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REPORT BY THE DIRECTOR-GENERAL

FINANCIAL STATEMENTS OF THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS AND REPORT OF THE EXTERNAL AUDITOR FOR THE YEAR ENDING 31 DECEMBER 2019

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

Annex 1

ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS

FINANCIAL STATEMENTS

OF THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS

FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL STATEMENTS
OF THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS
FOR THE YEAR ENDED 31 DECEMBER 2019

Statement by the Director-General

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

2. We believe that the financial statements for the year ended 31 December 2019 are presented fairly according to the requirements of IPSAS and the OPCW's Financial Regulations and Rules (reference OPCW-S/DGB/27, dated 10 January 2018).

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

4. It is also our opinion that the financial statements present a view which is consistent with our understanding of the OPCW's financial position as at 31 December 2019, results of its operations, changes in net assets, and cash flows for the year then ended.

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

[Signed]	[Signed]
Fernando Arias Director-General	Christopher Buck Director, Administration Principal Financial Officer

25 May 2020

STATEMENT OF INTERNAL CONTROL FOR 2019

Scope of responsibility

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

Purpose of the system of internal control

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

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

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

(b) reliability of financial reporting; and

(c) compliance with applicable rules and regulations.

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

My current statement on the OPCW's internal control processes, as described above, applies for the year ended 31 December 2019, and up to the date of authorisation for issue of the Organisation's 2019 financial statements.

Risk management and control framework

The Organisation's risk management programme includes:

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

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

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

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

Review of effectiveness

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

(a) my senior managers, in particular the Division Directors and Office Directors who play important roles and are accountable for expected results, performance, controlling their respective Division and Office activities and the resources entrusted to them. The information channels rely mainly on periodic meetings held by the Management Board. For the year ended 31 December 2019, significant risk and internal control matters outlined below, together with a remedial action plan, have been identified through a formal self-assessment process conducted twice during 2019, and confirmed by my Division and Office Directors' personal written attestations at the end of the financial year. The results are used to inform the governance frameworks in the Organisation as well as to inform in-year;

(b) the Office of Internal Oversight (OIO), on whose reports of internal audits and evaluations I rely. These reports are also provided to the individual Division or Office for strengthening the internal control, risk management and governance processes. During 2019, the OIO has conducted a number of audits and evaluations to assess the adequacy and effectiveness of internal controls in several high risk areas and has made recommendations to further strengthen the system of internal controls, risk management and governance. These high-risk areas were identified through a comprehensive risk assessment exercise carried out by OIO so as to focus the audit effort on the areas that matter most to the Organisation. During 2019, the OIO conducted Internal and Confidentiality audits and evaluations on Management of Official Duty Travel, Management of Staff Recruitment processes, Audit of the Implementation of the Confidentiality Regime in the Chemical Demilitarisation Inspection Cell in Inspectorate Division, Audit of Management of Software Licences, Audit of Logical Access Controls, Logging and Monitoring in the Security Critical Network (SCN), and Evaluation of Committees (first batch). A total of 51 recommendations were issued in these reports, of which 10 were prioritised as 'critical' and the remaining 41 recommendations were of 'standard' priority. A brief summary of the key audit recommendations issued in 2019, and the impact of those issued and implemented in the past five years is provided in the Annual Report of OIO for 2019 to the Conference of the State Parties (hereinafter "the Conference"). These have contributed significantly to strengthening the system of internal control in the

Organisation. Management accepted all the audit recommendations, and is taking action to implement them;

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

(d) the recommendations of the Risk Management Committee (RMC) which convened six times in 2019. Its activities include strengthening the Organisational risk matrix and classification approach, reviewing the risk register revised by risk owners, reviewing the fraud risk assessment, reviewing top risks to be submitted to the Management Board for its consideration, the development of underpinning guidance through a revised draft Administrative Directive on Risk Management, as well as work towards the integration of the various risk and control tools available in the Organisation into risk determination. Though further work is required to reach the organisational maturity of risk management, some improvements were made in the understanding of Programme managers and the quality of risk management; and

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

Significant risk and internal control matters

Subsequent to review by the RMC and approval by Senior Management at Management Board meetings, the following significant risks and internal control issues are reported for 2019, as informed through the above-mentioned channels:

(a) **Protection of classified and sensitive information and information systems:**

In recent years there has been an increasing risk relating to protection of classified and sensitive information and the risk of cyber-attacks on the OPCW's information systems. Malicious or accidental activity can, and does affect the confidentiality, integrity or availability of the Organisation's information. Specific policies, procedures, awareness, training and ICT security capabilities are being procured or utilised to provide better risk management regarding access to classified and sensitive information. Further efforts to prevent, detect and manage damaging activities and such responses, such as review of confidentiality policy and procedures, will continue to be developed by the Organisation in 2020 onwards. The findings and recommendations of the recent investigation of a breach of confidentiality are being factored into this process.

(b) **Implementation of the enterprise resource planning system (ERP system):**

The Organisation is currently implementing a new ERP system which will have a significant impact on a number of key financial and administrative business processes, including internal control. Implementation of the core solution is ongoing, and detailed user acceptance testing between 2017 and 2019 indicated that the solution build was incomplete and would not support operational business requirements. As a result, the go-live of the core solution was delayed until completion of the solution build; additional user acceptance and regression testing is being conducted to confirm that the solution meets the operational business requirements. The go-live of the core solution has been envisioned for 2020, but is under review in light of the configuration status and the risks of a late mid-year cut-over. Legacy system controls will continue to be used in the intervening period. In order to ensure sufficient internal control is maintained within the new ERP system, the Organisation is putting in place continually monitored assurance plans to validate internal control within the new ERP system, including review by the OIO of data migration and post go-live of the system a review of user roles and responsibilities system access.

(c) **Non-payment of contributions by States Parties:**

In recent years, the Organisation experienced significant financial issues due to the non- or delayed payment of assessed contributions and reimbursements of Article IV and Article V invoices by certain States Parties. Remedial action, including recapitalisation of the Working Capital Fund and active budget management, has taken place between 2016 and 2019 to address this issue and improve the financial position as at 31 December 2019. The failure of some States Parties to pay contributions still, however, remains a significant risk to the Organisation, and as such the Organisation continues to closely monitor and actively address the cash situation, apprising States Parties of the financial position and outstanding contributions on a monthly basis. The Organisation also continues to maintain a budgetary contingency margin to mitigate the risk of cash flow issues.

(d) **Budgetary impact of unforeseen costs:**

In 2019, significant costs have arisen during the financial year following adoption of the annual Programme and Budget which could not have been foreseen at the time of its preparation. In 2019, this has included significant increased salary costs due to obligatory yet unforeseen in-year changes in salary scales, including retroactive applications, and the post adjustment multiplier for the Netherlands prompted by UN scale adjustments, consistent with the OPCW Financial Regulations and Rules. Such variables are outside of the control of the Organisation and have continued to place an increased burden on the regular budget of the Organisation. Overall programme and budget management measures, including the withholding of the contingency margin, were used to maintain the Organisation within budget and in adherence to budgetary transfer rules. The margin however at year-end was extremely tight with little further margin for any other unforeseen costs.

(e) **Business continuity planning:**

The OIO identified a number of critical-level findings relating to the Organisation’s information technology disaster recover policy and business continuity planning including supporting physical security arrangements which are under implementation. While the Organisation has taken preliminary steps, as resources and competing priorities have allowed, the ongoing COVID-19 crisis has required the immediate ad hoc implementation of a number of business continuity measures that will substantially inform the business impact assessment and subsequent framework envisioned by the recommendations. In the longer term, the Organisation envisages a key role for the Centre for Chemistry and Technology in providing critical business continuity support.

(f) **Risk management and control framework:**

The abovementioned risk management and control framework continues to be embedded within the Organisation; key focus will continue to be placed on the sustainability of the risk management process, and the evolving roles of key internal stakeholders within this, such as the OIO, RMC and the Management Board. This is especially critical given the unprecedented challenges raised by the COVID-19 pandemic in early 2020 and the subsequent impact on the internal control environment at the Organisation. The Secretariat also recognises the long-standing external audit recommendations related to fraud policies and will continue to address these as a priority in 2020.

Conclusion

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

I am committed to addressing any weaknesses in internal controls noted during the year and brought to my attention. In 2019, amongst other activities, this work included the introduction of an internal control self-assessment questionnaire to embed a more systematic process of risk management, an organisational fraud risk assessment conducted in conjunction with updates to the Risk Register, risk management training conducted by OIO, and refocusing the agenda of the Management Board Meeting to emphasise core operational issues.

Based on the assurances I have received as set out in this Statement above, I conclude that, to the best of my knowledge and information, there have been no significant material weaknesses across a broad base of both financial and non-financial controls nor are there other significant matters arising which would have come to my attention for the period which would need to be raised in the present document for the year ended 31 December 2019.

[signed]

Fernando Arias
Director-General
25 May 2020

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REPORT OF THE DIRECTOR-GENERAL ON THE FINANCIAL STATEMENTS OF THE OPCW FOR THE YEAR ENDED 31 DECEMBER 2019

Introduction

1. I have the honour to present the financial statements of the Organisation for the Prohibition of Chemical Weapons (OPCW) for the year ended 31 December 2019.

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

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

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

Analysis of financial statements

5. The OPCW financial statements are general purpose financial statements providing information about the financial position, performance, and cash flows of the Organisation to a wide spectrum of users for decision making, consideration in future planning, and to demonstrate the accountability of the OPCW for the resources entrusted to it.

6. The financial statements of the Organisation have been prepared on the accrual basis in accordance with IPSAS. The Organisation's significant accounting policies within the context of IPSAS are detailed in the financial statements. The budget, as well as the budgetary basis information contained in the financial statements, continues to be prepared on a modified cash basis. There are therefore differences in the accounting bases used for the recognition of revenue, expenses, assets and liabilities in the budget and the IPSAS financial statements for 2019, including timing differences. The Organisation's functional currency is the euro. All financial information in this analysis is quoted on an IPSAS accounting basis unless otherwise stated.

7. During 2019, the Organisation continued to focus on the effective implementation of the Convention and the efficiency of the processes supporting such implementation. Detailed information on the financial year 2019 can be found within the financial statements and accompanying notes disclosures. Within this context, the following

analysis provides the reader of the financial statements with some of the key highlights of the financial year 2019 in perspective:

(a) The regular budget (General Fund) experienced an implementation rate of 99.3% for 2019. The implementation rate is compared to 96.9% in the prior year, and was managed through use of a budgetary contingency margin to ensure expenditure management and effective cash flow. The level of assessed contributions for 2019 increased from EUR 65.5 million for 2018 to EUR 67.1 million as per the Programme and Budget for 2019. The OPCW Programme and Budget (excluding extra-ordinary provisions) compared to the prior year increased by 2.1% to EUR 68.2 million in 2019 for Chapter I and Chapter II programmes.[2] With extra-ordinary provisions the increase was 3.6% compared to the prior year.

(b) Trust funds experienced a net increase in revenue from voluntary contributions of EUR 3.5 million when compared to 2018, including new contributions for the Centre for Chemistry and Technology and Trust Fund for Syria Missions totalling EUR 6.1 million and EUR 6.5 million respectively.

(c) Overall expenses[3], inclusive of the General Fund, trust funds and special funds, increased by EUR 3.8 million, primarily within the employee benefit expenses category and consistent with programmatic activity and the use of budgetary contingency margin through the year. Employee benefit expenses increased by EUR 3.4 million, primarily due to obligatory yet unforeseen in-year changes in salary scales including retroactive applications, and the post adjustment multiplier for the Netherlands prompted by UN scale adjustments, consistent with the OPCW Financial Regulations and Rules.

(d) The net surplus (across all funds and special funds) for 2019 was EUR 7.2 million, compared to a net surplus of EUR 3.1 million in the previous year. This EUR 4.1 million increase in net surplus was due primarily to the increase in both assessed contribution and voluntary contribution revenues, a decrease in consultancy and contractual services expenses, offset partially by an increase in employee benefit expenses.

(e) The overall value of cash and cash equivalents across the General Fund, trust funds, and special funds increased from EUR 29.9 million in 2018 to EUR 46.8 million in 2019, comprised primarily of an increase of EUR 16.5 million in Trust Fund cash balances. The General Fund cash balance decreased by EUR 0.1 million from the prior year.

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2 The total approved OPCW Budget for 2019 was EUR 69.7 million including an appropriation of EUR 1.5 million for extra-ordinary provisions (C-23/DEC.10, dated 20 November 2018).

3 Including net finance income and costs.

(f) A significantly lower collection rate of assessed contributions was experienced during 2019 as compared to 2018, leading to an overall increase in the total amount (2019 and prior years) of gross outstanding assessed contributions by EUR 3.5 million to EUR 7.1 million. As in 2018, a high proportion of current year assessed contributions was received in the final quarter of 2019.

(g) Outstanding total Article IV & V reimbursements increased by EUR 1.0 million to EUR 8.0 million.

(h) The overall net book value of property, plant, and equipment increased by EUR 1.1 million, reflecting the purchase of land for the Centre for Chemistry and Technology in late 2019 for EUR 2.0 million, offset by the depreciation of other assets. The net book value of intangible assets increased by EUR 1.1 million, mainly due to ongoing work associated with the development of the new enterprise resource planning (ERP) system and due to increased level of verification projects mainly the new Electronic Declaration Information System (EDIS) launched in 2020.

(i) The Organisation's total liabilities in 2019 increased by EUR 23.7 million, primarily due to an increase of EUR 22.7 million in deferred revenue for voluntary contributions for the Trust Funds for Syria, Libya and the Centre for Chemistry and Technology. An increase of EUR 0.8 million in the level of the working capital fund as a result of a transfer of a portion of the final cash surplus for 2017 also contributed to the increase in overall liabilities. A decrease of EUR 0.6 million in accounts payable as the result of a significant of payments administered the last month of the year offset slightly the overall increase in Organisational liabilities.

(j) The total employee benefit liability determined by the OPCW actuary increased by EUR 1.0 million in 2019 to a total of EUR 9.0 million as the elements for repatriation and home leave costs increased during the year. The liability continues to be unfunded on a long-term basis and instead continues on a pay-as-you-go approach as considered and recommended by the Advisory Body on Administrative and Financial Matters (ABAF) in its 46th session.

(k) The total net assets position experienced an increase of EUR 7.2 million, primarily due to the increase in the aforementioned trust fund balances taking into account partial offset primarily due to the increase in deferred revenue. The closing net asset balance for the General Fund was a deficit of EUR 4.5 million, primarily due to the long-term employee benefit liabilities. Net assets for trust funds and special funds were EUR 23.1 million, representing resources which will be spent in future years.

(l) In 2019, the final cash surplus for 2018 was determined as EUR 2.3 million, a decrease of EUR 0.2 million from the final cash surplus for 2017. This decrease was largely due to the lower level of receipts of arrears in 2019 of assessed contributions relating to 2018 and prior, which was included in the calculation of the final cash surplus for 2018.

Financial performance

8. A summary of the financial performance by all trust funds and special funds for 2019 is shown in Table 1 below.

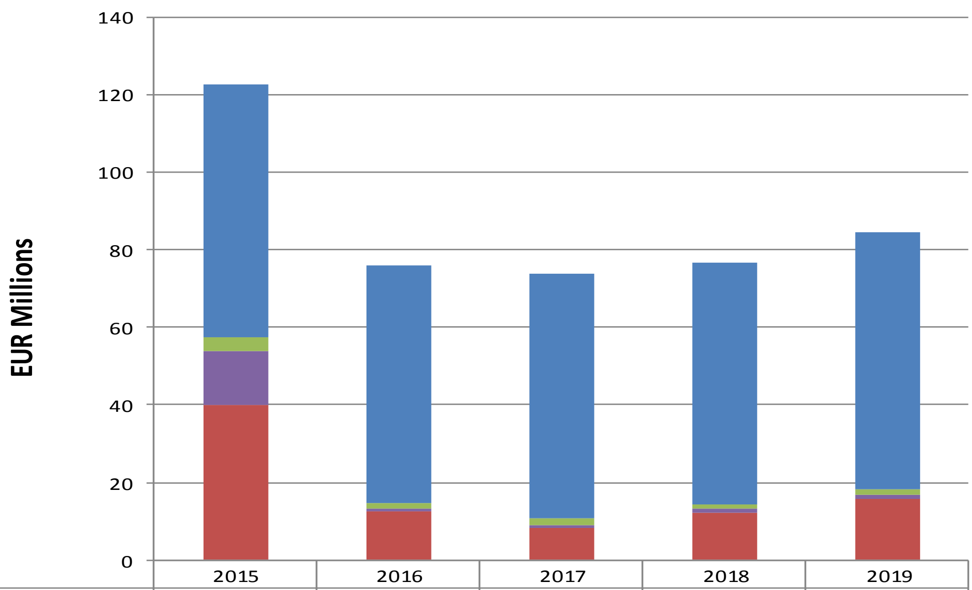
TABLE 1: Summary of financial performance by all trust funds for the year ended 31 December 2019 (EUR millions)

	Regular Budget	**Trust Funds and Special Funds**	**Total**
Total revenue	67.8	16.6	**84.4**
Total expenses[4]	(68.0)	(9.2)	**(77.2)**
Net surplus / (deficit) for the year	**(0.2)**	**7.4**	**7.2**

9. Taking into account all funds and special funds of the OPCW, the difference between revenue and expenses for 2019 resulted in a net surplus of EUR 7.2 million, compared to a net surplus of EUR 3.1 million in the previous year, primarily due to the increased level of overall voluntary contribution revenue, partially offset by an increase in employee benefit expenses.

Revenue analysis

FIGURE 1: COMPOSITION OF REVENUE FOR FINANCIAL YEARS 2015 TO 2019 (EUR MILLIONS)



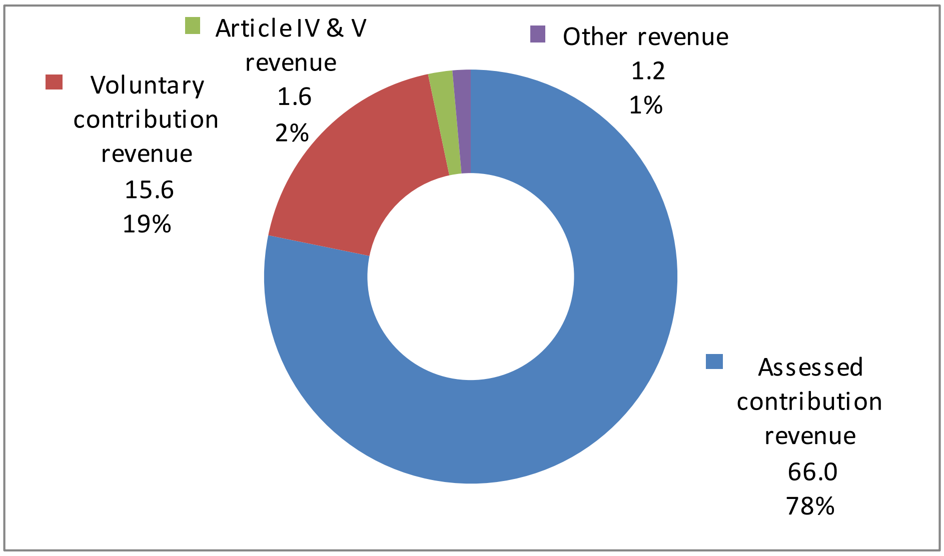
	2015	2016	2017	2018	2019
Assessed contribution revenue	65.3	61.4	63.4	62.3	66.0
Article IV & V revenue	3.4	1.4	1.7	1.2	1.6
Other revenue	13.8	0.8	0.7	1.0	1.2
Voluntary contribution revenue	40.2	12.5	8.2	12.1	15.6

4 Including net finance income and costs.

10. Figure 1 (above) shows the composition of revenue by type over the past five financial years. Total revenue has reduced from a peak of EUR 122.7 million in 2015, however has again shown a gradual increase since 2017, with EUR 84.4 million in 2019, primarily due to increased levels of voluntary contributions. Assessed contributions remain the largest revenue stream for the Organisation (78%), with voluntary contribution revenue growing by 29% from EUR 12.1 million in 2018 to EUR 15.6 million in 2019, and Article IV & V revenue increasing from 2018.

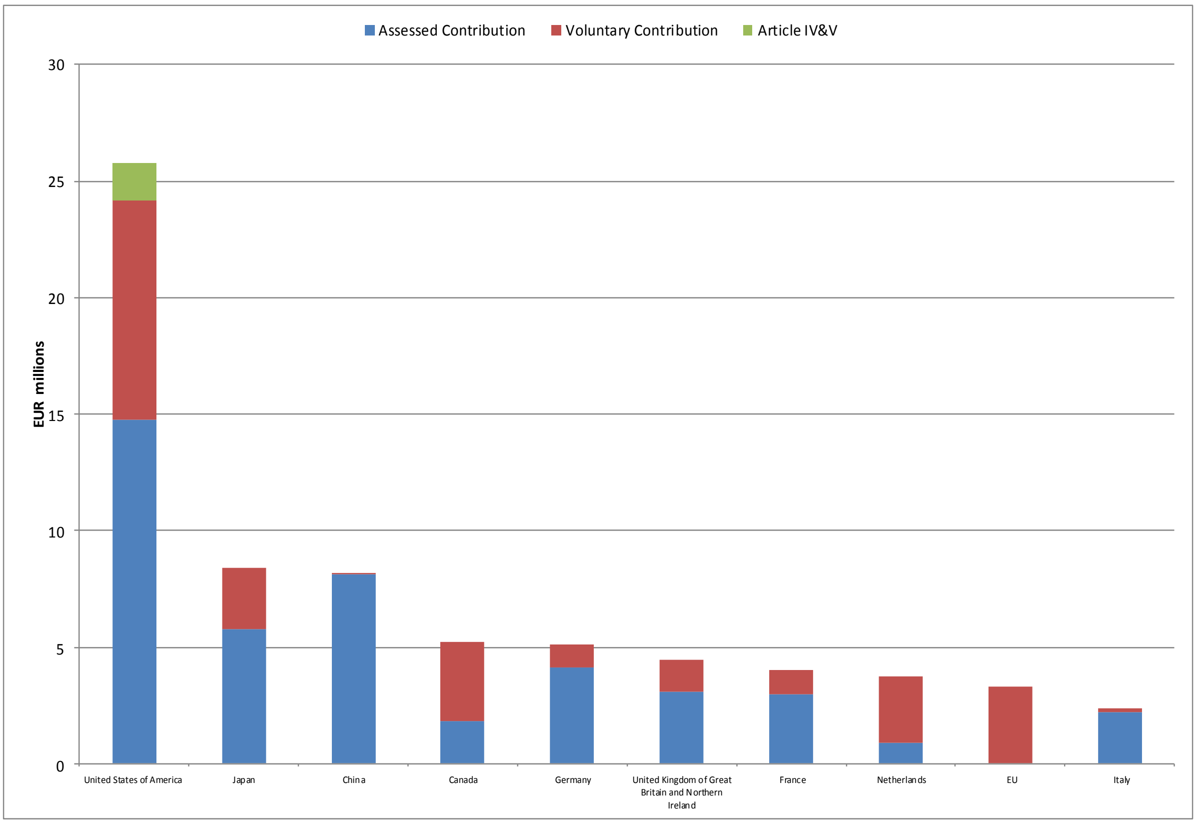
11. Assessed contribution revenue formed 78% of total revenue for 2019, with voluntary contributions accounting for 18% of revenue, as noted in Figure 2 below.

FIGURE 2: COMPOSITION OF REVENUE FOR 2019 (EUR MILLIONS)



12. The top 10 contributors to the OPCW account for a combined total of EUR 70.6 million of total revenue in 2019, as indicated in Figure 3, an increase of EUR 20.5 million when compared with 2018.

FIGURE 3: TOP 10 CONTRIBUTORS TO OPCW REVENUE IN 2019, COMBINING ASSESSED CONTRIBUTIONS, VOLUNTARY CONTRIBUTIONS AND ARTICLE IV & V REVENUE (EUR MILLIONS)[5]



13. Article IV & V revenue has increased by EUR 0.5 million (40%) to EUR 1.6 million in 2019, and includes amounts accrued but not yet invoiced.

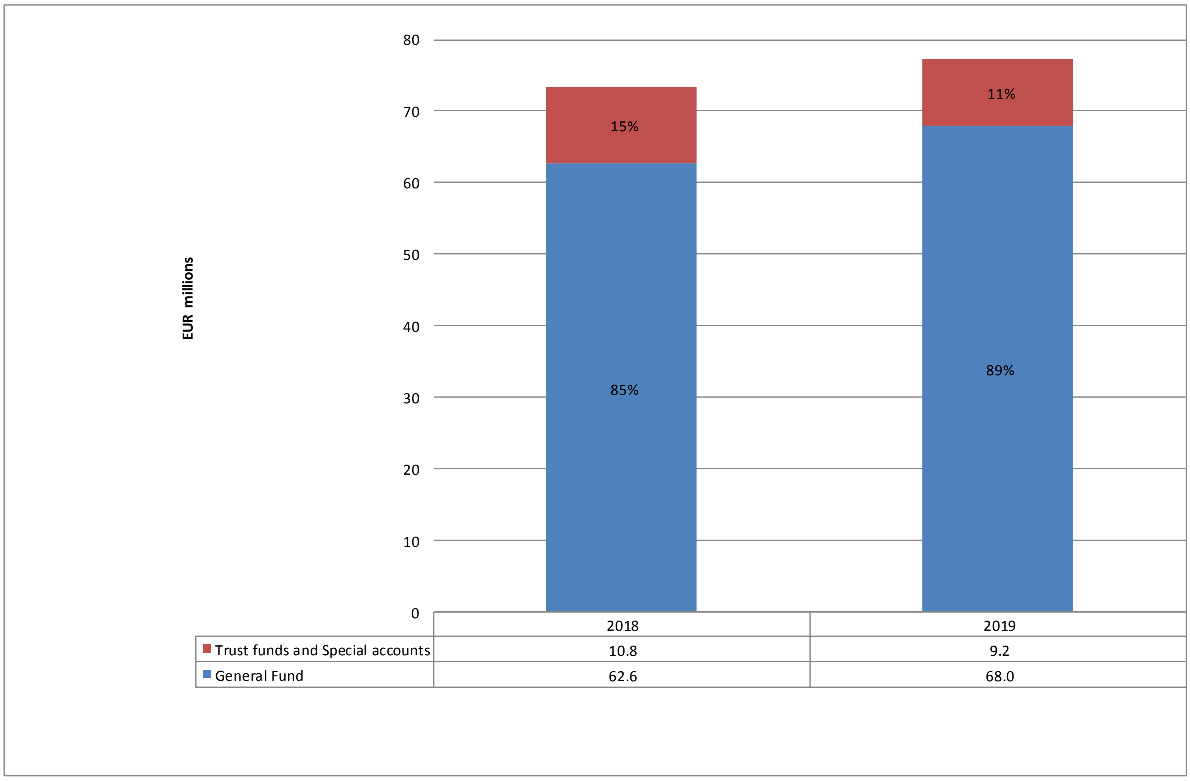
14. Other revenue has increased by EUR 0.3 million in 2019, including revenue for special funds and for inspections related to abandoned chemical weapons.

5 Reported on a modified cash basis.

Expense analysis

15. Figure 4 below shows a comparison of expenses between 2018 and 2019:

FIGURE 4: EXPENSE ANALYSIS BY FUNDING SOURCE FOR 2018 AND 2019 (EUR MILLIONS)



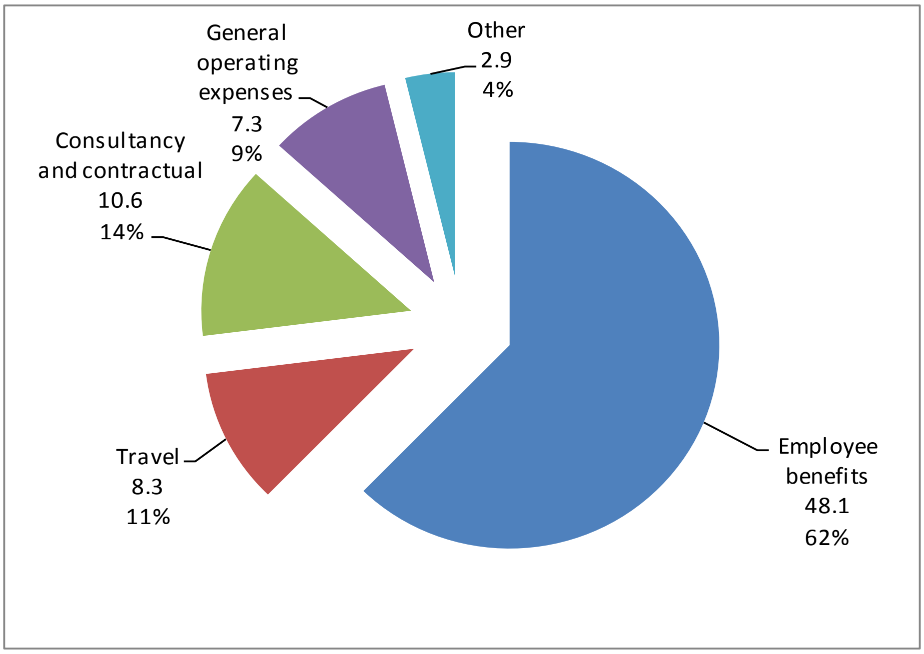
16. In 2019, total expenses (including net finance income and costs) were EUR 77.2 million, denoting an increase of EUR 3.8 million (5%) compared to the previous year. The overall increase in expenses is largely related to the increase in employee benefits expenses of EUR 3.4 million and a decrease of consultancy and contractual expenses of EUR 1.1 million in 2019.

