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REPORT BY THE DIRECTOR-GENERAL

FINANCIAL STATEMENTS OF THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS AND REPORT OF THE EXTERNAL AUDITOR FOR THE YEAR ENDING 31 DECEMBER 2018

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[1] The Financial Statements and Report of the External Auditor are copies of the original audited sets.

Annex 1

ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS

FINANCIAL STATEMENTS

OF THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS

FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL STATEMENTS OF THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS FOR THE YEAR ENDED 31 DECEMBER 2018

Statement by the Director-General

1. Financial Regulation 11.1 of the OPCW stipulates that the Director-General is responsible for submitting annually financial statements prepared in accordance with the International Public Sector Accounting Standards (IPSAS) for the financial period to which they relate. The regulation further states that the financial statements and the notes to the financial statements, including significant accounting policies, shall include all funds, where such funds include, amongst other things, the Regular Budget Fund, the Working Capital Fund and the Voluntary Fund for Assistance. The account(s) shall provide comparative figures for the financial period prior to that being reported on.

2. We believe that the financial statements for the year ended 31 December 2018 are presented fairly according to the requirements of IPSAS and the OPCW's Financial Regulations and Rules (reference OPCW-S/DGB/27, dated 10 January 2018).

3. Any other specific directions of the OPCW's policy-making organs as well as additional information prescribed in Financial Regulations 11.1(a) to (e) are presented within the Appendix to the financial statements. The additional information in the Appendix is not part of the IPSAS-compliant financial statements.

4. It is also our opinion that the financial statements present a view which is consistent with our understanding of the OPCW's financial position as at 31 December 2018, results of its operations, changes in net assets, and cash flows for the year then ended.

5. This statement of the Director-General is made pursuant to Financial Regulation 11.1(a).

[Signed]

Fernando Arias
Director-General

[Signed]

Christopher Buck
Director, Administration
Principal Financial Officer

24 May 2019

STATEMENT OF INTERNAL CONTROL FOR 2018

Scope of responsibility

As Director-General of the Organisation for the Prohibition of Chemical Weapons (OPCW), in accordance with the responsibility assigned to me and, in particular, Article 10 of the Financial Regulations, I am accountable for maintaining a sound system of internal control to "establish detailed financial rules and procedures to ensure: effective financial administration; the exercise of economy; the efficient use of resources; and the proper custody of the OPCW's physical assets".

Purpose of the system of internal control

Internal control is designed to reduce and manage rather than eliminate the risk of failure to achieve the Organisation's aims, objectives and related policies. Therefore, it can only provide a reasonable and not absolute assurance of effectiveness. It is based on an ongoing process designed to identify the principal risks, evaluate the nature and extent of those risks, and manage them efficiently, effectively and economically.

Internal control is a process effected by the policy-making organs, the Director-General, senior management and other personnel, and designed to provide reasonable assurance on the achievement of the following internal control objectives:

(a) effectiveness and efficiency of operations and the safeguarding of assets;

(b) reliability of financial reporting; and

(c) compliance with applicable rules and regulations.

Thus, on an operational level, the OPCW's internal control system is not solely a policy or procedure that is performed at certain points in time but, rather, operated continually at all levels within the Organisation through internal control processes to ensure the above objectives.

My current statement on the OPCW's internal control processes, as described above, applies for the year ended 31 December 2018, and up to the date of the approval of the Organisation's 2018 financial statements.

Risk management and control framework

The Organisation's risk management programme includes:

(a) the identification of risks classified according to relevance, impact and probability of occurrence and are recorded in the risk register accordingly; and

(b) a Risk Management Committee whose mandate is to develop action plans to address major risks, build up an integrated risk-management framework, strengthen risk management capacities and a risk management culture, and regularly re-evaluate risks and the Organisation's tolerance levels in light of the evolving environment.

In addition, the internal control system framework is designed to ensure that the Organisation's objectives are achieved efficiently and will continue to evolve and be strengthened over time. The establishment of a policy framework for internal control comprising policies, procedures and processes underpinned by appropriate ethical values includes, but is not limited to, current and comprehensive regulations, rules and directives for the management and control of administrative processes such as financial management, contracting, travel and human resources.

Furthermore, my senior team and I are committed to a continuous improvement programme to strengthen the system of internal control across the Organisation.

Review of effectiveness

My review of the effectiveness of the system of internal controls is mainly informed by:

(a) my senior managers, in particular the Division Directors and Office Directors who play important roles and are accountable for expected results, performance, controlling their respective Division and Office activities and the resources entrusted to them. The information channels rely mainly on periodic meetings held by the Management Board. For the year ended 31 December 2018, significant risk and internal control matters outlined below, together with a remedial action plan, have been identified through a self-assessment process, as confirmed by my Division and Office Directors' personal written attestations;

(b) the Office of Internal Oversight (OIO), on whose reports of internal audits and evaluations I rely. These reports are also provided to the individual Division or Office for strengthening the internal control, risk management and governance processes. During 2018, the OIO has conducted a number of audits and evaluations to assess the adequacy and effectiveness of internal controls in several high risk areas and has made recommendations to further strengthen the system of internal controls, risk management and governance. These high-risk areas were identified through a comprehensive risk assessment exercise carried out by OIO so as to focus the audit effort on the areas that matter most to the Organisation. Internal and Confidentiality audits were conducted on Sick Leave Management, Vendor Management, Physical Security at the OPCW Headquarters, Laboratory and Equipment Store, Strategic Planning in the Technical Secretariat (hereinafter "the Secretariat"), and a spot check was also conducted on Cash Management in the Treasury section. A total of 37 audit recommendations were issued in these reports, of which 14 were prioritised as 'critical' and the remaining 23 recommendations were of 'standard' priority. A summary of the audit recommendations issued in 2018, and the impact of those issued and implemented in the past five years is provided in the Annual Report of OIO for 2018 to the Conference of the State Parties (hereinafter "the Conference"). These have contributed significantly to strengthening the system of internal control in the Organisation. Management accepted all the audit recommendations, and is taking action to implement them;

(c) the Advisory Body on Administrative and Financial Matters, whose purpose is to advise me on administrative and financial issues;

(d) the Risk Management Committee; and

(e) the External Auditor, whose comments and audit opinion are submitted to the Executive Council (hereinafter "the Council") and the Conference.

Significant risk and internal control matters

The following significant risks and internal control issues are reported for 2018, as informed through the above-mentioned channels:

(a) Implementation of the enterprise resource planning system (ERP system): The Organisation is currently implementing a new ERP system which will have a significant impact on a number of key financial and administrative business processes, including internal control. Implementation of the core solution is ongoing, and detailed user acceptance testing in 2017 and 2018 indicated that the solution build was incomplete and would not support operational business requirements. As a result, the go-live of the core solution was delayed until completion of the solution build; additional user acceptance testing is being conducted to confirm that the solution meets the operational business requirements. The go-live of the core solution is now envisioned for 2019, and legacy system controls will continue to be used in the intervening period. In order to ensure sufficient internal control is maintained within the new ERP system, the Organisation is putting in place continually monitored assurance plans to validate internal control within the new ERP system, including review by the OIO.

(b) Non-payment of contributions by States Parties: In recent years, the Organisation experienced significant financial issues due to the non-payment of assessed contributions and reimbursements of Article IV and Article V invoices by certain States Parties. Remedial action, including recapitalisation of the Working Capital Fund and active budget management, has taken place in each of 2016, 2017, and 2018 to address this issue and improve the financial position as at 31 December 2018. The failure of some States Parties to pay contributions still, however, remains a significant risk to the Organisation, and as such the Organisation continues to closely monitor and actively address the cash situation, apprising States Parties of the financial position and outstanding contributions on a monthly basis, and continues to maintain a budgetary contingency margin to mitigate the risk of cash flow issues.

(c) Business continuity planning: The OIO identified a number of critical-level findings relating to the Organisation's disaster recover policy and business continuity planning including physical security which are under implementation. The Organisation is taking active steps to address these recommendations, enhancing the relevant policies and upgrading physical security.

Conclusion

Effective internal control, no matter how well designed, has inherent limitations—including the possibility of circumvention and, therefore, can provide only reasonable assurance. Furthermore, because of changes in conditions, the effectiveness of internal control may vary over time.

I am committed to addressing any weaknesses in internal controls noted during the year and brought to my attention. In 2018, amongst other activities, this work included the strengthening of controls in areas such as procurement and work has begun to strengthen fraud risk assessment and policies, and to embed a more systematic process of risk management.

Based on the assurances I have received as set out in this Statement above, I conclude that, to the best of my knowledge and information, there have been no significant material weaknesses in controls which would prevent the External Auditor from providing an unqualified opinion on the Organisation's financial statements, nor are there other significant matters arising which would have come to my attention for the period which would need to be raised in the present document for the year ended 31 December 2018.

[signed]

Fernando Arias
Director-General
24 May 2019

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REPORT OF THE DIRECTOR-GENERAL ON THE FINANCIAL STATEMENTS OF THE OPCW FOR THE YEAR ENDED 31 DECEMBER 2018

Introduction

1. I have the honour to present the financial statements of the Organisation for the Prohibition of Chemical Weapons (OPCW) for the year ended 31 December 2018.

2. The OPCW is an international organisation which was established by the States Parties to the Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on Their Destruction (hereinafter "the Convention"). The Convention entered into force on 29 April 1997, and the OPCW Headquarters is located at Johan de Wittlaan 32, 2517 JR, The Hague, the Netherlands.

3. The mission of the OPCW is to achieve the object and purpose of the Convention, to ensure the implementation of its provisions, including those for international verification, and to provide a forum for consultation and cooperation among States Parties.

4. The continued existence of the OPCW in its present form, with its present programme of activity, is dependent on States Parties and their continuing annual appropriations and financial contributions. The comprehensive financial statements prepared under the International Public Sector Accounting Standards (IPSAS) are a key enabler to allow the Organisation to deliver its mandate in an efficient manner.

Analysis of financial statements

5. The OPCW financial statements are general purpose financial statements providing information about the financial position, performance, and cash flows of the Organisation to a wide spectrum of users for decision making, consideration in future planning, and to demonstrate the accountability of the OPCW for the resources entrusted to it. In 2018, following a comprehensive benchmarking exercise with other international organisations, the OPCW financial statements were streamlined to reduce the level of unaudited budgetary information, which was already provided in other documents available to States Parties. This initiative is supported by the External Auditor and by the Advisory Board on Administrative and Financial Matters (ABAF) and serves to enhance the comprehension and value of the document to its users.

6. The financial statements of the Organisation have been prepared on the accrual basis in accordance with IPSAS. The Organisation's significant accounting policies within the context of IPSAS are detailed in the financial statements. The budget, as well as the budgetary basis information contained in the financial statements, continues to be prepared on a modified cash basis. There are therefore differences in the accounting bases used for the recognition of revenue, expenses, assets and liabilities in the budget

and the IPSAS financial statements for 2018, including timing differences. The Organisation's functional currency is the euro. All financial information in this analysis is quoted on an IPSAS accounting basis unless otherwise stated.

7. During 2018, the Organisation continued to focus on the effective implementation of the Convention and the efficiency of the processes supporting such implementation. Detailed information on the financial year 2018 can be found within the financial statements and accompanying notes disclosures. Within this context, the following analysis provides the reader of the financial statements with some of the key highlights of the financial year 2018 in perspective:

(a) The regular budget (General Fund) experienced an implementation rate of 97% for 2018. The implementation rate is compared to 99% in the prior year, primarily due to the late receipt of assessed contributions in the year and use of a budgetary contingency margin to ensure effective cash flow. The level of assessed contributions for 2018 remained unchanged from 2017 at EUR 65.5 million, in line with the approach of zero nominal growth. The overall OPCW Budget decreased by 0.3% to EUR 66.8 million in 2018 for Chapter I and Chapter II programmes.[2]

(b) Trust funds experienced a net increase in revenue from voluntary contributions of EUR 3.9 million when compared to 2017, including new contributions for the Centre for Chemistry and Technology totaling EUR 4.1 million.

(c) Overall expenses[3], inclusive of the General Fund, trust funds and special accounts, decreased by EUR 2.3 million, primarily within the travel category and consistent with programmatic activity and the use of budgetary contingency margin through the year.

(d) The net surplus (across all funds and special accounts) for 2018 was EUR 3.1 million, compared to a net deficit of EUR -1.8 million in the previous year, primarily due to the increase in voluntary contribution revenue offset slightly by an increase in employee benefit expenses and decrease in travel expenses in 2018.

(e) The overall value of cash and cash equivalents across the General Fund, trust funds, and special accounts increased from EUR 26.9 million in 2017 to EUR 29.9 million in 2018, with increases primarily in the General Fund and Working Capital Fund cash balances.

(f) A significantly higher collection rate of primarily prior year assessed contributions was experienced during 2018 as compared to 2017, leading to an overall decrease in the total amount (2018 and prior years) of gross outstanding assessed contributions by EUR 5.0 million to EUR 3.6 million. A higher than normal proportion of current year and prior year assessed

[2] The total approved OPCW Budget for 2018 was EUR 67.2 million including an appropriation of EUR 0.4 million for the Fourth Review Conference (C22/DEC.5, dated 30 November 2017).

[3] Including net finance income and costs.

contributions was received in the final quarter of 2018. Outstanding total Article IV & V reimbursements increased by EUR 0.6 million to EUR 7.0 million.

(g) Investment in major items of inspection and verification equipment and assets under construction increased the net book value of property, plant, and equipment by EUR 0.4 million. The net book value of intangible assets increased by EUR 0.8 million, mainly due to ongoing work associated with the development of the new enterprise resource planning (ERP) system.

(h) The Organisation's total liabilities in 2018 decreased by EUR 4.8 million, primarily due to a decrease of EUR 8.1 million in deferred revenue as voluntary contributions relating to work in Syria and Libya were utilised and assessed contributions received in advance in 2017 were released to revenue in 2018. This decrease was offset by increases of EUR 1.6 million in other current liabilities and EUR 1.0 million in the non-current cash surplus liability, reflecting the transfer of the final cash surplus for 2016[4] (EUR 1.5 million) and the determination of the final cash surplus for 2017 (EUR 2.5 million).

(i) The total employee benefit liability determined by the OPCW actuary increased by EUR 0.5 million in 2018 to a total of EUR 8.0 million as the elements for repatriation and removal costs increased during the year. The liability continues to be unfunded on a long-term basis.

(j) The total net assets position experienced an increase of EUR 2.8 million, primarily due to the above-mentioned decrease in deferred revenue and increase in cash balances. The closing net asset balance for the General Fund was a deficit of EUR -4.2 million, primarily due to the long-term employee benefit liabilities. Net assets for trust funds and special accounts were EUR 15.6 million, representing resources which will be spent in future years.

Financial performance

8. A summary of the financial performance by all trust funds and special accounts for 2018 is shown in Table 1 below.

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[4] In 2018, the Conference approved the transfer of the 2016 cash surplus to the Special Fund for Cybersecurity, Business Continuity, and Physical Infrastructure Security (EUR 0.8 million) and to the Special Fund for IT Infrastructure to Support the Implementation of Decision C-SS-4/DEC.3 (EUR 0.7 million) (C-23/DEC.11, dated 20 November 2018).

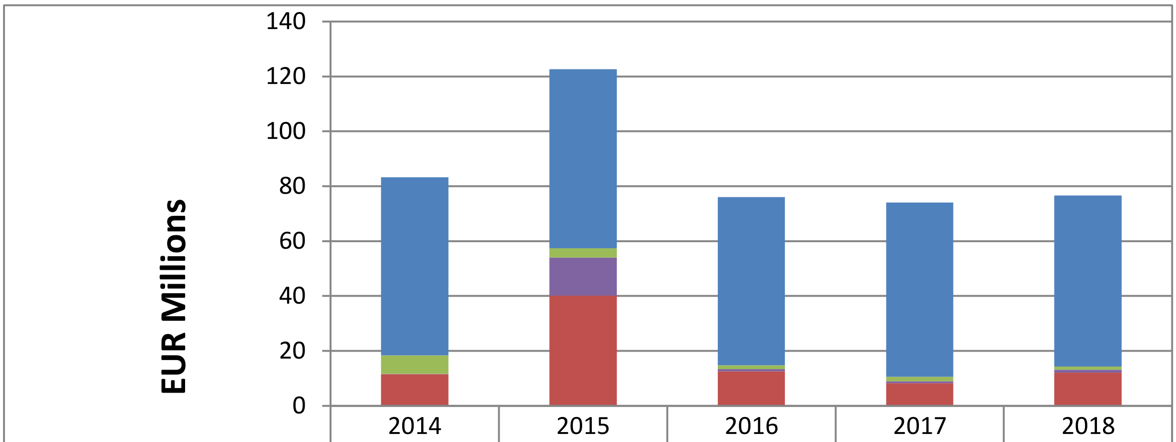
TABLE 1: SUMMARY OF FINANCIAL PERFORMANCE BY ALL TRUST FUNDS FOR THE YEAR ENDED 31 DECEMBER 2018 (EUR MILLIONS)

	Regular Budget	Trust Funds and Special Accounts	Total
Total revenue	64.0	12.6	**76.6**
Total expenses[5]	(62.6)	(10.9)	**(73.5)**
Net surplus / (deficit) for the year	**1.4**	**1.7**	**3.1**

9. Taking into account all funds and special accounts of the OPCW, the difference between revenue and expenses for 2018 resulted in a net surplus of EUR 3.1 million, compared to a net deficit of EUR -1.8 million in the previous year, primarily due to the increase in voluntary revenue and reduced travel expenses, offset slightly by an increase in employee benefit expenses in 2018.

Revenue analysis

FIGURE 1: COMPOSITION OF REVENUE FOR FINANCIAL YEARS 2014 TO 2018 (EUR MILLIONS)



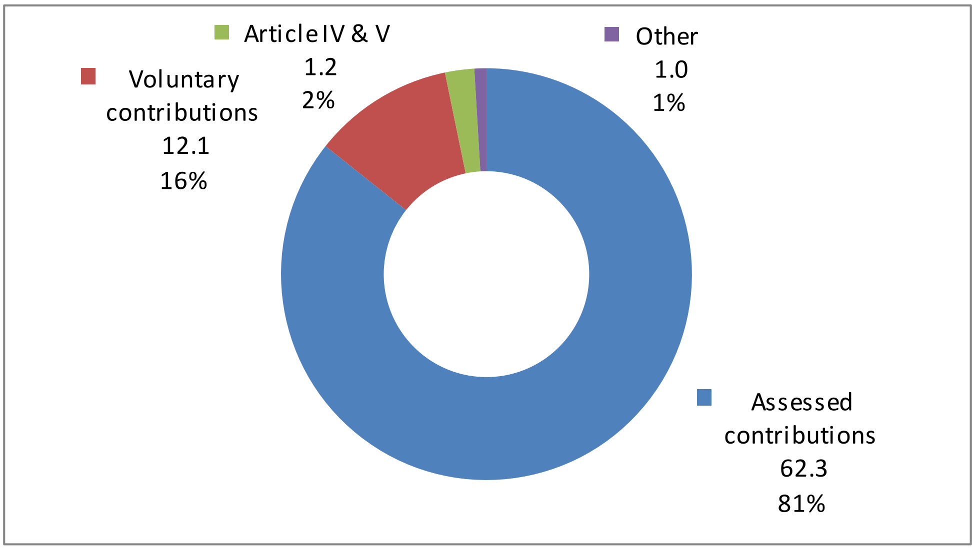
	2014	2015	2016	2017	2018
Assessed contributions	64.9	65.3	61.4	63.4	62.3
Article IV & V	6.7	3.4	1.4	1.7	1.2
Other	0.2	13.8	0.8	0.7	1.0
Voluntary contributions	11.4	40.2	12.5	8.2	12.1

10. Figure 1 (above) shows the composition of revenue by type over the past five financial years. Total revenue has reduced from a peak of EUR 122.9 million in 2015, stabilising from 2016 onwards to approximately EUR 76.6 million in 2018. Assessed contributions remain the largest revenue stream for the Organisation, with voluntary contribution revenue growing by 48% from EUR 8.2 million in 2017 to EUR 12.1 million in 2018 and Article IV & V revenue decreasing from a peak in 2014 and 2015.

5 Including net finance income and costs.

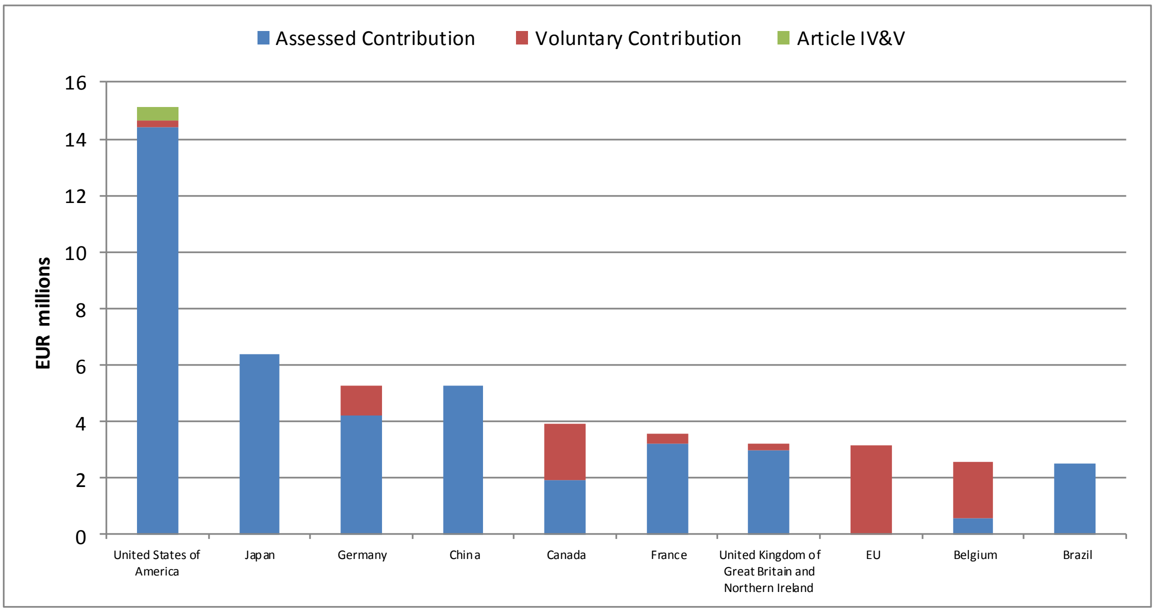
11. Assessed contribution revenue formed 81% of total revenue for 2018, with voluntary contributions accounting for 16% of revenue, as noted in Figure 2 below.

FIGURE 2: COMPOSITION OF REVENUE FOR 2018 (EUR MILLIONS)



12. The top 10 contributors to the OPCW account for a combined total of EUR 50.1 million of total revenue in 2018, as indicated in Figure 3.

FIGURE 3: TOP 10 CONTRIBUTORS TO OPCW REVENUE IN 2018, COMBINING ASSESSED CONTRIBUTIONS, VOLUNTARY CONTRIBUTIONS AND ARTICLE IV & V REVENUE (EUR MILLIONS) [6]



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6 Reported on a modified cash basis.

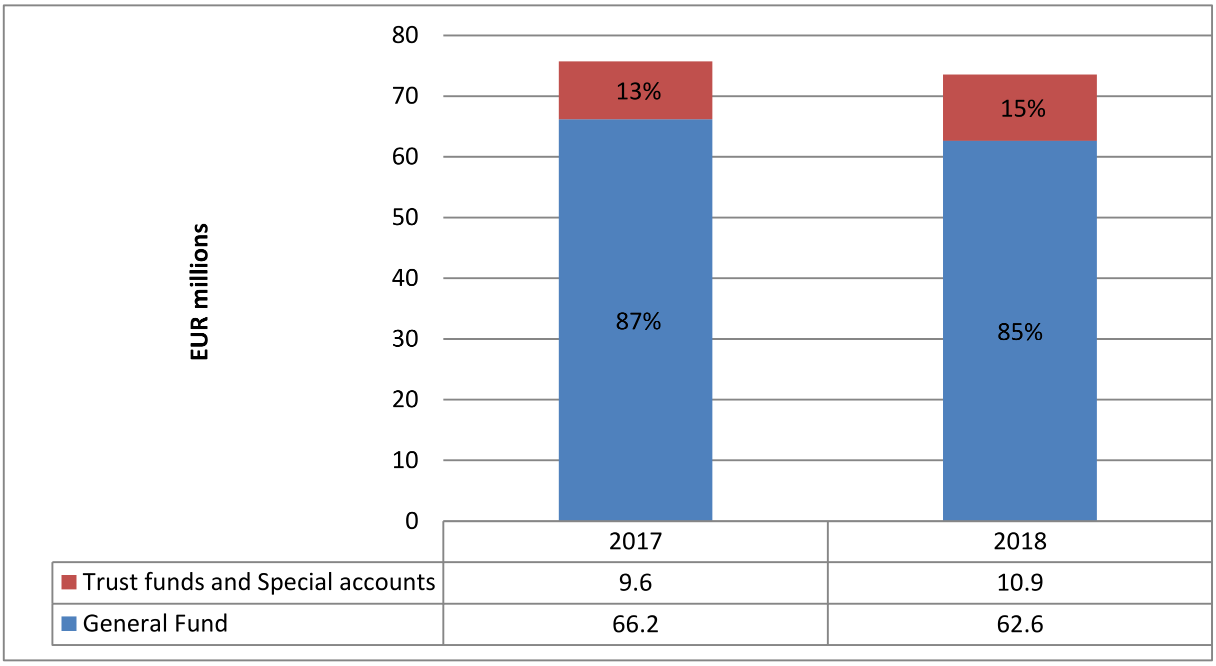
13. Article IV & V revenue has decreased by EUR 0.6 million (35%) to EUR 1.1 million in 2018, partly due to the planned end of related inspections in one State Party in 2017.

14. Other revenue has increased by EUR 0.3 million in 2018 and includes contributions to the rental of the World Forum Convention Centre for the Fourth Special Session of the Conference, revenue for special funds, and revenue for inspections related to abandoned chemical weapons.

Expense analysis

15. Figure 4 below shows a comparison of expenses between 2017 and 2018:

FIGURE 4 : EXPENSE ANALYSIS BY FUNDING SOURCE FOR 2017 AND 2018 (EUR MILLIONS)



	2017	2018
Trust funds and Special accounts	9.6	10.9
General Fund	66.2	62.6

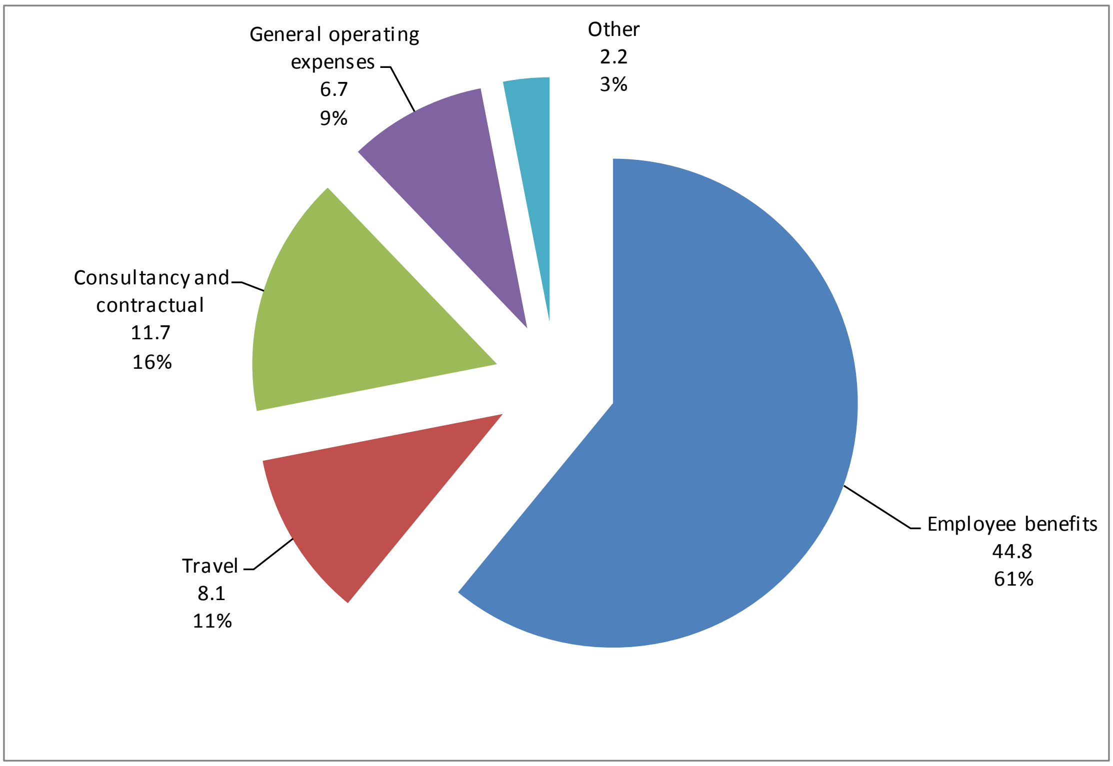
16. In 2018, total expenses (including net finance income and costs) were EUR 73.5 million, denoting a decrease of EUR 2.3 million (3%) compared to the previous year. The overall decrease in expenses is largely related to a decrease in employee benefits expenses of EUR 0.9 million and a decrease of travel expenses of 1.3 million in 2018.

17. The proportion of activities funded by General Fund resources reduced moderately to 85% in 2018, from 87% in 2017.

18. In line with the retention of budget contingency and lower budget implementation thanin the prior year, General Fund expenses decreased by EUR 3.6 million in 2018, whereas trust fund and special account expenses increased by EUR 1.3 million.

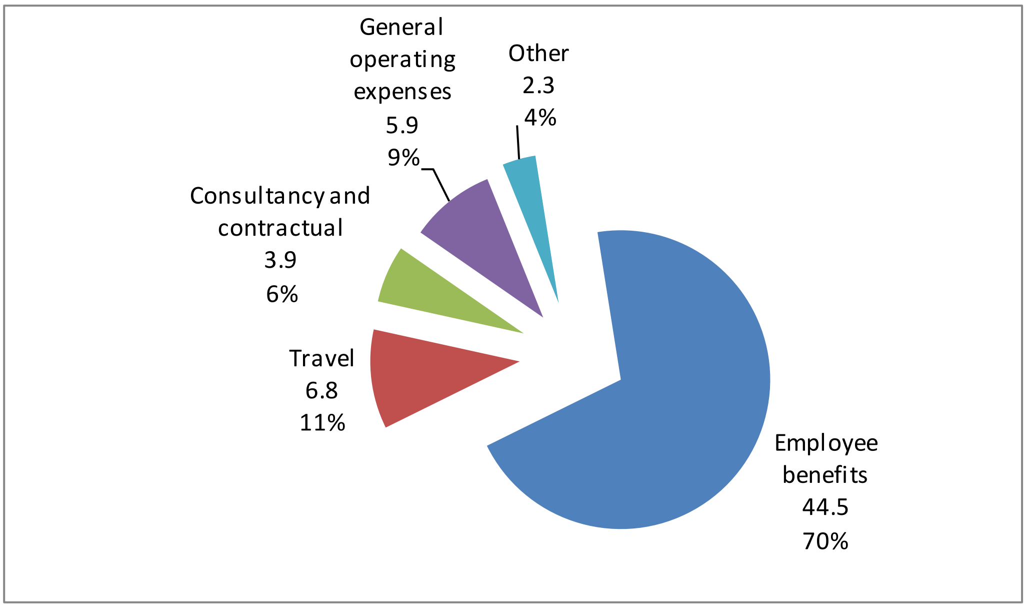
19. Employee benefit expenses (including salaries) represent the largest cost category in 2018 at EUR 44.7 million (61%), followed by contractual services (EUR 11.7 million, 16%) and travel (EUR 8.1 million, 11%). Figure 5 below shows the breakdown of 2018 expenses by nature for all funds.

FIGURE 5: EXPENSE ANALYSIS FOR THE PERIOD ENDED 31 DECEMBER 2018 – ALL FUNDS (EUR MILLIONS)



20. Figure 6 below further shows the analysis of expenses for the General Fund only, highlighting that a lower proportion of consultancy and contractual services is paid from the General Fund. This is due in part to the cost of significant contractual services work in Syria and Libya being funded through Trust Fund resources. The figure also highlights that the majority of employee benefit costs are funded through the General Fund.

FIGURE 6: EXPENSE ANALYSIS FOR THE PERIOD ENDED 31 DECEMBER 2018 – GENERAL FUND (EUR MILLIONS)[7]



21. Table 2 below shows that the decrease in total expenses was mainly in the categories of travel and employee benefits, with an increase in consultancy and contractual services costs.

TABLE 2: COMPARATIVE EXPENSE ANALYSIS FOR 2017 AND 2018 (EUR MILLIONS)

	2018	**2017**	**Difference**	**Change (%)**
Employee benefits	44.8	45.7	-0.9	-2.0%
Travel	8.1	9.4	-1.3	-13.8%
Consultancy and contractual	11.7	10.9	0.8	7.3%
General operating expenses	6.7	6.7	-0.4	-5.6%
Other expenses[8]	2.2	3.1	-0.5	-18.2%
Total expenses	**73.5**	**75.8**	**-2.3**	**-3.0%**

22. Salaries and employee benefits include the accrued costs of post-employment and other long-term employee benefits which better account for the true cost of employing staff on annual basis. The decrease of 2.0% relates primarily to a reduction in on-boarding costs, Provident Fund Contributions, and annual leave expenses.

23. Driven by the nature of the programmatic activities undertaken during 2018, travel costs decreased by EUR 1.3 million (13.8%).

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7 Expenses reported on IPSAS basis.
8 Including net finance income and costs.

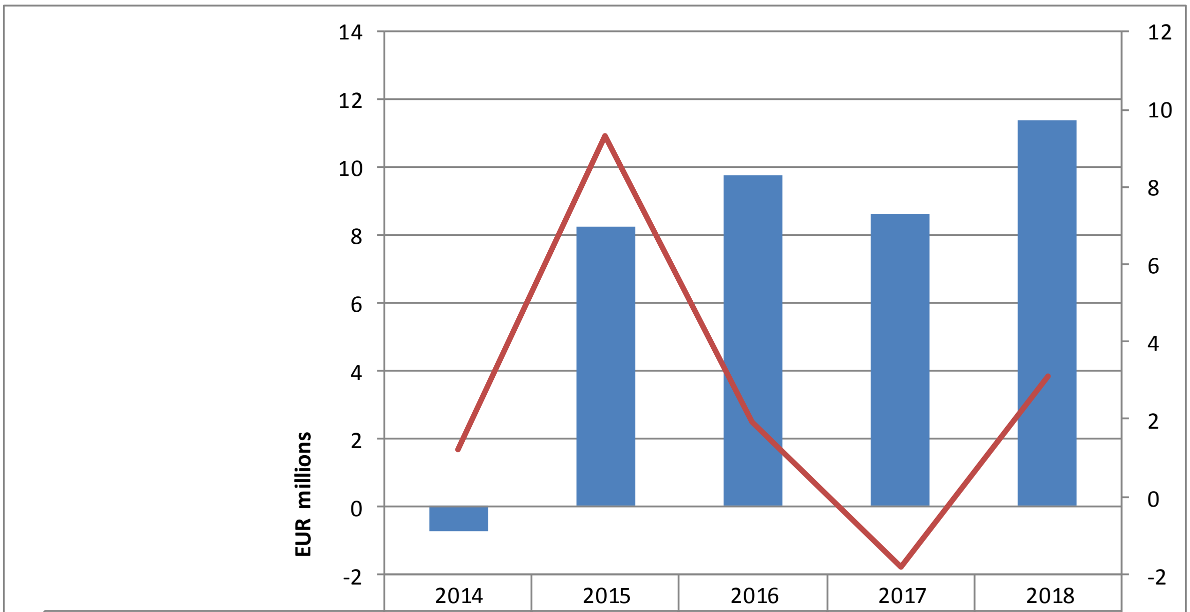
24. General operating expenses decreased by EUR 0.4 million (5.6%) in 2018, reflecting a reduction in inventory consumption, whilst other expenses reduced by EUR 0.5 million (18.2%) due to positive exchange rate movements in 2018.

Net surplus/(deficit) of the year

25. The overall net surplus for 2018 was EUR 3.1 million, moving from a net deficit of EUR -1.8 million in 2017. This change was primarily due to the increase in voluntary contribution revenue and decrease in travel expenses in 2018, as well as the lower budget implementation rate in 2018 due to the late receipt of assessed contributions in the year.

26. The surplus had a positive impact on the overall net assets of the Organisation. After also taking into account actuarial losses of EUR 0.3 million, overall net assets increased by 33% from EUR 8.6 million in 2017 to EUR 11.4 million in 2018, as noted in Figure 7.

