101st Session
4 – 7 October 2022

EC-101/DG.5
C-27/DG.5
25 August 2022
Original: ENGLISH

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 2021

(blank page)

TABLE OF CONTENTS[1]

[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 2021

FINANCIAL STATEMENTS OF THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS FOR THE YEAR ENDED 31 DECEMBER 2021

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 2021 are presented fairly according to the requirements of IPSAS and the OPCW's Financial Regulations and Rules (reference OPCW-S/DGB/29, dated 15 December 2020).

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 2021, 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

4 July 2022

STATEMENT OF INTERNAL CONTROL FOR 2021

1. 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".

2. 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 2021, and up to the date of authorisation for issue of the Organisation's 2021 Financial Statements.

3. 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 review and monitor 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 policy framework for internal control is comprised of policies, procedures, and processes underpinned by appropriate ethical values. It 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 further strengthen the system of internal control across the Organisation.

3.1 Review of effectiveness

My review of the effectiveness of the system of internal control 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, and for 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 2021, significant risk and internal control matters outlined below, together with appropriate mitigations, have been identified through a formal self-assessment process conducted twice during 2021, 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 operational decisions;

(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 2021, the OIO has conducted 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 the OIO so as to focus the audit effort on the areas that matter most to the Organisation. During 2021, the OIO conducted internal and confidentiality audits and evaluations on: management of sick leave; staff performance management; the Investment Committee; information technology project management; and general controls and the procure-to-pay module of the enterprise resource planning (ERP) system. In the five reports on audits and evaluations issued in 2021, the OIO issued 49 recommendations. Of these, 17 were "High" priority recommendations and the remaining 32 were of "Medium" priority. A brief summary of the key audit recommendations issued in 2021, and the impact of those issued and implemented is provided in the Annual Report of OIO for 2021 (C-27/DG.2 dated 11 April 2022) to the Conference of the States 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 the Executive Council on administrative and financial issues;

(d) the recommendations of the Risk Management Committee (RMC) which provided updates of its work to the Management Board in March, June, and October 2021. Its activities included: reviewing the risk register revised by risk owners; reviewing top risks to be submitted to the Management Board for its consideration; completing the development of a revised draft Administrative Directive on Risk Management; and work towards the further enhancement and integration of the various risk and control tools available in the Organisation into risk determination; and

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

3.2 Significant risk and internal control matters

The following significant risks and internal control issues are reported for 2021, as informed through the above-mentioned channels:

3.2.1 <u>Global risks and challenges</u>

Like most institutions globally, the OPCW faced significant operational and internal control risks due to the continuing COVID-19 pandemic in 2021. Because core elements of the Organisation's mandate require extensive and frequent international travel, the risks to and consequences for OPCW operations were particularly acute. The necessary continuation of remote working arrangements for most staff most of the time, in response to Host Country health measures, also presented potential control risks. One of the main concerns in this area was ensuring required approval confirmations for administrative actions while most staff were working remotely. This was mitigated by management's use of electronic approval procedures for administrative processes. On balance, with the steady support and recommendations of the OPCW's COVID-19 Task Force chaired by the Deputy Director-General, the Organisation endeavoured to respond with agility and innovation, maintaining essential business continuity and achieving a significant portion of its planned 2021 work programme, notwithstanding the major obstacles. Lessons learned through this process were incorporated into the findings and outputs of the Business Impact Assessment completed in Q1 of 2021. In addition, a study on lessons learned was undertaken by a working group established by the COVID-19 Task Force, which produced recommendations to make the OPCW a more sustainable and agile workplace, including a policy on flexible working arrangements which was adopted in 2022. The pandemic continues to affect OPCW operations in 2022, though the attenuation of the disease and successful preventative measures by the Secretariat are serving to mitigate the severity of the impact thus far. In any case, as the full prospective impact of the pandemic continues to evolve, the Secretariat will continue to monitor the situation closely.

The financial context of the Organisation is also subject to other major global risks, principally the impact on international security, energy supplies, travel, and supply chains of the war in Ukraine which is occurring against a backdrop of already historically high inflation and supply chain interruptions affecting goods and services required by the Secretariat to conduct its routine operations. The Secretariat is closely monitoring the situation. Thus far, the most significant impact for OPCW operations is a projected substantial increase in utility costs, which will be addressed in the context of the mid-biennium 2023 budget update.

3.2.2 Protection of classified and sensitive information and information systems

In the face of persistent threats relating to the protection of classified and sensitive information and to the integrity and availability of the OPCW's information and systems, significant improvements have been made to both the unclassified and classified ICT systems. Further efforts to prevent, deter, and detect malicious cyber activities are resulting in more secure and resilient organisational ICT capabilities. This work will continue throughout 2022.

3.2.3 Implementation of the enterprise resource planning system

In 2021, the Organisation continued the implementation of its new ERP system. The go-live of the core ERP solution took place on 4 January 2021, and completion of the remaining modules (travel and assets management) was postponed pending further stabilisation of the core system and a planned upgrade to the latest version of the ERP software in order to maintain currency and gain additional functionalities. The ERP system is being used for the first time for the annual closure process, with the preparation of the 2021 Financial Statements. The use of a new ERP solution for the financial closure process presents control risks in novel circumstances for even the most experienced staff. In order to mitigate those risks, upon advice of the External Auditor and concurrence of ABAF, the Secretariat sought and obtained an exception (C-26/DEC.5, dated 29 November 2021) to the normal deadline of 31 March for the submission of the OPCW's 2021 Financial Statements to the External Auditor.

3.2.4 Construction of the Centre for Chemistry and Technology (CCT)

The CCT is the largest capital investment ever undertaken by the OPCW, thereby presenting important risk management and control requirements. Through a robust process of Senior Management oversight, including the active engagement of the CCT Project Board and a Project Team supported by expert consultancies to provide quality assurance over vendor delivery, the CCT construction project has remained on budget and on schedule, with the construction planned to be completed by the end of 2022. In light of current global inflation and challenges with supply chains, the cost of construction and the potential for delays in construction materials and equipment are rising. The Secretariat is closely monitoring the situation and mitigating these risks, particularly via a vigorous contract management to ensure vendor delivery according to the agreed terms.

3.2.5 Non-payment of contributions by States Parties

In recent years, the Organisation has 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 2021 to address this issue and improve the financial position as at 31 December 2021. 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.

3.2.6 Budgetary impact of unforeseen costs

In 2021, significant costs have arisen during the financial year following preparation of the annual Programme and Budget. Such costs included additional conference services required to split the work of the 25th Conference of States Parties into two parts in order to reduce the risks of COVID-19 transmission at the event that normally would have been held in its entirety in November-December 2020, with the second part extraordinarily occurring in April 2021. The risks presented by these additional costs were mitigated through the use of the 2021 COVID-19 Variable Impact Special Fund, as well as application of contingency and savings. In 2021, such unbudgeted costs also included significant increased salary costs due to obligatory, yet unforeseen, in-year changes in salary scales, including retroactive applications, prompted by United Nations salary 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 withholding of the contingency margin and utilisation of savings imposed by COVID-19 travel constraints were used to maintain the Organisation within budget and in adherence to budgetary transfer rules. Going forward, the 2022-2023 Biennium Budget of the OPCW includes budgetary provisions for dealing with staff cost inflation, with a view to mitigating the impact of United Nations salary scale adjustments whose timing and magnitude are not within the Organisation's control.

3.2.7 Physical security of headquarters

On 3 December 2021, a group of demonstrators (some 40 individuals) unlawfully breached the fence at the rear side of the OPCW Headquarters and violently forced open the rotating front door and forced their way into the building. Dutch police forces entered the OPCW Headquarters less than five minutes after the building was breached. After facing violent resistance from some of the intruders, the police cleared the building arresting the trespassers who were taken into custody. One OPCW security staff was slightly injured. One of the confidential areas was breached; however, no confidential information was compromised. The Secretariat has undertaken a full review of the incident and has been in sustained contact with the relevant authorities of the Host Country to increase its security posture. Immediate measures have been taken in order to reinforce the means for preventing unauthorised access to the Headquarters building, while further medium- and long-term measures to mitigate against any future potential security breaches are being planned and implemented.

3.2.8 Business continuity planning

In December 2015, 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. The Organisation had in earlier years taken steps, as resources and competing priorities allowed, but the COVID-19 crisis required the immediate ad hoc implementation of a number of business continuity measures that have substantially informed the OPCW's business impact assessment, concluded in Q1 of 2021 and subsequent work to develop a formal business continuity framework. In this context, the Organisation envisages a key role for the Centre for Chemistry and Technology in providing critical business continuity support.

3.2.9 Risk management and control framework

A revised Administrative Directive on the Risk Management Framework was adopted on 29 December 2021. As the 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.

4. Conclusion

Effective internal control, no matter how well-designed, has inherent limitations, including the possibility of circumvention, and therefore, can only provide 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 control noted during the year and brought to my attention. In 2021, amongst other activities, this work included the continued use of an internal control self-assessment questionnaire to further embed a more systematic process of risk management, as well as risk management training conducted by the OIO.

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 2021.

[signed]

Fernando Arias
Director-General

4 July 2022

TABLE OF CONTENTS

REPORT OF THE DIRECTOR-GENERAL ON THE FINANCIAL STATEMENTS OF THE OPCW FOR THE YEAR ENDED 31 DECEMBER 2021

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 2021.

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 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 in allowing the Organisation to deliver its mandate efficiently.

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. Therefore, there are differences in the accounting bases used for the recognition of revenue, expenses, assets, and liabilities in the budget and the IPSAS Financial Statements for 2021, including timing differences. The Organisation's functional currency is the euro. Unless otherwise stated, all financial information in this analysis is quoted on an IPSAS accounting basis.

7. During 2021, the Organisation continued to focus on the effective implementation of the Convention and the efficiency of the processes supporting such implementation.

8. Detailed information on the financial year 2021 can be found within the Financial Statements and accompanying disclosure notes. Within this context, the following analysis provides the reader of the Financial Statements with some of the key highlights of the financial year 2021:

Global Risks and Challenges

9. The COVID-19 pandemic continued to affect some OPCW activities and had a tangible impact on the OPCW financial situation for the year ended 31 December 2021. While the Technical Secretariat (hereinafter "the Secretariat") made every effort to effectively implement the 2021 Programme and Budget throughout the year, the COVID-19 pandemic inevitably impacted some programmatic activities, particularly those relying heavily on official travel for execution, as international travel was severely restricted in 2021, resulting in a lower implementation rate for the year than the traditional OPCW norm. The pandemic continues to affect OPCW operations in 2022, though the attenuation of the disease and successful preventative measures are serving to mitigate the severity of the impact thus far. In any case, the full prospective impact of the pandemic continues to evolve the Secretariat will continue to monitor the situation closely.

10. The financial context of the Organisation is also subject to other major global risks, principally the impact on international security, energy supplies, travel, and supply chains of the war in Ukraine which is occurring against a backdrop of already historically high inflation and supply chain interruptions affecting goods and services required by the Secretariat to conduct its routine operations.

11. The pandemic has caused a further tightening of the interest rate environment in the Eurozone, resulting in a decline in fixed income interest. All of the financial institutions with which the Organisation operates continue to be closely monitored by the Secretariat, especially in light of the impacts of the continuing pandemic, and all have maintained a P1 Moody's Investors Service Global short-term rating of P-1 indicating their continued strength.

Financial highlights of importance

(a) The regular budget (General Fund) experienced an implementation rate of 91.7% for 2021, as compared to 93.2% in the prior year. The lower budget implementation reflects the inevitable impact of the COVID-19 pandemic upon some programmatic activities, particularly those relying heavily on official travel for their execution.

(b) The level of assessed contributions for 2021 remained at EUR 67.1 million (2020: EUR 67.1 million) as per the Programme and Budget for 2021. The OPCW Programme and Budget (excluding extra-ordinary provisions) increased by 0.3% in 2021 compared to the prior year for Chapter I and Chapter II programmes.[2] Including extra-ordinary provisions, the increase was 1.1% in 2021 compared to the prior year.

(c) Trust funds experienced a net increase in revenue from voluntary contributions of EUR 5.3 million compared to 2020. Voluntary contributions recognised as revenue in 2021 include mainly contributions for the Centre for Chemistry and Technology, and for the Trust Fund for EU Council decision 2019, totalling

2 The total approved OPCW Budget for 2021 was EUR 71.7 million including an appropriation of EUR 2.3 million for extra-ordinary provisions (C-25/DEC.7, dated 1 December 2020).

EUR 8.2 million and EUR 8.0 million, respectively. The voluntary contribution from the European Commission is partially (EUR 5.3 million) allocated to the construction of the Centre of Chemistry and Technology.

(d) Overall expenses[3] inclusive of the General Fund, trust funds, and special funds, decreased by EUR 0.9 million to EURO 71.2 million in 2021. Employee benefit expenses decreased by EUR 3.3 million, primarily due to the decrease in the accrual for home leave and the reduction of annual leave liabilities in 2021. This decrease was offset by an increase of General operating expenses (+ EUR 1.8 million) and consultancy and contractual services (+ EUR 0.3 million).

(e) The net surplus (across all funds) for 2021 was EUR 18.8 million, compared to a net surplus of EUR 7.0 million in the previous year. This EUR 11.9 million increase in net surplus is explained by higher assessed contribution and voluntary contributions revenue of EUR 7.2 million and EUR 5.3 million, respectively.

(f) The overall value of cash and cash equivalents across the General Fund, trust funds, and special funds increased to EUR 58.3 million in 2021 from EUR 50.9 million in 2020, and was comprised primarily of an increase of EUR 8.6 million in trust fund cash balances and a decrease of General Fund cash balances of EUR 9.6 million. The decrease in the General Fund cash balance includes a EUR 7.5 million reimbursement to the Working Capital (WCF).

(g) A slightly higher collection rate of assessed contributions of 92.8% was experienced during 2021, as compared to a rate of 92.3% in 2020.

(h) Outstanding total Article IV and V net receivables increased by EUR 0.5 million, to EUR 2.4 million.

(i) The overall net book value of property, plant, and equipment increased by EUR 6.1 million, which includes mainly design and construction costs of EUR 4.8 million for the Centre for Chemistry and Technology capitalised in 2021, and the installation of new HQ access and control systems of EUR 0.2 million. The increase was offset by the annual depreciation of in-use assets (EUR 1.1 million). The net book value of intangible assets decreased by EUR 0.1 million in 2021. The ERP system went live beginning of 2021 and the related cost (EUR 4.1 million) was transferred from intangible assets under construction to internally generated software.

(j) The Organisation's total liabilities in 2021 decreased by EUR 17.1 million, mainly due to a reduction of deferred revenue for voluntary contributions of EUR 16.2 million reflecting the implementation of the activities related to the Centre for Chemistry and Technology, and a decrease of employee benefits liabilities of EUR 2.6 million. These decreases were offset by an increase of EUR 2.3 million in the accounts payable as at 31 December 2021. The level of the WCF remained consistent with 2020, with no change to the overall approved level.

---

3 Including net finance income and costs.

(k) The total employee benefit liability decreased from EUR 10.4 million in 2020 to EUR 7.8 million in 2021, primarily due to a decrease of home leave and annual leave liabilities by EUR 1.2 million and EUR 0.6 million, respectively. This reduction is consistent with the revision of the travel cost used to estimate the home leave liability and the consumption of annual leave days during the year. The liability continues to be unfunded on a long-term basis and addressed on a pay-as-you-go approach as considered and recommended by the Advisory Body on Administrative and Financial Matters at its Forty-Sixth Session.

(l) The total net assets position experienced an increase of EUR 19.8 million, primarily due to the net surplus of EUR 18.8 million reported in 2021, and the actuarial gain of EUR 1.0 million. The closing net asset surplus for the General Fund is EUR 7.9 million (net deficit of EUR 6.1 million in 2020), explained by the reclassification of the net book value of fixed assets from trust funds to the General Fund of EUR 7.5 million and the 2021 net surplus of EUR 5.5 million. Net assets for Trust Funds and Special Funds were EUR 38.0 million, representing resources which will be spent in future years.

(m) In 2021, a final cash surplus was determined for 2020 in the amount of EUR 4.5 million, a significant change from the cash deficit for 2019 reported in 2020 of EUR 1.2 million. This increase was largely due to the lower level of budget implementation in 2021 compared to the prior year, due to the impact of the COVID-19 pandemic, and to the collection of prior year’s annual contributions, which were included in the calculation of the final cash surplus for 2020. The treatment of the cash surplus for 2020 will be determined through a decision by the Conference in future reporting periods.

Financial performance

12. A summary of the financial performance by all trust funds and special funds for 2021 is shown in Table 1 below.

TABLE 1: SUMMARY OF FINANCIAL PERFORMANCE BY ALL TRUST FUNDS AND SPECIAL FUNDS FOR THE YEAR ENDED 31 DECEMBER 2021 (EUR MILLIONS)

	Regular Budget	**Trust Funds and Special Funds**	**Total**
Total revenue	68.9	21.1	**90.0**
Total expenses[4]	(63.4)	(7.8)	**(71.2)**
Net surplus/(deficit) for the year	**5.5**	**13.3**	**18.8**

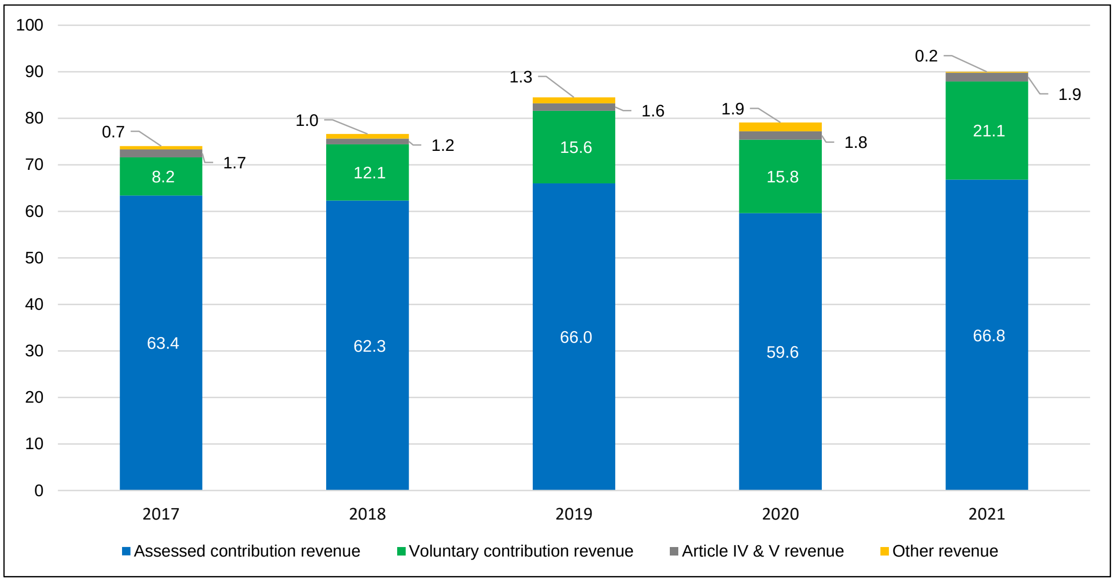
13. Considering all funds and special funds of the OPCW, the difference between revenue and expenses for 2021 resulted in a net surplus of EUR 18.8 million, compared to a net surplus of EUR 7.0 million in the previous year.

---

4 Including net finance income and costs.

Revenue analysis

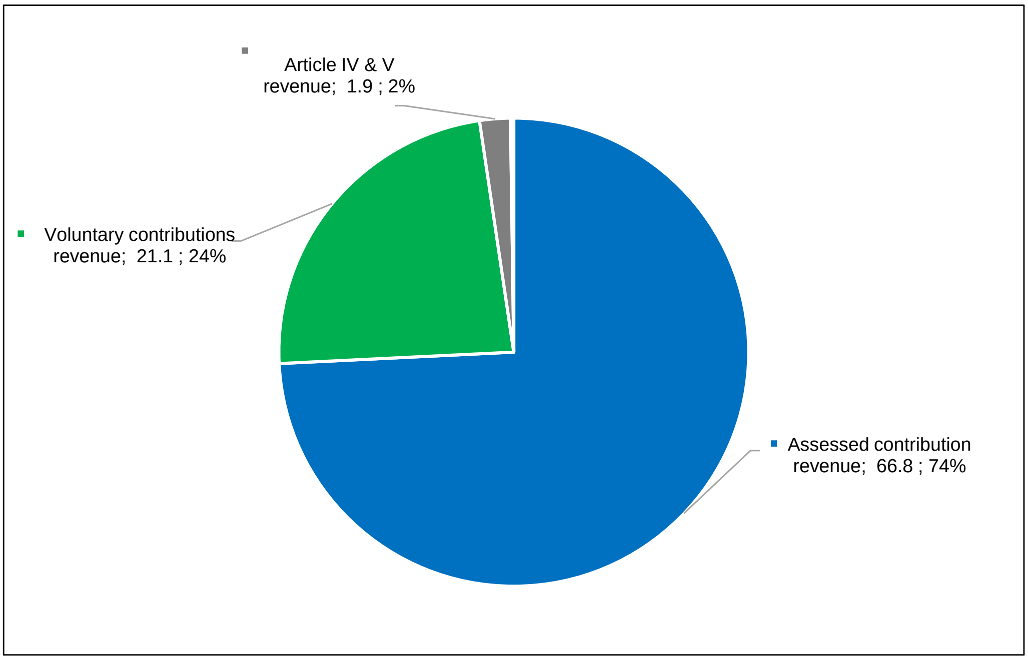
FIGURE 1: COMPOSITION OF REVENUE FOR FINANCIAL YEARS 2017 TO 2021 (EUR MILLIONS)



14. Figure 1 above shows the composition of revenue by type over the past five financial years. Having shown a gradual increase between 2017 and 2019, total revenue fell slightly to EUR 79.1 million in 2020, due to a decrease in assessed contribution revenue recognised on an IPSAS basis, and then rose significantly in 2021 due to increased assessed contribution collections and trust fund contributions. Gross assessed contributions as per the OPCW Programme and Budget have remained consistent between 2019 and 2021. Voluntary contribution revenue grew by 34% to EUR 21.1 million in 2021 from EUR 15.8 million in 2020, and Article IV and V revenue also increased by 6% from 2020 levels.

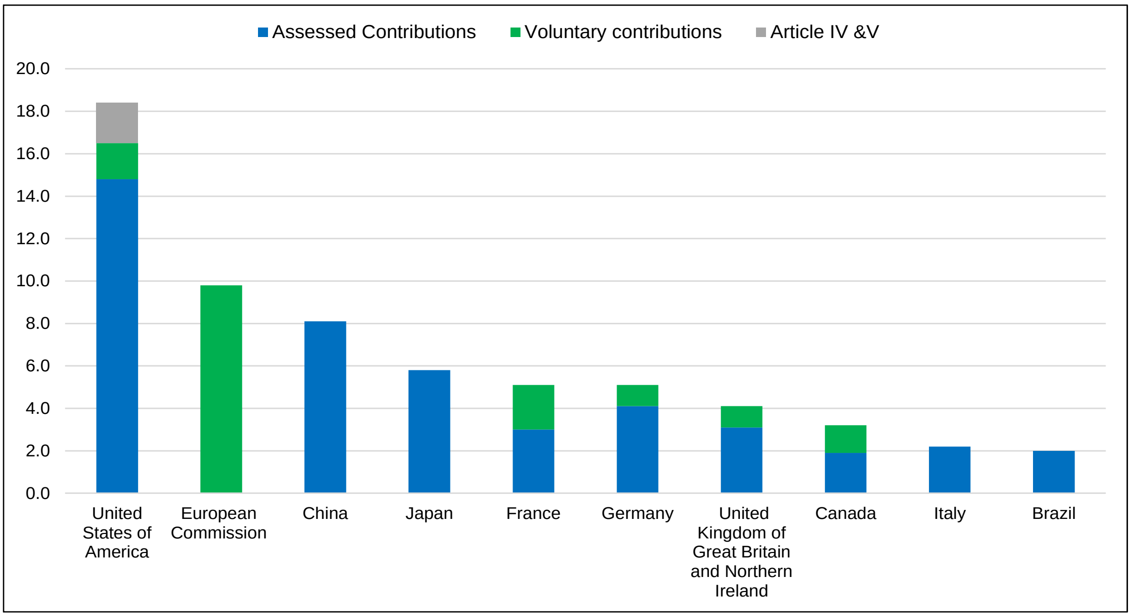
15. Assessed contribution revenue remains the largest revenue stream for the Organisation, forming 74% of total revenue for 2021, with voluntary contributions accounting for 23% of revenue, as noted in Figure 2 below.

FIGURE 2: COMPOSITION OF REVENUE FOR 2021 (EUR MILLIONS)



16. The top 10 contributors to the OPCW accounted for a combined total of EUR 63.8 million of total revenue in 2021, as indicated in Figure 3 below, an increase of EUR 5.3 million when compared with 2020.

FIGURE 3: TOP 10 CONTRIBUTORS TO OPCW REVENUE IN 2021, COMBINING ASSESSED CONTRIBUTIONS, VOLUNTARY CONTRIBUTIONS, AND ARTICLE IV AND V REVENUE (EUR MILLIONS)[5]



5 Reported on a modified cash basis: The figures included for assessed contribution and Article IV and V revenue represent amounts invoiced to States Parties and not all amounts have been received in 2021. Voluntary contribution figures represent the cash received in 2021.

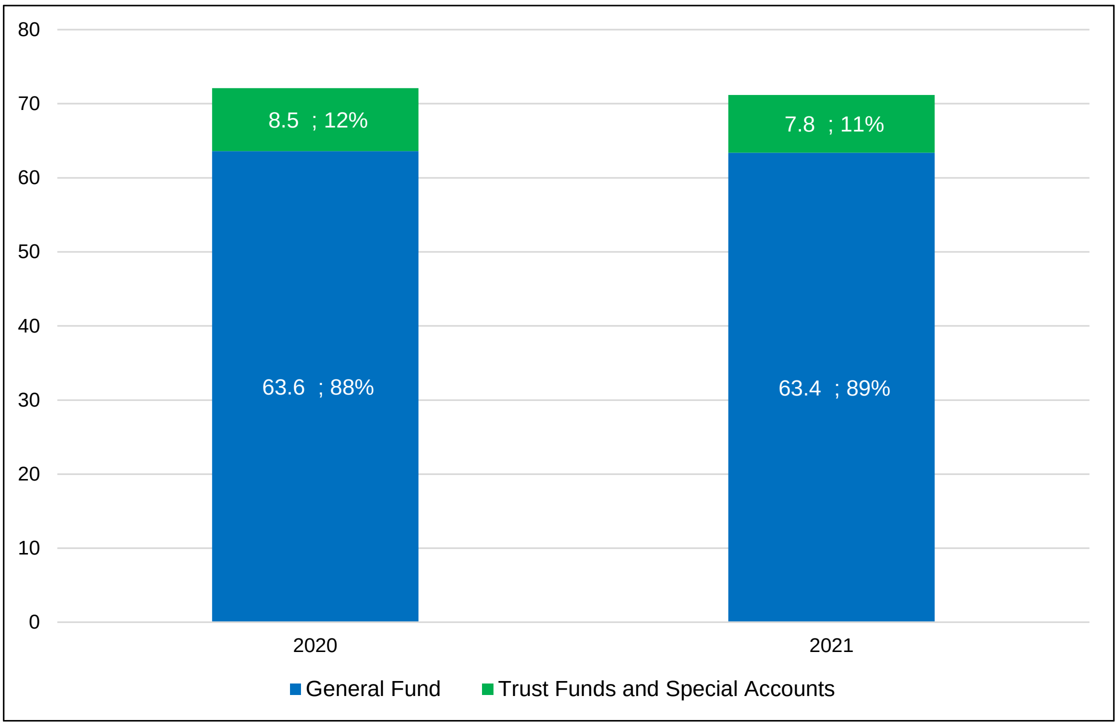
17. Article IV and V revenue increased slightly by EUR 0.1 million (6%) to EUR 1.9 million in 2021 (2020: EUR 1.8 million), and includes amounts accrued but not yet invoiced.

18. Other revenue decreased by EUR 1.7 million to EUR 0.2 million in 2021, compared to EUR 1.9 million in 2020.

Expense analysis

19. Figure 4 below shows a comparison of expenses between 2020 and 2021:

FIGURE 4: EXPENSE ANALYSIS BY FUNDING SOURCE FOR 2020 AND 2021 (EUR MILLIONS)

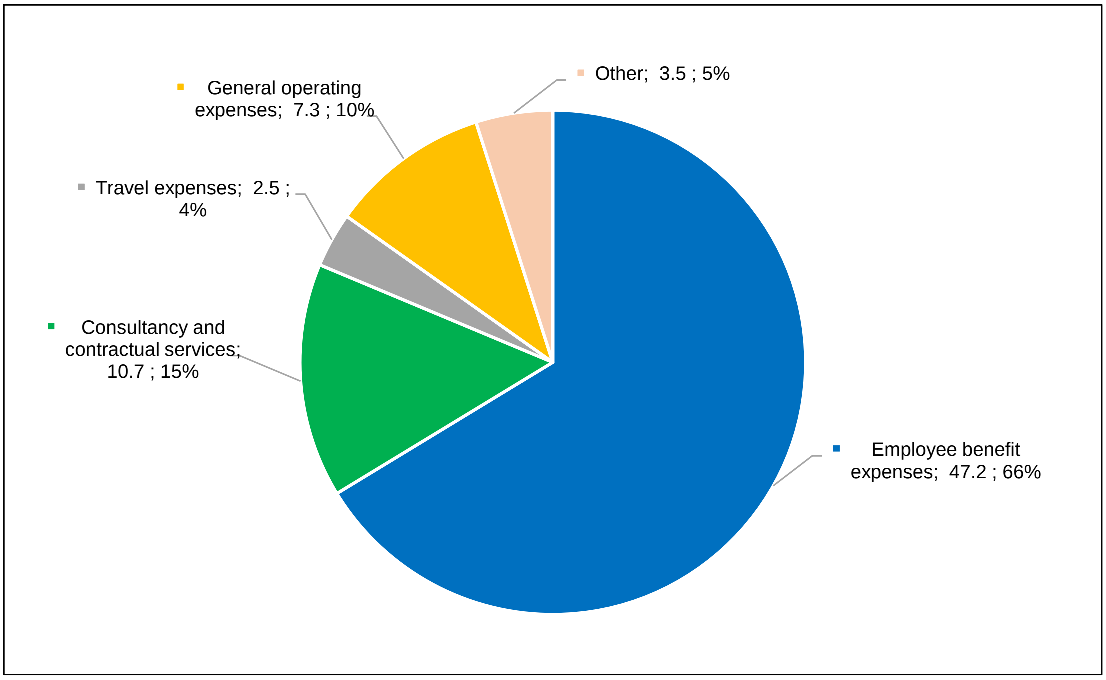


20. In 2021, total expenses (including net finance income and costs) were EUR 71.2 million, denoting a slight decrease of EUR 0.9 million (1.2%) compared to the previous year. The decrease of employee benefits expenses of EUR 3.3 million was offset by an increase of general operating expenses and consultancy and contractual services expenses of EUR 1.8 million and EUR 0.3 million, respectively.