17. The proportion of activities funded by General Fund resources increased moderately to 89% in 2019, from 85% in 2018.

18. In line with the higher budget implementation in 2019 than in the prior year, General Fund expenses increased by EUR 5.4 million in 2019, whereas trust fund and special fund expenses decreased by EUR 1.6 million.

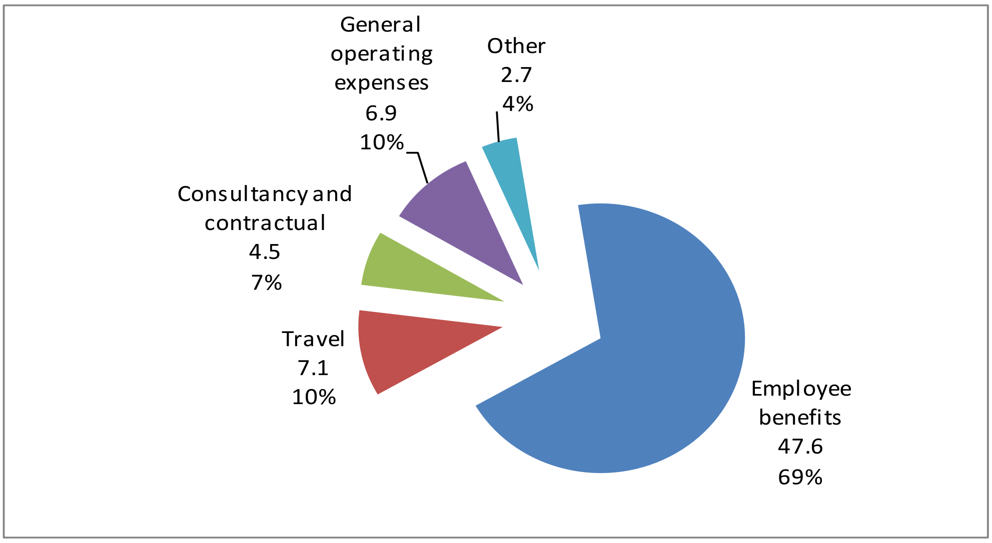
19. Employee benefit expenses (including salaries) represent the largest cost category in 2019 at EUR 48.1 million (62%), followed by consultancy and contractual services (EUR 10.6 million, 14%) and travel (EUR 8.3 million, 11%). Figure 5 below shows the breakdown of 2019 expenses by nature for all funds.

FIGURE 5: EXPENSE ANALYSIS FOR THE PERIOD ENDED 31 DECEMBER 2019 – ALL FUNDS (EUR MILLIONS)



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

FIGURE 6: EXPENSE ANALYSIS FOR THE PERIOD ENDED 31 DECEMBER 2019 – GENERAL FUND (EUR MILLIONS)[6]



6 Expenses reported on IPSAS basis.

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

TABLE 2: Comparative Expense Analysis for 2018 and 2019 (EUR millions)

	2019	**2018**	**Difference**	**Change (%)**
Employee benefits	48.1	44.7	3.4	7.6%
Consultancy and contractual	10.6	11.7	-1.1	-9.4%
Travel	8.3	8.1	0.2	2.5%
General operating expenses	7.3	6.7	0.6	9.0%
Other expenses[7]	2.9	2.2	0.7	31.8%
Total expenses	**77.2**	**73.4**	**3.8**	**5.2%**

22. Salaries and employee benefits include the accrued costs of post-employment and other long-term employee benefits which better account for the true cost of employing staff on annual basis. The increase of 7.6% in 2019 compared to the prior year relates primarily to obligatory yet unforeseen in-year changes in salary scales including retroactive applications, and the post adjustment multiplier for the Netherlands prompted by UN scale adjustments, consistent with the OPCW Financial Regulations and Rules.

23. The decrease of EUR 1.1 million (9.4%) in 2019 in consultancy and contractual services expenses is mainly due to the decrease in activity in certain countries due to deteriorating security situations.

24. Other expenses increased by EUR 0.7 million (31.8%) in 2019, reflecting an increase in asset purchase and internship costs.

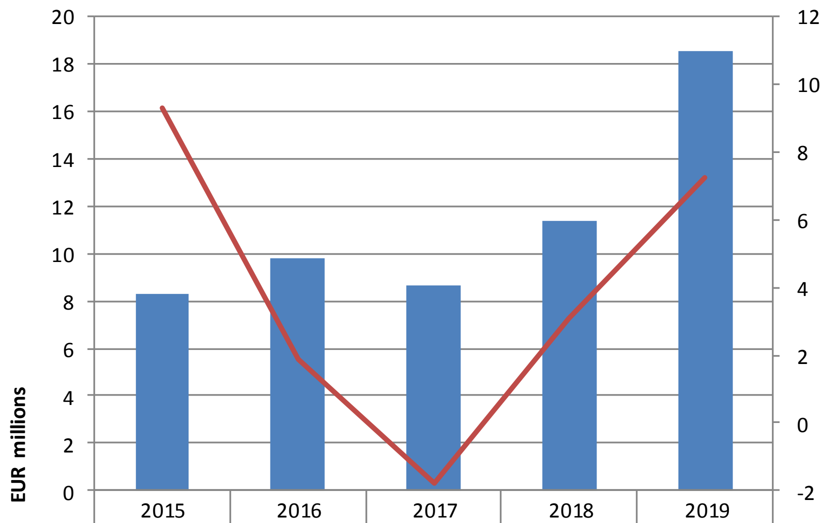
Net surplus/(deficit) of the year

25. The overall net surplus for 2019 was EUR 7.2 million, moving from a net surplus of EUR 3.1 million in 2018. This change was primarily due to the increases in all categories of revenue and offset slightly by an increase in employee benefit expenses in 2019, and a higher budget implementation rate in 2019.

26. The surplus had a positive impact on the overall net assets of the Organisation. After also taking into account actuarial losses of EUR 0.06 million, overall net assets increased by 63% from EUR 11.4 million in 2018 to EUR 18.6 million in 2019, as noted in Figure 7.

7 Including other operating expenses, depreciation, impairment and amortisation, and net finance income and costs.

FIGURE 7: EVOLUTION OF ANNUAL SURPLUS/(DEFICIT) AND NET ASSETS BETWEEN 2015 AND 2019 (EUR MILLIONS)



	2015	2016	2017	2018	2019
Total cumulative net assets/equity	8.3	9.8	8.6	11.4	18.6
Net surplus/(deficit) for the period	9.3	1.9	-1.8	3.1	7.2

Budgetary performance

27. The regular budget of the Organisation continues to be prepared on a modified cash basis and is presented in the financial statements as Statement V(a), Statement of Comparison of Budget and Actual Amounts. In order to facilitate a comparison between the Budget and the financial statements that are prepared under IPSAS, reconciliation of the budget to the cash flow statement is included in note 38.7 to the financial statements.

28. The regular budget appropriation for 2019 was approved for EUR 68.2 million for Chapter I and Chapter II programmes[8] (EUR 66.8 million in 2018). Total operational regular budget expenditures for Chapter I and Chapter II programmes, measured on a modified cash basis, were EUR 67.8 million. In 2018, these expenditures totalled EUR 64.7 million. The total general fund budget implementation rate for Chapter I and Chapter II programmes for 2019 was 99.3%, an increase of slightly more than 2% from 2018 (96.9%). Obligatory yet unforeseen increases in employee benefit costs were incurred mostly late in the year which also served as a driver to an increased budgetary expenditure level.

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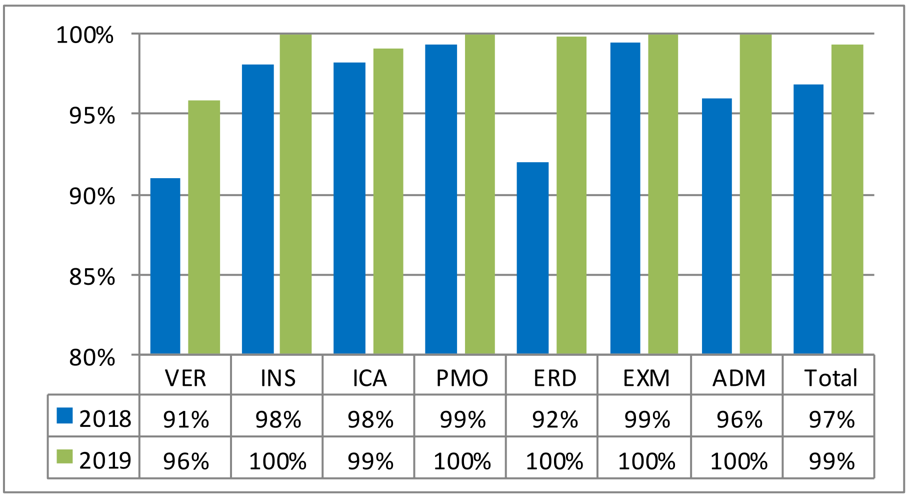
8 Before extra-ordinary provisions.

FIGURE 8: REGULAR BUDGET IMPLEMENTATION BY PROGRAMME IN 2018 AND 2019



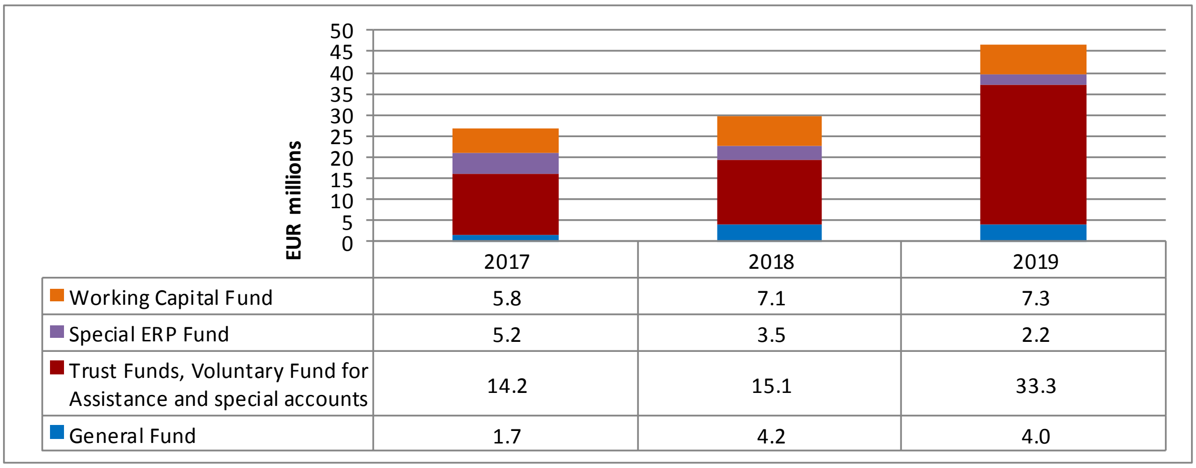
	VER	INS	ICA	PMO	ERD	EXM	ADM	Total
2018	91%	98%	98%	99%	92%	99%	96%	97%
2019	96%	100%	99%	100%	100%	100%	100%	99%

Financial position

Cash, investments, and liquidity analysis

29. In 2019, total cash and cash equivalents increased by EUR 16.9 million (57%) to EUR 46.8 million at 31 December 2019, as noted in Figure 9 below. Cash balances in the General Fund decreased by EUR 0.2 million (5%) to EUR 4 million at 31 December 2019. This decrease reflects a lower collection rate of assessed contributions at the end 2019, coupled with an increased budget implementation rate and higher amount of overall expenses incurred by the general fund.

FIGURE 9: COMPOSITION OF CASH AND CASH EQUIVALENTS AT 31 DECEMBER 2017, 2018 AND 2019 (EUR MILLIONS)

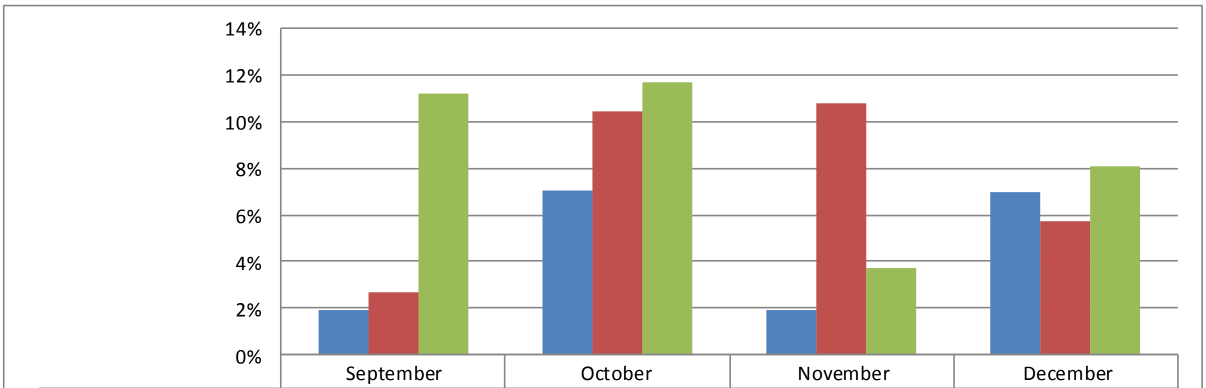


	2017	2018	2019
Working Capital Fund	5.8	7.1	7.3
Special ERP Fund	5.2	3.5	2.2
Trust Funds, Voluntary Fund for Assistance and special accounts	14.2	15.1	33.3
General Fund	1.7	4.2	4.0

30. Trust funds and special fund balances (excluding the special ERP fund) accounted for 42.8 million (91%) of the total cash and cash equivalents at 31 December 2019, as noted in Figure 9.

31. Cash received in the General Fund account was heavily concentrated in the last quarter of the year, as noted in Figure 10 below.

FIGURE 10: GENERAL FUND CASH INFLOW: SEPTEMBER TO DECEMBER (2017 TO 2019)



	September	October	November	December
Total Cash Inflow (2017)	1.9%	7.0%	1.9%	6.9%
Total Cash Inflow (2018)	2.7%	10.4%	10.8%	5.7%
Total Cash Inflow (2019)	11.2%	11.7%	3.7%	8.1%

32. In 2019, 23.5% of total cash inflows for the General Fund were in the last quarter of the year, compared to an average of 21.4% in the preceding two years. As noted in 2018, this was again due to the delayed payment of assessed contributions into the last months of 2019. This had an adverse effect on the cash flow of the Organisation in the first three quarters of the year.

33. In order to manage these cash pressures, a contingency margin was used to align budget implementation with cash receipts, this was a major achievement given a higher budget implementation in 2019 than in 2018.

<u>Accounts receivable</u>

34. Overall, the total gross receivables[9] for assessed contributions and Article IV & V reimbursements increased by EUR 4.5 million to EUR 15.1 million at 31 December 2019. Receivables for assessed contributions on a gross basis increased by EUR 3.5 million and receivables for Article IV & V reimbursements increased by EUR 1.0 million.

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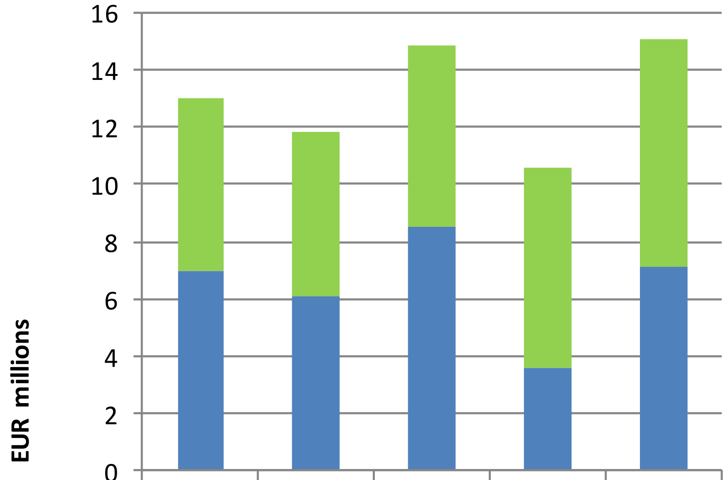
9 Receivables are reported net of impairment on the face of the Statement of Financial Position. Gross receivables prior to impairment are reported in notes 7 and 8 of the Financial Statements.

FIGURE 11: OUTSTANDING TOTAL ASSESSED CONTRIBUTIONS AND ARTICLE IV & V REIMBURSEMENTS 2015 TO 2019 (EUR MILLIONS)

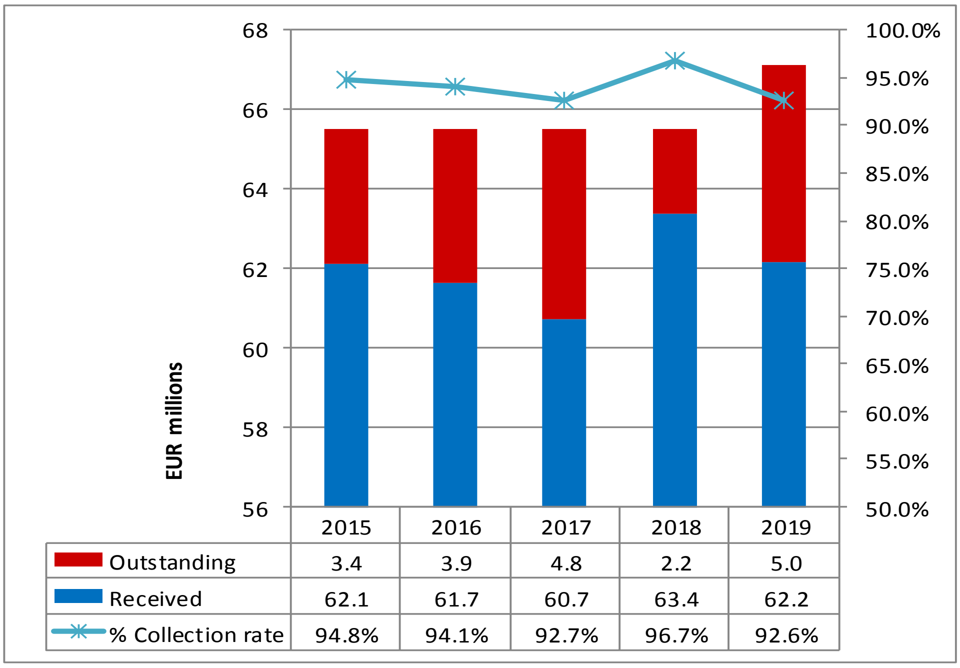


	2015	2016	2017	2018	2019
Article IV & V	6.1	5.8	6.4	7.0	8.0
Assessed contributions	7.0	6.1	8.5	3.6	7.1

35. Following yearly decreases in the collection rate for assessed contributions between 2015 and 2017, an increase in 2018, there was again a decrease in the collection rate for 2019 as compared to the year prior by 4.1% as represented in Figure 12. The figure shows the collection rate for the specific year as at 31 December of the year (i.e., the collection after 12 months).

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

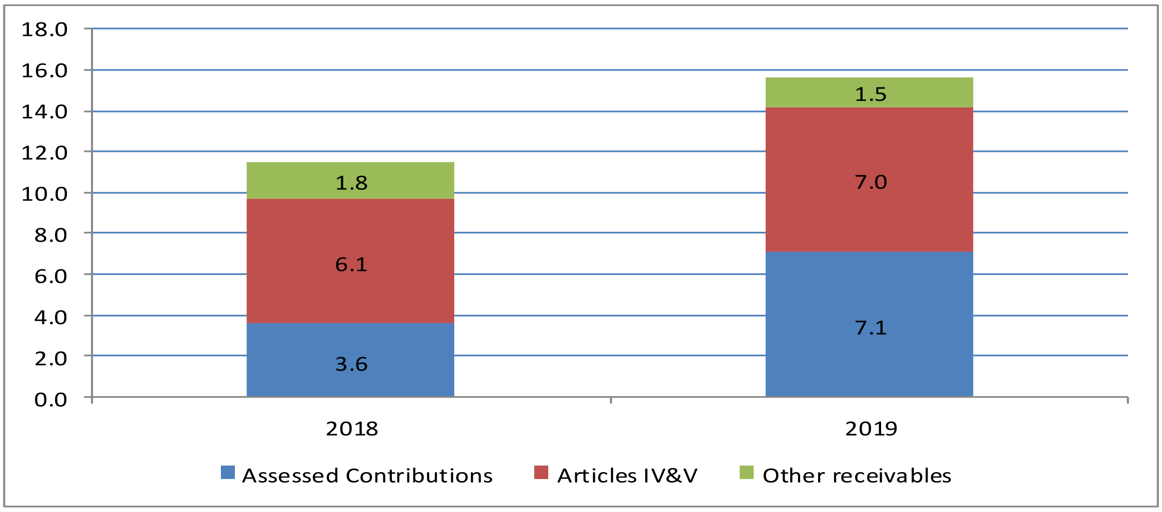
FIGURE 12: ASSESSED CONTRIBUTION BALANCES AND COLLECTION RATES 2015 TO 2019 [10] (EUR MILLIONS)



	2015	2016	2017	2018	2019
Outstanding	3.4	3.9	4.8	2.2	5.0
Received	62.1	61.7	60.7	63.4	62.2
% Collection rate	94.8%	94.1%	92.7%	96.7%	92.6%

37. Figure 13 shows that the overall outstanding amounts due to the General Fund have therefore increased in 2019 as a result of a lower collection rate of assessed contributions in the year, and increased levels of arrears for Article IV & V reimbursements due, slightly offset by a decrease in other receivables due to the receipt of tax refunds in 2019.

FIGURE 13: OUTSTANDING AMOUNTS DUE TO GENERAL FUND AT 31 DECEMBER 2018 AND 2019 (EUR MILLIONS)



10 As of 31 December each year.

Cash surplus

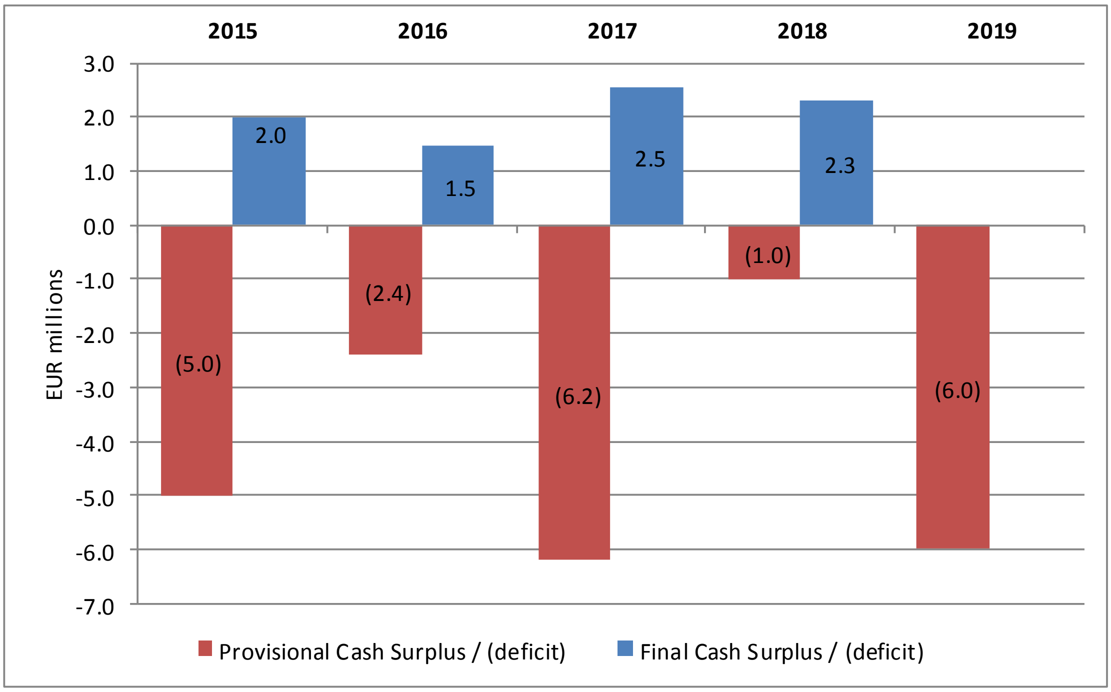
38. Figure 14 highlights the provisional and final cash deficits for the budgetary years 2015 to 2019. The provisional cash deficit is determined at the end of the financial year in question, and the final cash deficit is determined in the following financial year.

39. In 2019, the final cash surplus for 2018 was determined as EUR 2.3 million, a decrease of EUR 0.2 million from the final cash surplus for 2017. This decrease was largely due to the lower level of receipts of arrears in 2019 of assessed contributions relating to 2018 and prior, which was included in the calculation of the final cash surplus for 2018.

40. In 2019, the Conference approved the transfer of the cash surplus for 2017 of EUR 2.5 million to the Working Capital Fund (EUR 0.8 million), to the Special Fund for the Implementation of a New ERP System (EUR 0.7 million), to the Special Fund for Major Capital Investments (EUR 0.6 million) and to the Special Fund for Capacity Building for Laboratories (EUR 0.4 million).[11]

41. The final cash surplus for 2019 will be determined in 2020 and reported in the Financial Statements for 2020. The provisional cash deficit for 2019 is EUR 6.0 million; this may result in a final cash deficit for 2019 unless significant arrears in assessed contributions are received in 2020.

FIGURE 14: PROVISIONAL AND FINAL CASH SURPLUSES 2015 TO 2019 (EUR MILLIONS)



11 C-24/DEC.10, dated 28 November 2019.

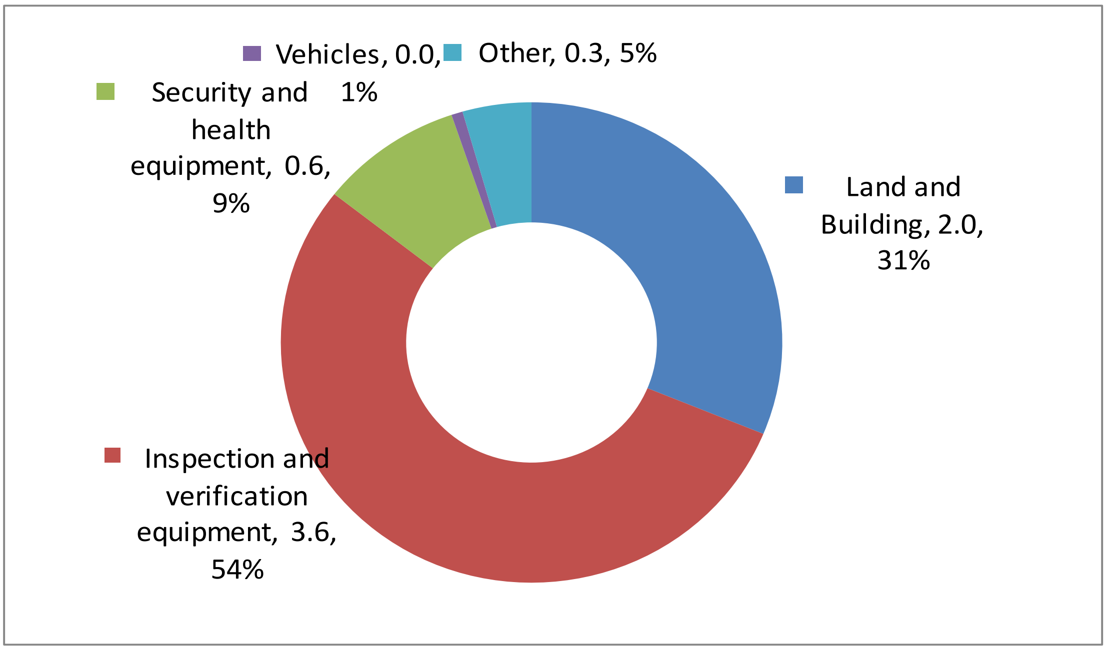
Long-term assets

Property, Plant, and Equipment

42. The total net book value of property, plant, and equipment increased by EUR 1.1 million in 2019, which relates primarily to the purchase of land for the Centre for Chemistry and Technology for EUR 2.0 million, slightly offset by a number of asset disposals and ongoing depreciation charges.

