



Ninety-Eighth Session
5 – 8 October 2021

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NOTE BY THE DIRECTOR-GENERAL

COMMENTS ON THE REPORT OF THE ADVISORY BODY ON ADMINISTRATIVE AND FINANCIAL MATTERS AT ITS FIFTY-FIRST SESSION

1. At its Thirty-Fourth Session, the Executive Council (hereinafter “the Council”) requested that the Director-General, when submitting reports of the Advisory Body on Administrative and Financial Matters (ABAF) to the Council for its consideration, indicate what actions the Technical Secretariat (hereinafter “the Secretariat”) has taken in response to the recommendations of the ABAF, and what decisions are required by the Council on the report being submitted (paragraph 21.4 of EC-34/5, dated 26 September 2003).
2. The Director-General welcomes the continuing advice and support provided by the ABAF, as reflected in the conclusions it reached during its Fifty-First Session (ABAF-51/1, dated 30 July 2021), which was held from 27 to 30 July 2021.

Review of the report of the previous session (paragraphs 3.1 to 3.2 of ABAF- 51/1)

3. The Secretariat notes that there were no specific comments from the ABAF’s review of the report of its previous session (ABAF-50/1, dated 4 June 2021) and further noted that the ABAF agreed that all follow-up actions from its previous session had been reflected in the agenda for the current session. The Secretariat acknowledges the ABAF’s appreciation for the work done by the Secretariat and its recognition of the serious and appropriate attention given to its observations and recommendations as outlined in the Director-General’s Note entitled “Comments on the Report of the Advisory Body on Administrative and Financial Matters at its Fiftieth Session” (EC-97/DG.20, dated 5 July 2021).

Review of the status of previous ABAF recommendations (paragraph 4 of ABAF-51/1)

4. The Secretariat notes the ABAF’s appreciation for the Secretariat’s preparation of a comprehensive working note providing an overview of the status of implementation of the ABAF’s recommendations issued over the period starting from its Forty-Fourth Session to its Fiftieth Session. This note included eight implemented recommendations, seven ongoing recommendations that had been implemented, and five recommendations under review. The Secretariat agrees to continue to keep this useful checklist updated to ensure that progress can again be formally reviewed at the ABAF’s Fifty-Third Session.



Cash position (paragraphs 5.2 to 5.4 of ABAF-51/1)

5. The Secretariat notes the ABAF's concern regarding the Organisation's cash forecast for the end of the year and the potential use of the Working Capital Fund (WCF) before the end of the year and in early 2022 in order to maintain liquidity.
6. The Secretariat notes the ABAF's acknowledgment of the negative cash position that was forecast for the General Fund in 2021 of approximately EUR 4.8 million, and the expectation that the WCF would likely be required to maintain liquidity during the year.

Status of collection of assessed contributions and Article IV and V reimbursements (paragraphs 5.6 to 5.7 of ABAF-51/1)

7. The Secretariat takes note of the ABAF's comments on the relevance of the information related to the status of the collection of assessed contributions, both as an integral part of the income and expenditure report in the overall understanding of the financial situation, and for practical reasons at sessions of the policy-making organs. The Secretariat appreciates the ABAF's suggestion that the Secretariat consider preparing these reports in advance of the sessions of the policy-making organs and include them as conference room papers for information purposes when possible. In that regard, the Secretariat is considering options for the timing and format of potential supplemental updates.

Recommendations for write-offs (paragraph 5.10 of ABAF-51/1)

8. The Secretariat noted the ABAF's reiteration of the prior recommendation that the Secretariat should take measures to identify vendors with long-standing unanswered VAT reimbursement claims with the OPCW and exclude them from future procurement exercises, with a view to improving contract management and further enhancing the risk-based approach within the OPCW's procurement function. As a preliminary observation, the Secretariat notes that this issue generally does not arise in connection with high-value procurements regulated by negotiated contracts, but is more likely to occur with relatively low-value procurements of goods or services from a vendor (e.g., direct purchase orders) upon which the Secretariat has a relatively high level of dependency. With this in mind, the Secretariat will pursue this recommendation with a focus on the areas of greatest risk and cost.

