

**REPORT OF THE FORTY-EIGHTH SESSION
OF THE ADVISORY BODY ON ADMINISTRATIVE AND FINANCIAL MATTERS****1. Opening of the session**

- 1.1 The Forty-Eighth Session of the Advisory Body on Administrative and Financial Matters (ABAF) was held from 2 to 5 June 2020. The following members participated: Mr Seyed Mehdi Hosseini Esfidvajani, Mr John Foggo (Chairperson), Mr Aizaz Khan, Mr Milan Kerber (Vice-Chairperson), Mr Vladimir Kuznetsov, Mr Hans-Christian Mangelsdorf, Mr Arata Mizukami, and Ms Qian Wang. ABAF member Mr Pankaj Agarwal did not participate. Former ABAF member Ms Leslie Hyland was replaced by Ms Hollie Mance, who attended as an observer.
- 1.2 The list of documents presented to the ABAF for this session is included as the Annex to this report.
- 1.3 The Deputy Director-General of the Technical Secretariat (hereinafter “the Secretariat”) of the Organisation for the Prohibition of Chemical Weapons (OPCW) welcomed the ABAF members virtually through email. She expressed appreciation for the ABAF’s flexibility to conduct the Forty-Eighth Session virtually, given the restrictions in place due to the COVID-19 pandemic. Understanding that there were challenges in conducting the Forty-Eighth Session in this manner, the Deputy Director-General assured the ABAF that the Secretariat would work to the best of its ability to ensure that the session was fully supported. The Deputy Director-General also took the opportunity to express her condolences on the passing of ABAF member Ms Leslie Hyland. She also acknowledged the appointment of Mr Pankaj Agarwal (who took the place of Mr Giridhar Armane) to the ABAF.
- 1.4 Referring to the agenda for the session, the Deputy Director-General noted that a number of important issues were to be addressed by the ABAF, including the 2019 Financial Statements of the OPCW, as well as the reports of both the Office of Internal Oversight (OIO) and the National Audit Office of the United Kingdom of Great Britain and Northern Ireland (NAO), the Organisation’s External Auditor. She informed the ABAF that updates on the Organisation’s financial position in 2020 to date, as well as transfers of funds in 2019 and programme performance for 2019, were also to be considered at this session of the ABAF.
- 1.5 Turning to the issue of COVID-19, the Deputy Director-General indicated that the pandemic had had a sudden impact on the Organisation, and as a result the Organisation had needed to react with urgency by developing alternate working arrangements in order to continue performing its duties. However, due to restrictions



in place in the Netherlands—and throughout much of the world for that matter—some programmatic activities, primarily in Verification and International Cooperation and Assistance, had to be postponed for the time being. The Organisation found itself in the early stages of determining what the full impact would be on the Organisation going forward, given the dependence on a number of factors. The Deputy Director-General assured the ABAF that the Secretariat would continue to inform the ABAF at its Forty-Ninth Session as the situation becomes clearer.

- 1.6 The Deputy Director-General informed the ABAF members that they would receive updated information on two of the Organisation's most significant initiatives: the transformation of the OPCW Laboratory into the Centre for Chemistry and Technology, and the Enterprise Resource Planning (ERP) system project, which is progressing despite some delays. In this regard, comprehensive information and deliberation on the status of both projects would be provided at the ABAF's Forty-Ninth Session, when it was hoped that a more interactive meeting format would be possible.
- 1.7 With regard to the 2019 Financial Statements, the Deputy Director-General informed the ABAF members that these had once again received an unqualified audit opinion from the NAO, confirming that the financial statements had been prepared in full compliance with International Public Sector Accounting Standards (IPSAS) and contained no material weaknesses.
- 1.8 Addressing the External Auditor's report, the Deputy Director-General conveyed the Secretariat's appreciation for the NAO's recommendations, which were aimed at the continued enhancement of the effectiveness and efficiency of the OPCW.
- 1.9 The Deputy Director-General shared the NAO's view on the significant General Fund pressures on the Organisation, which were first reported in the 2015 External Auditor's report, and again in subsequent reports, including the most recent 2019 report. She indicated that for the majority of 2019, the Organisation's cash position had been tenuous, largely due to the delayed payment of assessed contributions—a high proportion of which were received late in the year—and lagging verification reimbursements. As a result, the Organisation had to manage budget expenditures and cash outflows more closely against projected cash inflows. In 2020, the situation was again being closely monitored, and States Parties are being kept informed of the situation through the monthly financial situation reports.
- 1.10 Referring to 2019 budget implementation, the Deputy Director-General informed the ABAF that the Organisation had achieved a 99.3% budget implementation rate, which is approximately 2% higher than in 2018. With this achievement, however, the aforementioned pressures caused by delays in or non-payment of assessed contributions required the Organisation to maintain its budget contingency for most of the year. In addition, unplanned yet obligatory increases in staff costs and other rising costs—most notably in the areas of information technology coupled with the aforementioned cash pressures—made the financial management of the Organisation tenuous throughout the year. These pressures are continuing in 2020.

- 1.11 Concerning the Working Capital Fund (WCF), the Deputy Director-General noted that the Fund now stood above EUR 8 million which, although improved, was a level that provided cash flow coverage for the Organisation for a period of less than two months.
- 1.12 With regard to the draft Programme and Budget for 2021, the Deputy Director-General informed the ABAF that it was in the process of being prepared and would be presented by the Director-General to the States Parties in July, just before the Ninety-Fourth Session of the Executive Council (hereinafter “the Council”). Copies would be provided to the ABAF ahead of its next session so that it could review the draft prior to the States Parties’ programme and budget consultations in September.
- 1.13 The Deputy Director-General concluded her remarks by underlining how much the Organisation valued the advice of the ABAF, and how it plays an important role in the continuous review, strategic initiatives, and improvement of the administrative and financial management areas of the Organisation, with the aim of allowing the Organisation to fulfil its mandate in the strongest possible manner.

2. Adoption of the agenda

2.1 The ABAF adopted the following agenda for its Forty-Eighth Session:

1. Opening of the session
2. Adoption of the agenda
3. Review of the report of the previous session
4. Introductory matters
 - (a) ABAF members as per EC-92 and EC-93 decisions
 - (b) Election of the Vice-Chairperson of the ABAF
 - (c) Financial updates: cash position, status of collection of assessed contributions and reimbursements, Working Capital Fund
5. Status of 2020 financial performance (to date)
6. 2019 budget transfers
7. 2019 programme performance
8. Financial Statements of the OPCW and the report of the External Auditor for the year ending 31 December 2019
9. Report of the Office of Internal Oversight for the year ending 31 December 2019
10. COVID-19 and early impact on the OPCW (information item)
11. ERP project update (information item)

12. OPCW Centre for Chemistry and Technology project update (information item)
13. Any other business
14. Next session and agenda
15. Adoption of the report

2.2 In adopting the agenda for its Forty-Eighth Session, the ABAF agreed that given the remote format of the session due to the COVID-19 pandemic and the restrictions imposed as a result, some topics would be better suited to a meeting format that could support interactive dialogue. For this reason, four agenda items previously agreed upon at the Forty-Seventh Session of the ABAF for inclusion on the agenda of the Forty-Eighth Session were deferred instead to its Forty-Ninth Session, scheduled for July 2020. The four deferred agenda items are:

- a) Director's vision of the Office of Internal Oversight;
- b) Update on the OPCW Statement of Internal Control;
- c) Update on negative interest and the OPCW; and
- d) Tenure policy update.

3. Review of the report of the previous session

- 3.1 The ABAF had no comments on its previous report, noting that follow-up areas had been included in the agenda of its Forty-Eighth Session, nor did it have any comments concerning the agenda items that it had decided to defer to the Forty-Ninth Session.
- 3.2 Regarding the Director-General's Note on Comments on the Advisory Body on Administrative and Financial Matters at its Forty-Seventh Session (EC-92/DG.11, dated 9 September 2019), the ABAF expressed its appreciation for the work done by the Secretariat and for the serious attention that had clearly been given to the ABAF's observations and recommendations. However, the ABAF requested that in future, the Director-General's Note should be more meaningful and comprehensive, including specific detail on the Secretariat's views of the observations and recommendations, together with clear statements of whether or not there was intent to implement said recommendations, as well as specific timelines for consideration or implementation, and whether there are any concerns or objections.
- 3.3 In this context, the ABAF specifically highlighted a number of agenda items from previous ABAF sessions, including: the consideration of matters such as: the classification of temporary assistance costs as non-staff costs; linking activities to expenditures, support costs, and planning; activities that would be better suited to the core programme and budget rather than to special funds; and reflection of both regular budget, extra-budgetary, and unfunded requirements in future programmes and budgets.

