



Seventy-Fourth Session
8 – 11 October 2013

EC-74/3
8 October 2013
ENGLISH only

STATEMENT BY THE EXTERNAL AUDITOR OF THE OPCW AT THE SEVENTY-FOURTH SESSION OF THE EXECUTIVE COUNCIL

Ms/Mr Chairperson, ladies and gentlemen,

I have the honour to present the essence of my report on the financial statements of the Organisation for the Prohibition of Chemical Weapons (OPCW) for the year ending 31 December 2012.

The report is based on the discussions with the Secretariat as well as on the financial and performance audits conducted by my audit team.

The audit was carried out in accordance with Article XIII of the Financial Regulations of the OPCW, the Additional Terms of Reference governing the work of External Audit and the International Auditing Standards as adopted by the Panel of External Auditors.

The structure of my report follows the structure of my last years' reports. I am again able to present a result that does not show different positions because my recommendations were accepted by the Secretariat.

Let me now turn to the results of my team's work. Following the structure of my report, I will tell you about:

- point one (1): implementation of the International Public Sector Accounting Standards (IPSAS);
 - point two (2): Financial Figures;
 - point three (3): Programme Support Costs;
 - point four (4): Performance Management Appraisal System;
 - point five (5): risk management system, including Statement of Internal Control;
 - point six (6): Enterprise Resource Planning System; and
 - point seven (7): invoices to Member States.
-
- To point one (1):

Let me start with some remarks regarding the financial audit. In this part we assessed whether the financial statements (FS) of the OPCW fairly present the financial position at the end of 2012.

We found that the Financial Statements 2012 give a comprehensive picture of the budgetary and financial situation of the OPCW. These are the second FS that have been prepared on the



new basis under IPSAS. While reporting on assessed contributions has remained the same, the financial statements now contain a more transparent presentation of revenue, expenses and approved budgets, in line with the IPSAS. Overall, the implementation of IPSAS is in good progress.

Nevertheless, a large number of financial transactions still needs to be converted by using Excel worksheets involving manual entries as the current system does not support recording transactions required by IPSAS. As this is an error-prone procedure, I recommend fully automating the process.

- To point two (2):

The FS and the corresponding notes include a number of charts on trends across recent years. Especially, revenues are broken down by assessed and voluntary contributions which clearly show that the OPCW's budget has been subject to zero nominal growth.

In this regard, I particularly wish to emphasise that the OPCW's IPSAS accounting policy to write-down assessed contributions recoverable does not relieve States Parties from their obligation to actually pay these.

Therefore I would like to appeal to the relatively small number of States Parties in arrears of their duty to fully pay assessed contributions. Even if—compared to the previous year—the number of States Parties that fully paid their contributions increased by 2.6%, the remaining 48 States Parties failed to pay any contributions in 2012. I repeatedly pointed out that this is hardly acceptable.

So I encourage the States Parties concerned to pay their contributions in full when due or at least to make use of the payment plans offered by the Secretariat.

- To point three (3):

Let me continue with comments on the performance part of the audit. We usually cover the OPCW's administrative and operational issues by examining files and documents or holding interviews. If possible, we contribute our knowledge from previous audits. Last year, we also examined some areas accordingly and identified fields in which improvement may be possible.

These are the following considerations:

In the past few years, regular budgets of international organisations have often been subject to zero real growth. As demands for the organisations' services have been growing, the importance of voluntary contributions increased. This is also the case for the OPCW. Therefore, it was important to introduce a programme support cost (PSC) scheme for extra-budgetary funds, as these are managed by staff and resources funded from the regular budget. The Secretariat agreed to negotiate the inclusion of a 'de facto PSC rate of 7%' in all future high-value voluntary contributions. The European Commission however, decided to add support costs to its voluntary contributions. So I recommend developing a programme support policy that would charge the UN-harmonised rate of 7% on the actual total direct cost regardless of the amount of the contribution.