21. The proportion of activities funded by General Fund resources remained comparable to 2020, around 89%, and the General Fund expenses decreased slightly by EUR 0.2 million to EUR 63.4 million in 2021. Trust funds and special funds expenses decreased from EUR 8.5 million in 2020 to EUR 7.8 million in 2021.

22. Employee benefit expenses (including salaries) represent the largest cost category in 2021 at EUR 47.2 million (66%), followed by consultancy and contractual services (EUR 10.7 million, 15%), and general operating expenses (EUR 7.3 million, 10%). Figure 5 below shows the breakdown of 2021 expenses by nature for all funds.

FIGURE 5: EXPENSE ANALYSIS FOR THE PERIOD ENDED 31 DECEMBER 2021 – ALL FUNDS (EUR MILLIONS)



23. Table 2 below shows that total expenses in 2021 remained flat compared to 2020, whereby the decrease of employee benefit expenses was partially offset by an increase in General operating expenses.

TABLE 2: COMPARATIVE EXPENSE ANALYSIS FOR 2020 AND 2021 (EUR MILLIONS)

	2021	**2020**	**Difference**	**Change (%)**
Employee benefits	47.2	50.5	(3.3)	-6.5%
Consultancy and contractual	10.7	10.4	0.3	2.9%
Travel	2.5	2.2	0.3	13.6%
General operating expenses	7.3	5.5	1.8	32.7%
Other expenses[6]	3.5	3.5	-	-
Total expenses	**71.2**	**72.1**	**(0.9)**	**-1.2%**

24. 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 decrease of 6.5% in 2021 compared to the prior year relates primarily to the decrease in the annual leave and home leave liabilities.

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

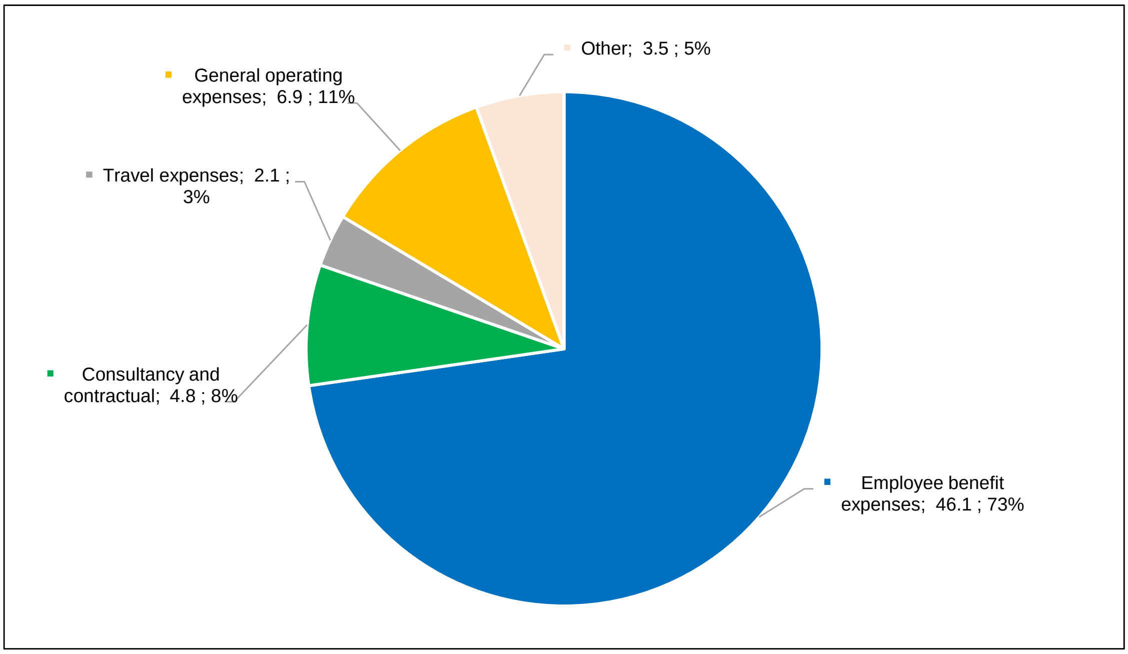
25. Travel expenses increased by EUR 0.3 million to EUR 2.5 million in 2021, which is significantly lower than the pre-pandemic level (2019: EUR 8.3 million). The most significant element (75%) of travel expenses in 2021 was for inspections (EUR 1.8 million).

26. General operating expenses were also higher in 2021 than in 2020, primarily due to higher impairment charges for assessed contributions recoverable in 2021.

27. Expenses relating to consultancy and contractual services have remained consistent year-on-year between 2020 and 2021.

28. 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 contractual services work in the Syrian Arab Republic being funded through trust fund resources. The figure also highlights that the majority (98%) of employee benefit costs are funded through the General Fund.

FIGURE 6: EXPENSE ANALYSIS FOR THE PERIOD ENDED 31 DECEMBER 2021 – GENERAL FUND (EUR MILLIONS)[7]



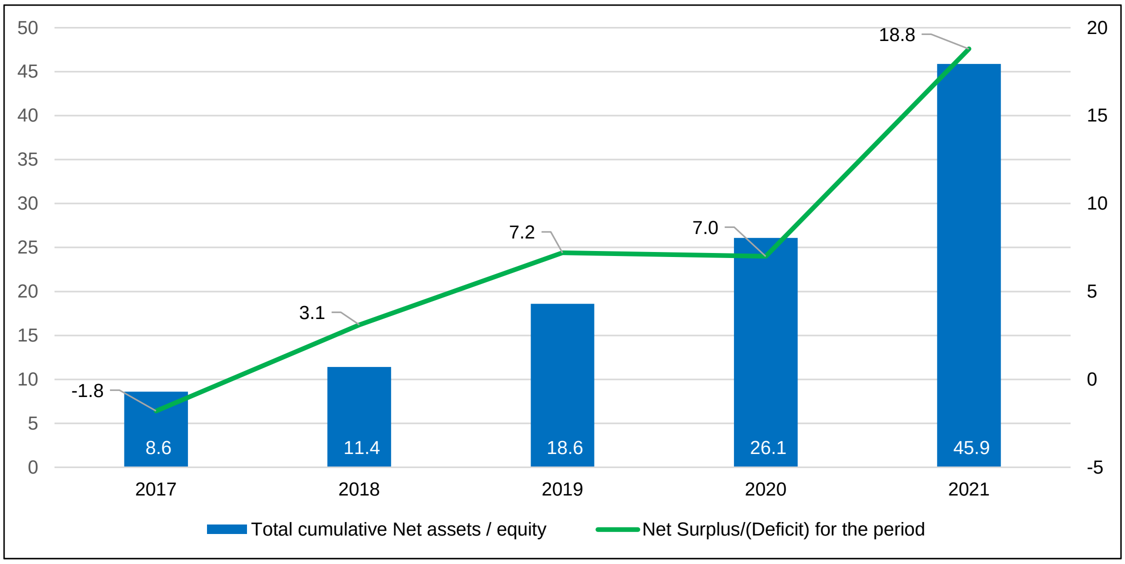
7 Expenses reported on an IPSAS basis.

Net surplus/deficit for the year

29. The overall net surplus for 2021 was EUR 18.8 million, an increase from a net surplus of EUR 7.0 million in 2020. This change was primarily due to an increase of total revenue by EUR 10.9 million, explained by higher assessed contribution and voluntary contributions of EUR 7.2 million and EUR 5.3 million, respectively.

30. The surplus had a positive impact on the overall net assets of the Organisation. After also considering the actuarial gains of EUR 1.0 million, overall net assets increased by 76%, to EUR 45.9 million in 2021, from EUR 26.1 million in 2020, as noted in Figure 7 below.

FIGURE 7: EVOLUTION OF ANNUAL SURPLUS/(DEFICIT) AND NET ASSETS BETWEEN 2017 AND 2021 (EUR MILLIONS)



Budgetary performance

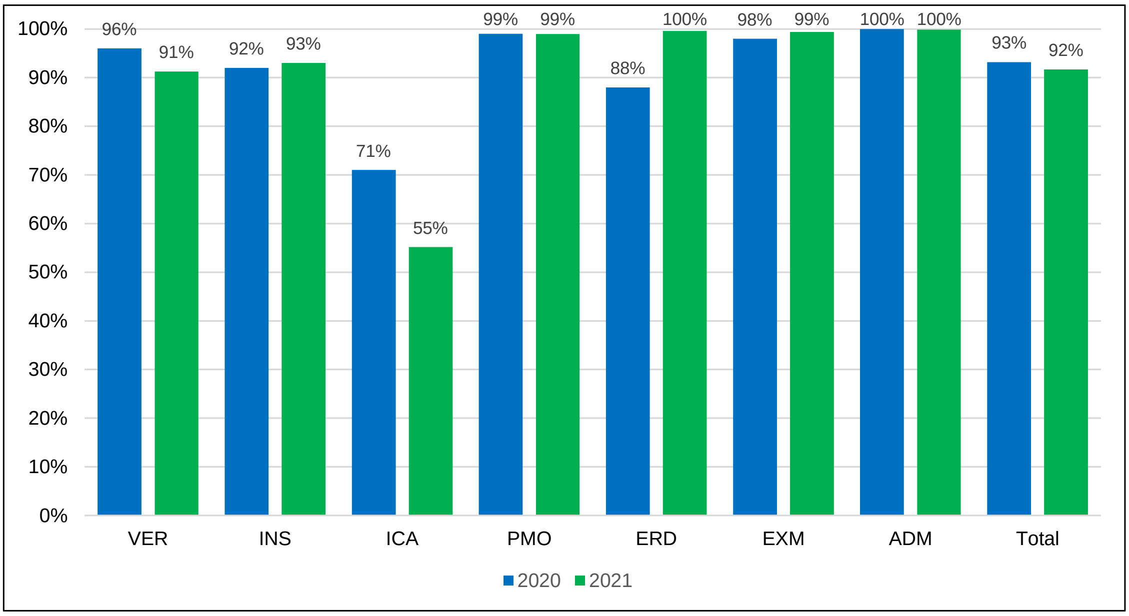
31. The regular budget of the Organisation continues to be prepared on a modified cash basis and is presented in the Financial Statements as Statement V(a), Statement of Comparison of Budget and Actual Amounts. To facilitate a comparison between the Budget and the Financial Statements that are prepared under IPSAS, reconciliation of the budget to the cash flow statement is included in note 39.8 to the Financial Statements.

32. The regular budget appropriation for 2021 was approved for EUR 69.4 million for Chapter I and Chapter II programmes[8] (EUR 69.2 million in 2020). Total operational regular budget expenditures for Chapter I and Chapter II programmes, measured on a modified cash basis, were EUR 63.6 million. In 2020, these expenditures totalled EUR 64.5 million. The total General Fund budget implementation rate for Chapter I and Chapter II programmes for 2021 was 91.7%, a decrease of 1.5 percentage point from 2020 (93.2%).

8 Before extra-ordinary provisions.

33. While the Secretariat made every effort to effectively implement the 2021 Programme and Budget throughout the year, the COVID-19 pandemic inevitably impacted some programmatic activities, particularly those relying heavily on official travel for their execution, thus resulting in a relatively lower implementation rate for the year than the historic OPCW norm.

FIGURE 8: REGULAR BUDGET IMPLEMENTATION BY PROGRAMME IN 2020 AND 2021



34. The results achieved for several key performance indicators regarding core activities conducted by the Organisation's operational Programmes (Verification, Inspectorate and International Cooperation and Assistance) are provided below in Table 3.

35. Jointly with the Verification Programme, the Inspections Programme provides for all on-site verification activities on the territory of States Parties, including verification of the destruction of chemical weapons in accordance with Articles IV and V of the Convention, and the non-proliferation of chemical weapons in accordance with Article VI of the Convention. In 2021, the Secretariat finalised 40 Article IV and V inspections and 80 Article VI inspections.

36. The International Cooperation and Assistance Programme provides capacity-building and knowledge-exchange opportunities focused on facilitating implementation by States Parties of their national obligations, enhancing protection and response capabilities against the use, or threat of use, of chemical weapons, and promoting the peaceful use of chemistry. In 2021, 68% of States Parties to the Chemical Weapons Convention benefited from capacity-building support activities for full and effective national implementation.

TABLE 3: KEY PERFORMANCE INDICATORS

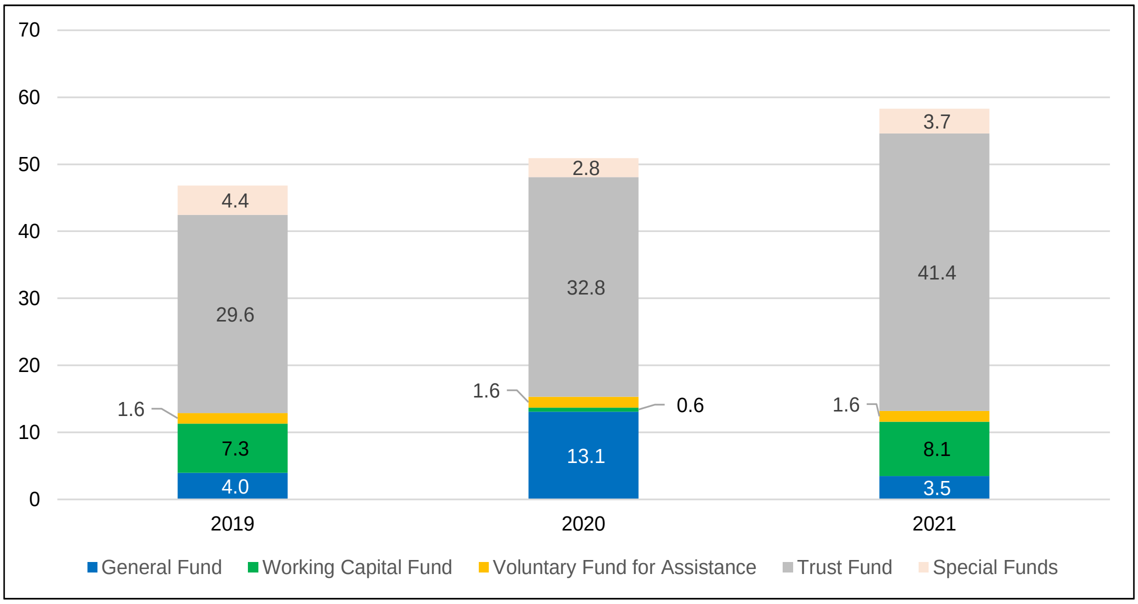
Key Performance Indicators	2021		2020	
	Target	Result Achieved	Target	Result Achieved
Number of Article IV and V inspections finalised	63.6	40 (62.9%)	69.6	43.6 (62.6%)
Verification regime fully implemented at all sites selected for article VI inspections	241 industry inspections carried out: 11 Schedule 1; 49 Schedule 2; 19 Schedule 3; and 162 OCPFs	80 (33%) industry inspections were carried out: 13 (118%) Schedule 1; 22 (45%) Schedule 2; 7 (37%) Schedule 3; and 38 (23%) OCPFs	241 industry inspections carried out: 11 Schedule 1; 42 Schedule 2; 19 Schedule 3; and 169 OCPFs	82 (34%) industry inspections were carried out: 7 (64%) Schedule 1; 16 (38%) Schedule 2; 4 (21%) Schedule 3; and 55 (33%) OCPFs
Anticipated percentage of States Parties that benefit from capacity-building support activities for full and effective national implementation	60%	68%	50%	60%

Financial position

Cash, investments, and liquidity analysis

37. In 2021, total cash and cash equivalents increased by EUR 7.4 million (15%), to EUR 58.3 million, as at 31 December 2021, as noted in Figure 9 below. Cash balances in the General Fund decreased by EUR 9.6 million (73%), to EUR 3.5 million, as at 31 December 2021. This decrease reflects a EUR 7.5 million reimbursement to the Working Capital Fund, the amount borrowed in 2020. Cash Balances in the trust funds increased by EUR 8.6 million (26%) to EUR 41.4 million end of 2021 as a result of higher voluntary contributions received compared to prior year.

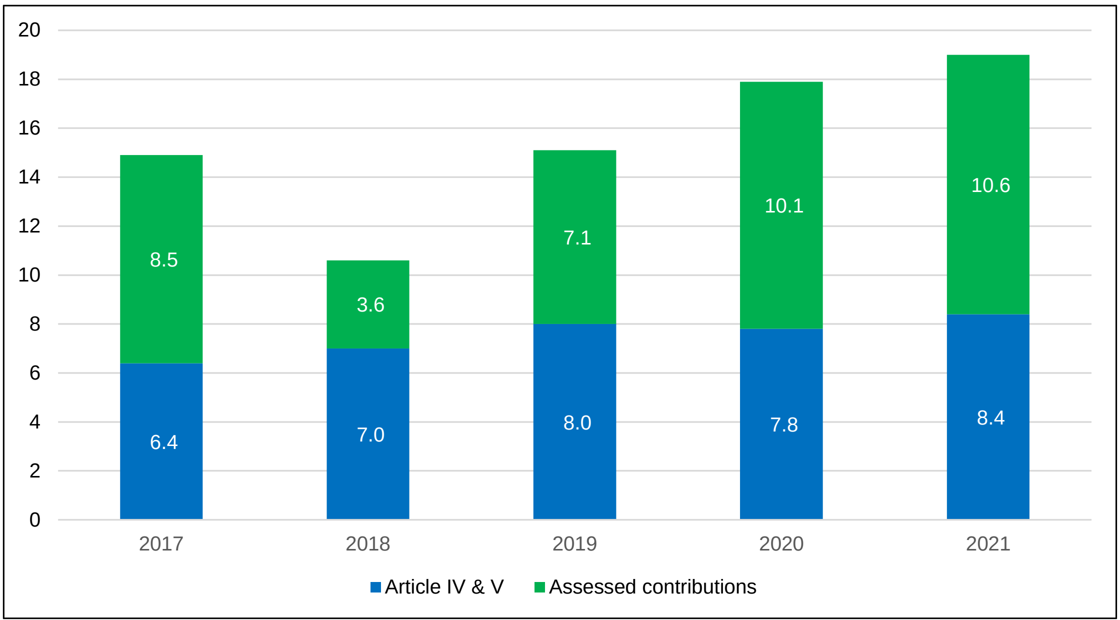
FIGURE 9: COMPOSITION OF CASH AND CASH EQUIVALENTS AS AT 31 DECEMBER 2019, 2020, AND 2021 (EUR MILLIONS)



Accounts receivable

38. Overall, the total gross receivables[9] for assessed contributions and Article IV and V reimbursements increased by EUR 1.1 million to EUR 19.0 million as at 31 December 2021. Receivables for assessed contributions on a gross basis increased by EUR 0.5 million and receivables for Article IV and V reimbursements increased by EUR 0.6 million. As indicated in Figure 11 below, the amount of cumulative outstanding assessed contributions for all periods as at 31 December 2021 (EUR 10.6 million) is the highest level in the past five years, placing significant cash pressures on the Organisation.

FIGURE 10: OUTSTANDING TOTAL ASSESSED CONTRIBUTIONS AND ARTICLE IV AND V REIMBURSEMENTS 2017 TO 2021 (EUR MILLIONS)

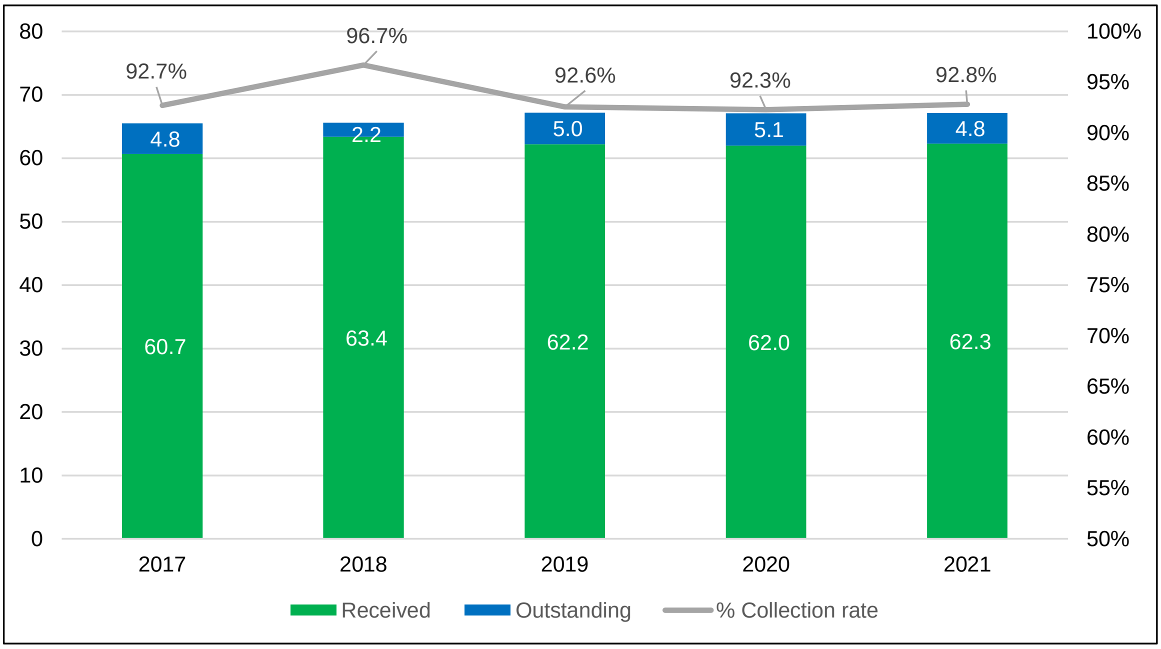


39. The collection rate for assessed contributions has remained broadly consistent between 2020 and 2021, and it is lower than the previous three years, as represented in Figure 11 below. The figure shows the collection rate for the specific year as at 31 December of the year (i.e. the collection after 12 months).

40. The late payment of assessed 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 and to provide timely reminders to States Parties that have not met their financial obligations to the OPCW.

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: ASSESSED CONTRIBUTION BALANCES AND COLLECTION RATES 2017 TO 2021 [10] (EUR MILLIONS)



Cash surplus/deficit

41. Figure 12 below highlights the provisional and final cash surplus/deficit for the budgetary years 2017 to 2021. The provisional cash surplus/deficit is determined at the end of the financial year in question, and the final cash surplus/deficit is determined in the following financial year.

42. In 2021, the final cash surplus for 2020 was determined as EUR 4.5 million, an increase of EUR 5.7 million from the final cash deficit for 2019 (EUR 1.2 million). The increase is mainly due lower budget implementation and higher collection of prior year assessed contributions received in 2020. The Conference will be required to decide (similar to when a cash deficit arose for 2014)[11] the manner in which to liquidate the 2019 cash deficit.

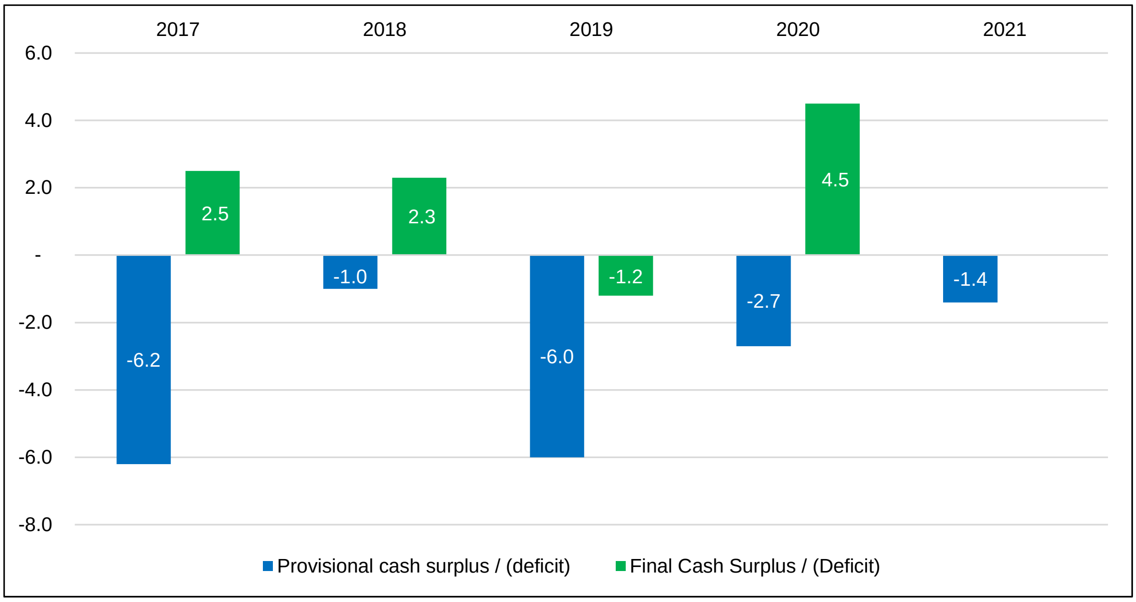
43. The final cash surplus for 2021 will be determined in 2022 and reported in the Financial Statements for 2022. The provisional cash deficit for 2021 is EUR 1.4 million; this may again result in a final cash deficit for 2021 unless significant 2021 and prior year assessed contributions are received in 2022.

---

10 As of 31 December each year.

11 The 2014 cash deficit was liquidated through application of a portion of the 2015 cash surplus, as decided by the Twenty-Second Session of the Conference (CSP-22/DEC.7, dated 30 November 2017).

FIGURE 12: PROVISIONAL AND FINAL CASH SURPLUSES 2017 – 2021 (EUR MILLIONS)



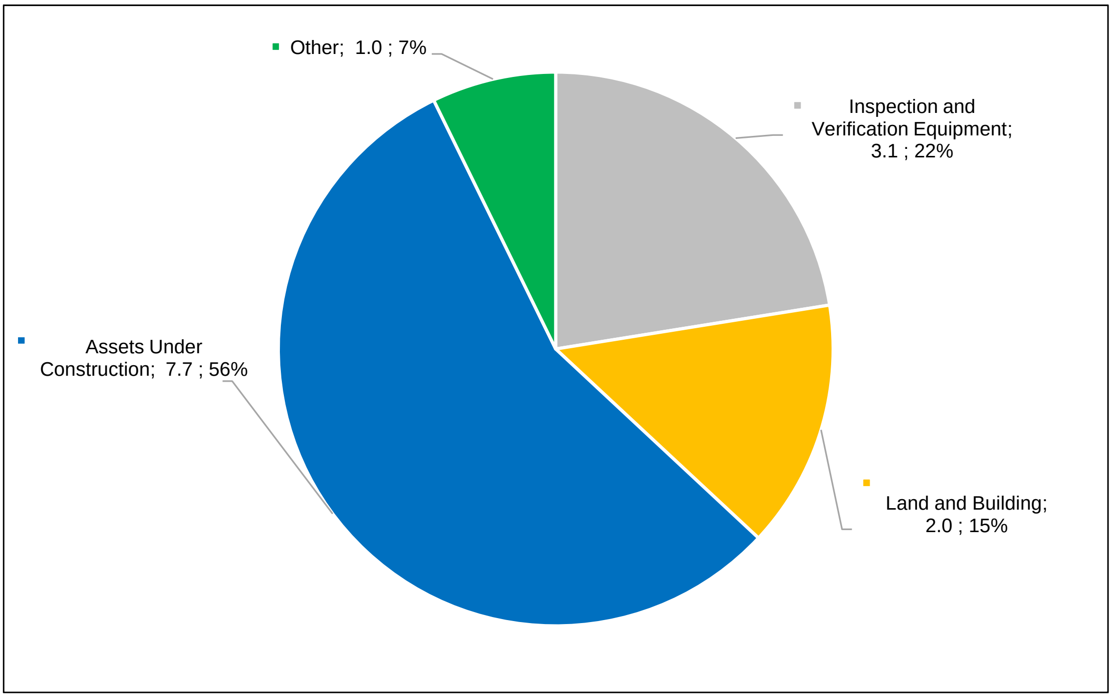
Long-term assets

<u>Property, plant, and equipment</u>

44. The total net book value of property, plant, and equipment increased by EUR 6.1 million in 2021, which relates primarily to the capitalisation of design and construction costs for the Centre for Chemistry and Technology as an asset under construction (EUR 4.80 million), and the installation of new HQ access and control systems (EUR 0.2 million), partially offset by the ongoing depreciation charges.

45. As indicated in Figure 13 below, the asset under construction related mainly to the Centre for Chemistry and Technology accounts for the largest component (EUR 7.7 million) of the net book value of property, plant, and equipment. Inspection and verification equipment decreased by EUR 0.6 million to EUR 3.1 million as at 31 December 2021, due to the depreciation charge of the year.

FIGURE 13: COMPOSITION OF PROPERTY, PLANT, AND EQUIPMENT (NET BOOK VALUE AT 31 DECEMBER 2021) (EUR MILLIONS)[12]



46. Inspection and verification equipment is on average 66% of the way through its useful life, reflecting the annual asset replacement programme for significant items of equipment, as noted in Figure 14 below.

47. 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.