- 3.4 The Secretariat reiterated the importance of the ABAF's recommendations, and confirmed that all were considered seriously. The Secretariat indicated that it would look to provide additional meaningful detail in the Note by the Director-General wherever possible, although it did also note that in some areas, more time was often required to carefully consider recommendations, their implications, and how and when they might be implemented. In this regard, the Secretariat suggested that future ABAF sessions—either at each session or at the second session of each year—could include an agenda item during which participants would address review previous ABAF recommendations and the status thereof, for example, within a two-year window of past session reports.

4. Introductory matters

Subitem 4(a): ABAF members as per EC-92 and EC-93 decisions

- 4.1 The Chairperson of the ABAF welcomed all members to the Forty-Eighth Session of the ABAF, and noted the newly appointed member through the decision of the Council at its Ninety-Third Session.¹ On behalf of the ABAF, the Chairperson expressed his sincere condolences on the passing of former ABAF member Ms Leslie Hyland, and voiced appreciation for her contributions to the Advisory Body.

Subitem 4(b): Election of the Vice-Chairperson of the ABAF

- 4.2 At this session, the ABAF membership re-elected Mr Milan Kerber as Vice-Chairperson.

Subitem 4(c): Financial updates: cash position, status of collection of assessed contributions and reimbursements, Working Capital Fund

Cash position

- 4.3 To set the context for further discussions, the ABAF was informed of the OPCW's cash position as at 31 December 2019. In this regard, the ABAF was informed through the Report by the Director-General on OPCW Income and Expenditure for the Period 1 January to 31 December 2019 (S/1854/2020, dated 26 February 2020) that at the end of 2019, the cash position of the General Fund was EUR 4.0 million, partly due to the receipt of advance 2020 assessed contributions in the amount of EUR 4.85 million. In the absence of these receipts, the overall General Fund cash position of the Organisation at the end of 2019 would have been negative.
- 4.4 The collection of 2019 assessed contributions at year-end stood at 92.64%, down from 96.71% of 2018 assessed contributions received at the same point in the previous year. At the end of 2019, the collection rate of 2018 assessed contributions remained at 96.71%. The ABAF noted that, as outlined in OPCW Financial Regulation 5.4,

¹ No ABAF members were appointed by the Council at its Ninety-Second Session.

States Parties had a responsibility to pay their assessed contributions in full within 30 days of being informed by the Secretariat, or on the first day of the financial period to which the assessment related, whichever was later.

- 4.5 Through the Note by the Director-General on the Monthly Financial Situation Report as at 30 April 2020 (S/1874/2020, dated 14 May 2020), the ABAF was informed that the cash impact of the COVID-19 pandemic on the Organisation was still in its early stages. The Secretariat was continuing to make every effort to minimise as much as possible the impact of the COVID-19 pandemic situation on the implementation of the OPCW's activities and programme for 2020, with some activities having been unavoidably postponed for the time being. In the longer term, the postponement of activities may reduce the overall cash requirement for the year. However, this must be measured against the rate of cash inflows, which may also be slowed or delayed significantly due to the effects of the pandemic on States Parties. Should this situation continue, it would become increasingly likely that the Organisation would have to utilise the Working Capital Fund (WCF) to meet operational requirements.
- 4.6 During this session, the ABAF was provided with an update for May 2020. The ABAF was informed that although the Organisation's cash situation had improved from the prior month, there continued to be real uncertainty as to the amount and timing of future cash inflows due to the situation caused by the pandemic. In addition, April and May 2020 had now both seen cash outflows reduced against earlier forecasts by approximately EUR 1.0 million and EUR 0.7 million, respectively, due to the postponement of some programmatic activities in response to the pandemic. The ABAF was informed that the Organisation's cash forecast would continue to be monitored very closely.
- 4.7 With regard to the status of assessed contributions from States Parties as at 31 May 2020, the ABAF noted that EUR 37.90 million was outstanding for the period from 1993 to 2020, of which EUR 31.99 million was for 2020, and EUR 5.91 million was for prior years. The ABAF noted the comparison of the status of assessed contributions from States Parties at the same date in the previous year, when EUR 36.17 million was outstanding for the period from 1993 to 2019, of which EUR 33.31 million was for 2019 and EUR 2.86 million was for prior years.
- 4.8 The ABAF noted that the Secretariat was forecasting a negative cash position for the General Fund for 2020 at approximately EUR 0.7 million and that the Working Capital Fund would likely be required to maintain liquidity during the year.
- 4.9 The Secretariat informed the ABAF that the General Fund cash position of the Organisation as at 31 May 2020 had improved since April and was EUR 8.8 million, although that was lower than at the same time last year (EUR 11.2 million).

Working Capital Fund

- 4.10 The Secretariat indicated that the current level of the WCF as at 5 June 2020 was approximately EUR 8.1 million—an increase from the same point in 2019. This was the result of the Conference's decision at its Twenty-Fourth Session (C-24/DEC.12, dated 28 November 2019) to apply approximately EUR 0.8 million of the 2017 cash surplus to the WCF. The Secretariat indicated that should the WCF need to be drawn

upon in 2020, in the absence of significant movements in the receipt of assessed contributions, the WCF would sustain operational liquidity for only a short period of less than two months. The Secretariat indicated that previous budget decisions, including the decision for the 2020 Programme and Budget, stipulated that the WCF should be brought to a level between EUR 8.0 million and EUR 9.0 million over the next two years. The ABAF noted the operational risk to the Organisation and further encouraged the Secretariat to develop a contingency plan, should the lag in the receipt of assessed contributions increase.

Status of collection of assessed contributions and Article IV and V reimbursements

- 4.11 On the issue of the status of the Organisation's assessed contributions and reimbursements under Articles IV and V of the Chemical Weapons Convention (hereinafter "the Convention"), the ABAF noted that as at 31 May 2020, the receipt of assessed contributions had improved slightly, with 52.33% of assessed contributions received, compared to 50.36% at the same point in 2019. The ABAF noted, however, that the delays in the collection of assessed contributions continued, and it encouraged the Secretariat to continue to remind States Parties of their payment responsibilities under Regulation 5.4 of the OPCW Financial Regulations and Rules.
- 4.12 The ABAF was informed that approximately EUR 6.44 million was outstanding for Article IV and V reimbursements as at 31 May 2020.
- 4.13 The ABAF expressed serious concern about the number of States Parties in arrears or late in the payment of assessed contributions and the cumulative outstanding balances for the reimbursement of inspections invoiced under Articles IV and V.
- 4.14 The ABAF requested that the Secretariat, despite current delays in the payment of Article IV and V reimbursements, ensure that its submission of invoices to States Parties was timely and current, as this would serve to improve cash inflow should the situation with the delays in these payments improve. The Secretariat informed the ABAF that reminder letters had recently been sent to States Parties with outstanding balances with the Organisation. The Secretariat confirmed to the ABAF that it would continue to remind States Parties of their outstanding balances.

Programme support costs

- 4.15 The ABAF was provided with an update on the status of programme support costs. The ABAF noted that the available programme support costs balance as at 31 May 2020 was approximately EUR 458,000. The ABAF reiterated the suggestion it originally made at its Forty-Seventh Session that the Secretariat revisit the level of programme support costs to ensure that the level charged covered costs incurred. The ABAF again noted that having a costing methodology in place would be prudent, even though the process would be quite detailed.

2019 Programme and Budget implementation

- 4.16 The ABAF commended the Secretariat for achieving an overall 99.3% Programme and Budget implementation rate for 2019. The ABAF was informed by the Secretariat

that budget contingency had been maintained throughout the majority of the year because of the volatility of the receipt of cash inflows, with a higher-than-normal proportion of cash inflows being received in the last months of the year, which was not conducive to optimal programme implementation. The ABAF was informed that in 2019, a series of in-year obligatory, yet unforeseen, salary scale revisions were introduced—including some that were retroactive to prior years, and a change in the post-adjustment multiplier for the Netherlands—resulting in the release of withheld contingency in order to help cover the staff cost increases.

- 4.17 The ABAF noted that cash receipt pressures on the Organisation had to be carefully balanced against budget implementation, as a very high budget implementation rate—although good—might not programmatically lend itself to a sustainable financial situation if cash inflows did not match the expenditure incurred. The ABAF requested that the Secretariat bring this issue to the attention of States Parties again through the different mechanisms at its disposal, including the monthly financial situation reporting, reminder notices to States Parties, and the draft 2021 programme and budget consultations.

