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Report of the External Auditor for 2018

Report of the External Auditor on the accounts of UNIDO for the financial year 1 January to 31 December 2018

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Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

LETTER OF TRANSMITTAL

1 April 2019

Dear Ms. Mebarki,

I have the honour to present to the Forty-seventh Industrial Development Board, through the thirty-fifth session of the Programme and Budget Committee, the External Auditor's report and opinion on the financial statements of the United Nations Industrial Development Organization (UNIDO) for the financial year ended 31 December 2018.

I record my appreciation to the Industrial Development Board for the honour and privilege to serve as External Auditor of UNIDO.

Yours sincerely,

Michael G. Aguinaldo
Chairperson, Commission on Audit
Republic of the Philippines
External Auditor

COMMISSION ON AUDIT
OFFICE OF THE CHAIRPERSON

Ms. Faouzia Mebarki
The President of the Forty-seventh Industrial Development Board
United Nations Industrial Development Organization
Vienna, Austria

List of abbreviations

Acronym	Description
AAC	Audit Advisory Committee
AH	allotment holder
AMS	asset management system
APT	Accounts, Payment and Treasury Division
ASHI	After Service Health Insurance
BMS	Buildings Management Services
BPR	bi-annual progress report
CPF	Country Programme Framework
COA	Commission on Audit
CoA	Chart of Account
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CMO	Directorate of Corporate Management and Operations
CPs	country programmes
DGAI	Director General's Administrative Instruction
DGB	Director General's Bulletin
EA	External Auditor
EIO	Office of Evaluation and Internal Oversight
ERM	enterprise risk management
ERP	enterprise resource planning
ETR	Department of External Relations
FIN	Department of Finance
FMT	Financial Management of Technical Cooperation Division
FO	Field Office
GBP	Global Banking Project
GC	General Conference
GL	General Ledger
GEF	Global Environment Facility
HQ	Headquarters
HR	Human Resources
HRM	Department of Human Resources Management
HR Specialist	Human Resources Specialist
IDB	Industrial Development Board
ICF	Internal Control Framework
IED	Independent Evaluation Division
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
IRPF	Integrated Results and Programme Framework
ISA	International Standards on Auditing
ISSAI	International Standards for Supreme Audit Institutions
ISID	Inclusive and Sustainable Industrial Development
JIU	Joint Inspection Unit
KPI	key performance indicator
LFA	Logical Framework Approach
LVA	Low Value Asset

List of abbreviations

Acronym	Description
Management	UNIDO Management
MOU	Memorandum of Understanding
MTPF	medium-term programme framework
NFS	Notes to Financial Statements
ODG	Office of the Director General
OSS	Department of Operational Support Services
OVI	objectively verifiable indicator
P&B	Programme and Budgets 2018-2019
PBC	Programme and Budget Committee
PCPs	Programmes for Country Partnership
PM	Project Manager
PMM	Property Management Manual
PPE	Property, Plant and Equipment
PPM	Portfolio and Project Management
PPS	Policy and Programme Support
PRO	Procurement Services Division
PTC	Directorate of Programme Development and Technical Cooperation
PPF	Department of Programmes, Partnerships and Field Integration
QUA	Quality Monitoring Division
RBM	results-based management
RFP	Risk Management Focal Person
RMC	Risk Management Committee
RTLS	Real Time Location System
SAP	Systems Applications and Products
SDG	Sustainable Development Goal
SMART	specific, measurable, achievable, relevant and time-bound
SRM	Strategic Relations and Resource Mobilization Division
TC	technical cooperation
TOC	Theory of Change
ToR	Terms of Reference
UCR	UNIDO Country Representative
UNDP	United Nations Development Programme
UNGM	United Nations Global Marketplace
UNIDO	United Nations Industrial Development Organization
VBO(s)	Vienna-based Organization(s)
VIC	Vienna International Centre

EXECUTIVE SUMMARY

Introduction

This Report of the External Auditor on the audit of the financial statements and operations of the **United Nations Industrial Development Organization (UNIDO)** is issued pursuant to Article XI of the Financial Regulations of UNIDO, and is transmitted to the Industrial Development Board (IDB) through the Programme and Budget Committee (PBC).

This is the first report to the Industrial Development Board by the Chairperson of the Commission on Audit (COA) of the Republic of the Philippines, under its mandate as the External Auditor for the two financial periods that commenced on 1 July 2018 (2018–2020), granted by the General Conference during its 17th Session in December 2017.

The overall objective of the audit is to provide independent assurance to Member States, help enhance transparency and accountability in the Organization, and support the objectives of the Organization's work through the external audit process. We have detailed in this Report our observations and provided recommendations to further improve the efficiency and effectiveness of management operations, and add value to UNIDO's governance.

Overall result of the audit

In line with our mandate, we audited the financial statements of UNIDO in accordance with the Financial Regulations and in conformity with the International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board. We concluded that the financial statements present fairly, in all material respects, the financial position of UNIDO for the financial year ended 31 December 2018, and its financial performance, the changes in net assets, the cash flows, and the comparison of budget and actual amounts in accordance with the International Public Sector Accounting Standards (IPSAS). As a result, we issued an unqualified audit opinion on the Organization's financial statements for the financial year ended 31 December 2018.

We also concluded that the accounting policies were applied on a basis consistent with that of the preceding year, and the transactions of UNIDO that have come to our notice during the audit or that have been tested as part of the audit of the financial statements have, in all significant respects, been in accordance with the Financial Regulations and legislative authority of UNIDO.

Summary of recommendations

We provided the following significant recommendations on the improvement opportunities noted. These are discussed in detail in the succeeding paragraphs of this report:

1. Financial Matters

1.1. Financial statement accounts analysis

Long-term liabilities -After Service Health Insurance (ASHI)

1) Considering that the ASHI funding has been a recurrent and an ongoing concern, and in relation to the recommendations ushered by the United Nations Working Group on ASHI, UNIDO is encouraged to consider setting a commitment date or target milestones in implementing the recommendations.

Voluntary contributions receivables

2) Review subsequent receivables from signed agreements for voluntary contributions, ensuring the proper accounting treatment for the amounts of instalments/pre-financing payments which are already specified in the agreements and thus, can already be measured reliably;

Property, plant and equipment (PPE)

3) Treat the subsequent procurement of Low Value Assets (LVAs) as outright expense upon acquisition since they do not qualify as PPE. These items can still be monitored in the Asset register even if they are not recorded as PPE;

4) Review the asset register to determine the proper classification of all PPE, making sure that all the items that do not meet the capitalization threshold are properly classified as LVAs;

Accounts Payable and accruals

5) Review all accruals that resulted from the small differences between the confirmations and invoices, which have remote possibility of being collected by the supplier and effect the necessary adjustments. In addition, the accruals which have been long outstanding need to be revisited and evaluated to ensure that the liabilities reflected in the books are still valid;

6) Review abnormal balances and if based on the review, these are no longer valid, cancel them forthwith;

7) Initiate/request changes to Systems Applications and Products (SAP) such that payments for invoices that do not reconcile with the confirmations are not automatically processed and instead are flagged down for further review and corresponding approval before processing to ensure that abnormal balances are prevented;

8) Review the validity of liabilities with the aim of isolating those that cannot be reasonably expected to be settled anymore, such as those with no known creditors and erroneous charges, and reclassify them to the appropriate accounts;

Deferred exchange gains

9) Reclassify the undistributed realized gains on revaluation as an equity account in accordance with the requirements of IPSAS; and

10) Formalize a proposal to maintain the fund as a reserve for Technical Cooperation (TC) services;

Contributions in-kind

11) Study the workability of recognizing in the books as expense the free use of office spaces/premises using the fair value equivalent to the prevailing rates for similar rentals, as well as the provisional use of machinery utilized for project implementation;

12) Update accounting policies relating to the accounting treatment of contributions for services and goods in-kind to ensure that these are fairly presented in the FS and sufficiently disclosed in the Notes to Financial Statements (NFS);

Unrealized foreign currency gains

13) Review all monetary items which have material non-euro currency balances and include them in the year-end translation for fair presentation of the related accounts as well as the unrealized gains or losses in the FS;

1.2. Financial management mechanisms

Structured financial guidelines

14) Consider the formulation of structured financial guidelines that would guide finance and other affected personnel in carrying out their roles and functions, thereby securing the reliability of accounting records, affirming accountability and promoting operational efficiency;

Chart of accounts (CoA)

15) Revisit and update the Chart of Accounts (CoA) to provide for each account a description that would be a good measure and reflective of the account's function making sure that personnel involved in recording transactions understand the nature and use of UNIDO accounts;

16) Address the other areas noted, such as accounts with no corresponding contra accounts, account names that do not correlate to the applicable transactions, and duplicate account names;

1.3. Building Management Services (BMS)

Binding agreement on UNIDO's interest in the assets and liabilities of BMS

17) Craft and present to the Vienna-based organizations (VBOs) a proposal detailing the interest share of each VBOs in the joint operation of Building Management Services (BMS) for the purpose of coming up with a signed and binding agreement among the VBOs.

Updated financial instructions for BMS operations

18) In consultation with the VBOs, update the financial instruction on the accounting treatment of BMS operations to serve as basis in the preparation of BMS FS and consolidation of its accounts in the UNIDO's FS, as well as that of the other VBOs.

2. Governance Matters

2.1. Governance Arrangements

Accountability Framework and roles and responsibilities

19) Develop a robust Accountability Framework to reflect all organizational components relating to accountabilities and further provide clarity to its mandate and staff roles and responsibilities thereby reinforcing the build-up of the culture of accountability and transparency within the Organization.

Reporting lines of field offices

20) Enhance the Terms of Reference (ToR) for the field offices (FOs) defining clearer reporting lines and accountabilities to reflect the operational landscape emerging from the recent restructuring to promote a more coordinated approach to organizational and field network activities and foster accountability.

2.2. Internal Control Framework (ICF)

Adoption of Internal Control Principles under the COSO ICF 2013

21) Consider in the update of ICF the review of internal control principles adopted taking into account the current Committee of Sponsoring Organizations of the Treadway Commission (COSO) internal control principles; and ensure that the updated ICF is supported with User's guide to afford effective communication of internal control policies and to provide clarity of accountabilities on internal control management.

2.3. Ethics mechanisms

Ethics Officer Functions

22) Enhance DGB/2018/02 specific provision on ethics-related functions by modifying the reporting channels of the Ethics Function to be attached to the Office of the Director-General and ensure independence, visibility and operational capacity to cultivate and nurture a progressive culture of ethics, integrity and accountability.

Ethics-related policies and documentation

23) Improve and update the *protection against retaliation* policy by:

i. Including individuals who are perceived as whistle-blowers, or as "assisting whistle-blowers", and individuals who are "about to" make a disclosure as valuable internal sources of information;

ii. Developing a mechanism for handling appeals where the non-determination of a prima facie case of retaliation is unjustified;

24) Include a provision in the *Conflicts of Interest* policy relating to incompatible functions within the Organization to provide clearer and more complete line of sight in exacting accountabilities thereby further enhancing integrity in job performance and accountability; and

25) Incorporate within the anti-fraud policy an internal mechanism and clear modalities in terms of conducting fair and unbiased investigation on cases that may be committed by the Executive Head.

2.4. Asset accountability

Physical inventory taking

26) Improve the upkeep of the physical assets and inventory through the improvement of the physical inventory taking process by complementing the Real Time Location System (RTLS) with manual physical counts for those not covered by the System to ensure the complete and accurate capture of all of the assets' information thereby improving asset information integrity and accountability.

Property Management Manual (PMM)

27) Enhance the quality of controlling of the assets and related accountabilities through an update of the PMM by incorporating therein asset maintenance and repair guidelines for a more comprehensive recognition of asset accountabilities across the whole asset management spectrum.

2.5. Procurement accountability

End-user procurement feedback mechanism

28) Adopt a concrete and formal procurement feedback protocol within the procurement cycle to ensure that it receives relevant and reliable information from the end-users that will eventually lead to improved procurement decisions and enhance procurement controls and related accountabilities.

Vendor sanctioning policy

29) Strengthen the vendor reference and background checking protocol in the procurement process, particularly those of the FOs, to extract better vendor engagements within the frame of control and accountability.

2.6. Enterprise risk management (ERM)

ERM implementation road map and plans

30) Ensure that the ERM initiative is with clearer implementation trajectory and accountability by devising a formal documentation of the ERM initiative implementation in support of related work plans; and, providing concrete and appropriate monitoring and control mechanism over the delivery of the ERM work initiatives including critical milestones.

Risk management governance

31) Update and clarify the policy framework on risk management by clearly defining the specific roles and responsibilities of the Risk Management Committee (RMC) and Risk Management Focal Person (RFP) and by formalizing the role of Integrated Results and Programme framework (IRPF) task force in the risk management infrastructure of UNIDO to strengthen accountabilities of process and risk owners.

2.7. Implementation of Result-Based Management (RBM)

Delivery of Results-Based Management

32) Undertake the following courses of action:

i. Assess the most recent achievements in the established strategic priorities to identify those needing intervention; present these in accordance with the Organization's accountability hierarchy, and agree on the priority higher-level changes or impacts, and outcomes and outputs to be achieved within an established timeline; and

ii. Initiate a review of the current MTPF structure and the causal relationship of the outputs, outcome and impact, as well as risks and assumptions to determine how the Theory of Change (TOC) can be presented with clarity to improve measurability, allow the analysis and aggregation of results and improve results accountability.

33) Improve the P&B structure by:

i. Clearly identifying the impact, outcome and outputs and identifying their causal relationships and the corresponding accountability for the delivering the results; and

ii. Establishing the clear linkage of the Programme and Budget (P&B) results with the Medium Term Programme Framework (MTPF) and IRPF results and ensure that such linkage is clearly evident in all these documents to improve clarity and accountability of UNIDO's expected deliveries.

34) Craft results statements in the P&B in a change of language to reflect specific, measurable, achievable, relevant and time-bound higher-level changes as improvement over the baseline conditions, reasonably achievable by the end of the planned period and upon considering the related assumptions and risks.

35) Effectively manage programmatic risks by:

i. Identifying the P&B outputs that capture the products and services within UNIDO's control and to be completed within the biennium with the resources provided and relevant to each outcomes, and present these outputs by outcome to distinctly show their causal relationships and afford more effective monitoring and measurement;

ii. Strengthening the review mechanism for the P&B to ensure the identification of programmatic risks at the outcome and output level and matching these with the outcomes and outputs of the programmes/projects for adoption in the Risk Registers to be prepared; and

iii. Engaging closely with the Risk Management Committee (RMC) on the development of a risk model that will support the identification and matching of the programmatic risks with the outcomes and outputs of the programmes for adoption in their risk registers for improved risk identification for programme outcomes and outputs.

36) Formulate adequate and more appropriate indicators in the IRPF with specific, measurable, achievable, relevant and time-bound (SMART) attributes to support clearer measurement of progress towards the P&B results; and ensure that IRPF indicators are provided with baselines and

targets and are up-to-date to facilitate assessment of progress over baseline conditions and the achievement of targets through UNIDO's interventions.

RBM Work Planning and Work Plan Monitoring and Reporting

37) Enhance the work plans and work planning process by aligning it with the results in the P&B and the elements of RBM.

38) Enhance the work plan monitoring and reporting through the development of a system including tools, templates and guidance; and make these an integral part of the corporate monitoring and reporting framework to ensure that accomplishments and progress are accurately reported and measured against planned deliveries and further support results accountability.

Monitoring and Results Reporting on the MTPF and P&B

39) Improve the corporate results monitoring and reporting mechanisms and strategies to primarily promote programme results accountability by:

i. Shifting the focus of monitoring and reporting of UNIDO's programme outputs to those identified in the P&B, and how these contribute to the identified outcomes in Member States in accordance with the adopted results hierarchy;

ii. Adopting a biennial assessment of performance on the P&B that reports on progress or achievement of UNIDO's outputs using defined indicators, baselines and targets, to the extent feasible or applicable, and against the resources utilized, inter alia, to facilitate reporting on the MTPF; and

iii. Including the requirement and guidance on the monitoring and reporting on the MTPF as part of a corporate monitoring and reporting framework to ensure results are measured and reported on as UNIDO's accountability to Member States and other stakeholders.

Corporate results monitoring and reporting framework

40) Improve on the corporate results monitoring and reporting process by:

i. Enhancing the use of the IRPF as the corporate programme results monitoring and reporting framework;

ii. Crafting a corporate results monitoring and reporting framework in collaboration with the directorates, departments, divisions, FOs, and programme implementers to enable a comprehensive, transparent, reliable and evidence-based assessment of progress on the achievement of planned results that translate to full accounting of results; and

iii. Formulating guidance that supports the delivery of the monitoring and reporting framework that require complete and with better clarity and reliability to facilitate effective results review and reporting.

Programme logic framework elements

41) Enhance the programme logical framework elements and the results statements through the inclusion in the template, the baselines and target values for each indicator, the underlying risks, assumptions and the related mitigation strategies for each impact, outcome and output; and support this with guidance on the formulation of the programme logframe.

42) Enhance the programme results monitoring and reporting mechanisms by using the expected results identified in the logframe and the related indicators and performance measures to determine more effectively the needed interventions to support succeeding evaluations of progress toward the achievement of expected Country Programmes (CPs) and Programmes for Country Partnership (PCPs)' results.

2.8. *Project Management*

Project Identification, Formulation, Review/Approval and Guidelines

43) Update the current TC Guidelines with considerations to:

i. The functions and responsibilities that align with the current organizational structure;

ii. Reconcile the guiding principles governing the TC Guideline with the changes brought about by the adoption of new United Nations initiatives/agenda to better reflect the Organization's priorities and strategies;

iii. Incorporate the approach to project closure; and

iv. Include reporting guidelines that consider demands and requirements of the donors as well as that of the Organization.

44) improve project documents formulation by performing the following:

i. Instruct Project Managers (PMs) to update project documents as well as the related submodule in Portfolio and Project Management (PPM) for incomplete Objectively Verifiable Indicators **(OVIs) and risk data, as a prerequisite in the approval/clearance of the project and ensure that the OVIs and risk data captured in PPM are consistent with the data reflected in the project documents; and**

ii. Require the PMs to take into account organizational requirements along with the requirements of the donors, in formulating project documents.

45) Further improve appraisals and monitoring of projects by considering the following:

i. Strengthen the project appraisal and approval process by ensuring that the results of the review of the logframes are integrated and given substance in the final project documents before these are confirmed/approved; and

ii. Evaluate and as necessary, redefine the role of the Quality Monitoring Division (QUA) in providing secretariat support to the Executive Board (EB) such that recommendations on quality improvements of the logframes are given due consideration before these are submitted to the EB.

Project Implementation and Evaluation

46) Enhance project implementation and evaluation by taking into account the following:

i. Require PMs/Allotment Holders (AHs) to support the request for clearance of project documents on procurement area with a procurement plan or any document showing, among others, the breakdown of the project requirements, brief description of the requirements, estimated value/amount, procurement method and expected period of procurement activity; and

ii. Provide guidelines for conducting quality checks on the procurement aspect of project proposals to ensure that the issuance of clearance is based on objective assessment of the procurement requirements of the project.

Conduct of independent project evaluations

47) Improve completion of independent project evaluations by:

i. Establishing funding mechanism that would support independent evaluations to gauge the impact of programmes/projects to UNIDO's programmatic thrusts; and

ii. Developing an estimate of the resources (financial, human, capital) that are available for evaluation and what will be required to answer current and future evaluation demands, to support the proposal for establishment of evaluation funding mechanism.

Implementation of external auditor's recommendations in prior years

We validated the implementation of External Auditor's Recommendations contained in prior years' audit reports. We noted that of the 51 identified prior year's audit recommendations, 21 or 41 per cent were resolved or closed, 4 or 8 per cent were yet to be implemented and 26 or 51 per cent were with ongoing implementation. We encourage UNIDO to strategize and concretize its commitment in addressing the audit recommendations to enhance operational efficiency.

A. MANDATE, SCOPE AND METHODOLOGY

Mandate

1. The Commission on Audit (COA) is an independent audit body created by the Constitution of the Republic of the Philippines. The 119 years old Supreme Audit Institution is an active member of the International Organization of Supreme Audit Institution (INTOSAI) and the Panel of External Auditors of the United Nations. COA is extensively involved in setting accounting and auditing standards, building capacity and sharing knowledge. It has extensive experience in providing external audit services to international organizations for the past 37 years, 19 years of which as member of the United Nations Board of Auditors.

2. The General Conference of the UNIDO during its 17th Session in December 2017 appointed the Chairperson of the COA of the Republic of the Philippines as External Auditor of the UNIDO for the two financial periods that commenced on 1 July 2018 (2018–2020). The UNIDO Financial Regulations Article XI elaborates on the terms of reference governing external audit. The regulations require that the External Auditor report to the Industrial Development Board through the Programme and Budget Committee on the audit of the annual financial statements and on other information that should be brought to its attention with regard to Article XI, paragraph 9, and in the additional terms of reference.

Scope and objectives of audit

3. Our audit is an independent examination of the evidence supporting the amounts and disclosures in the financial statements which consist of five statements: (a) Statement of Financial Position; (b) Statement of Financial Performance; (c) Statement of Changes in Net Assets; (d) Cash Flow Statement; and (e) Statement of Comparison of Actual Amounts and Budget. It also includes an assessment of UNIDO's compliance with Financial Regulations and legislative authority.

4. The audit was conducted primarily to enable us to form an opinion as to whether the financial statements presented fairly the financial position of the UNIDO as at 31 December 2018 and the results of its operations, cash flows, and comparison of actual amounts and budgets for the financial period, in accordance with IPSAS. This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether revenue and expenses had been properly classified and recorded in accordance with the UNIDO Financial Regulations and legislative authority. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent we considered necessary to support our audit opinion.

5. We also carried out a review of UNIDO operations with regard to Regulation 11.4 of the Financial Regulations which requires the External Auditor to make observations with respect to the economy, efficiency and effectiveness of the financial procedures, accounting system, internal financial controls, and in general, the administration and management of the Organization. We focused on areas of fundamental importance to the capability, effective management and reputation of UNIDO, in particular governance, accountability, risk management and internal control, as well as programme management.

6. Overall, the audit intends to provide independent assurance to Member States, help increase transparency and accountability in the Organization, and support the objectives of the Organization's work through the external audit process.

Methodology and auditor's responsibilities

7. We conducted our audit in accordance with the ISA. These Standards require that we plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement. The audit includes examining on test basis evidence supporting the amounts and disclosures in the financial statements. The audit also includes assessing the accounting principles used and the significant estimates made by Management as well as evaluating the overall presentation of the financial statements.

8. The Risk-based audit approach was adopted in the audit of the financial statements. This approach requires the conduct of risk assessment of material misstatements at the financial statements and assertion levels based on an appropriate understanding of the entity and its environment including its internal controls.

9. The auditor's responsibility is to express an opinion on the financial statements based on an audit. The audit is performed to obtain reasonable assurance, not absolute assurance, as to whether the financial statements are free of material misstatement including those caused by fraud or error.

10. We coordinated with the Office of Evaluation and Internal Oversight (ODG/EIO) on the planned audit areas to avoid unnecessary duplication of efforts, and to determine the extent of reliance that can be placed on ODG/EIO work. We also collaborated with the Independent Audit Advisory Committee to further enhance our audit work.

11. We continued to report audit results to UNIDO Management through audit observation memoranda and management letters containing detailed observations and recommendations. The practice provides a continuing dialogue with Management.

B. RESULTS OF AUDIT

12. This section of the report discusses our observations on financial and governance matters in line with Paragraph 4, Article XI of the Financial Regulations which mandated the External Auditor to make observations with respect to the economy, efficiency and effectiveness of the financial procedures, the accounting system, the internal financial controls and, in general, the management and operations of the Organization. The UNIDO Management was afforded the opportunity to comment on our audit observations. Value-adding recommendations were co-developed and communicated with Management to help enhance the efficient and effective management of the Organization.

1. Financial Matters

1.1 Audit of financial statements

13. We audited the financial statements in accordance with ISA and we concluded that the financial statements present fairly, in all material respects, the financial position of UNIDO for the financial year ended 31 December 2018, the results of its financial performance, the changes in net assets/equity, the cash flows, and the comparison of budget and actual amounts in accordance with IPSAS. As such, we issued an unqualified opinion on the UNIDO's financial statements. The statements audited were as follows:

a) Statement I. Statement of Financial Position;
b) Statement II. Statement of Financial Performance;
c) Statement III. Statement of Changes in Net Assets/Equity;
d) Statement IV. Cash Flow Statement; and
e) Statement V. Statement of Comparison of Budget and Actual Amounts.

14. In addition, we concluded that the accounting policies enumerated in Note 2 to Financial Statements were applied on a basis consistent with that of the preceding year. Further, we concluded that the transactions of UNIDO that have come to our notice during the audit or that have been tested as part of the audit of the financial statements have, in all significant respects, been in accordance with the UNIDO Financial Regulations and legislative authority.

15. We appreciate the efforts taken by Management to address a number of recommendations issued in the course of our audit of the UNIDO 2018 financial statements in order to present fairly the balances of the affected accounts and improve the presentation and disclosures in compliance with IPSAS.

16. While we issued an unqualified audit opinion on the financial statements, we noted the improvement opportunities which need to be addressed by Management to: (a) further improve financial transactions' recording, processing and reporting; and (b) ensure the fair presentation of the financial statements in the next reporting period.

1.2 Financial highlights

17. The financial statements of UNIDO are prepared on a fund accounting basis where each fund is consolidated per segment. The sources of funds are categorized into three distinct service segments based on the types of services that UNIDO provides. These are regular budget activities for providing core services, technical cooperation activities for implementing projects; and other activities and special services supplementary to the main activities of the Organization.

18. For 2018, relevant financial data are:

	Amount € ('000)
Total Assets	910,958
Total Liabilities	496,479
Revenue	217,623
Expenditure	244,810
Surplus/Deficit	-5,275
Fund Balance	397,422

1.2.1 Financial Position

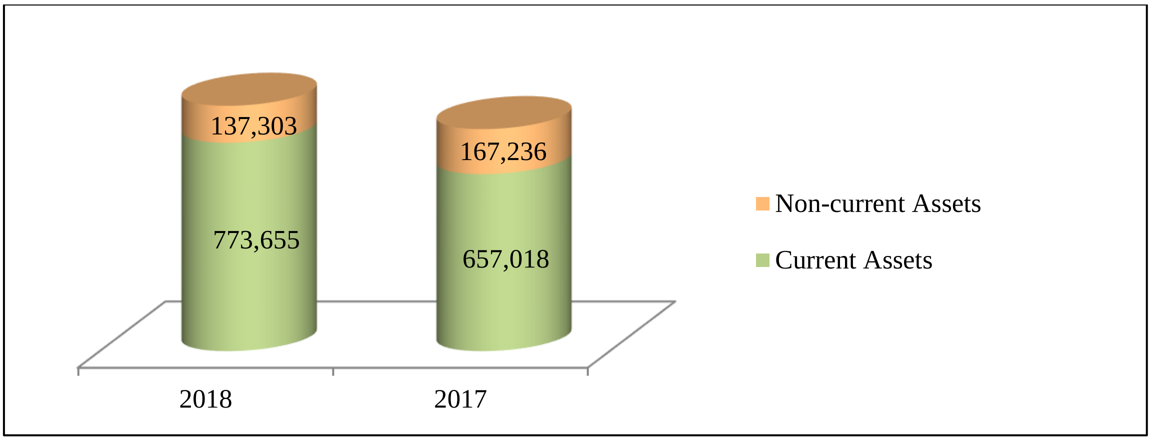
19. The key indicators for UNIDO's ability to service its obligations yielded positive results. The high liquidity ratios demonstrate the extent to which claims against the Organization are covered by its assets.

