



STATEMENT BY THE EXTERNAL AUDITOR OF THE OPCW AT THE NINETY-SECOND SESSION OF THE EXECUTIVE COUNCIL

Chairperson, distinguished delegates,

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

In my presentation, I will address the three topics contained in our report, focusing on financial management, governance, and the management of major capital programmes.

I am pleased to report that our Audit opinion was unqualified, and that the audit revealed no errors or weaknesses which we considered material to the accuracy, completeness, and validity of the financial statements. It also confirms that expenditure has been incurred in accordance with the authorities and regulations set by you as States Parties. We note the continued high quality of financial reporting and the sound processes which underpin the preparation of financial statements. Management have continued to seek opportunities to streamline the accounts and to use the Director-General's commentary on the financial statements as a means to highlight key aspects of the Organisation's financial health.

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

We noted that during the course of 2018 that the OPCW continued to face cash flow pressures. Although the position at year end showed a positive surplus, this arose as a result of the receipt of extra budgetary funds, late receipt of contributions at year end, and the one-off effect of the repayment of outstanding assessed contributions. Although the implementation rate for the regular budget remains high, management had prudently held some budget until the receipt of late contributions. The payment of timely contributions continues to represent the best way for States Parties to ensure the financial health of the Organisation and for the effective implementation of the budget to fund the operations of OPCW. Our reporting continues to draw attention to the overall general fund deficit, which reflects the value of long-term liabilities for employee benefits. We continue to encourage States Parties to adopt a clear formalised approach to the funding of these liabilities and understand this is under active discussion.

We have highlighted two significant areas relating to financial planning, building on our previous recommendations. We have encouraged States Parties to consider the benefits of biennial budgeting as a means of ensuring more efficient and proportionate planning for the



use of resources. We have also emphasised the benefits of reviewing the current status of Trust Funds and Reserves, to ensure they remain relevant for the organisation and efficiently utilise resources. We encourage the Organisation to implement a Capital Investment Fund as a means of spreading the cost of asset replacement and having a longer-term strategy to procure and finance its assets.

Turning now to governance; these are the mechanisms available to you to hold management to account.

Following observations made in our previous reports, management has established processes and plans to strengthen the quality of the assurances provided to you through the Statement on Internal Control. Going forward, the Statement should provide a more comprehensive and robust suite of assurances, drawing on a substantive evidence base from the users of the controls. Management plan to enhance OPCW's Statement over time, with further assurance processes to verify the assessments of users, and we have suggested that OIO have a role to play in aligning their work and assurances to support this statement. We believe that the Statement is one of the most important assurances the Director-General provides to States Parties, transparently evidencing how he has discharged his responsibilities under Financial Regulations. We will continue to work with management to ensure these processes will be effective and provide States Parties with improved transparency and comment on how these plans have been implemented in our forthcoming audit.

Progress in other area such as Enterprise Risk Management (ERP) has been slower, systematic risk assessment continues to evolve, and is not yet in place at OPCW. Although initial work was undertaken to synthesise risks from across the Organisation into a high-level risk register, the processes for collating, reviewing and reporting on the results of risk management and using these results to inform decision making are not yet in place. Effective risk management ensures that management can focus on the key risks of the organisation and for assurance providers such as OIO to provide assurance on how risks are managed.

In our report, 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. This includes having a clear focus on outstanding oversight recommendations and we would encourage OIO and management to work to undertake a comprehensive review of outstanding recommendations before these are migrated to OIO's new tracking tools. This will ensure that migrated recommendations continue to remain relevant to the Organisation.

Turning finally to our review of major capital programmes, over the last four years we have reported on the implementation of the ERP solution approved by States Parties. We highlighted user acceptance testing as an indicator of the lack of progress in the implementation and that there were no formal plans or timelines for us to consider the probability of completion of the implementation. As implementation has been delayed the organisation has incurred additional direct and opportunity costs, reflecting the additional days spent by process owners and project teams. At the time of this presentation, we understand that there has been further effort from the implementing partner to address a number of key issues and that acceptance testing has progressed. Significant elements remain

to be concluded, and management have a current expectation of a go live in Q1 of 2020, but no final decision on the implementation date has yet been made.

It remains important that implementation only takes place after proper processes have validated the system controls and the migration of data. We will review these arrangements as part of our audit, but OPCW should obtain positive assurance from other sources before making the decision to go live in order to manage risk. Our report again highlights the need to carefully consider the impact of implementation on the preparation of financial statements and the impact on the normal timeline for reporting to OPCW's governing bodies. A realistic go-live date also needs to allow for detailed training to ensure that users feel engaged and to promote the wider benefits of changed process and culture. It is important that wider benefits of the change of ERP are not lost.

We are encouraged by the approach the Organisation has taken on the Centre for Chemistry and Technology project. The approach builds on recommendations for improving the quality of the business case and objectives which we highlighted as weaknesses in our first report in respect of the ERP. A detailed Needs Statement for the ChemTech project had been prepared, with engagement from States Parties. Since our audit the cost and status of the project have been revised and shared with States Parties, and it is important that as the project develops this be kept under review on a regular basis to retain donor confidence. The Statement contained key features around the key aims and objectives, which will facilitate a measurement of the value achieved on completion of the project. In our discussions we also evidenced a proportionate and considered procurement strategy for the project. We expect to remain engaged with this project throughout our mandate and we have emphasised the importance of prudent cost control and the use of sufficient project management skills to manage a complex technical project.

We are pleased to note that the Technical Secretariat (hereinafter "the Secretariat") continues to take forward our recommendations in respect of HR and procurement, and good progress is being made, although this is somewhat dependent upon functionality which will come with the new ERP system. This means that a number of our recommendations remain open. We have noted that there has been less progress in areas around fraud prevention and policy due to the demands of the ERP implementation, and the Secretariat has committed to making progress in these areas in the coming year. It is important that these areas do not get neglected, as they are critical to an organisation's reputation. We will continue to support the Secretariat in implementing our recommendations effectively.

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

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