FIGURE 7: EVOLUTION OF ANNUAL SURPLUS/(DEFICIT) AND NET ASSETS BETWEEN 2014 AND 2018 (EUR MILLIONS)



	2014	2015	2016	2017	2018
Total cumulative net assets/equity	(0.7)	8.3	9.8	8.6	11.4
Net annual surplus/(deficit)	1.2	9.3	1.9	-1.8	3.1

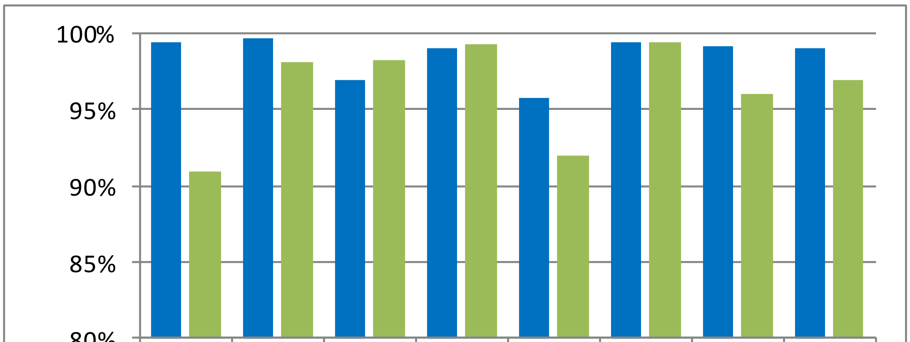
Budgetary performance

27. The regular budget of the Organisation continues to be prepared on a modified cash basis and is presented in the financial statements as Statement V(a), Statement of Comparison of Budget and Actual Amounts. In order to facilitate a comparison between the Budget and the financial statements that are prepared under IPSAS,

reconciliation of the budget to the cash flow statement is included in note 38.7 to the financial statements.

28. The regular budget appropriation for 2018 was approved for EUR 66.8 million for Chapter I and Chapter II programmes (EUR 67.0 million in 2017). Total operational regular budget expenditures, measured on a modified cash basis, were EUR 64.7 million. In 2017, these expenditures totalled EUR 66.4 million. The total general fund budget implementation rate for 2018 was 97%, a decrease of 2% from 2017 (99%). Given the tenuous cash position of the Organisation in 2018 with a higher than normal proportion of assessed contributions received late in the year and the use of a budgetary contingency margin to help mitigate the cash risk, the result was a lower budget implementation rate than in the year prior. In addition, in 2019 EUR 0.4 million of the unutilised 2018 budget was transferred to the Special Account for the OPCW Equipment Store and Special Account for designated laboratories.[9]

FIGURE 8: REGULAR BUDGET IMPLEMENTATION BY PROGRAMME IN 2017 AND 2018



	VER	INS	ICA	PMO	ERD	EXM	ADM	Total
2017	99%	100%	97%	99%	96%	99%	99%	99%
2018	91%	98%	98%	99%	92%	99%	96%	97%

29. EUR 0.3 million of costs of the Fourth Review Conference[10] were funded through the Special Fund for the Fourth Review Conference in 2018, reducing the one-off impact of this event on the 2018 budget. The 2018 budget implementation includes the costs associated with the Fourth Special Session of the Conference (C-SS-4).[11] Further details on the implementation of the OPCW Programme and Budget for 2018 are contained in the Note by the Secretariat entitled "Programme Performance for the Year 2018" (S/1745/2019, dated 29 April 2019).

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9 In accordance with a decision taken by the Conference (C-IV/DEC.17, dated 19 July 1999) and the Council (EC-65/4 paragraph 11.2, dated 15 July 2011), the Secretariat is authorised to replenish these accounts with unspent balances of certain budgetary objectives in the regular budget in order to be carried forward to future periods.

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

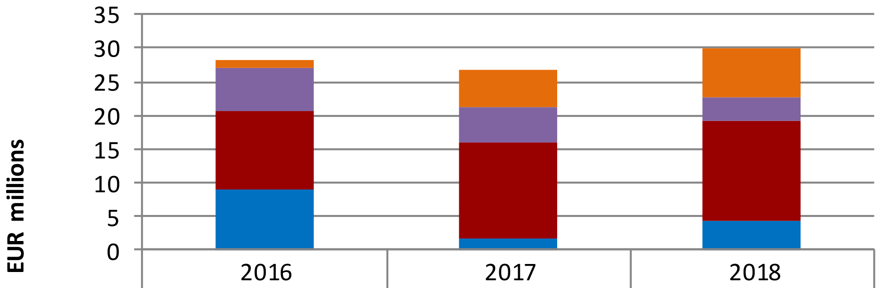
11 Rental of the World Forum Convention Centre and equipment for C-SS-4 were funded by the Host Country.

Financial position

<u>Cash, investments, and liquidity analysis</u>

30. In 2018, total cash and cash equivalents increased by EUR 3.0 million (11%) to EUR 29.9 million at 31 December 2018, as noted in Figure 9 below. Cash balances in the General Fund increased by EUR 2.5 million (147%) to EUR 4.2 million at 31 December 2018. This increase reflects the higher collection rate of assessed contributions at the end 2018, coupled with a decreased budget implementation rate and lower amount of overall expenses incurred by the general fund.

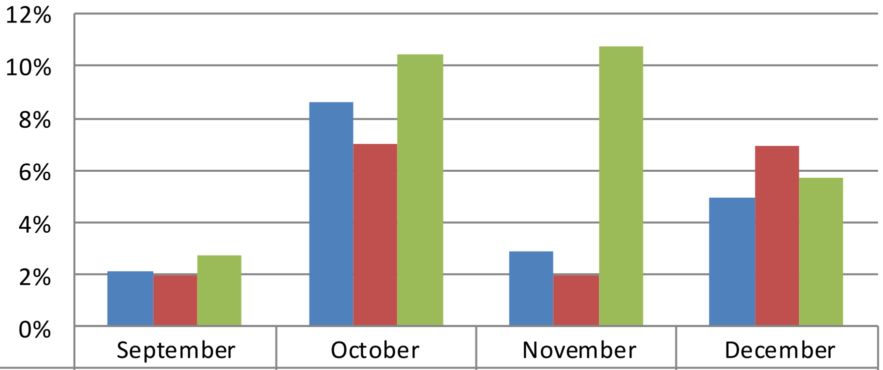
FIGURE 9: COMPOSITION OF CASH AND CASH EQUIVALENTS AT 31 DECEMBER 2016, 2017, AND 2018 (EUR MILLIONS)



	2016	2017	2018
Working Capital Fund	1.1	5.8	7.1
Special ERP Fund	6.4	5.2	3.5
Trust Funds, Voluntary Fund for Assistance and special accounts	11.5	14.2	15.1
General Fund	9.1	1.7	4.2

31. Trust funds and special account balances (excluding the special ERP fund) accounted for 22.2 million (74%) of the total cash and cash equivalents at 31 December 2018, as noted in Figure 9. The cash and cash equivalents balance for the General Fund increased by EUR 2.5 million to EUR 4.2 million at the same date, although the increase in cash balances was heavily concentrated in the last quarter of the year, as noted in Figure 10 below.

FIGURE 10: GENERAL FUND CASH INFLOW: SEPTEMBER TO DECEMBER (2016 TO 2018)



	September	October	November	December
Total Cash Inflow (2016)	2.1%	8.6%	2.9%	4.9%
Total Cash Inflow (2017)	1.9%	7.0%	1.9%	6.9%
Total Cash Inflow (2018)	2.7%	10.4%	10.8%	5.7%

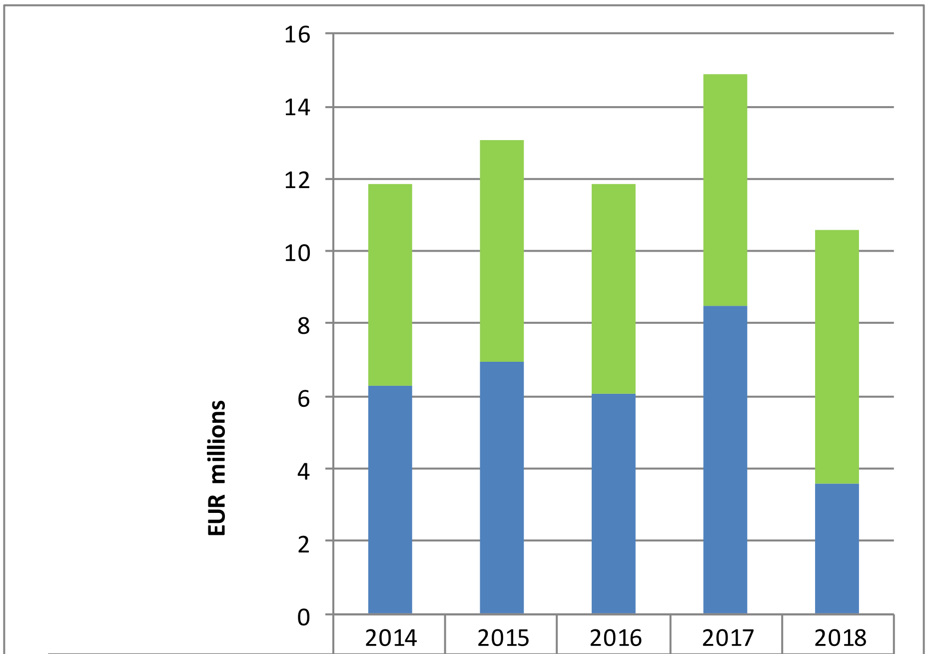
32. In 2018, 26.9% of total cash inflows for the General Fund were in the last quarter of the year, compared to an average of 16.1% in the preceding two years. This change was due to the delayed payment of assessed contributions for 2018 and a high proportion of prior year assessed contributions paid in the last months of 2018. Together these factors had an adverse effect on the cash flow of the Organisation in the first three quarters of the year.

33. In order to manage these cash pressures, a contingency margin was used to align budget implementation with cash receipts, resulting in a lower budget implementation in 2018 than in 2017.

Accounts receivable

34. Overall, the total gross receivables for assessed contributions and Article IV & V reimbursements decreased by EUR 4.3 million to EUR 10.6 million at 31 December 2018. Receivables for assessed contributions decreased by EUR 4.9 million in 2018 due to large payments received in the last quarter of the year; in contrast, receivables for Article IV & V reimbursements increased by EUR 0.6 million.

FIGURE 11: OUTSTANDING TOTAL ASSESSED CONTRIBUTIONS AND ARTICLE IV & V REIMBURSEMENTS 2014 TO 2018 (EUR MILLIONS)

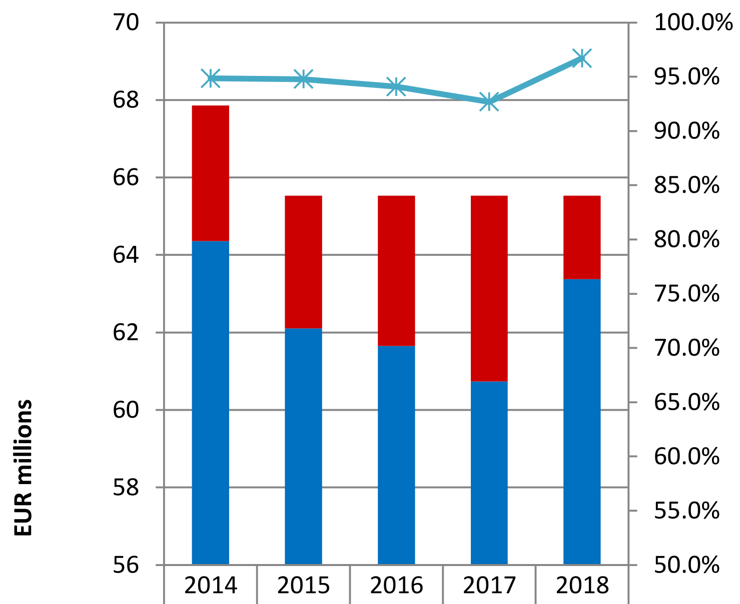


	2014	2015	2016	2017	2018
Article IV & V	5.6	6.1	5.8	6.4	7.0
Assessed contributions	6.3	7.0	6.1	8.5	3.6

35. Following a decrease in the collection rate for assessed contributions between 2014 and 2017, the collection rate increased to 96.7% in 2018 as represented in Figure 11. The figure shows the collection rate for the specific year as at 31 December of the year (i.e., the collection after 12 months).

36. The late payment of contributions to the Organisation continues to present challenges to the General Fund cash flow, and the Secretariat continues to report on outstanding balances to States Parties on a monthly basis, as well as maintaining a budgetary contingency margin through the year.

FIGURE 12: ASSESSED CONTRIBUTION BALANCES AND COLLECTION RATES 2014 TO 2018 [12] (EUR MILLIONS)

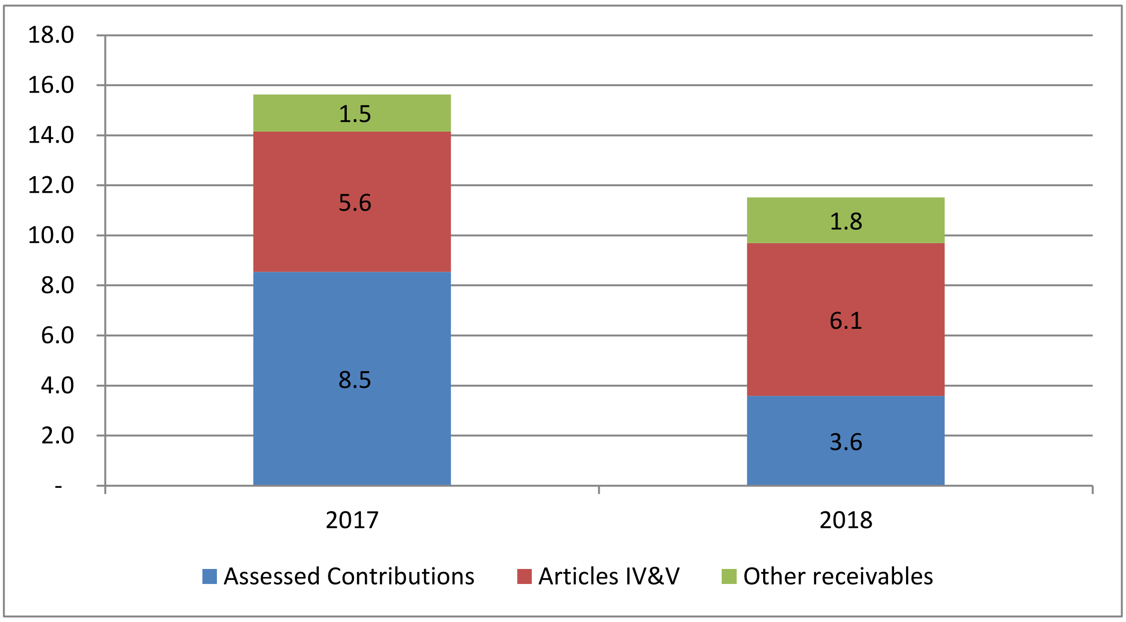


	2014	2015	2016	2017	2018
Outstanding	3.5	3.4	3.9	4.8	2.2
Received	64.4	62.1	61.7	60.7	63.4
% Collection rate	94.8%	94.8%	94.1%	92.7%	96.7%

37. Overall outstanding amounts due to the General Fund have therefore decreased in 2018 as a result of large payments of arrears in assessed contributions offsetting increases in receivables for Article IV & V reimbursements and other receivables such as tax refunds.

12 As of 31 December each year.

FIGURE 13: OUTSTANDING AMOUNTS DUE TO GENERAL FUND (EUR MILLIONS)



Cash surplus

38. Figure 13 highlights the provisional and final cash deficits for the budgetary years 2014 to 2018. The provisional cash deficit is determined at the end of the financial year in question, and the final cash deficit is determined in the following financial year.

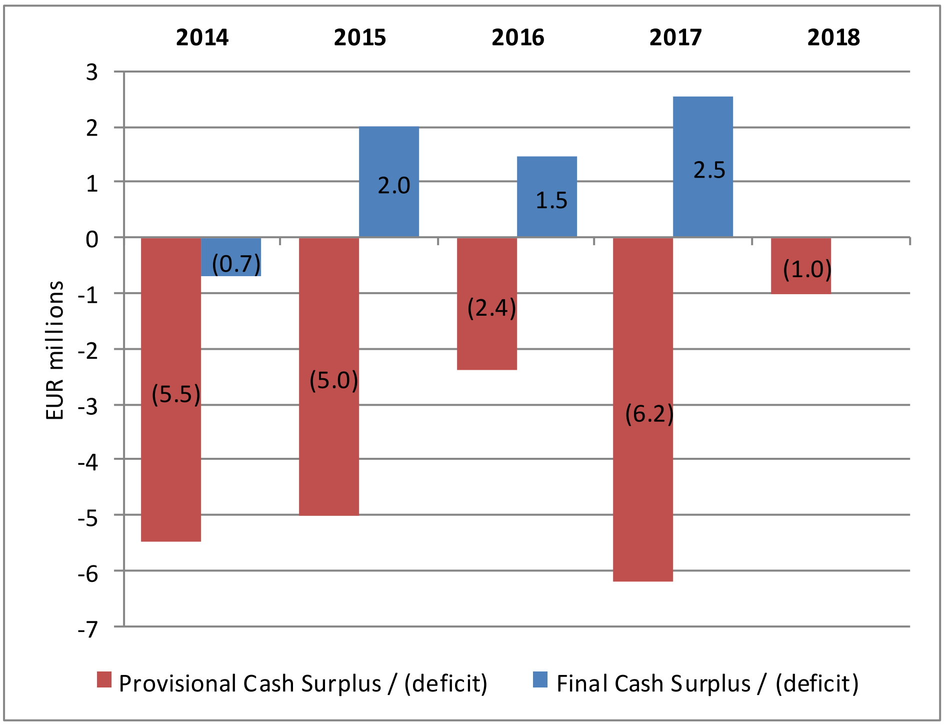
39. In 2018, the final cash surplus for 2017 was determined as EUR 2.5 million, an increase of EUR 1.0 million from the final cash surplus for 2016, despite a higher budget implementation rate in 2017 of 99%. This increase was largely due to the payment in 2018 of EUR 7.1 million of arrears in assessed contributions relating to 2017 and prior, which was included in the calculation of the final cash surplus for 2017.

40. In 2018, the Conference approved the transfer the cash surplus for 2016 of EUR 1.5 million to the Special Fund for Cybersecurity, Business Continuity, and Physical Infrastructure Security (EUR 0.8 million) and to the Special Fund for IT Infrastructure to Support the Implementation of Decision C-SS-4/DEC.3 (EUR 0.7 million).[13]

41. The final cash surplus for 2018 will be determined in 2019 and reported in the Financial Statements for 2019. The provisional cash deficit for 2018 is EUR -1.0 million.

13 C-23/DEC.11.

FIGURE 14: CASH SURPLUSES 2014 TO 2018 (EUR MILLIONS)



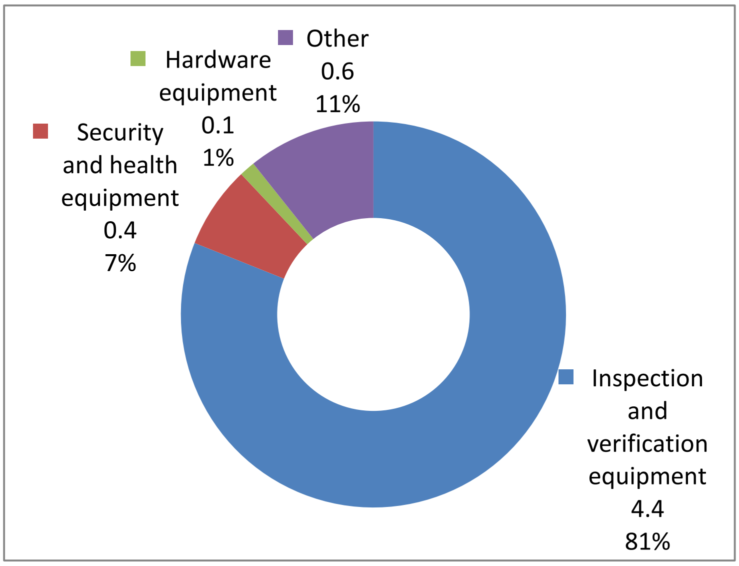
Long-term assets

<u>Property, Plant, and Equipment</u>

42. The total net book value of property, plant, and equipment increased by EUR 0.4 million in 2018, which relates primarily to the purchase of inspection and verification equipment and assets under construction.

43. As can be seen from Figure 15 below, inspection and verification equipment continues to account for the largest component (EUR 4.4 million, 81%) of the net book value of property, plant, and equipment.

FIGURE 15: COMPOSITION OF PROPERTY, PLANT, AND EQUIPMENT (NET BOOK VALUE AT 31 DECEMBER 2018) (EUR MILLIONS)[14]



44. Inspection and verification equipment is on average 51% of the way through its useful life, reflecting the annual asset replacement programme for significant items of equipment, as noted in Figure 16 below. In 2019, EUR 0.4 million of the unutilised 2018 budget was transferred to the Special Account for the OPCW Equipment Store and Special Account for designated laboratories.[15]

45. Other asset types have less remaining net book value and may require replacement in the near term; a proposal brought forward during the Fourth Review Conference regarding the introduction of a Major Capital Replacement Fund would assist in funding such replacements in the future whilst reducing the one-off impact of replacing major assets on the heavily pressured regular budget resources.

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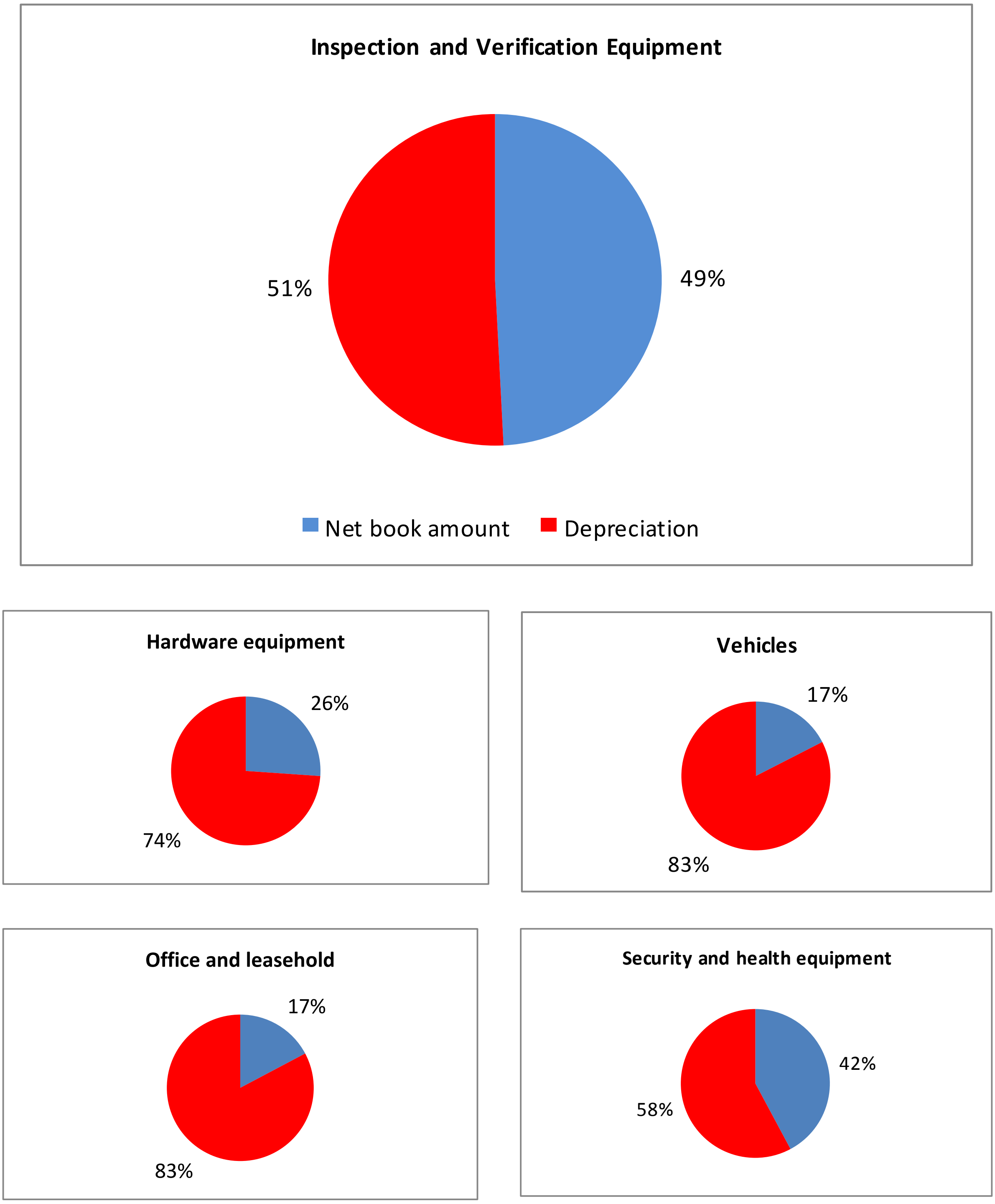
14 Other assets include office furniture and equipment, vehicles, and leasehold improvements.

15 In accordance with a decision taken by the Conference (C-IV/DEC.17, dated 19 July 1999) and the Council (EC-65/4 paragraph 11.2, dated 15 July 2011), the Secretariat is authorised to replenish these accounts with unspent balances of certain budgetary objectives in the regular budget in order to be carried forward to future periods.

FIGURE 16: NET BOOK VALUE AND DEPRECIATION OF PROPERTY, PLANT, AND EQUIPMENT AT 31 DECEMBER 2018 (EUR MILLIONS)[16]



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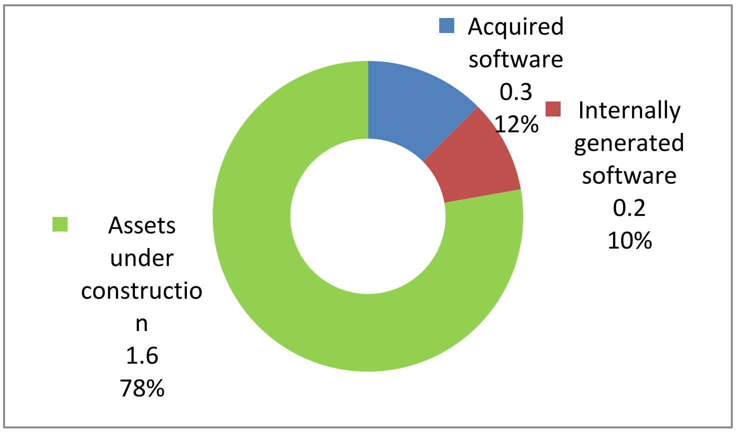
16 Office and leasehold comprises office furniture and equipment and leasehold improvements.

Intangible assets

46. The total net carrying amount of intangible assets increased to EUR 2.1 million as at 31 December 2018. As shown in Figure 17 below, the major component of intangible assets at this date was assets under construction (EUR 1.6 million), which includes the ongoing development work relating to the new ERP system.

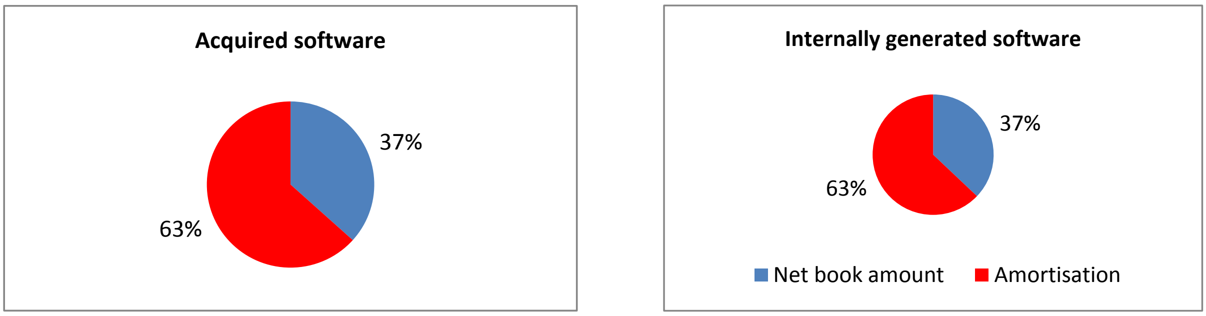
47. Further elements of the new ERP totalling EUR 0.3 million were in use as at 31 December 2018, including the new OPCW recruitment system.

FIGURE 17: COMPOSITION OF INTANGIBLE ASSETS (NET BOOK VALUE AT 31 DECEMBER 2018) (EUR MILLIONS)



48. Amortisation for assets under construction does not start until the system go-live, and hence the net book value of the assets under construction is equal to their cost. Figure 18 below shows the remaining net book value for acquired software and internally generated software which is currently in use, including the in-use elements of the new ERP system. Whilst the live ERP elements are at the beginning of their useful lives, overall intangible assets are at almost two-thirds of the way through their useful lives, meaning that the non-ERP elements may require replacement in the near future.

FIGURE 18: NET BOOK VALUE AND AMORTISATION OF INTANGIBLE ASSETS AT 31 DECEMBER 2018 (EUR MILLIONS)



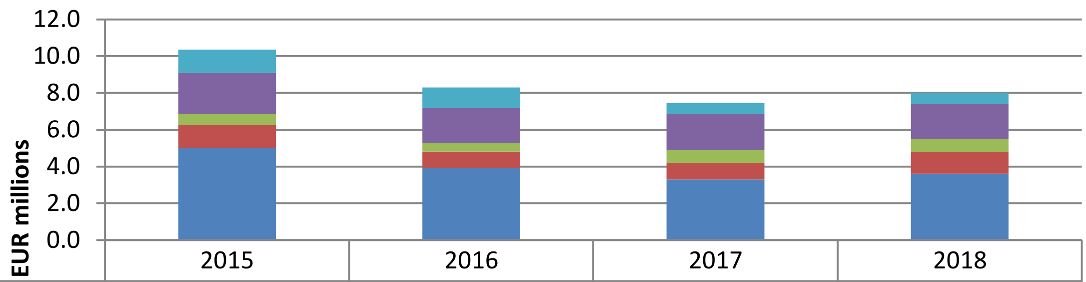
Employee benefits liabilities

49. Employee benefits liabilities consist of short-term employee benefits payable (such as salaries, annual leave, and education grants), and long-term employee benefits (such as accrued home leave and removal/repatriation entitlements). Long-term employee benefits are accrued as staff members earn the rights to entitlements and as such an actuarial method is used to calculate such liabilities as at the end of the financial year.

50. Total employee benefits liabilities increased by 6% in the past year, from EUR 7.5 million at 31 December 2017 to EUR 8.0 million at 31 December 2018. As shown in Figure 19 below, the most significant increase has been in removal and repatriation benefits, which are determined on an actuarial basis. The increase reflects the additional year of service provided by staff in 2018, and also an actuarial loss of EUR 0.3 million relating to the difference between costs estimated by the actuary and actual costs for the year. Unused annual leave has decreased by EUR 0.1 million over the same period.

51. These employee benefit liabilities continue to be unfunded, meaning that specific funds are not set aside as the entitlements to these benefits are earned by staff members. Instead, the necessary funding is provided on a pay-as-you-go basis through the annual budget cycle. In 2019, the Secretariat intends to formalise the approach as either the current model or a longer term approach to fund such long-term liabilities.

FIGURE 19: EVOLUTION OF THE COMPOSITION OF THE MAIN EMPLOYEE BENEFITS LIABILITIES (EUR MILLIONS)



	2015	2016	2017	2018
Other	1.3	1.1	0.6	0.6
Annual leave	2.2	1.9	2.0	1.9
Home leave	0.6	0.5	0.7	0.7
Removal benefits	1.3	0.9	0.9	1.2
Repatriation benefits	5.0	3.9	3.3	3.6

Working Capital Fund

52. As part of the Programme and Budget of the OPCW for 2017,[17] the Conference decided to increase the balance of the WCF to help protect against future short-term cash flow issues. Following an increase of EUR 3.2 million in 2017, the WCF balance remained at EUR 7.3 million as at 31 December 2018, representing 11% of the 2018

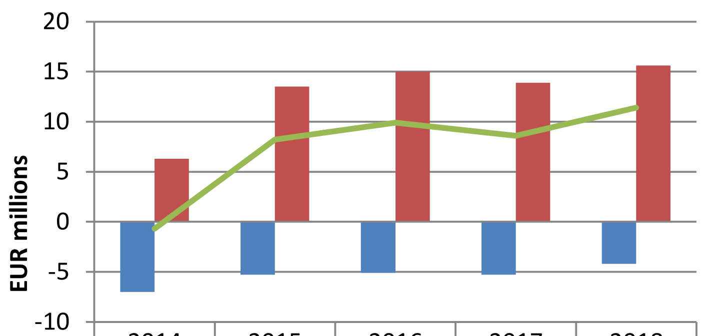
[17] C-21/DEC.6.

approved budget of EUR 66.8 million for Chapter I and Chapter II programmes (1.3 months of expenditure). The Organisation will continue to seek opportunities to raise the level of the WCF further to provide the necessary buffer against cash flow issues.

Net assets/equity

53. Net assets represent the difference between an Organisation's assets and its liabilities, which is illustrated by Figure 20 below. In 2018 total assets decreased by EUR 2.0 million and total liabilities decreased by 4.8 million, leading to an increase in net assets of EUR 2.8 million.

FIGURE 20: EVOLUTION OF NET ASSETS 2014 TO 2018 (EUR MILLIONS)



	2014	2015	2016	2017	2018
General Fund	-7.0	-5.3	-5.1	-5.3	-4.2
Trust Funds and special accounts	6.3	13.5	15.0	13.9	15.6
Total net assets	-0.7	8.2	9.9	8.6	11.4

54. While overall net assets are positive, General Fund net assets continue to be negative, principally due to the unfunded employee benefit liabilities. However, the General Fund net assets increased by EUR 1.1 million between 2017 and 2018 (21%).

55. Net assets for trust funds and special accounts increased by EUR 1.7 million (12%) in 2018 to EUR 15.6 million at 31 December 2018, reflecting the time lag between the receipt of voluntary contributions and the implementation of activities.

Risk management

56. The financial statements prepared under IPSAS provide details of how the Organisation manages its financial risk, including credit risk, market risk (foreign currency exchange and interest rate), and liquidity risk. From an overall perspective, the Organisation maintains only euro and United States dollar current accounts, and instant access savings accounts in euros with P-1 rated financial institutions, ensuring sufficient liquidity to meet cash operating requirements, and limiting exposure to foreign currency fluctuations.

Summary

57. The financial statements presented for 2018 show an improvement of the Organisation’s overall financial health, with an overall increase of EUR 2.8 million in the net assets of the Organisation. Despite this increase, the General Fund remains in a negative net asset position, predominately due to long-term employee benefit liabilities. The Organisation will consider in 2019 a formal approach to address this issue**.**

58. Arrears in assessed contributions were reduced significantly over the year, however, with a large proportion received in the last quarter of 2018, a contingency margin was utilised to manage cash flow efficiently, which subsequently impacted the budget implementation rate.

59. The Organisation’s fixed asset base has increased with the continuing work on the new ERP system, with elements already in use in 2018. Outside of this project, whilst major items of equipment are replaced on a regular basis, there remains a large volume of equipment which requires replacement, potentially through a Major Capital Investment Fund.

60. Through careful financial management, the Organisation was able to successfully ensure financial support for two exceptional events in 2018: the Fourth Special Session of the Conference, and the Fourth Review Conference. In doing so, the Organisation utilised a combination of specifically earmarked special fund resources, voluntary contributions, and agile management of the General Fund against a backdrop of uncertain cash flows and ongoing operational requirements. The use of the final cash surplus to fund special accounts in high priority areas was utilised to help address the funding for key programmatic areas whilst being mindful of State Party assessed contribution levels.

