



STATEMENT OF THE GROUP OF 77 AND CHINA DURING THE IAEA PROGRAMME AND BUDGET COMMITTEE MEETING, STARTING ON 7 MAY 2018, DELIVERED BY H.E. AMBASSADOR CARLOS JÁTIVA, PERMANENT REPRESENTATIVE OF ECUADOR

**Agenda item 2: The Agency's Financial Statements for 2017 including the External Auditor's Report**

Mr. Chair,

1. The Group of 77 and China thanks the Deputy Director General and Head of the Department of Management for her introductory statement, and the staff of the Secretariat for the presentations delivered in the course of the workshop on financial and administrative matters, which took place on 16th April 2018.
2. With regard to the Financial Statements of the Agency for 2017, including the External auditor's report, as contained in document GOV/2018/5, the Group would like to make the following comments:
3. The Group would like to express its appreciation to the Audit Board of the Republic of Indonesia for the professionalism in conducting the audit on the Agency activities for the second consecutive year, which will continue to compliment the efforts of the Agency towards efficiency and effectiveness in service delivery.
4. The Group is pleased to note that "an unqualified opinion" has once again been placed on the Agency's financial statements. The External Auditor has made several observations and recommendations for the improvement of the Agency's financial practices. The Group supports in this regard the implementation of relevant recommendations aimed at improving management and enhancing efficiency.
5. The Group is also pleased to note that the analysis performed of the recommendations contained in the report of the External Auditor for 2017 not only covering "Financial Matters", but also a broad spectrum of activities, such as Management of Spent Fuel from Nuclear Power Reactors, Isotope Hydrology Laboratory, Safeguards Analytical Services and Technical Cooperation Programme. The Group also notes that there is a new component that has been introduced into the report presenting useful information on the 2018 Audit Scope.
6. Since the Group attaches special importance to the Technical Cooperation Programme which is the main vehicle through which the Agency fulfils its statutory mandate in promoting the peaceful uses of atomic energy, the Group notes the observation made by the External Auditor that the foot note a/ project components, nine out of 15 analyzed TC projects, remained unfunded upon project closure. The Group recalls that the large number of unfunded foot note a/ projects is a proof that reemphasizes the critical need for sufficient, assured and predictable resources for the TC activities. The Group requests the Secretariat to consult with Member States prior to implementing Recommendation no. 15.
7. The Group notes the recommendation made by the External Auditor No. 14 regarding the Safeguards Analytical Services. Given that a seamless knowledge transfer is needed between outgoing and incoming specialists, the Group requests the Secretariat to implement the recommendation to further develop knowledge Management and transfer strategies. Specifically to capture and transfer tacit knowledge which include technical skills and expertise attached to the work performed by each specialist within the safeguards analytical services. The Group is of the view that this recommendation should be implemented across all departments.
8. Nevertheless, the Group reiterates that the Secretariat should take a cautious approach when considering these recommendations and, where appropriate, consult Member States prior to taking any measures in that

regard.

9. On the Financial aspect, the Group notes that the Regular Budget Fund experienced an increase in revenue from assessed contributions and that Revenue from voluntary contributions to the Technical Cooperation Fund (TCF) for 2017 was higher than in 2016 as a result of increased payments to the TCF during 2017. However, the Group would like to underscore the fact that TC activities continue to lack sufficient, assured and predictable resources.

10. The Group also would like to underscore that the Technical Cooperation Fund has positive net assets, which indicates its overall health, as well as the fact that, because of its nature, the activities of the TCF are implemented over a longer time horizon than one financial year. The Group requests the Secretariat to explain this fact in all future financial statements of the Agency, as it was done in para 35 of the Agency's financial statements for 2016.

11. In light of the above, the Group would like to dismiss any interpretation to the effect that the TCF resources exceed what can be implemented.

12. The Group notes that the Extrabudgetary Programme Fund experienced a decrease in its revenue from voluntary contributions of 31.8 million euros. In this regard, the Group would like to caution against the over reliance on extra budgetary funds as this could negatively impact the effectiveness and independence, as well as long term sustainability of the Agency. The Group therefore calls on all Member States to pay their contributions to the Regular Budget and the Technical Cooperation Fund on time and in full.