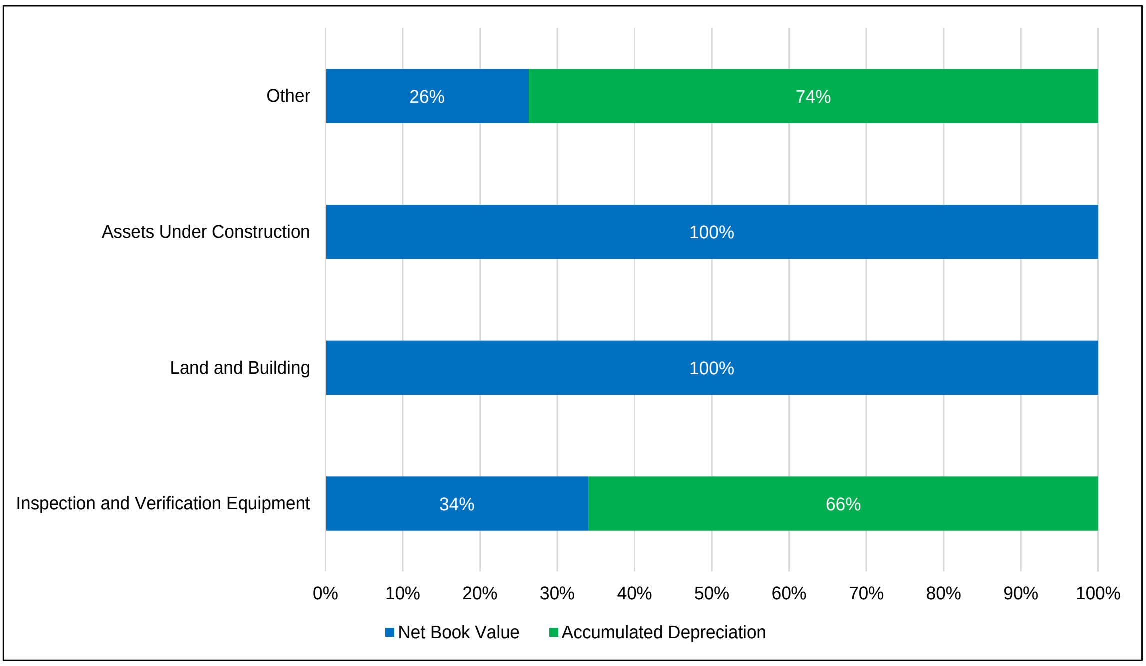
48. Land is assumed to have an infinite useful life, and hence the land and buildings component in Figure 14 has no accumulated depreciation as at 31 December 2021. Equally, depreciation for assets under construction starts when the asset is available for use, which will be the case for the Centre for Chemistry and Technology.

---

12 Other assets include hardware equipment, office furniture and equipment, vehicles, and leasehold improvements.

13 C-24/DEC.12, dated 28 November 2019.

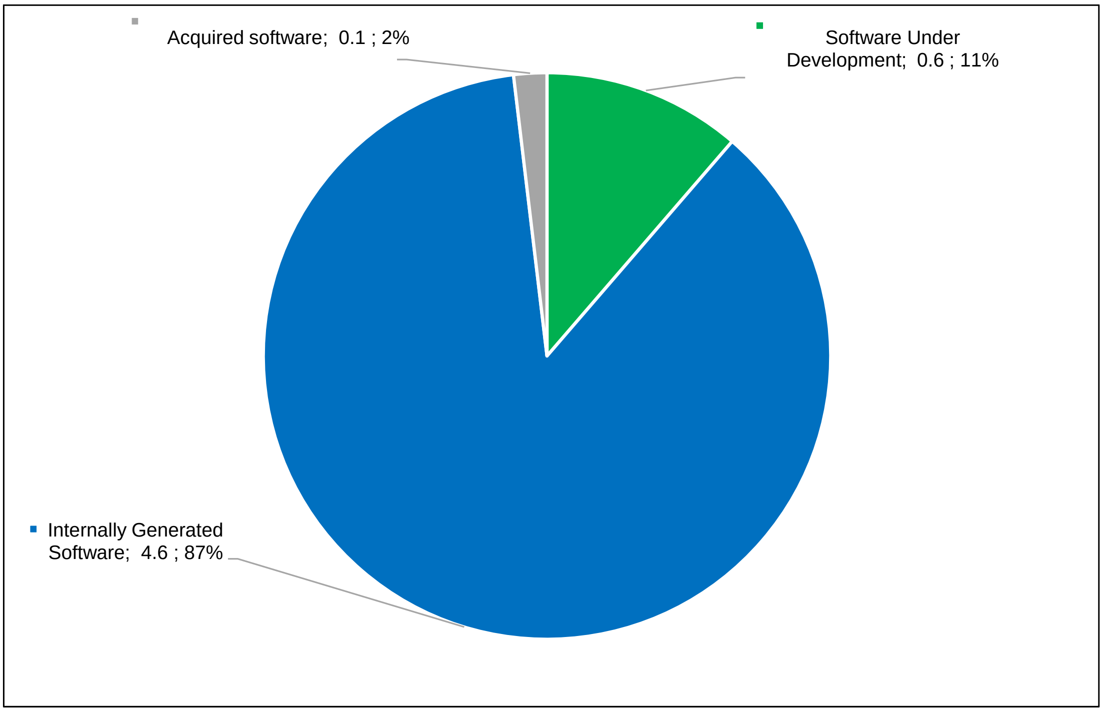
FIGURE 14: NET BOOK VALUE AND DEPRECIATION OF PROPERTY, PLANT, AND EQUIPMENT AS AT 31 DECEMBER 2021 (EUR MILLIONS)



Intangible assets

49. The total net carrying amount of intangible assets remained flat at EUR 5.3 million as at 31 December 2021 (2020 : EUR 5.4 million). As shown in Figure 15 below, the major component of intangible assets at this date was the internally generated software (EUR 4.6 million), representing 87% of the intangible asset of the Organisation, which mainly relates to the reclassification of the new ERP system cost (EUR 4.1 million) from Software under development to Internally generated software. The core functionality of the new ERP system went live in early January 2021.

FIGURE 15: COMPOSITION OF INTANGIBLE ASSETS (NET BOOK VALUE AT 31 DECEMBER 2021) (EUR MILLIONS)

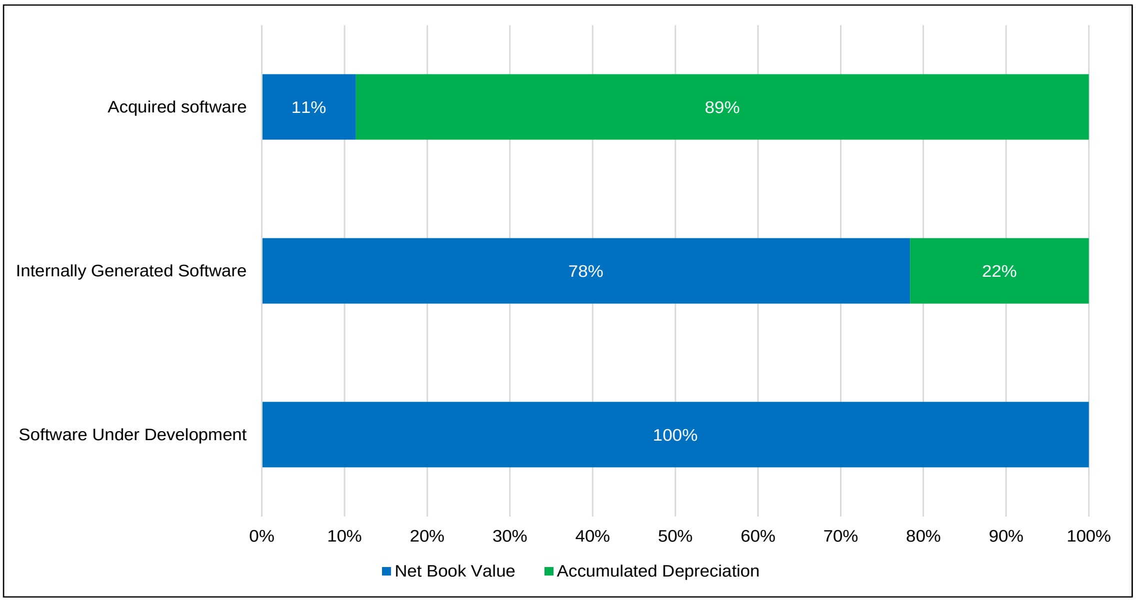


50. Internally generated software accounts for 87% of the net book value of Intangible assets as at 31 December 2021, and is 22% through its useful life (2020: 44%), reflecting the recent go-live in 2021 of the new ERP system, which is at the early stage of its life-cycle.

51. Acquired intangible assets are 89% of the way through their useful lives (2020: 89%), meaning that some software licences may require replacement in the near future. The aforementioned approval for the establishment of a Special Fund for Major Capital Investment is also applicable for the replacement of intangible assets.

52. Amortisation for software under development does not start until the system go-live, and hence the net book value of the assets under development is equal to their cost. Figure 16 below shows the remaining net book value for acquired software and internally generated software which is currently in use.

FIGURE 16: NET BOOK VALUE AND AMORTISATION OF INTANGIBLE ASSETS AT 31 DECEMBER 2021 (EUR MILLIONS)



Employee benefit liabilities

53. Employee benefit 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.

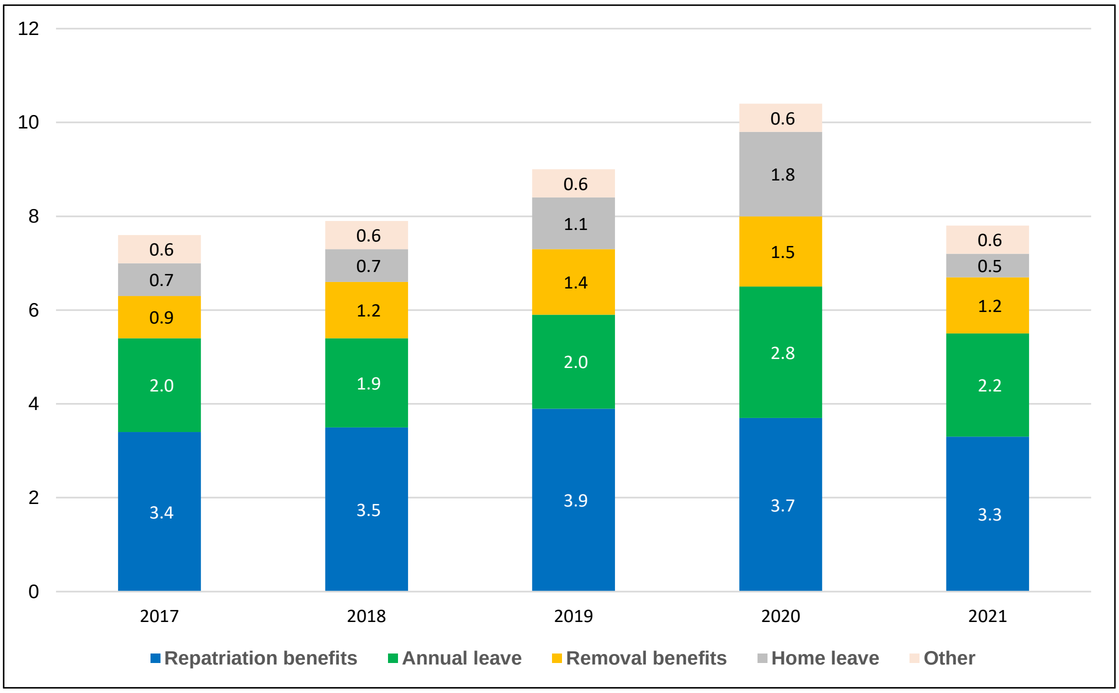
54. Total employee benefit liabilities decreased by EUR 2.6 million to EUR 7.8 million at 31 December 2021, from EUR 10.4 million at 31 December 2020. As shown in Figure 17 below, the most significant decrease is related to the home leave liability (reduction by EUR 1.3 million), explained by the use of home leave entitlement during 2021, initially deferred during 2020 as a result of the COVID-19 pandemic. Similarly, the annual leave liability decreased from EUR 2.8 million in 2020 to EUR 2.2 million as at 31 December 2021, due to the higher use of annual leave days in 2021.

55. 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 Advisory Body on Administration and Finance at its Forty-Sixth Session[14] 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.

---

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

FIGURE 17: EVOLUTION OF THE COMPOSITION OF THE MAIN EMPLOYEE BENEFIT LIABILITIES (EUR MILLIONS)



Working Capital Fund

56. The overall level of the WCF remained at EUR 8.1 million in 2021. During 2020, due to the cash pressures faced in the financial year resulting from unreceived assessed contributions, a borrowing of EUR 7.5 million was made from the WCF to the General Fund, highlighting the vital importance of the WCF in providing financial liquidity to the Organisation. This amount was reimbursed by the General Fund in 2021.The WCF at its current level provides liquidity coverage for a period of less than two months of expenditure.

57. The Conference has reaffirmed that the WCF shall be maintained at a target level of EUR 8.0 million to EUR 9.0 million in 2022 and 2023, including by proposing additional steps when necessary to maintain the target level.[15]

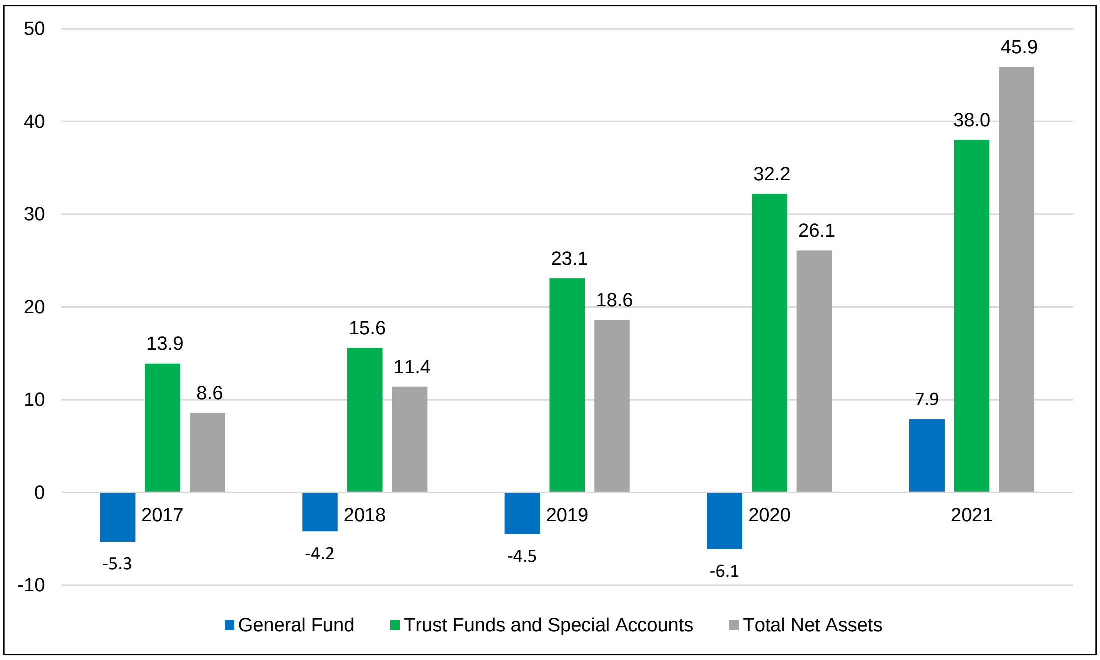
Net assets/equity

58. Net assets represent the difference between an Organisation's assets and its liabilities, which is illustrated by Figure 18 below. In 2021, total assets increased by EUR 2.8 million and total liabilities decreased by 17.1 million, leading to an increase in net assets of EUR 19.9 million.

---

15 C-26/DEC.11.

FIGURE 18: EVOLUTION OF NET ASSETS 2017 TO 2021 (EUR MILLIONS)



59. The General Fund net assets was EUR 7.9 million as at 31 December 2021 compared to a negative amount of EUR 6.1 million in 2020. This increase is explained by the surplus generated during 2021 of EUR 5.5 million and the reclassification of the net book value of fixed assets totalling EUR 7.5 million from trust funds to the General Fund during the ERP migration.

60. Net assets for trust funds and special funds increased by EUR 5.8 million (18%) in 2021 to EUR 38.0 million at 31 December 2021, reflecting the surplus of the period for EUR 13.3 million, partially offset by the reclassification of the fixed assets indicated above. The surplus generated by trust funds is mainly related to the construction of the Centre for Chemistry and Technology whereby voluntary contributions were recorded as revenue when the activities were implemented, while the expenditures were capitalised as assets under construction according to IPSAS.

Risk management

61. 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 primarily 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. Despite the downwards re-rating of some financial institutions by ratings agencies as a result of the COVID-19 pandemic, all of the banks used by the OPCW continued to retain a P-1 rating as at 31 December 2021.

Summary

62. The Financial Statements presented for 2021 show an overall increase of EUR 19.8 million in the net assets of the Organisation. The General Fund generated a surplus of EUR 5.5 million in 2021 compared to a deficit of EUR 2.2 million the year before. The surplus generated by trust funds and special funds increased from EUR 9.2 million in 2020 to EUR 13.3 million in 2021, explained by increased voluntary contributions received for the Centre for Chemistry and Technology, recognised as revenue in 2021, while the majority of expenditures were capitalised as asset under construction.

63. The Organisation's fixed asset base has increased with the capitalisation of design and construction costs for the Centre of Chemistry and Technology and final implementation work on the core elements of the ERP system, and other software development projects in 2021. 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, as well as important as yet unfunded urgent physical security upgrades required at the OPCW Headquarters building. The initial funding of a Major Capital Investment Fund (MCIF) in 2020 has laid the foundations to enable this to progress for both property, plant, and equipment as well as intangible assets. However, the viability of this more strategic approach to capital replacement will require periodic replenishment of the MCIF.

64. The final cash surplus generated in 2020 (EUR 4.5 million) was the result of lower budget implementation and an increase of assessed contributions collection related to prior years. Consideration will need to be given by the Conference to determine how the cash surplus should be allocated, considering also the final cash deficit reported for the year 2019 (EUR 1.2 million), that could be addressed, through the use of part of the 2020 cash surplus, similar to the manner in which the cash deficit for 2014 was liquidated.

65. As noted above, the financial context of the Organisation is subject not only to the continuing, if currently attenuated, impact of the COVID-19 pandemic, but also to other major global risks. Principal among these are the impacts on international security, energy supplies, travel, and supply chains of the war in Ukraine, as well as generally high inflation and widespread supply chain interruptions affecting goods and services required by the Secretariat to conduct its routine operations.

66. 2021 was indeed a challenging year both operationally and financially, as the impact of the COVID-19 pandemic forced the Organisation to demonstrate continued agility in the delivery of operations and the management of financial resources; that the Organisation has been able to continue to implement its mandate during 2021 against a backdrop of uncertain cash flows and ongoing operational requirements has been an important achievement. Mindful of current challenges and risks, the Secretariat will continue to apply utmost vigilance and innovation in its stewardship of State Party resources in fulfilment of its mandates.

[signed]

Fernando Arias
Director-General

4 July 2022

THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS

STATEMENT I – STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2021

(expressed in euro ‘000s)

	Note	2021	2020
Assets			
Current assets			
Cash and cash equivalents	13	58,273	50,877
Assessed contributions recoverable	7	6,946	8,705
Article IV and V receivables	8	2,370	1,859
Voluntary contributions recoverable	9	7,307	15,831
Other assets	10	2,222	2,451
Prepayments	11	3,138	3,696
Inventories	12	672	729
Total current assets		**80,928**	**84,148**
Non-current assets			
Property, plant, and equipment	6.1, 6.2	13,801	7,741
Intangible assets	6.3, 6.4	5,329	5,395
Total non-current assets		**19,130**	**13,136**
Total assets		**100,058**	**97,284**
Liabilities			
Current liabilities			
Accounts payable	19	3,692	1,425
Employee benefits	18	4,309	6,555
Cash surplus—current	17	18	18
Deferred revenue	21	19,199	35,389
Other current liabilities	22	2,684	3,345
Total current liabilities		**29,902**	**46,732**
Non-current liabilities			
Employee benefits	18	3,481	3,863
Other non-current liabilities	20	6,298	10,684
Cash surplus—non-current	17	4,545	-
Voluntary Fund for Assistance	16	1,568	1,568
Working Capital Fund	15	8,140	8,140
Provisions	23	200	200
Total non-current liabilities		**24,232**	**24,455**
Total liabilities		**54,134**	**71,187**
Net assets		**45,924**	**26,097**
Net assets			
Accumulated surplus		45,924	26,097
Total net assets		**45,924**	**26,097**

THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS

STATEMENT II – STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER 2021

(expressed in euro '000s)

	Note	For the Period Ended 31 December 2021	For the Period Ended 31 December 2020
Revenue			
Assessed contributions	24	66,821	59,633
Voluntary contributions	25	21,090	15,822
Article IV and V	26	1,865	1,768
Other revenue	27	194	1,837
Total revenue		**89,970**	**79,060**
Expenses			
Employee benefit expenses	28	47,196	50,445
Consultancy and contractual services	29	10,658	10,381
Travel expenses	30	2,464	2,155
Depreciation, amortisation, and impairment	6.1- 6.4	1,903	1,472
General operating expenses	31	7,265	5,547
Other operating expenses	32	2,354	1,510
Total expenses		**71,840**	**71,510**
Net finance income/(cost)	33	**689**	**(600)**
Net surplus for the period		**18,819**	**6,950**

THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS

STATEMENT III – STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 31 DECEMBER 2021

(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 2020		**(4,503)**	**23,053**	**18,550**
Changes recognised in net assets:				
Actuarial gains/(losses) on post-employment benefit obligations	18.6	597	-	597
Surplus/(deficit) for the period		(2,235)	9,185	6,950
Balance at 31 December 2020		**(6,141)**	**32,238**	**26,097**
Balance at 1 January 2021		**(6,141)**	**32,238**	**26,097**
Changes recognised in net assets:				
Actuarial gains/(losses) on post-employment benefit obligations	18.6	1,008	-	1,008
Transfer of Fixed assets from Trust Funds to the General Fund		7,504	(7,504)	-
Surplus/(deficit) for the period		5,527	13,292	**18,819**
Balance at 31 December 2021		**7,898**	**38,026**	**45,924**

THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS

STATEMENT IV – CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

(expressed in euro ‘000s)

	Note	For the Year Ended 31 December 2021	For the Year Ended 31 December 2020
Cash flows from operating activities			
Net surplus/(deficit) for the period		18,819	6,950
Non-cash movements			
Depreciation, amortisation, and impairment	6.1 - 6.4	1,903	1,472
(Gains)/losses on disposal of property, plant, and equipment	27, 32	(6)	-
Increase/(decrease) in provision for impairment of recoverables and receivables	7.4, 8.5	2,301	261
Unrealised currency exchange (gain)/loss	33	(781)	689
Repayments of cash surplus	17.3	-	(2)
Changes in assets			
(Increase)/decrease in recoverables and receivables (current)	7-11	8,258	(10,021)
(Increase)/decrease in inventories	12	57	(23)
Changes in liabilities, net assets/equity			
Increase/(decrease) in cash surplus (non-cash)	17.3	4,545	(2,341)
Movement in employee benefits (liability)	18.1 – 18.6	(1,620)	2,027
Increase/(decrease) in ‘other non-current liabilities’	20	(4,387)	7,348
Increase/(decrease) in provisions	23	-	200
Increase/(decrease) in deferred income, accounts payable, and other current liabilities	19, 21, 22	(14,583)	3,011
Net cash flows from operating activities		**14,506**	**9,571**
Cash flows from investing activities			
Proceeds from sale of property, plant, and equipment		26	-
Purchases of property, plant, and equipment	6.1, 6.2	(7,187)	(2,352)
Purchases of intangible assets	6.3, 6.4	(730)	(2,469)
Net cash flows used in investing activities		**(7,891)**	**(4,821)**
Cash flows from financing activities			
Proceeds received for the Voluntary Fund for Assistance	16	-	5
Net cash flows from financing activities		**-**	**5**
Net increase/(decrease) in cash and cash equivalents		**6,615**	**4,755**
Cash and cash equivalents at beginning of the period	13	50,877	46,811
Unrealised currency exchange gain/(loss)	33	781	(689)
Cash and cash equivalents at end of the period	13	**58,273**	**50,877**

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 2021

(expressed in euro '000s)

	Budgeted Amounts for the Period Ended 31 December 2021		**Actual Amounts on Comparable Basis**[16]	**Difference Final Budget and Actual**
	Original	**Final**		
Receipts				
Assessed contributions	67,120	67,120	67,120	-
Voluntary contributions [17]	170	170	170	-
Articles IV and V	2,086	2,086	1,868	218
Miscellaneous income	25	25	73	(48)
Cash surplus for major capital investment projects	2,341	2,341	2,341	-
Total receipts	**71,742**	**71,742**	**71,572**	**170**
Expenditure				
Chapter One				
Verification	9,481	9,481	8,652	829
Inspectorate	20,866	20,866	19,410	1,456
Total Chapter One	**30,347**	**30,347**	**28,062**	**2,285**
Chapter Two				
International Cooperation and Assistance	7,485	7,425	4,096	3,329
Support to the Policy-Making Organs	5,049	4,904	4,853	51
External Relations	2,093	2,093	2,085	8
Executive Management	9,896	9,844	9,784	60
Administration	14,531	14,788	14,766	22
Total Chapter Two	**39,054**	**39,054**	**35,584**	**3,470**
Total expenditure	**69,401**	**69,401**	**63,646**	**5,755**
Cash surplus for major capital investment projects (transfer) [18]	2,341	2,341	2,341	-
Total expenditure and transfers	**71,742**	**71,742**	**65,987**	**5,755**
Net receipts/(expenditure)[19]	**-**	**-**	**5,585**	**(5,585)**

---

16 The actual amounts are based on the budgetary accounts, which are maintained on a modified cash basis.

17 Voluntary contributions received as services in kind are disclosed in note 34.

18 Please refer to the Programme and Budget of the OPCW for 2021 (C-25/DEC.7).

19 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 40.8.

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 2020

(expressed in euro ‘000s)

	Budgeted Amounts for the Period Ended 31 December 2020		Actual Amounts on Comparable Basis[20]	Difference Final Budget and Actual
	Original	Final		
Receipts				
Assessed contributions	67,120	67,120	67,120	-
Voluntary contributions [21]	170	170	170	-
Articles IV and V	1,894	1,894	1,741	153
Miscellaneous income[22]	25	25	(483)	508
Cash surplus for major capital investment projects	1,750	1,750	1,750	-
Total receipts	**70,959**	**70,959**	**70,298**	**661**
Expenditure				
Chapter One				
Verification	9,549	9,549	9,176	373
Inspectorate	21,213	21,213	19,460	1,753
Total Chapter One	**30,762**	**30,762**	**28,636**	**2,125**
Chapter Two				
International Cooperation and Assistance	7,610	6,916	4,909	2,007
Support to the Policy-Making Organs	4,929	4,929	4,871	58
External Relations	2,024	2,024	1,768	256
Executive Management	9,533	9,497	9,277	220
Administration	14,351	15,081	15,018	63
Total Chapter Two	**38,447**	**38,447**	**35,843**	**2,604**
Total expenditure	**69,209**	**69,209**	**64,479**	**4,730**
Cash surplus for major capital investment projects (transfer) [23]	1,750	1,750	1,750	-
Total expenditure and transfers	**70,959**	**70,959**	**66,229**	**4,730**
Net receipts/(expenditure)[24]	**-**	**-**	**4,069**	**(4,069)**

20 The actual amounts are based on the budgetary accounts, which are maintained on a modified cash basis.

21 Voluntary contributions received as services in kind are disclosed in note 34.

22 Actual miscellaneous income is negative in 2020 due to unrealised exchange rate losses on US dollar cash and receivables resulting from a weakening of the currency against the euro in 2020.

23 Please refer to the Programme and Budget of the OPCW for 2020 (C-24/DEC.12).

24 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 40.8.

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 15), Special Funds (note 39.1), the Voluntary Fund for Assistance (note 16), and the Trust Funds (note 39.1).

1.5 The General Fund is funded through the regular budget of the Organisation as per the annual Programme and Budget of the OPCW and covers activities related to Verification, Inspections, International Cooperation and Assistance, Support to the Policy-Making Organs, External Relations, Executive Management and Administration.

1.6 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.

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

1.8 Trust Funds are funded through voluntary contributions for clearly defined activities that are consistent with the policies, aims, and activities of the OPCW for the implementation of the Convention.

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 2021. The financial period is the calendar year.

Future accounting pronouncements

2.4 The following significant future accounting pronouncements from the IPSAS Board have been issued as at 31 December 2021, 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 2023	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 2023	Not applicable as the OPCW does not incur expenditure on social benefits.
IPSAS 43 Leases	To increase transparency related to assets and liabilities that arise from lease contracts, eliminate information asymmetry, and increase comparability between financial statements of lessees that buy assets from those that lease assets.	1 January 2025	Changes will apply to the operating leases concluded by OPCW. OPCW will further review and consider the impact of the changes prescribed in this Standard in the period prior to the effective date.

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 2021	0.881	0.00767	1.187
Average 12 months	0.843	0.00771	1.159
Period	**USD/EUR**	**JPY/EUR**	**GBP/EUR**
31 December 2020	0.815	0.007872	1.101
Average 12 months	0.878	0.008216	1.129

Functional and presentation currency

3.3 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.

Transactions and balances

3.4 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 2021.

Cash and cash equivalents

3.5 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

3.6 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

3.7 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

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

Impairment

3.9 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. 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 and V receivables) as at the reporting date is based on whether there is objective evidence that a financial asset is impaired.

Inventories

3.10 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

3.11 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.

3.12 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

3.13 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' below). 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

<u>Operating lease</u>

3.14 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

3.15 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 3.16 below 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.

3.16 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.

3.17 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.

3.18 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

3.19 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

<u>Short-term employee benefits</u>

3.20 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, and dependency allowances); compensated absences (annual leave, special leave, and sick leave); and 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.

