



NOTE BY THE DIRECTOR-GENERAL

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

1. At its Thirty-Fourth Session, the Executive Council (hereinafter “the Council”) requested that the Director-General, when submitting reports of the Advisory Body on Administrative and Financial Matters (ABAF) to the Council for its consideration, indicate what actions the Technical Secretariat (hereinafter “the Secretariat”) has taken in response to the recommendations of the ABAF, and what decisions are required by the Council on the report being submitted (paragraph 21.4 of EC-34/5, dated 26 September 2003).
2. The Director-General welcomes the continuing advice and support provided by the ABAF, as reflected in the conclusions it reached during its Forty-Eighth Session (ABAF-48/1, dated 5 June 2020).

Adoption of the Agenda (paragraph 2.1 of ABAF-48/1)

3. The Secretariat notes that due to the remote format in which the Forty-Eighth Session of the ABAF was held, as necessitated by the situation caused by the COVID-19 pandemic, four items that had initially been included on the agenda were deferred to the Forty-Ninth Session of the ABAF. These agenda items are: (1) the Director’s vision of the Office of Internal Oversight; (2) the OPCW Statement of Internal Control; (3) an update on negative interest rates, and (4) an update on the tenure policy. In addition, two topics—the Enterprise Resource Planning (ERP) project and the Centre for Chemistry and Technology project—were also deferred to be examined in more detail at the ABAF’s Forty-Ninth Session. The Secretariat reaffirms its support for the ABAF in the form of providing meeting documentation and making arrangements to help facilitate these discussions.

Review of the Report of the previous session (paragraphs 3.1 to 3.4 of ABAF-48/1)

4. The Secretariat takes into consideration the suggestions made by the ABAF regarding the Note by the Director-General with his comments on the ABAF’s report from its Forty-Seventh Session (EC-92/DG.11, dated 9 September 2019). The Secretariat expresses its appreciation for the work of the ABAF and highly values its recommendations. The Secretariat will work to improve the comprehensiveness of the report by including, where possible, details on the Secretariat’s views of observations and recommendations made by the ABAF, including whether the Secretariat is in agreement with them, and timelines for implementation when possible.



5. The Secretariat will also analyse previous observations and recommendations of the ABAF from the last two years and provide these at the ABAF's Forty-Ninth Session. The Secretariat has proposed conducting this analysis either for each ABAF session, or for the second session of each year, depending on the ABAF's preference.
6. However, the Secretariat wishes to highlight that some recommendations from the ABAF take time to properly consider and assess for implementation, and to determine a realistic timeline. These recommendations must also be considered within the context of the synergies between the recommendations from both internal and external auditors, and should take due account of the time and resources available for their implementation. When taking all these factors into consideration, a detailed response to the ABAF might not always be possible soon after an ABAF session. The aforementioned proposed mechanism to conduct a review of previous ABAF recommendations at each session or the second session of each year should help better inform the ABAF.

Cash position (paragraphs 4.3 to 4.9 of ABAF-48/1)

7. The Secretariat acknowledges the ABAF's observation of Financial Regulation 5.4, which stipulates that States Parties have a responsibility to pay their assessed contributions in full within 30 days of being notified by the Secretariat, or on the first day of the financial period to which the assessment relates, whichever is later.

Status of assessed contributions and Article IV and V reimbursements (paragraphs 4.11 to 4.14 of ABAF-48/1)

8. The Secretariat notes the ABAF's serious concern regarding the number of States Parties that were in arrears or facing delayed payment of assessed contributions, the cumulative outstanding balance for the reimbursement of inspections invoiced under Articles IV and V, and the need to ensure that invoicing to States Parties is timely and current. The Secretariat notes that it continues to issue periodic formal reminders to States Parties with outstanding balances owed to the Organisation. The most recent batch of these reminders was issued in May of this year.

Programme support costs (paragraph 4.15 of ABAF-48/1)

9. Regarding programme support costs, the Secretariat understands the recommendation that the ABAF first made at its Forty-Seventh Session, and reiterated at its Forty-Eighth Session, to revisit the level of programme support costs to ensure that the level charged covers the amount of costs incurred. The Secretariat agrees with the ABAF that such a costing methodology would be advantageous, even though the process would be very detailed. In this regard, the Secretariat will require more time to assess the comprehensiveness of such an approach, including the time and resources required to implement it. The Secretariat does not envisage being able to comprehensively investigate this issue in 2020, given the status of other high impact deliverables, which include the implementation of the ERP project and transitioning to biennial budgeting.