5. Status of 2020 financial performance (first quarter of 2020 and April)

- 5.1 The ABAF reviewed the Secretariat's implementation of the 2020 Programme and Budget and was informed that as at 30 April 2020, the budget of EUR 69,208,792 (before extraordinary provisions) had been 39.93% obligated against allotment and 38.30% obligated against budget, which was slightly higher yet comparable to the same point in the prior year.
- 5.2 The Secretariat stated that this figure was reasonable, given the early recognition of contractual obligations for the year, notably with regard to the Headquarters building and mitigation measures that were taken, including the slowing of recruitment and onboarding to help provide a buffer for any unforeseen obligatory increases in staff costs that might continue in 2020.
- 5.3 The ABAF was informed that the contingency margin was increased at the start of the year from the usual 10% of the non-staff portion of the budget to 15%. This margin provided a EUR 2.83 million buffer (i.e., a 4.1% contingency margin). The contingency margin was planned to ensure that 2020 income exceeded expenditure, taking into consideration assessed contribution collection patterns over past years, and mitigation of the potential risks of exposure to exchange rate fluctuations and other unforeseen factors such as price adjustments or unplanned activities. The margin was also intended to mitigate the risk of non- or delayed payment of assessed contributions, and to provide cover for the aforementioned staff cost increases. Close control over the use of the contingency margin continued to be applied to the 2020 budget in accordance with the OPCW Financial Regulations and Rules. While staff costs had been allotted 100% of appropriations, for the most part only 85% of operational cost budgets had been allocated.
- 5.4 On the issue of the staff cost increases, the ABAF was informed that initial projections from early in the year showed an estimated overrun in 2020 staff costs of approximately EUR 4.7 million, of which roughly EUR 2.83 million would be covered by the increased contingency margin that was being withheld. The remaining

EUR 1.87 million would be covered through mitigation measures and non-staff cost savings, especially in the area of travel expenditure which, due to postponements, had already been recorded at EUR 1.3 million less in expenditure at the end of April 2020, compared to the same point last year. The Secretariat informed the ABAF that with the month-end financial numbers in hand for May 2020, it was clear that the mitigation measures were having the desired effect: The projected staff cost overrun has been re-assessed at EUR 4.1 million instead of EUR 4.7 million, with the required coverage outside of contingency reduced to EUR 1.2 million instead of EUR 1.8 million. With these mitigation measures and the slowdown in programmatic activity—namely in travel expenditure—the Secretariat was confident that the budgetary gap would be filled, even with an uptick in programmatic activity in the second half of the year. The Secretariat suggested that the issue of the staff cost increase and progress towards its coverage, including possible budget transfer requirements and the financial impact of the COVID-19 pandemic, should be revisited as part of the mid-year implementation review at the Forty-Ninth Session of the ABAF, given that these areas are still evolving.

- 5.5 The ABAF was informed that a detailed review of actual and projected expenditures that take into account the increase in staff costs and the impact of the COVID-19 pandemic on programmatic activities would be conducted at mid-year. Additionally, as in past years, this type of review will be conducted with increasing frequency in the second half of the year, along with a review of assessed contributions and Article IV and V collections, which could result in an adjustment of the contingency margin. The ABAF welcomed the continued initiatives taken by the Organisation to avoid both a budget deficit and the need to transfer funds between chapters. The ABAF indicated the importance of monitoring the rise in staff costs and ensuring that the projected cost overrun would be covered by a combination of contingency use, mitigation measures, and other non-staff savings that may result from the postponement or possible cancellation of some programmatic activities due to the COVID-19 pandemic. Furthermore, the ABAF encouraged the Secretariat to understand (while acknowledging the uncertainties of the situation) what the possible non-staff savings that might materialise would be, and to gauge what additional costs may materialise due to the pandemic situation. Along these lines, the ABAF noted the importance of planning, where possible, for the rescheduling of activities in line with programmatic objectives.

6. 2019 budget transfers

- 6.1 The ABAF welcomed the draft report on the transfers of funds in 2019, which confirmed that all transfers had been processed in line with the stipulations prescribed in the Organisation's Financial Regulations and Rules. As a result, no transfers had been made between chapters, and all other transfers were conducted within the allowable parameters of transfers between programmes and subprogrammes. The ABAF also noted that all transfers were made without detriment to the activities approved under their respective programmes. Furthermore, the ABAF noted with satisfaction that the high budget implementation rate in 2019 was achieved with lower budget transfer amounts between programmes and subprogrammes, compared to the previous year. The ABAF commented that this could be an indication of improved budgetary formulation and planning.

- 6.2 The ABAF was briefed on the transfers that were made in 2019. Compared to 2018, the overall amount of budget transfers required between programmes and subprogrammes had dropped to EUR 1.721 million in 2019, from EUR 2.243 million in 2018. A total of EUR 1.325 million (77%) of budget transfers made in 2019 were related to covering staff costs. Although the percentage (77%) for 2019 increased from 2018 levels (67%), the amount in EUR was less (1.325 million vs 1.463 million). The primary driver behind the required staff cost-related budget transfers in 2019 was related to obligatory and unforeseen staff cost increases. The Secretariat informed the ABAF that in 2018, a significant portion of the staff-related transfers were due to operational requirement shifts in staffing in the Inspectorate (EUR 0.549 million vs EUR 0.197 million in 2019). In addition, in 2018 there were high costs related to extraordinary staff turnover due to the transition in and out of senior management (the Director-General, Chief of Cabinet, Directors, etc.), which amounted to approximately EUR 0.441 million that was not required in 2019. The standard staff costs used in 2019 were improved, taking into account experience from prior years.
- 6.3 The ABAF noted that all of the transfers between programmes in 2019 were to the Administration Programme. The Advisory Board requested additional information, while understanding that the Administration Programme would have a large staff component, necessitating some transfers to cover the mandatory increase in salary scales and post-adjustment, which in turn resulted in increased staff costs. In response, the Secretariat indicated that there were four transfers between programmes totalling EUR 0.5179 million and, as observed by the ABAF, all were moved to the Administration Programme. Of these, EUR 0.305 million were related to transfers to accommodate staff costs, and EUR 0.212 million were for costs related to hardware and software.
- 6.4 The Secretariat informed the ABAF that transfers between budget subprogrammes amounted to EUR 1.203 million, and of this amount, EUR 1.01 million was related to transfers to cover staff cost requirements. The remaining EUR 0.193 million in budget transfers was related to transfers for non-staff costs under the Contractual and Consultancy Services expenditure category.
- 6.5 The ABAF asked about the transfers related to hardware and software and whether they were made to cover replacements, if they were new costs, or if they were related to the ERP project. The Secretariat informed the ABAF that the Administration Programme had been facing increased information technology (IT) needs that were difficult to accommodate under a zero-nominal-growth environment. The IT transfers comprised primarily hardware purchases (Windows 10 laptops).
- 6.6 Regarding the transfer of EUR 0.315 million from the International and Cooperation and Assistance Programme (ICA) to the Administration Programme, the ABAF enquired where within the ICA programme these transfers had come from. The Secretariat indicated that the transfers from ICA were primarily from the expenditure categories of travel (staff/non-staff) and rental of premises. Most of these transfers were processed late in the year and without any detriment to programme performance.

- 6.7 The ABAF noted that the majority of 2019 budgetary transfers (EUR 1.325 million) were for staff costs and most were likely required to accommodate the mandated in-year staff cost increases. On this matter, the ABAF requested additional information, noting that staff expenditure was the largest expenditure category for the Organisation. The Advisory Board emphasised the importance of having an accurate and reflective standard cost application to determine staff costs. The Secretariat indicated that a revision of the standard staff costs had been made to the formulation of the 2019 programme and budget. Experience from both the completed 2017 financial year and the 2018 financial year—up to the point of the formulation of the 2019 programme and budget, including projections for that year—had been used in determining standard staff costs. The Secretariat indicated that approximately EUR 1.09 million of staff cost transfers were indeed related to the unforeseen yet obligatory staff cost increases that occurred in 2019, including a retroactive salary scale increase for General Service staff (GS) from May 2017 to April 2019, a further salary scale revision for GS staff from May 2019 onwards, and an increase in the post-adjustment multiplier from 31% in September 2019 to 38% in October 2019 for the Netherlands, as announced by the International Civil Service Commission (ICSC) and applied to Professional-level staff. Said multiplier will remain in force at that rate until further notice.
- 6.8 The ABAF noted that the draft note on budget transfers in 2019 would be issued formally ahead of the Ninety-Fourth Session of the Council.

7. 2019 programme performance

- 7.1 In the context of the most recent programme performance report for 2019, the ABAF reiterated its previous recommendation to further develop the programme performance report into a “programme and budget performance report” that takes financial performance into account. The Secretariat commented that once implemented, the ERP system would help illustrate the link between programme performance and budget performance through a newly implemented chart of accounts. The Secretariat also indicated that further to the ABAF’s suggestions, it would endeavour to improve the report in future reporting, looking in particular to include a narrative for the report to highlight specific areas of achievement, lessons learned, and an assessment of outcomes, as well as activities as part of the results-based management approach and initiatives.
- 7.2 The ABAF noted that the programme performance report for 2019 was useful in determining progress made towards the implementation of programme objectives by comparing 2019 key performance indicator (KPI) targets against the actual reported results. The ABAF also noted that while target KPIs had been achieved in most areas, some had not. The ABAF found that although some of the explanations given for variances were meaningful and informative, others were not. The ABAF encouraged the Secretariat to put into place a process in which each substantive office would evaluate how it would or would not be able to achieve the desired results by considering the reasons and factors as deemed appropriate in the column “explanation of variances”. These should be accurate, convincing, and subject to internal scrutiny and review. This would provide a basis for understanding lessons learned, and would also contribute to addressing existing measures and help set more ambitious targets for the future.