<u>Post-employment benefits</u>

3.21 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.

3.22 For defined contribution post-employment plans, such as the OPCW Provident Fund, 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

3.23 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

3.24 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.

Provisions and contingencies

Provisions

3.25 Provisions are recognised for future expenditures of uncertain amount or timing when there is a present obligation (either legal or constructive) as a result of a past event; it is probable that expenditures will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are not made for future operating losses. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

Contingent liabilities

3.26 A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of future events not wholly within the control of the entity. A contingency is also recognised when it is not probable that a present obligation exists, but all other aspects of the definition of a provision are met. Contingent liabilities are not recognised in the Financial Statements but are disclosed in the notes to the Financial Statements.

Contingent assets

3.27 A contingent asset is a possible asset that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Contingent assets are not recognised in the Financial Statements but are disclosed in the notes to the Financial Statements.

Taxes

3.28 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

3.29 The OPCW's major categories of non-exchange revenue are assessed contributions and voluntary contributions (as described in notes 23 and 24). 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.

3.30 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.

3.31 Non-exchange revenue represents transactions in which the 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.

3.32 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.

3.33 Balances in relation to these agreements are reported within voluntary contribution revenue (note 25) and/or deferred revenue (note 21), and voluntary contributions recoverable (note 9).

Revenue from exchange transactions

3.34 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 26 'Article IV and V revenue') provided in the verification of and destruction of chemical weapons.

3.35 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

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

Segment information

3.37 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 benefit 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 18 '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 3.29 to 3.33, 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

4.7 The New ERP system was implemented and went-live on 1 January 2021. In previous reporting periods, accounting estimates had been made to determine the costs accrued as at the reporting date, which in turn informed the related expense recognition and the degree of capitalisation of eligible development costs relating to the intangible ERP asset under construction.

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, GB pounds, and Canadian dollars. The OPCW minimises this risk by immediately converting most 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 for professional staff categories are denominated in US dollars, however, are paid in euros. 98% of payments to vendors in 2021 were denominated in euros.

5.5 At 31 December 2021, if the euro had weakened/strengthened by 10% against the US dollar, net surplus/deficit for the year would have been EUR 1,147 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 risks by investing cash and cash equivalents in accounts with financial institutions for short term maturities at fixed interest rates, as per the investment policy 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 (note 13) and exposures to receivables from States Parties (notes 7 and 8).

5.8 The OPCW's Investment Committee meets at least quarterly to review the OPCW's investment policy for management of financial assets and reviews financial institutions 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 policy limits the amount that the OPCW may routinely invest with a single financial institution. Despite the aforementioned impact of the COVID-19 pandemic on the credit ratings of some financial institutions, the banks used by the OPCW continued to hold a P-1 rating as at the reporting date.

(expressed in euro '000s)

Moody's Investors Service Ratings	**31-Dec-2021**	**31-Dec-2020**
Rating P-1[25]	58,273	50,877
Non-rated	-	-
Total cash and cash equivalents	**58,273**	**50,877**

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

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 2021:

(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	-	-	-	-	1,568	**1,568**
Cash surplus eligible for distribution	18	4,545	-	-	-	**4,563**
Accounts payable	3,692	-	-	-	-	**3,692**
Total financial liabilities	**3,710**	**4,545**	**-**	**-**	**9,708**	**17,963**

As at 31 December 2020:

(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	-	-	-	-	1,568	**1,568**
Cash surplus eligible for distribution	18	-	-	-	-	**18**
Accounts payable	1,424	-	-	-	-	**1,424**
Total financial liabilities	**1,442**	**-**	**-**	**-**	**9,708**	**11,150**

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 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 Working Capital Fund should not exceed two-twelfths of the budget provision for the financial period. The Working Capital Fund 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 9(q) of the decision adopting the Programme and Budget of the OPCW for 2022-2023 (C-26/DEC.11), the Conference has also reaffirmed that the WCF shall be maintained at a target level of EUR 8.0 million to 9.0 million in 2022 and 2023, including by proposing additional steps when necessary to maintain the target level.

6. PROPERTY, PLANT, AND EQUIPMENT AND INTANGIBLE ASSETS

Property, plant, and equipment

6.1 As at 31 December 2021:

(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 2021:									
Cost	2,046	9,540	1,281	340	1,302	276	209	1,228	**16,222**
Accumulated depreciation & impairment	-	(5,829)	(842)	(321)	(1,032)	(248)	(209)	-	**(8,481)**
Net book amount	**2,046**	**3,711**	**439**	**19**	**270**	**28**	**-**	**1,228**	**7,741**
Year ended 31 December 2021:									
Opening net book amount	2,046	3,711	439	19	270	28	-	1,228	**7,741**
Additions	-	91	-	111	309	176	-	6,500	**7,187**
Disposals	-	(565)	(8)	-	(138)	(102)	-	-	**(813)**
Accumulated depreciation on disposed assets	-	558	8	-	138	102	-	-	**806**
Depreciation charge	-	(709)	(194)	(22)	(153)	(42)	-	-	**(1,120)**
Closing net book amount	**2,046**	**3,086**	**245**	**108**	**426**	**162**	**-**	**7,728**	**13,801**
At 31 December 2021:									
Cost	2,046	9,066	1,273	451	1,473	350	209	7,728	**22,596**
Accumulated depreciation & impairment	-	(5,980)	(1,028)	(343)	(1,047)	(188)	(209)	-	**(8,795)**
Net book amount	**2,046**	**3,086**	**245**	**108**	**426**	**162**	**-**	**7,728**	**13,801**

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 2021.

Additions to assets under construction in 2021 include mainly (EUR 4,796 thousand) design and construction costs for the new Centre for Chemistry and Technology.

6.2 As at 31 December 2020:

(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 2020:									
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**
Year ended 31 December 2020:									
Opening net book amount	2,046	3,563	604	34	256	49	3	18	**6,573**
Additions	-	982	24	-	135	-	-	1,210	**2,351**
Transfers	-	(26)	9	(2)	19	-	-	-	**-**
Disposals	-	-	(27)	(14)	(134)	-	-	-	**(175)**
Accumulated depreciation on disposed assets	-	-	27	14	134	-	-	-	**175**
Depreciation charge	-	(808)	(198)	(13)	(140)	(21)	(3)	-	**(1,183)**
Closing net book amount	**2,046**	**3,711**	**439**	**19**	**270**	**28**	**-**	**1,228**	**7,741**
At 31 December 2020:									
Cost	2,046	9,540	1,281	340	1,302	276	209	1,228	**16,222**
Accumulated depreciation & impairment	-	(5,829)	(842)	(321)	(1,032)	(248)	(209)	-	**(8,481)**
Net book amount	**2,046**	**3,711**	**439**	**19**	**270**	**28**	**-**	**1,228**	**7,741**

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 2020.

Additions to assets under construction in 2020 include design costs for the Centre for Chemistry and Technology.

Intangible assets

6.3 As at 31 December 2021:

(expressed in euro '000s)	Acquired Software	Internally Generated Software	Intangible Assets Under Construction	Total
Balance as at 1 January 2021:				
Cost	775	1,317	4,589	**6,681**
Accumulated amortisation & impairment	(686)	(578)	(22)	**(1,286)**
Net book amount	**89**	**739**	**4,567**	**5,395**
Year ended 31 December 2021:				
Opening net book value	**89**	**739**	**4,567**	**5,395**
Additions	96	-	634	**730**
Disposals	-	-	(13)	**(13)**
Transfers	-	4,534	(4,534)	**-**
Amortisation charge	(93)	(690)	-	**(783)**
Net book amount as at 31 December 2021	**92**	**4,583**	**654**	**5,329**
As at 31 December 2021:				
Cost	871	5,851	676	**7,398**
Accumulated amortisation & impairment	(779)	(1,268)	(22)	**(2,069)**
Net book amount as at 31 December 2021	**92**	**4,583**	**654**	**5,329**

6.4 As at 31 December 2020:

(expressed in euro '000s)	Acquired Software	Internally Generated Software	Intangible Assets Under Construction	Total
Balance as at 1 January 2020:				
Cost	744	548	2,920	**4,212**
Accumulated amortisation & impairment	(587)	(388)	(22)	**(997)**
Net book amount	**157**	**160**	**2,898**	**3,215**
Year ended 31 December 2020:				
Opening net book value	157	160	2,898	**3,215**
Additions	31	-	2,438	**2,469**
Transfers	-	769	(769)	**-**
Amortisation charge	(99)	(190)	-	**(289)**
Net book amount as at 31 December 2020	**89**	**739**	**4,567**	**5,395**
As at 31 December 2020:				
Cost	775	1,317	4,589	**6,681**
Accumulated amortisation & impairment	(686)	(578)	(22)	**(1,286)**
Net book amount as at 31 December 2020	**89**	**739**	**4,567**	**5,395**

6.5 Tangible assets include additional investment to the new Centre for Chemistry and Technology construction project, with a total cost of EUR 4,796 thousand added to the Asset Under Construction in 2021. The construction is scheduled for completion by the end of 2022. Costs of EUR 214 thousand for the installation of new HQ access and control systems are also included to Assets Under Construction.

6.6 At the beginning of 2021 the new ERP system went live. Further, full implementation of an upgrade to the Electronic Declaration Information System (EDIS), plus the new Laboratory Information Management System (LIMS), were completed during 2021. Costs related to these systems were transferred from intangible assets under construction to internally generated software.

6.7 Other intangible assets under construction also includes investment totalling EUR 470 thousand relating to the development of the Enterprise Content Management system (ECM), Project 22, Verification Industry System (VIS) modernisation and further development of eINS system.

7. ASSESSED CONTRIBUTIONS RECOVERABLE

(expressed in euro '000s)	**2021**	**2020**
Assessed contributions	10,564	10,096
Less: allowance for impairment of assessed contributions	(3,618)	(1,391)
Total assessed contributions – net	**6,946**	**8,705**

7.1 Every State Party 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 2021, assessed contributions of EUR 6,946 thousand were past due but not impaired (2020: EUR 8,705 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, but exclude assessed contributions recoverable of States Parties who are in arrears in such multi-year payment plans. The ageing analysis of these assessed contributions is as follows:

(expressed in euro '000s)	**2021**	**%**	**2020**	**%**
Up to 1 year old	3,605	52%	4,661	54%
Older than 1 year and up to 2 years old	3,076	44%	3,640	42%
Older than 2 years and up to 3 years old	265	4%	389	4%
Older than 3 years and up to 10 years old	-	-	-	-
Older than 10 years	-	-	15	0%
Total	**6,946**	**100%**	**8,705**	**100%**

7.3 As of 31 December 2021, assessed contributions of EUR 3,618 thousand (2020: EUR 1,391 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)	2021	%	2020	%
Up to 1 year old	1,205	33%	474	34%
Older than 1 year and up to 2 years old	594	17%	92	7%
Older than 2 years and up to 3 years old	594	16%	67	5%
Older than 3 years and up to 10 years old	1,027	28%	612	44%
Older than 10 years	198	6%	146	10%
Total	**3,618**	**100%**	**1,391**	**100%**

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

(expressed in euro '000s)	2021	2020
At 1 January	**1,391**	**1,218**
Increase in allowance for impairment of assessed contributions (write-down)	2,683	276
Reversal of allowance for impairment of assessed contributions	(456)	(103)
At 31 December	**3,618**	**1,391**

8. ARTICLE IV AND V RECEIVABLES

(expressed in euro '000s)	2021	2020
Article IV and V receivables	8,371	7,786
Less: allowance for impairment of Article IV and V receivables (write-down)	(6,001)	(5,927)
Total Article IV and V receivables – net	**2,370**	**1,859**

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 OPCW 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 2021, Article IV and V receivables were EUR 2,370 thousand (2020: EUR 1,859 thousand). 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)	2021	%	2020	%
Up to 3 months old	1,129	48%	1,444	78%
Older than 3 months and up to 6 months old	1,241	52%	-	-
Older than 6 months and up to 1 year old	-	-	-	-
Older than 1 year and up to 2 years old	-	-	334	18%
Older than 2 years and up to 3 years old	-	-	81	4%
Total	**2,370**	**100%**	**1,859**	**100%**

8.4 As of 31 December 2021, Article IV and V receivables of EUR 6,001 thousand (2020: EUR 5,927 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)	2021	%	2020	%
Up to 3 months old	77	1%	130	2%
Older than 3 months and up to 6 months old	-	-	-	-
6 months to 1 year old	-	-	-	-
Older than 1 year and up to 2 years old	46	1%	141	2%
Older than 2 years and up to 3 years old	141	2%	172	3%
Older than 3 years and up to 10 years old	5,737	96%	5,484	93%
Total	**6,001**	**100%**	**5,927**	**100%**

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

(expressed in euro '000s)	2021	2020
At 1 January	5,927	5,839
Increase in allowance for impairment of Article IV and V receivables	81	88
Reversal of allowance for impairment of Article IV and V receivables	(7)	-
At 31 December	**6,001**	**5,927**

9. VOLUNTARY CONTRIBUTIONS RECOVERABLE

(expressed in euro '000s)	2021	2020
Trust fund for a Centre for Chemistry and Technology	4,319	6,003
Trust funds for Syria	1,897	155
Trust fund for Security and Business Continuity	516	1,607
Trust fund for EU Council decision 2019	224	7,916
Trust Fund for Training	139	-
Other trust funds	212	-
Trust funds for Libya	-	150
Voluntary contributions recoverable	**7,307**	**15,831**

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 - CURRENT

(expressed in euro '000s)	2021	2020
Receivables from staff members	1,381	1,142
Value-added tax and other recoverable taxes	802	1,219
Receivables from vendors	35	39
Working Capital Fund contributions receivable	4	4
Miscellaneous	-	47
Other assets	**2,222**	**2,451**

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.

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

11. PREPAYMENTS

(expressed in euro '000s)	2021	2020
Prepayments - UNOPS	1,621	2,022
Prepayments - vendors	1,500	1,655
Prepayments - other	17	19
Total prepayments	**3,138**	**3,696**

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 the Syrian Arab Republic.

12. INVENTORIES

(expressed in euro '000s)	2021		
	Primary	**Secondary**	**Total**
At 1 January 2021	305	424	**729**
Purchases	24	28	**52**
Inventory consumed	(68)	(53)	**(121)**
Other adjustments	1	11	**12**
At 31 December 2021	**262**	**410**	**672**

(expressed in euro '000s)	2020		
	Primary	**Secondary**	**Total**
At 1 January 2020	**286**	**420**	**706**
Purchases	42	38	80
Inventory consumed	(32)	(44)	(76)
Other adjustments	9	10	19
At 31 December 2020	**305**	**424**	**729**

12.1 The OPCW's inventories relate primarily to its inspection and verification activities and are located in the OPCW 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 2021. The carrying amount of inventories is shown at lower of cost or current replacement cost as at 31 December 2021.

13. CASH AND CASH EQUIVALENTS

(expressed in euro '000s)	2021	2020
Unrestricted		
Current accounts	48,572	48,676
Total unrestricted	**48,572**	**48,676**
Restricted		
Current accounts	9,701	2,201
Total restricted	**9,701**	**2,201**
Total cash and cash equivalents	**58,273**	**50,877**

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

(expressed in euro '000s)	2021	2020
Restricted cash and cash equivalents		
Working Capital Fund	8,133	633
Voluntary Fund for Assistance	1,568	1,568
Total restricted cash and cash equivalents	**9,701**	**2,201**

14. CONTINGENT ASSETS

14.1 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 returned to States Parties proportional to the assessed contributions in the year in which the surplus arose, by means of an adjustment to the assessed contributions.

14.2 At 31 December 2020, the OPCW reported a final cash deficit of EUR 1,236 thousand for 2019, instead of a cash surplus, primarily due to arrears in assessed contributions and Article IV and V receivables.

14.3 In the event of a cash deficit, the OPCW may obtain the right, through a decision by the Conference, to recover the amount of the cash deficit from States Parties. The basis of this recovery is determined in the decision made by the Conference, as the Financial Regulation does not prescribe the steps to be taken in the event of cash deficit.

14.4 Given the uncertainty of the amount that may be recoverable by the OPCW, and timing of this decision, no asset is recognised for this amount. Instead, a contingent asset of EUR 1,236 thousand is disclosed.

15. WORKING CAPITAL FUND

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

15.2 Any new States Parties joining the OPCW make an advance to the WCF in accordance with the scale of assessment applicable to the budget of the year of their ratification of, or accession to, the Convention. In 2021, no new State Party joined the OPCW and made a contribution to the WCF (2020: none).

15.3 The movement in the balance of the WCF during the reporting period, and the amount held in it, is explained as follows:

(expressed in euro '000s)	**2021**	**2020**
Movement in the WCF liability		
At 1 January	8,140	8,140
Transfer from final cash surplus for 2017	-	-
Total WCF as at 31 December	**8,140**	**8,140**
Of which:		
Non-current portion of WCF liability	8,140	8,140
Current portion of WCF liability	**-**	**-**
Total WCF as at 31 December	**8,140**	**8,140**

16. VOLUNTARY FUND FOR ASSISTANCE

16.1 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 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.

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

(expressed in euro '000s)	**2021**	**2020**
Balance as at 1 January	**1,568**	**1,563**
Contributions received/disbursement from States Parties	-	5
Net proceeds received for Voluntary Fund for Assistance	**-**	**5**
Total Voluntary Fund for Assistance as at 31 December	**1,568**	**1,568**
Of which:		
Non-current portion	1,568	1,568
Current portion	**-**	**-**
Total Voluntary Fund for Assistance as at 31 December	**1,568**	**1,568**

17. CASH SURPLUS

17.1 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.

17.2 Current liabilities at 31 December 2021 of EUR 18 thousand (2020: EUR 18 thousand) represent cash surpluses from 2012 and prior years withheld from the States Parties due to non-payment of assessed contributions to the OPCW.

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

(expressed in euro '000s)	**2021**	
	Non-current	**Current**
Balance as at 1 January 2021	**-**	**18**
Final cash surplus for 2020	4,545	-
Balance as at 31 December 2021	**4,545**	**18**

(expressed in euro '000s)	**2020**	
	Non-current	**Current**
Balance as at 1 January 2020	**2,341**	**20**
Distributed cash surplus	-	(2)
Transfers[26]:		
Transfer to the special fund for the OPCW Equipment Store	(315)	-
Transfer to the special fund for OPCW designated laboratories and laboratory equipment	(450)	-
Transfer to the Special Fund for Major Capital Investments	(205)	-
Transfer to the COVID-19 Variability Impact Fund	(1,371)	-
Balance as at 31 December 2020	**-**	**18**

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

26 C-24/DEC.12.

18. EMPLOYEE BENEFITS

18.1 Employee benefit liabilities comprise the following items:

(expressed in euro '000s)	Note	2021			2020		
Employee Benefit		**Non-current**	**Current**	**Total**	**Non-current**	**Current**	**Total**
Long-term employee benefits							
Post-employment benefits							
Repatriation grant	18.6	1,979	968	**2,947**	2,115	990	**3,105**
Removal	18.6	889	312	**1,201**	1,009	524	**1,533**
Repatriation travel	18.6	249	86	**335**	382	275	**657**
Death benefit	18.6	362	34	**396**	344	35	**379**
Total post-employment benefits		**3,479**	**1,400**	**4,879**	**3,850**	**1,824**	**5,674**
Other long-term employee benefits							
Home leave	18.12	2	534	536	13	1,759	**1,772**
Total long-term employee benefits		**3,481**	**1,934**	**5,415**	**3,863**	**3,583**	**7,446**
Short-term employee benefits							
Annual leave	18.2	-	2,195	2,195	-	2,787	**2,787**
Other short-term employee benefits	18.2	-	180	180	-	185	**185**
Total short-term employee benefits		**-**	**2,375**	**2,375**	**-**	**2,972**	**2,972**
Total employee benefits		**3,481**	**4,309**	**7,790**	**3,863**	**6,555**	**10,418**

Short-term employee benefits

18.2 As described in note 3.20, short-term employee benefits comprise: recurring benefits, deductions, and contributions (including salaries, post adjustments, and dependency allowances); compensated absences (annual leave); other short-term benefits (retroactive payments, education grants, income tax reimbursements, travel and removal costs at initial appointment, and assignment grants); and the current portion of long-term benefits provided to current employees.

18.3 Further disclosure of these items is provided in notes 28 (employee benefit expenses) and 37 (key management remuneration).

Post-employment benefits

18.4 Liabilities relating to post-employment are calculated by a qualified and independent actuary. The actuarial valuation as at 31 December 2021 was finalised on 28 April 2022.

Defined contribution plans

18.5 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 2021, a Provident Fund contribution of EUR 7,514 thousand

(2020: EUR 7,705 thousand) has been recognised in the employee benefit expenses line of the statement of financial performance (note 28), representing the OPCW's contribution to the Provident Fund "B" accounts for 2021.

Defined benefit plans

18.6 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)	Per Actuarial Valuation	
	2021	2020
Balance as at 1 January	**5,674**	**5,763**
Current service cost	1,305	1,452
Interest cost	(31)	(13)
Actuarial (gains)/losses	(1,008)	(597)
Benefits paid	(1,061)	(931)
Balance as at 31 December	**4,879**	**5,674**

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

(expressed in euro '000s)	2021	2020
Balance as at 31 December		
Present value of defined benefit obligation	4,879	5,674
Fair value of plan assets	-	-
Deficit/(surplus) in the plan	**4,879**	**5,674**

18.8 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)	2021	2020	2019	2018	2017
Present value of unfunded obligations	4,879	5,674	5,763	5,135	4,579
Liability in the statement of financial position	**4,879**	**5,674**	**5,763**	**5,135**	**4,579**

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

(expressed in euro '000s)	2021	2020
Current service cost	1,305	1,452
Interest cost	(31)	(13)
Total expense recognised in statement of financial performance	**1,274**	**1,439**

18.10 The statement of changes in net assets includes a positive change of EUR 1,008 thousand relating to actuarial gains in 2021 (2020: actuarial gains of EUR 597 thousand). Post-employment benefits are not funded, and hence there is a net defined benefit liability.

18.11 The expected total contribution to post-employment benefit plans (expected benefit payment to beneficiaries) for the year ended 31 December 2022 is EUR 1,400 thousand (2021: EUR 1,825 thousand).

Other long-term employee benefits

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

(expressed in euro '000s)	**2021**	**2020**
Balance as at 1 January	1,772	1,050
Current service cost	795	910
Interest cost	(10)	(6)
Actuarial (gains)/losses	(1,525)	(125)
Benefits paid	(496)	(57)
Balance as at 31 December	**536**	**1,772**

18.13 The significant actuarial gain noted for home leave benefits in 2021 represents the difference between predicted and actual home leave taken by eligible staff and is recognised within employee benefit expenses as a reduction in the home leave expense.

18.14 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)	**2021**	**2020**
Balance as at 31 December		
Present value of defined benefit obligation	536	1,772
Fair value of plan assets	**-**	**-**
Deficit/(surplus) in the plan	**536**	**1,772**

18.15 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)	**2021**	**2020**
Current service cost	795	910
Interest cost	(10)	(6)
Actuarial (gains)/losses	(1,525)	(125)
Total expense recognised in statement of financial performance	**(740)**	**779**

18.16 The principal assumptions used for post-employment benefits and other long-term employee benefits as of 31 December 2021 are the following:

Long-term employee benefits	**2021**	**2020**
Discount rate: Death benefits	0.45%	0.00%
Discount rate: Repatriation grant, removal costs, travel costs	-0.30%	-0.55%
Discount rate: Home leave	-0.45%	-0.60%
Inflation	1.90%	1.60%
Indexation: Travel and removal costs	1.90%	2.25%
Indexation: Home leave	0.00%	0.00%
Turnover rate	8.00%	1.0% - 1.5%
Mortality tables: Dutch generational tables “AG prognosis table”	2018 table	2018 table
Future salary increases	Based on UN salary scales and inflation	

18.17 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 the management’s estimate, the carrying amount of the benefit liability would be an estimated EUR 31 thousand lower (2020: EUR 41 thousand lower) or EUR 31 thousand higher (2020: EUR 42 thousand higher), respectively.

19. ACCOUNTS PAYABLE

(expressed in euro ‘000s)	**2021**	**2020**
Accounts payable – vendors	3,600	1,039
Accounts payable – staff	92	353
Reimbursements to governments	-	33
Total accounts payable	**3,692**	**1,425**

20. OTHER NON-CURRENT LIABILITIES

(expressed in euro ‘000s)	**2021**	**2020**
Assessed contributions with performance obligations	5,598	9,844
Headquarters lease incentive liability	700	840
Total other non-current liabilities	**6,298**	**10,684**

Assessed contributions with performance obligations

20.1 Assessed contributions with performance obligations represent the estimated cash surplus for 2021, which will be determined in 2022. 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 2021 with respect to assessed contributions received or receivable requiring recognition of a corresponding liability.

20.2 The cash surplus for 2020 was determined in 2021 as per note 17 and Appendix 3.2.

Headquarters lease incentive liability

20.3 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 the Headquarters lease incentive liability is EUR 700 thousand at the reporting date (2020: EUR 840 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 22.

21. DEFERRED REVENUE

(expressed in euro '000s)	**2021**	**2020**
Deferred voluntary contributions		
Trust funds for Syria	5,220	4,981
Trust fund for Security and Business Continuity	4,118	1,000
Trust fund for EU Council decision 2019	2,576	10,584
Trust fund for a Centre for Chemistry and Technology	2,574	9,983
Trust Fund for Training	1,225	-
US Voluntary Fund	896	1,244
Other trust funds	1,033	680
Total deferred voluntary contributions	**17,642**	**28,472**
Deferred assessed contributions	1,557	6,917
Total deferred revenue	**19,199**	**35,389**

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.

22. OTHER CURRENT LIABILITIES

(expressed in euro '000s)	**2021**	**2020**
Special funds with conditions	1,840	2,749
Voluntary contributions received in advance	668	448
Headquarters lease incentive liability	140	140
Other liabilities	36	8
Total other liabilities	**2,684**	**3,345**

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

22.2 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.

23. PROVISIONS

(expressed in euro '000s)	2021	2020
At 1 January	200	-
Increase of provisions	-	200
At 31 December	**200**	**200**

Provisions raised in 2020 relate to the anticipated costs associated with the move from the Rijswijk Laboratory and Equipment Store premises in 2023 (upon completion of the construction of the Centre for Chemistry and Technology), for which there is a present obligation for the OPCW as at the reporting date, in line with IPSAS 19 (note 3.25).

24. ASSESSED CONTRIBUTION REVENUE

Every State Party is assessed a contribution due to the OPCW each year. The amounts of assessed contributions approved by the Conference for the year 2021 are EUR 67,120 thousand (2020: EUR 67,120 thousand). The amount recognised as revenue in 2021 with respect to inflow of resources in assessed contributions as well as reduction of previously recognised liabilities relating to satisfied obligations is EUR 66,821 thousand (2020: EUR 59,633 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 3.2).

25. VOLUNTARY CONTRIBUTION REVENUE

(expressed in euro '000s)	2021	2020
Trust fund for a Centre for Chemistry and Technology	8,163	4,202
Trust fund for EU Council decision 2019	8,008	-
Trust funds for Syria	2,950	7,105
Trust Fund for Security and Business Continuity	182	2,750
Other Trust and Special funds	1,787	1,765
Total voluntary contribution revenue	**21,090**	**15,822**

Refer to note 21 "Deferred revenue" for additional information regarding liabilities recognised in respect voluntary contributions with conditions.

26. ARTICLE IV AND V REVENUE

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

26.2 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.

27. OTHER REVENUE

(expressed in euro '000s)	2021	2020
Other exchange revenue	168	1,734
Gain on sale of assets	26	-
Other non-exchange revenue	-	103
Total other operating revenue	**194**	**1,837**

28. EMPLOYEE BENEFIT EXPENSES

(expressed in euro '000s)	2021	2020 Restated	
Short-term employee benefit expenses			
Salaries and post-adjustment expense	33,463	33,652	(*)
Common staff costs	6,030	7,547	(*)
Total short-term employee benefit expenses	**39,493**	**41,199**	
Post-employment benefit expenses			
Provident Fund pension expense (defined contribution plan)	7,514	7,705	
Other post-employment benefits	1,269	1,476	
Total post-employment benefit expenses	**8,783**	**9,181**	
Other long-term employee benefit expenses			
Home leave expense	(785)	786	
Total other long-term employee benefit expenses	**(785)**	**786**	
Total – Employee benefit expenses	**47,491**	**51,166**	
Less: Capitalised employee benefit expenses - intangible assets under construction by OPCW staff	(295)	(721)	
Net employee benefit expenses	**47,196**	**50,445**	

(*) 2020 figure were restated to present the annual leave used days under "Common staff cost". The annual leave used days (EUR 2,460 thousand) was presented as a reduction of "Salaries and post-adjustment expenses" in 2020 financial statements. This amount is reclassified under "Common staff costs" in 2021 financial statements.

28.1 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.

28.2 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.

28.3 Capitalised employee benefit expenses include work by staff members on internally developed intangible assets.

29. CONSULTANCY AND CONTRACTUAL SERVICES

(expressed in euro '000s)	2021	2020
Consultancy and Special Service agreements	4,369	3,005
ICT Services	1,979	1,994
UNOPS contractual services	1,801	2,789
Translation and interpretation	508	470
Training fees	441	603
Other contractual services	1,560	1,520
Total consultancy and contractual services	**10,658**	**10,381**

30. TRAVEL EXPENSES

(expressed in euro '000s)	2021	2020
Inspection travel	1,836	1,480
Official travel – non-staff	384	401
Training travel	219	71
Official travel – staff	25	203
Total travel expenses	**2,464**	**2,155**

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.

31. GENERAL OPERATING EXPENSES

(expressed in euro '000s)	2021	2020
Operating lease rental expense	3,067	3,349
Impairment of assessed contributions receivable	2,227	276
Maintenance and utilities	801	828
Supplies and materials	546	356
Other general operating expenses	442	654
Inventories	108	86
Impairment of Article IV and V receivables	74	89
Total general operating expenses	**7,265**	**5,638**
Less: capitalised general operating expenses – intangible assets under construction	-	(91)
Total general operating expenses	**7,265**	**5,547**

General operating expenses include rental expenses for premises used by the OPCW, including the rental of the Headquarters building.