2019 Programme and Budget implementation (paragraphs 4.16 to 4.17 of ABAF-48/1)

10. The Secretariat was pleased to note that the ABAF welcomed the achievement of a rate of 99.3% for 2019 programme and budget implementation.
11. The Secretariat understands that the ABAF noted that cash receipt pressures on the Organisation had to be balanced against budget implementation. The Secretariat notes the ABAF's recommendation that the Secretariat bring this issue to the attention of States Parties through the different mechanisms at its disposal, including the monthly financial situation reports, reminder notices to States Parties, and the 2021 draft programme and budget consultations.

Status of the 2020 financial performance report (first quarter of 2020 and April 2020) (paragraphs 5.1 to 5.5 of ABAF-48/1)

12. The Secretariat welcomes the positive comments from the ABAF regarding the initiatives taken by the Organisation to avoid a budget deficit—especially in the light of the significant increase in staff costs that came into effect at the beginning of the year—and to avoid situations that could require a request to transfer funds between chapters. The Secretariat continues to closely monitor the impact of the COVID-19 pandemic on programmatic activities and expenditure as the situation evolves. As in past years, the Secretariat will conduct a detailed review of actual and projected expenditures along with a review of assessed contributions and Article IV and V collections as part of the mid-year review.
13. With regard to potential non-staff savings that might materialise due to the pandemic, the Secretariat agreed with the ABAF that ensuring the possible mitigation of staff cost increases should be prioritised. The Secretariat also agreed that the rescheduling or rebudgeting of activities should be considered in line with programmatic objectives, with due account for any additional costs that might be incurred due to the pandemic.

Status of budget transfers in 2019 (Note by the Director-General on Transfers of Funds in 2019 (paragraphs 6.1 to 6.8 of ABAF-48/1))

14. The Secretariat was pleased to note that the ABAF welcomed the draft Note by the Director-General on Transfers of Funds in 2019 (subsequently published as EC-94/DG.10 C-25/DG.3, dated 19 June 2020), which confirmed that all transfers were within the requirements of the Financial Regulations and Rules and, as a result, no transfers were made between chapters; all other transfers were conducted within the allowable parameters of transfers between programmes and sub-programmes. The Secretariat also notes the ABAF's observation that all transfers took place without any detriment to the approved activities of the respective programmes.
15. With regard to the high budget implementation rate achieved in 2019, coupled with budget transfer amounts that were lower than in 2018, the Secretariat welcomes the ABAF's comment that this could be an indication of improved budgetary formulation and planning.

16. In response to the ABAF's inquiries about transfers between programmes, specifically transfers made from the ICA programme, the Secretariat added additional information to the Note by the Director-General on the Transfers of Funds in 2019 (EC-94/DG.10, C-25/DG.3), both in the explanation of notes section and in footnotes. The additional information explains that most of the transfers were made in order to cover staff costs and expenses that fall within the 'hardware and software' category—primarily for Windows 10 laptops. It was also noted that the majority of transfers were executed late in the year, and without any detriment to the programmes. The explanations also included information about which expenditure categories the transfers had come from.

Programme performance report for 2019 (paragraphs 7.1 to 7.8 of ABAF-48/1)

17. Regarding the ABAF's ongoing recommendation to develop the programme performance report into a "programme and budget performance report" that takes financial performance into account, the Secretariat notes that once operational, the new ERP system will help identify the links between programme performance and budget performance through a newly implemented chart of accounts.
18. The Secretariat notes the ABAF's continued encouragement to further develop a narrative for the report to highlight specific areas of achievement, lessons learned, and an assessment of outcomes and activities, and to develop the report into a programme and budget performance report. The Secretariat will also look to include these recommendations in future reporting in the overall context of prospective improvements for results-based management.
19. Furthermore, the Secretariat acknowledges that the ABAF has encouraged it to put into place a process to better understand lessons learned that would contribute to existing measures and help establish more ambitious targets in future. In doing so, the Secretariat notes the ABAF's suggestion to have each substantive office evaluate how they could or could not achieve the desired results by addressing the reasons and factors that they had considered appropriate, and to include these in the "explanation of variances" column of the report.
20. The Secretariat notes the ABAF's serious concern regarding the lower rate of implementation of OIO recommendations issued in the past five years. The explanations provided to the ABAF indicate that 70% of open recommendations were issued in 2018 and 2019. Moreover, some of the open recommendations require policy or systemic changes—including budgetary and human resource considerations—thus necessitating an extended timeline for implementation. Furthermore, the implementation of a number of recommendations has been slowed by unfilled vacancies and turnover in management. Some of the open recommendations are related to the ERP system, the implementation of which is still under way. The Secretariat also reported that among a number of proactive mechanisms in 2019, the 'Audit Tracker' tool had been launched by the OIO to enable programme managers to continuously update actions taken to implement audit recommendations. The 'Audilytics' dashboard was also developed to provide real-time status updates for a number of metrics for audit recommendation implementation. The Management Board also continued to review the status of OIO recommendations at each of its regular meetings.