Status of the 2021 financial performance (first half of 2021) (paragraph 6 of ABAF-51/1)

9. The Secretariat will continue to monitor the implementation of the Programme and Budget for 2021 and notes the ABAF's comments concerning the fact that restrictions related to the COVID-19 pandemic continued to affect in-person activities, which would likely result in a lower level of programmatic activities and lead to budgetary savings. The Secretariat further noted the ABAF's expectation that the Secretariat will remain within the budget in 2021 and have potential reprogramming opportunities for other priority activities.

Update on long-standing trust fund and reserve balances (paragraph 7 of ABAF-51/1)

10. The Secretariat will continue its review of trust fund balances that are planned for reallocation, including in the context of the implementation of the Secretariat's operational strategy. The Secretariat notes that the ABAF urged the Secretariat to follow up on the activities planned for 2021 and early 2022 and seek to clear these fund balances, then report back to the ABAF at its Fifty-Second Session.

External Auditor briefing: 2020 External Audit Report (paragraphs 8.1 to 8.24 of ABAF-51/1)

11. The Secretariat acknowledges that the ABAF welcomed the External Auditor's presentation on the Report of the National Audit Office of the United Kingdom of Great Britain and Northern Ireland (NAO) on the 2020 Financial Statements of the OPCW and the OPCW Provident Fund, and noted the impact of the pandemic and continuation of remote working arrangements, which resulted in typical, manageable delays in the finalisation of the long-form report.
12. The Secretariat welcomes the ABAF's acknowledgement of the External Auditor's positive comments on the good quality of the Financial Statements and the path on which the Organisation is moving forward, especially the progress concerning its mid- and long-term planning.
13. The Secretariat notes the ABAF's satisfaction with the fact that both the Financial Statements of the OPCW and the Financial Statements of the OPCW Provident Fund received unqualified audit opinions from the External Auditor.
14. The Secretariat notes the ABAF's concern regarding the fact that the External Auditor expressed the importance of retaining a high level of quality Secretariat personnel, as substantial changes are expected in composition of the budget and finance teams due to resignations and the tenure policy in the coming year.
15. On the matter of outstanding assessed contributions, the External Auditor and the ABAF highlighted the responsibilities of States Parties to ensure the timely payment of assessed contributions in line with the Chemical Weapons Convention, in order to ensure the implementation of approved spending plans and agreed objectives. The Secretariat notes the comments of the External Auditor and the ABAF and will continue to send reminder letters to States Parties with outstanding assessed contributions.
16. Regarding financial management, the Secretariat notes that the External Auditor highlighted a number of significant developments in the way in which the OPCW managed and planned the use of its financial resources, including the development of a Major Capital Investment Fund to better plan the resources for the capital investments needed to deliver the OPCW's programmes, as well as the longer-term resourcing model resulting from the move to a biennial budgeting system.
17. Concerning the External Auditor's comment on the scope of improvements in results-based management, which noted that some key performance indicators (KPIs) had not been sufficiently ambitious, the Secretariat noted the ABAF's advice that this remained an area to focus on in future, and the importance of retaining targets tied to

annual implementation periods as the OPCW moved to biennial budgets for 2022 – 2023 to help to ensure the efficient use of resources. The Secretariat further notes that improvements have already been implemented in preparing the 2022 – 2023 Draft Programme and Budget.

18. The Secretariat welcomes the External Auditor's comments on the OPCW's enterprise risk management processes. It was further noted that risk management was being better integrated with decision making through forums such as the Risk Management Committee.
19. With regard to anti-fraud arrangements, the External Auditor commented that further development of the code of conduct and the establishment of clear fraud response and prevention plans remained outstanding. The Secretariat indicates that it is planning the implementation of the updated code of conduct and associated anti-fraud and whistle-blowing policies in 2021, and that this work is under way as noted by the External Auditor.
20. The ABAF noted the efforts of the Secretariat to develop such policies. In this regard, the Secretariat stated that a working group led by the Office of Internal Oversight was taking on the finalisation of an updated code of conduct, to be followed by the development of an updated policy framework through a new administrative directive. Initial comments have been received and these will be discussed with stakeholders in the third quarter of 2021.
21. On the subject of business continuity, the External Auditor indicated that the pandemic exposed the need for a more systematic set of business continuity arrangements, and offered opportunities to consider benefits that may be gained from more flexible working arrangements using the new platforms acquired to enable collaborative remote working. The Secretariat has undertaken a substantial business continuity planning review, the finalisation of which is anticipated in 2021.
22. The Secretariat welcomes the External Auditor's comments on the area of human resources, which have over time transitioned from a largely transactional function to one that has embraced a more strategic approach, engaging staff in a much more efficient way and thereby serving the Organisation better. The Secretariat also welcomed the comments on the significant improvement in the management of staff performance and development, utilising new software launched in 2020. There is now greater emphasis on continuous feedback and supporting staff development through better learning opportunities, with a focus on leadership and personal development.
23. The Secretariat notes the External Auditor's comments on the improvements that have been made in contract management, including the development of a clear framework, the introduction of enhanced training, and the application of a proportionate risk-based approach to contract monitoring, in addition to its comments on the improvements made in reporting on compliance matters to the Committee on Contracts.
24. On the issue of the implementation of the enterprise resource planning (ERP) system, the Secretariat acknowledged the External Auditor's comments noting that the ERP roll-out process provided lessons for project management. The Secretariat also acknowledged the External Auditor's comment that it had not yet seen a detailed plan for the delivery of the travel and asset management functionalities, which the