- 7.3 The ABAF asked about the underperformance on KPI 1.1 of the Administration Programme: “Satisfaction of Secretariat staff with administrative support”. A target of 95% was established for 2019 and a result of 91% was reported. The ABAF noted that the explanation provided indicated that a reduction in staff over the last few years was the primary contributor, and therefore asked whether the satisfaction level might continue to decline in the future. The Secretariat indicated that there were tangible pressures on the Administration Programme and, although it did not expect the satisfaction level to decrease further, there had been pressures brought on from the reduction of ten non-operational staff positions in the Organisation over the course of 2018 and 2019.
- 7.4 Regarding KPI 1.5, “Attracting and recruiting diverse world-class talent”, the ABAF noted that the report indicated that this indicator would be replaced with two new KPIs in 2020: “learning and evaluation”, and “time to hire (in days)”. For the latter, the ABAF suggested that the Secretariat elaborate what the target of 65 days for 2020 would entail in terms of the recruitment process. The ABAF asked the Secretariat to clarify if the “time in days” metric would in fact begin from the placement of the vacancy notice to the date of contact signing. The Secretariat clarified the metric, indicating that ‘time to hire’ had been defined as the number of working days from the close of the vacancy notice (acceptance of applications) until the day the list of recommended candidates is submitted by the recruitment team to the Director-General.
- 7.5 The ABAF expressed its serious concern about the lower rate of implementation of total OIO recommendations issued over the past five years. The ABAF commented that the issue should be adequately addressed, and the reasons provided for non-implementation were often vague. In response, the OIO provided further explanation, indicating that 70% of the open recommendations were issued in 2018 and 2019, and that implementation was under way. Furthermore, some of the open recommendations require policy or systemic changes, and thus require a longer timeline for implementation or have resource dependencies, including budgetary and human resources needs that have slowed implementation. Several recommendations were awaiting the implementation of the new ERP system. The OIO also indicated that senior management vacancies in the past two years have also contributed to implementation delays. The OIO had taken a proactive approach in regularly reviewing and pursuing the implementation of open recommendations with management. In 2019, the OIO launched “Audit Tracker”, a SharePoint-based platform designed to enable programme managers to continuously report the actions taken to implement audit recommendations. Desk reviews are performed by the OIO in regular consultations with programme managers on actions taken to address open recommendations. A real-time dashboard called “Audilytics” has also been developed and is based on data extracted from Audit Tracker. Audilytics provides an analysis of information by year, division, target date, etc., for oversight purposes. The OIO also reported that the status of recommendations was reviewed regularly by the Management Board, which is chaired by the Director-General. The OIO indicated that the details are set out in the OIO’s 2019 Annual Report and in the OIO’s slide presentation, which was submitted to the ABAF for the meeting.

- 7.6 Regarding KPI 3.1 of the Verification Programme, “Percentage of development of Verification (VER) register of requests on contingency operations”, the ABAF commented that the explanation provided as to why the target of 60% was not achieved was unclear. The Secretariat commented that the vision was to have a system similar in concept to that of the e-legal system in use by the Office of the Legal Advisor. However, this system has not been developed due to understaffing in the Chemical Demilitarisation Branch; if the concept were to gain momentum in the future, the KPI could be relevant. However, at present, a system to track what is received by Verification and how much of that was responded to and in what timeframe and quality is not achievable. The Secretariat informed the ABAF that this KPI is also not relevant for 2020 and its use as a metric will most likely be discontinued.
- 7.7 With regard to KPI 1.1 for the Policy-Making Organs (PMO) on the “Percentage of documents circulated within statutory deadlines as established by the Rules of Procedure and decisions of the Executive Council (hereinafter “the Council”) and the Conference of the States Parties (hereinafter “the Conference”) equal to or better than proposed targets”, the ABAF commented that it was difficult to understand why punctuality in document circulation was below target. The PMO explained that the punctuality of document circulation depends on the annual document forecast used by the PMO to manage the mandates of official-series documents and plan the submission of documents to the PMO with due consideration for the workload and resources available, as well as to plan the distribution of documents to States Parties to ensure adherence with adopted guidelines. In the figures provided in the performance report, 27% of the documents were submitted late to the PMO, and of these, the PMO managed to process 7% of them within the forecast schedule, resulting in an 80% rate of achievement. In addition, the Secretariat informed the ABAF that 35% of documents for the Council and Conference are issued as national statements, which are not included in the document forecast, but are instead managed within workload and available resources. In 2019, PMO processed 187 national statements as official-series documents, compared with 124 in 2017, and 135 in 2016. The number of national statements was even higher in 2018 (248) due to the Fourth Review Conference.² The PMO is taking measures to improve the timeliness of document submissions, including weekly reminders to substantive officers and regular status updates for Directors.
- 7.8 Regarding KPI 1.2 for the PMO on the “Percentage of feedback better than or equal to “satisfactory” from delegations of States Parties and Secretariat managers (Directors and Branch Heads) with respect to services provided”, the ABAF was not clear on the criteria used to determine this metric and suggested that this information be included in the next programme performance report to enhance clarity for readers. The Secretariat confirmed that this would be done.

²

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

8. Financial statements of the OPCW and the report of the External Auditor for the year ending 31 December 2019

- 8.1 The ABAF was provided with the Organisation's 2019 Financial Statements, which had again been formulated in accordance with IPSAS. The ABAF commended the Secretariat on the high quality of the financial statements and for receiving an unqualified audit opinion. The ABAF also congratulated the Secretariat on being able to complete the financial statements and the related external audit exercise on time and to high quality, in spite of the complexities of remote working arrangements brought on by the COVID-19 pandemic. The ABAF noted that this had not been an easy feat to accomplish.
- 8.2 The ABAF noted the continued importance of the Director-General's comprehensive introduction, which highlighted the key concepts and results from the 2019 financial year in narrative and graphical form.
- 8.3 The ABAF noted that with the continued delay in the ERP go-live date, the Secretariat had proceeded in line with the normal financial statement preparation schedule in 2019. The exceptional request for an extension of deadline to submit the 2019 Financial Statements to the External Auditor, which had been supported by the ABAF and the External Auditor and approved by the Conference at its Twenty-Fourth Session, had not been exercised. However, the ABAF noted that that same request could again be required for the 2020 Financial Statements if the ERP go-live date extends beyond 2020, or if the Secretariat requires more time when using the new ERP system to prepare year-end accounts and financial statements. The ABAF undertook to revisit this issue at its Forty-Ninth Session.
- 8.4 Through the Director-General's introduction section of the financial statements, the Secretariat informed the ABAF of the key expenditure categories (IPSAS) in 2019 for all funds combined (extra-budgetary and General Fund), as well as for the General Fund alone. As in past years, employee benefits were the primary cost driver at 69% (EUR 47.6 million) for the General Fund, with travel at 10% (EUR 7.1 million), general operating expenses at 10% (EUR 6.9 million), and consultancy and contractual expenses at 7% (EUR 4.5 million).
- 8.5 The ABAF was advised that the net assets of the OPCW at the end of 2019 amounted to EUR 18.6 million, representing an increase of 63% from the 2018 year-end level of EUR 11.4 million. The Organisation's General Fund continued to show a negative asset position of EUR 4.5 million (EUR 4.2 million in 2018), due primarily to long-term unfunded employee benefit liabilities. The ABAF was also informed that for 2019, taking into account all OPCW funds and accounts, there was an overall surplus of EUR 7.2 million (compared to a surplus of EUR 3.1 million in 2018). This change was primarily due to increases in all categories of revenue, offset slightly by an increase in employee benefit expenses in 2019 and improved budget implementation in 2019.
- 8.6 The Secretariat highlighted to the ABAF through the Director-General's introduction that the overall outstanding amounts due to the General Fund increased in 2019 as a result of a decrease in the collection of assessed contributions for the year, compared to 2018. Furthermore, increased levels of arrears for Article IV and V reimbursements

were due, which were slightly offset by a decrease in other receivables due to receipt of tax refunds in 2019. The level of gross outstanding assessed contributions (2019 and prior years) had increased by EUR 3.5 million to EUR 7.1 million. Similar to 2018, a high proportion of assessed 2019 contributions had been received in the final quarter of the year. In addition, outstanding Article IV and V reimbursements increased by EUR 1.0 million, reaching EUR 8.0 million.