	2018	2017
Total Assets to Total Liabilities	1.83	2.04
Current Ratio	3.62	5.06
Quick Ratio	3.50	4.88
Cash Ratio	2.17	3.45

20. UNIDO should take notice of its declining numbers brought about by the disproportionate increases in assets and liabilities. This is an indication of how well UNIDO is able to collect its receivables, i.e., assessed and voluntary contributions.

Asset structure

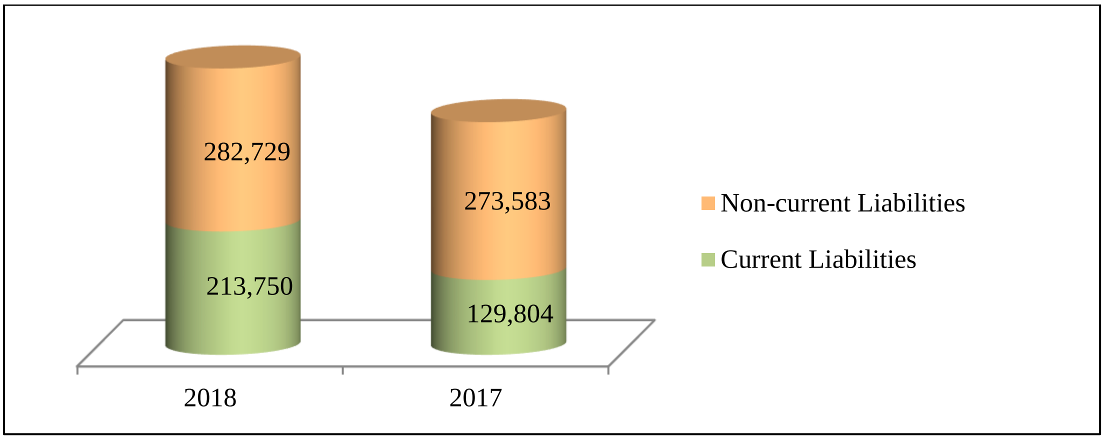
21. The asset structure of UNIDO shows its asset base in different asset categories, as follows:



22. Cash and cash equivalents of EUR 462,950 ('000) in 2018 and EUR 447,425 ('000) in 2017 along with Receivables, primarily from assessed and voluntary contributions, at EUR 285,059 ('000) in 2018 and EUR 185,566 ('000) in 2017 comprise the majority of the current assets structure of UNIDO. These are considered the "operating assets" of UNIDO as they support regular operations, implementation of TC projects and other related activities. Receivables increased by EUR 99,493 ('000) in 2018, which brought its percentage total to 31 per cent of the total assets in 2018 from only 23 per cent in 2017. The increase in Receivables was partially brought about by the recognition of the instalments/pre-financing payments, the amounts of which are already specified in the signed agreements with the donors.

23. The Non-current assets consist primarily of Non-current receivables from Member States and donors, and PPE, which are located at HQ and the various field offices of UNIDO. The PPE decreased in 2018 partly because of the derecognition of LVAs from the carrying amount of PPE reflected in the financial statements. The LVAs do not fall within the asset capitalization threshold for PPE and thus should not be included as part of PPE.

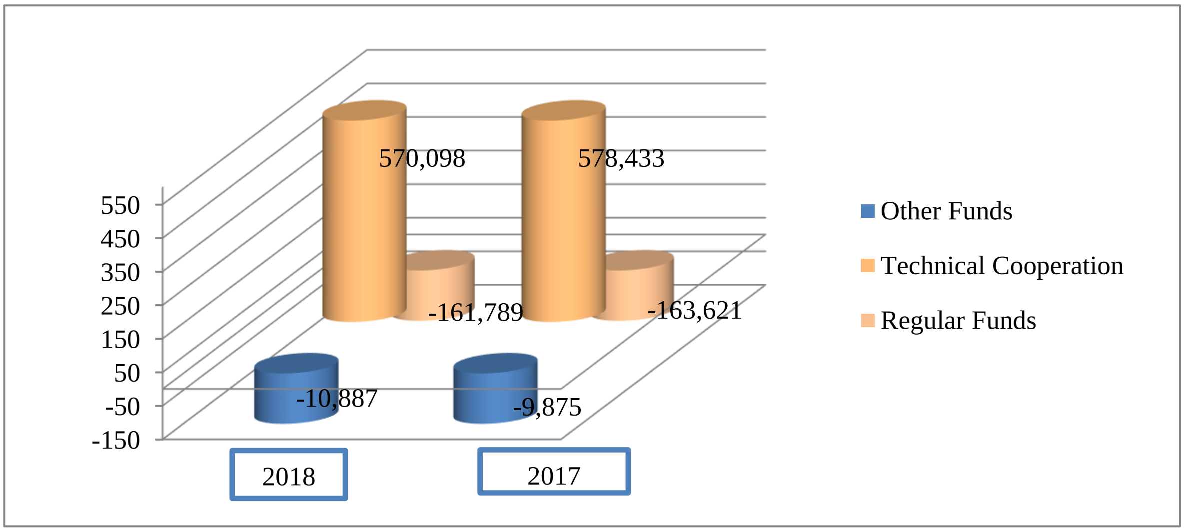
Liability Structure



24. Liabilities at the end of 2018 totalled EUR 496,479 (‘000), EUR 213,750 (‘000) of which or 43 per cent are current liabilities while EUR 282,729 (‘000) or 57 per cent are non-current liabilities. Current liabilities are mostly accruals for goods and services while non-current liabilities pertain to the long term employee benefits totalling EUR 248,352 (‘000) at the end of the year. This is 88 per cent of the total non-current liabilities of EUR 282,729 (‘000) and 50 per cent of total liabilities of EUR 496,479 (‘000).

25. The liabilities for long term employee benefits were determined by independent actuaries. For the past years, the liabilities had been on approximately the same level at EUR 248,352 (‘000) in 2018, EUR 238,495 (‘000) in 2017, and EUR 258,160 (‘000) in 2016.

UNIDO’s fund balances



26. There are three components to UNIDO’s fund balances: the Regular budget funds, Technical cooperation funds and Other funds. The Regular budget funds include the general fund, regular programme of technical cooperation, and working capital fund. The negative balance is due to the unfunded long-term employee benefit liabilities in the amount of EUR 248,352 (‘000) as at 31 December 2018. The Technical cooperation funds pertain to the unexpended portion of voluntary contributions and represent 143 per cent of the total funds of EUR 397,422 (‘000). The Other funds are funds for major capital investment, VIC security, operational budget and other auxiliary activities. The negative fund balance for Other funds resulted from the unfunded future liabilities accrued from employee benefits of EUR 63,145 (‘000) (2017: EUR 56,877 (‘000)).

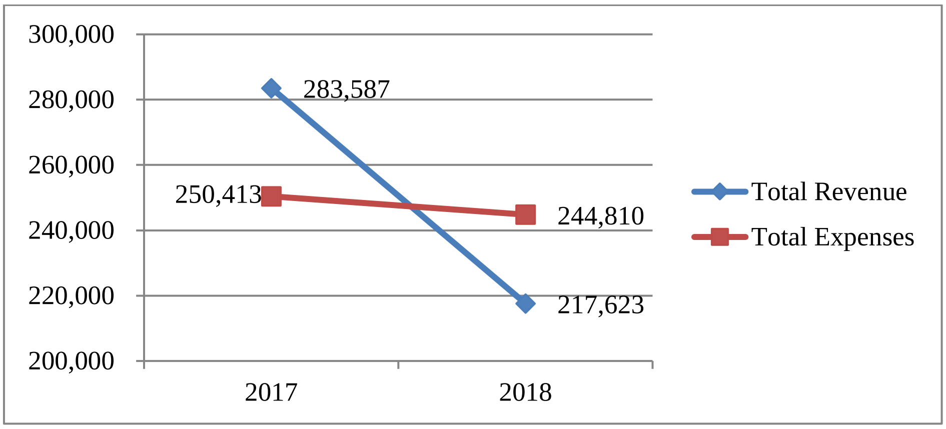
27. The fund compositions did not change much from 2017 to 2018, which indicates its stable nature.

1.2.2 *Financial Performance*

28. As in the previous year, UNIDO incurred a deficit in 2018, as shown below:

	2018	2017	Variance	Per cent
Assessed contributions	68,351	66,733	1,618	2
Voluntary contributions	147,214	214,104	-66,890	-31
Other income	2,058	2,750	-692	-25
Total Revenue	217,623	283,587	-65,964	-23
Salaries and employee benefits	118,843	126,169	-7,326	-6
Operating costs	28,254	30,376	-2,122	-7
Depreciation and amortization	8,162	7,973	189	2
Other expenses	89,551	85,895	3,656	4
Total Expenses	244,810	250,413	-5,603	-2
Operating Surplus	-27,187	33,174	-60,361	-182
FX Gain/Loss	21,912	-38,466	60,378	157
Surplus/(Deficit)	-5,275	-5,292	-17	0.03

29. The graphical presentation and comparison of Total Revenues and Expenses follow:



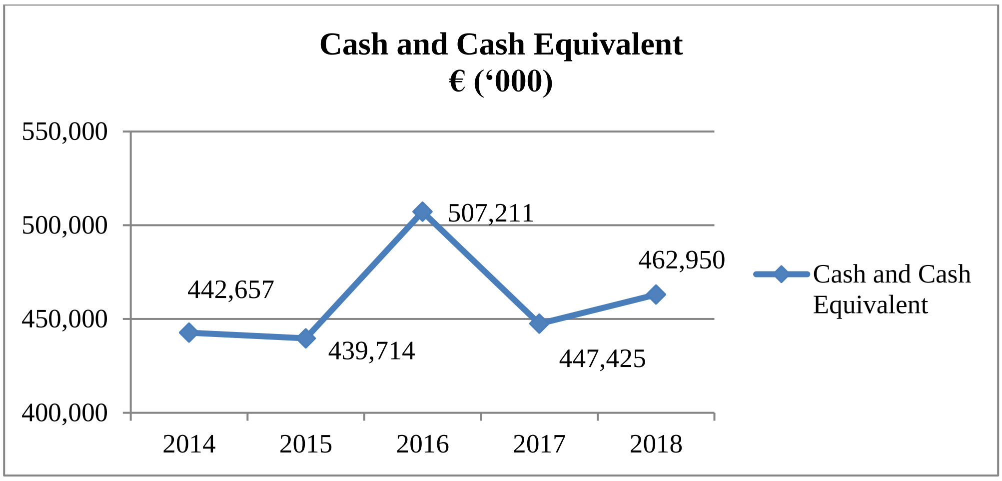
30. The decrease of EUR 66,890 (‘000) in voluntary contributions weighed heavily on the operations of the Organization that it incurred an operating loss of EUR 27,187 (‘000) as opposed to an operating surplus in 2017 of EUR 33,174 (‘000). The decrease in income, mainly due to the decrease in voluntary contributions was due to the fact that most projects were already underway in 2018 and the corresponding revenues from contributions received were already recorded in prior years. The FX gain on currency translation somehow softened the impact of the decrease in revenue so that 2018 yielded a deficit of EUR 5,275 (‘000), which is not very different from the EUR 5,292 (‘000) deficit in 2017. The FX gain, which registered at EUR 21,912 (‘000) is only an accounting valuation and thus, does not really affect inflow/outflow of resources and has no impact on the financial performance of the Organization.

1.2.3 *Cash Flows*

	2018	2017	Variance	Per cent
Surplus/(deficit) for the period	-5,275	-5,292	17	00
Non-cash items and other cash flows	24,425	-8,417	32,842	390
Net cash flows from operating activities	19,150	-13,709	32,859	240
Net cash flows from investing activities	-17,837	-11,710	-6,127	-52
Net increase/(decrease)	1,313	-25,419	26,732	105

Cash and cash equivalents, beginning	447,425	507,211	-59,786	-12
Unrealized foreign-exchange gains/(losses)	14,212	-34,367	48,579	141
Cash and cash equivalents, end	462,950	447,425	15,525	3

31. At the end of 2018, cash and cash equivalents excluding EUR 46,527 (‘000) in restricted cash were EUR 416,423 (‘000). Cash and cash equivalents excluding restricted cash of EUR 45,606 (‘000) were EUR 401,819 (‘000) in 2017. Despite the increase in net cash flow from operating activities by 240 per cent, cash and cash equivalents at year-end increased from EUR 447,425 (‘000) in 2017 to EUR 462,950 (‘000) in 2018. Nevertheless, the cash position of the Organization had remained strong for the past years.



1.2.4 *Comparison of budget and actual amounts*

	Original Budget	Final Budget	Actuals	Balance	Actuals/Original	Actuals/ Final
Income	87,101	87,101	86,935	166	99.81	99.81
Cost	87,101	87,101	75,284	11,817	86.43	86.43
Net			11,651	-11,651		

32. A comparison of budgeted income and expenses against the actual amounts is a statement of the Organization’s accountability on the utilization of resources entrusted to it. For 2018, the actual amounts did not differ much from the budget, both original and final, which is an indication of the value of its resource planning.

33. The budgets and accounts of UNIDO are not prepared on a comparable basis. The budgets are prepared on a modified cash basis while the accounts are recorded and presented in the financial statements on a full accrual basis. As such, the 2018 surplus on income of EUR 11,651 (‘000) differed from the Cash and cash equivalent of EUR 1,313 (‘000) due to timing, presentation and entity differences of EUR -10,338 (‘000).

1.3 *Financial Statements accounts analysis*

1.3.1 *Long-term liabilities -After Service Health Insurance*

34. As at 31 December 2018, liabilities for post-employment benefits totalled EUR 242,393 (‘000) of which EUR 223,442 (‘000) or 92 per cent pertain to ASHI. Payments for after-service medical costs totalled EUR 3,483 (‘000).

35. The funding of post-employment liabilities is an ongoing concern. In previous audit reports, the need to assure adequate funding has been raised where the recommendation was for UNIDO to review its funding scheme, taking into account existing funding models within the United Nations system. While the pay-as-you-go scheme answers for the immediate employee benefits liabilities, in the longer term, UNIDO will most likely need additional funding. Thus, to avoid future financial and operational risks, UNIDO has to gradually build up its funding for ASHI liabilities.

36. In response to our queries, UNIDO explained that the informal working group, established to address Programme and Budget Committee-related issues, is discussing the funding for ASHI liabilities and has, already considered the report of the SG on ASHI submitted to the 73rd session of the General Assembly.

37. **Considering that the ASHI funding has been a recurrent and ongoing concern, and in relation to the recommendations ushered by the United Nations Working Group on ASHI, UNIDO is encouraged to consider setting a commitment date or target milestones in implementing the recommendations.**

1.3.2 Voluntary contributions receivables

38. Our review showed that only the amounts already confirmed by the donors and/or received by UNIDO from the initial and a number of subsequent instalments/pre-financing payments were recognized in the books. Non-recognition of the agreed instalments/pre-financing payments, the amounts of which are already determinable but not yet received from or confirmed by the donors resulted in the understatement of the Voluntary contributions receivable and liability accounts and is not in line with IPSAS 23.

39. The CMO/FIN/APT recognizes a receivable only upon receipt of funds or when the amount to be received is confirmed by the donor. On the other hand, in the case of Grants management, once the agreement is signed by both UNIDO and the donor, CMO/FIN/FMT records the agreed instalments and pre-financing payments in SAP, which then become part of the project's programmable fund balance. Management claimed that until funds are received, Budget/PAD is only allotted upon receipt of contribution, which then becomes programmable. Thus, while the CMO/FIN/FMT can readily monitor the status of the grants/contributions through the Grants management module, it would be cumbersome for CMO/FIN/APT to constantly check if there are newly signed agreements for the purpose of recording voluntary contributions in the books. The process also resulted in instances when CMO/FIN/FMT had already recorded the programmable funds for a project but CMO/FIN/APT had not yet recorded the voluntary contributions as receivables.

40. **We recommended and UNIDO agreed to change accounting policy to review subsequent receivables from signed agreements for voluntary contributions, ensuring the proper accounting treatment for the amounts of instalments/pre-financing payments which are already specified in the agreements and thus, can already be measured reliably.**

1.3.3 Property, plant and equipment

41. A capitalization threshold is set to minimize operational costs in gathering and maintaining data while ensuring that low value acquisitions, when taken in the aggregate would not cause material misstatement of PPE in the FS. There is a concern though for items falling below the threshold that are susceptible to theft or loss because they are attractive for personal use or resale and can be easily carried away. For this purpose, these items are monitored under the Asset register but not necessarily taken up in the books as PPE.

42. Our examination disclosed that some items below capitalization threshold are presented and classified as PPE and not as Low value assets (LVAs). While the PPE carrying amount is not affected because the LVA net book value amounts to zero, the corresponding depreciation expense and accumulated depreciation are still recorded, the PPE cost and the accumulated depreciation are overstated by the same amount.

43. On the other hand, there are some items with acquisition cost below EUR 600 that were not classified as LVAs in the Asset Register.

44. **We recommended that UNIDO:**

a. **Treat subsequent procurement of LVAs as outright expense upon acquisition since they do not qualify as PPE. These items can still be monitored even if they are not recorded as PPE; and**

b. **Review the Asset register to determine the proper classification of all PPE, making sure that all the items that do not meet the capitalization threshold are properly classified as LVAs.**

45. CMO/FIN/APT believes that this is a contradiction of the previous audit requirement to record in the Asset monitoring system (AMS) all items regardless if these are located at Headquarters, a local office or used for technical cooperation.

46. The purpose of such requirement is to monitor the movement of LVAs but not necessarily to record them as asset and be part of the PPE account presented in the FS. Recording as PPE all items below EUR 600 runs counter to the purpose of setting a capitalization threshold.

1.3.4 Accounts Payable and accruals

47. We observed that for Current Year 2018, there are accruals posted from 2015 to 2017 that are attributed to the accumulated small differences between the accruals recorded based on the confirmation by the PM and the accruals reversed based on the invoice from the supplier. There are also accruals, which were not reversed because there was no invoice yet as at 31 December 2018. Some accruals have been outstanding for more than three years, which cannot be closed since the related projects/grants are still ongoing/open in SAP. There is also a chance that the invoice was already forwarded by the supplier to the PM but the latter have not uploaded it in SAP due to the voluminous projects/grants he/she is managing. The invoices already represent the actual amounts due to the supplier and the unclaimed differences may not be valid liabilities anymore, thus affecting the Other Current Liabilities account balance as presented in the financial statements.

48. Further, the abnormal balances although represent only a small percentage of the Other current liabilities also affect the balance reflected in the Notes to the financial statements.

49. We also noted the items in the Other current liabilities account which cannot be identified to any specific creditor and have been outstanding for two to six years. There are also unrelated charges to the Other liabilities account that are not reclassified to the proper accounts. Other balances include items that have been "parked" for more than four years and not reclassified to any specific account.

50. **We recommended and UNIDO agreed to:**

a. **Review all accruals that resulted from the small differences between the confirmations and invoices, which have remote possibility of being collected by the supplier and effect the necessary adjustments. In addition, the accruals which have been long outstanding need to be revisited and evaluated to ensure that the liabilities reflected in the books are still valid;**

b. **Review abnormal balances and if based on the review, these are no longer valid, cancel them forthwith;**

c. **Initiate/request changes to SAP such that payments for invoices that do not reconcile with the confirmations are not automatically processed and instead are flagged down for further review and corresponding approval before processing to ensure that abnormal balances are prevented; and**

d. **Review the validity of liabilities with the aim of isolating those that cannot be reasonably expected to be settled anymore, such as those with no known creditors and erroneous charges, and reclassify them to the appropriate accounts.**

1.3.5 Deferred exchange gains

51. Our audit showed that deferred exchange gains in SAP for TC projects for the biennium 2004–2005 arising from the remaining balance are not yet distributed since the specific donor can no longer be determined. Also, there is no document that would clearly describe its future purpose or promulgate any rule on its use.

52. **We recommended and UNIDO agreed to: (a) reclassify the undistributed realized gains on revaluation as an equity account in accordance with the requirements of IPSAS; and (b) formalize a proposal to maintain the fund as a reserve for TC Services.**

1.3.6 Contributions in-kind

53. Our audit disclosed that there are material fair values of contribution in-kind which are not recognized in the books of UNIDO and there are also items of contribution in kind that are not very significant as to amount/fair value.

54. On the other hand, the list of services in-kind also includes machinery in the amount, which, upon further verification, are actually contributions of goods in-kind as they pertain to equipment and tools. However, since

there are also items that are not very significant as to amount/fair value, it would be necessary to establish a monetary threshold for the items that would be considered as material, and thus, disclosed in the Notes to financial statements.

55. **We recommended and UNIDO agreed to study the workability of recognizing in the books as expense the free use of office spaces/premises using the fair value equivalent to the prevailing rates for similar rentals, as well as the provisional use of machinery utilized for project implementation.**

56. **Thereafter, as deemed necessary, UNIDO should update its accounting policies relating to the accounting treatment of contributions for services and goods in-kind to ensure that these are fairly presented in the FS and sufficiently disclosed in the NFS.**

57. UNIDO agreed with the recommendations and will evaluate if the estimates provided by the Project managers/Field offices are reliable and can be collected in a timely manner, so that the income/expense recognized would reflect fair information to the users of the FS. UNIDO likewise sees a need to evaluate how the information would be presented from a budgetary reporting point of view.

1.3.7 Unrealized foreign currency gains

58. UNIDO uses euro as its functional and presentation currency. Our recomputation of certain foreign currency monetary items translated into euro showed differences with the translation recorded as unrealized foreign currency (gains)/losses. Our analysis also disclosed that there were some receivable/payable accounts that should have been considered as material and therefore included in the translation.

59. The interest payable to donors, and voluntary contributions advances accounts were not included in the year-end translations but majority of their compositions were in US dollars and not in euros.

60. **Moving forward, we recommended and UNIDO agreed to review all monetary items which have material non-euro currency balances and include them in the year-end translation for fair presentation of the related accounts as well as the unrealized gains or losses in the FS.**

1.4 Financial Management Mechanisms

1.4.1 Structured financial guidelines

61. There is a need to update the UNIDO Policy Manual and financial guidelines to take into account the recent changes in accounting processes, organizational restructuring and pressing issues that need to be addressed.

62. The guidelines will address the issues on the financial transactions recording which may lead to the misinterpretation of the true nature of the transaction; lengthy processes that sometimes may be confusing and specific instructions would be useful; the absence of process flows such as those for the determination, reporting and processing of capitalizable assets; and some materials still use the name of offices prior to 2018 when UNIDO had an organizational restructuring and updated its organigram.

63. **We recommended and UNIDO agreed to consider the formulation of structured financial guidelines that would guide finance and other affected personnel in carrying out their roles and functions, thereby securing reliability of accounting records, affirming accountability and promoting operational efficiency.**

64. UNIDO will consider gradually including financial guidelines in a user-friendly interactive environment to provide users with information as regards financial processes, functions, and responsibilities, and direction in the performance of their daily financial-related activities.

1.4.2 Chart of accounts (CoA)

65. We also noted minor drawbacks that need to be corrected, such as a depreciation expense that does not have corresponding accumulated depreciation account, non-staff account classified as a staff account, and a valuation account that does not pertain to any foreign exchange valuation activity.

66. There are also account names classified under the same lowest level grouping and thus are used twice or are duplicates. Although these are assigned with different SAP-General Ledger (GL) account numbers, there seems to

be no established pattern in the account number that would make it easier to determine in what transaction they would be used/applicable.

67. The deficiencies noted make it difficult to understand the accounts and to evaluate the transactions behind the accounts. They may also lead to varied, if not erroneous, understanding of the financial data of the Organization.

68. **We recommended and UNIDO agreed to revisit and update the CoA to provide for each account a description that would be a good measure and reflective of the account's function making sure that personnel involved in recording transactions understand the nature and use of UNIDO accounts.**

1.5 Buildings Management Services

1.5.1 Agreement on UNIDO's interest in the assets and liabilities of BMS

69. The Buildings Management Services Division (CMO/OSS/BMS) is responsible for managing and administering the operations, maintenance, repairs and replacements of the buildings and related installations and equipment at the VIC complex. BMS is a joint operation with joint control shared among VBOs and UNIDO is assigned to be the operating agency of the service.

70. The VBOs do not acknowledge their share in the liability on employee benefits. The balances of assets, liabilities and equity of BMS are consolidated into the FS of UNIDO.

71. While Statement II includes UNIDO's share in the expenses of BMS, we observed that the balances of income, expense, and all direct charges to net assets/equity of the BMS were consolidated into the balances of the Other non-current assets of UNIDO. Said practice of UNIDO affects the fair presentation of the accounts of UNIDO as well as the equity of BMS.

72. While there are established cost-sharing ratios for the costs of common services, we noted that there is no binding agreement on UNIDO's interest in the assets and liabilities of BMS.

73. The financial instructions for BMS operations are also not updated. We noted that the required details, such as bank balances, contributions received, disbursements by object of expenditure, share of each VBO, and unliquidated obligations were not provided in the BMS FS as well as in the NFS of UNIDO FS. These details are important to the VBOs as these are indications of how their investments/contributions were put to use. These are also necessary in understanding the BMS accounts reflected as part of the UNIDO FS.

74. **We recommended that UNIDO craft and present to the VBOs a proposal detailing the interest share of each VBOs in the joint operation of BMS for the purpose of coming up with a signed and binding agreement among the VBOs**.

75. **UNIDO Response:** UNIDO believes that the existing agreement and the substance of operations are sufficient bases to keep the current presentation of the BMS activities in the FS. The VBOs would have included rules and regulations on the sharing of excess fund balances and/or obligations, if such sharing was intended. Further, an agreement on this would need to address all common services at VIC including medical, security, conference, and printing, and would mean updating and superseding the 1977 Memorandum of Understanding (MOU) concerning the allocation of common services.

76. Paragraph 3(C) of the MOU, which pertains to other financial matters states:

> "It is recognized there are financial matters other than cost-sharing that will have to be studied by the task force. It is further recognized that all such matters cannot now be foreseen … On such matters procedures and agreements will have to be made and, if necessary, proposals submitted to the members of the committee …"

77. Further, Paragraph 5(a) on Buildings management states that "UNIDO will be the contracting agent ***on behalf*** of the Organizations located in Donaupark including the joint areas". This means that UNIDO can enter into contracts on the VBO's support and/or representing the interest of the VBOs, and not for the sole purpose/benefit of UNIDO.

78. We believe however, that to ensure compliance with the requirements of IPSAS, a binding agreement among the VBOs is needed to formalize the arrangements as regards the interest share of each VBO in the joint operation of BMS.

1.5.2 Updated financial instructions for BMS operations

79. Financial Services Internal Instruction 2002/01 regarding the financial operations of BMS requires the preparation of year-end FS showing the: bank balances; contributions received from each organization; accounts receivables and payables; income, including interest earned; disbursements, by object of expenditure, made during the year; share of each organization in accordance with the cost-sharing formula for that year; bank charges; distribution of the net interest to the fund balance of each organization; fund balance/status of contribution of each organization at the year-end; and a footnote disclosing the unliquidated obligations at the year-end.