[signed]

Fernando Arias

Director-General

24 May 2019

THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS

STATEMENT I
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018
(expressed in euro '000s)

	Note	2018	2017
Assets			
Current assets			
Cash and cash equivalents	13	29,877	26,881
Assessed contributions recoverable	7	3,284	7,955
Article IV & V receivables	8	1,247	912
Voluntary contributions recoverable	9	872	3,699
Other assets	10	2,997	2,394
Prepayments	11	2,539	2,031
Inventories	12	866	797
Total current assets		**41,682**	**44,669**
Non-current assets			
Property, plant and equipment	6.1	5,435	5,079
Intangible assets	6.2	2,111	1,278
Other assets	10	-	250
Total non-current assets		**7,546**	**6,607**
Total assets		**49,228**	**51,276**
Liabilities			
Current liabilities			
Accounts payable	18	3,231	3,633
Employee benefits	17	4,259	4,300
Cash surplus - current	16	20	56
Deferred revenue	20	7,814	15,906
Other current liabilities	21	2,613	983
Total current liabilities		**17,937**	**24,878**
Non-current liabilities			
Employee benefits	17	3,755	3,230
Other non-current liabilities	19	4,702	4,171
Cash surplus - non-current	16	2,547	1,455
Voluntary Fund for Assistance	15	1,563	1,558
Working Capital Fund	14	7,343	7,342
Total non-current liabilities		**19,910**	**17,756**
Total liabilities		**37,847**	**42,634**
Net assets		**11,381**	**8,642**
Net assets			
Accumulated surplus/(deficit)		11,381	8,642
Total net assets		**11,381**	**8,642**

THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS

STATEMENT II
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 31 DECEMBER 2018

(expressed in euro '000s)

	Note	For the Period Ended 31 December 2018	For the Period Ended 31 December 2017
Revenue			
Assessed contributions	22	62,314	63,451
Voluntary contributions	23	12,108	8,177
Article IV & V	24	1,144	1,701
Other revenue	25	1,010	713
Total revenue		**76,576**	**74,042**
Expenses			
Employee benefit expenses	26	44,704	45,649
Consultancy and contractual services	27	11,718	10,866
Travel expenses	28	8,116	9,403
Depreciation, amortization and impairment	6.1, 6.2	1,359	1,320
General operating expenses	29	6,660	7,148
Other operating expenses	30	1,111	1,117
Total expenses		**73,668**	**75,503**
Net finance income/(cost)	31	**156**	**(345)**
Net surplus/(deficit) for the period		**3,064**	**(1,806)**

THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS

STATEMENT III
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 31 DECEMBER 2018

(expressed in euro '000s)

	Note	Attributable to States Parties		
		General Fund	**Trust Funds, Working Capital Fund and Special Accounts**	**Total Net Assets**
Balance at 1 January 2017		**(5,080)**	**14,960**	**9,880**
Changes recognised in net assets:				
Actuarial gains/(losses) on post-employment benefit obligations	17.6	568	**-**	568
Net revenue recognised directly in net assets		**568**	**-**	**568**
Surplus/(deficit) for the period		(760)	(1,046)	**(1,806)**
Total recognised revenue and expense for the year 2017		**(192)**	**(1,046)**	**(1,238)**
Balance at 31 December 2017		**(5,272)**	**13,914**	**8,642**
Balance at 1 January 2018		**(5,272)**	**13,914**	**8,642**
Changes recognised in net assets:				
Actuarial gains/(losses) on post-employment benefit obligations	17.6	(325)	**-**	**(325)**
Net revenue recognised directly in net assets		**(325)**	**-**	**(325)**
Surplus/(deficit) for the period		1,338	1,726	**3,064**
Total recognised revenue and expense for the year 2018		**1,013**	**1,726**	**2,739**
Balance at 31 December 2018		**(4,259)**	**15,640**	**11,381**

THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS

STATEMENT IV
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

(expressed in euro '000s)[18]

	Note	For the Year Ended 31 December 2018	For the Year Ended 31 December 2017
Cash flows from operating activities			
Net surplus/(deficit) for the period		3,064	(1,806)
Non-cash movements			
Depreciation, amortisation and impairment	6.1, 6.2	1,359	1,320
(Gains)/losses on disposal of property, plant and equipment	25, 30	(2)	(21)
Increase/(decrease) in provision for impairment of recoverables and receivables	7.4, 8.5	(13)	176
Unrealised currency exchange gain/(loss)		(146)	382
Repayments of cash surplus	16.4	(36)	(1)
Changes in assets:			
(Increase)/decrease in recoverables and receivables (current)	7-10	6,561	(2,614)
(Increase)/decrease in other non-current receivables	10	(249)	(250)
(Increase)/decrease in inventories	12	(68)	263
Changes in liabilities, net assets/equity:			
Increase/(decrease) in cash surplus (non-cash)	16.3	1,093	(535)
Movement in employee benefits (liability)	17.1 – 17.6	160	(241)
Increase/(decrease) in 'Other non-current liabilities'	19	532	382
Increase/(decrease) in deferred income, accounts payable and other current liabilities	18, 20, 21	(6,863)	1,298
Net cash flows from operating activities		**5,392**	**(1,647)**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		30	26
Purchases of property, plant and equipment	6.1	(1,625)	(1,722)
Purchases of intangible assets	6.2	(953)	(638)
Net cash flows from investing activities		**(2,548)**	**(2,334)**
Cash flows from financing activities			
Increase/(decrease) in the Working Capital Fund	14	1	3,182
Proceeds received for the Voluntary Fund for Assistance	15	5	5
Net cash flows from financing activities		**6**	**3,187**
Net increase/(decrease) in cash and cash equivalents		**2,850**	**(794)**
Cash and cash equivalents at beginning of the period	13	26,881	28,057
Unrealised currency exchange gain/(loss)		146	(382)
Cash and cash equivalents at end of the period	13	**29,877**	**26,881**

18 Minor rounding differences may exist between the Cash Flow Statement and supporting notes.

THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS

STATEMENT V(a)
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 31 DECEMBER 2018

(expressed in euro '000s)

	Budgeted Amounts for the Period Ended 31 December 2018		Actual Amounts on Comparable Basis[19]	Difference Final Budget and Actual
	Original	Final		
Receipts				
Assessed contributions	65,530	65,530	65,532	(2)
Voluntary contributions [20]	270	270	-	270
Articles IV & V	1,090	1,090	1,041	49
Miscellaneous income	50	50	689	(639)
Assessed contributions or Cash Surplus: Fourth Review Conference[21]	309	309	-	309
Total receipts	**67,249**	**67,249**	**67,262**	**(13)**
Expenditure				
Chapter One				
Verification	8,714	8,714	7,930	784
Inspectorate	20,270	20,270	19,892	378
	28,984	**28,984**	**27,822**	**1,162**
Total Chapter One				
Chapter Two				
International Cooperation and Assistance	7,610	7,250	7,113	137
Support to the Policy-Making Organs	4,927	5,287	5,254	33
External Relations	2,017	2,017	1,855	162
Executive Management	9,227	9,670	9,617	53
Administration	14,050	13,607	13,069	538
Total Chapter Two	**37,831**	**37,831**	**36,908**	**923**
Total expenditure	**66,815**	**66,815**	**64,730**	**2,085**
Fourth Review Conference[22]	**434**	**434**	**-**	**434**
Total expenditure and transfers	**67,249**	**67,249**	**64,730**	**2,519**
Net receipts/(expenditure)[23]	**-**	**-**	**2,532**	**(2,532)**

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19 The actual amounts are based on the budgetary accounts, which are maintained on a modified cash basis.

20 Voluntary contributions received as services in kind are disclosed in note 32.

21 The receipt element of the Fourth Review Conference was funded through the Special Fund for the Fourth Review Conference in 2018 and not additional assessed contributions. The actual amount for receipts in the Regular Budget is therefore reported as zero.

22 Actual amounts for the Fourth Review Conference incurred by the Regular Budget are reported in Chapter I and II actual amounts.

THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS

STATEMENT V(b)
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 31 DECEMBER 2017
(expressed in euro '000s)

	Budgeted Amounts for the Period Ended 31 December 2017		Actual Amounts on Comparable Basis[24]	Difference Final Budget and Actual
	Original	Final		
Receipts				
Assessed contributions	65,530	65,530	65,530	-
Voluntary contributions[25]	150	150	-	150
Articles IV & V	2,062	2,062	1,581	481
Miscellaneous income	56	56	739	(683)
Total receipts	**67,798**	**67,798**	**67,850**	**(52)**
Expenditure				
Chapter One				
Verification	8,087	8,348	8,301	47
Inspectorate	21,043	20,782	20,714	68
Total Chapter One	**29,130**	**29,130**	**29,015**	**115**
Chapter Two				
International Cooperation and Assistance	7,610	7,351	7,126	225
Support to the Policy-Making Organs	4,856	5,115	5,069	46
External Relations	1,923	1,923	1,840	83
Executive Management	9,007	9,500	9,455	45
Administration	14,489	13,996	13,880	116
Total Chapter Two	**37,885**	**37,885**	**37,370**	**515**
Total expenditure	**67,015**	**67,015**	**66,385**	**630**
Transfer to the special account for implementation of a new ERP system	783	783	783	-
Total expenditure and transfers	**67,798**	**67,798**	**67,168**	**630**
Net receipts/(expenditure)[26]	**-**	**-**	**682**	**(682)**

23 A reconciliation of the actual amounts from the budgetary result to the IPSAS financial statement basis is provided in note 38.7.

24 The actual amounts are based on the budgetary accounts, which are maintained on a modified cash basis.

25 Voluntary contributions received as services in kind are disclosed in note 32.

26 A reconciliation of the actual amounts from the budgetary result to the IPSAS financial statement basis is provided in note 38.7.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

1.1 The Organisation for the Prohibition of Chemical Weapons (OPCW) is an international organisation which was established by the States Parties to the Convention on the Prohibition of the Development, Production, Stockpiling and Use of Chemical Weapons and on Their Destruction (hereinafter "the Convention"). The Convention entered into force on 29 April 1997, and the OPCW is located at Johan de Wittlaan 32, 2517 JR The Hague, the Netherlands.

1.2 The mission of the OPCW is to achieve the object and purpose of the Convention, to ensure the implementation of its provisions, including those for international verification, and to provide a forum for consultation and cooperation among States Parties.

1.3 The continued existence of the OPCW in its present form, with its present programmes of activity, is dependent on States Parties and their continuing annual appropriations and financial contributions.

1.4 The reporting entity, the OPCW, comprises the General Fund, the Working Capital Fund (note 14), Special Accounts (note 39.16), the Voluntary Fund for Assistance (notes 15 and 37), and the Trust Funds (note 37).

2. BASIS OF PREPARATION

2.1 The financial statements have been prepared on an accruals and going-concern basis and comply with the requirements of IPSAS. Where IPSAS is silent concerning any specific standard, the IPSAS Conceptual Framework and subsequently the appropriate International Financial Reporting Standards (IFRS) is applied.

2.2 OPCW applies the historical cost principle unless stated otherwise. Accounting policies have been applied consistently throughout the year.

2.3 The financial statements are presented in euros, rounded to the nearest thousand. These financial statements cover the calendar year ended 31 December 2018. The financial period is the calendar year.

Future accounting pronouncements

2.4 The following significant future accounting pronouncements from the International Public Sector Accounting Standards Board have been issued as at 31 December 2018, but are not yet effective:

Standard	Objective of Standard	Effective Date	Estimated Impact on OPCW Financial Statements
IPSAS 41 Financial Instruments	To establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows.	1 January 2022	Changes may apply to the classification of OPCW financial instruments and consideration of impairment of financial assets. Hedge accounting changes are expected to have a minimal impact as OPCW does not engage in hedging activities. OPCW will further review and consider the impact of the changes prescribed in this Standard in the period prior to the effective date.
IPSAS 42 Social Benefits *(issued January 2019)*	To provide guidance on accounting for social benefits expenditure, defining social benefits as cash transfers paid to specific individuals and/or households to mitigate the effect of social risk.	1 January 2022	Not applicable as the OPCW does not incur expenditure on social benefits.

3. SIGNIFICANT ACCOUNTING POLICIES

Consolidation

3.1 The scope of consolidation of the OPCW comprises one entity, the OPCW. No associates or joint operations or controlled entities have been identified for inclusion in the scope of consolidation of these financial statements.

Foreign currency translation

3.2 The following exchange rates have the most significant impact on the preparation of these financial statements:

Period	USD/EUR	CAD/EUR	GBP/EUR
31 December 2018	0.876	0.642	1.107
Average 12 months	0.845	0.655	1.130
Period	**USD/EUR**	**JPY/EUR**	**GBP/EUR**
31 December 2017	0.837	0.0074	1.127
Average 12 months	0.891	0.0079	1.145

(a) Functional and presentation currency: Items included in the financial statements are measured using the euro, the functional currency, which is the currency of the primary economic environment in which the OPCW operates. The financial statements are also presented in euros, the presentation currency of the OPCW.

(b) Transactions and balances: Foreign currency transactions are translated into the functional currency using the United Nations Operational Rate of Exchange (UNORE) prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of financial performance. Year-end balances of monetary assets and liabilities denominated in foreign currencies are converted into euros on the basis of the exchange rates applicable on 31 December 2018.

Cash and cash equivalents

3.3 Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments that are readily convertible to cash and subject to insignificant risk of changes in value, with original maturities of three months or less, and bank overdrafts. The OPCW is prohibited from having any bank overdrafts and accordingly does not have any.

Financial assets

Classification

3.4 The OPCW classifies its financial assets as loans and receivables. These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months of the reporting date, which are classified as non-current. The OPCW's loans and receivables comprise 'receivables and recoverables from 'non-exchange transactions' and 'receivables from exchange transactions'.

Recognition and measurement

3.5 Loans and receivables are initially recognised at fair value plus transaction costs, and are derecognised when the rights to receive cash flows have expired or have been transferred and the OPCW has transferred substantially all risks and rewards of ownership.

Subsequent measurement

3.6 Loans and receivables are carried at amortised cost using the effective interest method.

Impairment

3.7 All financial assets are subject to review for impairment at each reporting date. Assessed contributions recoverable are impaired in line with paragraph 8 of Article VIII of the Convention concerning the voting rights of States Parties. Assessed contributions recoverable are therefore impaired in full if a State Party has over three years of unpaid assessed. The impairment is calculated net of any outstanding cash surpluses eligible for distribution and excludes the current year contribution. The impairment of other financial assets (including Article IV/V receivables) as at the reporting date is based on whether there is objective evidence that a financial asset is impaired.

Inventories

3.8 Inventories are stated at the lower of cost and current replacement cost. The cost of finished goods comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Cost is determined using the first in, first out (FIFO) method. Current replacement cost is the cost the entity would incur to acquire the asset on the reporting date. Inventory items acquired in non-exchange transactions are measured at their fair value on the date of acquisition in accordance with IPSAS 12.

Property, plant and equipment

3.9 Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items, including costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Items of property, plant and equipment equal to or exceeding EUR 5,000 per unit and leasehold improvements equal to or exceeding EUR 50,000 per unit are capitalised. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset only when it is probable that future economic benefits or service potential, associated with the item, will flow to the OPCW and the cost of the item can be reliably measured. All other repairs and maintenance are charged to the statement of financial performance during the financial period in which they are incurred. Assets under construction are not depreciated but are subject to impairment. Subsequent to construction completion and upon the in-service date, the assets are transferred to the above categories and the corresponding useful life will be applied.

3.10 Depreciation is calculated using the straight-line method to allocate costs to their residual values over their estimated useful lives, which are as follows:

Asset	Estimated Useful Life
Inspection and verification equipment	Shorter of operational period of asset or 10 years
Security and health equipment	5 years
Office furniture and equipment	7 years
Hardware equipment	4 years
Vehicles	5 years
Leasehold improvements	Shorter of lease term or useful life

3.11 The residual value will be set at nil value as per the acquisition date. An asset's carrying amount is written down immediately to its recoverable service amount if the asset's carrying amount is greater than its estimated recoverable amount (refer to note 3.19 'Impairment of non-cash-generating assets'). Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in 'other income' and 'other operating expenses' respectively within the statement of financial performance.

Leases

<u>Operating lease</u>

3.12 An operating lease is a lease that does not transfer substantially all the risks and rewards incidental to ownership of an asset. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease term. As a lessee, the OPCW rents premises, equipment and other facilities under contracts that are considered operating leases. As a lessor, the OPCW rents small portions of office space to third parties on the OPCW's premises at Johan de Wittlaan 32 in The Hague. The rent receipts are recognised as other income.

Intangible assets

3.13 Intangible assets are carried at cost less accumulated amortisation and impairment. Donated intangible assets are recognised at cost, using the fair value at the acquisition date. The OPCW recognises as intangible assets both acquired software with a cost equal to or exceeding EUR 5,000 and internally generated software with a cost equal to or exceeding EUR 50,000. Internally generated software is capitalised when the criteria stated in note 3.14 are met. The development of new software or the development of new functionalities of software that is already in operation, and purchased software which requires significant customisation or configuration before it can be used by the OPCW may be recognised as internally generated software. Acquired computer software meeting the recognition criteria is capitalised based on costs incurred to acquire and bring the specific software to use. The cost of internally generated software comprises all directly attributable costs to create, produce, and prepare the asset to be capable of operating in the manner intended by management, including costs of materials and services, and employee benefits determined based on a standard rate that includes an appropriate portion of relevant overheads. Costs associated with maintaining computer software programmes are recognised as expenses as incurred.

3.14 Development costs that are directly associated with the development of software for use by the OPCW are capitalised as an intangible asset in line with the development criteria set out in IPSAS 31:

(a) it is technically feasible to complete the software product so that it will be available for use;

(b) management intends to complete the software product and use or sell it;

(c) there is an ability to use or sell the software product;

(d) it can be demonstrated how the software product will generate probable future economic benefits or service potential;

(e) adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and

(f) the expenditure attributable to the software product during its development can be reliably measured.

3.15 Expenditures that do not meet these criteria are recognised as expenses as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Research costs are recognised as an expense in the financial period in which they are incurred.

3.16 Amortisation is recorded on a straight-line basis on all intangible assets of finite life, at rates that will write off the cost or value of the assets to their estimated residual values. Intangible assets under construction are not amortised but are subject to impairment. The useful lives of major classes of intangible assets have been estimated as follows:

Asset	**Estimated Useful Life**
Acquired software	3 to 5 years
Internally developed software	3 to 10 years

Impairment of non-cash-generating assets

3.17 Non-cash-generating assets are property, plant and equipment, and intangible assets (note 6). As such, these are assessed at each reporting date to determine whether there are any indications that the carrying amount of the assets may not be recoverable and that such assets may be impaired. The asset’s recoverable service amount is the higher of the asset’s fair value less costs to sell and its value in use. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable service amount. Impairment losses are recognised immediately in the statement of financial performance.

Employee benefits

Short-term employee benefits

3.18 Short-term employee benefits are expected to be settled within 12 months of the reporting period and are measured at their nominal values based on accrued entitlements at current rates of pay. Short-term employee benefits comprise recurring benefits, deductions and contributions (including salaries, special post allowances, dependency allowances), compensated absences (annual leave, special leave, sick leave), other short-term benefits (salary advances, retroactive payments, education grants, employee income tax reimbursement, travel and removal costs at initial appointment, and assignment grants). These are treated as current liabilities.

Post-employment benefits

3.19 Post-employment benefits include travel and removal costs at separation, and repatriation grants and death benefits after the completion of employment. Post-employment benefit plans are classified as either defined contribution or defined benefit plans.

3.20 For defined contribution post-employment plans, the obligation for each period is determined by the amounts to be contributed for that period, and no actuarial assumptions are required to measure the obligation or the expense. Actuarial gains and losses for post-employment benefits are recognised in net assets in the period in which they occur.

Other long-term employee benefits

3.21 Other long-term employee benefits include home leave and long-term sick leave. Long-term employee benefits which are expected to be settled more than 12 months after the end of the reporting period are treated as non-current liabilities and are measured at the present value of the estimated future cash flows if the payments and the impact of discounting are considered to be material. Actuarial gains and losses for other long-term employee benefits are recognised directly in surplus/deficit in the period in which they occur.

Financial liabilities

3.22 The OPCW's financial liabilities include accounts payable, 'Working Capital Fund', 'Voluntary Fund for Assistance' and 'Cash Surplus'. These financial liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. The financial liabilities 'Working Capital Fund', 'Voluntary Fund for Assistance' and 'Cash surplus' are not discounted considering the specific objectives and the indefinite nature of these amounts (similar to a permanent advance) and the restrictions imposed on these amounts.

Provisions and contingencies

Provisions

3.23 Provisions are recognised for future expenditures of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event, it is probable that expenditures will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are not made for future operating losses. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

Contingent liabilities

3.24 A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of future events not wholly within the control of the entity. A contingency is also recognised when it is not probable that a present obligation exists, but all other aspects of the definition of a provision are met. Contingent liabilities are not recognised in the financial statements but are disclosed in the notes to the financial statements.

Contingent assets

3.25 A contingent asset is a possible asset that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent assets are not recognised.

Taxes

3.26 The OPCW enjoys privileged tax exemption, and as such, assets, income and other properties are exempt from all direct taxation.

Revenue recognition

Revenue from non-exchange transactions

3.27 The OPCW's major categories of non-exchange revenue are assessed contributions and voluntary contributions (as described in notes 22 and 23). Assessed contributions are assessed annually based on the scale of assessments as approved by the Conference. Voluntary contributions are received from various States Parties and other parties (hereinafter "donors") for various purposes as specified in each donor agreement. In certain agreements, donors advance a proportion of the total agreement amount at the project inception, and pay the remaining amount upon receipt of a final project report.

3.28 Voluntary contributions can include specified performance obligations by the OPCW, the consideration payable by the donor, and other general terms and conditions. Conditions that may be attached to the contributions include, inter alia, stipulations that a training or workshop be organised in a certain region, conditions related to progress and completion of research performed, and refund of unspent amounts contributed. The carrying amounts of the voluntary contributions are primarily denominated in euros.

3.29 Non-exchange revenue represents transactions in which OPCW receives value from another entity without providing approximately equal value to another entity in exchange. Non-exchange revenue is measured at the amount of the increase in net assets recognised by the OPCW. IPSAS require that inflow of resources from a non-exchange transaction are recognised as an asset and revenue, except to the extent that a present obligation exists in respect of the same inflow (a performance obligation), which is recognised as liability (deferred revenue). As the OPCW satisfies this present obligation, it reduces the carrying amount of the liability and recognises revenue. Further information regarding the judgement required in determining performance obligations is included in note 4.6.

3.30 For non-exchange revenue which has not yet been received by the OPCW, but where a donor agreement has been signed, a recoverable relating to non-exchange revenue is recognised at the net realisable amount, after reducing any impaired receivable from the carrying amount. Goods in kind are recognised as assets when the goods are received or when there is a binding agreement to receive the goods and no conditions are attached. The measurement of goods in kind is based on the fair value of the goods received as determined by the OPCW as recipient services in kind are not recognised.

3.31 Balances in relation to these agreements are reported within voluntary contribution revenue (note 23) and/or deferred revenue (note 20), and voluntary contributions recoverable (note 9).

<u>Revenue from exchange transactions</u>

3.32 The OPCW's major category of exchange revenue is Article IV and V revenue, amounts that are invoiced to States Parties for various services (as described in note 24 'Article IV and V revenue') provided in the verification of and destruction of chemical weapons.

3.33 Revenue from exchange transactions is measured at the fair value of the consideration received or receivable and is recognised as services are rendered according to the estimated stage of completion when the outcome of a transaction can be estimated reliably.

Expenses

3.34 OPCW recognises expenses when goods and services are delivered or provided, and accepted.

Segment information

3.35 A segment is a distinguishable activity or group of activities for which it is appropriate to separately report financial information. At the OPCW, segment information is based on the principal distinguishable services that are engaged in achieving the OPCW's objectives. Assets and liabilities are not allocated to segments.

4. MATERIALITY, CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

4.1 In accordance with IPSAS and generally accepted accounting principles, the financial statements include amounts based on estimates and assumptions, based on the materiality of the relevant transactions and events. The OPCW makes estimates and assumptions concerning the future. The resulting accounting estimates will seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below.

Employee benefits: Post-employment benefits and other long-term employee benefits

4.2 The present value of the employee benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Actuarial assumptions are established to anticipate future events and are used in calculating post-employment benefits and other long-term employee benefits expense and liability. Assumptions have been made with respect to the discount rate, inflation, indexation, rates of future compensation increases, turnover rates, and life expectancy. Any changes in these assumptions will impact the amount of benefits expense and the related liability.

4.3 The OPCW determines the discount rate annually. This is the interest rate that should be used to determine the present value of the estimated future cash outflows expected to be required to settle the employee benefit obligations. In determining the appropriate discount rate, the OPCW considers the interest rate of government bonds within the Eurozone that have terms to maturity approximating the terms of the related employee benefit liabilities.

4.4 The other assumptions are based in part on current market conditions and historical experience of the OPCW. Additional information is disclosed in note 17 'Employee benefits'.

Receivables: Determination of impairment

4.5 The OPCW's receivables are required to be reviewed at the end of each reporting period for impairment and indications of uncollectibility. The OPCW makes an estimate of the amount of receivables that it is not able to recover based on prior payment history and expectations of future amounts it expects to recover from these receivables.

Revenue recognition: Conditions on voluntary contributions

4.6 Revenue for non-exchange transactions is recognised by OPCW in line with the policy set out in notes 3.27 to 3.31, and with IPSAS 23 (revenue from non-exchange transactions). When reviewing stipulations linked to voluntary contributions and assessing the extent to which revenue may be recognised, the OPCW makes a judgement to determine whether a present obligation to the OPCW exists which would give rise to a financial liability. The OPCW uses contractual information and past practice with donors to inform this judgement.

Enterprise resource planning system (ERP system)

4.7 Implementation of the new ERP system was ongoing as at the reporting date. Accounting estimates have been made to determine the costs accrued as at the reporting date, which in turn has informed the related expense recognition and the degree of capitalisation of eligible development costs relating to the intangible ERP asset under construction. Given that the work was in progress at the reporting date, these accounting estimates involve judgement and are based on management's assessment of the stage of completion of the ERP implementation work streams as at the reporting date, which is in turn based on the status of system testing and other implementation elements.

4.8 Given the delay in the go-live date beyond 31 December 2018, management has also reviewed the elements of this project capitalised as work in progress (including software licences, consultancy, and OPCW staff time) at the reporting date for impairment and reduced the carrying value of impaired elements where necessary.

5. FINANCIAL RISK MANAGEMENT

Financial risk factors

5.1 The OPCW's activities expose it to a variety of financial risks, including market risk (currency risk, interest rate risk, and price risk), credit risk and liquidity risk. The OPCW's overall financial risk management programme is carried out by the Treasury Section under policies approved by the Investment Committee. The OPCW does not enter into hedging activities and does not use derivative financial instruments.

Market risk: Foreign exchange risk

5.2 Foreign exchange risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The OPCW operates internationally and is exposed to limited foreign exchange risk arising from certain currency exposures. The OPCW holds cash in bank accounts denominated in Euros and US Dollars.

5.3 The OPCW's cash inflows are predominantly denominated in euros, with some voluntary contributions denominated in US dollars, UK pounds, and Canadian dollars. OPCW minimises this risk by immediately converting all foreign currency denominated voluntary contributions into euros at the spot rate of the receiving bank.

5.4 The OPCW's cash outflows relate primarily to payments to employees and payments to vendors. Employee salaries are denominated in US dollars, however, are paid in euros. 93% of payments to vendors in 2018 were denominated in euros.

5.5 At 31 December 2018, if the euro had weakened/strengthened by 10% against the US dollar, net surplus/deficit for the year would have been EUR 312 thousand higher/lower, mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated assets including cash, assessed contributions recoverable, and other receivables.

Market risk: Interest rate risk

5.6 Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The OPCW mitigates interest rate risk by investing cash and cash equivalents in accounts with financial institutions for short-term maturities at fixed interest rates, as per the investment policies established by the OPCW's Investment Committee. The Programme and Budget of the OPCW is also not heavily dependent on interest income as a revenue stream, hence significantly reducing interest rate risk.

Credit risk

5.7 Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk arises from cash and cash equivalents with banks and financial institutions and exposures to receivables from States Parties. The OPCW's Investment Committee meets at least quarterly to review the OPCW's investment policies for financial assets and determines which financial institutions may be used for the investment of cash and cash equivalents. The OPCW will only invest deposits in financial institutions with a Moody's Investors Service Global short-term rating of no lower than a P-1 rating. Furthermore, the OPCW investment policies limit the amount that the OPCW may invest with a single financial institution.

	(expressed in euro '000s)	
Moody's Investors Service Ratings	**31-Dec-2018**	**31-Dec-2017**
Rating P-1[27]	29,877	26,882
Non-rated	-	-
Total cash and cash equivalents	**29,877**	**26,882**

5.8 Credit risk arises from receivables from States Parties as outlined in notes 7 and 8.

Liquidity risk

5.9 Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The OPCW has obligations to make certain payments for financial liabilities; liquidity risk arises in that the OPCW may encounter difficulties in meeting these obligations. Cash flow forecasting is performed by the OPCW on a daily, weekly and monthly basis. The Treasury Section may invest surplus cash in short-term deposits, investing these amounts for periods of no longer than 12 months.

27 Issuers (or supporting institutions) rated Prime-1 (P-1) have a superior ability to repay short-term debt obligations.

Investments are denominated in euros to avoid foreign currency fluctuations. The tables below analyse the OPCW's financial liabilities into relevant maturity groupings based on their contractual undiscounted cash flows.

As at 31 December 2018:

(expressed in euro '000s)	Less Than 1 Year	1 to 5 Years	5 to 10 Years	Beyond 10 Years	Undefined Maturity	Total
Working Capital Fund	-	-	-	-	7,343	**7,343**
Voluntary Fund for Assistance	-	-	-	-	1,563	**1,563**
Cash surplus eligible for distribution	20	2,547	-	-	-	**2,567**
Accounts payable	3,231	-	-	-	-	**3,231**
Total financial liabilities	**3,251**	**2,547**	**-**	**-**	**8,906**	**14,704**

As at 31 December 2017:

(expressed in euro '000s)	Less Than 1 Year	1 to 5 Years	5 to 10 Years	Beyond 10 Years	Undefined Maturity	Total
Working Capital Fund	-	-	-	-	7,342	**7,342**
Voluntary Fund for Assistance	-	-	-	-	1,558	**1,558**
Cash surplus reimbursed to States Parties	56	1,455	-	-	-	**1,511**
Accounts payable	3,633	-	-	-	-	**3,633**
Total financial liabilities	**3,689**	**1,455**	**-**	**-**	**8,900**	**14,044**

5.10 Liquidity risk is generally managed on an individual fund basis. For all funds except the General Fund, commitments can generally only be made once funds are available and therefore liquidity risk is minimal. For the General Fund, the appropriation based framework for expense authorization ensures that expenses do not exceed revenue streams for any given year, while the Working Capital Fund (WCF) is a mechanism for providing liquidity, should issues arise around the timing of cash outflows and cash inflows (relating primarily to State Party assessed contributions).

5.11 Regulation 6.4 of the OPCW Financial Regulations and Rules states that the WCF should not exceed two-twelfths of the budget provision for the financial period. The WCF provides a liquidity buffer for the OPCW's general fund of approximately one month's (one-twelfth) cash-flow. Furthermore, a contingency margin is applied to regular budget appropriations and managed in line with incoming cash flows to mitigate liquidity risk. In paragraph 10(t) of the Decision adopting the Programme and Budget of the OPCW for 2019 (C-23/DEC.10, dated 20 November 2018), the Conference has also reaffirmed that the WCF be maintained at a target level of EUR seven to nine million in 2019 and 2020, through the transfer of cash surpluses in these years.

6. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

6.1 Property, plant and equipment

As at 31 December 2018:

(expressed in euro '000s)	Inspection and Verification Equipment	Security and Health Equipment	Office Furniture and Equipment	Hardware Equipment	Vehicles	Leasehold Improvements	Assets Under Construction	Total
At 1 January 2018:								
Cost	8,341	1,106	359	1,104	276	209	22	**11,417**
Accumulated & depreciation impairment	(4,148)	(695)	(312)	(891)	(170)	(122)	-	(6,338)
Net book amount	**4,193**	**411**	**47**	**213**	**106**	**87**	**22**	**5,079**
Year ended 31 December 2018:								
Opening net book amount	**4,193**	**411**	**47**	**213**	**106**	**87**	**22**	**5,079**
Additions	1,137	80	23	114	-	-	271	**1,625**
Transfers	-	-	-	22	-	-	(22)	-
Disposals	(524)	(296)	(26)	(12)	-	-	-	**(858)**
Accumulated depreciation on disposed assets	496	296	26	9	1	-	-	**828**
Depreciation charge	(894)	(115)	(18)	(134)	(36)	(42)	-	**(1,239)**
Closing net book amount	**4,408**	**376**	**52**	**212**	**71**	**45**	**271**	**5,435**
At 31 December 2018:								
Cost	8,957	891	356	1229	276	209	271	**12,189**
Accumulated depreciation & impairment	(4,550)	(515)	(304)	(1,016)	(205)	(164)	-	(6,754)
Net book amount	**4,407**	**376**	**52**	**213**	**71**	**45**	**271**	**5,435**

There are no restrictions on the title to the OPCW's property, plant and equipment. No items of property, plant and equipment were impaired in 2018.

As at 31 December 2017:

(expressed in euro '000s)	**Inspection and Verification Equipment**	**Security and Health Equipment**	**Office Furniture and Equipment**	**Hardware Equipment**	**Vehicles**	**Leasehold Improvements**	**Assets Under Construction**	**Total**
At 1 January 2017:								
Cost	7,397	678	359	1,045	275	209	38	**10,001**
Accumulated & depreciation impairment	(3,457)	(632)	(293)	(759)	(236)	(80)	-	**(5,457)**
Net book amount	**3,940**	**46**	**66**	**286**	**39**	**129**	**38**	**4,544**
Year ended 31 December 2017:								
Opening net book amount	**3,940**	**46**	**66**	**286**	**39**	**129**	**38**	**4,544**
Additions	1,049	451	-	95	105	-	22	**1,722**
Transfers	38	-	-	-	-	-	(38)	-
Disposals	(143)	(23)	-	(36)	(104)	-	-	**(306)**
Accumulated depreciation on disposed assets	138	23	-	36	104	-	-	**301**
Depreciation charge	(835)	(86)	(19)	(168)	(38)	(42)	-	**(1,188)**
Impairment losses reversed	6	-	-	-	-	-	-	**6**
Closing net book amount	**4,193**	**411**	**47**	**213**	**106**	**87**	**22**	**5,079**
At 31 December 2017:								
Cost	8,341	1,106	359	1,104	276	209	22	**11,417**
Accumulated depreciation & impairment	(4,148)	(695)	(312)	(891)	(170)	(122)	-	(6,338)
Net book amount	**4,193**	**411**	**47**	**213**	**106**	**87**	**22**	**5,079**

There are no restrictions on the title to the OPCW's property, plant and equipment. No items of property, plant and equipment were impaired in 2017.

6.2 Intangible assets

As at 31 December 2018:

(expressed in euro '000s)	Acquired Software	Internally Generated Software	Intangible Assets Under Construction	Total
Balance as at 1 January 2018:				
Cost	554	415	1,007	**1,976**
Accumulated amortisation & impairment	(372)	(315)	(11)	(698)
Net book amount	**182**	**100**	**996**	**1,278**
Year ended 31 December 2018:				
Opening net book value	**182**	**100**	**996**	**1,278**
Additions	160	133	660	**953**
Transfers	-	-	-	**-**
Amortisation charge	(80)	(30)	-	**(110)**
Impairment losses	-	-	(10)	**(10)**
Net book amount as at 31 December 2018	**262**	**203**	**1,646**	**2,111**
As at 31 December 2018:				
Cost	714	548	1,668	**2,930**
Accumulated amortisation & impairment	(452)	(345)	(22)	(819)
Net book amount as at 31 December 2018	**262**	**203**	**1,646**	**2,111**

As at 31 December 2017:

(expressed in euro '000s)	Acquired Software	Internally Generated Software	Intangible Assets Under Construction	Total
Balance as at 1 January 2017:				
Cost	520	318	499	**1,337**
Accumulated amortisation & impairment	(290)	(269)	-	**(559)**
Net book amount	**230**	**49**	**499**	**778**
				-
Year ended 31 December 2017:				
Opening net book value	**230**	**49**	**499**	**778**
Additions	33	84	521	**638**
Transfers	-	13	(13)	**-**
Amortisation charge	(81)	(46)	-	**(127)**
Impairment losses	-	**-**	(11)	**(11)**
Net book amount as at 31 December 2017	**182**	**100**	**996**	**1,278**
			-	**-**
As at 31 December 2017:				
Cost	554	415	1,007	**1,976**
Accumulated amortisation & impairment	(372)	(315)	(11)	(698)
Net book amount as at 31 December 2017	**182**	**100**	**996**	**1,278**

6.3 Intangible assets include elements of the new ERP system with total cost of EUR 256 thousand which were in use by the Organisation as at 31 December 2018, including the new OPCW recruitment system.

6.4 Intangible assets under construction in the amount of EUR 1,491 thousand related to the new enterprise resource planning (ERP) system. This balance includes costs for software licences, implementation consultancy costs and eligible OPCW staff time in line with IPSAS 31.

6.5 Following delay in the go-live date of the new ERP system until 2019, and in line with IPSAS 21 (impairment of non-cash-generating assets) and IPSAS 31 (intangible assets), the intangible assets under construction balance relating to the core ERP system has been assessed for impairment as at the reporting date. Elements totalling EUR 11 thousand have been impaired in 2018; the remaining balance is deemed by management to continue to deliver future service potential and has not been impaired.