- 8.7 The ABAF noted the overall financial results, but reiterated its significant concern specifically regarding the impact of delayed collections of assessed contributions—especially those occurring late in the year—and Article IV and V reimbursements.
- 8.8 With regard to the Organisation’s assets, the ABAF noted that a significant portion of the asset categories (including property, plant, equipment, and intangible assets such as software) had fully depreciated assets that would need to be replaced in future. It further noted that at its Twenty-Fourth Session, the Conference had approved the introduction of a Major Capital Investment Fund (MCIF) to help address this situation as part of the Organisation’s strategic financing initiatives. The Secretariat informed the ABAF that the asset data in the financial statements remains a key component, highlighting the need for asset replacement. The ABAF was pleased to know that the MCIF had been approved by the Conference and encouraged the Secretariat to continue to draw the attention of States Parties to the Organisation’s ageing asset base and related funding requirements.
- 8.9 Regarding the land purchased for the Centre for Chemistry and Technology, the ABAF noted that the land was correctly reflected as an asset. The Secretariat confirmed that the land was recognised separately from the construction and was reflected within “Land and Buildings” in note 6 to the financial statements. The ABAF requested confirmation of the final price paid for the land, and the Secretariat confirmed that the capitalised cost of the land was EUR 2.046 million, which included the cost of the land itself of EUR 1.971 million (including taxes, notary services, and conveyance), plus legal costs of EUR 75,000. The remaining component of the EUR 2.3 million that had been allotted for the land purchase had not yet been committed and was being considered in the overall context of the project.
- 8.10 The ABAF requested confirmation that when construction of the Centre for Chemistry for Technology begins, it will be recognised as an asset under construction. The Secretariat confirmed that indeed, construction costs that are eligible for capitalisation under IPSAS will be recorded as “Assets under Construction” in note 6.1 of the financial statements until the asset is ready for use (most likely when the completion certificate is issued). At that point, the asset will be transferred from “Assets under Construction” to “Land and Buildings”.
- 8.11 On the issue of the presentation of employee benefit liabilities in the financial statements, the ABAF suggested improvements to note 26 with the purpose of making the information clearer and more comprehensive to avoid any confusion. The Secretariat appreciated the ABAF’s useful feedback on the notes to the financial statements, observing that extensive work had been done with the External Auditors to streamline the narrative in some areas of the financial statements to achieve the correct balance of summary and detail. As this process is ongoing, the Secretariat indicated that additional wording will be added for the 2020 financial statements to clarify note 26.

- 8.12 The ABAF sought clarification on the nature of employee benefit expenses and the relatively small difference between the IPSAS and budgetary figures presented in the financial statements. The Secretariat explained that the IPSAS expense amounted to EUR 48.487 million before adjustments for capitalisation of staff time, whereas in the budgetary accounts it was EUR 48.427 million across all funds. The difference of EUR 0.34 million was related to a decrease in the amount of recognised employee benefit expenses in the budgetary accounts due to IPSAS-related adjustments. IPSAS entries that resulted in increased employee benefit expenses included year-end IPSAS adjustments for post-employment, long-term employee benefits, and the accrual of untaken leave, which all resulted in a higher IPSAS expense that was not recognised in the budgetary accounts. IPSAS adjustments that resulted in the reduction of employee benefit expenses included the cancellation of unliquidated obligations, the cancellation of expenses for post-employment and long-term employee benefits expensed under IPSAS in previous years, and the reclassification of prior-year adjustments. The net result of these adjustments was a decrease in employee benefit expenses in IPSAS terms compared to budgetary terms.
- 8.13 On the issue of the death benefits, the ABAF noted the ongoing disagreement between the Secretariat and the External Auditor as to the designation of these benefits as a liability. The ABAF suggested that the Secretariat determine how other international organisations address this particular issue, especially given that the Organisation largely follows the United Nations Common System in terms of salaries, benefits, and allowances. Furthermore, the ABAF noted that some international organisations have indemnity benefits (compensation plans in the event of injury, illness, or death attributable to the performance of official duties), but not death benefits *per se*, and that those indemnity (compensation) benefits were taken into account in the financial statements as long-term liabilities. The Secretariat appreciated the ABAF's constructive suggestion on this matter to benchmark against other organisations in the United Nations Common System. The Secretariat informed the ABAF that the OPCW's position is supported by its external actuary, who had confirmed in conjunction with their IPSAS technical experts that the OPCW's position is in line with IPSAS. The Secretariat noted that the balance was not considered material for the OPCW. The Secretariat stated that it would look into conducting a benchmarking exercise with organisations in the United Nations Common System in the coming months.
- 8.14 The ABAF noted that the financial statements indicated that the External Auditor confirmed a 2018 cash surplus in the amount of approximately EUR 2.3 million.
- 8.15 The ABAF was provided with the findings of the External Auditor on the 2019 Financial Statements and the Auditor's 2019 long-form audit report. The ABAF noted that in a normal situation, the External Auditor would address the ABAF in person; however, with the restrictions in place due to the COVID-19 pandemic, this was not possible. The ABAF reiterated that it greatly valued the in-person discussion with the External Auditor, and requested the Secretariat to see if a briefing with the External Auditor could still be possible for its Forty-Ninth Session, either in person or remotely, depending on the format of that session. The Secretariat indicated that it would ask the External Auditor about this possibility for the Forty-Ninth Session.

- 8.16 The External Auditor's report on the 2019 audit of the OPCW and the financial statements for its Provident Fund set out the External Auditor's findings in detail. The report stated that the audit examination had revealed no weaknesses or errors that were considered material to their accuracy, completeness, or validity. The External Auditor informed the ABAF that the preparation of the financial statements had been conducted in compliance with IPSAS and that, in all material respects, the transactions underlying the financial statements had been made in accordance with the financial regulations of the Organisation and were applied to the purposes as intended by the States Parties. The External Auditor also noted that the 2019 audit was particularly challenging due to the need to work remotely, and remarked that the efforts of OPCW staff to support the audit enabled them to meet their reporting timetable.
- 8.17 The External Auditor commented that the preparation of the financial statements remained a highly complicated, manual process owing to the complex audit trails within the existing SmartStream IT system. The External Auditor indicated that the Secretariat had further streamlined elements of the financial statements in order to enable States Parties to better focus on the significant elements of the accounts. The External Auditor also noted that the Secretariat continued to include the Director-General's report summarising the key movements in the accounts.
- 8.18 An unqualified audit opinion was issued by the External Auditor for the OPCW's 2019 financial statements and the financial statements of the OPCW Provident Fund. It was further noted that the quality of financial reporting was good. The ABAF noted with satisfaction that both sets of financial statements had again received unqualified opinions.
- 8.19 Five main areas of focus were covered in the External Auditor's report: financial management, strategic financial management, internal control, major capital projects, and follow-up on recommendations from prior years.
- 8.20 On the issue of financial management in 2019, the External Auditor noted that the Organisation continued to face financial challenges from cash pressures due to outstanding assessed contributions and unforeseen payroll costs due to changes in United Nations allowances and post-adjustment multipliers. In particular, the External Auditor noted the deterioration in the position on outstanding assessed contributions from EUR 3.6 million in 2018, to EUR 7.1 million in 2019. The External Auditor also commented on the deficit position of the General Fund, which stood at EUR 4.5 million.
- 8.21 The External Auditor noted the following: the Organisation continued to achieve a high budget utilisation rate of 99% (97% in 2018); increased costs also contributed to the higher utilisation rate; the Organisation had faced cash pressures over a number of years; and budget processes had been further refined to control costs without impacting budget implementation.
- 8.22 With regard to strategic financial management, the External Auditor highlighted that financial challenges would continue into 2020 and this—combined with pressures on States Parties relating to the COVID-19 pandemic—may result in further deterioration in the receipts of assessed contributions owed to the Organisation. As a result, the External Auditor indicated that the Organisation would need to continue to reflect on its financial planning and strategies.