Secretariat believed could be achieved through available resources. The Secretariat further acknowledged the External Auditor's conclusion that the ERP offered an opportunity for the OPCW to drive greater efficiencies, but in order to maximise the benefits of the new system, it will be important to promote an open attitude to changes in work culture and processes—perhaps in part drawing on the new working arrangements arising from the pandemic.

25. The Secretariat welcomes the comments from the ABAF and the External Auditor regarding the Centre for Chemistry and Technology (ChemTech Centre) project and acknowledged that the business case and project governance arrangements had addressed issues that had previously been highlighted in the ERP project. As a high-profile project, it remains important for the OPCW to ensure effective oversight of the risks. The External Auditor commented that it is important for there to be realism and transparency around costs and timelines, and to ensure that project governance guards against optimism bias. The Secretariat commented on the ChemTech Centre project team and noted that the fixed-term positions gave more stability compared to the consultancy model utilised in the ERP project.
26. On the subject of the handover to the new External Auditor to the OPCW, the External Auditor commented that there is a long-standing and excellent working relationship between the outgoing and incoming audit institutions.
27. The Secretariat joins the ABAF in expressing its appreciation for the External Auditor's excellent report, and thanks the NAO sincerely for its six years of excellent service to the Organisation, noting that the NAO's recommendations had always been constructive and timely, and that even in occasional areas of technical disagreement, its dialogue and engagement with the Secretariat had been unfailingly constructive, professional, and respectful. The Secretariat looks forward to working with the newly appointed External Auditor and the ABAF.

Draft Biennial Programme and Budget for 2022 – 2023 (paragraphs 9.1 to 9.47 of ABAF-51/1)

28. The Secretariat welcomes the ABAF's consideration of the Draft Programme and Budget for 2022 – 2023 (EC-98/CRP.1, dated 2 July 2021).
29. The Secretariat acknowledges the ABAF's recognition of the proposed increases in assessed contributions for 2022 and 2023. In response to the ABAF's query regarding the degree to which the OPCW was seeking to introduce a concept of zero real growth at the OPCW, the Secretariat reiterates that after a decade of largely unmitigated loss of purchasing power due to inflation, the traditional level of OPCW activities could not be maintained with a zero nominal-growth approach, particularly in the absence of any cash surplus for potential supplemental funding. The Secretariat further recalls that the use of cash surpluses to fund operating costs is not a sustainable way to operate the OPCW.
30. The Secretariat appreciates that the ABAF took note of the rationale for the proposed increase in assessed contributions and its previously expressed view that the OPCW's budget should be determined by the programmes that States Parties wished it to carry out, rather than through the determination of a fixed funding level.