32. OTHER OPERATING EXPENSES

(expressed in euro '000s)	2021	2020
Purchases of furniture and equipment	1,818	993
Internships, grants, contributions to seminars, and workshops	355	176
Other staff costs	161	141
Loss on disposal of property, plant, and equipment	20	-
Movement in provisions	-	200
Total other expenses	**2,354**	**1,510**

Other operating expenses include the purchase costs of equipment which does not qualify as property, plant, and equipment (note 6), which has increased in 2021. This includes the purchase of IT equipment to facilitate remote working during the COVID-19 pandemic, which falls below the EUR 5,000 threshold for capitalisation.

33. FINANCE INCOME AND COSTS

(expressed in euro '000s)	2021	2020	
Unrealised Foreign currency gains / (Losses)	781	(689)	(*)
Realised Foreign currency gains / (Losses)	(60)	(15)	(*)
Interest income/(charges) on cash and cash equivalents	(32)	86	
Unwinding of discounts on employee benefits	-	18	(**)
Net finance income/(costs)	**689**	**(600)**	

(*) 2020 note restated to present the unrealised and realised foreign currency gains / (losses)

(**) Then unwinding of discounts on employee benefits is presented in 2021 under employee benefit expenses

Finance income and costs include gains and losses associated with foreign currency transactions where the United Nations Operational Rate of Exchange differs to the exchange rate offered by the bank(s) party to the transaction. Foreign currency gains in 2021 also include gains made on US dollar denominated cash and receivables due to the strengthening of the US dollar against the euro.

34. SERVICES IN KIND

34.1 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

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

Security services

34.3 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

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

Usage of facilities

34.5 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

34.6 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

34.7 The staff members of the Budget and 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.

35. CONTINGENT LIABILITIES

35.1 The OPCW recognised a provision for EUR 200 thousand related to the anticipated costs associated with the move from the Rijswijk Laboratory and Equipment Store premises in 2023 (Note 23). An additional cost of EUR 200 thousand could be incurred during the move but it is unlikely and is considered as a contingent liability.

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

36. COMMITMENTS

Capital commitments

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

(expressed in euro '000s)	2021	2020
Property, plant, and equipment	19,105	1,812
Intangible assets	301	49
Total	**19,406**	**1,861**

Operating lease commitments

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

(expressed in euro '000s)	2021	2020
No later than 1 year	3,147	3,150
Later than 1 year and no later than 5 years	11,646	11,892
Later than 5 years	3,278	6,183
Total	**18,071**	**21,225**

36.3 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.

36.4 Operating lease payments that are recognised in the statement of financial performance amount to EUR 3,067 thousand (2020: EUR 3,349 thousand) and are disclosed in note 31.

37. RELATED PARTY TRANSACTIONS

37.1 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.

37.2 The OPCW provides administrative support to the Provident Fund free of charge (note 34.7). All other transactions between the OPCW and the Provident Fund are conducted at arm's length. As at 31 December 2021, EUR 4 thousand was payable from the OPCW to the Provident Fund (2020: EUR 4 thousand), and no amount was due from the Provident Fund to the OPCW (2020: EUR no amount).

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

38. KEY MANAGEMENT REMUNERATION

38.1 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.

38.2 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)	2021	
	Number of Posts	Aggregate Remuneration
Director-General and Deputy Director-General	2	639

(expressed in euro '000s)	2020	
	Number of Posts	Aggregate Remuneration
Director-General and Deputy Director-General	2	635

38.3 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.

39. SEGMENT INFORMATION

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;

(f) Special fund for Cybersecurity, Business Continuity, and Physical Infrastructure Security;

(g) Special Fund for IT infrastructure to support the implementation of decision C-SS-4/DEC.3;

(h) Special Fund for Capacity Building for Laboratories;

(i) Special fund for Major Capital Investments;

(j) COVID-19 Variability Impact Fund; and

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

(o) OPCW Nobel Prize trust fund;

(p) Trust fund for programme support costs;

(q) Trust Fund for Syria Missions;

(r) Trust fund for support to Libya;

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

(t) Trust Fund for Security and Business Continuity;

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

(v) 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 2021

(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[27]	Total
Total segment revenue/income	**9,129**	**21,958**	**7,149**	**4,722**	**2,015**	**9,478**	**14,238**	**21,087**	**194**	**89,970**
Segment revenue from budget allocation:										
Assessed contributions	9,129	20,090	7,149	4,722	2,015	9,478	14,238	-	-	66,821
Article IV & V revenue	-	1,868	-	-	-	-	-	(3)	-	1,865
Segment revenue from external sources :										
Voluntary contributions	-	-	-	-	-	-	-	21,090	-	21,090
Other income /revenue	-	-	-	-	-	-	-	-	194	194
Total segment expense	**8,890**	**19,313**	**4,049**	**4,873**	**2,053**	**10,174**	**15,749**	**8,513**	**(1,774)**	**71,840**
Employee benefit expenses	7,133	15,379	3,051	3,896	1,825	8,604	7,956	1,126	(1,774)	47,196
Consultancy and Contractual services	103	522	434	584	88	734	2,304	5,889	-	10,658
Travel expenses	48	1,674	112	191	3	32	7	397	-	2,464
Depreciation, amortisation and Impairment	677	366	-	7	-	204	649	-	-	1,903
General operating expenses	751	1,182	241	190	113	359	4,103	326	-	7,265
Other operating expenses	178	190	211	5	24	241	730	775	-	2,354

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

27 Unallocated revenue and expenses represent revenue and expenses that cannot be directly attributed, or allocated on a reasonable basis, to individual segments.

Segment Information
For the period ended 31 December 2020

(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[28]	Total
Total segment revenue/income	**8,228**	**20,046**	**5,959**	**4,247**	**1,744**	**8,183**	**12,994**	**17,556**	**103**	**79,060**
Segment revenue from budget allocation:										
Assessed contributions	8,228	18,278	5,959	4,247	1,744	8,183	12,994	-	-	59,633
Article IV & V revenue		1,768	-	-	-	-	-	-	-	1,768
Segment revenue from external sources :	-	-	-	-	-	-	-	-	-	-
Voluntary contributions	-	-	-	-	-	-	-	15,822	-	15,822
Other income /revenue	-	-	-	-	-	-	-	1,734	103	1,837
Total segment expense	**8,349**	**18,294**	**3,886**	**4,647**	**1,788**	**8,817**	**13,821**	**7,764**	**4,144**	**71,510**
Employee benefit expenses	7,410	15,972	3,075	3,922	1,624	7,957	7,405	823	2,257	50,445
Consultancy and Contractual services	572	477	315	279	107	653	1,828	6,151	-	10,382
Travel expenses	11	1,466	241	101	7	26	(1)	304	-	2,155
General operating expenses	343	253	3	314	45	54	4,056	64	415	5,547
Others	13	126	252	31	5	127	533	422	1,472	2,981

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

28 Unallocated revenue and expenses represent revenue and expenses that cannot be directly attributed, or allocated on a reasonable basis, to individual segments.

40. BUDGETARY INFORMATION

40.1 The approved Programme and Budget covers the period from 1 January 2021 to 31 December 2021. 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

40.2 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.

40.3 There was no change between the overall original and final budgets during 2021, which totalled EUR 69,401 thousand for Chapter One and Two programmes.

40.4 While the Secretariat made every effort to effectively implement the 2021 Programme and Budget throughout the year, the COVID-19 pandemic inevitably impacted some programmatic activities, particularly those relying heavily on official travel for their execution, thus resulting in a relatively lower implementation rate for the year than the historic OPCW norm.

40.5 The level of expenditure for 2021 reflects an overall budget utilisation rate of 91.7% for Chapter One and Two programmes. The Chapter One utilisation rate was 92.5%; the Chapter Two rate was 91.1%.

40.6 The Secretariat spent less than the final budget in nearly all programmes. The utilisation of programme budgets was between 55.2% and 99.9%. Factors influencing the budget utilisation will be detailed in the 2021 Programme Performance Report and taken into consideration when formulating the biennial Programme and Budget for 2022–2023.

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

Reconciliation of actual amounts from budgetary basis to financial statement basis

40.8 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 2021:

(expressed in euro '000s)	Operating	Financing	Investing	Total
Actual net surplus amount on budgetary basis (Statement of Comparison of Budget and Actual Amounts)	5,585	**-**	**-**	**5,585**
Basis differences	(12,957)	-	**-**	**(12,957)**
Presentation Differences	7,891	-	(7,891)	**-**
Entity differences				
Trust funds and special funds	13,987	-	-	**13,987**
Actual amount in the IPSAS cash flow statement	**14,506**	**-**	**(7,891)**	**6,615**

For the year ended 31 December 2020:

(expressed in euro '000s)	Operating	Financing	Investing	Total
Actual net surplus amount on budgetary basis (Statement of Comparison of Budget and Actual Amounts)	4,069	**-**	**-**	**4,069**
Basis differences	(21,145)	-	**-**	**(21,145)**
Presentation Differences	1,548	-	(1,548)	**-**
Entity differences				
Trust funds and special funds	25,099	5	(3,273)	**21,831**
Actual amount in the IPSAS cash flow statement	**9,571**	**5**	**(4,821)**	**4,755**

40.9 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.

41. EVENTS AFTER THE REPORTING PERIOD

No significant 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 of the States Parties (hereinafter "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 40 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) Statement of provisional cash surplus for 2021 General Fund – as at 31 December 2021 (paragraph 3.1);

(c) Statement of cash surplus for 2020 – General Fund – as at 31 December 2021 (paragraph 3.2);

(d) Statement of cash surpluses credited to Member States – General Fund (paragraph 3.3);

(e) Statement of savings on prior year's obligations – General Fund (paragraph 3.4);

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

(g) Trust funds – voluntary contributions by donors (paragraph 3.6);

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

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

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

2. STATEMENT OF CASH AND INVESTMENTS (INCLUDING TERM DEPOSITS[29]) – ALL FUNDS (FINANCIAL REGULATION 11.1(C))

2.1 Statement of cash and investments (term deposits) – All funds as at 31 December 2021.

(expressed in euro ‘000s)

Fund	Cash	Investments	Total
General Fund	3,485	-	3,485
Working Capital Fund	8,133	-	8,133
Voluntary Fund for Assistance	1,568	-	1,568
Trust funds	41,368	-	41,368
Special funds	3,719	-	3,719
Total Cash and Investments	**58,273**	**-**	**58,273**

2.2 Statement of cash and investments (term deposits) – All funds as at 31 December 2020.

(expressed in euro ‘000s)

Fund	Cash	Investments	Total
General Fund	13,095	-	13,095
Working Capital Fund	633	-	633
Voluntary Fund for Assistance	1,568	-	1,568
Trust funds	32,780	-	32,780
Special funds	2,801	-	2,801
Total Cash and Investments	**50,877**	**-**	**50,877**

29 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: Statement of cash surplus for 2021 – General Fund – as at 31 December 2021 (expressed in euros)

The provisional cash surplus for 2021 was determined in 2021:

(expressed in euro '000s)

PROVISIONAL CASH SURPLUS / (DEFICIT) FOR 2021	**2021**
Receipts	62,250
Disbursements	(60,049)
EXCESS / (SHORTFALL) OF RECEIPTS OVER DISBURSEMENTS	**2,200**
Unliquidated obligations	(3,585)
Transfers to/from other funds	-
PROVISIONAL SURPLUS / (DEFICIT) AS AT END OF 2021	**(1,385)**

The final cash surplus for 2021 will be determined in 2022.

3.2 Budgetary accounts: Statement of cash surplus for 2020 – General Fund – as at 31 December 2021 (expressed in euros)

The provisional cash surplus for 2020 was determined in 2020. The final cash surplus for 2020 was determined in 2021:

(expressed in euro '000s)

PROVISIONAL CASH SURPLUS / (DEFICIT) FOR 2020	**2020**
Receipts	61,756
Disbursements	(60,400)
EXCESS / (SHORTFALL) OF RECEIPTS OVER DISBURSEMENTS	**1,356**
Unliquidated obligations	(4,079)
Transfers to/from other funds	-
PROVISIONAL SURPLUS / (DEFICIT) AS AT END OF 2020	**(2,723)**
FINAL CASH SURPLUS / (DEFICIT) FOR 2020 (determined in 2021)	**2020**
PROVISIONAL SURPLUS/(DEFICIT)	**(2,723)**
Receipt of:	
Arrears from prior years' annual contributions	4,342
Miscellaneous income from prior years	1,281
Savings on prior period's obligations (paragraph 5.11)	1,529
PRIOR YEAR CASH SURPLUS/(DEFICIT)	**4,429**
Prior period adjustment	116
2020 FINAL CASH SURPLUS[30]/(DEFICIT)	**4,545**
2019 Cash Deficit	(1,236)
CUMULATIVE NET CASH SURPLUS / DEFICIT	**3,309**

30 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.

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

(a) For the period ended 31 December 2021

(expressed in euro '000s)

Funding Programme	Unliquidated Obligations as at End of 2020	Disbursements During 2021	Savings on Prior Year's Obligations
Programme 1. Verification	357	193	**164**
Programme 2. Inspections	1,141	420	**721**
Total verification costs (Chapter 1)	**1,498**	**613**	**885**
Programme 3. International Cooperation and Assistance	1,052	995	**57**
Programme 4. Support to the Policy-Making Organs	163	37	**126**
Programme 5. External Relations	19	10	**9**
Programme 6. Executive Management	363	178	**185**
Programme 7. Administration	984	717	**267**
Total administrative and other costs (Chapter 2)	**2,581**	**1,937**	**664**
TOTAL	**4,079**	**2,550**	**1,529**

(b) For the period ended 31 December 2020

(expressed in euro '000s)

Funding Programme	Unliquidated Obligations as at End of 2019	Disbursements During 2020	Savings on Prior Year's Obligations
Programme 1. Verification	897	774	**123**
Programme 2. Inspections	686	551	**135**
Total verification costs (Chapter 1)	**1,584**	**1,325**	**258**
Programme 3. International Cooperation and Assistance	411	280	**131**
Programme 4. Support to the Policy-Making Organs	78	52	**25**
Programme 5. External Relations	66	17	**49**
Programme 6. Executive Management	369	237	**132**
Programme 7. Administration	756	567	**189**
Total administrative and other costs (Chapter 2)	**1,680**	**1,153**	**527**
TOTAL	**3,263**	**2,478**	**785**

3.4 Budgetary accounts: Statement of cash surpluses credited to States Parties – General Fund – During the period ended 31 December 2021.

No cash surpluses relating to 2018 and prior years were applied in 2021. In 2019, a cash deficit was reported.

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

(a) For the period ended 31 December 2021:

(expressed in euro ‘000s)

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	7,283	140	299	30	529	371	**8,652**	**632**
Programme 2. Inspections	15,846	2,035	346	254	227	702	**19,410**	**1,403**
Total verification costs (Chapter 1)	**23,129**	**2,175**	**645**	**284**	**756**	**1,073**	**28,062**	**2,035**
Programme 3. International Cooperation and Assistance	3,094	141	709	11	12	129	**4,096**	**389**
Programme 4. Support to the Policy-Making Organs	3,874	215	652	4	108	-	**4,853**	**204**
Programme 5. External Relations	1,904	3	97	7	56	18	**2,085**	**113**
Programme 6. Executive Management	8,596	40	928	26	61	133	**9,784**	**285**
Programme 7. Administration	7,986	37	2,170	104	3,909	560	**14,766**	**561**
Total administrative and other costs (Chapter 2)	**25,454**	**436**	**4,556**	**152**	**4,146**	**840**	**35,584**	**1,551**
TOTAL EXPENDITURE	**48,583**	**2,611**	**5,201**	**436**	**4,902**	**1,913**	**63,646**	**3,585**

(b) For the period ended 31 December 2020:

(expressed in euro '000s)

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	7,488	12	822	-	446	409	**9,177**	**357**
Programme 2. Inspections	16,144	1,448	525	-	578	765	**19,460**	**1,141**
Total verification costs (Chapter 1)	**23,632**	**1,460**	**1,347**	**-**	**1,024**	**1,174**	**28,637**	**1,498**
Programme 3. International Cooperation and Assistance	3,129	267	364	189	4	956	**4,909**	**1,052**
Programme 4. Support to the Policy-Making Organs	4,090	121	326	-	327	6	**4,870**	**163**
Programme 5. External Relations	1,605	7	109	-	45	1	**1,767**	**19**
Programme 6. Executive Management	8,294	26	733	-	74	151	**9,278**	**363**
Programme 7. Administration	8,002	-	1,919	-	4,479	618	**15,018**	**984**
Total administrative and other costs (Chapter 2)	**25,120**	**421**	**3,451**	**189**	**4,929**	**1,732**	**35,842**	**2,581**
TOTAL EXPENDITURE	**48,752**	**1,881**	**4,798**	**189**	**5,953**	**2,906**	**64,479**	**4,079**

3.6 Voluntary contributions by donors in 2021 (expressed in euro '000s) [31]

Donor	2021[32]
Trust Fund for EU Council Decision 2019	
European Commission	7,691
Subtotal	**7,691**
Trust Fund for Security and Business Continuity	
European Commission	1,953
Canada	1,237
United Kingdom of Great Britain and Northern Ireland	702
France	500
Subtotal	**4,392**
Trust Fund for a Centre for Chemistry and Technology	
United States	1,729
France	300
United Kingdom of Great Britain and Northern Ireland	169
New Zealand	100
Saudi Arabia	50
Turkey	30
Norway	24
India	20
Philippines	13
Andorra	11
American Chemical Society	8
Royal Society of Chemistry	6
Mexico	5
Panama	5
Royal Netherlands Chemical Society	3
European Chemical Society, EuChemS, aisbl	1
German Chemical Society	1
Subtotal	**2,475**
Trust Fund for Syria Missions	
France	1,000
Sweden	194

31 Voluntary contributions are reported on a cash basis, representing contributions received in cash in the reporting period. Amounts relating to contribution agreements signed but not yet received as at the reporting date will be reported in the financial year of the receipt.

32 The following contributions were received in advance in 2021 (expressed in euro '000s)

Trust Fund for a Centre for Chemistry and Technology:		
Republic of Korea	EUR	113
Spain	EUR	70
Total	**EUR**	**183**
Trust Fund for the Junior Professional Officers Programme:		
France	EUR	125
Total	**EUR**	**125**
Regional seminars:		
China	EUR	16
Total	**EUR**	**16**
Scientific Advisory Board:		
Turkey	EUR	2
Total	**EUR**	**2**

Donor	**2021**
Ireland	100
United Kingdom of Great Britain and Northern Ireland	57
Canada	55
The Czech Republic	39
Subtotal	**1,445**
Trust Fund for Training	
Germany	1,000
United Kingdom of Great Britain and Northern Ireland	120
The Slovak Republic	10
Subtotal	**1,130**
Implementation of Article X	
France	200
The Czech Republic	12
Subtotal	**212**
Trust Fund for Support of Libya	
European Commission	194
Subtotal	**194**
Trust Fund for the Junior Professional Officers Programme	
Republic of Korea	129
France	117
Subtotal	**246**
Scientific Advisory Board	
Russian Federation (the)	70
Subtotal	**70**
Implementation of Article VII Obligations	
France	30
Subtotal	**30**
International Support Network for Victims of Chemical Weapons	
Andorra	11
The Slovak Republic	10
Subtotal	**21**
Voluntary Fund for Assistance	
Mexico	5
Subtotal	**5**
Total Trust Funds	**17,911**

4. EX-GRATIA PAYMENTS

An ex-gratia payment of EUR 25,009 (2020: EUR 2,275) was made by the OPCW during the reporting period.

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

5.1 During the 2021 financial year, no items required approval for write-off by the Conference in line with Financial Regulation 10.5 and relevant administrative directives. The Director-General approved irrecoverable accounts receivable and foreign VAT of EUR 12,822 for write-off in the 2021 financial year.

5.2 In addition, the OPCW Property Survey Board recommended during 2021 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, the OPCW Laboratory, and the Investigation and Identification Team.

Inspections

(a) 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.

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

International Cooperation and Assistance

(a) 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.

(b) 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

(a) 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.

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

External Relations

(a) 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.

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

Executive Management

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

(b) 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

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

(b) 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.

(h) Special Fund for Capacity Building for Laboratories: The purpose of this fund is to augment the Organisation's capacity-building activities, with a focus on assistance and protection, chemical safety and security management, and support for laboratories in developing countries or in countries with economies in transition.

(i) Special fund for Major Capital Investments. The purpose of this fund is to provide funding for major capital investments for property, plant, equipment, and intangible assets.

(j) COVID-19 Variability Impact Fund: The activities included in the fund are traditionally core activities that will be moved to the fund as a direct result of the temporary operational uncertainty surrounding the ongoing situation brought about by COVID-19 and the intention of maintaining zero nominal growth of States Parties' assessments in 2022.

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[33] systems to support on- and off-site chemical analysis;

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

---

33 GC-MS = gas chromatography-mass spectrometry.

(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) Syria Trust Fund for the destruction of chemical weapons pursuant to the decision of the Executive Council (EC-M-34/DEC.1, dated 15 November 2013);

(o) 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;

(p) 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;

(q) 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;

(r) 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;

(s) 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.;

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

(u) 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

(v) 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 FOR THE YEAR ENDED 31 DECEMBER 2021

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 Organisation for the Prohibition of Chemical Weapons (OPCW) for the year ended 31 December 2021 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 2021, financial performance, and cash flows for the year then ended.

[Signed]

The Hague, 4 July 2022

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 2021

TABLE OF CONTENTS

THE PROVIDENT FUND OF THE OPCW

STATEMENT I
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021
(expressed in euro ‘000s)

	Notes	2021	2020
Assets			
Current assets			
Investments	6	376	411
Accounts receivable	7	10	8
Cash and cash equivalents	8	65,274	66,147
Total current assets		**65,660**	**66,566**
Total assets		**65,660**	**66,566**
Liabilities			
Current liabilities			
Accounts payable	9	3,844	3,062
Total current liabilities		**3,844**	**3,062**
Total liabilities		**3,844**	**3,062**
Net assets		**61,816**	**63,504**
Net assets/equity			
Participants’ capital accounts	10.1	61,731	63,410
Special reserves	10.2	80	80
Accumulated surplus/(deficit)	10.3	5	14
Total net assets/equity		**61,816**	**63,504**

THE PROVIDENT FUND OF THE OPCW

STATEMENT II
STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 31 DECEMBER 2021
(expressed in euro '000s)

	Notes	2021	2020
Revenue			
Interest income on Participants' capital accounts	11	195	193
Gain on changes in fair value of investments	12	40	20
Total revenue		**235**	**213**
Expenses			
General operating expenses	13	9	1
Total expenses		**9**	**1**
Net finance income/(cost)	14	**5**	**(12)**
Net surplus/(deficit) for the period		**231**	**200**
Net surplus/(deficit) for the period			
Attributable to Participants of the Provident Fund		240	200
Attributable to special reserve		**-**	**-**
Accumulated surplus/(deficit)		(9)	(1)
		231	**199**

THE PROVIDENT FUND OF THE OPCW

STATEMENT III
STATEMENT OF CHANGES IN NET ASSETS/EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021
(expressed in euro '000s)

	Participants' Capital Accounts	Special Reserve	Accumulated Surplus/ (Deficit)	Total Net Assets/ Equity
Balance at 1 January 2020	**61,535**	**80**	**11**	**61,626**
Changes recognised in net assets/equity:				
Current year contributions	11,726	-	-	11,726
Payouts	(10,051)	-	-	(10,051)
Other adjustments to net assets	-	-	4	4
Subtotal	**1,675**	-	**4**	**1,679**
Surplus/(deficit) for the period	200	-	(1)	**199**
Balance at 31 December 2020	**63,410**	**80**	**14**	**63,504**
Balance at 1 January 2021	**63,410**	**80**	**14**	**63,504**
Changes recognised in net assets/equity:				
Current year contributions	11,423	-	-	11,423
Payouts	(12,560)	-	-	(12,560)
Other adjustments to net assets[34]	(782)	-	-	(782)
Subtotal	**(1,919)**	-	-	**(1,919)**
Surplus/(deficit) for the period	240	-	(9)	**231**
Balance at 31 December 2021	**61,731**	**80**	**5**	**61,816**

[34] Other adjustments to net assets include payout requests outstanding at 31 December and transfers to the UNJSPF. In 2021, there were five transfers to the UNJSPF (2020: two).

THE PROVIDENT FUND OF THE OPCW

STATEMENT IV
CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2021
(expressed in euro '000s)

	Notes	2021	2020
Cash from operating activities			
Net surplus/(deficit) for the period		231	199
Non-cash movements			
(Increase) / decrease in accounts receivable	7	(2)	-
Increase / (decrease) in accounts payable	9	782	375
Reclassification of net assets/equity to liability	9	(782)	(374)
Unrealised currency exchange loss/(gain) on cash and cash equivalents	14	(5)	6
Currency exchange loss/(gain) on investments		-	9
(Gain)/loss on changes in fair value of investments	12	(40)	(20)
Net cash flows from operating activities		**184**	**195**
Cash flows from investing activities			
Proceeds from sale of investments		75	-
Net cash flows from investing activities		**75**	**-**
Cash flows from financing activities			
Participants' contributions		11,423	11,726
Payouts to separated Participants		(12,560)	(9,674)
Net cash flows from financing activities		**(1,137)**	**2,052**
Net increase / (decrease) in cash and cash equivalents		**(878)**	**2,247**
Unrealised currency exchange (loss)/gain on cash and cash equivalents	14	5	(6)
Cash and cash equivalents at beginning of the period	8	66,147	63,906
Cash and cash equivalents at end of the period		**65,274**	**66,147**

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 2021

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 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 2021.

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 2021, 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 2023	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 2023	Not applicable.
IPSAS 43 Leases	To increase transparency related to assets and liabilities that arise from lease contracts, eliminate information asymmetry, and increase comparability between financial statements of lessees that buy assets from those that lease assets.	1 January 2025	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 0.2% 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 2021	0.881
Average 12 months	0.843

Period	USD/EUR
31 December 2020	0.815
Average 12 months	0.878

(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 2021. 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 2021.

Cash and cash equivalents

3.3 Cash and cash equivalents include current and savings deposits held at call with the ABN AMRO Bank (hereinafter "ABN AMRO"). 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 financial assets carried at amortised cost (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 2021.

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 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 Meeting 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 2021, if the euro had weakened/strengthened by 10% against the US dollar, the net deficit for the year would have been EUR 13 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:

	2021		**2020**	
	for EUR accounts	**for USD accounts**	**for EUR accounts**	**for USD accounts**
Average interest rate	0.28%	0.10%	0.30%	0.49%
Interest rate at 31 December	0.30%	0.05%	0.30%	0.14%

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, and represent only 0.6% of the total assets of the Provident Fund. 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 2021, ABN AMRO was 56.3% owned by the Dutch Government (2020: 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 customers' 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.

5.9 As would be expected, credit rating agencies put a number of banks on negative outlook watch and downgraded some due to the more difficult operating and economic conditions, low interest rate environment, and likely deteriorating loan asset quality concerns as a result of the COVID-19 pandemic. The Provident Fund Management Board is actively monitoring all ratings for the financial institutions with which it holds cash. Despite the aforementioned impact of the COVID-19 pandemic on the credit ratings of some financial institutions, the banks used by Provident Fund continued to hold a P-1 rating as at the reporting date.

Liquidity risk

5.10 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.

5.11 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	3,844	-	-	-	-	3,844
Total financial liabilities	**3,844**	**-**	**-**	**-**	**-**	**3,844**

5.12 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 Services 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)	2021	2020
USD units	66	76
EUR units	310	335
Total investments	**376**	**411**

7. ACCOUNTS RECEIVABLE

The receivable amount of EUR 10 thousand as at 31 December 2021 (2020: EUR 8 thousand) represents an amount due to the Provident Fund from a separated 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)	**2021**	**2020**
Unrestricted		
Current accounts in EUR	830	86
Current accounts in USD	1	1
Total unrestricted	**831**	**87**
Restricted		
Savings accounts in EUR	64,382	66,004
Savings accounts in USD	61	56
Total restricted	**64,443**	**66,060**
Total cash and cash equivalents	**65,274**	**66,147**

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 '000s)	**2021**	**2020**
Participants' contributions (A accounts)	18,800	18,887
OPCW's contributions (B accounts)	37,602	37,774
Participants' contributions (A+B) before 17 December 2007	1,511	1,506
Participants' voluntary contributions (C accounts)	6,469	7,837
Total	**64,382**	**66,004**

9. ACCOUNTS PAYABLE

(expressed in euro '000s)	**2021**	**2020**
Amounts payable to separating Participants	3,844	3,062
Total	**3,844**	**3,062**

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 61,731 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 2021 (2020: EUR 63,410 thousand).

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 (2020: EUR 80 thousand). There were no new cases during 2021.

10.3 Accumulated surplus/(deficit) (EUR 5 thousand) represents the cumulative gain/(loss) that is not attributable to specific Participants' accounts (2020: EUR 14 thousand). The Board will decide how to use the surplus. The movement in 2021 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 2021 was as follows:

(expressed in euro '000s)	**2021**	**2020**
Interest on Participants' contributions (A accounts)	56	51
Interest on OPCW's contributions (B accounts)	114	114
Interest on contributions (A+B) before 17 December 2007	5	4
Interest on voluntary contributions (C accounts)	20	24
Total	**195**	**193**

12. GAIN ON FINANCIAL ASSETS

In 2021, there is an amount of EUR 40 thousand gain due to changes in fair value of the UBS units (2020: EUR 20 thousand gain).

13. EXPENSES

General operating expenses

The Provident Fund incurred operating expenses in the year 2021 of EUR 9 thousand (2020: EUR 1 thousand) relating to bank charges and consultancy fees. 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.