7. ASSESSED CONTRIBUTIONS RECOVERABLE

	(expressed in euro '000s)	
	2018	**2017**
Assessed contributions	3,585	8,547
Less: allowance for impairment of assessed contributions	(301)	(592)
Total assessed contributions - net	**3,284**	**7,955**

7.1 Every Member State is assessed an annual contribution due to the OPCW. The assessed contributions are issued at the beginning of each calendar year and are payable in full within 30 days of States Parties' receipt of the requests for payments or on the first day of the financial period to which they relate, whichever is later.

7.2 As of 31 December 2018, assessed contributions of EUR 3,284 thousand were past due but not impaired (2017: EUR 7,955 thousand). These include assessed contributions recoverable of States Parties with arrears of less than three years old and receivables from States Parties who have made proposal for multi-year payment plans, irrespective of the age of the receivables. The ageing analysis of these assessed contributions is as follows:

	(expressed in euro '000s)			
	2018	**%**	**2017**	**%**
Up to 1 year old	2,156	65%	4,796	60%
Older than 1 year and up to 2 years	783	24%	2,685	34%
Older than 2 years and up to 3 years	125	4%	157	2%
Older than 3 years and up to 10 years	202	6%	258	3%
Older than 10 years	18	1%	59	1%
	3,284	**100%**	**7,955**	**100%**

7.3 As of 31 December 2018, assessed contributions of EUR 301 thousand (2017: EUR 592 thousand) were deemed to be impaired. The assessed contributions recoverable in the statement of financial position are shown net of an allowance for impairment; this however does not constitute legal discharges of concerned States Parties from their obligations to make payments to the OPCW. The ageing analysis of these assessed contributions is as follows:

	(expressed in euro '000s)			
	2018	**%**	**2017**	**%**
Up to 1 year old	-	0%	-	0%
Older than 1 year and up to 2 years	38	13%	62	11%
Older than 2 years and up to 3 years	38	13%	55	9%
Older than 3 years and up to 10 years	117	38%	237	40%
Older than 10 years	108	36%	238	40%
	301	**100%**	**592**	**100%**

7.4 Movements in the OPCW's allowance for impairment of assessed contributions are as follows:

	(expressed in euro '000s)	
	2018	**2017**
At 1 January	592	**743**
Increase in allowance for impairment of assessed contributions (write-down)[28]	62	85
Reversal of allowance for impairment of assessed contributions [29]	(353)	(236)
At 31 December	**301**	**592**

8. ARTICLE IV AND V RECEIVABLES

	(expressed in euro '000s)	
	2018	**2017**
Article IV & V receivables	7,045	6,433
Less: allowance for impairment of Article IV & V receivables (write-down)	(5,798)	(5,521)
Total Article IV & V receivables - net	**1,247**	**912**

8.1 The OPCW charges States Parties for its services provided in the verification and destruction of chemical weapons, including staff and travel costs. The amounts charged to States Parties for services provided include amounts to cover the OPCW's staff costs, travel expenses, daily subsistence allowance and transportation charges for hazardous materials. The rates relating to staff costs charged to States Parties by the OPCW are established annually by agreement of the States Parties, taking into account actual expenses incurred. The OPCW provides services in exchange for generating this revenue in the form of expertise of its employees regarding chemical weapons.

[28] The increase in allowance for the impairment of assessed contributions is recognised in general operating expenses.

[29] The reversal of the allowance for the impairment of assessed contributions is made when impaired amounts are received, and is recognised in other revenue.

8.2 As of 31 December 2018, Article IV and V receivables of EUR 1,247 thousand (2017: EUR 912 thousand) were past due but not impaired. Amounts are impaired, without implying legal discharge of the concerned States Parties' obligation to pay, when there is no expectation of recovering additional cash.

8.3 The ageing analysis of net Article IV and V receivables is as follows:

	(expressed in euro '000s)			
	2018	**%**	**2017**	**%**
Up to 3 months	795	63%	697	76%
Older than 3 months and up to 6 months	-	-	215	24%
Older than 6 months and up to 1 year	194	16%	-	-
Older than 1 year and up to 2 years	258	21%	-	-
	1,247	**100%**	**912**	**100%**

8.4 As of 31 December 2018, Article IV and V receivables of EUR 5,798 thousand (2017: EUR 5,521 thousand) were deemed to be impaired, without legally discharging the concerned States Parties' obligations to make payments to the OPCW. The Article IV and V receivables in the statement of financial position are shown net of this allowance. The ageing analysis of impaired Article IV and V receivables is as follows:

	(expressed in euro '000s)			
	2018	**%**	**2017**	**%**
Up to 3 months	241	4%	227	4%
Older than 3 months and up to 6 months	72	1%	97	2%
6 months to 1 year	-	0%	19	0%
Older than 1 year and up to 2 years	306	5%	407	7%
Older than 2 years and up to 3 years	407	7%	1,272	23%
Older than 3 years and up to 10 years	4,772	83%	3,499	64%
Older than 10 years	-	-	-	-
	5,798	**100%**	**5,521**	100%

8.5 Movements in the OPCW's allowance for impairment of Article IV and V receivables are as follows:

	(expressed in euro '000s)	
At 1 January	**2018**	**2017**
Beginning of period	5,521	5,194
Increase in allowance for impairment of Article IV & V receivables[30]	277	327
Reversal of allowance for impairment of Article IV & V receivables[31]	-	-
At 31 December	**5,798**	**5,521**

[30] The increase in allowance for the impairment of Article IV & V receivables is recognised in general operating expenses (note 29).

[31] The reversal of the allowance for the impairment of Article IV & V receivables is made when impaired amounts are received, and is recognised in other revenue (note 25).

9. VOLUNTARY CONTRIBUTIONS RECOVERABLE

	(expressed in euro '000s)	
	2018	**2017**
Trust funds for Libya	318	2,554
Trust funds for Syria	180	1,004
Other trust funds	374	141
Voluntary contributions recoverable	**872**	**3,699**

Voluntary contributions recoverable represent balances due to the OPCW under signed contribution agreements.

10. OTHER ASSETS

	(expressed in euro '000s)			
	2018		**2017**	
	Current	**Non-current**	**Current**	**Non-current**
Value-added tax and other recoverable taxes	1,344	-	1,236	-
Receivables from staff members	1,325	-	898	-
Receivables from vendors	301	-	253	250
Interest receivable	14	-	-	-
Miscellaneous	10	-	-	-
Working Capital Fund contributions receivable	3	-	7	-
Other assets	**2,997**	**-**	**2,394**	**250**

10.1 Value-added tax and other recoverable taxes include refundable taxes primarily relating to environmental taxes, energy taxes, and US income taxes. These receivables arise due to the OPCW's tax-exempt status. In 2018 there was an increase in the amounts outstanding relating to VAT recoverable from the Host Country.

10.2 Receivables from staff members comprise receivables due for advances made relating to travel expenses and employee benefit advances.

10.3 Receivables from vendors relate primarily to the current and non-current portions of the incentive payment for the extension of the Tenancy Agreement through 2028, paid in instalments to the OPCW.

11. PREPAYMENTS

	(expressed in euro '000s)	
	2018	**2017**
Prepayments - vendors	1,621	1,015
Prepayments - UNOPS	897	1,003
Prepayments - other	21	13
Total prepayments	**2,539**	**2,031**

Prepayments to vendors primarily comprise prepaid rent for the Headquarters building. Prepayments to the United Nations Office for Project Services (UNOPS) primarily comprise advances for the provision of services to support OPCW operations in Syria and Libya.

12. INVENTORIES

	(expressed in euro '000s)		
	2018		
	Primary	Secondary	Total
At 1 January 2018	**254**	**543**	**797**
Purchases	174	94	**268**
Inventory consumed	(86)	(84)	**(170)**
Other adjustments	(23)	(6)	**(29)**
At 31 December 2018	**319**	**547**	**866**

	(expressed in euro '000s)		
	2017		
	Primary	Secondary	Total
At 1 January 2017	445	615	**1,060**
Purchases	92	51	**143**
Inventory consumed	(144)	(68)	**(212)**
Other adjustments	(139)	(55)	**(194)**
At 31 December 2017	**254**	**543**	**797**

12.1 The OPCW's inventories relate primarily to its inspection and verification activities and are located in the equipment store in Rijswijk, the Netherlands. Primary consumables consist of consumable items that are listed by name within the "List of Approved Equipment with Operational Requirements and Technical Specifications" (C-I/DEC.71*, dated 30 November 2010) as approved by the Conference. Secondary consumables consist of consumable items that are integral parts of the approved inspection equipment.

12.2 The physical stock count of primary and secondary consumables was carried out as at 31 December 2018. The carrying amount of inventories is shown at lower of cost or current replacement cost as at 31 December 2018.

13. CASH AND CASH EQUIVALENTS

	(expressed in euro '000s)	
	2018	**2017**
Unrestricted		
Interest-bearing current accounts	21,228	19,488
Total unrestricted	**21,228**	**19,488**
Restricted		
Interest-bearing current accounts	8,649	7,393
Total restricted	**8,649**	**7,393**
Total cash and cash equivalents	**29,877**	**26,881**

The following amounts of cash and cash equivalents are not available for use by the OPCW without prior approval:

	(expressed in euro '000s)	
	2018	**2017**
Restricted cash and cash equivalents		
Working Capital Fund	7,086	5,835
Voluntary Fund for Assistance	1,563	1,558
Total restricted cash and cash equivalents	**8,649**	**7,393**

14. WORKING CAPITAL FUND

14.1 The Working Capital Fund has been established to meet short-term liquidity problems, including temporarily funding appropriated budgetary expenditures pending the receipt of contributions. The Working Capital Fund is financed from advances by all States Parties in accordance with the scale of assessment determined by the Conference.

14.2 Any new States Parties joining the OPCW make an advance to the Working Capital Fund in accordance with the scale of assessment applicable to the budget of the year of their ratification of, or accession to, the Convention. In 2018, one new States Party joined the OPCW and made a contribution to the Working Capital Fund (2017: nil).

14.3 The movement in the balance of the Working Capital Fund during the reporting period, and the amount held in it, is explained as follows:

	(expressed in euro '000s)		
	Note	**2018**	**2017**
Movement in the Working Capital Fund liability			
At 1 January		7,342	4,160
Contribution from new States Party		1	-
Transfer from Headquarters building lease incentive		-	1,400
Transfer from final cash surplus for 2015		-	1,000
Transfer from ERP fund		-	782
Total Working Capital Fund as at 31 December		**7,343**	**7,342**
Of which:			
Non-current portion of Working Capital Fund liability		7,343	7,342
Current portion of Working Capital Fund liability		-	-
Total Working Capital Fund as at 31 December		**7,343**	**7,342**

14.4 The Working Capital Fund liability balance at 31 December 2017 and 2018 differs to the Working Capital Fund cash balance reported in note 13.1 due to the timing of cash transfers to the Working Capital Fund relating to the transfer of the Headquarters building lease incentive and contributions receivable for the Working Capital Fund reported in note 10.

15. VOLUNTARY FUND FOR ASSISTANCE

15.1 The Voluntary Fund for Assistance was established by the Conference at its First Session (C-I/DEC.52, dated 16 May 1997). Its objective is to provide funding to coordinate and deliver assistance to a State Party, in terms of Article X of the Convention, when requested in the event of use or a threat of use of chemical weapons. The Fund is financed through voluntary contributions from States Parties. Receipts are recorded as liabilities until the related performance obligations are fulfilled, based on which revenue will be recognised.

15.2 The movement of the Voluntary Fund for Assistance during the reporting period is as follows:

	(expressed in euro ‘000s)	
	2018	**2017**
Balance as at 1 January	**1,558**	**1,553**
Contributions received/disbursement from States Parties	5	5
Interest earned and bank charges	-	-
Net proceeds received for Voluntary Fund for Assistance	**5**	**5**
Total Voluntary Fund for Assistance as at 31 December	**1,563**	**1,558**
Of which:		
Non-current portion	1,563	1,558
Current portion	-	
Total Voluntary Fund for Assistance as at 31 December	**1,563**	**1,558**

16. CASH SURPLUS

16.1 In accordance with the OPCW’s regulations, a cash surplus based on the cash basis of accounting is applied to the OPCW’s budget. After finalisation, this amount, including any necessary adjustments, is eligible for distribution to States Parties in line with Financial Regulation 6.3 proportional to the assessed contributions in the year in which the surplus arose, by means of an adjustment to the assessed contributions, unless otherwise decided by the Conference.

16.2 Current liabilities at 31 December 2018 of EUR 20 thousand (2017: EUR 56 thousand) represent cash surpluses from 2011 and prior years withheld from the States Parties due to non-payment of assessed contributions to the OPCW.

16.3 The following amounts have been recognised as a financial liability in the statement of financial position:

(expressed in euro ‘000s)	**2018**	
	Non-current	**Current**
Balance as at 1 January 2018	**1,455**	**56**
Distributed cash surplus	**-**	(36)
Transfers[32]:		
Transfer of 2016 cash surplus to special fund for Special Fund for Cybersecurity, Business Continuity, and Physical Infrastructure Security in 2018	(777)	**-**
Transfer of 2016 cash surplus to special fund for IT Infrastructure to Support the Implementation of Decision C-SS-4/DEC.3 in 2018	(678)	**-**
Final cash surplus for 2017	2,547	**-**
Balance as at 31 December 2018	**2,547**	**20**

32 C-23/DEC.11, dated 20 November 2018.

(expressed in euro '000s)	**2017**	
	Non-current	**Current**
Balance as at 1 January 2017	**1,990**	**57**
Distributed cash surplus	**-**	(1)
Transfers[33]:		
Usage of 2015 cash surplus to liquidate final cash deficit for 2014	(680)	-
Transfer of 2015 cash surplus to special fund for the Fourth Review Conference in 2018	(310)	**-**
Transfer of 2015 cash surplus to Working Capital Fund	(1,000)	**-**
Final cash surplus for 2016	1,455	**-**
Balance as at 31 December 2017	**1,455**	**56**

16.4 Further details regarding the calculation of the cash surplus are presented in Appendix 3.

17. EMPLOYEE BENEFITS

17.1 Employee benefit liabilities comprise the following items:

		(expressed in euro '000s)					
		2018			**2017**		
Employee Benefit	**Note**	**Non-current**	**Current**	**Total**	**Non-current**	**Current**	**Total**
Long-term employee benefits							
Post-employment benefits							
Repatriation grant	17.6	2,049	1,061	**3,110**	1,935	995	**2,930**
Removal	17.6	884	279	**1,163**	652	230	**882**
Repatriation travel	17.6	405	102	**507**	344	92	**436**
Death benefit	17.6	320	35	**355**	299	32	**331**
Total post-employment benefits	17.6	**3,658**	**1,477**	**5,135**	**3,230**	**1,349**	**4,579**
Other long-term employee benefits							
Home leave	17.12	97	623	**720**	-	737	**737**
Total long-term employee benefits		**3,755**	**2,100**	**5,855**	**3,230**	**2,086**	**5,316**
Short-term employee benefits							
Annual leave	17.2	-	1,867	**1,867**	-	1,962	**1,962**
Other short-term employee benefits	17.2	-	292	**292**	-	252	**252**
Total short-term employee benefits		**-**	**2,159**	**2,159**	**-**	**2,214**	**2,214**
Total employee benefits		**3,755**	**4,259**	**8,014**	**3,230**	**4,300**	**7,530**

Short-term employee benefits

17.2 As described in note 3.18, short-term employee benefits comprise recurring benefits, deductions and contributions (including salaries, post adjustments, dependency allowances), compensated absences (annual leave), other short-term benefits (retroactive payments, education grants, income tax reimbursements, travel and

[33] C-22/DEC.7, dated 30 November 2017.

removal costs at initial appointment, assignment grants) and the current portion of long-term benefits provided to current employees.

17.3 Further disclosure of these items is provided in notes 26 (employee benefit expenses) and 36 (key management remuneration).

Post-employment benefits

17.4 Liabilities relating to post-employment are calculated by a qualified and independent actuary. The actuarial valuation as at 31 December 2018 was performed on 22 March 2019.

Defined contribution plans

17.5 The OPCW's pension plan is the Provident Fund. The OPCW contributes a fixed amount for all employees into the Provident Fund. Upon departure from the OPCW (provided a minimum service period of three months has been performed), the employee receives contributions made by the OPCW on their behalf and accrued interest. After this payment upon departure, the OPCW has no remaining legal or constructive obligations to pay further contributions. During the period ended 31 December 2018, a Provident Fund contribution of EUR 6,710 thousand (2017: EUR 6,917 thousand) has been recognised in the employee benefit expenses line of the statement of financial performance (note 26), representing the OPCW's contribution to the Provident Fund "B" accounts for 2018.

Defined benefit plans

17.6 The OPCW provides the following post-employment benefits to eligible employees: death benefits (payments to surviving spouse and dependents), repatriation grant (assistance with repatriation expenses upon separation from the OPCW), travel costs at separation (assistance with travel expenses upon separation from the OPCW), and removal costs at separation (assistance with removal costs upon separation from the OPCW). The movement in the defined benefit obligation over the year is as follows:

	(expressed in euro '000s)	
Post-Employment Benefits	**Per Actuarial Valuation**	
	2018	**2017**
Balance as at 1 January	**4,578**	5,174
Current service cost	1,209	1,269
Interest cost	(1)	(13)
Actuarial (gains)/losses	325	(568)
Benefits paid	(976)	(1,283)
Balance as at 31 December	**5,135**	**4,579**

17.7 The defined benefit obligation disclosed above is wholly unfunded. As a result, there are no plan assets.

	(expressed in euro '000s)	
Post-Employment Benefits	**2018**	**2017**
Balance as at 31 December		
Present value of defined benefit obligation	5,135	4,579
Fair value of plan assets	-	-
Deficit/(surplus) in the plan	**5,135**	**4,579**

17.8 A reconciliation of the present value of the defined benefit obligation to the liability in the statement of financial position is as follows:

	(expressed in euro '000s)				
Post-Employment Benefits	**2018**	**2017**	**2016**	**2015**	**2014**
Present value of unfunded obligations	5,135	4,579	5,174	6,693	6,744
Liability in the statement of financial position	**5,135**	**4,579**	**5,174**	**6,693**	**6,744**

17.9 The amounts recognised in the statement of financial performance based on actuarial valuation of post-employment benefits are as follows:

	(expressed in euro '000s)	
Post-Employment Benefits	**2018**	**2017**
Current service cost	1,209	1,269
Interest cost	(1)	(13)
Total expense recognised in statement of financial performance	**1,208**	**1,256**

17.10 The statement of changes in net assets includes a negative change of EUR 325 thousand relating to actuarial gains and losses in 2018 (2017: positive EUR 568 thousand) and EUR 0 relating to the effect of the limit on the asset per IPSAS 39.66.b.

17.11 The expected total contribution to post-employment benefit plans (expected benefit payment to beneficiaries) for the year ended 31 December 2019 is EUR 1,477 thousand (2018: EUR 1,349 thousand).

<u>Other long-term employee benefits</u>

17.12 As described in note 3.21, other long-term employee benefits include home-leave benefits. The movement in other long-term employee benefits liabilities over the year is as follows:

	(expressed in euro '000s)	
Other long-term employee benefits (home-leave benefits)	**2018**	**2017**
Balance as at 1 January	**737**	**467**
Current service cost	651	638
Interest cost	(3)	(4)
Actuarial (gains)/losses	(19)	64
Benefits paid	(646)	(428)
Balance as at 31 December	**720**	**737**

17.13 The defined benefit obligation in respect of other long-term employee benefits is wholly unfunded. As a result, there are no plan assets.

	(expressed in euro '000s)	
Other long-term employee benefits (home-leave benefits)	**2018**	**2017**
Balance as at 31 December		
Present value of defined benefit obligation	720	737
Fair value of plan assets	-	-
Deficit/(surplus) in the plan	**720**	**737**

17.14 The amount recognised in the statement of financial performance based on actuarial valuation of other long-term employee benefits is as follows:

	(expressed in euro '000s)	
Other long-term employee benefits (home-leave benefits)	**2018**	**2017**
Current service cost	652	638
Interest cost	(3)	(4)
Actuarial (gains)/losses	(19)	64
Total expense recognised in statement of financial performance	**630**	**698**

17.15 The principal assumptions used for post-employment benefits and other long-term employee benefits as of 31 December 2018 are the following:

Long-term employee benefits	**2018**	**2017**
Discount rate: Death benefits	1.10%	1.15%
Discount rate: Repatriation grant, removal costs, travel costs	0.10%	-0.10%
Discount rate: Home leave	-0.15%	-0.35%
Inflation	1.60%	1.60%
Indexation: Travel and removal costs	2.25%	2.25%
Indexation: Home leave	0.00%	0.00%
Mortality tables: Dutch generational tables "AG prognosis table"	2018 table	2016 table
Future salary increases	Based on UN salary scales and inflation	

17.16 If the discount rates used in the determination of the employee benefit expense and liability for active participants were higher or lower by 0.25% from management's estimate, the carrying amount of the benefit liability would be an estimated EUR 41 thousand lower (2016: 37 thousand lower) or EUR 42 thousand higher (2016: EUR 37 thousand higher), respectively.

18. ACCOUNTS PAYABLE

	(expressed in euro '000s)	
	2018	**2017**
Accounts payable - vendors	2,712	2,807
Accounts payable - staff	516	826
Reimbursements to governments	3	-
Total accounts payable	**3,231**	**3,633**

19. OTHER NON-CURRENT LIABILITIES

	(expressed in euro '000s)	
Other non-current liabilities	**2018**	**2017**
Assessed contributions with performance obligations	3,582	2,911
Headquarters lease incentive liability	1,120	1,260
Total other non-current liabilities	**4,702**	**4,171**

Assessed contributions with performance obligations

19.1 This represents the estimated final cash surplus for 2018, which will be determined in 2019. IPSAS requires that a liability be recognised in respect of an inflow of resources from a non-exchange transaction that are also recognised as assets, to the extent that a present obligation exists against the same inflow. Performance obligations exist as at 31 December 2018 with respect to assessed contributions received or receivable requiring recognition of a corresponding liability.

19.2 The cash surplus for 2017 was determined in 2018 as per note 16 and Appendix 3.

Headquarters lease incentive liability

19.3 A liability is recognised for the Headquarters operating lease incentive detailed in note 10.3, in line with IPSAS 13 and IFRS (SIC-15[5]). The non-current portion of this Headquarters lease incentive liability is EUR 1,120 thousand at the reporting date (2017: EUR 1,260 thousand). The Headquarters lease incentive liability is offset against operating lease expenses over the ten year lease term from 2018, on a straight-line basis. The current portion of this liability is detailed in note 21.

20. DEFERRED REVENUE

	(expressed in euro '000s)	
		2017
Deferred voluntary contributions		
Trust funds for Syria	2,527	6,686
US Voluntary Fund	1,330	1,116
Trust funds for Libya	1,246	2,900
Trust fund for the implementation of Article X	1,000	71
Other trust funds	259	868
Total deferred voluntary contributions	**6,362**	**11,641**
Deferred assessed contributions	1,452	4,265
Total deferred revenue	**7,814**	**15,906**

During the reporting period, the OPCW received assessed contributions relating to the subsequent financial year. These receipts represent liabilities since they apply to a future financial year. Some voluntary contributions received for trust funds as at the reporting date also require the recognition of liabilities, as they contain performance obligations which have not been met at the reporting date, and where the donor demonstrates a history of repayment of unspent balances.

21. OTHER CURRENT LIABILITIES

	(expressed in euro '000s)	
	2018	**2017**
Special funds with conditions	1,454	309
Voluntary contributions received in advance	1,016	531
Headquarters lease incentive liability	140	140
Other liabilities	3	3
Total other liabilities	**2,613**	**983**

21.1 Special funds with performance obligations represent the balance of certain special funds where any unspent balances will be returned to States Parties.

21.2 Voluntary contributions received in advance represent cash amounts received where the relevant contribution agreement has not been finalised as at the reporting date. This differs to deferred revenue, where the purpose of the funding has been determined as at the reporting date.

22. ASSESSED CONTRIBUTION REVENUE

Every Member State is assessed a contribution due to the OPCW each year. The amounts of assessed contributions approved by the Conference for the year 2018 are the same as in 2017: EUR 65,529 thousand. The amount recognised as revenue in 2018 with respect to inflow of resources in assessed contributions as well as reduction of previously recognised liabilities relating to satisfied obligations is EUR 62,314 thousand (2017: EUR 63,451 thousand). Amounts for which the OPCW does not satisfy the obligations are eligible for distribution as cash surplus that is determined in the budgetary accounts (see Appendix 3).

23. VOLUNTARY CONTRIBUTION REVENUE

	(expressed in euro '000s)	
Voluntary contribution revenue	**2018**	**2017**
Trust funds for Syria	5,004	6,546
Trust fund for a Centre for Chemistry and Technology	4,151	-
Trust funds for Libya	1,655	13
Other trust funds	1,298	1,618
Total voluntary contribution revenue	**12,108**	**8,177**

Refer to note 20 'Deferred revenue' for additional information regarding liabilities recognised in respect voluntary contributions with conditions.

24. ARTICLE IV AND V REVENUE

24.1 The OPCW charges States Parties for its services provided in the verification of and destruction of chemical weapons.

24.2 With respect to these specific services provided, the OPCW invoices amounts to possessor States Parties relating to inspectors' salaries, inspection travel expenses, including airfare tickets, daily subsistence allowances, interpretation and cargo expenses, and other costs incurred while performing these services.

25. OTHER REVENUE

	(expressed in euro '000s)	
	2018	**2017**
Receipt of receivables previously impaired	353	236
Other non-exchange revenue	309	122
Contribution to World Forum Rental	226	-
Other exchange revenue	75	273
Rental income	34	46
Gain on sale of assets	13	26
Other/operating revenue	-	10
Total other operating revenue	**1,010**	**713**

25.1 Other exchange revenue relates cost-reimbursement for services provided to a State Party and the OPCW-United Nations Joint Investigative Mechanism (2017 only).

25.2 Other non-exchange revenue relates to revenue recognised for special funds.

25.3 Rental income comprises the rental of office space to third parties in the OPCW's premises at Johan de Wittlaan 32 in The Hague.

26. EMPLOYEE BENEFIT EXPENSES

	(expressed in euro '000s)	
	2018	**2017**
Short-term employee benefit expenses		
Salaries and post-adjustment expense	27,108	28,219
Common staff costs	9,237	8,756
Total short-term employee benefit expenses	**36,345**	**36,975**
Post-employment benefit expenses		
Provident Fund pension expense (defined contribution plan)	6,710	6,917
Other post-employment benefits	1,233	1,229
Total post-employment benefit expenses	**7,943**	**8,146**
Other long-term employee benefit expenses		
Home leave expense	585	710
Total other long-term employee benefit expenses	**585**	**710**
Total – Employee benefit expenses	**44,873**	**45,831**
Less: Capitalised employee benefit expenses - intangible assets under construction by OPCW staff	(169)	(182)
Net employee benefit expenses	**44,704**	**45,649**

26.1 Common staff costs include salaries and post adjustment expenses, dependency allowances, rental subsidies, medical insurance subsidies, death and disability insurances, annual leave expenses, child care allowance, employee on-boarding expenses, educational grant/travel expenses and other expenses.

26.2 Other post-employment benefits include Provident Fund pension expenses (defined contribution plan), death benefit expenses, repatriation grant expenses, travel costs upon separation from the OPCW and removal costs upon separation from the OPCW.

27. CONSULTANCY AND CONTRACTUAL SERVICES

	(expressed in euro '000s)	
	2018	**2017**
UNOPS contractual services	5,350	3,334
Consultancy and Special Service agreements	2,277	2,870
ICT Services	1,113	1,208
Translation and Interpretation	1,104	1,306
Training fees	575	815
Other contractual services	1,299	1,333
Total consultancy and contractual services	**11,718**	**10,866**

Consultancy and contractual services represent expenses incurred in relation to UNOPS services, as well as consultant fees, interpretation services, laboratory and inspector services.

28. TRAVEL EXPENSES

	(expressed in euro '000s)	
	2018	**2017**
Official travel – non-staff	3,769	4,517
Inspection travel	2,865	2,924
Official travel - staff	1,120	1,551
Training travel	362	411
Total travel expenses	**8,116**	**9,403**

Travel expenses represent costs incurred in relation to official, inspection and training travel for staff and contractors. Costs include expenses incurred for transportation, daily subsistence allowance, and other travel costs.

29. GENERAL OPERATING EXPENSES

	(expressed in euro '000s)	
	2018	**2017**
Operating lease rental expense	3,597	3,592
Other general operating expenses	1,180	1,129
Maintenance	774	717
Supplies and materials	323	419
Utilities	301	305
Impairment of Article IV & V receivables	277	327
Inventories	164	574
Impairment of assessed contributions receivable	63	85
Total general operating expenses	**6,679**	**7,148**
Less: capitalised general operating expenses – intangible assets under construction	(19)	-
Total general operating expenses	**6,660**	**7,148**

General operating expenses include rental expenses for premises used by the OPCW, including the rental of the Headquarters Building, and have reduced in 2018 due to lower consumption of inventory and lower purchases of supplies and materials.

30. OTHER OPERATING EXPENSES

	(expressed in euro '000s)	
	2018	**2017**
Purchases of furniture and equipment	714	642
Internships, grants, contributions to seminars and workshops	260	276
Other staff costs	126	195
Loss on disposal of property, plant and equipment	11	4
Total other expenses	**1,111**	**1,117**

Other operating expenses include the purchase costs of equipment which does not qualify as property, plant and equipment (note 6). Other operating expenses have remained relatively stable between 2017 and 2018.

31. FINANCE INCOME AND COSTS

	(expressed in euro '000s)	
	2018	**2017**
Finance income		
Foreign currency gains	195	65
Interest income arising on cash and cash equivalents	48	19
Total finance income	**243**	**84**
Finance costs		
Foreign currency losses	89	443
Unwinding of discounts on employee benefits	(2)	(14)
Total finance costs	**87**	**429**
Net finance income/(costs)	**156**	**(345)**

Finance income and costs include gains and losses associated with foreign currency transactions where the UN Operational Rate of Exchange differs to the exchange rate offered by the bank(s) party to the transaction. Foreign currency gains in 2018 also includes gains made on US dollar denominated receivables due to the strengthening of the US dollar against the euro.

32. SERVICES IN KIND

32.1 Services in kind are services provided to the OPCW by individuals and States Parties in a non-exchange transaction. The major classes of services in kind received by the OPCW are described below.

Accommodation and transportation services

32.2 For various OPCW activities such as training seminars and international meetings, accommodation and transportation services are provided.

Security services

32.3 During various OPCW activities such as training seminars and international meetings, security services are provided to ensure the security and safety of attendees.

Laboratory services

32.4 Specialised laboratory services are provided regarding the testing and evaluation of data, preparation and analysis of samples, and other specialised services.

Usage of facilities

32.5 For various OPCW activities such as training seminars and international meetings, facilities (such as usage of meeting facilities, break facilities, etc.) are provided.

Elements of the rental of the World Forum Convention Centre, The Hague by the OPCW for the Fourth Review Conference in 2018 were funded directly by the Host Country.

Other services

32.6 Other services provided to the OPCW include the transportation of chemical samples, specialised employees for the delivery of training courses, catering consultancy regarding website design, and printing services.

Services provided by the OPCW to the Provident Fund

32.7 The staff members of the Budget & Finance Branch provide the OPCW's Provident Fund with disbursements, accounting, reporting, and other administrative services. The Provident Fund Management Board is formed of six staff members including the Deputy Director-General, the Director of Administration, two Professional and higher staff and two General-Service staff, who provide services on a voluntary basis. The OPCW provides necessary materials and facilities needed for the Provident Fund's operations. The Provident Fund does not compensate the staff members for such services.

33. CONTINGENT LIABILITIES

The OPCW has contingent liabilities in respect of legal claims arising in the course of business for which estimates cannot be made at present.

34. COMMITMENTS

Capital commitments

34.1 Capital expenditure contracted for at the reporting date but not yet incurred is as follows:

	(expressed in euro '000s)	
Capital Commitments	**2018**	**2017**
Intangible assets	1,434	1,453
Property, plant and equipment	175	1,024
	1,609	**2,477**

Operating lease commitments

34.2 The future aggregate minimum lease payments under non-cancellable operating leases where the OPCW is lessee are as follows:

	(expressed in euro '000s)	
Operating Leases (OPCW as Lessee)	**2018**	**2017**
No later than 1 year	3,147	3,107
Later than 1 year and no later than 5 years	11,955	11,957
Later than 5 years	12,000	15,138
	27,102	**30,202**

34.3 The OPCW leases various buildings (including its Headquarters in The Hague, the Netherlands), office space, conference facilities, parking facilities, and various items of office and laboratory equipment under non-cancellable operating leases. The lease terms generally range from one year to ten years. The OPCW is typically required to provide a notice period in order to cancel any of these operating lease agreements.

34.4 Operating lease payments that are recognised in the statement of financial performance amount to EUR 3,597 thousand (2017: EUR 3,592 thousand) and are disclosed in note 29.

35. RELATED PARTY TRANSACTIONS

35.1 The OPCW is not controlled by another entity, however the OPCW Provident Fund is considered a related party of the OPCW as it shares key management personnel (Deputy Director-General), and the OPCW provides the principal source of Provident Fund Participants' contributions.

35.2 The OPCW provides administrative support to the Provident Fund free of charge (note 32.7). All other transactions between the OPCW and the Provident Fund are conducted at arm's length. As at 31 December 2018, a balance in the amount of EUR 0.1 thousand (2017: EUR 0.1 thousand) was payable from the OPCW to the Provident Fund.

35.3 The OPCW is not party to any further arrangements that could be considered as related parties.

36. KEY MANAGEMENT REMUNERATION

36.1 Key management personnel for the OPCW are the Director-General and Deputy Director-General. No close family member of the key management personnel was employed by the OPCW during the year.

36.2 The remuneration paid to key management for employee services is shown below, and includes benefits available in line with the OPCW Staff Regulations (e.g. base salary, post adjustment, provident fund contributions, education grant, home leave, and repatriation costs):

(expressed in euro '000s)	2018	
	Number of Posts	Aggregate Remuneration
Director-General and Deputy Director-General	2	745

(expressed in euro '000s)	2017	
	Number of Posts	Aggregate Remuneration
Director-General and Deputy Director-General	2	586

36.3 The increase in remuneration paid to key management personnel in 2018 compared to 2017 is primarily due to entitlements relating to the separation of both key management personnel in 2018, including repatriation benefits and untaken annual leave.

36.4 The undue effort required for the OPCW to determine the amount of post-employment benefits and other long-term employee benefits relating to key management precludes disclosure of these amounts.

37. SEGMENT INFORMATION

37.1 The OPCW's segment reporting is based on the structure of the OPCW's programme and budget, as this reflects the OPCW's manner of evaluating past performance in achieving its objectives and making decisions about future allocation of resources in the OPCW. The OPCW's segments are as follows:

General Fund

(a) Verification;

(b) Inspections;

(c) International Cooperation and Assistance;

(d) Support to the Policy-Making Organs;

(e) External Relations;

(f) Executive Management; and

(g) Administration

Special accounts and Voluntary Fund for Assistance

(a) Special account for the OPCW Equipment Store;

(b) Special account for activities related to designated laboratories;

(c) Special account for new ERP system;

(d) Special fund for OPCW special missions;

(e) Special fund for the Fourth Review Conference in 2018; and

(f) Voluntary Fund for Assistance.

Trust funds

(a) Trust fund for regional seminars;

(b) Trust fund for courses for personnel of National Authorities;

(c) Trust fund for the implementation of Article X;

(d) United States voluntary trust fund;

(e) Trust fund for the Associate Programme;

(f) Trust fund for the procurement of GC-MS systems;

(g) Trust fund for the implementation of Article VII obligations;

(h) Trust fund for the Internship-Support Programme;

(i) Trust fund for the Scientific Advisory Board;

(j) Trust fund for OPCW events;

(k) Trust fund for the conference on international cooperation and chemical safety and security;

(l) Trust fund for training;

(m) Trust fund for the International Support Network for Victims of Chemical Weapons

(n) European Union support for OPCW activities 2012;

(o) Syria Trust Fund for the Destruction of Chemical Weapons;

(p) OPCW Nobel Prize trust fund;

(q) Trust fund for programme support costs;

(r) Trust Fund for Syria Missions;

(s) Trust fund for support to Libya;

(t) Trust Fund for a Centre for Chemistry and Technology;

(u) Trust Fund for Security and Business Continuity; and

(v) Trust Fund for the Junior Professional Officers Programme.