43. As can be seen from Figure 15 below, despite the land purchase for the Centre for Chemistry and Technology, inspection and verification equipment continues to account for the largest component (EUR 3.6 million, 54%) of the net book value of property, plant, and equipment.

FIGURE 15: COMPOSITION OF PROPERTY, PLANT, AND EQUIPMENT (NET BOOK VALUE AT 31 DECEMBER 2019) (EUR MILLIONS)[12]

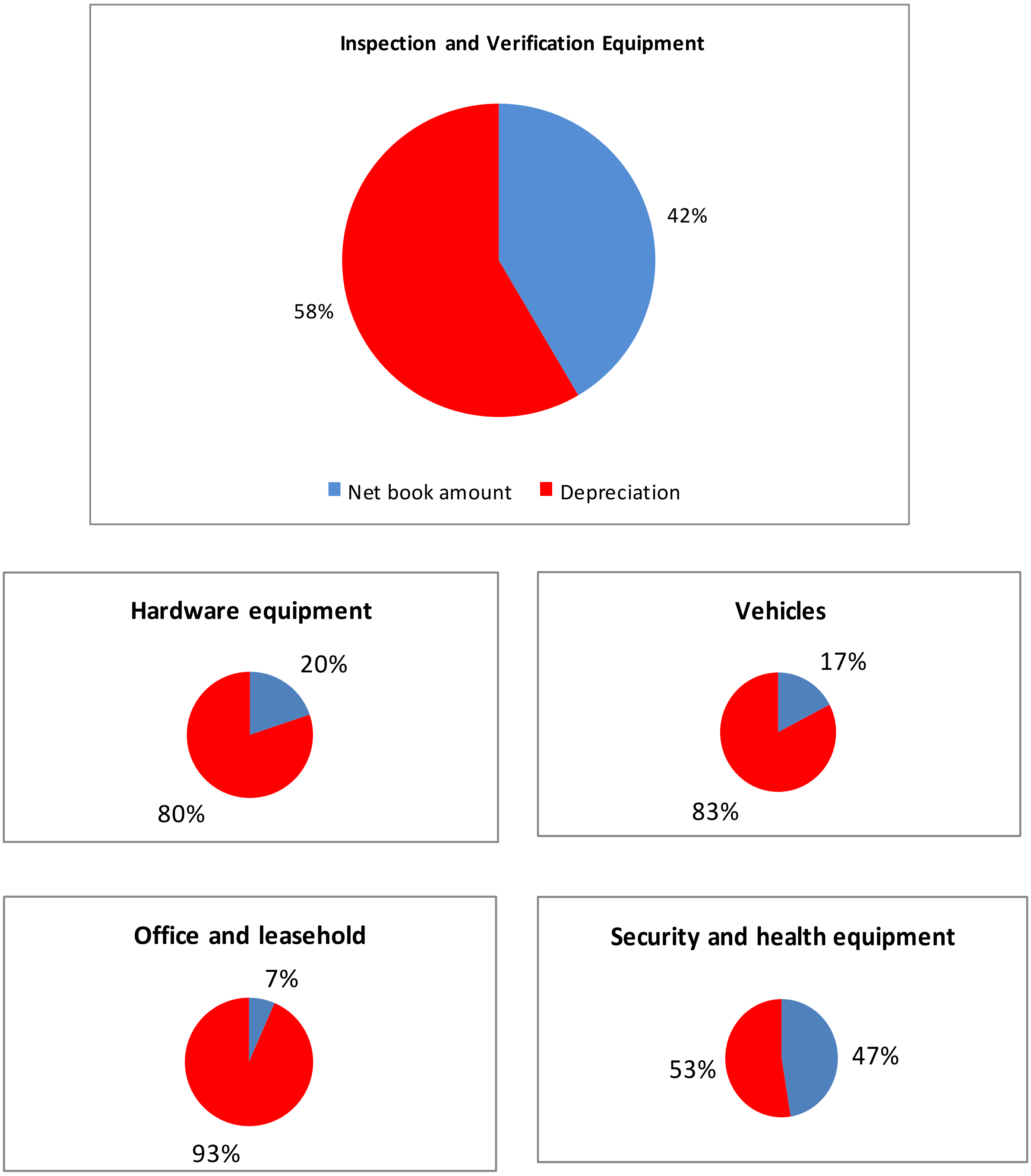


44. Inspection and verification equipment is on average 58% of the way through its useful life, reflecting the annual asset replacement programme for significant items of equipment, as noted in Figure 16 below.

45. Other asset types have less remaining net book value and may require replacement in the near term. Initial steps have been taken to address this issue through the establishment of a Special Fund for Major Capital Investments[13], with the objective of reducing the one-off impact of replacing major assets on the heavily pressured regular budget resources.

12 Other assets include office furniture and equipment, vehicles, and leasehold improvements.
13 C-24/DEC.12, dated 28 November 2019.

FIGURE 16: NET BOOK VALUE AND DEPRECIATION OF PROPERTY, PLANT, AND EQUIPMENT AT 31 DECEMBER 2019 (EUR MILLIONS)[14]

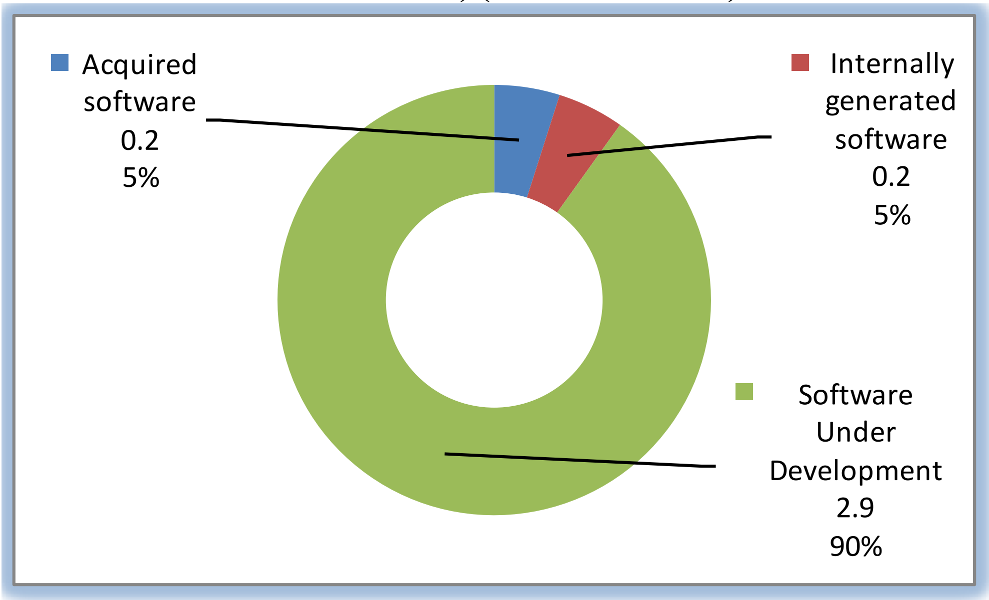


14 Office and leasehold comprises office furniture and equipment and leasehold improvements.

Intangible assets

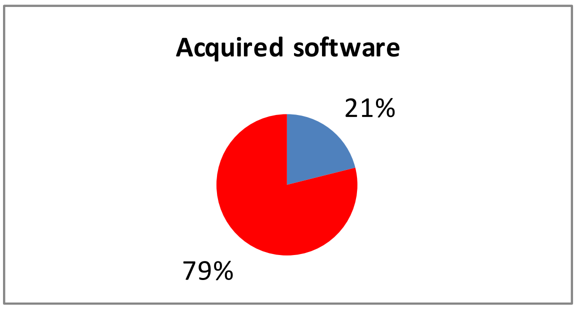
46. The total net carrying amount of intangible assets increased by EUR 1.1 million as at 31 December 2019. As shown in Figure 17 below, the major component of intangible assets at this date was assets under construction (EUR 2.9 million) representing 90% of the intangible asset base for the Organisation, which mainly relates to the ongoing development work relating to the new ERP and EDIS systems. No further elements of the new ERP went live in 2019.

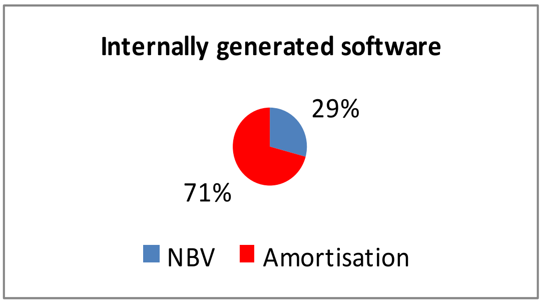
FIGURE 17: COMPOSITION OF INTANGIBLE ASSETS (NET BOOK VALUE AT 31 DECEMBER 2019) (EUR MILLIONS)



47. Amortisation for assets under construction does not start until the system go-live, and hence the net book value of the assets under construction is equal to their cost. Figure 18 below shows the remaining net book value for acquired software and internally generated software which is currently in use, including the in-use elements of the new ERP system. Whilst the live ERP elements are at the beginning of their useful lives, overall intangible assets are over two-thirds of the way through their useful lives, meaning that the non-ERP elements may require replacement in the near future. The aforementioned approval for establishment of a Special Fund for Major Capital Investment also has applicability of its use for the replacement of intangible assets.

FIGURE 18: NET BOOK VALUE AND AMORTISATION OF INTANGIBLE ASSETS AT 31 DECEMBER 2019 (EUR MILLIONS)





Employee benefits liabilities

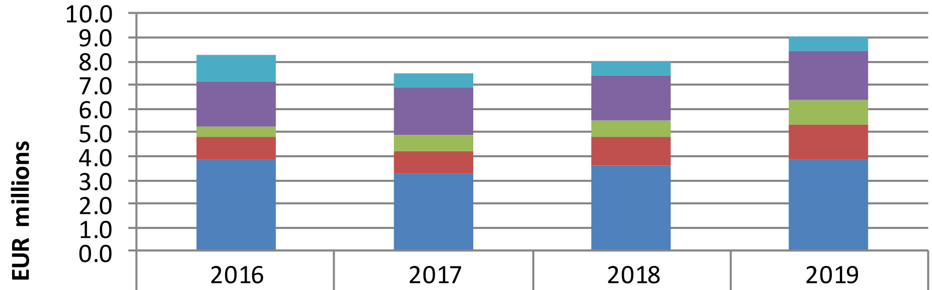
48. Employee benefits liabilities consist of short-term employee benefits payable (such as salaries, annual leave, and education grants), and long-term employee benefits (such as accrued home leave and removal/repatriation entitlements). Long-term employee benefits are accrued as staff members earn the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

49. Total employee benefits liabilities increased by EUR 1.0 million in the past year, from EUR 8.0 million at 31 December 2018 to EUR 9.0 million at 31 December 2019. As shown in Figure 19 below, the most significant increase has been in home leave and post-employment benefits including repatriation benefits, which are determined on an actuarial basis. The increase reflects the additional year of service provided by staff in 2019, and also a minor actuarial loss relating to the difference between costs estimated by the actuary and actual costs for the year. Unused annual leave has increased by EUR 0.1 million over the same period.

50. These employee benefit liabilities continue to be unfunded, meaning that specific funds are not set aside as the entitlements to these benefits are earned by staff members. Instead, the necessary funding is provided on a pay-as-you-go basis through the annual budget cycle. In 2019, the ABAF in its 46th session[15] recommended that the Organisation continue to use the "pay-as-you-go" approach to liquidate the long-term unfunded employee benefit liabilities as they come due.

15 ABAF-46/1, dated 7 June 2019, para 9.5.

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



	2016	2017	2018	2019
Other	1.1	0.6	0.6	0.6
Annual leave	1.9	2.0	1.9	2.0
Home leave	0.5	0.7	0.7	1.1
Removal benefits	0.9	0.9	1.2	1.4
Repatriation benefits	3.9	3.3	3.6	3.9

Working Capital Fund

51. As part of the Programme and Budget of the OPCW for 2020[16], the Conference approved in 2019 to increase the balance of the WCF to help protect against future short-term cash flow issues. This approved increase of EUR 0.8 million was in 2019 allocated from a portion of the 2017 cash surplus. As a result, the WCF balance increased to EUR 8.1 million as at 31 December 2019, representing 12% of the 2020 approved budget of EUR 69.2 million (before extra-ordinary provisions) for Chapter I and Chapter II programmes (1.4 months of expenditure). The Organisation will continue to seek opportunities to raise the level of the WCF further to provide the necessary buffer against cash flow issues.

52. In 2019, the final cash instalment of the incentive payment relating to the extension of the Tenancy Agreement for the OPCW Headquarters building[17] was received (EUR 0.3 million). In IPSAS accounting terms, the total value of this incentive payment (EUR 1.4 million) was credited to working capital fund in 2017 based on the agreement signature date, however this final instalment completes the cash payment element of the agreement.

Net assets/equity

53. Net assets represent the difference between an Organisation's assets and its liabilities, which is illustrated by Figure 20 below. In 2019 total assets increased by EUR 30.9 million and total liabilities increased by 23.7 million, leading to an increase in net assets of EUR 7.2 million.

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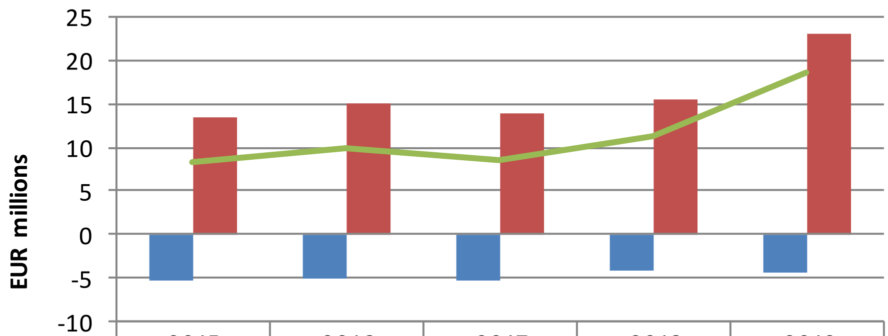
16 C-24/DEC.12, dated 28 November 2019.
17 S/1493/2017, dated 4 May 2017.

FIGURE 20: EVOLUTION OF NET ASSETS 2015 TO 2019 (EUR MILLIONS)



	2015	2016	2017	2018	2019
General Fund	-5.3	-5.1	-5.3	-4.2	-4.5
Trust Funds and special accounts	13.5	15.0	13.9	15.6	23.1
Total net assets	8.2	9.9	8.6	11.4	18.6

54. While overall net assets are positive, General Fund net assets continue to be negative, principally due to the unfunded employee benefit liabilities. The General Fund net assets decreased by EUR 0.3 million between 2018 and 2019 (7%).

55. Net assets for trust funds and special funds increased by EUR 7.5 million (48%) in 2019 to EUR 23.1 million at 31 December 2019, reflecting the time lag between the receipt of high levels of voluntary contributions in 2019 and the implementation of activities in 2019 and later years.

Risk management

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

Summary

57. The financial statements presented for 2019 show an overall increase of EUR 7.2 million in the net assets of the Organisation. Despite this increase, the General Fund remains in a negative net asset position, predominately due to long-term employee benefit liabilities, which continue to be funded on a pay-as-you-go basis through the annual budget cycle.

58. Arrears in assessed contributions increased significantly over the year, however, with a large proportion received in the last quarter of 2019, a contingency margin was again utilised to manage cash flow efficiently alongside a high budget implementation rate. There were however certain expenditure categories namely employee benefits that experienced a sizeable expenditure increase in the year that will place added fiscal management pressures on the Organisation should they continue in subsequent years.

59. The Organisation's fixed asset base has increased with the purchase of land for the Centre of Chemistry and Technology and continuing work on the new ERP system in 2019. Outside of this project, whilst major items of equipment are replaced on a regular basis, there remains a large volume of equipment which requires replacement. The approval of a Major Capital Investment Fund in 2019 has laid the foundations to enable this to progress for both property plant and equipment and intangible assets, subject to appropriate funding.

60. As also noted in in the year prior, through careful financial management, the Organisation was able to successfully ensure financial support for a high budget implementation rate in 2019. In doing so, the Organisation utilised a combination of specifically earmarked special fund resources, voluntary contributions, and agile management of the General Fund against a backdrop of uncertain cash flows and ongoing operational requirements. The use of the final cash surplus to fund special funds in high priority areas was utilised to help address the funding for key programmatic areas whilst being mindful of State Party assessed contribution levels.

[signed]

Fernando Arias

Director-General

25 May 2020

THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS

STATEMENT I
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019
(expressed in euro '000s)

	Note	2019	2018
Assets			
Current assets			
Cash and cash equivalents	13	46,811	29,877
Assessed contributions recoverable	7	5,902	3,284
Article IV & V receivables	8	2,169	1,247
Voluntary contributions recoverable	9	9,134	872
Other assets	10	2,178	2,997
Prepayments	11	3,398	2,539
Inventories	12	706	866
Total current assets		**70,298**	**41,682**
Non-current assets			
Property, plant and equipment	6.1	6,573	5,435
Intangible assets	6.2	3,215	2,111
Total non-current assets		**9,788**	**7,546**
Total assets		**80,086**	**49,228**
Liabilities			
Current liabilities			
Accounts payable	18	2,646	3,231
Employee benefits	17	4,624	4,259
Cash surplus - current	16	20	20
Deferred revenue	20	30,542	7,814
Other current liabilities	21	3,960	2,613
Total current liabilities		**41,792**	**17,937**
Non-current liabilities			
Employee benefits	17	4,364	3,755
Other non-current liabilities	19	3,336	4,702
Cash surplus - non-current	16	2,341	2,547
Voluntary Fund for Assistance	15	1,563	1,563
Working Capital Fund	14	8,140	7,343
Total non-current liabilities		**19,744**	**19,910**
Total liabilities		**61,536**	**37,847**
Net assets		**18,550**	**11,381**
Net assets			
Accumulated surplus/(deficit)		18,550	11,381
Total net assets		**18,550**	**11,381**

THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS

STATEMENT II
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 31 DECEMBER 2019
(expressed in euro ‘000s)

	Note	**For the Period Ended 31 December 2019**	**For the Period Ended 31 December 2018**
Revenue			
Assessed contributions	22	66,004	62,314
Voluntary contributions	23	15,581	12,108
Article IV & V	24	1,606	1,144
Other revenue	25	1,264	1,010
Total revenue		**84,455**	**76,576**
Expenses			
Employee benefit expenses	26	48,110	44,704
Consultancy and contractual services	27	10,557	11,718
Travel expenses	28	8,317	8,116
Depreciation, amortization and impairment	6.1, 6.2	1,475	1,359
General operating expenses	29	7,331	6,660
Other operating expenses	30	1,491	1,111
Total expenses		**77,281**	**73,668**
Net finance income/(cost)	31	**60**	**156**
Net surplus/(deficit) for the period		**7,234**	**3,064**

THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS

STATEMENT III
STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEAR ENDED 31 DECEMBER 2019
(expressed in euro '000s)

	Note	Attributable to States Parties		
		General Fund	**Trust Funds, Working Capital Fund and Special Funds**	**Total Net Assets**
Balance at 1 January 2018		**(5,272)**	**13,914**	**8,642**
Changes recognised in net assets:				
Actuarial gains/(losses) on post-employment benefit obligations	17.6	(325)	**-**	**(325)**
Net revenue recognised directly in net assets		**(325)**	**-**	**(325)**
Surplus/(deficit) for the period		1,338	**1,726**	**3,064**
Total recognised revenue and expense for the year 2018		**1,013**	**1,726**	**2,739**
Balance at 31 December 2018		**(4,259)**	**15,640**	**11,381**
Balance at 1 January 2019		**(4,259)**	**15,640**	**11,381**
Changes recognised in net assets:				
Actuarial gains/(losses) on post-employment benefit obligations	17.6	(65)	**-**	**(65)**
Net revenue recognised directly in net assets		**(65)**	**-**	**(65)**
Surplus/(deficit) for the period		(179)	7,413	**7,234**
Total recognised revenue and expense for the year 2019		**(244)**	**7,413**	**7,169**
Balance at 31 December 2019		**(4,503)**	**23,053**	**18,550**

THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS

STATEMENT IV
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019

(expressed in euro '000s)[18]

	Note	For the Year Ended 31 December 2019	For the Year Ended 31 December 2018
Cash flows from operating activities			
Net surplus/(deficit) for the period		7,234	3,064
Non-cash movements			
Depreciation, amortisation and impairment	6.1, 6.2	1,475	1,359
(Gains)/losses on disposal of property, plant and equipment	25, 30	21	(2)
Increase/(decrease) in provision for impairment of recoverables and receivables	7.4, 8.5	957	(13)
Unrealised currency exchange gain/(loss)		4	(146)
Repayments of cash surplus	16.4		(36)
Changes in assets:			
(Increase)/decrease in recoverables and receivables (current)	7-11	(12,799)	6,561
(Increase)/decrease in other non-current receivables	10	-	(249)
(Increase)/decrease in inventories	12	160	(68)
Changes in liabilities, net assets/equity:			
Increase/(decrease) in cash surplus (non-cash)	16.3	(206)	1,093
Movement in employee benefits (liability)	17.1 – 17.6	909	160
Increase/(decrease) in 'Other non-current liabilities'	19	(1,366)	532
Increase/(decrease) in deferred income, accounts payable and other current liabilities	18, 20, 21	23,490	(6,863)
Net cash flows from operating activities		**19,879**	**5,392**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		16	30
Purchases of property, plant and equipment	6.1	(2,472)	(1,625)
Purchases of intangible assets	6.2	(1,282)	(953)
Net cash flows from investing activities		**(3,738)**	**(2,548)**
Cash flows from financing activities			
Increase/(decrease) in the Working Capital Fund	14	797	1
Proceeds received for the Voluntary Fund for Assistance	15	-	5
Net cash flows from financing activities		**797**	**6**
Net increase/(decrease) in cash and cash equivalents		**16,938**	**2,850**
Cash and cash equivalents at beginning of the period	13	29,877	26,881
Unrealised currency exchange gain/(loss)		(4)	146
Cash and cash equivalents at end of the period	13	**46,811**	**29,877**

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

THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS

STATEMENT V(a)
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 31 DECEMBER 2019

(expressed in euro '000s)

	Budgeted Amounts for the Period Ended 31 December 2019		Actual Amounts on Comparable Basis[19]	Difference Final Budget and Actual
	Original	Final		
Receipts				
Assessed contributions	67,120	67,120	67,120	-
Voluntary contributions [20]	-	-	-	-
Articles IV & V	1,090	1,090	1,606	(516)
Miscellaneous income	25	25	467	(442)
Cash surplus for major capital investment projects	1,455	1,455	1,455	-
Total receipts	**69,690**	**69,690**	**70,648**	**(958)**
Expenditure				
Chapter One				
Verification	9,853	9,853	9,449	404
Inspectorate	20,270	20,270	20,267	3
Total Chapter One	**30,123**	**30,123**	**29,716**	**407**
Chapter Two				
International Cooperation and Assistance	7,610	7,294	7,231	63
Support to the Policy-Making Organs	4,929	4,850	4,849	1
External Relations	2,024	1,974	1,972	2
Executive Management	9,647	9,573	9,569	4
Administration	13,902	14,421	14,418	3
Total Chapter Two	**38,112**	**38,112**	**38,039**	**73**
Total expenditure	**68,235**	**68,235**	**67,755**	**480**
Extra-ordinary provisions for major capital investment projects[21]	1,455	1,455	1,455	-
Total expenditure and transfers	**69,690**	**69,690**	**69,210**	**480**
Net receipts/(expenditure)[22]			**1,438**	**(1,438)**

19 The actual amounts are based on the budgetary accounts, which are maintained on a modified cash basis.
20 Voluntary contributions received as services in kind are disclosed in note 32.
21 Please refer to the Programme and Budget of the OPCW for 2020 (C-24/DEC.12, dated 28 November 2019).
22 A reconciliation of the actual amounts from the budgetary basis to the net cash flows from operating, investing, and financing activities is presented on note 38.7.

THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS

STATEMENT V(b)
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE YEAR ENDED 31 DECEMBER 2018
(expressed in euro '000s)

	Budgeted Amounts for the Period Ended 31 December 2018		Actual Amounts on Comparable Basis[23]	Difference Final Budget and Actual
	Original	Final		
Receipts				
Assessed contributions	65,530	65,530	65,532	(2)
Voluntary contributions[24]	270	270	-	270
Articles IV & V	1,090	1,090	1,041	49
Miscellaneous income	50	50	689	(639)
Assessed contributions or Cash Surplus: Fourth Review Conference[25]	309	309	-	309
Total receipts	**67,249**	**67,249**	**67,262**	**(13)**
Expenditure				
Chapter One				
Verification	8,714	8,714	7,930	784
Inspectorate	20,270	20,270	19,892	378
Total Chapter One	**28,984**	**28,984**	**27,822**	**1,162**
Chapter Two				
International Cooperation and Assistance	7,610	7,250	7,113	137
Support to the Policy-Making Organs	4,927	5,287	5,254	33
External Relations	2,017	2,017	1,855	162
Executive Management	9,227	9,670	9,617	53
Administration	14,050	13,607	13,069	538
Total Chapter Two	**37,831**	**37,831**	**36,908**	**923**
Total expenditure	**66,815**	**66,815**	**64,730**	**2,085**
Fourth Review Conference[26]	**434**	**434**	**-**	**434**
Total expenditure and transfers	**67,249**	**67,249**	**64,730**	**2,519**
Net receipts/(expenditure)[27]	**-**	**-**	**2,532**	**(2,532)**

23 The actual amounts are based on the budgetary accounts, which are maintained on a modified cash basis.
24 Voluntary contributions received as services in kind are disclosed in note 32.
25 The receipt element of the Fourth Review Conference was funded through the Special Fund for the Fourth Review Conference in 2018 and not additional assessed contributions. The actual amount for receipts in the Regular Budget is therefore reported as zero.
26 Actual amounts for the Fourth Review Conference incurred by the Regular Budget are reported in Chapter I and II actual amounts.
27 A reconciliation of the actual amounts from the budgetary basis to the net cash flows from operating, investing, and financing activities is presented in note 38.7.

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

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

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

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

1.4 The reporting entity, the OPCW, comprises the General Fund, the Working Capital Fund (note 14), Special Funds (note 37.1), the Voluntary Fund for Assistance (notes 15 and 37), and the Trust Funds (note 37.1).

2. BASIS OF PREPARATION

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

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

2.3 The financial statements are presented in euros, rounded to the nearest thousand. These financial statements cover the calendar year ended 31 December 2019. The financial period is the calendar year.

Future accounting pronouncements

2.4 The following significant future accounting pronouncements from the International Public Sector Accounting Standards Board have been issued as at 31 December 2019, but are not yet effective:

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

3. SIGNIFICANT ACCOUNTING POLICIES

Consolidation

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

Foreign currency translation

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

Period	USD/EUR	JPY/EUR	GBP/EUR
31 December 2019	0.896	0.008	1.174
Average 12 months	0.893	0.008	1.137
Period	**USD/EUR**	**CAD/EUR**	**GBP/EUR**
31 December 2018	0.876	0.642	1.107
Average 12 months	0.845	0.655	1.130

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

(b) Transactions and balances: Foreign currency transactions are translated into the functional currency using the United Nations Operational Rate of Exchange (UNORE) prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of financial performance. Year-end balances of monetary assets and liabilities denominated in foreign currencies are converted into euros on the basis of the exchange rates applicable on 31 December 2019.

Cash and cash equivalents

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

Financial assets

Classification

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

Recognition and measurement

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

Subsequent measurement

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

Impairment

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

Inventories

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

Property, plant and equipment

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

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

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

3.11 The residual value will be set at nil value as per the acquisition date. An asset's carrying amount is written down immediately to its recoverable service amount if the asset's carrying amount is greater than its estimated recoverable amount (refer to note 3.17 'Impairment of non-cash-generating assets'). Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in 'other income' and 'other operating expenses' respectively within the statement of financial performance.