- To point four (4):

Furthermore, I would like to inform you about the electronic Performance Management Appraisal System (ePMAS). In February 2012, the Secretariat introduced this electronic system. The software is provided by a commercial company called Cornerstone OnDemand Limited (Cornerstone) a subsidiary of a United States company. The ePMAS was therefore outsourced and is operated by Cornerstone. Therefore, all OPCW staff data required to operate the ePMAS is stored on a Cornerstone-owned cloud computer system in the United Kingdom of Great Britain and Northern Ireland. Before the project launch, a cost-benefit analysis comparing the outsourcing with an in-house solution was conducted in August 2010. However, since there was a major technology change most of the vendors providing an employee performance management solution had moved to cloud-based computing. As a result, the Secretariat included this cloud service in the contract with the provider. They claimed that the three-year cost of ownership of the cloud-based solution was considerably lower than the cost of a possible in-house solution. The initial contracted amount has increased by 45% for the last three years due to the fact that another cloud-based system was also awarded to the Cornerstone. Therefore, I recommend doing another cost-benefit analysis before considering an extension of the current contract. The inviolability of information stored in the cloud should also be absolutely ensured. The OPCW operates in a delicate environment. Therefore, confidentiality and integrity are essential for the credibility and the success of the Organisation. Data security and privacy need to be ensured.

- To point five (5):

In our reports we always follow up on our recommendations of former years.

In my previous reports, I noted that the Secretariat should be aware of its operational, financial and reputational risks. I found that a risk management system was lacking within the Secretariat. In the meantime, the Secretariat put into effect a risk management policy in February 2013.

I furthermore encouraged the Secretariat to combine its risk management with the development of a Statement of Internal Control (SIC). This is a governance instrument that is currently being introduced also in the United Nations family. Even though the statement itself is only an articulation of the optimised structures it would increase the discipline and the Organisation's capacity to handle risk and to establish an effective risk and control framework. The Secretariat pledged to develop a control framework that would allow the Director-General to issue a SIC. I highly appreciate the steps taken.

- To point six (6):

In last year's report I made recommendations on the Secretariat's Enterprise Resource Planning (ERP). The accounting software called "SmartStream" was purchased in the early days of the OPCW. However, it does not fully meet the challenges after the transition to IPSAS. This meant that many manual conversions were needed to do financial transactions. I recommended evaluating options for co-operation within the United Nations family. To reduce the amount of manual work required, an ERP working group was established. Its purpose was to conduct a risk analysis comparing the current IT system SmartStream with a new ERP system. In the meantime, the Secretariat has carried out a SWOT (strength, weakness, opportunity and threat) analysis for the current ERP system. I support the final

recommendations of the ERP system risk analysis to align the ERP strategy with the future business of the OPCW and to explore cooperation with other organisations.

- To point seven (7):

In my report for the year 2011, I commented on problems with invoices to Member States for costs of verification under Article IV and V of the Chemical Weapons Convention. My team identified several deficiencies in the invoicing process, such as inconsistent rules and regulations, incomplete compilation of inspection costs or States Parties refusing full payment of all costs incurred by the Secretariat. One year later, my team re-assessed this matter and found considerable improvements in the processing of inspection related costs incurred for revising administrative directives and addressing ambiguities and deficiencies. I really welcome this development. Despite considerable progress within the Secretariat, I wish to encourage all States Parties to support the Secretariat in paying inspection costs fully and in time.

Ms/Mr Chairperson, ladies and gentlemen,

This was a brief overview of my key findings regarding the Secretariat's management and performance. I'm convinced that the implementation of my recommendations on performance issues would improve the OPCW's efficiency and effectiveness. If you have any questions, we will be happy to answer them.

I would like to end with the most important result for the Secretariat. Our audit examination revealed no weaknesses or errors, which I considered material to the accuracy, completeness, and validity of the financial statements as a whole. Consequently, I have placed an unqualified audit opinion on the OPCW's financial statements for 2012.

I wish to express my sincere thanks to the Director-General and all the staff of the OPCW Secretariat for their cooperative and responsive attitude, their kind and expert assistance and for the facilities made available to my audit team.

Thank you for your kind attention.

- - - 0 - - -