



STATEMENT OF THE GROUP OF 77 AND CHINA DURING THE IAEA PROGRAMME AND BUDGET COMMITTEE MEETING, STARTING ON 9 MAY 2016, DELIVERED BY H.E. AMBASSADOR H.E. SIMON MADJUMO MARUTA, PERMANENT REPRESENTATIVE OF NAMIBIA

**Agenda item 2: The Agency's Financial Statements for 2015 including the External Auditor's Report**

Chairman,

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 16 April 2016.

2. With regard to the Financial Statements of the Agency for 2015 including the External auditor's report, as contained in document GOV/2016/9, the Group would like to make the following comments:

2.1 The Group is pleased to note that "an unqualified opinion" has once again been placed on the Agency's financial statements. The Group is also pleased to note that the recommendations contained in the report of the External Auditor for 2015 cover a broad spectrum of activities falling under the Regular Budget. The External Auditor has made several observations and recommendations for the improvement of the Agency's financial practices. While appreciating these comments, 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.

2.2. Comptroller and Auditor General of India has been the external auditor of the Agency since 2012. The Group would like to congratulate and record its appreciation to the Comptroller and Auditor General of India for the professionalism with which it has audited the Agency activities contributing to better its economy, efficiency and effectiveness. The Group further welcomes the Audit Board of the Republic of Indonesia as the External Auditor of the Agency for 2016-2017.

2.3. The Group notes that the Assessed Contributions Collection Rates increased by 7 points over 2014 and that the Total Assessed Contributions in Arrears decreased from €58.8M in 2014 to €40.5M in 2015. Though this indicates reversal of the trend up to 2014, yet the total unpaid assessments are €40.5 million i.e. 12 % of the Regular Budget for 2015. The Group is concerned that the Assessed Contributions which are due for more than 1 year increased from €15.4M in 2014 to €21.1M in 2015 which is an increase of 37 %. The Group therefore highlights the importance for all Member States to pay their assessed contributions to the Regular Budget and the Technical Cooperation Fund on time and in full.

2.4. The Group further notes the increase in extra budgetary revenues. The difference between the extra budgetary revenues and the Regular Budget revenues continues to increase since 2008 and is currently about 5 times higher compared to 2008, indicating that an increasing number of the Agency activities are being funded from extra budgetary resources. 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.

2.5. The Group notes that Agency-wide Information System for Programme Support (AIPS) is now an accepted feature of the Agency's daily operations and that the system will be fully functional in early 2017. The Group requests that the Secretariat prepares a report at an appropriate time on the efficiencies achieved and their impact on reducing the operational costs of the Agency.

2.6. The Group notes the information shared regarding the implementation of the recommendations of the Working Group on Financing the Agency's Activities, including examining the ways and means to render resources for the Technical Cooperation Fund sufficient, assured and predictable. The Group expects concrete results on the implementation of the Strategic Guidelines on Partnerships and Resource Mobilization as approved by the Board of Governors and requests the Secretariat to keep Member States informed regularly throughout the implementation process.<sup>7</sup> With these comments, the Group of 77 and China takes note of the Agency's financial statements for 2015 as contained in document GOV/2016/9 and documents GOV/INF/2016/2, GOV/INF/2016/6 and GOV/INF/2016/7.

Thank you Chairman.

### **Agenda Item 3: The 2015 Internal Audit Activity Report and the 2015 Programme Evaluation Report**

Mr. Chairman,

1. The Group of 77 and China thanks the Secretariat for the 2015 Internal Audit Activity Report and the 2015 Programme Evaluation Report, contained in documents GOV/2016/18 and GOV/2016/17, respectively.

2. On the summary of results of the 2015 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 Field Activities Audit, the Group welcomes the audit findings on the positive contribution of TC towards the development of nuclear related activities in the recipient institutions. The Group notes the recommendations by the OIOS with regard to achieving a more effective and efficient use of Agency's resources as well as to meeting the reporting requirements of internal and external project stakeholders. In this context, the Group requests the Secretariat to implement these recommendations as appropriate.

2.2. On the audit of the Renovation of the Nuclear Application Laboratories (ReNuAL) project, the Group welcomes the finding that the project implementation is progressing reasonably well considering the constraints. The Group notes the OIOS observation that improvements could still be made in the governance of the ReNuAL and the OIOS' recommendation regarding the ReNuAL Plus project.

2.3. On the compliance audit of the IAEA Low Enriched Uranium Bank Project, the Group notes the findings that project expenditures are incurred in compliance with the Agency's Financial Regulations and Rules and that a number of good practices identified in the 2013 audit are still in place and continue to support project activities. The Group notes with concern the OIOS finding that the audit disclosed shortcomings and areas where corrective actions are required, such as that the divisional efforts dedicated to the project do not fully comply with the cost recovery mechanism approved by the Agency's management.

2.4. Regarding the compliance audit of the expenditures incurred in connection with the Joint Plan of Action (JPA), the Group welcomes the OIOS positive finding that the existing internal control mechanisms are effectively working and that the JPA-related expenditures are meeting all compliance requirements and eligibility criteria.

2.5. On the information technology security audit, the Group notes that vulnerabilities were found at the application level which represent a significant risk for the Agency's information assets and that the audit disclosed a critical finding related to the awareness of information security among the Agency's staff members. The Group notes that as a result of the OIOS audit, a number of process improvements were immediately introduced.