Leases

Operating lease

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

Intangible assets

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

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

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

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

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

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

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

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

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

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

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

Impairment of non-cash-generating assets

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

Employee benefits

Short-term employee benefits

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

Post-employment benefits

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

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

Other long-term employee benefits

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

Financial liabilities

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

Taxes

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

Revenue recognition

Revenue from non-exchange transactions

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

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

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

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

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

Revenue from exchange transactions

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

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

Expenses

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

Segment information

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

4. MATERIALITY, CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

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

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

Receivables: Determination of impairment

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

Revenue recognition: Conditions on voluntary contributions

4.6 Revenue for non-exchange transactions is recognised by OPCW in line with the policy set out in notes 3.24 to 3.28, and with IPSAS 23 (revenue from non-exchange transactions). When reviewing stipulations linked to voluntary contributions and assessing the extent to which revenue may be recognised, the OPCW makes a judgement to determine whether a present obligation to the OPCW exists which would give rise to a financial liability. The OPCW uses contractual information and past practice with donors to inform this judgement.

Enterprise resource planning system (ERP system)

4.7 Implementation of the new ERP system was ongoing as at the reporting date. Accounting estimates have been made to determine the costs accrued as at the reporting date, which in turn has informed the related expense recognition and the degree of capitalisation of eligible development costs relating to the intangible ERP asset under construction. Given that the work was in progress at the reporting date, these accounting estimates involve judgement and are based on management's assessment of the stage of completion of the ERP implementation work streams as at the reporting date, which is in turn based on the status of system testing and other implementation elements. Costs accrued using such estimates represent EUR 596 thousand of the total EUR 2,500 thousand value of work in progress relating to the ERP implementation as at 31 December 2019.

4.8 Given the delay in the go-live date beyond 31 December 2019, management has also reviewed the elements of this project capitalised as work in progress (including software licences, consultancy, and OPCW staff time) at the reporting date for impairment. No further impairments were made as at 31 December 2019 in addition to those already recognised in 2018.

5. FINANCIAL RISK MANAGEMENT

Financial risk factors

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

Market risk: Foreign exchange risk

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

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

5.4 The OPCW's cash outflows relate primarily to payments to employees and payments to vendors. Employee salaries are denominated in US dollars, however, are paid in euros. 92% of payments to vendors in 2019 were denominated in euros.

5.5 At 31 December 2019, if the euro had weakened/strengthened by 10% against the US dollar, net surplus/deficit for the year would have been EUR 1,017 thousand higher/lower, mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated assets including cash, assessed contributions recoverable, and other receivables.

Market risk: Interest rate risk

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

Credit risk

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

	(expressed in euro '000s)	
Moody's Investors Service Ratings	**31-Dec-2019**	**31-Dec-2018**
Rating P-1[28]	46,811	29,877
Non-rated	-	-
Total cash and cash equivalents	**46,811**	**29,877**

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

Liquidity risk

5.9 Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The OPCW has obligations to make certain payments for financial liabilities; liquidity risk arises in that the OPCW may encounter difficulties in meeting these obligations. Cash flow forecasting is performed by the OPCW on a daily, weekly and monthly basis. The Treasury Section may invest surplus cash in short-term deposits, investing these amounts for periods of no longer than 12 months. Investments are denominated in euros to avoid foreign currency fluctuations. The tables below analyse the OPCW's financial liabilities into relevant maturity groupings based on their contractual undiscounted cash flows.

As at 31 December 2019:

(expressed in euro '000s)	**Less Than 1 Year**	**1 to 5 Years**	**5 to 10 Years**	**Beyond 10 Years**	**Undefined Maturity**	**Total**
Working Capital Fund	-	-	-	-	8,140	**8,140**
Voluntary Fund for Assistance	-	-	-	-	1,563	**1,563**
Cash surplus eligible for distribution	20	2,341	-	-	-	**2,361**
Accounts payable	2,646	-	-	-	-	**2,646**
Total financial liabilities	**2,666**	**2,341**	**-**	**-**	**9,703**	**14,710**

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

As at 31 December 2018:

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

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

5.11 Regulation 6.4 of the OPCW Financial Regulations and Rules states that the WCF should not exceed two-twelfths of the budget provision for the financial period. The WCF provides a liquidity buffer for the OPCW’s general fund of approximately one month’s (one-twelfth) cash-flow. Furthermore, a contingency margin is applied to regular budget appropriations and managed in line with incoming cash flows to mitigate liquidity risk. In paragraph 8(s) of the Decision adopting the Programme and Budget of the OPCW for 2020 (C-24/DEC.12, dated 28 November 2019), the Conference has also reaffirmed that the WCF shall be maintained at a target level of EUR 8 million to 9 million in 2020 and 2021, through the transfer of cash surpluses and/or savings from the ERP Project in these years.

6. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

6.1 Property, plant and equipment

As at 31 December 2019:

(expressed in euro '000s)	Land and Buildings	Inspection and Verification Equipment	Security and Health Equipment	Office Furniture and Equipment	Hardware Equipment	Vehicles	Leasehold Improvements	Assets Under Construction	Total
At 1 January 2019:									
Cost	-	8,957	891	356	1,229	276	209	271	12,189
Accumulated depreciation & impairment	-	(4,550)	(515)	(304)	(1,016)	(205)	(164)	-	(6,754)
Net book amount	**-**	**4,407**	**376**	**52**	**213**	**71**	**45**	**271**	**5,435**
Year ended 31 December 2019:									
Opening net book amount	**-**	**4,407**	**376**	**52**	**213**	**71**	**45**	**271**	**5,435**
Additions	2,046	84	192	-	132	-		17	2,472
Transfers	-	20	214	-	36	-	-	(270)	-
Disposals	-	(477)	(21)	-	(115)	-	-	-	(613)
Accumulated depreciation on disposed assets	-	445	21		110	-		-	576
Depreciation charge	-	(916)	(177)	(18)	(120)	(23)	(42)	-	(1,297)
Closing net book amount	**2,046**	**3,563**	**604**	**34**	**256**	**49**	**3**	**18**	**6,573**
At 31 December 2019:									
Cost	2,046	8,584	1,275	356	1,282	276	209	18	14,046
Accumulated depreciation & impairment	-	(5,021)	(671)	(322)	(1,026)	(227)	(206)	-	(7,473)
Net book amount	**2,046**	**3,563**	**604**	**34**	**256**	**49**	**3**	**18**	**6,573**

There are no restrictions on the title to the OPCW's property, plant and equipment. No items of property, plant and equipment were impaired in 2019.

As at 31 December 2018:

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

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

Additions to land and buildings in 2019 represents the purchase of land for the Centre for Chemistry and Technology.

6.2 Intangible assets

As at 31 December 2019:

(expressed in euro '000s)	Acquired Software	Internally Generated Software	Intangible Assets Under Construction	Total
Balance as at 1 January 2019:				
Cost	714	548	1,668	2,930
Accumulated amortisation & impairment	(452)	(345)	(22)	(819)
Net book amount	**262**	**203**	**1,646**	**2,111**
Year ended 31 December 2019:				
Opening net book value	262	203	1,646	2,111
Additions	30	-	1,252	1,282
Transfers	-	-	-	-
Amortisation charge	(135)	(43)	-	(178)
Impairment losses	-	-	-	-
Net book amount as at 31 December 2019	**157**	**160**	**2,898**	**3,215**
As at 31 December 2019:				
Cost	744	548	2,920	4,212
Accumulated amortisation & impairment	(587)	(388)	(22)	(997)
Net book amount as at 31 December 2019	**157**	**160**	**2,898**	**3,215**

As at 31 December 2018:

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

6.3 Intangible assets include elements of the new ERP system with total cost of EUR 256 thousand which were in use by the Organisation as at 31 December 2019, including the new OPCW recruitment system. No new ERP system elements went live in 2019, however the OPCW performance and development modules within Talentsoft did go live in early 2020.

6.4 Intangible assets under construction in the amount of EUR 2,511 thousand related to the new enterprise resource planning (ERP) system. This balance includes costs for software licences, implementation consultancy costs and eligible OPCW staff time in line with IPSAS 31. Intangible assets under construction also includes EUR 232 thousand relating to the Electronic Declaration Information System (EDIS), which went live in early 2020.

6.5 Following delay in the go-live date of the new ERP system until 2020, and in line with IPSAS 21 (impairment of non-cash-generating assets) and IPSAS 31 (intangible assets), the intangible assets under construction balance relating to the core ERP system has been assessed for impairment as at the reporting date. No elements have been impaired in 2019; the remaining intangible asset under construction balance is deemed by management to continue to deliver future service potential and has not been impaired.

7. ASSESSED CONTRIBUTIONS RECOVERABLE

	(expressed in euro '000s)	
	2019	**2018**
Assessed contributions	7,120	3,585
Less: allowance for impairment of assessed contributions	(1,218)	(301)
Total assessed contributions - net	**5,902**	**3,284**

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

7.2 As of 31 December 2019, assessed contributions of EUR 5,902 thousand were past due but not impaired (2018: EUR 3,284 thousand). These include assessed contributions recoverable of States Parties with arrears of less than three years old and receivables from States Parties who have made proposal for multi-year payment plans, irrespective of the age of the receivables. The ageing analysis of these assessed contributions is as follows:

	(expressed in euro '000s)			
	2019	**%**	**2018**	**%**
Up to 1 year old	4,634	79%	2,156	65%
Older than 1 year and up to 2 years	1,015	17%	783	24%
Older than 2 years and up to 3 years	221	4%	125	4%
Older than 3 years and up to 10 years	5	0%	202	6%
Older than 10 years	27	0%	18	1%
	5,902	**100%**	**3,284**	**100%**

7.3 As of 31 December 2019, assessed contributions of EUR 1,218 thousand (2018: EUR 301 thousand) were deemed to be impaired. The assessed contributions recoverable in the statement of financial position are shown net of an allowance for impairment; this however does not constitute legal discharges of concerned States Parties from their obligations to make payments to the OPCW. The ageing analysis of these assessed contributions is as follows:

	(expressed in euro '000s)			
	2019	**%**	**2018**	**%**
Up to 1 year old	316	26%	-	0%
Older than 1 year and up to 2 years	78	6%	38	13%
Older than 2 years and up to 3 years	160	13%	38	13%
Older than 3 years and up to 10 years	551	46%	117	38%
Older than 10 years	113	9%	108	36%
	1,218	**100%**	**301**	**100%**

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

	(expressed in euro '000s)	
	2019	**2018**
At 1 January	302	592
Increase in allowance for impairment of assessed contributions (write-down)[29]	954	62
Reversal of allowance for impairment of assessed contributions [30]	(38)	(353)
At 31 December	**1,218**	**301**

8. ARTICLE IV AND V RECEIVABLES

	(expressed in euro '000s)	
	2019	**2018**
Article IV & V receivables	8,008	7,045
Less: allowance for impairment of Article IV & V receivables (write-down)	(5,839)	(5,798)
Total Article IV & V receivables - net	**2,169**	**1,247**

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

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

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

8.2 As of 31 December 2019, Article IV and V receivables of EUR 2,169 thousand (2018: EUR 1,247 thousand) were past due but not impaired. Amounts are impaired, without implying legal discharge of the concerned States Parties' obligation to pay, when there is no expectation of recovering additional cash.

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

	(expressed in euro '000s)			
	2019	**%**	**2018**	**%**
Up to 3 months	879	41%	795	63%
Older than 3 months and up to 6 months	998	46%	-	-
Older than 6 months and up to 1 year	-	0%	194	16%
Older than 1 year and up to 2 years	292	13%	258	21%
	2,169	**100%**	**1,247**	**100%**

8.4 As of 31 December 2019, Article IV and V receivables of EUR 5,839 thousand (2018: EUR 5,798 thousand) were deemed to be impaired, without legally discharging the concerned States Parties' obligations to make payments to the OPCW. The Article IV and V receivables in the statement of financial position are shown net of this allowance. The ageing analysis of impaired Article IV and V receivables is as follows:

	(expressed in euro '000s)			
	2019	**%**	**2018**	**%**
Up to 3 months	42	1%	241	4%
Older than 3 months and up to 6 months	141	2%	72	1%
6 months to 1 year	-	-	-	0%
Older than 1 year and up to 2 years	172	3%	306	5%
Older than 2 years and up to 3 years	306	5%	407	7%
Older than 3 years and up to 10 years	5,178	89%	4,772	83%
Older than 10 years	-	-	-	-
	5,839	**100%**	**5,798**	100%

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

	(expressed in euro '000s)	
At 1 January	**2019**	**2018**
Beginning of period	5,798	5,521
Increase in allowance for impairment of Article IV & V receivables[31]	55	277
Reversal of allowance for impairment of Article IV & V receivables[32]	(14)	-
At 31 December	**5,839**	**5,798**

9. VOLUNTARY CONTRIBUTIONS RECOVERABLE

	(expressed in euro '000s)	
	2019	**2018**
Trust fund for EU Council decision 2019	7,916	-
Trust funds for Libya	700	318
Trust funds for Syria	318	180
Other trust funds	200	374
Voluntary contributions recoverable	**9,134**	**872**

Voluntary contributions recoverable represent balances due to the OPCW under signed contribution agreements. Voluntary contributions receivable for the trust fund for EU Council decision 2019 include amounts for the Centre for Chemistry and Technology.

10. OTHER ASSETS

	(expressed in euro '000s)	
	2019	**2018**
	Current	**Current**
Receivables from staff members	1,210	1,325
Value-added tax and other recoverable taxes	867	1,344
Receivables from vendors	29	301
Interest receivable	40	14
Miscellaneous	28	10
Working Capital Fund contributions receivable	4	3
Other assets	**2,178**	**2,997**

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

32 The reversal of the allowance for the impairment of Article IV & V receivables is made when impaired amounts are received, or when estimates of invoiced amounts are revised, and is recognised in other revenue (note 25).

10.1 Value-added tax and other recoverable taxes include refundable taxes primarily relating to environmental taxes, energy taxes, and US income taxes. These receivables arise due to the OPCW's tax-exempt status. In 2019 there was a decrease in the amounts outstanding relating to VAT recoverable from the Host Country.

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

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

11. PREPAYMENTS

	(expressed in euro '000s)	
	2019	**2018**
Prepayments - vendors	1,435	1,621
Prepayments - UNOPS	1,932	897
Prepayments - other	31	21
Total prepayments	**3,398**	**2,539**

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

12. INVENTORIES

	(expressed in euro '000s)		
	2019		
	Primary	**Secondary**	**Total**
At 1 January 2019	**319**	**547**	**866**
Purchases	72	74	**146**
Inventory consumed	(86)	(189)	**(275)**
Other adjustments	(19)	(12)	**(31)**
At 31 December 2019	**286**	**420**	**706**

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

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

12.2 The physical stock count of primary and secondary consumables was carried out as at 31 December 2019. The carrying amount of inventories is shown at lower of cost or current replacement cost as at 31 December 2019.

13. CASH AND CASH EQUIVALENTS

	(expressed in euro '000s)	
	2019	**2018**
Unrestricted		
Current accounts	37,911	21,228
Total unrestricted	**37,911**	**21,228**
Restricted		
Current accounts	8,900	8,649
Total restricted	**8,900**	**8,649**
Total cash and cash equivalents	**46,811**	**29,877**

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

	(expressed in euro '000s)	
	2019	**2018**
Restricted cash and cash equivalents		
Working Capital Fund	7,337	7,086
Voluntary Fund for Assistance	1,563	1,563
Total restricted cash and cash equivalents	**8,900**	**8,649**

14. WORKING CAPITAL FUND

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

14.2 Any new States Parties joining the OPCW make an advance to the Working Capital Fund in accordance with the scale of assessment applicable to the budget of the year of their ratification of, or accession to, the Convention. In 2019, no new States Party joined the OPCW and made a contribution to the Working Capital Fund (2018: one).

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

	(expressed in euro '000s)	
	2019	**2018**
Movement in the Working Capital Fund liability		
At 1 January	7,343	7,342
Contribution from new States Party	-	1
Transfer from final cash surplus for 2017	797	-
Total Working Capital Fund as at 31 December	**8,140**	**7,343**
Of which:		
Non-current portion of Working Capital Fund liability	8,140	7,343
Current portion of Working Capital Fund liability	-	-
Total Working Capital Fund as at 31 December	**8,140**	**7,343**

14.4 The Working Capital Fund liability balance at 31 December 2018 and 2019 differs to the Working Capital Fund cash balance reported in note 13 due to contributions receivable for the Working Capital Fund reported in note 10.

15. VOLUNTARY FUND FOR ASSISTANCE

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

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

	(expressed in euro '000s)	
	2019	**2018**
Balance as at 1 January	**1,563**	**1,558**
Contributions received/disbursement from States Parties	-	5
Interest earned and bank charges		-
Net proceeds received for Voluntary Fund for Assistance		**5**
Total Voluntary Fund for Assistance as at 31 December	**1,563**	**1,563**
Of which:		
Non-current portion	1,563	1,563
Current portion	-	-
Total Voluntary Fund for Assistance as at 31 December	**1,563**	**1,563**

16. CASH SURPLUS

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

16.2 Current liabilities at 31 December 2019 of EUR 20 thousand (2018: EUR 20 thousand) represent cash surpluses from 2011 and prior years withheld from the States Parties due to non-payment of assessed contributions to the OPCW.

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

(expressed in euro '000s)	**2019**	
	Non-current	**Current**
Balance as at 1 January 2019	**2,547**	**20**
Distributed cash surplus		
Transfers[33]**:**		
Transfer to the Working Capital Fund	(797)	-
Transfer to the Special fund for the implementation of a new enterprise resource planning (ERP) system	(770)	-
Transfer to the Special Fund for Major Capital Investments	(600)	-
Transfer to the Special Fund for Capacity Building for Laboratories	(380)	-
Final cash surplus for 2018	**2,341**	-
Balance as at 31 December 2019	**2,341**	**20**

(expressed in euro '000s)	**2018**	
	Non-current	**Current**
Balance as at 1 January 2018	**1,455**	**56**
Distributed cash surplus	-	(36)
Transfers[34]**:**		
Transfer of 2016 cash surplus to special fund for Special Fund for Cybersecurity, Business Continuity, and Physical Infrastructure Security in 2018	(777)	-
Transfer of 2016 cash surplus to special fund for IT Infrastructure to Support the Implementation of Decision C-SS-4/DEC.3 in 2018	(678)	-
Final cash surplus for 2017	2,547	-
Balance as at 31 December 2018	**2,547**	**20**

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

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

17. EMPLOYEE BENEFITS

17.1 Employee benefit liabilities comprise the following items:

Employee Benefit	Note	(expressed in euro '000s) 2019 Non-current	2019 Current	2019 Total	2018 Non-current	2018 Current	2018 Total
Long-term employee benefits							
Post-employment benefits							
Repatriation grant	17.6	2,327	947	**3,274**	2,049	1,061	**3,110**
Removal	17.6	1,122	304	**1,426**	884	279	**1,163**
Repatriation travel	17.6	567	110	**677**	405	102	**507**
Death benefit	17.6	348	38	**386**	320	35	**355**
Total post-employment benefits		**4,364**	**1,399**	**5,763**	**3,658**	**1,477**	**5,135**
Other long-term employee benefits							
Home leave	17.12	-	1,050	**1,050**	97	623	**720**
Total long-term employee benefits		**4,364**	**2,449**	**6,813**	**3,755**	**2,100**	**5,855**
Short-term employee benefits							
Annual leave	17.2	-	1,980	**1,980**	-	1,867	**1,867**
Other short-term employee benefits	17.2	-	195	**195**	-	292	**292**
Total short-term employee benefits		**-**	**2,175**	**2,175**	**-**	**2,159**	**2,159**
Total employee benefits		**4,364**	**4,624**	**8,988**	**3,755**	**4,259**	**8,014**

Short-term employee benefits

17.2 As described in note 3.18, short-term employee benefits comprise recurring benefits, deductions and contributions (including salaries, post adjustments, dependency allowances), compensated absences (annual leave), other short-term benefits (retroactive payments, education grants, income tax reimbursements, travel and removal costs at initial appointment, assignment grants) and the current portion of long-term benefits provided to current employees.

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

Post-employment benefits

17.4 Liabilities relating to post-employment are calculated by a qualified and independent actuary. The actuarial valuation as at 31 December 2019 was performed on 22 February 2020.

<u>Defined contribution plans</u>

17.5 The OPCW's pension plan is the Provident Fund. The OPCW contributes a fixed amount for all employees into the Provident Fund. Upon departure from the OPCW (provided a minimum service period of three months has been performed), the employee receives contributions made by the OPCW on their behalf and accrued interest. After this payment upon departure, the OPCW has no remaining legal or constructive obligations to pay further contributions. During the period ended 31 December 2019, a Provident Fund contribution of EUR 7,485 thousand (2018: EUR 6,710 thousand) has been recognised in the employee benefit expenses line of the statement of financial performance (note 26), representing the OPCW's contribution to the Provident Fund "B" accounts for 2019.

Defined benefit plans

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

	(expressed in euro '000s)	
Post-Employment Benefits	**Per Actuarial Valuation**	
	2019	**2018**
Balance as at 1 January	**5,135**	**4,578**
Current service cost	1,204	1,209
Interest cost	9	(1)
Actuarial (gains)/losses	65	325
Benefits paid	(650)	(976)
Balance as at 31 December	**5,763**	**5,135**

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

	(expressed in euro '000s)	
Post-Employment Benefits	**2019**	**2018**
Balance as at 31 December		
Present value of defined benefit obligation	5,763	5,135
Fair value of plan assets	-	-
Deficit/(surplus) in the plan	**5,763**	**5,135**

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

	(expressed in euro '000s)				
Post-Employment Benefits	**2019**	**2018**	**2017**	**2016**	**2015**
Present value of unfunded obligations	5,763	5,135	4,579	5,174	6,693
Liability in the statement of financial position	**5,763**	**5,135**	**4,579**	**5,174**	**6,693**

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

	(expressed in euro '000s)	
Post-Employment Benefits	**2019**	**2018**
Current service cost	1,204	1,209
Interest cost	9	(1)
Total expense recognised in statement of financial performance	**1,213**	**1,208**

17.10 The statement of changes in net assets includes a negative change of EUR 65 thousand relating to actuarial gains and losses in 2019 (2018: negative EUR 325 thousand) and EUR 0 relating to the effect of the limit on the asset per IPSAS 39.66.b.

17.11 The expected total contribution to post-employment benefit plans (expected benefit payment to beneficiaries) for the year ended 31 December 2020 is EUR 1,399 thousand (2019: EUR 1,477 thousand).

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

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

	(expressed in euro '000s)	
Other long-term employee benefits (home-leave benefits)	**2019**	**2018**
Balance as at 1 January	**720**	**737**
Current service cost	818	651
Interest cost	(2)	(3)
Actuarial (gains)/losses	(149)	(19)
Benefits paid	(337)	(646)
Balance as at 31 December	**1,050**	**720**

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

	(expressed in euro '000s)	
Other long-term employee benefits (home-leave benefits)	**2019**	**2018**
Balance as at 31 December		
Present value of defined benefit obligation	1,050	720
Fair value of plan assets	-	-
Deficit/(surplus) in the plan	**1,050**	**720**

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

	(expressed in euro '000s)	
Other long-term employee benefits (home-leave benefits)	**2019**	**2018**
Current service cost	818	652
Interest cost	(2)	(3)
Actuarial (gains)/losses	(149)	(19)
Total expense recognised in statement of financial performance	**667**	**630**

17.15 The principal assumptions used for post-employment benefits and other long-term employee benefits as of 31 December 2019 are the following:

Long-term employee benefits	**2019**	**2018**
Discount rate: Death benefits	0.60%	1.10%
Discount rate: Repatriation grant, removal costs, travel costs	-0.25%	0.10%
Discount rate: Home leave	-0.40%	-0.15%
Inflation	1.60%	1.60%
Indexation: Travel and removal costs	2.25%	2.25%
Indexation: Home leave	0.00%	0.00%
Mortality tables: Dutch generational tables "AG prognosis table"	2018 table	2018 table
Future salary increases	Based on UN salary scales and inflation	

17.16 If the discount rates used in the determination of the employee benefit expense and liability for active participants were higher or lower by 0.25% from management's estimate, the carrying amount of the benefit liability would be an estimated EUR 44 thousand lower (2018: 41 thousand lower) or EUR 35 thousand higher (2018: EUR 42 thousand higher), respectively.

18. ACCOUNTS PAYABLE

	(expressed in euro '000s)	
	2019	**2018**
Accounts payable - vendors	2,116	2,712
Accounts payable - staff	10	516
Reimbursements to governments	520	3
Total accounts payable	**2,646**	**3,231**

19. OTHER NON-CURRENT LIABILITIES

	(expressed in euro '000s)	
Other non-current liabilities	**2019**	**2018**
Assessed contributions with performance obligations	2,356	3,582
Headquarters lease incentive liability	980	1,120
Total other non-current liabilities	**3,336**	**4,702**

Assessed contributions with performance obligations

19.1 Assessed contributions with performance obligations represent the estimated final cash surplus for 2019, which will be determined in 2020. IPSAS requires that a liability be recognised in respect of an inflow of resources from a non-exchange transaction that are also recognised as assets, to the extent that a present obligation exists against the same inflow. Performance obligations exist as at 31 December 2019 with respect to assessed contributions received or receivable requiring recognition of a corresponding liability.

19.2 The cash surplus for 2018 was determined in 2019 as per note 16 and Appendix.

Headquarters lease incentive liability

19.3 A liability is recognised for the Headquarters operating lease incentive in line with IPSAS 13 and IFRS (SIC-15[5]). The non-current portion of this Headquarters lease incentive liability is EUR 980 thousand at the reporting date (2018: EUR 1,120 thousand). The Headquarters lease incentive liability is offset against operating lease expenses over the ten year lease term from 2019, on a straight-line basis. The current portion of this liability is detailed in note 21.

20. DEFERRED REVENUE

	(expressed in euro '000s)	
	2019	**2018**
Deferred voluntary contributions		
Trust fund for EU Council decision 2019	11,208	-
Trust funds for Syria	8,910	2,527
Trust fund for a Centre for Chemistry and Technology	3,092	1,246
US Voluntary Fund	1,330	1,330
Trust fund for the implementation of Article X	721	1,000
Other trust funds	239	259
Total deferred voluntary contributions	**25,500**	**6,362**
Deferred assessed contributions	5,042	1,452
Total deferred revenue	**30,542**	**7,814**

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

21. OTHER CURRENT LIABILITIES

	(expressed in euro '000s)	
	2019	**2018**
Special funds with conditions	1,673	1,454
Voluntary contributions received in advance	2,144	1,016
Headquarters lease incentive liability	140	140
Other liabilities	3	3
Total other liabilities	**3,960**	**2,613**

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

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

22. ASSESSED CONTRIBUTION REVENUE

Every Member State is assessed a contribution due to the OPCW each year. The amounts of assessed contributions approved by the Conference for the year 2019 are EUR 67,120 thousand (2018: EUR 65,529 thousand). The amount recognised as revenue in 2019 with respect to inflow of resources in assessed contributions as well as reduction of previously recognised liabilities relating to satisfied obligations is EUR 66,004 thousand (2018: EUR 62,314 thousand). Amounts for which the OPCW does not satisfy the obligations are eligible for distribution as cash surplus that is determined in the budgetary accounts (see Appendix).