- 8.23 The External Auditor highlighted the importance of trust funds as an integral part of the resourcing package available to meet organisational objectives; it also noted that efforts should be made to ensure that these funds are used strategically and to the best possible effect. In this regard, the External Auditor reiterated its previous recommendation that the Organisation should continue to review trust fund balances for continued relevancy and streamline its reserve balances. The ABAF noted with satisfaction that management had begun to respond to the External Auditor's recommendation and the ABAF's observations in this area, and had started work on reviewing OPCW's aged trust fund balances within the context of the strategic financing non-paper discussed at the Forty-Fourth Session of the ABAF.
- 8.24 With preparations in place for the transition to biennial budgeting and the introduction of a MCIF, the External Auditor commented that that the Organisation was beginning to take a longer-term view of its financial management and responding to its previous recommendations.
- 8.25 Concerning the decision to transition to biennial budgeting, the External Auditor reiterated that it remains supportive of the decision, as it will be more efficient and proportionate to the Organisation. It was also noted that it continues to be important to have in place clear accountabilities for reviewing year one financial performance and that enhanced results-based management would help ensure continued accountability. In this regard, the External Auditor reiterated its previous recommendation that in moving to biennial budgeting, the Organisation should endeavour to retain a meaningful and clear accountability structure when reporting annual performance against the biennial budget. This should include utilising mechanisms throughout the financial year to reflect any significant known changes, so that the budget remains a useful tool that ensures the effective control of funds each year of the biennium. The ABAF echoed the constructive observations made by the External Auditor concerning annual performance accountability within biennial budgeting and noted that the ABAF had also raised this issue in the Forty-Seventh Session report. The ABAF commented on the importance of establishing clear links among resources and longer-term objectives. This approach would strengthen results-based management within a biennial budgeting framework.
- 8.26 Regarding results-based management, the External Auditor commented that although the Organisation's approach to results-based management had been in place since 2011, there was still no general framework. Instead, the processes were very much a mechanism to demonstrate budget accountability. The External Auditor understood that several initiatives were under consideration in this area and recommended that these and any additional developments be incorporated into an overall conceptual results-based management framework. The underlying principles ought to ensure that KPIs provide consistent, meaningful, measureable, accurate, and challenging targets for all key areas of the Organisation. The ABAF was pleased to note that initiatives related to results-based management are in progress and requested the Secretariat to provide an update on this matter at a future ABAF session.
- 8.27 The External Auditor noted that KPIs needed to be reviewed to ensure they were sufficiently challenging, that they identified performance trends, and clearly provided a measure of organisational efficiency to realise the full benefits of results-based management. The External Auditor recommended that the Organisation report its

KPIs with data to compare against previous annual targets and performance to provide an indication of an upward trend. The External Auditor noted that the Organisation should secure improvements in this area to enhance accountability prior to the preparation of the first biennial budget, and specified that the approach should underpin the links among resources and immediate longer-term strategies and objectives for the Organisation, as highlighted in previous years.

- 8.28 In terms of governance, the External Auditor noted that arrangements had been further developed in 2019 and that processes had been significantly strengthened to support the Statement of Internal Control. The External Auditor saw this as a significant element of reporting that allows the Director-General to demonstrate to States Parties exactly how he is able to perform his responsibilities of effective control. The External Auditor recommended, however, that more consideration should be given both to providing greater detail about the key areas of weakness identified in the Statement of Internal Control, and to forming an overall view of the control environment based on the outcomes of reviews undertaken as part of the risk-based plan.
- 8.29 The External Auditor also recommended that the Organisation transfer ownership of the Statement of Internal Control process to the Director/Deputy Director-General's Office to enhance accountability for accuracy and completeness of responses, and to ensure that return rates are enhanced. The ABAF found these recommendations to be very important and noted that the continued lack of proper response from managers in providing assurances on internal controls is a serious weakness and should be resolved. An adequate internal control system had been built upon manager assurances from the bottom up, based on the availability of effective internal controls within their respective areas of responsibility and risk identification, regular management, and monitoring of mitigation measures. Together, these allow the Director-General to provide assurances to States Parties on the proper management of resources and the effective implementation of programme activities. The ABAF agreed with the External Auditor that risk management was an integral element of the assurances provided within the Statement of Internal Control. Furthermore, the ABAF commented that an effective Statement of Internal Control should be supported by a clear delegation of authority from the highest level of the Organisation down throughout the other levels in the Organisation, and noted that this should be established in a transparent system of accountability and responsibility.
- 8.30 The External Auditor also suggested that the links between the work of the OIO and the Statement of Internal Control should be improved, primarily by having the OIO provide an overview of the adequacy of internal control based upon the results of its risk-based approach.
- 8.31 Regarding the Statement of Internal Control, the ABAF expressed its full support for the External Auditor's observation on the key importance of assurances of internal control, risk analysis, and risk management across all levels of programme management. The ABAF suggested that in future statements, these elements should be strengthened and presented more vividly.

- 8.32 Turning to the area of internal control, the External Auditor had commented that risk management would become increasingly important as the Organisation faces the challenges and uncertainties of operating in a post-pandemic environment. The External Auditor noted that there had been improvements to risk management processes, with improved training and more regular meetings of the Risk Management Committee. The External Auditor commented, however, that although principles were now better understood, the processes needed additional time to mature in order for the identified risks to be refined into a clear set of top risks for the Organisation.
- 8.33 The External Auditor noted that the Organisation was planning to review its anti-fraud and fraud response policies and procedures. The External Auditor commented that since 2015, it had reported that these were important matters for the Organisation to consider, with the aim of ensuring alignment with best expected practice and minimising the risks of reputational damage and financial loss. The External Auditor noted that responses were long overdue, but acknowledged that the OIO was leading a project to look at the range of policies in this area. The External Auditor encouraged the Secretariat to conclude the review quickly to ensure effectiveness in this area without undue delay. The External Auditor stressed the importance of outstanding recommendations in the area of fraud risk assessment and response policies, and encouraged updating existing reporting policies and investigating suspected wrongdoing as a means of ensuring good conduct. The External Auditor indicated its readiness to support the Organisation to identify best practices and encouraged the Secretariat to engage in consultations with other international organisations in order to develop best practices for the Organisation. Regarding an anti-fraud policy, the ABAF fully supported the External Auditor's observation and indicated that the implementation of this policy should be accompanied by the establishment of an effective and specific whistle-blower policy and protection system.
- 8.34 With regard to major capital projects, the External Auditor had reviewed the ERP and the Centre for Chemistry and Technology projects.
- 8.35 The External Auditor noted that, as in previous years, the implementation of the ERP system had again not gone according to plan. The External Auditor commented that control over the implementation of the project had been ineffective in certain areas, leading to delays and cost increases, as the contractor had struggled to meet the specifications and the needs of the OPCW's process owners. The External Auditor commented that with testing still under way on the first phase of the project (System of Record), there remained no firm commitment for the implementation of the project in 2020. The External Auditor commented that at the time of their report, 26% of functionality still had yet to be tested, with another 12% requiring additional work. The External Auditor expressed concern and recommended that any plans for a 2020 implementation needed to consider the cost benefits of mid-year or final quarter implementation, and the extent to which this timeline would provide adequate time for testing, training, the assessment of impacts on year-end processes, and the reinforcement of cultural changes to enable the ERP launch to be a success. The External Auditor also commented that experience within the United Nations Common System had shown that implementation of a system mid-year can be problematic, with significant operational implications. The ABAF reiterated its serious concern about the ERP project and noted with considerable disappointment that there was currently no firm commitment for the implementation of the project in 2020. The ABAF

continued to express to the Secretariat its general support for the implementation of the project, and its hope that there would be positive developments by the time of the ABAF's next session.

- 8.36 The External Auditor noted that the recruitment and talent management elements of the ERP system had been implemented in 2020. The External Auditor emphasised that though these areas highlighted some of the benefits of the new functionality and improvements to the process, it remains important to position the ERP within an environment of broader cultural change.
- 8.37 While the Organisation moves toward the end of the chemical weapons destruction phase, and as it approaches new challenges of a post-COVID-19 environment, the External Auditor commented that there would be a need for more agile working arrangements. The External Auditor also noted that the ERP system would be a major facilitator of that flexibility, and that it was important that it be introduced in a broader context of change management. The External Auditor expressed concern that the momentum to secure this change was being lost with project delays, without sufficient investment in the promotion of broader change.
- 8.38 The External Auditor also recommended that the Organisation undertake a realistic assessment of the full costs required to complete the project and the impact this might have on the delivery of the second phase of the project (Systems of Differentiation). This assessment should also include an evaluation of the project's potential benefits.
- 8.39 With regard to the Centre for Chemistry and Technology, the External Auditor commented that the governance and management of the project continue to progress positively, and that the project is better positioned in terms of overall scope and objectives. It was further noted that the initial business case that was reviewed last year had been built upon further. The External Auditor noted that governance arrangements had been enhanced and addressed the key areas of good practices that were highlighted in 2018. The External Auditor noted the funding position of the project as well as the remaining required funding needs against the current project budget. Furthermore, the External Auditor noted that the land for the Centre had been acquired and recognised in the financial statements, and that progress was being made at the project design stage.
- 8.40 The External Auditor noted that substantive and detailed risk management processes were in place to monitor project risks; these processes report observations to management on how the quality of mitigations might be enhanced. The External Auditor commented that key risks remain around security requirements and conditions concerning the site, and noted that these were currently under discussion, with appropriate mitigations being considered prior to design approval. As with any capital investment, there will remain uncertainties about costs until the project progresses further, and it is important that these risks are continuously revisited to ensure adequacy of the contingency budget.
- 8.41 Noting that the Organisation is approaching the delivery phase of the project, the External Auditor recommended ensuring sufficient preparation with appropriate contractual mechanisms—including delivery incentives, change control, and performance management processes—to ensure appropriate delivery from any external organisations involved in the successful tender for the construction of the Centre.