80. Management explained that the Financial Instruction became redundant with the implementation of IPSAS. The BMS FS were provided to the VBOs separately, hence, not attached to the UNIDO FS.

81. **We recommended and UNIDO agreed to update, in consultation with the VBOs, the Financial instruction on the accounting treatment of BMS operations to serve as basis in the preparation of BMS FS and consolidation of its accounts in the UNIDO's FS as well as that of the other VBOs.**

2. Governance Matters

2.1 Governance Arrangements

82. The overall objective of the review is to obtain reasonable assurance that existing corporate governance arrangements capacitate UNIDO in achieving its operating objectives. The scope of audit involves the examination and analyses of existing governance policies and approaches along the areas of accountability, risk management and internal control, including related tools and frameworks with the end-view of determining if these are effectively designed and function as expected along UNIDO's overall governance activities and processes.

83. Effective governance, particularly in public sector organizations, supports better decision making and the efficient use of resources and, strengthens accountability for the stewardship of resources. Governance mechanisms and activities, when delivered as intended, can lead to more effective implementation of improvement interventions, which influences management's decisions and practices and, thereafter, offers the basic foundation of effective controlling, ultimately leading to better service delivery and outcomes. Central to effective corporate governance is the notion that sound internal control is best achieved by processes that are embedded within an organization's operations anchored on established accountabilities and risk management practices. Close linkage of internal control with the risk management structure and Accountability Policy within an entity makes a more cohesive uptake in driving an organization's decision and processes toward more effective outcomes. The audit of UNIDO's governance arrangements was pursued from this strategic standpoint, the results of which are discussed in the succeeding paragraphs.

2.1.1 Accountability Framework and roles and responsibilities

84. The concept of accountability emanates from the fact that managerial and operational effectiveness depends upon the delivery of the defined authority and expectations thereby instilling confidence in that authority. However, accountability can come in different forms – such as managerial, political and social – these are more apparent in public organizations such as UNIDO. The delivery of UNIDO's intended outcomes hinges primordially on how these accountabilities are defined and established within the Organization, how risks and vulnerabilities are managed, how programmes are delivered and how governance mechanisms result in an effective internal control. The confluence of these core and high-level elements that make up governance is expected to enhance the Organization's relational value with its stakeholders who constantly need assurance that their moneys are spent to achieve the very purpose of its existence.

85. The JIU Inspectors, in its report JIU REP/2011/5, emphasized that a *formal framework should be established in one official document that first defines what accountability means to the organization and that brings together all components of accountability so that it can be better communicated to staff and stakeholders. The frameworks should show how they fit and link together. Although this may be a paper exercise, it is worthwhile not only to show the links between the components but as a communication tool to staff members.* This means that an accountability framework define the stakeholders' line of sight and provide signals if they need to raise concerns, seek redress or provide feedback. It also creates an overall picture of an organization's nature of works and its commitment to

attain the level of quality it aims to provide. We noted that UNIDO does not possess a formal and well-documented Accountability Framework.

86. Along these lines, we submit that a number of values intended by a formal and well-documented Accountability Framework, among others, are as follows:

a. The relationship of risk management and internal control with accountability;

b. The delivery of programme results and results-based management;

c. Oversight and evaluation functions within the Organization; and

d. The right accountability perspective of the roles and responsibilities of staff.

87. Although these are present in several documents, these are not clearly communicated. For example, UNIDO's complaint and response mechanisms and their relationship to internal control and risk management are not explicitly provided. Also, the delivery of programme results and results-based management approach is not highlighted nor its dependencies with strategic planning and work planning emphasized. Oversight and evaluation functions within the Organization also have to be taken into the accountability equation, including their relationship to managerial and operational processes. Lastly, the accountability framework should enable UNIDO's staff deliver their role responsibilities with the right understanding and expectation.

88. As regards accountability roles and responsibilities, we determined that clarity on these roles and responsibilities have to be improved. For some staff members, the perplexity on their roles and responsibilities was shored up in their responses to the survey that we conducted. There is also a refusal to accept that this discrepancy exists or should be addressed. While this conjecture can be merely a perception, such reflect the operating reality to certain organizational segment. Thus, clarity of roles and responsibilities is imperative in the proper functioning of each key player in the implementation of the accountability framework and ultimately in the achievement of organizational goals and objectives.

89. **We recommended and UNIDO agreed to develop a robust Accountability Framework to reflect all organizational components relating to accountabilities and further provide clarity to its mandate and staff roles and responsibilities thereby reinforcing the build-up of the culture of accountability and transparency within the Organization.**

90. **UNIDO Response:** Management took note of the recommendations and implementation will commence at the earliest, commensurate to the resources available.

2.1.2 Reporting lines of field offices

91. There is also a need to enhance the Terms of Reference for UNIDO Field Offices to clearly describe in detail the reporting lines of country offices with UNIDO Country representatives to avoid the accountability traps and varying conjectures, as well as check the risk of excessive approval levels that impede decisions, thereby making the process more efficient. The lack of clarity of roles and responsibilities and reporting lines can lead to accountability traps and even varying conjectures, and it may have already occurred. The scenario also presents a risk of excessive approval levels that impede decisions and make the process inefficient.

92. Moreover, UNIDO had long been guided by a management principle on empowerment where it was described as the transfer of authority and resources at the level most appropriate to the task. However, empowerment has to be appropriately controlled for it to be effective. In whatever form it may take, empowerment or the specific definition of roles and responsibilities and the corresponding authority deserve utmost clarity.

93. **We recommended and UNIDO agreed to enhance its Terms of Reference for its Field Offices defining clearer reporting lines and accountabilities to reflect the operational landscape emerging from the recent restructuring to promote a more coordinated approach to organizational and field network activities and foster accountability.**

94. **UNIDO Response:** UNIDO agreed in principle, with the recommendation. The recommendation goes in line with PTC/PPF decision to refine the ToRs in 2019 taken prior to the engagement with the external auditors.

2.1.3 Internal Control Framework

2.1.3.1 Adoption of Internal Control Principles under the COSO ICF 2013

95. We observed that the UNIDO's Internal Control Framework of 2013 was primarily based on COSO ERM Integrated Framework of 2004 with some additions from the IOS rather than the COSO Internal Control-Integrated Framework, which referred to risk management activity rather than internal control arrangements. Hence, the crafting of internal control policies would then be expected to deal with risk management instead of internal control that will create several conjectures. As a matter of practice, internal control is supposedly positioned as a fundamental aspect of enterprise risk management. As stated in the COSO Internal Control-Integrated Framework Foreword, the framework was intended to complement the COSO ERM Framework and neither supersedes the other. The intention of the two Frameworks is indeed clear. But while the two Frameworks are distinct from each other and provide different foci, each has its own dependencies upon the other particularly when risk assessment component is considered. Taking this into account, clarity of boundary still needs to be drawn, and the 2013 Internal Control Framework of UNIDO has to align to this as well.

96. Management explained that *the current ICF was developed in 2010 when the 17 principles were not explicitly defined in the 1992 COSO ICF, which was rectified in the 2013 COSO ICF version. Further, the principles most relevant to UNIDO context have been stated.* However, we emphasize that the COSO ICF of 2013 referred to by Management is the COSO ERM Integrated Framework and not the COSO Internal Control-Integrated Framework and that risk management has different operating principles compared to internal control.

97. **We recommended that UNIDO consider in the update of ICF the review of internal control principles adopted taking into account the current COSO internal control principles; and ensure that the updated ICF is supported with User's guide to afford effective communication of internal control policies and to provide clarity of accountabilities on internal control management.**

98. **UNIDO Response:** UNIDO agreed to take into account the current COSO internal control principles in the update of the ICF.

2.1.4 Ethics mechanisms

2.1.4.1 Ethics Officer functions

99. We observed and Management confirmed that *the Ethics Officer reports exclusively to the Managing Director, CMO and does not report to the Director General. Periodic reports prepared by the Ethics Officer are made available to the DG by the Managing Director, CMO*. The Ethics Officer believed that *this set-up is considered to be an efficient model of operation*. We also pointed out that CMO handles HR matters which are closely proximate to the delivery of the ethics function. If the two functions are not separated, then accountability and check and balance are compromised as no one serves to check the work of the other anymore, since both functions are under one chief of office. The function of an Ethics Officer goes far beyond the scope of work of CMO as the former covers the whole of the Organization compared to that of CMO which is limited only to HR, Finance and other related functions.

100. Given the sensitivity of the Ethics Function and the required high level of independence, placing the ethics-related function under the jurisdiction of CMO may not effectively maintain independence and objectivity of the function. It is also contrary to the objective of the Programme and Budgets 2018–2019 to align its policies with the best practice in the United Nations system which suggests that the *Ethics Officer reports directly to their respective executive heads* (meaning the Director General)*, not through an intermediate management level*. A direct reporting line releases the Ethics Officer from control of or undue influence from managers within the Organization thus, increasing its independence and credibility. Otherwise, there is a risk that the ethics function may be viewed merely as a management device for compliance. Without the stakeholders and staff confidence, the ethics function will struggle to make an impact and enhance accountability within the Organization.

101. **We recommended and UNIDO agreed to enhance its DGB/2018/02 specific provision on ethics-related functions by modifying the reporting channels of the Ethics Function to be attached to the Office of the Director-General and ensure independence, visibility and operational capacity to cultivate and nurture a progressive culture of ethics, integrity and accountability.**

102. **UNIDO Response:** UNIDO accepted the recommendation.

2.1.4.2 Ethics-related policies and documentation

103. UNIDO employees need to be well-informed on the ethics issues and concerns that they may encounter as international civil servants mandated to uphold the highest standards of competence and integrity.

104. We noted that the Policies on Ethics in the Office, Protection against Retaliation, Conflicts of Interest, and other Ethics related policies were crafted and institutionalized. However, said policy does not cover individuals who are perceived as whistle-blowers, or as “assisting whistle-blowers”, and individuals who are “about to” make a disclosure. These indirect contexts can have the potential to block out valuable internal sources of information and can defeat the purpose that the Policy is intended to serve.

105. We also noted that the definition of conflicts of interest only encompasses those interests of UNIDO employees outside the Organization that are in conflict with the interests of UNIDO as an Organization. It does not however, include incompatible duties of its employees discounting its own accountability principle on segregation of duties.

106. Similarly for its Anti-fraud policy, UNIDO does not have a specific policy and guideline dealing with matters that may involve the investigation of the Director General, thus leaving a gap as to who will be the appropriate office that should discharge the function once a case arises. While the Office of Evaluation and Internal Oversight has the mandate to conduct investigation, its independence on the conduct of the investigation involving the Director General will float as an issue considering that the Office directly reports to the Director General same with the Office of Legal Affairs. The lack of specific investigation guidelines in cases that may involve the Director-General will leave a lacuna as to who will be the appropriate office that should discharge the function once a case arises.

107. **We recommended and UNIDO agreed to:**

a. **Improve and update its *protection against retaliation* policy by: i) including individuals who are perceived as whistle-blowers, or as “assisting whistle-blowers”, and individuals who are “about to” make a disclosure as valuable internal sources of information; and, ii) developing a mechanism for handling appeals where the non-determination of a prima facie case of retaliation is unjustified;**

b. **Include a provision in its *Conflicts of Interest* policy relating to incompatible functions within the Organization to provide clearer and more complete line of sight in exacting accountabilities thereby further enhancing integrity in job performance and accountability; and**

c. **Incorporate within its anti-fraud policy an internal mechanism and clear modalities in terms of conducting fair and unbiased investigation on cases that may be committed by its Executive Head.**

108. **UNIDO Response:** The recommendations are accepted. The recommendation c on anti-fraud policy is already implemented in the revised Charter of the Office of Evaluation and Internal Oversight.

2.1.5 Asset accountability

2.1.5.1 Physical Inventory taking

109. The UNIDO Internal Control Framework of 2013 encompasses the safeguarding of resources against loss, misuse and damage. The resources referred to in this instance relate to funds and all the assets owned by the Organization which touches base with asset protection. Managing of the Organization’s assets consists of coordinated activities that are carried out over the lifecycle of these assets to realize their full value when used in the delivery of service of the Organization. We noted that UNIDO administers a considerable amount and variety of assets located not only at the Headquarters (HQ) but also at its field offices (FO) worldwide. It also manages a wide range of assets used in Technical Cooperation (TC) activities in beneficiary countries in various world regions. As UNIDO is also responsible for Buildings Management Services (BMS), it also administers common assets held by all Vienna-based organizations (VBOs). Based on these, it can now be hinted that the operational principles and objectives embraced by UNIDO also flow from accountability and stewardship of resources that are applied through policies and procedures to mitigate risks and finally, to assess these control activities through monitoring done on a continuous basis.

110. We noted that in 2016, the Organization's External Auditor (EA) recommended that UNIDO conduct an annual inventory exercise in accordance with Financial Regulation 109, as this is an important part of an organization's internal controls over assets. The EA emphasized in its report and UNIDO agreed that inventory be conducted more carefully and discrepancies be settled. UNIDO also pointed out that there was an ongoing implementation of the RTLS, to which the Organization transitioned into in 2017, with the intention of launching the system to all relevant parts of the Vienna International Centre (VIC) to cover BMS assets, FO and TC. However, we noted that the last physical inventory exercise of PPE Items, wherein a matching between assets generated from the Asset Management System, including barcodes verifications, was performed in 2016.

111. UNIDO HQ uses RTLS for tracking assets, while in FO, assets are assigned with unique SAP IDs provided by HQ from the Asset Management System. The RTLS is used by placing a beacon on every item in order to track each asset and its movements. However, we determined that this did not cover all assets of the Organization, such as attractive items that were excluded in the count. This RTLS limitation could have been complemented by conducting an actual physical count of inventories not covered by the system itself. The RTLS limitation prevents the complete performance of annual physical verification of assets. Thus, a stronger control founded on this specific accountability mechanism needs to be established.

112. **We recommended and UNIDO agreed to improve the upkeep of its physical assets and inventory through the improvement of its physical inventory taking process by complementing the RTLS with manual physical counts for those not covered by the System to ensure the complete and accurate capture of all of its assets' information thereby improving asset information integrity and accountability.**

113. **UNIDO Response:** We are in agreement with the recommendations related to Asset Accountability and steps are underway to ensure compliance.

2.1.5.2 Property Management Manual

114. Our verification yielded that UNIDO, through its BMS, has the overall responsibility for maintaining, repairing and upkeep of the 379,000 square meters VIC complex vis-à-vis the Host Government. BMS is given the responsibility for managing and administering the operations, maintenance, repairs and replacement of the buildings and related installations and equipment of the VIC complex. UNIDO likewise administers a considerable amount and variety of assets, including a wide range of assets used in TC, in various locations.

115. With this kind of asset responsibility and management, we observed, however that its Property Management Manual (PMM) lacks the necessary procedures for asset maintenance requirements, several control processes and activities, that include the following among others, (a) accountable focal point for asset maintenance who is responsible for ensuring that all scheduled maintenance for items under warranty is carried out as required; (b) details on periodic asset inspections and routine cleaning and preventive maintenance performed as appropriate; (c) maintenance of records of reputable companies performing maintenance services including details regarding the degree of satisfaction with overall quality and economy of their services by the maintenance focal point; and, (d) an activity relating to appropriate market research to be conducted to obtain estimates of the probable cost of the required service.

116. **We recommended and UNIDO agreed to enhance the quality of controlling of its assets and related accountabilities through an update of its Property Management Manual by incorporating therein asset maintenance and repair guidelines for a more comprehensive recognition of asset accountabilities across the whole asset management spectrum.**

117. **UNIDO Response:** We are in agreement with the recommendations related to Asset Accountability and steps are underway to ensure compliance.

2.1.6 Procurement accountability

118. Essential to procurement accountability is the development and use of systems as well as establishing and putting in place procedures that ensure that appropriate levels of controls across the key governance components such as appropriate policies, procedures to perform the processes, assigning of roles and responsibilities and installing controls and review processes to monitor performance of the procurement process. To fulfil its mandate and achieve its vision and objectives, UNIDO procures a significant volume of goods and services annually. Thus, as the steward of public funds, the UNIDO procurement process must allow for transparent and fair competition among prospective providers. This is supported by the UNIDO Procurement Manual that clearly declares that all individuals and entities directly or indirectly associated with the procurement function are responsible for

protecting the integrity of the process and maintaining fairness and transparency in UNIDO's treatment of all prospective providers.

2.1.6.1 End-user procurement feedback mechanism

119. Our inquiry surfaced that post-procurement feed-back is generally limited only to vendors and does not cover beneficiaries or end-users. There is also no clear indication of an effective process that would serve the interest of external stakeholders and even the internal recipients of procured goods.

120. **We recommended and UNIDO agreed to adopt a concrete and formal procurement feedback protocol within its procurement cycle to ensure that it receives relevant and reliable information from its end-users that will eventually lead to improved procurement decisions and enhance procurement controls and related accountabilities.**

121. **UNIDO Response:** Limiting the applicability of this recommendation to high-value/highly complex cases is accepted by Management. We are of the view, however, that whenever practical, such protocol has to be established across all completed procurement transactions owing to the need of the Organization to further its procurement accountability and transparency.

2.1.6.2 Vendor sanctioning policy

122. Examination of the UNIDO Procurement Guidelines showed that its procurement process adopts such principles as Best Value for Money; Fairness, Integrity and Transparency; and, Effective Competition. We noted that the vendor sanctioning provisions is not made part of the procurement manual. Subsequent comparison of the related mechanism currently in place in the Organization with the parameters on accountability set out by the JIU disclosed lack of a Vendor Sanctioning Policy.

123. UNIDO's lack of a Vendor Sanctioning Policy renders the procurement controlling less effective as the practice is supposed to pervasively and objectively control vendor transactions. The absence of an appropriate policy renders the response system currently in place less than desirable as the participants in the accountability regime have an unstable base, upon which further actions on vendor sanctioning depend. Imposing sanctions inconsistently and on an ad hoc basis poses legal risks and may invoke counterclaims by entities who believe that they have been unfairly blacklisted or otherwise sanctioned.

124. **We recommended and UNIDO agreed to strengthen its vendor reference and background checking protocol in its procurement process, particularly those of its Field Offices, to extract better vendor engagements within the frame of control and accountability.**

125. **UNIDO Response:** While the recommendation can be implemented without additional resources, such should be limited only to high-value/highly complex procurement actions. We are of the view, however, that for the policy to be far-reaching in terms of exacting accountability, such must be applied across all procurement actions as much as practicable.

2.2 Enterprise risk management

2.2.1 ERM implementation road map and plans

126. We observed that the adoption and implementation of risk management in UNIDO at the institutional level is still at its early stage and the creation of the Risk Management Committee (RMC) and the appointment of a Risk Management Focal Person (RFP) are viewed as vital cogs to ERM implementation within the Organization. Although a risk management policy had been adopted as early as 2013, ERM adoption has not been concretized.

127. We determined that the ERM initiative has no current clear road map that will demonstrate formal controlling and pinpoint critical milestones and status that enable accurate monitoring. Our inquiry with the RFP surfaced that a clear and formal control mechanism and accountabilities have not yet been put in place. The Organization is in the process of the preparation of 2019 work plan to manage the implementation of ERM within its operational and decisional processes. It is emphasized that the ERM initiative or project had already crossed work plans which was started in 2013. We noted the need for a formal controlling mechanism to address the risks brought by transition, lack of accountability, lack of process owner priority and change resistance which can easily set in, drawing back the initiative that had already accumulated some operational costs and staff time.

128. **We recommended and UNIDO agreed to ensure that the ERM initiative is with clearer implementation trajectory and accountability by devising a formal documentation of its ERM initiative implementation in support of related work plans; and providing concrete and appropriate monitoring and control mechanism over the delivery of its ERM work initiatives including critical milestones.**

129. **UNIDO Response:** The RMC views the recommendation as a supporting framework in devising the 2019 work plan. The RMC has developed and endorsed the work plan, in line with best practices for implementing ERM, including key outcomes, outputs and milestones. The approach is benchmarked against the HLCM Cross-Functional Task Force on Risk Management risk maturity model (endorsed by HLCM). The work plan has been reviewed and confirmed by the AAC as adequately reflecting the required steps for operationalizing ERM in UNIDO and is aligned with Organizational trajectory.

2.2.2 Risk management governance

130. We observed that the risk management governance structure set out in the 2013 ERM policy has not been aligned to the current structure as the RFP, Risk Liaison Officers and specific staff were not identified for the implementation of the ERM.

131. There is no current provision for support staff for the RMC. The gaps we presented in this report directly relate to responsibilities and accountabilities in the performance of assigned functions that are not clear and updated. These conditions will not support the implementation of the Organization's ERM policy and will create confusion on who should do what, thus will impact negatively in the ERM implementation within UNIDO and even in risk assessment activities, among others.

132. **We recommended and UNIDO agreed to update and clarify its policy framework on risk management by clearly defining the specific roles and responsibilities of the RMC and RFP and by formalizing the role of IRPF task force in the risk management infrastructure of UNIDO to strengthen accountabilities of process and risk owners.**

133. **UNIDO Response:** The RMC is in the process of updating its composition as well as presenting the 2019 work plan for consideration by the EB. The proposed work plan is expected to further define the roles and responsibilities of the RMC and RFP in the context of its outlined work and will give consideration for the Risk Liaison Officer functions vis-à-vis the roles of the IRPF Task Force.

2.3 Result-Based Management

134. The review covered UNIDO's implementation of Results-Based Management (RBM) that also encompassed the enabling policies, frameworks and selected processes. The audit was undertaken to obtain reasonable assurance that UNIDO's programming cycle, strategies and processes, monitoring of results and reporting thereon are delivered within a results-based management framework, aligned with the Organization's results framework, and in accordance with applicable frameworks/policies of the Organization, norms and standards of the United Nations, and international best practices.

2.3.1 Delivery of Results-Based Management

135. UNIDO's MTPF 2018–2021 claims to develop UNIDO's RBM framework by establishing a direct link between the MTPF and each level of the IRPF; and therefore meant to represent UNIDO's Theory of Change (TOC) of Inclusive and Sustainable Industrial Development (ISID). Our review still identified significant deficiencies/weaknesses in RBM policies and implementation that cut across the MTPF, P&B 2018–2019, and the current IRPF and eventually were reflected in the work plans and the Annual Report 2017. While in the MPTF strategic priorities are identified and linked to the IRPF country results at outcome level, the deficiencies resulted in UNIDO not clearly identifying, among others, the outputs for which it is accountable. Thus, the most proximate effect of these to the Organization is that it is now unclear as to what the Organization intends to accomplish and deliver with its available resources, and how it is to achieve identified expected results as evidenced by work plans. Results monitoring and reporting were likewise constrained by the said deficiencies so that overall performance assessment and aggregation of results were not facilitated. The same deficiencies in RBM implementation are found not only in UNIDO's strategic documents and related processes, but also in the underlying programmatic work.

2.3.1.1 The corporate results hierarchy

136. We observed that although the MTPF identified UNIDO's strategic priorities, the same were stated as broad priority areas and did not define or clarify the results or specific changes desired to be achieved under those priorities. As the IRPF's Level 1 refers to the Global Development Results or the Sustainable Development Goals (SDGs) and if the Organization considers these as the impacts it hopes to create, the MTPF could have identified and presented the particular SDG results or changes it significantly contributes to. Based on the said SDGs, the specific changes in its four strategic priorities or the outcomes and their causal relationship to the SDGs could have also been determined and clearly presented. The identification of the organizational outputs under each strategic priority or outcome should have followed as well. As observed, the MTPF and IRPF were linked only by the strategic priorities, the management priorities and core functions but not in terms of results intended to be achieved.

137. Expectedly, the Programme and Budgets (P&B) is to draw the planned results from the MTPF. However, the significant link of the P&B to MTPF is only on Major Programme C-Thematic Programme Framework towards Inclusive and Sustainable Industrial Development as under this were the three strategic priorities of creating shared prosperity, advancing economic competitiveness and safeguarding the environment. We determined that while the P&B's major programmes, programmes and subprogrammes identified the objectives and expected results, these were neither from the MTPF nor the IRPF. The P&B was only linked with the IRPF through the indicators in both documents but not on the objectives and expected results in the P&B.

138. In effect, the non-identification of UNIDO's specific planned results under the strategic priorities and the non-identification of the impact, outcome and outputs in the MTPF, P&B and IRPF did not make apparent UNIDO's Theory of Change and did not provide clear bases for UNIDO's interventions and the monitoring, measurement and reporting on results. We did not, therefore, find the expected linkage of the MTPF, the P&B and the IRPF in terms of the planned results. In the updated IRPF, these results chains are made much clearer and transparent, through the adopted actor-based, behavioural change model. But as the Organization continues to enhance the definition of its organizational results hierarchy, it must aim to further improve the specificities of its MTPF to better support and directly link to its IRPF and the P&B, all in addition to its current initiatives.

139. **We recommended and UNIDO agreed to: (a) assess the most recent achievements in its established strategic priorities to identify those needing intervention, present these in accordance with the Organization's accountability hierarchy and agree on the priority higher-level changes or impact, and outcomes and outputs to be achieved within an established timeline; and (b) initiate a review of the current MTPF structure and the causal relationship of the outputs, outcome and impact, as well as risks and assumptions to determine how the Theory of Change can be presented with clarity to improve measurability, allow the analysis and aggregation of results and improve results accountability.**

140. **UNIDO Response**: The update of the MTPF has introduced clear organizational outcomes and impact areas, as well as a framing of the output level results. The updated MTPF has further strengthened the Organization's theory of change. It clarifies intended organizational results, streamlining the quantification and qualitative description of the achievements made by UNIDO through and beyond its technical cooperation interventions.

141. The sharpened and updated MTPF informs the Organization's current efforts to update the IRPF. As a result, the MTPF and IRPF are linked not only by strategic priorities, management priorities, and the four core functions but also by intended results.[1] The updated IRPF in support of managing the results of the MTPF will further strengthen the results orientation, and allow the Organization the opportunity to better show its comparative advantage and contribution to the SDGs and ISID. It is aimed at showing the logical progression from activities to results, in addition to applying the theory of change to complement the logframe approach.

142. In cognizant of the Audit recommendation on the P&B, the MTPF and IRPF, the 2020–2021 P&B is being developed with clearer results chain, and is seen as a budget-in-transition towards a more results-based budget linked to the MTPF and IRPF.

2.3.1.2 Assessment of Objectives and expected results expressing the outcomes influenced by UNIDO's interventions

143. We determined that the objectives in the P&B 2018–2019 for Major Programme C would represent the impact for those with global scope for country results level. Based on this, it became difficult for a reader of the P&B to determine which ones were the impact and the outcomes. It then became unclear whether the objectives of the

[1] IDB.47/10–PBC.35/10 (Forthcoming)

non-programmatic Major Programmes and their subprogrammes were the intended outcomes as well. Specifically, if the objective of Major Programme C was either an impact or outcome, it was unclear as to what would the four strategic priorities and SDGs be in a results chain, being the higher-level results. Taking into account that accountability for each level of results differed, with UNIDO being accountable for outputs delivered with its resources, it is essential to clearly articulate the results hierarchy to streamline results accountability and transparency.

144. We determined also from the sampled P&B Objectives that the expected outcomes were not stated in a clear language of expected results and reflect only the activities or initiatives to be undertaken by UNIDO. Similarly and as observed, the sampled expected results also were not expressed clearly as to what to be achieved by the selected programmes and subprogrammes. As the objectives were stated as activities to be accomplished, the outcome expected to be achieved by the programmes and subprogrammes were thus not defined.