23. VOLUNTARY CONTRIBUTION REVENUE

	(expressed in euro '000s)	
Voluntary contribution revenue	**2019**	**2018**
Trust funds for Syria	6,533	5,004
Trust fund for a Centre for Chemistry and Technology	6,111	4,151
Trust funds for Libya	1,172	1,655
Other trust funds	1,765	1,298
Total voluntary contribution revenue	**15,581**	**12,108**

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

24. ARTICLE IV AND V REVENUE

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

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

25. OTHER REVENUE

	(expressed in euro '000s)	
	2019	**2018**
Other non-exchange revenue	1,061	309
Other exchange revenue	131	75
Receipt of receivables previously impaired	51	353
Rental income	11	33
Gain on sale of assets	10	13
Contribution to World Forum Rental	-	226
Total other operating revenue	**1,264**	**1,010**

25.1 Other exchange revenue relates cost-reimbursement for services provided to a State Party.

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

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

26. EMPLOYEE BENEFIT EXPENSES

	(expressed in euro '000s)	
	2019	**2018**
Short-term employee benefit expenses		
Salaries and post-adjustment expense	28,560	27,108
Common staff costs	10,434	9,237
Total short-term employee benefit expenses	**38,994**	**36,345**
Post-employment benefit expenses		
Provident Fund pension expense (defined contribution plan)	7,458	6,710
Other post-employment benefits	1,332	1,233
Total post-employment benefit expenses	**8,790**	**7,943**
Other long-term employee benefit expenses		
Home leave expense	703	585
Total other long-term employee benefit expenses	**703**	**585**
Total – Employee benefit expenses	**48,487**	**44,873**
Less: Capitalised employee benefit expenses - intangible assets under construction by OPCW staff	(377)	(169)
Net employee benefit expenses	**48,110**	**44,704**

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

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

27. CONSULTANCY AND CONTRACTUAL SERVICES

	(expressed in euro '000s)	
	2019	**2018**
UNOPS contractual services	3,533	5,350
Consultancy and Special Service agreements	3,025	2,277
Translation and Interpretation	836	1,104
Training fees	703	575
ICT Services	991	1,113
Other contractual services	1,469	1,299
Total consultancy and contractual services	**10,557**	**11,718**

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

28. TRAVEL EXPENSES

	(expressed in euro '000s)	
	2019	**2018**
Official travel – non-staff	3,622	3,769
Inspection travel	2,813	2,865
Official travel - staff	1,458	1,120
Training travel	424	362
Total travel expenses	**8,317**	**8,116**

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

29. GENERAL OPERATING EXPENSES

	(expressed in euro '000s)	
	2019	**2018**
Operating lease rental expense	3,378	3,597
Other general operating expenses	1,043	1,180
Maintenance	859	774
Inventories	413	164
Supplies and materials	372	323
Impairment of assessed contributions receivable	954	63
Utilities	317	301
Impairment of Article IV & V receivables	55	277
Total general operating expenses	**7,391**	**6,679**
Less: capitalised general operating expenses – intangible assets under construction	(60)	(19)
Total general operating expenses	**7,331**	**6,660**

General operating expenses include rental expenses for premises used by the OPCW, including the rental of the Headquarters Building, and have increased in 2019 due to higher consumption of inventory and higher purchases of supplies and materials.

30. OTHER OPERATING EXPENSES

	(expressed in euro '000s)	
	2019	**2018**
Purchases of furniture and equipment	785	714
Internships, grants, contributions to seminars and workshops	484	260
Other staff costs	191	126
Loss on disposal of property, plant and equipment	31	11
Total other expenses	**1,491**	**1,111**

Other operating expenses include the purchase costs of equipment which does not qualify as property, plant and equipment (note 6), which has increased in 2019.

31. FINANCE INCOME AND COSTS

	(expressed in euro '000s)	
	2019	**2018**
Finance income		
Foreign currency gains	103	195
Interest income arising on cash and cash equivalents	21	48
Total finance income	**124**	**243**
Finance costs		
Foreign currency losses	8	89
Unwinding of discounts on employee benefits	56	(2)
Total finance costs	**64**	**87**
Net finance income/(costs)	**60**	**156**

Finance income and costs include gains and losses associated with foreign currency transactions where the UN Operational Rate of Exchange differs to the exchange rate offered by the bank(s) party to the transaction. Foreign currency gains in 2019 also include gains made on US dollar denominated receivables due to the strengthening of the US dollar against the euro.

32. SERVICES IN KIND

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

Accommodation and transportation services

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

Security services

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

Laboratory services

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

Usage of facilities

32.5 For various OPCW activities such as training seminars and international meetings, facilities (such as usage of meeting facilities, break facilities, etc.) are provided. Elements of the rental of the World Forum Convention Centre, The Hague by the OPCW were funded directly by the Host Country.

Other services

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

Services provided by the OPCW to the Provident Fund

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

33. CONTINGENT LIABILITIES

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

34. COMMITMENTS

Capital commitments

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

	(expressed in euro '000s)	
Capital Commitments	**2019**	**2018**
Intangible assets	1,218	1,434
Property, plant and equipment	586	175
	1,804	**1,609**

Operating lease commitments

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

	(expressed in euro '000s)	
Operating Leases (OPCW as Lessee)	**2019**	**2018**
No later than 1 year	3,059	3,147
Later than 1 year and no later than 5 years	11,859	11,955
Later than 5 years	9,095	12,000
	24,013	**27,102**

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

34.4 Operating lease payments that are recognised in the statement of financial performance amount to EUR 3,378 thousand (2018: EUR 3,597 thousand) and are disclosed in note 29.

35. RELATED PARTY TRANSACTIONS

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

35.2 The OPCW provides administrative support to the Provident Fund free of charge (note 32.7). All other transactions between the OPCW and the Provident Fund are conducted at arm's length. As at 31 December 2019, no amount was payable from the OPCW to the Provident Fund (2018: EUR 0.1 thousand), and EUR 0.1 thousand was due from the Provident Fund to the OPCW (2018: EUR 0).

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

36. KEY MANAGEMENT REMUNERATION

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

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

(expressed in euro '000s)	**2019**	
	Number of Posts	**Aggregate Remuneration**
Director-General and Deputy Director-General	2	615

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

36.3 The increase in remuneration paid to key management personnel in 2019 compared to 2018 is primarily due to entitlements relating to the separation of previous key management personnel in 2018, including repatriation benefits and untaken annual leave.

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

37. SEGMENT INFORMATION

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

General Fund

(a) Verification;

(b) Inspections;

(c) International Cooperation and Assistance;

(d) Support to the Policy-Making Organs;

(e) External Relations;

(f) Executive Management; and

(g) Administration

Special funds and Voluntary Fund for Assistance

(a) Special account for the OPCW Equipment Store;

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

(c) Special account for new ERP system;

(d) Special fund for OPCW special missions;

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

(f) Voluntary Fund for Assistance.

Trust funds

(a) Trust fund for regional seminars;

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

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

(d) United States voluntary trust fund;

(e) Trust fund for the Associate Programme;

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

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

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

(i) Trust fund for the Scientific Advisory Board;

(j) Trust fund for OPCW events;

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

(l) Trust fund for training;

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

(n) European Union support for OPCW activities 2012;

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

(p) OPCW Nobel Prize trust fund;

(q) Trust fund for programme support costs;

(r) Trust Fund for Syria Missions;

(s) Trust fund for support to Libya;

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

(u) Trust Fund for Security and Business Continuity;

(v) Trust Fund for the Junior Professional Officers Programme; and

(w) Trust Fund for EU Council decision 2019.

Further details regarding OPCW segments are provided in the Appendix.

Segment Information
For the period ended 31 December 2019

(expressed in euro '000s)	Verification	Inspections	International Cooperation and Assistance	Support to the Policy-Making Organs	External Relations	Executive Management	Administration	Trust Funds and Special Funds	Unallocated	Total
Total segment revenue / income	**9,531**	**21,214**	**7,057**	**4,691**	**1,910**	**9,259**	**13,948**	**16,642**	**203**	**84,455**
Segment revenue from budget allocation:										
Assessed contributions	9,531	19,608	7,057	4,691	1,910	9,259	13,948	-		66,004
Article IV & V revenue	-	1,606	-	-	-	-	-	-	-	1,606
Segment revenue from external sources :										
Voluntary contributions	-	-	-	-	-	-	-	15,581	-	15,581
Other income / revenue	-	-	-	-	-	-	-	1,061	203	1,264
Total segment expense	**8,488**	**19,458**	**6,786**	**4,667**	**1,909**	**9,462**	**13,342**	**8,492**	**4,677**	**77,281**
Employee benefit expenses	7,252	14,815	2,621	3,920	1,649	7,977	7,446	536	1,894	48,110
Travel expenses	220	3,160	3,059	203	27	398	39	1,211	-	8,317
Contractual services	468	897	462	268	128	841	1,436	6,057	-	10,557
General operating expenses	375	454	99	274	82	87	4,213	470	1,277	7,331
Others	173	132	545	2	23	159	208	218	1,506	2,966

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

Segment Information
For the period ended 31 December 2018

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

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

38. BUDGETARY INFORMATION

38.1 The approved Programme and Budget covers the period from 1 January 2019 to 31 December 2019. No additional entities are included. The Budget is prepared using a combination of cash and commitment based accounting whilst these financial statements are prepared using accrual based accounting. Additional information regarding the budgetary accounts is presented as an Appendix. The Appendix is not considered part of the IPSAS financial statements.

Differences between budget and actual amounts

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

38.3 There was no change between the overall original and final budgets during 2019, which totalled EUR 68,235 thousand for Chapter One and Two programmes.

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

38.5 The level of expenditure for 2019 reflects an overall budget utilisation rate of 99.3% for Chapter One and Two programmes. The Chapter One utilisation rate was 98.6%; the Chapter Two rate was 99.8%.

38.6 The Secretariat spent less than the final budget in nearly all programmes. The utilisation of programme budgets was between 96% and 100%. Factors influencing the budget utilisation will be detailed in the 2019 Programme Performance Report and taken into consideration when formulating the 2021 Programme and Budget.

Reconciliation of actual amounts from budgetary basis to financial statement basis

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

For the year ended 31 December 2019:

(expressed in euro '000s)	Operating	Financing	Investing	Total
Actual net surplus amount on budgetary basis (Statement of Comparison of Budget and Actual Amounts)	**1,439**	**-**	**-**	**1,439**
Basis differences	**(2,156)**	**-**	**-**	**(2,156)**
Presentation Differences	466	-	(466)	-
Entity differences				
Trust funds and special funds	20,130	797	(3,272)	17,655
Actual amount in the IPSAS cash flow statement	**19,879**	**797**	**(3,738)**	**16,938**

For the year ended 31 December 2018:

(expressed in euro '000s)	Operating	Financing	Investing	Total
Actual net surplus amount on budgetary basis (Statement of Comparison of Budget and Actual Amounts)	**2,533**	**-**	**-**	**2,533**
Basis Differences Budgetary (General Fund) results on cash basis:	**2,425**	**-**	**-**	**2,425**
Budgetary (General Fund) results on cash basis				
Presentation Differences	2,144	-	(2,144)	-
Entity differences				
Trust funds and special funds	823	6	(404)	425
Actual amount in the IPSAS cash flow statement	**5,392**	**6**	**(2,548)**	**2,850**

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

39. EVENTS AFTER THE REPORTING PERIOD

39.1 In early 2020, the World Health Organisation declared a global health pandemic relating to the COVID-19 virus. The OPCW has considered the impact of this event upon the Financial Statements for the year ended 31 December 2019 and has concluded that there are no elements which would constitute an adjusting event for 2019; suitable impairments including those for accounts receivable have already been considered at 31 December 2019 and considered appropriate at the date of authorisation for issue. Considering all information available and understanding that the full prospective impact of the COVID-19 virus cannot be measured by the Organisation until the situation further matures, at the date of authorisation for issue of the financial statements, the OPCW is expected without reservation to continue as a going-concern.

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

Appendix: Additional Information to the Financial Statements (Unaudited)

APPENDIX

ADDITIONAL INFORMATION TO THE FINANCIAL STATEMENTS (UNAUDITED)

1. BUDGETARY ACCOUNTS

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

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

(i) the original budget appropriations;

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

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

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

(v) an unobligated balance of appropriations.

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

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

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

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

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

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

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

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

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

(c) Statement of cash surplus for 2019 - General Fund - as at 31 December 2019 (paragraph 3.2);

(d) Statement of cash surplus for 2018 - General Fund - as at 31 December 2019 (paragraph 3.3);

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

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

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

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

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

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

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

2. STATEMENT OF CASH AND INVESTMENTS (INCLUDING TERM DEPOSITS[35]) - ALL FUNDS (FINANCIAL REGULATION 11.1(C))

1.1 Statement of cash and investments (term deposits) - All funds as at 31 December 2019 (expressed in euros)

Fund	Cash	Investments	Total
General Fund	3,980,862	-	3,980,862
Working Capital Fund	7,336,791	-	7,336,791
Voluntary Fund for Assistance	1,562,975	-	1,562,975
Trust Funds	29,615,495	-	29,615,495
Special Funds	4,354,401	-	4,354,401
TOTAL CASH AND INVESTMENTS	**46,850,524**	**-**	**46,850,524**

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

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

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

3. OTHER STATEMENTS (FINANCIAL REGULATION 11.1(D))

3.1 Budgetary accounts: Income and expenditure - All Funds - For the period ended 31 December 2019 (expressed in euros)

2019	General Fund	Special Funds and Voluntary Fund for Assistance [36]	Trust Funds	TOTAL
INCOME				
Assessed annual contributions	67,119,590	-	-	67,119,590
Voluntary contributions	-	-	26,451,675	26,451,675
Miscellaneous income:				
Verification contributions under Articles IV & V	1,606,105	-	-	1,606,105
Assessed annual contributions - new Member States	-	-	-	-
Interest income	51,512	13	50,865	102,390
Currency-exchange gains	23,742	-	5,035	28,777
Other income	392,459	-	550,488	942,947
TOTAL INCOME	**69,193,408**	**13**	**27,058,061**	**96,251,482**
EXPENDITURE				
Staff costs	47,217,749	1,350	1,608,110	48,827,209
Travel costs	7,217,939	3,984	1,361,740	8,583,663
Contractual services	5,004,045	1,075,428	3,583,563	9,663,036
Workshops, seminars and meetings	470,698	-	5,000	475,698
General operating expenses	6,127,547	290,882	1,607,669	8,026,098
Furniture and equipment	1,718,460	236,436	228,140	2,183,036
TOTAL EXPENDITURE	**67,756,438**	**1,608,080**	**8,394,223**	**77,758,741**

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

2018	General Fund	Special Funds and Voluntary Fund for Assistance [37]	Trust Funds	TOTAL
INCOME				
Assessed annual contributions	65,529,600	-	-	**65,529,600**
Voluntary contributions	-	5,000	9,683,423	**9,688,423**
Miscellaneous income:				
Verification contributions under Articles IV & V	1,040,650	-	-	**1,040,650**
Assessed annual contributions - new Member States	2,696	-	-	**2,696**
Interest income	15,133	358	31,521	**47,012**
Currency-exchange gains	89,901	-	57,204	**147,105**
Other income	584,464	-	203,432	**787,896**
TOTAL INCOME	**67,262,443**	**5,358**	**9,975,580**	**77,243,381**
EXPENDITURE				
Staff costs	44,994,245	16,355	1,267,899	**46,278,499**
Travel costs	7,295,206	27,030	1,400,868	**8,723,104**
Contractual services	4,673,857	1,432,033	6,903,310	**13,009,199**
Workshops, seminars and meetings	292,304	-	-	**292,304**
General operating expenses	6,217,019	320,651	1,194,655	**7,732,325**
Furniture and equipment	1,256,859	-	283,129	**1,539,988**
TOTAL EXPENDITURE	**64,729,489**	**1,796,069**	**11,049,860**	**77,575,418**

36 Excludes transfers from cash surplus for 2018 in 2019 (C-24/DEC.12, dated 28 November 2019).

37 Excludes transfers from cash surplus for 2017 in 2018 (C-23/DEC.11, dated 20 November 2018).

3.3 Budgetary accounts: Statement of cash surplus for 2019 - General Fund - as at 31 December 2019 (expressed in euros)

The provisional cash surplus for 2019 was determined in 2019:

PROVISIONAL CASH SURPLUS FOR 2019	2019
Receipts	62,460,622
Disbursements	(64,493,831)
EXCESS / (SHORTFALL) OF RECEIPTS OVER DISBURSEMENTS	**(2,033,209)**
Unliquidated obligations	(3,262,607)
Transfers to/from other funds	(686,235)
PROVISIONAL SURPLUS / (DEFICIT) AS AT END OF 2019	**(5,982,051)**

The final cash surplus for 2019 will be determined in 2020.

3.4 Budgetary accounts: Statement of cash surplus for 2018 - General Fund - as at 31 December 2019 (expressed in euros)

The provisional cash surplus for 2018 was determined in 2018. The final cash surplus for 2018 was determined in 2019:

PROVISIONAL CASH SURPLUS FOR 2018 (determined in 2018)	2018
Receipts	63,985,375
Disbursements	(61,642,591)
EXCESS / (SHORTFALL) OF RECEIPTS OVER DISBURSEMENTS	**2,342,784**
Unliquidated obligations	(3,086,898)
Transfers to/from other funds	(250,000)
PROVISIONAL SURPLUS / (DEFICIT) AS AT END OF 2018	**(994,114)**
FINAL CASH SURPLUS FOR 2018 (determined in 2019)	**2018**
PROVISIONAL SURPLUS / (DEFICIT)	**(994,114)**
Receipt of:	
Arrears from prior years' annual contributions	1,416,473
Miscellaneous income from prior years	594,463
Savings on prior period's obligations (paragraph 5.11)	1,291,183
PRIOR YEAR CASH SURPLUS / (DEFICIT)	**2,308,004**
Prior period adjustment	32,714
Prior period transfers from the General Fund to special funds	-
FINAL CASH SURPLUS[38] / (DEFICIT)	**2,340,718**

38 Final cash surpluses identified for any past period eligible for distribution to States Parties in accordance with Financial Regulation 6.3 and the scale of assessment for the period to which the cash surplus relates, unless otherwise decided by the Conference. The allocation is applied only to amounts owed to the OPCW by a State Party, and for States Parties which have paid their respective contributions in full for the period to which a cash surplus relates. In the IPSAS-based financial statements, cash surpluses are recognised as liabilities.

3.5 Budgetary accounts: Statement of cash surpluses credited to States Parties - General Fund - During the period ended 31 December 2019 (expressed in euros)

States Party	Cash Surpluses Credited During 2019 Relating to 1993-2011
Dominica	1,071
El Salvador	692
Saint Vincent and the Grenadines	1,395
TOTAL	**3,158**

No cash surpluses relating to 2012 to 2017 were applied in 2019. In 2014, a cash deficit was reported.

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

(a) For the period ended 31 December 2019:

Funding Programme	Staff Costs	Travel Costs	Contractual Services	Workshops, Seminars and Meetings	General Operating Expenses	Furniture and Equipment	Total Expenditure	Of which: Budgetary Obligations
Programme 1. Verification	7,479,627	220,091	661,940	1,500	416,259	669,350	**9,448,767**	**897,146**
Programme 2. Inspections	15,154,445	3,222,431	923,815	-	610,688	355,844	**20,267,224**	**685,963**
Total verification costs (Chapter 1)	**22,634,072**	**3,442,522**	**1,585,755**	**1,500**	**1,026,947**	**1,025,194**	**29,715,991**	**1,583,109**
Programme 3. International Cooperation and Assistance	2,950,966	3,087,626	541,333	457,176	104,341	89,776	**7,231,218**	**410,913**
Programme 4. Support to the Policy-Making Organs	4,054,406	224,578	290,105	-	280,461	-	**4,849,549**	**77,626**
Programme 5. External Relations	1,700,072	25,978	135,462	12,022	87,793	11,073	**1,972,401**	**65,740**
Programme 6. Executive Management	7,943,469	398,680	946,201	-	94,916	185,556	**9,568,822**	**369,006**
Programme 7. Administration	7,934,764	38,556	1,505,188	-	4,533,089	406,860	**14,418,457**	**756,214**
Total administrative and other costs (Chapter 2)	**24,583,677**	**3,775,417**	**3,418,290**	**469,198**	**5,100,600**	**693,266**	**38,040,447**	**1,679,498**
TOTAL EXPENDITURE	**7,479,627**	**220,091**	**661,940**	**1,500**	**416,259**	**669,350**	**9,448,767**	**897,146**

(b) For the period ended 31 December 2018:

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

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

(a) For the period ended 31 December 2019

Funding Programme	Unliquidated Obligations as at End of 2018	Disbursements During 2019	Savings on Prior Year's Obligations
Programme 1. Verification	397,243	274,137	**123,106**
Programme 2. Inspections	822,180	567,798	**254,382**
Total verification costs (Chapter 1)	**1,219,423**	**841,935**	**377,488**
Programme 3. International Cooperation and Assistance	653,444	376,023	**277,421**
Programme 4. Support to the Policy-Making Organs	149,473	38,616	**110,857**
Programme 5. External Relations	89,113	62,221	**26,892**
Programme 6. Executive Management	296,726	166,005	**130,721**
Programme 7. Administration	673,381	305,577	**367,804**
Total administrative and other costs (Chapter 2)	**1,862,137**	**948,442**	**913,695**
TOTAL	**3,081,560**	**1,790,378**	**1,291,182**

(b) For the period ended 31 December 2018

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

3.8 Voluntary contributions by donors (expressed in euros)

Donor	2019[39]
Regional Seminars	
China	34,480
Republic of Korea	69,931
Qatar	139,790
Subtotal	**244,201**
Implementation of Article X	
Czech Republic	21,338
United Kingdom of Great Britain and Northern Ireland	231,278
United States of America	121,081
Subtotal	**373,697**
Trust Fund for Training	
United Kingdom of Great Britain and Northern Ireland	292,248
Subtotal	**292,248**
Trust Fund for Security and Business Continuity	
Canada	534,989
United Kingdom of Great Britain and Northern Ireland	28,597
Subtotal	**563,586**
Trust Fund for Syria Missions	
Canada	12,770
Denmark	903,345
Germany	240,000
Monaco	10,000

39 The following contributions were received in 2019 and deferred to 2020:

Regional seminars:		
China	EUR	17,992
Republic of Korea	EUR	20,462
Qatar	EUR	87,955
Total	**EUR**	**126,409**
Trust Fund for Syria Missions:		
France	EUR	908,972
Total	**EUR**	**908,972**
Trust Fund for a Centre for Chemistry and Technology:		
Republic of Korea	EUR	100,000
Malaysia	EUR	10,000
Spain	EUR	120,000
Total	**EUR**	**230,000**
Trust Fund for Training:		
Spain	EUR	80,000
Total	**EUR**	**80,000**
Trust Fund for the Junior Professional Officers Programme:		
France	EUR	114,541
Republic of Korea	EUR	98,701
Italy	EUR	114,541
Total	**EUR**	**327,783**

Donor	**2019[39]**
Netherlands	
New Zealand	
Norway	
Slovenia	
Sweden	293,858
Switzerland	
United Kingdom of Great Britain and Northern Ireland	207,553
United States of America	
Subtotal	**1,667,526**
Trust Fund for the Junior Professional Officers Programme	
Republic of Korea	118,915
Italy	114,742
Subtotal	**233,657**
Trust Fund for a Centre for Chemistry and Technology	
Bangladesh	13,338
Canada	2,023,390
Chile	13,000
Czech Republic	19,490
Cyprus	25,000
France	1,000,000
Hungary	35,000
Ireland	30,000
Italy	150,000
Japan	2,400,000
Kazakhstan	10,000
Republic of Korea	61,530
Netherlands	2,300,000
New Zealand	100,000
Pakistan	10,000
Peru	8,620
Personal Donor	30,000
Portugal	40,000
Slovenia	5,000
United Arab Emirates	100,000
United Kingdom of Great Britain and Northern Ireland	598,561
Subtotal	**8,972,929**
Total Trust Funds	**23,100,941**

4. EX-GRATIA PAYMENTS

No ex-gratia payments were made by the OPCW during the reporting period (2018: nil).

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

During the 2019 financial year, irrecoverable accounts receivable and foreign VAT in the amount of EUR 13,659 were approved for write off by the Conference in line with Financial Regulation 10.5 and relevant administrative directives (C-24/DEC.9, dated 28 November 2019).

In addition, the OPCW Property Survey Board recommended during 2019 the write-off of further assets as losses.

6. OVERVIEW OF OPCW PROGRAMMES, SPECIAL FUNDS AND TRUST FUNDS

General fund programmes

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

Verification

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

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

Inspections

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

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

International Cooperation and Assistance

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

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

Support to the Policy-Making Organs

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

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

External Relations

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

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

Executive Management

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

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

Administration

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

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

Special funds and Voluntary Fund for Assistance

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

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

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

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

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

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

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

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

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

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

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

Trust funds

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

(a) Trust fund for regional seminars

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

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

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

(e) Trust fund for the Associate Programme

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

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

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

(i) Trust fund for the Scientific Advisory Board

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

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

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

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

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

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

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

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

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

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

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

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

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

(w) Trust fund for EU Council decision 2019 established in May 2019 to support OPCW activities in the framework of the implementation of the European Union Strategy against Proliferation of Weapons of Mass Destruction from 1 May 2019 to 30 April 2022, including supporting the laboratory upgrade project.

Annex 2

FINANCIAL STATEMENTS OF THE PROVIDENT FUND OF THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS (OPCW) FOR THE YEAR ENDED 31 DECEMBER 2019

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

The Management Board of the Provident Fund believes that the attached financial statements of the Provident Fund of the OPCW for the year ended 31 December 2019 are presented according to the requirements of:

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

It is the Board's opinion that the financial statements present a view that is consistent with its understanding of the Provident Fund's financial position as at 31 December 2019, financial performance, and cash flows for the year then ended.

[Signed]

The Hague, 22 May 2020

Odette Melono
Chairperson, Management
Board of the Provident Fund

FINANCIAL STATEMENTS OF THE PROVIDENT FUND OF THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS FOR THE YEAR ENDED 31 DECEMBER 2019

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THE PROVIDENT FUND OF THE OPCW

STATEMENT I
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

(expressed in euro '000s)

	Notes	2019	2018
Assets			
Current assets			
Investments	6	399	349
Accounts receivable	7	8	4
Cash and cash equivalents	8	63,906	60,148
Total current assets		**64,313**	**60,501**
Total assets		**64,313**	**60,501**
Liabilities			
Current liabilities			
Accounts payable	9	2,687	3,900
Total current liabilities		**2,687**	**3,900**
Total liabilities		**2,687**	**3,900**
Net assets		**61,626**	**56,601**
Net assets/equity			
Participants' capital accounts	10.1	61,535	56,510
Special reserves	10.2	80	80
Accumulated surplus/(deficit)	10.3	11	11
Total net assets/equity		**61,626**	**56,601**

THE PROVIDENT FUND OF THE OPCW

STATEMENT II
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 31 DECEMBER 2019

(expressed in euro '000s)

	Notes	2019	2018
Revenue			
Interest income on Participants' capital accounts	11	256	323
Gain on changes in fair value of investments	12	49	-
Total revenue		**305**	**323**
Expenses			
Bank charges	13.1	-	-
Loss on changes in fair value of investments	13.2	-	30
Total expenses		**-**	**30**
Net finance income/(cost)	14	**8**	**7**
Net surplus/(deficit) for the period		**313**	**300**
Net surplus/(deficit) for the period			
Attributable to Participants of the Provident Fund		313	300
Attributable to special reserve		**-**	**-**
Accumulated surplus/(deficit)		**-**	**-**
		313	**300**

THE PROVIDENT FUND OF THE OPCW

STATEMENT III
STATEMENT OF CHANGES IN NET ASSETS/EQUITY

(expressed in euro '000s)

	For the Year Ended 31 December 2019				For the Year Ended 31 December 2018			
	Participants' Capital Accounts	**Special Reserve**	**Accumulated Surplus/ (Deficit)**	**Total Net Assets/ Equity**	**Participants' Capital Accounts**	**Special Reserve**	**Accumulated Surplus/ (Deficit)**	**Total Net Assets/ Equity**
Balance at 1 January	**56,510**	**80**	**11**	**56,601**	**55,306**	**80**	**11**	**55,397**
Changes recognised in net assets/equity:								
Current year contributions[40]	11,423	**-**	**-**	11,423	10,727	**-**	**-**	10,727
Payouts[41]	(6,711)	**-**	**-**	(6,711)	(9,823)	**-**	**-**	(9,823)
Subtotal	**4,712**	**-**	**-**	**4,712**	**904**	**-**	**-**	**904**
Surplus/(deficit) for the period	313	**-**	**-**	**313**	300	**-**	**-**	**300**
Total recognised revenue and expense for the period	**313**	**-**	**-**	**313**	**300**	**-**	**-**	**300**
Balance at 31 December	**61,535**	**80**	**11**	**61,626**	**56,510**	**80**	**11**	**56,601**

40 Contributions include transfers from the United Nations Joint Staff Pension Fund (UNJSPF). In 2019 there were no transfers from the UNJSPF (2018: 2).

41 Payouts include payout requests outstanding at 31 December and transfers to the UNJSPF. In 2019 there were 3 transfers to the UNJSPF (2018: 2).

