



NOTE BY THE DIRECTOR-GENERAL

COMMENTS ON THE REPORT OF THE ADVISORY BODY ON ADMINISTRATIVE AND FINANCIAL MATTERS AT ITS FORTY-FOURTH SESSION

1. At its Thirty-Fourth Session, the Executive Council (hereinafter “the Council”) requested the Director-General, when submitting reports of the Advisory Body on Administrative and Financial Matters (ABAF) to the Council for its consideration, to indicate what actions have been taken by the Technical Secretariat (hereinafter “the Secretariat”) in response to the recommendations of the ABAF and what decisions are required by the Council on the report being submitted (paragraph 21.4 of EC-34/5, dated 26 September 2003).
2. The Director-General welcomes the continuing advice and support provided by the ABAF, as reflected in the conclusions it reached during its Forty-Fourth Session held from 5 to 8 June 2018 (ABAF-44/1, dated 8 June 2018).

Working Capital Fund (paragraphs 4.6 and 4.7 of ABAF-44/1)

3. The Secretariat notes the ABAF’s concerns with regard to the potential operational risk created by the lagging receipt of assessed contribution payments and with regard to the ability of the Working Capital Fund (WCF) to sustain liquidity. The Secretariat notes the ABAF’s encouragement to develop a contingency plan should the situation continue.
4. The Secretariat notes the ABAF’s comment that a minimum level for the WCF could be considered for inclusion in the Financial Regulations and Rules as well as the requirement to replenish the fund automatically to the minimum level.

Status of assessed contributions and Article IV and V reimbursements (paragraphs 4.8 to 4.10 of ABAF-44/1)

5. The Secretariat notes the ABAF’s serious concerns about the number of States Parties that were in arrears in respect of annual contributions assessed for previous years and about the cumulative outstanding balance for the reimbursement of inspections invoiced under Articles IV and V. The Secretariat will continue to remind States Parties to fulfil their obligations in this regard.

Implementation of the 2017 Programme and Budget (paragraph 4.12 of ABAF-44/1)

6. The Secretariat welcomes the positive comments by the ABAF regarding the high budget implementation rate achieved in 2017. The Secretariat also notes the ABAF’s



recommendation that during the 2019 Programme and Budget consultations it bring to the attention of the States Parties the relationship between the rate of programme and budget implementation and the impact of the collectability of assessed contributions.

ERP Project Update (paragraphs 4.13 to 4.20 of ABAF-44/1)

7. The Secretariat appreciates the ABAF's support for its focus on establishing a new ERP go-live date in 2018 and on ensuring that the Organisation's system requirements are met. The Secretariat notes the ABAF's disappointment that the project implementation has not gone as planned and with the cost implications of the delay. The Secretariat also notes the ABAF's recommendation that it have a clear contingency plan in place.
8. The Secretariat notes the ABAF's request for an update on the ERP project at its next session.

Status of the 2018 financial performance report (to date) (paragraph 5.1 of ABAF-44/1)

9. The Secretariat welcomes the positive comments by the ABAF regarding the initiatives taken by the Organisation to avoid a budget deficit as well as to avoid transfers of funds between chapters. The Secretariat will conduct a detailed review of actual and projected expenditures, along with a review of assessed contributions and Article IV and V collections, as part of its mid-year review. This may result in an adjustment to the contingency margin in effect.

Financial Statements of the OPCW and the report of the External Auditor for the year ending 31 December 2017 (paragraphs 6.1 to 6.31 of ABAF-44/1)

10. The Secretariat welcomes the ABAF's satisfaction that both the Financial Statements of the OPCW and the Financial Statements of the OPCW Provident Fund received unqualified audit opinions from the External Auditor.
11. The Secretariat notes the ABAF's concern related to collection of assessed contributions and Article IV and V reimbursements and the impact that these have on the Organisation.
12. The Secretariat welcomes both the ABAF's and the External Auditor's positive comments regarding measures taken to improve the information and readability of the financial statements, notably the addition of a new introduction by the Director-General to the OPCW Financial Statements and the arrangement of a peer review of its financial statements by other international organisations. The Secretariat will look to continue to improve the readability of the financial statements in the future. Furthermore, the Secretariat noted the ABAF's recommendation that in the future a further breakdown of key expenditure categories be provided between the General Fund and trust funds.
13. The Secretariat notes the ABAF comment that a significant portion of the asset categories have fully depreciated assets that would require replacement at some point.

14. The Secretariat notes that the ABAF agreed to consider at a future session the General Fund long-term employee benefit liabilities, with a view to advising States Parties on the matter. It also notes the External Auditor's recommendation to decide formally if it will continue on a "pay-as-you-go" approach or decide to fund the deficit incrementally over time.
15. The Secretariat notes the External Auditor's comment that the development of a long-term investment programme to plan for equipment purchases is a key recommendation within the draft non-paper on "Strategic Financing for the OPCW" (hereinafter "the Strategic Financing Paper").
16. The Secretariat notes the ABAF's comment to proceed cautiously regarding extrabudgetary funding and the notion of a dedicated strategy for extrabudgetary funding. Furthermore, the Secretariat notes the ABAF's comment that core activities should be regularised within the General Fund of the programme and budget.
17. The Secretariat notes the ABAF's comment regarding the importance of adhering to delegated approval limits. The Secretariat indicated that presently it is a manual process and that the new ERP would enable this information to be more easily and comprehensively tracked. With reference to long-standing audit recommendations, the Secretariat notes the ABAF's comment that such recommendations should not be ignored, that their implementation needs to be expedited, and that there needed to be additional mechanisms and accountability to implement audit recommendations.