31. The Secretariat will pursue the ABAF's suggestion to clarify the significance of the relationship between the number of inspections and missions (and the resources required to carry them out) at budget facilitations with States Parties.
32. Regarding the KPIs set for the policy-making organs, the ABAF noted that linguistic support was one of the focal areas, and that it was very important for the Secretariat to pay close attention to the quality of these services in all six of the OPCW's official languages. The Secretariat is considering the ABAF's suggestion that this be reflected at an appropriate place in the narrative for the relevant programme in the Draft 2022 – 2023 Programme and Budget, in addition to the potential inclusion of a measurement or specific KPI for linguistic service quality in programme objectives.
33. The Secretariat notes the ABAF's support for maintaining KPI 1.6, "Time to hire" (in working days), which was set for the Administrative Division, at 60 days. This support comes after the Secretariat shared with the ABAF a projection of the recruitment timeline in order to clarify the normal steps required to finalise the recruitment process, and further confirmed that the KPI did indeed measure the time from start to finish across all of those individual steps.
34. The Secretariat acknowledges the ABAF's comments regarding geographical distribution in the composition of the staff of the Secretariat, and will continue to apply existing efforts to promote further geographic diversity across Secretariat staff.

Progress in programme support costs methodology (paragraphs 10.1 to 10.4 of ABAF 51/1)

35. The Secretariat welcomes the ABAF's acknowledgment of the challenges related to the calculation of programme support costs and costs methodology, including the difficulties in accurately estimating costs, as these are highly dispersed across many programmes and branches.

OPCW Centre for Chemistry and Technology project (paragraphs 11.1 to 11.5 of ABAF-51/1)

36. With regard to the project to upgrade the OPCW Laboratory and Equipment Store to the ChemTech Centre, the Secretariat welcomes the ABAF's acknowledgement that the project remains on budget and on schedule. The Secretariat will ensure that the ABAF is provided with an update on the project's progress at its Fifty-Second Session.

Election of the Chairperson of the ABAF (paragraph 12 of ABAF-51/1)

37. The Secretariat notes that the ABAF re-elected, for a period of one year, Mr John Foggo as Chairperson with immediate effect following the close of its Fifty-First Session. The Secretariat reaffirms its full support for the Chairperson and Vice-Chairperson of the ABAF and its appreciation for the ABAF's contributions to the work of the OPCW.

Working Group on the Manner of Appointment of the External Auditor (paragraphs 13.1 to 13.5 of ABAF-51/1)

38. The Secretariat notes the ABAF's exploratory discussion with the Chairperson of the Council's Working Group, H.E. Ambassador Jorge Skinner-Klée Arenales, on how the ABAF could provide advice to the Working Group, upon request, during the

intersessional period. The Secretariat expresses its appreciation for the ABAF's affirmation of its readiness to conduct any required intersessional discussions and provide advice as requested by the Working Group, noting that the ABAF fully supported the Working Group's objective of developing a proposal that would ensure the best possible methodology for the future process for appointing the OPCW's External Auditors.

Extension of the timeline for the submission of the 2021 Financial Statements (paragraphs 13.6 to 13.9 of ABAF-51/1)

39. The Secretariat referred to Regulation 11.4 of the Financial Regulations and Rules, which requires that the Financial Statements be submitted to the External Auditor by 31 March, following the end of the financial period to which they relate. The ABAF noted that similar requests had been made to extend this deadline in 2019 and 2020, but were ultimately not required, as the decision was taken by the Budget and Finance Branch to prepare the Financial Statements in accordance with the normal schedule, given the ERP go-live date.
40. As a consequence of a possible later submission of the 2021 Financial Statements to the External Auditor, the Secretariat indicated that the ABAF may need to consider the 2021 External Auditor Report and the 2021 Financial Statements at its second, rather than the first, session of the year. The ABAF noted this possibility.
41. The Secretariat appreciates the ABAF's understanding that the OPCW will be preparing the 2021 Financial Statements using the new ERP system amidst changes in key staff in the Budget and Finance Branch—including the unit responsible for the preparation of the Financial Statements—and while transitioning to working with a new External Auditor. In light of these factors, the Secretariat further appreciates that the ABAF has expressed acceptance of an exceptional request for an extension of the deadline by which the 2021 Financial Statements are to be submitted to the External Auditor. This request will be submitted by the Secretariat to the Council and the Conference of the States Parties for approval at their Ninety-Eighth and Twenty-Sixth sessions, respectively.

Next session and agenda (paragraphs 14.1 to 14.2 of ABAF-51/1)

42. The Secretariat notes the dates agreed upon by the ABAF for its forthcoming sessions: the Fifty-Second Session will be held from 7 to 10 June 2022, and the Fifty-Third Session will be held from 26 to 29 July 2022. The agenda set by the ABAF for its Fifty-Second Session has been noted by the Secretariat.