145. The statement of the expected results were also noted to express that the conditions that are not yet existing and did not present clearly the desired outcome. Thus, clarity on UNIDO's interventions and the need for these were not provided. When results do not express the desired outcome and are not specific, outcome intended to be accomplished are not clearly stated nor rationale for undertaking the outcomes and the products and services not provided. Therefore, measurement of their achievement and the monitoring, evaluation and reporting thereof cannot be facilitated.

146. **We recommended and UNIDO agreed to improve its P&B structure by: i) clearly identifying the impact, outcome and outputs and identifying their causal relationships and the corresponding accountability for the delivering the results; and ii) establishing the clear linkage of the P&B results with the MTPF and IRPF results and ensure that such linkage is clearly evident in all these documents to improve clarity and accountability of UNIDO's expected deliveries.**

147. **We also recommended and UNIDO agreed to craft results statements in its P&B in a change language to reflect SMART higher-level changes as improvement over the baseline conditions, reasonably achievable by the end of the planned period and upon considering the related assumptions and risks.**

148. **UNIDO Response**: In cognizant of the Audit recommendation on the P&B, the MTPF and IRPF, the 2020–2021 P&B is being developed with clearer results chain, and is a budget-in-transition towards a more results-based budget linked to the MTPF and IRPF. The transition will be made in a phased approach to take into consideration the capacity of the Organization, and to enable changes that will be introduced in a gradual manner. Gradual and incremental steps will help facilitate the required shift in mindsets and processes.

2.3.1.3 Identification of outputs, assumptions and risks for outcomes and outputs and consideration of risk mitigation strategies

149. Although the inter-office memorandum on budget instructions provided clear guidance on the formulation of the outputs and defined accountability for their identification, we did not find the defined outputs for any of the Major Programmes and the programmes and subprogrammes under them. We determined, however, that the outputs of programmes/projects in the ERP/SAP and in the logframes of programmes/projects could not be the outputs that should be presented as the P&B outputs as these were outputs specific to programmes/projects that should first be aligned to and support the P&B outputs. In effect, no P&B outputs were crafted from which the directorates could draw their outputs and which in turn, will be the bases of the departments and down to the lowest organizational unit of UNIDO in identifying their outputs to be reflected in their work plans. Work plans at all levels of the Organization did not therefore identify outputs and were without linkage to P&B outputs.

150. Relatedly, to effectively manage programmatic risks, the programmes need to identify the potential risks, evaluate the potential impact and develop mitigation strategies to eliminate or mitigate the impact of the risks. Aligned to these however, we did not find assumptions, risks and the related mitigation strategies for the objectives and the expected results in the P&B or in other related P&B documents. We emphasized that assumptions and risks of individual programmes/projects could not be equated to the assumptions and risks for the objectives and expected results in the P&B or the outcomes and outputs. The P&B outputs shall be the products or services necessary for UNIDO to deliver to bring about the expected results. At each level of the outputs, the related assumptions, risks and mitigation strategies will have to be identified. With the current practice, programme managers were not enabled to have better informed decisions. Succeeding analysis of threats to programme progress and the achievement of planned results were also virtually impeded. Without the mitigation strategies, there would be no plan of actions or remedies executed to address the risks and its likely occurrence.

151. **We recommended and UNIDO agreed to: (a) identify P&B outputs that capture the products and services within UNIDO's control and to be completed within the biennium with the resources provided and relevant to each outcomes, and present these outputs by outcome to distinctly show their causal relationships and afford more effective monitoring and measurement; (b) strengthen the review mechanism for the P&B to ensure the identification of programmatic risks at the outcome and output level and matching these with the outcomes, outputs of the programmes/projects for adoption in the Risk Registers to be prepared; and (c) engage closely with the RMC on the development of a risk model that will support the identification and matching of the programmatic risks with the outcomes and outputs of the programmes for adoption in their risk registers for improved risk identification for programme outcomes and outputs.**

152. **UNIDO Response**: The recommendations are being taken into consideration in the preparation of UNIDO's Programme and Budgets 2020-2021. The Programme and Budgets 2020-2021 will be a budget-in-transition with the ongoing updating and refinement exercise of the IRPF. Whilst the key indicators of the IRPF established in 2015-2016 to capture global and country level results, programme management effectiveness and organizational effectiveness provides the foundation for UNIDO to strengthen its RBM application, the results of the ongoing update and refinement exercise of the IRPF is anticipated to further improve UNIDO's approach to managing for results.

2.3.1.4 Results statements and indicators

153. We noted that in the updated indicators and metadata for the IRPF approved by the IDB in 2016, the Level 1 – Global Development Results presents a total of 17 SDG indicators. The specific global development goals which the indicators are expected to measure were not, however, presented. The 17 indicators were merely listed without showing the intended results and without being related to the results that the indicators intended to measure. We also observed that under Level 2 – Country Results with UNIDO Support, there were what appeared to be four areas of coverage, i.e., (i) industrial statistical capacities; (ii) countries with UNIDO programmes that create shared prosperity; (iii) countries with UNIDO programmes that advance economic competitiveness; and (iv) countries with UNIDO programmes that safeguard the environment. However, the specific intended results under each area and for all four levels of the IRPF were not identified and presented to allow for analysis of the adequacy and appropriateness of the indicators to measure the given results.

154. Although the IRPF was conceptualized as a results and performance framework, it did not show the results to be measured by the indicators therein. When there is no clear articulation of intended results, there is no clarity as to what should be monitored and how, in addition, the relevance and appropriateness of the indicators in measuring the intended results could not be evaluated. We also observed that the indicators in the IRPF for Level 2 – Country Results with UNIDO ISID Support were generally formulated as results at the outcome level to be achieved in Member States with UNIDO's interventions. With the statement of indicators as results, measurement of progress or achievement of results appeared to be constrained because of the need for another indicator. Indicators are, thus, expected to be characterized with the SMART attributes to enhance their facility for measurement of results. The P&B indicators for Level 3-Programme Management Effectiveness and Level 4 – Organizational Effectiveness and Modernization were without the baselines and/or targets in the IRPF, as also observed.

155. We highlight that a reasonable measurement of progress towards targets is hindered if baselines are not available or not updated at the time of reporting of progress. In case the target value is not indicated, results monitoring may be limited and expected changes within the target period cannot be defined. The results and indicators in the IRPF, thus, need refinements to improve their clarity and foster better measurement of achievements.

156. **We recommended and UNIDO agreed to formulate adequate and more appropriate indicators in the IRPF with SMART attributes to support clearer measurement of progress towards the P&B results; and ensure that IRPF indicators are provided with baselines and targets and are up-to-date to facilitate assessment of progress over baseline conditions and the achievement of targets through UNIDO's interventions.**

157. **UNIDO Response:** Improved IRPF results statements and indicators are being finalized. It is anticipated that in 2019, efforts will be made to establish definitions, baselines and targets of the revised indicators.

2.3.2 Work Planning and Work Plan Monitoring and Reporting

158. In the United Nations Work-Planning Guide for Managers, work planning is emphasized to embrace accountability. The Guide underlines that work-planning is the process of determining what an office intends to

carry out for the term of a work cycle (i.e., annual or biennial budget calendar). The Guide further highlights that work plans should be constructed within the guidance and focus of a strategic plan and should contain the operational details that illustrate exactly what services will be delivered and to what level of quality.

159. The UNIDO P&B 2018–2019 presents six major programmes. Each major programme has subprogramme/s and objective/s and expected results which all concerned directorates/departments/divisions have to work and to achieve. As such, it is therefore necessary that the related work plans at all levels of the Organization explicitly show how contributions to the attainment of such expected results are ensured through the delivery of the relevant outputs in terms of products or services. The output should be specific, measurable/quantifiable to allow evaluation after UNIDO's intervention. To measure the outputs, indicators have to be identified together with the baselines and targets, where applicable. Identification of the assumptions, risks and mitigation strategies at all levels of results also improve the prospect of the achievement of results.

2.3.2.1 Alignment of Work plans with the results in the P&B and the elements of RBM

160. We found a common observation as they relate to the P&B which is the apparent lack of clear alignment of the priorities/goals of these work plans to the expected results identified in the P&B. We also noted that outputs that will bring about the intended results and on which planned activities will depend, as well as the indicators, baselines and targets, where applicable, were not specified. There was a widespread misunderstanding of the hierarchy of results and how they should be appropriately stated, and of indicators and the non-identification of assumptions, risks and mitigation strategies. It appeared that the noted deficiencies exist Organization-wide denoting further capacity-building.

161. A work plan basically translates the strategic objectives/priorities of an organization into specific outputs and tasks to be undertaken by Senior Management and its personnel within a given period with the available resources. The observance of the clear linkage of the work plans with the organization's objective is crucial in work planning to ensure that performance targets contribute to the said objectives and can be adequately assessed during programme and staff performance evaluation. We noted, however, that the P&B has not been a basis for preparing the work plan of respective offices, thus, the objectives, output, and outcomes, as well as the activities are not linked to the strategic objectives/priorities of an organization.

162. Good work planning requires that: (a) work plans clearly show their alignment to the P&B results and outputs; (b) work plan outputs are appropriately stated as products or services derived from completion of activities; (c) the SPMF includes the outputs of each officer and staff, and the next higher outputs to which each officer/staff's outputs contribute to make evident how such outputs, when aggregated, produce the P&B outputs and results to enhance transparency; (d) a work plan review mechanism is instituted by the appropriate department to ensure alignment of work plans to the P&B results and outputs and the cascading of the outputs down to the lowest level of the Organization to support the results aggregation process; and, (e) capacity-building on RBM is prioritized and mechanisms are instituted to ensure that the RBM principles are understood and practiced Organization-wide.

163. **We recommended and UNIDO agreed to enhance its work plans and work planning process by aligning it with the results in the P&B and the elements of RBM.**

2.3.2.2 Work plan monitoring and reporting

164. Managing through work plans suggest that the information contained therein is thoroughly used for monitoring, among other activities. As such, it is vital that work plan monitoring be designed and managed to allow for immediate improvements in programme delivery. However, we determined that there is no existing guidance on work plan monitoring and reporting and these are left to the directorates/departments for them to prescribe how these are to be undertaken as deemed necessary. This arrangement would not ensure that results or outputs are reported, thus, not enabling aggregation of results for reporting.

165. On the above observations, the PPF Director described the efforts undertaken at the level of the Department to enhance in a systematic manner the reporting by FOs, including the introduction, as of May 2018 of monthly reports, which use a common template, as well as the intention to discontinue the bi-annual reports in 2019 and ask FOs to produce monthly and annual reports. Nevertheless, we underline the fact that work plans translate the Organization's objectives/priorities into activities, and monitoring, reporting and learning on the same would provide bases for reporting on results. With the current fragmented state of work plan monitoring and reporting, reporting on performance and clear evidence-based aggregation of results from the outputs to the outcomes and the impact are not enabled, thus not fully supporting results accountability and learning.

166. **We recommended and UNIDO agreed to enhance its work plan monitoring and reporting through the development of a system including tools, templates and guidance; and make these an integral part of the corporate monitoring and reporting framework to ensure that accomplishments and progress are accurately reported and measured against planned deliveries and further support results accountability.**

167. **UNIDO Response:** From a corporate perspective, efforts will be made to introduce UNIDO Strategy Implementation Plan (SIP) which will be aimed at linking planned divisional, office and department output and outcomes to the MTPF and the P&B document. In the efforts to do so, the recommendations made by the External Auditor will be taken into consideration, where feasible.

2.3.3 RBM – Programme Implementation, Results Monitoring and Reporting

168. UNIDO delivers its mandate through programmes and projects with the ultimate goal of realizing outcomes and benefits that are strategically relevant to its mandate. Programmes are delivered through the RBM framework to ensure that the processes, outputs and services contribute to the achievement of expected results and objectives. Further, under the umbrella of Programme Management, RBM enables accountability and performance monitoring during and after the implementation of programmes. Efforts should be made to come up with an efficient and effective programme management to promote greater confidence among Member States and donors in the transparency and accountability of the Organization.

169. On the other hand, results-based monitoring basically involves the tracking of implementation and results through interventions. The tracking of implementation focuses on inputs, activities and delivery of outputs against a given plan, while results monitoring looks at progress towards achievement of the planned or actual results, using indicators, baselines and targets. The key factor that necessitates monitoring is change or a result intended. While change in terms of planned outcomes and outputs are usually considered during the planning stage, such are not assumed to actualize as expected without being monitored. Lastly, results-based reporting refers to the process of analysing and interpreting programme/project's performance data gathered during monitoring, and communicating progress on programme/project's implementation and achievement of results to key stakeholders. It requires the production and organization of information and the related analysis of progress towards results using performance measures, and the shift of focus to results.

2.3.3.1 Monitoring and Results Reporting on the MTPF and P&B

170. We noted that UNIDO's MTPF 2018–2021 was an update of the MTPF 2016–2019, adopted by the General Conference (GC) at its sixteenth session. UNIDO asserted that the MTPF 2018–2021 represents its TOC that further develops its RBM framework by establishing a direct link between the MTPF and each level of the IRPF. The Office of Strategic Planning, Coordination and Quality Monitoring (SPQ) informed us that the MTPF's results reporting framework is the IRPF and that the Annual Report is currently UNIDO's main reporting document. To determine UNIDO's results reporting process, we have evaluated the latest Annual Report available covering the year 2017 and observed that: (a) while the MTPF is expected to be operationalized by the P&B, there is no reporting done on P&B results; (b) the IRPF used did not present a direct assessment of the progress or achievement of the P&B results and UNIDO's outputs or products and services that contributed to the country development results and ultimately the SDGs; (c) results achieved were not presented in relation to resources provided and utilized, compromising the accounting for results; (d) the P&B-identified expected results, based on a set of indicators, were not reported; and (e) information and evidence that the expected results in the P&B for which resources were allocated were achieved as planned or not, using the respective performance indicators and means of verification, were not provided.

171. We also observed that it has not been the practice of UNIDO to do a review of progress or achievement of P&B results at mid-term and its completion, and to report thereon. Instead, UNIDO prepares the Annual Report. As a biennial assessment of the P&B results would feed into the mid-term MTPF assessment of progress or achievement of results, a good results reporting on the MTPF will not be enabled by the current state of annual reporting. While the P&B describes the resources required in the delivery of Major Programmes in support of Technical Services delivery (projects) funded by voluntary contributions, with the intention to deliver defined results, there is no established monitoring system focused on the collection and analysis of data to determine progress or achievement of such results. Therefore, rendering a report on its accountability to Member States and other stakeholders poses a challenge to the Organization. Relatedly, we also noted that there was no corporate guidance on the monitoring and reporting on the MTPF to inform UNIDO and its stakeholders of the progress or achievement of planned results.

172. We highlight that the articulation of programme results in accountability reports is always a reflection of programme governance delivery of end products whether in the form of outputs or outcomes. It is always expected that sufficient clarity and precision of the accountability reports is maintained by any reporting entity so that the reports are not easily subjected to differing conjectures. As part of the demands for effective results accountability, there is that need for increased attention to the production of clearer and impactful results-based performance reports to ensure that UNIDO is achieving the results that it has committed to deliver. While efforts and initiatives are underway to institute changes to strategic documents, frameworks, policies, systems and processes, we determined that much still has to be delivered to achieve the value intended in the implementation of RBM within the Organization.

173. **We recommended and UNIDO agreed to improve its corporate results monitoring and reporting mechanisms and strategies to primarily promote programme results accountability by:**

a) **Shifting the focus of monitoring and reporting of UNIDO's programme outputs to those identified in the P&B, and how these contribute to the identified outcomes in Member States in accordance with the adopted results hierarchy;**

b) **Adopting a biennial assessment of performance on the P&B that reports on progress or achievement of UNIDO's outputs using defined indicators, baselines and targets, to the extent feasible or applicable, and against the resources utilized, inter alia, to facilitate reporting on the MTPF; and**

c) **Including the requirement and guidance on the monitoring and reporting on the MTPF as part of a corporate monitoring and reporting framework to ensure results are measured and reported on as UNIDO's accountability to Member States and other stakeholders.**

2.3.4 Corporate results monitoring and reporting framework

174. Corporate results-based monitoring and reporting are facilitated by a structured framework or system for monitoring performance information over the life of a programme/project. This is to determine progress in the achievement of planned results using information on baselines and targets and define further interventions, when needed. The monitoring framework is enabled by tools that are developed to facilitate data gathering and analysis to provide the basis for monitoring and reporting on performance. A clear and well-developed monitoring framework is important for developing sound monitoring and evaluation plans, and directing the monitoring and evaluation process. The framework should be able to identify and measure change(s) that occurred as a result of interventions. In UNIDO, we ascertained that corporate results monitoring is undertaken by the directorates/departments/divisions and FOs that vary in the manner of gathering or collecting information, tools employed, reporting formats and frequency, among others.

175. We noted that generally, monitoring reports and formats provided were not focused on outputs and did not use adequate and relevant indicators to measure UNIDO's support to the countries' development outcomes. The varied formats of monitoring reports made results aggregation and reporting difficult. On the whole, we observed that a corporate results monitoring framework is evolving in the Organization at the moment, and this was confirmed by the management acknowledging that further improvement is needed in the area. We likewise noted that there is no clear guidance on how monitoring and reporting that is focused on the planned results will be carried out up to the corporate level that ensure the aggregation and reporting of results. The deficiencies in the monitoring and reporting mechanisms and tools that we observed also highlighted weaknesses in the review process such that these deficiencies have not been detected that could have re-focused monitoring and reporting of UNIDO's planned results.

176. The IRPF which is the existing reporting framework was not, however, designed without considering the P&B results or outputs. It identified indicators for global development results, country development results, programme management effectiveness and organizational effectiveness, among others but did not define the organizational outputs and indicators. Thus, it intends to monitor and report on how UNIDO is contributing to the SDGs and country development results but could not provide clear evidence of how such contributions were delivered through its outputs, and at the same time could not facilitate the reporting to its stakeholders on resource utilization relative to results.

177. **We recommended and UNIDO agreed to improve on its corporate results monitoring and reporting process by:**

a) **Enhancing the use of the IRPF as the corporate programme results monitoring and reporting framework;**

b) **Crafting a corporate results monitoring and reporting framework in collaboration with the directorates, departments, divisions, FOs, and programme implementers to enable a comprehensive, transparent, reliable and evidence-based assessment of progress on the achievement of planned results that translate to full accounting of results; and**

c) **Formulating guidance that supports the delivery of the monitoring and reporting framework that require complete and with better clarity and reliability to facilitate effective results review and reporting.**

178. **UNIDO Response:** The recommendations are being taken into account from the corporate perspective in firstly: (i) the draft quality assurance framework that will be developed to consolidate and align standards, processes and procedures to ensure quality of UNIDO products and services (programmes, projects, activities, initiatives, interventions, knowledge products and related services) at all levels and subsequently, in a phased approach, (ii) the implementation of the IRPF aligned to the MTPF in support of UNIDO's management objective, "integration and scale-up".

2.3.5 Programme logic framework elements

179. We noted that the UNIDO TC Guidelines for Programme and Project Cycle recognize the importance of the Logframe as a management tool in the formulation, monitoring and evaluation of programmes and projects. It prescribed, inter alia, a format that requires the expected results statement (output, impact, and outcome), indicators, activities to be implemented, sources of verification, and assumptions. The Portfolio and Project Management Module (PPM) in the Enterprise Resource Planning (ERP) system also supports the definition of outcomes and outputs for each project including assumptions, risks and mitigation strategies and indicators on how these are being achieved. The PPM likewise contains data on baselines and targets to allow for monitoring of progress and achievement of results, and the effective management of project risks and the strategic and holistic reporting on results to stakeholders. The DGAI.24 "Director General's Administrative Instruction No. 24 Country Programme Framework" introduced UNIDO's new Country Programme Framework (CPF) template for ISID that influenced the preparation of the current programme and project logframes.

180. We determined that the accomplished Logframe template of the CPs showed that the Programme Leads developed logframes in conjunction with the format provided under DGAI.24. However, while the format contained information such as intended results, indicators, means of verification, and risks, it did not provide details for monitoring and evaluation like baselines and targets, and it did not require the identification of risk mitigation strategies and key assumptions. We also noted that the CPF did not provide guidance on the formulation of the logframe elements to ensure correctness and consistency across CPs. The TC Guidelines only provided the logframe format, while the Guidelines on Programme for Country Partnership did not include the logframe format. Thus, the logframes had not delivered the required information to support the decisions of programme managers.

181. **We recommended and UNIDO agreed to enhance its programme logical framework elements and the results statements through the inclusion in its template, the baselines and target values for each indicator, the underlying risks, assumptions and the related mitigation strategies for each impact, outcome and output; and support this with a guidance on the formulation of the programme logframe.**

182. **UNIDO Response:** UNIDO has developed and promulgated in February 2018 the Guidelines on the Programme for Country Partnership where the programme document and its results framework are required to be developed according to RBM principles. However, while the initiative is expected to achieve positive results, more robust logframes have to be generally attained by the Organization and changes must therefore be delivered in a comprehensive manner. The introduction of the actor-based, behavioural change model embedded in the IRPF and supporting KPIs is envisaged to support the robustness of existing logframe approaches.

2.3.5.1 Programme-level Results Monitoring Process

183. The TC Guidelines defined monitoring as a management review function carried out both within the house and in the field that extends throughout the programme/project cycle, as well as being a requirement for resource

mobilization. It is also a management tool key to the continuous improvement of TC activities. We gathered that monitoring activities provided the main stakeholders with early indications of progress towards the achievement of programme outcomes (immediate objectives) and outputs, as well as any problem areas that needed to be addressed. The output of the monitoring exercise is a progress report to be prepared by team leaders every twelve months. However, our review of the annual reports as well as the BPRs of the CPs yielded that the programme accomplishments highlighted only the inputs, activities, and immediate outputs linked to the interventions but not on the progress towards the achievement of planned results using the related performance indicators in the logframe. For pilot PCPs where reporting is done through the annual progress reports, we ascertained that the achievements had not been matched with the specific measurement criteria under which the reporting information was presented. The report focused mainly on the narration of activities of the programmes, highlighting the technical assistance activities carried out as part of the programme components.

184. We highlight that programme progress is essentially monitored against the expected results in the light of the performance indicators and associated baselines as well as quantitative and/or qualitative targets defined in the programme documents. If progress is not assessed based on the intended results, it will not provide a strong basis to draw conclusions and determine what adjustments need to be made for further progress. It is therefore, essential for UNIDO to continue its efforts to improve results-based monitoring and reporting in order to better articulate, communicate and demonstrate progress and results achieved.

185. **We recommended and UNIDO agreed to enhance its programme results monitoring and reporting mechanisms by using the expected results identified in the logframe and the related indicators and performance measures to determine more effectively the needed interventions to support succeeding evaluations of progress toward the achievement of expected CPs and PCPs' results.**

186. **UNIDO Response:** As part of the efforts to update the IRPF, an actors-based Theory of Change model has been introduced which is scalable from programme to organizational level. Based on this it is foreseen to improve project and programme logframe templates. Aligned and as part of the efforts for an enhanced quality assurance framework, logframe quality per se as well as programme results monitoring and reporting are expected to improve.

2.4 Project Management

187. Our review of Project Management focused on the management of UNIDO projects taking into account how the objectives and activities of the project cycle were carried out. The objective was to determine if the project cycle in practice promotes better project management through structured procedures, defined responsibilities, standardized documents/formats, objective decisions, timely reporting, and useful evaluation.

2.4.1 Project Identification, Formulation, Review/Approval and Guidelines

188. On 15 March 2005, the TC Guidelines were introduced under the Director-General's Administrative Instruction No. 17. On 24 August 2006, new experiences and views resulting from consultations with stakeholders were incorporated and revisions were made under the Director-General's Administrative Instruction No. 17 (DGAI.17/Rev 1). The revised TC Guidelines were designed to simplify procedures and improve the management of programmes and projects giving due attention to development priorities of recipient countries, other activities of development partners, and United Nations system coordination within the framework of the United Nations Development Assistance Frameworks (UNDAFs) and/or Poverty Reduction Strategies. Thereafter, DGB/2016/6 dated 30 May 2016 prescribed the workflows for the programme and project identification, formulation and approval functions. It updated part of the TC Guidelines to raise the efficiency and effectiveness of TC delivery. Correspondingly, the programme and project cycle management use the Logical Framework Approach (LFA) and RBM approach for project analysis and design with relevance, sustainability and cost-effectiveness at the core of the appraisal and approval processes.

2.4.1.1 Updating of the TC Guidelines

189. The TC Guidelines contained procedures applicable to integrated programmes and projects which were presented separately and formats were prescribed to standardize results, minimize deviations and assist in the review process. However, it may need to be updated or replaced, as several DG bulletins and instructions were already released since the revised TC Guidelines in 2006 and considering the recent developments not only in UNIDO but in the United Nations global context as well.

190. External and internal factors that suggest the changes in the current TC Guidelines are the following: (a) since the General Assembly adopted in the 2030 Agenda 17 Sustainable Development Goals (SDGs) and the General

Conference formally defined its role in the achievement of the 2030 Agenda, this means reinforcing and/or realigning priorities and strategies with the vision of the 2030 Agenda; (b) with the Organization's restructuring, some functions and responsibilities were likewise moved or transferred; (c) it would be more informative if the approach to project closure is also provided in the stages of the project cycle, as defining an overall approach to project closure ensures smooth transition and handover of project deliverables; and (d) there is a need to provide baseline parameters for reporting since discussion only included the categories and periodicity of reports to meet organizational and stakeholders', i.e., donors' requirements. These new developments have implications on the identification, formulation and evaluation of programmes/projects.

191. **We recommended that UNIDO, in defining its requirements for the system application that it envisions, to update the current TC Guidelines with considerations to: (a) the functions and responsibilities that align with the current organizational structure, (b) reconcile the guiding principles governing the TC Guidelines with the changes brought about by the adoption of new United Nations initiatives/agenda to better reflect the Organization's priorities and strategies, (c) incorporate the approach to project closure, (d) include reporting guidelines that consider demands and requirements of the donors as well as that of the organization.**

192. **UNIDO Response:** (a) DGB/2016/6 which partially replaces the TC Guidelines (predominantly stages of Identification, Formulation, and approval) does carry relevant and up to date information in relation to the structure of UNIDO. The new TC Guidelines under preparation in 2019 will naturally ensure all UNIDO organizational structural alignment; (b) this is part and parcel of the new approval process announced in July 2014 and revised to its current form under DGB/2016/6. Therein the review mechanisms set in place are covering majority of these aspects. Nonetheless, this area will be further strengthened in the future review process of TC submissions; (c) this issue will be covered in the Implementation stage in the new TC Guidelines; and (d) this issue will be coordinated with CMO/FIN/FMT and ERP/ETR/SRM to ensure that special donor reporting requirements are covered.