14. FINANCE INCOME AND FINANCE COST

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

(expressed in euro '000s)	2021	2020	
Unrealised Foreign currency gains / (Losses)	5	(13)	(*)
Realised Foreign currency gains / (Losses)	-	1	(*)
Net finance income/(costs)	**5**	**(12)**	

(*) 2020 note restated to present the unrealised and realised currency

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 2021.

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. As at 31 December 2021, EUR 4 thousand was payable from the OPCW to the Provident Fund (2020: EUR 4 thousand), and no amount was due from the Provident Fund to the OPCW (2020: EUR no amount).

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

No 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 ON THE FINANCIAL STATEMENTS OF THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS (OPCW) FOR THE YEAR ENDED 31 DECEMBER 2021

Opinion

We have audited the financial statements of the Organisation for the Prohibition of Chemical Weapons (OPCW) which comprise the statement of financial position (statement I) as at 31 December 2021, the statement of financial performance (statement II), the statement of changes in net assets/equity (statement III), the statement of cash flow (statement IV) and the statement of comparison of budget and actual amounts (statement V) for the year then ended, as well as the notes to the financial statements, including summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Organisation for the Prohibition of Chemical Weapons (OPCW) as at 31 December 2021, and its financial performance, changes in net assets/equity, cash flow, and comparison of budget and actual amounts for the year then ended in accordance with the International Public Sector Accounting Standards (IPSAS).

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing. Our responsibilities under those standards are described in the section below entitled "Auditor's responsibilities for the audit of the financial statements". We are independent of OPCW in accordance with the ethical requirements relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial statements and the auditor's report thereon

Management is responsible for the other information, which comprises the information included in the Director General's Report for the year ended 31 December 2021, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, on the basis of the work that we have performed, we conclude that there is a material misstatement in the other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS and for such internal control as management determines to be 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 ability of OPCW to continue as a going concern, disclosing, as applicable, matters related to the going concern and using the going-concern basis of accounting unless the management intends either to liquidate OPCW or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of OPCW.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing 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 the International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

(a) Identify and assess the risks of material misstatement in 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 our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentation or the overriding of internal control;

(b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of OPCW;

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management;

(d) Draw conclusions as to the appropriateness of the management's use of the going-concern basis of accounting and, on the basis of the audit evidence obtained, whether a material uncertainty exists in relation to events or conditions that may cast significant doubt on the ability of OPCW 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 OPCW to cease to continue as a going concern;

(e) 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.

We 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 we identify during our audit.

Report on other legal and regulatory requirements

Furthermore, in our opinion, the transactions of OPCW that have come to our notice or that we have tested as part of our audit have, in all significant respects, been in accordance with the OPCW Financial Regulations.

In accordance with the Article 13 of OPCW Financial Regulations, we will also issue a long-form report on our audit of the Organisation for the Prohibition of Chemical Weapons.

Girish Chandra Murmu
20 July 2022 **Comptroller and Auditor General of India**

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE PROVIDENT FUND OF THE ORGANISATION FOR THE PROHIBITION OF CHEMICAL WEAPONS (THE PROVIDENT FUND) FOR THE YEAR ENDED 31 DECEMBER 2021

Opinion

We have audited the financial statements of the Provident Fund of the Organisation for the Prohibition of Chemical Weapons (the Provident Fund) for the year ended 31 December 2021,which comprise the statement of financial position (statement I), the statement of financial performance (statement II), the statement of changes in net assets/equity (statement III) and the statement of cash flow (statement IV) for the year then ended, as well as the notes to the financial statements, including summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Provident Fund as at 31 December 2021, and its financial performance, changes in net assets/equity and cash flow for the year then ended in accordance with the International Public Sector Accounting Standards (IPSAS).

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing. Our responsibilities under those standards are described in the section below entitled "Auditor's responsibilities for the audit of the financial statements". We are independent of the Provident Fund in accordance with the ethical requirements relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial statements and the auditor's report thereon

Management is responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, on the basis of the work that we have performed, we conclude that there is a material misstatement in the other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS and for such internal control as management determines to be 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 ability of the Provident Fund to continue as a going concern, disclosing, as applicable, matters related to the going concern and using the going-concern basis of accounting unless the management intends either to liquidate the Provident Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of the Provident Fund.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing 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 the International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

(a) Identify and assess the risks of material misstatement in 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 our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentation or the overriding of internal control;

(b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Provident Fund;

(c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management;

(d) Draw conclusions as to the appropriateness of the management's use of the going-concern basis of accounting and, on the basis of the audit evidence obtained, whether a material uncertainty exists in relation to events or conditions that may cast significant doubt on the ability of the Provident Fund 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 Provident Fund to cease to continue as a going concern;

(e) 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.

We 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 we identify during our audit.

Report on other legal and regulatory requirements

Furthermore, in our opinion, the transactions of the Provident Fund that have come to our notice or that we have tested as part of our audit have, in all significant respects, been in accordance with the Charter and Administrative Rules of the Provident Fund, Financial Regulations and Rules of OPCW.

Girish Chandra Murmu
20 July 2022 **Comptroller and Auditor General of India**

Office of the Comptroller and Auditor General of India

लोकहितार्थ सत्यनिष्ठा
Dedicated to Truth in Public Interest

Our audit aims to provide independent assurance and to add value to the Organisation for the Prohibition of Chemical Weapons (OPCW) by making constructive recommendations.

For further information, please contact:

Mr. Amitabh Prasad
Principal Director (International Relations)
Office of the C&AG of India
E-mail: prasadA@cag.gov.in

Audit of the Organisation for the Prohibition of Chemical Weapons (OPCW) for the Financial Year ended 31 December 2021

Contents

Executive Summary

1. The report comprises the results of the audit of the financial statements and operations of the Organisation for the Prohibition of Chemical Weapons (OPCW) for the financial year ended 31 December 2021 pursuant to Financial Regulations 13.1 to 13.10 of the OPCW and the Additional Terms of Reference governing external audit appended thereto.

2. This is the first audit report by the Comptroller and Auditor General of India, under our mandate as the External Auditor of the OPCW from 2021 to 2023.

3. The general objectives of the audit are to provide independent assurance on the fairness of the presentation of the financial statements, to help increase transparency and accountability in the Organisation, and to support the Organisation's work through the external audit process.

Overall results of the audit

4. In line with our mandate, we audited the financial statements of OPCW and OPCW Provident Fund in accordance with the Financial Regulations and in conformity with the International Standards on Auditing (ISA) and auditing standards promulgated by the International Organisation of Supreme Audit Institutions (INTOSAI).

5. We concluded that the financial statements present fairly, in all material respects, the financial position of OPCW and OPCW Provident Fund for the financial year ended 31 December 2021. The organisation's financial performance, the changes in net assets/equity, the cash flows, and the comparison of budget and actual amounts are in accordance with the International Public Sector Accounting Standards (IPSAS). Based on our conclusion, we issued an unqualified audit opinion on the Organisation's financial statements for the financial year ended 31 December 2021. We acknowledge the concerted efforts of the Technical Secretariat (Secretariat) and the staff members towards ensuring compliance with IPSAS.

6. During the audit, we have identified audit adjustments that have been addressed by the Secretariat in the final version of the financial statements. We also made two audit recommendations on the recognition of assessed contribution and periodic reconciliation of provident fund contributions. Implementation of these recommendations will further strengthen the recording and financial reporting. The Secretariat accepted these audit recommendations.

7. In addition to the audit of the financial statements and compliance audit at OPCW headquarters, we conducted a performance audit on the 'verification regime and site selection methodology' and an information systems audit of the new Enterprise Resource Planning (ERP) system. We also followed up on the implementation of previous recommendations of the External Auditor (**Annexure- 1**).

Key findings and recommendations

Financial audit

8. We examined the OPCW Financial Statements and noticed two material issues in respect of adjustment of the previous year's cash deficit with the current year's cash surplus and overstatement of employee benefit expenses. The Secretariat accepted the audit observations and incorporated the requisite changes in the revised Financial Statements.

9. We observed the need for additional disclosures in the Financial Statements with respect to contingent liabilities, contingent assets, related party transactions and change in assumptions by the Actuary. The management accepted the audit observations and incorporated the requisite disclosures in the revised Financial Statements.

10. The budget utilisation rate dropped to 91.71 percent during 2021, which resulted in savings of EUR 5755 thousand. The budget utilisation was 99.30 percent and 93.17 percent during 2019 and 2020 respectively. Significant under-utilisation of funds for the International Cooperation and Assistance (ICA) Programme was noted during 2020 and 2021 as only 64.51 percent and 54.72 percent of originally budgeted amounts were utilised, respectively.

11. We noted that the low budget utilisation in 2021 and 2020 compared to previous years was due to the impact of COVID-19 on international travel affecting in-person activities of the Secretariat in 2021.

Performance audit on the verification regime and site selection methodology

Audit approach

12. We reviewed the performance of the Secretariat with regard to the implementation of verification regime for the period 2019 to 2021. As we did not have access to underlying data and records on the grounds of confidentiality, our audit approach included receiving information through questionnaires, requisitions, audit queries and discussions with the key personnel.

The Verification Regime of the Chemical Weapons Convention: An Overview

13. The Verification Annex to the Convention provides a comprehensive regime for verifying all chemical weapons-related activities as well as verifying the accuracy and completeness of the States Parties' declarations. It stipulates the requirements for the declaration of chemical weapons storage and destruction facilities; and industrial activities by the States Parties and the verification process to be followed by the Secretariat.

14. All States Parties are required to make initial and subsequent annual declarations, providing information on Chemical Weapons, Chemical Weapons Storage Facilities (CWSFs), Chemical Weapons Destruction Facilities (CWDFs), Chemical Weapons Production Facilities (CWPFs), facilities used in the past for the development of chemical weapons and riot control agents. Similarly, all States Parties are required to make chemical industry declarations related to toxic chemicals and precursors that are mentioned in the three schedules of chemicals, as well as to Other Chemical Production Facilities (OCPFs).

15. The Secretariat performs the verification process by collecting, evaluating, and compiling declarations; by planning inspections and carrying out on-site inspections and by reviewing inspection reports. The Secretariat selects the declared sites for inspections on the basis of criteria mentioned in the Convention with respect to Article VI[35] inspections. Initial inspections are mandatory and time-bound for certain chemicals and plant sites. Subsequent inspections, on the other hand, are to be based on risk assessment or random selection depending on the nature of the chemical and plant site. The Convention also prescribes the weighting factors for random selection of sites for inspection.

Initial declarations

16. We found that one State Party which ratified the convention on 29 May 2003 and was to submit the initial declaration required under the Convention by 28 June 2003 was yet to submit it. We noted the efforts being made by the Secretariat to facilitate the submission of the initial declaration by the concerned State Party.

Annual declarations

17. As for submission of annual declarations on past activities, we noticed that 91 percent, 67 percent and 75 percent of the declarations were received within the prescribed timelines during 2019, 2020 and 2021 respectively. We observed that compliance had decreased over 2019-2021 due to the effect of COVID-19 pandemic.

18. The Secretariat should continue to provide customised support, through bilateral consultations with National Authorities, to those State Parties which encounter difficulties in submitting their annual declarations.

Initial inspections

19. The ‘Annex on Chemicals’, forming part of the Convention, lists certain toxic chemicals and their precursors in Schedules 1, 2 and 3 in order to ensure that such chemicals are only used for purposes not prohibited under the Convention. We noted that there were five Schedule 2 facilities, which had not been inspected within the stipulated time of one year since their declaration by the State Parties.

20. While acknowledging the constraints owing to the COVID-19 pandemic, we recommend that the Secretariat should continue to conduct the pending inspections on priority, as it is a time-bound activity under the Convention.

Implementation of Policy Guidelines for Determining the Number of Article VI Inspections

21. Article VI of the Convention obliges States Parties to accept inspections at sites and facilities that produce, or are in other ways related to, scheduled chemicals and precursors. Article VI forms the basis for industry verification measures. The Executive Council adopted the ‘Policy Guidelines for determining the number of Article VI inspections’ which spell out

---

[35] Article VI of the Convention obliges States Parties to accept inspections at sites and facilities that produce, or are in other ways related to, scheduled chemicals and precursors.

requirements that should be taken into account in determining the number of Article VI inspections. The 'Policy Guidelines' stipulate that the length of time between two Article VI inspections in any one State Party should not exceed approximately eight years. We noted that there were 6, 7 and 8 State Parties at the end of 2019, 2020 and 2021 respectively, where the length of time between two inspections had exceeded eight years. We noted that since the issue of the 'Policy Guidelines' in October 2011, the Secretariat had not been able to meet the stipulation and was not in a position to indicate a target date by which the requirements of this 'Policy Guidelines' would be fully met in the future. In response, the Secretariat informed that they have reported to the Executive Council every year since 2012, that this guideline has not been met.

22. The Executive Council had decided (October 2011) to review the 'Policy Guidelines' after three years of implementation. We noted that the existing Policy Guidelines are yet to be reviewed by the Executive Council. We recommend that the Secretariat should place the issue of review of 'Policy Guidelines' before the Executive Council.

Selection of OCPF plant sites for inspection

23. Part IX of the Verification Annex of the Convention provides for verification of 'Other Chemical Production Facilities' (OCPF) that produce organic chemicals which are not included in any of the three schedules of 'Annex of Chemicals'. The Secretariat conducted 38 out of the planned 162 inspections of OCPF plant sites in 2021 due to COVID-19 related travel restrictions. We reviewed the sampling methodology being followed by the Secretariat for selection of OCPF plant sites for inspection. The Convention requires equitable geographical distribution to be a weighting factor in the random selection of OCPF plant sites.

24. We, however, noticed from the site selection algorithm described by the Secretariat, that it does not contain a specific weighting factor for geographical distribution for the selection of OCPF plant sites.

25. In response, the Secretariat informed that there is an indirect factor in the algorithm which addresses geographical distribution. The Secretariat informed that (a) the Policy-Making Organs have so far not defined what is meant by "equitable geographical distribution", and (b) the Policy-Making Organs have been kept fully informed in detail as to the exact basis of the algorithm used, and the annual result of its application. The Secretariat further informed that the States Parties are aware of the current situation regarding the absence of specific weighting factor concerning equitable geographical distribution in respect of the random selection of OCPF plant sites for inspection and the current situation has remained unchanged since the entry into force of the Convention in 1997.

IT audit of Enterprise Resource Planning (ERP) system

26. The Secretariat rolled out the ERP system in January, 2021. We found that the System of Records (SoR[36]) module of the ERP system had been fully rolled out. As for the five components of the System of Differentiation (SoD[37]) module, three components had been implemented separately and two components, viz., asset management and travel management were yet to be implemented.

27. An upgrade of ERP system was taken up in the second quarter of 2021 for greater automation and integration of the human resources business processes and to support delivery of the remaining components of SoD. However, the timelines and cost estimation for the upgrade were yet to be finalised by the management.

28. We noted that Office of the Internal Oversight (OIO) had emphasised (February, 2022) the need to strengthen controls with respect to segregation of duties in the ERP system. We observed that the timelines and management plan for implementation of OIO's recommendations were yet to be made.

29. The Secretariat accepted our recommendation to prepare a management plan, incorporating timelines, for implementation of OIO's recommendations in respect of segregation of duties in the ERP system.

30. We made a general review of the business rule mapping of human resource entitlements and data validation controls in the ERP system. We observed that data fields such as Date of Birth did not have adequate validation controls. We recommend that the management may carry out a review of the validation controls of data fields to identify any deficiencies in the data validation controls and take corrective action, if needed, to ensure data consistency.

---

[36] SOR includes core functionalities of General ledger, accounts payable, accounts receivable, fixed assets, treasury, budget, procurement, entitlement and benefits, payroll, employee official documents.

[37] SOD includes functions of asset management, travel management, recruitment, employee performance appraisal management, and learning management system.

1. Introduction

1. The Organisation for the Prohibition of Chemical Weapons (OPCW) is the implementing body of the Chemical Weapons Convention (Convention), which came into force in 1997. The Organisation consists 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 OPCW's mission is to implement the provisions of the Chemical Weapons Convention to achieve the vision of a world free of chemical weapons and the threat of their use; and where chemistry is used for peace, progress, and prosperity. According to the Medium Term Plan (MTP) of OPCW, the Organisation's vision is to continue to be the premier international organisation working for a world free of chemical weapons, with a focus on preventing their re-emergence, by implementing all provisions of the Convention in an effective, efficient, and non-discriminatory manner.

2. The organisation has three organs: the Conference of the States Parties, the Executive Council, and the Technical Secretariat (Secretariat). The regular budget of the Organisation is funded through the General Fund and covers activities related to verification, inspections, international cooperation and assistance, support to the Policy-Making Organs, external relations, executive management, and administration. Special Funds are also established for specific purposes, with funding derived from the General Fund through the transfer of cash surpluses and/or budgetary surpluses in specific programmes. Trust Funds are funded through voluntary contributions for clearly defined activities that are consistent with the policies, aims, and activities of the OPCW in the implementation of the Convention.

3. In addition to our opinion on the financial statements of the OPCW and the OPCW Provident Fund, this report presents the key findings and recommendations arising from our work. Our report comments on OPCW's financial position, its approach to strategic financial management and governance arrangements. Also included are our findings of the performance audit of the verification regime and site selection methodology; and Information Systems audit of the new Enterprise Resource Planning (ERP) system. We also followed up on the implementation of previous recommendations of the External Auditor.

2. Audit mandate, scope and methodology

4. The Comptroller and Auditor General of India was appointed External Auditor of the Organisation for a period of three years commencing with the year 2021. External Audit draws its mandate from Article 13 of the Financial Regulations and Rules of the OPCW. This is the first year of our audit mandate and the first report to be issued on an annual basis by the Comptroller and Auditor General of India.

5. Our audit is an independent examination of the evidence supporting the amounts and disclosures in the financial statements. It includes the assessment of the accounting principles used and significant estimates made by the Organisation, as well as the overall presentation of the financial statements. It also includes performance audits and an assessment of compliance by OPCW with Financial Regulations and legislative authority.

6. We conducted our audit in accordance with the International Standards on Auditing (ISA). These standards require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatements. We coordinated our planned audit areas with the Office of the Internal Oversight (OIO) to avoid unnecessary duplication of efforts and determine the extent of reliance that can be placed on the latter's work. We also collaborated with the Advisory Body on Administrative and Finance Matters (ABAF**)**.

7. We reported the audit results to the OPCW management through audit observations and recommendations. The response of the OPCW management to our audit observations and recommendations have been incorporated, as appropriate, in the audit report.

3. Results of audit

8. This section presents the results of the audit for the financial year 2021. The recommendations provided to management are designed to support the objectives of OPCW mandate, to reinforce accountability and transparency, and to add value to the OPCW financial management and governance.

3.1 Financial overview

a) OPCW's revenue in 2021 was EUR 89.97 million, an increase of EUR 10.91 million, as compared to revenue in 2020 (EUR 79.06 million). The increase was mainly due to increase in assessed and voluntary contributions by EUR 7.18 million and EUR 5.27 million respectively. The increase in assessed contribution in 2021 is due to reduction of previous years liability on account of estimated cash surplus to be allocated among the States Parties. However, assessed contributions should be recognised according to the scale of assessment approved by the Conference of the States Parties, and adjustments related to the estimated cash surpluses should be carried out separately.

b) The total expenses in 2021 was EUR 71.84 million which remained at around the same level in 2020 (EUR 71.51 million). Employee benefit expenses decreased by EUR 3.2 million, primarily due to the decrease in the accrual for home leave and the reduction of annual leave liabilities in 2021.

c) There was a surplus of EUR 18.81 million in 2021 as compared to a surplus of EUR 6.95 million in 2020. This increase of EUR 11.9 million in net surplus was mainly due to decrease in employee benefit expenses and increase in both assessed contribution and voluntary contributions.

d) Total assets of the organisation as on 31 December 2021 are valued EUR 100.06 million, an increase of EUR 2.77 million as compared to 31 December 2020 (EUR 97.28 million).

e) The overall value of cash and cash equivalents increased to EUR 58.3 million in 2021 from EUR 50.9 million in 2020. Assessed contributions receivable decreased to EUR 6.94 million in 2021 from EUR 8.71 million in 2020, and voluntary contribution receivable also decreased to EUR 7.30 million in 2021 from EUR 15.83 million in 2020.

f) The Organisation's total liabilities in 2021 (EUR 54.13 million) decreased by EUR 17.1 million as compared to 2020 (EUR 71.19 million) due to a reduction of deferred revenue by EUR 16.19 million, and decrease of employee benefits liabilities of EUR 2.6 million.

g) We analysed the liquidity position of the organisation to assess its ability to meet its short-term commitments or operating needs. The current and cash ratios for the three years indicate stable and consistent financial position. In the year 2021, both current and cash ratio increased over the previous two years.

Table 1: Ratio analysis for 2019 to 2021

Financial Ratio	2021	2020	2019
Current ratio (current asset/current liability)	2.70	1.80	1.68
Cash ratio (cash/current liability)	1.95	1.09	1.12

Source: Financial Statements 2021

3.2 Financial audit observations

9. We examined the OPCW Financial Statements for the year 2021 in the light of IPSAS and accounting policies framed by the management. The audit findings are discussed in the following paragraphs.

3.2.1 Changes made in the Financial Statements at the instance of audit

10. We noticed two material issues in respect of adjustment of previous year cash deficit with current year cash surplus and overstatement of employee benefit expenses, as depicted in Table 2. Management accepted the audit observations and incorporated the requisite changes in the revised Financial Statements.

Table 2: Financial audit observations

Sr. No	Gist of Para	Amount in EUR	
		Impact on Financial Performance	**Impact on Financial Position**
1	<u>Adjustment of previous year's cash deficit with current year cash surplus</u> OPCW adjusted the cash deficit for the year 2019 from the cash surplus of the year 2020 (determined in the year 2021). We noted that the approval of the Conference of the States Parties for this adjustment was required under Rule 6.3 (c) of OPCW Financial Regulations and Rules for the adjustment.	Overstatement of revenue by EUR 1236 thousand	Understatement of cash surplus liability to the same extent.
2	<u>Overstatement of employee benefit expenses for the year 2021</u> We noted that post-employment benefits taken as EUR 2018 thousand included EUR 749 thousand for repatriation grant which was already a part of the actuarial estimation of post-employment benefit liability.	Overstatement of employee benefit expenses by EUR 749 thousand	Overstatement of Accounts Payable to the same extent.
Overall impact on the Net Assets		Net Assets were understated by EUR 487 thousand	

3.2.2 Disclosures made in Financial Statements at the instance of audit

11. We noticed the need for additional disclosures in the Financial Statements with respect to contingent liabilities, contingent assets, related party transactions and change in assumptions by the Actuary. Audit observations were accepted by the management and the requisite disclosures were incorporated in the revised Financial Statement. Details of the disclosures are mentioned in **Annexure-2.**

3.2.3 Assessed contribution

12. The assessed contribution for the year 2021 was EUR 67,120 thousand as approved by the Conference of the States Parties (Note 24). However, the organisation has depicted the assessed contribution in the statement of financial performance as EUR 66,821 thousand after carrying out adjustments related to estimated cash surplus to be allocated, eventually, to the State parties. For the better presentation of the statement of financial performance, the assessed contribution of the current year should not be reduced with the estimated cash surplus (pending decision of the Conference of the States Parties for its allocation among the State Parties). We are of the view that assessed contribution should be recognised according to the scale of assessment as approved by the Conference of the States Parties and any adjustment related to the estimated cash surplus should be recorded separately.

Recommendation 1 – We recommend that assessed contribution should be recognised according to the scale of assessment as approved by the Conference of the States Parties, and any adjustment related to the estimated cash surplus should be recorded separately.

13. The Secretariat accepted the recommendation.

3.2.4 Reconciliation of provident fund contributions

14. Rule 3 of the Charter and Administrative Rules of the Provident Fund of the OPCW inter alia states that each participant makes a monthly contribution of 7.9 percent of their pensionable remuneration and the Secretariat makes a matching contribution of 15.8 percent of the pensionable remuneration into the Provident Fund. The combined contribution of the participants and the Secretariat is 23.7 percent of the pensionable remuneration of the participants. We noted that the participants contributed EUR 3,649 thousand (7.9 percent) of own share into the provident fund and OPCW contributed EUR 7,298 thousand (15.8 percent). We noted from the OPCW financial statements for the year 2021 that EUR 7,514 thousand was charged as employee benefit expense towards OPCW contribution to the Provident Fund resulting in a difference of EUR 216 thousand, which needed to be reconciled. The Management reconciled the difference except for a minor amount, which required further examination.

Recommendation 2 - We recommend that the Technical Secretariat should carry out quarterly reconciliation of provident fund balances to ensure that provident fund contributions made by OPCW matches with the contribution of participants.

15. The Secretariat accepted the recommendation.

4. Budget utilisation

16. Programme and Budget of OPCW was prepared annually until 2021 which has shifted to biennium basis from 2022-23. The regular budget is divided into two chapters, which are further subdivided into seven programmes. The detailed budget utilisation for the period 2017 - 2021 is in **Annexure-3**.

17. We noted a budget utilisation rate of 91.71 percent during 2021, which resulted in savings of EUR 5755 thousand. The budget utilisation was 99.30 percent and 93.17 percent during 2019 and 2020, respectively. We further noted that there was significant under-utilisation of funds in the International Cooperation and Assistance (ICA) Programme during 2020 and 2021 as only 64.51 and 54.72 percent of originally budgeted amounts were utilised, respectively. In response, the Secretariat stated that the COVID-19 travel restrictions in 2020 and 2021 affected the utilisation of ICA because travel constitutes over 70 percent of non-staff cost in the ICA programme. Nevertheless, the Secretariat has continued to deliver on its international cooperation and assistance mandate and to provide capacity-building support to States Parties.

18. The Secretariat informed that in order to minimise the impact of COVID-19 pandemic on the implementation of the OPCW's activities and programme, an internal Task Force was established by the Director-General in January 2020 to monitor and assess the situation and to make recommendations to the Director-General on appropriate measures.

4.1 Inter-programme transfer of funds

19. We noted following significant fund transfers made between programmes during 2017-2020 as detailed in Table 3:

Table 3: Transfer of Funds during 2017-2020

Year	Transfer from	Transfer to	Amount in EUR
2017	Inspections Programme	Verification Programme	261,000
	International Cooperation and Assistance Programme (ICA)	Programme for the Support to the Policy-Making Organs	260,000
	Administration Programme	Executive Management Programme	493,000
2018	International Cooperation and Assistance Programme	Programme for the Support to the Policy-Making Organs	360,000
	Administration Programme	Executive Management Programme	443,000
2019	International Cooperation and Assistance Programme	Administration Programme	314,950
2020	International Cooperation and Assistance Programme	Administration Programme	694,000

20. We observed that for each year during 2017 to 2020, significant funds (above EUR 200 thousand) were transferred from the ICA Programme to other programmes. We also noted the transfer of significant funds from the Administration Programme to the Executive Management Programme during 2017 and 2018.

21. In response, the Secretariat stated that the transfer between programmes during 2017-2020 occurred without detriment to the approved activities of the respective programmes. The funds

were transferred mainly to cover staff costs, expenditure for the World Forum for the Fourth Special Session of the Conference of the States Parties, to cover staff turnover costs, etc.

22. The Secretariat further stated that the OPCW regular budget had been experiencing annual decreases in real terms over the past decade. Therefore, the 2022-2023 budget includes a revision of standard staff costs to bring them closer to the 2020 actual costs, as well as a provision for inflationary increases based on the forecast reflected in the European Central Bank survey of professional forecasters.

5. Performance audit on verification regime and site selection methodology

23. The Secretariat's Verification Division and Inspectorate Division work towards achieving chemical disarmament and preventing the re-emergence of chemical weapons through evaluation of States Parties' declarations; planning and conducting of inspections at both chemical weapons storage and destruction facilities; and chemical industry facilities. Apart from evaluating the declarations, the Verification Division maintains and strengthens the scientific capabilities of the Organisation, especially its laboratory component. The Inspectorate Division is responsible for the efficient and effective deployment of inspection teams to both chemical weapons storage and destruction facilities; and commercial facilities around the world, as required by the Convention.

24. We reviewed the performance of the Secretariat with regard to verification regime during 2019 to 2021 to obtain reasonable assurance that the mandate given to the Secretariat with respect to systematic verification was carried out in an efficient, effective and non-discriminatory manner; and that the monitoring and governance mechanisms were adequate and functional.

25. Our audit approach included receiving information through questionnaires, requisitions, audit queries and discussions with the concerned personnel. We could not review the underlying data and records relating to the verification regime as the same was not provided by the Technical Secretariat citing confidentiality requirements of the Convention. In response, the Secretariat informed that it was unable to provide the underlying data and records due to the requirements of the Annex to the Convention on the protection of confidential information. Our audit observations are, therefore, based on the information and confirmations provided by the Secretariat. The audit findings are as follows:

5.1 Submission of initial declarations

26. Para 1 of Article III requires that each State Party shall submit to the Organisation, not later than 30 days after this Convention enters into force, declarations in respect of chemical weapons, riot control agents, old chemical weapons and abandoned chemical weapons, chemical weapons production facilities, and other facilities.

27. We observed that one State Party, which ratified the convention on 29 May 2003, is yet to submit the initial declaration with respect to Article III, IV, V and VI of the Convention, which was due on 28 June 2003.

28. The Secretariat stated that it had provided support to the State Party in a number of ways since 2003 including the provision of legal training relevant to the establishment of domestic legislation. This would enable the State Party to give effect to the obligations it has taken on under the Convention. We appreciate the efforts made by the Secretariat in facilitating the filing of the initial declaration by the State Party.

5.2 Submission of annual declarations

(a) Annual declarations

29. According to the Convention[38], States Parties are required to submit following annual declarations:

- Annual Declaration on Past Activities (ADPA),
- Annual Declaration on Anticipated Activities (ADAA),
- Annual Declaration for Aggregate National Data for Schedule 2 and Schedule 3 chemicals.
- Annual Declaration to update the list of Other Chemical Production Facilities (OPCF) sites.