**Report of the Office of Internal Oversight for the year ending 31 December 2017
(paragraphs 7.1 to 7.8 of ABAF44/1)**

18. The Secretariat notes that the ABAF encourages Management to implement the recommendations of the Office of Internal Oversight (OIO) in a timely manner.
19. The Secretariat notes the ABAF's suggestion to categorise the reasons for delayed implementation of its recommendations in future presentations to the ABAF.
20. The Secretariat welcomes the ABAF's appreciation of the new section in the report which provides an assessment of the impact of implemented audit and evaluation recommendations. This section of the report shows the value addition from these recommendations in strengthening the internal control, risk management, and governance systems in the Organisation.
21. The Secretariat notes the ABAF's appreciation of the OIO recommendations, as well as the External Auditor's recognition of their positive contribution to strengthening the internal controls relating to procurement, while stressing the importance of the Secretariat to adhere to the audit recommendations.
22. The Secretariat welcomes the ABAF's acknowledgement of a significant improvement in the way the OPCW has been considering evaluation.
23. The Secretariat notes that the ABAF requested the OIO to provide the revised draft charter for its consideration at its next session, as well as its likely implications for changes to the OPCW Financial Regulations and Rules.

Note by the Director-General on transfers of funds during 2017 (paragraphs 8.1 to 8.6 of ABAF-44/1)

24. The Secretariat notes the ABAF's recommendation that the Secretariat change the order of sequence to first have the report on transfers of funds considered at its first meeting each year (usually in June), and that after the ABAF's review to then submit the report to the Council at its session in July rather than at its first session each year in March.
25. The Secretariat appreciates the ABAF's review of the analysis of the transfers of funds during 2017. The Secretariat welcomes that the ABAF was pleased to note that the report on Transfer of Funds During 2017 (EC-87/DG.13 C-23/DG.2, dated 15 February 2018) had indicated that no transfers were made between chapters and all other transfers were within the allowable parameters of transfers between programmes and subprogrammes, and that all transfers took place without detriment to the approved activities of the respective programmes.
26. The Secretariat welcomes the ABAF's commendation for using 2017 budget transfer information and proactively revising the staff standard cost to a more reflective in the formulation of the 2018 Programme and Budget. The Secretariat, as noted by the ABAF, is looking at more reflective costing for cargo and inspectorate travel in the formulation of the 2019 Programme and Budget.

Programme Performance Report 2017 (paragraphs 9.1 and 9.2 of ABAF-44/1)

27. The Secretariat notes the ABAF's continued encouragement to further develop a narrative for the Programme Performance Report. The Secretariat will look to include this in subsequent reporting.

Financial Regulations and Rules: Regulation 6.3 (paragraphs 10.1 to 10.6 of ABAF-44/1)

28. The Secretariat notes the ABAF's recommendation that the concept of a cash deficit introduced in the revised Financial Regulations and Rules is necessary.
29. The Secretariat notes that the ABAF will further analyse Financial Regulation 6.3 and its encouragement that members of the ABAF and the requesting State Party work with the Secretariat on potential wording for consideration at the ABAF's next session.

Strategic financing strategy for the OPCW (paragraphs 11.1 to 11.7 of ABAF-44/1)

30. The Secretariat welcomes the ABAF's positive comments regarding the quality of the Strategic Financing Paper, noting that the ABAF indicated that it was in line with the ABAF's original request and that of the External Auditor. The Secretariat further notes the ABAF's comment that the Strategic Financing Paper was found to be practical, analytical, and comprehensive, and that it served as an excellent source of information on multiple financial issues in one document, that it is of relevance to an international organisation such as the OPCW.

31. The Secretariat notes the ABAF's comments about the importance of the principles outlined within the Strategic Financing Paper, and that the ABAF commends the paper for the intention of States Parties, and in doing so indicated that States Parties would have to decide which specific concepts to bring forward for further consideration. The Secretariat notes the ABAF's encouragement to consider a shortened version of the Strategic Financing Paper for future stakeholder consultations.

Audit committee (paragraphs 12.1 to 12.7 of ABAF-44/1)

32. The Secretariat appreciates the analysis done by the ABAF in reviewing the issue of an audit committee for the OPCW and for coming to a determination on the matter.
33. The Secretariat notes that there was consensus among the ABAF that a separate audit committee would not be appropriate for the OPCW at this time.
34. The Secretariat notes the ABAF's suggestion that its membership should be held to a reasonable level and not exceed its current level of 10 members and observers. Furthermore, the Secretariat notes the ABAF's view that should specific issues warrant, it could request specialised expertise to complement its composition on an as-needed basis for a period of time.

Combined Fourth Review Conference and Twenty-Third Session of the Conference (paragraphs 13.1 to 13.6 of ABAF-44/1)

35. The Secretariat notes that the ABAF welcomed the significance of the efficiency and anticipated savings from holding a combined Fourth Review Conference¹ and Twenty-Third Session of the Conference of the States Parties (hereinafter "the Conference").
36. The Secretariat notes the ABAF's recommendation for the Secretariat to revisit the issue of sustainable funding for future review conferences, once the combined Fourth Review Conference and Twenty-Third Session of the Conference have occurred and actual costs are determined.

Any other business (paragraph 14.1 of ABAF 44/1)

37. The Secretariat notes the ABAF's request to consider a secure option to post-session documentation. The Secretariat will examine the possibilities of this request during the update of the ABAF portion of the OPCW website.

Next session and agenda (paragraph 15 of ABAF 44/1)

38. The Secretariat notes that the ABAF agreed to the dates of 31 July to 3 August 2018 for its Forty-Fifth Session, as well as the provisional agenda for that session.

- - - 0 - - -

¹ Fourth Special Session of the Conference of the States Parties to Review the Operation of the Chemical Weapons Convention.