13. The Group notes with concern the overall increase in the Agency's liabilities in 2017, on the amount of 47.2 million euros, and that this increase was primarily the result of the impact of changes in the actuarial assumptions and methodologies for calculation of the long-term employee benefit liabilities, including After Service Health Insurance (ASHI). The Group further notes that the total net assets position experienced a decline of €27.4 million which resulted from, inter alia, the above mentioned actuarial losses, offset by the overall net surplus for 2017 of €9.5 million which represents a severe decrease compared to last year's net assets. The Group notes with concern that, as stated by the DG on his summary, the Regular Budget Fund is in a negative net asset position due to the Agency's unfunded employee benefit liabilities, which amount to 290 million euros at 31 December 2017. In this context, the Group urges the Secretariat to continue addressing the significant growing liabilities, and to consult regularly with Member States about the relevant measures to be taken in that regard. The Group also requests the Secretariat to brief Member States on the evolution of a sound funding strategy for meeting these liabilities, as it also has been indicated in para 61 of the External Auditor's report. The Group emphasizes the importance of consistency and transparency in decisions that have an impact on staff costs. The budget information regarding staff costs, as well as regarding all the relevant expenditure items, should be presented in such a way as to permit meaningful comparison of the budget proposals on a year-on-year basis.

14. With these comments, the Group of 77 and China takes note of the Agency's financial statements for 2017, as contained in document GOV/2018/5, and documents GOV/INF/2018/4 and GOV/INF/2018/5.

Thank you, Mr. Chair.

### **Agenda Item 3: The 2017 Internal Audit Activity Report and the 2017 Programme Evaluation Report**

Mr. Chair,

1. The Group of 77 and China thanks the Secretariat for the 2017 Internal Audit Activity Report and the 2017 Programme Evaluation Report, contained in documents GOV/2018/11 and GOV/2018/10, respectively, and for the presentation delivered on the 24th of April. (Not to be read)

2. The Group would like to express its appreciation for the work conducted by the OIOS to ensure management efficiency and programme effectiveness and to enhance accountability. The Group recognizes that the organizational independence of the OIOS is fundamental to fulfill the responsibilities of the internal audit activities and the OIOS must confirm it to the Board of Governors at least annually.

3. The Group is of the view also that the audit and evaluation carried by the OIOS should cover all Major Programmes equally.

4. On the summary of results of the 2017 Audit Plan contained in section C of the Report, the Group would like to make the following comments, and urges the Secretariat, where applicable, to take the required actions, in consultation with Member States, to address the issues highlighted in the report:

4.1 On the Audit of the Programme of Action for Cancer Therapy (PACT), the Group takes note of the several issues identified by the Audit including the lack of defined strategy for resources mobilization. In light of the importance that the Group attaches to the PACT, the Group urges the Secretariat to implement the 13 recommendations issued for PACT and to implement fully the recommendations made previously in two OIOS reports, in 2010 and 2012. The Group appreciates that prompt actions were undertaken by management to address the issues identified. The Group also looks forward to the outcomes of the Ad Hoc Task Force that has been created to review the Agency's activities and structures related to cancer. In this regard, the Group would appreciate if the Secretariat could present the outcomes of the Ad Hoc Task Force at the earliest and looks forward to receiving more information through a briefing before the June Board.

4.2 Regarding the audit of Agency Travel Management, The Group notes that OIOS Report cites a figure of more than 3 million euros per annum that could have been saved during the period under review, from 2011 to 2016 and the Group also notes the information provided by the Secretariat in the Informal PBC Meeting on 27 April 2018. The Group requests OIOS to provide Member States with details on this figure in a timely manner. The Group looks forward to receiving the comprehensive assessment of the travel policy that the Secretariat is carrying out. While implementing the OIOS recommendations, the Group urges the Secretariat to ensure that there is no negative impact on the programmatic delivery to Member States and on the participation in Agency activities of experts from developing countries.

4.3 On the Audit of Expenditures Incurred in connection with the Joint Comprehensive Plan of Action (JCPOA) with the Islamic Republic of Iran, the Group acknowledges with satisfaction that the sampled expenditures were in compliance with the applicable regulatory framework, and in support of the agreed objectives and activities.

4.4 On the Audit of the Attendance and Leave Process of the Agency, the Group requests the Secretariat to address the weaknesses related to governance, compliance and the control framework, by adopting the recommendations indicated on the Audit.

4.5 On the Audit of the Peaceful Uses Initiative (PUI), the Group notes the Audit conclusion stating that PUI has supported the achievement of the Agency's goal to broaden access to peaceful uses of nuclear energy and that it is an important instrument to mobilize Extra budgetary funding, but that certain areas requires corrective actions and improvements. The Group would also like to reiterate its position that PUI is an important tool that is not intended to substitute the Technical Cooperation Fund, but should aim to complement the TCF which lacks sufficient, assured and predictable resources, and should help to mobilize resources for the unfunded footnote/-a projects.

