



STATEMENT OF THE GROUP OF 77 AND CHINA DURING THE IAEA PROGRAMME AND BUDGET COMMITTEE MEETING, STARTING ON 8 MAY 2017, DELIVERED BY H.E. AMBASSADOR H.E. REZA NAJAFI, PERMANENT REPRESENTATIVE OF THE ISLAMIC REPUBLIC OF IRAN

Agenda item 2: The Agency's Financial Statements for 2016 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 12th April 2017.
2. With regard to the Financial Statements of the Agency for 2016, including the External auditor's report, as contained in document GOV/2017/12, the Group would like to make the following comments:
3. The Group would like to congratulate and record its appreciation to the Audit Board of the Republic of Indonesia for the professionalism with which it has audited the Agency activities in 2016, contributing to improving its efficiency and effectiveness.
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 processes and enhancing efficiency, like, for example, recommendation 5, which encourages the Agency to "consider having a written guideline in estimating allowance for doubtful account from exchange transactions", recommendation 7, which advises to "enforce salary deduction of travel when a duty travel claim is not submitted in a timely manner", or recommendation 23, on exploring "the opportunity to build capacities in digital archives management and preservation".
5. 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.
6. The Group is also pleased to note that the analysis performed of the recommendations contained in the report of the External Auditor for 2016 covers not only "Financial Matters" but also a broad spectrum of activities falling under the Regular Budget, such as Nuclear Information, Nuclear Medicine and Diagnostic Imaging, Radiation Safety and Monitoring, and two out of the five sections under General Services, namely ARMS and FMS.
7. The Group notes with satisfaction the improved collections of assessed contributions, especially the reduction of the amount of contributions in arrears. 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.
8. The Group notes that the time specific surplus indicated in the document titled 'Agency's Financial Statements for 2016' comprises the difference between assets and liabilities at that specific time (i.e. 31 December 2016). The Group further notes that from 1 January 2017 onwards, the liabilities increased in line with the approved TC Programme for 2017, without a corresponding immediate increase in assets.

9. In addition, the Group understands that the issue of surplus is further addressed in table 6 of the Technical Cooperation Report in document GOV/2017/17. As indicated in that table, the unallocated balance from 2016 was 4.2 million euros, which was caused by unexpected contributions to the TC Fund that were received during the last quarter of the year. Table 6 also shows that the major component of the surplus comprised advance payments that were made by the Member States in 2016, and which could not be used in 2016.

10. The Group would also 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. This fact has been explained by the Secretariat in para 35 of the Agency's Financial Statement Document.

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 with concern that ORPAS missions requested by several countries of Asia, Africa and Latin America are not being planned adequately and therefore cannot be performed due to a lack of human and financial resources.

13. With these comments, the Group of 77 and China takes note of the Agency's financial statements for 2016, as contained in document GOV/2017/12, and documents GOV/INF/2017/3, GOV/INF/2017/4 and GOV/INF/2017/5.

Thank you Mr. Chair.

Agenda Item 3: The 2016 Internal Audit Activity Report and the 2016 Programme Evaluation Report

Mr. Chair,

1. The Group of 77 and China thanks the Secretariat for the 2016 Internal Audit Activity Report and the 2016 Programme Evaluation Report, contained in documents GOV/2017/15 and GOV/2016/14, respectively, and for the presentation delivered on the 25th of April.

2. On the summary of results of the 2016 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:

2.1. On the Country Level Evaluation and Audit of the IAEA's Work, the Group takes note that overall, the Agency's work was found to be supportive. However, one of the observations is that there was a lack of synchronization between Agency Departments in relation to technical cooperation and nuclear security support. In this line, the Group welcomes the recommendation to designate a focal point to coordinate these activities. The Group considers that this is a recommendation that could also be implemented in relation with other Member States, when appropriate.

2.2 On the audit on Risk of Agency Activities in Member States, the Group notes that the audit concluded without the need of a report and that opportunities for improvement were instead communicated to management.

2.3. Regarding the Low Enriched Uranium Bank Project, the Group notes that a number of good practices identified through the audits conducted in 2013 and 2014 were still in place and that expenses were in compliance with the applicable Agency Financial Regulations and Rules. However, the Group is concerned with the finding about the presentation in the Agency's Financial Statements of the cost related to the human

resource expenses incurred by Agency Divisions on behalf of the IAEA LEU Bank project, where these have been recorded in 2015 and 2016 as 'nonHR' expenditures. The group notes that the recommendation to reassess the current accounting and presentation practices in relation to staff costs incurred by Agency Divisions to support the implementation of the IAEA LEU Bank project has been accepted.