2.4.1.2 Objectively Verifiable Indicators (OVIs) of Outcomes or Outputs

193. Our review of the data in PPM showed several projects where the OVIs did not include baseline and target data. Based on the list provided, out of the projects with incomplete data on OVIs as at 9 November 2018, 399 projects were approved and implemented with incomplete baseline and target indicators. Of the 285 operationally complete projects, 78 or 27.3 per cent had incomplete OVIs. For ongoing projects totalling 844, 321 or 38 per cent did not have complete OVIs. PTC, however, explained that within PPM, when the project is created, the project data in ERP/SAP is used both at the level of the concept (identification phase) and again enriching it at the project document level (formulation phase). Making the field on OVIs mandatory in ERP/SAP would not allow the concept note to be processed. While it is true that the OVIs are prepared or identified in the project level stage, these are supposed to be encoded and cleared in the ERP/SAP in the Formulation phase and not in the Identification (concept) phase. Requiring them in the concept stage knowing that they would still be incomplete and approving/clearing them anyway, defeats the purpose of the LFA, which is intended to aid structured and systematic analysis of a project idea, and RBM, which focuses on results measured through baselines and targets, rather than activities. Further, while the requirements on OVIs of special donor forms may differ from the requirements of UNIDO, data on indicators, baselines and targets in PPM are necessary for internal monitoring of project accomplishments. It would be difficult to measure and monitor project effectiveness in terms of achieving results, if OVIs are incomplete.

2.4.1.3 Well-defined risks for projects

194. The Formulation phase of the project cycle comprises the preparation of fully-fledged project documents showing the objectives, targets, risk analysis and defined responsibilities. The logframe is an integral part in ensuring that the project has measurable objectives and takes into account assumptions and risks. From the list of projects with deviations on risk information as at 9 November 2018, we noted 279 ongoing projects and 52 operationally complete projects with risks that were not well-defined, i.e., lacking as to the required information related to risk such as risk assumptions and mitigation measures. We reviewed at least 10 project documents where the risk information was incomplete in ERP/SAP and noted that risk information which are not in the project document are responsible person, risk type, assumptions, risk likelihood, mitigation measures, among others. We also noted that there were logframes that did not include risks. There were also project documents with sections on financial risk while others included sections on risk management with a matrix showing only the project risks with likelihood ratings of low, medium or high, and comments/explanation supporting the ratings. These were not captured in PPM.

195. In PPM, project risks are encoded and displayed under the risk management tab for each project. Important fields include assumptions, risk type, risk description, risk likelihood, mitigation measures and responsible person. However, these fields are not mandatory thus, project managers can still have their projects cleared and submitted for approval even without completing the data on project risks. Further, as discussed by PTC, donors have different risk documentation requirements. As such, the project managers use special donor forms where the risk data differ from the PPM required fields/data, which are the requirements of the organization. Risk assessment is an indispensable tool which aids in the successful implementation of projects. It is thus important that the risk data collected and captured in the system respond to the organizational requirements and not only on the requirements of stakeholders/donors, which may not completely support the management approach adopted by UNIDO. It is likewise important to ensure that the project documents prepared for the projects and the related submodule in the PPM have the same data requirements to avoid inconsistency and confusion regarding the information of the project.

196. **We recommended that UNIDO: (a) instruct PMs to update project documents as well as the related submodule in PPM for incomplete OVIs and risk data, as a prerequisite in the approval/clearance of the project and ensure that the OVIs and risk data captured in PPM are consistent with the data reflected in the project documents; and (b) require PMs to take into account organizational requirements along with the requirements of the donors, in formulating project documents.**

197. **UNIDO Response:** (a) DGB/2016/6 will be updated and adjusted to cover this area of concern. Besides the project document, the current DGB stipulates the inclusion of two documents in the submission package to the EB. These related to the reviewers and collaboration checklist being completed. A third document of this nature (System compliance fact sheet) will be made mandatory. This document will collect and show the actual system entries made so as to ensure that decision makers also are aware of the degree of completeness of system entries for each specific case before they decide to approve; and (b) This is part of good project formulation and project management and is a natural aspect which PMs do already take into account.

2.4.1.4 Structured formulation of the Project Logframe

198. Our review of the logframes of selected projects showed that results were not formulated in change language as required in RBM. The relationships/linkages of the different levels of results were also, at times, not clear such that there were no indicators, no means of verifying the indicators or the indicators were the same for the different results levels. Similarly, there were no objective statements, means of verification and assumption for Output, among others. As further noted in three projects, in spite of the review process, the projects were approved even without effecting the suggested improvements. This indicates that follow-up on the recommendations on the improvement of the logframes was not sufficiently carried out.

199. Our interview revealed that the logframes are forwarded to QUA at the later stage of the appraisal and approval process. This did not allow sufficient time for QUA to extensively review the logframes and the PM to incorporate the recommendations of the EB in the project documents. Further, SPQ explained that the quality assurance role on RBM, as defined in DGB/2016/6 rests with Chiefs and Directors as well as with PTC as advisor on the compliance checklist, and not QUA. Where results are stated as actions rather than change, emphasis is driven towards the achievement of the action rather than the intended change that the intervention is designed for. When indicators are not measurable and are interchangeable to the different results levels, measurement of the project's intended impact is diminished.

200. **We recommended that UNIDO: (a) strengthen the project appraisal and approval process by ensuring that the results of the review of the logframes are integrated and given substance in the final project documents before these are confirmed/approved; and (b) evaluate and as necessary, redefine the role of the QUA in providing secretariat support to the EB such that recommendations on quality improvements of the logframes are given due consideration before these are submitted to the EB.**

201. **UNIDO Response:** Within the same update of the DGB/2016/6, the adviser aspect as well as the reviewer aspect built in the assigned adviser covering checklist item #4 (Structural integrity, logframe, KPIs, monitoring and evaluation) will be assigned to a competent staff member within the EB Secretariat (ODG/SPQ/QUA) to ensure that adequate advice is provided to the EB, hopefully resulting in a lesser number of faulty document. PTC notes with appreciation the recommended sequence "… the review of the logical framework matrix (or logframe) are integrated and given substance in the final project documents before these are confirmed/approved …". This will ensure in other words that the EB's approval decision is final, as all quality issues will have been settled beforehand.

2.4.2 Project Implementation and Evaluation

202. Project implementation is the phase of the project cycle during which approved and duly funded project plans/proposals are executed with the aim of delivering results through the provision of needed inputs. Typically, the inputs include experts/consultants, travel, training, subcontracts for services, equipment and other miscellaneous items/expenses. The procurement of services and equipment or other project requirements such as works and property are carried out with the support of the Procurement Services Division (CMO/OSS/PRO). On the other hand, the conduct of evaluation is governed by the UNIDO Evaluation Policy promulgated under the Director General's Bulletin (DGB) 2018/08 dated 01 June 2018. As a policy, UNIDO subscribes to the concept of systematic evaluation of operational activities by assessing their impact on poverty eradication, economic growth and sustainable development. The responsibility for carrying out independent evaluations rests with the ODG/EIO/IED.

2.4.2.1 Procurement data to support clearance of project documents

203. We noted in 10 samples of the checklist and compliance sheet in the ERP/SAP that the area of procurement under the operational and substantive aspects of service delivery was cleared. However, we found no document, such as a procurement plan/proposal containing information on the proposed procurement activity that would support the project documents' adherence to standards in relation to procurement. We further observed from the checklists several projects with remarks indicating the procurement area as not applicable, but upon further verification, these projects actually included procurement activities as evidenced by the existence of related transactions in the shopping cart.

204. Our inquiry with PRO disclosed that not all project developers sought clearance on the procurement area for their project document/proposal. For those seeking clearance, no supporting data were usually required for the clearance since there are no established guidelines on how and when a project is considered "cleared" or "not applicable". Considering that most project activities entail procurement in their implementation, it is necessary to conduct quality assurance in this area before project proposals/documents are cleared. Forecasting procurement needs of the project through a procurement plan or any equivalent document is essential to optimize the contribution of these projects to the overall goals of the organization. The absence of an overall procurement plan hindered the PRO to foresee and plan high value procurement in advance in order to work smoothly to achieve the organization's goals with the right quality and quantity of inputs in place. Further, this limits the ability of the PRO to aggregate requirements, develop Long Term Agreements (LTAs) and obtain the best available prices based on volume and better quality.

205. **We recommended that UNIDO: (a) require PMs/AHs to support the request for clearance of project documents on procurement area with a procurement plan or any document showing, among others, the breakdown of the project requirements, brief description of the requirements, estimated value/amount, procurement method and expected period of procurement activity; and (b) provide guidelines for conducting quality check on the procurement aspect of project proposals to ensure that the issuance of clearance is based on objective assessment of the procurement requirements of the project.**

206. **UNIDO Response:** The importance of the procurement planning will be further promoted to project-related personnel in the technical departments through presentations of the updated procurement manual or other training/communication opportunities. Recognizing that detailed procurement planning at the time of project development is extremely difficult, PRO's current focus for the project document clearance is primarily on the statement that any procurement activities planned during the project implementation stage will follow the open international competition principle, unless defined otherwise based on, for instance, project partnership or donor requirements in the project document.

2.4.2.2 Conduct of independent project evaluations

207. We noted that a total of 21 and 28 independent project terminal evaluations were issued by EIO in 2017 and 2018, respectively. The number of required project evaluations to be conducted by EIO is at the level of around 30 evaluations per year. However the actual conduct of the evaluations is depending in the actual forecast of completion of the projects and EIO needs to obtain the update from project manager manually. The ERP/SAP is not providing updated information for this purpose. Moreover, the ERP/SAP cannot report on which projects actually need an independent terminal evaluation, as this is not recorded in the project information when approved or recorded in SAP. It will be convenient for traceability to enforce that project are clearly identifying at the approval whether an independent terminal evaluation should be conducted (by EIO, or by the donor).

208. According to the ODG/EIO, it relies on the Project Managers to inform them of the indicative timing of the evaluation of projects, especially in cases of project revisions, normally within six months before the project end date. Without additional inputs from the Project Managers, the ODG/EIO/IED finds it difficult to identify projects for independent evaluation as they may have ended before the target date or have extended beyond the date originally set for completion, which at times are not updated in the ERP/SAP System. Of the projects not evaluated by ODG/EIO/IED, there were also those that were evaluated by third parties or the donors as well as those evaluated at country level. Further, the total of 616 completed projects may include projects that were extended but not updated in ERP/SAP.

2.4.2.3 Conduct of ex-post evaluation

209. Most of the 25 Evaluation Reports we reviewed showed comments/conclusions on impact or progress to impact although more than 50 per cent indicated that more time is needed in order to conduct impact evaluation. However, these are in cases of independent mid-term and terminal evaluation reports. For 2018, no ex-post evaluation was conducted, to which EIO confirmed that no ex-post evaluation was performed in recent years. It is highlighted that UNIDO Evaluation Policy prescribed that the independent evaluations of technical cooperation activities can take the form of mid-term, terminal or ex-post evaluations. Ex-post evaluation is conducted after the project has been completed with emphasis on effectiveness in terms of achieving the project's objectives and expected outcomes, and on sustainability of results. Without ex-post evaluation, UNIDO might not be able to objectively determine the projects' impact on the organization's programmatic thrusts.

210. EIO acknowledges that impact evaluation is essential; however, budget restrictions affect the timelines set for the conduct of ex-post evaluations. Also, ODG/EIO/IED is manned by only three professional staff and the influx of completed projects has understandably increased their workload. The budget restrictions are partly brought about by the fact that the conduct of evaluation is part of the project budget allocation. Thus, evaluations are initiated a few months prior to the completion of the projects because payments/disbursements have to be made before the project is financially and operationally closed. This affected the conduct of ex-post evaluation as impact analysis requires time before results are evident and measurable. Funding, time period and the expertise and commitment of evaluators are key factors in the conduct of ex-post evaluation. It would be a definitive step towards quality management of independent project evaluations if these are given due attention.

211. **We recommended that UNIDO: (a) establish funding mechanism that would support independent evaluations to gauge the impact of programmes/projects to UNIDO's programmatic thrusts; and (b) develop an estimate of the resources (financial, human, capital) that are available for evaluation and what will be required to answer current and future evaluation demands, to support the proposal for establishment of an evaluation funding mechanism.**

212. **UNIDO Response:** UNIDO accepted the recommendations. ODG/EIO has started the process for the establishment of an Evaluation Trust Fund, for pooling the budget allocated for project terminal evaluation from individual projects, and hence having the possibilities to create synergies, joint project evaluations, ex-post evaluations, and to achieve further efficiency gains. Support from Member States and donors is expected on this approach, as it might be needed to adjust/review some financial rules and/or reach specific agreements with donors to allow transfer of funds for evaluation to the Evaluation Trust Fund.

C. IMPLEMENTATION OF EXTERNAL AUDIT RECOMMENDATIONS

213. We validated the implementation of External Audit Recommendations contained in prior years' audit reports. We noted that of the 51 identified prior year's audit recommendations, 21 or 41 per cent were resolved or closed, 4 or 8 per cent were yet to be implemented and 26 or 51 per cent were with ongoing implementation.

214. We see the need for UNIDO to strategize and concretize its commitment in addressing the audit recommendations to enhance operational efficiency.

215. The EA recommendations pertaining to the following issues and concerns are not implemented in 2018:

2017-*IDB.46/3, PBC.34/3*
ICT standards

1) Adopt an accepted Information Security Standard as an initial step to introduce an Information Security Management System (ISMS) considering how international standards and best practices for ICT Governance and Information Security could be established, thus strengthening UNIDO's ICT Governance.

Information security

2) Implement an ISMS and apply the best practice approach of the ISO/IEC 2700x series in an adequate scope and in a timely manner. Make sure that ICT security issues are recognized and addressed in a reliable, effective and timely manner. It is a precondition, however, that the central responsibility for this elementary task is assumed actively within the organization. It is essential to clearly assign the function of a CISO, who should not be part of ICT management itself but is authorized to report directly to senior management on major information security issues.

2016-*IDB.45/3, PBC.33/3*
User manuals for SAP processes

3) Make user manuals available for all key business processes and basic activities in all organizational units that work with the SAP system.

2014-*IDB.43/3, PBC.31/3*
Physical IT Security

4) Transfer one of the IT systems to another fire section. An alternative but only provisional solution would be to install a state-of-the-art fire protection system. In order to mitigate these risks, EA recommended reducing the prevailing fire load immediately.

216. On the other hand, the implementation of the following EA recommendations are on-going for 2018 and will be monitored by the EA for the succeeding year:

2017-*IDB.46/3, PBC.34/3*

After Service Health Insurance (ASHI)

1) Review the funding for ASHI liabilities in comparison with other funding models within the United Nations (UN) system, where a partial funding is often set up to counter the risk of pay-as-you-go schemes. Consider a partial funding of its ASHI liabilities to avoid future financial and operational risks.

Assessed contribution receivable

2) Strengthen the efforts to negotiate payment plans with Member States being in arrears. Accordingly, consider the changing of the financial regulations taking into account that Member States might also want to consider steps to limit the negative impacts of delayed payments by enabling UNIDO to use the assessed contributions to their full extent for programmed core activities within the regular budget even if they are paid after the relevant biennium.

Reporting the PSC workload

3) Ensure that the working time of PMs and all other supporting services provided for the execution of projects is recorded appropriately for effective cost accounting to be used to assess the resources consumed by programme and project activities.

Weakness in full cost recovery

4) **Make efforts to increase transparency and enhance monitoring and timely reporting on the development of PSC reimbursement income.**

Internal Control Framework

5) **Assess and update the ICF's implementation, paying specific attention to the efficient coordination of and cooperation between the relevant roles and functions and integrating the results of the risk management exercise.**

Risk Management

6) **Speed up and enhance the activities of setting up and implementing UNIDO's risk management and clearly assigning the relevant roles and responsibilities as well as dedicated staff at an adequate corporate level. UNIDO should institutionalize risk management as a permanent process where results need to be factored into the planning and control processes. Due attention should be given to a transparent and efficient coordination of the implementation process.**

Performance Management

7) **Further develop the key performance indicators that permit determining how project performance and results effectively contribute to the achievement of UNIDO's overall strategic goals; and**

8) **Define clearly how and under whose responsibility performance assessments provided within UNIDO could be effectively consolidated to form a consistent picture.**

Assurance provider

9) **The role and the scope of the Audit Advisory Committee (AAC) should be adequately reflected in UNIDO's rules and regulations and in the ICF.**

ICT risk management

10) **Regularly update the ICT risk register and also include the general ICT risks e.g. concerning ICT infrastructure in addition to the risks relating to the ERP system.**

11) **Identify and assess comprehensively the ICT risks and required actions and prepare the results in a way that it can effectively be incorporated into UNIDO's overall ERM.**

ICT policy and documents

12) **Prepare and implement an ICT strategy that is based in an ICT policy framework guided by best practices and containing documents relative to assignments that have to be supported or executed by ICT, documentation of ICT projects and plans and procedures for ICT security.**

13) **Ensure a complete and up-to-date set of user manuals and administration manuals in regard to all relevant ICT processes.**

Procurement

14) **Set up, analyse, monitor and regularly update a comprehensive procurement plan to make sure that all procurement principles are complied with, risks are mitigated and potentials for increasing efficiency are used. UNIDO should utilize the Supplier Relationship Management (SRM) module or a similar IT supported solution.**

Contract management

15) **Further develop the contract management tool for processing contracts, introduce it as soon as possible and update the Procurement Manual accordingly with mandatory application of the tools.**

Global banking project

16) Continuously replace the local bank imprest accounts by worldwide operating financial institutions as provided by GBP.

17) Establish a centralized unit to capture, enter and maintain vendor and bank master data into SAP.

Bank identification and postings on general ledger accounts

18) Map the Citibank of China and Citibank of Tokyo to separate G/L accounts and close the bank accounts held at the Bank of China and the Bank of Tokyo Mitsubishi as they are no longer needed.

2016-*IDB.45/3, PBC.33/3*

User manuals for SAP processes

19) Make user manuals available for all key business processes and basic activities in all organizational units that work with the SAP system.

Special Account of Voluntary Contributions for Core Activities (SAVCCA)

20) With the support of the Member States, pursue all possibilities to promote efficiency and a sound financial basis for core activities. Member States may wish to consider reducing financial imbalances by making voluntary funding available for SAVCCA and MCIF.

Preconditions for the employment of ISA Holders

21) Establish a proper assessment and monitoring system with regard to the use and expenditure of external services.

Weakness in internal control

22) Ensure that roles and responsibilities for the assignment of consultants are clearly established in the Framework for ISA and clearly separated between the PM and HRM. The decision of the PMs/AHs in the selection process should be reviewed and approved by a unit which has central competencies in ensuring the transparency and efficiency of HRM. Furthermore, UNIDO should provide standardized ranking and assessing sheets for all PMs. This would improve transparency and comparability in the selection process.

Selection process

23) Review the existing competition thresholds and lower them, if necessary. UNIDO should ensure objectivity and sufficient competition in the selection and recruitment of consultants. This applies particularly to consultants selected from the resource pool which represent the majority of the selected candidates.

Transparency of the selection process

24) Provide clear guidelines and increase staff awareness to prepare proper documentation of the selection process at the short-listing stage and the final selection stage.

Performance Evaluation

25) Establish a performance evaluation template which requires the PMs/AHs to evaluate the consultant's performance. Where appropriate, performance evaluation should be based on clearly defined measurable deliverables. It should provide more qualified information on the delivered services referring to the main duties mentioned in the relevant ToR.

Physical inventory verification

26) Proceed with implementing the RTLS project based on a plan with all the necessary information.

217. It bears stressing however, that some of the recommendations were not addressed due to funding constraints such as the adoption of an accepted Information Security Standard, assignment of the function of a Chief Information Security Officer (CISO) and the expansion of the implementation of RTLS to the FO. Necessarily, this meant delay in the implementation if not non-implementation of the recommendations.

218. **We therefore encourage UNIDO to exert more efforts in the implementation of the above EA recommendations. Prepare an action Plan detailing the activities to be performed and the timeline to execute them to ensure that efforts to implement the recommendations are done continuously.**

D. DISCLOSURES BY MANAGEMENT

219. The disclosures of Management that may be of interest to the Donors and Member of the Industrial Development Board and the UNIDO General Conference include, among others, the following:

(a) Responsibility for Internal Control

220. Management acknowledges the responsibility for the design, implementation and monitoring of internal control systems that are designed to prevent and detect errors and irregularities.

221. Adequate internal controls have been implemented to regulate and safeguard cash on hand, and moneys held in bank accounts. All details of losses of cash, stores and other assets that have been written off, have been disclosed as required.

(b) Compliance with laws and regulations

222. All known, actual or possible, non-compliance with laws and regulations that may have a material effect on the purpose, operations, financial management or which should be considered when determining the form and content when preparing the financial statements of the Organization have been disclosed to the External Auditors.

223. Likewise, all known actual or possible, non-compliance with money laundering laws and regulations have been disclosed.

(c) Procurement

224. The provisions of the procurement manual regarding proposals, quotations and bids have been followed and, to the best of their knowledge, no commissions have been received by any employee of the Organization.

(d) Cases of fraud and presumptive fraud

225. Management disclosed the details of all significant facts relating to any fraud or suspected fraud known to Management and in this context all known actual or possible, non-compliance with laws and regulations that may give rise to material financial, political or operational risk or exposure.

226. Management also claimed that there have been no irregularities involving management or employees that have a significant role in the accounting and internal control systems that could have a material effect on the financial statements that may have not been disclosed to the External Auditors.

(e) Related Party Disclosure

227. Except as disclosed in the financial statements, Management is not aware of any environmental matters that may have a material impact on the financial statements and that no transactions involving management and others requiring disclosures have been entered into.

(f) Ex-gratia payments

228. Note 21.1 to financial statements disclosed that UNIDO made Ex-gratia and special claims payments of €79 (2017: €65) during 2018.

(g) Subsequent events

229. Management disclosed that there has been no events subsequent to year end which require adjustment of or disclosure in the financial statements or notes thereto.

230. All material commitments incurred against future financial periods have been disclosed in the financial statements or notes thereto.

E. ACKNOWLEDGEMENT

231. We wish to express our appreciation for the cooperation and assistance extended to our staff during our audit by the Director-General, the Managing Director, Directorate of Corporate Management and Operations, the Director, Department of Finance, and the members of their staff.

232. We also wish to express our appreciation to the Programme and Budget Committee, the Industrial Development Board and to the General Conference for their continued support and interest in our work.

Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Avenue, Quezon City, Philippines

INDEPENDENT AUDITOR'S REPORT

To the President of the Industrial Development Board

Opinion

We have audited the financial statements of the United Nations Industrial Development Organization (UNIDO), which comprise the statement of financial position as at 31 December 2018, and the statement of financial performance, statement of changes in net assets/equity, statement of cash flow, and statement of comparison of budget and actual amounts for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of UNIDO as at 31 December 2018, and its financial performance, changes in net assets/equity, cash flow, and comparison of budget and actual amounts for the year then ended, in accordance with International Public Sector Accounting Standards (IPSAS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board. Our responsibilities under those standards are described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of UNIDO in accordance with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the current report on the financial situation of UNIDO, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing UNIDO's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate UNIDO or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing UNIDO's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of UNIDO's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on UNIDO's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Further, in our opinion, the transactions of UNIDO that have come to our notice or which we have tested as part of our audit have, in all significant respects, been in accordance with the Financial Regulations and Rules of UNIDO and legislative authority.

In accordance with Article XI of UNIDO's Financial Regulations, we have also issued a long-form report on our audit of UNIDO.

Michael G. Aguinaldo
Chairperson, Commission on Audit
Republic of the Philippines
External Auditor

Quezon City, Philippines
29 March 2019

COMMISSION ON AUDIT
OFFICE OF THE CHAIRPERSON
19-146702211738

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Report by the Director General

1. I am pleased to present the 2018 financial statements, prepared under the International Public Sector Accounting Standards (IPSAS) and in accordance with article X of the financial regulations.

Assessed contributions

2. The financial implementation of the approved programme and budgets is dependent on the actual level of cash resources available during the year, including the timing of payment of assessed contributions. Actual assessed contributions received and the amounts assessed in accordance with General Conference decisions, with comparative figures for the previous year, are shown below in millions of euros.

Table 1
Assessed contributions

	2018		*2017*	
	Millions of euros	*Percentage*	*Millions of euros*	*Percentage*
Assessed contributions receivable	68.4	100.0	66.7	100.0
Received by the end of the relevant year	61.2	89.5	55.8	83.7
Shortfall in collections	7.2	10.5	10.9	16.3

3. The rate of collection of assessed contributions for the year 2018 was 89.5 per cent, which is higher than that for 2017 at 83.7 per cent. The accumulated outstanding assessed contributions at year-end were €15.8 million, excluding an amount of €71.2 million due from former Member States, leading to a decrease from 2017 (€19.5 million). Annex I (e), contained in conference room paper PBC.35/CRP.2 provides details on the status of assessed contributions. Four Member States, Armenia, Costa Rica, Kyrgyzstan and Venezuela are on schedule with their payments under payment plan agreements. The number of Member States without voting rights was 41 in December 2018; in December 2017, it was 43.

Performance based on the budget basis

4. The adoption of IPSAS has changed the basis of preparing the Organization's financial statements to full accrual; however, in the United Nations system, there has been no change to the programme and budget preparation methodology. Consequently, IPSAS Standard 24 (Presentation of budget information in financial statements) requires that a statement of comparison of budget and actual amounts (statement 5) be included in the financial statements, prepared on the budget basis.

5. Further, to provide the readers of the financial statements with information on the budget basis, a separate section has been included. The following paragraphs describe the financial highlights for the year 2018.

6. The comparison is based on the programme and budgets for the year 2018, as adopted by the General Conference at its seventeenth session (decision GC.17/Dec.18), consisting of regular budget annual gross expenditure of €68.8 million to be financed from assessed contributions in the amount of €67.5 million and other income of €1.2 million.

7. On a budget basis, the actual regular budget expenditure during the year 2018 amounted to €58.8 million (compared with €66.8 million for the year 2017), or 85.5 per cent (compared with 86.1 per cent for the year 2017) of the approved gross expenditure budget.

8. Actual collection of other income for the year 2018 amounted to €0.8 million from Government contributions to the cost of the field office network against a budgeted amount of €1.2 million. The total net expenditure of €58.0 million represents 85.8 per cent of the net regular budget appropriations of €67.5 million. The resulting balance of net appropriations as at 31 December 2018 amounted to €9.5 million (see annex I (a) and I (b), PBC.35/CRP.2).

9. In the operational budget for the year 2018, the reimbursement for programme support costs amounted to €17.8 million (for 2017: €19.3 million). Expenditure was recorded in the amount of €16.5 million (for 2017: €16.2 million), resulting in an excess of income over expenditure in the amount of €1.4 million (2017: €3.1 million). Consequently, the closing balance of the special account for programme support costs, i.e. the level of the operating

reserve, on modified cash basis, was €20.2 million, compared with an opening balance of €18.8 million, including statutory operating reserve of €3.0 million.

10. Technical cooperation delivery for the year 2018, as measured under IPSAS, amounted to €180.0 million in expenditure compared to €182.9 million in 2017. More information on UNIDO's technical cooperation services is available in the *Annual Report of UNIDO 2018* (PBC.35/2, IDB.47/2).

11. The Organization shows a healthy cash situation, as evidenced by the steady technical cooperation implementation supported by increased funds mobilization, resulting in a cash balance of €463 million. An increase of €16 million from previous year-end. However, in respect of the regular budget, non or delayed payment of assessed contributions inhibits the implementation of approved regular budget programmes.

Governance structure

12. As prescribed in its Constitution, UNIDO has three policymaking organs: the General Conference; the Industrial Development Board; and the Programme and Budget Committee. The Member States of UNIDO meet once every two years at the General Conference, the highest policymaking organ of the Organization. The Conference determines the guiding principles and policies and approves the budget and work programme of UNIDO. Members of the Board and the Committee meet once every year to discharge their functions as described by the Constitution, including the review of the implementation of the approved programme of work and of the corresponding regular budget and operational budget, as well as of other decisions of the Conference. As the chief administrative officer of the Organization, I have overall responsibility for directing, and authority to direct, the work of the Organization.

