on Administrative and Financial Matters (ABAF) to the Council for its consideration, indicate what actions the Technical Secretariat (hereinafter “the Secretariat”) has taken in response to the recommendations of the ABAF, and what decisions are required by the Council on the report being submitted (paragraph 21.4 of EC-34/5, dated 26 September 2003).
2. The Director-General welcomes the continuing advice and support provided by the ABAF, as reflected in the conclusions it reached during its Forty-Sixth Session (ABAF-46/1, dated 7 June 2019), which was held from 4 to 7 June 2019.

Cash position (paragraphs 4.3 to 4.8 of ABAF-46/1)

3. The Secretariat acknowledges the ABAF’s request for a presentation on the Organisation’s banking arrangements and will provide this at the ABAF’s next meeting.

Working Capital Fund (paragraph 4.9 of ABAF-46/1)

4. The Secretariat notes the ABAF’s continued concern regarding the potential operational risk due to the delayed receipt of assessed contribution payments and the ability of the Working Capital Fund to sustain liquidity. The Secretariat notes the ABAF’s encouragement to develop a contingency plan should the situation continue.

Status of assessed contributions and Article IV and V reimbursements (paragraphs 4.10 to 4.13 of ABAF-46/1)

5. The Secretariat notes the ABAF’s serious concern regarding the number of States Parties that were in arrears or facing delayed payment of assessed contributions, as well as the cumulative outstanding balance for the reimbursement of inspections invoiced under Articles IV and V. The Secretariat will continue to remind States Parties to fulfil their obligations in this regard.

* Reissued in English for technical reasons.



6. With regard to Article IV and V reimbursements, the Secretariat notes the ABAF's request to take measures to ensure that invoices are sent to States Parties in a timely and current manner, which would serve to improve cash flow if and when the situation involving delayed payments improves.

Programme support costs (paragraph 4.14 of ABAF-46/1)

7. Regarding programme support costs, the Secretariat notes that the ABAF will return to this issue during draft 2020 Programme and Budget discussions at its next session.

2018 Programme and Budget implementation (paragraph 4.15 of ABAF-46/1)

8. The Secretariat understands that the ABAF noted that cash receipt pressures on the Organisation had to be balanced against budget implementation. The Secretariat notes the ABAF's recommendation that the Secretariat bring this issue to the attention of States Parties through the different mechanisms at its disposal, including reporting, invoice reminders to States Parties, and discussions during the 2020 draft Programme and Budget consultations.

Status of the 2019 financial performance report (first quarter of 2019 and April 2019) (paragraph 5 of ABAF-46/1)

9. The Secretariat welcomes the positive comments by the ABAF regarding the initiatives taken by the Organisation to avoid a budget deficit and to avoid situations that could require a request to transfer funds between Chapters. As in past years, the Secretariat will conduct a detailed review of actual and projected expenditures along with a review of assessed contributions and Article IV and V collections as part of the mid-year review. This may result in an adjustment to the contingency margin currently in effect.

Status of budget transfers in 2018 (draft Note by the Director-General on transfers of funds in 2018 (paragraphs 6.1 to 6.3 of ABAF-46/1))

10. The Secretariat was pleased to note that the ABAF welcomed the draft report on transfers of funds in 2018, which confirmed that all transfers were within the requirements of the Financial Regulations and Rules and as a result, no transfers were made between Chapters, and all other transfers were within the allowable parameters of transfers between programmes and sub-programmes. The Secretariat also notes the ABAF's observation that all transfers took place without any detriment to the approved activities of the respective programmes.
11. The Secretariat noted the ABAF's request that the draft report include a footnote to clarify the reasons for operational transfers due to staff-related costs; this will be added to the report.

Programme performance report for 2018 (paragraph 7 of ABAF-46/1)

12. The Secretariat notes the ABAF's continued encouragement to further develop a narrative for the report to highlight specific areas of achievement, lessons learned, and an assessment of outcomes and activities, and to develop the report into a Programme and Budget performance report. The Secretariat will look to include these recommendations in future reporting.