2.4. On the Vendor Management Audit, the Group notes that overall the procurement activities have adequately supported the achievement of the Agency's programmatic goals and objectives, especially considering the specialized mandate of the Agency and the nature of its procurement needs, but that some shortcomings were identified, specifically regarding initial assessment of vendors, monitoring of their performance and the timely revision of the procurement strategy of the Agency.

2.5. Regarding the Audit of the Agency's Language Services, the Group notes that the purpose of the audit was to determine whether language services were provided in a compliant, timely, efficient and effective manner to clients within the Agency. We note that although, overall, the Language Services Sections functioned well and were adequately managed; some shortcomings were identified, particularly related to differences in the procedures established for each Language Section and to delays in the products. The Group appreciates these findings and would like to propose that consideration be given to recommending that client feedback also be applied to the translations and interpretations in which the end users are the Member States.

2.6. Regarding the Audit of Personnel Selection Process, the Group notes that there are areas in the recruitment process, the governance of the recruitment process and operational practices that need improvement. The Group notes the audit's conclusion that there are further limitations in the current regulatory framework. In this regard, the Group notes the main recommendations issued by OIOS to improve the current regulatory framework, governance mechanisms and operational practices. Finally, the Group reiterates its position that gender balance and geographical distribution should be taken into account in any personnel selection process.

2.7 Regarding the Audit on Segregation of Duties in AIPS, the Group notes that the audit identified vulnerabilities, including faults in design of AIPS user responsibilities or workflows, Process gaps in management of user access rights, excessive access rights provided to the AIPS Support Unit (ASU) and generic ID users and business users who have access to 'AZN menus' allowing 'back-door' access to systems via graphical menus.

2.8 On the Audit of the Modernization of Safeguards Information Technology Project, the Group notes the recommendations presented to strengthen governance and controls, including strengthening the utilized financial tracking tool, conducting reconciliation of the amounts billed by IT contractors against actual time worked, providing documentary set to the Department of Budget and Finance to enable validation of MOSAIC costs to be capitalized, continuing the work on developing the governance framework for the information security of MOSAIC applications and general logical access security, and assessing the business needs for availability and recoverability of the MOSAIC data, applications and infrastructure to ensure that the underlying information technology can sufficiently support the identified needs.

2.9 Regarding the Information Security Threat Management, the Group notes that the Agency managed information security risks through a number of organizational and technical controls, which had been deployed on several layers, but that some deficiencies were identified, including the lack of a formal policy on information security risk assessments, of a complete and up to date register of IT systems of the Agency to store and process classified data, of controls that would prevent the execution of unauthorized applications on user workstations, as well as ineffective system vulnerability management processes. The Group requests the Secretariat to take into account the recommendations by the OIOS in order to bring the Agency to the highest possible levels of Information Security.

2.10 The Group takes note that the OIOS conducted an observation of the physical inventory verification

process in the Department of Safeguards Nuclear Material Laboratory (NML) in Seibersdorf and that the summary of observations does not represent an audit report and therefore only states audit observations and management responses without formal audit recommendations that would require follow-up actions. The Group notes that this summary will be used as input for future risk-based audit planning processes.

2.11 Finally, on the Self-Assessment of the Internal Audit with External Validation, the Group notes that the external validation team concluded that OIOS's internal audit function "generally conforms" to the IIA's International Standards for the Professional Practice of Internal Auditing and that OIOS had significantly improved in the past four years since the previous self-assessment with independent external validation, and that all recommendations included in the previous self-assessment with independent external validation carried out in 2013 were implemented.

2.12 The Group notes with concern that, occasionally, OIOS staff members face issues with promptly accessing the Agency's records and documents necessary to conduct regular activities, although the issues mentioned were successfully resolved in communication with the Agency's senior management. In this line, we request the Secretariat to ensure that all staff, including those who have recently joined, are aware of the authority granted to the OIOS by its Charter. The Group also notes that the IOIS reiterates its concern regarding the lack of an accountability framework (AF) and an internal control framework (ICF), and requests the Secretariat to continue its efforts on drafting these documents, in close consultation with the OIOS.

2.13 The Group welcomes the progress in the rate of implementation of recommendations, as reflected in the table in section E of the report. The Group notes that 529 recommendations from audit reports issued from the year 2004 onwards were closed by 2016, and that from this period only 48 are still outstanding.