37.2 Further details regarding OPCW segments are provided in Appendix 6.

Segment Information
For the period ended 31 December 2018

(expressed in euro '000s)	Verification	Inspections	International Cooperation and Assistance	Support to the Policy-Making Organs	External Relations	Executive Management	Administration	Trust Funds and Special Accounts	Unallocated	Total
Total segment revenue / income	**8,127**	**20,048**	**6,762**	**4,931**	**1,881**	**9,019**	**12,690**	**12,417**	**701**	76,576
Segment revenue from budget allocation:										
Assessed contributions	8,127	18,904	6,762	4,931	1,881	9,019	12,690	-	-	62,314
Article IV & V revenue	-	1,144	-	-	-	-	-	-	-	1,144
Segment revenue from external sources :										
Voluntary contributions	-	-	-	-	-	-	-	12,108	-	12,108
Other income / revenue	-	-	-	-	-	-	-	309	701	1,010
Total segment expense	**7,157**	**18,291**	**6,552**	**4,996**	**1,728**	**8,876**	**12,158**	**10,262**	**3,648**	73,668
Employee benefit expenses	6,248	13,761	2,823	3,811	1,434	7,890	6,678	192	1,867	44,704
Travel expenses	151	2,887	3,057	340	16	334	28	1,303	-	8,116
Contractual services	423	872	313	468	183	415	1,263	7,781	-	11,718
General operating expenses	258	491	88	364	86	71	4,081	800	421	6,660
Others	77	280	271	13	9	166	108	186	1,360	2,470

The OPCW does not attribute assets and liabilities to reporting segments.

Segment Information
For the period ended 31 December 2017

(expressed in euro '000s)	Verification	Inspections	International Cooperation and Assistance	Support to the Policy-Making Organs (PMO)	External Relations	Executive Management	Administration	Trust Funds and Special Accounts	Unallocated	Total
Total segment revenue / income	**7,903**	**21,378**	**6,959**	**4,844**	**1,821**	**8,996**	**13,251**	**8,571**	**319**	**74,042**
Segment revenue from budget allocation:										
Assessed contributions	7,903	19,677	6,959	4,844	1,821	8,996	13,251	-	-	63,451
Article IV & V revenue	-	1,701	-	-	-	-	-	-	-	1,701
Segment revenue from external sources :										
Voluntary contributions	-	-	-	-	-	-	-	8,177	-	8,177
Other income / revenue	-	-	-	-	-	-	-	394	319	713
										-
Total segment expense	**7,159**	**19,280**	**7,032**	**4,968**	**1,824**	**9,116**	**13,141**	**9,015**	**3,968**	**75,503**
Employee benefit expenses	6,168	14,135	2,860	3,883	1,524	7,907	7,052	199	1,921	45,649
Travel expenses	180	3,364	3,340	364	15	471	37	1,632	-	9,403
Contractual services	381	1,073	440	364	159	534	1,552	6,363	-	10,866
General operating expenses	308	681	168	315	124	157	4,370	564	461	7,148
Others	122	27	224	42	2	47	130	257	1,586	2,437

The OPCW does not attribute assets and liabilities to reporting segments.

38. BUDGETARY INFORMATION

38.1 The approved Programme and Budget covers the period from 1 January 2018 to 31 December 2018. No additional entities are included. The Budget is prepared using a combination of cash and commitment based accounting whilst these financial statements are prepared using accrual based accounting. Additional information regarding the budgetary accounts is presented as an Appendix. The Appendix is not considered part of the IPSAS financial statements.

Differences between budget and actual amounts

38.2 The following is an overview of the significant differences that have arisen between the OPCW's revised budget and actual amounts, presented in Statement V 'Statement of comparison of budget and actual amounts' of these financial statements.

38.3 There was no change between the overall original and final budgets during 2018, which totalled EUR 66,815 thousand for Chapter One and Two programmes.

38.4 Transfers were made between programmes and subprogrammes in accordance with Financial Regulation 4.6.

38.5 The level of expenditure for 2018 reflects an overall budget utilisation rate of 97% for Chapter One and Two programmes. The Chapter One utilisation rate was 96%; the Chapter Two rate was 98%.

38.6 The Secretariat spent less than the final budget in all programmes. The utilisation of programme budgets was between 91% and 99%. Factors influencing the budget utilisation will be detailed in the 2018 Programme Performance Report and taken into consideration when formulating the 2020 Programme and Budget.

Reconciliation of actual amounts from budgetary basis to financial statement basis

38.7 The modified cash basis is used to prepare the budgetary amounts. A reconciliation of the actual amounts on the budgetary basis to the net cash flows from operating, investing, and financing activities is presented below.

For the year ended 31 December 2018:

(expressed in euro '000s)	Operating	Financing	Investing	Total
Actual net surplus amount on budgetary basis (Statement of Comparison of Budget and Actual Amounts)	**2,533**	**-**	**-**	**2,533**
Basis differences				
Unliquidated obligations	3,105	-	-	**3,105**
Assessed contributions revenue	2,033	-	-	**2,033**
Article IV and V revenue	(779)	-	-	**(779)**
Employee benefits	268	-	-	**268**
Other basis differences	(2,591)	-	(2,144)	**(4,735)**
Budgetary (General Fund) results on cash basis	**4,569**	**-**	**(2,144)**	**2,425**
Entity differences				
Trust funds and special accounts	823	6	(404)	**425**
Timing differences				
Actual amount in the IPSAS cash flow statement	**5,392**	**6**	**(2,548)**	**2,850**

For the year ended 31 December 2017:

(expressed in euro '000s)	Operating	Financing	Investing	Total
Actual net surplus amount on budgetary basis (Statement of Comparison of Budget and Actual Amounts)	**682**	**-**	**-**	**682**
Basis differences				
Unliquidated obligations	4,368	-	-	**4,368**
Assessed contributions revenue	(4,403)	-	-	**(4,403)**
Article IV and V revenue	(873)	-	-	**(873)**
Employee benefits	(624)	-	-	**(624)**
Other basis differences	(4,766)	-	(1,864)	**(6,630)**
Budgetary (General Fund) results on cash basis	**(5,616)**	**-**	**(1,864)**	**(7,480)**
Entity differences				
Trust funds and special accounts	3,969	3,187	(470)	**6,686**
Timing differences	**-**	**-**	**-**	**-**
Actual amount in the IPSAS cash flow statement	**(1,647)**	**3,187**	**(2,334)**	**(794)**

38.8 The differences arising are basis and entity differences. Basis differences arise because the budgetary amounts are prepared on a different basis than the IPSAS financial statements, as described above. Entity differences typically arise because the budget includes transactions relating to the General Fund only, whereas the OPCW consolidated IPSAS financial statements include all programmes and entities. Timing differences typically do not arise because the budget period and the reporting period for these financial statements are identical.

39. EVENTS AFTER THE REPORTING PERIOD

No significant events are reported after the reporting date. The date of authorisation for issue is the date at which the financial statements are certified by the external auditors.

Appendix: Additional Information to the Financial Statements (Unaudited)

Appendix

ADDITIONAL INFORMATION TO THE FINANCIAL STATEMENTS (UNAUDITED)

1. BUDGETARY ACCOUNTS

1.1 The OPCW's Financial Regulations 11.1(b) to 11.1(e) require the Director-General to provide the following information in addition to the financial statements prepared in accordance with the International Public Sector Accounting Standards (IPSAS).

(a) a statement for the status of appropriations, as per Financial Regulation 11.1(b), including:

(i) the original budget appropriations;

(ii) the appropriations as modified by any transfers of funds;

(iii) credits, if any, other than appropriations approved by the Conference;

(iv) the amounts charged against the appropriations and/or other credits; and

(v) an unobligated balance of appropriations.

(b) a statement on the investments held at 31 December as per Financial Regulation 11.1(c);

(c) such notes, other statements, and schedules, as are required to provide a fair presentation of the financial statements and the results of the OPCW's operations for the financial period as per Financial Regulation 11.1(d); and

(d) a statement of all losses, as per Financial Regulation 11.1(e).

1.2 Furthermore, Financial Rule 10.4.01 requires the disclosure of any including ex-gratia payments authorised by the Director-General and paid during the financial year.

1.3 Accordingly, such information for items 1.1 (a) and (b) is provided in the IPSAS Financial Statements and supporting note disclosures. This Appendix presents information relating to item 1.1 (c) and (d) and 1.2 above, and also further statements and schedules based on financial information derived within the OPCW's budgetary accounting.

1.4 Pursuant to the OPCW's Financial Regulation 2.2, the budgetary accounting involves the recording and reporting of financial information on a modified cash basis, the same basis as that followed for appropriations for the regular budget or for other funds governed by other agreements, in a manner that is consistent with the Financial Regulations and Rules, with Financial Directives, and with any other instructions as may be issued by or on behalf of the Director-General for their administration. This budgetary account differs in nature to the IPSAS basis of reporting, as set out in Note 38 of the IPSAS financial statements.

1.5 The required additional information has, therefore, been extracted from the budgetary accounts and presented in the following schedules and statements under the indicated paragraphs of the Appendix:

(a) Statement of cash and investments (paragraph 2);

(b) Income and expenditure - All Funds (paragraph 3.1);

(c) Statement of cash surplus for 2018 - General Fund - as at 31 December 2018 (paragraph 3.2);

(d) Statement of cash surplus for 2017 - General Fund - as at 31 December 2018 (paragraph 3.3);

(e) Statement of cash surpluses credited to Member States – General Fund (paragraph 3.4);

(f) Statement of expenditure by funding programme and major expenditure category – General Fund (paragraph 3.5);

(g) Statement of savings on prior year’s obligations – General Fund (paragraph 3.6);

(h) Trust funds – voluntary contributions by donors (paragraph 3.7);

(i) Ex-gratia payments (paragraph 4);

(j) Statement of losses (paragraph 5); and

(k) Overview of OPCW programmes, special funds and trust funds (paragraph 6).

2. STATEMENT OF CASH AND INVESTMENTS (INCLUDING TERM DEPOSITS[34]) - ALL FUNDS (FINANCIAL REGULATION 11.1(C))

2.1 (a) Statement of cash and investments (term deposits) - All funds as at 31 December 2018 (expressed in euros)

Fund	Cash	Investments	Total
General Fund	4,075,241	**-**	**4,075,241**
Working Capital Fund	7,086,031	**-**	**7,086,031**
Voluntary Fund for Assistance	1,562,975	**-**	**1,562,975**
Trust Funds	13,087,499	**-**	**13,087,499**
Special Accounts	4,065,175	**-**	**4,065,175**
TOTAL CASH AND INVESTMENTS	**29,876,921**	**-**	**29,876,921**

2.2 (b) Statement of cash and investments (term deposits) - All funds as at 31 December 2017 (expressed in euros)

Fund	Cash	Investments	Total
General Fund	1,649,640	**-**	**1,649,640**
Working Capital Fund	5,835,722	**-**	**5,835,722**
Voluntary Fund for Assistance	1,557,975	**-**	**1,557,975**
Trust Funds	12,185,795	**-**	**12,185,795**
Special Accounts	5,652,319	**-**	**5,652,319**
TOTAL CASH AND INVESTMENTS	**26,881,451**	**-**	**26,881,451**

34 No term deposit investments were held at the reporting dates, due to negative interest rates charged on such deposits.

3 OTHER STATEMENTS (FINANCIAL REGULATION 11.1(D))

3.1 Budgetary accounts: Income and expenditure - All Funds - For the period ended 31 December 2018 (expressed in euros)

2018	General Fund	Special Accounts and Voluntary Fund for Assistance[35]	Trust Funds	TOTAL
INCOME				
Assessed annual contributions	65,529,600	-	-	**65,529,600**
Voluntary contributions	-	5,000	9,683,423	**9,688,423**
Miscellaneous income:				
Verification contributions under Articles IV & V	1,040,650	-	-	**1,040,650**
Assessed annual contributions - new Member States	2,696	-	-	**2,696**
Interest income	15,133	358	31,521	**47,012**
Currency-exchange gains	89,901	-	57,204	**147,105**
Other income	584,464	-	203,432	**787,896**
TOTAL INCOME	**67,262,443**	**5,358**	**9,975,580**	**77,243,381**
EXPENDITURE				
Staff costs	44,994,245	16,355	1,267,899	**46,278,499**
Travel costs	7,295,206	27,030	1,400,868	**8,723,104**
Contractual services	4,673,857	1,432,033	6,903,310	**13,009,199**
Workshops, seminars and meetings	292,304	-	-	**292,304**
General operating expenses	6,217,019	320,651	1,194,655	**7,732,325**
Furniture and equipment	1,256,859	-	283,129	**1,539,988**
TOTAL EXPENDITURE	**64,729,489**	**1,796,069**	**11,049,860**	**77,575,418**

3.2 Budgetary accounts: Income and expenditure - All Funds - For the period ended 31 December 2017 (expressed in euros)

2017	General Fund	Special Accounts and Voluntary Fund for Assistance[36]	Trust Funds	TOTAL
INCOME				
Assessed annual contributions	65,529,600	-	-	**65,529,600**
Voluntary contributions	-	5,000	9,771,399	**9,776,399**
Miscellaneous income:				
Verification contributions under Articles IV & V	1,581,143	-	-	**1,581,143**
Assessed annual contributions - new Member States	-	-	-	-
Interest income	16,559	979	2	**17,540**
Currency-exchange gains	(305,269)	-	-	**-305,269**
Other income	1,028,089	-	474,884	**1,502,974**
TOTAL INCOME	**67,850,122**	**5,979**	**10,246,285**	**78,102,388**
EXPENDITURE				
Staff costs	45,603,370	8,095	1,039,763	**46,651,227**
Travel costs	7,854,973	28,841	1,701,249	**9,585,063**
Contractual services	4,603,418	2,960,273	3,144,899	**10,708,590**
Workshops, seminars and meetings	248,358	-	16,000	**264,358**
General operating expenses	6,134,195	432,462	541,902	**7,108,559**
Furniture and equipment	1,941,424	21,294	448,117	**2,410,835**
TOTAL EXPENDITURE	**66,385,738**	**3,450,964**	**6,891,929**	**76,728,631**

35 Excludes transfers from cash surplus for 2017 in 2018 (C-23/DEC.11, dated 20 November 2018).
36 Excludes transfers from cash surplus for 2016 in 2017 (C-22/DEC.7, dated 30 November 2017).

3.3 Budgetary accounts: Statement of cash surplus for 2018 - General Fund - as at 31 December 2018 (expressed in euros)

The provisional cash surplus for 2018 was determined in 2018:

PROVISIONAL CASH SURPLUS FOR 2018	**2018**
Receipts	63,985,375
Disbursements	(61,642,591)
EXCESS / (SHORTFALL) OF RECEIPTS OVER DISBURSEMENTS	**2,342,784**
Unliquidated obligations	(3,086,898)
Transfers to/from other funds	(250,000)
PROVISIONAL SURPLUS / (DEFICIT) AS AT END OF 2018	**(994,114)**

The final cash surplus for 2018 will be determined in 2019.

3.4 Budgetary accounts: Statement of cash surplus for 2017 - General Fund - as at 31 December 2018 (expressed in euros)

The provisional cash surplus for 2017 was determined in 2017. The final cash surplus for 2017 was determined in 2018:

PROVISIONAL CASH SURPLUS FOR 2017 (determined in 2017)	**2017**
Receipts	61,895,243
Disbursements	(62,018,108)
EXCESS / (SHORTFALL) OF RECEIPTS OVER DISBURSEMENTS	**(122,865)**
Unliquidated obligations	(4,367,629)
Transfers to/from other funds	(1,682,752)
PROVISIONAL SURPLUS / (DEFICIT) AS AT END OF 2017	**(6,173,246)**
FINAL CASH SURPLUS FOR 2017 (determined in 2018)	**2017**
PROVISIONAL SURPLUS / (DEFICIT)	**(6,173,246)**
Receipt of:	
Arrears from prior years' annual contributions	7,117,939
Miscellaneous income from prior years	574,779
Savings on prior period's obligations (paragraph 5.11)	1,067,125
PRIOR YEAR CASH SURPLUS / (DEFICIT)	**2,586,597**
Prior period adjustment	(39,944)
Prior period transfers from the General Fund to special accounts	-
FINAL CASH SURPLUS[37] / (DEFICIT)	**2,546,654**

37 Final cash surpluses identified for any past period eligible for distribution to States Parties in accordance with Financial Regulation 6.3 and the scale of assessment for the period to which the cash surplus relates, unless otherwise decided by the Conference. The allocation is applied only to amounts owed to the OPCW by a State Party, and for States Parties which have paid their respective

3.5 Budgetary accounts: Statement of cash surpluses credited to States Parties - General Fund - During the period ended 31 December 2018 (expressed in euros)

States Party	Cash Surpluses Credited During 2017 Relating to 1993-2011
Comoros	1,277
Democratic Republic of the Congo	1,844
Dominica	193
Dominican Republic	2,863
El Salvador	14,384
Grenada	16
Kyrgyzstan	14,896
Marshall Islands	244
Solomon Islands	37
Vanuatu	266
TOTAL	**36,020**

No cash surpluses relating to 2012, 2013, or 2015 were applied in 2017. In 2014, a cash deficit was reported.

contributions in full for the period to which a cash surplus relates. In the IPSAS-based financial statements, cash surpluses are recognised as liabilities.

3.6 Budgetary accounts: Statement of expenditure by funding programme and major expenditure category - General Fund - (expressed in euros)

(a) For the period ended 31 December 2018:

Funding Programme	Staff Costs	Travel Costs	Contractual Services	Workshops, Seminars and Meetings	General Operating Expenses	Furniture and Equipment	Total Expenditure	Of which: Budgetary Obligations
Programme 1. Verification	6,468,458	175,284	576,415	-	308,744	400,728	**7,929,630**	**397,243**
Programme 2. Inspections	14,578,335	2,971,847	910,956	-	863,242	568,015	**19,892,395**	**822,180**
Total verification costs (Chapter 1)	**21,046,794**	**3,147,131**	**1,487,371**	**-**	**1,171,986**	**968,743**	**27,822,025**	**1,219,424**
Programme 3. International Cooperation and Assistance	2,991,021	3,336,645	399,374	292,304	88,145	5,081	**7,112,569**	**653,444**
Programme 4. Support to the Policy-Making Organs	3,949,115	411,300	505,789	-	387,772	-	**5,253,976**	**149,473**
Programme 5. External Relations	1,540,975	16,520	192,014	-	102,328	3,092	**1,854,929**	**89,113**
Programme 6. Executive Management	8,481,877	353,110	561,634	-	84,106	136,416	**9,617,143**	**296,726**
Programme 7. Administration	6,984,464	30,500	1,527,675	-	4,382,681	143,527	**13,068,846**	**678,718**
Total administrative and other costs (Chapter 2)	**23,947,451**	**4,148,075**	**3,186,486**	**292,304**	**5,045,033**	**288,116**	**36,907,464**	**1,867,475**
TOTAL EXPENDITURE	**44,994,245**	**7,295,206**	**4,673,857**	**292,304**	**6,217,019**	**1,256,859**	**64,729,489**	**3,086,898**

(b) For the period ended 31 December 2017:

Funding Programme	Staff Costs	Travel Costs	Contractual Services	Workshops, Seminars and Meetings	General Operating Expenses	Furniture and Equipment	Total Expenditure	Of which: Budgetary Obligations
Programme 1. Verification	6,541,909	185,248	456,108	-	270,984	846,393	**8,300,641**	**911,594**
Programme 2. Inspections	14,884,961	3,390,725	1,084,206	-	738,125	616,789	**20,714,806**	**1,221,506**
Total verification costs (Chapter 1)	**21,426,870**	**3,575,972**	**1,540,314**	**-**	**1,009,109**	**1,463,182**	**29,015,447**	**2,133,100**
Programme 3. International Cooperation and Assistance	2,870,611	3,389,211	481,434	248,358	135,474	456	**7,125,544**	**689,305**
Programme 4. Support to the Policy-Making Organs	4,042,905	359,234	377,939	-	288,632	-	**5,068,711**	**167,087**
Programme 5. External Relations	1,538,175	14,598	168,436	-	115,300	4,633	**1,841,142**	**68,244**
Programme 6. Executive Management	8,168,874	480,105	468,565	-	106,441	229,739	**9,453,725**	**443,310**
Programme 7. Administration	7,555,934	35,852	1,566,730	-	4,479,239	243,415	**13,881,170**	**866,583**
Total administrative and other costs (Chapter 2)	**24,176,500**	**4,279,001**	**3,063,104**	**248,358**	**5,125,086**	**478,242**	**37,370,291**	**2,234,530**
TOTAL EXPENDITURE	**45,603,370**	**7,854,973**	**4,603,418**	**248,358**	**6,134,195**	**1,941,424**	**66,385,738**	**4,367,629**

3.7 Budgetary accounts: Statement of savings on prior year's obligations - General Fund (expressed in euros)

(a) For the period ended 31 December 2018

Funding Programme	Unliquidated Obligations as at End of 2017	Disbursements During 2018	Savings on Prior Year's Obligations
Programme 1. Verification	911,594	811,670	**99,924**
Programme 2. Inspections	1,221,506	1,006,141	**215,365**
Total verification costs (Chapter 1)	**2,133,100**	**1,817,811**	**315,289**
Programme 3. International Cooperation and Assistance	689,305	453,858	**235,447**
Programme 4. Support to the Policy-Making Organs	167,087	60,073	**107,014**
Programme 5. External Relations	68,244	38,218	**30,026**
Programme 6. Executive Management	443,310	335,670	**107,640**
Programme 7. Administration	866,583	594,875	**271,708**
Total administrative and other costs (Chapter 2)	**2,234,529**	**1,482,693**	**751,836**
TOTAL	**4,367,629**	**3,300,504**	**1,067,125**

(b) For the period ended 31 December 2017

Funding Programme	Unliquidated Obligations as at End of 2016	Disbursements During 2017	Savings on Prior Year's Obligations
Programme 1. Verification	546,916	435,468	**112,417**
Programme 2. Inspections	951,551	603,120	**345,845**
Total verification costs (Chapter 1)	**1,498,467**	**1,038,588**	**458,262**
Programme 3. International Cooperation and Assistance	274,738	215,202	**59,537**
Programme 4. Support to the Policy-Making Organs	86,058	46,141	**39,916**
Programme 5. External Relations	57,621	23,272	**34,406**
Programme 6. Executive Management	545,286	491,268	**54,523**
Programme 7. Administration	794,576	574,636	**226,332**
Total administrative and other costs (Chapter 2)	**1,758,279**	**1,350,519**	**414,714**
TOTAL	**3,256,746**	**2,389,107**	**872,976**

3.8 Voluntary contributions by donors (expressed in euros)

Donor	2018[38]
Regional Seminars	
Republic of Korea	66,288
Qatar	50,000
Subtotal	**116,288**
Implementation of Article X	
Germany	1,000,000
New Zealand	17,346
United Kingdom of Great Britain and Northern Ireland	17,077
United States of America	30,526
Subtotal	**1,064,949**
Trust Fund for Training	
United Kingdom of Great Britain and Northern Ireland	25,608
Subtotal	**25,608**
Trust Fund for Security and Business Continuity	
Germany	56,000
Subtotal	**56,000**
Trust Fund for Syria Missions	
Chile	12,770
European Union (EU)	903,345
France	240,000
Monaco	10,000
Sweden	293,858
United Kingdom of Great Britain and Northern Ireland	207,553
Subtotal	**1,667,526**

38 The following contributions were received in 2018 and deferred to 2019:

Regional seminars:		
China	EUR	34,480
Republic of Korea	EUR	69,931
Total	**EUR**	**104,411**
Trust Fund for Syria Missions:		
Slovenia	EUR	10,000
Total	**EUR**	**10,000**
Trust Fund for a Centre for Chemistry and Technology:		
France	EUR	700,000
Republic of Korea	EUR	61,530
Spain	EUR	60,000
Total	**EUR**	**821,530**
Implementation of Article X:		
Czech Republic	EUR	9,644
Total	**EUR**	**9,644**
Trust Fund for Training:		
Spain	EUR	40,000
Total	**EUR**	**40,000**

Donor	2018[38]
Trust Fund for OPCW Events	
United Kingdom of Great Britain and Northern Ireland	8,000
Subtotal	**8,000**
US Voluntary Trust Fund	
United States of America	217,175
Subtotal	**217,175**
Trust Fund for Support to Libya European Commission (EU)	2,236,699
Subtotal	**2,236,699**
Trust Fund for the Junior Professional Officers Programme France	**97,362**
Subtotal	**97,362**
Trust Fund for a Centre for Chemistry and Technology	
Belgium	2,000,000
Canada	1,983,130
Estonia	10,000
Republic of Korea	58,002
Poland	100,000
Slovakia	30,000
Subtotal	**4,181,132**
Total Trust Funds	**9,683,424**

4 EX-GRATIA PAYMENTS

No ex-gratia payments were made by the OPCW during the reporting period (2017: nil).

5 STATEMENT OF LOSSES (FINANCIAL REGULATION 11.1(E))

During the 2018 financial year no items required approval for write off by the Conference in line with Financial Regulation 10.5 and relevant administrative directives. The Director-General approved the following amounts for write-off in the 2018 financial year:

(a) irrecoverable foreign VAT of EUR 1,336; and

(b) two items of non-expendable assets totalling EUR 495.

In addition, the OPCW Property Survey Board recommended during 2018 the write-off of further assets as losses.

6 OVERVIEW OF OPCW PROGRAMMES, SPECIAL FUNDS AND TRUST FUNDS

General fund programmes

6.1 General fund programmes are funded through the regular budget of the Organisation, as per the annual Programme and Budget of the OPCW:

Verification

(a) The main activities are related to the implementation of the verification regime provided for by the Convention. The types of activities include planning, overseeing and finalising inspections; providing operational and policy guidance on verification and inspection regimes; and providing technical support.

(b) The following subprogrammes are included: Office of the Director, Chemical Demilitarisation Branch, Declarations Branch, Industry Verification Branch, and the OPCW Laboratory.

Inspections

(c) The main activities are related to providing inspections to verify the destruction and storage of chemical weapons by States Parties, inspecting the status of production facilities, and non-proliferation of chemical weapons in compliance with the Convention.

(d) The following subprogrammes are included: Office of the Director, Operations and Administration Branch, Inspection Capacity Building & Contingency Planning Cell, Demilitarisation Inspections Cell, Industry Inspection Cell, and Safety and Analytical Cell.

International Cooperation and Assistance

(e) The main activities include promoting the peaceful use of chemistry, facilitating implementation by States Parties of their national obligations under the Convention, and assisting States Parties to develop capabilities to deal with any situation arising out of the use or threat of use of chemical weapons.

(f) The following subprogrammes are included: Office of the Director, Assistance and Protection Branch, International Cooperation Branch, and Implementation Support Branch.

Support to the Policy-Making Organs

(g) The main activities are related to facilitating meetings and wider consultations between States Parties and with the OPCW's Secretariat, ensuring substantive and operating support in their decision-making process, follow-up of decisions, coordination of the preparation and translation of formal documents, and providing interpretation services for formal meetings.

(h) The following subprogrammes are included: Office of the Director, and Language Services Branch.

External Relations

(i) The main activities include support and encouraging cooperation between the OPCW and States Parties in implementing the Convention, increasing the international level of involvement in OPCW activities and events, and enhancing partnerships and cooperation between the OPCW and the United Nations and other regional and international organisations.

(j) The following subprogrammes are included: Office of the Director, Political Affairs and Protocol Branch, and Public Affairs Branch.

Executive Management

(k) The main activities are related to providing strategic guidance and direction, effective governance and accountability, and organisational management and leadership within the Secretariat.

(l) The following subprogrammes are included: Office of the Director-General, Office of the Deputy Director-General, Office of Internal Oversight, Office of the Legal Adviser, Office of Strategy and Policy, Office of Confidentiality and Security, and Health and Safety Branch.

Administration

(m) The main activities are related to providing support for budget, finance, human resources, information services, procurement and infrastructure support, and training.

(n) The following subprogrammes are included: Office of the Director (including Procurement Section and General Services Section), Budget and Finance Branch, Human Resources Branch, and Information Services Branch.

Special funds and Voluntary Fund for Assistance

6.2 Special funds are established for specific purposes, with funding derived from the General Fund through the transfer of cash surpluses and/or budgetary surpluses in specific programmes.

(a) Special account for the OPCW Equipment Store: The purposes of this special account are:

(i) to provide a basis for evaluating new technologies and samples of new equipment, the availability of which cannot be forecast on a calendar basis, and for purchasing new equipment approved by the Conference, which cannot necessarily be accomplished within the calendar year; and

(ii) to provide an account from which to make payments for reimbursements to States Parties for costs incurred in disposing of or decontaminating equipment on site.

(b) Special account for activities related to designated laboratories: The purpose of this special account is to provide funds for paying designated laboratories for the analysis of samples taken during on-site inspections.

(c) Special account for new ERP system: The purpose of this special account is to provide funds to meet the financial requirements of implementing the new ERP, as set out in Conference decision C-19/DEC.7, dated 3 December 2014.

(d) Special fund for OPCW special missions: The purpose of this fund is to provide a funding source for future, unforeseen special mission deployments, which will be undertaken at short notice and outside the regular programme of work, as set out in Conference decision C-20/DEC.11, dated 3 December 2015.

(e) Special fund for the Fourth Review Conference in 2018: The purpose of this fund is to cover the cost of organising the Fourth Review Conference in 2018 as set out in Conference decision C-22/DEC.10, dated 30 November 2017.

(f) Special fund for Cybersecurity, Business Continuity, and physical Infrastructure Security: The purpose of this fund is to ensure priority investment in the areas of high organisational risk relating to cybersecurity, business continuity, and physical infrastructure security as set out in Conference decision C-23/DEC.12, dated 20 November 2018.

(g) Special Fund for IT Infrastructure to Support the implementation of Decision C-SS-4/DEC.3: The purpose of this fund is to support investment in IT infrastructure in order to support the implementation of decision C-SS-4/DEC.3, as set out in Conference decision C-23/DEC.13, dated 20 November 2018.

6.3 The objective of the Voluntary Fund for Assistance is to coordinate and deliver assistance, in terms of Article X of the Convention, to a State Party when requested.

Trust funds

6.4 Trust funds are established to account for voluntary contributions. They may be established by the Conference or the Director-General for clearly defined activities that are consistent with the policies, aims and activities of the OPCW for the implementation of the Convention. Presently, the following trust funds are operational within the OPCW:

(a) Trust fund for regional seminars

(b) Trust fund for courses for personnel of National Authorities

(c) Trust fund for the implementation of Article X in relation to the provision of assistance and protection, on request, to any Member State in the event of the use or threat of use of chemical weapons

(d) United States voluntary trust fund to meet costs associated with the inspection-and-verification regime and with international cooperation (including support for enhancing national measures to combat chemical terrorism)

(e) Trust fund for the Associate Programme

(f) Trust fund for the procurement of GC-MS systems to support on- and off-site chemical analysis

(g) Trust fund for the implementation of Article VII obligations

(h) Trust fund for the Internship-Support Programme to finance four internships at OPCW Headquarters and the OPCW Laboratory

(i) Trust fund for the Scientific Advisory Board

(j) Trust fund to support participation in the OPCW events established in 2008 and revised in 2017 in order to accommodate more general activities related to OPCW events. The fund will also be used for commemorative events, public events and other OPCW events not fully supported by the regular budget of the OPCW.

(k) Trust fund for the conference on international cooperation and chemical safety and security

(l) Trust fund for training: support to the OPCW in its transition as its main activities change focus, with work on verifying destruction of chemical weapons stockpiles moving towards completion

(m) Trust fund for the International Support Network for Victims of Chemical Weapons

(n) European Union support for OPCW activities 2012 in the framework of the implementation of the European Union Strategy against Proliferation of Weapons of Mass Destruction

(o) Syria Trust Fund for the Destruction of Chemical Weapons pursuant to the decision of the Council (EC-M-34/DEC.1, dated 15 November 2013)

(p) OPCW Nobel Prize trust fund to support the allocation of an annual prize to nominees selected by the OPCW Prize Committee for their contribution to the Convention

(q) Trust fund for programme support costs established in September 2014 to recover indirect support costs associated with the implementation and administration of programme activities funded by voluntary contributions

(r) Trust Fund for Syria Missions established in November 2015 to support full elimination of the Syrian Chemical Weapons Programme and clarification of facts related to the alleged use of chemical weapons, in accordance with the relevant decisions of the policy-making organs of the OPCW

(s) Trust fund for support to Libya established in July 2016 to provide extrabudgetary resources necessary to cover operational planning costs, as well as costs to support the removal, destruction and verification of Libyan chemical weapons

(t) Trust Fund for a Centre for Chemistry and Technology established in October 2017 to enhance the capability of leading the network of partner laboratories, as well as to assist States Parties in research and capacity building.

(u) Trust Fund for Security and Business Continuity established in September 2018 to strengthen the physical and cyber security of the OPCW infrastructure, provide a safe working environment for personnel, and support OPCW business continuity management processes; and

(v) Trust Fund for the Junior Professional Officers Programme established in November 2018 to provide opportunities for States Parties to sponsor young professionals to work at the OPCW in a professional capacity.

Annex 2

FINANCIAL STATEMENTS OF THE PROVIDENT FUND OF THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS (OPCW) FOR THE YEAR ENDED 31 DECEMBER 2018

Statement by the Management Board of the Provident Fund of the OPCW

The Management Board of the Provident Fund believes that the attached financial statements of the Provident Fund of the OPCW for the year ended 31 December 2018 are presented according to the requirements of:

- the *Charter and Administrative Rules of the Provident Fund of the OPCW*, including Article 11;
- the *OPCW Financial Regulations and Rules*, as applicable; and
- the *International Public Sector Accounting Standards (IPSAS).*

It is the Board's opinion that the financial statements present a view that is consistent with its understanding of the Provident Fund's financial position as at 31 December 2018, financial performance, and cash flows for the year then ended.

[Signed]

The Hague, 24 May 2019

Odette Melono
Chairperson, Management
Board of the Provident Fund

FINANCIAL STATEMENTS OF THE PROVIDENT FUND OF THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS FOR THE YEAR ENDED 31 DECEMBER 2018

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THE PROVIDENT FUND OF THE OPCW

STATEMENT I
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

(expressed in euro '000s)

	Notes	2018	2017
Assets			
Current assets			
Investments	6	349	447
Accounts receivable	7	4	-
Cash and cash equivalents	8	60,148	57,943
Total current assets		**60,501**	**58,390**
Total assets		**60,501**	**58,390**
Liabilities			
Current liabilities			
Accounts payable	9	3,900	2,993
Total current liabilities		**3,900**	**2,993**
Total liabilities		**3,900**	**2,993**
Net assets		**56,601**	**55,397**
Net assets/equity			
Participants' capital accounts	10.1	56,510	55,306
Special reserves	10.2	80	80
Accumulated surplus/(deficit)	10.3	11	11
Total net assets/equity		**56,601**	**55,397**

THE PROVIDENT FUND OF THE OPCW

STATEMENT II
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 31 DECEMBER 2018

(expressed in euro '000s)

	Notes	2018	2017
Revenue			
Interest income on Participants' capital accounts	11	323	423
Gain on changes in fair value of investments	12	-	43
Total revenue		**323**	**466**
Expenses			
Bank charges	13.1	-	-
Loss on changes in fair value of investments	13.2	30	-
Total expenses		**30**	**-**
Net finance income/(cost)	14	**7**	**(23)**
Net surplus/(deficit) for the period		**300**	**443**
Net surplus/(deficit) for the period			
Attributable to Participants of the Provident Fund		300	443
Attributable to special reserve		**-**	**-**
Accumulated surplus/(deficit)		**-**	**-**
		300	**443**

THE PROVIDENT FUND OF THE OPCW

STATEMENT III
STATEMENT OF CHANGES IN NET ASSETS/EQUITY
(expressed in euro '000s)

	For the Year Ended 31 December 2018				For the Year Ended 31 December2017			
	Participants' Capital Accounts	Special Reserve	Accumulated Surplus/ (Deficit)	Total Net Assets/ Equity	Participants' Capital Accounts	Special Reserve	Accumulated Surplus/ (Deficit)	Total Net Assets/ Equity
Balance at 1 January	**55,306**	**80**	**11**	**55,397**	**51,154**	**80**	**11**	**51,245**
Changes recognised in net assets/equity:								
Current year contributions[39]	10,727	**-**	**-**	10,727	10,586	**-**	**-**	**10,586**
Payouts[40]	(9,823)	**-**	**-**	(9,823)	(6,877)	**-**	**-**	**(6,877)**
Subtotal	**904**	**-**	**-**	**904**	**3,709**	**-**	**-**	**3,709**
Surplus/(deficit) for the period	300	**-**	**-**	**300**	443	**-**	**-**	**443**
Total recognised revenue and expense for the period	**300**	**-**	**-**	**300**	**443**	**-**	**-**	**443**
Balance at 31 December	**56,510**	**80**	**11**	**56,601**	**55,306**	**80**	**11**	**55,397**

39 Contributions include transfers from the United Nations Joint Staff Pension Fund (UNJSPF). In 2018 there were 2 transfers from the UNJSPF and another non-UN Pension Fund (2017: 0).

40 Payouts include payout requests outstanding at 31 December and transfers to the UNJSPF. In 2018 there were 2 transfers to the UNJSPF (2017: 3).