THE PROVIDENT FUND OF THE OPCW

STATEMENT IV
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2019

(expressed in euro '000s)

	Notes	2019	2018
Cash from operating activities			
Net surplus/(deficit) for the period		313	300
Non-cash movements			
(Increase) / decrease in accounts receivable	7	(4)	(4)
Increase / (decrease) in accounts payable	9	(1,213)	907
Reclassification of net assets/equity to liability	9	1,213	(907)
Unrealised currency exchange loss/(gain) on cash and cash equivalents		(6)	(3)
Currency exchange (gain)/loss on investments		(1)	(4)
(Gain)/loss on changes in fair value of investments	12,13	(49)	30
Net cash flows from operating activities		**253**	**319**
Cash flows from investing activities			
Proceeds from sale of investments		-	72
Net cash flows from investing activities		**-**	**72**
Cash flows from financing activities			
Participants' contributions		11,423	10,727
Payouts to separated Participants		(7,924)	(8,916)
Net cash flows from financing activities		**3,499**	**1,811**
Net increase / (decrease) in cash and cash equivalents		**3,752**	**2,202**
Unrealised currency exchange loss/gain on cash and cash equivalents		**6**	**3**
Cash and cash equivalents at beginning of the period		**60,148**	**57,943**
Cash and cash equivalents at end of the period		**63,906**	**60,148**

ACCOUNTING POLICIES AND NOTES TO THE FINANCIAL STATEMENTS OF THE PROVIDENT FUND OF THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS (OPCW) FOR THE YEAR ENDED 31 DECEMBER 2019

1. REPORTING ENTITY

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

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

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

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

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

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

2. BASIS OF PREPARATION

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

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

2.3 The financial statements are presented in euros, rounded to the nearest thousand euros, and cover the calendar year ended 31 December 2019.

Future accounting pronouncements

2.4 The following significant future accounting pronouncements from the International Public Sector Accounting Standards Board have been issued as at 31 December 2019, but are not yet effective:

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

Foreign currency translation

3.2 Foreign currency balances (in USD) represent less than 0.3% of the total assets of the Provident Fund. The following exchange rates have been used in the preparation of these financial statements:

Period	USD/EUR
31 December 2019	0.896
Average 12 months	0.893

Period	USD/EUR
31 December 2018	0.876
Average 12 months	0.845

(a) Functional and presentation currency:

Items included in the financial statements are measured using the currency of the primary economic environment in which the Provident Fund operates, the functional currency, which is the euro. Assets held in US dollars are converted to euros at the exchange rate of 31 December 2019. Currency gains/losses are recognised in the statement of financial performance throughout the year at the exchange rate applicable at the time of the transactions.

(b) Transactions and balances:

Foreign currency transactions are translated into the functional currency using the United Nations Operational Rate of Exchange (UNORE) prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of financial performance. Year-end balances of monetary assets and liabilities denominated in foreign currencies are converted into euros on the basis of the exchange rates applicable on 31 December 2019.

Cash and cash equivalents

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

Financial assets

Classification

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

Recognition and measurement

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

Subsequent measurement

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

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

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

Impairment

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

Financial liabilities

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

Tax

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

Revenue recognition

Revenue from exchange transactions

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

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

Revenue from non-exchange transactions

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

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

Expenses

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

4. MATERIALITY, CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS

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

Receivables: Determination of impairment

4.2 The Provident Fund's receivables are required to be reviewed at the end of each reporting period for impairment and indications of uncollectibility. The Provident Fund makes an estimate of the amount of receivables that it is not able to recover based on prior payment history and expectations of future amounts it expects to recover from these receivables. Furthermore, the Provident Fund also considers the financial risk factors discussed in note 5, such as credit risk, to determine whether any significant issues may impact the carrying value of cash balances. No impairment has been recognised in the financial statements of the Provident Fund as at 31 December 2019.

5. FINANCIAL RISK MANAGEMENT

Financial risk factors

5.1 The Provident Fund's activities expose it to a variety of financial risks such as market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The Provident Fund's overall risk management programme is carried out pursuant to its investment policy proposed by the Board and approved by the

Participants. The major objectives that the investment policy of the Provident Fund targets, are capital preservation, minimum risk, sufficient liquidity, and simplicity. The investment policy also identifies the Pension Services Division of the ABN AMRO Bank (hereinafter "ABN AMRO") as the party designated to provide investment and administration services to the Provident Fund.

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

Market risk: Foreign exchange risk

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

5.4 US-dollar denominated balances represent a low proportion of total assets of the Provident Fund, and hence the foreign exchange risk is deemed to be low. At 31 December 2019, if the euro had weakened/strengthened by 10% against the US dollar, the net deficit for the year would have been EUR 16 thousand higher/lower mainly as a result of foreign exchange gains/losses on revaluation of Participants' US dollar denominated Provident Fund balances (including UBS units) and other US dollars cash accounts of the Provident Fund.

Market risk: Interest-rate risk

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

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

	2019		**2018**	
	for EUR accounts	**for USD accounts**	**for EUR accounts**	**for USD accounts**
Average interest rate	0.42%	2.21%	0.55%	2.06%
Interest rate at 31 December	0.31%	1.78%	0.45%	2.52%

Market risk: Other price risk

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

Credit risk

5.8 Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk arises from cash and cash equivalents with banks and financial institutions. The Provident Fund Management Board, with the agreement of the Participants, determines the financial institutions with which the responsibilities for maintaining and administering the Provident Fund's resources are to be entrusted based on the investment policy of capital preservation. The majority of the Participants' Provident Fund balances (99%) as at the reporting date are maintained in ABN AMRO savings accounts. As at 31 December 2019, ABN AMRO was 56.3% owned by the Dutch Government (2018: 56.3%). The Provident Fund and other account balances are covered by Deposit Guarantee Scheme, which provides for reimbursement of EUR 100 thousand against the cumulative balance of an individual Participant in all ABN AMRO accounts held by her/him. The Deposit Guarantee Scheme enters into force once a bank facing problems is no longer able to pay customer's credit balances. Information regarding the credit quality of the banks and financial institutions in which the Provident Fund's cash and cash equivalents and investments are held as of the reporting date is as follows (Moody's Global Short-Term Treasury ratings referenced):

ABN AMRO

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

UBS AG

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

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

Please refer to Note 19 with regard to the impact of the COVID-19 pandemic upon credit risk between the reporting date and date of authorisation for issue of these financial statements.

Liquidity risk

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

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

(expressed in euro '000s)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Beyond 10 Years	Undefined Maturity	Total
Accounts payable	2,687	-	-	-	-	2,687
Total financial liabilities	**2,687**	**-**	**-**	**-**	**-**	**2,687**

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

6. INVESTMENTS

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

	(expressed in euro '000s)	
Investments (UBS Units)	**2019**	**2018**
USD units	77	64
EUR units	322	285
Total investments	**399**	**349**

7. ACCOUNTS RECEIVABLE

The receivable amount of EUR 8 thousand as at 31 December 2019 (2018: EUR 4 thousand) represents an amount due to the Provident Fund from a separated participant, an amount paid in advance to a participant and amounts due from the OPCW to the Provident Fund.

8. CASH AND CASH EQUIVALENTS

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

	(expressed in euro '000s)	
	2019	**2018**
Unrestricted		
Interest-bearing current accounts in EUR	86	86
Interest-bearing current accounts in USD	1	1
Total unrestricted	**87**	**87**
Restricted		
Interest-bearing current and savings accounts in EUR	63,739	59,984
Interest-bearing current and savings accounts in USD	80	77
Total restricted	**63,819**	**60,061**
Total cash and cash equivalents	**63,906**	**60,148**

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

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

	(expressed in euro	
Interest-bearing current and savings accounts in EUR	**2019**	**2018**
Participants' contributions (A accounts)	17,819	16,379
OPCW's contributions (B accounts)	35,637	32,759
Participants' contributions (A+B) before 17 December 2007	1,810	8,832
Participants' voluntary contributions (C accounts)	8,473	2,014
Total	**63,739**	**59,984**

9. ACCOUNTS PAYABLE

	(expressed in euro '000s)	
	2019	**2018**
Amounts payable to separating Participants	2,687	3,900
Total	**2,687**	**3,900**

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

10. NET ASSETS/EQUITY

10.1 Participants' capital (EUR 61,535 thousand) represents the accumulated Provident Fund balances of Participants including their contributions (A accounts), the OPCW's matching contribution (B accounts), voluntary contributions by Participants (C accounts), and accumulated income earned (or losses incurred) on these resources as at 31 December 2019.

10.2 Special reserves (EUR 80 thousand) include the OPCW's matching contributions to Provident Fund accounts of Participants (B accounts) who cease to serve the OPCW for other than health reasons before serving the Organisation for a total period of more than three calendar months as noted in 3.14. There were no new cases during 2019.

10.3 Accumulated surplus/(deficit) (EUR 11 thousand) represents the cumulative gain/(loss) that is not attributable to specific Participants' accounts. The Board will decide how to use the surplus. The movement in 2019 is reflected in the statement of changes in net assets/equity.

11. INTEREST INCOME ON PARTICIPANTS' CAPITAL ACCOUNTS

Interest on Participants' accounts with ABN AMRO for the year ended 31 December 2019 was as follows:

	(expressed in euro '000s)	
	2019	**2018**
Interest on Participants' contributions (A accounts)	70	87
Interest on OPCW's contributions (B accounts)	141	174
Interest on contributions (A+B) before 17 December 2007	37	9
Interest on voluntary contributions (C accounts)	8	53
Total	**256**	**323**

12. GAIN ON FINANCIAL ASSETS

In 2019, there is an amount of EUR 49 thousand gain due to changes in fair value of the UBS units (2018: nil).

13. EXPENSES

General operating expenses

13.1 The Provident Fund incurred minor operating expenses in the year 2019 of EUR 0.07 thousand (2018: EUR 0.2 thousand) relating to bank charges. The OPCW provides the necessary facilities and human resources for the internal management and administration of the Provident Fund. Therefore, it does not incur operating expenses for day-to-day administration.

Loss on financial assets

13.2 In 2019, there is no loss incurred due to changes in fair value of UBS investments (2018: EUR 30 thousand).

14. FINANCE INCOME AND FINANCE COST

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

	(expressed in euro '000s)	
	2019	**2018**
Finance income		
Foreign currency revaluation gains	8	7
Total finance income	**8**	**7**
Finance costs		
Foreign currency revaluation losses	-	-
Total finance costs	**-**	**-**
Net finance income/(cost)	**8**	**7**

15. SERVICES IN KIND

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

Management Board

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

Administrative support by the OPCW

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

16. CONTINGENT LIABILITIES

The Provident Fund does not have any contingent liabilities as at 31 December 2019.

17. RELATED PARTY TRANSACTIONS

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

17.2 The OPCW provides administrative support to the Provident Fund free of charge (note 15.3). All other transactions between the Provident Fund and the OPCW are conducted at arm's length.

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

18. KEY MANAGEMENT REMUNERATION

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

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

19. EVENTS AFTER THE REPORTING PERIOD

19.1 In early 2020, the World Health Organisation declared a global health pandemic relating to the COVID-19 virus. One impact of the virus was a significant decrease in the value of some global financial assets in the first half of 2020, such as equities and corporate bonds. The Provident Fund has been largely shielded from such changes in value as the financial assets held by the Provident Fund primarily comprise of cash and cash equivalents, in line with the Investment Policy of the Provident Fund.

19.2 The value of UBS investments held by a limited number of participants has therefore reduced after the reporting date, however from a financial reporting perspective such movements in value are immaterial in the context of the Provident Fund Financial Statements, and will be reflected in line with their classification as financial assets at fair value through surplus or deficit in the Provident Fund Financial Statements for 2020, in line with the accounting policy outlined in note 3.4 onwards.

19.3 The short-term credit rating of ABN AMRO bank continued to remain at P-1 (as per Moody's Investor Service Ratings) as at the date of authorisation for issue of these financial statements.

19.4 The impact of this event upon the Financial Statements for the year ended 31 December 2019 has therefore been considered, with the conclusion that there are no elements which would constitute an adjusting event under IPSAS 14. Considering all information available and understanding that the full prospective impact of the COVID-19 virus cannot be measured by the Management Board until the situation further matures, at the date of authorisation for issue of the financial statements, the OPCW Provident Fund is expected without reservation to continue as a going-concern.

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

Annex 3

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

Opinion on financial statements

I have audited the financial statements of the Organisation for the Prohibition of Chemical Weapons for the year ended 31 December 2019, which comprise the Statement of Financial Position, the Statement of Financial Performance, Statement of Changes in Net Assets, Cash Flow Statement and Statement of Comparison of Budget and Actual Amounts for the year ending 31 December 2019 and the related notes.

In my opinion, the accompanying financial statements present fairly, in all material respects the financial position of the Organisation for the Prohibition of Chemical Weapons as at 31 December 2019 and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

Opinion on regularity

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

Basis for opinions

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

The Director-General's Responsibility for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Other Information

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

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

External Auditor's Report

In accordance with the Financial Regulations, I have also issued an External Auditor's Report on my audit of the Organisation for the Prohibition of Chemical Weapons 2019 financial statements.

[Signed]

Gareth Davies

Comptroller and Auditor General
National Audit Office

157-197 Buckingham Palace Road
Victoria
London. SW1W 9SP
United Kingdom

29 May 2020

INDEPENDENT AUDITOR'S REPORT TO THE PROVIDENT FUND OF THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS 2019

Opinion on financial statements

I have audited the financial statements of the Provident Fund of the Organisation for the Prohibition of Chemical Weapons for the year ended 31 December 2019, which comprise the Statement of Financial Position, the Statement of Financial Performance, Statement of Changes in Net Assets/Equity, and the Cash Flow Statement for the year then ended 31 December 2019, and the related notes.

In my opinion, the accompanying financial statements present fairly, in all material respects the financial position of the Provident Fund of the Organisation for the Prohibition of Chemical Weapons as at 31 December 2019 and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards.

Opinion on regularity

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

Basis for opinion(s)

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Other Information

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

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

External Auditor's Report

In accordance with the Financial Regulations, I have also issued an External Auditor's Report on my audit of the Provident Fund of the Organisation for the Prohibition of Chemical Weapons 2019 financial statements.

[Signed]

Gareth Davies

Comptroller and Auditor General
National Audit Office

157-197 Buckingham Palace Road
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29 May 2020

REPORT OF THE EXTERNAL AUDITOR

MAY 2020

Organisation for the Prohibition of Chemical Weapons

External Auditor's Report on the 2019 OPCW and OPCW Provident Fund Financial Statements

Our vision is to help the nation spend wisely.

Our public audit perspective helps Parliament hold Government to account and improve public services.

The National Audit Office (NAO) helps Parliament hold government to account for the way it spends public money. It is independent of government and the civil service. The Comptroller and Auditor General (C&AG), Gareth Davies, is an Officer of the House of Commons and leads the NAO. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether government is delivering value for money on behalf of the public, concluding on whether resources have been used efficiently, effectively and with economy. The NAO identifies ways that government can make better use of public money to improve people's lives. It measures this impact annually. In 2018 the NAO's work led to a positive financial impact through reduced costs, improved service delivery, or other benefits to citizens, of £539 million.

Contents

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INTRODUCTION

1. The Organisation for the Prohibition of Chemical Weapons is the implementing body of the Chemical Weapons Convention, which entered into force in 1997. The Organisation is composed of 193 Member States who share the collective goal of eliminating and preventing the re-emergence of chemical weapons, thereby strengthening international security and facilitating international cooperation. The Organisation's profile has increased in recent years partly as a result of the persistent threat posed from chemical weapons use but also thanks to new capacity-building initiatives undertaken in the area of international cooperation. This increased profile is evidenced by the additional funding the Organisation has received to undertake new activities.

2. In addition to our opinion on the financial statements of the OPCW and OPCW Provident Fund, this report presents the key findings and recommendations arising from our work, including our observations on financial management and the Enterprise Resource Planning project (ERP) and the Centre for Chemistry and Technology project, building on our previous observations. There were no specific recommendations in respect of the OPCW Provident Fund.

Audit opinion on the Financial Statements

3. Our audit comprised the examination of the financial statements and underlying transactions for both the OPCW and OPCW Provident Fund financial statements for 2019, and was conducted in accordance with International Standards on Auditing and the financial regulations. We provided an unqualified audit opinion on both sets of financial statements and found the quality of financial reporting to be good.

4. The production of the financial statements remains a highly complicated and manual process due to the complex audit trails associated with the Smartstream IT system. The Technical Secretariat has further streamlined elements of the financial statements, to enable States Parties to better focus on the significant elements of the accounts. It has also continued the inclusion of the Director-General’s Report summarising the key movements within the accounts.

Financial management

5. The Organisation continued to face financial challenges in 2019, arising from cash pressures due to outstanding assessed contributions and unforeseen payroll costs driven by changes to UN allowances and post adjustments. The position on outstanding assessed contributions deteriorated from EUR 3.6 million in 2018 to EUR 7.1 million in 2019. While revenues exceeded expenses by EUR 7.2 million (2018: EUR 2.9 million), the General Fund remains in deficit, standing at EUR 4.5 million (2018: EUR 4.3 million). The net asset position of the Organisation remains positive, but this is due to the impact of trust fund balances which are restricted for specific purposes. Overall net assets of the Organisation in 2019 were EUR 19.0 million, representing an increase of EUR 7.2 million from 2018.

6. The Organisation has continued to maintain a high level of budget utilisation, achieving a rate of 99 per cent (2018: 97 per cent). The implementation rate increased during the period reflecting some of the increased costs. The Organisation has faced cash pressures over a number of years and budget processes have been further refined to control costs without impacting implementation.

Strategic Financial Management

7. Financial challenges will continue into 2020, combined with the financial pressures faced by Member States relating to the COVID-19 pandemic, this may give rise to a further deterioration in assessed contribution receipts. These challenges will require the Organisation to continue its reflection on its financial planning and strategies. Our report highlights the important role of Trust Funds as an integral part of the resourcing package available to meet organisational objectives. It remains important to ensure that these funds are used strategically and to best effect. Alongside developments in biennial budgeting and the instigation of a Major Project Fund, the Organisation is beginning to take a longer-term view of its financial management, responding to our previous recommendations.

8. We remain supportive of the decision to introduce biennial budgeting, which we believe will be more efficient and proportionate for the Organisation. It remains important that when biennial budgeting is introduced for the 2022-2023 biennium, there are clear accountabilities for reviewing year one financial performance built into the process. A means of ensuring continued accountability could be to enhance the existing approach to Results Based Management (RBM). We reviewed the Organisation's approach to Results Based Management which has been in place since 2011, although we have noted that there is no overall framework, and that the processes are very much a mechanism to demonstrate budget accountability. We have noted that several initiatives are under consideration in this area, and it remains important for these to be fully integrated into an overall conceptual framework for RBM.

9. For the full benefit of results-based management to be secured it is important that key performance indicators are reviewed to ensure they are challenging, identify performance trends and clearly provide a measure of organisational efficiency. While we will review potential developments during 2020, we believe the Organisation should seek to secure improvements in this area to enhance accountability prior to the preparation of the first Biennial Budget and the approach should underpin the linkage between resources and the immediate and longer-term strategies and objectives for the Organisation as we have highlighted in previous years.

10. Governance arrangements within OPCW have further developed during 2019. We have seen significant strengthening of the processes to underpin the Statement on Internal Control. We see this as a significant element of reporting to States Parties, enabling the Director-General to demonstrate how he has gained assurance to affirm the delivery of his responsibilities for effective control to States Parties. In order to continue this momentum, and to ensure rigour in the processes are maintained, we have recommended that the process is operated by the office of the Director-General or his Deputy, to ensure that return rates are enhanced, and consequently that the assurances

he receives are complete. Furthermore, we believe there should be improvement to the linkages between the work of the Office of Internal Oversight and the Statement, primarily by OIO providing an overall view on the adequacy of internal control, based upon the results of their risk-based work.

Internal Control

11. During the period there has been further improvement to risk management processes, with improved training and more regular meetings of the Risk Management Committee. While principles are being better understood, the processes need further time to mature, and for the risks identified to be distilled more clearly into a clear set of organisational top risks. Risk management will become ever more important as it faces the challenges and uncertainties of operating in a post-pandemic environment.

12. We have noted the work the Organisation is planning to review its anti-fraud and fraud response policies and procedures. As we have reported since 2015, these are important areas for the Organisation to consider ensuring it meets best expected practice and minimises the risk of reputational damage and financial loss. The responses are long overdue, but OIO is leading a project to look at the range of policies in this area. We would encourage the review to be concluded swiftly, to ensure that effective arrangements are established without undue delay. We remain ready to support the identification of best practice and encourage consultation with other international organisations to develop best practice for the Organisation.

Major Capital Projects

13. As we have reported in previous years, the plans for implementing the Enterprise Resource Planning System have again slipped. Control over the implementation of the project has been ineffective in certain areas, leading to delay and cost increases as the contractor has struggled to meet the specifications and the needs of OPCW's process owners. There is currently no firm commitment for the implementation of the project in 2020, and we note that testing is still underway. At the time of writing, 26 per cent of functionality remains to be tested, with a further 12 per cent needing further work. We are concerned that any plans for implementation in 2020 need to consider the cost benefits of mid-year implementation and the impacts this might have on the year-end processes. Experience within the UN has shown that implementation of a system mid-year can be problematic, with significant operational impacts.

14. Some elements of the system have been implemented in 2020, primarily in recruitment and talent management. While these areas highlight some of the benefits of the new functionality, and process improvement, we have continued to stress the importance of positioning the ERP alongside an environment of wider cultural change. As the Organisation moves towards the end of the destruction phase, and with the new challenges of the post-COVID environment, there will be need for greater agile working. ERP is a major facilitator of this, and it is important that it is introduced in a wider context of change management. With project delays we are concerned that the momentum to secure this change is being lost without sufficient investment in the promotion of wider change management.

15. At the time of our reporting the governance and management of the Centre for Chemistry and Technology project has continued to progress positively. As we have previously reported, the project is better positioned in respect of the overall scope and objectives and the initial business case which we reviewed last year has been further built upon. We have noted that governance arrangements have been enhanced and address the key areas of good practice we highlighted in our 2018 report. Our review of the project to date has considered the overall funding position, which has improved significantly, and only EUR 3.2 million remains to be secured against the current project budget as of 31 March 2020. Land has been acquired and recognised within the Financial Statements and progress is being made in the design stages.

16. There are substantive and detailed risk management processes in place to monitor the project risks and we reported observations to management on how the quality of the mitigations might be enhanced. Key risks remain around the security requirements and conditions relating to the site and these are currently under discussion, with appropriate mitigations being considered prior to design to approval. As with any capital investment there remain uncertainties around costs until the project progresses further, it is important that these risks are continuously revisited in the context of the adequacy of the contingency budget. The COVID-19 pandemic introduces some uncertainties that could challenge some of the existing assumption on time and price, and consequently it is important that the adequacy of the overall budget and contingencies are kept in view.

17. We will continue to monitor progress in these major capital investments in the final year of our mandate in 2020.

Prior year follow up

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

PART ONE

Financial management

Overall audit results

1.1 Our audits of the OPCW financial statements revealed no weaknesses or errors which we considered material to their accuracy, completeness or validity. The audit opinion confirms that the financial statements present fairly, in all material respects, the financial position of the Organisation as at 31 December 2019 and of its financial performance and cash flows for the year then ended. It also confirms their preparation in accordance with International Public Sector Accounting Standards and that, in all material respects, the transactions underlying the financial statements have been made in accordance with the Financial Regulations and applied to the purposes intended by States Parties.

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

Financial Statements

1.3 Building on the track record of high-quality financial statements and the improvements in prior years, the Secretariat has continued to produce good quality financial statements this year. The inclusion of the Director-General's report at the front of the financial statements continues to draw attention to the key balances and transactions in the financial statements to allow for scrutiny and consideration by Member States. This is a particular achievement given the pressures arising from the COVID-19 lockdown. The Budget and Finance team have provided the same quality of evidence to support the audit process and have been available to us to complete our enquiries remotely.

1.4 We understand that the Organisation is considering the timeframes upon which to implement its ERP solution, with a mid-year implementation during 2020 being a possibility. As we reported in earlier years, we would encourage the Organisation to carefully consider the benefits associated with a mid-year implementation, compared to the potential risks and complexities with preparing the financial statements using two systems, together with the need to maintain the integrity of data within both systems to allow for accurate financial reporting to States Parties. This would include the ability to demonstrate the effective consolidation of two systems with different classifications and general ledger coding. These processes have caused significant difficulties in other bodies such as the UN when they implemented their Umoja system mid-year.

Financial commentary

1.5 The Organisation recognised revenues of some EUR 84.5 million in 2019 (2018: EUR 76.6 million), which primarily consisted of assessed contributions of EUR 66.0 million and voluntary contributions of EUR 15.6 million from States Parties. Assessed contributions increased by some EUR 3.7 million in accordance with the budget proposals, and the contributions rates were varied in accordance with a new UN Scale of Assessment. Voluntary contributions increased by some EUR 3.5 million, largely due to revenues for the Centre for Chemistry and Technology project. Expenses in 2019 were increased to EUR 77.3 million (2018: EUR 73.7 million), primarily as a result of increases in employee benefit expenses, and a small EUR 0.6 million increase in general operating expenses. Within these expenses the Organisation accommodated the increase to UN salaries resulting from changes to the post-adjustment and salary scale revisions. There was a decrease of EUR 1.1 million in consultancy and contractual service expenses offsetting some of these additional costs.

1.6 There was an overall surplus for the period, with revenue exceeding expenses by EUR 7.2 million. This was largely due to the impact of voluntary contributions, to fund the new Centre for Chemistry and Technology which at 31 December 2019 had a specific fund balance of some EUR 10.3 million. Voluntary contributions accounted for most of the increase in Cash balances of EUR 16.9 million over the period. The Organisation continues to manage its cash in a well-controlled manner and has accommodated cost increases and cash flow pressures around the receipt of assessed contributions through tight financial control. As noted in the Director-General's Report although the Working Capital Fund is strengthening (and is at a balance of EUR 8.1 million as at 31 December 2019 compared to EUR 7.3 million in 2018), it is providing less than two months coverage of General Fund expenditure considering 2019 levels.

1.7 Overall net assets of the Organisation were EUR 18.6 million (2018: EUR 11.4 million) comprising a EUR 4.5 million deficit in the General Fund and EUR 23.1 million surplus in the Trust Funds. For 2019 there was an overall deficit in the General Fund of EUR 0.2 million (2018: EUR 1.3 million surplus). The General Fund deficit is primarily due to the long-term employee liabilities which, in common with many other international organisations, remain unfunded and are paid only when due. The Organisation has confirmed, in response to our recommendations, that it wishes to continue with a 'pay-as-you-go approach' to these liabilities.

1.8 We use ratio analysis of an organisation's financial health on all our international audits to show how financial positions change over time. These ratios express the relationship of one item of account against another. For example, there are EUR 1.68 of current assets for every EUR 1 of current liabilities; this is primarily due to the significant balance of Reserve and Trust Funds. Trust Fund balances are generally held for restricted purposes meaning this funding is not available to the Organisation for general liabilities as they fall due. Figure 1 highlights the key financial ratios for the Organisation, considering all funds and reserves. While short term liquidity remains high, this liquidity arises from the significant level of Trust Fund balances and reserves, masking the overall cash and general fund deficits which the Organisation faces. As increased pressures arise from contribution delays and additional payroll costs arising from UN scales and post adjustments, sound financial management remains vital. Without considering these Trust Fund balances the financial health of the Organisation would be significantly different given the persistent deficit in the General Fund.

❖ FIGURE 1: FINANCIAL RATIOS FOR OVERALL OPCW FUNDS HAVE DECLINED SINCE 2018

Ratio	2019	2018	2017	2016	2015
Current ratio[1]					
Current assets: Current liabilities	1.68	2.32	1.79	1.80	1.50
Total assets: Total liabilities[2]					
Assets: Liabilities	1.30	1.30	1.20	1.25	1.24
Cash ratio[3]					
Cash and deposits: Current liabilities	1.12	1.67	1.08	1.16	0.76

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

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

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

Source: Audited Financial Statements of OPCW

1.9 Further write downs of EUR 1.0 million in the receivable asset balances have taken place in 2019 mainly as a result of arrears in the payment of assessed contributions. In respect of Article IV and V obligations, total impairments now total a cumulative EUR 5.8 million. These adjustments, under accounting standards, ensure that assets reflect their fair values. Overall the level of outstanding State Party assessed contributions on a gross basis was EUR 7.1 million (2018: EUR 3.6 million) and on Article IV and V was EUR 8.0 million (2018: EUR 7.0 million). The net receivables for these contributions were EUR 5.9 million (2018: EUR 3.3 million) and EUR 2.2 million (2018: EUR 1.2 million) respectively. A doubling of these outstanding contributions further exacerbates the financial pressures faced in 2019.

1.10 Increases in payments in advance relating to 2020 assessed contributions provided management with the ability to avoid more significant cash pressures on the General Fund during the period (EUR 5.0 million contributions received early and deferred in 2019 compared to EUR 1.5 million in 2018).

1.11 Despite significant cash pressure during the year due to late receipt of assessed contributions the Organisation managed to increase its budgetary utilisation rate to 99 per cent (from 97 per cent in 2018). This overall implementation remains high in comparison to many other organisations and is illustrative of the Organisation's sensible and active approach to budget and cash management.