3. Turning to the 2016 Programme Evaluation Report, the Group takes note of the evaluations. Regarding the Evaluation of the Agency Integrated Regulatory Review Service, the Group takes note of the OIOS finding that the IRRS process provided an opportunity for continuous improvement of nuclear and radiation safety, and regulatory effectiveness through an integrated process of self-assessment and review. The Group also takes note of some needs presented by the IOIS, including the need to improve the flexibility of interfaces, where applicable, between the IRRS and the other Agency review missions and advisory services, the need to establish a mechanism for interaction with Member States to ensure that their concerns about SARIS have been addressed by the revised questionnaire and the need to revise certain key subject matters in the IRRS guidelines.

4. Regarding the evaluation of the Organizational Structure and Activities of the IAEA's Ethics Function, the Group notes with concern that currently the Ethics Adviser role has been assigned to three staff members housed within the Division of Human Resources, on a part-time basis, which presents an inherent conflict of interest and is not sufficient for its responsibilities. The Group takes note of the recommendations, in particular to establish an independent ethics function, reporting to the Director General, which has already been included in the draft Programme and Budget for 2018-2019.

5. The Group notes the OIOS's findings and recommendations regarding the Evaluation of the IAEA's Global Support to Radioactive Waste Management (RWM). The Group notes that, while the overall opinion of the Member States of the Agency's work in the field of RWM was essentially positive, there are some important issues related to the organizational and programmatic setup for RWM in the Agency. The separation of the technical responsibilities for RWM between two different Departments is judged to be unbeneficial as this leads to a disjointed working culture that is unfavorable to the delivery of a consistent quality of service to Member States. The Group believes that it is of great importance that the Secretariat addresses this matter in order to avoid duplication of functions and foster coordination.

6. With these comments, the Group of 77 and China takes note of the 2016 Internal Audit Activity Report, as contained in document GOV/2017/15, and the 2016 Programme Evaluation Report, contained in

document GOV/2017/14.

Thank you, Mr. Chair.

Agenda item 4: The Agency's Draft Programme and Budget 2018-2019

Mr. Chair,

1. The Group of 77 and China wishes to thank DDG Mary Alice Hayward for her introductory statement. The Group expresses its appreciation to the Secretariat for making the Agency's Draft Programme and Budget 2018-2019 available in full and well in advance of this meeting to allow for a more in-depth discussion of the document's elements. The Group also takes note of the revised proposal contained in Note 39, issued by the Secretariat on 26 April 2017. The Group wishes to thank the co-chairs of the Working Group on the Regular Budget and TCF Targets 2018-2019 for their report to this Committee.

Mr. Chair,

2. With regard to the Agency's Draft Programme and Budget for 2018-2019, the Group takes note of the Director General's ongoing priorities for the biennium. As to the priorities identified and the proposed budget estimates for the Major Programmes for the coming biennium, the Group would like to offer the following comments.

3. The Group maintains its principled position with regard to the Regular Budget, which calls for a balanced distribution of the budget between promotional and non-promotional activities of the Agency.

4. To achieve this balance and in order to respond to the growing needs of developing countries, the increased number of Member States making use of nuclear applications and embarking on nuclear energy, the Group has long been of the opinion that sufficient funding from the Regular Budget must be secured for Major Programmes 1, 2 and 6.

5. Under MP1, the Group welcomes the Agency's intention to continue to support interested Member States to assess their future energy demands and to evaluate and understand the potential for nuclear power to be part of their energy strategies, including in the context of achieving the Sustainable Development Goals (SDGs).

6. The Group supports the work in the different programmatic areas of Major Programme 2. The Group notes that demand for assistance in all areas is increasing, particularly in efforts to improve food security and safety, reduce environmental degradation and protect human health. The Group also notes that no budget increase has been proposed for Subprogramme 2.1.4 – Sustainable Control of Major Insect Pests. In this regard, the Group highlights the need for continued support for the application of the Sterile Insect Technique (SIT) to mosquito control, in line with the 2016 GC Resolution on the development of the SIT for the control or eradication of malaria, dengue, zika and other disease-transmitting mosquitoes.

7. The Group supports the completion of the ReNuAL project as a key priority for MP2. Whilst the Group notes the allocation of 2.0 million Euro from the Capital Regular Budget for 2018 and 2019 to the ReNuAL project, the Group notes with concern the prioritisation of funding within the 2018 Capital Regular Budget. As the main statutory function of the Agency is to seek to accelerate and enlarge the contribution of atomic energy to peace, health and prosperity throughout the world, the Group strongly believes that the ReNuAL project should receive a larger portion of the Capital Regular Budget for 2018 and 2019.