4.6 Regarding the Audit of the Information Technology Security Testing of the Agency's Web Authentication and Authorization Services, the Group notes that while the tests performed did not reveal critical issues, yet the assessment revealed seven "High" and "eight "Medium" priority issues, which could result in a server compromise, access to a sensitive application functionality or disclosure of confidential data. The Group urges the Secretariat to implement the Audit recommended measures in order to mitigate

the risks of unauthorized access to the Agency's web applications and data.

4.7 The Group highlights the areas identified by the Audit report as issues of concern, on the lack of accountability and internal control frameworks and weaknesses in results-based management and urges the Secretariat to take appropriate action to address them in consultation with Member States.

4.8 On the Country-Level Evaluations and Audits (CLEAs), the Group notes that CLEAs combine both audit and evaluation methodologies to provide a comprehensive assessment of the Agency's performance with a Member State. In this regard, the Group notes that overall, the Agency's work was found to be in line with respective national priorities and relevant needs. However, one of the observations was that relevance could have been further enhanced in projects implemented with several counterparts, through a more in-depth analysis of the varying needs of the counterparts.

4.9 The Group welcomes the progress in the rate of implementation of recommendations, as reflected in the table in section E of the 2017 Internal Audit Activity report. The Group notes that out of 792 recommendations issued by OIOS during the period 2007-2017, 60% were implemented on time or are in the process of being implemented, while 40% were not implemented by the original target date. Regarding the Overdue recommendations, The Group understands that the length of time required to implement a recommendation depends on the complexity of the issue and the resources required to address it, However, the Group urges the secretariat to continue exerting all efforts to implement the overdue recommendations where applicable and requests the OIOS to include in the future reports a breakdown identifying the nature of these overdue recommendations.

5. Turning to the 2017 Programme Evaluation Report, the Group would like to make the following comments:

5.1 Regarding the Evaluation of the Gender Mainstreaming in Agency Programmes and Operations, the Group would like to emphasize its commitment to gender mainstreaming and geographical distribution as guiding principles for International Organizations. The Group notes that gender mainstreaming is a policy that requires follow-up and accountability to ensure results, as recognized by the UN Commission on the Status of Women and the Committee on the Elimination of All Forms of Discrimination Against Women. The Group requests the Secretariat to continue following up on substantive aspects of gender mainstreaming in close consultation with Member States and in the most effective and efficient manner and taking into account the implementation of the Sustainable Development Goals. The Group wishes to emphasize that the implementation of this principle should not prejudice the implementation of the General Conference Resolution on Staffing of the Agency's Secretariat and Article 7D of the Statute.

5.2 Regarding the evaluation of the Work of the Joint FAO/IAEA Division of Nuclear Techniques in Food and Agriculture, the Group acknowledges that the overall findings of the evaluation was positive and that the Joint Division has a robust setting mechanism that ensures that its programme of work remains responsive and relevant to the needs of the Member States. The Group notes with satisfaction that in emergency and disease outbreak scenarios, excellent collaboration and coordination has occurred. The Group also noted that greater collaboration between the joint division and other departments and divisions of FAO is still required in some of the areas listed in the OIOS report and encourages the Secretariat to implement this recommendation.

5.3 The Group notes the OIOS findings and recommendations regarding the Evaluation of the IAEA's Work Related to the Zika Virus. The Group notes that, while the overall assessment was highly positive, some important issues were noted, as in relation to the need to strengthen the strategic coherence of the Agency's activities for Human Disease Vectors (HDV) management using the Sterile Insect Technique (SIT) and to the need to issue more detailed TC standard operating procedures for providing immediate assistance to Member States in situations requiring urgent action.

5.4 On the Evaluation of the Agency's Work Related to Infrastructure and Planning for New Nuclear Power Programmes, The Group notes that the Agency support is found to be largely effective, and that the Agency's technical support largely relevant to the needs of newcomer countries. The Group noted also that Peer review missions sent to Member States upon their request helped in identifying gaps with respect to meeting the relevant required standards including safety standards. The Group notes with concern that OIOS is encouraging Member States to disclose the reports of the peer review missions to the public. The Group recalls the GC Resolution contained in document GC(61)/RES/8, operative paragraph 49 that ensures the voluntarily nature of using the Agency Advisory services and receiving its peer review and associated follow up missions and making its findings publicly available.

6. With these comments, the Group of 77 and China takes note of the 2017 Internal Audit Activity Report, as contained in document GOV/2018/11, and the 2017 Programme Evaluation Report, contained in document GOV/2018/10.