THE PROVIDENT FUND OF THE OPCW

STATEMENT IV
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018
(expressed in euro '000s)

	Notes	2018	2017
Cash from operating activities			
Net surplus/(deficit) for the period		300	443
Non-cash movements			
(Increase) / decrease in accounts receivable	7	(4)	-
Increase / (decrease) in accounts payable	9	907	(1,947)
Reclassification of net assets/equity to liability	9	(907)	1,947
Unrealised currency exchange loss/(gain) on cash and cash equivalents		(3)	11
Currency exchange (gain)/loss on investments		(4)	13
(Gain)/loss on changes in fair value of investments	13	30	(43)
Net cash flows from operating activities		**319**	**424**
Cash flows from investing activities			
Proceeds from sale of investments	6	72	38
Net cash flows from investing activities		**72**	**38**
Cash flows from financing activities			
Participants' contributions		10,727	10,586
Payouts to separated Participants		(8,916)	(8,824)
Net cash flows from financing activities		**1,811**	**1,762**
Net increase / (decrease) in cash and cash equivalents		**2,202**	**2,224**
Unrealised currency exchange loss/gain on cash and cash equivalents		**3**	**(11)**
Cash and cash equivalents at beginning of the period		**57,943**	**55,730**
Cash and cash equivalents at end of the period		**60,148**	**57,943**

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS OF THE PROVIDENT FUND OF THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS (OPCW) FOR THE YEAR ENDED 31 DECEMBER 2018

1. REPORTING ENTITY

1.1 The Provident Fund of the Organisation for the Prohibition of Chemical Weapons (hereinafter “the Provident Fund”) was established in June 1997 under the authority of the Director-General of the OPCW for the staff members of the Secretariat of the OPCW, and as provided for in Article VI of the Staff Regulations. The Provident Fund Management Board comprises six members and is chaired by the Deputy Director-General of the OPCW. The Board meets at least quarterly.

1.2 The object and purpose of the Provident Fund is to be an instrument of social security for staff members of the OPCW holding a fixed-term appointment. The Board administers resources, which are entrusted to the Provident Fund by eligible staff members and by the OPCW for the benefit of the participating eligible staff members (hereinafter “Participants”). This involves investing the resources as shall be determined from time to time in accordance with established investment policies and guidelines, and returning resources and income earned thereon to such Participants upon the termination of their employment with the OPCW.

1.3 The continued existence of the Provident Fund in its present form is dependent on the existence of the OPCW.

1.4 There are no controlling or controlled entities to the Provident Fund.

1.5 The accounts of the Provident Fund are maintained in accordance with the Charter and Administrative Rules of the Provident Fund, and the relevant OPCW Financial Regulations and Rules.

1.6 Upon separation from the OPCW, Participants’ accumulated Provident Fund balances become due for payment. Upon Participants’ requests and approval of the Board the Provident Fund balances of the separating Participants can be retained with the Provident Fund up to a period of one year unless they join a United Nations Joint Staff Pension Fund (UNJSPF) member organisation and opt to transfer their contribution to the UNJSPF, in which case their Provident Fund can be retained for up to two years. Once the Provident Fund balances become due for payment, (following receipt of a valid payout request from Participants), they are recognised as a liability (note 9).

2. BASIS OF PREPARATION

2.1 The financial statements of the Provident Fund have been prepared on an accrual and going-concern basis and comply with the requirements of IPSAS. Where IPSAS is silent concerning any specific standard, the appropriate International Financial Reporting Standards (IFRS) have been applied.

2.2 The accounting policies set out below have been applied consistently in the preparation and presentation of these financial statements.

2.3 The financial statements are presented in euros, rounded to the nearest thousand euros, and cover the calendar year ended 31 December 2018.

Future accounting pronouncements

2.4 The following significant future accounting pronouncements from the International Public Sector Accounting Standards Board have been issued as at 31 December 2018, but are not yet effective:

Standard	Objective of Standard	Effective Date	Estimated Impact on Provident Fund Financial Statements
IPSAS 41 Financial Instruments	To establish principles for the financial reporting of financial assets and financial liabilities	1 January 2022	Changes may apply to the classification of the OPCW Provident Fund financial instruments and consideration of impairment of financial assets. The OPCW Provident Fund will further review and consider the impact of the changes prescribed in this Standard in the period prior to the effective date.
IPSAS 42 Social Benefits *(issued January 2019)*	To provide guidance on accounting for social benefits expenditure	1 January 2022	Not applicable.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 The objective of these financial statements is to provide information about the financial position, performance and cash flows of the Provident Fund to demonstrate the accountability of the Provident Fund for the resources entrusted to it by Participants and the OPCW and to facilitate decision making by Participants and the Board.

Foreign currency translation

3.2 Foreign currency balances (in USD) represent less than 0.2% of the total assets of the Provident Fund. The following exchange rates have been used in the preparation of these financial statements:

Period	USD/EUR
31 December 2018	0.876
Average 12 months	0.846

Period	USD/EUR
31 December 2017	0.837
Average 12 months	0.891

(a) Functional and presentation currency:

Items included in the financial statements are measured using the currency of the primary economic environment in which the Provident Fund operates, the functional currency, which is the euro. Assets held in US dollars are converted to euros at the exchange rate of 31 December 2018. Currency gains/losses are recognised in the statement of financial performance throughout the year at the exchange rate applicable at the time of the transactions.

(b) Transactions and balances:

Foreign currency transactions are translated into the functional currency using the United Nations Operational Rate of Exchange (UNORE) prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of financial performance. Year-end balances of monetary assets and liabilities denominated in foreign currencies are converted into euros on the basis of the exchange rates applicable on 31 December 2018.

Cash and cash equivalents

3.3 Cash and cash equivalents include current and savings deposits held at call with the ABN AMRO Bank. The Provident Fund is prohibited from having any bank overdrafts and accordingly does not have any bank overdrafts.

Financial assets

Classification

3.4 The Provident Fund classifies its financial assets into the following categories: financial assets at fair value through surplus or deficit (such as investments in UBS units), and receivables. The classification depends on the purpose for which the financial assets were acquired. The classification of the financial assets is determined at initial recognition and re-evaluated at each reporting date.

Recognition and measurement

3.5 Purchases and sales of financial assets at fair value through surplus or deficit are recognised on the trade date and are initially recognised at fair value (usually the transaction price). Transaction costs are expensed in the statement of financial performance. Receivables are initially recognised at fair value plus transaction costs.

Subsequent measurement

3.6 Financial assets at fair value through surplus or deficit are subsequently carried at fair value. Receivables are carried at amortised cost using the effective interest method.

3.7 Gains and losses arising from changes in the fair value of the financial assets at fair value through surplus or deficit are included in the statement of financial performance in the period in which they arise.

3.8 Translation differences arising on monetary items are recognised in the statement of financial performance.

Impairment

3.9 All financial assets except those measured at fair value through surplus or deficit are subject to review for impairment. If there is objective evidence of an impairment loss on receivables, the carrying amount of the asset is reduced and the amount of the loss is recognised in the statement of financial performance.

Financial liabilities

3.10 Financial liabilities are recognised initially at fair value. Accounts payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Tax

3.11 The Provident Fund as an affiliate of the OPCW enjoys the same privileged tax-exemption as the OPCW. As such, all contributions to the Participants' Provident Fund and interest income and gains on investments are exempt from all direct taxation. Any tax obligations of the Participants upon final settlement of their accumulated Provident Fund balances are borne by Participants themselves.

Revenue recognition

Revenue from exchange transactions

3.12 The Provident Fund's major categories of exchange revenue are interest income and gains on changes in fair value of the UBS investments.

3.13 Revenue for interest income is recognised on a time-proportion basis using the effective interest method.

Revenue from non-exchange transactions

3.14 The Provident Fund's sole source of non-exchange revenue is the OPCW's contribution to the Provident Fund of employees who separate from the OPCW, for reasons other than health, before completing the minimum three months of service. The Provident Fund recognises full amounts of such inflows as revenue since no corresponding liabilities exist and the Provident Fund gains control of the received cash resources for its own use (see also note 10.2).

3.15 Non-exchange revenue represents transactions in which the Provident Fund receives value from another entity without providing approximately equal value to another entity in exchange, and is measured at the amount of the increase in net assets recognised by the Provident Fund. Services in kind are not recognised (see note 15).

Expenses

3.16 Expenses are recognised when the relevant goods or services are delivered. In most cases, this is the date for which bank charges relate.

4. MATERIALITY, CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS

4.1 In accordance with IPSAS and generally accepted accounting principles, the financial statements include amounts based on estimates and assumptions, based on the materiality of the relevant transactions and events. The Provident Fund Management Board is responsible for estimates and assumptions concerning the future. The resulting accounting estimates will seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below.

Receivables: Determination of impairment

4.2 The Provident Fund's receivables are required to be reviewed at the end of each reporting period for impairment and indications of uncollectibility. The Provident Fund makes an estimate of the amount of receivables that it is not able to recover based on prior payment history and expectations of future amounts it expects to recover from these receivables. No impairment has been recognised in the financial statements of the Provident Fund as at 31 December 2018.

5. FINANCIAL RISK MANAGEMENT

Financial risk factors

5.1 The Provident Fund's activities expose it to a variety of financial risks such as market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The Provident Fund's overall risk management programme is carried out pursuant to its investment policy proposed by the Board and approved by the Participants. The major objectives that the investment policy of the Provident Fund targets, are capital preservation, minimum risk, sufficient liquidity, and simplicity. The investment policy also identifies the Pension Services Division of the ABN AMRO Bank (hereinafter "ABN AMRO") as the party designated to provide investment and administration services to the Provident Fund.

5.2 The Provident Fund Management Board monitors the performance of ABN AMRO in respect of the stated investment and administrative services based on a Service Level Agreement setting out specific parameters to gauge the performance. The Annual General Meetings of Participants also receive reports on the overall performance of the Provident Fund's financial resources under ABN AMRO's administration. The Annual General Meeting takes important decisions on any changes to the investment policies of the Provident Fund. Special General Meetings may also take place to deal with specific issues. The Provident Fund does not enter into hedging activities and does not use derivative financial instruments.

Market risk: Foreign exchange risk

5.3 Foreign exchange risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Provident Fund operates mainly in euros. Portions of the Provident Fund of some Participants are held in US dollars. Therefore, exposure to foreign exchange risk also exists to the extent of these US dollars holdings. Foreign exchange risk of the Provident Fund is attributed to the specific Participants that are party to the transaction embodying the risk and any ensuing loss is borne by these Participants.

5.4 US-dollar denominated balances represent a low proportion of total assets of the Provident Fund, and hence the foreign exchange risk is deemed to be low. At 31 December 2018, if the euro had weakened/strengthened by 10% against the US dollar, the net deficit for the year would have been EUR 14 thousand higher/lower mainly as a result of foreign exchange gains/losses on revaluation of Participants' US dollar denominated Provident Fund balances (including UBS units) and other US dollars cash accounts of the Provident Fund.

Market risk: Interest-rate risk

5.5 Interest-rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

5.6 The Provident Fund does not guarantee an interest rate to Participants and hence does not bear the interest rate risk. Interest rates applicable in the reporting period are as follows:

	2018		2017	
	for EUR accounts	**for USD accounts**	**for EUR accounts**	**for USD accounts**
Average interest rate	0.45%	2.06%	0.74%	0.15%
Interest rate at 31 December	0.55%	2.52%	0.65%	0.36%

Market risk: Other price risk

5.7 Other price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. Some Participants of the Provident Fund currently have portions of their Provident Fund balances in UBS investments. The values of these investments fluctuate depending on the movement in the market price of the relevant UBS investment units. Market risk of the Provident Fund is attributed to the specific Participants that are party to the transaction embodying the risk and any ensuing loss is borne by these Participants.

Credit risk

5.8 Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk arises from cash and cash equivalents with banks and financial institutions. The Provident Fund Management Board, with the agreement of the Participants, determines the financial institutions with which the responsibilities for maintaining and administering the Provident Fund's resources are to be entrusted based on the investment policy of capital preservation. The majority of the Participants' Provident Fund balances (99%) as at the reporting date are maintained in ABN AMRO savings accounts. As at 31 December 2018, ABN AMRO was 56.3% owned by the Dutch Government (2017: 56.3%). The Provident Fund and other account balances are covered by Deposit Guarantee Scheme, which provides for reimbursement of EUR 100 thousand against the cumulative balance of an individual Participant in all ABN AMRO accounts held by her/him. The Deposit Guarantee Scheme enters into force once a bank facing problems is no longer able to pay customer's credit balances. Information regarding the credit quality of the banks and financial institutions in which the Provident Fund's cash and cash equivalents and investments are held as of the reporting date is as follows (Moody's Global Short-Term Treasury ratings referenced):

ABN AMRO

Moody's Investors Service Ratings	Rating*
Short-term credit rating	P-1

UBS AG

Moody's Investors Service Ratings	Rating*
Short-term issuer level rating	P-1

*Issuers (or supporting institutions) rated Prime-1 (P-1) have a superior ability to repay short-term debt obligations.

Liquidity risk

5.9 Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Provident Fund's obligations to make payments predominantly relates to settlement of accumulated Provident Fund balances of outgoing Participants. Liquidity risk arises in that the Provident Fund may encounter difficulties in meeting these obligations. Since the Provident Fund's cash resources are held in savings accounts and UBS investments that are readily convertible into cash, the liquidity risk faced by the Provident Fund is almost nil.

5.10 The table below analyses the Provident Fund's financial liabilities into relevant maturity groupings based on their contractual undiscounted cash flows:

(expressed in euro '000s)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Beyond 10 Years	Undefined Maturity	Total
Accounts payable	3,900	-	-	-	-	3,900
Total financial liabilities	**3,900**	**-**	**-**	**-**	**-**	**3,900**

5.11 As detailed in Note 9, accounts payable represent payouts requested by Participants that remain unpaid as at the reporting date. Furthermore, payouts to the majority of Professional and higher staff who have not yet requested a payout will be made over a period of one to seven years, due to the tenure policy of the OPCW. Payouts to General Service staff may be made over a longer time period.

6. INVESTMENTS

Participants' Provident Fund balances held in UBS units are as follows:

	(expressed in euro '000s)	
Investments (UBS Units)	**2018**	**2017**
USD units	64	88
EUR units	285	359
Total investments	**349**	**447**

7. ACCOUNTS RECEIVABLE

The receivable amount of EUR 4 thousand as at 31 December 2018 (2017: EUR 0.1 thousand) represents an amount due to the Provident Fund from a separated participant, and amounts due from the OPCW to the Provident Fund.

8. CASH AND CASH EQUIVALENTS

8.1 The breakdown of cash and cash equivalents into unrestricted and restricted categories is presented as follows:

	(expressed in euro '000s)	
	2018	**2017**
Unrestricted		
Interest-bearing current accounts in EUR	86	89
Interest-bearing current accounts in USD	1	1
Total unrestricted	**87**	**90**
Restricted		
Interest-bearing current and savings accounts in EUR	59,984	57,781
Interest-bearing current and savings accounts in USD	77	72
Total restricted	**60,061**	**57,853**
Total cash and cash equivalents	**60,148**	**57,943**

8.2 Participants' capital represent accumulated Provident Fund balances of Participants maintained in Provident Fund accounts designated as A, B and C for Participants' own contributions, OPCW matching contributions and Participants' voluntary contributions. These contributions are payable only to Participants and are not available for use by the Provident Fund for any other purpose.

8.3 For Participants' capital held in A and B accounts, payments are made to Participants only upon their separation from the OPCW. For Participants' capital held in C accounts, payments can be made only to Participants in June and December upon their requests. The breakdown of cash and cash equivalents into these categories is presented as follows:

	(expressed in euro	
Interest-bearing current and savings accounts in EUR	**2018**	**2017**
Participants' contributions (A accounts)	16,379	15,506
OPCW's contributions (B accounts)	32,759	31,012
Participants' contributions (A+B) before 17 December 2007	8,832	9,603
Participants' voluntary contributions (C accounts)	2,014	1,660
Total	**59,984**	**57,781**

9. ACCOUNTS PAYABLE

	(expressed in euro '000s)	
	2018	**2017**
Amounts payable to separating Participants	3,900	2,993
Total	**3,900**	**2,993**

Participants may request payout from the Provident Fund up to three months prior to separation. Amounts payable to separating Participants represent payouts requested by Participants that remain unpaid as at the reporting date.

10. NET ASSETS/EQUITY

10.1 Participants' capital (EUR 56,510 thousand) represents the accumulated Provident Fund balances of Participants including their contributions (A accounts), the OPCW's matching contribution (B accounts), voluntary contributions by Participants

(C accounts), and accumulated income earned (or losses incurred) on these resources as at 31 December 2018.

10.2 Special reserves (EUR 80 thousand) include the OPCW's matching contributions to Provident Fund accounts of Participants (B accounts) who cease to serve the OPCW for other than health reasons before serving the Organisation for a total period of more than three calendar months as noted in 3.14. There were no new cases during 2018.

10.3 Accumulated surplus/(deficit) (EUR 11 thousand) represents the cumulative gain/(loss) that is not attributable to specific Participants' accounts. The Board will decide how to use the surplus. The movement in 2018 is reflected in the statement of changes in net assets/equity.

11. INTEREST INCOME ON PARTICIPANTS' CAPITAL ACCOUNTS

Interest on Participants' accounts with ABN AMRO for the year ended 31 December 2018 was as follows:

	(expressed in euro '000s)	
	2018	**2017**
Interest on Participants' contributions (A accounts)	87	113
Interest on OPCW's contributions (B accounts)	174	226
Interest on contributions (A+B) before 17 December 2007	9	12
Interest on voluntary contributions (C accounts)	53	72
Total	**323**	**423**

12. GAIN ON FINANCIAL ASSETS

In 2018, there is no gain due to changes in fair value of the UBS units (2017: EUR 43 thousand/gain).

13. EXPENSES

General operating expenses

13.1 The Provident Fund incurred minor operating expenses in the year 2018 of EUR 0.2 thousand (2017: EUR 0.1 thousand) relating to bank charges. The OPCW provides the necessary facilities and human resources for the internal management and administration of the Provident Fund. Therefore, it does not incur operating expenses for day-to-day administration.

Loss on financial assets

13.2 In 2018, there is a loss of EUR 30 thousand incurred due to changes in fair value of UBS investments (2017: no loss).

14. FINANCE INCOME AND FINANCE COST

Exchange gain and loss are recognised as finance income and finance cost respectively.

	(expressed in euro '000s)	
	2018	**2017**
Finance income		
Foreign currency revaluation gains	7	**-**
Total finance income	**7**	**-**
Finance costs		
Foreign currency revaluation losses	**-**	(23)
Total finance costs	**-**	**(23)**
Net finance income/(cost)	**7**	**(23)**

15. SERVICES IN KIND

15.1 Services in kind are services provided by individuals to the Provident Fund in a non-exchange transaction. The major classes of services in kind received by the Provident Fund include the following:

Management Board

15.2 The Provident Fund Management Board's membership is composed of six staff members of the OPCW. The Provident Fund does not pay any remuneration to the members of the Board for their services. The Provident Fund also does not reimburse the OPCW for the time spent by its staff members in managing the Provident Fund.

15.3 The Chairperson of the Provident Fund Management Board changed in 2019 following changes in OPCW Senior Management.

Administrative support by the OPCW

15.4 The staff of the OPCW Budget and Finance Branch handles the Provident Fund's disbursements, accounting, reporting, and other administrative services. The OPCW provides necessary materials and facilities needed for the running of the Provident Fund's operations. The Provident Fund does not compensate the staff or the OPCW for such administrative support.

16. CONTINGENT LIABILITIES

The Provident Fund does not have any contingent liabilities as at 31 December 2018.

17. RELATED PARTY TRANSACTIONS

17.1 The Provident Fund is not controlled by another entity; however the OPCW is considered a related party of the Provident Fund as it shares key management personnel and provides the principal source of Participants' contributions.

17.2 The OPCW provides administrative support to the Provident Fund free of charge (note 15.4). All other transactions between the Provident Fund and the OPCW are conducted at arm's length. As at 31 December 2018, a balance in the amount of EUR 0.1 thousand (2017: EUR 0.1 thousand) was payable from the OPCW to the Provident Fund.

17.3 The Provident Fund is not party to any further arrangements that could be considered as related parties.

18. KEY MANAGEMENT REMUNERATION

18.1 Members of the Provident Fund Management Board play the key management role as regards to the Provident Fund. The six members of the Board include the Deputy Director-General and Principal Financial Officer of the OPCW, and four members elected by Provident Fund Participants.

18.2 The members of the Board are not compensated for their services to the Provident Fund. The Provident Fund does not have employees of its own.

19. EVENTS AFTER THE REPORTING PERIOD

No significant event is reported after the reporting date. The date of authorisation for issue is the date at which the financial statements are certified by the external auditor.

Annex 3

National Audit Office

Helping the nation spend wisely

Comptroller and Auditor General
Sir Amyas Morse KCB

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Facsimile +44 (0)20 7798 7990
Email Amyas.Morse@nao.org.uk

Executive Council of the
Organisation for the Prohibition of Chemical Weapons
Johan de Wittlaan 32
2517 JR – The Hague
The Netherlands

Date 29 May 2019

I have the honour to transmit the Financial Statements of the Organisation for the Prohibition of Chemical Weapons for the year ended 31 December 2018, which were submitted to me by the Director-General in accordance with Financial Rule 11.1.02. I have audited these statements and have expressed my opinion thereon.

Further, in accordance with Financial Regulation 13.9 and the Annex thereto, I have the honour to present my report on the accounts of the Organisation for the Prohibition of Chemical Weapons for the year ended 31 December 2018.

Yours faithfully

[signed]

Sir Amyas Morse

157-197 Buckingham Palace Road, Victoria, London SW1W 9SP
020 7798 7000 www.nao.org.uk

INDEPENDENT AUDITOR'S REPORT TO THE CONFERENCE OF THE STATES PARTIES OF THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS

Opinion on financial statements

I have audited the financial statements of the Organisation for the Prohibition of Chemical Weapons for the year ended 31 December 2018, which comprise the Statement of Financial Position, the Statement of Financial Performance, Statement of Changes in Net Assets, Cash Flow Statement and Statement of Comparison of Budget and Actual Amounts for the year ending 31 December 2018 and the related notes.

In my opinion, the accompanying financial statements present fairly, in all material respects the financial position of the Organisation for the Prohibition of Chemical Weapons as at 31 December 2018 and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

Opinion on regularity

In my opinion, in all material respects, the revenue and expenses have been applied to the purposes intended by the Conference of the States Parties and the financial transactions conform to the Financial Regulations and Rules and the Staff Regulations and Interim Staff Rules.

Basis for opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Organisation for the Prohibition of Chemical Weapons in accordance with the ethical requirements that are relevant to my audit of the financial statements. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern

I am required to conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organisation for the Prohibition of Chemical Weapons' ability to continue as a going concern for a period of at least twelve months from the date of approval of the financial statements. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern. I have nothing to report in these respects.

The Director-General's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Public Sector Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Organisation for the Prohibition of Chemical Weapons ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organisation for the Prohibition of Chemical Weapons or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organisation for the Prohibition of Chemical Weapons financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My responsibilities are to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organisation for the Prohibition of Chemical Weapons internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organisation for the Prohibition of Chemical Weapons' ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Organisation for the Prohibition of Chemical Weapons to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Other Information

Management is responsible for the other information. The other information comprises information included in the financial statements and Director-General's Report, other than the parts described in that report as having been audited, the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

External Auditor's Report

In accordance with the Financial Regulations, I have also issued an External Auditor's Report on my audit of the Organisation for the Prohibition of Chemical Weapons 2018 financial statements.

[Signed]

Sir Amyas C E Morse

Comptroller and Auditor General
National Audit Office

29 May 2019

National Audit Office

Helping the nation spend wisely

Comptroller and Auditor General
Sir Amyas Morse KCB

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Organisation for the Prohibition of Chemical Weapons
Johan de Wittlaan 32
2517 JR – The Hague
The Netherlands

Date 29 May 2019

and

Annual General Meeting of the Provident Fund of the
Organisation for the Prohibition of Chemical Weapons
Johan de Wittlaan 32
2517 JR – The Hague
The Netherlands

I have the honour to report, in accordance with Article 11 of the Charter of the Provident Fund of the Organisation for the Prohibition of Chemical Weapons, on my audit of the Financial Statements of the Provident Fund of the Organisation for the Prohibition of Chemical Weapons for the year ended 31 December 2018 which were submitted to me by the Chairperson of the Management Board of the Provident Fund. The Financial Statements are attached to my report.

Yours faithfully

[signed]

Sir Amyas Morse

INDEPENDENT AUDITOR'S REPORT TO THE PROVIDENT FUND OF THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS 2018

Opinion on financial statements

I have audited the financial statements of the Provident Fund for the year ended 31 December 2018, which comprise the Statement of Financial Position, the Statement of Financial Performance, Statement of Changes in Net Assets/Equity, and Statement of Cash Flows for the year then ended 31 December 2018, and the related notes.

In my opinion, the accompanying financial statements present fairly, in all material respects the Financial position of the Provident Fund as at 31 December 2018 and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

Opinion on regularity

In my opinion, in all material respects, the revenue and expenses have been applied to the purposes intended by the Conference of the States Parties and the financial transactions conform to the Financial Regulations and Rules and the Staff Regulations and Interim Staff Rules.

Basis for opinions

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. Those standards require me and my staff to comply with the Financial Reporting Council's Revised Ethical Standard 2016. I am independent of the Provident Fund in accordance with the ethical requirements that are relevant to my audit of the financial statements. My staff and I have fulfilled our other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Chair of the Management Board of the Provident Fund for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Public Sector Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Provident Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Provident Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Provident Fund financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My responsibilities are to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Provident Fund's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Provident Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Provident Fund to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

Other Information

Management is responsible for the other information. The other information comprises information included in the Financial Statements other than the parts described in that report as having been audited, the financial statements and my auditor's report thereon.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon. In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

[Signed]

Sir Amyas C E Morse

Comptroller and Auditor General

National Audit Office

29 May 2019

MAY 2019

Organisation for the Prohibition of Chemical Weapons

External Auditor's Report on the 2018 OPCW and OPCW Provident Fund Financial Statements

The aim of the audit is to provide independent assurance to States Parties; to add value to the OPCW's financial management and governance; and to support your objectives through the external audit process.

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INTRODUCTION

1. The Organisation for the Prohibition of Chemical Weapons is the implementing body of the Chemical Weapons Convention, which entered into force in 1997. The Organisation has some 193 States Parties who share the collective goal of preventing chemistry being utilised for warfare, thereby strengthening international security. Its profile has increased in recent years with weapons inspection activities and it has received additional funding to undertake these missions.

2. In addition to our opinion on the financial statements of the OPCW and OPCW Provident Fund, this report presents the key findings and recommendations arising from our work, including our observations on financial management and the Enterprise Resource Planning project (ERP), building on our previous observations. In 2017 we looked at the procurement of goods and services to support the delivery of its mandate; this year our focus has returned to Governance and the progress made in the implementation of the ERP as well as following up on our previous recommendations. We made no recommendations in respect of the Provident Fund.

Audit opinion on the Financial Statements

3. Our audit comprised the examination of the financial statements and underlying transactions for both the OPCW and OPCW Provident Fund financial statements for 2018, and was conducted in accordance with International Standards on Auditing and the financial regulations. We provided an unqualified audit opinion on both sets of financial statements and found the quality of financial reporting to be good.

4. The production of the financial statements remains a highly complicated and manual process due to the complex audit trails associated with the Smartstream IT system. The Technical Secretariat has further streamlined elements of the financial statements, to enable States Parties to better focus on the significant elements of the accounts. It has also continued the evolution of the Director-General’s Report summarising the key movements within the accounts. Some further improvement has been made to the process for supporting the Statement on Internal Control, more substantive developments are planned for this in 2019, which we fully support.

Financial management

5. Overall net assets of the Organisation in 2018 were EUR 11.4 million, representing an increase of EUR 2.8 million from 2017. The net asset position of the Organisation remains positive, but this is due to the impact of trust fund balances which are restricted for specific purposes. Although there has been some improvement, the General Fund continued to remain in deficit, standing at EUR 4.3 million (2017: EUR 5.3 million). There has been an improvement in the Statement of Financial Performance with revenue exceeding expenses by EUR 3.0 million (2017: deficit EUR 1.8 million), this was primarily due to the receipt of Trust Fund monies.

6. The Organisation has continued to maintain a high level of budget utilisation, achieving a rate of 97 per cent (2017: 99 per cent). The slight decline reflected management's control of cash resources. These controls could only be relaxed when late assessed contributions were received in the final months of 2018. This reduced management's ability to implement the remaining budget before the year end but, overall, the Organisation continues to demonstrate disciplined financial management. The position on outstanding assessed contributions improved from EUR 8.5 million in 2017 to EUR 3.6 million in 2018. A reduction in advanced receipts of contributions for 2019 resulted from the late agreement of the Scale of Assessment by the UN.

Strategic Financing

7. The Secretariat outlined several proposed improvements to financial management to the 2018 Review Conference. The Conference considered important long-term financing issues, including the reserve position, budgeting and a more strategic focus on areas such as capital investment funding. Whilst there was no clear agreement, the Secretariat remains committed to pursuing these important concepts with States Parties.

8. We remain supportive of the Secretariat's efforts to introduce biennial budgeting, which would be more efficient and proportionate for the Organisation. It remains important that if biennial budgeting is introduced, there are clear accountabilities for reviewing year one financial performance built into the process. We also note the consideration that the Organisation has given to setting up a Major Capital Investment Fund to provide a smoother profile of resources to fund the effective replacement of capital items over time. It remains important that the investment objectives for this fund are clearly defined and reported regularly to States Parties. The Secretariat is also committed to reviewing its Reserves and Trust Funds. We see this as a means of ensuring resources held are used to best effect and that Funds transferred for the new ERP are relevant and appropriate for the needs of the Organisation.

Governance

9. The Organisation has committed to improving the way in which it reports to States Parties on its internal control environment, following observations made in our previous reports. Management have agreed a way to strengthen the processes which underpin the preparation of the Statement on Internal Control, providing a more meaningful and robust assurance to States Parties. Directors and Branch Heads will be required to provide more detailed assessment of the operation of controls within their areas through the completion of detailed Internal Control Questionnaires. Over time it is anticipated that management will be challenged on the details of these through review by the Office of Internal Oversight and other mechanisms. We continue to work with management to ensure these processes will be effective.

10. Other internal processes in relation to Internal Control continue to evolve, especially in relation to risk management within the Organisation. Initial work was undertaken to synthesise risks from across the Organisation into a high-level risk register during 2018. Further work is planned in 2019 to develop and systematise processes for

collating, reviewing and reporting on the results of risk management, steps which are necessary to support positive assurance for the Statement on Internal Control.

11. We have made some recommendations to improve the overall clarity of reporting structures within the Organisation to ensure that it is clear how internal governance operates. This includes the way in which Senior Management demonstrate and document oversight of key organisational activities on a regular and systematic basis. These improvements will enhance oversight processes and provide the supporting frameworks through which internal control is exercised.

12. OIO remains an important part of Internal Control within the Organisation and we have highlighted areas which have improved since our last review. In the improved risk assessment processes, we consider that further attention could be given to the significance of the areas of activity which are reviewed, to ensure oversight of key projects and objectives with a view to their scale and materiality. It remains important for resources to be focused on key areas and that the resources of OIO are carefully balanced between assurance work and other activities, especially given the vacancy for the Director of OIO. Finally, we have reiterated the importance of a comprehensive review of outstanding recommendations as OIO implement new recommendation tracking software. This will ensure that migrated recommendations remain relevant to the Organisation.

Major Capital Projects

13. Since our last report there has been a further delay in the implementation of the ERP and management have recognised the risks that the budget may not be sufficient to fully implement the project. At the end of our audit a plan to implement the ERP was under discussions with the Implementing Partner. This would lead to a September go-live date for the project, but this plan is still in development and its feasibility has not been fully corroborated by a detailed plan. There remain risks to this implementation timeline which appears ambitious given build progress to date, in particular the low pass rate (39%) for User Acceptance Testing scheduled to finish at the end of June 2019. It remains important that the Organisation prudently plan for the next stages of the project and set a realistic go-live date, allowing appropriate time for testing and detailed training to ensure that users feel engaged and the benefits of cultural change realised. A further failure to achieve a new implementation date would undermine confidence in the ERP implementation.

14. We are encouraged by the approach the Organisation has taken to the Centre for Chemistry and Technology project which build on recommendations for improved project management we made at the start of ERP project. A detailed Needs Statement for the project has been prepared, with engagement from States Parties. The Statement defines key aims and objectives and fully considers alternative means of meeting laboratory needs. A proportionate and considered procurement strategy for the project has been prepared. We understand that a detailed update to States Parties on the status of the project is currently being prepared. We expect to remain engaged with this project throughout our mandate.

Prior year follow up

15. We have followed up our prior year recommendations in this year's report. We note that implementation progress towards has remained slow in some areas. This is partly a function of the delayed implementation of the ERP project. Despite this, some good progress is being made in the areas of Procurement and Human Resources, which are adopting more strategic approaches, informed by underlying performance data.

PART ONE

Financial management

Overall audit results

1.1 Our audits of the OPCW financial statements revealed no weaknesses or errors which we considered material to their accuracy, completeness or validity. The audit opinion confirms that the financial statements present fairly, in all material respects, the financial position of the Organisation as at 31 December 2018 and of its financial performance and cash flows for the year then ended. It also confirms their preparation in accordance with International Public Sector Accounting Standards and that, in all material respects, the transactions underlying the financial statements have been made in accordance with the Financial Regulations and applied to the purposes intended by States Parties.

1.2 The audit included a general review of the Organisation's accounting procedures, an assessment of internal controls that impact on our audit opinion; and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. Our audit procedures were designed primarily for the purpose of forming an audit opinion. The audit did not involve a detailed review of all aspects of the budgetary and financial information systems, and the results should not be regarded as a comprehensive statement on them. Our work ensured that the financial statements accurately reflected the accounting records and were fairly presented.

Financial Statements

1.3 Building on the track record of good quality financial statements and improvements in prior years, the Secretariat has made a number of further enhancements to the usability and relevance of the financial statements this year. It has continued to engage in a peer review process, sharing its financial statements with other international institutions and this has helped support the process of streamlining the statements and exchange of improved practices.

Financial commentary

1.4 The Organisation recognised revenues of some EUR 76.6 million in 2018 (2017: EUR 74.0 million), which primarily consisted of assessed contributions of EUR 62.3 million and voluntary contributions of EUR 12.1 million from States Parties. Expenses in 2018 were slightly reduced at EUR 73.7 million (2017: EUR 75.5 million), primarily comprising of a EUR 1.3 million decrease in travel costs and EUR 0.9 million decrease in employee expenses, this was offset by an increase in consultancy and contractual service expenses of EUR 0.9 million driven by increased inspection related services provided by UNOPS.

1.5 There was an overall surplus for the period, with revenue exceeding expenses by EUR 3.0 million. This was largely due to an increase of EUR 3.9 million in voluntary contributions, to fund the new laboratory which constituted some EUR 4.2 million of revenue. Cash balances increased by EUR 3.0 million over the period. The Organisation continues to manage its cash in a well-controlled manner, although we have noted a decline in the advance receipt of assessed contributions, which reduces the capacity of management to have a buffer for general fund cash demands. In 2016 there were EUR 7.1 million of Assessed Contributions received in advance, compared with EUR 4.3 million in 2017 and EUR 1.4 million in 2018. We note that for 2019 there was a change in the UN Scale of Assessments that will apply for the period 2019-21 and this was not agreed until late December 2018. As a consequence, invoices were sent later than usual to States Parties, impacting on the early receipt of contributions in the 2018 in respect of the 2019 year.

1.6 Overall net assets of the Organisation were EUR 11.4 million (2017: EUR 8.6 million) comprising EUR 4.3 million deficit in the General Fund and EUR 15.7 million surplus in the Trust Funds. For 2018 there was an overall surplus in the General Fund of EUR 1.3 million (2017: EUR 0.1 million deficit). The long-term General Fund deficit is primarily due to the long-term employee liabilities which, in common with many other international organisations, remain unfunded and paid only when due. We have previously recommended that the Organisation should continue to monitor this position and adopt a clear and approved plan for these liabilities, whether this is to confirm the current 'pay as you go approach' or to move towards a more funded model.

FIGURE 1: FINANCIAL RATIOS FOR OVERALL OPCW FUNDS

Ratio	2018	2017	2016	2015	2014
Current ratio[1]					
Current assets: Current liabilities	2.32	1.79	1.80	1.50	1.30
Total assets: Total liabilities[2]					
Assets: Liabilities	1.30	1.20	1.25	1.24	0.99
Cash ratio[3]					
Cash and deposits: Current liabilities	1.67	1.08	1.16	0.76	0.67

1 A high current ratio indicates an entity's ability to pay off its short-term liabilities.

2 A high asset to liability ratio is a good indicator of solvency.

3 The cash ratio is an indicator of an entity's liquidity by measuring the amount of cash, cash equivalents or deposited funds there are in current assets to cover current liabilities.