Oversight framework

13. With the establishment of the Independent Audit Advisory Committee (AAC) in 2017, the governance and independence of the oversight functions in UNDO has been strengthened. In addition to complying with international best practices, the AAC enhances transparency in financial and oversight reporting to the policymaking organs of UNIDO. In line with Board decision IDB.44/Dec.3 and the Internal Oversight Charter, both the Office of Evaluation and Internal Oversight, as well as the Audit Advisory Committee report on their activities to the Industrial Development Board.

Conclusion

14. In 2018 UNIDO continued building on past strengths, while driving for change in line with the medium-term programme framework (MTPF) 2018–2021 and its management objectives of integration and scale-up. UNIDO is improving its services to further increase the impact of its interventions to reduce poverty and inequality, while safeguarding the environment. With the introduction of “strengthening knowledge and institutions” as a new strategic priority of the MTPF, UNIDO is prioritizing an enabling outcome central to the achievement of inclusive and sustainable industrial development (ISID) across the spectrum of all relevant actors and contributing to the implementation of the Sustainable Development Goals (SDGs). In this spirit, I wish to take this opportunity to express my appreciation to Member States for the ongoing dialogue to improve the financial situation of UNIDO and to the donors for their continuous support, and to all UNIDO personnel for their contribution to the work of the Organization.

LI Yong
Director General

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Responsibility for financial statements and certification

The Director General of the United Nations Industrial Development Organization (UNIDO) is responsible for the preparation and integrity of the financial statements, and the external auditor's responsibility is to express an opinion on the statements.

The financial statements have been prepared in accordance with the International Public Sector Accounting Standards and article X of the Financial Regulations of UNIDO and have used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and management's best estimates.

The Organization maintains systems of internal accounting controls, policies and procedures to manage risks, ensure the reliability of financial information and the safeguarding of assets, and to identify possible irregularities.

The internal control systems and financial records are subject to reviews by the Office of Evaluation and Internal Oversight and the External Auditor during their activities. Management objectively reviews the recommendations made by them for further improving the internal control framework of the Organization.

All material transactions have been properly charged in the accounting records and are properly reflected in the appended financial statements and accompanying notes. The statements disclose with reasonable accuracy the financial position of the Organization and of funds held in trust by it, the results of operations and the changes in financial position.

[*Signed*]	[*Signed*]
LI Yong Director General	George Perera Director, Department of Finance

Vienna, 15 March 2019

Statement 1: Statement of financial position as at 31 December 2018

(*Thousands of euros*)

	Note	31 December 2018	31 December 2017 (restated)
		€ '000	*€ '000*
ASSETS			
Current assets			
Cash and cash equivalents	*2*	462,950	447,425
Accounts receivable (non-exchange transactions)	*3,23*	283,443	184,135
Receivables from exchange transactions	*3*	1,616	1,431
Inventory	*4*	813	842
Other current assets	*5*	24,833	23,185
Total current assets		**773,655**	**657,018**
Non-current assets			
Accounts receivable (non-exchange transactions)	*3*	68,207	100,878
Property, plant and equipment	*7*	60,261	60,628
Intangible assets	*8*	633	855
Other non-current assets	*9*	8,202	4,875
Total non-current assets		**137,303**	**167,236**
TOTAL ASSETS		**910,958**	**824,254**
LIABILITIES			
Current liabilities			
Accounts payable (exchange transactions)	*10*	8,084	898
Employee benefits	*11*	2,815	3,056
Transfers payable (non-exchange transactions)	*10*	33,782	38,170
Advance receipts and deferred income	*12,23*	150,789	64,703
Other current and financial liabilities	*13*	18,280	22,977
Total current liabilities		**213,750**	**129,804**
Non-current liabilities			
Employee benefits	*11*	248,351	238,495
Other non-current liabilities	*13*	34,378	35,088
Total non-current liabilities		**282,729**	**273,583**
TOTAL LIABILITIES		**496,479**	**403,387**
NET ASSETS/EQUITY			
Accumulated surpluses/(deficits) and fund balances	*14*	397,422	404,937
Reserves	*15*	17,057	15,930
TOTAL NET ASSETS/EQUITY		**414,479**	**420,867**
TOTAL LIABILITIES AND NET ASSETS/EQUITY		**910,958**	**824,254**

Statement 2: Statement of financial performance for year ended 31 December 2018
(*Thousands of euros*)

	Note	31 December 2018	31 December 2017
		€ '000	*€ '000*
INCOME/REVENUE			
Assessed contributions	*16*	68,351	66,733
Voluntary contributions	*16*	147,214	214,104
Investment revenue	*16*	204	317
Revenue producing activities	*16*	291	179
Other income	*16*	1,563	2,254
TOTAL REVENUE		**217,623**	**283,587**
EXPENDITURE			
Salaries and employee benefits	*17*	118,843	126,169
Operational costs	*17*	28,254	30,376
Contractual services	*17*	72,585	74,033
TC equipment expensed	*17*	15,474	10,091
Depreciation and amortization	*17*	8,162	7,973
Other expenses	*17*	1,492	1,771
TOTAL EXPENDITURE		**244,810**	**250,413**
Operating Surplus		**(27,187)**	**33,174**
Currency translation (gains)/losses	*17*	(21,912)	38,466
SURPLUS/(DEFICIT) FOR THE FINANCIAL PERIOD		**(5,275)**	**(5,292)**

Statement 3: Statement of changes in net assets for year ended 31 December 2018

(*Thousands of euros*)

	Note	Accumulated surplus/(deficit)	Reserves	Total net assets/equity
		€ '000		
Net assets/equity at 31 December 2016		**399,239**	**15,314**	**414,553**
Movements during the year				
Actuarial valuation gains/(losses) on employee benefit liabilities		27,606		27,606
Transfer (to)/from provision for delayed contribution		751		751
Transfer to/(from) reserves			616	616
Other movements recognized directly in net assets/equity		146		146
Net movements recognized directly in net assets/equity		**28,503**	**616**	**29,119**
Credits to Member States		(17,513)		(17,513)
Net surplus/(deficit) for the year		(5,292)		(5,292)
Total movement during the year		**5,698**	**616**	**6,314**
Net assets/equity at 31 December 2017		**404,937**	**15,930**	**420,867**
Movements during the year				
Actuarial valuation gains/(losses) on employee benefit liabilities	11,14	661		661
Transfer (to)/from provision for delayed contribution	14	1,264		1,264
Transfer to/(from) reserves	15		1,127	1,127
Other movements recognized directly in net assets/equity	14	(216)		(216)
Net movements recognized directly in net assets/equity	14,15	**1,709**	**1,127**	**2,836**
Credits to Member States	14,15	(3,949)		(3,949)
Net surplus/(deficit) for the year		(5,275)		(5,275)
Total movement during the year		**(7,515)**	**1,127**	**(6,388)**
Net assets/equity at 31 December 2018		**397,422**	**17,057**	**414,479**

Statement 4: Cash flow statement for year ended 31 December 2018

(*Thousands of euros*)

	Note	31 December 2018	31 December 2017 (restated)
		€ '000	*€ '000*
Cash flows from operating activities			
Surplus/(deficit) for the period		**(5,275)**	**(5,292)**
Unrealized foreign-exchange (gains)/losses		(14,212)	34,367
Depreciation and amortization	7,8	8,162	7,973
Increase/(decrease) in provision for contributions	3	1,264	751
Valuation gains/(losses) on employee benefit liabilities	11	661	27,606
(Increase)/decrease in inventories	4	29	100
(Increase)/decrease in receivables	3,23	(80,143)	(56,950)
(Increase)/decrease in other assets	5	(4,975)	(603)
Increase/(decrease) in advance receipts and deferred income	12,23	86,086	(9,691)
Increase/(decrease) in accounts payable	10	12,170	(850)
Increase/(decrease) in employee benefits	11	9,615	(19,513)
Increase/(decrease) in other liabilities and provisions	13	(5,407)	2,051
(Gains)/losses on sale of property, plant and equipment	7	13,236	6,237
Investment/Interest income	6,16	(2,972)	(657)
Transfers to reserves	14,15	1,127	616
Change in cost-sharing ratios		(216)	146
Net cash flows from operating activities		**19,150**	**(13,709)**
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(20,556)	(11,851)
Purchase of intangible assets	8	(263)	(516)
Proceeds from sale of PPE	7	10	-
Net cash flow from investments interest		2,972	657
Net cash flows from investing activities		**(17,837)**	**(11,710)**
Net increase/(decrease) in cash and cash equivalents		**1,313**	**(25,419)**
Cash and cash equivalents at beginning of the financial period		447,425	507,211
Unrealized foreign-exchange gains/(losses)		14,212	(34,367)
Cash and cash equivalents at the end of the financial period	2	**462,950**	**447,425**

Statement 5: Statement of comparison of budget and actual amounts for year ended 31 December 2018

(*Thousands of euros*)

Regular budget	*Note*	Original budget	Final budget	Actuals on comparable basis	Balance
				€ '000	
Income					
Assessed contributions	*16*	67,517	67,517	68,351	(834)
Regional programme		1,209	1,209	739	470
Miscellaneous income		35	35	9	26
Total income		**68,761**	**68,761**	**69,099**	**(337)**
Cost component					
Staff costs		46,192	46,192	41,184	5,008
Official travel		1,294	1,294	564	731
Operating costs		13,180	13,180	10,417	2,763
Information and communication technology		3,534	3,534	2,223	1,310
Regular programme of technical cooperation, and special resources for Africa		4,561	4,561	4,434	127
Total costs		**68,761**	**68,761**	**58,822**	**9,939**
Surplus for the period		**-**	**-**	**10,277**	**(10,277)**

Operational budget	Original budget	Final budget	Actuals on comparable basis	Balance
			€ '000	
Income				
Support costs income	18,169	18,169	17,830	339
Miscellaneous income	170	170	7	164
Total income	**18,340**	**18,340**	**17,837**	**503**
Cost component				
Staff costs	16,501	16,501	15,566	935
Official travel	1,440	1,440	775	665
Operating costs	399	399	121	278
Total costs	**18,340**	**18,340**	**16,462**	**1,878**
Surplus for the period	**-**	**-**	**1,374**	**(1,374)**

Total	*Note*	Original budget	Final budget	Actuals on comparable basis	Balance
		€ '000			
Income					
Assessed contributions		67,517	67,517	68,351	**(834)**
Support costs income		18,169	18,169	17,830	339
Regional programme		1,209	1,209	739	470
Miscellaneous income		205	205	15	190
Total income		**87,101**	**87,101**	**86,935**	**166**
Cost component					
Staff costs		62,693	62,693	56,750	5,943
Official travel		2,734	2,734	1,338	1,396
Operating costs		13,579	13,579	10,538	3,041
Information and communication technology		3,534	3,534	2,223	1,310
Regular programme of technical cooperation, and resources for Africa		4,561	4,561	4,434	127
Total costs	18	**87,101**	**87,101**	**75,284**	**11,817**
Surplus for the period		**-**	**-**	**11,651**	**(11,651)**

The accompanying notes form an integral part of these financial statements.

Notes to the financial statements

Note 1. Accounting policies

Reporting entity

1.1 The United Nations Industrial Development Organization (UNIDO) was established in 1966 by General Assembly resolution 2152 (XXI) and became a specialized agency of the United Nations in 1985 with the entry into force of its Constitution. The primary objective of the Organization is the promotion of sustainable industrial development in developing countries and countries with economies in transition. The Organization currently has 168 Member States.

1.2 The Organization has three governing bodies: the General Conference, the Industrial Development Board and the Programme and Budget Committee. All three are anchored in the Constitution of UNIDO, which was adopted in 1979.

1.3 The General Conference, which comprises all Member States of UNIDO, determines the guiding principles and policies of the Organization, and approves its budget and work programme. Every four years, the General Conference appoints the Director General. The General Conference also elects the members of the Industrial Development Board and of the Programme and Budget Committee.

1.4 The Industrial Development Board, which comprises 53 members, reviews the implementation of the work programme and the regular and operational budgets, and makes recommendations on policy matters, including the appointment of the Director General. The Board meets once a year (decision IDB.39/Dec.7(f)).

1.5 The Programme and Budget Committee, consisting of 27 members, is a subsidiary organ of the Board and meets once a year. The Committee assists the Board in the preparation and examination of the work programme, the budget and other financial matters.

1.6 The Organization channels its technical cooperation activities into three areas: creating shared prosperity, advancing economic competitiveness and safeguarding the environment. In addition, it engages in a number of cross-cutting activities, especially in promoting Triangular and South-South cooperation for industrial development, strategic partnerships, special programmes for the least developed countries and strategic industrial research and statistical services.

1.7 The sections in the notes on segment reporting provide further details on how these core activities are managed and financed.

Basis of preparation

1.8 The financial statements of UNIDO are maintained in accordance with article X of the Financial Regulations of UNIDO, as adopted by the General Conference and in conformity with the International Public Sector Accounting Standards (IPSAS). Accordingly, the financial statements are prepared on the accrual basis of accounting. If IPSAS is silent concerning any specific matter, the appropriate International Financial Reporting Standards and International Accounting Standards are applied.

1.9 The senior management of UNIDO has made an assessment of the entity’s ability to continue as a going concern, and it notes no material uncertainties related to events or conditions which may cast significant doubt. The going-concern concept in accounting is an assumption that a business will continue to exist for the foreseeable future. Therefore, these financial statements are prepared on a going-concern basis, and the accounting policies have been applied consistently throughout the reporting period.

1.10 These consolidated financial statements include the financial statements of UNIDO and the joint operations of Buildings Management Services, Vienna International Centre and Major Repair and Replacement Fund and other common services.

Measurement basis

1.11 The financial statements are prepared using the historic cost convention, except for certain investments and assets which are carried at fair value according to the requirements of the applicable IPSAS standards.

Reporting period

1.12 The financial period for the preparation of annual financial statements in accordance with IPSAS is the calendar year starting on 1 January 2018 and ending on 31 December 2018.

Currency and basis for conversion

1.13 The functional and presentation currency of UNIDO is the euro. All values in the financial statements are expressed in euro and rounded to the nearest thousand euros, unless stated otherwise.

Translation and conversion of currencies

1.14 Transactions, including those involving non-monetary items, in currencies other than the euro are converted to euros using the United Nations operational rates of exchange applicable on the deemed date of the transaction.

1.15 Monetary assets and liabilities denominated in other currencies are converted into euros at the United Nations operational rate of exchange in effect at the end of the reporting period.

1.16 Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the conversion of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of financial performance.

Use of estimates

1.17 The financial statements necessarily include amounts based on estimates and assumptions made by management using best knowledge of current events and actions. Estimates include, but are not limited to, the following: fair value of donated goods, defined benefit pension and other post-employment benefit obligations; amounts for litigation, financial risk on accounts receivable, accrued charges, contingent assets and liabilities; and degree of impairment on inventories, property, plant and equipment, and intangibles. Actual results could differ from those estimates. Material changes in estimates are reflected in the period in which they become known.

Revenue and Expenses

Exchange revenue

1.18 Revenue from the sale of goods, such as sales of publications and the Computer Model for Feasibility Analysis and Reporting, is recognized when the significant risks and rewards of ownership of the goods are transferred to the purchaser.

1.19 Revenue from the provision of services is recognized in the financial period in which the service is rendered according to the estimated stage of completion of that service, provided that the outcome can be estimated reliably.

Interest revenue

1.20 Interest income is recognized on a time-proportion basis as it accrues, taking into account the effective yield on the asset.

Non-exchange revenue

Assessed contributions

1.21 Revenue from assessed contributions from Member States to the regular budget is recognized at the beginning of the year to which the assessment relates. The revenue amount is determined based on programmes and budgets and billed to Member States according to the scale of assessment approved by the General Conference.

Voluntary contributions

1.22 Revenue from voluntary contributions that include restrictions on their use is recognized upon the signing of a binding agreement between UNIDO and the donor providing the contribution. Revenue from voluntary contributions that include conditions on their use, including an obligation to return the funds to the contributing entity if such conditions are not met, is recognized as the conditions are satisfied. Until such conditions are met, the present obligation is recognized as a liability.

1.23 Voluntary contributions and other revenue which are not supported by binding agreements are recognized as revenue when received.

Goods in kind

1.24 Goods-in-kind contributions are recognized at their fair value, and goods and corresponding revenue are recognized immediately if no conditions are attached. If conditions are attached, a liability is recognized until such conditions are met and the present obligation is satisfied. Revenue is recognized at fair value, measured as at the date the donated assets are acquired.

Services in kind

1.25 Services-in-kind contributions are not recognized in the financial statements as revenue. The nature and type of service are disclosed in the notes to the financial statements.

Expenses

1.26 Expenses arising from the purchase of goods and services are recognized at the point that the supplier has performed its contractual obligations, which is when the goods and services are received and accepted by UNIDO. This process may occur in stages for some service contracts. Also, all other expenses resulting from the consumption of assets or the incurrence of liabilities that result in decreases in net assets/equity during the reporting period are recognized.

Assets

Cash and cash equivalents

1.27 Cash and cash equivalents are held at nominal value and include cash on hand and short-term highly liquid time deposits held with financial institutions.

Receivables and advances

1.28 Receivables and advances are recognized initially at nominal value. Allowances for estimated irrecoverable amounts are recognized for receivables and advances when there is objective evidence that the asset is impaired, in which case the impairment losses are recognized in the statement of financial performance.

Financial instruments

1.29 The Organization uses only non-derivative financial instruments as part of its normal operations. These financial instruments consist mainly of bank accounts, time deposits, call accounts, accounts receivable and accounts payable.

1.30 All financial instruments are recognized in the statement of financial position at their fair value. The historical cost-carrying amount of receivables and payables, subject to normal trade credit terms, approximates the fair value of the transaction.

Financial risks

1.31 The Organization has instituted prudent risk management policies and procedures in accordance with its financial regulations and rules. It may make both short- and long-term investments of moneys not needed for immediate requirements. All long-term investments must receive the recommendation of an investment committee before they are made. In the normal course of business, UNIDO is exposed to a variety of financial risks, such as market risk (foreign currency exchange and interest rate) and counter-party risk. The Organization does not use any hedging instruments to hedge risk exposures.

- Currency risk. The Organization receives contributions from Member States and donors partly in currencies other than the currency of the expenditure and is therefore exposed to foreign currency exchange risk arising from fluctuations of currency exchange rates.
- Interest rate risk. The Organization deposits its funds only in short-term fixed interest accounts and therefore has no significant interest rate risk exposure.
- Credit risk. The Organization has no significant exposure to credit risk because its contributing Member States and donors are generally of high credit standing.
- Counter-party risk. The Organization has its cash deposited with various banks and is therefore exposed to the risk that a bank might default in its obligation towards the Organization. However, UNIDO has policies that limit the amount of exposure to any one financial institution.

Inventories

1.32 Inventories are stated at cost, except when they are acquired through a non-exchange transaction, in which case their cost is measured at their fair value as at the date of acquisition. Costs are assigned by using the "first in, first out" (FIFO) basis for interchangeable items of inventory, and by using specific identification for non-interchangeable items of inventory. A provision for impairment is recorded in the statement of financial performance in the year in which the inventory is determined to be impaired.

1.33 As the value of office supplies, publications and reference tools used are not material, they are expensed upon purchase in the statement of financial performance.

Property, plant and equipment

1.34 Initial recognition of property, plant and equipment is stated at cost as at the date of acquisition for each asset class. The subsequent carrying amount of property, plant and equipment is at cost less accumulated depreciation and any recognized impairment losses. A capitalization threshold of €600 has been set for this category.

1.35 Donated assets are valued at fair value as at the date of acquisition. Heritage assets are not recognized.

1.36 Impairment reviews are undertaken for property, plant and equipment on a yearly basis.

1.37 The straight-line depreciation method is applied over the asset's estimated useful life to determine the annual depreciation charge, which is recognized in the statement of financial performance. The estimated useful life for each class of property, plant and equipment is as follows:

Class	*Estimated useful life (years)*
Vehicles	3–10
Communications and information technology equipment	3–9
Furniture and fixtures	5–12
Machinery	4–15
Buildings	15–100
Land	No depreciation
Leasehold improvements	The shorter of the lease term or useful life

Intangible assets

1.38 Intangible assets are stated at cost less accumulated amortization and any impairment loss. Intangible assets held by UNIDO comprise mainly software.

1.39 If an intangible asset is acquired at no cost (e.g. as a gift or donation) or for nominal cost, the fair value of the asset as at the date of acquisition is used.

1.40 The following criteria must also be met for an item to be recognized as an intangible asset: (a) it has an estimated useful life of more than one year; and (b) the cost of the asset exceeds €1,700, except for internally developed software, for which a minimum development cost is set at €25,000, excluding research and maintenance costs, which are expensed when incurred.

1.41 Amortization is provided over the estimated useful life using the straight-line method. The estimated useful life of intangible asset classes is as follows:

Class	*Estimated useful life (years)*
Software acquired externally	6
Software developed internally	6
Copyrights	3

Leases

1.42 Lease agreements entered into in field offices are classified as operating leases. The lease payments made are included in the statement of financial performance as an expense, on a straight-line basis over the period of the lease.

Interests in joint arrangements

1.43 A joint arrangement is a binding arrangement whereby UNIDO and one or more parties undertake an economic activity that is subject to joint control. For joint operations, in which UNIDO is the operator, UNIDO recognizes in its financial statements the assets it controls and the liabilities and expenses it incurs. If another organization is the operator, the expense and liability recognition of UNIDO is limited to the agreed billing arrangements.

1.44 These general purpose financial statements include the applicable share of the joint arrangements established by a memorandum of understanding concerning the allocation of the common services at the Vienna International Centre entered into by the Vienna-based organizations in 1977. The common services include catering, buildings management, the Commissary and other services. The Organization is party to a joint arrangement with the United Nations, the International Atomic Energy Agency and the Preparatory Commission for the Comprehensive Nuclear Test-Ban-Treaty Organization on the premises of the Vienna International Centre, as well as common service activities.

Liabilities

Accounts payable and other financial liabilities

1.45 Accounts payable and other financial liabilities are recognized initially at nominal value, which best estimates the amount required to settle the obligation as at the reporting date.

Employee benefit liabilities

Short-term employee benefits

1.46 Short-term employee benefits comprise wages, salaries, allowances, paid sick leave and maternity leave. Short-term employee benefits are due to be settled within 12 months after the end of the period in which the employees render the related service and are measured at their nominal value based on accrued entitlements at current rates of pay.

Post-employment benefits

1.47 Post-employment benefits are employee benefits (other than termination benefits) that are payable after completion of employment.

1.48 Post-employment benefits at UNIDO comprise defined benefit plans, namely the pension plan (United Nations Joint Staff Pension Fund), after-service health insurance, repatriation grants and end-of-service allowances, along with costs related to separation entitlements for travel and shipment of household effects.

1.49 Post-employment benefit obligations are calculated by independent actuaries using the projected unit credit method. The present value of the obligation is determined by discounting the estimated future payment required to settle the obligation resulting from employee service rendered in the current and prior periods, using the interest rates of high-quality corporate bonds for the corresponding maturity years.

1.50 Actuarial gains and losses are recognized using the reserve method in the period in which they occur and are shown as a separate item in the statement of changes in net assets/equity.

Other long-term employee benefits

1.51 Other long-term employee benefits that are largely payable beyond 12 months, such as commutation of annual leave, are calculated on the same actuarial basis as post-employment benefits and actuarial gains, and losses are recognized immediately.

United Nations Joint Staff Pension Fund

1.52 UNIDO is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits. The Pension Fund is a funded, multi-employer defined benefit plan. As specified by article 3 (b) of the regulations of the Fund, membership in the Fund shall be open to the specialized agencies and to any other international intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

1.53 The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the plan. Both UNIDO and the Fund, in line with the other participating organizations in the Fund, are not in a position to identify the proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan that pertain to UNIDO with sufficient reliability for accounting purposes. Hence, UNIDO has treated this plan as if it were a defined-contribution plan in line with the requirements of IPSAS39. The contributions of UNIDO to the plan during the financial period are recognized as expenses in the statement of financial performance.

Provisions and contingent liabilities

1.54 Provisions are recognized for contingent liabilities when: (a) UNIDO has a present legal or constructive obligation as a result of past events; (b) it is more likely than not that an outflow of resources will be required to settle that obligation; and (c) the amount can be reliably estimated. The amount of the provision is the best estimate of the expenditure required to settle the present obligation as at the reporting date. The estimate is discounted when the effect of the time value of money is material.

1.55 Contingent liabilities for which the possible obligation is uncertain, or for which it is yet to be confirmed whether UNIDO has a present obligation that could lead to an outflow of resources, or obligations that do not meet the recognition criteria of IPSAS standard 19, are disclosed.

Fund accounting and segment reporting

1.56 The financial statements are prepared on a "fund accounting" basis. Each fund is maintained as a distinct financial and accounting entity, with a separate self-balancing, double-entry group of accounts. Fund balances represent the accumulated residual value of revenue and expenses.

1.57 Sources of funds for UNIDO reflect distinguishable types of services that UNIDO provides to achieve its overall objectives. The General Conference or the Director General may establish separate funds for general or special purposes. Accordingly, segment reporting information is presented on the basis of the source of funds and categorizes all of its activities into three distinct service segments:

(a) *Regular budget activities*. Providing core services, such as the Organization's governance, policy development, strategic direction, research, administration and support services (e.g., financial management and human resource management), as well as services to support the decision-making of Member States and provide core support to the achievement of the primary objective of UNIDO according to its Constitution, i.e., the promotion and acceleration of industrial development in developing countries;

(b) *Technical cooperation activities*. Implementing projects and delivering services directly to beneficiaries. Those services bring direct benefit to beneficiaries in a wide range of areas, from agriculture to environment to trade, and include technology transfer, capacity-building and improvement of production processes. These services are distinguishably different from those provided under regular budget financed activities, as specified above;

(c) *Other activities and special services*. Carrying out "peripheral activities" in support of the services of (a) and (b) above. This last group of other activities and special services refers to services such as sales publications, buildings management and the Computer Model for Feasibility Analysis and Reporting, which are supplementary to the main activities of the Organization, but are in line with and relevant to its general objectives.

Budget comparison

1.58 Both regular and operational biennial programmes and budgets are prepared on a modified cash basis rather than on a full accrual basis. Owing to the different bases of preparing budgets and financial statements, statement 5 (Comparison of budget and actual amounts as required under IPSAS standard 24) is presented on the same basis of accounting, classification and period as the approved budget.

1.59 The comparison statement includes the original and final budget amounts, the actual amounts on the same basis as the corresponding budgetary amounts and an explanation of material differences between the budget and actual amounts.

1.60 Note 18 below provides a reconciliation of actual amounts presented on the same basis as the budget with the actual amounts of net cash flows from operating activities, investing activities and financing activities presented in the financial statements, identifying separately any basis, timing and entity differences.

Related party disclosures

1.61 Related parties that have the ability to control or exercise significant influence over UNIDO in making financial and operating decisions, as well as transactions with such parties unless they occur within a normal relationship and on arm’s length terms and conditions, or if such transactions are consistent with normal operating relationships between such entities, will be disclosed. In addition, UNIDO will disclose specific transactions with key management personnel and family members.