21. On the issue of KPI 1.1 for the Administration Programme, “Satisfaction of Secretariat staff with administrative support”, the ABAF had noted that a key factor causing the lower-than-target result was explained as a reduction in staff over the last few years; the ABAF asked if this level might decrease further in future. The Secretariat confirms that although a further reduction in this metric is not anticipated, there have been substantial pressures on the Administration Programme since the reduction of ten non-operational staff positions in 2018 and 2019.
22. The Secretariat welcomed the ABAF’s question about KPI 3.1 for the Verification Programme, “Percentage of development of Verification (VER) register of requests on contingency operations”. In response, the Secretariat informed the ABAF that this KPI was no longer relevant; at present and for the foreseeable future, a system to track what has been 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 was not relevant for 2019, that it remains irrelevant in 2020, and that this KPI will be discontinued.
23. Regarding the ABAF’s request for additional clarity on the criteria used to determine the metric for KPI 1.2 for the Policy Making Organs (PMO) “Percentage of feedback better than equal to “satisfactory” from delegations of States Parties and Secretariat managers (Directors and Branch Heads) with regard to services provided”, the Secretariat noted that it will include this information in the 2020 programme performance report.

Financial Statements of the OPCW and the report of the External Auditor for the year ending 31 December 2019 (paragraphs 8.1 to 8.45 of ABAF-48/1)

24. The Secretariat is pleased to note the ABAF’s satisfaction with the fact that both the Financial Statements of the OPCW and the Financial Statements of the OPCW Provident Fund received unqualified audit opinions from the External Auditor.
25. The Secretariat welcomes the ABAF’s satisfaction with the high quality of the Organisation’s financial statements, and in particular noted the continued importance of the Director-General’s comprehensive introduction to the financial statements. The Secretariat welcomes the acknowledgement that this was a difficult feat to achieve given the complexities brought on by the COVID-19 pandemic, which include remote working arrangements.
26. With regard to the implementation of the ERP project and any potential impact on the 2020 Financial Statements preparation schedule, the Secretariat notes the ABAF’s comment that it will revisit this issue at its next meeting.
27. The Secretariat notes the ABAF’s concern related to the collection of assessed contributions and Article IV and V reimbursements, and the impact that these have on the Organisation, especially those occurring late in the year.
28. Regarding the Organisation’s ageing asset base, the Secretariat notes that the ABAF was encouraged that the Major Capital Investment Fund (MCIF) had been agreed upon by the Conference of the States Parties (hereinafter “the Conference”) at its Twenty-Fourth Session in 2019. The Secretariat will continue to draw the attention of States Parties to the Organisation’s ageing asset base in line with the ABAF’s recommendation.

29. With regard to the presentation of employee benefit liabilities in the Financial Statements and the ABAF's recommendation that improvements be made to note 26 on this issue, the Secretariat agreed and will include additional wording in the 2020 financial statements to enhance the information provided.
 30. On the issue of the death benefit liability, the Secretariat informed the ABAF that the balance for the Organisation was not considered material, and that the approach followed was supported by the Organisation's external actuary and their International Public Sector Standards (IPSAS) experts. However, the Secretariat agreed with the ABAF on comparing organisations within the United Nations Common System that share similar systems in terms of salaries, benefits, and allowances. An agreement was made to conduct a benchmarking exercise among organisations within the United Nations Common System in the months to come.
 31. On the issue of reserves and trust funds, and as noted by the ABAF and the External Auditor, the Secretariat has begun its initial work to review the Organisation's aged trust fund balances; it was further noted that this work would likely continue into 2021.
 32. The Secretariat acknowledges the observations made by the External Auditor and the ABAF on the matter of annual performance accountability within biennial budgeting and the need for clear links among resources and longer-term objectives. The Secretariat indicates that improvements have already been implemented in the formulation process for the draft 2021 programme and budget; it also stated that further efforts will be made in this regard as the Organisation prepares to make the transition to biennial budgeting for the 2022 – 2023 programme and budget, including in terms of results-based management initiatives. The Secretariat accepts the request from the ABAF to provide an update on developments in results-based management at a future meeting.
 33. With regard to the Statement of Internal Control, the Secretariat notes the ABAF's support for the External Auditor's view on the importance of assurances of internal control risk analysis and risk management across all levels of programme management. As per the ABAF's suggestion, the Secretariat will explore ways to present these elements more vividly and in a stronger manner.
 34. Regarding an anti-fraud policy, the Secretariat notes the ABAF's support for the observations of the External Auditor and the ABAF's suggestion regarding the implementation of this policy. The existing administrative directive regarding the Procedure to Provide for Direct Confidential Access of Staff Members or Others to the Office of Internal Oversight (AD/ADM/9/Rev.1, dated 15 December 2008) will be updated in conjunction with the anti-fraud policy framework to ensure that it comprehensively addresses best practices regarding the existing policies on reporting and investigating wrongdoing and to ensure that it is aligned with the forthcoming fraud risk strategy, roles, and responsibilities.
- Report of the Office of Internal Oversight for the year ending 31 December 2019 (paragraphs 9.1 to 9.15 of ABAF-48/1)
35. The Secretariat welcomes the ABAF's continued strong support for the work of the OIO.