30. The Secretariat informed that 92, 85, 88 out of 193 State Parties submitted annual declarations during 2019, 2020 and 2021 respectively. Further, it was stated that States Parties are required, under the Convention and respective decisions of the Policy- Making Organs, to submit annual declarations where the State Party judges that they have or will undertake declarable activity. It was clarified that the Secretariat has no insight into whether or not such activity is applicable to a State Party. However, the Secretariat makes informal assumptions as to which State Party is likely to declare based on the previous declarations by that State Party.

(b) Delay in submission of annual declarations

31. According to para 4 of Part VII and para 4 of Part VIII of the Verification Annex, each State Party shall submit Annual Declarations on Past Activities (ADPAs) not later than 90 days after the end of the previous calendar year and Annual Declarations on Anticipated Activities (ADAAs) not later than 60 days before the beginning of the following calendar year in respect of Schedule 2 and Schedule 3 chemical plant sites.

32. We reviewed the timeliness of submission of annual declarations (ADPA) by the States Parties and observed that compliance had decreased over 2019-2021 with substantial delays as shown in Table 4 below:

38 Para 13 to 20 of Part VI for Schedule 1 chemical, Para 1 to 4 of Part VII for Schedule 2 chemical, Para 1 to 4 of Part VII for Schedule 3 chemicals and Para 1 & 3 of Part IX of the Verification Annex for OCPF.

Table 4: Delays in submission of ADPA

Year	No. of States Parties that submitted annual declarations	Number of States Parties that submitted the annual declarations within the prescribed timeline	% of States Parties that submitted annual declarations within prescribed timeline	Number of States Parties that submitted the annual declarations beyond the prescribed timeline
(1)	(2)	(3)	(4)	(5)
2019 (for activities performed in 2018)	92	84	91	8
2020 (for activities performed in 2019)	85	57	67	28
2021 (for activities performed in 2020)	88	66	75	22

33. In response, the Secretariat stated that delays were the effect of COVID-19 pandemic and similar data for ADPA 2021, submitted during 2022, shows a marked reversal of the trend described in the table above.

(c) Annual declarations of aggregate national data of Schedule 2 and Schedule 3 chemicals

34. According to Para 1 of Part VII and Para 1 of VIII of Verification Annex, "the initial and annual declarations to be provided by each State Party pursuant to Article VI shall include aggregate national data for the previous calendar year on the quantities produced, processed, consumed, imported and exported of each Schedule 2 chemical, as well as a quantitative specification of import and export for each country involved" subject to declaration thresholds mentioned in the Para 3 of Part VII and Para 3 of Part VIII. Further, as per Para 2 of Part VII and Para 2 of VIII, "Each State Party shall submit (a) Initial declarations pursuant to paragraph 1 not later than 30 days after this Convention enters into force for it; and, starting in the following calendar year, (b) Annual declarations not later than 90 days after the end of the previous calendar year."

35. The status of submission of annual declarations for aggregate national data of Schedule 2 and Schedule 3 chemicals is given in Table 5 below:

Table 5: Status of submission of Schedule 2 and Schedule 3 chemicals

ADPA for the year	Schedule Chemical[39]	Number of SPs who filed annual declarations	Number of SPs who filed annual declarations within due date	% of SPs who filed annual declarations within due date	No of SPs who filed annual declarations after due date
(1)	(2)	(3)	(4)	(5)	(6)
2019	Schedule 2	41	30	73	11
	Schedule 3	78	52	67	26
2020	Schedule 2	44	36	82	8
	Schedule 3	81	62	77	19
2021	Schedule 2	41	38	93	3
	Schedule 3	73	64	88	9

36. We observed that while the level of compliance in respect of timely submission of annual declarations ranged from 67 percent to 93 percent, there was an improvement over the last three years.

37. The Secretariat stated that it reminds all States Parties before each declaration round of the Convention-defined deadline by which those States Parties who consider that they have declarable activity/facilities should submit such declarations. In addition, the Secretariat has regular and extensive outreach to all States Parties in terms of technical capacity for each National Authority to have the expertise to submit accurate, complete and timely declarations.

Recommendation 3 - We recommend that the Technical Secretariat should continue to provide customised support, through bilateral consultations with National Authorities, to those States Parties which encounter difficulties in submitting their annual declarations.

38. The Secretariat noted the recommendation.

5.3 Submission of declarations through EDIS

39. The Declarations Handbook provides guidance to States Parties for the preparation of declarations and for their submission to the Secretariat, including the submission of electronic declarations.

40. We observed that in February 2020, the Secretariat released the Electronic Declaration Information System (EDIS) in replacement of the Electronic Declarations Tool for National Authorities (EDNA) for the preparation of declarations under Article VI and Article III in respect of Riot Control Agents and Old Chemical Weapons of the Convention. This was done to improve the declaration information-gathering activities and the efficiency of processing such data within the Secretariat's Verification Information System (VIS). The benefits of EDIS also include enhanced efficiencies for States Parties in the preparation of declarations, especially since industry representatives are also able to use EDIS and to provide information to National Authorities electronically.

---

[39] The 'Annex on Chemicals', forming part of the Convention, lists certain toxic chemicals and their precursors in Schedules 1, 2 and 3 in order to ensure that such chemicals are only used for purposes not prohibited under the Convention.

41. The status of submission of ADPAs and ADAAs by the States Parties in 2021 through various methods is as below:

Table 6: Submission of ADPAs and ADAAs

Year	Total Number of Declarations submitted	Declarations submitted through			
		EDIS	EDNA	Own software of State Party	Non-electronic
(1)	(2)	(3)	(4)	(5)	(6)
ADPAs for 2020 submitted in 2021	88	20	29	5	34
ADAAs for 2022 submitted in 2021	44	16	13	5	10
Total declarations in 2021	132	36	42	10	44
% of total declarations		27	32	8	33

42. Table 6 above shows that only 27 percent were submitted through EDIS and the remaining 73 percent declarations were submitted through other methods including EDNA, the own software of State Party and in a non-electronic format. Submission through EDIS improves declaration information-gathering activities and the efficiency of processing such data within the Secretariat's Verification Information System (VIS).

43. Therefore, the Secretariat should continue encouraging and facilitating States Parties to submit annual declarations through a single electronic platform, EDIS.

44. In response, the Secretariat stated that it is States Parties' prerogative to submit declarations by whichever means they choose, so long as requirements of the Convention Annex on the Protection of Confidential Information are observed. The Secretariat regularly encourages States Parties to submit declarations electronically using EDIS by way of references in the annual report to the Policy-Making Organs, in the Director-General's statement to each Executive Council session, and in the course of annual meeting of National Authorities both on a regional basis and annually involving all National Authorities. The Secretariat also stated that it provides extensive support to States Parties for that purpose including the provision of specialised Article VI declarations trainings, the provision of an e-learning course on the OPCW training site, operational manuals on the EDIS system, a dedicated email address for EDIS-related queries, etc.

45. We have noted the steps taken by the Secretariat in encouraging States Parties to submit declarations electronically through EDIS.

Recommendation 4 - We recommend that the Technical Secretariat should continue its efforts to encourage and facilitate States Parties to submit annual declarations through a single electronic platform, EDIS, for more efficient handling, archival and analysis of declaration data.

46. The Secretariat noted the recommendation.

5.4 Planned vs actual inspections

47. The Secretariat provided the following status (Table 7) with respect to inspections under Article IV[40] and Article V[41] of the Convention during 2019 to 2021:

Table 7: Inspections under Article IV and Article V

Type of facility/ site	2019		2020		2021	
	Planned inspections	Carried out inspections	Planned inspections	Carried out inspections	Planned inspections	Carried out inspections
CWDF[42]	30	30	29	29	29	29
CWSF[43]	3	3	4	4	4	4
CWPF[44]	11	7	11	5	4	0
OCW[45]	5	8	6	5	6	7
ACW[46]	12	12	12	0	12	0

48. We observed that the Secretariat generally carried out all the planned inspections during 2019 to 2021; inspection of Chemical Weapons Production Facilities and Abandoned Chemical Weapons showed shortfalls.

49. In response, the Secretariat informed that shortfall with respect to CWPF and ACWs was due to either security concerns or travel restrictions resulting from the COVID-19 pandemic.

50. We observed that more inspections were carried out with respect to Old Chemical Weapons (OCWs) against the planned number of inspections during 2019 and 2021. We sought to know the reasons for conducting a higher number of inspections for OCWs.

51. In response, the Secretariat informed that based on past declaration patterns, and in some cases on future plans by States Parties concerning OCWs, the Secretariat estimates each year, for the purpose of drafting the Programme and Budget, the number of inspections it expects to undertake. However, States Parties in addition often make ad-hoc declarations during a year of OCWs, which may require inspecting. Hence, the occasional difference between the numbers of planned and implemented inspections.

52. Article VI covers activities not prohibited under the Convention, otherwise known as industry verification regime. The status of planned and carried-out Article VI inspections during 2018 to 2021 is shown in Table 8 below:

---

[40] Article IV sets out the requirements for States Parties to destroy their chemical weapons.

[41] Article V relates to the requirement for States Parties to destroy and/or convert their Chemical Weapons Production Facilities.

[42] Chemical Weapons Destruction Facilities.

[43] Chemical Weapons Storage Facilities.

[44] Chemical Weapons Production Facilities.

[45] Old Chemical Weapons.

[46] Abandoned Chemical Weapons.

Table 8: Status of Article VI inspections

Nature of facility	Type of inspection	2018		2019		2020		2021	
		Planned	Carried out	Planned	Carried out	Planned	Carried out	Planned	Carried out
Schedule 1	Initial	0	0	0	0	0	0	2	2
	Subsequent	11	11	11	11	11	7	11	11
Schedule 2	Initial	13	13	5	5	16	7	18	6
	Subsequent	29	29	37	37	26	9	31	16
Schedule 3	Inspection	19	19	19	19	19	4	19	7
OCPF	Inspection	169	169	169	169	169	55	162	38
Total		**241**	**241**	**241**	**241**	**241**	**82**	**243**[47]	**80**

53. We observed that all 241 planned Article VI inspections were carried out during 2018 and 2019. However, only 82 and 80 inspections could be carried out by the Secretariat during 2020 and 2021, respectively, due to the travel restrictions resulting from COVID-19 pandemic.

5.5 Initial inspections

(a) Initial inspections of Schedule 1 chemical facilities

54. As per para 22, 24 and 29 of Part VI of the Verification Annex, each Schedule 1 chemical facility shall be subject to systematic verification through on-site inspection and monitoring with on-site instruments. The purpose of initial inspection of the facility shall be to verify information provided and to obtain any additional information needed for planning future verification activities at the facility.

55. We observed that all the 26, 27 and 28 Schedule 1 declared facilities at the end of year 2019, 2020 and 2021, respectively had received initial inspections.

56. Para 25 of Part VI of the Verification Annex provides that “not later than 180 days after this Convention enters into force for a State Party, it shall conclude a facility agreement, based on a model agreement, with the Organisation, covering detailed inspection procedures for the facility”.

57. The Secretariat confirmed that as at the end of 2021, facility agreements have been signed with States Parties for all declared Schedule 1 facilities and approved by the Executive Council.

(b) Initial inspections of Schedule 2 chemical facilities

58. According to para 16 Part VII of Verification Annex, each Schedule 2 chemical plant site to be inspected pursuant to paragraph 12 shall receive an initial inspection as soon as possible but preferably not later than three years after entry into force of this Convention. Plant sites declared after this period shall receive an initial inspection not later than one year after production, processing or consumption is first declared.

59. The status of initial inspection of Schedule 2 chemical facilities during 2019 to 2021 is given below:

47 The Secretariat informed that 241 Article VI inspections were planned for 2021 and the two initial Schedule 1 inspections were added based on new declarations.

Table 9: Status of initial inspection of Schedule 2 chemical facilities

Year	Total facilities declared (As at the end of the year)	No of facilities for which initial inspections had not been completed as at the end of the year
2019	492	0
2020	496	13
2021	505	11*

* *includes an overlap of five inspections from 2020.*

60. Table 9 above shows that there were 13 and 11 declared Schedule 2 chemical facilities which were yet to undergo initial inspections as at the end of the year 2020 and 2021, respectively. We noted that there were five Schedule 2 facilities, which had not been inspected within the stipulated time of one year since their declaration by the State Parties.

61. We noted the response of the Secretariat that initial inspections were not completed because of the impact of the COVID-19 pandemic**.**

Recommendation 5: We recommend that the Technical Secretariat should continue to conduct the pending inspections on priority, as it is a time bound activity under the Convention.

62. The Technical Secretariat assured that it would continue to prioritise initial inspections of Schedule 2 sites.

(c) Initial inspection of Old Chemical Weapons (OCWs) and Abandoned Chemical Weapons (ACWs)

63. We observed that as of June 2022, all the initial inspections related to OCWs had been conducted. The Secretariat also confirmed that all initial inspections related to declared Abandoned Chemical Weapons had been conducted by the end of December 2021.

5.6 Implementation of 'Policy Guidelines' for determining the number of Article VI inspections

(a) Length of time between two Article VI inspections

64. Article VI of the Convention obliges States Parties to accept inspections at sites and facilities that produce or are in other ways related to scheduled chemicals and precursors. Article VI forms the basis for industry verification measures. The Executive Council adopted the 'Policy Guidelines for determining the number of Article VI inspections' which spell out requirements which should be taken into account in determining the number of Article VI inspections.

65. As per Para 1(c) of 'Policy Guidelines for determining the number of Article VI inspections' approved by the Executive Council in October 2011, the length of time between two Article VI inspections in any one State Party should not exceed approximately eight years.

66. We found that there were 6, 7 and 8 States Parties at the end of 2019, 2020 and 2021 respectively, where the length of time between two inspections had exceeded eight years.

67. We observed that out of 8 States Parties, where the length of time between two inspections had exceeded eight years at the end of 2021, the last Article VI inspection was carried out in 2013 for two States Parties, and before 2013 for six States Parties.

68. In response, the Secretariat stated that some of these States Parties might have years in which they do not declare inspectable plant sites.

69. We further noted from the Director General's note to the Executive Council in March 2022 that the requirements of Guideline 1(c) could not be met since the implementation of the Guidelines and the Secretariat was unable to predict whether the requirements of Policy Guidelines 1(c) will be fully met in the future.

70. The Secretariat responded that when the Policy Guidelines were put in place, the Secretariat was asked to report annually on the performance of the site selection algorithm against the guidelines, in light of the increased number of Article VI inspections in the programme and budget. The Secretariat has not been mandated by the Policy Making Organs to modify the site selection algorithm to ensure that the guidelines would be met, but rather to track the performance of the existing algorithm against the increased number of inspections.

(b) At least one Article VI inspection each in at least 50 percent of States Parties

71. Para 1(d) of Policy Guidelines states that at least 50 percent, and if possible 60 percent, of States Parties with facilities subject to inspection, should receive at least one Article VI inspection each in any one year.

72. The Secretariat confirmed that the above guideline was followed in 2019, 2020 and 2021.

(c) Review of 'Policy Guidelines'

73. Para 3 of 'Policy Guidelines for determining the number of Article VI inspections' states that the Executive Council "agrees to review these guidelines after three years of implementation".

74. We observed that the existing Policy Guidelines are yet to be reviewed by the Executive Council, since its approval by the Executive Council in October 2011.

75. In response, the Secretariat stated that since the introduction of these Policy Guidelines, the Secretariat has prepared an annual report to the Executive Council on the performance of the site selection process against the guidelines. Each year, the Executive Council has noted these reports**.**

76. We further noted from the Medium-Term Plan of OPCW for 2020-2024 that the Executive Council acknowledged the shift in the Convention's verification regime due to increasing achievement of results in the area of disarmament of declared chemical weapons. One of the medium-term goals of OPCW is to "support built for re-balancing the Convention's verification regime from disarmament to preventing the re-emergence of chemical weapons".

Recommendation 6: We recommend that the Technical Secretariat should place the issue of review of 'Policy Guidelines' before the Executive Council.

77. In response, the Secretariat stated that the Executive Council is informed each year by the Secretariat as to the status of compliance with the 'Policy Guidelines' and the Secretariat, therefore, regards this recommendation's objective as having already been met.

78. We appreciate the Secretariat's efforts in informing the Executive Council every year as to the status of compliance with the Policy Guidelines. However, the above audit recommendation is a suggestion to place the matter of review of guidelines before the Executive Council as required under Para 3 of Article VI 'Policy Guidelines for determining the number of Article VI inspections'.

5.7 Selection of OCPF plant sites for inspection

79. In case of OCPFs, Para 11 of Part IX (OCPF regime) of the Verification Annex provides that the Secretariat shall randomly select plant sites for inspection through appropriate mechanisms, such as the use of specially designed computer software, on the basis of the weighting factors:

(i) Equitable geographical distribution of inspections; and

(ii) The information on the listed plant sites available to the Secretariat, related to the characteristics of the plant site and the activities carried out there; and
(iii) Proposals by States Parties on a basis to be agreed upon in accordance with paragraph 25.

80. In response to our query, the Secretariat provided the algorithm for selection of OCPF plant sites for audit examination.

81. We observed that the site selection algorithm did not contain a specific weighting factor for geographical distribution for selection of OCPF plant sites. We noted that in case of selection of Schedule 3 plant sites for inspection, a specific weighting factor is provided in the algorithm to ensure equitable geographical distribution. We could not assess its impact on OCPF inspection in the absence of supporting documents and data. In response the Secretariat informed that they were unable to provide the same due to the requirements of the Annex to the Convention on the protection of confidential information.

82. In response, the Secretariat informed that there is an indirect factor in the algorithm which addresses geographical distribution. The Secretariat further informed that (a) the Policy-Making Organs have so far not defined what is meant by "equitable geographical distribution", and (b) the Policy-Making Organs have been kept fully informed in detail as to the exact basis of the algorithm used, and the annual result of its application. The Secretariat added that the States Parties are aware of the current situation regarding the absence of specific weighting factor concerning equitable geographical distribution in respect of the random selection of OCPF plant sites for inspection and the current situation has remained unchanged since the entry into force of the Convention in 1997.

83. Para 25 of Part IX of the Verification Annex requires the Conference of the States Parties to take a decision in the third year after entry into force of the Convention "on which basis (e.g., regional) proposals by States Parties for inspections should be presented to be taken into account as a weighting factor in the selection process specified in paragraph 11."

84. We, through the response of the Secretariat, noted that consultation on this matter within the Executive Council has not resulted in a decision. Instead, the Executive Council took note of the site selection methodologies developed and utilised by the Secretariat and asked that the performance of the methodologies be reported annually to the Executive Council.

85. As part of our performance audit, we requested site selection related documents for verification and for the purpose of audit evidence. The Secretariat responded (24 June 2022) that "in accordance with the CWC Confidentiality Annex, it is impossible to provide specific documentary evidence" and "we have been unable to identify documentary evidence which we could supply to the External Auditors in line with the requirements of the CWC Confidentiality Annex".

Recommendation 7: We recommend that a mechanism be established to provide independent assurance to the Conference of the States Parties regarding the selection of plant sites/facilities for inspection.

86. The Secretariat accepted the recommendation.

6. Implementation of the Enterprise Resource Planning (ERP) system

87. The Organisation initiated (2015) the project for implementation of a new Enterprise Resource Planning System to replace its legacy IT systems to enhance business reporting and improve business processes. The new ERP project consisted of two modules, viz., System of Records (SoR) and System of Differentiation (SoD). SoR included the core functionalities of general ledger, accounts payable, accounts receivable, fixed assets, treasury, budget, procurement, entitlement and benefits, payroll and employee official documents. SoD included travel management, asset management, recruitment, employee performance appraisal management system, and learning management system.

88. The Organisation implemented the new ERP system on 4 January 2021 with the core functionalities of the SoR. We noted that a special fund to meet the financial requirements of the ERP project was established in November 2014. EUR 8.68 million had been appropriated to the fund and total costs of EUR 8.51 million had been committed (May 2022) against this fund.

89. We reviewed the implementation of the ERP project with a view to obtaining reasonable assurance whether the new ERP system has been implemented with the planned functionalities and the envisaged objectives have been achieved; adequate internal controls including governance mechanisms exist to ensure that the system caters to the needs of the organisation; and the past recommendations of the External Auditors and the Office of Internal Oversight were acted upon. The audit findings are described in the following paragraphs.

6.1 PROJECT GOVERNANCE

90. We noted that three out of the five components of SoD, viz., recruitment, learning management and performance management were separately rolled out as part of Talentsoft[48] platform. The remaining components of the SoD, consisting of asset management and travel management, were planned to be delivered in the second half of 2021. To support the delivery of these remaining components, an upgrade to the latest version, Milestone 7, of the ERP software was planned for the beginning of the second quarter of 2021. This upgrade was needed to provide improved functionality to support greater automation and integration of the human resources business processes.

91. We observed that the remaining components of SoD were yet to be implemented; and sought from the OPCW the timelines fixed for its roll-out and the cost estimates for the upgradation of ERP to Milestone 7 and implementation of SoD. We also sought to know whether the Project Board, Project Steering Committee and Project Team had held regular meetings since January 2021 to take forward the commissioning of the remaining functionalities of the ERP system.

92. We noted that the Project Board, Project Steering Committee and Project Team did not hold any formal meetings since January 2021 as the management focus was on giving hypercare[49] and rollout support. We, however, noted a positive step in the form of establishment of an ERP Advisory Board in January 2022 to monitor the ERP project.

93. We observed that the timelines and estimated cost for upgrade of the ERP system to Milestone 7 and the implementation of the pending modules of ERP are yet to be finalised. These combined with monitoring of the pending items of the ERP project are essential to ensure the implementation of all the planned functionalities of the ERP system. Management has accepted the observation.

Recommendation 8: We recommend that the Technical Secretariat should continue to closely monitor the upgradation of ERP system to Milestone 7 and the implementation of pending modules of SoD to ensure that the benefits of a fully integrated ERP platform are available for the organisation.

94. The Secretariat noted the recommendation.

6.2 Application support of the ERP system

95. We noted that the contract for providing application support in the form of Application Managed Services (AMS) for the ERP system stipulated monthly reporting on the agreed Key Performance Indicators (KPI) and service level adherence as defined in Appendix 1 of the contract. The service level includes four priority levels, and the response/issue resolution

---

48 A fully integrated digital learning solution that connects employees with targeted employee training and staff development.

49 Post-development support.

windows are 2/4 hours, 4/12 hours, 8 hours/3 working days, and 24 hours/20 working days for priority levels 1, 2, 3 and 4, respectively.

96. We found that the contractor was not providing the requisite monthly reports on the agreed KPIs and service level adherence. We further noted from the Topdesk[50] reports for three months (September 2021, December 2021 and March 2022) made available by the management that these reports did not show the priority levels for the issues and the service levels achieved for response/resolution. We also noted that for the months of September 2021, December 2021, and March 2022 that 137, 117 and 159 tickets remained open at the end of these months, respectively and 39, 47 and 37 tickets had been escalated.

97. The Secretariat stated that daily status meetings are held between the OPCW ERP team and AMS support team to discuss any daily open tickets and plan for their proper resolution and to follow-up on the SLAs, KPIs.

98. We appreciate the efforts being made by the OPCW in monitoring the AMS. We understand that reporting by the contractor of the priority levels and the service levels achieved for response/resolution is necessary to monitor the performance AMS by the contractor.

Recommendation 9: We recommend that the Technical Secretariat should monitor timely submission of monthly reporting by the contractor on issue status, key KPIs and service level adherence.

99. The Secretariat noted the recommendation.

6.3 Post-implementation change management in ERP

100. We sought to know from the management, the changes implemented in the ERP system since the commissioning in January 2021 and whether the implementation of changes followed the approved change management procedures.

101. We appreciate that the management has put in place a Standard Operating Procedure for change management by the Information Services Branch effective from August 2020. The SOP provides guidance to how changes are submitted, evaluated, authorised and managed to ensure controlled implementation of changes to products.

6.4 General controls: segregation of duties

102. We noted that the Office of Internal Oversight (OIO) had conducted (February 2022) a review of the ERP system with a focus on general controls and Procure-to-Pay module to assess whether relevant controls were adequately designed and operated effectively to mitigate risks. We noted that the OIO had inter-alia observed that the ERP system met the bulk of user requirements in the Procure-to-Pay module.

103. We noticed that there was a need to strengthen controls with respect to segregation of duties in the ERP system. We noticed the need for automated tools for checking conflicts in

---

50 Topdesk: Self-service portal of the OPCW.

segregation of duties when provisioning user accounts; periodical review by business process owners to review the validity of the access authorisation matrix; removal of initial role allocation of users when placed in higher positions for temporary periods; and removal of user IDs from membership of roles when no longer required.

104. We sought the status of implementation of the recommendations of OIO and noted from the response of the Secretariat that all the items remained under implementation. We further observed that the timelines and management plan for implementation of the recommendations were yet to be made. Management accepted the observations.

Recommendation 10: We recommend early implementation of OIO recommendations regarding the adequacy of controls for segregation of duties in the ERP system.

105. The Secretariat noted the recommendation.

6.5 Data validation in ERP system

106. We observed that the system accepts future dates for the date of birth of employees. We noticed in three cases of active employees that the dates of birth were captured as 09 March 2088, 30 July 2081, and 21 September 2072. This indicated lack of adequate validation in the date of birth field, which needs to be addressed.

107. The Secretariat stated that the relevant data will be updated. We, however, are of the view that there may be a need to review validation controls in other data fields too for identifying and correcting any existing validation deficiencies to ensure data consistency.

Recommendation 11: The Technical Secretariat should carry out a review of the validation controls of data fields to identify any deficiencies in the data validation controls and take corrective action as needed to ensure data consistency.

108. The Secretariat noted the recommendation.

109. We further observed that the ERP system accepts delivery date prior to the order date in the Procurement module.

110. We noted the response of the Secretariat that in a large number of these cases, the purchase orders (POs) were raised for internal obligation purposes only after the receipt of goods or services on purchases through credit card charge.

111. The Secretariat informed that this is an internal administration practice that should be limited to certain emergency situations.

112. We observed that the purchases are not limited to credit card transactions only. There are purchases from suppliers outside the OPCW too. We understand that the information on delivery date in the PO may be important for any analysis and preparation of Management Information System reports necessitating data consistency in the purchase orders.

7. Risk management

113. We reviewed the risk management policy framework of the organisation to obtain assurance that significant risks are identified and assessed in meeting organisational objectives and stakeholders' expectations.

114. We noted that the risk management policy of the Secretariat stipulates that all Risk Owners have to regularly identify, assess, record and identify actions to mitigate their respective risks and regularly review and update the Risk Registers.

115. We reviewed the risk register and noted that it included fields for noting risk tolerance score and recommendation (whether to act upon the risk or accept the risk). These parameters aid the management to decide and monitor the action required on the risks.

116. We noticed that the fields for noting risk tolerance score and recommendations had been filled in 91 cases out of 121 risks in the Register. Such details were yet to be filled in respect of the remaining 30 risks.

117. We observed that the risk register was last updated in March 2021. We noted that a review of the Risk Register was currently ongoing, and an updated risk register was expected to be ready by the end of June 2022.

Recommendation 12: We recommend that the Technical Secretariat should decide the risk tolerance scores in respect of all the risks included in the risk register.

118. The Secretariat accepted the recommendation and stated that the RMC in their meeting held in the month of June 2022, had decided to conduct comprehensive updates once per year, while noting that this does not absolve risk managers for the programmes from updating the list as and when warranted, and notifying the RMC of any significant developments. The RMC also noted that it would be useful to develop a SharePoint-based risk register tool as a more efficient alternative to the current MS Excel sheet tool.

8. Human resources management

119. The Human Resources Branch is responsible for developing HR best practices and policies and facilitating staff learning, leadership, talent development, performance, career management, organisational change and work-life balance.

120. We reviewed the Performance Management and Development System (PMDS) and training to staff members of the Secretariat. We noted that in 2021, the Office of Internal Oversight conducted an internal audit of the Staff Performance Management System with the resulting recommendations being implemented. The significant issues noticed in our further examination are explained in the following paragraphs.

121. **Work plans**: We observed the need for significant improvement in timely submission of work plans by staff members of the Secretariat. We noticed that only 1.4 percent of the workplans were completed by the original due date of 31 January 2022. 61 percent work plans were completed by the revised due date of 31 May 2022.

122. The Secretariat responded that it was currently working on amendments to the PMDS policy to change the deadline for completion of the annual workplan to 28 February of each year. The Secretariat further conveyed that it believes that a more realistic deadline will result in a higher commitment level from supervisors and staff members to meet the deadline.

123. **Performance appraisals:** We observed the need for significant improvement in timely completion of performance appraisals. In 2020, only 2 appraisals were completed by the deadline and 363 after the deadline, and in the year 2021, 35 appraisals were completed by the deadline and 272 after the deadline.

124. The Secretariat responded that it was currently considering changing the due date of the appraisal, and potentially also amending the date on which the appraisal form is made available to staff and supervisors.

125. The Secretariat stated that the HRB was reviewing the End-Of-Year (EOY) appraisal form to streamline the performance appraisal process and to make it more user-friendly for supervisors and staff. The Secretariat further stated that the HRB was restricted in the changes it can implement, due to the limitations in the Talentsoft system.

126. **Key Performance Indicators (KPIs):** We observed that a dashboard based on Qliksense has been developed for monitoring of completion rates for performance campaigns (such as EOY assessment) and campaign status (how many are not started, in progress or completed).

127. We noted that the current KPIs only monitor the completion rates. We are of the view that there is a need to develop more KPIs for monitoring the performance of the PMDS system and incorporate them in the Dashboard, for example, timely completion of different tasks by the deadlines, usage of CCF[51] and MSF[52], trends and comparisons with prior years and average time taken to complete workplan/EOY appraisals etc.,

128. The Secretariat responded that the HR Talent Development Team was currently developing additional KPIs to better monitor the performance of the system as well as the compliance rates such as Workplan Completion Rate, End Year Appraisal Completion Rate, Continuous Conversation Usage Rate and Mid-Year Completion Rate.

129. **Grading System:** We noted that there is only two scale grading system for the staff members of the Secretariat i.e., "Solid" and "Needs improvement". The two-scale rating system was introduced when the revised 'Administrative Directive on Performance Management and Development System' was published in January 2020.