Financial Statements of the OPCW and the report of the External Auditor for the year ending 31 December 2018 (paragraphs 8.1 to 8.28 of ABAF-46/1)

13. The Secretariat welcomes the ABAF's satisfaction with the fact that both the Financial Statements of the OPCW and the Financial Statements of the OPCW Provident Fund received unqualified audit opinions from the External Auditor.
14. The Secretariat welcomes the ABAF's satisfaction with the high quality of the Organisation's financial statements, particularly the usefulness of the comprehensive Director-General's introduction to the Financial Statements.
15. With regard to the streamlining of the OPCW Financial Statements, the Secretariat appreciates the ABAF's comments on the approach taken by the Secretariat to improve the readability of the Financial Statements. The Secretariat notes the ABAF's comment that a balance must be maintained between transparency and too much detail or complexity.
16. The Secretariat notes the ABAF's comment that it will revisit at its next meeting the issue of Enterprise Resource Planning (ERP) implementation and any potential impact on the 2019 Financial Statements preparation schedule.
17. The Secretariat notes the ABAF's concern related to the collection of assessed contributions and Article IV and V reimbursements and the impact that these have on the Organisation—especially those occurring late in the year.
18. Regarding the Organisation's asset base, the Secretariat notes the ABAF's recommendation that the Secretariat continue to draw the attention of States Parties to the Organisation's ageing asset base. The Secretariat will provide further information about the Organisation's ageing asset base and the possible introduction of a major capital investment fund during the draft 2020 Programme and Budget consultations.
19. On the issue of reserves and trust funds and as noted by the ABAF, the Secretariat remains committed to the review and rationalisation thereof where possible.
OPCW net deficit approach—long-term unfunded liabilities (paragraphs 9.1 to 9.6 of ABAF-46/1)
20. The Secretariat welcomes the ABAF's commendation for the comprehensive non-paper on the OPCW net General Fund deficit position and unfunded long-term liabilities, including an accompanying survey of 21 international organisations that served as a reference for the ABAF in considering the Organisation's long-term unfunded liability issue.
21. The Secretariat notes that the ABAF did not deem the use of the Working Capital Fund or the use of cash surpluses as appropriate mechanisms for addressing the long-term unfunded liabilities of the Organisation.
22. The Secretariat notes the ABAF's recommendation that the "pay-as-you-go" approach continue as the Organisation's method of liquidating long-term unfunded employee benefit liabilities as they come due. The Secretariat notes the ABAF's suggestion regarding increasing common staff costs to help address the liability issue. However,

the Secretariat notes that any increase in staff cost elements in a zero nominal growth environment would entail a likely reduction in non-staff budget elements.

23. The Secretariat will investigate the ABAF's recommendation to include an ageing profile of, for example, a five-year horizon of the expected liquidation of the unfunded liabilities in future financial statements.

Report of the Office of Internal Oversight for the year ending 31 December 2018 (paragraphs 10.1 to 10.15 of ABAF-46/1)

24. The Secretariat welcomes the ABAF's strong support for the work of the OIO.
25. The Secretariat notes the ABAF's comment on the potential for audit fatigue, noting that the quantity of recommendations is not as essential as the quality of risk-based audit recommendations. Management will take this advice into consideration when reviewing and accepting audit recommendations.
26. With regard to the timelines for audit recommendations, the Secretariat notes the ABAF's suggestion that both Management and auditees should reinforce the importance of the timelines agreed for audit recommendations and that this may be considered in staff performance evaluations.
27. The Secretariat appreciates the ABAF's suggestion that in future, Notes by the Director-General on the implementation of the recommendations contained in the annual reports of the Office of Internal Oversight in which implementation target dates are stated as "ongoing" should instead specify an actual expected date of implementation in order to enhance clarity of expectations for both Management and the auditee. The Secretariat will look to adopt this approach in future reporting.
28. The Secretariat welcomes the ABAF's appreciation for the value-added recommendations issued in the areas of strategic planning, physical security, sick leave, and vendor management.
29. The Secretariat notes the ABAF's encouragement for the timely implementation of OIO recommendations, and its comment that it is the responsibility of Management to ensure that recommendations are implemented within agreed timelines.
30. The ABAF's recommendation on the use of reporting dashboards to increase the visibility of recommendations and to highlight projected implementation dates and priority ratings in order to further increase accountability for fulfilling recommendations in a timely manner is noted and will be examined for future use.
31. The Secretariat notes with appreciation the ABAF's positive view of the new section of reporting from the OIO on the assessment of the impact of implemented audit and evaluation recommendations.

Statement of internal control (paragraphs 13.1 to 13.9 of ABAF-46/1)

32. The Secretariat notes with appreciation the ABAF's commendation for the Secretariat's launch of the internal control framework and internal control self-assessment questionnaire. The Secretariat views these as important support mechanisms for the Director-General's annual Statement of Internal Control.

Furthermore, the Secretariat notes the ABAF's encouragement of Senior Management's active involvement in the launch of these tools.