Trust Funds

1.12 Trust funds are special purpose reserves which are used to hold funds that have been restricted for special purposes or projects by donors, who have created stipulations attached to the voluntary contributions they remit. The Organisation has built up a considerable number of Trust Funds for various projects, 63 per cent (EUR 29.6 million) of cash balances held by the Organisation relate to Trust Funds (Figure 2 shows the banding of the various Funds). These cover 24 different purposes ranging from the Centre for Chemistry and Technology, Trust Funds for conferences and other events and for sponsoring of young professionals to work at the Organisation and those allocated to support activities in Syria and Libya.

FIGURE 2 - VALUE RANGE OF TRUST FUND BALANCES SHOWING THAT 15 OF 24 FUNDS ARE BELOW EUR 0.5 MILLION

Fund balance range	Number of funds
Over EUR 10 million	1
EUR 5 million to EUR 10 million	1
EUR 1.5 million to EUR 5 million	1
EUR 1 million to EUR 1.5 million	2
EUR 0.5 million to EUR 1 million	3
EUR 0.1 million to EUR 0.5 million	6
Under EUR 0.1 million	9
Negative balance	1

Source: OPCW Income and Expenditure Report- 31 December 2019 (S/1854/2020 dated 26 February 2020)

1.13 As we have previously noted, it is important for the Organisation to have an overall strategy for the use of its Trust Funds and reserves, as an integral part of financial management. Complexity of Trust Funds creates an additional administrative burden and cost and it is important that they are kept under regular review both in respect of their size in relation to the potential to implement an effective delivery of the original donor intention; and in respect of whether they remain relevant to the Organisation's objectives.

1.14 While there has been some consideration of the purpose of these funds and some reallocations, it is important that as financial pressures continue, donors are engaged to ensure that Funds held by the Organisation can be used for the most appropriate and relevant purposes to deliver its objectives. We would encourage the Organisation to increase the pace at which it reviews the relevance and appropriateness of its current Trust Funds to ensure that these resources are utilised to best effect within the overall resourcing strategy of the Organisation. The current Centre for Chemistry and Technology Project and the new Major Capital Investment Fund each offer relevant opportunities to encourage donors to reallocate their resources to a business priority. Cleansing of Trust Fund and Special Fund balances prior to migration to a new ERP system will also help simplify data transfer. We would encourage donors to work with the Secretariat to actively review these balances.

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

Strategic Financial Management

1.15 The Secretariat outlined several proposed improvements to financial management to a number of OPCW working groups with States Parties, the 2018 Fourth Special Session of the Conference of States Parties to Review the Chemical Weapons Convention, through the Advisory Body on Administrative and Financial Matters (ABAF), and extensively in 2019 through the programme and budget consultation process with States Parties. The Conference and the programme and budgetary consultative process considered important long-term financing issues, including budgeting and a more strategic focus on areas such as capital investment funding. We have outlined progress on some of these important issues below.

<u>Biennial Budgeting</u>

1.16 One of the key issues referred to the Review Conference, was the benefit of moving to biennial budgeting. A biennial budget provides scope for a more efficient allocation of resources through improved financial planning, greater certainty on funding priorities and closer alignment with the longer-term strategic programme of the Organisation. A focus on longer-term planning may also reduce the considerable effort and resources devoted to the annual budget process which, excluding staff reductions, is generally not subject to significant change. The Organisation agreed (C-24/DEC.11, dated 28 November 2019) to a move to biennial budgeting at the Twenty-Fourth session of the Conference of States Parties in November 2019. The first biennial programme and budget covering the period 2022-2023 will be prepared in 2021 for the consideration and adoption by the Conference at its Twenty-Sixth session.

We reiterate our previous recommendation that in moving to biennial budgeting, the Organisation retains a meaningful and clear accountability structure for annual performance against the biennium budget when reporting performance in Statement V. This should include mechanisms to approve transfers of resources during the financial year to reflect any significant known changes, so that the budget remains a process to ensure effective control of funds in each year of the biennium.

<u>Major Capital Investment Fund</u>

1.17 The development of a long-term investment programme to plan equipment purchases was another key area of the plans outlined in 2018 to the Review Conference and other OPCW forums. At the 24th Session, it was agreed (C-24/DEC.12, dated 28 November 2019) that a special fund for major capital investments would be established and financed in total to a target level of between EUR 600,000 to EUR 2.5 million over the next four years through the transfer of future cash surpluses if available and other funding following a decision by the Conference. During 2019, EUR 0.6 million was transferred in the financial statements into the Major Capital Investment Fund, following the 24th Session decision.

1.18 We understand that the criteria for use of the fund is for expenditure on major capital investments for property, plant, equipment, and intangible assets (software) that are:

(a) of minimum value of EUR 50,000 in total capitalised cost;

(b) have a useful life of one year or more;

(c) are one-off in nature and not re-occurring from one year to the next;

(d) are for major capital investments other than those covered through the Special Account for the OPCW Equipment Store and Special Account for Designated Laboratories; and

(e) are related to the core activities of the Organisation.

The fund shall not be used to finance operating and maintenance costs of property, plant, and equipment, and intangible assets.

1.19 We welcome the establishment of the Major Capital Investment Fund as a significant element of the longer-term financial planning strategy which we highlighted in our 2015 report. The clear investment plan that is now in place offers the opportunity for greater transparency and a clearer alignment of objectives, as well as ensuring more consistent funding for capital purchases.

Results Based Management

1.20 Results-based management (RBM) is defined by the United Nations Joint Investigation Unit as the management strategy for the achievement of organisational results by their integration with all aspects of management and, most significantly, by assimilating evidence and lessons learned from past performance into management decision-making. Results based budgeting seeks to develop budgets based on the relationship between available funding levels and the expected results from the use of those funds.

1.21 The Organisation's results-based reporting is an important part of the accountability processes and it focuses on reporting the outcomes from the use of the resources provided to it. Reporting against objectives set as part of the programme and budget process provides a mechanism for States Parties to consider how the organisation has used its resources. In our high-level review of RBM we have sought to position the Organisation's approach with a view to further consideration of this area in the final year of our mandate. We have focused on the current principles followed and the alignment of results alongside the Organisation's objectives and use of resources.

RBM framework and approach

1.22 Good systems of RBM operate within a clear framework with under-pinning principles and concepts. The Organisation introduced results-based budgeting in 2004 and moved to results based management in 2011. While noting that the Organisation has operated results-based reporting for many years, we have been unable to see a clear articulation of the underpinning framework or principles relating to its application. Management by results is much wider than reporting on programme performance and is the systematic use of the results to inform and prioritise decision-making. In the context of the Organisation's reporting we believe there is significant scope to improve. The Organisation's approach to managing results remains largely focused upon the budget exercise, and the establishment of a range of key performance indicators (KPIs). It is important that the approach evolves to become a means of ongoing performance management. This will be particularly relevant as the Organisation moves to biennial budgets. The data from RBM can be used to prioritise resource input as part of analysis of the benefits and outputs from a given level of resource.

Reporting results

1.23 We have reviewed the results reported in recent Program Performance Reports on 2017 and 2018 (a further report has subsequently been issued for 2019) and have noted that the KPIs have remained formulaic, in many areas of the business the targets remain static with little movement between years in respect of target or performance. In some areas there is scope to challenge the value of the selected indicator and the basis for its measurement. As a result, RBM is not adding full value as a mechanism to leverage organisational improvement or to provide insight.

1.24 ABAF and the States Parties have highlighted RBM as an area where the Organisation needs to develop and improve. This includes recommendations to develop standard costing measures, which will track cost effectiveness of outcomes and outputs. In our view there is significant scope to develop more meaningful and challenging KPIs to better measure the Secretariat's use of resources and the incremental improvements achieved. This could be enhanced by reporting the previous year's target and performance to highlight the measurable change and improvement for the given level of resource. When sufficiently robust this can be a valuable tool to re-prioritise and measure how changes to inputs can enhance efficiency and outcomes.

RBM developments

1.25 Guidelines for the 2021 budget have highlighted the need to align programme objectives with the 13 Medium-Term Plan goals, focusing these down onto four key result areas. This offers the potential to address one of our early recommendations to map resources to the medium-term plans and objectives of the Organisation. The concept mirrors a pilot which the Office of Internal Oversight (OIO) developed for their own results reporting and is a positive step. We will review how these developments are progressed within the context of the finalised Programme and Budget for 2021.

1.26 The move to biennial budgets and the new ERP chart of accounts, once enacted, can offer opportunities to build on these developments to present a more holistic and integrated approach to results-based reporting. It will be important that results are not reported solely at the end of a biennium period, as this would lose value. It is also important that the nature of the KPI and the underlying reported performance are subject to appropriate scrutiny to ensure they are reported accurately. Good systems of RBM include external review on a sample basis of KPIs to ensure that the basis for selection, collation and reporting are appropriate.

1.27 We are aware of several developments and initiatives in this area within the Organisation and welcome the focus which the Organisation's Budget and Finance Branch and the Office of Strategy and Policy is placing on results-based management. However, it is important that these developments are progressed as part of a systematic and holistic approach to results-based management, rather than as a purely budget driven exercise.

Recommendation 1: The Organisation should report its KPIs with data to compare against prior year targets and performance to provide an indication of the improvement trend.

Recommendation 2: The Organisation should bring together the various RBM proposals and developments into a single conceptual framework, with the underlying principles to ensure that key performance indicators provide consistent, meaningful, measurable, accurate and challenging targets for all key areas of the organisation.

Internal Control

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

1.29 We reported in 2018 that management had developed a robust plan to significantly enhance the quality of the assurances which would underpin future SIC through the creation of an OPCW Internal Control Framework, supported by the results of Internal Control Questionnaires completed by Directors and Branch Heads. 2019 was the first year these arrangements have been in place. Questionnaires were completed in May and November by Directorate Branch Heads. These questionnaires scored the effectiveness of controls within their areas of accountability and disclosed any exceptions or weaknesses. Our review of the 2019 SIC has noted that in general this has served to enhance disclosure of the key issues that have impacted on internal control during the year, such as the ERP system implementation and the work of OIO.

1.30 We believe there is further scope to build on these developments and to reference more detail on the specific higher risk issues identified by OIO. We believe there is also further scope to frame this around an overall opinion on the control environment based on their risk-based programme and summarising the essence of their annual report. In our view the general areas and themes in respect of control weakness should be disclosed, especially if such detail is reported in other documents widely circulated, such as the Annual Report of OIO. It will allow the Director-General to position the Statement around the assurance he takes from their review of internal control, and to set out responses to confirm the commitment to resolve any weaknesses identified. This would allow States Parties greater insight into particular issues that are impacting on Internal Control.

1.31 It is disappointing that there was not a fully complete response from Directors and Branch Heads to the questionnaire in 2019. Response rates fell during the year from an initial 76 per cent in May 2019, compared to 66 per cent in November, the latter being the questionnaire that gives a more complete picture of the operation of controls over the period. We would expect 100 per cent engagement from senior management with this important area in order to support the DG in his management of the Organisation. The risk of a failure to certify controls in this way is that those who fail to return the assessment may in fact be failing to disclose a significant issue. Anything less than a complete response undermines the very purpose of the exercise.

1.32 Having completed the first year of this process, it is important that the Organisation seeks feedback to inform the length, content and training needed to further embed these important processes and to ensure they capture appropriate and reliable information. Considering the response rate and the ultimate purpose of the exercise, we believe that the Organisation should strongly consider having the Office of either the Director-General or his Deputy as process owner, to ensure that this underlines the importance of the activity.

1.33 Overall, we noted a significant improvement in the processes for the collation of the Statement and that a more robust evidence base for the Director-General assurance is in place. Key areas detailed are consistent with our understanding of the control risks within the Organisation and it provides richer detail for States Parties to review. We also welcomed the change of emphasis from the Statement being something to provide evidence for the purpose of our audit, to one which was focused on providing assurance from the Director-General to States Parties, in fulfilment of his responsibility for internal control.

Recommendation 3: Consideration should be given to providing greater detail of the key areas of weakness identified in the Statement on Internal Control, and for the formation of an overall view of the control environment based on the outcomes of reviews undertaken as part of the risk-based plan.

Recommendation 4: The Organisation should transfer the 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.

Risk Management

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

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

1.35 Since our last report, and the appointment of a new Director for the OIO, we welcome the further focus that has been given to Risk Management within the Organisation. This includes detailed training, which OIO has provided, to raise awareness and understanding of risk management and the underlying principles within the Organisation. We understand that, in response to the success of this training, further sessions are planned for 2020.

1.36 The Risk Management Committee is an important part of this process and it has met more regularly and developed its work. The current risk register which is considered by the Committee remains detailed containing around 120 risks. We believe there is more to be done to make this process strategic and focussed on the key risks to the Organisation. We continue to believe that the Committee can improve the challenge function it provides in order to enhance the quality of the risks and the proposed mitigations. We note that in February 2020 a document containing the top 12 risks was considered by the Risk Management Committee and in line with our open recommendations, we would encourage the Organisation to continue to focus on the most important risks. These processes will become ever more important as Divisions within the Organisation consider how they can meet the challenge of the pandemic threat while continuing to deliver core objectives.

While improvement is evident further progress needs to be made to fully deliver against our previous recommendations.

Fraud

1.37 A clearly documented and comprehensive assessment of the risk of fraud, and how an Organisation will respond to this risk is a vital part of the governance arrangements that should be in place. In 2015 we recommended that:

- the Organisation conducts a comprehensive fraud risk assessment to determine the Organisation's potential vulnerabilities and exposure to risks of fraud. The Organisation should use the results of this assessment to prepare a fraud and corruption risk strategy.

1.38 It has taken the Organisation a long time to focus on this area of its governance, though we understand that during 2020 a draft anti-fraud policy will be brought to the Risk Management Committee. This work will be included in a new project taken up in 2020, led by OIO, to enhance the Organisation's approach on ethics, including code of conduct and guidelines. This project includes review and update of the Code of Conduct, and of related policies for addressing non-compliance with the Code of Conduct. It envisages building upon the existing policy framework and mechanisms for reporting and investigating suspected wrongdoing (such as workplace discrimination, harassment, abuse of authority, frauds etc.). While the Secretariat tells us that the policy framework is expected to be reviewed during 2020, full implementation is contingent upon resource availability and is expected to take a period of 2-3 years.

1.39 The adequacy of these policies has not been reviewed for many years, and policies have not kept pace with improved governance standards and expectations across the international system. This was the underlying reason we drew attention to these weaknesses in our first report in 2015. It is therefore important that the Organisation embraces this opportunity to look across the area of conduct, ethics, fraud and whistleblowing to ensure it is well placed to meet any future challenges before they arise. These areas will remain outstanding recommendations for us until the policies and processes become embedded within the Organisation.

1.40 We plan to revisit this work in 2020 and track the progress on this important project. We continue to support the Organisation in helping them to draw upon good practice and to link with others in the international system to ensure the response and policies developed are aligned with best practice.

We continue to stress the importance of outstanding recommendations in the area of fraud risk assessment and response policies and to update existing policies of reporting and investigating suspected wrongdoing as a means of ensuring good conduct.

OPCW Provident Fund

1.41 During 2019 the OPCW Provident Fund has again returned a surplus, totalling some EUR 0.3 million (2018: EUR 0.3 million). Overall assets of the Provident Fund increased to EUR 61.6 million (2018: EUR 56.6 million) because cash outflows to separated participants in 2018 were less than contributions received in year. The financial obligations to participants notifying their intention to separate before 31 December are included as liabilities of the Provident Fund, in line with IPSAS.

1.42 The nature of fund liabilities is such that risk is limited to the payment of funds accumulated from the investments made. Overall, the Provident Fund had sufficient assets to cover its liabilities and a free reserve of EUR 0.1 million. (2018: EUR 0.1 million). The reserve is available to the Provident Fund Board to meet the costs of operations and any unforeseen liabilities in accordance with the Regulations.

PART TWO

Major Capital Projects

Enterprise Resource Planning Implementation

Background

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

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

Current status

2.3 Last year we reported that the Organisation had received a plan which it believed would enable final implementation of the Systems of Record in September 2019. At the time of our report management have not established a precise implementation date. Over the last two years there has been significant optimism bias in the expectations of when the organisation forecast the implementation of the ERP, in the last 12 months alone there have been five anticipated dates for its launch (Figure 3). In our view there needs to be sufficient realism in any future planned date to allow management to both appropriately test the system and to ensure that staff are trained and prepared for its impact in line with a realistic timetable.

Figure 3: **Planned ERP Implementation Dates** show that as the project has progressed implementation dates have been extended to allow significant system development weaknesses to be addressed

REPORTING DATE	PLANNED GO-LIVE DATE
October 2017	January 2018
October 2018	January 2019
May 2019	September 2019
September 2019 (PSC 42)	November 2019*
October 2019 (PSC 43)	January 2020
December 2019 (PSC 44)	March 2020
February 2020 (PSC 46)	May 2020

*'soft go-live' -actual cutover anticipated as January 2020

2.4 In reviewing progress since our last report, the Organisation told us that 62 per cent of core financial, human resources and payroll test scenarios have passed regression testing and 26 percent remain to be tested[42], 12 per cent require further work to complete testing. These elements are the most business critical and where the Organisation needs robust assurance that they will operate appropriately. The nature of the testing of systems has been streamlined for less critical areas of the business, with a view to issues arising post implementation being resolved as they arise.

2.5 The Organisation is currently considering a mid-year go-live with less critical elements of the systems still incomplete, on the basis that mitigations will be in place to enable these processes to be performed outside of the ERP system. Going live with an incomplete system involves a number of risks:

- Whilst not individually critical, unfinished elements could be cumulatively essential for the function of the system;
- Temporary workarounds are likely to place a burden on staff in the short-term until issues are resolved, undermining one of the key purposes of the system, which was to ensure systematic control processes;
- With the system live, the pressure for the Implementing Partner to continue working to deliver a complete solution could diminish;
- A mid-year go-live makes the process of data migration significantly more difficult and additional time spent on this will result in additional cost to the Organisation; and
- A mid-year go-live also means the use of two ledgers for financial statement preparation and associated reconciliations. Different charts of accounts would also require reconciliation and this additional work will continue to place a burden on Budget and Finance staff time.

42 Source- Administration Division as at 25 May.

2.6 Some other less central elements of the ERP have been implemented; the Talent Management system is now fully live, with recruitment launched on 1 January 2019, followed by learning and performance management in January 2020 and February 2020 respectively.

2.7 The budget for the ERP implementation has been increased from EUR 7.9 million to EUR 8.7 million, with an additional EUR 0.8 million transferred from the 2017 Cash Surplus approved with the 2020 budget. As at 20 February 2020 the committed spend was EUR 8.1 million, with EUR 0.6 million remaining for the delivery of the more tailored travel and asset management systems which form the System of Differentiation, the interface between TalentSoft and Unit 4 Business World and any unforeseen additional implementation costs. Prudence and realism in this budgeting is paramount, as the Conference of States Parties confirmed that it expects the Working Capital Fund to be increased in 2020 and 2021, using, among other transfers, ERP budget savings. This will reduce the contingency which has previously enabled cost-overruns to be accommodated. In April 2020 the Organisation reached agreement with the supplier to renegotiate project milestones to link delivery to the payment of invoices, which will provide greater clarity on costs.

2.8 The ERP project budget was deemed to be "Red" as reported by the ERP Project Manager to the Project Steering Committee on 4 February 2020, despite the additional EUR 0.8 million transferred to the project for 2020. Given the status of the project and the work which remains outstanding together with additional licence fees, there remains a need to reassess the budget requirement to complete the project. We believe that the current budget to complete the Systems of Differentiation is at risk given prior experience and the potential for optimism bias. This could result in either the scope of the project being curtailed, or a need for further funding. The delay in the planned go-live has begun to utilise the funds allocated for delivery of Asset Management and Travel Management. Various go-live scenarios are being modelled to determine the budget impact and the funds required to complete the ERP solution as originally scoped.

2.9 The Organisation purchased licences, software support and hosting for U4BW in September 2016 when the scheduled go-live date was January 2018. Due to the repeated delays to the implementation timetable the software being used to develop the System of Record has since been superseded by a newer version. The software being used is currently still supported but the necessity for an upgrade in the future is increased, and this could impact system costs, although management consider this unlikely.

2.10 While we originally reported deficiencies in the overall business case and the absence of a cost benefit analysis of the project prior to its inception, the Organisation reported a 'benefits analysis' to States Parties in 2017. It is important that this analysis is reviewed in the light of the substantial delays and additional costs, to ensure that there is accountability for the resources invested in the system. This is particularly important as the scope of the ERP as originally envisaged has been adapted.

2.11 In addition to costs allocated to the ERP budget, indirect costs such as time spent performing User Acceptance Testing by staff members from around the business are not captured as part of the ERP budget. These represent a significant opportunity cost to the Organisation that is borne by its General Fund. Until the ERP project is complete and a fully functioning system is in place, additional costs to support legacy systems are also being incurred. These are significantly higher than would have been expected at the inception of the project and as a result of delays an additional 28 months of these costs has already been incurred. These costs have further eroded the cost benefit assumptions which management offered to States Parties in response to our comments in 2015 of the absence of this consideration.

Recommendation 5: The Organisation should undertake a realistic assessment of the full costs to completion likely to be incurred and the impact this might have on the delivery of Systems of Differentiation. This should include an evaluation of the potential benefits of the project.

<u>Next steps</u>

2.12 As further time has elapsed, we remain concerned that there is organisational inertia and scepticism about the potential for success of the ERP. As we have previously reported, it is increasingly important that effective training and support is provided to staff to enable the project launch to be successful. When we reported in May 2019 the revised go-live date for the remaining aspects of the System of Record was September 2019. At this time, we recommended that the Organisation should consider the cost and benefits of a final quarter implementation in September 2019, and the extent to which this timeline will provide adequate time for testing and training.

2.13 We are concerned that the momentum and potential to use the ERP to deliver change could be lost as implementation has slipped. A key value of the ERP implementation is organisational change and more efficient working practices. As the impacts of the pandemic challenge existing ways of working and emphasise agile and lean processes, the ERP implementation should help to drive and encourage this change. We have not seen evidence to suggest there has been significant investment to position the ERP within a wider environment of change during the project to date. While the ERP is being used to drive process improvement in key areas such as accounts production, procurement and invoicing, it is unclear to us how this fits within a culture of organisational change. This is important to ensure that at the launch of the ERP, it has a real opportunity to secure beneficial improvement.

Recommendation 6: The Organisation should consider the practical implications and cost benefits of a mid-year/final quarter implementation, and the extent to which this timeline will provide adequate time for testing, training and to reinforce the cultural changes to enable the ERP launch to be a success.

Centre for Chemistry and Technology Project

Background

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

2.15 When reporting in May 2019 we were pleased to note that the Needs Statement addressed many of the gaps we identified as weaknesses in the project initiation and business case for the project and that positive steps have been taken to ensure it meets the needs of stakeholders and donors. We understand that the project team are providing updates to Member States three times a year. Our report this year focuses on key governance and risks issues we have identified from our review of the projects progress to date. It remains too early to assess whether the arrangements in place are fully effective, but our initial view is positive, and key elements of good project governance and control have been established.

Current Status

2.16 As at 31 December 2019 the total voluntary contributions received for the project recognised in the accounts was EUR 14.2 million, and as at 31 March 2020 this total had increased to some EUR 18.2 million. Contributions have been pledged or received from 38 States Parties, the European Union and a single personal contribution as of 31 March 2020. The total current budget estimate by management for completion of the project is EUR 33.5 million, requiring a further EUR 3.2 million as of 31 March 2020.

2.17 On 19 December 2019 the Organisation acquired the land identified for the construction of the OPCW Centre for Chemistry and Technology, recognised at a value of EUR 2 million in the financial statements. The tender processes for design were completed in December 2019 and the draft design was completed in February 2020. At the time of our review in February 2020, completion of the final design was planned for July 2020, with the construction tender process beginning in September 2020 with construction planned to commence during 2021. Expenditure on the project up to 31 December 2019 was EUR 2.7 million.

2.18 As part of our audit we reviewed the terms of the land acquisition of the site and are content that it met the requirements of IPSAS 17: Property, Plant and Equipment, and that the Land has been recognised as a separable asset in the Organisations accounts. Construction of the new OPCW Centre for Chemistry and Technology will be carried out on this land and we were satisfied that the basis of its valuation is appropriate and comparable to other similar sites in the area. The purchase agreement provides various safeguards for the Organisation should planning or other consents be withheld by the local authorities. Consequently, elements of the purchase risks have been mitigated.

Project Governance

2.19 We previously highlighted the importance of good project governance, reviewing key elements of project activity over the last year we have noted positive practices which will enhance the potential for delivering successfully:

- Key Stakeholders are being engaged in the project, with user groups approving proposals at each stage of the project before further plans are progressed;
- The Organisation is making good progress to meet the planned funding needs of the project, around 90 per cent of anticipated funding is currently pledged and a team with experience of delivering similar projects is in place;
- Lessons are being learned from other projects, most notably the ERP implementation, although given similarities of the governance oversight, it is important that the potential for optimism bias is kept in mind and that challenge of key assumptions and progress is more robust;
- Key risks to the project are being identified, understood and addressed. Risks are being analysed with emphasis on the cause and impact, with focus on mitigation and the resulting impact after the management of risk. The three most significant risks and mitigations from our review were:
  - **Absence of approval of the concept and design for the Security Risk Assessment and Security Plan of Record (PoR) based on UN Guidelines -** The security requirements to be included in the design are being captured in a separate Security Programme of Requirements (PoR). These requirements, in turn, are being derived from an analysis of applicable UN security guidelines and a Security Risk Assessment (SRA) prepared by the Office for Confidentiality and Security that is approved, ultimately, by the Director-General. The time required to identify and design to the applicable UN guidelines, as well as to obtain an approved SRA, has delayed the completion of the Security PoR. The project team has identified these delays as a significant risk to the design timeline. Mitigations currently include the dedicated involvement of the Project Board and the Office of the Director-General to facilitate and accelerate decision making, and increased usage of the project's security and other consultants to this end
  - **Delay in availability of funds -** As we report elsewhere, EUR 29.2 million had been pledged or provided as of 31 December 2019. The Secretariat has informed us that it has pledges or funds in place for EUR 30.3 million as of 31 March 2020, against the current budget of EUR 33.5 million. While funding is largely in place there remains a gap and this could be further exacerbated if contractor costs are higher than anticipated or other factors impact on project costs. Management are mitigating this risk by creating flexibility within the planning process and engaging with regular donor communications involving the most senior management within the Organisation. This remains a key risk and is subject to the impact of external factors on the project assumptions.

- **Construction prices provided by the market exceed costs estimates -** An "overheated" construction market in the Netherlands in 2019 means there is some uncertainty over the predicted costs of the project. As a result, there may be a need to revisit key assumptions on price and time. Focus on keeping design scope within the current budget envelope is seen as key, together with a good quality construction tender to deliver the project.

  The Organisation's project experts have practical experience which they will seek to bring to bear on these risks. Negotiating with Construction companies to include Detailed Design in the contract, close communications with States Parties on funding needs, the inclusion of contingency funding in the budget and using the services of an independent cost advisor for the Design Phase are further mitigations in place to reduce the risk. Whilst this is still a significant risk, mitigations have reduced the potential impact.

2.20 We have noted that the Organisation's procurement requirements mean that they must use tender and contracting modalities which are not common within The Netherlands to allow global competition for the contract. We have noted from discussion that this may well lead to other risks in that the contract may be less attractive to local suppliers and could drive up price due to the additional risk and complexity. Furthermore, since we undertook our review of the project there has been the global impact of the COVID-19 pandemic, and this may have a range of impacts on the project and create uncertainties around both the operational ability of contractors to deliver to the original assumptions on timing and price.

2.21 This may have significant operational impacts as the current laboratory facilities near the end of their lease period. The Organisation should carefully consider associated dependencies and keep the contingency margin within the funding envelope under regularly review as the pandemic risk changes.

2.22 In our view one of the most significant risks to all projects is the risk of optimism bias to costs and time, and the potential for cost overruns to result from both design creep and the needs to bring project delivery on track when slippage occurs. These will remain key risks which the Project Board will want to ensure are kept under control and, where possible, externally validated.

Recommendation 7: As the Organisation approaches the delivery phase of the project, it must ensure that they are sufficiently prepared, 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.

Recommendation 8: When time allows, the Organisation needs to fully assess the potential impact of pandemic risk on the costs and timing of project delivery and reaffirm existing assumptions or make appropriate revisions to the scope of the project and budget, if required. This should also be considered in the context of the costs to deliver the finalised design once this is completed.