8. The Group takes note of the prioritization of PACT within MP6 and reiterates that this should not adversely affect other relevant focus areas such as Food and Agriculture, Health and Nutrition, Industrial Applications, Radiation Technology and Water and Environment.

9. With regard to the revised proposal presented on 26 April, the Group would like to reiterate the following elements:

- The Group encourages the Secretariat to ensure that the proposed reductions will not adversely affect the quality of the expected results of MP1 and MP2.
- The Group notes that the revised proposal does not adversely affect the amount to be allocated to Major Programme 6 compared to that mentioned in document GOV/2017/1, which is an essential element of any agreement regarding the Regular Budget;
- This notwithstanding, the Group takes note of the allocation of 25.67 million euros to MP6, which amounts to a 3.2% increase over 2017. Although the percentage of increase for Major Programme 6 is the highest one among Major Programmes, the increase proposed for this MP – around 796.000 euros – continues to be significantly lower than the one being proposed for MP 4, in financial terms;
- The Group reaffirms that more effort should be made to provide sufficient resources, including staff, for the management of the Technical Cooperation Programme (TCP) if the priority areas for MP6 are to be given proper attention, such as ensuring adequate support to the growing number of Member States participating in the TCP and to the extended demand of Member States for the peaceful uses of nuclear technology for their sustainable development, including the achievement of the SDGs, as well as ensuring the capability to adequately respond to Member States' requests for support through the TCP. This increased demand for support, as we all know, involves not only developing countries, but also some developed ones;
- In this context, the Group urges the Secretariat to consider further increasing the budget for MP6 which is mentioned in document GOV/2017/1 and in the revised proposal;
- With regard to the programmatic aspect, the Group notes that, in the preparation of The Agency's Programme and Budget 2018-2019, the Secretariat intends to take into account comments received in the consultative process with Member States. The Group has therefore requested the Secretariat at the earliest time, well in advance of the June session of the Board of Governors, to present the proposed language to be introduced in the Blue Book.

Mr. Chair,

10. Turning now to the TCF Targets for the biennium 2018-2019 and the Indicative Planning Figures (IPFs) for 2020-2021, the Group would like to highlight the following comments:

11. As the Group has underlined on several occasions, according to its Statute, "The Agency shall seek to accelerate and enlarge the contribution of atomic energy to peace, health and prosperity throughout the world". Furthermore, the Agency is authorized "To encourage and assist research on, and development and practical application of, atomic energy for peaceful uses throughout the world". The promotional activities of the Agency, constitute, therefore, the main statutory function of the Agency. The Technical Cooperation Programme is the main vehicle for executing this statutory function.

12. As we celebrate the 60th Anniversary of the IAEA, it is all the more important to remind ourselves of the centrality of the promotion of the peaceful uses of nuclear energy in the creation of the Agency and throughout its history. Over the last years, the role of the IAEA in development, including in the achievement of the SDGs, has been underlined.

13. The Group believes that the discussions regarding the Regular Budget, TCF Targets and IPFs should be guided by the previous decisions of the Board on the funding of the Technical Cooperation Fund, among others the budget packages approved in 2003 (GOV/2003/48), 2009 (GOV/2009/52/Rev.1) and 2010

(GOV/2010/37), which established that: "With respect to the targets for voluntary contributions to the Technical Cooperation Fund, the 2005 decision to synchronize the Technical Cooperation Programme (TCP) cycle with the regular programme and budget cycle provides a framework to consider increases to the resources for the TC programme, including the TCF target, beginning in 2012. Such adjustments would take into account the changes in the level of the regular operational budget from 2009 onwards, the price adjustment in the corresponding years, and all other relevant factors".

14. The decision of Member States to synchronize the Technical Cooperation Programme cycle with the regular programme and budget cycle had a clear objective. This synchronization provides a framework to consider increases to the resources for the TC Programme, including the TCF targets. The underlying element of this process is the need to assure that the resources for Technical Cooperation are "sufficient, assured and predictable" (SAP), as well as to strike an adequate balance between the promotional and non-promotional activities of the Agency. Therefore, the decision on the level of the Regular Budget should be taken in conjunction with the decision concerning the TCF Targets and IPFs.

