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**STATEMENT BY THE EXTERNAL AUDITOR OF THE OPCW  
AT THE EIGHTIETH SESSION OF THE EXECUTIVE COUNCIL**

Mr Chairperson, ladies and gentlemen,

On behalf of the External Auditor of the OPCW, Mr Kay Scheller, President of the German Supreme Audit Institution (SAI), I have the honour to present the essence of our sixth and last report on the audit of the Financial Statements of the Organisation for the Prohibition of Chemical Weapons (OPCW) for the year ending 31 December 2014.

And for the sixth time I can report that our audit examination revealed no weaknesses or errors, which we considered material to the accuracy, completeness, and validity of the Financial Statements as a whole.

Consequently, the External Auditor placed an unqualified audit opinion on the Financial Statements for 2014.

I present to you a report that was noted by the Director-General. He had further comments concerning our recommendations for the Office of Internal Oversight.

Let me highlight the key results of my team's work in the last year:

Pursuant to our financial audit we can confirm that there were no material misstatements. My team tested this through a sample check of all booking entries, a full reconciliation of all cash related accounts and a general examination of the General Ledger using the audit software IDEA.

As in the past years, also in 2014, the crucial problem was the large number of manual data entries and the use of separate Excel-sheets that had to be included manually in the Financial Statements representing a high risk for the Organisation's accountability. We are confident that this shortcoming can be addressed in the near future by the newly established ERP project aiming at an integrated IT system for the whole Organisation.

As at 31 December 2014, total liabilities exceeded total assets by EUR 0.7 million. Although the Technical Secretariat is of the view that there is no need for additional funding as long as States Parties continue to support the OPCW, I continue recommending that States Parties should start considering how future liabilities could be funded, as a negative balance should not be maintained over a longer period.



In 2014 and 2015 our performance audit focussed on the Office of Internal Oversight (OIO). We examined whether the office followed the standards issued by the Institute of Internal Auditors (IIA). We identified considerable room for improvement. I will report on some examples:

The current OIO Charter for the OPCW was approved by the Director-General, while the standards require that the Charter is approved by the governing bodies.

According to IIA standards the governance body that is charged with fiduciary duties and oversight of the Organisation's audit and control functions is the audit committee. In the OPCW, the Advisory Body on Administrative and Financial Matters (ABAF) has oversight-related responsibilities. However, the OIO Charter does not explicitly refer to the role of the ABAF as the audit committee. While this may be current practice, in my view OIO's independence should be strengthened as a first step by establishing an audit committee which is specialised in audit issues.

According to the size of the OPCW I consider an audit committee of three audit experts sufficient. They would not receive any payment (except travel expenses), provide their assessment to the governing bodies, and relieve ABAF from a part of its work.

According to the Financial Regulations, the OIO shall carry out audits including Quality Assurance (QA). On the other hand, OIO exercises oversight of QA. As the oversight of QA is a management responsibility, this can impair OIO's independence and objectivity. I recommend transferring the responsibility for QA oversight from OIO to QA officers in the divisions concerned.

During the period under review, the Secretariat hired three consultants under special-service agreements to conduct evaluations. Two of them were former staff members. In such cases, the Secretariat should pay due regard to any situation that could be perceived as a conflict of interest.

The internal auditors have to perform four assignments each year and a number of continuous activities, for example, IA has to play an important role in verifying the assessments of responsible managers when the Statement of Internal Control is prepared. A number of unplanned audits occur regularly. Therefore, planned audits could often only be completed in the following year. Until 2014 this was not reflected in the annual work programme, which therefore gave no realistic picture. Starting in 2015 OIO changed its approach. Now, the work programme encompasses a maximum of four assignments per auditor including audits not yet started in the previous year and new assignments. I welcome OIO's new approach. I recommended including a comparison of the work programme with the actual audits performed in the annual summary report. To follow up the work done would be one responsibility of an audit committee.

As a further governance instrument I had repeatedly recommended preparing a Statement of Internal Control together with the Financial Statements. The Secretariat reacted, put into effect a risk management policy in February 2013 and stated its intention to develop a control framework that would allow the Director-General to issue a Statement of Internal Control. The 2014 Financial Statements contain this Statement. We are grateful for the progress made, but it appears that the implementation of all features of an SIC takes longer than initially

expected. I still do not see the clear distribution of duties down through the Organisation and the assurances of the relevant managers and the necessary verification by OIO.

Before I conclude I would like to point out that the Organisation is currently experiencing severe liquidity problems which urgently need to be resolved. The problems are caused primarily by the non-payment of assessed contributions and the failure of two States Parties to refund the OPCW for expenditures incurred according to Articles IV and V. In addition, the ability of the Organisation to access temporary liquidity is constrained due to the reduction of the Working Capital Fund.

#### Outstanding assessed contributions

In relation to previous years, the number of States Parties which have not paid any contributions has decreased in 2014. Unfortunately, compared to 2013, the number of States Parties that fully paid their contributions decreased by 7.1%. I repeatedly pointed out that it is hardly acceptable that contributions are not paid. I encourage the States Parties to pay their contributions or at least to make use of the payment plans offered by the Secretariat. As at August 2015, more than EUR 12 million were still unpaid by five donors of which EUR 5.9 million relate to one large country and concern arrears of several years.

#### Reimbursement of Verification Activities in the Syrian Arab Republic and Libya

Between 2013 and 2014 the Secretariat spent EUR 4.2 million for verification activities in the Syrian Arab Republic and Libya, of which EUR 3.1 million were charged to Regular Budget resources. Missions are ongoing in 2015, which will increase these totals. According to Articles IV and V of the Convention, each State Party shall meet the costs of verification of storage and destruction of chemical weapons it is obliged to destroy. The Secretariat sent invoices to both countries and requested reimbursement. Unfortunately, no payment has been effected or announced to date. Under IPSAS, any amount receivable for which recovery has ceased to be probable should be written down and recognised as an expense. This will need to be considered in the preparation of the 2015 OPCW Financial Statements.

#### Working Capital Fund

Since its establishment, the WCF has never been used to offset a temporary cash shortfall. Upon recommendation of the ABAF and with our support WCF's resources amounting to EUR 9.9 million were reduced to the level of 6 per cent of the total budget. That released an amount of EUR 5.7 million. This amount was used as the basis for the establishment of the new ERP project.

The combination of these effects (being the non-payment of amounts by States Parties, and a reduction in the available Working Capital Fund liquidity) put the overall liquidity of the OPCW at risk. I believe that the reduction of the WCF was an appropriate measure, because it had never been necessary to use it since its inception. But the reduction also made it necessary that outstanding amounts are paid when due.

I would like to urge those States Parties with arrears to pay their assessed contributions as soon as possible. Additionally States Parties need to find a solution for the amounts due from the Syrian Arab Republic and Libya as it can currently not be expected that these two countries will be paying off their debts. This was a brief overview of my key findings

regarding the Secretariat's management and performance. If you have any questions, we will be happy to answer them.

I hope that the implementation of the German recommendations on performance issues has contributed towards improving OPCW's efficiency and effectiveness over the past six years. It was a pleasure for us to work with both the Secretariat as well as the governing bodies. I wish the OPCW the success it deserves and needs.

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.

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