- 8.42 The External Auditor commented that the COVID-19 pandemic introduces some uncertainties that could pose a challenge to some of the existing assumptions on time and price, and recommended that the Organisation fully assess the potential implications of pandemic-related risks on the costs and timing of project delivery. Efforts should also be made to reaffirm existing assumptions, or to make appropriate revisions to the scope of the project and budget if required; all of these factors should be considered within the context of the costs to deliver the finalised design, once completed. Consequently, it is important that the overall budget and contingencies are maintained at adequate levels.
- 8.43 Referring to the status of previous recommendations, the External Auditor indicated that implementation had remained slow in some areas, partly owing to the delay in implementing the ERP project. Nevertheless, the External Auditor noted that good progress was being made in procurement and human resources, areas that were adopting more strategic approaches based on underlying performance data. The External Auditor noted that as at May 2020, seven of the 31 recommendations outstanding for 2018 and prior years had been implemented in 2019, two had been partially implemented, and 22 remained in progress. The External Auditor also indicated the importance of noting that many of the outstanding recommendations were linked to developments expected from ERP implementation.
- 8.44 The External Auditor also acknowledged the recent challenging circumstances affecting management's ability to implement recommendations, and suggested that there should be a more concerted effort to review recommendations and either implement or reassess the applicability of recommendations as time passes. It also noted that plans in this area ought to undergo greater scrutiny by the ABAF at future sessions.
- 8.45 The ABAF welcomed the External Auditor's 2019 report and found it very informative, with highly relevant recommendations. The ABAF further indicated that it would take the report into account at its next session when considering the draft programme and budget for 2021, particularly in terms of internal control and results-based management.

9. Report of the Office of Internal Oversight for the year ending 31 December 2019

- 9.1 The ABAF received a presentation from the OIO on its annual report for the period from 1 January to 31 December 2019 (EC-94/DG.4 C-25/DG.2, dated 24 April 2020). The ABAF was informed that the implementation of the OIO's 2019 work programme had resulted in 10 audit, evaluation, and Quality Management System assignments, in relation to which a total of 51 recommendations had been issued. These recommendations were included in the database of KPIs for the implementation rate of audit and evaluation recommendations.
- 9.2 The ABAF welcomed the detailed and informative presentation given by the OIO on its work in 2019 and confirmed its continued strong support for the work of the OIO.
- 9.3 The ABAF noted the main recommendations resulting from the OIO's audits in 2019 and the fact that the OIO was once again able to maintain its certification from the Dutch Accreditation Council (RvA) throughout the year.

- 9.4 The OIO informed the ABAF that its overall work programme comprised a risk assessment process that had been developed based on assessing and prioritising organisational risks in line with best international practices. This risk assessment methodology focuses on management processes and an assessment of their relative risk severity, based on risk parameters and relative weightings. The ABAF noted that the OIO would place priority on covering all the high-risk and high-to-medium-risk processes, as well as a few medium-risk processes over a period of three years (2019 to 2021).
- 9.5 The ABAF was informed that in 2019, while the overall implementation rate of audit and evaluation recommendations issued in the past five years (2014 – 2019) marginally declined from 59.3% in 2018 to 57% in 2019, there was a positive trend in the resolution of critical recommendations (from 40% to 54%) over the same period. Overall, 103 recommendations issued in the past five years (2014 to 2019) were still outstanding as at 31 December 2019. Of these, 70% were issued in 2018 and 2019.
- 9.6 The ABAF expressed concern about the downward trend in the overall rate of implementation of critical recommendations over the past five years, and sought to better understand the efforts of the Secretariat to address this. The ABAF mentioned that it would be helpful if the OIO analysed pending recommendations and provided its views on what might and should be done to ensure their implementation, in addition to providing advice on realistic timelines. The ABAF further commented that the OIO could also endeavour to determine why those recommendations were still pending, and strengthen its coordination with relevant divisions to either determine a realistic timeline for recommendation implementation, or close the recommendation if, for example, they discovered that the recommendation's implementation was not feasible, or if the required resources could not be delivered in the current budgetary situation.
- 9.7 The OIO informed the ABAF that, as indicated in its 2019 annual report and as mentioned above, 70% of open recommendations were issued recently (in 2018 and 2019) and are currently undergoing implementation. Moreover, after a thorough analysis conducted during the last quarter of 2019 utilising the newly rolled-out Audilytics dashboard, it was determined that: (a) some recommendations require policy or systemic changes that require a longer implementation timeline; (b) some recommendations have resource dependencies such as budgetary and human resources that have complicated implementation efforts; (c) several recommendations are dependent on the successful implementation of the ERP, and (d) vacancies in senior management positions in the audited Divisions in the past two years have also contributed to a delay in the implementation of recommendations.
- 9.8 The OIO has taken a proactive approach with management in vigorously pursuing the implementation of open audit and evaluation recommendations through continuous conversation. Moreover, in order to improve, automate, and facilitate the follow-up exercise, the OIO launched Audit Tracker in 2019. Audit Tracker is a SharePoint-based IT platform designed to enable programme managers to continuously and in real time report the actions taken to implement audit recommendations with supporting documentation. Desk reviews continue to be performed by the OIO in line with a published schedule and in regular consultation with programme managers on actions taken to address these recommendations.

- 9.9 In accordance with the recommendation set out in the ABAF's report for its Forty-Sixth Session (ABAF-46/1, dated 7 June 2019), the OIO should review the expected date of implementation and clearly indicate the parties responsible for implementation. In this regard, the OIO informed the ABAF that this process is now done systematically in the new Audit Tracker tool. Timelines proposed by management are carefully considered and agreed upon with management in the most realistic manner. Deadlines that are agreed upon and the status of pending observations are reviewed and updated by the OIO during each follow-up activity.
- 9.10 In its Forty-Sixth Session report the ABAF also recommended that the OIO consider the introduction of a dashboard system to organise audit recommendations in order to boost the visibility of recommendations and the status thereof for both management and the parties to be audited, and to increase accountability for timely action in response to audit recommendations. Accordingly, in 2019, the OIO developed a real-time dashboard called 'Audilytics', which analyses the data extracted from the Audit Tracker. The Audilytics dashboard provides an analysis of implementation status by year, division, responsible manager, priority, and target date, among other metrics, for oversight purposes. Implementation status is regularly reviewed by the Management Board, which is chaired by the Director-General. The OIO further informed the ABAF that in order to facilitate the implementation of audit recommendations, the OIO has also adopted the practice of providing the required or expected actions necessary for the implementation and ultimate closure of each audit recommendation. Moreover, as part of the audit process, all audit observations and recommendations contained in the draft report were discussed with management, and their comments were obtained before finalisation. The implementation status of audit and evaluation recommendations was monitored at the highest level within the Organisation by including it as a standing agenda item at Management Board meetings.
- 9.11 The ABAF noted and welcomed the initiatives taken by the OIO to improve the implementation rate, including the introduction of new software to help follow up on audit recommendations, in addition to regular follow-up actions on implementation status at Management Board meetings. The ABAF commented that management and the parties that undergo audits should reinforce the importance of the timelines agreed upon for audit recommendation implementation and consider if meeting the timelines for implementation should become a factor in staff performance criteria.
- 9.12 The ABAF noted that the Director-General had accepted all OIO recommendations issued in 2019 and appreciated the value that was added to the audited areas by the recommendations; these areas included the processes of official duty travel, staff recruitment, software licence management, implementation of the confidentiality regime, logical access control in the secure critical network, and evaluation of committees (first batch).
- 9.13 The ABAF encouraged management to ensure the timely implementation of recommendations. The ABAF noted that it was the responsibility of management to ensure that OIO recommendations are implemented in accordance with the timelines agreed upon, and pointed out that the OIO can only facilitate this exercise. The OIO further commented that following the arrival of the new Director of the OIO, the OIO's KPIs, including the indicator for the implementation of audit and evaluation recommendations, would be reviewed in line with best international practices

- 9.14 The ABAF also enquired about the rate of implementation of the OIO budget, specifically with regard to the positions of Director and Quality Assurance Assistant, which remained vacant for a lengthy period of time in 2019. The OIO commented that the figures indicated in paragraph 3.1 of the annex to the OIO's 2019 Annual Report were the budgeted and actual figures, after funds had been transferred from the OIO budget, from the savings that resulted from these positions remaining unfilled for several months. This also includes the onboarding costs and obligatory, yet unforeseen, in-year changes in salary scales, including retroactive applications and the revisions made to the post-adjustment multiplier for the Netherlands. In terms of non-staff costs, funds were utilised for training activities, the development of new tools (Audit Tracker and Audilytics), and the purchase of licences for data analytics audit software.
- 9.15 The ABAF noted with satisfaction that all of the External Auditor's recommendations for the OIO from prior years had been implemented, except one relating to the preparation of a strategy document. The ABAF looks forward to reviewing this document at its next meeting.