36. The Secretariat acknowledges the ABAF's concern about the downward trend in the overall implementation rate for critical recommendations, the OIO provided further information on the various reasons this has occurred. The Secretariat did note, however, the ABAF's suggestion that it would be beneficial to conduct an analysis to ensure implementation and realistic timelines. The Secretariat notes the ABAF's recognition of the initiatives taken by the OIO to improve the overall implementation rate of its recommendations. The roll-out of new software to facilitate follow-up actions, in addition to regular and ongoing follow-up actions on the implementation status of recommendations at Management Board meetings are all positive measures. The Secretariat notes the ABAF's suggestion that the OIO further strengthen its analysis of why recommendations remain open, and to further coordinate with relevant divisions to either determine realistic timelines for implementation, or to close a recommendation if it is no longer feasible to implement.
37. With regard to the timelines for audit recommendations, the Secretariat notes the ABAF's comment that both management and the parties being audited should reinforce the importance of the timelines agreed upon for audit recommendations, and that this may become a factor considered in staff performance evaluations.
38. The Secretariat notes the ABAF's request for the OIO's strategy document at its next meeting. A presentation from the Director of OIO on her vision for the Office is also planned.
39. The Secretariat welcomes the ABAF's appreciation for the value-added recommendations issued in the areas of official duty travel, staff recruitment, management of software licences, implementation of the confidentiality regime, logical access control in the secure critical network, and the first round of evaluations of the Organisation's committees.
40. The Secretariat notes that the ABAF has encouraged the timely implementation of OIO recommendations, and acknowledges its comment that it is management's responsibility to ensure that recommendations are implemented within agreed timelines.

COVID-19 and early impact on the OPCW (paragraphs 10.1 to 10.2 of ABAF-48/1)

41. With regard to the financial impact on the Organisation brought through the COVID-19 pandemic, the Secretariat agrees with the ABAF's statement that the situation is in its early stages and still somewhat unpredictable, and noted in particular that the activities that fall within the areas of verification and international cooperation and assistance have already been impacted by the postponement of planned activities.
42. At the ABAF's request, the Secretariat will provide an update on mid-year and forecast budget implementation at the Forty-Ninth Session of the ABAF.

ERP project update (paragraphs 11.1 to 11.3 of ABAF-48/1)

43. With regard to the ERP project, the Secretariat understands the ABAF's serious concern about the continued delay of the go-live date, as well as the challenges and complexity that remain for project delivery. The Secretariat continues to work diligently and is making sustained progress to ensure that the launch of the System of Record (phase 1) takes place as soon as possible.

44. The Secretariat will continue to keep States Parties informed of the status of ERP implementation, as encouraged by the ABAF. Information in updates will include the timing of the expected System of Record launch, funding status, and other issues as necessary.
45. The Secretariat will provide the ABAF with a comprehensive update on ERP implementation at its next meeting in accordance with the ABAF's request.

OPCW Centre for Chemistry and Technology project update (paragraph 12 of ABAF-48/1)

46. The Secretariat will provide the ABAF with a comprehensive update on the Centre for Chemistry and Technology at its Forty-Ninth Session and appreciates the ABAF's point about the importance of the design phase of the project.

Any other business (paragraph 13 of ABAF-48/1)

47. The Secretariat notes the ABAF's appreciation for the manner in which the Forty-Eighth Session was conducted given the rapid emergence of the COVID-19 pandemic. With regard to the Forty-Ninth Session, which is scheduled to take place in late July 2020, the Secretariat understands the ABAF's request for alternative arrangements to facilitate an open discussion and interaction on agenda items. In this regard, the Secretariat will work with the Chairperson of the ABAF to find a suitable approach that will take due account of a number of factors, including the continued possibility of travel restrictions for the Netherlands or for some ABAF members, depending on their location, as well as time zone considerations if an in-person meeting is not practicable.

Next session and agenda (paragraph 14 of ABAF-48/1)

48. The Secretariat notes the ABAF's agreement of the dates of 28 July to 31 July 2020 for its Forty-Ninth Session, as well as the provisional agenda for said session.