Source: Audited Financial Statements of OPCW

1.7 We use ratio analysis of an organisation's financial health on all our international audits to show how financial positions change over time. These ratios express the relationship of one item of account against another. For example, there are EUR 2.32 of current assets for every EUR 1 of current liabilities; this is primarily due to the significant balance of Reserve and Trust Funds. Figure 1 highlights the key financial ratios for the Organisation, considering all funds and reserves. While short term liquidity remains high, this liquidity arises from the significant level of Trust Fund balances and reserves.

1.8 Increased payment of assessed contributions in 2018 provided management with the ability to avoid more significant cash pressures on the General Fund during the period. Further write downs have taken place in 2018 as a result of further Article IV and V inspection activity in respect of Syria and Libya totalling EUR 0.2 million. These adjustments, under accounting standards, ensure that assets reflect their fair values. Overall the level of outstanding State Party assessed contributions on a gross basis was EUR 3.6 million (2017: EUR 8.5 million) and on Article IV and V was EUR 7.0 million (2017: EUR 6.4 million). The net receivables for these contributions were EUR 3.3 million (2017: EUR 8.0 million) and EUR 1.2 million (2017: 0.9 million) respectively. This demonstrates a tangible improvement in the recovery of assessed contributions during 2018, though most of these receipts were late in the year.

1.9 We note that overall cash pressures were high throughout the year due to the payment of many outstanding contributions close to the year-end. Budget contingency was therefore held through most of the year, and the eventual release of the contingency occurred too late for management to ensure better utilisation of budgetary funded. This contributed to the decline in budget implementation from 99% to 97% for 2018. However, we recognise that overall implementation remains high in comparison to many other organisations.

Strategic Financing

1.10 As we noted in our 2017 report, the Secretariat presented concepts from a paper on Strategic Financing to the 2018 Review Conference. The paper covered the following areas:

- Approach to funding the general fund deficit;
- Funding of long-term liabilities;
- Ensuring an adequate level of funding for the WCF;
- Budgetary controls; and
- Integrating strategic and financial planning.

The two main initiatives that the Secretariat moved for the 2018 Review Conference were a move to biennial budgeting and the establishment of a Major Capital Investment Fund. There were no agreed outcomes on these issues at the Review Conference and the Secretariat will continue to engage with the Conference of States Parties on them.

Biennial Budgeting

1.11 One of the key issues referred to the Review Conference, was the benefit of moving to biennial budgeting. A biennial budget provides scope for a more efficient allocation of resources through improved financial planning, greater certainty on funding priorities and closer alignment with the longer-term strategic programme of the Organisation. A focus on longer-term planning may also reduce the considerable effort and resources devoted to the annual budget process which, excluding staff reductions, is generally not subject to significant change.

1.12 We understand that the UN Reform Agenda has recently committed to consideration of the appropriateness of an annual budgeting cycle for the UN. This is the approach which the Organisation currently adopts. While there are benefits to an annual budgeting cycle, the process of budget approval should be appropriate to the needs of the Organisation and reflect the degree to which resource prioritisation may change year on year. Biennial budgeting can continue to promote the accountability principles associated with an annual budget cycle as long as clear 'year one' financial goals, measurable in that year are established; and mechanisms to approve any transfers in year to reflect known changes are put in place.

Recommendation 1: If the OPCW moves to biennial budgeting it should ensure that there are clear accountabilities for year one financial performance against which budgetary performance can be measured and reported in Statement V. This should include mechanisms to approve transfers of resources during the financial year to reflect any significant known changes, so that the budget remains a process to ensure effective control of funds in each year of the biennium.

Major Capital Investment Fund

1.13 The development of a long-term investment programme to plan equipment purchases was another key area of the plans outlined to the Review Conference. It was proposed that the special fund for major capital investments and the Special Account for the OPCW Equipment Store be financed in total to a target level of between EUR 750,000 to EUR 1.5 million over the period 2020 to 2021 through the transfer of future cash surpluses and other funding.

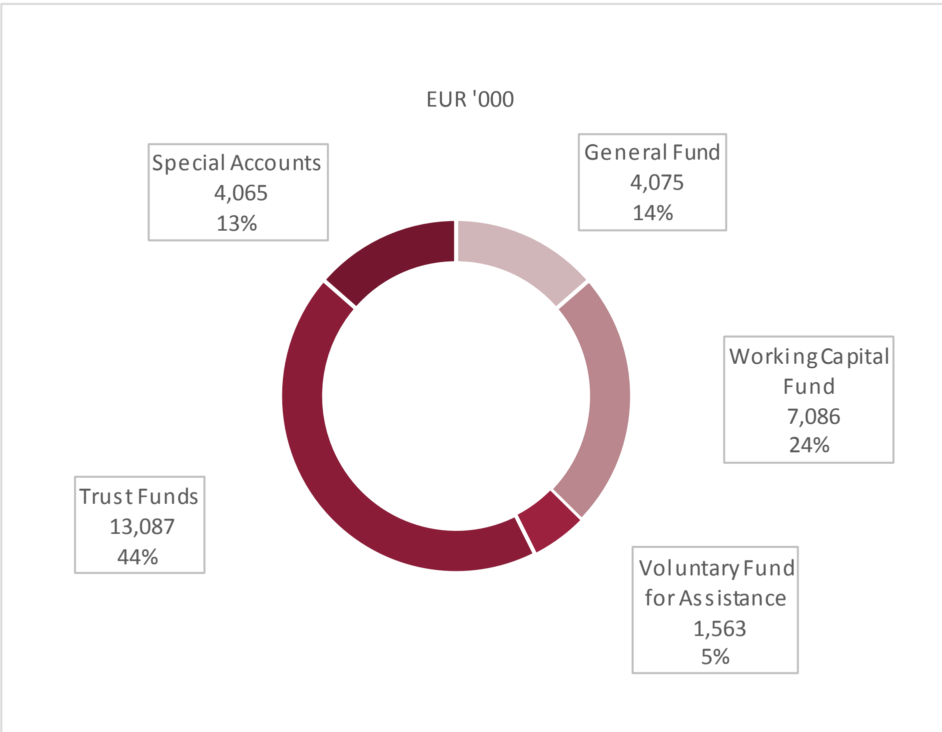
1.14 We remain supportive of a planned approach that will enable better scheduling of both capital investment and the procurement activity. A clear investment plan offers the opportunity for greater transparency and a clearer alignment of objectives. It will also enable a more consistent funding strategy to avoid spikes in the annual funding required from States Parties for capital purchases.

Recommendation 2: The Organisation should ensure that it clearly defines the investment objectives of the Major Capital Investment Fund. These objectives should be kept under review and the progress of the objectives regularly reported to States Parties.

Reserves

1.15 The Organisation has built up a considerable number of Trust Funds for various projects. Some 44 per cent (EUR 13 million) of cash balances held by the Organisation relate to Trust Funds (Figure 2). These cover 22 different purposes ranging from new ones for the Centre for Chemistry and Technology, Trust Funds for conferences and other events and for sponsoring of young professionals to work at the Organisation and those allocated to support activities in Syria and Libya.

FIGURE 2: CASH BALANCES ON EACH FUND AS AT 31 DECEMBER 2018



Source: Additional Information to the Financial Statements of OPCW

1.16 It is important for the Organisation to have an overall strategy for the use of its Trust Funds and reserves, as an integral part of financial management. During 2017 the Organisation started examining its use of Trust Funds with a view, where possible, to moving aged trust fund balances into the General Fund or to re-purposing these funds in consultation with donors. The current Laboratory Renewal Project presents the Organisation with a good opportunity to ask donors to consider reallocating trust fund balances to a business priority as part of its commitment to ensure a collaborative project drawing on a range of contributions. More generally, such reviews are an important part of cleansing data prior to migration to the new ERP system to ensure that data held is current and has been subject to review.

We reiterate our previous recommendation that the Organisation should continue to review Trust Fund balances for continued relevancy and to streamline its Reserve balances.

OPCW Provident Fund

1.17 During 2018 the OPCW Provident Fund has again returned a surplus, totalling some EUR 0.3 million (2017: EUR 0.4 million). Overall assets of the Provident Fund increased slightly to EUR 56.6 million (2017: EUR 55.4 million) because cash outflows to separated participants in 2018 were less than contributions received in-year. The financial obligations to Participants notifying their intention to separate before 31 December are included as liabilities of the Provident Fund, in line with IPSAS.

1.18 The nature of fund liabilities is such that risk is limited to the payment of funds accumulated from the investments made. Overall, the Provident Fund had sufficient assets to cover its liabilities and a free reserve of EUR 0.1 million (2017: EUR 0.1 million). The reserve is available to the Provident Fund Management Board to meet the costs of operations and any unforeseen liabilities in accordance with the Regulations.

PART TWO

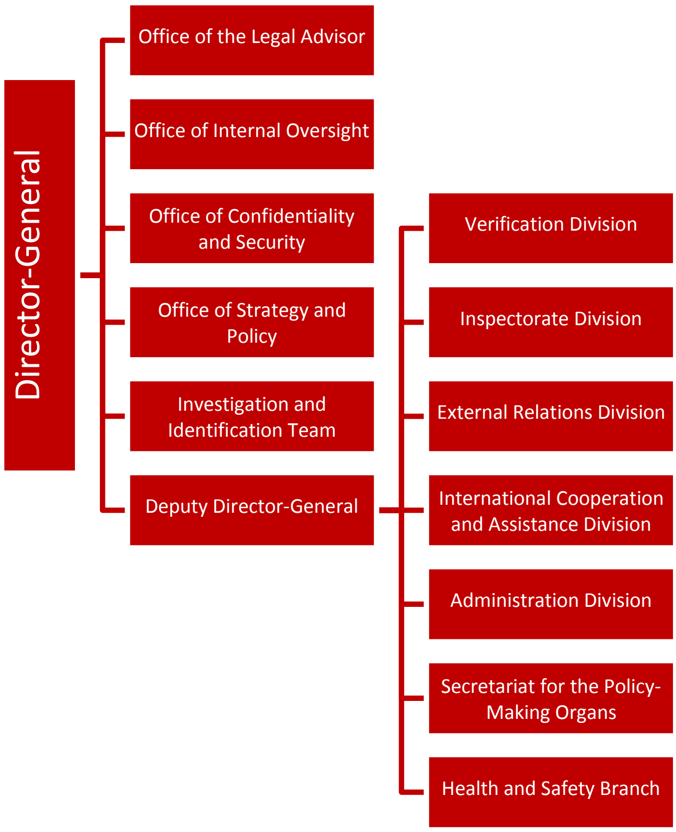
Governance

2.1 It has been three years since we last reviewed Governance in detail at OPCW. With the change in Director-General and the commitment to enhancing the Statement on Internal Control, this was a good opportunity to return to Governance to update States Parties on progress in this area.

Overall Governance Structures

2.2 Mr Fernando Arias was appointed Director-General of the Organisation in November 2017 by the Conference of the States Parties at its Twenty-Second Session and began his four-year term of office on 25 July 2018. The current leadership structure supporting the Director-General is shown in Figure 3. There have been changes in senior posts within the Organisation as well as other developments in the internal governance since his appointment. We note, however, that while roles and responsibilities are defined in Financial Regulations, the Organisation does not utilise formal delegations of authority to reinforce personal accountabilities to the Director-General. These personal delegations are often a feature of international organisations and reinforce the accountabilities that underpin internal control processes.

FIGURE 3: ORGANISATION STRUCTURE OF THE OPCW



Source: NAO analysis of OPCW data

2.3 Our review of the Organisation's internal governance found that there was no articulation of the overall relationship between the different internal structures of Boards and Committees established over time (Figure 4). References are made to individual Boards and Committees in various Administrative Directives and to other groups or Committees established for specific or ad-hoc purposes but their interrelationship when applicable is not clearly set out.

FIGURE 4: OPCW BOARDS AND COMMITTEES

Advisory Board on Compensation Claims
Budget Steering Committee
Committee on Contracts
Committee for Staff Development and Training
Health and Safety Committee
Investment Committee
IT Steering Committee
IT Strategy Advisory Committee
ERP Steering Committee / Board
Property Survey Board
Management Board
Peer Recognition Programme
Quality Management Systems Technical Committee
Provident Fund Management Board
Risk Management Committee
Human Resources Working Group
ChemTech Centre Board

Notes:

a) The listing provided in Figure 4 is not an exhaustive listing of the Boards and Committees of the OPCW;

b) Apart from the Property Survey Board, the Director of Administration is required to attend all of the Boards and Committees shown in Figure 4.

Source: NAO analysis of OPCW data

2.4 We believe it would be useful to clearly set out the Board and Committee structures in place to enable States Parties to better understand the Organisation's internal governance arrangements and to facilitate a review of their purpose and scope for rationalisation. This is particularly important when considering the process which will underpin the Statement on Internal Control.

2.5 Good governance should incorporate formal and structured meetings of senior management to enable effective and complete oversight of the key decisions, risks and issues facing the organisation. The Director-General receives daily briefings from senior managers on key issues impacting directorates. He also has specific meetings with individual Directorates on key matters of concern or interest as necessary, and receives the minutes and recommendations of all Boards and Committees that the Deputy Director General chairs. Formal quarterly meetings of the Organisation's senior management of the Organisation are scheduled but we note that only three of these meetings were held in 2018 (February, May, and September) because of preparations for the Fourth Review Conference in the second half of the year. These quarterly meetings included standing agenda items and other specific topics such as:

- OIO recommendations;
- External Auditor Recommendations;
- The ERP programme;
- Update by Directors on progress and delivery of agreed objectives;
- Discussion on the 2019 Programme and Budget;
- The Risk Management Committee; and
- Guidance on the usage of Social Media.

In our view the Organisation's governance can be further clarified by establishing a more regular pattern of meetings for Senior Management which cover oversight of significant areas such as financial position and risks, human resources key data, overall risk management, significant developments and decisions and overall operational performance. By having these reported on a systematic basis it more clearly demonstrates the framework of oversight. It remains our view that the Governance arrangements within the Organisation would be enhanced by the appointment of a small, independent, objective and expert Audit Committee. This would serve to enhance the assurances to States Parties, focusing on internal control, risk management and audit provision. However, we recognise that after consideration the Organisation has decided that such a Committee will not be adopted.

Recommendation 3: The Organisation should establish a systematic framework to show how the various Committees of OPCW provide a framework for governance. In addition, the Organisation should develop a more regular and systematic framework to demonstrate the collective senior management oversight of the Organisation.

Statement on Internal Control (SIC)

2.6 In 2015 we recommended that Governance arrangements overseeing the production of the SIC should be strengthened. We highlighted that senior management should be more involved in challenging the SIC to ensure the statements made are supported by assurance work and to highlight areas where control improvements are planned. Furthermore, we suggested the SIC should be subject to review by the Director of OIO and provide some summary which captures the outcomes from their work, and their overall conclusion in respect of internal controls.

2.7 We are pleased to note that management have developed a robust plan to significantly enhance the quality of the assurances which will underpin future Statements on Internal Control. This will be through the creation of an OPCW Internal Control Framework, supported by the results of Internal Control Questionnaires completed by Directors and Branch Heads. In the formulation of these the Organisation has drawn on best practice from other UN bodies, as well as those within the Private Sector. These documents will serve to enhance the quality and completeness of the assurances upon which the Director General will rely when certifying the Statement.

2.8 The new concept was launched in February 2019 at the Management Board and was followed by a 'Town Hall' type event for all Directors and Branch Heads within the Organisation in May 2019. The plan is for the questionnaire to be completed in May and November of each year by Directors and Branch Heads. These questionnaires provide a suite of detailed questions about the operation of controls. They require management to score the effectiveness of controls within their areas of accountability and for disclosure of any exceptions or weaknesses. It is important that over time mechanisms are established for the completed questionnaires to be assured and for Directors and Branch Heads to be challenged on the evidence to support their assertions.

2.9 Undertaking an interim assessment will provide an opportunity to refine or reflect on the findings and how staff have engaged with the process. This will help to enhance the quality of the year end questionnaires to support the Statement. The process should enable management to build a better understanding of the operation and effectiveness of controls across the Organisation, which can also serve to inform the risk assessment processes of the Office of Internal Oversight. The focus on Internal Control has also been built into the HR on-boarding process for new Directors and Branch Heads. We understand that consideration is also being given to whether further training and support would be needed to complete the documents appropriately.

2.10 We welcome this positive engagement by management and consider these improvements will provide greater assurance to States Parties. We will continue to provide our observations to management as the rollout of these processes take place and will review the findings and format on the 2019 Statement with sufficient time for our observations to be incorporated in any final draft. In the meantime, we have made several observations on the 2018 SIC to enhance the transparency of the disclosures which have been considered for this year. Following discussions with management the focus of the SIC has been enhanced, providing a positive conclusion on the operation of controls and to more clearly identify areas for improvement.

Risk Management

2.11 A systematic risk management process encourages sound management, provides additional assurance to the senior management and enhances accountability. Risk management is a key element of the assurances contained with the Statement on Internal Control. Given the challenging environment and the pending changes to the Organisation, this can add value to the Secretariat's work and enhance assurance to States Parties. Risk management will be a key process which feeds into the Statement on internal Control. In 2015 we recommended that:

- the Secretariat should maintain and regularly update the risk register and ensure that it is used in the business decision making processes; and
- that risk management processes should be subject to a clear challenge process to support the embedding of risk management and to improve the quality of identified mitigations, ideally this could be conducted by an Audit Committee.

2.12 Since our last report we welcome the further development of the risk register. The new policy is under development, with rollout expected later this year. Management recognise it will take time to embed the principles, but a useful start has been made in identifying the risks across the organisation during 2018. This is being taken forward through the Risk Management Committee, which used the detailed Register to propose the ten top risks facing the Organisation. However, we believe there is more to be done to make this process strategic and focussed on the key risks to the Organisation. The current risk register is very detailed - containing more than 80 risks, there is inconsistency in the scoring and the way in which the risk is articulated and kept under review. In our view there is scope for the Risk Management Committee to provide more feedback on the quality of the assessments and mitigation. The Committee has taken the view that it wants to retain full visibility of how risks are captured until processes are more embedded. The Committee has met infrequently and there is scope to improve the frequency and challenge function it provides in order to enhance the quality of the risks and the proposed mitigations. Given processes are continuing to develop we will review how the process is rolled out and used and consider the assurance it provides in the context of the proposed SIC improvements in 2019.

OIO engagement

2.13 The work of the Office of Internal Oversight is a key component in the system of internal control and of the assurance that the Director-General provides to States Parties on the effectiveness of these controls. Over the last three years of our mandate, we have made a number of recommendations about OIO and its remit, independence and work programme. This has included the OIO Charter, which has been implemented and establishes a clearer basis for the operation of OIO and approved by the Conference of States Parties. It also includes a more robust approach to developing risk focused audit.

2.14 In the context of the Statement on Internal Control it is important that key processes and projects are reviewed on a regular basis to provide assurance over the more material aspects of the Organisation's work. The results of risk focused work should be reconciled against their importance to the objectives of the Organisation in determining the final work programme.

2.15 There were 14 planned audits for 2018 in the OIO Work Plan. Of these we note that four - the Management of Staff Recruitment, User Access Rights in the new ERP, Information Systems Security and the Evaluation of the Management of Staff Training Activities - were reassigned to 2019 to reflect changed priorities and demands. We noted that OIO has not looked in detail at the ERP project, despite the significant delays to the project and the importance of it to the Organisation.

2.16 As the Organisation enhances its approach to Internal Control, the role of Internal Oversight in the provision of assurance becomes more important. We note from the OIO's Annual Report that they remain committed to reviewing their current level of activities to ensure an appropriate focus on the provision of assurance rather than its advisory functions (such as attendance in working groups). We continue to support the importance of this review and their focus on risks which are significant to the organisation's use of resources and delivery of objectives.

2.17 We also note the reduction in the implementation rate of OIO recommendations - from 77 per cent in 2017 to 59 per cent in 2018, some of which is a function of the number of recent recommendations. There are currently 99 recommendations still to be implemented with one dating back to 2011. We understand OIO is seeking to improve its approach to the follow-up of recommendations, using new software to analyse and track implementation. We would encourage OIO and management to undertake a full review of open recommendations to critically appraise their cost benefits, to ensure that migrated recommendations reflect recommendations that remain relevant for OPCW's current circumstances and priorities.

2.18 The Director of OIO post has been vacant since the end of 2018 when the previous Director retired, with an Acting Director filling in the vacancy. There have been two rounds of recruitment but the consequence of this is that OIO are carrying a vacant post, which will likely remain unfilled for most of 2019, given the time taken for on-boarding staff. At a time when the Organisation is facing significant risk in respect of ERP and major capital building projects such senior vacancies with in OIO could impact on the delivery of OIO and undermine a key element of internal control.

PART THREE

Major Capital Projects

Enterprise Resource Planning Implementation

Background

3.1 The Organisation recognised the need to replace its legacy IT systems to enhance business reporting and improve business processes in its Medium-Term Plan for 2015 to 2019. The primary motive for ERP implementation, as set out for the Executive Council, was to ″enhance the effectiveness and efficiency of the Organisation's operations″. It was anticipated that the preferred solution would transform internal business systems into a smarter, more agile, and better integrated set of processes. It also sought to address the risks around the sustainability and complexity of the current systems, the need for manual interventions and the inability to easily extract and analyse data.

3.2 The Organisation purchased licences, software support and hosting for an ERP solution called Unit4 Business World (U4BW) in September 2016. For the most part, the Organisation expected to implement an 'off-the-shelf' U4BW solution for what it calls its 'System of Record' to avoid expensive customisation, with the objective of delivery in the most cost effective manner. However, the Organisation has concluded that it will need more tailored arrangements for asset, travel and talent management—so-called 'Systems of Differentiation'. The new ERP solution was originally expected to be implemented and go-live in January 2018.

Current status

3.3 As a result of the failure of User Acceptance Testing in late October and November 2017, it became clear to the Organisation that the January 2018 go-live would not be possible as the system build was not complete. We reported in May 2018 that there was an urgent need to agree a realistic plan to bring the ERP project to a conclusion. A timetable was agreed for User Acceptance Testing commencing in October/November 2018 and a revised go-live date in December 2018. During testing it again became apparent that the go-live would not be possible due to further issues with the system design and operation, and the Secretariat decided to delay implementation into 2019. Work is continuing on system build to meet business requirements and the Organisation is currently in consultation with its Implementing Partner regarding next steps. As we completed our fieldwork in May 2019 a new plan emerged from the Implementing Partner indicating a revised go-live date of September 2019. Our review of progress in User Acceptance Testing indicates that there will need to be a significant increase in the rate at which the build is completed and User Acceptance Testing completed successfully if the latest implementation target date is to be met.

FIGURE 5: PROGRESS OF USER ACCEPTANCE TESTING

Date	31 December 2017	31 December 2018	30 April 2019
% User Acceptance Testing completed successfully	20%	21%	39%

Source: OPCW Project Team and ERP Project Documents

3.4 The ERP project is governed by a Project Board and a Project Steering Committee. In the period November 2017 to December 2018 the ERP Project Board met eight times. Key decisions taken over this period related to change requests within the project, the provision of training for the use of the new ERP, and the need to delay the go-live. Governance of the project is hampered by the fact that changed circumstances within the project have meant that the implementation has not consistently followed the disciplines of a recognised implementation framework. The initial tender was accepted on the basis of a Waterfall Implementation. As circumstances changed, the Implementing Partner moved towards an Agile Delivery Method from July 2017. This method was rejected by the Organisation in January 2018, and the Implementing Partner is currently being requested to deliver a solution based upon the defined business requirements in accordance with their original Waterfall implementation.

Costs

3.5 States Parties approved a total ERP Fund of EUR 7.9 million to cover the development and implementation costs of the project at its inception. By the end of 2018 EUR 3.9 million had been dispersed and a further EUR 2.3 million had been committed to the project. The project budget was deemed to be "Red" as reported by the ERP Project Manager to the December 2018 Project Steering Committee meeting with a balance of EUR 1.7 million remaining at this time. Given the status of the project and the work which remains outstanding together with additional licence fees, there is a need to reassess the budget requirement to complete the project.

3.6 Project-related capitalised assets in use at the end of 2018 totalled EUR 0.3 million, mainly relating to the Talent Soft recruitment module that went live in 2018 and the purchase of software licenses. A further EUR 1.5 million has been classified as assets under construction which represents the amount spent so far which is expected to be used on the production of fully functioning "in use" assets.

3.7 In addition to costs allocated to the ERP budget, indirect costs such as time spent performing User Acceptance Testing by staff members from around the business are not captured as part of the ERP budget. These represent a significant opportunity cost to the Organisation that is borne by its General Fund. Until the ERP project is complete and a fully functioning system is in place, additional costs to support legacy systems are also being incurred which are now significantly higher than would have been expected at the inception of the project.

Next steps - System of Record

3.8 The project has missed its planned go live date on two occasions as the build of the new solution has failed to complete. We understand from management that the current plan issued in May 2019 by the Implementing Partner plans for a September 2019 go-live. As at May 2019 this plan is being discussed with the Implementing Partner, but it remains important that the Organisation gain sufficient commitment from the Implementing Partner to provide the required level of resource to complete the project. At the time of our audit the specific detail to provide assurance over the deliverability of this plan had not been provided, as such, we consider that significant risks to the project remain.

3.9 While the Implementing Partner has identified a roadmap to achieve the September implementation there are some significant assumptions built into the plan. We believe that based on previous experience the timetable is ambitious, especially since technical aspects of the 'Hire to Separate' HR modules are critical to the reasonableness of the revised timetable, and where the build solution of the Implementing Partner has not yet been assured. Management will continue to review progress and the QA assurance processes which the Organisation has established are detailed and take time to undertake. In our view it is vital that the next revised implementation date is prudent and deliverable for the credibility of the project.

3.10 Process Owners have spent significant time supporting the implementation, and a further failure to deliver to the plan could risk the loss of their engagement and undermine their belief in the new system. The proposed implementation date needs to factor in sufficient time for testing, training and to support the aspects of cultural change necessary to ensure a successful launch of the solution. We noted that the current plan suggests significant post implementation training, which would create a risk if not managed carefully. We understand that initial user training is planned before the go-live date for core business users. It is important that alongside the implementing partners plans, that management overlay their own rollout plans to incorporate these issues.

3.11 Any slippage from the September implementation could significantly impact on the year-end processes and create the burden of operating two systems, one of which may only operate for a few months. Experience of the UN's implementation of UMOJA was that a November implementation created additional burdens to find reporting solutions to provide an audit trail in enough time to support year-end processes, alongside the practical challenges of operating a new system. Management should critically appraise the benefits of a Q4 implementation alongside the investment necessary to achieve this, which in the end may be wasted should the project slip by a few months.

Next steps - Systems of Differentiation

3.12 The Systems of Differentiation, particularly Asset Management and Travel Management which require custom development of the System of Record, are likely to require further investment for successful implementation, which may not be covered within the current ERP budget. Until the ERP project is complete and a fully functioning system is in place, additional costs to support legacy systems are being incurred and this will increase the longer it takes for this implementation to be completed. Both the Organisation and external staff time is being spent on the ERP project and this is also increasing with delays to the project. A key anticipated benefit of the ERP project was to have a single integrated IT system. However, for practical, cost reasons and market trend the Project Board decided that some elements of the system would be delivered by using an additional software application. Therefore, some of the Talent Management System of Differentiation is being delivered by a separate implementing partner using the Talent-Soft software application and, as part of this, the Recruitment module has now gone live. Other modules will be rolled out over the next year for Performance Management (2020) and Learning (2019). Until the System of Record is completed, it is unclear about the costs and feasibility of integrating these modules since interfaces and customisations can create difficulties when software upgrades are required.

Recommendation 4: The Organisation should consider the cost and benefits of a final quarter implementation in September 2019, and the extent to which this timeline will provide adequate time for testing, training and to reinforce the cultural changes to enable the ERP launch to be a success.

Laboratory and Equipment Store Upgrade Project

3.13 On 10 July 2017 the Technical Secretariat Note S/1512/2017 entitled "Upgrading the OPCW Chemical Laboratory to a Centre for Chemistry and Technology", informed States Parties of the details of the proposed project to upgrade the laboratory. The Organisation developed and issued to States Parties on 22 December 2017 a "Needs Statement" for the upgrade of the Laboratory and Equipment Store. This detailed the rationale for the project and the potential options for addressing the need. It appraises each option critically to determine the best solution for the Organisation. The Needs Statement concluded the most appropriate option was to build a new facility.

3.14 As at 31 December 2018 the Organisation had received EUR 4.2 million in voluntary contributions toward the build of the new Centre for Chemistry and Technology, with an agreement to reserve land on a site in Nootdorp signed on 14 December 2018, with a view to future purchase.

3.15 In considering the approach to this project we were pleased to note that the Needs Statement addressed many of the gaps we identified in respect of the business case at the inception of the ERP project. The Needs Statement was also developed with input from States Parties which is a positive step to ensure it meets the needs of stakeholders and donors. Our previous findings on ERP highlighted the need for future projects to be clearer in respect of the expected outcomes, to enable value for money to be more clearly assessed. We also highlighted the need for greater detail around the consideration of alternative solutions. The Needs Statement provides a clear outline of the project's objectives which can be used as a basis to evaluate the project, and which provides a basis for the development of a more detailed business case to support the investment. Furthermore, it articulates a list of expected requirements which can be used to inform the cost assessments and the procurement specifications.

3.16 While the Needs Statement provides an indication of costs, the Organisation recognises that it will need to further refine these from the current estimation of EUR 24.9 million. Complex technical projects carry risk and it is important that the Organisation includes a risk contingency. We understand that provisions have been made for a risk contingency, and this will be included in a revised project budget to be presented to States Parties. It will be important for the risk contingency and other assumptions to be clearly disclosed in the revised cost estimates presented to States Parties. This will enable accountability to be maintained when circumstances change due to factors outside of management's control. We will review these assumptions as part of the 2019 audit.

3.17 We noted that there was clear consideration given to the procurement approach for the Centre for Chemistry and Technology project. The strategy evaluated the relative merits of the different approaches. It concluded that a separate procurement of design and build would be the most appropriate, given the desire to progress the project with enough flexibility to match the level of resources available. In selecting this option consideration had been given to managing the risk of the lack of integration between the design and build phases. While more detailed plans need to be developed, these considerations at the inception of the project are positive indications of good project governance and risk management.

3.18 It is our understanding that the Secretariat intends to issue a document that will provide an updated cost estimate and timeline for the project, along with explanations for these changes. It will also further develop the Needs Statement that States Parties have already received, providing additional information on the expected benefits of the project.

Project Governance

3.19 The project will be managed by the Project Management Group, overseen by the Project Board. The Project Management Group is co-coordinated by the Project Manager and Senior Planning Officer. The Project Board is an internal governance body established to provide strategic and managerial oversight for the Project. The Board is responsible for ensuring full delivery of the Project according to defined parameters for cost, scope, time, risk, quality, and benefits. The governance structures in place for the Centre for Chemistry and Technology are similar to those in place for the ERP. The project Board is chaired by the Deputy Director- General, which provides a higher degree of oversight of the project than was with the case of the ERP Project Board. In this context the Deputy Director-General receives weekly briefings on the status of the project from the Secretary of the Board who is also the coordinator of the Project Coordination and Assurance team. During these briefings project developments are discussed and progress is closely monitored against agreed timelines and resources. Figure 6 shows key questions that the Project Board may wish to consider and address in its review of the project documentation and approach.

3.20 At the Project Board in November 2018, it was decided that the Organisation would "develop job descriptions to begin recruitment of additional required project staff (e.g. project manager)". It is a positive step that the Organisation has acknowledged that a strong and experienced project manager is crucial to the success of this project. In our experience of projects of this type, a proven track record in delivering similar projects is one of the key success factors. It is essential that all the key participants in the project have sufficient and relevant skills to implement this important project in a cost-effective and timely manner. We understand that the recruitment process is underway for the Project Manager role.

Recommendation 5: We recommend the Project Board establish a clear suite of regular and consistent reports that will allow it to provide effective oversight for the duration of this project, including clear quality assurance updates from experienced experts.

Recommendation 6: We recommend management provide a fully supported project plan with clear assumptions and incorporates an appropriate and justified level of contingency costs within the plan.

FIGURE 6: KEY QUESTIONS TO INFORM GOOD PROJECT GOVERNANCE

Purpose

- **Need for programme** Is it clear what objective the programme is intended to achieve?
- **Portfolio management and dependencies** Does the programme make sense in relation to the Organisation's strategic priorities?
- **Stakeholder engagement** Have the right people bought into the programme, such as users, suppliers, those who have to implement it?

Value

- **Option appraisal** Does the option chosen meet the programme's objective and provide long-term value?
- **Business case** Does the business case demonstrate value for money over the lifetime of the programme
- **Cost and schedule** Has the programme built up robust estimates of cost and schedule, including all programme components?
- **Benefits** Does the programme: have a baseline; know what measurable change it is going to make; and actually measure it? Are benefits being achieved?

Programme set up

- **Governance and assurance** Are there structures (internal and external) which provide strong and effective oversight, challenge and direction?
- **Leadership and culture** Does the programme have strong leadership with the necessary authority and influence?
- **Resources** Has the Organisation the resources (staffing, skills, equipment, and so on) required to deliver the programme?
- **Putting the programme into practice** Are scope and business requirements realistic, understood, clearly articulated and capable of being put into practice?
- **Risk management** Are key risks identified, understood and addressed

Delivery and variation management

- **Delivery strategy** Are there appropriate incentives for all parties to deliver (contractual, performance management, or other)?
- **Change control** Is there an effective mechanism to control programme alterations?
- **Responding to external change** Is the programme sufficiently flexible to deal with setbacks and changes in the operating context?
- **Performance management** Is progress being measured and assessed, including consideration that the programme is still the right thing to do?
- **Lessons learned** Is the programme learning from experience on the current programme and previous relevant programmes?
- **Transition to business as usual** Does the programme have a clear plan for transfer to operations/business as usual?

Source: NAO Framework to Review Programmes, Update 2018-19, https://www.nao.org.uk/wp-content/uploads/2017/09/Framework-to-review-programmes-2019-update.pdf

PART FOUR

Prior Year Follow-up

4.1 In this section we summarise the Organisation's progress in implementing our past recommendations, focusing mainly on our 2016 review of human resources management and our 2017 review of procurement and contract management. Appendix provides a more detailed review of progress for each prior year recommendation and includes the Technical Secretariat's account of progress.

4.2 As at May 2019, of the 34 recommendations outstanding for 2017 and previous years, we considered that five recommendations had been implemented in full during the year. Two recommendations have been superseded by more recent recommendations, six have been closed but not implemented and 21 recommendations remained in progress. Many of the outstanding recommendations are linked to developments expected from the ERP implementation. Recommendations closed but not implemented reflect our assessment of whether the Organisation's actions met our expectations, and where we do not consider that management will take further action.

Procurement

4.3 Our 2017 review of the Organisation's procurement function concluded that its approach at that time was largely transactional, and that a more strategic approach would enhance procurement effectiveness, efficiency and delivery. We recommended that the Technical Secretariat should improve procurement guidance and exploit ERP developments to improve analysis and reporting against a comprehensive set of performance and compliance measures.

4.4 Since we last reported, the Technical Secretariat has made some early progress in developing a procurement strategy building on a category analysis of suppliers. The Procurement Section expects to identify a small number of suppliers that it regards as strategically important for the Organisation and to manage its relations with these more intensely and to consider ways of mitigating any risks associated with supplier dependence. The Procurement Section has also started to document additional procurement guidance for the Organisation staff, but this work is not complete, at least partly because it needs to take account of processes associated with the new ERP. The delayed implementation of the ERP has also impeded progress in developing comprehensive management information and reporting to support procurement and contract management decision-making.

4.5 We also recommended that the Organisation should strengthen its governance supporting procurement policy and practice, suggesting that the Committee on Contracts should adopt revised terms of reference enabling a more strategic and risk-based oversight role. The Committee on Contracts endorsed revisions to the Administrative Directive on procurement in March 2019 which should enable greater oversight of procurement strategy and plans, market testing and vendor management. We would encourage the Committee to ensure it considers the application of this broader function in practice.

4.6 On contract management, we recommended that the Organisation should adopt a more consistent, proportionate and documented approach. The Procurement Section's work to categorise suppliers according to their significance is part of this and the Technical Secretariat has invested in contract management training for staff in 2018 to improve capability. Additional written guidance on contract management for staff is also planned in 2019. However, it will take sustained leadership over several years to ensure that efficient contract management practices are systematically embedded in organisation practices.