33. The Secretariat notes the ABAF's suggestion that the Secretariat look to have clear, formalised, and detailed designations and delegations of authority from the Director-General as an important component complementing the internal control framework.
34. The Secretariat notes that the ABAF will revisit the issue of the Statement of Internal Control at its Forty-Eighth Session.

ERP project update (paragraphs 14.1 to 14.8 of ABAF-46/1)

35. With regard to the ERP project, the Secretariat takes seriously the ABAF's concern about the delay of the go-live, as well as the challenges and complexity that remain for project delivery. The Secretariat also notes that the ABAF recognises the significant and continued efforts of the Secretariat to bring the project to a successful conclusion. Furthermore, the Secretariat notes the ABAF's suggestion that all the risks associated with transitioning to the new ERP late in the year be carefully considered; it will ensure that risks and resourcing issues continue to be considered and monitored.
36. The Secretariat appreciates the ABAF's suggestion that any decision concerning the ERP go-live consider issues that may potentially remain after the go-live and the financial resources required to address them.
37. Regarding security for the new ERP, the Secretariat agrees to share information with the ABAF at a future meeting on its assessment of security considerations for the selection and implementation of the system.
38. In accordance with the ABAF's request, at its next meeting the Secretariat will provide the ABAF with a demonstration of the functioning parts of the ERP system, including reporting capabilities.
39. The Secretariat will provide the ABAF with an update on the ERP implementation at its next meeting in accordance with its request.

ChemTech Centre project update (paragraphs 15.1 to 15.6 of ABAF-46/1)

40. The Secretariat notes the ABAF's suggestion that increased outreach measures be taken to foster the broadest possible participation of States Parties in the ChemTech Centre trust fund.
41. The terms of reference for the ChemTech Centre project board will be provided to the ABAF at its next meeting in accordance with its request.
42. The Secretariat notes the ABAF's suggestion that when recruiting for specific project posts, the panel should also include experts with the appropriate technical knowledge to help determine a candidate's suitability for such positions.

43. The Secretariat further notes the ABAF's suggestion that the Secretariat receive appropriate assurances that there are no environmental issues (e.g., endangered species) associated with the selected site for the ChemTech Centre.

Strategic financing: the Fourth Review Conference,¹ the major capital investment fund, and biennial budgeting (paragraphs 16.1 to 16.13 of ABAF-46/1)

44. The Secretariat welcomes the ABAF's satisfaction with the two Notes by the Secretariat and accompanying non-papers that were provided to the Fourth Review Conference in 2018 on the proposals to introduce a major capital investment fund (MCIF) (RC-4/S/3, dated 27 November 2018) and biennial budgeting (RC-4/S/2, dated 21 November 2018). The Secretariat notes that the ABAF welcomed the additional detail that the two additional notes and non-papers provided, and considers them important in informing States Parties of the approaches to and requirements for the potential introduction of both concepts to the Organisation.
45. The Secretariat notes that the ABAF commented that the introduction of an MCIF would be a pragmatic approach to longer-term planning and would facilitate capital replacement given the Organisation's ageing asset base. The Secretariat notes the ABAF's suggestion that as the concept is brought further forward, a clear plan with additional detail on financial requirements and links to the Organisation's priorities for asset replacement should be provided to States Parties. The Secretariat will bring these elements forward at the draft 2020 Programme and Budget consultations.
46. With regard to biennial budgeting, the Secretariat notes that the ABAF considers that there are merits to its implementation for the Organisation, and the Secretariat welcomes the ABAF's support for the Secretariat's approach to bringing the proposal forward to States Parties. The Secretariat notes the comment made by both the ABAF and the External Auditor that the Organisation must determine what is best within the context of the Organisation and its long-term interests.
47. The Secretariat notes that the ABAF recommends that clarifications on biennial budgeting be reemphasised, particularly regarding specific key points, such as the following: there would be a budget update process in the first year of a biennium allowing for budget adjustments and reallocations in full consultation with and under the guidance of States Parties.
48. The Secretariat notes the ABAF's suggestion that the ERP system be examined as to how it will or can support future budget implementation.
- Any other business (paragraph 17 of ABAF 46/1)
49. The Secretariat notes the ABAF's request for an update on the tenure policy at ABAF-47. The Secretariat will ensure that an update is provided at this meeting.

¹ The Fourth Special Session of the Conference of the States Parties to Review the Operation of the Chemical Weapons Convention.

Next session and agenda (paragraph 18 of ABAF 46/1)

50. The Secretariat notes the ABAF's agreement of the dates of 30 July to 2 August for its Forty-Seventh Session, and the provisional agenda for said session.

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