Thank you, Mr. Chair.

#### **Agenda item 4: The Agency's Draft Budget Update for 2019**

Mr. Chair,

1. The Group would like to thank the Secretariat for issuing the new revised proposal of the Agency's Draft Budget Update for 2019 and for providing the additional information on the adjustment to the one-time special measures and the related revised Annex II, as contained in document 2018/Note 34.

2. The Group appreciates the Secretariat's efforts with a view to reach an early consensus on the Draft Budget Update for 2019.

3. The Group would like to seize this opportunity to reiterate its principled position with regard to the Regular Budget, which calls for a balanced distribution of the budget so as to reflect the equal importance of the three pillars of the Agency, namely (a) the promotion of peaceful uses of nuclear technology, including technical cooperation, (b) safety and (c) safeguards.

4. The Group has taken note of the proposed revision of the overall price adjustment from 3.5% to 2.5%. The Group looks forward to continue discussing the price adjustment with a view of making an informed decision at the earliest.

5. In this regard, the Group considers that Member States should be made fully aware of the different factors that influence the price adjustment figures. For this reason, the Group encourages the Secretariat to facilitate access for Member States to the relevant documents used to calculate the price adjustment.

6. The Group notes that at the end of 2017, the Board of Governors has approved a proposal, set out in the document GOV/2017/50, to modify the salary scale for staff members in the general services category, based on recommendations of the International Civil Service Commission (ICSC), on the basis of a comprehensive survey conducted by the commission on April 2017. The continuation of the use of the adjustment procedure and the interim adjustment factor of 0.9 contained in document GOV/2017/50 has also been approved. The Group takes note of the information provided by the Secretariat, that the 2019 price adjustment reflects the actual increase in all factors after the ICSC finalised the periodic review of the semi-components for general service staff in 2017. The Group would like to request further information on how the proposed adjustment of 5.4 percent for general services staff has been calculated, on its relation to GOV/2017/50 and used in determining the proposed price adjustment. The Group emphasises the importance of consistency and transparency in decisions that have an impact on staff costs. The budget information regarding staff costs, as well as regarding other relevant expenditure items, should be presented in such a way as to permit meaningful comparison of the budget proposals on a year-on-year basis.

7. The Group is of the view that the new biennial price adjustment methodology needs to achieve predictability in the price adjustment for the following biennia as well as to reduce its fluctuations. In this regard, the Group took note of the information provided by the Secretariat during the informal PBC meeting on 23 March 2018 regarding the development of this methodology. The Group looks forward to continue engaging with the Secretariat on this important issue.

8. Concerning the proposed one-time special measures, the Group is of the view that sustained efforts to minimize the increase in the overall level of the Regular Budget over 2018 should reduce expenses through continued identification of sustainable efficiencies and austerity measures, rather than delaying the agreed programmatic activities, particularly the promotional activities. In this context, the Group notes the findings contained in the OIOS 2017 Internal Audit Activity Report. The Group also notes the information provided during the last informal PBC which took place on 27 April 2018. In this regard, the Group looks forward to receiving the comprehensive assessment of the travel policy that the Secretariat is carrying out. While implementing the OIOS recommendations, the Group urges the Secretariat to ensure that there is no negative impact on the programmatic delivery to member states and on the participation in Agency activities of experts from developing countries.

9. The Group notes that the Secretariat is proposing an adjustment to the level of reduction by each major programme through one-time special measures to ensure balance among major programmes. The Group also notes the content of the updated Annex II contained in document 2018/Note 34 which includes the details of the adjustment to the one-time special measures in light of the revised proposal. The Group is looking into how these measures might affect the agency's priorities as established in the 2018-2019 Budget, especially TC.

10. The Group reiterates its concern on reprioritization, delay or deferral of some promotional activities of the Agency and the possible implications of these measures on the activities of MP1, MP2 and MP6, in particular on the deferring recruitment to some professional positions in MP6. The Group requests the Secretariat to ensure that the deferral of recruiting some professional positions does not affect negatively the management of the TC activities. The Group believes it is important to have sufficient number of staff that can continue implementing the TC activities effectively.

11. In the same context, the Group urges the Secretariat to continue providing all necessary assurances to Member States that the proposed one-time special measures will not adversely affect the quality of the expected results of MP1, MP2 and MP6.

12. In conclusion, the Group reemphasizes its readiness to continue engaging in further consultations with the Secretariat and other Member States to find consensus on the Agency's Draft Budget Update for 2019.

Thank you, Mr. Chair.