4.7 A number of our recommendations focused on the way in which the ERP would inform and support procurement and contract management. Given the delay in the ERP implementation we are unable to report on how the ERP design might address the issues we raised. In general, we are satisfied with the progress being made.

Human Resources

4.8 For our 2016 audit we considered Human Resources (HR) governance and aspects of skills and workforce planning. Our assessment was that it was important for the HR function to provide a more strategic role, underpinned by better quality data and reporting. This was important to reshaping the workforce and ensuring that skills met the evolving requirements of the Organisation.

4.9 On skills and workforce planning we noted a lack of a clear and detailed plan to underpin staffing proposals put to States Parties in 2015 meaning that it was difficult to track progress. We said that the Technical Secretariat should support future discussions with States Parties on the seven-year tenure policy by conducting a full assessment of its costs and benefits alongside alternatives. Finally, we identified scope for further improvements to recruitment processing and noted that the performance management system did not provide a consistent basis for differentiating performance weakening its usefulness for workforce planning.

4.10 The arrival of a new Head of HR in 2017 prompted a wider review of the HR function in the Organisation and a commitment - articulated through a new people strategy in 2018 - to exercise more effective business partnering and support for the delivery of organisational change. A planned people survey for 2019 will be an opportunity to assess early progress in implementing this changed approach and to consider whether personnel believe that trust and transparency across the Secretariat has improved. On the use of performance information more generally, we note that the HR Branch has increased its analytical capacity by establishing an HR Analytics function and through activities such as building a KPI framework, creating an HR operational dashboard and tracking progress on key performance measures. Systematic reporting of performance has been delayed, as it is tied to the completion of the implementation of the new ERP systems.

4.11 In 2018 the Technical Secretariat commissioned an external review[41] to consider the wider costs and benefits of the current seven-year tenure policy to inform discussions

[41] Duncan Barclay and Ralf Trapp (2018) *Report on The Impact of the OPCW Tenure Policy* June 2018 (EC-89/DG.28, dated 2 October 2018).

at the Fourth Review Conference. We understand that no clear consensus was reached in the Review Conference and that analysis and discussion is ongoing. Reporting in June 2018, the review concluded that:

- The tenure policy is no longer appropriate to the needs of the organisation;
- The rationale for its existence has been eroded by subsequent events, for example the scarcity of technical expertise in some fields; and
- The policy is operationally disruptive and expensive to implement and administer and has contributed to, amongst other things, "*a lack of credible performance management*" and "*dysfunctional knowledge transfer*".

4.12 The external review recommends a longer-term "*strategic re-think of the policy*" and makes a set of "*specific intermediate recommendations*" that, in its view, "*would alleviate the most pressing problems while at the same time improving organisational efficiency and saving costs*" including:

- Giving the Director-General authority to make exceptions to the tenure ceiling where operationally necessary, for all categories of staff within prescribed limits; and the authority to recruit former OPCW staff members.
- Allowing all current Organisation staff to compete for any vacant position in OPCW and if selected, to be granted a new tenure period.

4.13 We are sympathetic to the concerns raised by this review and would urge the Secretariat and States Parties to conduct a full impact assessment of the 'intermediate' recommendations it makes.

4.14 On other aspects of workforce planning, the continued delay in the roll out of the ERP has slowed progress in implementing our recommendations. We note that on recruitment specifically there are signs that processing has improved and there is a stronger emphasis on addressing gender balance through a number of recruitment and talent management initiatives. It will take time for the impact of these further measures to become clear. In addition, a more detailed Sourcing Strategy will be designed and implemented during the 2nd half of 2019 to meet the Organisation's diversity needs and commitments. Overall the Organisation has responded well to our recommendations and good progress is being made towards the implementation of our proposed actions.

Acknowledgments

4.15 We would like to thank the Director-General, Deputy Director-General and their staff for their co-operation in facilitating the fourth year of our audit engagement.

[signed]

Sir Amyas C E Morse
Comptroller and Auditor General, United Kingdom - External Auditor

29 May 2019

APPENDIX

Prior year follow up details

Ref	Area	Recommendation	OPCW Response	External Auditor Comment
1/2017	Financial Management	The Organisation should agree a clear funding strategy for the employee benefit deficit to ensure the adopted approach has been specifically approved.	The Secretariat included this issue in the draft paper on Strategic Financing considered by the ABAF in 2018. The approach to the funding of the employee benefit deficit will be further considered by the ABAF at its Forty-Sixth Session in June 2019.	In progress - we continue to reiterate the importance of this recommendation and note that this issue will be considered as part of the June 2019 ABAF.
2/2017	Financial Management	As part of the approach to longer term financial planning the Organisation should consider its strategy on Extrabudgetary Funding and how this can complement the Regular Budget in enhancing the delivery of objectives.	The Secretariat recognises the increasing importance of the role of extrabudgetary resources in long-term financial planning and included this issue in the paper on Strategic Financing considered by the ABAF in 2018. The Secretariat will continue to develop and refine its approach in this area, incorporating in the OPCW context best practices from other international organisations.	In progress - we continue to monitor developments in this regard to ensure that the Organisation has the financial means to deliver its long-term objectives.
3/2017	Procurement and Contract Management	The Organisation should formalise its plan for delivering the procurement strategy, supported by the consolidation of procurement guidance to form an end-to-end procurement user guide.	2018 legacy system data will be used for the strategy and mapped to the data structure in the new ERP system to enable comparison for future strategies. End-to-end procurement user guidance is planned to be included on the new procurement intranet page currently being developed. As ERP go-live is further delayed, the procurement guidance will not be completed before Q2 2019.	In progress. The Secretariat has started profiling and prioritising of suppliers according to their strategic significance to the Organisation. It expects to complete work on a procurement strategy during 2019 and, by end 2019, to have instigated a program of supplier relationship management for the Organisation's most significant contractors (around 10-20 contracts). This will incorporate quarterly meetings with the contractor and adoption of key

Ref	Area	Recommendation	OPCW Response	External Auditor Comment
				performance indicators as the basis for monitoring contract performance. Work on procurement and contract management guidance is expected to continue in 2019 but is partly dependent on progress in implementing the new ERP system which continues to be delayed.
4/2017	Procurement and Contract Management	The Organisation should exploit the potential of the ERP to develop better data analysis and reporting against a more comprehensive set of performance and compliance measures to evaluate the performance of the procurement function.	The first year of the new ERP system will be used to explore which data is available and can be used for reporting and compliance. An initial set of performance and compliance indicators will be proposed to the Committee on Contracts for validation at its next meeting.	In progress. Further substantive progress is contingent on implementation of the new ERP which has been delayed.
5/2017	Procurement and Contract Management	The Organisation should strengthen procurement governance by revising the Terms of Reference of the Committee on Contracts, to enable it to take a more strategic and risk-based approach to its work. This should incorporate oversight of both the procurement strategy and the status of procurement plans and improved performance monitoring. It should also review the operation of the revised delegation limits.	The implementation of the procurement plan was reported to the Committee on Contracts at the June 2018 meeting, and follow-on reporting is scheduled for the last meeting of each quarter. An initial proposal for revising the terms of reference was endorsed by the Committee on Contracts. Revision 5 of administrative directive AD/FIN/1 for formally revising the terms of reference of the Committee on Contracts has been drafted. As further changes to the terms of reference are foreseen in order to	Implemented. Changes to the Administrative Directive on Procurement setting out revised terms of reference are being processed. This follows the Committee on Contracts' endorsement of a broader oversight role at its March 2019 meeting. Additional oversight will include review of organisation's procurement strategy and annual procurement plans, vendor and contract management with focus on strategic suppliers and market testing.

Ref	Area	Recommendation	OPCW Response	External Auditor Comment
			address recommendations from the Internal Auditor, the review and approval of the revision are taking longer and will be completed in Q1 2019.	
6/2017	Procurement and Contract Management	The scope of the Committee on Contracts should be expanded to encompass oversight of the assessment of renewal requests by the other Procurement Authorities, to ensure an appropriate cost benefit between extension and market tested procurements, in advance of the contract expiry.	An initial proposal for revising the Terms of Reference was endorsed by the Committee on Contracts. Revision 5 of administrative directive AD/FIN/1 for formally revising the terms of reference of the Committee on Contracts has been drafted. As further changes to the terms of reference are foreseen in order to address recommendations from the Internal Auditor, the review and approval of the revision are taking longer and will be completed in Q1 2019.	Implemented. Changes to the Administrative Directive on Procurement setting out revised terms of reference are being processed. This follows the Committee on Contracts' endorsement of a broader oversight role at its March 2019 meeting. Additional oversight will include review of organisation's procurement strategy and annual procurement plans, vendor and contract management with focus on strategic suppliers and market testing
7/2017	Procurement and Contract Management	A review of the standard contract terms should take place to evaluate the common causes of contract amendment. This should ensure operational, financial, commercial, legal and security considerations are applied proportionately.	The Secretariat has already started a review of the OPCW general terms and conditions and this recommendation will be added to the scope of the review. This effort has been somewhat delayed due to a number of staff changes and other priorities.	In progress. We understand that the Secretariat has started to review its general terms and conditions for services and is expecting to do similar for goods. Once this review is complete it plans to review its standard contract to ensure consistency.
8/2017	Procurement and Contract Management	The Organisation should undertake a review of the changes to the approval levels and the extent to which delegations have been exceeded and consider the risk of cumulative contracts exceeding	The new ERP system will provide for electronic approval of expenditure and will be a significant improvement in monitoring cumulative contract expenditure. The Secretariat is proposing to	In progress. We welcome the proposal that the Office of Internal Oversight is to conduct a review of changes to approval levels and compliance with delegated limits. We recognise the potential for the

Ref	Area	Recommendation	OPCW Response	External Auditor Comment
		these limits.	undertake this review through the Office of Internal Oversight (OIO) towards the end of 2019 to review the effect of the changes to the approval levels and any remaining risks for exceeding these limits.	new ERP to improve the Secretariat's approach but would caution against any delay to this review if ERP plans are further delayed. We look forward to seeing the results of the review in late 2019.
9/2017	Procurement and Contract Management	The Organisation should strengthen its approach to contract management by having a more consistent, proportionate and documented approach to the identification and management of contracts, informed by clearer guidance and training for contract managers. Contract management should be subject to regular oversight by the Committee on Contracts, and for lesser procurements, by the Procurement Authorities.	Contract management training is planned for the last quarter of 2018. Guidance for contract management will be part of the end-to-end procurement user guidance that will be developed as part of the new intranet page on procurement.	In progress. The Secretariat commissioned externally-provided contract management training for the Organisation staff in 2018. We understand that this training was broadly welcomed but the Secretariat acknowledges that further effort will be needed to change cultural attitudes to contract management in the Secretariat. Further written guidance on contract management for staff is planned in 2019. Changes to the Administrative Directive on Procurement setting out revised terms of reference are currently being processed. This follows the Committee on Contracts' endorsement of a broader oversight role at its March 2019 meeting which will include the status of contracts to ensure value for money.
10/2017	Procurement and Contract Management	The ERP design needs to have functionality to provide data to support contract management disciplines, which need to be	The contracts module of the new ERP system will provide a contract depository that can be used by both procurement and contract managers	In progress. The Secretariat expects the new ERP to provide basic functionality to support a more systematic approach to contract

Ref	Area	Recommendation	OPCW Response	External Auditor Comment
		enforced proportionate to the risks of the contract and to assess the level of exposure to single suppliers across the contract portfolio.	to manage contracts, and can be used to determine the exposure to single suppliers across the contract portfolio. A contract depository will be built up after the go-live of the new ERP system as part of contract renewal and obligation process, and is expected to be completed by the end of 2019.	management. Progress in implementing the new ERP is delayed.
11/2017	ERP	The Organisation should consider the robustness of the governance processes in place around the project to ensure that it has appropriate assurances around the risks of the project and the progress of implementation.	The Secretariat has reviewed the project governance processes and implemented strong assurances around the project risks and implementation progress.	Implemented - we still consider there are risks around the project but recognise the Organisation has taken a more robust approach to quality assurance of the build.
12/2017	ERP	The Organisation needs a clear plan to secure the benefits of the system changes in driving improved processes and business culture. This plan should include a clear strategy for communication with the business to ensure appropriate user engagement. It is important that the Implementing Partner retains a focus on driving the benefits in the design solution.	Based upon the objectives of the business case, the Secretariat has initiated the implementation of the approved benefits realisation plan and the approved change management strategy.	In progress - we do not consider that there is a clear plan to secure the benefits of the system change in place. The time that the project has taken to implement has impacted negatively on staff within the Organisation in terms of their engagement with the project, limiting the benefits that are able to be secured from the project.
13/2017	ERP	The Organisation needs to conclude its considerations on the approach to finalisation of the ERP implementation by establishing a clear and time-bound plan with appropriate monitoring milestones.	The recommendations proposed by the External Auditor have been taken into account in determining the planning for the finalisation of the ERP implementation, and the external quality assurance has been extended	In progress - this recommendation remains open as the ERP project is ongoing and as we have reported, the Implementing Partner has come forward with new proposals. Significant risks remain for the

Ref	Area	Recommendation	OPCW Response	External Auditor Comment
		This should include consideration of the level of resources necessary to conclude the project, as well as mechanisms to monitor contractor performance including escalation measures. The plan should also build in sufficient independent challenge and assurance over the build design.	to ensure the solution design and build meets the defined business requirements. Implementation of the core system of record (SoR) remains ongoing, with pending work on the software configuration and defect resolution by the vendor required before the necessary user acceptance testing, data migration, and end-user training can be accomplished. The go-live date of the SoR that had been planned for the end of 2018 is necessarily delayed pending completion of this work, and necessitated revised planning.	project.
14/2017	ERP	The Organisation should consider the operational impact of the final go-live date and, if necessary, approach States Parties to agree a one-off amendment to the normal timeline for accounts submission at an early point.	The Secretariat accepts this recommendation and will approach States Parties to request a one-off amendment of the timeline for the submission of the 2018 financial statements to the External Auditor (Financial Rule 11.1.02). The Secretariat will also work with the External Auditor to ensure that the 2018 financial statements are available for review by States Parties during the Ninety-Second Session of the Council and the Twenty-Fourth Session of the Conference. The Secretariat has received approval from the States Parties for a one-off amendment to the normal financial	Closed- this has not been required for 2018 as the ERP project has been delayed. However, we have made a new recommendation to consider the revised September 2019 implementation date.

Ref	Area	Recommendation	OPCW Response	External Auditor Comment
			year-end accounts submission timeline for the 2018 financial year.	
15/2017	Prior Year Recommendations	The Organisation should establish a process internally to engage management in the follow up to External and Internal Audit recommendations to ensure that implementation rates are improved and that recommendations are kept under review for their continued relevance.	Future Management Board meetings will incorporate a systematic review of pending audit recommendations, including reports by the relevant programme managers.	In progress - we will keep this under review to understand how the process is working.
1/2016	Financial Management	OPCW should consider its approach to funding the general fund deficit, including considering the need to fund long-term liabilities and to ensure an adequate level for the WCF to meet the Organisation's needs. Furthermore, analysis should be undertaken to ensure that the budgetary controls form a suitable balance to enable cash flow management and a suitable rate of budget implementation.	A draft paper on strategic financing was considered by the ABAF at its Forty-Fourth Session in June 2018, and the Secretariat continues to develop the key initiatives noted in the draft paper, including the funding of long-term liabilities and the use of extrabudgetary funding, as noted in the responses to Recommendations 1/2017 and 2/2017 above. The approach to the funding of long-term liabilities will be further considered by the ABAF at its Forty-Sixth Session in June 2019. The Secretariat will continue to use a combination of budgetary contingency, the Working Capital Fund, and following up of arrears to manage short- and medium-term cash flow issues. The Secretariat in 2017 and in 2018 brought key concepts from the Strategic Financing Paper to the	Implemented - the Secretariat took forward proposals to the Review Conference in this regard.

Ref	Area	Recommendation	OPCW Response	External Auditor Comment
			attention of the States Parties through presentations to the Open-Ended Working Group on the Future Priorities of the OPCW and the Open-Ended Working Group for the Preparation of the Fourth Review Conference. Two Notes by the Secretariat were provided to the Fourth Review Conference on the specific strategic financing areas of biennial budgeting and on the establishment of a major capital investment fund: "Request to Begin Preparations to Move the Programme and Budget of the OPCW to a Biennial Budget" (RC-4/S/2, dated 21 November 2018) and "Request for the Establishment of a Special Fund for Major Capital Investments" (RC-4/S/3, dated 27 November 2018). Both strategic financing concepts received encouragement from the Review Conference, as outlined in the Chairperson's report (RC-4/3/Rev.1, dated 30 November 2018). The Secretariat will be working internally and with States Parties to move both of these strategic financing concepts ahead.	
2/2016	Governance and Internal Control	OIO should consider its current staffing and resourcing model	The OIO will prepare a document that will be submitted for	In progress - we will return to this recommendation once the new OIO

Ref	Area	Recommendation	OPCW Response	External Auditor Comment
		within its overall level of resources, ensuring it has the structure, skills, experience and capacity to deliver a core level of assurance over the key risks to OPCW. Furthermore, OIO should review current activities to ensure they focus on assurance provision rather than attendance in OPCW working groups and ensure appropriate independence from management functions and activities.	management consideration after the new Director joins the office.	Director is in post.
4/2016	Governance and Internal Control	The Secretariat should consider reviewing the governance around the implementation of recommendations and develop a greater impetus on either implementing recommendations or agreeing where recommendations are no longer relevant.	Future Management Board meetings will incorporate a systematic review of pending audit recommendations, including reports by the relevant programme managers. Superseded by Recommendation 15/2017.	Closed - superseded by recommendation 15/2017
05/2016	ERP	The Organisation should ensure that the training strategy for the ERP is finalised before the end of quarter three to ensure sufficient time to implement and embed. Following implementation there should be an early evaluation of the roll-out of training to ensure any newly identified needs can be addressed through revised training plans.	The Secretariat can confirm that the training strategy has been finalised and was implemented at the end of the third quarter of 2017. The Secretariat can further confirm that the training plans form part of the overall implementation plan of the new ERP solution. To ensure that users are fully capable of using the new ERP solution at go-live, and to ensure sustainable training material post go-live, the Secretariat has engaged the services of an external training provider to	In progress - as noted in the Organisation's response training should be delivered based upon the final configuration. As the ERP project remains ongoing this remains open.

Ref	Area	Recommendation	OPCW Response	External Auditor Comment
			deliver training based upon the final configuration of the new ERP Solution.	
06/2016	ERP	The Organisation should ensure that it retains the audit trail to support timely data migration and that this is subject to review by OIO. Migrated data should be subject to a review process to cleanse information to ensure that only accurate and necessary data is migrated to the new ERP system.	The Secretariat accepts this recommendation and can confirm that the data migration strategy follows an extract, transform, load, and reconcile protocol with a full audit trail, and that only the data that is necessary for the operation of the new ERP solution will be migrated. The OIO reviewed the ERP data migration strategy and will continue to monitor and evaluate the data migration into the new ERP system during and after the go-live. A first report on the subject was issued in Q1 2018. The subject will remain under OIO consideration until its finalisation. The Secretariat can further confirm that it has taken the considerations of the OIO review into account and has acquired data analytical software to assist in the validation of the data during the migration process and to provide data validation during the post go-live stabilisation period.	In progress - this recommendation remains open pending finalisation of the agreed ERP solution.
07/2016	ERP	The Organisation should ensure that it has an appropriate assurance plan for validating the operation of system controls and delegations	The Secretariat can confirm that assurance plans to validate the system configuration, access controls, roles and responsibilities, segregation of duties, and approval limits and	In progress - this recommendation remains open pending finalisation of the agreed ERP solution.

Ref	Area	Recommendation	OPCW Response	External Auditor Comment
		within the new system and a clear plan to manage the impact of implementation on the preparation of the 2017 accounts.	delegations have been put in place. The results of the assurance activities will be continually monitored to ensure the successful implementation of the ERP solution.	

Ref	Area	Recommendation	OPCW Response	External Auditor Comment
08/2016	ERP	The Secretariat should develop, in conjunction with OIO and Gartner, an appropriate plan of assurance to validate the system security and design prior to implementation. This should be developed on a timely basis to support successful implementation of the ERP solution.	See OPCW response to Recommendation 7/2016.	In progress - this recommendation remains open pending finalisation of the agreed ERP solution.
09/2016	HR	The Secretariat should strengthen the governance around HR by:	The integration of a data- and evidence-based approach to strategic HR decision-making through the creation of an HR data analytics function will further strengthen the governance function in HRB and will facilitate both the discovery of broad trends and the identification of pressure points.	
		(a) improving reporting to States Parties on HR and other programme areas that use the phrase ‘within benchmarked timelines’ to show benchmarked timelines over time;	(a) Standard reports to States Parties quoting benchmarked figures and their attainment, will be amended to include the evolution of benchmarks over time as well as the performance against the benchmarks and the identification of trends. Benchmarks will be revised to include more substantive targets as well as transactional outputs. Although this recommendation has been incorporated into the plan for the ERP solution, its implementation	(a) In progress. The steps planned should address the accountability underpinnings of this recommendation but the delay in implementing the ERP system in 2018 has meant little substantive progress.

Ref	Area	Recommendation	OPCW Response	External Auditor Comment
			has been delayed owing to the delay in implementation of ERP.	
		(b) developing a systematic suite of HR management information and cost data for reporting to all Management Board meetings;	(b) With the new ERP implementation, HR Governance will develop an HR dashboard that looks at HRB performance as well as OPCW people metrics. This will facilitate the systematic transfer of HR management information to Management Board meetings.	(b) In progress. The proposal to develop an HR Dashboard covering HRB performance and the Organisation people metrics and to use this for regular reporting to Management Board meetings appears promising. There is more to do in this area, but progress so far has been promising.
		(c) prioritising the people survey so that response rates are improved and issues highlighted are owned and systematically addressed;	(c) The HRB will continue to build upon the efforts made in response to the staff surveys. In this regard, the HRB recently secured the services of a web-based engagement and feedback tool and concluded an exercise to solicit ideas on improving transparency within the OPCW. An initial seven-module resilience training programme has been developed and successfully launched. The HRB also launched a leadership lab comprising workshops, a monthly newsletter, a manager survey, executive coaching with 360-degree peer feedback, lunch and learn sessions, as well as the “Emerging Female Leaders Coaching Programme”. In Q4, the	(c) In progress. The Organisation has described a series of communication and training measures taken in 2017 and 2018 to improve staff engagement, build transparency and trust. A useful test of whether these interventions are starting to have a positive impact will be the planned cross-organisation staff survey for 2019. We would encourage the Secretariat to ensure that most questions in this survey are comparable with those asked in previous staff surveys to allow analysis over time; and to work on achieving a high response rate.

Ref	Area	Recommendation	OPCW Response	External Auditor Comment
			HRB undertook an assessment of OPCW training. Consequently, a consultant will visit the OPCW in the last week of January 2019, with a view to changing the training needs analysis for 2020 to align OPCW training to business needs.	
		(d) formally considering - and reporting to States Parties on - whether the use of dedicated HR resources best meets future business need, taking account of the current high level of unfilled HR posts, OPCW's changing business operating model and different models of HR support; and	(d) The HRB has already carried out an assessment and restructured, as a result of the analysis of best practices in similar organisations and in light of the requirements of the OPCW. The restructuring concentrates resources on strategic objectives as well as transactional obligations.	(d) Implemented.
		(e) review the need for a more strategic role for HR in the delivery of change.	(e) The above-mentioned restructuring, coupled with the development of a new HR strategy for the Organisation, will endeavour to place the HRB in a position to be strategically effective in the management and delivery of organisational change. The "OPCW People Strategy 2020" has been approved by Executive Management.	(e) Implemented. In 2017 the Organisation's HR Branch conducted a review of its function, making several changes. In 2018, the HR Branch published a HR strategy in which it sets out an ambition to become an effective business partner and change manager for the Organisation. We understand that concrete work plans organised around the HR

Ref	Area	Recommendation	OPCW Response	External Auditor Comment
				strategy themes are being developed for 2019. In this context, the HR Branch reports having participated fully in recent workforce planning discussions for the Inspectorate Division. Meanwhile, our review of 2018 Management Board meeting minutes shows discussion of HR themes facilitated by the Head of HR Branch. Whilst the success of the HR function in providing a more strategic role will take time to emerge we are satisfied that the Organisation has sufficiently addressed the specific recommendation as prescribed.

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10/2016	HR	The Technical Secretariat, supported by HR Branch, should strengthen workforce planning by:		
		(a) developing and documenting a specific action plan addressing high-level workforce planning objectives set out in the Mid- To Long-Term Staffing Plan (June 2015); and providing a regular and consistent report to analyse progress against the plan to the Management Board;	(a) The new ERP will have succession planning capability, which will allow for an opportunity to improve on the current workforce planning framework, including the development of a long-term succession planning approach.	(a) In progress. The Secretariat is expecting the new ERP to provide additional workforce planning capability, in part through implementation of the core system of record as the repository for workforce data. The continued delay of the ERP project has undermined progress. We also understand that the December 2018 Review Conference did not reach a clear consensus on OPCW Tenure Policy, a key factor affecting the Secretariat's approach to workforce planning. In the meantime, the Secretariat has recently commissioned an external review of training provided in the Organisation.
		(b) completing a skills survey of its personnel and - considering the results of this analysis - considering steps to further address priorities in its Staffing Plan;	(b) This aspect forms part of the HR strategy. An initial Competency Framework has been developed and is being used to inform areas such as the new performance management system under Talentsoft ERP. However, the	(b) In progress. A skills survey was not conducted in 2018.

Ref	Area	Recommendation	OPCW Response	External Auditor Comment
			framework is not complete as it still requires levels and behavioural indicators to allow the assessment of attainment of competencies against standards.	
		(c) implementing measures to improve recruitment processing performance in those areas over which it has control; and considering establishing targets and plans to improve gender balance at all levels;	(c) Some elements of rebranding have been implemented independently with the use of external sourcing and branding providers. In 2019, the HRB will also develop a sourcing strategy. A number of gender initiatives have been put in place, including attaining OPCW accession to the international Gender Champions initiative, establishment of Gender Focal Points throughout the Organisation, and providing leadership coaching designed to support the professional development of future female leaders. These initiatives have laid the groundwork for important future efforts to promote gender balance at the OPCW. With a dedicated budget for gender mainstreaming in the Secretariat in 2019 and following the adoption of a gender paragraph in the Staff Regulations and rules, more initiatives will be developed and implemented.	(c) In progress. The Secretariat has provided evidence indicating that recruitment times have fallen between 2016 and 2018 from an average 83 days to 64 days (excluding the initial vacancy notice period and up to a recruitment decision). The Organisation has undertaken a range of gender-related initiatives in 2018 to prioritise recruitment of women, including to more senior positions. There are signs that the proportion of women applicants to professional positions has increased slightly but they remain in the minority while the proportion of women in professional (and higher) posts has remained broadly unchanged over the last few years (c. 23% in December 2018). We look forward to considering evidence of the impact of additional gender initiatives in 2019.

Ref	Area	Recommendation	OPCW Response	External Auditor Comment
		(d) analysing the costs and the benefits of the tenure policy and considering alternatives to inform future decision-making by States Parties especially in the light of known skills and experience deficiencies; and	(d) In October 2018, the Secretariat released a holistic review of the tenure policy, including concrete recommendations, which has been presented to States Parties. The implementation of the knowledge management task force will address the impact of this review and will in itself mitigate negative impacts of high staff turnover.	(d) Implemented. An independent review of the tenure policy was undertaken to inform the December 2018 Conference of States Parties. See report above for more details.
		(e) differentiating staff performance more clearly through performance appraisal; and strengthening underlying systems for identifying and addressing under-performance through the appraisal process.	(e) The new Talentsoft ERP performance management system will allow more effective performance management records, which will be assisted by the introduction of a leadership development programme, including managerial excellence training. Training for all Secretariat staff on proper performance management, including providing feedback on a regular basis, will be provided when the new system goes live in 2019 following the development of the new ERP performance management system. Currently, the system is being configured to provide for setting work plans at the beginning of the year,	(e) In progress. Delays to the roll out of the new ERP system have slowed implementation of a new approach to performance management. Proposals for implementation in 2019 appear positive but technical changes when introduced as part of the new ERP need to be supplemented with management commitment across the Organisation to addressing underperformance. Wider training intended to accompany changes introduced through the ERP will be important in this regard.

Ref	Area	Recommendation	OPCW Response	External Auditor Comment
			establishing peer/stakeholder feedback, continuous conversation throughout the year, and finally an end-of-year assessment.	
04/2015	Governance and Internal Control	The OPCW should establish a small, independent, objective and expert Audit Committee to enhance the assurances to States Parties, focusing on internal control, risk management and audit provision.	As requested, the OIO prepared several reports and briefings for the ABAF's information. The ABAF considered this issue at its Forty-Fourth Session and determined that a separate audit committee would not be appropriate for the OPCW at this time.	Closed - we remain of the view that an Audit Committee would provide benefit to the Organisation but are content that the Organisation has considered this matter.
05/2015	Governance and Internal Control	The Secretariat should maintain and regularly update the risk register and ensure that it is used in the business decision making processes.	The Secretariat accepts this recommendation and continued to maintain and update the risk register in 2018, with top risks being reported to the Management Board as part of the process to further embed it in the business decision-making process. The Secretariat proposes to close this recommendation.	In progress - as noted in our report this year we have some concerns over the strategic nature of the Risk Management processes within the Organisation and welcome further consideration given to this matter.

Ref	**Area**	**Recommendation**	**OPCW Response**	**External Auditor Comment**
06/2015	Governance and Internal Control	Risk management processes should be subject to a clear challenge process to support the embedding of risk management and to improve the quality of identified mitigations, ideally this could be conducted by an Audit Committee.	There was consensus among the ABAF members at the Forty-Fourth Session of the ABAF (ABAF 44/1, dated 8 June 2018 and Corr.1, dated 10 July 2018) that a separate audit committee would not be appropriate for the OPCW at this time. The ABAF concluded that its duties were robust and fit for purpose, encapsulating the functions that would also be expected of an audit committee.	Closed- we remain of the view that an Audit Committee would provide benefit to the Organisation but are content that the Organisation has considered this matter.
07/2015	Governance and Internal Control	We recommend that the Organisation conducts a comprehensive fraud risk assessment to determine the Organisation's potential vulnerabilities and exposure to risks of fraud. The Organisation should use the results of this assessment to prepare a fraud and corruption risk strategy.	The Secretariat accepts these recommendations and is currently reviewing the arrangements in place relating to fraud, with a view to establishing internal roles and responsibilities, conducting a fraud risk assessment, examining training requirements, and developing a whistleblowing policy. A fraud assessment is to be conducted in Q1 2019, which is expected to inform a fraud risk strategy, as well as the articulation of roles and responsibilities, by Q3. The existing Administrative Directive regarding the Procedure to Provide for Direct Confidential Access of Staff Members or Others to the Office of Internal Oversight (AD/ADM/9/Rev.1, dated 15	In progress - we are disappointed at the time that it has taken to progress these recommendations which were made in 2015 and would encourage OPCW to focus urgently on improvements in these areas.
8/2015	Governance and Internal Control	The Organisation should raise awareness of fraud risks through regular communication of fraud issues and through mandatory training courses for all staff on their induction to the Organisation.		
9/2015	Governance and Internal Control	The Organisation should develop a whistleblowing policy to set out how staff can raise valid concerns which will be appropriately and		

Ref	Area	Recommendation	OPCW Response	External Auditor Comment
		independently investigated and provide assurance over the protection it offers to staff. Such policies should be clearly accessible and promoted.	December 2008) will be revised, to ensure that it comprehensively addresses best practices regarding a “whistleblowing” policy and to ensure that it is aligned with the forthcoming fraud risk strategy, roles, and responsibilities by Q4.	
10/2015	Governance and Internal Control	The Organisation should provide greater clarity over responsibilities and arrangements for the response to an identified fraud by means of an approved fraud response plan. This should include establishing clear independence processes to determine the approach and staffing required to appropriately investigate any fraud allegations.		
13/2015	Governance and Internal Control	OIO should have a direct reporting line to an audit committee which has full view of the planned range and scope of activities and can ensure these are sufficient to enable the assurances contained in the Statement on Internal Control (SIC).	See comments made on Recommendation 04/2015.	Closed- we remain of the view that an Audit Committee would provide benefit to the Organisation but are content that OPCW have considered this matter.
14/2015	Governance and Internal Control	Governance arrangements overseeing the production of the SIC should be strengthened. Senior management need to be more involved in challenging the SIC to ensure the statements made are supported by assurance work and highlight areas where control improvements are planned. Furthermore, the SIC should be subject to review by the Director of OIO and provide some summary	The process underpinning the preparation of the SIC is currently under way as part of a two-staged detailed review of the Secretariat’s internal control framework, management attestations, and self-assessments. The recommendations contained in the OIO review have been integrated into this work. Stage 1 is planned for incorporation in the 2018 Financial Statements,	In progress - we welcome the significant improvements that are being proposed to the process for 2019. We will keep this under review as the benefits of the changes will be seen in the 2019 SIC.

Ref	Area	Recommendation	OPCW Response	External Auditor Comment
		which captures the outcomes from their work, and their overall conclusion in respect of internal controls.	with further refinements and strengthening to be conducted during Stage 2 in 2019. Progress on the development of the SIC framework will be further considered by the ABAF at its Forty-Sixth Session in June 2019.	
15/2015	ERP	The Secretariat should ensure it completes its recent exercise to estimate the level of savings arising from the ERP implementation. Sufficient data should be collated to enable an auditable measurement of realised cost benefits on completion of the implementation.	The ERP benefits realisation plan (BRP) has been completed and has been reviewed and accepted by the Project Steering Committee and the Project Board. The ERP BRP will be monitored and reported on throughout the lifecycle of the new ERP solution.	In progress - we do not consider that the benefits realisation plan is sufficiently clear or robust. It has not been adapted to reflect changes to the project. Given the lack of clear objectives, aside from the overall aim that the Organisation needs to move to a more modern ERP system, we consider that it will be difficult for the Organisation to demonstrate the specific benefits realised by the ERP. We understand that the Organisation is consulting with external quality assurance providers to take specific steps to enhance the BRP presently.
16/2015	ERP	The Organisation should formalise its plan to measure benefits and efficiencies over time with a formal benefits realisation plan.	See OPCW response to Recommendation 15/2015 above.	Not implemented - as above.
19/2015	Prior Year Recommendations	The Secretariat should review the way in which it responds to assurance recommendations and provide more specific and	Superseded by Recommendation 15/2017.	Closed- superseded by recommendation 15/2017.

Ref	Area	Recommendation	OPCW Response	External Auditor Comment
		measurable plans for implementation; these should be supported by a suitable governance process to consider the appropriateness of management responses.		
4.1.1/2014	Governance and Internal Control	Following the IIA’s standards, the “Internal Audit Charter” provides a recognised statement for review and acceptance by management and for approval by the board. Applied to the OPCW, the “board” corresponds to the Conference of the States Parties (CSP). However, the current OIO Charter was approved by the Director-General. The Secretariat states that it will study further whether the OIO Charter should be approved by the CSP.	The revised OIO Charter was approved by the Conference of the States Parties in November 2018 (C-23/DEC.8, dated 19 November 2018).	Implemented - the revised OIO Charter has been approved.

Annex 4

RESPONSE OF THE DIRECTOR-GENERAL TO THE REPORT OF THE EXTERNAL AUDITOR ON THE FINANCIAL STATEMENTS OF THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS FOR THE YEAR ENDED 31 DECEMBER 2018

1. The Director-General wishes to express his appreciation for the observations and recommendations received from the Comptroller and Auditor General and his staff, on the occasion of the external audit of the financial statements of the OPCW for the period ended 31 December 2018.

2. The Director-General notes that, in the External Auditor's opinion, the financial statements present fairly the financial position as at 31 December 2018 and that they were prepared in accordance with the OPCW's stated accounting policies (applied on a basis consistent with the previous period); and that the transactions were in accordance with the Financial Regulations and legislative authority.

3. The Director-General notes the observations and recommendations made by the External Auditor, and action has been initiated to implement these recommendations as appropriate.

Annex 5

RESPONSE OF THE CHAIRPERSON OF THE PROVIDENT FUND MANAGEMENT BOARD TO THE REPORT OF THE EXTERNAL AUDITOR ON THE FINANCIAL STATEMENTS OF THE PROVIDENT FUND OF THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS FOR THE YEAR ENDED 31 DECEMBER 2018

The Chairperson of the Provident Fund Management Board would like to thank the External Auditor for the very useful work done in respect of the audit of the Provident Fund of the OPCW. The Chairperson notes with satisfaction that, in the External Auditor's opinion, the financial statements present fairly the financial position as at 31 December 2018 and that they were prepared in accordance with the stated accounting policies (applied as far as possible on a basis consistent with the previous period), and that the transactions were in accordance with the Charter and the Administrative Rules and with the OPCW's Financial Regulations (as far as applicable).

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