130. The previous External Auditor recommended differentiating staff performance more clearly through performance appraisal and strengthening underlying systems for identifying and addressing underperformance through the appraisal process.

---

51 CCF – Continuous conversations functionality (CCF) is a rapid feedback loop that gives people specific and actionable inputs to implement in real time, learn from and course correct before it is too late.

52 MSF -Multi-source functionality (MSF) enables entities to use a system of integrated applications to manage the business and automate several back-office functions.

131. We noticed that the current grading system does not allow the supervisors to record the performance of those employees who are doing exceptionally good work and of those employees who are not able to discharge their duties as per the requirements and need to be appraised in a different manner. It is pertinent to mention that the OPCW follows a four-scale grading system for performance appraisal of contractors and consultants engaged by the organisation.

Recommendation 13: We recommend that the grading scale should be reviewed to differentiate the staff performance more clearly.

132. The Secretariat responded that the HRB was currently considering the option of reinstating a four-scale rating system and considering reinstating a Mid-Year Review instead of the Compulsory Conversation in the Continuous Conversations functionality (CCF), which would remain available for managers to use voluntarily to encourage the practice of giving and receiving frequent feedback.

133. **Training:** We reviewed the training module of Talent Management software of OPCW. We noted that there is only one Key Performance Indicator on Training i.e., “Learning Evaluation – overall quality score” to monitor the performance.

134. We noted that other performance measures like training utilisation percentage, evaluation response rate, absence rate, average hours of training, active registration counts per year, unique trainees etc., are being tracked internally.

135. We further noted that the dashboard on training is under development and would be ready by the end of August 2022.

136. We are of the view that KPIs such as percentage/ extent of new employees trained in compulsory training programs, percentage/ extent of planned training courses completed, percentage of participants trained against planned during a year, number of participants trained in online training programs etc., may also be considered for monitoring through the dashboard.

137. The Secretariat accepted the observation and assured that it will work to implement such KPIs, as relevant, in the Learning dashboard.

9. Implementation of OIO recommendations

138. We reviewed the status of implementation of the recommendations of the Office of Internal Oversight (OIO). We noted that as on 31 December 2021, OIO had issued 252 recommendations from the years 2016-2021, out of which 171 recommendations had been implemented by the management. Accordingly, 81 recommendations remained open/pending for implementation.

139. We further noted that out of 81 open/pending recommendations, 88 percent pertained to years 2019-2021 and 12 percent remained pending from the years 2015-2018.

140. We appreciate that the implementation rate of OIO recommendations increased from 57 percent in 2019 to 68 percent in 2021, out of which implementation rate of High-Priority recommendations had increased from 40 percent in 2018 to 67 percent 2021.

141. The Secretariat stated that OIO has taken a number of initiatives to improve the Secretariat's implementation rate like clear description of extractions required to implement each recommendation, follow up in Management Board meetings, monitoring of status at the highest level in the Organisation, meetings with Division Directors and Branch Heads for review of outstanding recommendations and analysis of reasons for delay through emails to Divisional Directors.

10. Implementation of External Auditor's recommendations

142. We reviewed the status of implementation of previous recommendations of the External Auditor, which are presented in **Annexure 1**. There were 31 recommendations outstanding up to the period ending 31 December 2020, out of which 12 recommendations were implemented and 19 were under implementation.

11. Acknowledgement

143. We express our appreciation to the Technical Secretariat and the staff members for their support and co-operation during our audit engagement.

Sd/-
Girish Chandra Murmu
Comptroller and Auditor General of India

22 July 2022

Annexure 1

STATUS OF IMPLEMENTATION OF PREVIOUS RECOMMENDATIONS OF THE EXTERNAL AUDITOR

S. No.	Reference	Area	Original recommendation	Time Frame	OPCW Response	External Auditor Comments	Implemented	Under-implementation
1	01/2020	Financial management	We recommend that, as results-based reporting is enhanced and matures, OPCW further develops its Annual Financial Report to include the most significant measures of key performance data from the Annual Budget Performance Report, to highlight how resources have been utilised to deliver objectives and outcomes.	Q2/2022	The following key performance indicators are included in the Financial Report, which is part of the financial Statements package. 1. Number of Article IV and V inspections finalized: 2021: 62.6% (2020:62.9%) 2. Verification regime fully implemented at all sites selected for article VI inspections: 2021 Results 80 (33%) industry inspections were carried out: 13 (118%) Schedule 1; 22 (45%) Schedule 2; 7 (37%) Schedule 3; and 38 (23%) OCPFs Anticipated percentage of States Parties that benefit from capacity-building support activities for full and effective national implementation-2021: 68% (2020: 60%)	The significant key performance data from the Annual Budget Performance Report has highlight in the Director General Report. Hence, the recommendation is closed.	Y	
2	02/2020	Internal control and governance	During 2021 OPCW should undertake a comprehensive set of assurance procedures to provide comfort that prior year balances and data have successfully migrated between the legacy systems and the new ERP.[53] Furthermore, assurance should be obtained around the	Q3/2021 kick-off	The Office of Internal Oversight (OIO) has included the new ERP system as part of a series of assurance projects in its approved work plan for 2021, to be deployed after the first six months of deployment and stabilisation of the tool. Despite this, and in December 2020, the OIO implemented a dedicated email support platform for potential governance issues, which has been communicated to the main ERP stakeholders.	Reconciliation of the balances in the legacy system and ERP system provided. Hence, the recommendation is closed.	Y	

53 ERP: enterprise resource planning.

S. No.	Reference	Area	Original recommendation	Time Frame	OPCW Response	External Auditor Comments	Implemented	Under-implementation
			effective operation of the control environment and the embedded control functionality within the new system.					
3	03/2020	Internal control and governance	OPCW should explore a suite of management reports on key areas of compliance to create an evidence base to support the Statement on Internal Control and that it considers a holistic approach to monitoring compliance.	Ongoing – Q4/2022	The development of management reports and dashboards is ongoing in the new ERP system. These reports are intended to provide evidence to support the key areas of compliance, including the Statement of Internal Control.	In progress. We noted that development of Management reports and dashboard is in progress.		Y
4	04/2020	Internal control and governance	OPCW should consider mandating staff to annually confirm their acceptance and compliance with the Code of Conduct, noting any areas which might require disclosure.	Q1/2022	The working draft of the new Code of Conduct was circulated for comments. The OIO has reviewed the comments received and discussed with stakeholders in the third quarter of 2021. The final version will be reviewed for issuance during the first quarter of 2022.	The final version of new code of conduct has been finalized. Hence, the recommendation is closed.	Y	
5	05/2020	Appointment of External Auditor	We recommend that States Parties consider approving a process of evaluation of bids by independent experts against clear and objective criteria of price, experience and quality following the end of the tenure of our successors.	Ongoing	The Working Group on the Manner of Appointment of the External Auditor has held several meetings and also received assistance and advice from the Advisory Body on Administrative and Financial Matters (ABAF) at the Fifty-First Session of the ABAF. The Working Group will consider the future methodology to be followed for the election of the External Auditor and will develop a proposal in this regard. At the Ninety-Ninth Session of the Council, the Chairperson of the Working Group in the Manner of Appointment of the External Auditor provided an update on its	In progress. We noted that the future methodology to be followed for the election of the External Auditor is under consideration by the Working Group.		Y

S. No.	Reference	Area	Original recommendation	Time Frame	OPCW Response	External Auditor Comments	Implemented	Under-implementation
					intersessional work (EC-99/WP.1, dated 10 February 2022).			
6	06/2020	Business continuity and the pandemic response	OPCW should develop a formal and comprehensive business continuity plan, capturing the learned experience from pandemic working, and this should be underpinned by ongoing investment in infrastructure alongside that being made in the CCT[54] project as a recovery site.	Ongoing	The Office of Confidentiality and Security (OCS) has finished drafting documents concerning a business continuity management system (BCMS), a new business continuity policy, and a crisis management process. These documents are currently being reviewed according to the standard process for administrative directives and associated procedures. As of May 2022, the implementation phase of the BCMS is focusing on embedding business continuity into OPCW processes, to include organization-wide dissemination of business continuity, integration into current training/induction programmes, finalising the branch level business impact assessments, and planning an organisational-wide business continuity exercise. A business continuity management tool has been procured and is currently in the implementation phase. This BCMS tool includes all software and services to ensure efficient management and recovery after a disruption. It also allows the efficient planning and implementation of the OPCW business continuity programme, planned to be fully embedded by the end of 2022.	In progress. We noted that the implementation phase of the BCMS is in progress.		Y
7	07/2020	Business continuity and	OPCW should undertake a lessons learned exercise to	Propose closure	This recommendation has been implemented. The new Administrative Directive AD/PER/61	The document AD-PER-61 contains the	Y	

54 CCT: Centre for Chemistry and Technology.

S. No.	Reference	Area	Original recommendation	Time Frame	OPCW Response	External Auditor Comments	Implemented	Under-implementation
		the pandemic response	identify the potential benefits of more flexible working arrangements to secure efficiencies.		Flexible Working Arrangements was promulgated on 14 April 2022. It reflects lessons learned from the remote work during the COVID-19 pandemic, as well as best practices from other international organisations. It promotes an agile, flexible, and resilient workforce and a sustainable workplace.	flexible working policy for OPCW personnel. Hence, the recommendation is closed.		
8	01/2019	Financial Management	The Organisation should report its key performance indicators (KPIs) with data to compare against prior year targets and performance to provide an indication of the improvement trend.	Implementation by Q4/2022	As part of the RBM efforts, and in view of the transition to a biennial Programme and Budget, improvements in KPI presentation will be realised. The Draft Programme and Budget for 2022 – 2023 and the corresponding performance reports will benefit from improved trend presentation.	In progress. We noted that efforts are ongoing to enhance performance reporting throughout the first biennium of Programme and Budget for 2022-2023.		Y
9	02/2019	Financial Management	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.	2021 and ongoing throughout the first biennium	The transition to a biennial Programme and Budget will serve as an important driver for this improvement—especially noting the importance of RBM, longer-term planning, and a longer-term programmatic outlook. However, it is important to note that a well-functioning RBM system is a long-term initiative that requires maturation and the evaluation of results over time.	In progress. We noted that progress is being made on the development of a RBM system.		Y
10	03/2019	Internal Control	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	Ongoing	The integration and maturation of the internal control framework and processes continue. The Risk Management Committee assumed ownership of the internal survey process from 2021. As the External Auditor noted, significant progress has been made, and work in this regard will continue.	In progress. We noted that the integration and maturation of internal control framework is ongoing.		Y

S. No.	Reference	Area	Original recommendation	Time Frame	OPCW Response	External Auditor Comments	Implemented	Under-implementation
			the control environment based on the outcomes of reviews undertaken as part of the risk-based plan.		The OIO will continue to incorporate the areas of weakness identified in the Statement of Internal Control as part of one of the elements that supports the elaboration of the OIO work plan.			
11	05/2019	ERP	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.	Propose closure	This observation was made at a time when the core modules were not yet launched, and where the proposed launch date was still perceived as tentative. With the successful launch of financial, HR, and procurement functionality in January 2021, the project moved into a new phase. As such, it is proposed to close this recommendation. See the OPCW's response to Recommendations 12/2017, 13/2017, and 15/2015. The System of Record has gone live and is being stabilised. The Systems of Differentiation are being planned for delivery in connection with the launch of an updated governance framework and the additional functionality that will be available following an upgrade of the UBW software to Milestone 7 in the second and third quarters.	In progress. We noted that cost benefit analysis is yet to be carried out.		Y
12	07/2019	CCT (Centre for Chemistry and Technology)	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	Propose closure	Three construction-related contracts, namely with the main constructor, security installer and laboratory furnishings installer, have been awarded. The contracts with the main constructor and security installer are International Federation of Consulting Engineers (FIDIC) Red Book Lump Sum contracts, which are international model contracts specialised for construction projects and which contain numerous provisions designed to ensure that contractors comply with their obligations. These contracts reflect input obtained	As per the reply of OPCW, required contracts as recommended by the External auditor have been entered in to. However, performance obligations met out by the contractors need to be checked at the time	Y	

S. No.	Reference	Area	Original recommendation	Time Frame	OPCW Response	External Auditor Comments	Implemented	Under-implementation
			involved in the successful tender for the construction of the Centre.		by the Secretariat from a specialised FIDIC consultant, external legal counsel with expertise in FIDIC contracts, and a project management consultant experienced both with FIDIC contracts and with the implementation of similar projects for other international organisations. The third contract, for the laboratory installations and furnishings, is based on the OPCW standard contract with additional FIDIC clauses included. The three contractors additionally signed a coordination agreement to streamline the management and the delivery of the contracts, and to ensure that each contractor works with the other contractors involved in construction in a structured and effective manner. Incentives, change control, and performance management are included in the contracts in the form of a bank guarantee for performance, delay damages mechanisms, progress reports, testing, remedial works, defects liability, completion certificates, variation procedures, and other applicable FIDIC and market standard provisions. The contract awarded to the laboratory furnishings installer was also prepared reflecting input from users and external experts, including a laboratory consultant.	of financial closure of the project. In view of the action taken by management, the recommendation is closed.		
13	08/2019	CCT	When time allows, the Organisation needs to fully assess the potential impact of pandemic risk on the costs and timing of project delivery and	Ongoing	The Secretariat continues to make every effort to minimise pandemic-related risk. To date, the project's progress has not been materially impacted by the pandemic. The project remains on schedule and on budget, with construction now in	In progress. We noted the efforts being taken and continuous monitoring by the Secretariat to		Y

S. No.	Reference	Area	Original recommendation	Time Frame	OPCW Response	External Auditor Comments	Implemented	Under-implementation
			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.		progress. The design used in the tender for the contracts for construction was completed on time and within budget. The fixed prices were agreed for all construction-related contracts, namely, contracts for the main construction, security installations and laboratory installations and furnishings, because of competitive tender processes. The prices are affordable within the project's budget. The Secretariat will continue to monitor pandemic-related risks as part of its overall risk control processes and will take action to mitigate them.	minimise pandemic-related risk on the CCT project.		
14	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.	Propose closure	Conference decision C-24/DEC.11 (dated 28 November 2019) approved the transition of the OPCW to a biennial Programme and Budget. Throughout 2019 and 2020, the Secretariat developed structures to support biennial budgeting. These include amendments to the OPCW Financial Regulations and Rules to support biennial budgeting, which were approved by the Conference (C-25/DEC.6, dated 30 November 2020) and took effect on 1 January 2021. Other mechanisms that have been developed include detailed integrated costing sheets and biennial budget formulation templates for programme managers to support biennial budget preparation. In addition, the introduction of major capital planning and the integration of funding mechanisms, including the introduction of a major capital investment fund as part of a Conference decision (C-24/DEC.12, dated 28 November	In view of the revised administrative directive on the Programme and Budget cycle, the recommendation is closed.	Y	

S. No.	Reference	Area	Original recommendation	Time Frame	OPCW Response	External Auditor Comments	Implemented	Under-implementation
					2019), help to improve budgetary planning and managerial accountabilities. Finally, in the first half of 2022, the Secretariat has updated and issued a substantially revised administrative directive on the programme and budget cycle (AD/FIN/19/Rev.3).			
15	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.	Ongoing	The Secretariat continues to note the increasing importance of extra-budgetary resources and implications for long-term financial planning, as outlined in the paper on strategic financing that was considered by the ABAF and the External Auditor in 2018. The Secretariat continues to develop and refine its approach in this area, incorporating best practices from other international organisations into the OPCW. Work continues to incorporate comprehensive programmatic resource views of regular budget, extra-budgetary, and unfunded requirements, to establish a strategic approach to overall resource requirements and organisational and programme priority areas, in line with recommendations from the External Auditor and the ABAF. The transition to biennial budgeting with a longer-term programmatic and planning outlook is a strong impetus in this direction.	In progress. We noted that the Secretariat is continuing the work to incorporate comprehensive programmatic resource views of regular budget, extra-budgetary, and unfunded requirements, to establish a strategic approach to overall resource requirements.		Y
16	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	Partly addressed in 2021 Full integration	A dashboard to report on the performance of the procurement function was developed in the third quarter of 2021 and is now being used to provide an overview of the annual procurement plan and its implementation as, well as initial performance data on the procurement function.	In progress. We noted that the full integration of Procurement and Contract Management with ERP is in progress.		Y

S. No.	Reference	Area	Original recommendation	Time Frame	OPCW Response	External Auditor Comments	Implemented	Under-implementation
			measures to evaluate the performance of the procurement function.	with ERP planned for 2022	The next step in 2022 will be to integrate this dashboard with the ERP to expand the KPIs.			
17	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.	Propose closure.	The new ERP system provides for electronic approval of expenditure and supports the monitoring of cumulative contract expenditure. In 2021 OIO reviewed the general controls and Procure-to-Pay process in the ERP. The overall conclusion was that the assessed governance arrangements, risk management practices or controls, were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.	In view of the reply, the recommendation is closed.	Y	
18	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 proportionately to the risks of the contract and to assess the level of exposure to single suppliers across the contract portfolio.	Propose closure	The contracts module of the new ERP system serves as a contract depository that is used to manage contracts and will be used to determine the exposure to single suppliers across the contract portfolio. This contract depository was completed in January 2022.	The Analyzer functionality of contracts module provides the desired report. Hence, the recommendation is closed.	Y	
19	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	Ongoing	The Secretariat will continue to monitor this throughout the remainder of implementation and will provide updates on the evaluation of the realised benefits. The System of Record went live in January 2021; it is being used and is delivering benefits. We are	In progress. We noted that the Secretariat has been monitoring the implementation of the remaining parts of the ERP system and for		Y

S. No.	Reference	Area	Original recommendation	Time Frame	OPCW Response	External Auditor Comments	Implemented	Under-implementation
			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.		continuing to monitor the realised benefits post-implementation and are collecting feedback from business users in the context of a new governance structure–the ERP Advisory Board–in order to guide prioritisation of further developments and enhancements.	evaluation of the realised benefits.		
20	13/2017	ERP	The Organisation needs to conclude its considerations on the approach to finalisation of the ERP implementation by establishing a clear and timebound 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.	Propose closure	The System of Record went into production in January 2021 with no major disruptions to critical OPCW processes. Responsibility for the platform has been transferred from the ERP Project Team to the Information Services Branch, including ongoing upgrades, developments, and enhancements, with governance provided by the ERP Advisory Board.	In view of the reply, this recommendation is closed.	Y	
21	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	Propose closure	To ensure that users are fully capable of using the new ERP solution, and to ensure sustainable training material post, the Secretariat 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 view of the reply, this recommendation is closed.	Y	

S. No.	Reference	Area	Original recommendation	Time Frame	OPCW Response	External Auditor Comments	Implemented	Under-implementation
			implementation there should be an early evaluation of the rollout of training to ensure any newly identified needs can be addressed through revised training plans.		The January 2021 go-live was based upon materials delivered by an external provider, including direct sessions, online materials, and user guides. Subsequent live/interactive training was provided throughout 2022 for some end-users with human resources and procurement functions, which are the two areas of ERP utilisation in which most of the end-users are also not the primary business process owners.			
22	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.	Propose closure	Data migration has been completed in connection with the system launch in January 2021. The OIO was given access to all data migration files and audit logs.	In progress. The document supplied does not include signoff for data migration. The same is awaited. The same may be verified during next audit.		Y
23	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.	Propose closure	The roles and responsibilities matrix was reviewed and approved by business process owners before the go-live in January 2021. Roles and responsibilities assignments are monitored by key business process owners, supported by the ISB and a full-time application managed service provider. The challenges of preparing the 2021 accounts for the first time in the new ERP System of Record was taken into consideration by extending the timeline for the preparation and submission of the reports in 2022.	In progress. We noted that post-implementation review (PIR) remains to be carried out to provide assurance of the existence of the system controls.		Y

S. No.	Reference	Area	Original recommendation	Time Frame	OPCW Response	External Auditor Comments	Implemented	Under-implementation
24	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.	Propose closure	See OPCW response to Recommendation 07/2016. System security controls were designed in accordance with guidance from the OCS before the ERP system went live.	In view of the remarks against 07/2016, the recommendation is closed.	Y	
25	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;	Propose closure	Overall – Propose closure a. The Human Resources Branch configured the ERP solution to allow for more structured and proactive workforce planning, complemented by automated and timely reports to relevant stakeholders. Regular reporting on progress at Management Board meetings has been implemented.	In view of the reply, this part of the recommendation is closed.		Y
			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. The OPCW sourcing strategy has been presented to senior management and States Parties and is now being implemented. 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;	Keeping in view the reply and the Gender Audit Report, this part of the recommendation is closed.		

S. No.	Reference	Area	Original recommendation	Time Frame	OPCW Response	External Auditor Comments	Implemented	Under-implementation
					the provision of leadership coaching designed to support the professional development of future female leaders; special sourcing and outreach efforts with external companies and through LinkedIn; and amendment of the Staff Regulations and Rules in order to include gender balance specifically as a staffing goal. These initiatives have led to a significant increase in gender diversity at the OPCW, such as 60% women in the top structure and an overall increase of 8% of women in Professional category posts (to 30% of the total). A gender audit has been concluded and recommendations have been presented to senior management. As a result, a new post of Diversity and Inclusion Officer (P2) was established.			
			e. differentiating staff performance more clearly through performance appraisal; and strengthening underlying systems for identifying and addressing underperformance through the appraisal process.		e. With the introduction of the new Performance Management and Development System (PMDS), and the accompanying Continuous Conversations module, frequent performance check-ins between staff and their supervisors are encouraged and facilitated. Supported by customised feedback training and the Continuous Conversations module, managers are now better equipped to identify and address underperformance. In addition, the newly updated administrative directive on PMDS enables supervisors to initiate a performance improvement plan at any point during the performance cycle. This means that supervisors can develop an improvement plan whenever they identify performance gaps, without	In 2021, the vast majority of the staff members did not use the CCF (81%) and MSF (89%) functionality, although it was mandatory as per para 6(a) of AD/PER/ 18/Rev5 to record at least one CCF between 1st Appraising Officer and the staff member. Keeping in view the current status, steps		

S. No.	Reference	Area	Original recommendation	Time Frame	OPCW Response	External Auditor Comments	Implemented	Under-implementation
					having to wait until the end of the performance cycle.	needs to be done to strengthen the performance appraisal process to clearly identify, reflect and address under performance		
26	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.	Ongoing	The Secretariat has continued to maintain and update the risk register, 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 the first quarter of 2020, the Risk Management Committee completed a revised draft administrative directive on risk management for consideration by the Office of the Director-General. Following a decision of the Management Board on 16 December 2020, the Deputy Director-General assumed the chairpersonship of the Risk Management Committee, which assumed responsibility for managing the Statement of Internal Control process. The administrative directive on the risk management framework was approved in the fourth quarter of 2021. Risk management training for key staff was also carried out in 2020, 2021 and 2022, and will continue to be provided in subsequent years as a regular activity under the supervision of the Risk Management Committee.	In progress.		Y
27-30	07/2015 08/2015 09/2015	Governance and Internal Control	20) We recommend that the Organisation conducts a comprehensive	Propose closure of 07/2015	A fraud risk assessment was conducted via an elaboration of the risk register to include fraud risks. The assessment will be regularly reviewed	In view of reply, the recommendation 07/2015 is closed.	Y (07/2015)	Y

S. No.	Reference	Area	Original recommendation	Time Frame	OPCW Response	External Auditor Comments	Implemented	Under-implementation
	10/2015		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. 21) The Organisation should raise awareness of fraud risks through regular communication of fraud issues and through mandatory training courses for all staff on their induction to the Organisation. 22) 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. 23) The Organisation should provide greater clarity over responsibilities and arrangements for the response to an identified fraud by means	Completion of 08/2015, 09/2015, and 10/2015 targeted for Q1/2022	and updated in conjunction with the periodic updates of 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 by the OIO to stakeholders in February 2020. In connection with this project, and in order to provide an appropriately updated baseline for the future policy and plan, a draft revised Code of Conduct was submitted to senior management in November 2020 for review and comments. The review of the Code of Conduct has been finalised and the final version is expected to be reviewed for issuance in the first quarter of 2022. 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 antifraud 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. The legal framework required for internal investigations (including non-retaliation and			Y Y (08 to 10/ 2015)

S. No.	Reference	Area	Original recommendation	Time Frame	OPCW Response	External Auditor Comments	Implemented	Under-implementation
			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.		whistleblowing) is being developed and is being coordinated by the OIO and the OCS. In order to ensure necessary operational support to the future antifraud policy framework, a vacated post in the OIO at the P4 level was revised to include investigatory competencies, and the post was filled in the third quarter of 2021.			
31	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.	Ongoing	The upgrade to modern, supported, mobile, and more secure platforms was essential to ensure the integrity and continued viability of the OPCW’s ERP systems. This has been amply illustrated by the COVID-19 pandemic. Shifting to modern and more capable platforms comes with higher running costs. At the same time, some operational efficiencies have been gained. Measuring those gains in cost terms, however, will require further system maturity and subsequent analysis.	In progress. We noted that the Secretariat has been continuing its efforts to measure the gains in terms of improved operational efficiencies on implementation of ERP system.		Y

Annexure 2

Disclosures made in the Financial Statements at the instance of audit

a) **Contingent assets**: We noted that in the Financial Statements for the year 2020, the OPCW disclosed (Note 14) that in the event of a cash deficit, the OPCW may obtain the right, through a decision by the Conference, to recover the amount of the cash deficit from States Parties. The basis of this recovery is determined in the decision made by the Conference, as the Financial Regulations do not prescribe the steps to be taken in the event of cash deficit. Accordingly, a contingent asset of EUR 1,236 thousand (2019: nil) was disclosed. We noted that similar disclosure needed to be made in the current year's financial statements, pending decision of the Conference of the States Parties.

b) **Actuary assumptions**: IPSAS 39 on "Employee Benefits" requires that an entity shall disclose the significant actuarial assumptions used to determine the present value of the defined benefit obligation. Such disclosure shall be in absolute terms (e.g., as an absolute percentage, and not just as a margin between different percentages and other variables). We noticed that the Actuary had taken staff turnover rate as 8 per cent based on analysis of departures between the period 2013-21. As there is significant increase in the staff turnover rate when compared to previous years (1%-1.5%), this needed to be disclosed as it impacted defined benefit obligations determined by the Actuary. OPCW accepted our observation and mentioned the 'Turnover rate' in the disclosure as 8 per cent.

c) **Contingent liabilities**: IPSAS 19 stipulates that unless the possibility of any outflow in settlement is remote, an entity shall disclose, for each class of contingent liability at the reporting date, a brief description of the nature of the contingent liability and, where practicable: (a) an estimate of its financial effect; (b) an indication of the uncertainties relating to the amount or timing of any outflow; and (c) the possibility of any reimbursement.

   A new Centre for Chemistry and Technology is under construction to replace the existing facility in a rented building in Rijswijk. OPCW estimated restoration costs of EUR 200 thousand in respect of fume hoods installed at the existing facility and has made a provision for the same in the Financial Statements. OPCW also estimated an additional cost of EUR 200 thousand (with 5 per cent likelihood) for other upgrades at existing facility as per lease agreement, which needed to be disclosed as contingent liability.

d) **Related party transactions**: IPSAS 20 requires that in respect of transactions between related parties, the reporting entity should disclose: (a) the nature of the related party relationships; (b) the types of transactions that have occurred; and (c) the elements of the transactions necessary to clarify the significance of these transactions to its operations, and sufficient to enable the financial statements to provide relevant and reliable information for decision making and accountability purposes. We noted that OPCW Financial Statements disclosed related party transaction of EUR 4 thousand payable to the Provident Fund. Similar disclosure needed to be included in the Financial Statements of OPCW Provident Fund for the year 2021.

Annexure 3

Budget utilization during 2017-2021

(amounts in EUR thousand)

Programme	Year	2017	2018	2019	2020	2021
Verification	Original budgeted amount	8087	8714	9853	9549	9481
	Actual Amount on comparable basis	8301	7930	9449	9176	8652
	% utilisation of original budgeted amount	102.65	91	95.9	96.09	91.26
Inspectorate	Original budgeted amount	21043	20270	20270	21213	20866
	Actual Amount on comparable basis	20714	19892	20267	19460	19410
	% utilisation of original budgeted amount	98.44	98.14	99.99	91.74	93.02
International Cooperation and Assistance Programme	Original budgeted amount	7610	7610	7610	7610	7485
	Actual Amount on comparable basis	7126	7113	7231	4909	4096
	% utilisation of original budgeted amount	93.64	93.47	95.02	64.51	54.72
Support to the Policy-Making Organs	Original budgeted amount	4856	4927	4929	4929	5049
	Actual Amount on comparable basis	5069	5254	4849	4871	4853
	% utilisation of original budgeted amount	104.39	106.64	98.38	98.82	96.12
External Relations	Original budgeted amount	1923	2017	2024	2024	2093
	Actual Amount on comparable basis	1840	1855	1972	1768	2085
	% utilisation of original budgeted amount	95.68	91.97	97.43	87.35	99.62
Executive Management	Original budgeted amount	9007	9227	9647	9533	9896
	Actual Amount on comparable basis	9455	9617	9569	9277	9784
	% utilisation of original budgeted amount	104.97	104.23	99.19	97.31	98.87
Administration	Original budgeted amount	14489	14050	13902	14351	14531
	Actual Amount on comparable basis	13880	13069	14418	15018	14766
	% utilisation of original budgeted amount	95.80	93.02	103.71	104.65	101.62
Total	Original budgeted amount	67015	66815	68235	69209	69401
	Actual Amount on comparable basis	66385	64730	67755	64479	63646
	% utilisation of original budgeted amount	99.06	96.88	99.3	93.17	91.71

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 2021

1. The Director-General wishes to express his appreciation for the observations and recommendations received from the Comptroller and Auditor General of India and his staff, on the occasion of the external audit of the Financial Statements of the OPCW for the period ended 31 December 2021.

2. The Director-General notes that, in the External Auditor's opinion, the Financial Statements present fairly the financial position as at 31 December 2021, 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 2021

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 2021, 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).

- - - o - - -