1.62 The key management personnel of UNIDO are the Director General, the Deputy to the Director General and the Managing Directors, who have the authority and responsibility for planning, directing and controlling the activities of UNIDO and influencing its strategic direction. Remuneration of key management personnel will be considered a related party transaction.

Note 2. Cash and cash equivalents

	Note	31 December 2018	31 December 2017
		(thousands of euros)	
Cash and cash equivalents			
Cash in the bank and on hand	2.1	106,604	182,569
Term deposits with original maturity up to 3 months	2.4	352,901	262,215
Cash and cash equivalents held in field offices	2.5	3,445	2,641
Total cash and cash equivalents		**462,950**	**447,425**

2.1 Cash and cash equivalents contain restrictions on their availability for use, depending upon the fund they relate to. Cash restricted for the use for Technical cooperation activities amounts to €368,807 (2017: €351,700), for Buildings Management Service activities €39,971 (2017: €40,762) and for Major Repair and Replacement Fund €6,556 (2017: €4,844).

2.2 Cash and cash equivalents include cash and term deposits equivalent to €274,274 (2017: €243,922) held in currencies other than the euro.

2.3 Some cash is held in currencies which are either legally restricted or not readily convertible to euros and is used exclusively for local expenses in the respective countries. At period end, the euro equivalent of these currencies was €2,352 (2017: €1,984) based on the respective United Nations operational rates of exchange at year-end.

2.4 Interest-bearing bank accounts and term deposits yielded interest at an annual average rate of 0.04 per cent and 2.06 per cent for holdings in euros and United States dollars respectively (2017: 0.17 per cent and 1.13 per cent).

2.5 Cash in field offices is held in imprest bank accounts for the purpose of meeting financial needs in field locations.

Note 3. Accounts receivable

	31 December 2018	31 December 2017 (restated)
	(thousands of euros)	
Current		
Receivable from non-exchange transactions		
Due from Member States: assessed contribution	84,750	89,980
Due from Member States: other	7	9
Voluntary contributions receivable	275,091	173,982
VAT and other taxes recoverable	4,117	2,889
Total accounts receivable before allowance	**363,965**	**266,860**
Allowance for doubtful accounts	(80,522)	(82,725)
Net accounts receivable from non-exchange transactions	**283,443**	**184,135**

	31 December 2018	31 December 2017
	(thousands of euros)	
Receivable from exchange transactions		
Receivables from United Nations organizations	601	716
Receivables: other	1,595	1,295
Allowance for doubtful accounts	(580)	(580)
Net accounts receivable from exchange transactions	**1,616**	**1,431**

	31 December 2018	31 December 2017
	(thousands of euros)	
Non-current		
Receivable from non-exchange transactions		
Due from Member States: assessed contribution	2,184	637
Voluntary contributions receivable	67,324	100,809
Allowance for doubtful accounts: assessed contribution	(1,301)	(568)
Total receivable from non-exchange transactions	**68,207**	**100,878**

3.1 Accounts receivable are shown net of adjustments related to doubtful accounts. Allowance for uncollected assessed contributions is based on historical experience and is estimated at the following percentages of outstanding contributions receivable (no allowance has been made for voluntary contributions receivable):

Length of time contributions were outstanding	*2018 (percentage)*	*2017 (percentage)*
More than 6 years	100	100
Between 4 and 6 years	80	80
Between 2 and 4 years	60	60
Between 1 and 2 years	30	30

3.2 Changes in allowance for uncollected assessed contributions were as follows:

	31 December 2018	31 December 2017
	(thousands of euros)	
Allowance for bad and doubtful accounts at beginning of the year	**81,166**	**81,918**
Change during the year	(1,263)	(752)
Allowance for bad and doubtful accounts at the end of the year	**79,903**	**81,166**

3.3 Total allowances for bad and doubtful accounts of €82,613 (2017: €83,873) consist of €79,903 (2017: €81,166) against assessed contributions receivable and €2,710 against other receivables (2017: €2,707).

3.4 Non-current contribution receivables are for confirmed contributions from donors and Member States due after more than one year from the reporting date in accordance with agreed payment plans and project phasing.

3.5 Annex I (e) provides details of the status of assessed contributions, and the following table illustrates ageing of contributions receivable:

	31 December 2018		31 December 2017	
	(thousands of euros)	*(percentage)*	*(thousands of euros)*	*(percentage)*
Age				
1–2 years	8,914	10.3	12,137	13.4
3–4 years	1,754	2.0	2,180	2.4
5–6 years	452	0.5	415	0.5
7 years and more	75,814	87.2	75,885	83.7
Total contributions receivable before allowance	**86,934**	**100.0**	**90,617**	**100.0**

Note 4. Inventories

	31 December 2018	31 December 2017
	(thousands of euros)	
Opening inventory	842	942
Purchased during the year	348	343
Total inventory available	**1,190**	**1,285**
Less: consumption	(376)	(442)
Less: write-up/(down)	(1)	(1)
Closing inventory	**813**	**842**

4.1 Inventories consist of supplies for maintenance of premises, sanitation and cleaning materials. Physical quantities, derived from the UNIDO Inventory Management System, are validated by physical stock counts and are valued on a “first in, first out” (FIFO) basis.

4.2 Inventories are valued net of any impairments or obsolescence. In 2018, UNIDO wrote down inventories by an amount of €1 (2017: €1) on account of obsolescence and other losses.

Note 5. Other current assets

	Note	31 December 2018	31 December 2017
		(thousands of euros)	
Advances to vendors	5.1	18,071	17,602
Advances to staff	5.2	2,453	2,814
Accrued interest		1,011	395
E-IOV items	5.3	2,077	2,265
Other current assets	5.4	1,221	109
Total other assets		**24,833**	**23,185**

5.1 Advances to vendors are payments made in advance of goods and service delivery on submission of shipping documents and initial payments released on signing of the contract documents.

5.2 Advances to staff are for education grants, rental subsidies, travel and other staff entitlements.

5.3 Electronic inter-office voucher (E-IOV) items comprise the balance on the service clearing account for field inter-office vouchers, amounts held in suspense and items rejected due to insufficient information.

5.4 Other current assets includes deferred expenses for projects put on hold due to force majeure.

Note 6. Interest in joint arrangements and other entities

6.1 The United Nations Vienna-based organizations have an agreement that the costs, in excess of any external income, of common services rendered by each organization, such as catering, Commissary, security and medical services and building management, are shared according to established cost-sharing ratios.

6.2 The ratios vary to reflect key factors such as the number of employees and the total space occupied. Each year, ratios derived from the agreed tabulation for the Vienna-based organizations, once approved, become effective to apportion cost. These cost-sharing arrangements are reviewed from time to time by management. The consolidation of all UNIDO joint arrangements is based on the cost-sharing ratios applicable to the corresponding reporting periods. Cost-sharing ratios for UNIDO were as follows:

2018	14.098 per cent
2017	13.966 per cent

Buildings Management Services

6.3 Buildings Management Services are responsible for the operation and management of the physical plant of the premises of the Vienna International Centre. UNIDO is assigned to be the operating agency of the service with decision-making capacity over financial and operating policies resting with the Committee of Common Services comprising the respective representatives of the Vienna-based organizations. Therefore, Buildings Management Services is considered a joint operation, with joint control shared among all Vienna-based organizations. Buildings Management Services has no legal status of its own. Its assets and liabilities are held in the name of UNIDO.

6.4 The Vienna-based organizations have been making annual contributions to the Buildings Management Services fund according to the approved ratio as described in paragraph 6.2 above, with exceptions of reimbursement for ad hoc projects, which are of a cost-recovery nature. While neither the residual interest of the Vienna-based organizations in Buildings Management Services nor the mode of distribution of such interest upon dissolution of the fund is defined in any document, since the operation is carried out on the principle of a "no gain, no loss" basis, balances of the contributions of the Vienna-based organizations net of expenses are recognized as deferral, pending release for services to be delivered in the future (see note 12).

Buildings Management Services: summary financial information

	31 December 2018	*31 December 2017*
	(thousands of euros)	
Income	22,576	22,315
Expenses	22,374	22,440
Assets, current	42,849	43,492
Assets, non-current	1,127	1,300
Liabilities, current	19,254	18,938
Liabilities, non-current	31,309	29,151
Net assets/equity	(6,587)	(3,297)

Major Repair and Replacement Fund

6.5 A common fund for the purpose of financing the cost of major repairs and replacement of buildings, facilities and technical installations of the Vienna International Centre was established by the Republic of Austria and the Vienna-based organizations under the responsibility of the joint Committee, comprising the respective representatives of the Republic of Austria and the Vienna-based organizations. The Major Repair and Replacement Fund is considered a joint operation with joint control shared among the Republic of Austria and the Vienna-based organizations. It has no legal status, and its assets and liabilities are held in the name of the Republic of Austria and UNIDO (UNIDO on behalf of the Vienna-based organizations).

6.6 The Republic of Austria and the Vienna-based organizations are making annual contributions to the Major Repair and Replacement Fund shared equally between the Republic of Austria and the Vienna-based organizations. The contribution of the Vienna-based organizations is shared among the individual organizations according to the approved ratio as described in paragraph 6.2 above. For Major Repair and Replacement Fund, the balances of the contributions of the Vienna-based organizations net of expenses are recognized as deferral, pending release for services to be delivered in the future (see note 12).

Major Repair and Replacement Fund: summary financial information

	31 December 2018	*31 December 2017*
	(thousands of euros)	
Income	4,686	3,525
Expenses	3,852	1,533
Assets, current	13,294	11,294
Liabilities, current	1,880	292
Net assets/equity	11,414	11,002

Vienna International Centre

6.7 In 1979, the Republic of Austria provided a permanent headquarters building to the Vienna-based organizations for 99 years at a nominal rent of one Austrian schilling a year. The headquarters agreement of each organization states that the building would be made available without furnishings, and it would be used solely as the headquarters seat for the Vienna-based organizations with due regard to the owner's rights under Austrian law. The Vienna-based organizations would meet all operating costs, and bear the costs of maintenance of the building and of any necessary inside and outside repairs. The agreement shall cease to be in force if the headquarters seat of the Vienna-based organizations is removed from the designated area; a decision to move the seat is at the discretion of the individual organization, and there are no onerous conditions attached.

6.8 The Republic of Austria retains the ownership of the area constituting the headquarters seat. However, the Vienna-based organizations acquire the economic benefits and service potential of the use of the leased asset for the major part of its economic life. Therefore, the Vienna International Centre is considered a joint operation with joint control shared among the Vienna-based organizations. The commitment to retain the headquarters seat in the premises is reflected as a performance obligation (see note 13) representing the full value of the gift from the Republic of Austria, deferred until fulfilled, on an annual basis.

6.9 The Vienna International Centre is maintained by UNIDO's Buildings Management Services under the management of the joint Committee on Common Services. Costs of major repairs are financed from the Major Repairs and Replacement Fund.

Vienna International Centre: summary financial information

	31 December 2018	*31 December 2017*
	(thousands of euros)	
Income	15,411	15,565
Expenses	15,411	15,565
Assets, non-current	243,809	253,691
Liabilities, non-current	243,809	253,691
Net assets/equity	-	-

6.10 Costs related to other common services, such as security and medical services, are expensed on a reimbursement basis. The amounts expensed during the year were €1,995 and €215 (2017: €1,892 and €236), respectively.

Other non-consolidated entities

Catering Service

6.11 The Catering Service sells food, beverages and services to staff members of the Vienna-based organizations and other specified groups of individuals, on the premises of the Vienna International Centre. In 2014 a contract was entered into with a new catering operator, for a period of 10 years. The operator controls and manages the catering business on UNIDO's behalf and pays a fixed annual operating fee, regardless of the profit or loss incurred by the operator.

6.12 The benefits from operating the Catering Service flow to the staff of the Vienna-based organizations, delegates and VIC visitors, rather than to the Vienna-based organizations themselves. On dissolution, any residual net equity will be distributed to the staff welfare funds of UNIDO and other Vienna-based organizations.

6.13 The Catering Service has no legal personality of its own. Its assets and liabilities are held in the legal name of UNIDO. Therefore, UNIDO is potentially exposed to any residual liabilities of the Catering Service.

Catering Service: summary financial information

	31 December 2018	31 December 2017
	(thousands of euros)	
Revenue	131	128
Net operating expenses	9	13
Assets, current	1,942	1,833
Liabilities, current	-	13
Net assets/equity	1,942	1,820

Commissary

6.14 The Commissary sells tax-free household items for personal consumption to staff members of the Vienna-based organizations and other specified groups of individuals on a cost recovery basis.

6.15 Similar to the Catering Service, the benefits flow to the entitled individuals, rather than to the Vienna-based organizations themselves. On dissolution, any residual net equity is distributed to the staff welfare funds of International Atomic Energy Agency (IAEA) and the other Vienna-based organizations, based on the proportion of sales to staff members of the respective Vienna-based organizations over the five years preceding dissolution.

6.16 The Commissary has no legal personality of its own; its assets and liabilities are held in the legal name of IAEA. The IAEA is therefore potentially exposed to any residual liabilities of the Commissary.

Note 7. Property, plant and equipment

	Buildings	*Furniture and fixtures*	*Information and communications technologies equipment*	*Vehicles*	*Machinery*	***Total***
			(thousands of euros)			
Cost						
At 31 December 2017 (restated)	69,559	2,956	14,839	4,385	27,310	**119,049**
Additions	546	587	2,889	602	15,933	**20,557**
Disposals/transfers	648	(861)	(2,043)	(1,156)	(15,495)	**(18,907)**
At 31 December 2018	**70,753**	**2,682**	**15,685**	**3,831**	**27,748**	**120,699**
Accumulated depreciation						
At 31 December 2017 (restated)	34,107	1,371	12,396	2,391	8,156	**58,421**
Depreciation charge during the year	1,944	287	1,446	496	3,559	**7,732**
Depreciation charge of joint venture	-	6	294	5	50	**355**
Disposals/transfers	321	(295)	(1,280)	(682)	(4,134)	**(6,070)**
At 31 December 2018	**36,372**	**1,369**	**12,856**	**2,210**	**7,631**	**60,438**
Net book value						
At 31 December 2017	**35,452**	**1,585**	**2,443**	**1,994**	**19,154**	**60,628**
At 31 December 2018	**34,381**	**1,313**	**2,829**	**1,621**	**20,117**	**60,261**

7.1 Property, plant and equipment items are capitalized if their cost is greater than or equal to the threshold limit of €600. They are depreciated over the asset's estimated useful life using the straight-line method. The threshold level is reviewed periodically.

7.2 Property, plant and equipment items are reviewed annually to determine if there is any impairment in their value. During 2018, review of asset impairments indicated no impairments.

7.3 The gross carrying amount (value at cost) of fully depreciated property, plant and equipment items, excluding buildings, still in use amounts to €6,953 (2017: €5,869) at the period end.

Note 8. Intangible assets

	Software acquired externally	*Internally developed software*	*Total*
	(thousands of euros)		
Costs			
At 31 December 2017 (restated)	1,280	5,368	**6,648**
Additions	264	-	**264**
Disposals/transfers	(63)	-	**(63)**
At 31 December 2018	**1,481**	**5,368**	**6,849**
Accumulated amortization			
At 31 December 2017 (restated)	791	5,002	**5,793**
Amortization charge during the year	188	242	**430**
Disposals/transfers	(7)	-	**(7)**
At 31 December 2018	**972**	**5,244**	**6,216**
Net book value			
At 31 December 2017	**489**	**366**	**855**
At 31 December 2018	**509**	**124**	**633**

8.1 Intangible assets are capitalized if their cost exceeds the threshold of €1,700 except for internally developed software where the threshold is €25,000, excluding research and maintenance costs. Internally developed software represents development costs of the new enterprise resource planning system.

Note 9. Non-current assets

	Note	*31 December 2018*	*31 December 2017*
		(thousands of euros)	
Initial advance in Commissary	9.1	809	809
Advance to the Major Repair and Replacement fund	9.1	804	768
Buildings Management Services deferral	9.2	6,588	3,297
Other non-current assets		1	1
Total, non-current assets		**8,202**	**4,875**

9.1 Other non-current assets are due after more than one year in accordance with the terms of the agreements. This includes initial advance in Commissary and an advance to the Major Repair and Replacement fund.

9.2 The Buildings Management Services deferral for negative net assets, due to the unfunded long-term employee benefits, represents a future receivable from Vienna-based organizations, which is to be received on a pay-as-you-go basis.

Note 10. Accounts payable

	Note	31 December 2018	31 December 2017
		(thousands of euros)	
Due to Member States	10.1	11,747	21,119
Payables to donors	10.2	11,233	7,751
Due to Vienna-based organizations	10.3	10,802	9,300
Payables to vendors		8,084	898
Total accounts payable		**41,866**	**39,068**

	31 December 2018	31 December 2017
	(thousands of euros)	
Composition:		
Payables from non-exchange transactions	33,782	38,170
Payable from exchange transactions	8,084	898
Total accounts payable	**41,866**	**39,068**

10.1 Balances due to Member States represent the unspent balance of collections and assessed contributions received for prior years, pending distribution to eligible Member States or their instructions on its use.

10.2 Payables to donors represent refunds on unspent contributions for closed projects and interest on donor's funds. The treatment of the interest income earned, net of bank charges and exchange gains and losses, is governed by agreements with the donors. The balance in accounts payable denotes the accumulated interest until instructions regarding its utilization are received from the donor.

10.3 Amounts due to Vienna-based organizations represent the refund of the excess funds over the established ceiling of the Buildings Management Services special account. Due to the nature, it was reclassified as Payables from non-exchange transactions.

Note 11. Employee benefits

	31 December 2018			31 December 2017
	Actuarial valuation	UNIDO valuation	Total	
	(thousands of euros)			
Short-term employee benefits		2,815	2,815	3,056
Post-employment benefits	242,393		242,393	232,708
Other long-term employee benefits	5,958		5,958	5,787
Total employee benefit liabilities	**248,351**	**2,815**	**251,166**	**241,551**

	31 December 2018	31 December 2017
	(thousands of euros)	
Composition:		
Current	2,815	3,056
Non-current	248,351	238,495
Total employee benefit liabilities	**251,166**	**241,551**

Valuation of employee benefit liabilities

11.1 Employee benefit liabilities are determined by professional actuaries or calculated by UNIDO based on personnel data and past payment experience. At 31 December 2018, total employee benefit liabilities amounted to €251,167 (2017: €241,551), of which €248,351 (2017: €238,495) was calculated by the actuaries and €2,815 (2017: €3,056) was calculated by UNIDO.

Short-term employee benefits

11.2 Short-term employee benefits relate to salaries, home leave travel and education grants.

Post-employment benefits

11.3 Post-employment benefits are defined benefit plans consisting of the after-service health insurance, repatriation grants and end-of-service allowances, along with costs related to separation entitlements for travel and shipment of household effects.

11.4 After-service health insurance is a plan that allows eligible retirees and their eligible family members to participate in the full medical insurance plan, supplementary medical plans or the Austrian Gebietskrankenkasse (GKK) medical insurance plan.

11.5 End-of-service allowance is a benefit payable to UNIDO General Service staff at the Vienna duty station upon separation from service, and is based on length of service and final salary.

11.6 The repatriation grant is an entitlement payable mainly to Professional staff on separation, together with related costs in travel and shipment of household effects.

Other long-term employee benefits

11.7 Other long-term employee benefits consist of accrued annual leave payable when staff separate from service.

Actuarial valuations of post-employment and other long-term employee benefits

11.8 The liabilities arising from post-employment benefits and other long-term employee benefits are determined by independent actuaries, with valuation conducted as at 31 December 2018. These employee benefits are established in accordance with UNIDO Staff Regulations and Rules for staff members in the Professional and General Service categories.

Actuarial assumptions

11.9 The present value of an obligation is determined by discounting the estimated future payment required to settle the obligation resulting from employee service rendered in the current and prior periods, using interest rates of high-quality corporate bonds for the corresponding maturity years, together with a set of assumptions and methods.

11.10 The following assumptions and methods have been used to determine the value of post-employment and other long-term employee benefit liabilities at 31 December 2018:

- *Actuarial method*. Employee benefit obligations are computed using the projected unit credit method.
- *Attribution periods*. For after-service health insurance, the attribution period is the entry-on-duty date to the full eligibility date. For repatriation benefits, the attribution period is from the entry-on-duty date to the earlier of years of continuous service away from home country and 12 years of service, with the exception of staff who joined after July 2016, whose entitlement starts from the fifth year of service. After 12 years, obligations are affected only by future salary increases. The attribution period for annual leave is from the date of hire to the separation date, subject to a maximum eligibility of 60 days. For the end-of-service allowance, the attribution period is from the date of hire, which is the beginning of the credited service period, to the date the incremental benefit is earned.
- *Mortality*. Mortality rates for pre- and post-retirement are based on 2017 actuarial valuation of the United Nations Joint Staff Pension Fund, together with rates for withdrawal and retirement.
- *Discount rate*. 2.16 per cent (2017: 2.02 per cent) for after-service health insurance and 1.37 per cent (2017: 1.13 per cent) for repatriation, annual leave and end-of-service allowance.
- *Medical cost trend rates*. 4.59 per cent, 4.50 percent for 2019 and thereafter.
- *Rate of salary increase*. 2.00 per cent (2017: 2.00 per cent), but varying according to age, category and individual progression.
- *Repatriation grant*. It is assumed that all Professional staff is eligible for repatriation benefits and will receive them upon separation from service.
- *Repatriation travel costs*. 0.00 per cent (2017: 0.00 per cent) change in future years.

- *Annual leave*. It is assumed that all staff are eligible for these benefits and will receive them upon separation from service. Accumulation rates of leave balances vary with years of service.

11.11 Assumed medical cost trends have a significant effect on the amounts recognized in the statement of financial performance. A 1 percentage point change in assumed medical cost trend rates would have the following effects:

	1 percentage point increase	*1 percentage point decrease*
	(thousands of euros)	
Effect on year-end accumulated after-service health benefits obligation	57,055	(42,768)
Effect on combined service and interest cost	4,338	(3,112)

Reconciliation of defined benefit obligation

	After-service health insurance	*Repatriation benefits*	*Annual leave*	*End-of-service allowance*	*Total*
	(thousands of euros)				
Defined benefit obligation at 31 December 2017	**213,874**	**9,508**	**5,787**	**9,326**	**238,495**
Service costs	8,747	434	606	520	**10,307**
Interest costs	4,281	96	63	101	**4,541**
Actual gross benefit payments	(3,483)	(301)	(248)	(368)	**(4,400)**
Actuarial (gains)/losses	29	(115)	(262)	(313)	**(661)**
Actuarial (gains)/losses of joint operation	(6)	4	12	59	**69**
Defined benefit obligation at 31 December 2018	**223,442**	**9,626**	**5,958**	**9,325**	**248,351**

Annual expense for the year 2018

	After-service health insurance	*Repatriation benefits*	*Annual leave*	*End-of-service allowance*	*Total*
	(thousands of euros)				
Service cost	8,747	434	606	520	**10,307**
Interest costs	4,281	96	63	101	**4,541**
Total expense	**13,028**	**530**	**669**	**621**	**14,848**

11.12 It is expected that the contribution to the after service health insurance plan will remain at the same level in 2019.

United Nations Joint Staff Pension Fund

11.13 UNIDO’s financial obligation to the United Nations Joint Staff Pension Fund (UNJSPF) consists of its mandated contribution at the rate established by the United Nations General Assembly (currently at 7.9 per cent for participants and 15.8 per cent for member organizations), together with any share of any actuarial deficiency payments under Article 26 of the Regulations of the UNJSPF.

11.14 In 2018, UNIDO’s contributions paid to the UNJSPF amounted to €8,742 (2017: €8,790). Expected contributions due in 2019 are approximately €8,700 million.

11.15 The actuarial valuations are undertaken every two years, with the most recent valuation carried out as of 31 December 2017. The consulting actuary concluded that there was no requirement for deficiency payments under Article 26 of the Regulations of the UNJSPF.

11.16 The United Nations Board of Auditors carries out an annual audit of the UNJSPF and reports to the UNJSPF Pension Board and to the United Nations General Assembly annually. The UNJSPF publishes quarterly reports on performance of the Fund and these can be viewed by visiting the UNJSPF website (www.unjspf.org).

Note 12. Advance receipts and deferred income

	Note	31 December 2018	31 December 2017 (restated)
		(thousands of euros)	
Advances from non-exchange transactions			
Assessed contributions in advance	12.1	758	3,730
Voluntary contributions in advance	12.2	28,242	26,818
Performance obligation for voluntary contributions agreements	12.3	33,981	22,226
Major Repair and Replacement Fund deferral	12.4	5,707	5,501
Advances from non-exchange transactions		**68,688**	**58,275**
Advances from exchange transactions			
Advances from Vienna International Centre-based organizations	12.5	2,492	3,501
Total advance receipts		**71,180**	**61,776**
Deferred project income	12.6	79,609	2,927
Total advance receipts and deferred income		**150,789**	**64,703**

12.1 Assessed contributions received from Member States against future year's assessment are reflected in the advance receipts account.

12.2 Voluntary contributions in advance represent funds received from donors awaiting programming for specific project activities, including project clearing accounts held for the United Nations Development Programme and other United Nations and host governments-related projects implemented by UNIDO.

12.3 Voluntary contributions received with conditions on their use are held in a liability account until the discharge of performance obligations, as stipulated in the agreements.

12.4 The fund balances held in the Major Repair and Replacement Fund on behalf of the Vienna-based organizations (see note 6) are awaiting release for services to be delivered in the future.

12.5 Advances from organizations based at the Vienna International Centre include funds received for special work programmes carried out by Buildings Management Services at the Vienna International Centre.

12.6 Deferred project income are funds not yet received subject to the fulfilment of restrictions and required procedures under the signed agreement.

Note 13. Other liabilities

	Note	31 December 2018	31 December 2017
		(thousands of euros)	
Other current liabilities			
Deferred exchange gains	13.1	2,433	2,431
Accruals for goods/services received-but-not-paid	13.2	12,413	15,902
Other liabilities	13.3	3,434	4,644
Total other current liabilities		**18,280**	**22,977**
Other non-current liabilities			
Deferred income – Vienna International Centre performance obligation	13.4	33,114	34,293
Due to Buildings Management Services fund	13.5	929	460
Long-term guarantees – bank/rent deposit		335	335
Total other non-current liabilities		**34,378**	**35,088**

13.1 Exchange gains represent the remaining balance of realized gains arising from the revaluation of euro-denominated cash and term deposits held in trust funds, prior to the introduction of euro management of technical cooperation projects in 2004.

13.2 Accruals are liabilities for goods and services that have been received or provided to UNIDO during the period and which have not been invoiced or formally agreed with the suppliers.

13.3 Other liabilities consist of remitted payments and miscellaneous payables.

13.4 Performance obligation represents the full value of the gift from the Republic of Austria for use of the Vienna International Centre building deferred until UNIDO fulfils its commitment to retain its headquarters seat on the premises on an annual basis. The net book value of UNIDO share of the self-financed leasehold improvements of €1,260 (2017: €1,139) reduces the performance obligation valued at the UNIDO share of the Vienna International Centre buildings net book value of €34,372 (2017: €35,431).

13.5 Due to Buildings Management Services fund represents the amount due for UNIDO's share of the negative net assets resulting from the unfunded long-term employee benefits mentioned under Note 9. These are paid on a pay-as-you-go basis by the Vienna-based organizations.