PART THREE

Prior Year Follow-up

3.1 In this section we summarise the Organisation's progress in implementing our past recommendations. The **Appendix** provides a more detailed review of progress for each prior year recommendation and includes the Technical Secretariat's account of progress.

3.2 As at May 2020, of the 31 recommendations outstanding for 2018 and previous years, we considered that 7 recommendations had been implemented in full during the year, with 2 additional recommendation partially implemented, 22 recommendations remained in progress. It is important to note though that many of the outstanding recommendations are linked to developments expected from the ERP implementation. Recommendations closed but not implemented reflect our assessment of whether the Organisation's actions met our expectations, and where we do not consider that management will take further action.

3.3 Mindful of recent challenging circumstances which will impact upon management's ability to implement recommendations, we believe there should be a more concerted effort to review recommendations and implement or reassess the applicability of our recommendations as time passes, and for plans in this area to be subject to greater scrutiny by the ABAF in its future meetings.

Acknowledgments

3.4 We would like to thank the Director-General, Deputy Director-General and their staff for their co-operation in facilitating the fifth year of our audit engagement. The audit of 2019 was particularly challenging with the need for remote working, and the efforts of staff to support the audit have enabled us to meet our existing reporting timetable.

[signed]

Gareth Davies
Comptroller and Auditor General, United Kingdom - External Auditor

29 May 2020

APPENDIX

Prior year follow up details

Ref	Area	Recommendation	OPCW Response	External Auditor Comment
01/2018	Financial Management	If the OPCW moves to biennial budgeting it should ensure that there are clear accountabilities for year one financial performance against which budgetary performance can be measured and reported in Statement V. This should include mechanisms to approve transfers of resources during the financial year to reflect any significant known changes, so that the budget remains a process to ensure effective control of funds in each year of the biennium.	Conference decision C-24/DEC.11 (dated 28 November 2019) approved the transition of the OPCW to a biennial Programme and Budget. The first biennial Programme and Budget will cover the period 2022-2023, with its preparation taking place in 2021. The Secretariat accepts this recommendation and will incorporate these considerations as the structures to support biennial budgeting are prepared.	Partially implemented - arrangements are in place, but we need to evidence the mechanisms to secure appropriate and meaningful reporting of the first year of the biennium.
02/2018	Financial Management	The Organisation should ensure that it clearly defines the investment objectives of the Major Capital Investment Fund. These objectives should be kept under review and the progress of the objectives regularly reported to States Parties.	As part of the consultative and approval process for the introduction of a Major Capital Investment Fund (MCIF) in 2020, these considerations (including objectives) were outlined and brought forward to the ABAF, Management, and States Parties. Approval for the introduction of an MCIF was granted through Conference decision C-24/DEC.12 (dated 28 November 2019). The mechanisms of the fund and its objectives will be kept under review.	Closed- recommendation implemented

Ref	Area	Recommendation	OPCW Response	External Auditor Comment
03/2018	Governance	The Organisation should establish a systematic framework to show how the various Committees of OPCW provide a framework for governance. In addition, the Organisation should develop a more regular and systematic framework to demonstrate the collective senior management oversight of the Organisation.	The Office of Internal Oversight (OIO) has initiated an evaluation of the Secretariat's committee structures, with a view to providing possible recommendations for further consideration by Management. The first evaluation report on the subject addressing three committees was delivered to the DG on 4 April 2020.	In progress-We will consider the results of the review and its findings in our next audit. An OIO review is a useful way of considering the issue identified.
04/2018	ERP	The Organisation should consider the cost and benefits of a final quarter implementation in September 2019, and the extent to which this timeline will provide adequate time for testing, training and to reinforce the cultural changes to enable the ERP launch to be a success.	The Secretariat took this recommendation into account in its engagement with the implementing partner regarding planning for the go live date	Closed - a similar recommendation has been made in 2019, to reflect the similar risk in respect of mid-2020 implementation.
05/2018	CCT (Centre for Chemistry and Technology)	We recommend the Project Board establish a clear suite of regular and consistent reports that will allow it to provide effective oversight for the duration of this project, including clear quality assurance updates from experienced experts.	An internal project initiation document for the project contains processes for project controls, including a monthly report on the status of the project by the Project Manager to the Project Board. The first monthly report was circulated to the Board in February 2020. The Board approved at its tenth meeting the template of the first report to be used for future monthly reports and that the report be provided to the Board a few days before each Board meeting. The report covers topics such as implementation status against timeline	Closed-we are content that a regular flow of project data is available to the project governance structures.

Ref	Area	Recommendation	OPCW Response	External Auditor Comment
			and budgetary targets, fundraising status, and key issues and risks. The second and third monthly reports were circulated in March and April 2020 respectively.	
06/2018	CCT	We recommend management provide a fully supported project plan with clear assumptions and incorporate an appropriate and justified level of contingency costs within the plan.	The Secretariat issued a Note (S/1769/2019, dated 9 July 2019) that includes a project plan incorporating contingency costs.	Closed- we are content that there has been appropriate consideration of assumptions, but as noted in our report this year, these will need to be kept under regular review and reflect changed circumstances such as impacts of COVID-19.
01/2017	Financial Management	The Organisation should agree a clear funding strategy for the employee benefit deficit to ensure the adopted approach has been specifically approved.	The approach to the funding of the employee benefit deficit was considered by the ABAF at its Forty-Sixth Session in June 2019, including a non-paper on the issue and a survey of United Nations system organisations prepared by the Secretariat. The recommendation made by the ABAF was to continue with the current pay-as-you-go system.	Closed - ABAF has recommended after management's analysis that pay-as-you-go remains appropriate.
02/2017	Financial Management	As part of the approach to longer term financial planning the Organisation should consider its strategy on Extra-budgetary Funding and how this can complement the Regular Budget in enhancing the delivery of objectives.	The Secretariat recognises the increasing importance of the role of extra-budgetary resources in long-term financial planning and included this issue in the paper on Strategic Financing considered by the ABAF in 2018. The Secretariat will work to develop and refine its approach in this area, incorporating in the OPCW context best	In progress - we continue to monitor developments in this regard to ensure that the Organisation has the financial means to deliver its long-term objectives. We understand that during 2020 an EU Liaison Coordination officer will be appointed to handle EU funding strategically including dealings with EU representatives as well as formal project reporting. This marks some improvement in this area, but there is still

Ref	Area	Recommendation	OPCW Response	External Auditor Comment
			practices from other international organisations.	more to do to embed an Organisation wide approach and ensure this area is being considered strategically.
03/2017	Procurement and Contract Management	The Organisation should formalise its plan for delivering the procurement strategy, supported by the consolidation of procurement guidance to form an end-to-end procurement user guide.	Legacy-system data will be used for the strategy and mapped to the data structure in the new ERP system to enable comparison for future strategies. End-to-end procurement user guidance is planned to be included in the new procurement intranet page currently being developed. As ERP go-live is further delayed, the procurement strategy and guidance will not be completed before Q3 2020.	In progress - the delay to ERP implementation has also delayed implementation of the new procurement strategy and guidance. The Procurement Team has struggled to find time to allocate to strategy development work in the context of the ongoing implementation of the ERP system and the strategically significant Centre for Chemistry and Technology procurement exercise. In relation to the Centre for Chemistry and Technology procurement we note that the Organisation appointed contractors for the design, engineering and planning phases in 2019. Whilst the Head of Procurement is satisfied with the procurement outcomes achieved to date, we note that early gaps in the Secretariat's technical intelligence and capacity and, linked to this, its limited work on understanding the market environment, contributed to difficulties at the outset. We understand that a dedicated Project Team has since helped bring technical expertise. Procurement of the construction phase is ongoing.

Ref	Area	Recommendation	OPCW Response	External Auditor Comment
04/2017	Procurement and Contract Management	The Organisation should exploit the potential of the ERP to develop better data analysis and reporting against a more comprehensive set of performance and compliance measures to evaluate the performance of the procurement function.	The first year of the new ERP system will be used to explore which data is available and can be used for reporting and compliance.	In progress. Further substantive progress is contingent on implementation of the new ERP which has been delayed.
07/2017	Procurement and Contract Management	A review of the standard contract terms should take place to evaluate the common causes of contract amendment. This should ensure operational, financial, commercial, legal and security considerations are applied proportionately.	The review of the general terms and conditions (GTC) has been finalised in February. This has resulted in new GTC for purchase of goods and GTC for purchase of services. These have been aligned with GTC of the UN in New York. The contract for services template has been simplified to the essential parts not covered by the GTC. Next step is to update other contract templates.	Closed - the Secretariat has reviewed its past terms and conditions and implemented updated terms and conditions from February 2020 covering the purchase of goods and the purchase of services. We understand that the Organisation has sought to align these where possible with general terms and conditions of the UN in New York. The alignment of standard terms and conditions with UN arrangements is a logical step which, while not resulting in significant changes in key areas (e.g. around liability), may give the Organisation additional leverage in its negotiations with vendors. It will be important for the Secretariat to monitor the extent to which adoption of these terms and conditions results in fewer amendments in practice - bearing in mind that amendments necessarily involve greater Secretariat input and can lead to delays in the procurement process. Some specialised procurements (e.g. relating to

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				the Centre for Chemistry and Technology) will continue to require alternative terms and conditions but where possible these should draw on relevant professional and industry standards.
08/2017	Procurement and Contract Management	The Organisation should undertake a review of the changes to the approval levels and the extent to which delegations have been exceeded and consider the risk of cumulative contracts exceeding these limits.	The new ERP system will provide for electronic approval of expenditure and will be a significant improvement in monitoring cumulative contract expenditure. The Secretariat is proposing to undertake this review through the OIO in 2020 to review the effect of the changes to the approval levels and any remaining risks for exceeding these limits.	In progress. We welcome the proposal that the Office of Internal Oversight is to conduct a review of changes to approval levels and compliance with delegated limits. We recognise the potential for the new ERP to improve the Secretariat's approach but do not believe this should be a barrier to it conducting this review in 2020.
09/2017	Procurement and Contract Management	The Organisation should strengthen its approach to contract management by having a more consistent, proportionate and documented approach to the identification and management of contracts, informed by clearer guidance and training for contract managers. Contract management should be subject to regular oversight by the Committee on Contracts, and for lesser procurements, by the Procurement Authorities.	Contract management training took place in November 2018 and the same training took place in October 2019 to train more staff. The same training is planned for 2020 to train more staff. Guidance for contract management will be part of the end-to-end procurement user guidance that will be developed as part of the new intranet page on procurement. This is delayed due to a staff change in the Procurement Section and the Covid-19 crisis. The changes to the Administrative Directive were approved by the	In progress - we note the increased commitment to contract management training over the last two years, the amendments to the Administrative Directive operational since July 2019 which include reference to the broader oversight responsibilities of the Committee on Contracts We also note the proposal to incorporate further contract management guidance on the Organisation's intranet. However, a more systematic approach to contract management depends significantly on the implementation of new ERP modules, now anticipated later in 2020. The Procurement team expects an

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			Director-General on 12 July 2019 and are in effect as of 19 July 2019.	implemented ERP solution to provide improved contract management functionality (a) by providing a repository for all contracts, enabling linking and managing of expenditure and contractor exposure; (b) alerting relevant Secretariat officials to the need to make decisions around contract extensions and (c) improving contract reporting. These contract management features coincide with efficiencies expected from a more user-friendly ERP procurement package. The Secretariat's Procurement Function should commit to formally reviewing progress in changing the Organisation's approach to contract management and reporting its findings to the Committee on Contracts in 2021 once new ERP modules - and the processes they enable - are operational.
10/2017	Procurement and Contract Management	The ERP design needs to have functionality to provide data to support contract management disciplines, which need to be enforced proportionate to the risks of the contract and to assess the level of exposure to single suppliers across the contract portfolio.	The contracts module of the new ERP system will provide a contract depository that can be used by both procurement and contract managers to manage contracts, and can be used to determine the exposure to single suppliers across the contract portfolio. A contract depository will be built up after the go-live of the new ERP system	In progress. The Secretariat expects the new ERP to provide basic functionality to support a more systematic approach to contract management (see Recommendation 09/2017 above).

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			as part of contract renewal and obligation process, and is expected to be completed by the end of 2020.	
12/2017	ERP	The Organisation needs a clear plan to secure the benefits of the system changes in driving improved processes and business culture. This plan should include a clear strategy for communication with the business to ensure appropriate user engagement. It is important that the Implementing Partner retains a focus on driving the benefits in the design solution.	The Secretariat will continue to monitor this throughout the remainder of the implementation and will provide updates on the evaluation of the realised benefits.	In progress - we do not consider that there is a clear plan to secure the benefits of the system change in place. The time that the project has taken to implement has impacted negatively on staff within the Organisation in terms of their engagement with the project, limiting the benefits that are able to be secured from the project.
13/2017	ERP	The Organisation needs to conclude its considerations on the approach to finalisation of the ERP implementation by establishing a clear and time-bound plan with appropriate monitoring milestones. This should include consideration of the level of resources necessary to conclude the project, as well as mechanisms to monitor contractor performance including escalation measures. The plan should also build in sufficient independent challenge and assurance over the build design.	The recommendations proposed by the External Auditor have been considered in determining the planning for the finalisation of the ERP implementation. In light of additional delays associated with completion and validation of the configuration for the System of Record, the external quality assurance has been extended to ensure that the solution design and build meet the defined business requirements.	In progress - this recommendation remains open as the ERP project is ongoing and as we have reported, significant risks remain for the project.
15/2017	Governance and Internal Control	The Organisation should establish a process internally to engage management in the follow up to External and Internal Audit	Management Board meetings will continue to incorporate a systematic review of pending audit	In progress - we will keep this under review to understand how the process is working.

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		recommendations to ensure that implementation rates are improved and that recommendations are kept under review for their continued relevance.	recommendations, including reports by the relevant programme managers.	
02/2016	Governance and Internal Control	OIO should consider its current staffing and resourcing model within its overall level of resources, ensuring it has the structure, skills, experience and capacity to deliver a core level of assurance over the key risks to OPCW. Furthermore, OIO should review current activities to ensure they focus on assurance provision rather than attendance in OPCW working groups and ensure appropriate independence from management functions and activities.	The new Director of the OIO will present a strategy document for the office to be submitted for consideration to the Director-General. The document will cover the key scope focus to be managed by the OIO, securing a well-balanced delivery between assurance and advisory services.	In progress - we will review the outcome of this review in our subsequent audit.
05/2016	ERP	The Organisation should ensure that the training strategy for the ERP is finalised before the end of quarter three to ensure sufficient time to implement and embed. Following implementation there should be an early evaluation of the roll-out of training to ensure any newly identified needs can be addressed through revised training plans.	To ensure that users are fully capable of using the new ERP solution at go-live, and to ensure sustainable training material post go-live, the Secretariat has engaged the services of an external training provider to develop and to deliver end-user training based upon the final configuration of the new ERP solution.	In progress - as noted in the Organisation's response, training should be delivered based upon the final configuration. As the ERP project remains ongoing this remains open.

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06/2016	ERP	The Organisation should ensure that it retains the audit trail to support timely data migration and that this is subject to review by OIO. Migrated data should be subject to a review process to cleanse information to ensure that only accurate and necessary data is migrated to the new ERP system.	The Secretariat accepts this recommendation and can confirm that the data migration strategy follows an extract, transform, load, and reconcile protocol with a full audit trail, and that only the data that is necessary for the operation of the new ERP solution will be migrated. The OIO reviewed the ERP data migration strategy and will continue to monitor and evaluate the data migration into the new ERP system during and after the go-live. A first report on the subject was issued in Q1 2018. The subject will remain under OIO consideration until its finalisation. The Secretariat can further confirm that it has taken the considerations of the OIO review into account and has acquired data analytical software to assist in the validation of the data during the migration process and to provide data validation during the post go-live stabilisation period.	In progress - this recommendation remains open pending finalisation of the agreed ERP solution and rollout of the migration activity.

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07/2016	ERP	The Organisation should ensure that it has an appropriate assurance plan for validating the operation of system controls and delegations within the new system and a clear plan to manage the impact of implementation on the preparation of the 2017 accounts.	The Secretariat can confirm that assurance plans to validate the system configuration, access controls, roles and responsibilities, segregation of duties, and approval limits and delegations have been put in place. The results of the assurance activities will be continually monitored to ensure the successful implementation of the ERP solution.	In progress - this recommendation remains open pending finalisation of the agreed ERP solution.
08/2016	ERP	The Secretariat should develop, in conjunction with OIO and Gartner, an appropriate plan of assurance to validate the system security and design prior to implementation. This should be developed on a timely basis to support successful implementation of the ERP solution.	See OPCW response to Recommendation 7/2016.	In progress - this recommendation remains open pending finalisation of the agreed ERP solution.
09/2016	HR	The Secretariat should strengthen the governance around HR by: (a) improving reporting to States Parties on HR and other programme areas that use the phrase 'within benchmarked	The integration of a data- and evidence-based approach to strategic HR decision-making through the creation of an HR data analytics function has further strengthened the governance function in HRB and will facilitate both the discovery of broad trends and the identification of pressure points. (a) With the introduction of the Qliksense analytics platform as part of the ERP implementation standardised performance reports against established benchmarks will	 (a) In progress - the steps planned should address the accountability underpinnings of this recommendation but the continued delay in

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		timelines' to show benchmarked timelines over time; (b) developing a systematic suite of HR management information and cost data for reporting to all Management Board meetings; (c) prioritising the people survey so that response rates are improved and issues highlighted are owned and systematically addressed;	be shared with State Parties on a yearly basis. (b) HR dashboards have been rolled out to managers and HRB. In addition to providing visibility to people and HR data, they also measure HR performance against established metrics and automatically send alerts when thresholds are breached. An HR data template has been developed and data is being shared at all Management Board meetings. (c) The HRB will continue to build upon the efforts made in response to the staff surveys. In this regard, the HRB recently secured the services of a web-based engagement and feedback tool and concluded an exercise to solicit ideas on improving transparency within the OPCW. The engagement and feedback tool has been complemented by a comprehensive people and culture engagement platform by tapping into the powerful connection between engagement and performance throughout the employee lifecycle. The new tool has an emphasis on	implementing core parts of the ERP system has so far meant little progress. (b) Implemented - the Secretariat has taken steps to improve its reporting of HR data in some areas, facilitated by new software (e.g. recruitment). More remains to be done once new ERP arrangements are operational but progress to date indicates a greater commitment in this regard. (c) In progress - a cross-organisation personnel survey was delayed but is expected to be rolled out in 2020. It is anticipated that the form of the survey will enable comparison with other organisations. We also note the Secretariat's continued work to strengthen and monitor staff engagement and it will be interesting to see how these efforts are reflected in the forthcoming survey. It is, though, disappointing that the Secretariat elected not to participate in the 2018 UN survey on sexual harassment given issued raised in past personnel surveys

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			manager excellence and guides managers on the follow-up process to surveys enhancing ownership and accountability, thus achieving a high response rate. It also offers benchmarking against sector/country indicators and full employee journey assessment (from on boarding to exit survey). As recommended, questions in this survey are comparable with those asked in previous staff surveys, to allow analysis over time. An initial seven module resilience training programme has been developed and successfully launched. The HRB also launched a "leadership lab" comprising workshops, a monthly newsletter, a manager survey, executive coaching with 360-degree peer feedback, lunch and learn sessions, as well as the "Emerging Female Leaders Coaching Programme". In Q4 of 2018, the HRB undertook an external assessment of OPCW training. Consequently, a consultant visited the OPCW in the last week of January 2019, with a view to changing the training needs analysis	relating to harassment in the workplace.

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		(d) formally considering - and reporting to States Parties on - whether the use of dedicated HR resources best meets future business need, taking account of the current high level of unfilled HR posts, OPCW's changing business operating model and different models of HR support; and (e) review the need for a more strategic role for HR in the delivery of change.	for 2020 to better align OPCW training to business needs. (d) Closed (e) Closed	
10/2016	HR	The Technical Secretariat, supported by HR Branch, should strengthen workforce planning by: (a) developing and documenting a specific action plan addressing high-level workforce planning objectives set out in the Mid- To Long-Term Staffing Plan (June 2015); and providing a regular and consistent report to analyse progress against the plan to the Management Board;	(a) The new ERP will have succession planning capability, which will allow for an opportunity to improve on the current workforce planning framework, including the development of a long-term succession planning approach.	(a) In progress. The Secretariat is expecting the new ERP to provide additional workforce and succession planning capability. Again, the further delay to the implementation of the ERP has limited progress. Discussions on tenure policy, a key factor affecting the Secretariat's approach to workforce planning, continued in 2019 but with no clear outcome.

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		(b) completing a skills survey of its personnel and - considering the results of this analysis - considering steps to further address priorities in its Staffing Plan;	(b) This aspect forms part of the HR strategy. The Competency Framework is being revised to inform the new performance management system under Talentsoft ERP. A comprehensive overhaul of the Competency Framework is planned for 2020. Skills mapping will be undertaken in 2020.	(b) In progress - comprehensive skills mapping is expected to be undertaken in 2020, following work to overhaul the Secretariat's Competency Framework.
		(c) implementing measures to improve recruitment processing performance in those areas over which it has control; and considering establishing targets and plans to improve gender balance at all levels;	(c) Some elements of rebranding have been implemented independently with the use of external sourcing and branding providers. Initial work on the sourcing strategy has started, including discussions with an external expert and new and innovative sourcing initiatives that will be part of the strategy. A number of gender initiatives have been put in place, including attaining OPCW accession to the international Gender Champions initiative, establishment of Gender Focal Points throughout the Organisation, and providing leadership coaching designed to support the professional development of future female	(c) In progress - the Secretariat has described a range of measures to address gender balance, underpinned by dedicated funding and amendments to staff regulations and rules. There are preliminary signs that measures taken to date are having a positive impact. For example, the Secretariat has reported that the percentage of women in professional (and higher) posts was 27% in December 2019 compared with 23% in December 2018. We will assess whether early progress has been sustained and rates further improved in 2020.

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		(d) analysing the costs and the benefits of the tenure policy and considering alternatives to inform future decision-making by States Parties especially in the light of known skills and experience deficiencies; and (e) differentiating staff performance more clearly through performance appraisal; and strengthening underlying systems for identifying and addressing under-performance through the appraisal process.	leaders. These initiatives have laid the groundwork for important future efforts to promote gender balance at the OPCW. With a dedicated budget for gender mainstreaming in the Secretariat in 2019 and following the adoption of a gender paragraph in the Staff Regulations and Rules, more initiatives will be developed and implemented. (d) Closed (e) The new performance management system has been rolled out; components include a new work planning framework and the new features of continuous conversations and multi-rater feedback as well as self-appraisal to strengthen the feedback culture in the Organisation. The training system is integrated in the new performance management. The roll out package	(d) (e) In progress- a new Talentsoft performance management module was introduced in February 2020 which is expected to drive significant improvements. Training in the operation of the new system is ongoing and there is a plan to supplement technical support with additional 'soft skills' provision covering leadership, personal development and strengthening feedback conversations. It is not yet clear whether the new approach will lead to improved identification and management of underperformance.

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			includes bespoke trainings for staff and managers.	
05/2015	Governance and Internal Control	The Secretariat should maintain and regularly update the risk register and ensure that it is used in the business decision making processes.	The Secretariat accepts this recommendation and continued to maintain and update the risk register in 2019, with top risks being reported to the Management Board as part of the process to further embed it in the business decision-making process. . In Q4 2019, the OIO conducted risk management training for Division/Branch Heads. In Q1 2020 the Risk Management Committee completed a revised draft Administrative Directive on Risk Management for ODG consideration. The Secretariat proposes that this recommendation be closed.	In progress - as noted in our report this year we welcome further consideration given to this matter by the Organisation and positive progress has been made. Our view is that their remains more to do to rationalise and focus further on the risks that are being managed by the Organisation by further process refinement and training. .
07/2015 08/2015 09/2015 10/2015	Governance and Internal Control	We recommend that the Organisation conducts a comprehensive fraud risk assessment to determine the Organisation's potential vulnerabilities and exposure to risks of fraud. The Organisation should use the results of this assessment to prepare a fraud and corruption risk strategy. The Organisation should raise awareness of fraud risks through regular communication of fraud issues	A fraud risk assessment was conducted via an elaboration of the risk register to include fraud risks. The assessment will be regularly reviewed and updated in conjunction with the periodic updates to the risk register. As the next steps, a fraud risk strategy and a fraud response plan including relevant roles, responsibilities, policy framework, and mandatory training are being developed in collaboration with the OIO. The work plan for this activity was communicated	In progress - as highlighted in our report we consider progress in this area to be slow and further work is being undertaken in this area as part of the project led by OIO.

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		and through mandatory training courses for all staff on their induction to the Organisation. The Organisation should develop a whistleblowing policy to set out how staff can raise valid concerns which will be appropriately and independently investigated and provide assurance over the protection it offers to staff. Such policies should be clearly accessible and promoted. The Organisation should provide greater clarity over responsibilities and arrangements for the response to an identified fraud by means of an approved fraud response plan. This should include establishing clear independence processes to determine the approach and staffing required to appropriately investigate any fraud allegations.	by the OIO to stakeholders in February 2020. 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.	
14/2015	Governance and Internal Control	Governance arrangements overseeing the production of the SIC should be strengthened. Senior management need to be more involved in challenging the SIC to ensure the statements made are supported by assurance work and highlight areas where control improvements are planned. Furthermore, the SIC should be subject	Significant progress to strengthen the process underpinning the preparation of the SIC was achieved in 2019. In addition, the recommendations from the OIO were incorporated. A two-stage approach was used with a detailed review of the Secretariat's internal control framework,	Closed - the Organisation has made significant progress in respect of its development of the SIC, while we have made new recommendations in this area, they are to refine the much-improved processes put in place by the Organisation.

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		to review by the Director of OIO and provide some summary which captures the outcomes from their work, and their overall conclusion in respect of internal controls.	management attestations, and self-assessments. Stage 1 was incorporated in the 2018 Financial Statements and key documentation prepared. Stage 2 was presented to the Management Board in Q1 2019. An internal control framework and self-assessment questionnaire were developed and formally launched in May 2019 at the Director and Branch Head levels through a town hall presentation and meeting. For the time being, the questionnaire is issued as a twice-yearly exercise with the first in May 2019 and the second in November 2019. This pattern will continue into 2020. Lessons learned from the first questionnaire in May 2019 were incorporated into the November 2019 questionnaire. Results were compiled and reviewed, with a view to gaining oversight across a broad spectrum of control areas. The ABAF requested that an update on the SIC be provided at its Forty-Eighth Session in June 2020.	

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15/2015	ERP	The Secretariat should ensure it completes its recent exercise to estimate the level of savings arising from the ERP implementation. Sufficient data should be collated to enable an auditable measurement of realised cost benefits on completion of the implementation.	A review of the BRP was initiated with external quality assurance and remains ongoing.	In progress - we have again highlighted the importance of refining the cost benefit assumptions of the project and updating them to reflect delays and changes in scope.

Annex 4

RESPONSE OF THE DIRECTOR-GENERAL TO THE REPORT OF THE EXTERNAL AUDITOR ON THE FINANCIAL STATEMENTS OF THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS FOR THE YEAR ENDED 31 DECEMBER 2019

1. The Director-General wishes to express his appreciation for the observations and recommendations received from the Comptroller and Auditor General and his staff, on the occasion of the external audit of the financial statements of the OPCW for the period ended 31 December 2019.

2. The Director-General notes that, in the External Auditor's opinion, the financial statements present fairly the financial position as at 31 December 2019 and that they were prepared in accordance with the OPCW's stated accounting policies (applied on a basis consistent with the previous period); and that the transactions were in accordance with the Financial Regulations and legislative authority.

3. The Director-General notes the observations and recommendations made by the External Auditor, and action has been initiated to implement these recommendations as appropriate.

Annex 5

RESPONSE OF THE CHAIRPERSON OF THE PROVIDENT FUND MANAGEMENT BOARD TO THE REPORT OF THE EXTERNAL AUDITOR ON THE FINANCIAL STATEMENTS OF THE PROVIDENT FUND OF THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS FOR THE YEAR ENDED 31 DECEMBER 2019

The Chairperson of the Provident Fund Management Board would like to thank the External Auditor for the very useful work done in respect of the audit of the Provident Fund of the OPCW. The Chairperson notes with satisfaction that, in the External Auditor's opinion, the financial statements present fairly the financial position as at 31 December 2019 and that they were prepared in accordance with the stated accounting policies (applied as far as possible on a basis consistent with the previous period), and that the transactions were in accordance with the Charter and the Administrative Rules and with the OPCW's Financial Regulations (as far as applicable).

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