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**STATEMENT BY THE EXTERNAL AUDITOR OF THE OPCW
AT THE EIGHTY-SIXTH SESSION OF THE EXECUTIVE COUNCIL**

Chairperson, distinguished delegates,

On behalf of the Comptroller and Auditor General of the United Kingdom of Great Britain and Northern Ireland, Sir Amyas Morse, I have the honour to outline the findings from this, our second year as your appointed external auditor.

In my presentation I will address the four topics contained in our report, focusing on financial management, governance and internal control, the new Enterprise Resource Management implementation and Human Resources matters.

I am pleased to report that the External Auditor's opinion was unqualified, and that the audit revealed no errors or weaknesses which we considered material to the accuracy, completeness, and validity of the financial statements as a whole. It also confirms that expenditure has been incurred in accordance with the authorities and regulations set by you as States Parties. We continue to note the quality of the financial statements and the sound processes which underpin their preparation.

I move now to the first topic area of our report, which speaks to the issues of financial and budgetary management.

As we reported in 2015, the OPCW faced significant General Fund cash pressures, arising mainly from delayed receipt of assessed contributions and inspection reimbursements. Cash flow pressures were less acute in 2016, and the requirement to use the Working Capital Fund (WCF) to alleviate cash flow pressures was lower due to receipts in advance for 2017 contributions. Underlying cash flow risks remain, so it continues to be vital for States Parties to pay contributions due on a timely basis, as well as for the level of the WCF to be kept under review.

Management took action to ease cash flow pressures in 2016 and we have commented on the enhancements to budget monitoring which enabled the effective control of resources. We have continued to note the need for OPCW to look for sustainable financial solutions to ensure reserves which were used in 2016 can be replenished. These include taking a more structured approach to building up an appropriate level of General Fund reserves as part of a longer term approach to financial planning. Our report also highlights the importance of having a clear position on the funding for items such as long-term employee benefits, which, in common with many other international organisations, remain unfunded and paid only when due. There remains scope to consider making the budget process more efficient, and



longer term planning will support this. The Technical Secretariat's (hereinafter "the Secretariat") strategic finance considerations and the Fourth Review Conference offer opportunities for the future.

Secondly, we have again made observations on the overall governance mechanisms which we commend to States Parties as critical to how you provide effective oversight. Most of the key aspects of good governance are present, but we have identified areas for further improvement and development. Building on previous recommendations we continue to highlight the benefits of strengthening oversight with discreet expert scrutiny of internal control and financial reporting, through the adoption of an audit and oversight committee to complement the work of the ABAF. This would provide greater challenge and insight over risk, the quality of the audit functions and of internal control within the OPCW. We commend these as a critical part of effective modern governance, now widely adopted across international organisations.

We have noted the positive developments in risk management, with the Secretariat identifying the top ten risks within the OPCW and a commitment to review and update the risk register twice a year. It is important that risk management is fully embedded and used in business processes; we will seek to confirm this over the coming year.

Our report has highlighted the need to strengthen the role and independence of the Office of Internal Oversight (OIO) and improving assurance by implementing or reviewing the appropriateness of recommendations earlier. In our view there is a need for OIO to be strengthened in order to provide more substantive assurance on key processes. This includes ensuring sufficient time is allocated to delivery of assurance reports and that it has the necessary skilled resources to deliver its programme. This is important both to ensure the Director-General has sufficient assurance to support assertions in the Statement on Internal Control, but especially at a time of significant system and process change.

Turning to the third area of our report - implementation of the new Enterprise Resource Planning system, planned to go live in January 2018. We previously reported the need for a clear plan quantifying the business benefits of the new system; including assumptions on savings arising from the investment, and a clear articulation of the business outcomes from the new system implementation. These benefits should have been more clearly set out at the inception of the project, and we noted that at the time of our report the detailed Benefits Realisation Plan for the project was subject to Project Steering Group and Project Board approval.

It will be important to monitor this business critical project over the coming months to ensure appropriate plans are in place for data transfer and to mitigate the impacts of system change on the operations of the business, especially within the finance area. The new system can offer new opportunities for process improvement, providing training plans and the preparations for cultural change are appropriately delivered.

Turning finally to human resources - people are the main asset of the Organisation, and performance is determined largely by how well it recruits, deploys and develops its people. At the time of our report, we observed that there were a number of gaps in the human resources function within the Organisation. Our work concluded that the human resources function provided a largely transactional and advocacy service, and that it was unclear how it would support broader change management and organisational design. This was echoed by

our findings in respect of skills and workforce planning, where there was a lack of clear strategic thinking. In respect of workforce planning specifically, despite the outline of a staffing plan to States Parties in 2015, we were unclear on whether these proposals were substantiated with a documented and detailed action plan.

We are pleased to note that since our work the Secretariat is actively taking forward the recommendations and has clear proposals to focus human research efforts on more strategic matters, and how it can support more effective longer term workforce planning.

I can confirm that management have noted the findings of our report which were shared and agreed for factual accuracy. We will continue to support the Secretariat in implementing these recommendations effectively.

I wish to express my sincere thanks to the Director-General and to all the staff of the OPCW Secretariat for their cooperative and responsive attitude.

Thank you for your kind attention.

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