15. In this regard, the G-77 and China firmly believes that, in accordance with the decisions of the Board, the TCF Targets to be established for 2018 and beyond must be proportionate to the evolution of the Regular Budget. In that regard, the Group would like to note the following:

- The Regular Budget increased from around 245 million dollars in 2003 to around 366 million euros in 2017, which represents a very significant increase;
- The TCF Targets increased from around 75 million dollars in 2003 to around 92 million dollars in 2017. It represents a much lower increase in the same period - 2003-2017;
- Between 2009 and 2017 alone, the Regular Budget increased over 22%, while the TCF Targets increased less than 9%.

16. It is very clear that the evolution of TCF Targets in financial and percentage terms is significantly lower than the one of the Regular Budget. This situation should be taken into account in the definition of the TCF Targets.

17. Moreover, it is important to recall that the respective IPFs should be taken as the starting point for the biennium 2018-2019, as noted in the recommendations of Working Group on Financing of the Agency's Activities (document GOV/2014/49).

18. As highlighted by the Group when agreeing on the figures for the 2016-2017 Targets, during the meeting of the Board of Governors held in June 2015, "whilst the IPF's for 2016-2017 were converted into Targets without any increase on the dollar amount, this should not be seen as setting a precedent. The Group shall negotiate for appropriate increases in the TC Targets for 2018-2019, taking into account the IPFs, the price increases and all other relevant factors". Furthermore, the Group expressed its view that the IPFs for the biennium 2018-2019 were the basis for negotiations for the TCF Target for that biennium and stated that the Group would negotiate for appropriate increases to the TCF Target for that Biennium. Mr. Chair,

19. Despite the growing number of developing countries that are recipients of technical cooperation, the resources of the Technical Cooperation Fund have remained practically stagnant over the years. The Group notes in this regard that the TCF Target has not been adjusted to take into account the changes in the level of the regular operational budget from 2009 onwards. The Group further notes that, among other relevant factors that have not been taken into account during the negotiations on the TCF Targets in the past, is the increase in the number of Member States that draw on the TC Fund.

20. In this regard, the Group notes that, under the 2018-2019 TCP, 136 Member States, including 35 LDCs, will have a national TCP, representing an increase of 7 Member States compared to the previous biennium. Six of these Member States will be requesting a TC programme for the first time. According to estimates by the Secretariat, each TC programme developed for the first time amounts to between 50 000 euros and 100 000 euros per year. This alone would result in a total amount of between 300 000 euros and 600 000 euros

per year.

21. In addition to that, there are nine Member States which joined the TCP for the first time in 2016-2017 and will require full support under the 2018-2019 TCP, mainly through their national TC Programmes. This will result in an increase from between 50.000 euros and 100.000 euros to between 350.000 euros and 500.000 euros per Member State. If we consider an increase of 300.000 euros for each programme, this would amount to 2.7 million euros per year, in a conservative estimate. As we can see, based on a conservative estimate, these two components alone – new TC Programmes and full scale TC Programmes - represent around 3 million euros at a minimum per year.

22. It is also important to recall that the resources of the TCF have not been "sufficient, assured and predictable" (SAP) to fund approved TC projects, thereby resulting in large unfunded components of TC projects in Member States, also termed as footnote a/ projects. For example, according to document GOV/2016/50, unfunded footnote-a/ projects for 2016-2017 amounted to more than half of the TCF Targets, which shows that there is a need for SAP resources for the TCF to fund these unfunded activities.

23. The Group underlines the need to have the financial resources necessary to place the appropriate emphasis on the Agency's activities directly related to the implementation of the SDGs, in line with the Board Decision contained in document GOV/2016/29, in addition to the activities already undertaken by the Agency.

24. The Group holds the view that the TCF Targets should be increased accordingly, taking into account the IPFs, the increasing number of Member States with a national TCP, the increasing number of Member States which will require full support under the 2018-2019 TCP, the Board decision of June 2016 to place the appropriate emphasis on the Agency's activities directly related to the implementation of the SDGs in Member States, the large unfunded components of TC projects in Member States, also termed as footnote a/ projects, the price increases and other relevant factors.

Mr. Chair,

25. The Group wishes to stress that the Indicative Planning Figure is essential for the predictability of the Fund and enables the advanced planning of the TC Programme by the Secretariat. The Group is of the view that the IPFs for 2020 and 2021 should be appropriately increased, and the IPF for 2020 should be based on the Target for 2019.

26. With these comments, the Group of 77 and China looks forward to reaching an agreement encompassing the Programme and Budget, the TCF Targets and the IPFs.

I thank you, Mr. Chair.