10. COVID-19 and early impact on the OPCW

- 10.1 The ABAF agreed that the emergence of the COVID-19 pandemic would have a substantial impact on the Organisation. The ABAF noted in particular that, as indicated in various Technical Secretariat Notes on the impact of the outbreak of COVID-19 on the Organisation, the programme areas for verification-related activities and international cooperation and assistance had already been impacted, as seen in the postponement of planned activities.
- 10.2 The ABAF acknowledged that the situation was still in its early stages and thus unpredictable. The ABAF noted the importance of this topic and suggested that as the situation unfolds, the Secretariat should closely monitor anticipated savings resulting from postponements or ultimate cancellations of some activities and how those could be rebudgeted. The ABAF requested that this topic be revisited at its Forty-Ninth Session, and asked that it include the consideration of programme and budget implementation through to mid-year. The Secretariat indicated that a portion of the resulting savings would be required to offset the obligatory, yet unforeseen, staff cost increases. However, the Secretariat confirmed that in some areas, programme activities for 2020 would have to be reconsidered in order to determine what could be feasibly implemented within the year and how the resultant savings could be applied.

11. Enterprise Resource Planning Project update

- 11.1 The ABAF reviewed the Director-General's Report on the Status of Implementation of the Enterprise Resource Planning System (EC-93/DG.14, dated 6 March 2020) and noted with continuing and serious concern that the project had been further delayed. The ABAF reiterated its comments concerning the project made in response to the External Auditor's report (section 8 of the ABAF report).
- 11.2 The ABAF encouraged the Secretariat to continue to keep States Parties meaningfully informed of the status of the project, including its expected System of Record go-live date, funding status, and other important issues related to the project.

- 11.3 The ABAF requested that the Secretariat provide it with a comprehensive update at its next session on progress made with ERP system implementation, and that this continue as a standing item until a point after the project goes live.

12. OPCW Centre for Chemistry and Technology project update

The ABAF reviewed the Technical Secretariat's Note on Progress in the Project to Upgrade the OPCW Laboratory and Equipment Store to a Centre for Chemistry and Technology (S/1859/2020, dated 9 March 2020), which provided recent status update for the project. The ABAF noted the progress made and continued to underline the importance of the project. In this context, the ABAF stressed its desire for direct interaction with the project team as the project moves through the crucial design phase. The ABAF looked forward to a comprehensive update on the status of the project at its Forty-Ninth Session in July.

13. Any other business

The ABAF noted with considerable appreciation the Secretariat's efforts to facilitate and support the conduct of the Forty-Eighth Session remotely in a short period of time, given how quickly the COVID-19 pandemic had affected normal work and meeting arrangements. However, the ABAF looked forward to alternate arrangements for its Forty-Ninth Session, i.e. a format that could facilitate open discussion, dialogue, and interaction on agenda items. The ABAF noted that for some of its members, the July session might still come too soon for them to take part in an in-person meeting, and the ABAF requested the Secretariat to explore video conferencing or other types of online applications, and to report back with proposed options in good time before the Forty-Ninth Session.

14. Next session and agenda

The ABAF adopted the following provisional agenda for its Forty-Ninth Session, which will be held from 28 to 31 July 2020:

1. Opening of the session
2. Adoption of the agenda
3. Review of the report of the previous session
4. Review of the status of previous ABAF recommendations
5. ABAF members as per EC-94 decision
6. Status of 2020 financial performance (first half of 2020)
7. COVID-19 impact on OPCW activities update
8. External Auditor briefing (if possible)
9. Draft Programme and Budget for 2021

10. Progress in transitioning to a Biennial Programme and Budget for 2022-2023
11. Update on negative interest and the OPCW (moved from ABAF-48)
12. OPCW Statement of Internal Control update (moved from ABAF-48)
13. Tenure policy update (moved from ABAF-48)
14. Director's vision of the Office of Internal Oversight (moved from ABAF-48)
15. Status of the ERP Project
16. Update on the OPCW Centre for Chemistry and Technology
17. Election of the Chairperson of the ABAF
18. Any other business
 - (a) OPCW Financial Statements for 2020 and exceptional closure extension (if required, contingent on ERP go-live)
 - (b) Status of the implementation of the recommendations of the External Auditor
19. Next session and agenda
20. Adoption of the report

15. Adoption of the report

The ABAF adopted the report of its Forty-Eighth Session by correspondence on 5 June 2020.

Annex: List of Information Papers and Other Documents Presented to the Advisory Body on Administrative and Financial Matters at its Forty-Eighth Session

Annex**LIST OF INFORMATION PAPERS AND OTHER DOCUMENTS PRESENTED TO
THE ADVISORY BODY ON ADMINISTRATIVE AND FINANCIAL MATTERS
AT ITS FORTY-EIGHTH SESSION**

Title	
1.	Agenda of the Forty-Eighth Session of the Advisory Body on Administrative and Financial Matters
2.	Introductory remarks from the Deputy Director-General of the OPCW
3.	Report of the Forty-Seventh Session of the Advisory Body on Administrative and Financial Matters (ABAF-47/1, dated 2 August 2019)
4.	Note by the Director-General: Comments on the Report of the Advisory Body on Administrative and Financial Matters at its Forty-Seventh Session (EC-92/DG.11, dated 9 September 2019)
5.	Note by the Technical Secretariat: Nomination for Membership of the Advisory Body on Administrative and Financial Matters (EC-93/S/2, dated 22 January 2020)
6.	Diplomatic Note from the United States Permanent Representation to the OPCW regarding United States ABAF Member (02/20, dated 24 April 2020)
7.	Report by the Director-General: OPCW Income and Expenditure for the Period 1 January to 31 December 2019 (Fourth Quarter of the Financial Year Ending 31 December 2019) (S/1854/2020/, dated 26 February 2020)
8.	Report by the Director-General: OPCW Income and Expenditure for the Period 1 January to 31 March 2020 (First Quarter of the Financial Year Ending 31 December 2020) (S/1873/2020, dated 11 May 2020)
9.	Note by the Director-General: Monthly Financial Situation Report as at 30 April 2020 (S/1874/2020, dated 14 May 2020)
10.	(Draft) Note by the Director-General: Transfers of Funds During 2019 (EC-94/DG.10 C-25/DG.3, dated 19 June 2020)
11.	Note by the Technical Secretariat: Programme Performance for the Year 2019 (S/1872/2020, dated 4 May 2020 and corrigendum S/1872/2020/Corr.1, dated 20 May 2020)
12.	Report of the Director-General on the Financial Statements of the OPCW for the year ending 31 December 2019 (included in the published final version of the OPCW Financial Statements)
13.	Financial Statements (OPCW and OPCW Provident Fund) of the Organisation for the Prohibition of Chemical Weapons and Report of the External Auditor for the year ending 31 December 2019 (includes the status of External Auditor recommendations from prior years)
14.	External Auditor Audit Completion Report including management letter on the 2019 OPCW Financial Statement Audit
15.	Note by the Director-General: Implementation in 2019 of the Recommendations Contained in the 2018 Annual Report of the Office of Internal Oversight (EC-94/DG.6, dated 29 May 2020)
16.	Note by the Director General: Annual Report of the Office of Internal Oversight for the Period from 1 January to 31 December 2019 (EC-94/DG.4 C-25/DG.2, dated 24 April 2020)

17.	Note by the Technical Secretariat: Impact of the Outbreak of the Novel Coronavirus (COVID-19) on the Organisation for the Prohibition of Chemical Weapons (S/1863/2020, dated 20 March 2020)
18.	Note by the Technical Secretariat: Update on the Impact of the Outbreak of the Novel Coronavirus (COVID-19) on the Organisation for the Prohibition of Chemical Weapons Programme in 2020 (S/1870/2020, dated 17 April 2020)
19.	Note by the Technical Secretariat: Update on the Impact of the Outbreak of the Novel Coronavirus (COVID-19) on the Organisation for the Prohibition of Chemical Weapons Programme in 2020 (S/1876/2020, dated 3 June 2020)
20.	Note by the Director-General: Report on the Status of Implementation of the Enterprise Resource Planning System (EC-93/DG.14, dated 6 March 2020)
21.	Note by the Technical Secretariat: Progress in the Project to Upgrade the OPCW Laboratory and Equipment Store to a Centre for Chemistry and Technology (S/1859/2020, dated 9 March 2020)
22.	Presentation: 2019 Regular Budget Implementation and Budget Transfers in 2019
23.	Presentation: OPCW 2020 first quarter and April budget implementation and outlook
24.	Presentation: OIO Annual Report for 2019
25.	Presentation: OPCW 2019 Financial Statements