2.6. On the Agency-wide Information System for Programme Support (AIPS) information security audit, the Group notes that the identified findings called for a comprehensive review of the AIPS information security architecture and notes that the Department of Management immediately addressed the critical findings.

2.7. Regarding the application of the new process of country-level evaluation and audit (CLEA), the Group welcomes the findings that the Agency's work has been relevant. The Group reiterates that the introduction of new methods of evaluation and audit should take into account cost requirements and implications for the Agency's total resources. The Group wishes to underscore the importance of balance of allocation of resources for evaluation purposes between TC-related activities and other program areas of the Agency.

2.8. 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 471 recommendations from audit reports issued from the year 2004 onwards were closed by 2015, and that from this period only 67 are still outstanding.

3. Turning to the 2015 Programme Evaluation Report, the Group takes note of the evaluations. Regarding the evaluation of the Agency's Policy and Practices in Applying the Quality Management Approach, the Group takes note of the OIOS finding that the Agency's laboratories generally follow a quality management approach but that the application of quality management standards is not consistent across the Agency's laboratories. The Group looks forward to the Secretariat's response and actions on the OIOS' recommendations for the laboratories to pursue a common and systematic approach to the application of quality management systems.

4. Regarding the evaluation of the Agency's Coordinated Research Activities (CRA), the Group would like to highlight the OIOS's positive overall assessment of the CRA programme but notes the observation that there are some important gaps and incongruities within the programme. The Group maintains that the OIOS recommendations in this regard should be taken into account for further improving the CRA programme, considering its tangible and important contribution to global research on the peaceful applications of nuclear technologies.

5. The Group notes the OIOS's findings and recommendations regarding the evaluation of the IAEA's Agency-wide Information System for Programme Support (AIPS) Plateau 1. The Group underscores that the evaluation found that Plateau 1 successfully met key objectives. However, it also disclosed that there was a notable gap between the expectations of the staff for the project and what was delivered and that the project was not complemented by a defined approach or defined information to support an analysis of the efficiency gains. The Group calls on the Secretariat to consider the OIOS recommendation for the development of a plan of action to guide ongoing process management and improvement initiatives to further the efficiency of the Agency's core processes.

6. The Group welcomes the inclusion of management of radioactive waste in the OIOS Evaluation Workplan for 2016. The Group highlights the importance of all aspects of the Agency's activities on radioactive waste management, including safety. The Group requests OIOS to intensify consultations with Member States to identify potential topics for evaluation.

7. With these comments, the Group of 77 and China takes note of the 2015 Internal Audit Activity Report and contained in document GOV/2016/18, and the 2015 Programme Evaluation Report, contained in document GOV/2016/17.

Thank you, Mr. Chairman.

#### **Agenda item 4: The Agency's Draft Budget Update for 2017**

1. The Group would like to thank the Secretariat for the Agency's Draft Budget Update for 2017 contained in GOV/2016/1 and for the relevant briefings made by the Secretariat.

2. The Group notes the budget update proposed by the Secretariat which includes a price adjustment and the programmatic changes in relation to verification and monitoring activities in the Islamic Republic of Iran in light of United Nations Security Council resolution 2231 (2015).

3. The Group recognizes that the application of Safeguards is one of the statutory functions of the Agency and supports the integration of € 5.2 million, resulting from the implementation of the JCPOA, in the Regular Budget in a manner as gradual as possible that would not result in any undue financial burden on the developing countries.

4. The Group reiterates 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 promotional and non-promotional activities of the Agency.

5. The Group's position on a gradual and balanced integration of JCPOA-related costs is based on the following elements:

(a) € 5.2 million integration is required both because of AP-related costs and the costs of inspectors for the nuclear related commitments under the JCPOA that are unprecedented.

(b) The JCPOA-related costs are long term commitments and much of these costs will become a regular item of the IAEA budget. Therefore, the gradual integration of these costs extending over a few budgetary cycles is not inconsistent with the political commitment of the Group towards the implementation of the JCPOA.

(c) The integration of the JCPOA-related costs into the Regular Budget goes beyond the cause of "Zero Real Growth", which has been espoused by a number of Member States.

(d) The full integration of € 5.2 million would represent an increase of 3.9% in the safeguards budget and would lead to even further imbalance between the promotional and non-promotional activities of the Agency. Therefore, the Group is of the view that TCF targets will need to be adjusted accordingly in the budget biennium from 2018-2019 onwards. The Group of G77 and China proposes that such an adjustment be part of a comprehensive negotiated solution for the 2017 budget update.

(e) The Group notes that in the briefing in the informal PBC on 22 March 2016, the Secretariat revised the total price adjustment to 1.5% for the budget update for 2017. The price adjustment, which further adds to the effect of the integration of JCPOA-related costs, would lead to an even more significant increase in the regular budget contributions by Member States. This would add to the financial obligations that developing countries may find difficult to meet.

6. Based on the above, the Group supports option 3 as contained in the Secretariat's Note 2015/89 dated 19 November 2015. This will represent the integration of JCPOA-related costs into the Regular Budget in a gradual manner, as it entails the linear integration over 5 years. Such an increase should lead to an adjustment of the TCF targets accordingly, to ensure an adequate balance between promotional and non-promotional activities from 2018-19 onwards.

7. In this context, the Group is ready to engage in further consultations with Member States to find consensus on the way forward.

Thank you, Mr. Chair.