Note 14. Fund balances

	Regular budget funds					
	General fund	*Regular programme of technical cooperation*	*Working Capital Fund*	*Technical cooperation funds*	*Other funds*	*Total*
	(thousands of euros)					
Balance as at 31 December 2016	**(165,834)**	**5,911**	**7,423**	**567,448**	**(15,709)**	**399,239**
Net surplus/(deficit) for the year	(15,214)	(636)	-	10,645	(87)	**(5,292)**
Subtotal	**(181,048)**	**5,275**	**7,423**	**578,093**	**(15,796)**	**393,947**
Movements during year						
Credits to Member States	(17,513)	-	-	-	-	**(17,513)**
Transfer (to)/from provision for delayed contribution	751	-	-	-	-	**751**
Actuarial gains/(losses)	21,339	7	-	340	5,920	**27,606**
Consolidation adjustments	146	-	-	-	-	**146**
Total movements during year	**4,723**	**7**	**-**	**340**	**5,920**	**10,990**
Balance as at 31 December 2017	**(176,325)**	**5,281**	**7,423**	**578,433**	**(9,875)**	**404,937**
Net surplus/(deficit) for the year	3,092	(589)	-	(8,633)	855	**(5,275)**
Subtotal	**(173,233)**	**4,692**	**7,423**	**569,800**	**(9,020)**	**399,662**
Movements during year						
Credits to Member States	(3,949)	-	-	-	-	**(3,949)**
Transfer (to)/from provision for delayed contribution	1,264	-	-	-	-	**1,264**
Actuarial gains/(losses)	2,232	(2)	-	298	(1,867)	**661**
Consolidation adjustments	(216)	-	-	-	-	**(216)**
Total movements during year	**(669)**	**(2)**	**-**	**298**	**(1,867)**	**(2,240)**
Balance as at 31 December 2018	**(173,902)**	**4,690**	**7,423**	**570,098**	**(10,887)**	**397,422**

Regular budget general fund

14.1 The negative regular budget general fund balance is as a consequence of unfunded long-term employee benefits liabilities amounting to €248,352 as at 31 December 2018 (2017: €238,495).

Regular programme of technical cooperation

14.2 In accordance with General Conference decision GC.9/Dec.14, a special account was established for fully programmable appropriations under the regular programme of technical cooperation, not subject to financial regulations 4.2 (b) and 4.2 (c).

Working Capital Fund

14.3 General Conference decision GC.2/Dec.27 established the Working Capital Fund at $9 million for the purpose of financing budgetary appropriations pending the receipt of contributions or unforeseen and extraordinary expenditure. At subsequent sessions of the General Conference, the level of the Fund was progressively reduced to $6,610,000. With the introduction of euro assessment effective 1 January 2002, the amount was converted to euros in accordance with decision GC.9/Dec.15, resulting in a Working Capital Fund of €7,423,030. The Fund is financed through advances paid by Member States based on the scale of assessments approved by the General Conference.

Technical cooperation

14.4 Fund balances under technical cooperation funds represent the unexpended portion of voluntary contributions that are intended to be utilized in future operational requirements of the project activities.

Other funds

Movements in other funds

	Note	*1 January 2018*	*Movements during the year*	*Net surplus/(deficit) for the year*	*31 December 2018*
		(thousands of euros)			
Computer Model for Feasibility Analysis and Reporting fund	14.5	122	-	9	**131**
Operational budget	14.6	(11,949)	(1,867)	(875)	**(14,691)**
Fund for the Programme for Change and Organizational Renewal	14.7	513	-	(300)	**213**
Special Account of Voluntary Contributions for Core Activities	14.8	12	-	149	**161**
Major Capital Investment Fund	14.9	615	-	1,866	**2,481**
Regular budget supplementary appropriation: Vienna International Centre security	14.10	575	-	-	**575**
Sales publication revolving fund	14.11	237	-	6	**243**
Total		**(9,875)**	**(1,867)**	**855**	**(10,887)**

14.5 The Fund for Computer Model for Feasibility Analysis and Reporting (COMFAR) supports the distribution of COMFAR software, which facilitates short and long term analysis of financial and economic consequences of industrial and non-industrial projects.

14.6 Income from programme support costs, charged in respect of programme expenditure under extrabudgetary technical cooperation activities, is recognized either at the time of the establishment of obligations or at the time of disbursement, whichever happens first, and is credited to the special account for financing the operational budget. The negative fund balance is a consequence of unfunded future liabilities accrued from employee benefits of €31,837 (2017: €27,728).

14.7 General Conference decision GC.13/Dec.15(h) established the special accounts from the unutilized balances of appropriations due to Member States in 2010 for financing the Programme for Change and Organizational Renewal.

14.8 At its forty-third session, the Industrial Development Board took note of the establishment of the Special Account of Voluntary Contributions for Core Activities (SAVCCA) (decision IDB.43/Dec.6, paragraph (i)). The purpose of the SAVCCA is to facilitate the receipt, management, and use of voluntary contributions for core activities that cannot be fully funded from the regular budget due to funding constraints.

14.9 In the same IDB decision, the Board also took note of the establishment of the Major Capital Investment Fund (MCIF). The MCIF provides a funding mechanism to secure funding for major capital investments or replacements in such a way that major expenditures of a one-off or infrequent nature will not cause significant distortion to the levels of the regular budgets. In decision IDB.44/Dec.8, paragraph (c), the Board encouraged Member States and donors to increase their voluntary contributions to UNIDO, including for the SAVCCA and MCIF.

14.10 The General Conference, at its eleventh session, established a special account with effect from 2006, for the purpose of financing the UNIDO share of the security enhancements at the Vienna International Centre (decision GC.11/Dec.15). The special account is not subject to financial regulations 4.2 (b) and 4.2 (c). Owing to the specific purpose of the special account, it is classified under the segment “other activities” in the financial statements.

14.11 The sales publication revolving fund was established in the biennium 1998–1999, as contained in document GC.7/21 and pursuant to decision GC.7/Dec.16, to support longer range planning of publication activities, including promotion, marketing and reprinting of publications. The fund is credited with one half of the income generated from the sale of publications and charged with the full costs related to promotions, marketing and publication activities.

Note 15. Reserves

	Note	*1 January 2018*	*Movement during the year*	*31 December 2018*
			(thousands of euros)	
Project personnel separation reserve	15.1	1,917	35	1,952
Insurance of project equipment		75	-	75
Statutory operating reserve	15.2/3	3,449	-	3,449
Separation indemnity reserve	15.4	5,499	-	5,499
Appendix D: reserve for compensation payments	15.5	3,835	478	4,313
Reserve for exchange rate fluctuations	15.6	1,155	614	1,769
Total		**15,930**	**1,127**	**17,057**

Project personnel separation reserve

15.1 This reserve is made to meet unforeseen repatriation grant entitlements for personnel financed by technical cooperation resources other than inter-organization arrangements and certain trust funds and are calculated on the basis of 8 per cent of net base pay.

Statutory operating reserves

15.2 An operating reserve, established in respect of the special account for programme support costs, in accordance with Programme and Budget Committee conclusion 1989/4, at $5,504 was reduced to $4,300 (€4,829), in accordance with Industrial Development Board decision IDB.14/Dec.12. By decision IDB.30/Dec.2, the Board reduced the level of the operating reserve to €3,030. The purpose of the reserve is primarily to protect against unforeseen shortfalls in technical cooperation delivery and the related support cost income, for inflation and currency adjustments and to liquidate legal obligations in the case of abrupt termination of operating budget activities.

15.3 The Industrial Development Board, in decision IDB.2/Dec.7, authorized the freezing of the operational reserve of the Industrial Development Fund at $550 (€419). The purpose of the reserve is to ensure the financial liquidity of the Fund and to compensate for uneven cash flows.

Separation indemnity reserve

15.4 Pursuant to decision GC.6/Dec.15, paragraph (e), the amount of $9,547, representing the balance of appropriations for the biennium 1992–1993, which was actually received by the Organization, was transferred to a separation indemnity reserve in 1995. Pursuant to General Conference decision GC.7/Dec.17, the amount of $13,900 was transferred from the unencumbered balance of appropriations for the biennium 1994–1995 for the funding of the separation indemnity reserve to meet the cost of staff separations resulting from the 1998–1999 programme and budgets. Unlike the previous allocation from the biennium 1992–1993, the allocation from the biennium 1994–1995 was not supported by actual cash, as large arrears existed for that biennium. The cumulative payments made during the period 1995 to 2001 from both reserves amounts to $18,546. The remaining balance of $4,900 was converted to euros on 1 January 2002 using the exchange rate approved by the General Conference (GC.9/Dec.15). Accordingly, the balances attributable to the above two decisions are €1,110 and €4,389, respectively.

Reserve for compensation payments

15.5 A provision is made to meet potential liabilities for compensation payments under appendix D to the Staff Rules for personnel financed by technical cooperation resources other than inter-organization arrangements and certain trust funds and are calculated on the basis of 1 per cent of net base pay.

Reserve for exchange rate fluctuations

15.6 The General Conference in decision GC.8/Dec.16 authorized the Director General to establish a reserve, not subject to the provisions of financial regulations 4.2 (b) and 4.2 (c). Consequently, the reserve was established in the biennium 2002–2003 in order to protect the Organization from exchange rate fluctuations resulting from the introduction of the euro as a single currency for the preparation of the programme and budgets, appropriation and assessment, collection of contributions and advances, and currency of accounts.

Note 16. Revenue

	Note	*31 December 2018*	*31 December 2017*
		(thousands of euros)	
Assessed contributions	**16.1**	**68,351**	**66,733**
Voluntary contributions			
For technical cooperation		146,432	213,751
For support to regular activities		782	353
Subtotal, voluntary contributions	**16.2**	**147,214**	**214,104**
Investment revenue	**16.3**	**204**	**317**
Revenue producing activities			
Sales publications		88	104
Computer Model for Feasibility Analysis and Reporting		102	61
Other sales		101	14
Subtotal, revenue producing activities	**16.4**	**291**	**179**
Miscellaneous income			
Transfer to reserve for exchange fluctuation	**16.5**	(614)	-
Release of performance obligation for the Vienna International Centre	**16.6**	1,887	1,903
Contribution in kind – Vienna International Centre land	**16.7**	233	224
Other	**16.8**	57	127
Subtotal, miscellaneous income		**1,563**	**2,254**
TOTAL REVENUE		**217,623**	**283,587**

16.1 The General Conference approved an amount of €136,702 for the regular budget for the biennium 2018–2019 (decision GC.17/Dec.18), which is financed from assessed contributions by Member States. Accordingly, €68,351, representing one half of the biennial amount was assessed for 2018. Payments made by a Member State are credited first to the Working Capital Fund and then to the contributions due, in the order in which the Member State was assessed (see financial regulation 5.5(c)).

16.2 Voluntary contributions are recognized upon the signing of a binding agreement between UNIDO and the donor, provided that there are no conditions limiting the use of the funds.

16.3 Investment revenue represents interest earned and accrued on short-term deposits held with financial institutions.

16.4 Income from revenue-producing activities consists of sales of publications and the Computer Model for Feasibility Analysis and Reporting, and cost recovery for technical services.

16.5 The amount transferred to the reserve for exchange rate fluctuations as a result of euro surplus on actual dollar spending against the budgeted rate (see paragraph 15.6).

16.6 The release of the performance obligation for the Vienna International Centre buildings corresponds to the fulfilled commitment to maintain the headquarters seat in the premises.

16.7 The contribution in kind represents the value of the free use of the land at the Vienna International Centre.

16.8 Other miscellaneous income includes proceeds from sale of property, plant and equipment, and bonuses received from airlines.

Contributions in kind for projects and field office operations

16.9 Contributions of services in kind estimated at €3,065 (2017: €2,865) were received mainly in support of UNIDO projects and field office operations and are measured at fair value. In accordance with IPSAS standard 23, UNIDO has elected not to recognize such contributions on the face of the financial statements. Details of in-kind contributions of services received are as follows:

	31 December 2018	*31 December 2017*
	(thousands of euros)	
Contributions of services in kind for the use of:		
Office space	1,059	1,037
Furniture and fixtures	13	21
Communications and information technology equipment	10	41
Vehicles	29	72
Machinery, tools	935	785
Utilities	35	35
Other goods/services	109	70
Contribution to conferences, workshops and training	91	77
Personnel services	721	632
United Nations Development Programme administered Junior Professional Officers	61	95
Total	**3,065**	**2,865**

Note 17. Expenses

	Note	*31 December 2018*	*31 December 2017*
		(thousands of euros)	
Staff salaries		36,645	36,300
Staff entitlements and allowances		29,326	32,446
Temporary assistance		645	1,643
Project personnel and consultancies		52,227	55,780
Subtotal, salaries and employee benefits	**17.1**	**118,843**	**126,169**

	Note	31 December 2018	31 December 2017
		(thousands of euros)	
Regular travel		1,413	1,655
Project travel		10,640	10,410
Rental, utilities and maintenance		3,854	4,358
Inventory consumed/distributed		108	86
Information technology, communications and automation		2,947	3,482
Supplies and consumables		1,742	1,963
Other operating costs		7,163	6,910
Project operating costs		387	1,512
Subtotal, operating costs	**17.2**	**28,254**	**30,376**
Contractual services	**17.3**	72,585	74,033
Equipment expensed	**17.4**	15,474	10,091
Depreciation and amortization	**7,8**	8,162	7,973
Other expenses	**17.6**	1,492	1,771
TOTAL EXPENDITURE		**244,810**	**250,413**
Currency translation (gains)/losses	**17.7**	(21,912)	38,466

17.1 Salaries and employee benefits are for UNIDO staff, consultants and holders of individual service agreements. Project personnel costs include costs for experts, national consultants and administrative support personnel.

17.2 Operating costs include travel, utilities, field office operations, United Nations system jointly financed activities, information technology (IT) and communications, and contributions to common services at the Vienna International Centre.

17.3 Contractual services represent mainly subcontracts entered into for project implementation activities.

17.4 The expenses for equipment represent machinery and equipment handed over to the beneficiaries, or over which UNIDO has no control.

17.5 Depreciation and amortization includes expensed low value assets of €1,110 (2017: €977).

17.6 Other expenses include bank charges of €107 (2017: €95).

17.7 Currency translation differences, primarily arising from revaluation of non-euro bank balances, investments, assets and liabilities at the end of the period are as a consequence of an increase in the year-end dollar/euro exchange rate from 0.837 in 2017 to 0.876 in 2018 (2016: 0.956).

Note 18. Statement of comparison of budget and actual amounts

18.1 The budgets and accounts of UNIDO are not prepared using the same basis. The statement of financial position, statement of financial performance, statement of changes in net assets and statement of cash flow are prepared on a full accrual basis, using a classification based on the nature of expenses in the statement of financial performance, whereas the statement of comparison of budget and actual amounts (statement 5) is prepared on a modified cash basis of accounting.

18.2 Basis differences occur when the approved budget is prepared on a basis that is not the same as the accounting basis, as stated in paragraph 18.1 above.

18.3 Timing differences occur when the budget period differs from the reporting period reflected in the financial statements. There are no timing differences for UNIDO for the purpose of comparison of budget and actual amounts.

18.4 Entity differences occur when the budget omits programmes or entities that are part of the entity for which the financial statements are prepared.

18.5 Presentation differences are the result of differences in the format and classification schemes adopted for the presentation of the statement of cash flow and the statement of comparison of budget and actual amounts.

18.6 Reconciliation between the actual amounts in the statement of comparison of budget and actual amounts (statement 5) and in the statement of cash flow (statement 4) for the period ended 31 December 2017 is presented below:

	Operating	*Investing*	*Total*
	(thousands of euros)		
Surplus of Income (statement 5)	11,651	-	**11,651**
Basis differences	(13,247)	(1,111)	**(14,358)**
Presentation differences	(628)	-	**(628)**
Entity differences	21,374	(16,726)	**4,648**
Actual amount in the statement of cash flow (statement 4)	**19,150**	**(17,837)**	**1,313**

18.7 Budget amounts have been classified based on the nature of expenses in accordance with the programme and budgets approved for the biennium 2018–2019 by the General Conference at its seventeenth session (GC.17/Dec.18) for regular and operational budgets of the Organization.

Explanation of material differences in the regular budget

18.8 Explanations of material differences between the original budget and the final budget, as well as between the final budget and the actual amounts are presented below.

Staff costs

18.9 The budgeted staff costs for Professional and General Service posts were utilized at 89.2 per cent, which is in line with the consumption pattern for the first year of the biennium due to the uncertainty in the payment of assessed contributions by Member States. During 2018, the vacancy factor was maintained at a higher than budgeted vacancy factor.

Official travel

18.10 The budget for official travel was underutilized by €0.73 million. In addition to conservative spending, savings were achieved through concerted efforts to use information and communications technology instead of physical travel.

Operating costs

18.11 Savings in operating costs in the amount of €2.76 million were mainly the result of reduced requirements for UNIDO's contribution to the UNOV security and safety services of €0.46 million, as a result of a separate funding pool accumulated due to savings in building maintenance. Further, public information, translation, interpretation and document production reported an underutilization of €1.15 million. Prudent operations management resulted in €0.86 million savings in costs spent for office, equipment, assets and vehicle maintenance. Smaller savings were also observed in meetings planning, supplies, hospitality costs and general operating expenses in the amount of €0.21 million.

Information and communications technology

18.12 The underutilization of €1.31 million in resources for information and communications technology is mainly attributable to reduced usage of the budget lines for IT contractors by €0.38 million, IT assets by €1.07 million and communications service charges by €0.44 million, as UNIDO continues to make concerted effort at technological efficiency and seeking alternative arrangements with its service providers. At the same time other IT expenses have been overspent by €0.62 million.

Regular programme of technical cooperation and Special Resources for Africa

18.13 Resources for the regular programme of technical cooperation were administered under the special account created for that purpose to which the full appropriation had been transferred. An underutilization of €0.13 million was recognized under Special Resources for Africa.

Note 19. Segment reporting

A: Statement of financial position by segment as at 31 December 2018

	Regular budget activities	*Technical cooperation*	*Other activities and special services*	*Inter-segment transactions*	*Total UNIDO*
	(thousands of euros)				
ASSETS					
Current assets					
Cash and cash equivalents	23,912	368,807	70,231	-	**462,950**
Accounts receivable (non-exchange transactions)	7,319	275,222	902	-	**283,443**
Receivables from exchange transactions	7	368	1,241	-	**1,616**
Inventories	-	-	813	-	**813**
Other current assets	5,000	23,045	464	(3,676)	**24,833**
Subtotal, current assets	**36,238**	**667,442**	**73,651**	**(3,676)**	**773,655**
Non-current assets					
Receivables	883	67,324	-	-	**68,207**
Property, plant and equipment	35,311	23,836	1,114	-	**60,261**
Intangible assets	160	208	265	-	**633**
Other non-current assets	4,313	1	6,587	(2,699)	**8,202**
Subtotal, non-current assets	**40,667**	**91,369**	**7,966**	**(2,699)**	**137,303**
TOTAL ASSETS	**76,905**	**758,811**	**81,617**	**(6,375)**	**910,958**
LIABILITIES					
Current liabilities					
Accounts payable (exchange transactions)	1,860	5,648	576	-	**8,084**
Employee benefits	2,447	276	92	-	**2,815**
Transfers payable (non-exchange transactions)	11,746	11,223	14,489	(3,676)	**33,782**
Advance receipts	3,458	141,832	8,198	(2,699)	**150,789**
Other current liabilities	3,223	12,131	2,926	-	**18,280**
Subtotal, current liabilities	**22,734**	**171,110**	**26,281**	**(6,375)**	**213,750**
Non-current liabilities					
Employee benefits	179,397	5,809	63,145	-	**248,351**
Other non-current liabilities	34,042	333	3	-	**34,378**
Subtotal, non-current liabilities	**213,439**	**6,142**	**63,148**	**-**	**282,729**
TOTAL LIABILITIES	**236,173**	**177,252**	**89,429**	**(6,375)**	**496,479**
NET ASSETS/EQUITY					
Accumulated surpluses/(deficits): fund balances	(169,570)	583,971	(11,704)	-	**402,697**
Current period surplus/(deficit)	3,092	(9,222)	855	-	**(5,275)**

	Regular budget activities	*Technical cooperation*	*Other activities and special services*	*Inter-segment transactions*	*Total UNIDO*
	(thousands of euros)				
Reserves	7,210	6,810	3,037	-	**17,057**
TOTAL NET ASSETS/EQUITY	**(159,268)**	**581,559**	**(7,812)**	**-**	**414,479**
TOTAL LIABILITIES AND NET ASSETS/EQUITY	**76,905**	**758,811**	**81,617**	**(6,375)**	**910,958**

B: Statement of financial performance by segment for the year ended 31 December 2018

	Regular budget activities	*Technical cooperation*	*Other activities and special services*	*Inter-segment transactions*	*Total UNIDO*
	(thousands of euros)				
INCOME/REVENUE					
Assessed contributions	68,351	-	-	-	**68,351**
Voluntary contributions	782	144,286	2,146	-	**147,214**
Investment revenue	14	183	7	-	**204**
Revenue producing activities	172	-	18,036	(17,917)	**291**
Other	2,114	4,054	(44)	(4,561)	**1,563**
TOTAL REVENUE	**71,433**	**148,523**	**20,145**	**(22,478)**	**217,623**
EXPENDITURE					
Salaries and employee benefits	46,997	53,926	17,920	-	**118,843**
Operational costs	12,134	15,187	933	-	**28,254**
Contractual services	1,400	71,050	135	-	**72,585**
Technical cooperation equipment expensed	8	15,466	-	-	**15,474**
Depreciation and amortization	2,458	5,399	305	-	**8,162**
Other expenses	4,608	19,352	10	(22,478)	**1,492**
TOTAL EXPENDITURE	**67,605**	**180,380**	**19,303**	**(22,478)**	**244,810**
Currency translation differences	736	(22,635)	(13)	-	**(21,912)**
SURPLUS/(DEFICIT) FOR PERIOD	**3,092**	**(9,222)**	**855**	**-**	**(5,275)**

19.1 Some internal activities lead to accounting transactions that create inter-segment revenue and expense balances in the financial statements.

19.2 During the year ended 31 December 2018, activities have created inter-segment balances in the amount of €4,051, €510 and €17,917 (2017: €4,153, €555 and €19,387) in the statement of financial performance for the regular programme of technical cooperation, special resources for Africa and programme support costs, respectively. Inter-segment transfers are measured at the price at which the transactions occur.

19.3 Accumulated fund balances under technical cooperation funds and other funds represent the unexpended portion of contributions that are carried forward to be utilized in the future operational requirements under the respective activities.

19.4 Cash and short-term investments have restrictions on their availability for use based on the fund concerned since funds are earmarked for specific activities.

Note 20. Commitments and contingencies

20.1 *Leases.* Operating costs include payments recognized as operating lease expenses during the year in the amount of €1,839 (2017: €1,707). The amount includes minimum lease payments. No sublease payments or contingent rent payments were made or received.

The total of future minimum lease payments under non-cancellable operating leases is as follows:

	Within 1 year	*1 to 5 years*	*After 5 years*	*Total*
	(thousands of euros)			
31 December 2018	294	3	-	297
31 December 2017	346	9	-	355

20.2 UNIDO operating lease agreements are mainly for office premises and IT equipment in the field offices. Future minimum lease payments include payments that would be required for rented premises and equipment until the earliest possible termination dates under the respective agreements.

20.3 Some of the operating lease agreements contain renewal clauses that enable the Organization to extend the terms of the lease at the end of the original lease terms, and some contain escalation clauses that may increase annual rent payments based on increases in the relevant market price indexes in the country concerned.

20.4 There are no agreements that contain purchase options.

20.5 *Commitments.* The commitments of the Organization include purchase orders and service contracts that were contracted but not delivered as at year-end. A list of these commitments by major funding source is given below.

	31 December 2018	*31 December 2017*
	(thousands of euros)	
Regular budget	1,008	2,171
Trust fund	31,429	39,404
Montreal Protocol on Substances that Deplete the Ozone Layer	57,944	47,848
Global Environment Facility	101,441	85,722
Industrial Development Fund	10,010	12,366
Inter-organization arrangements	67	531
Regular programme of technical cooperation	1,287	1,386
Special services and other	215	195
Total commitments	**203,402**	**189,623**

20.6 *Contingent liabilities.* The contingent liabilities of the Organization consist of appeal cases pending at the Administrative Tribunal of the International Labour Organization by both current and separated staff members. The Organization is not in a position to measure probability of rulings in favour of complainants or predict exact award of damages. However, based on the various claims, the contingent liabilities at year-end amounted to €392 (2017: €305).

20.7 Contingent liabilities on pending cases under Appendix D of the Staff Rules for possible retroactive payment amounted to €63 (2017: €245). Contingent liabilities for other claims amounted to €1.

Note 21: Losses, ex-gratia payments and write-offs

21.1 UNIDO made ex-gratia and special claims payments during 2018 of €79 (2017: €65).

21.2 The value of property, plant and equipment written off during the year due to loss/theft amounts to €17 (2017: €6).

21.3 During 2018 UNIDO has written off two cases of cash losses totalling €24 (2017:0).

Note 22. Related party and other executive management disclosure

Key management personnel

	No. of individuals	Aggregate remuneration	Other compensations	Total remuneration 2018	Outstanding advances against entitlements 31 December 2018
				(thousands of euros)	
Director General	1	386	105	491	-
Deputy to the Director General	1	193	-	193	-
Managing Directors	2	426	-	426	11

22.1 The key management personnel are the Director General, the Deputy to the Director General and the Managing Directors, as they have the authority and responsibility for planning, directing and controlling the activities of UNIDO.

22.2 The aggregate remuneration paid to key management personnel includes net salaries, post adjustment, entitlements, assignment and other grants, rental subsidy, employer contributions to the pension plan and current health insurance contributions.

22.3 Other compensation includes the official car assigned to the Director General valued at the market rental cost of a similar vehicle together with the remuneration paid to the official driver.

22.4 Key management personnel are also eligible for post-employment benefits (see note 11 on employee benefits) at the same level as other employees. Benefits which are payable on separation are reflected as part of the remuneration for those that were separated in the current year, but cannot be reliably quantified for the future as they depend on the years of service and actual date of separation (which could be voluntary).

22.5 Key management personnel are ordinary members of the United Nations Joint Staff Pension Fund.

22.6 Advances made against entitlements of key management personnel in accordance with staff rules and regulations amounted to €11 as at 31 December 2018 (2017: €10).

Note 23. Opening balances adjustments

23.1 Opening balances were restated to include adjustments, which pertain to the change in accounting policy on recognition of the voluntary contribution receivable under instalment restrictions, which better reflects presentation in the financial statements, in respect to the procedure under which such agreements are administered.

Impact on the Statement of Financial Position	Assets	Liabilities
	(thousands of euros)	
Accounts receivable (non-exchange transactions)	2,927	
Advance receipts and deferred income		2,927

23.2 The cost and accumulated depreciation of fully depreciated low value assets has been derecognized to improve its presentation in Note 7 and 8.

23.3 Statement of cash flow was restated due to the adjustment on unrealized foreign-exchange (gains)/losses in the cash flows from operating activities, derecognition of refunds to Member States from cash flow from financing activities and flow from investments interest.

Note 24. Events after reporting date

24.1 Reporting date of UNIDO is 31 December 2018. As at the date of signing of the present accounts, as specified in the certification, there have been no material events, favourable or unfavourable, between the reporting date and the date when the financial statements have been authorized for issue, that would have affected the statements.